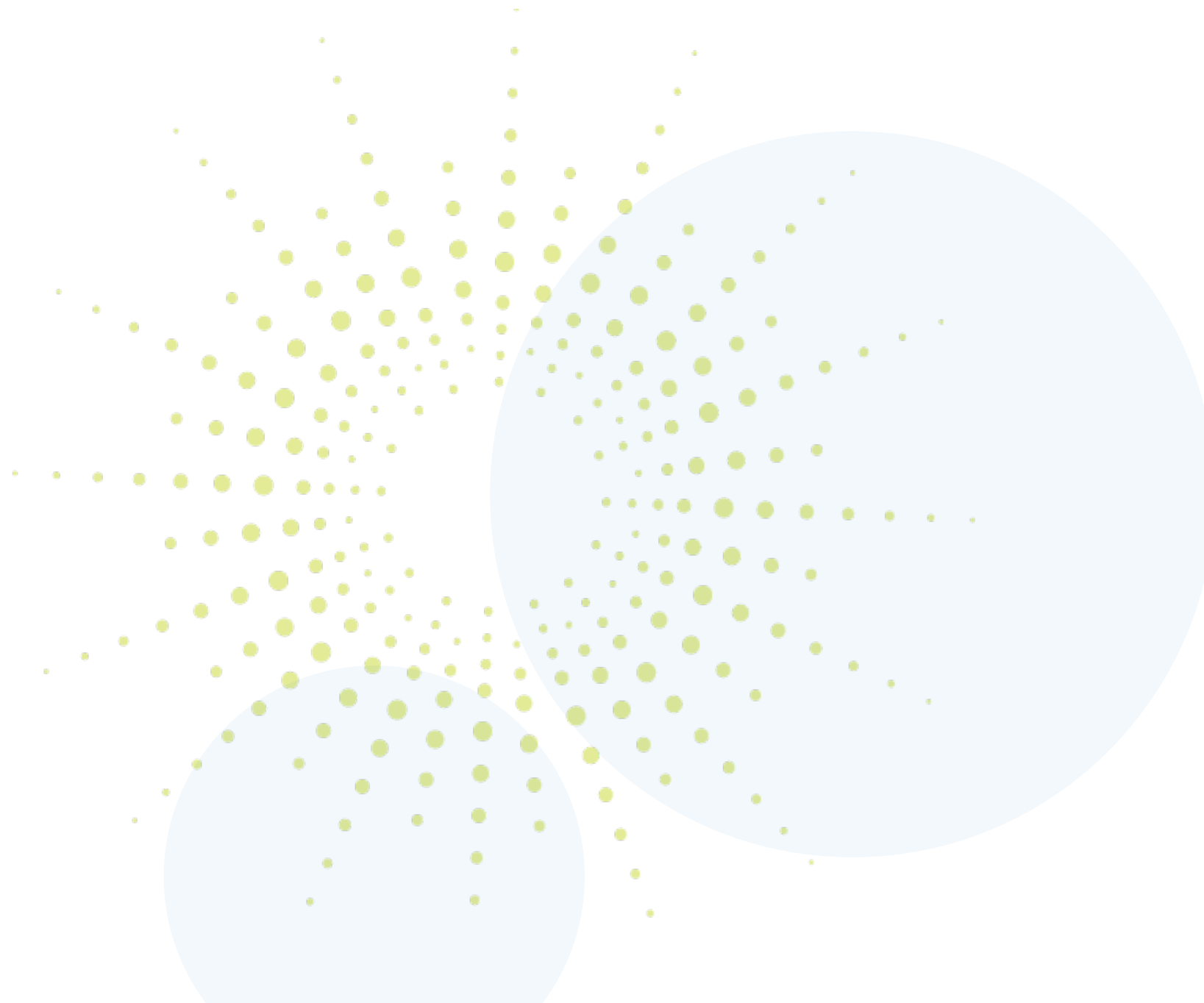




Audit & Finance Committee Meeting

February 12, 2024

Staff Report



Staff Report

- Funded CAMP (\$90M) and Chandler (\$100M) in December
- Targeting minimal cash balance (~\$5-10M) at First Republic going forward due to elevated interest rates and access to same-day liquidity via CAMP
- In process of removing Fitch as rating agency (PCE the only CCA with three ratings); savings of ~\$20,000/year
- Finalizing Cost of Service analysis; will present summary of key findings and initial recommendation to Executive Committee in March
- Continuing analysis of Pre-Pay bond transactions (presentation today)
- FY 2025 budget process
- Staffing update

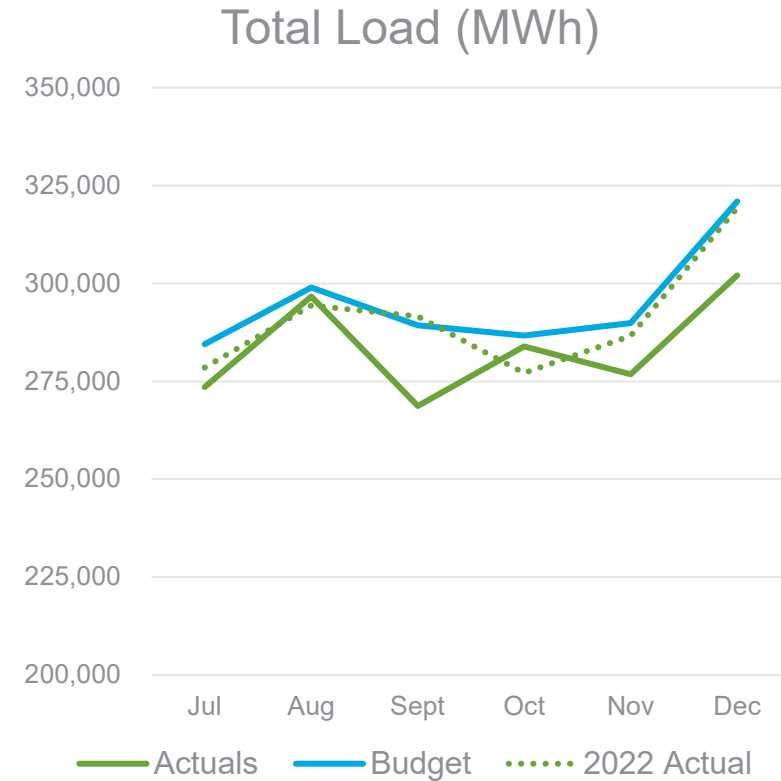
Q2 FY24 Financial Review



Customer Load

- YTD load 3.9% below budget
- Most of shortfall in Residential and occurred in September, November and December
- Lower load due in part to mild summer and warmer winter

(in MWh)	YTD Base Load			
	Actual	Budget	Variance	Var (%)
Residential	690,584	746,742	(56,158)	-7.5%
Commercial and Industrial	1,011,124	1,023,618	(12,494)	-1.2%
Total	1,701,708	1,770,360	(68,652)	-3.9%



Revenue

	Actual	Budget	Variance	
			Fav/(Unf)	Fav/(Unf)
Q1-FY 2022/2023	\$114.0	\$120.0	(\$6.0)	-5.0%
Q2-FY 2022/2023	101.2	100.6	0.6	0.6%
Q3-FY 2022/2023	107.1	72.1	35.1	48.6%
Q4-FY 2022/2023	106.4	75.1	31.3	41.6%
Total 2022/2023	\$428.8	\$367.8	\$61.0	16.6%
Q1-FY 2023/2024	\$133.0	\$136.0	(\$3.0)	-2.2%
Q2-FY 2023/2024	99.5	115.9	(16.3)	-14.1%
YTD FY 2023/2024	\$232.5	\$251.8	(\$19.3)	-7.7%

- Q2 revenue of \$99.5 million is \$16.3 million (-14%) below budget
 - \$12 million CARE/FERA rebate in December
 - Remaining variance due to lower load than budgeted

Cost of Energy

	Actual	Budget	Variance	
			Fav/(Unf)	Fav/(Unf)
Q1-FY 2022/2023	\$84.9	\$77.3	(\$7.6)	-9.8%
Q2-FY 2022/2023	71.6	66.3	(5.3)	-8.0%
Q3-FY 2022/2023	51.3	58.2	6.9	11.9%
Q4-FY 2022/2023	57.4	62.4	5.0	8.0%
Total 2022/2023	\$265.2	\$264.2	(\$1.0)	-0.4%
Q1-FY 2023/2024	\$93.8	\$90.5	(\$3.3)	-3.6%
Q2-FY 2023/2024	70.2	70.5	0.4	0.5%
YTD FY 2023/2024	\$163.9	\$161.0	(\$2.9)	-1.8%

- Q2 cost of energy of \$70.2 million in-line with budget, despite lower load
- Higher per KWh costs (+3.5%) due to congestion costs and lower generation volume from PCE resources
- RA costs expected to significantly exceed budget in 2H FY2024

Change in Net Position (CINP)

	Year-to-Date vs Budget (in millions)			
	Actual	Budget	Var	Var
			Fav/(Unf)	Fav/(Unf)
Revenues	\$232.5	\$251.8	(\$19.3)	-7.7%
Cost of Energy	163.9	161.0	(2.9)	-1.8%
Gross Profit	\$68.6	\$90.8	(\$22.2)	-24.5%
Other Opex	16.2	20.2	4.0	19.8%
Non-Operating Income	7.9	0.3	7.6	2358.7%
Change in Net Position	\$60.3	\$70.9	(\$10.6)	-15.0%

	Year-to-Date vs FY23 (in millions)			
	YTD 2024	YTD 2023	Var	Var
			Fav/(Unf)	Fav/(Unf)
Revenues	\$232.5	\$215.2	\$17.3	8.0%
Cost of Energy	163.9	156.5	(7.4)	-4.7%
Gross Profit	\$68.6	\$58.7	\$9.9	16.9%
Other Opex	16.2	11.1	(5.2)	-46.7%
Non-Operating Income	7.9	(0.5)	8.5	-1546.5%
Change in Net Position	\$60.3	\$47.1	\$13.2	28.1%

- YTD CINP of \$60.3 million is \$10.6 million (-15%) below budget, primarily due to CARE/FERA rebate and higher energy costs, offset in part by interest income and OpEx savings
 - OpEx \$4 million below budget partly due to timing (see appendix)
- \$13.2 million (+28%) higher than last year due to customer rates and interest income

Cash and Investment Summary – Quarterly Trend

(in millions)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
First Republic Bank	\$54.0	\$30.9	\$32.4	\$40.2	\$45.7
Other Accounts	9.3	46.2	0.1	0.0	0.0
Cash	\$63.3	\$77.1	\$32.4	\$40.2	\$45.7
CAMP	0.0	0.0	0.0	0.0	90.2
PFM	63.6	64.7	64.3	64.5	106.7
Chandler (was FRB)	59.3	60.2	60.0	60.2	102.1
Fidelity	0.0	20.0	50.5	71.4	0.0
Schwab	0.0	0.0	46.7	57.4	0.2
Total Investments	\$122.9	\$145.0	\$221.6	\$253.4	\$299.3
Total Cash & Investments	\$186.2	\$222.1	\$254.1	\$293.7	\$345.0
Days Cash on Hand	203		319		351

Appendix



Detailed Financial Statement

	Quarter Ending December 2023			YTD December 2023		
	Actual	Budget	Var Fav/(Unf)	Actual	Budget	Var Fav/(Unf)
OPERATING REVENUES						
Electricity sales, net	98,748,037	115,101,419	(16,353,382)	230,947,230	250,279,642	(19,748,812)
Green electricity premium	780,956	755,162	25,794	1,549,538	1,531,464	18,073
Total Operating Revenue	99,528,993	115,856,581	(16,327,588)	232,496,767	251,811,106	(19,730,738)
OPERATING EXPENSES						
Cost of energy	70,164,729	70,527,883	363,155	163,921,949	161,009,719	(2,912,230)
Gross Profit	29,364,264	45,328,698	(15,964,433)	68,574,819	90,801,387	(22,226,568)
OTHER OPERATING EXPENSES						
Staff compensation	2,218,271	2,708,200	489,930	4,385,239	5,506,400	1,121,161
Data manager	882,405	967,788	85,383	1,767,195	1,935,576	168,381
Service fees - PG&E	329,291	350,000	20,709	659,457	700,000	40,543
Consultants & professional services	329,200	446,756	117,556	652,500	1,084,667	432,168
Legal	198,072	390,640	192,567	383,528	793,279	409,751
Communications and noticing	287,587	795,010	507,423	800,395	1,696,720	896,325
General and administrative	811,929	980,587	168,658	1,480,463	2,087,982	607,519
Community Energy Programs	3,295,956	3,181,500	(114,456)	6,057,660	6,363,000	305,340
Depreciation	19,493	39,417	19,924	37,963	63,417	25,453
Total Other Operating Expenses	8,372,202	9,859,897	1,850,850	16,224,400	20,231,042	4,006,642
OPERATING INCOME	20,992,062	35,468,800	(14,476,738)	52,350,419	70,570,345	(18,219,926)
Non-Operating Income	6,048,788	161,298	5,887,490	7,931,707	322,596	7,609,111
CHANGE IN NET POSITION	27,040,850	35,630,098	(8,589,249)	60,282,126	70,892,941	(10,610,815)

Revenue – Monthly Trend

	Revenue Comparison vs. Budget (in millions)			
	Actual	Budget	Var Fav/(Unf)	Var Fav/(Unf) %
Dec-22	\$35.0	\$35.2	(\$0.2)	-0.5%
Jan-23	34.9	26.6	8.3	31.2%
Feb-23	35.2	23.2	12.0	51.9%
Mar-23	37.1	22.3	14.8	66.2%
Apr-23	32.0	20.0	12.1	60.4%
May-23	34.6	24.0	10.6	44.1%
Jun-23	39.8	31.2	8.7	27.8%
Jul-23	42.8	44.2	(1.3)	-3.0%
Aug-23	48.1	46.5	1.6	3.5%
Sep-23	42.0	45.3	(3.3)	-7.3%
Oct-23	37.8	38.2	(0.4)	-1.1%
Nov-23	35.0	36.8	(1.7)	-4.7%
Dec-23	26.7	40.9	(14.2)	-34.7%

Cost of Energy – Monthly Trend

Cost of Energy Comparison vs. Budget (in millions)				
	Actual	Budget	Var Fav/(Unf)	Var Fav/(Unf) %
Dec-22	\$31.4	\$22.8	(\$8.6)	-37.6%
Jan-23	16.3	19.8	3.5	17.5%
Feb-23	17.6	18.4	0.7	4.0%
Mar-23	17.3	20.0	2.7	13.7%
Apr-23	19.1	19.3	0.1	0.7%
May-23	19.9	21.4	1.5	7.0%
Jun-23	18.4	21.8	3.4	15.4%
Jul-23	29.2	29.0	(0.2)	-0.7%
Aug-23	37.3	34.0	(3.2)	-9.5%
Sep-23	27.3	27.5	0.2	0.7%
Oct-23	25.5	24.1	(1.4)	-5.7%
Nov-23	21.0	21.4	0.4	1.7%
Dec-23	23.7	25.0	1.4	5.5%

Pre-Pay Bonds

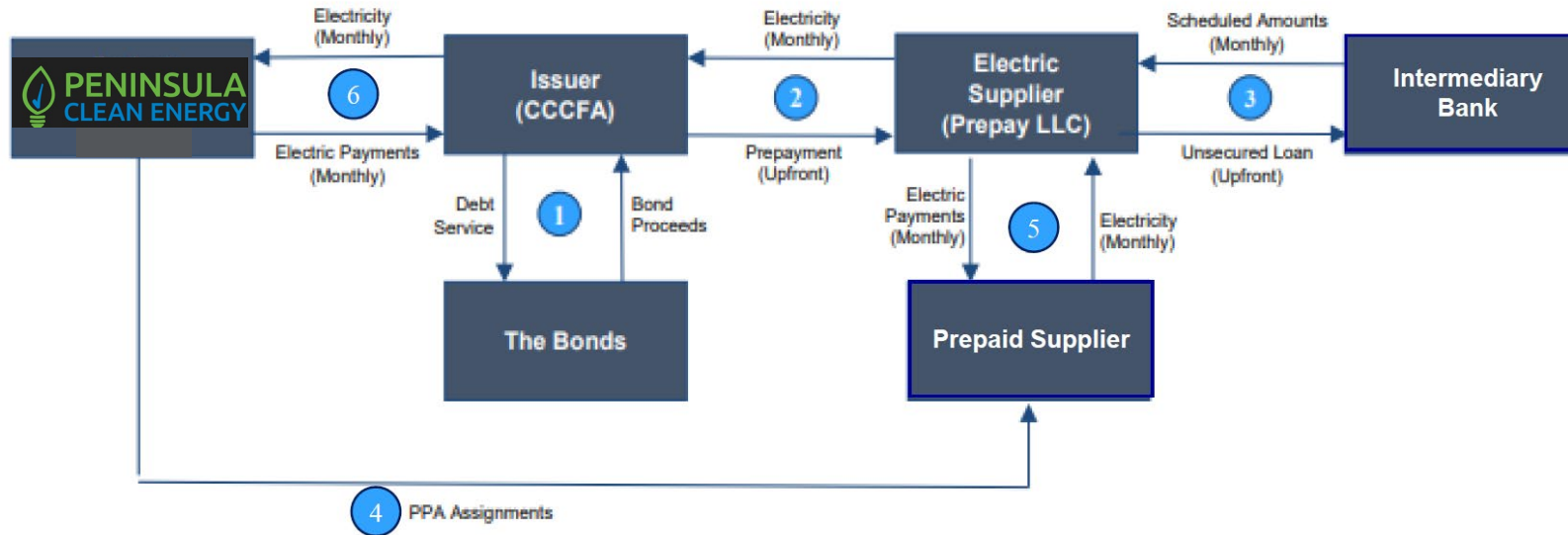


Pre-Pay Overview

- Long-term financial transaction available to tax-exempt entities, such as CCAs, that enable **meaningful power procurement cost savings**
- Codified in US tax law; IRS has determined that municipal utilities are permitted to borrow in the tax-exempt bond market to prepay for contracted energy deliveries
- Prepayment structure leverages this advantage (that IOUs do *not* have) to generate **savings of 8-12%** per year on PPAs for an initial period of up to 10 years⁽¹⁾
- **Savings based on the spread between taxable and tax-exempt rates**
- Structure well known and historically utilized for natural gas procurement, and is now being applied towards renewable energy
 - Starting in 1990s, 129 prepayment transaction totaling over \$88 billion have been executed, mostly to prepay for natural gas
 - Over past 2½ years, **\$10 billion of bonds issued by California CCAs** to prepay for renewable energy (see appendix)

1. After initial financing term of 5-10 years, savings/discount will reset; if the minimum reset discount is not attained the CCA is not obligated to participate and PPA assignment is terminated and reverts to the CCA

Transaction Diagram



Initial Issuance and Cash Flows

1. Debt Issuance – CCCFA issues tax-exempt bonds
2. Prepayment – CCCFA remits bond proceeds to Prepay LLC in return for 30 years of assigned electricity deliveries
3. Unsecured Loan – Prepay LLC loans bond proceeds to Intermediary Bank. Bank makes fixed monthly payments to Prepay LLC equal to assigned electricity multiplied by PPA price

Monthly Cash / Energy Flows

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

Pre-Pay Bonds vs Municipal Bond Financing

Municipal Bond Financing	Pre-Pay Bonds
Bond proceeds commonly finance capital assets or projects	Bond proceeds flow to a pre-paid energy supplier and are loaned to a bank
Municipal issuer incurs debt and is responsible for repayment of the bond	The pre-paid supplier and the bank are responsible for bond repayment
Municipal issuer incurs interest costs	The municipal sponsor does not incur interest costs
Credit rating of the bond is typically based on credit quality of municipal issuer and/or project revenues	Credit rating of the bond is primarily based on the financial strength of the bank

Benefits

- Provides a source of energy cost savings that can **lower customer rates and/or fund customer programs**
 - Savings *currently* expected to be **8-12%** on power quantities delivered under prepay structure (~\$3.5 million per year based on indicative terms on initial transaction, see appendix)
 - Savings fluctuate depending on market conditions and interest rates
- Service provider fees primarily paid from bond proceeds on a **contingency basis**
 - If bonds are not issued, service providers are not paid
 - Only “sunk” costs are Staff time, CCCFA⁽¹⁾ membership fee (\$50k), and rating agency transaction fee (~\$200k), which costs can be delayed / incurred late in the process
- PCE is not responsible for bond repayment / debt is **non-recourse to PCE**
- PCE can enter into similar transactions in future years to increase procurement cost savings
 - Limitations based on the bond market investor appetite, market conditions with meaningful taxable and tax-exempt spreads, and the available headroom to ensure PCE will have procurement-related costs to assign in a 30-year transaction

1. The California Community Choice Financing Authority (CCCFA) is a Joint Powers Authority (JPA) established in 2021 to facilitate pre-payment transactions for member CCAs

Risk/Considerations and Mitigations

Prepay **program terminates** earlier than expected and PCE does not realize expected savings over the full 30-years

Savings are realized through the termination date and PCE no worse off had it not executed the transaction

Opportunity cost of higher savings through a pre-pay transaction or alternative structure initiated at a different time

Possibility of multiple pre-pay transactions hedges timing risk

Significant **staff time** needed to execute transaction

Leverage prior CCCFA transactions and support from Municipal Financial Advisor

Increased **settlement complexity** post transaction

Hire additional back-office staff

Information gap and **knowledge inequity** throughout negotiations process

Risk mitigated with the help of a Municipal Financial Advisor and CCCFA

Assembling the Pre-Pay Deal Team

Peninsula Clean Energy

Entities selected
by CCA

Municipal Advisor

- Financial advisory
- Advice on structure, timing and terms
- Helps select deal entities
- Fiduciary responsibility to CCA
- PFM, MCM⁽¹⁾

Prepay Counsel

- Legal advisory
- Represents CCA's interests
- Chapman Cutler, Nixon Peabody, Orrick⁽¹⁾

Conduit Issuer

- Conduit issuer of tax-exempt bonds
- CCCFA

Prepaid Supplier

- Structures transaction
- Markets and underwrites bonds
- Morgan Stanley, Goldman, RBC⁽¹⁾

Custodian / Trustee

- Manages prepay estate
- Bond interest payments
- US Bank, Wells Fargo⁽¹⁾

Rating Agency

- Rates bonds
- Moody's

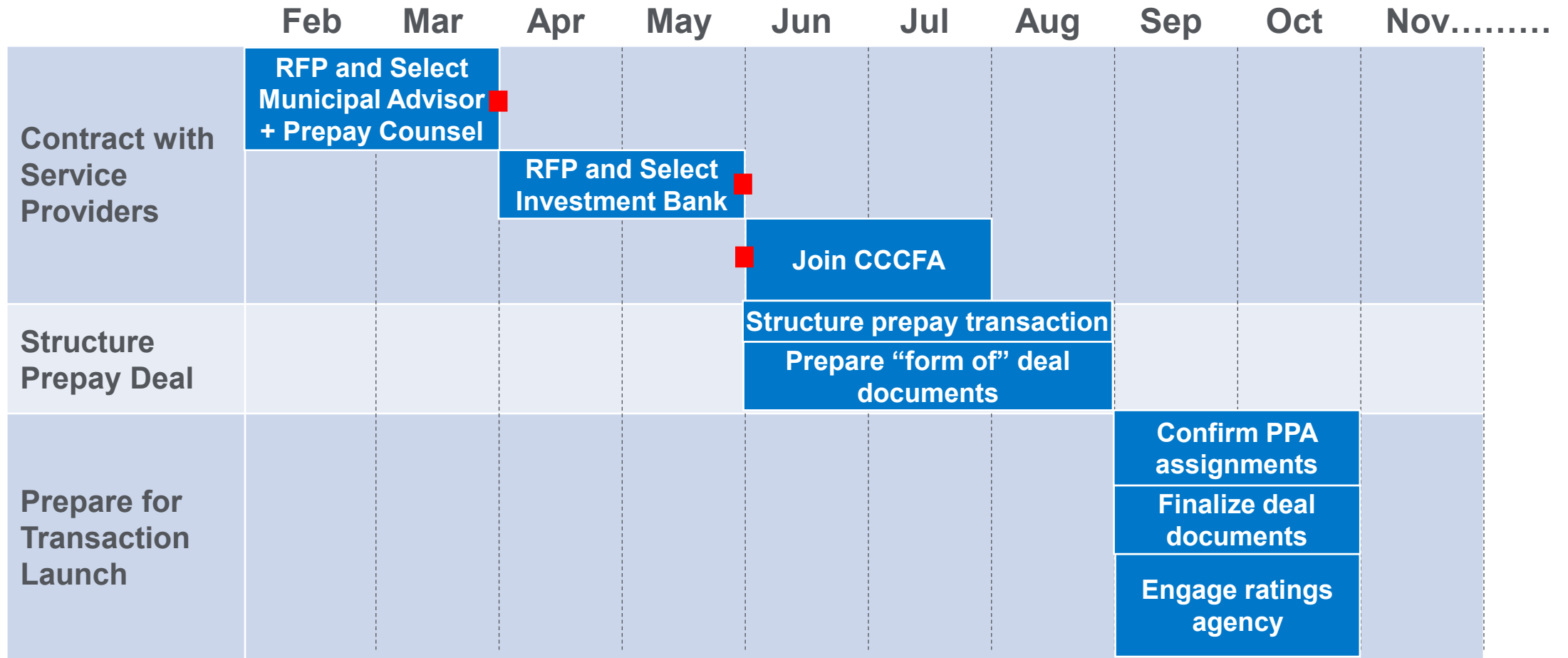
Bond / Tax Counsel

- Legal services
- Affirms tax-exempt bond status and validity of bond offering
- Orrick, Nixon Peabody, Ballard Spahr⁽¹⁾

Green Font = potential service providers

(1) Fees paid on contingency from Bond proceeds and factored into savings analysis

Preliminary Timeline



Key Milestones

■ Board approval to engage service providers and join CCCFA

PCE Board approval

CCCFA Board approval

Transaction Close

Conclusions and Next Steps

Initial Conclusions

- Potential savings are material given *current* market environment
- Risks are negligible and upfront costs can be minimized and delayed
- Staff recommends starting transaction process while continuing to monitor the market; can pause at any time if potential savings dissipate

Recommended Near-Term Next Steps

- Issue RFP for Municipal Financial Advisor and Prepay Counsel (both paid on contingency)
- Present structure overview to PCE Board of Directors in March and seek approval to hire Municipal Financial Advisor and Prepay Counsel
- Work with Municipal Financial Advisor to issue RFP for Investment Bank/Prepaid Supplier (Morgan Stanley and Goldman structures are different)
- Staff will return to the Board with periodic transaction updates

Appendix



CCCFA Pre-Pay Transactions

Date	Project Participant(s)	Par (\$M)	Prepaid Supplier	Annual Savings (\$M)	Discount ⁽¹⁾
September 2021	East Bay Clean Energy/Silicon Valley Clean Energy	\$1,235	Morgan Stanley	22.4	7.3%
November 2021	Marin Clean Energy	603	Goldman Sachs	4.2	10.0%
July 2022	East Bay Clean Energy	931	Morgan Stanley	4.8	9.0%
January 2023	Pioneer Community Energy	460	Goldman Sachs	2.4	n/a
January 2023	Silicon Valley Clean Energy Authority	842	Morgan Stanley	4.7	9.5%
February 2023	Clean Power Alliance	999	Goldman Sachs	8.3	13.6%
June 2023	Clean Power Alliance	958	Goldman Sachs	6.4	12.0%
August 2023	East Bay Community Energy Authority	998	Goldman Sachs	n/a	n/a
October 2023	Central Coast Community Energy	648	Morgan Stanley	5.0	12.2%
December 2023	Marin Clean Energy	1,038	Goldman Sachs	6.8	12.0%
January 2024	Silicon Valley Clean Energy	1,102	Morgan Stanley	7.6	13.1%
		\$ 9,813			

1. Goldman and Morgan Stanley calculate discount differently, so hard to compare apples-to-apples

Indicative PCE Pre-Pay Transaction Terms

- Initial bond offering (pre-payment amount) of **\$550 million⁽¹⁾**
 - Assumes assignment of PCE's three operating PPAs, representing 1 million MWh annually
 - Notional value of assigned contracts over 30-years ~\$1 billion
 - PCE can assign non-operational PPAs to increase size of transaction or execute subsequent transactions at a later date
- Initial **savings of ~\$3.5 million⁽¹⁾ per year, or 10%** of contracted PPA payments
- Assumes tax-exempt / taxable spread of ~100 bps, which is subject to change based on market conditions
- Savings locked-in for seven years, after which bonds are re-issued with a minimum discount of 5% (to be negotiated)
 - If minimum savings not met at reissuance date, PCE can walk away from transaction and assigned PPAs are put back to PCE; PCE forgoes future savings
- Fees paid to various parties involved (except CCCFA and Rating Agency) payable from proceeds of the bond offering, i.e., minimal out-of-pocket costs

Adjournment

