CLEAN POWER ALLIANCE

Item 4: Clean Energy Prepayment Financing

March 16, 2022

Recommended Next Steps:

Present an Introduction to Renewable Energy Prepay Financing to the Board of Directors at its April 7, 2022 Board Meeting

Summary

- In October 2021 Staff presented the Executive and Finance Committees an introduction to clean energy prepayment financings

- Prepays are financing mechanisms that allow municipal utilities and CCAs to leverage their status as issuers of tax-exempt debt to reduce energy costs. Thirteen municipal prepayment transactions totaling over $7.6 billion have been completed in California since 2006; three transactions were completed by CCAs in Fall 2021.

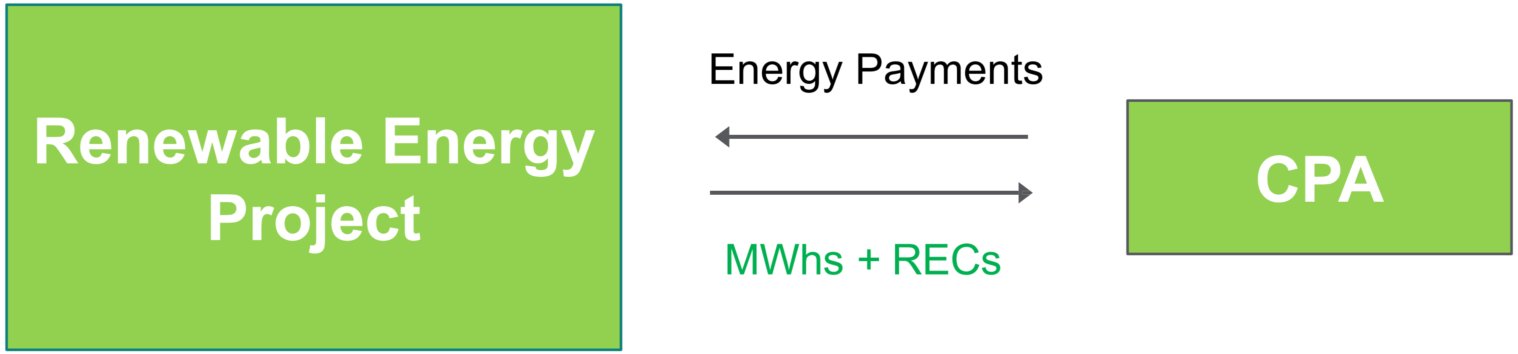
- An initial prepay transaction is expected to save CPA approximately $2-3 million per year on its PPA costs. Follow-on transactions have the potential to add further savings. Prepays are a tool available to CPA to help stay competitive with SCE.

- CPA has contracted with Municipal Capital Advisors (MCM) on a short-term basis under the CEO contract signing authority to assist CPA with an initial evaluation of prepay transactions, an evaluation of potential prepaid energy suppliers and bond issuers, and to assist with presentations to CPA's Board and Committees

Energy Prepayment Transaction – Entities

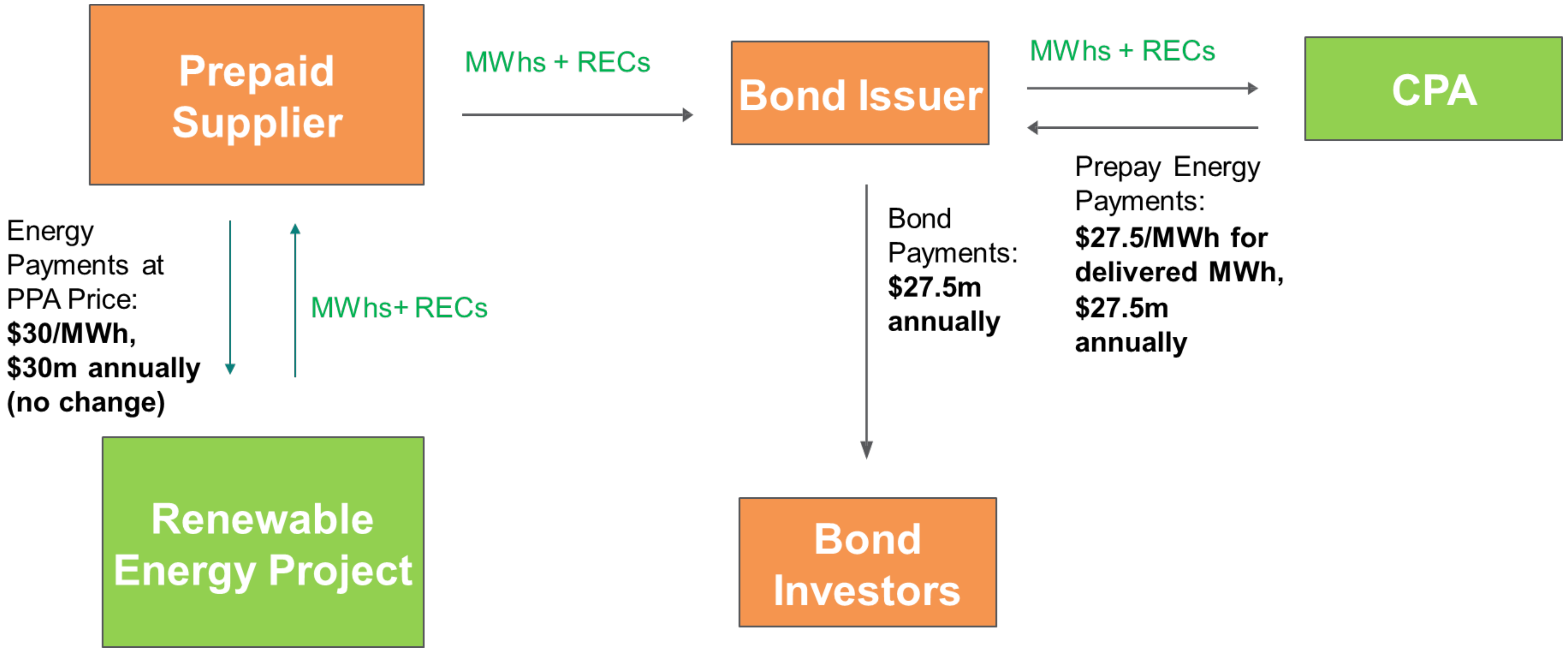
- **Prepaid Supplier**
  - A financial institution or other investment grade credit-rated entity
  - CPA assigns one or more existing PPAs to the Prepaid Supplier, which assumes the PPA obligations of the “buyer”.
  - Receives lump sum “prepayment” from Bond Issuer for long-term energy supply and delivers energy to Bond Issuer
- **Bond Issuer**
  - Typically a JPA authorized to issue prepay bonds
  - Issues the bond; uses the bond proceeds to pay the Prepaid Supplier in exchange for a long-term supply of energy
  - Delivers energy to CPA in exchange for prepay energy payments
  - Pays Bond Investors
- **Bond Investors**
  - Purchases prepay bonds in exchange for principal and interest payments over the term of the Bond
- **Existing PPA Counterparty / Energy Seller (“Renewable Energy Project”)**
  - Receives monthly cash flows from Prepaid Supplier (rather than CPA) for energy supplied to the Prepaid Supplier
- **Service Providers**
  - Municipal Financial Advisor, Bond and Tax Counsel, CPA Prepay Legal Counsel, Prepay Bond Underwriters
  - Support the structuring and issuance of a prepay Bond

Typical PPA Flowchart



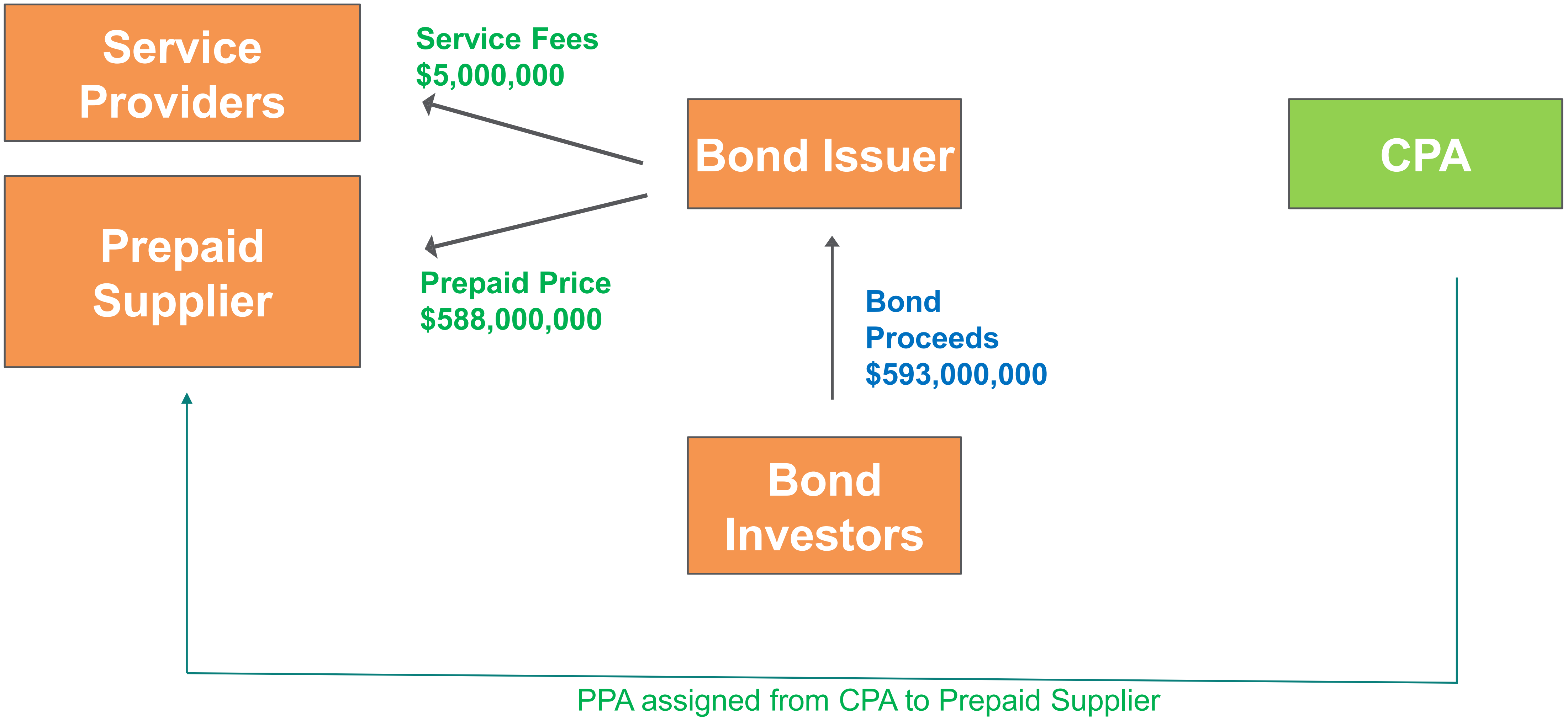
Example Prepay Transaction Flowchart

(Monthly Cash and Electricity Flow)



Example Prepay Transaction Flowchart

(At Bond Issuance / Closing)



Example Prepay Economics (Illustrative only)

A		B		C		D	
Prepay Supplier		Bond Issuer		CPA		Savings to CPA	
Cost of Funds	3.00%	Bond interest rate	2.28%				
PV of PPA PMTs	$588,000,000	PV of Bond Payments	$ 593,000,000				
Year	PPA Payments(1)	Year	Bond Payments	Year	Prepay Energy Payments	Year	Savings
1	$ 30,000,000	1	$ 27,500,000	1	$ 27,500,000	1	$ 2,500,000
2	30,000,000	2	27,500,000	2	27,500,000	2	2,500,000
3	30,000,000	3	27,500,000	3	27,500,000	3	2,500,000
...	...	...	...	...	...	...	...
28	30,000,000	28	27,500,000	28	27,500,000	28	2,500,000
29	30,000,000	29	27,500,000	29	27,500,000	29	2,500,000
30	30,000,000	30	27,500,000	30	27,500,000	30	2,500,000
Total	$ 900,000,000	Total	$ 825,000,000	Total	$ 825,000,000	Total	$ 75,000,000

Energy Prepayment	$ 588,000,000
Issuance Expenses	$ 5,000,000
Required Bond Proceeds	$ 593,000,000
Taxable / Tax Exempt Interest Rate Differential (Spread)	0.72%

1. Representing the annual cost of the energy under a PPA assigned to the Prepaid Supplier; e.g., a wind PPA with a monthly cost of $2.5 million per month / $30 million per year

Risks and Risk Mitigants of Prepay Transactions

- **Prepay transaction terminates unexpectedly due to:**
  - Non-performance or default by Prepaid Supplier
    - Mitigated by selecting an investment grade credit-rated Prepaid Supplier
  - Insufficient energy supply to meet delivery obligations to Prepay Supplier
    - Mitigated by volume of CPA PPAs and Prepaid Supplier’s ability to source energy from the market for delivery to Bond Issuer / CPA if needed
  - Non-performance by CPA
    - Mitigated by CPA financial strength and by reserve accounts funded from bond proceeds
- **If the above risk mitigants are insufficient and the prepay transaction terminates:**
  - The assigned PPA returns to status quo; CPA re-assumes buyer obligations under the PPA and pays the PPA price as it does currently.
  - The Prepaid Supplier is required to retire the prepay bonds. **CPA is not responsible for bond repayment.**
- **Market timing risks**: the risk of being “too late” and not being able initiate a prepay bond if market conditions become unfavorable or “too early” if spreads widen further after prepay bond is issued
  - If CPA elects to proceed, it will be best served by moving forward with preparations for a prepay transaction expeditiously, so as to by ready to transact when market conditions are favorable

Risks and Risk Mitigants – Pricing

- **The Prepaid Supplier’s fees and benefits must be measured and controlled:**
  - Structuring fees
  - Underwriting fees for selling the prepay bonds if the bond underwriter is a related party
  - Fees added to the prepay price for the delivery of physical electricity
  - Electricity remarketing fees
  - Future structuring and underwriting fees for future bond re-pricings
  - Lower funding costs
- **Municipal Financial Advisor (MFA)**
  - Works for CPA to ensure that the Prepaid Supplier fees and implicit funding costs are fair, reasonable and consistent with market pricing
  - Owes a fiduciary responsibility to CPA with contractual risk mitigations, MSRB oversight, and SEC enforcement
- **CPA manages additional risks by engaging in competitive solicitation processes for services, engaging competent outside legal counsel experienced in prepayments, and through the exercise of managerial and professional judgement**

Proposed Timeline: Board and Committees

March 2022

- Prepay Presentation to Executive Committee (March 16)
- Prepay Presentation to Finance Committee (March 23)

April 2022

- Board (April 7)
  - Introduction to:
    - Prepay financing
    - Bond Issuer options and selection criteria
  - Public noticing of a proposed JPA amendment to join Bond Issuer JPA, if necessary
- 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) or
  - Present Resolution to amend CPA JPA to join Bond Issuer JPA, as required
  - Present Resolution to join a Bond Issuer JPA
  - Approval of Bond Issuer, Prepaid Supplier, CPA Prepay Legal Counsel, Bond Counsel and MFA

Proposed Timeline Continued

June 2022	• Board (June 2) • Selection of Bond Issuer, Prepaid Supplier, CPA Prepay Legal Counsel and MFA (as needed and if not completed in May)
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 prepay transaction documents
	  • Present Resolution to authorize closing of a prepay transaction

October - December 2022	• Transaction close

Recommended Next Steps:

Present an Introduction to Renewable Energy Prepay Financing to the Board of Directors at its April 7, 2022 Board Meeting

Questions

Prepay Transaction – Key Concepts

Prepay Bond Issuance and Proceeds

- Prepay transactions involve the sale of tax-exempt bonds to Bond Investors by a Bond Issuer. The prepay bond is exempt from federal taxation and from State income taxation for Bond Investors domiciled in California.
- The Bond Issuer uses the bond proceeds to prepay the Prepaid Supplier, usually a financial institution or other investment grade credit-rated entity, for a long-term supply of electricity pursuant to a contract between the Bond Issuer and the Prepaid Supplier
- The Prepaid Supplier:
  - Is obligated to make a payment that is sufficient, together with other available proceeds, to retire the prepay bonds upon a termination of the prepaid contract and to make payments for any electricity that is not delivered, and
  - The Bond Issuer's bonds receive the same credit rating as that of the Prepaid Supplier
- CPA does not issue a bond and bond proceeds do not flow to CPA or to the renewable energy project developers or project owners. CPA has no obligation to repay the bonds.

Renewable Energy Prepayment – Key Concepts

Assignment of an Existing PPA and new Energy Supply Agreements

- In a prepayment transaction, CPA assigns certain rights and obligations, including title and ownership of the renewable energy, under an existing PPA to the Prepaid Supplier
- The renewable energy project owner now delivers energy to the Prepaid Supplier and the Prepaid Supplier assumes responsibilities of the "energy buyer" under the terms of the PPA
- As noted in the previous slide the Prepaid Supplier sells energy to the Bond Issuer under a long-term supply agreement. CPA enters into a separate energy supply agreement with the Bond Issuer under which CPA continues to receive energy and renewable attributes from the renewable energy project (no change from current situation) and make energy payments (less a discount) to the Bond Issuer.
- Title to the renewable energy passes instantaneously from PPA Seller to Prepaid Supplier to Bond Issuer to CPA at the energy delivery point

Renewable Energy Prepayment – Key Concepts

Source of CPA Savings

- In a prepay transaction, a Prepaid Supplier accepts an obligation to make regular PPA payments to the energy project owner and supply energy to the Bond Issuer in exchange for a single lump sum prepayment amount (“prepay price”)
- The “prepay price” is equal to the present value of PPA payments over the prepay bond term discounted at a taxable interest rate approximating what the Prepay Supplier pays to borrow funds
- The Bond Issuer sells prepay bonds to Bond Investors and receives bond proceeds that are required to fund the sum of the “prepaid price” and issuing expenses. Bond Issuer remits the “prepaid price” to the Prepaid Supplier and remits issuing expenses to service providers
- The prepay bonds are amortized over the 30-year term of the transaction and the resulting principal and interest payments (“P&I payments”) are paid by the Bond Issuer to the Bond Investors.
- The Bond Issuer sells CPA the energy each month and CPA pays the Bond Issuer an energy payment sufficient to make P&I payments. The Bond Issuer uses CPA’s payments, and any amounts due form the Prepaid Supplier in lieu of failed deliveries, to make P&I payments to the Bond Investors.
- CPA’s energy payment to the Bond Issuer is lower than the PPA payment due to the energy project owner, resulting in an energy cost savings to CPA