



Financial Policies

Approved: October 21, 2021

SUMMARY OF POLICIES

Policy One: Frequency of Long-Range Financial Planning

A financial projection incorporating revenues, expenses and other financial data should be updated every year with the budget process. The projection should also include the analysis of key financial targets of cash reserves, debt coverage ratio and rate competitiveness. The rate competitiveness component should also be updated when PG&E has a rate change.

Policy Two: Cash Reserves

The cash reserve target calculation shall work toward 160 days cash on hand.

Policy Three: Debt Coverage Ratio

The debt coverage ratio shall be met under the covenant for the current outstanding debt and seek to meet a traditional debt coverage ratio of 1.45 or above using the previous five-year average.

Policy Four: Meeting a Rate Threshold

The Board should consider a policy that limits the rate differential from PG&E. However, if maintaining a rate differential causes the utility's cash balance to fall below 90 days cash on hand, this should trigger a re-evaluation of rates until target cash balances are restored.

Policy Five: Annual Inflationary Increases

The Board of Directors may consider yearly inflationary adjustments using the consumer price index as long as it is consistent with policy four's rate threshold.

FINANCIAL POLICY ONE: FREQUENCY OF LONG-RANGE FINANCIAL PLANNING

PHILOSOPHY

The purpose of financial management in the operation of Pioneer Community Energy is to fulfill the organization's mission in the most effective and efficient manner and to remain accountable to ratepayers, employees, and the community. In order to accomplish this, the Board of Directors commits to providing accurate and complete financial data for internal and external use by the Director of Finance and Administration and the Board of Directors.

AUTHORITY

The Board of Directors is ultimately responsible for the financial management of all activities.

RESPONSIBILITIES

The Executive Director shall:

- Provide the opportunity for adequate training to members to enable each member to fulfill his or her financial duties
- Review financial reports and projections as prepared by the Director of Finance and Administration
- Provide accurate and complete financial reports to the Board of Directors

The Director of Finance and Administration shall:

- Ensure all financial data including but not limited to billing statistics, revenues, expenses, capital purchases and debt are recorded accurately and timely
- Prepare or oversee the preparation of yearly financial projections and statements
- Report all results to the Executive Director

The Board of Directors shall:

- Review financial reports when presented at board meetings
- Take action on financial policies, when appropriate
- Provide the opportunity for adequate training to members to enable each member to fulfill his or her financial oversight role

FINANCIAL POLICY ONE: FREQUENCY OF LONG-RANGE FINANCIAL PLANNING

FINANCIAL PROJECTION UPDATES

A financial projection incorporating revenues, expenses and other financial data should be updated every year with the budget process. The projection should also include the analysis of key financial targets of cash reserves, debt coverage ratio and rate competitiveness. The rate competitiveness component should also be updated when PG&E has a rate change or there is a change in PCIA.

FINANCIAL POLICY TWO: CASH RESERVES POLICY

PHILOSOPHY

The purpose of financial management in the operation of Pioneer Community Energy is to fulfill the organization's mission in the most effective and efficient manner and to remain accountable to ratepayers, employees, and the community. In order to accomplish this, the Board of Directors commits to maintaining cash reserves to sufficiently fund operations and other cash risks.

AUTHORITY

The Board of Directors is ultimately responsible for the decisions that guide total days cash on hand for the utility.

RESPONSIBILITIES

The Executive Director shall:

- Review financial reports containing cash balances as prepared by the Director of Finance and Administration
- Provide accurate and complete cash balance data to the Board of Directors
- Provide accurate and complete Pioneer and PG&E rate differentials to the Board of Directors

The Director of Finance and Administration shall:

- Ensure all financial data including but not limited to billing statistics, revenues, expenses, capital purchases and debt are recorded accurately and timely
- Prepare or oversee the preparation of financial projections and statements including cash balances and debt coverage ratio
- Analyze the rate differential between Pioneer and PG&E
- Report all results to the Executive Director

The Board of Directors shall:

- Review financial reports and cash balances when presented at board meetings
- Take action on cash balance when appropriate
- Take action when cash balances are below targets to help restore cash over a 3-to-5-year period, provided it is consistent with Policy Four's rate threshold

FINANCIAL POLICY TWO: CASH RESERVES POLICY

CASH RESERVES

The cash reserve target calculation shall work toward 160 days cash on hand. The policy will include the financial risks as listed below:

- The cash reserve policy should include **12.3% (45 days) of annual operating expenses** (excluding power supply) to account for working capital lag.
- The cash reserve policy should include **12.3% (45 days) of power supply expenses**, progressively working toward **24.7%** to account for working capital lag
- The cash reserve policy should include an additional **20% of annual power supply expenses** to account for market fluctuations
- The cash reserve policy should include **100% of the current portion of debt service** to account for debt payment security
- The cash reserve policy should include **20% of the Board approved five-year capital improvement plan**, (less any improvements funded through the issuance of debt) in preparations of the expenditures

FINANCIAL POLICY THREE: DEBT COVERAGE RATIO POLICY

PHILOSOPHY

The purpose of financial management in the operation of Pioneer Community Energy is to fulfill the organization's mission in the most effective and efficient manner and to remain accountable to ratepayers, employees, and the community. In order to accomplish this, the Board of Directors commits to maintaining proper debt coverage ratios in order to sufficiently fund debt with cash flow from operations.

AUTHORITY

The Board of Directors is ultimately responsible for the decisions that guide debt coverage ratios.

RESPONSIBILITIES

The Executive Director shall:

- Review financial reports containing cash flow from operations and debt coverage ratios as prepared by the Director of Finance and Administration
- Provide accurate and complete debt coverage ratio data to the Board of Directors

The Director of Finance and Administration shall:

- Ensure all financial data including but not limited to billing statistics, revenues, expenses, capital purchases and debt are recorded accurately and timely
- Prepare or oversee the preparation of financial projections and statements including cash balances and debt coverage ratio
- Report all results to the Executive Director

The Board of Directors shall:

- Review financial reports and debt coverage ratios when presented at board meetings
- Take action when debt coverage ratios are below targets

FINANCIAL POLICY THREE: DEBT COVERAGE RATIO POLICY

DEBT COVERAGE RATIO

The debt coverage ratio shall be met under the covenant for the current outstanding debt and seek to meet a traditional debt coverage ratio of 1.45 or above using the previous five-year average.

FINANCIAL POLICY FOUR: MEETING A RATE THRESHOLD

PHILOSOPHY

The purpose of financial management in the operation of Pioneer Community Energy is to fulfill the organization's mission in the most effective and efficient manner and to remain accountable to ratepayers, employees, and the community. In order to accomplish this, the Board of Directors commits maintaining a rate threshold from PG&E, provided at least 90 days cash on hand can be maintained.

AUTHORITY

The Board of Directors is ultimately responsible for the decisions that guide retail rates.

RESPONSIBILITIES

The Executive Director shall:

- Obtain PG&E's published rates and make available to the Director of Finance and Administration
- Provide accurate and complete Pioneer and PG&E rate differentials to the Board of Directors

The Director of Finance and Administration shall:

- Ensure all financial data including but not limited to billing statistics, revenues, expenses, capital purchases and debt are recorded accurately and timely
- Prepare or oversee the preparation of financial projections and statements including cash balances and debt coverage ratio
- Analyze the rate differential between Pioneer and PG&E
- Report all results to the Executive Director

The Board of Directors shall:

- Review financial reports when presented at board meetings
- Take action when the rate threshold is not being met, provided at least 90 days cash on hand can be maintained

FINANCIAL POLICY FOUR: MEETING A RATE THRESHOLD

RATE THRESHOLD

The Board should consider a policy that limits the rate differential from PG&E. However, if maintaining a rate differential causes the utility's cash balance to fall below 90 days cash on hand, this should trigger a re-evaluation of rates until target cash balances are restored.

FINANCIAL POLICY FIVE: ANNUAL INFLATIONARY INCREASES

PHILOSOPHY

The purpose of financial management in the operation of Pioneer Community Energy is to fulfill the organization's mission in the most effective and efficient manner and to remain accountable to ratepayers, employees, and the community. In order to accomplish this, the Board of Directors may consider yearly inflationary adjustments using the consumer price index as long as it is consistent with policy four's rate threshold.

AUTHORITY

The Board of Directors is ultimately responsible for the decisions that guide retail rates.

RESPONSIBILITIES

The Executive Director shall:

- Obtain PG&E's published rates and make available to the Director of Finance and Administration
- Provide accurate and complete consumer price index information to the Director of Finance and Administration
- Provide accurate and complete Pioneer and PG&E rate differentials to the Board of Directors
- Provide accurate and complete consumer price index data to the Board of Directors

The Director of Finance and Administration shall:

- Ensure all financial data including but not limited to billing statistics, revenues, expenses, capital purchases and debt are recorded accurately and timely
- Prepare or oversee the preparation of financial projections and statements including cash balances and debt coverage ratio
- Analyze the rate differential between Pioneer and PG&E
- Analyze the consumer price index and its effect on the financials and rate threshold
- Report all results to the Executive Director

FINANCIAL POLICY FIVE: ANNUAL INFLATIONARY INCREASES

The Board of Directors shall:

- Review financial reports when presented at board meetings
- Consider an inflationary adjustment on a yearly basis provided it is consistent with Policy Four's rate threshold

YEARLY INFLATIONARY INCREASES

The Board of Directors may consider yearly inflationary adjustments using the consumer price index as long as it is consistent with policy four's rate threshold.