



COMMISSION POLICY

Operating Reserve

Category: Business Services	Subcategory:	Policy Number:
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A. Scope

The GRPUC maintains accumulated Operating Reserves for the Electric, Water, and Wastewater Collection (Sanitary Sewer and domestic treatment) utilities to manage operating contingencies, unexpected operating expenses, and fluctuations in operating revenues.

B. Policy Statement

The Grand Rapids Public Utilities Commission (GRPUC) has established a reasonable accumulated Operating Reserve target to ensure adequate funding for operating contingencies, unexpected operating expenses, and financial stability while mitigating impacts on ratepayers. The target is to maintain Operating Reserves equal to three (3) months, or twenty-five percent (25%), of the previous fiscal year's audited annual operating expenses for each utility.

From time to time, unplanned surpluses may be generated in a given year, causing accumulated Operating Reserves to exceed the established target. Any amounts exceeding the required Operating Reserve may be transferred to the respective Utility Asset Replacement Reserve subaccount to support that utility's capital program.

C. Objectives

The purpose of this policy is to ensure that each utility maintains adequate Operating Reserves to address unexpected operating expenses, revenue fluctuations, and operating contingencies. Any surplus exceeding the established Operating Reserve requirement may be transferred to the respective Utility Asset Replacement Reserve subaccount.

A reserve provides protection from risk. GRPUC faces risks such as revenue shortfalls during recessions and losses from extreme events like natural disasters, required actions of the State of Minnesota in severe weather, or a disruption in the power supply or production of a utility service. Reserves help ensure that GRPUC can respond quickly and effectively to unexpected events. Reserves also support vital public services during revenue declines.

D. Definitions

Operating Reserve – Nonrestricted cash and short-term investments (if applicable).

Operating Expenses – Total operating expenses less depreciation and amortization. Excluding the operating expenses for non-domestic wastewater treatment. Exclude any unusual or extraordinary expenses.

E. Principles - Size of Reserve

The GRPUC's goal is to maintain the accumulated Utilities' Operating Reserve at a fixed dollar amount of three (3) months operating expenses for water, sewer collection, and electric utilities.

Annual Reserve Calculation: The Finance Department shall annually calculate the required Operating Reserve for each utility based on three (3) months, or twenty-five percent (25%), of the previous fiscal year's audited annual operating expenses. The calculation shall be completed following the issuance of the annual audited financial statements and reviewed with the General Manager.

Any unplanned surplus earned in a given year will be transferred to an accumulated Utilities Asset Replacement Reserve sub-account to support the GRPUC's capital program. Electric, Water, and Wastewater Collection (Sanity Sewer & domestic treatment) each shall have a separate Utilities Asset Replacement Reserve subaccount.

GRPUC's Finance Department will monitor long-range financial forecasts to determine whether each utility is expected to maintain its established Operating Reserve requirement. If a utility's Operating Reserve falls below, or is projected to fall below, the established requirement, the Finance Manager will notify the General Manager. The General Manager will propose a plan to restore the Operating Reserve to the required level.

GRPUC will review and approve the plan as part of the annual budget process. GRPUC will make reasonable efforts to restore Operating Reserves to the required level within one budget cycle, when practical.

If the reserve is exceeded during future periods, then the respective Utilities Asset Replacement Reserve sub-account will continue to grow with no maximum amount.

F. Authority

The General Manager, with the support of the GRPUC's managers, is responsible for maintaining the accumulated Utilities' Operating Reserve at the level determined in this policy.

The General Manager has been authorized by the GRPUC to use the reserves for purposes consistent with this policy.

GRPUC Commissioner

GRPUC Commissioner

POLICY HISTORY:

Adopted:

Revised: