ORANGE COUNTY POWER AUTHORITY
Policy Number 024: Rate Stabilization Fund Policy
Approved: 06/18/2024

This Rate Stabilization Fund Policy (Policy) establishes guidelines for managing and administering Rate Stabilization Fund (RSF) at Orange County Power Authority (OCPA).

OBJECTIVE

Establishing an RSF allows OCPA to defer revenues in years of strong financial results for use in future years when financial results are weaker or stressed. This strategy would enable OCPA to avoid substantial rate increases needed to address unanticipated spikes in energy costs or, conversely, to offset reductions in rate levels (and net revenues) due to uncontrollable events that negatively impact fiscal financial results. Examples include:

- Investor-owned utilities (IOUs) rate uncertainty, such as substantial increases in the Power Charge Indifference Adjustments (PCIA) and decreases in the generation rates.
- Unexpected shocks in energy prices, such as significant increases in prices for renewable energy (PCC1) and Resource Adequacy (RA).
- Changes in member participation, including withdrawals.
- Defaults on customer payments during global or local economic recessions.
- Significant regulatory and legislative changes in the energy sector that affect IOUs rate, RA prices, etc.
- Reduced electricity demand due to rate affordability issues.

Using deferred revenues in future years would allow OCPA to minimize the near-term impact on rates and net revenues. Additionally, should OCPA decide to access the tax-exempt capital markets in the future, it would need to agree to several covenants. These covenants, required to protect and attract bond investors, would mandate that OCPA generates net revenues sufficient to cover debt service costs. The RSF could be utilized to meet these covenants if necessary.

ACCOUNTING

Deferring revenues into the Rate Stabilization Fund (RSF) would result in a reduction in the Orange County Power Authority's (OCPA) reported revenues for that fiscal year, with a corresponding increase in reported revenues in years when withdrawals from the RSF are made. By deferring revenues into the RSF before they are recognized as revenues, OCPA would effectively “bank” these funds for use in future fiscal years.

Withdrawals from the RSF will be considered in fiscal years where net revenues are projected to be negative or as necessary to satisfy any covenants, contractual obligations, or to maintain investment-grade credit ratings in the future.

REPORTING

Staff will notify the Board via the CEO Report after any transfers are made.