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

Wednesday, February 23, 2022

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

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 at 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) and agenda item 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 Board 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 preferred, you may also submit written comments during the meeting via email to: clerk@cleanpoweralliance.org. The written comments will be shared with the Board of Directors.

*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."

Meetings are accessible to persons 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 least two

(2) working days before the meeting 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 Board 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. Members of the public who wish to address the Board are requested to contact the Board Clerk, as specified above, at the beginning of the meeting but no later than immediately prior to the time an agenda item is called. Each speaker is 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 Policy No. 8 – Public Comment for additional information.*

CALL TO ORDER & ROLL CALL

GENERAL PUBLIC COMMENT

CONSENT AGENDA

1. Approve Minutes from the January 26, 2022 Finance Committee Meeting
2. Receive and File January 2022 Risk Management Team Report
3. Receive and File January 2022 CPA Investment Reports
4. Receive and File December 2021 Financial Report

REGULAR AGENDA

5. Report from the Chief Financial Officer
6. Update on Potential Clean Energy Prepayment Transaction

COMMITTEE MEMBER COMMENTS

ADJOURN – NEXT MEETING March 23, 2022

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

REGULAR MEETING of the Finance Committee of the

Clean Power Alliance of Southern California

Wednesday, January 26, 2022, 11:00 a.m.

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 conducted this meeting remotely.

CALL TO ORDER & ROLL CALL

Committee Chair Julian Gold called the meeting to order at 11:04 a.m. and Clerk of the Board, Raynette Tom, conducted roll call.

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

A quorum of the committee was not present at the time of roll call. No votes took place.

At 11:15am, a quorum of the Committee was present and the meeting was reconvened.

GENERAL PUBLIC COMMENT

There was no public comment.

REGULAR AGENDA

This item was presented out of order.

5. CFO Report

   David McNeil, Chief Financial Officer, provided a summary of fiscal activities. Mr. McNeil confirmed that CPA projects sufficient cashflow to meet its operating needs and repay the LA County loan, and CPA is on track to receive $15.8 million of funding from the California Arrearage Payment Program (CAPP), with a possibility of additional funding. Mr. McNeil noted that CPA continues to experience elevated levels of customer non-payment, causing accounts receivables to continue to increase. To avoid customer confusion, CPA will continue to hold off on third-party collections until additional clarity is received about the possibility of another round of CAPP funding. Mr. McNeil provided an update on CPA banking, treasury, cashflow, CAPP funding. Past due receivables arising from energy deliveries that occurred between March 4, 2020 and June 15, 2021 are eligible for CAPP funding. Mr. McNeil provided a detailed breakdown of CAPP funding that will cover accounts receivable for active, inactive, and commercial customers. Additional CAPP funding may come from unspent funds from the American rescue Plan Act, but details have yet to be determined. An overall update was provided on accounts receivables with a breakdown for residential and commercial accounts, some of which may become eligible for additional CAPP funding. Collections for inactive residential and commercial customers

will rely heavily on CAPP 2 funding. CPA has approximately $10 million of accounts receivable from inactive, closed accounts that could be collected through a third-party collection agency in the future. Once CAPP 2 eligibility becomes clearer, CPA may initiate collections.

Chair Gold asked that the Committee be provided with a future update on CAPP funding eligibility and steps taken with inactive customers. Mr. McNeil agreed to bring those items back to the Committee when more information was available.

CONSENT AGENDA
The consent agenda was presented out of order.

1. Approve Minutes from the November 24, 2021 Finance Committee Meeting
2. Receive and File November and December 2021 Risk Management Team Report
3. Receive and File November and December 2021 CPA Investment Reports
4. Receive and File October and November 2021 Financial Dashboards

Motion: Committee Member O'Connor, Santa Monica
Second: Committee Member Kulcsar, Carson
Vote: The consent agenda was approved by a roll call vote.

6. CPA Collections Practice Guidelines

Mr. McNeil reminded the Committee that on July 1, 2021, the Board approved the Collections Policy to govern the collection of accounts receivable that are no longer being collected by Southern California Edison (SCE) and have been returned to CPA. Staff expects that collections activity for inactive or closed commercial and residential accounts will begin following clarification of the terms of CAPP 2 funding and, in any event, no earlier than the spring of 2022. CPA will contract with third-party collection agents with experience collecting receivables from SCE. CPA will provide collection agents direction through the Collection Guidelines. Mr. McNeil provided background information on collections, collections criteria, and collections notices. Mr. McNeil also discussed in detail the purpose of collections guidelines, which will ensure that amounts owed by former CPA customers are collected and paid; assure CPA that customers are treated fairly; and establishes collection agent responsibilities and prohibited activities. Mr. McNeil outlined the California Interagency Intercept Collection Program (IIC), a program operated by the Franchise Tax Board that allows CPA to collect past due accounts by intercepting tax refunds, lottery winnings, or unclaimed property from individuals or businesses that owe delinquent amounts to CPA. CPA will not begin enrolling customers in the IIC until the fall of 2022 at the earliest depending on the eligibility for CAPP 2 funding.

In response to questions from Committee Members, Mr. McNeil proposed an update to the Committee in six to 12 months after the efforts were initiated to be able to measure the efficacy of the program. Chair Gold emphasized periodic updates to the Board and Committee are important and noted the need to be sensitive to possible unanticipated effects of collection efforts on communities. Mr. McNeil explained that the disadvantage to sending out pre-collection notices now is that customers may become eligible for CAPP funding. Responding to questions about settlement negotiations, Mr. McNeil clarified that the policy will not dictate settlement negotiation processes and CPA will rely upon the collection agents' expertise. Settlement negotiations will be done on a percentage basis, but the collection agent must seek CPA approval if the total amount due is more than $2,500. After some discussion about collection agency performance, Mr. McNeil stated

that CPA will provide direction to the collection agencies about the tone and level of aggressiveness with which they pursue customers. Mr. McNeil noted a four-year statute of limitations on the collections process and indicated that CPA currently receives billing information and customer invoices that include both CPA and SCE charges. Staff thanked the Committee for their feedback.

COMMITTEE MEMBER COMMENTS

Committee Members thanked Committee Member Kulcsar for the questions she submitted in advance of the meeting regarding Item 6.

ADJOURN

Committee Chair Gold adjourned the meeting at 11:58 a.m.

Staff Report – Agenda Item 2

To:	Clean Power Alliance (CPA) Finance Committee
From:	Geoff Ihle, Director of Market Risk
Approved by:	Ted Bardacke, Chief Executive Officer
Subject:	Risk Management Team Report
Date:	February 23, 2022

January 2022 RMT REPORT

Key Actions

- Discussed January 2022 market performance.
- Reviewed energy positions and approved 2022-2025 hedges.
- Reviewed positions for RPS, carbon free, and Resource Adequacy.
- Reviewed the PCIA Voluntary Allocation & Market Offer (VAMO) process and SCE's initial allocation volumes.
- Reviewed Community Default-Change impacts on Load Forecast.

Policy Compliance

There were no policy deviations reported for January.

ATTACHMENT

None.

Staff Report – Agenda Item 3

To:	Clean Power Alliance (CPA) Finance Committee
From:	David McNeil, Chief Financial Officer
Approved by:	Ted Bardacke, Chief Executive Officer
Subject:	CPA Investment Report
Date:	February 23, 2022

RECOMMENDATION

Receive and File.

ATTACHMENT

1) January 2022 Investment Report

Clean Power Alliance
Investment Report
January 2022

Fund Name:	**Local Agency Investment Fund**
Beginning Balance	15,688
Interest Paid (1)	9
Deposits	
Withdrawals	-
Ending Balance	15,697
Interest Earned (2)	3
Average Monthly Effective Yield	0.234%

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

Financial Dashboard

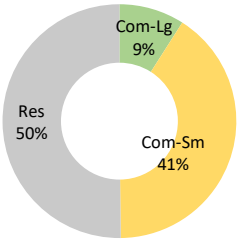
YTD
Dec
2021

Active Accounts
1,000,044

Participation Rate
95.77%

YTD Sales Volume
6,064 GWh

Dec Sales Volume
968 GWh



Summary of Financial Results

	December				Year- to- Date			
in $000,000's	Actual	Budget	Var	%	Actual	Budget	Var	%
Energy Revenues	69.5	67.4	2.1	3%	484.1	499.9	-15.8	-3%
Cost of Energy	62.0	61.6	0.4	1%	443.4	511.2	-67.8	-13%
Net Energy Revenue	7.5	5.8	1.7	29%	40.7	-11.3	52.1	460%
Operating Expenses	2.2	2.6	-0.4	-14%	13.5	16.4	-2.9	-18%
Operating Income	5.3	3.2	2.1	64%	27.2	-27.7	55.0	198%

Note: *Numbers may not sum up due to rounding.*

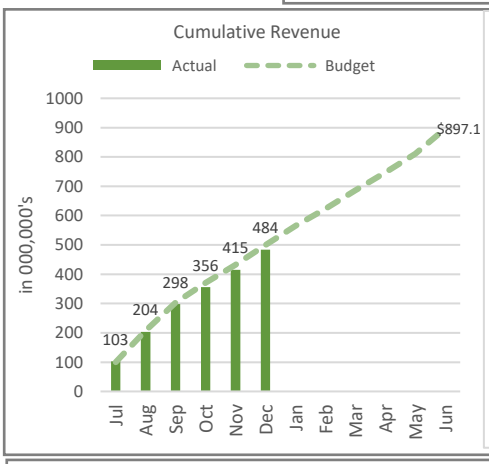
CPA recorded operating income of $5.3 million in December 2021, which was $2.1 million more than the budgeted operating income of $3.2 million. For the year to date, CPA recorded operating income of $27.2 million, $55 million more than the budgeted, year to date operating loss of $27.7 million.

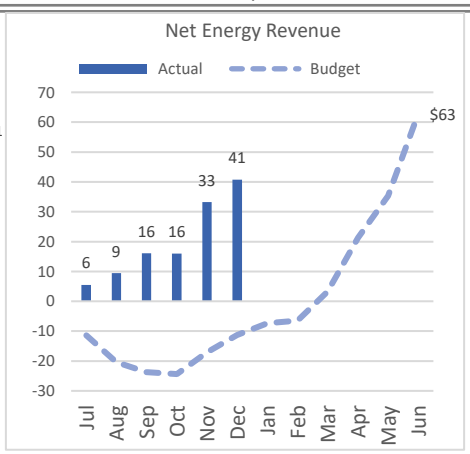
Year to date results were impacted by the following factors:

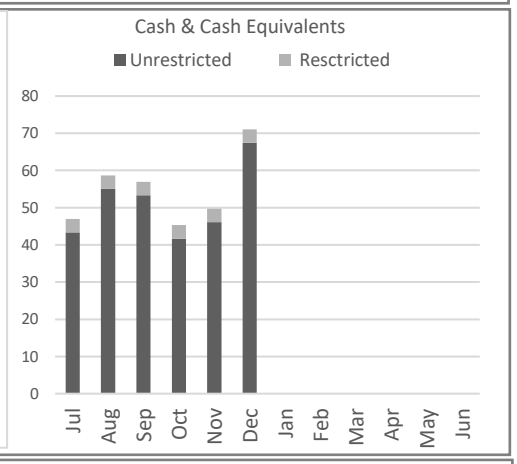
- Revenue was $484.1 million or $15.8 million (3%) lower than budgeted primarily due to cooler temperatures in CPA's service area resulting in lower electricity use by CPA customers.
- Cost of energy was $67.8 million or 13% lower than budgeted primarily as result of the following: i) net sales of CRRs in the annual auction were $7.2 million higher than budget as described in the November 2021 Dashboard ii) lower energy use and wholesale energy prices and costs than budgeted, and iii) higher bilateral sales of energy to wholesale purchasers than budgeted.
- Operating costs were lower than budget primarily because of lower staffing costs resulting from delayed hiring and staff turnover, the performance of services later in the year than budgeted, and the non-utilization of contingencies.

As of December 31, 2021, CPA had $67 million in unrestricted cash and cash equivalents, and $79.853 million available on its bank line of credit. CPA has a $30 million loan outstanding from LA County.

CPA is in sound financial health and in compliance with its bank and other credit covenants.







Definitions:
Accounts: Active Accounts represent customer accounts of active customers served by CPA per Calpine Invoice.
Participation Rate %: Participation Rate represent active accounts divided by eligible CPA accounts
YTD Sales Volume: Year to date sales volume represents the amount of energy (in gigawatt hours) sold to retail customers
Revenues: Retail energy sales less allowance for doubtful accounts
Cost of energy: Cost of energy includes direct costs incurred to serve CPA's load
Operating expenditures: Operating expenditures include general, administrative, consulting, payroll and other costs required to fund operations
Net income: Net income represents the difference between revenues and expenditures before depreciation and capital expenditures
Cash and Cash Equivalents: Includes cash held as bank deposits.
Year to date (YTD): Represents the fiscal period beginning July 1, 2021

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
STATEMENT OF NET POSITION
As of December 31

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 67,450,194	$ 63,431,862
Accounts receivable, net of allowance	103,408,024	66,678,499
Accrued revenue	44,419,776	37,095,112
Other receivables	7,578,663	376,390
Prepaid expenses	2,193,981	1,598,689
Deposits	13,903,151	10,411,925
Restricted cash	3,614,700	4,861,700
Total current assets	242,568,489	184,454,178
Noncurrent assets		
Capital assets, net of depreciation	628,115	517,544
Deposits	88,875	188,875
Total noncurrent assets	716,991	706,420
Total assets	243,285,480	185,160,597
LIABILITIES		
Current liabilities		
Accounts payable	3,329,969	2,236,719
Accrued cost of electricity	84,695,457	87,073,852
Other accrued liabilities	2,917,480	4,244,748
User taxes and energy surcharges due to	6,460,038	5,706,224
Loans payable to County of Los Angeles	30,000,000	-
Supplier security deposits	5,522,400	5,927,000
Unearned program funds	1,750,941	-
Total current liabilities	134,676,285	105,188,542
Noncurrent liabilities		
Supplier security deposits	7,142,000	6,724,000
Deferred rent	291,167	-
Total noncurrent liabilities	7,433,167	6,724,000
Total liabilities	142,109,452	111,912,542
DEFERRED INFLOWS OF RESOURCES		
Fiscal Stabilization Fund	-	17,392,965
NET POSITION		
Investment in capital assets	628,115	517,544
Restricted for collateral	3,614,700	4,861,700
Unrestricted	96,933,212	50,475,846
Total net position	$ 101,176,027	$ 55,855,090

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
As of December 31

	2021	2020
OPERATING REVENUES		
Electricity sales, net	$ 483,626,589	$ 392,511,979
Revenue transferred from/(to) Fiscal Stabilization Fund	-	6,407,035
Other revenue	480,116	-
Total operating revenues	484,106,706	398,919,014
OPERATING EXPENSES		
Cost of electricity	443,361,578	385,876,353
Contract services	8,844,581	7,308,945
Staff compensation	3,843,067	2,448,678
General and administration	835,379	398,214
Total operating expenses	456,884,606	396,032,190
Operating income (loss)	27,222,100	2,886,824
NONOPERATING REVENUES (EXPENSES)		
Interest income	17,963	139,563
Interest and related expenses	(293,335)	(61,376)
Total nonoperating revenues (expenses)	(275,372)	78,187
CHANGE IN NET POSITION	26,946,728	2,965,011
Net position at beginning of period	74,229,299	46,585,635
Net position at end of period	$ 101,176,027	$ 49,550,646

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
STATEMENT OF CASH FLOWS
As of December 31

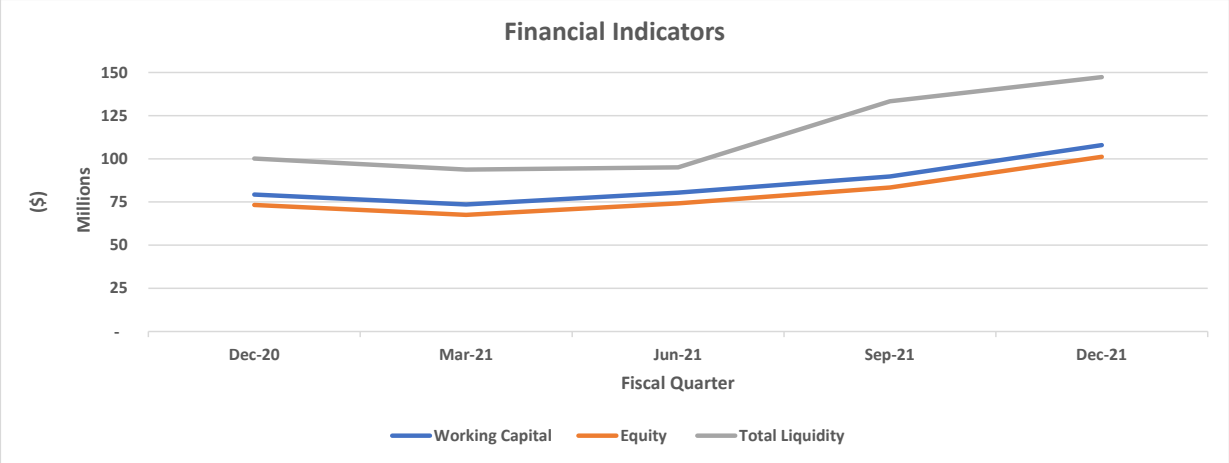
	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating income (loss)	$ 27,222,100	$ 735,631
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	63,220	14,059
Revenue adjusted for allowance for uncollectible accounts	10,431,641	4,960,138
Expenses paid directly from loan proceeds		
(Increase) decrease in:		
Accounts receivable	(25,615,765)	(27,487,743)
Energy market settlements receivable	-	147,873
Other receivables	(5,165,610)	206,982
Accrued revenue	11,479,288	12,895,305
Prepaid expenses	1,994,223	5,221,193
Deposits	(576,309)	(846,728)
Increase (decrease) in:		-
Accounts payable	(1,454,179)	595,073
Energy market settlements payable	1,116,385	13,273,665
Accrued cost of electricity	(4,579,261)	20,172,832
Other accrued liabilities	1,150,128	557,964
User taxes due to other governments	1,130,939	1,811,471
Loans payable	-	-
Fiscal stabilization fund	-	(6,407,035)
Supplier security deposits	(37,798,000)	9,164,580
Unearned program funds	152,955	-
Net cash provided (used) by operating activities	$ (20,448,245)	$ 35,015,259
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds	30,000,000	-
Principal payments on loan	-	(9,945,750)
Interest and related expense payments	(110,370)	(30,865)
Net cash provided (used) by non-capital financing activities	29,889,630	(9,976,615)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	(201,423)	(465,967)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	17,963	124,443
Net cash provided (used) by investing activities	17,963	124,443
Net change in cash and cash equivalents	9,257,925	24,697,120
Cash and cash equivalents at beginning of period	61,806,968	61,055,767
Cash and cash equivalents at end of period	$ 71,064,894	$ 85,752,887
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	67,450,194	80,855,887
Restricted cash	3,614,700	4,897,000
Cash and cash equivalents	$ 71,064,894	$ 85,752,887

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
July 1, 2021 through December 31, 2021

	2021/22 YTD Budget	2021/22 YTD Actual	2021/22 YTD Budget Variance (Under) Over	2021/22 YTD Actual / Budget %	2021/22 Budget	2021/22 Remaining Budget	2021/22 Remaining Budget %
Operating revenues							
Revenue - electricity, net	$ 498,932,133	$ 483,626,590	$ (15,305,543)	97%	$ 895,246,680	$ 411,620,090	46%
Revenue transferred from/(to) Fiscal Stabilization Fund	-	-	-		-	-	
Other revenues	937,000	480,116	(456,884)	51%	1,868,000	1,387,884	74%
Total operating revenues	499,869,133	484,106,706	(15,762,427)	97%	897,114,680	413,007,974	46%
Energy costs							
Energy procurement	511,177,604	443,361,578	(67,816,026)	87%	834,281,512	390,919,934	47%
Total energy costs	511,177,604	443,361,578	(67,816,026)	87%	834,281,512	390,919,934	47%
Operating revenues less energy costs	(11,308,471)	40,745,128	52,053,599	-360%	62,833,168	22,088,040	35%
Operating Expenses							
Staffing	4,946,400	3,843,067	(1,103,333)	78%	9,893,000	6,049,933	61%
Technical services	619,000	584,839	(34,161)	94%	1,184,000	599,161	51%
Legal services	700,800	283,758	(417,042)	40%	1,237,000	953,242	77%
Other professional services	1,010,500	511,307	(499,193)	51%	1,612,000	1,100,693	68%
Communications and outreach	779,148	524,561	(254,587)	67%	1,505,000	980,439	65%
Mailers	553,000	429,205	(123,795)	78%	797,000	367,795	46%
Billing data manager	5,208,400	5,126,486	(81,914)	98%	10,417,000	5,290,514	51%
SCE services	1,008,000	960,000	(48,000)	95%	2,016,000	1,056,000	52%
Customer programs	536,000	424,425	(111,575)	79%	1,872,000	1,447,575	77%
General and administrations	773,840	555,647	(218,194)	72%	1,584,000	1,028,354	65%
Occupancy	273,970	216,513	(57,457)	79%	548,000	331,487	60%
Total operating expenses	16,409,058	13,459,808	(2,949,250)	82%	32,665,000	19,205,192	59%
Operating income	(27,717,529)	27,285,320	55,002,849		30,168,168	2,882,848	10%
Non-operating revenues (expenditures)							
Interest income	72,000	17,963	(54,037)	25%	144,000	126,037	88%
Finance and interest expense	(224,978)	(293,335)	(68,357)	130%	(287,000)	6,335	-2%
Depreciation	(78,000)	(63,220)	14,780	81%	(156,000)	(92,780)	59%
Total non-operating revenues (expenditures)	(230,978)	(338,592)	(107,614)	147%	(299,000)	39,592	
Change in net position	(27,948,507)	26,946,729	54,895,236		29,869,168	2,922,440	10%
Other uses							
Capital outlay	231,000	201,423	(29,577)	87%	297,000	95,577	32%
Depreciation	(78,000)	(63,220)	14,780	81%	(156,000)	(92,780)	59%
Total other uses	153,000	138,203	(14,797)	90%	141,000	2,797	2%
Change in fund balance	$ (28,101,507)	$ 26,808,525	$ 54,910,032	-95%	$ 29,728,168	$ 2,919,643	

Select Financial Indicators

Note		Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
1	Working Capital	79,265,635	73,552,500	80,451,054	89,731,305	107,892,204
2	Current Ratio	1.76	1.76	1.55	1.50	1.80
3	Days Sales Outstanding	27	29	40	40	39
4	Equity	73,248,055	67,513,318	74,229,299	83,341,183	101,176,027.15
5	Equity to Assets %	40%	40%	32.78%	31%	42%
6	Available Cash	63,431,862	56,883,382	58,192,268	53,357,388	67,450,193.67
7	Available Line of Credit	36,733,000	36,853,000	36,853,000	80,000,000	79,853,000.00
8	Total Liquidity	100,164,862	93,736,382	95,045,268	133,357,388	147,303,194
9	Days Liquidity on Hand (TTM)	49	45	44	60	67
10	Gross Margin	5%	4%	6.4%	5.4%	8.4%
11	Net Margin	-2%	-4%	3.4%	3.1%	5.6%
	Percentage Change from Prior Quarter					
	Working Capital		-7%	9%	12%	20%
	Current Ratio		0%	-12%	-4%	20%
	Days Sales Outstanding		9%	37%	0%	-4%
	Equity		-8%	10%	12%	21%
	Equity to Assets %		0%	-17%	-6%	35%
	Available Cash		-10%	2%	-8%	26%
	Available Line of Credit		0%	0%	117%	0%
	Total Liquidity		-6%	1%	40%	10%
	Days Liquidity on Hand (TTM)		-9%	-3%	37%	12%



Note	Description
1	Current Assets less Current Liabilities
2	Current Assets divided by Current Liabilities
3	Accounts receivable divided by Sales divided by 365
4	Net Position plus Fiscal Stabilization Fund
5	Equity (Net Position + FSF) divided by Total Assets
6	Unrestricted cash and cash equivalents
7	Total Line of Credit less Borrowing and Letters of Credit
8	Sum of Available Cash and Line of Credit
9	Total Liquidity divided by trailing 12 month expenses divided by 365
10	Operating revenue less energy cost divided by operating revenue
11	Change in net position divided by operating revenue

Staff Report – Agenda Item 5

To: Clean Power Alliance (CPA) Finance Committee

From: David McNeil, Chief Financial Officer

Subject: Report from the Chief Financial Officer

Date: February 23, 2022

The Chief Financial Officer will present the FY 2021/22 YTD Financial Results and Full Year Outlook.

ATTACHMENT

1. CFO Report Presentation

Item 5
FY 2021/22 Financial Performance and Outlook

February 23, 2022

Summary of YTD Financial Results

- CPA recorded a net income $27.2 million through the 1st six months of FY 2021/22, $54.9 million above a budgeted net loss for the 2nd quarter of $27.7 million. Year to date results were impacted by the following factors:

  - Revenue was $484.1 million or $15.8 million (3%) lower than budgeted primarily due to cooler temperatures in CPA's service area resulting in lower electricity use by CPA customers.

  - Cost of energy was $67.8 million or 13% lower than budgeted primarily as result of the following:

    - net sales of CRRs in the annual auction were $7.2 million higher than budget. Sales of CRRs can occur in the annual or monthly auctions or in the day ahead market. Management view higher CRR sales in the annual auction as largely a timing issue and expect CPA to record lower CRR revenues in 2022 as a result of higher CRR sales in the annual auction.
    - lower energy use and wholesale energy prices than budgeted
    - higher bilateral sales of energy to wholesale purchasers than budgeted

  - Operating expense items were all within budget

- As of December 31, 2021, CPA had $67 million in unrestricted cash and cash equivalents, and $79.853 million available on its bank line of credit. CPA has a $30 million loan outstanding from LA County.

Income Statement (GAAP & Adjusted) July 2021 to December 2021

Income Statement Summary

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	YTD
Revenue	102,970,010	100,728,660	94,093,625	57,748,830	59,003,289	69,562,292	484,106,706
Cost of Energy	97,453,026	96,827,763	87,444,071	57,859,895	41,761,845	62,014,978	443,361,578
Gross Margin	5,516,984	3,900,897	6,649,554	(111,065)	17,241,443	7,547,314	40,745,127
Operating Costs	2,214,311	2,174,802	2,460,937	2,185,749	2,250,186	2,237,043	13,523,027
Non Operating Revenues (Expenses)	(19,225)	(53,747)	(32,529)	(76,190)	(47,157)	(46,525)	(275,372)
Net Income (GAAP)	3,283,448	1,672,348	4,156,087	(2,373,004)	14,944,101	5,263,746	26,946,728
Reverse 2022 CRR Annual Auction Net Revenue					(9,755,250)		(9,755,250)
Adjusted Net Income	**3,283,448**	**1,672,348**	**4,156,087**	**(2,373,004)**	**5,188,851**	**5,263,746**	**17,191,478**
Adjusted Net Income (%)	**3%**	**2%**	**4%**	**-4%**	**9%**	**8%**	**4%**

- CPA recorded consistent net income in the first half of FY 2021/22 with the exception of October 2021
- YTD adjusted net income margins (adjusted net income/revenue) was 4%

Budget to Actual Analysis

	2021/22 YTD Budget	2021/22 YTD Actual	2021/22 YTD Budget Variance (Under) Over	2021/22 YTD Actual / Budget %
Operating revenues				
Revenue - electricity, net	$ 498,932,133	$ 483,626,590	$ (15,305,543)	97%
Revenue transferred from/(to) Fiscal Stabilization Fund	-	-	-	
Other revenues	937,000	480,116	(456,884)	51%
Total operating revenues	499,869,133	484,106,706	(15,762,427)	97%
Energy costs				
Energy procurement	511,177,604	443,361,578	(67,816,026)	87%
Total energy costs	511,177,604	443,361,578	(67,816,026)	87%
Operating revenues less energy costs	(11,308,471)	40,745,128	52,053,599	-360%
Operating Expenses				
Staffing	4,946,400	3,843,067	(1,103,333)	78%
Technical services	619,000	584,839	(34,161)	94%
Legal services	700,800	283,758	(417,042)	40%
Other professional services	1,010,500	511,307	(499,193)	51%
Communications and outreach	779,148	524,561	(254,587)	67%
Mailers	553,000	429,205	(123,795)	78%
Billing data manager	5,208,400	5,126,486	(81,914)	98%
SCE services	1,008,000	960,000	(48,000)	95%
Customer programs	536,000	424,425	(111,575)	79%
General and administrations	773,840	555,647	(218,194)	72%
Occupancy	273,970	216,513	(57,457)	79%
Total operating expenses	16,409,058	13,459,808	(2,949,250)	82%
Operating income	(27,717,529)	27,285,320	55,002,849	

Operating expenses were lower than budget primarily because of;

- lower staffing costs resulting from delayed hiring and staff turnover,
- the performance of services later in the year than budgeted, and
- the non-utilization of contingencies

FY 2021-22 Financial Outlook

- SCE transferred $14.7 million of CAPP funds to CPA in February 2022. The remaining $1.1 million of CAPP funds will be transferred in the coming weeks.
- CPA repaid the County of Los Angeles $10 million in February 2022 consistent with the terms of the loan agreement. The remaining $20 million installment will be repaid in June 2022.
- Staff plan to complete an update to CPA's financial projections in February and make the results available in March. CPA expects to finish the current fiscal year ahead of budget.
- Staff plan to present a Draft Amendment to the FY 2021-22 Budget to the Finance Committee in March and to the Board at its April meeting. The Amendment will address higher than budgeted banking fees arising from the credit agreement with JPMorgan Chase approved by the Board in September 2021. Staff plan to decrease one or more budget line items to offset the impact of increased interest charges.
- CPA is in sound financial health and in compliance with its bank and other credit covenants.

Thank You! Questions?

CPA CLEAN POWER ALLIANCE

Staff Report – Agenda Item 6

To:	Clean Power Alliance (CPA) Finance Committee
From:	David McNeil, Chief Financial Officer
Subject:	Update on Potential Clean Energy Prepayment Transaction
Date:	February 23, 2022

The Chief Financial Officer will present an update on Potential Clean Energy Prepayment transaction.

ATTACHMENTS

1. Update on Potential Clean Energy Prepayment Transaction
2. Clean Energy Prepayment Financing Background (Presentation to Finance Committee from October 2022)

Item 6: Update on Clean Energy Prepayment Transaction

February 23, 2022

Summary of Clean Energy Financings

- On October 27, 2021 Staff presented the Finance Committee an introduction to clean energy prepayment financings (“prepays”, attachment 2)

- Prepays are well-established financing mechanisms that allow municipal utilities and CCAs to leverage their status as issuers of non-taxable debt to reduce energy costs

- Thirteen municipal prepayment transactions totaling over $7.6 Billion have been completed in California; three transactions were completed by CCAs in Fall 2021

- An initial prepay transaction is expected to save CPA approximately $2 million per year on renewable energy costs. Follow on transactions have the potential to add further savings

- The economics of prepay transactions are driven by interest rate differentials between taxable (corporate) and non-taxable debt which narrow and widen over time. While these spreads are currently favorable, it is unclear how long spreads will remain wide enough to support prepay transactions

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

Prepay Transaction Participants

- In order to proceed with a Clean Energy Prepay Transaction, CPA would need to select and secure the services of the following entities:
  - **Municipal Financial Advisor**
    - see next slide
  - **Energy Supplier(s)**
    - Typically a bank which receives bond proceeds and guaranties repayment of the bonds
  - **Conduit Issuer**
    - Arms length entity that issues the bond. CPA will evaluate joining a JPA created by four northern California CCAs that serves as a conduit issuer
  - **Prepay Legal Counsel**
    - Provides legal opinions to CPA and assists in negotiating transaction documents
  - **Municipal Bond Counsel**
    - Provides bond and tax opinion concerning the issuance of the debt
  - **PPA Contracts Counsel**
    - Assists with amending existing PPAs as necessary
- Prepay service provider fees are typically paid out of bond proceeds in order to lower client out of pocket costs

Municipal Financial Advisor (MFA)

- The Municipal Securities Rulemaking Board (MSRB) requires that an MFA represent and support a prepay transaction participant like CPA

- MFAs operate with a fiduciary responsibility to clients such as CPA

- Typical MFA Scope of Services for Prepay Transactions
  - Assistance with soliciting and reviewing the selection of service providers, banks and conduit issuers
  - Advise clients on transaction risks and propose risk mitigants
  - Perform transaction modeling and analysis to ensure that clients maximize value from prepay transactions, and assist with structuring negotiations

MFA evaluation and selection

- Following the October 2021 committee presentations, staff conducted a competitive solicitation to identify qualified vendors to provide MFA services
- Three vendors replied to the solicitation
- Staff plan to engage Municipal Capital Markets Group, Inc. (MCM) for a short term (e.g. three-month) contract under CEO signing authority to provide the following subset of MFA services:
  - Advice to staff and board regarding opportunities and risks associated with prepay financing transactions
  - Project management and planning
  - Assistance with the evaluation of energy suppliers, conduit issuer, prepaid legal counsel, municipal bond counsel, and prepay contract counsel
- In May or June 2022 staff plan to select an MFA to provide the MFA services required to close a prepay transaction. CPA would have no obligation to select MCM at that time.

MFA evaluation and selection

- Staff believe that MCM's experience provides a significant competitive advantage over other bidders
  - MCM advised on 32 municipal prepay transactions totaling since 2016, roughly three times as many prepay bond transactions than the runner up firm
  - MCM's experience allows it to:
    - build a detailed database of the factors that influence prepay bond economics
    - identify a full range of prepay transaction risks and propose mitigants
    - assist with content of competitive solicitations
    - assist with the evaluation of banks and service providers offers, and
    - recommend RFO respondents best able to achieve CPA's goals

Proposed Timeline: Board and Committees

March 2022

- Work with MFA begins
- Prepay Presentation to Executive Committee (March 23)
- Prepay Presentation to Finance Committee (March 30)

April 2022

- Board (April 7)
  - Introduction to prepay financing
  - Introduction to conduit issuer selection, CCCFA, and amending CPA's JPA (including any JPA public notice requirements)
- Prepay Update to Executive Committee (April 20)
- Prepay Update to Finance Committee (April 27)

May 2022

- Board (May 5)
  - Introduction to prepay financing part II (as needed) <u>or</u>
  - Present Resolution to join CCCFA (assuming this is the preferred option)
  - Present Resolution to amend CPA JPA to allow us to join CCCFA (assuming this is the preferred option)
  - Approval of conduit issuer, bank(s), prepay legal counsel, bond counsel and MFA
- Prepay updates for Executive and Finance Committees as needed

June 2022

- Board (June 2)
  - Selection of conduit issuer, bank(s), prepay legal counsel and MFA (as needed and if not completed in May)

Proposed Timeline continued…

September 2022

- Prepay Update to Executive Committee (September 21)
- Prepay Update to Finance Committee (September 28)
- Activities: Preparation of documents and resolutions

October 2022

- Board (October 6)
    - Presentation of documents and resolutions authorizing closing of a prepay transaction

October – December 2022

- Transaction close

Prepay Contracting Risks

Compensation Based Conflicts

- The amount of compensation for providers of services related to prepay transactions such as the MFA, municipal bond counsel, and prepay legal counsel increases if prepay transactions move forward and close
- There are several types of compensation structures. Each one creates potential conflicts of interest.
  - Billing by the hour incentivizes service providers to move forward with a transaction so that they earn more fees
  - Fixed fees incentivize service providers to drag their feet if their costs begin to exceed the fixed fee
  - Fees that are contingent on deal closing incentivize providers to close a transaction;
- These risks are well known and recognized by the MFA industry. MSRB Rule G-42 requires MFAs to disclose conflicts of interest associated with each of the above noted fee structures
- While MFAs and other service provides offer mitigants to control these conflicts (e.g. reputational damage caused by a failure fulfill Fiduciary Responsibility and put client's interest before its own), these mitigants do not totally eliminate the potential conflicts
- Staff believe that risks arising from the potential conflicts are commercially acceptable and are controlled through a competitive process of vendor selection, disclosure to MSRB, and the exercise of sound commercial judgement in overseeing the work of parties providing services to CPA

Prepay Contracting Risks

Conflicts arising from other relationships

- The community of prepay service providers is small and conflicts may arise between the service providers obligation to CPA and its desire to maintain profitable relationships with other clients (e.g. other CCAs) or other prepay service providers
- MFAs, for instance, serve a wide variety of other clients that may, from time to time, have interests that could have a direct or indirect impact on CPA's interests. For example, MCM serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such clients just as it would to CPA.
- To mitigate this conflict, MFAs implement policies and procedures to ensure its staff devote sufficient time and attention to each client and client transaction

Conflicts arising from other lines of business

- Some service providers such as MFAs operate broker/dealer or investment businesses whose interests may conflict with those of CPA
- Staff believe that these risks are mitigated by segregation of business lines as is customary in the financial services industry

Questions

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 <u>to the energy supplier</u> 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

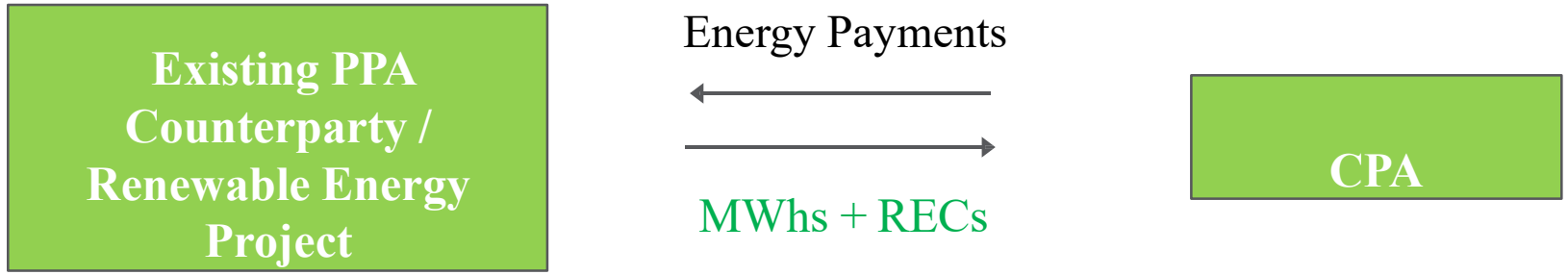
Concept 2: CPA assigns certain provisions of an existing PPA to a bank; CPA continues to receive renewable energy and makes PPA payments less a discount

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

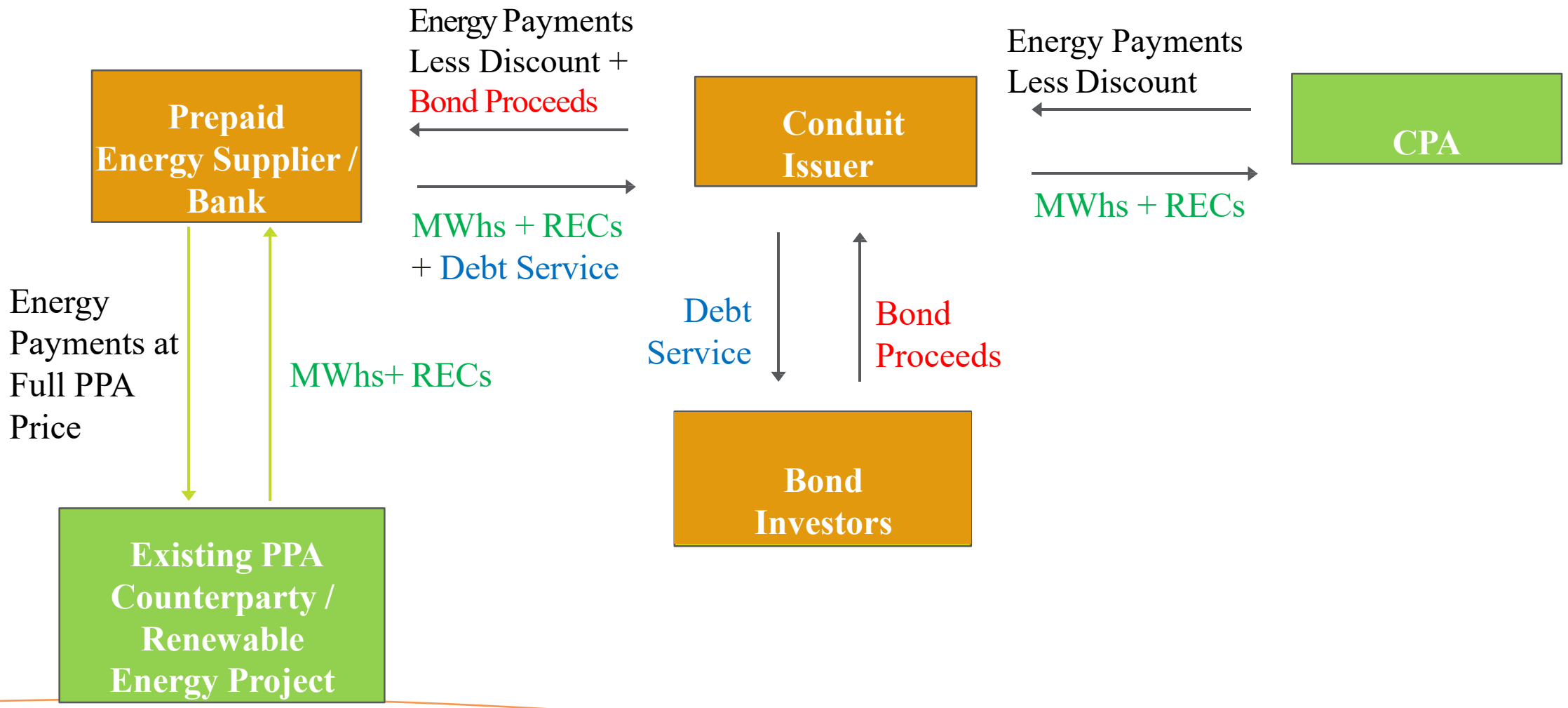
Concept 5: The bank, not CPA, is on the hook for the prepayment bonds

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

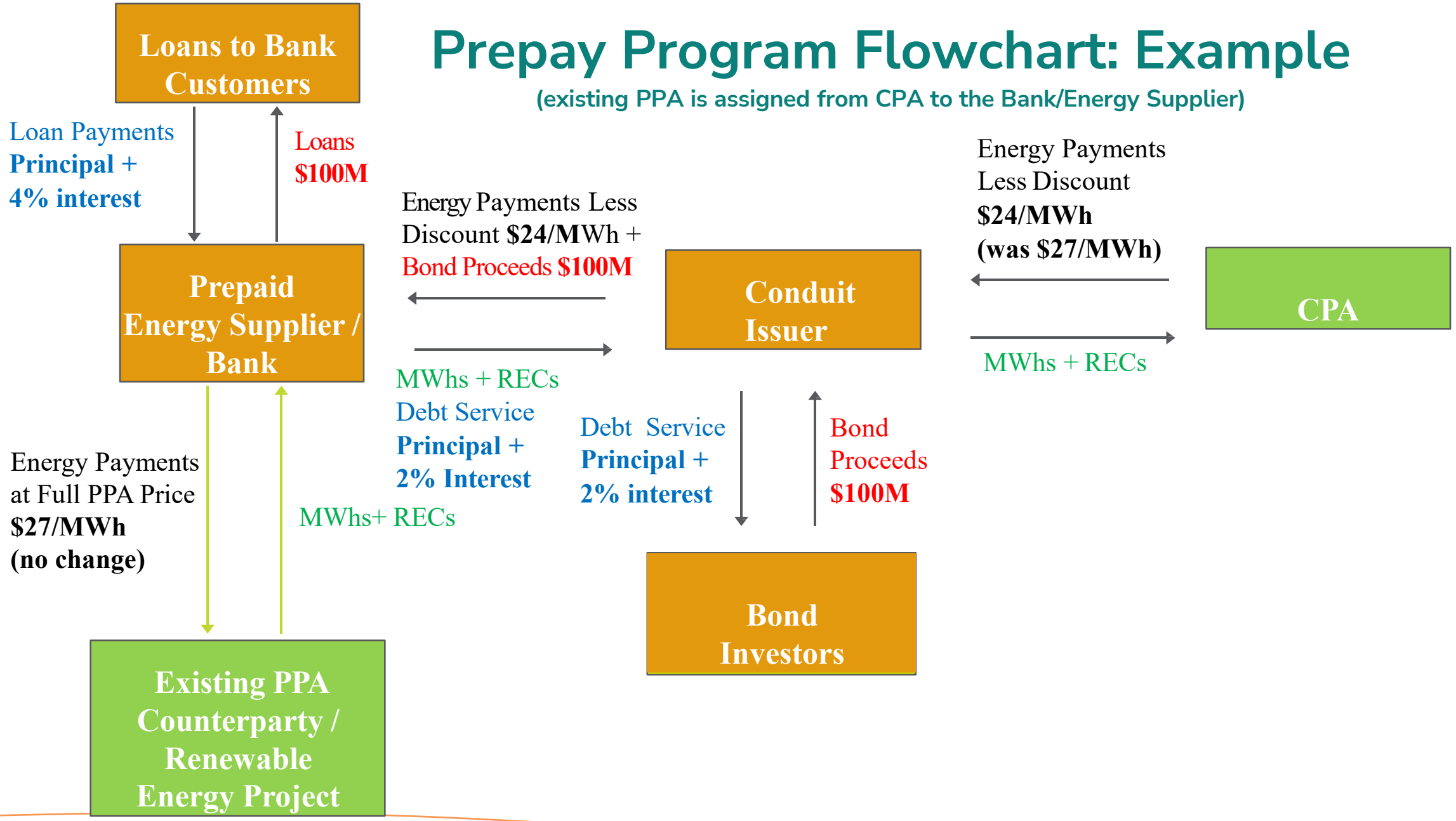
- Municipal electric and gas utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable (corporate) entity and fund that prepayment with tax-exempt municipal bonds:
  - Must sell that commodity to retail end-users that reside within 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!)