



# Executive Committee Meeting

This meeting will begin shortly

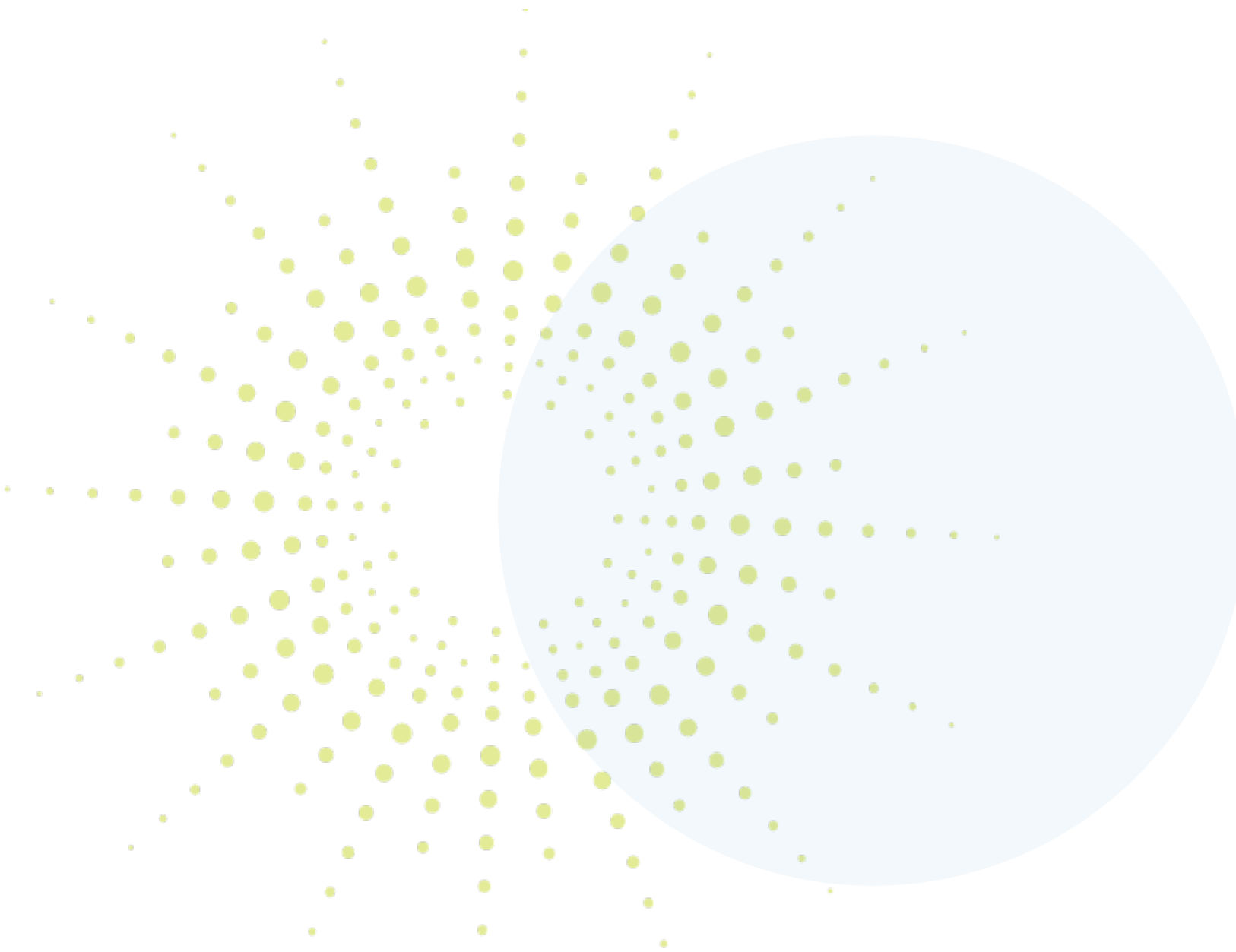
April 8, 2024

# Agenda

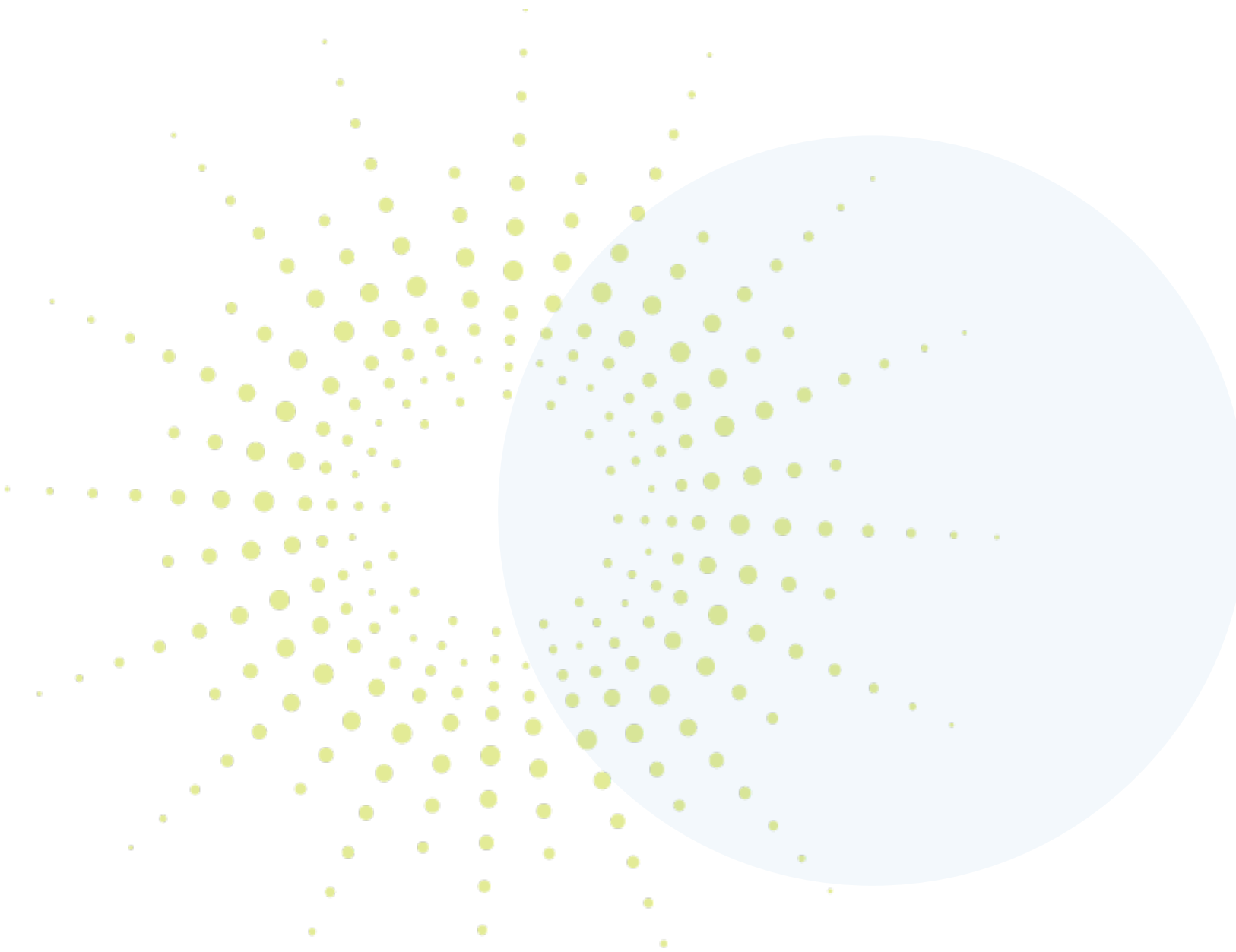
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- Call to Order / Roll Call
- Public Comment (for items not on the Agenda)
- Action to set the Agenda
  - Public Comment
- Regular Agenda
- Committee Members Reports
- Adjourn

# Chair Report



# CEO Report





# Prepay Transaction

Executive Committee Meeting

April 8, 2024



# Background

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- Prepay is a long-term financial transaction available to tax-exempt entities, such as CCAs, that enable **meaningful power procurement cost savings**
  - Savings based on spread between taxable and tax-exempt interest rates
  - Codified in US tax law
- Historically utilized for natural gas procurement, now being applied in renewable energy sector
- 11 CCA Prepay transactions generating ~\$60 million of annual savings with a transaction value of \$10 billion (see next page)
- Initial PCE transaction should generate savings of 8-12% of PPA costs included in the transaction, or **~\$3.5 million per year**
- 6-9 month process and requires engagement of multiple advisors and membership in CCCFA
- Audit & Finance Committee has been briefed on the topic twice (June 2023 and February 2024)

# CCCFA Pre-Pay Transactions

Date	Project Participant(s)	Par (\$M)	Prepaid Supplier	Annual Savings (\$M)	Discount <sup>(1)</sup>
September 2021	East Bay Clean Energy/Silicon Valley Clean Energy	\$1,235	Morgan Stanley	4.1	7.3%
November 2021	Marin Clean Energy	603	Goldman Sachs	4.2	10.0%
July 2022	East Bay Clean Energy	931	Morgan Stanley	2.9	9.0%
January 2023	Pioneer Community Energy	460	Goldman Sachs	2.4	n/a
January 2023	Silicon Valley Clean Energy Authority	842	Morgan Stanley	4.5	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	6.9	12.2%
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	7.7	13.1%
		<b>\$ 9,813</b>			

Clean Power Alliance, San Jose Clean Energy, and San Diego Community Power are rumored to be proceeding with transactions

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

# Benefits and Rationale

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- Source of cost savings that can **lower rates and/or fund customer programs**
  - 8-12% on power quantities delivered, or ~\$3.5 million per year based on indicative terms on an initial transaction
  - Savings fluctuate depending on market conditions and size of transaction
  - Can execute additional transactions to increase amount of savings (limitation based on investor demand, market conditions, and PCE forecasted load)
- Service provider fees 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 membership (\$50k), and rating agency fees (~\$200k)
- PCE not responsible for bond repayment / debt non-recourse to PCE



# Risk/Considerations and Mitigations

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Prepay terminates earlier than expected

Savings realized through termination date and PCE no worse off

Market timing

Possibility of multiple Prepays hedges timing risk

Staff time

Leverage prior CCCFA transactions and support from Financial Advisor

Increased settlement complexity

Potentially hire additional back-office staff

# Assembling the Pre-Pay Deal Team

## Peninsula Clean Energy

Entities selected  
by PCE

### Municipal Advisor

- Financial advisory
- Advice on structure, timing and terms
- Fiduciary responsibility to CCA
- PFM<sup>(1)</sup>

### Prepay Counsel

- Legal advisory
- Represents CCA's interests
- Chapman & Cutler<sup>(1)</sup>

### Conduit Issuer

- Issuer of tax-exempt bonds
- CCCFA

### Prepaid Supplier

- Structures transaction
- Markets and underwrites bonds
- Morgan Stanley, Goldman, RBC<sup>(1)</sup>

### Custodian / Trustee

- Manages prepay estate
- Bond interest payments
- US Bank, Wells Fargo<sup>(1)</sup>

### Rating Agency

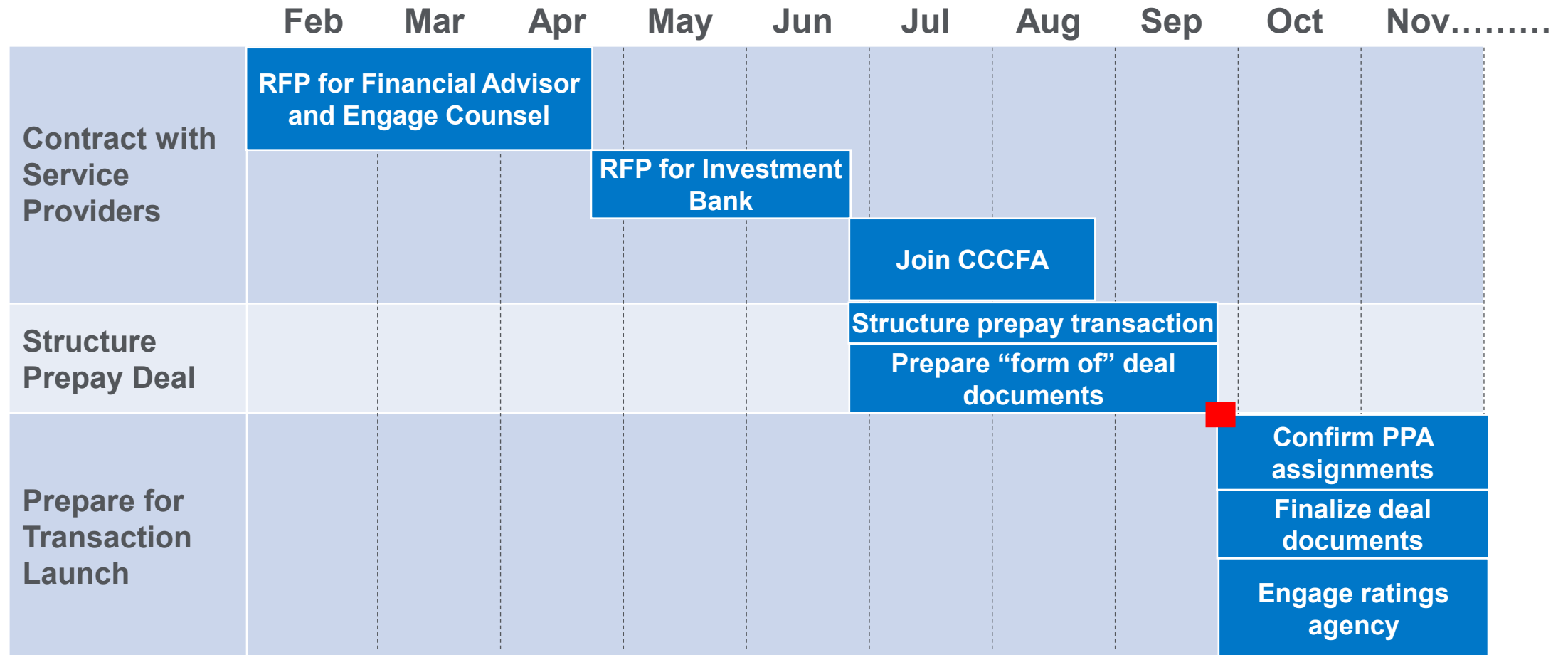
- Rates bonds
- Moody's

### Bond / Tax Counsel

- Legal services
- Affirms tax-exempt bond status and validity of bond offering
- Orrick<sup>(1)</sup>

Green Font = potential service providers  
 (1) Fees paid on contingency from Bond proceeds

# Preliminary Timeline



■ Board approval of transaction

# Recommendation

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- Recommend approval to the Board of Directors continued evaluation and pursuit of a possible Prepay transaction, including engagement of advisors
  - Savings are material, risks are negligible, and upfront costs are minimal
  - Can pause process at any time
- Engage selected advisors (paid on contingency)
  - PFM Financial Advisors as Financial Advisor
  - Chapman & Cutler as Prepay Counsel
  - Orrick, Herrington & Sutcliffe as Bond and Tax Counsel
- Approval to join CCCFA at the appropriate time
- Staff will return to the Audit & Finance Committee and Executive Committee with periodic updates and will seek Board approval of a transaction prior to launch

# Appendix

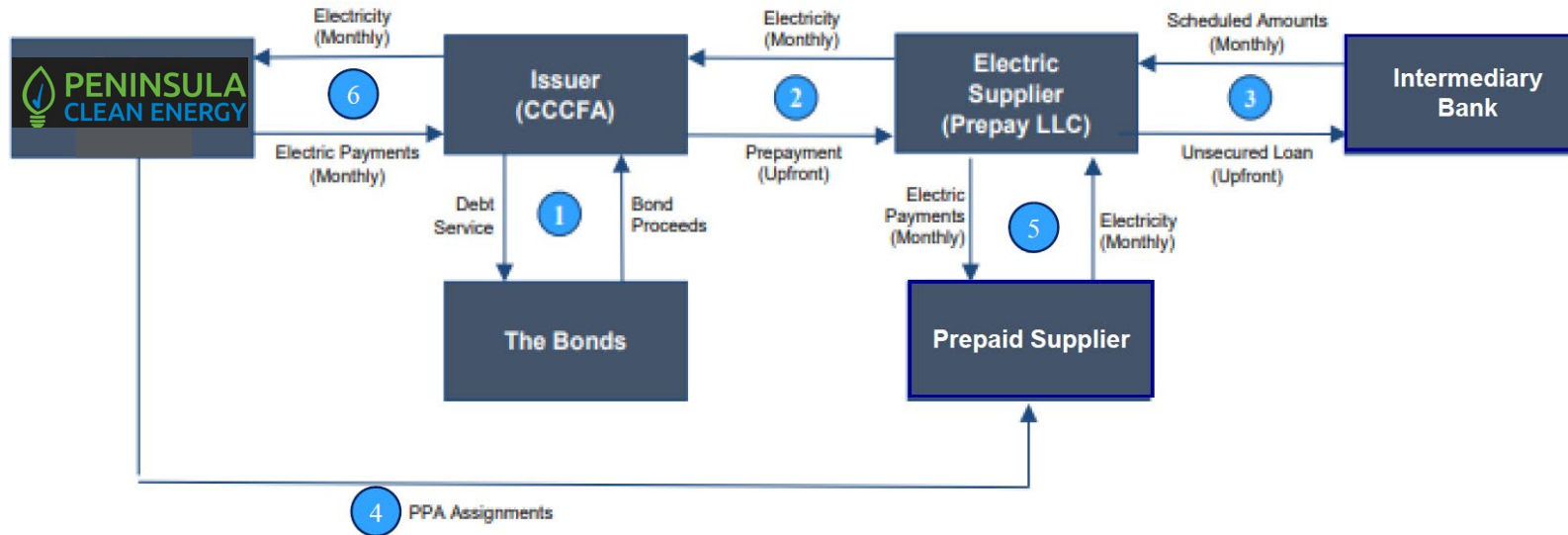


# Indicative PCE Prepay Transaction Terms

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- Initial bond offering (pre-payment amount) of \$550 million
  - Assumes assignment of three operating PPAs, representing 1 million MWh annually
  - Notional value of assigned contracts over 30-years ~\$1 billion
  - PCE can assign additional PPAs to increase size of transaction or execute subsequent transactions
- Initial savings of ~\$3.5 million per year, or 10% of contracted PPA payments
- Savings locked-in for seven years, after which bonds 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
- Transaction fees, including advisors, payable from proceeds of the bond offering and included in savings analysis

# Transaction Diagram



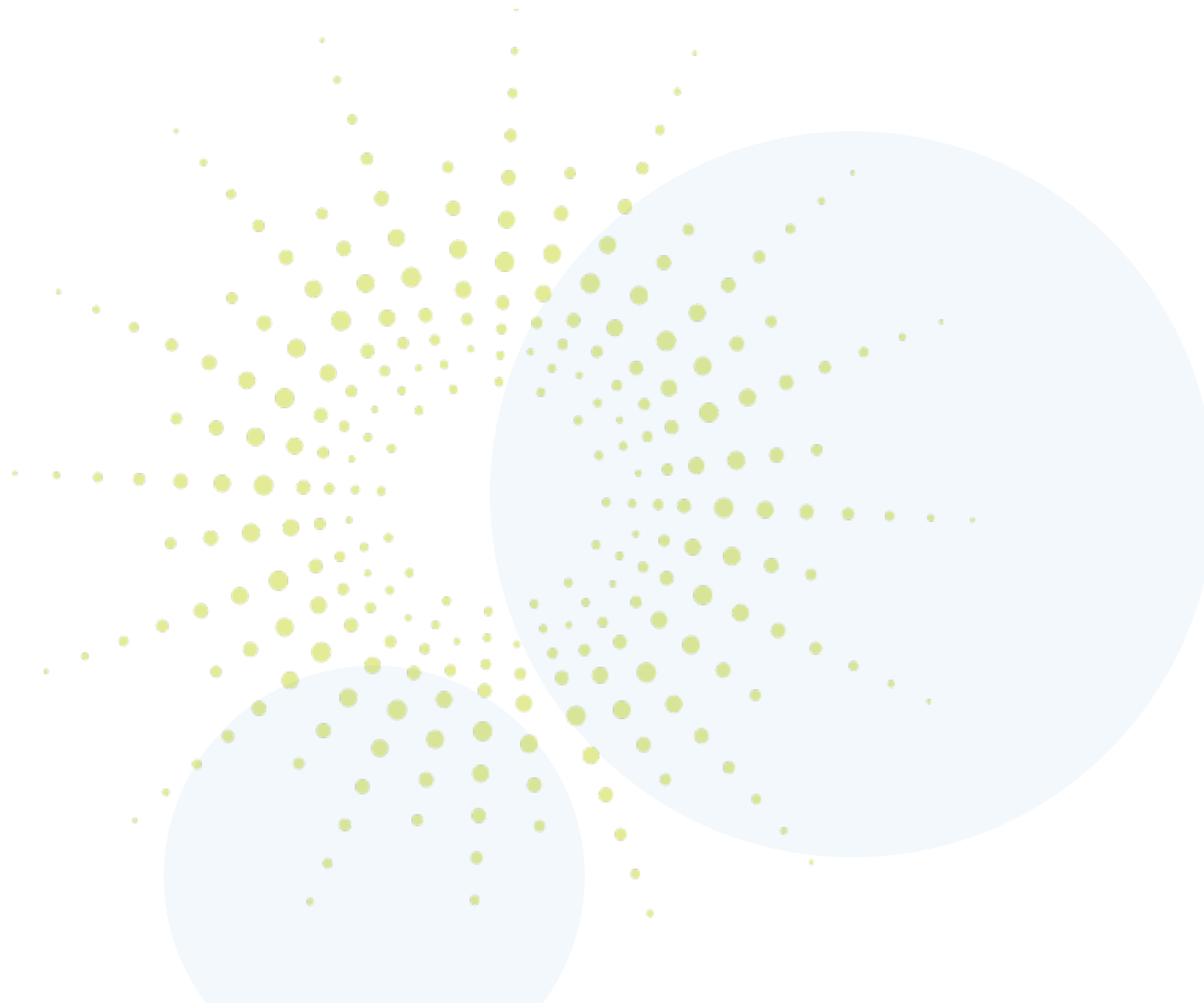
## Initial Issuance and Cash Flows

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

# Adjournment





# Committee Members' Reports

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# Adjournment

