MINUTES

MEETING of the Finance Committee of the

Clean Power Alliance of Southern California

Wednesday, October 27, 2021, 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 will conduct this meeting remotely.

CALL TO ORDER & ROLL CALL

Chair Julian Gold called the meeting to order at 11:00 a.m. and Interim Clerk of the Board, Susan Caputo, 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	Absent

All votes are unanimous unless otherwise stated.

GENERAL PUBLIC COMMENT

There was no 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

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

REGULAR AGENDA

5. Report from Chief Financial Officer

   David McNeil, Chief Financial Officer, provided an update on CPA's year end close, noting that CPA is awaiting determination from the state on the amount of funding it will receive from the California Arrearage Payment Program (CAPP), which is an input in the determination of bad debt expense. Staff will present year-end financial statements to the Finance Committee in November.

   Mr. McNeil estimates that CPA customers are expected to receive approximately $12 million in relief. Mr. McNeil added that financial results for both July and August are better than budget due to moderate temperatures in July and August, in addition to lower prices in the CAISO as compared to forward price curves for the same period. CPA's cash balances have continued to grow through the third quarter of the year.

In response to Committee Member Zuckerman's question regarding the JPMorgan agreement, Mr. McNeil explained that the agreement does include an adverse material clause. CPA will gather feedback from rating agencies concerning the adverse material clause and then if needed, work with JPMorgan to amend the banking agreement accordingly.

5. <u>Presentation on Clean Energy Prepayment Financing</u>

Mr. McNeil provided a presentation of the item, noting that the topic is intended to be introductory, and staff hopes to gather feedback on the subject. Prepayment financings ("prepays") are financing mechanisms that allow municipal utilities to leverage their status as issuers of non-taxable debt to reduce costs on existing power purchase agreements (PPAs). Mr. McNeil noted that most recently, three northern California CCAs facilitated the issuance of prepayment bonds. Prepays offer the opportunity to reduce existing renewable energy PPA costs by 5-10%. Mr. McNeil reviewed the origins and purpose of prepay transactions. Mr. McNeil discussed the assignment of rights and obligations to a bank under an existing PPA in which a CCA continues to receive energy, but pays a discounted PPA price to the bank; the bank acts as an intermediate energy supplier to CPA. Mr. McNeil summarized the bond issuance and proceeds, where the prepay transactions involve the sale of a non-taxable bond to investors by a conduit issuer, not by CPA. The conduit issuer transfers the bond proceeds from the investors to a bank. In a prepaid transaction, the bank makes regular payments to the renewable energy project owner; CPA pays a discounted price to the bank. The reason for the discounted price provided to CPA is that it is realizing interest cost savings by paying a lower "tax free" interest rate to bond holders, who 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. Mr. McNeil briefly presented an example of a prepayment transaction and reviewed the risks associated with prepayments, noting that CPA is not responsible for the payment of interest or repayment of bond principle. If the program terminates, the PPA reverts to the status quo, where CPA is required to make its regular PPA payments to the energy supplier. CPA's risk is primarily operational but in the event of an unexpected crisis, CPA also faces a risk that the discount on the PPA payment suddenly disappears. Mr. McNeil reviewed a typical PPA flowchart and a prepay program flowchart, illustrating how the transaction changes under a prepayment transaction. Mr. McNeil reviewed key players in the prepayment structure; CPA will not incur any direct expense, except for the PPA contracts counsel and operating costs. The estimated size of an initial bond issuance would be approximately $1 billion, which represents the discounted value of a 50MW to 100 MW project over the 30-year life of the program, with an interest rate reset every 5-10 years. Banks have an option to terminate the program as well. CPA expects to save $1.5 to $2 million in the initial period. The market constraint on prepayment opportunities is the demand for prepaid bonds and rate differentials; however, market dynamics may change, and CPA should move forward expeditiously to take advantage of savings opportunities in the current market. Lastly, Mr. McNeil summarized some next steps, including continuing research of prepay structures, evaluation and selection of participants, and Board approval of parameters for prepay transactions to be completed in the next 6-9 months.

Committee Member Kulcsar stated that enough savings should be generated from these transactions to offset the staff time spent and risks; asked about the invoicing process and expressed some concern that rates would be based on expected savings generated from existing PPAs under prepayment transactions, with the risk that those programs can terminate. Mr. McNeil clarified that administrative details have not yet been discussed but, the CAISO will independently verify the volume of energy that suppliers will invoice. Matt Langer, Chief Operating Officer, added that CPA has access to the CAISO meter data and will also double check meter data for accuracy. Mr. McNeil also clarified that should there be an interest rate reset anticipated to occur within an upcoming fiscal year, CPA would assume in its rate setting and budgeting for the risk that the prepayments transaction will not continue. Committee Member Zuckerman asked about the use of the prepayment mechanism for new or existing PPAs; if the terms of other CCAs' prepay transactions reflect their credit rating status, and if prepay transactions require amending PPA agreements. Mr. McNeil clarified that these transactions would apply to existing PPAs. With regard to amendments, some PPAs already include language that allow it to be used under one of these transactions and therefore amendments may not be required. Mr. McNeil stated that he understands that bondholders are not relying on CPA to make payments, and CCA credit is not a factor in these transactions, noting that further research is required. Chair Gold commented on some of the issues the City of Beverly Hills has faced regarding concerns around JPAs and joint liability, and how that would affect CPA. Nancy Whang, General Counsel, clarified that there would be no recourse against a JPA's member agencies, as those agreements should insulate member agencies from liability.

COMMITTEE MEMBER COMMENTS

Committee Member Zuckerman asked if CPA plans to contribute to the fiscal stabilization fund since revenue projections are better than previously thought. Mr. McNeil indicated that staff would evaluate that contribution further into the fiscal year.

ADJOURN

Committee Chair Gold adjourned the meeting at 12:10 p.m.