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

Wednesday, September 28, 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.

Click here to view a Live Stream of the Meeting on YouTube
If the YouTube stream is not working, please use the zoom link.
*There may be a streaming delay of up to 60 seconds. This is a view-only live stream.

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 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 preferred, you may also submit written comments during the meeting via email to: clerk@cleanpoweralliance.org. The written comments will be shared with the Committee.

*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 June 22, 2022 Finance Committee Meeting
2. Receive and File August 2022 Risk Management Team Report
3. Receive and File July and August 2022 CPA Investment Report
4. Receive and File July 2022 Financial Dashboard

REGULAR AGENDA

5. Report from the Chief Financial Officer
6. Preview of Proposed Clean Energy Prepayment Transaction
7. Bad Debt Reserve and Accounts Receivable Update

COMMITTEE MEMBER COMMENTS

ADJOURN – NEXT MEETING OCTOBER 26, 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, June 22, 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-Elect Susan Santangelo called the meeting to order at 11:00 a.m. and Gabby Monzon, Board Clerk, conducted roll call.

Roll Call			
Beverly Hills	Julian Gold	Committee Chair	Remote
Camarillo	Susan Santangelo	Committee Chair-Elect	Remote
Carson	Reata Kulcsar	Committee Member	Absent
Rolling Hills Estates	Steve Zuckerman	Committee Member	Remote
Santa Monica	Pam O'Connor	Committee Member	Remote

All votes are unanimous unless otherwise stated. Former Board Chair Diana Madmud was present at the meeting.

GENERAL PUBLIC COMMENT

There was no public comment.

CONSENT AGENDA

1. Approve Minutes from the May 25, 2022 Finance Committee Meeting
2. Receive and File May 2022 Risk Management Team Report
3. Receive and File May 2022 CPA Investment Report
4. Receive and File April Financial Dashboard

Motion: Committee Chair Gold, Beverly Hills
Second: Committee Member O'Connor, Santa Monica
Vote: The consent agenda was approved by a roll call vote.

REGULAR AGENDA

5. Report from the Chief Financial Officer
   David McNeil, Chief Financial Officer, provided an oral update on CPA's treasury operations and financial performance. Mr. McNeil noted there was a significant increase in energy prices in April due to a variety of reasons, including the Ukraine war, high temperatures, and drought conditions reducing the availability of hydro resources. CPA is entering FY Q4 with a $30 million contribution to the net position through the first three quarters and is ahead of its overall budget for the year. Staff expects CPA will be ahead

of budget for the fiscal year, but with lower-than-expected energy revenues resulting from reversals of revenue by Southern California Edison (SCE) for prior months. Mr. McNeil added that CPA's cash flow summer projections are strong and will finish repaying the Los Angeles County loan a few days before the due date. CPA is well-hedged and well-positioned to meet its financial objectives through the summer months. Mr. McNeil discussed the Financial Security Requirement (FSR), stating that the FSR was lowered from $97 million to $87 million and staff referred the matter to the CPUC for resolution. Nevertheless, CPA staff are actively engaged with the surety bond market and with J.P. Morgan. J.P. Morgan agreed to upsize the credit line to accommodate a posting of up to $100 million if necessary.

Responding to Committee Chair Gold's question regarding accounts receivables (AR), Mr. McNeil indicated that a second round of California Arrearage Payment Program (CAPP) funding is included in the FY 2022/23 budget. Staff expects that CPA's bad debt expense can then be adjusted to reflect CAPP funds, reducing the bad debt expense. Mr. McNeil added that the AR and large delinquencies of residential and active commercial accounts are continuing to age. SCE has initiated disconnection notifications for commercial customers, and staff is expecting an increase in payments from that customer group. In response to Committee Chair Gold's question, Mr. McNeil specified that the level of nonpayment continues to increase each month, largely as a function of the continuous aging of those receivables. Responding to Committee Member Zuckerman's question, Mr. McNeil indicated there are both small and large commercial delinquent accounts. Director Mahmud inquired whether there was communication with SCE regarding the large delinquent accounts, and Mr. McNeil noted there are monthly calls with customer credit and collections teams, and there is an expectation that when disconnection notices resume, commercial customers will make payments.

6. <u>Recommend Selection of California Community Choice Financing Authority as Bond Issuer and Goldman Sachs as Prepaid Supplier for an Energy Prepayment Transaction to the Board of Directors</u>
Kate Freeman, Financial Strategy & Initiatives Manager, presented an update on two items associated with the Energy Prepayment Transaction. Municipal Capital Markets (MCM) and Chapman & Cutler (C&C) have been assisting in the solicitations to select a Bond Issuer and a Prepaid Supplier. Staff is recommending the selection of the California Community Choice Financing Authority (CCCFA) as the Bond Issuer and Goldman Sachs and their subsidiary J. Aron as the Prepaid Supplier. Ms. Freeman reviewed the Bond Issuer's role, indicated that three entities responded to the Request for Information (RFI) issued in April 2022, and identified various reasons staff is recommending CCCFA as the Bond Issuer. Staff is proposing CPA join CCCFA as a Founding Member, providing CPA with a seat on the CCCFA Board of Directors.

Director Mahmud expressed that it would be helpful to know if the $50,000 membership fee is equivalent to the costs that the founding members of the CCCFA contributed. Additionally, Director Mahmud noted there is some ambiguity in that the CCCFA JPA provides that the Board approves financing of any prepayment project, but there is nothing that limits further Board action regarding such prepayment projects. Director Mahmud referenced the SCPPA JPA which specifies that only participating members in the prepayment project have any subsequent vote on that project; opined that it would be in the JPA's best interest to adopt an amendment with language addressing subsequent Board actions regarding JPA-approved prepayment projects. Nancy Whang, General Counsel, indicated that each Community Choice Aggregators (CCA) will be allocated

costs for that CCA's transaction and that staff will follow up with CCCFA regarding this issue. Responding to Committee Chair Gold's question concerning CCCFA's organizational structure and its Joint Powers Agreement, staff indicated CCCFA has only Board members and a team comprised of staff members from each of the founding members. CPA would appoint a Board member and a staff member to serve on that team, and work time spent is billable and reimbursable. Ms. Whang added that the conduit issuer's liability and risk are narrow and staff is working to select experienced counsel to assist with disclosures. Mr. McNeil explained that all CCAs who form the CCCFA JPA are issuing prepaid bonds and saving millions a year on prepay costs. The CCCFA JPA is necessary to separate the CCA from risks and must have a minimum of three members. The $50,000 initiation fee is intended to apportion the share of start-up costs and split ongoing costs equally between members. Founding members share administrative responsibilities and CPA will appoint staff to join the CCCFA team. Mr. McNeil indicated that in the case where a particular member takes action that leaves the JPA with liability, that member becomes insolvent and the remaining JPA members would have to decide if they would incur the costs of that particular member. Staff is comfortable with this risk, given that all four founding members are Investment Grade rated. Committee Member Zuckerman asked if, in a situation where a member agency becomes extinct, the power remains for other members to sell to compensate for the exposure. John Norman, MCM advisor, stated that all documents, revenues, and power associated with that given transaction are deposited in a trust estate securing that transaction, and the only use for that trust estate is prescribed in the bond documents to secure bondholders. There is no liability or obligation for a given prepayment transaction by founding members and no access to the power, but the possibility exists for a trustee to remarket the power for sale to others. Responding to Committee Member Zuckerman's question, staff clarified that prepaid contracts are for existing Purchase Power Agreements (PPAs) but there may be future PPAs that CPA would novate into the bond after the existing PPAs expire. Committee Member Zuckerman inquired whether the current interest rate changes could create an environment in which the advantages of municipal rates versus lending rates of a prepaid supplier would diminish. Ms. Freeman indicated that all else being equal, a rise in interest rates would make a prepaid transaction more valuable because the size of the spread between corporate debt and tax-free municipal debt would widen. Director Mahmud referenced the CCCFA JPA, noting that it specifies that no debt liability or obligation of CCCFA shall be a debt liability or obligation of any member, although members remain responsible for their respective prepayment project contracts; nor does CCCFA have the ability to enter into retirement contracts with any public retirement systems. In response to Committee Member Zuckerman's questions regarding CCCFA agendas and reports, staff agreed to inquire about posting documents on its website.

Ms. Freeman reviewed the prepaid supplier's role, indicated that four entities responded to the Request for Proposal (RFP) issued, and identified various reasons staff is recommending Goldman Sachs and its subsidiary J. Aron as its preferred prepaid supplier. Ms. Freeman outlined fiscal impacts associated with both the prepaid supplier and the bond issuer. Committee Member Zuckerman noted a current investigation into ESG mutual funds invested by Goldman Sachs could be an item of discussion, opining staff should be prepared for questions concerning this. Ms. Freeman reviewed the remaining 2022 timeline for conducting the prepaid transaction.

Motion: Committee Chair Gold, Beverly Hills
Second: Committee Member Zuckerman, Rolling Hills Estates
Vote: Item 6 was approved by a roll call vote.

COMMITTEE MEMBER COMMENTS

Committee Chair Gold congratulated Committee Chair-Elect Santangelo on her first meeting as chair. Committee Member O'Connor, Chair-Elect Santangelo, and Mr. McNeil thanked Chair Gold for his work as Finance Committee Chair.

ADJOURN

Committee Chair Santangelo adjourned the meeting at 12:07 p.m.

Staff Report – Agenda Item 2

To: Clean Power Alliance (CPA) Energy Committee

From: Geoff Ihle, Director of Market Risk

Approved by: David McNeil, Chief Financial Officer

Subject: August 2022 Risk Management Team Report

Date: September 28, 2022

August 2022 RMT REPORT

Key Actions

- Reviewed July 2022 market performance
- Reviewed July 2022 generation performance
- Reviewed energy positions and approved 2022-2025 hedges
- Reviewed positions for RPS and carbon free products
- Reviewed Resource Adequacy (RA) positions
- Reviewed August 2022 CRR Allocations

Policy Compliance

The following policy deviation was reported in the June 2022 RMT report. As noted in June, the deviation will persist through September 2022, as CPA acquires additional hedges to meet its Q2 and Q3 2023 hedge targets.

Policy Deviation	Required Action
Due to an update to the load forecast (resulting in higher forecast energy usage) and a delay in commercial online dates of two projects under long term contract (resulting in lower forecast supply), the Q2 and Q3 2023 periods did not meet the 85% Energy Risk Hedging Strategy minimum at the time of the June 26, 2022, measurement.	The ERMP does not require immediate action to address the policy deviation. Based on CPA's planned hedging activities over the next several months, the deviation is expected to be corrected by the end of September 2022.

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:	September 28, 2022

RECOMMENDATION

Receive and File.

ATTACHMENT

1) July and August 2022 Investment Reports

Clean Power Alliance
Investment Report
July 2022

Fund Name:	**Local Agency Investment Fund**
Beginning Balance	15,709
Interest Paid (1)	29
Deposits	-
Withdrawals	-
Ending Balance	15,738
Interest Earned (2)	15
Average Monthly Effective Yield	1.090%

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
August 2022

Fund Name:	**Local Agency Investment Fund**
Beginning Balance	15,738
Interest Paid (1)	-
Deposits	-
Withdrawals	-
Ending Balance	15,738
Interest Earned (2)	17
Average Monthly Effective Yield	1.276%

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, Chief Executive Officer
Subject:	Financial Dashboard
Date:	September 29, 2022

RECOMMENDATION

Receive and file.

ATTACHMENT

1. July Financial Dashboard

Financial Dashboard

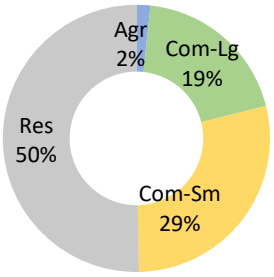
YTD
July
2022

Active Accounts
1,001,956

Participation Rate
96.07%

YTD Sales Volume
1,116 GWh

July Sales Volume
1,116 GWh



Summary of Financial Results

	July				Year-to-Date			
in $000,000's	Actual	Budget	Variance	%	Actual	Budget	Variance	%
Energy Revenues	117.7	117.1	0.5	0%	117.7	117.1	0.5	0%
Cost of Energy	96.8	103.9	-7.1	-7%	96.8	103.9	-7.1	-7%
Net Energy Revenue	20.9	13.3	7.6	57%	20.9	13.3	7.6	57%
Operating Expenses	2.4	3.3	-0.9	-26%	2.4	3.3	-0.9	-26%
Operating Income	18.5	10.0	8.5	85%	18.5	10.0	8.5	85%

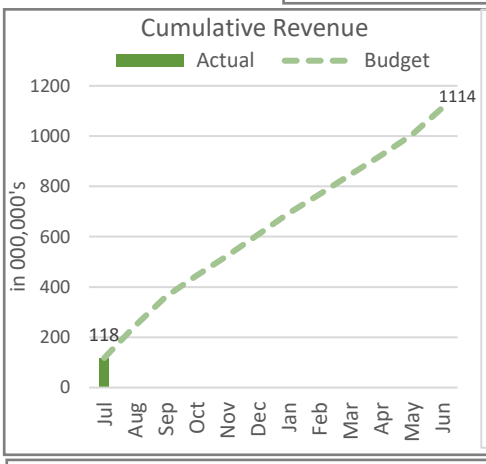
Note: *Numbers may not sum up due to rounding.*

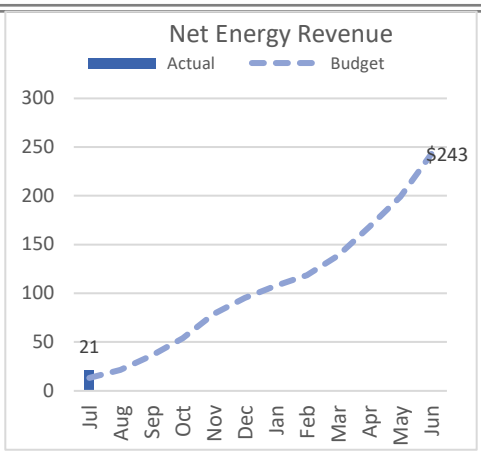
CPA recorded operating income of $18.5 million in July 2022 which was $8.5 million more than the budgeted operating income of $10 million.

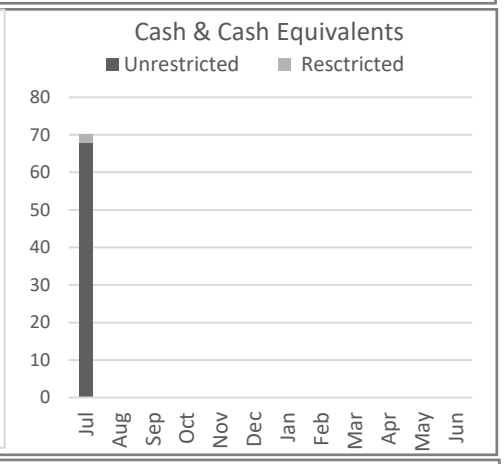
July revenue was $117.7M or $500k slightly higher than budgeted revenue. The cost of energy was $96.8M or 7% lower than budgeted mostly as a result of mild weather conditions and lower actual market prices than prices used to estimate budgeted cost of energy. Operating costs were lower than budgeted primarily as a result of lower general administration and other services costs than budgeted and the non-utilization of contingencies.

As of July 31, 2022, CPA had $67.8 million in unrestricted cash and cash equivalents, and $79.853 million available on its bank line of credit.

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 r8epresent 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 expenses: Operating expenditures include general, administrative, consulting, payroll and other costs required to fund operations
Net operating income, also known as earnings before interest, depreciation and amortization (EBIDA), represents the difference between revenues and expenditures before depreciation expense, interest income and expense, and capital expenditures
Cash and Cash Equivalents: Includes cash held as bank deposits.
Year to date (YTD): Represents the fiscal period beginning July 1, 2022

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:	September 28, 2022

The Chief Financial Officer will provide a verbal update on financial performance and treasury operations.

Staff Report – Agenda Item 6

To:	Clean Power Alliance (CPA) Finance Committee
From:	David McNeal, Chief Financial Officer Kate Freeman, Financial Strategy & Initiatives Manager
Approved by:	Ted Bardacke, Chief Executive Officer
Subject:	Update on Proposed Board Action for Prepayment Transaction
Date:	September 28, 2022

Staff will provide a presentation on this item.

ATTACHMENT

1. PowerPoint Presentation

Item 6: Preview of Proposed Clean Energy Prepayment Transaction

September 28, 2022

Background

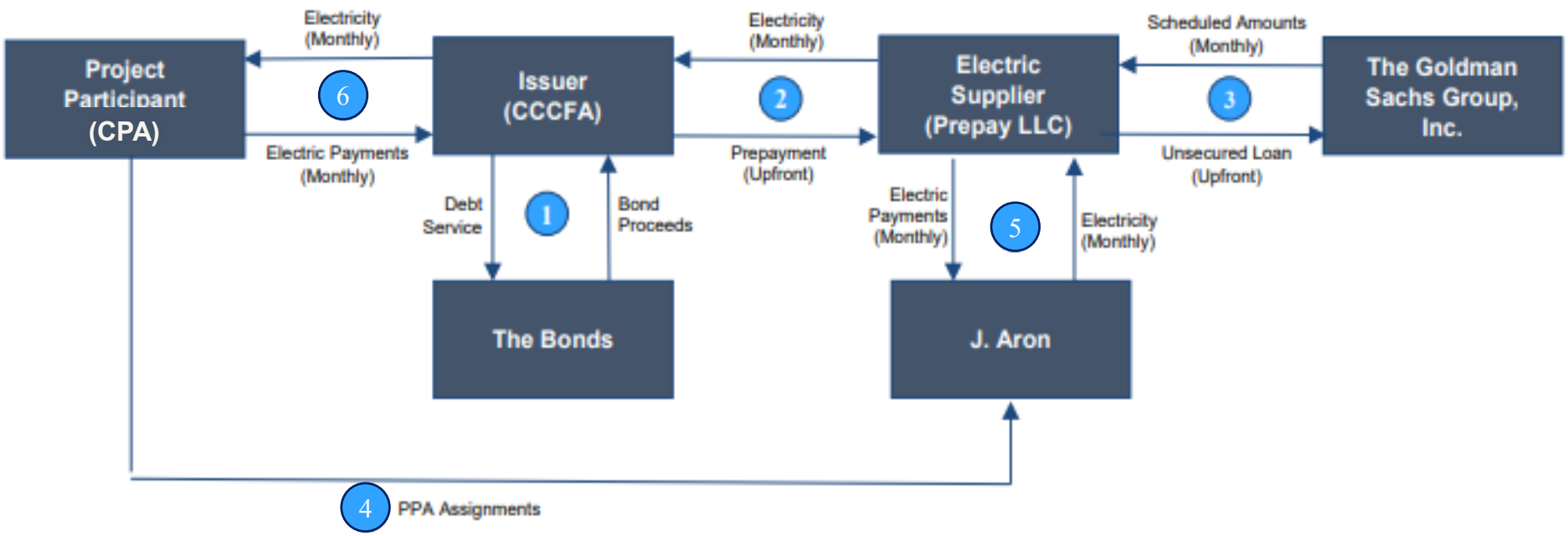
- Pursuant to Board direction, staff is in the process of preparing documents to support a renewable energy prepay transaction. The prepay transaction is expected to result in $2 million - $5 million of annual savings in energy costs.
- Staff introduced prepayment financings to the Executive and Finance Committees in October 2021 and March 2022 and to the Board in May 2022
- On May 11, 2022, the Board approved contracts with Municipal Capital Markets (MCM) and Chapman and Cutler (C&C) to assist CPA with evaluating potential Bond Issuers and Prepay Suppliers and assist with the structuring and eventual closing of a prepay transaction
- On July 7, 2022, the Board approved the selection of Goldman Sachs Group, Inc. (GS) and its wholly-owned subsidiary J. Aron & Company, LLC (J. Aron) as Prepaid Supplier and authorized CPA to join California Community Choice Financing Authority (CCCFA), to act as the Bond Issuer
- In Q3 2022 Staff worked with MCM and C&C to negotiate and draft prepay documents with GS and CCCFA
- CPA joined CCCFA in September 2022. CPA's CEO currently serves on the CCCFA Board of Directors. CPA's CFO is a member of CCCFA's operational "working group"
- On September 21, 2022 the Executive Committee received and discussed a presentation regarding the proposed Board action needed to support a prepayment transaction

Summary of the Proposed Board Action

Staff intends to present to the Board at its October meeting a Resolution that encompasses the following approvals or authorizations:

1. Parameters under which the prepay transaction can be completed
   - Bonds will be limited obligations of CCCFA, not obligations of CPA
   - Aggregate bond principal will not exceed $1.3 billion
   - The minimum "Monthly Discount Percentage" (i.e., cost savings) shall be at least 5%
   - CCCFA total cost of issuance shall not exceed 1.25% of the amount of bond proceeds (refer to Slide 5 for detailed breakdown of total cost of issuance)
2. Proposed CPA Documents or document forms (described on Slide 6)
   - Limited Assignment Agreements (LAAs) presented for approval in October may be “form” LAAs rather than execution versions depending on timing and outcome of discussions with existing PPA counterparties; actual LAAs may be presented to Board at a later date if necessary.
3. Direction to CCCFA to make payments to service providers for issuance costs out of bond proceeds

Prepayment Transaction Diagram



Initial Issuance and Cash Flows

1. Debt Issuance – CCCFA issues the prepay bonds
2. Prepayment – CCCFA remits net bond proceeds to Prepay LLC in return for 30 years of assigned electricity deliveries
3. Unsecured Loan – Prepay LLC loans net bond proceeds to GS. GS makes fixed monthly payments to Prepay LLC equal to expected assigned electricity multiplied by the assigned PPA price

Monthly Cash / Energy Flows

4. Assigned PPAs – CPA assigns certain rights and obligations as a Buyer on existing PPAs to J. Aron; J. Aron makes monthly payments to PPA Sellers for assigned delivered energy
5. Electricity Supply – Prepay LLC enters into a long-term agreement to purchase electricity from J. Aron to match assigned electricity quantities/terms
6. Project Participant – CCCFA sells CPA all assigned electricity delivered by Prepay LLC at the discounted prepay price

Prepay Cost of Issuance, Service Provider Fees and Expenses

Example Fees: $1.3 Billion Issuance

Entity	Fee Type	Amount	% of Bond Proceeds
Goldman Sachs	**Underwriting Expenses**	**$5,709,005**	**0.44%**
J. Aron	**Commodity Supplier Fee**	**$4,075,500**	**0.31%**
Various	**Prepay Services**	**$1,550,000**	**0.12%**
Orrick	*Tax and Bond Counsel*	*$375,000*	
Chapman & Cutler	*Prepay Counsel*	*$300,000*	
MCM	*Financial Advisory and QIR*	*$421,875*	
Moody's	*Bond Rating (Level III Complexity)*	*$278,000*	
Kestrel	*Green Bond Certification*	*$30,000*	
Trustee Counsel	*Trustee Counsel*	*$30,000*	
Trustee	*Trustee*	*$25,000*	
Accountancy & Misc.		*$43,125*	
Total Cost of Issuance (TCOI)		**$11,334,505**	**0.87%**

- TCOI fees are paid out of bond proceeds
- Chapman & Cutler and MCM have a fiduciary responsibility to CPA and are reviewing all prepay documentation. CPA's energy contracting counsel, Keyes and Fox are providing legal review of the limited assignment agreements.
- Fee arrangements vary by vendor. In general, the larger the bond issuance amount, the larger the TCOI and smaller TCOI in % terms. A smaller issuance would result in lower TCOI fees in dollar terms, and higher fees as a % of issuance

Document Summary – Oct 6, 2022

- The Board Resolution will authorize the execution or approval of the following documents:
  1. **Clean Energy Purchase Contract** – Agreement between CPA & CCCFA to purchase assigned discounted electricity
  2. **Operational Services Agreement** – Agreement between CPA and CCCFA permitting CPA to control various actions of CCCFA relating to project operations
  3. **Form of Limited Assignment Agreement** – Form of agreement between CPA, PPA Sellers, and J. Aron governing the assignment of existing and future PPAs
  4. **Letter Agreement re: Limited Assignment Agreement** – CPA and J. Aron agree to use the Form of Limited Assignment Agreement for future PPA assignments
  5. **PPA Payment Custodial Agreement** – Provides for creation of a custody account for receipt of payments from J. Aron and CPA to settle monthly PPA Seller invoices
  6. **Preliminary Official Statement** – Describes the Bonds and includes an Appendix with descriptive, operating, and financial information re: CPA; used for marketing the Bonds
  7. **Other Documents as Necessary**

Prepayment Transaction Timeline: Board & Committees

September 2022	• Prepay Update to Executive Committee (September 21) • Prepay Update to Finance Committee (September 28) • Preparation of prepay transaction documents and Resolution of the Board
October 2022	• Board (October 6) • Present Resolution to authorize prepay transaction parameters and approve prepay documents
November 2022	• Board (November 3) • Presentation of Limited Assignment Agreements for approval (if necessary)
Oct – Dec 2022	• Transaction close

Questions

Appendix

Prepayment Transaction – Entities

- **California Community Choice Financing Authority (CCCFA) (Bond Issuer)**
  - Issues bond; uses bond proceeds to pay Prepay LLC in exchange for a 30-year supply of energy
  - Delivers energy to CPA in exchange for prepay energy payments under the CEPC
  - Pays Bond Investors
- **Goldman Sachs Group, Inc. (Funding Recipient)**
  - Receives term loan from Prepay LLC for amount of bond proceeds
  - Makes monthly payments to Prepay LLC allowing it to meet obligations to J. Aron under the EPSSA
- **J. Aron / Prepay LLC (Prepaid Supplier)**
  - CPA assigns one or more existing PPAs to J. Aron, which assumes the PPA obligations of the "buyer"
  - J. Aron delivers energy to Prepay LLC under the EPSSA; Prepay LLC delivers energy to CCCFA under the MPSA
  - J. Aron makes monthly payments to PPA Seller via Custodial Account for assigned energy
- **CPA (Project Participant / Purchaser)**
  - Makes fixed monthly payments to CCCFA / Bond Trustee for prepaid energy
  - Makes monthly payments to PPA Seller via Custodial Account for non-prepaid energy, unassigned obligations
- **PPA Sellers**
  - Receive monthly cash flows from Custodial Account for energy assigned to J. Aron + non-prepaid energy and unassigned obligations
- **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

Transaction Summary – Prepay Bond Issuance

- A CPA prepay transaction will involve the sale of tax-exempt bonds to bond holders by CCCFA.(1)
- CCCFA remits the net bond proceeds to a special purpose entity, Aron Prepay LLC (Prepay LLC), in return for a 30-year supply of electricity pursuant to the Master Power Supply Agreement (MPSA).
  - The creation of Prepay LLC provides transparency and market level savings for the initial period of the prepay (5-10 years) as well as at each subsequent interest rate reset which is estimated to occur each 5-10 years over the bond term. Without Prepay LLC, prepay transaction terminates if GS cannot offer minimum savings at reset.
- Prepay LLC lends the net bond proceeds to GS under an unsecured term loan agreement (the Funding Agreement). GS makes monthly payments to Prepay LLC sufficient to allow it to meet its payment obligations under the Electricity Purchase Sale & Service Agreement (EPSSA; see below). GS issues a guaranty to back obligations of Prepay LLC under the MPSA.(2)
- J. Aron and Prepay LLC enter into the EPSSA under which Prepay LLC purchases electricity + related products from J. Aron for delivery to CCCFA. J. Aron equitizes Prepay LLC through the Subordinated Term Loan Agreement.

(1) CPA does not issue the bonds. Bond proceeds do not flow to CPA or to renewable energy project developers/owners. CPA has no obligation to repay the bonds.
(2) The bonds carry the credit rating of Goldman Sachs Group, Inc.

Transaction Summary – PPA Assignments and Settlement

- CPA will assign certain rights and obligations under existing PPAs with PPA Sellers to J. Aron via LAAs
- Under the LAAs, the PPA Sellers will deliver assigned renewable energy to J. Aron and J. Aron assumes the obligation to pay the PPA Sellers for the assigned energy
  - Title to the renewable energy passes instantaneously from PPA Seller to J. Aron to Prepay LLC to CCCFA to CPA at the energy delivery point
  - CPA retains other rights and unassigned payment obligations under the PPAs
- CPA and CCCFA enter into the Clean Energy Purchase Contract (CEPC) under which CPA purchases assigned electricity + related products from CCCFA at a discounted price. **This is the source of CPA's savings**. CCCFA uses CPA's payments to service debt owed to bond holders.
  - CPA is responsible for assigning sufficient electricity into the prepay transaction via the LAAs
  - If an LAA terminates or expires, CPA will designate another PPA Seller for the term of the CEPC
- PPA Sellers continue to provide a single monthly invoice for energy and related costs. Monthly payment obligations to the PPA Sellers are split between CPA and J. Aron as follows:
  - J. Aron sells assigned energy to Prepay LLC under the EPSSA, Prepay LLC sells energy to CCCFA under the MPSA, and CCCFA sells energy to CPA under the CEPC
  - J. Aron pays the PPA Seller for assigned energy at the PPA price. CPA pays the PPA Seller for any unassigned obligations under the PPA.
- Settlement of payments are set forth in the PPA Payment Custodial Agreement.

Staff Report – Agenda Item 7

To: Clean Power Alliance (CPA) Finance Committee

From: David McNeal, Chief Financial Officer

Approved by: Ted Bardacke, Chief Executive Officer

Subject: Bad Debt Expense and AR Update

Date: September 28, 2022

Staff will provide a presentation on this item.

ATTACHMENT

1. PowerPoint Presentation

Item 7 – Bad Debt Reserve and Accounts Receivable Update

September 28, 2022

Overview

- CPA's Bad Debt Reserve is a point in time estimate of accounts receivable that may become uncollectable. The Bad Debt Reserve is netted from accounts receivable on the balance sheet. An increase in Bad Debt Reserve represents a bad debt expense. The bad debt expense is netted from revenue on the income statement
- CPA's Bad Debt Reserve estimate methodology has been adjusted to reflect market conditions, customer payment behavior, and the 2021 and 2022 California Arrearage Payment Programs (CAPP) as described in the following slides
- Residential accounts receivable represent approximately 48% of electricity revenue and over 70% of 90+ day past due accounts receivable. Residential past due balances continue to trend upward but this should be partially offset by 2022 CAPP funding
- Commercial accounts represent 52% of electricity revenue and 30% of 90+day past due balances. Commercial past due balances fell when disconnection noticing resumed in May 2022 and have remained stable
- CPA's Bad Debt Reserve is conservatively estimated and, at the time of estimation, represents CPA's best estimate of customer non-payment

Bad Debt Reserve - Estimation Methodology

Prior to March 2020 (Base, Pre-Covid)

- CPA applied non-payment probabilities ("Base Rates") appearing in row A in the table below to each AR aging bucket to determine the Bad Debt Reserve (row #1)

March 2020 through May 2022 (During Covid)

- Beginning in March 2020 CPA increased the Base Rates by 75% following "shelter in place" requirements and the moratorium on disconnections and non-payment fees as described in rows B and #2 in the following table

- CPA made an additional adjustment to fiscal year-end bad debt reserves in June 2021 to account for the impact of funding from 2021 CAPP as described on slides 5 and 6

Example (for illustration only)

Bad Debt Reserve - Estimate Calculation

	Description	Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	> 180 Days	AR Balance
	Account Receivables Aging ($)	27,600,000	20,000,000	8,500,000	6,600,000	5,700,000	5,500,000	3,400,000	17,300,000	94,600,000
A	Probability of non-payment (Pre-Covid)	0.83%	5.17%	9.05%	23.83%	24.61%	30.01%	27.32%	26.94%	
#1	Bad Debt Reserve (Pre-Covid) ($)	229,080	1,034,000	769,250	1,572,780	1,402,770	1,650,550	928,880	4,660,620	**12,247,930**
B	Probability of non-payment (During Covid)	1.45%	9.05%	15.84%	41.70%	43.07%	52.52%	47.81%	47.15%	
#2	Bad Debt Reserve (During Covid) ($)	400,890	1,809,500	1,346,188	2,752,365	2,454,848	2,888,463	1,625,540	8,156,085	**21,433,878**

Bad Debt Reserve - Estimation Methodology

- **Post Covid (Current):**
  - Effective June 30, 2022 CPA applies the Base non-payment probabilities to **active** residential and commercial accounts
  - For **inactive** accounts, CPA applies the Base non-payment probabilities to accounts that are 90 days or less past due. CPA will apply a **90% non-payment probability to all inactive 91+ day accounts receivable**.
  - CPA adjusted the bad debt reserve in June 2022 to account for the impact of funding from 2022 CAPP as described on slides 5 and 6
  - Staff believe that the current Post Covid bad debt reserve calculation methodology produces a conservative estimate of the bad debt reserve and will more closely align with non-payment behavior of active and inactive accounts respectively

Example (for Illustration only)

Bad Debt Reserve - Estimate Methodology Post Covid (Current)

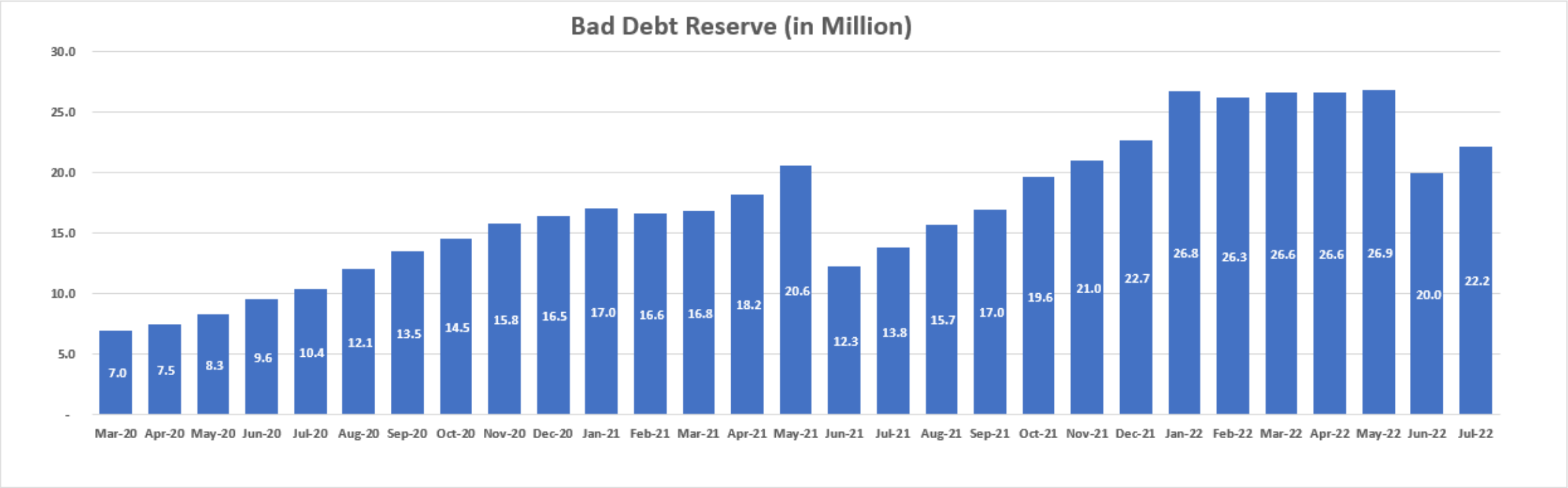
	Description	Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	> 180 Days	AR Balance
A	Active accounts ($)	23,736,000	17,200,000	7,310,000	5,676,000	4,902,000	4,730,000	2,924,000	13,282,000	79,760,000
B	InActive accounts ($)	3,864,000	2,800,000	1,190,000	924,000	798,000	770,000	476,000	4,018,000	14,840,000
C = A + B	Account Receivables Aging ($)	27,600,000	20,000,000	8,500,000	6,600,000	5,700,000	5,500,000	3,400,000	17,300,000	94,600,000
D	Probability of non-payment (Active)	0.83%	5.17%	9.05%	23.83%	24.61%	30.01%	27.32%	26.94%	
E = A x D	Bad Debt Reserve (Active) ($)	197,009	889,240	661,555	1,352,591	1,206,382	1,419,473	798,837	3,578,171	**10,103,257**
F	Probability of non-payment (Inactive)	0.83%	5.17%	9.05%	23.83%	90.00%	90.00%	90.00%	90.00%	
G = B x F	Bad Debt Reserve (Inactive) ($)	32,071	144,760	107,695	220,189	718,200	693,000	428,400	3,616,200	**5,960,515**
	Calculation comparison by period:									
#1	Total Bad Debt Reserve (Pre-Covid) ($)	229,080	1,034,000	769,250	1,572,780	1,402,770	1,650,550	928,880	7,731,780	**12,247,930**
#2	Total Bad Debt Reserve (During Covid) ($)	400,890	1,809,500	1,346,188	2,752,365	2,454,848	2,888,463	1,625,540	13,530,615	**21,433,878**
E + G	Total Bad Debt Reserve (Post Covid - Current) ($)	229,080	1,034,000	769,250	1,572,780	1,924,582	2,112,473	1,227,237	7,194,371	**16,063,773**

CAPP Update

- **2021 CAPP Funding**
  - The State Budget Act of 2021 provided financial assistance to active and inactive residential and commercial customer accounts reflecting delinquent balances incurred during the COVID-19 pandemic relief period covering March 4, 2020, through June 15, 2021.
  - Residential and small business customers received approximately $15.8 million of 2021 CAPP. The payment was applied to customer accounts in early 2022
  - Fiscal Impact
    - FY 2020/21: Bad Debt Reserve reduced by approximately $7 million
    - FY 2021/22: Increased cash and reduced AR by $15.8 million

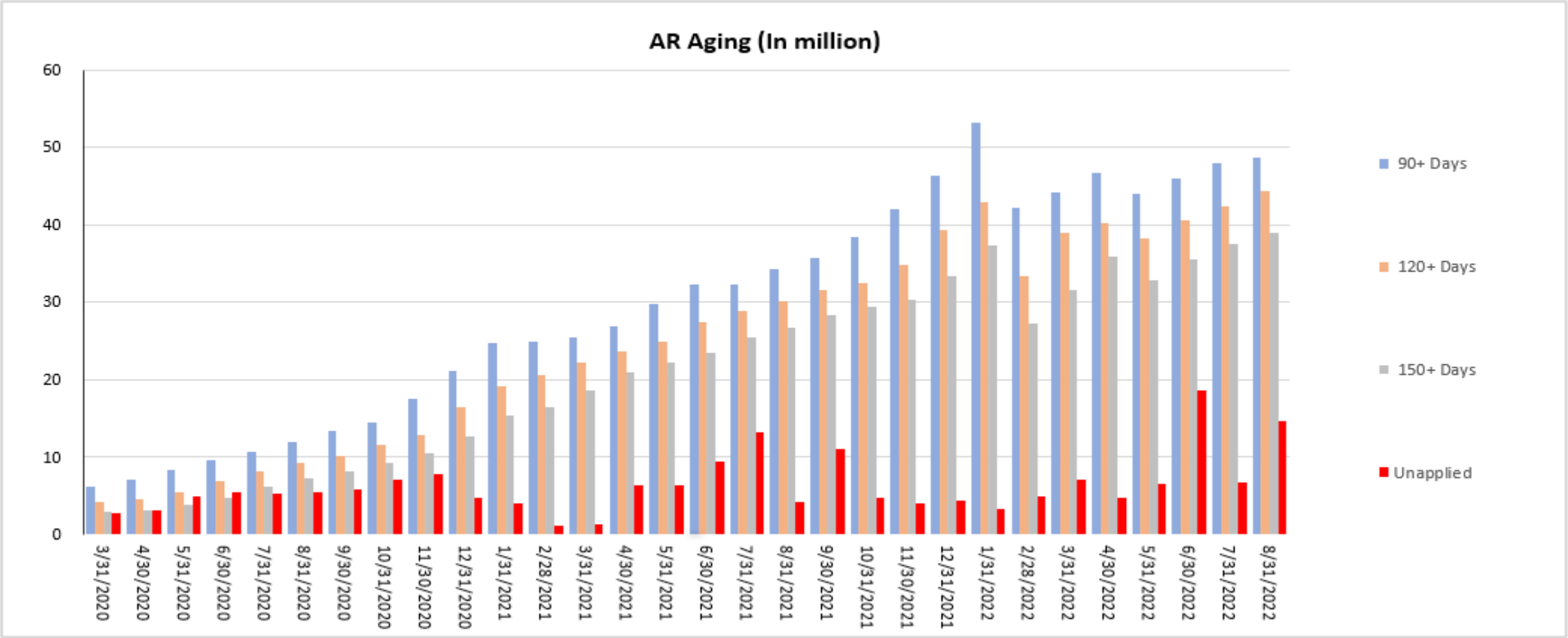
- **2022 CAPP Funding**
  - The State Budget Act of 2022 appropriated additional funds for CAPP (2022 CAPP). 2022 CAPP extends the eligibility period to cover electric bills issued between March 4, 2020 and December 31, 2021 for active residential accounts only. Commercial and inactive residential accounts are not eligible to receive 2022 CAPP funds.
  - CPA's active residential customers are expected to receive $11.38 million of 2022 CAPP funding in early 2023.
  - Fiscal Impact
    - FY2021/22: Bad Debt Reserve reduced by approximately $5 million
    - FY 2022/23: Increased cash and reduced AR by $11.38 million in early 2023

Bad Debt Reserve



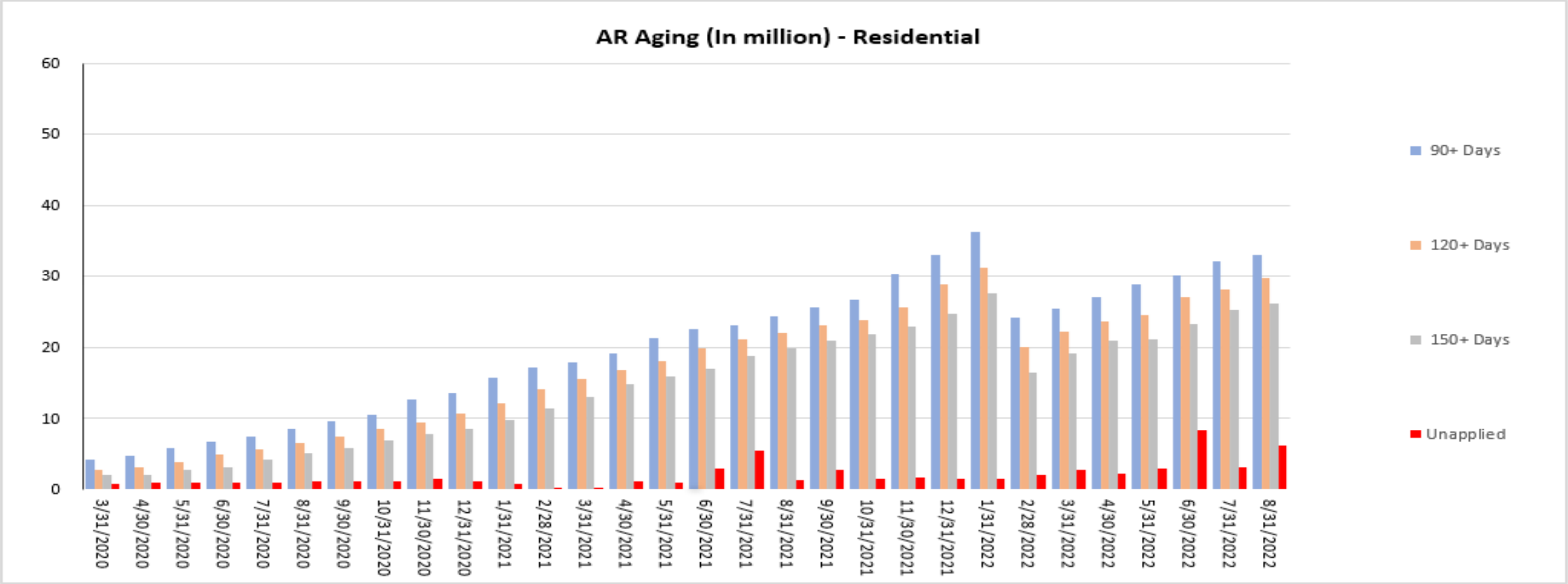
- Bad Debt Reserve as of July 31, 2022 ($22.2m) represented approximately 85% of 150+ days past due residential and commercial AR.
- 2021 and 2022 CAPP were established in state budgets approved in July 2021 and 2022 respectively. CPA adjusted the Bad Debt Reserve to reflect expected CAPP payments in June 2021 and 2022, the most recent months for which CAPP payment amounts could be reasonably estimated

Gross AR Aging – Total



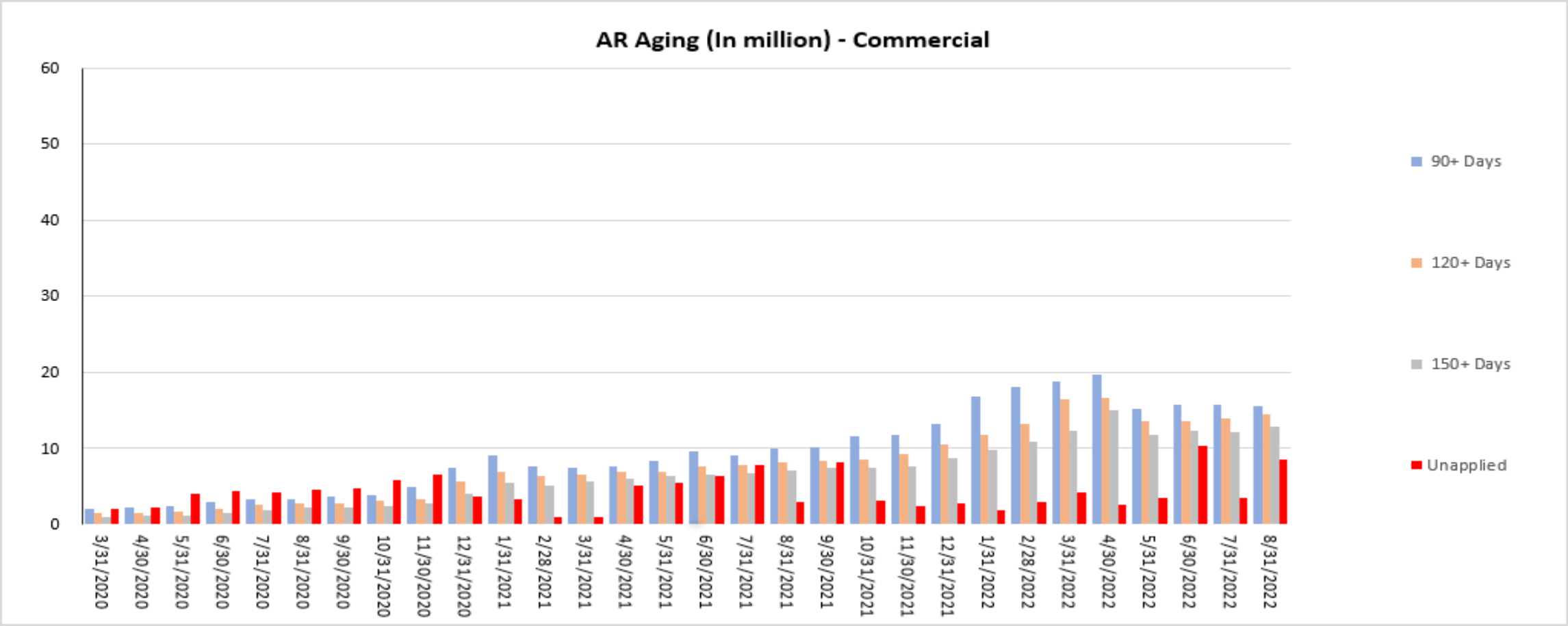
- Gross aged accounts receivable do not include i) bad debt reserves, ii) future CAPP payments or iii) customer payments received by CPA but not yet applied to AR balances in Calpine's shadow billing system ("unapplied funds", see in red).
- Unapplied fund balances arise from a variety of data management issues and can result in an overstatement of Gross AR aging. Unapplied funds do not impact customer bills.

Gross AR Aging - Residential



- The bulk of 2021 CAPP payments were applied in February 2022 and had a significant impact on residential past due balances. A similar impact is expected when 2022 CAPP funds are applied. Past due residential balances appear to be increasing since February 2022, however some increase could be attributable to an increase in unapplied fund balances
- 150+ past due represented 34% of residential AR as of the end of July.

Gross AR Aging - Commercial



- 2021 CAPP Payments had an important impact on small business past due balances. Medium and large commercial customers were not eligible for 2021 CAPP. Past due commercial AR balances appear to fall in May 2022 when SCE resumed issuing disconnection notices.
- 150+ past due represented 18% of commercial AR at the end of July 2022. CPA will accelerate write-offs later in FY 2022/23.

Accounts Receivable – Peer Group Analysis

In thousands of dollars, rounded

	A	B	C=A-B	D=C/B	E	F=A/E
	AR 3/31/2022	AR 6/30/2021	diff $	diff %	3/31/22 Revenue (9 months)	% of Revenue
EBCE	47,100	43,900	3,200	7%	354,100	13%
SJCE	50,400	40,700	9,600	19%	229,000	22%
Sonoma	16,800	18,800	-2,000	-12%	128,000	13%
MCE	46,300	44,800	1,500	3%	259,400	18%
Average	40,100	37,100	2,100	5%	242,600	17%
CPA	94,200	88,200	6,000	6%	656,000	**14%**

- From June 30, 2021 to March 31, 2022 (9 months) CPA's Accounts Receivable increased by 6% slightly above the peer group average of 5%
- As of March 31, 2022 CPA's Accounts Receivable represented 14% of revenue for the prior nine months, which was less than the peer group average of 17%.
- A peer group comparison suggests that as of March 31, 2022 CPA's accounts receivable metrics and customer payment behavior were in line with other large CCAs in California

Questions

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