



Prepay Overview

PRESENTED BY: Mike Berwanger, PFM
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Prepay Overview



Prepay Overview

Structure:

- Term: Typically 30-year term
- Transacting Parties:
 1. Tax-exempt Load Serving Entity (LSE, also called “Prepay Buyer”)
 2. Taxable financial counterparty (bank, called “Prepay Supplier”)
- Process:
 1. Prepay Supplier assigned into existing energy supply contract(s) held by LSE
 2. Municipal bonds issued by conduit, amounting to combined notional value of assigned contracts
 3. Prepay Supplier pays the contract price to PPA Seller, immediately transferring all electricity and attributes to LSE
 4. LSE pays the Prepay Supplier at discounted rate, achieving procurement cost savings
- Takeaway: Prepay Supplier holds and utilizes capital, creating taxable vs. tax-exempt arbitrage that enables discount

Benefits:

- **Lower energy procurement costs**: Savings over 30-year term estimated to be 8-12% per year on power quantities delivered under prepay, compared to spot market purchases and current contracts; subject to change based on market conditions.

Risks:

- **Regulatory**: Addressing risks related to compliance with SB350 and Emissions Performance Standard (i.e. receipt of PCC1 RECs, no disruption to deliveries); specific risks and remediations will be addressed when final prepay transaction is brought to the Board for approval in coming months.

Prepay Overview, Cont.

Further Details on Energy Prepayment Transactions:

- An energy prepayment is a long-term non-recourse financial transaction between a tax-exempt Load Serving Entity (LSE) and a taxable financial counterparty (bank, called “Prepay Supplier”) utilizing the municipal bond market.
 - LSE committing total of ~\$350MM-\$850MM of energy supply contracts (combined contract notional values)
 - LSE utilizes prepay in order to lower customer energy costs
- Municipal utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable entity and fund that prepayment with tax-exempt municipal bonds. The LSE must sell the commodity to their retail end-users residing within their traditional service area.
 - This structure is well known and regularly used for gas and is now being applied towards renewables PPAs
 - Codified in US Tax Law. Since first prepayments of natural gas were done in the early 1990s, the IRS issued rules allowing tax-exempt prepayments and Congress enacted legislation specifically allowing the transactions (National Energy Policy Act of 2005; Section 1327)

Key Elements of a Prepay Transaction

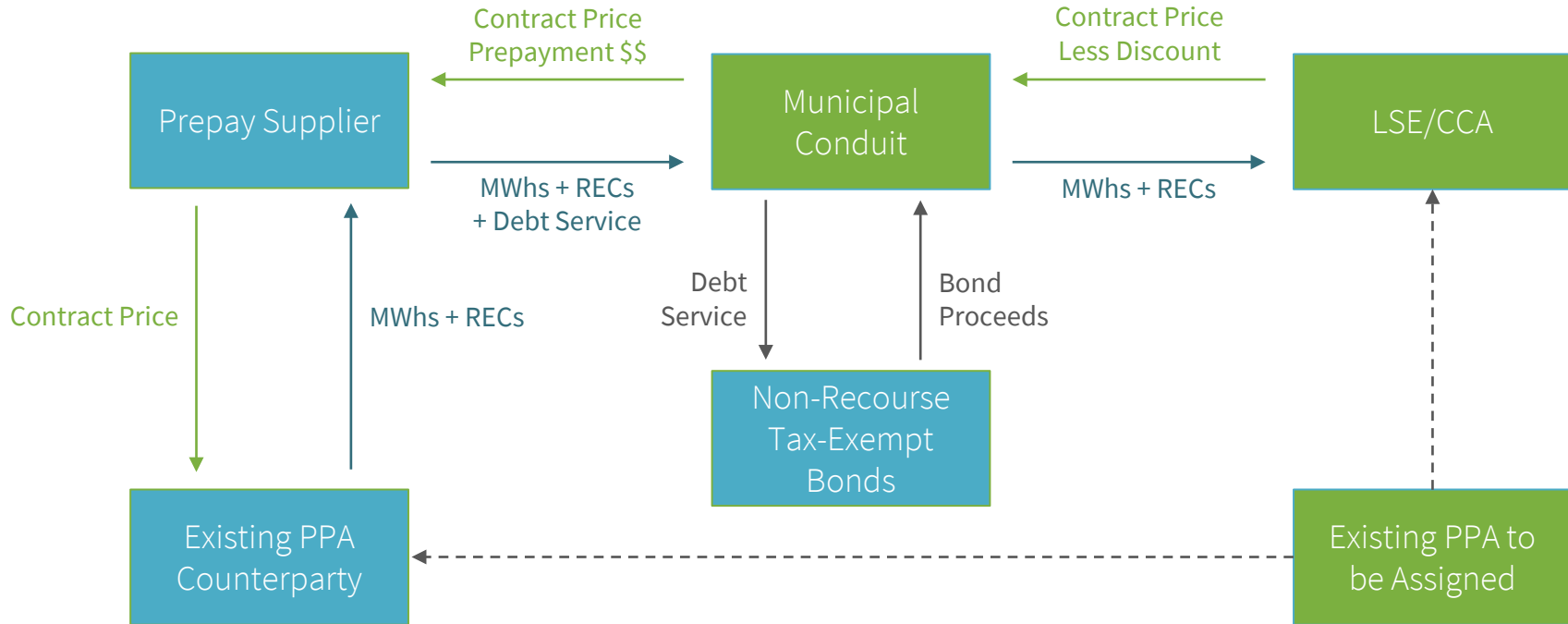
Power Contract Assignment:

- Existing renewable PPAs are assigned to the taxable Prepay Supplier. The LSE continues to **take and pay** for energy and attributes delivered through the contract.
- All other terms of the PPA are unchanged.
- If the prepay program terminates early, Prepay Supplier fails to perform, or LSE fails to perform, the LSE forgoes the future savings and the assigned PPA contract is put back to the original LSE.

Debt:

- Non-Recourse: Prepays utilize non-recourse municipal bonds and are **not** secured or guaranteed by the referenced entity (i.e. the CCA). Rather the debt is recourse to the Prepay Supplier. This significantly protects the CCA and mitigates risk related to the payment of power contracts novated through the prepay.
- Off Balance Sheet for LSE: Bonds are issued by a municipal bond conduit.

Prepay Structure



Market Statistics

- Nationwide: 90+ municipal transactions
 - \$50+ Billion combined notional contract value
- California: 11 municipal transactions
 - \$5.7 Billion combined notional contract value
- Active Suppliers: Goldman Sachs, Morgan Stanley, Royal Bank of Canada, Citi, TD Securities
 - All investment grade rated financial institutions
- Resource Types:
 - Majority of transactions to date have been exclusively for natural gas, remainder including an electricity ‘switch’ at a certain year.
 - The same tax law and similar transaction structure enables the program for electricity from renewables contracts, as well. The market is seeing activity and preparation for these transactions, particularly from CCAs.

Benefits & Risks



Benefits

- ✓ Savings over the 30-year term expected to be 8% - 12% per year on power quantities delivered under the pre-pay structure compared to spot market purchases / current contracts
- ✓ Favorable risk allocation where EBCE only pays for energy that is delivered (same as contracts today)
- ✓ Debt is non-recourse to EBCE
- ✓ Rating agencies comfortable with comparable deals at SMUD, SCPA, others

Risks

- Loss of savings and back to square one*
- Lost investment of staff time*
- Loss of spent out-of-pocket costs \$25-50k*
 - Consultants all contingent on successful deal
 - Consultants are all paid from deal proceeds vs. EBCE directly

**Note: these risks are only relevant if the transaction does not materialize or dissolves*

- Opportunity cost of higher savings through a prepay transaction initiated at a different time

EBCE Prepay Status



EBCE Prepay Parties

Counsel: Orrick, Herrington & Sutcliffe (Bond & Tax) | Chapman & Cutler LLP (Disclosure & Issuer's)

- Both firms selected through solicitation issued June 2020

Prepay Seller: Morgan Stanley

- Selected through solicitation issued November 2019
- *Note: No legal obligation or liabilities are being entered into currently; approval of counsel allows EBCE to negotiate documents with Morgan Stanley for which staff will later return to the Board for approval of the official prepay transaction and associated bond issuance.*

Joint Prepay Buyer: Silicon Valley Clean Energy

- EBCE and SVCE issued the RFP together, are preparing a joint transaction in which both CCAs assign contracts, share costs and benefits; SVCE is seeking their Board's approval for associated items later this year.

Municipal Financial Advisor: PFM

- Selected through solicitation issued September 2020

Bond Issuer: TBD

- Exploring conduit with purpose to issue municipal bonds from CCA prepays

Bond Issuance Conduit

- The development of a bond issuance conduit is being explored through multiple CCAs for the purpose of issuing municipal bonds for CCA energy prepay transactions. The group is discussing the potential of a Joint Powers Authority.
- The group is in the early stages of development. No final decisions have been made in regards to the founding members or governance. At this point, planned founding member CCAs are:
 - Marin Clean Energy
 - East Bay Community Energy
 - Silicon Valley Clean Energy
 - Central Coast Community Energy (formerly Monterey Bay Community Power)
- There are ‘issuers for hire’ in the California municipal bond market should the conduit not be in place in time for an optimal market execution of the EBCE-SVCE transaction.

Timeline

November 2019 through September 2020:

- Got enabled with legal and advisory representation
- Began structuring and document negotiations with Morgan Stanley

Oct. – Mar. 2021:

- Continued document negotiations, preparation
- Identification and prelim assignment discussion of power supply contracts
- Documents ready to execute in coming months

Bond raise and initiation of prepay could occur anytime in next 3-12 months

Factors That May Impact Timing:

- Markets: Taxable vs. tax-exempt spreads need to exist in a meaningful way to achieve discounts we are seeking, and current rate environment is not hospitable for successful prepay. Important to get docs in place to be able to transact quickly when markets open back up, though market conditions could delay timeline of deal execution.
- Assignment Consents: Still need to identify commodity transactions for assignment, and timeliness of consents could extend the timeline of deal execution.