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## Policy and Procedure 13: Reserves Policy

### 1. Objective

The purpose of this policy and procedure is to identify and communicate Midwest Reliability Organization's (MRO) policy for the determination of the company's annual targeted operating reserves, the requirements and the authorization of management to access these funds, as well as, the use of reserve funds for asset stabilization.

### 2. Policy

MRO's annual targeted operating reserves requirement shall be an amount necessary to satisfy projected cash flow and cash balance requirement to support planned operations, including reasonable contingencies. Each year MRO staff will propose the amount for the targeted operating reserves as part of the business plan and budget process to the Finance and Audit Committee (FAC), which will make a recommendation to the MRO Board of Directors for its approval. In addition, MRO staff may propose to set aside funds in a separate reserve account to be released in future periods to mitigate year-to-year variations in assessments.

#### A. Guidelines Applicable to Determination of Reserves

The targeted operating reserves requirement will be determined based on the additional cash-on-hand necessary to meet unplanned, short-term financial needs resulting from changes in the level of expenditures that would adversely affect the company's total annual operating budget during the budget year, where the total budget reflects prudent fiscal discipline and good stewardship of resources.

Additionally, operating reserve funds may be used, when available, to mitigate year-to-year variations in assessments. Variations can result from a variety of factors, including but not limited to the application of penalty funds, surplus funds available from a prior period, or significant, and relatively short-term, operating or capital spending needs. Except as otherwise approved by the board, reserve funds may not be used for any purpose inconsistent with this policy.

#### B. Guidelines and Authorities Applicable to Expenditures of Reserves

The following guidelines, limitation, and authorities shall apply to reserve expenditures.

- MRO staff shall have the authority to reduce or reallocate funding within the approved annual budget when such reduction or re-allocation does not result in the need for additional funding in the current or future years. Use of operating reserves is not considered "additional funding." Such reductions or reallocations in funding shall be reported to the FAC.
- MRO staff shall have the authority to access operating reserves and reallocate funding if it does not result in the need for additional current or future funding beyond the operating reserves. Accessing the operating reserves and the reallocation in funding shall be reported to the FAC.

*Approved by the MRO Board: December 2, 2021*

Page 1 of 2



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- MRO staff shall request FAC and board approval with respect to the use of operating reserves and the reallocation of funding due to the following:
    - Reallocation of approved budget funds and/or use of reserve funds, which have budget implications in future years.
    - Reallocation of approved budget funds and/or use of reserve funds, which materially impact the organizations ability to meet its functions under the Delegation Agreement.
  - Any expenditure of funds that would deplete all short-term cash resources requires staff to evaluate the need to acquire funds for cash management from the credit line and/or request for supplemental funding from NERC as approved by FERC. Prior approval by the FAC and the board of directors is required before accessing the line of credit or seeking supplemental funding from NERC.

All expenditures of funds are subject to other applicable company policies and procedures, including currently effective procurement policies.