MEETING of the Finance Committee of the Clean Power Alliance of Southern California

Wednesday, October 27, 2021

11:00 a.m.

SPECIAL NOTICE: Pursuant to the Proclamation of the State of Emergency by Governor Newsom on March 4, 2020, AB 361, and enacting Resolutions, and as a response to mitigating the spread of COVID19, the Finance Committee will conduct this meeting remotely.

To Listen to the Meeting:
https://us06web.zoom.us/j/87015901096
or
Dial: (720) 707-2699 Meeting ID: 870 1590 1096

Click here to view a Live Stream of the Meeting on YouTube
*There may be a streaming delay of up to 60 seconds. This is a view-only live stream.

PUBLIC COMMENT: Members of the public may submit their comments by one of the following options:

- Email Public Comment: Members of the public are encouraged to submit written comments on any agenda item to clerk@cleanpoweralliance.org up to four hours before the meeting. Written public comments will be announced at the meeting and become part of the meeting record. Public comments received in writing will not be read aloud at the meeting.
- Provide Public Comment During the Meeting: Please notify staff via email to clerk@cleanpoweralliance.org at the beginning of the meeting but no later than immediately before the agenda item is called.
    - You will be asked for your name and phone number (or other identifying information) similar to filling out a speaker card so that you can be called on when it is your turn to speak.
    - You will be called upon during the comment section for the agenda item on which you wish to speak on. When it is your turn to speak, a staff member will unmute your phone or computer audio.
    - You will be able to speak to the Committee for the allotted amount of time. Please be advised that all public comments must otherwise comply with our Public Comment Policy.
    - Once you have spoken, or the allotted time has run out, you will be muted during the meeting.

If unable to connect by Zoom or phone and you wish to make a comment, you may submit written comments via email to: clerk@cleanpoweralliance.org.

*While downloading the Zoom application may provide a better meeting experience, Zoom does not need to be installed on your computer to participate. After clicking the webinar link above, click “start from your browser.”

Clean Power Alliance Finance Committee
October 27, 2021

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting materials, should contact the Clerk of the Board at clerk@cleanpoweralliance.org or (323) 640-7664. Notification in advance of the meeting will enable us to make reasonable arrangements to ensure accessibility to this meeting and the materials related to it.

PUBLIC COMMENT POLICY: *The General Public Comment item is reserved for persons wishing to address the Committee on any Clean Power Alliance-related matters not on today's agenda. Public comments on matters on today's Consent Agenda and Regular Agenda shall be heard at the time the matter is called. Comments on items on the Consent Agenda are consolidated into one public comment period.*

Each speaker is customarily limited to two (2) minutes (in whole minute increments) per agenda item with a cumulative total of five (5) minutes to be allocated between the General Public Comment, the entire Consent Agenda, or individual items in the Regular Agenda. Please refer to Clean Power Alliance Policy No. 8 – Public Comments for more information.

CALL TO ORDER & ROLL CALL

GENERAL PUBLIC COMMENT

CONSENT AGENDA

1. Approve Minutes from the August 25, 2021 Finance Committee Meeting
2. Receive and File August & September 2021 Risk Management Team Reports
3. Receive and File August & September 2021 CPA Investment Reports
4. Receive and File August 2021 Financial Dashboard

REGULAR AGENDA

5. Report from the Chief Financial Officer
6. Presentation on Clean Energy Prepayment Financing

COMMITTEE MEMBER COMMENTS

ADJOURN – NEXT MEETING NOVEMBER 24, 2021

Public Records: *Public records that relate to any item on the open session agenda for a Committee Meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all, or a majority of, the members of the Committee. Public records are available for inspection online at www.cleanpoweralliance.org/agendas.*

MINUTES

MEETING of the Finance Committee of the

Clean Power Alliance of Southern California

Wednesday, August 25, 2021, 11:00 a.m.

The Finance Committee conducted this meeting remotely, in accordance with California Governor Newsom's Executive Order N-29-20 and COVID-19 pandemic protocols.

CALL TO ORDER & ROLL CALL

Chair Julian Gold called the meeting to order at 11:00 a.m. and Clerk of the Board, Gabriela Monzon, conducted roll call.

Roll Call			
Beverly Hills	Julian Gold	Committee Chair	Remote
Carson	Reata Kulcsar	Committee Member	Remote
Claremont	Corey Calaycay	Committee Member	Remote
Rolling Hills Estates	Steve Zuckerman	Committee Member	Remote
Santa Monica	Pam O'Connor	Committee Member	Remote

All votes are unanimous unless otherwise stated.

GENERAL PUBLIC COMMENT

There was no public comment.

CONSENT AGENDA

1. Approve Minutes from the June 23, 2021 Finance Committee Meeting
2. Receive and File June and July 2021 Risk Management Team Report
3. Receive and File June and July 2021 CPA Investment Report
4. Receive and File Restated April 2021 and May 2021 Financial Dashboard

Motion: Committee Member Calaycay, Claremont
Second: Committee Member Zuckerman, Rolling Hills Estates
Vote: The consent agenda was approved by a roll call vote.

REGULAR AGENDA

This item was presented out of order.

6. Banking Agreement Update

David McNeil, Chief Financial Officer, provided a presentation of the item, highlighting that under the direction of the Finance Committee, staff has explored a larger credit facility to support an investment-grade credit rating and provide additional liquidity. Staff will seek the approval by the Board of proposed agreements with JP Morgan Chase Bank (JPM) that would provide CPA with an $80 million credit facility. Mr. McNeil noted that CPA uses its credit agreement with River City Bank (RCB) to provide letters of credit and borrow

funds to provide working capital. Mr. McNeil reviewed a comparison of proposed terms from both RCB and JPM agreements, noting that staff recommends the proposed agreements as the $43 million increase in the size of the credit facility will add 21 days to the days-cash-on-hand ratio as described in CPA's reserve policy; JPM has an investment-grade rating; and will improve the perception of CPA's financial strength, which can lower energy costs. The total estimated annual cost of the proposed agreements is currently $360,000, and a one-time fee for legal services of $37,500.

In response to Committee Member Kulcsar's questions, Ted Bardacke, Executive Director, noted that the JPM agreement would be replacing the RCB agreement; CPA is required to pay $10 million of the L.A. County term loan by February 28th and the remaining balance of $20 million by the end of the fiscal year, June 30th, 2022. The terms of the JPM credit agreement would allow for CPA to borrow against the credit facility to pay the L.A. County loan if necessary. Additionally, the loan will give a strong financial perception of CPA as it increases its credit from $37 million to $80 million, especially at a time when CPA is going into long-term contract RFO negotiations. Mr. McNeil noted that staff does not anticipate an adverse material event to occur, but the adverse material clause does appease rating agencies; JPM has agreed to revisit the removal of the clause later. Responding to Committee Member Calaycay's questions regarding potential market perception and market savings, Mr. McNeil agreed that the agreement will benefit CPA as it pertains to long-term renewable energy and storage contract negotiations; the additional costs of the agreement could potentially be offset by savings realized due to a more favorable perception of CPA's credit strength. Mr. McNeil explained that the additional line of credit from JPM will support CPA's liquidity this coming fall. Committee Member Zuckerman asked about CPA's deposit relationship with RCB and Mr. McNeil confirmed that CPA will maintain its deposit relationship and money market account with RCB. Chair Gold noted that staff should ensure that the budget amendment request is sufficient to cover the interest costs of the loan. In response to Chair Gold's questions, Mr. McNeil clarified that though there is no industry benchmark for the sizing of a line of credit, the amount of the proposed line of credit aligns closely with liquidity needs due to energy market volatility and the need to achieve an investment grade credit rating. Investment-grade entities tend to have upwards of 120 days liquidity on hand composed of unrestricted cash and available bank lines of credit; as cash balances increase, the line of credit amount could be scaled back. Mr. McNeil stated that staff has not explored other business relationships with JPM and there is one outstanding letter of credit with RCB, issued to SCE under direction from the CPUC.

The Finance Committee expressed consensus in support of a new line of credit with JP Morgan Chase.

5. <u>Report from the Chief Financial Officer</u>

David McNeil, Chief Financial Officer, provided an update on CPA's year end close, noting that financial statements will be presented to the Finance Committee in November, due to the implementation of the California Arrearage Payment Program (CAPP). The CAPP was approved by the Governor at the beginning of July and will provide bill relief for customers. CPA receivables eligible for CAPP funding will be submitted for approval by the state. The determination of CPA's allocation of CAPP funding will inform CPA's estimate of FY 2020-21 bad debt expense.

Mr. McNeil provided a review of CPA's collections process, noting that in order to avoid customer confusion due to the bill relief program, CPA has elected to push back the implementation collections by a third party collection agent. CPA financial results for April and May were below budget, as a result of increased bad debt and the timing of booking renewable energy costs. CPA received the $30 million loan from L.A. County in August 2021 and has begun using it to pay operating expenses, consistent with the lending agreement.

In response to Committee Member questions, Mr. McNeil explained that the fiscal year is expected to be below budget in terms of net income. Chair Gold requested that staff update the Finance Committee as CAPP funding comes through.

COMMITTEE MEMBER COMMENTS

None.

ADJOURN

Committee Chair Gold adjourned the meeting at 11:59 p.m.

Staff Report – Agenda Item 2

To: Finance Committee

From: Matthew Langer, Chief Operating Officer

Approved by: Ted Bardacke, Executive Director

Subject: Risk Management Team Report

Date: October 27, 2021

August 2021 RMT REPORT

Key Actions

- Reviewed updated load forecast
- Discussed July 2021 market performance driven by relatively high market prices
- Reviewed energy position and approved 2021-2024 hedges
- Reviewed RPS, carbon free and RA positions

September 2021 RMT REPORT

Key Actions

- Discussed August 2021 market performance
- Reviewed energy positions and approved 2021-2023 hedges
- Discussed 2020 CARB Mandatory Reporting of GHG Emissions
- Reviewed positions for RPS, carbon free, and RA and approved a prospective carbon free transaction

Policy Compliance

No policy deviations were reported for August or September.

ATTACHMENT

None.

Staff Report – Agenda Item 3

To:	Clean Power Alliance (CPA) Finance Committee
From:	David McNeil, Chief Financial Officer
Approved by:	Ted Bardacke, Executive Director
Subject:	CPA Investment Report
Date:	October 27, 2021

RECOMMENDATION

Receive and File.

ATTACHMENT

1) August and September 2021 Investment Reports

Clean Power Alliance
Investment Report
August 2021

Fund Name:	**Local Agency Investment Fund**
Beginning Balance	15,678
Interest Paid (1)	-
Deposits	
Withdrawals	-
Ending Balance	15,678
Interest Earned (2)	455
Average Monthly Effective Yield	0.221%

1. Interest is paid quarterly effective 15 days following the end of the quarter
2. Interest earned is based on daily compounding, account balances and monthly effective yield published by LAIF

Clean Power Alliance
Investment Report
September 2021

Fund Name:	**Local Agency Investment Fund**
Beginning Balance	15,678
Interest Paid (1)	-
Deposits	
Withdrawals	-
Ending Balance	15,678
Interest Earned (2)	424
Average Monthly Effective Yield	0.206%

1. Interest is paid quarterly effective 15 days following the end of the quarter
2. Interest earned is based on daily compounding, account balances and monthly effective yield published by LAIF

Staff Report – Agenda Item 4

To:	Clean Power Alliance (CPA) Finance Committee
From:	David McNeil, Chief Financial Officer
Approved by:	Ted Bardacke, Executive Director
Subject:	Financial Dashboard
Date:	October 27, 2021

RECOMMENDATION

Receive and file.

ATTACHMENT

1. The August Financial Dashboard will be made available prior to the meeting of the Finance Committee.

Staff Report – Agenda Item 5

To: Finance Committee

From: David McNeil, Chief Financial Officer

Subject: Report from the Chief Financial Officer

Date: October 27, 2021

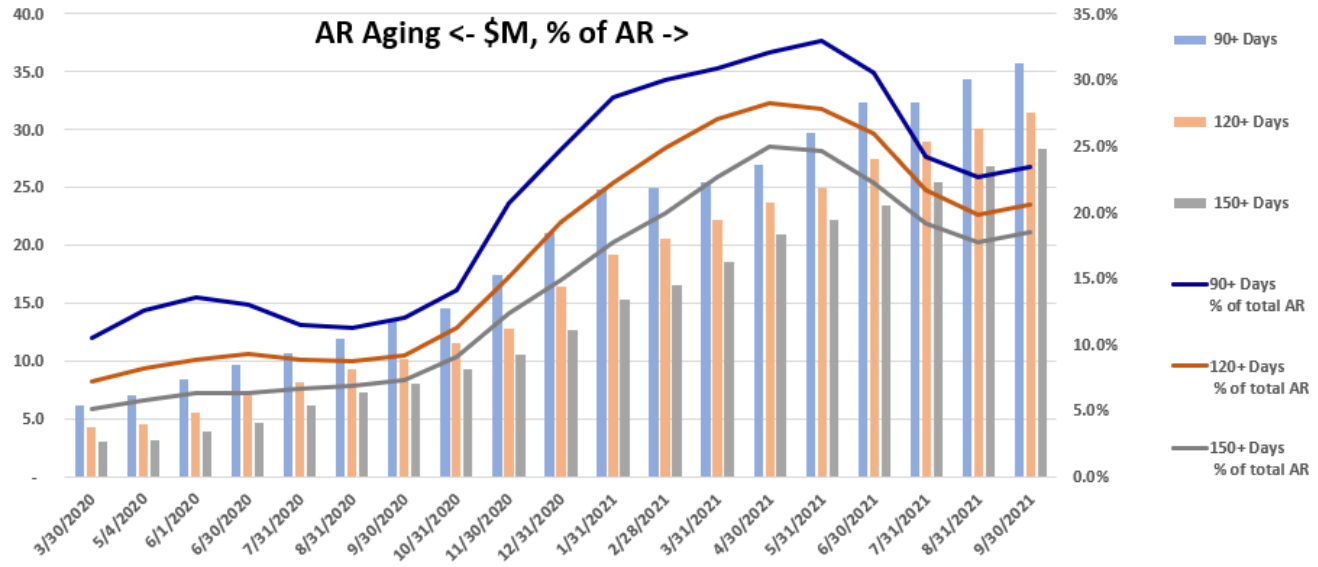
The Chief Financial Officer will provide a report on the following items:

- FY 2020/21 Audit and Year End Close update
- Banking update
- California Arrearage Payment Program (CAPP) Update
- August 2021 financial results
- CPA cash flow and treasury activity

ATTACHMENT

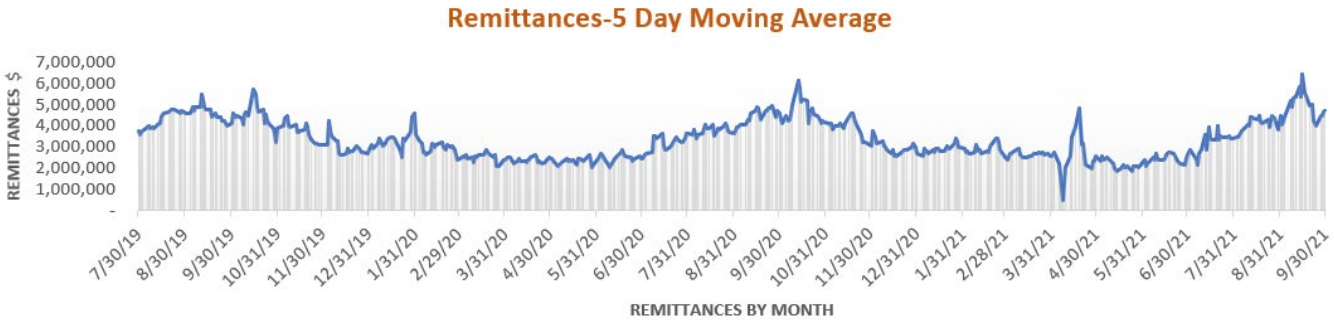
1. September 30, 2021 Customer Payment Dashboard

Clean Power Alliance
Customer Payment Dashboard
Updated: 9/30/2021



AR Aging Commerical/Residential Split
9/30/2021

	90+ Days		120+ Days		150+ Days		Total Category AR	90+ Days - % of Category AR	Increase in 90+ Day since SIP	
Residential	$ 25,628,000	72%	$ 23,052,000	73%	$ 20,906,000	74%	$ 73,445,000	34.9%	$ 21,881,000	73%
Commercial	$ 10,087,000	28%	$ 8,413,000	27%	$ 7,391,000	26%	$ 79,330,000	12.7%	$ 8,246,000	27%
Total	$ 35,715,000	100%	$ 31,465,000	100%	$ 28,297,000	100%	$ 152,775,000		$ 30,127,000	



Staff Report – Agenda Item 6

To:	Finance Committee
From:	David McNeil, Chief Financial Officer
Approved by:	Ted Bardacke, Executive Director
Subject:	Energy Pre-payment
Date:	October 27, 2021

RECOMMENDATION

Receive and provide input.

ATTACHMENT

1. Energy Pre-Payment Presentation

Item 6: Clean Energy Prepayment Financing

October 27, 2021

Summary

- Prepayment financings (“prepays’) are well-established financing mechanisms that allow municipal utilities to leverage their status as issuers of non-taxable debt to reduce costs incurred under existing power purchase agreements

- Pioneered in the mid-1990s for natural gas transactions, they are now being used for renewable energy deals, initially by the Southern California Public Power Association (SCPPA)

- Three northern California CCAs, East Bay Community Energy and Silicon Valley Clean Energy and Marin Clean Energy facilitated the issuance of prepayment bonds in the fall of 2021, a first for CCAs and the first prepays to be Green Bond certified

- Prepays offer the opportunity to reduce existing renewable energy Power Purchase Agreement (PPA) costs by 5-10% or $3 to $5 MWh.

- Prepays typically involve a guaranteed savings over a 30-year purchase commitment period and would entail minimal risk to CPA (see slide 8 for discussion)

Thirteen Prepayments Totaling Over $7.6 Billion Have Been Completed in California; Three Transactions Completed by CCAs in Fall 2021

Date	Amt. ($000)	Issuer	Description	Beneficiary
Jun-06	230,845	Vernon Nat. Gas Fin Auth	Nat Gas	City of Vernon Elec
Jan-07	209,350	Roseville Natural Gas Fin Auth	Nat. Gas	City of Roseville Elec
May-07	757,055	Northern Ca Gas Auth No. 1	Nat. Gas	SMUD
Sep-07	887,360	Long Beach Bond Fin Auth	Nat. Gas	City of Long Beach
Oct-07	504,445	So. Ca. Pub. Power Auth	Nat. Gas	Multiple MOUs
Oct-07	251,695	Long Beach Bond Fin. Auth	Nat. Gas	City of Long Beach
Aug-09	901,620	M-S-R Energy Authority	Nat. Gas	MID/Redding/SVP
Oct-09	514,160	So Ca Pub Power Auth (Windy Flats)	Elec (Wind)	LADWP, Mult. MOUs
Apr-10	778,665	Cal. Statewide Comm Dev Auth	Nat. Gas	SMUD
2010/11	394,700	So Ca Pub Power Auth (Milford 1 & 2)	Elec (Wind)	LADWP, Mult. MOUs
Dec-18	539,615	Northern Ca Energy Auth	Gas/Elec	SMUD
Sep-21	666,749	CCCFA	Renewable/Carbon Free	East Bay Community Energy
Sep-21	567,971	CCCFA	Renewable/Carbon Free	Silicon Valley Community Energy
Oct-21	565,000	CCCFA	Renewable/Carbon Free	Marin Clean Energy
Total	**7,769,230**			

Renewable Energy Prepayment – Key Concepts

Concept 1: Origins and Purpose of Prepay Transaction

- Prepayment transactions originate and are Codified in US Tax Law (see slide 19 for details)
- In a prepayment transaction, municipal utilities and CCAs take advantage of their status as issuers of tax-exempt bonds to generate savings on PPAs
- The savings afforded to municipal utilities and CCAs under prepayment transactions are consistent with the explicit and deliberate intent of US tax law

Renewable Energy Prepayment – Key Concepts

Concept 2: Assignment of an Existing PPA

- In a prepayment transaction, CPA assigns certain rights and obligations under an existing PPA to a bank
- CPA continues to receive energy and renewable attributes (no change there) and continues to make PPA payments, less a discount
- The bank acts as an intermediate, energy supplier to CPA (see slide 11)

Renewable Energy Prepayment – Key Concepts

Concept 3: Bond Issuance and Proceeds

- Prepay transactions involve the sale of a non-taxable bond to investors by a conduit issuer (not by Clean Power Alliance)
- The conduit issuer transfers the bond proceeds from the investors to a bank
- The bank;
  - Uses the proceeds to finance its activities
  - Is obligated to repay the bond and make interest payments to investors
- Bond proceeds do not flow to Clean Power Alliance or to the renewable energy project developers or project owners

Renewable Energy Prepayment – Key Concepts

Concept 4: Source of Savings

- In a prepayment transaction, the bank makes regular PPA payments to the renewable energy project owner consistent with the terms of a PPA assigned by CPA into the prepayment program
- CPA pays the PPA payment amount less a discount to the bank (through the conduit issuer)
- The reason the bank provides a discount to CPA is that it is realizing interest cost savings by paying a lower “tax free” interest rate to bond holders. The bond holders accept a lower interest rate on the prepayment bond because the interest payments are non-taxable.
- The bank passes on a portion of the interest cost savings to CPA through a discount to regular PPA payments

Renewable Energy Prepayment – Key Concepts

Concept 4: Source of Savings Analogy

- Imagine a bank normally offers its customers a Certificate of Deposit (CD) for 5 years with a 2% interest rate
- The bank takes that money and loans it out at 5% interest, netting the bank a return of 3%, representing the difference between the CD rate it pays (2%) and the lending rate it receives (5%)
- Now imagine CPA brings the bank a customer that is willing to put its money in the same CD at just 1% interest; but only CPA can bring this customer to the bank
- The bank now is able to make a return of 4% (5%-1%=4%) instead of 3% it would normally earn
- CPA and the bank agree to split the additional 1% return earned by the bank
- This is essentially what is happening with the prepay, except CPA is able to bring the lower interest rate because of its tax-exempt status and takes the return in the form of a reduced PPA price

Renewable Energy Prepayment – Key Concepts

Concept 5: Risk

- CPA is not responsible for the payment of interest or repayment of bond principal. The bank receives bond proceeds and is responsible for repaying it
- If the bank fails or terminates the pre-pay program (more on that later) the bank alone is responsible for repaying the bond holders
- If the program terminates, the PPA returns to status quo: CPA is required to make regular PPA payments to the energy supplier for delivered energy
- CPA's risk is primarily operational; that it wastes time trying to set up a prepayment program that fails to launch
- CPA also faces a risk that the bank fails in an unexpected fashion and the discount on the PPA payment suddenly disappears

Renewable Energy Prepayment – Key Concepts

Summary of Key Concepts

Concept 1: The US tax code provides municipal utilities with a break on interest costs through prepayment transactions

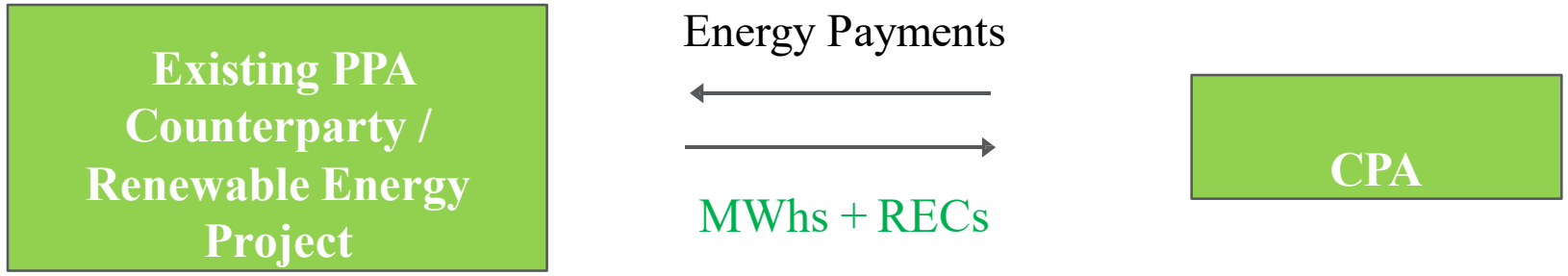
Concept 2: CPA assigns certain provisions of an existing PPA to a bank; CPA continues to receive renewable energy and makes PPA payments less a discount

Concept 3: The banks get the money (proceeds of prepay bonds, issued by a separate entity that is non-recourse to CPA)

Concept 4: The banks use the money for internal purposes and pass on the interest cost savings afforded by lower, tax- free interest rates to CPA through a discount on PPA costs

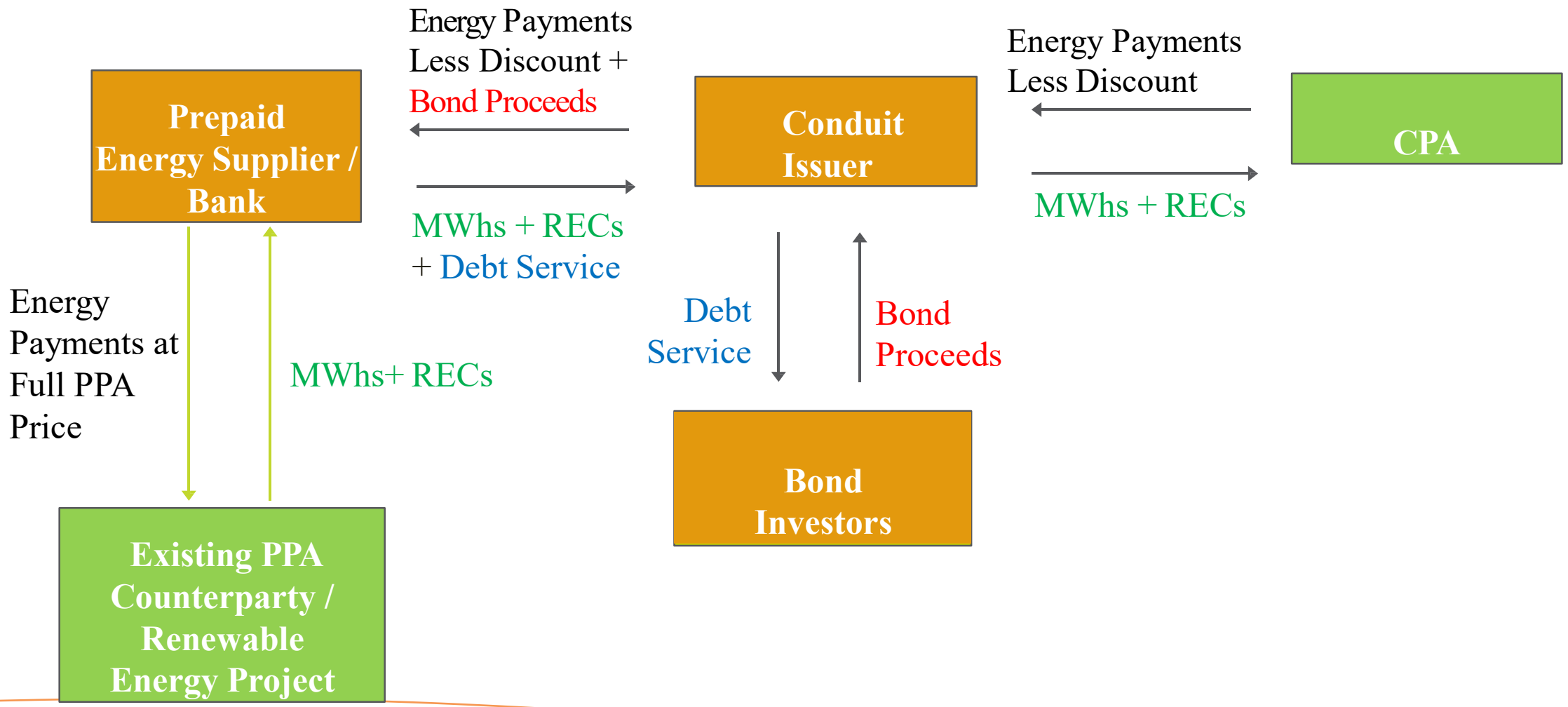
Concept 5: The bank, not CPA, is on the hook for the prepayment bonds

Typical PPA Flowchart



Prepay Program Flowchart

(existing PPA is assigned from CPA to the Bank/Energy Supplier)



Renewable Energy Prepayment – Example Structure

- Certain rights under existing renewable Power Purchase Agreements (PPAs) are assigned or “novated” to a taxable energy supplier, typically a bank.

- CPA enters into a long-term energy supply agreement with the Conduit issuer, matching the term of the Prepay Bonds. PPAs are typically shorter in term (eg 15 years) than the term of the energy supply agreement (eg 30 years), future PPAs are typically novated into the facility to replace novated PPAs that reach expiry.

- **Bonds** are issued by an arms-length conduit issuer, typically a Joint Power Authority, and **are *non-recourse*** to CPA. Proceeds of the bond issuance are used by the conduit issuer to prepay the bank (now acting as an energy supplier) for future energy deliveries. Bond obligations are "credit enhanced” by the bank that receives the prepayment.

- The bank makes interest payments on the bonds at a lower “non-taxable” interest rate. The savings from lower interest costs are passed on to CPA through lower monthly PPA payments.

Renewable Energy Prepayment – Example Structure Continued…

- CPA continues to receive and pay for energy and renewable attributes delivered through the PPA. CPA pays the conduit issuer rather than the existing PPA counterparty
- If program terminates early or prepaid energy supplier fails to perform, CPA forgoes the future savings and the assigned contracts return to a status quo PPA
- The terms of the PPAs including scheduling and operations are unchanged. The financing does not impact CPA's balance sheet or credit metrics

Prepay Transaction Participants & Costs

Transaction and Consultant Costs

- CPA would need to identify and secure services (directly or indirectly) with:
  - **Energy Supplier(s)** – "A" rated (or better) bank to receive prepayment and guaranty the bonds
  - **Conduit Issuer** – Four northern California CCA formed the California Community Choice Financing Authority JPA. CPA will evaluate joining this JPA in order to use its conduit issuer services
  - **Prepay Legal Counsel** – to provide necessary legal opinions to CPA and assist in negotiating transaction documents
  - **Municipal Bond Counsel** – to provide bond and tax opinion concerning the issuance of the debt
  - **PPA Contracts Counsel** – to assist with amending PPAs as necessary to facilitate novation; CPA would use current PPA counsel for this activity
  - **Municipal Financial Advisor** – assist in negotiating the financial terms of the transaction
- With the exception of PPA contracts counsel, consultant fees to complete the prepayment transaction would be paid from bond proceeds if and only if the transaction closes. Membership and transaction fees with the conduit issuer are subject to negotiation

Key Considerations

- It is currently estimated that the size of an **initial bond issuance** would be approximately $500 million to $1 billion which represents the discounted value of a 50MW to 100MW solar project over the 30-year life of the program. The initial term of the bonds would likely be 5-10 years structured to maximize the savings available from the market at that time. After the initial term, Bonds would be repriced (rolled over in the market) at a term to maximize the savings for the next reset period up to the end of the 30-year life of the prepayment. Estimated savings for the initial term are $1.5-2 million per year

- Provided there is sufficient investor demand for the Prepay Bonds and market conditions are supportive, CPA could facilitate **continuing prepay bond issuances** using prepay eligible renewable PPAs over many years, thus increasing potential annual savings

- The economics of prepay transactions are driven by the spread between taxable (corporate) and non-taxable debt which narrow and widen over time. It is unclear how long spreads will remain wide enough to support additional prepay transactions

- Prepay transactions are complex and require specialized skills. A small number of consultants, counsels and banks have experience with prepayment transactions

Next Steps

- Continue research on prepays structures and determine contracting strategy
- Recruit a Finance Manager whose responsibilities will include project managing the prepay financing initiative
- Evaluate and select prepayment consultants, legal counsels, banks and conduit issuers
- Update Finance Committee, Executive Committee and Board on progress ahead of any decisions
- Once prepay documents are in near final form they would be presented to the Board with a request that the Board adopt a resolution allowing staff to execute the prepay transaction once a minimum savings threshold can be achieved and all other critical deal terms are met
- With sufficient resources and prioritization and assuming debt markets remain constructive, CPA may be able to arrange an initial prepay financing in the next six to nine months, potentially generating savings for the next fiscal year

Questions

Sample Transaction Terms

Master Energy Supply Agreement

- Between CPA and a Conduit Issuer allowing CPA to assign long term energy contracts and purchase energy at a discount to existing PPA price ($/MWh)

Term of Prepayment

- Up to a 30-year agreement, subject to early termination if program terminates early. The bank as an option to terminate the agreement at the end of the initial reset period (typically 7 to 10 years), if market conditions (interest rate spreads) do not support the minimum discount threshold

Minimum Savings

- Approximately 8-10% discount for initial reset period (first 5-7 years). Savings are generated by the difference between the taxable borrowing cost of the prepaid supplier (bank) and the tax- exempt rate on the bonds issued to fund the prepayment.

Transaction Terms (continued)

Tax-Exempt Debt, other Financial Terms and Conditions

- CPA will not be party to, responsible for, or account for any bond offering
- Prepaid supplier (bank) is responsible for repayment of the tax-exempt debt
- The conduit issuer will issue tax-exempt bonds which will be refinanced in 5-7 years, subject to market conditions
- If bank doesn't perform or cannot remarket the bonds or if CPA needs to exit prepay for some reason, the assigned contracts revert back to CPA at the original price and terms

History and Tax Law Behind Municipal Prepaid Energy Transactions

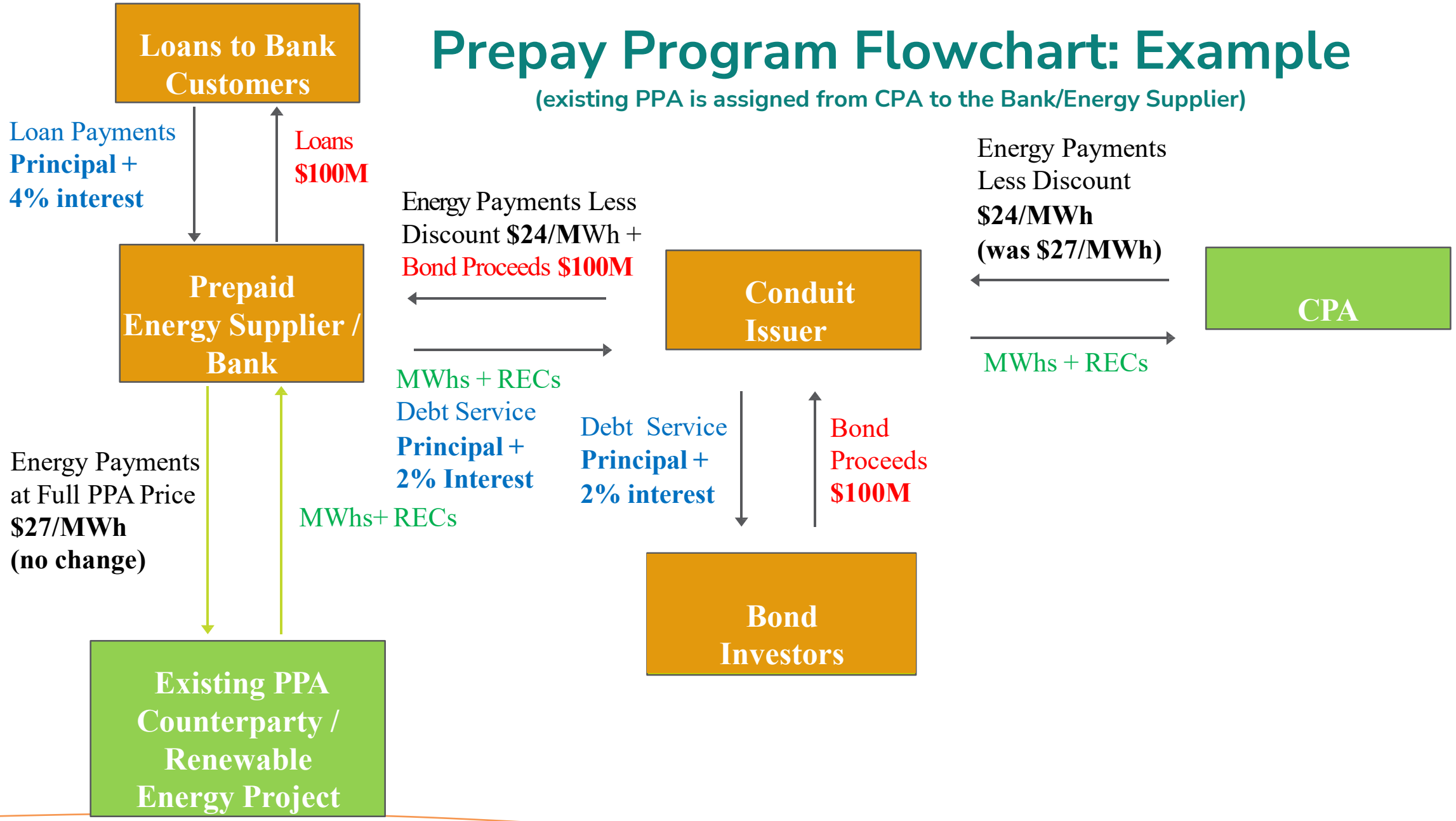
- Municipal electric and gas utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable (corporate) entity and fund that prepayment with tax-exempt municipal bonds:
  - Must sell that commodity to retail end-users that reside within their traditional service area.
- Prepayment transactions are legal and Codified in US Tax Law: Since first prepayments of natural gas were done in the early 1990's, the IRS issued rules allowing tax-exempt prepayments and Congress enacted legislation specifically allowing the transactions (National Energy Policy Act of 2005; Section 1327).

- Over **90** municipal prepayment transactions totaling over **$50 Billion** have been completed in the US **– over 95%** of them for natural gas. Natural gas is much easier to "prepay" because the commodity is homogenous and is easy to store.

- Prepayments have **saved** utility ratepayers (natural gas, electricity from gas fired power plants and energy from renewable power projects) **billions of dollars** in reduced rates and energy charges and will continue to do so over the 30 year life of the transactions.

Prepay Program Flowchart: Example

(existing PPA is assigned from CPA to the Bank/Energy Supplier)



Glossary of Terms

Power Purchase Agreement "PPA" — contract to receive and pay for a specific type of energy (i.e. renewable solar, wind, etc.) at a specific price over the term of the contract (i.e. 15 years)

Tax-exempt Prepayment – payment in advance by a municipal utility for a number of years of contracted energy and financing the prepayment with tax-exempt debt

"Novate" – to assign a PPA contract to another party for a some or all of the contract term

"Recourse to…"– secured or guaranteed by the referenced entity

"Non-recourse…" – ***not*** secured or guaranteed by the referenced entity

"Conduit issuer"— entity formed to issue debt but not responsible to repay the debt (non-recourse!)