Prepay Transaction Request for Approval

Amrit Singh
Board of Directors
November 9, 2022

SILICON VALLEY CLEAN ENERGY

Purpose

Action: Authorize CEO to Execute or Approve Prepay Agreements

Main Areas of Discussion

1. Recap of Prepay Goal and Structure
2. Board-authorized parameters for execution of the deal
3. Next Steps
4. Appendix
   - Summary of Transactional Documents
   - Estimated Fees
   - Details of the First Prepay and Cost Breakdown
   - Overview of Prepay Structure and Background Information

Recap of Prepay Goal and Structure

Substantial savings with minimal risks

Goal

- Reduce the cost of power purchases by leveraging SVCE's ability to fund low-cost tax-exempt debt
- Gain competitive advantage relative to Investor Owned Utilities (IOUs)

How

- Benefit from the spread between taxable and tax-exempt interest rates
- Use of financially engineered prepay structure*
  - Bonds not guaranteed by SVCE or California Community Financing Authority (CCCFA).
  - Bonds secured by the contractual rights and transaction cashflows
- Seasoned team of professionals helps guide, negotiate, and structure the transactions.

**Refer to the appendix for a more detailed overview of prepay structure*

Minimal Risks

- Fees (except rating agency) are contingent on the execution of the deal and paid from the bond proceeds
- Bonds issued are non-recourse to SVCE

Request

Execute Prepay Transactional Agreements Contingent on Board-Authorized Parameters

- Transaction expected to cover about 12% of SVCE's load
- Actual realized discount will depend on the spread between taxable and tax-exempt rates (net of transaction costs)
  - Savings expected to be about $3 to $4 million during the initial term of the bonds
- 30-year bonds will reset after the initial period expected to be 5-10 years and discount on future reset periods will depend on the then prevailing market conditions.
  - Repricing agreement will set a minimum discount threshold for future bond reset periods, expected to be at energy savings of about 4%.

- Execution Contingent on:
  - Aggregate principal amount of bonds will not exceed $1 billion
  - Bonds issued by California Community Financing Authority (CCCFA) are not guaranteed obligations of SVCE
  - Overall energy savings to SVCE shall be at least 8 percent during the initial term of the bonds

Next Steps

- Seek California Community Choice Financing Authority (CCCFA) Board Approval

- Target bond issuance for December 2022. Timing will depend on market conditions.

Board Approval

- Adopt resolution 2022-30 authorizing the CEO to execute the Power Supply Contract with the California Community Choice Financing Authority (CCCFA) and execute or approve the related supporting agreements to enable SVCE to enter an approximately 30-year energy prepayment transaction with authority to make any minor clarifying modifications to the contracts and agreements as necessary that do not change the intent or economics of the transaction.

- The Board’s authorization will be subject to the following parameters.

  1. The Bonds, issued by CCCFA, will not be guaranteed obligations of SVCE but will be limited obligations of CCCFA payable solely from the revenues and other amounts pledged under the Indenture as the Trust Estate, including amounts owed by SVCE under the Power Supply Contract.
  2. The aggregate principal amount of the Bonds shall not exceed $1,000,000,000.
  3. The energy savings to SVCE under the Power Supply Contract for the initial Reset Period, including the Annual Refund (as defined in the Power Supply Contract), shall be at least 8 percent.

Thank you! / Questions?

Summary of Transaction Documents

Agreements that will be executed by SVCE.

1. Power Supply Contract
   - Between SVCE and CCCFA
   - Provides for the sale of clean energy from CCCFA to SVCE
2. Letter Agreement Regarding PPA Assignments
   - Between SVCE, CCCFA, and Morgan Stanley
   - Details the terms of assigning PPAs that SVCE has with a current of future energy Supplier
3. Form of Limited Assignment Agreement
   - Between SVCE, Morgan Stanley, and Third-party Energy Supplier
   - Details the terms of partially assigning SVCE's energy contracts to Morgan Stanley
   - Future PPAs will include this agreement
4. Project Administration Agreement
   - Between SVCE and CCCFA.
   - Sets the terms for SVCE to act on behalf of the CCCFA such as scheduling for the energy.
5. Energy Supply/PPA Custodial Agreement
   - Between SVCE, Morgan Stanley and the Custodian Bank
   - Specifies the terms on handling cashflows among the parties and making required payments to the Energy/PPA Supplier

4. Summary of Transaction Documents – Cont’d

Agreements Executed by CCCFA

1. Prepaid Agreement
   - Between CCCFA and Morgan Stanley
   - Details the terms of the prepayment by CCCFA to Morgan Stanley and the flow of energy from Morgan Stanley to CCCFA
2. Trust Indenture
   - Between CCCFA and the Trustee
   - Sets forth the terms of bond issuance, the rights of bondholders, and secures the cashflows of CCCFA to ensure principal and interest payments to the bondholders
3. Re-pricing Agreement
   - Between CCCFA and Morgan Stanley
   - Sets the terms for remarketing and repricing of bonds at future bond repricing periods and the terms for calculation of future energy price discount that will be offered to SVCE.
4. Commodity Swap Agreement and Related Custodial Agreement
   - Between CCCFA and Swap Counterparty (Morgan Stanley also executes a corresponding agreement with the same swap counterparty)
   - Converts any index payments by SVCE (variable or floating price) to a fixed price

4. Summary of Transaction Documents – Cont'd

Other Document

Preliminary Offering Statement

- Used to market the bonds
- Provides information on the prepayment transaction including the key terms
- Includes background information on SVCE
  - Formation of SVCE, service area, customers, and sources of clean energy
  - Other information to inform bond holders on the financial and operational strength of the organization

Estimated Summary of Transaction Cost ($000)

Bond and Tax Counsel: Ballard Spahr	**300**
Credit Rating: Moody's	230
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	200
Municipal Advisor: Public Financial Advisors LLC	175
Investment Advisor	42
Trustee: Bank of New York (BNY)	32
Trustee Counsel: BNY Counsel	35
Green Bond Second Party Opinion (Kestrel Verifiers)	25
Printing Cost	3
Contingency/Other	10
Total COI	**1,052**
Morgan Stanley Underwriting	5,000
Underwriters Counsel	115
Miscellaneous	50
Total	**6,217**

Leverage the First Prepay Structure

Benefit from over two years of effort to execute the first transaction

- Replicate the first transaction's structure with the same counterparties (except for using the same bond and tax counsel)

- Other CCAs have taken or plan to take advantage of market opportunities to execute Prepays

- Since the execution of our first Prepay in partnership with East Bay Clean Energy (EBCE):
  - Marin Clean Energy (MCE) executed its first Prepay
  - EBCE executed its second Prepay
  - Several other CCAs pursuing their Prepay transactions
    - CCCFA in October 2022 approved Prepay transactions for Pioneer Community Energy and Clean Power Alliance (CPA)

Timeline of SVCE's First Prepay Transaction

June-2019	SVCE presents Prepay Structure Overview Presentation (developed by Goldman Sachs) to Finance and Admin Committee
Aug-2019	SVCE presents a brief verbal update on prepay process to Finance and Admin Committee
Sept-2019	SVCE and PFM Financial Advisors provide update on the upcoming RFP process to Finance and Admin Committee
Nov-2019	SVCE provides Prepay RFP Overview to Executive Committee - PFM issues RFP to select Prepay Bank Supplier on behalf of EBCE and SVCE on Nov 12th - RFP Proposals were due December 5th
Jan-2020	SVCE presents Prepay Structure Overview to Finance and Admin Committee
Spring-2020	SVCE and EBCE conduct RFP evaluations to select Prepay Bank Supplier
July-2020	SVCE and EBCE select Morgan Stanley as Prepay Bank Supplier
Aug-2020	SVCE provides Prepay Status Report to Finance and Admin Committee
Sept-2020	SVCE provides Board with Prepay Overview on preparing for a Prepay Transaction SVCE provides Prepay Status Report to Finance and Admin Committee
Oct-2020	SVCE Board Authorizes CEO to enter legal service agreements to finalize Prepayment Transaction (Orrick, Herrington & Sutcliffe and Chapman & Cutler LLP)
Nov-2020	SVCE provides Prepay Status Report to Finance and Admin Committee
Mar-2021	SVCE provides Prepay Status Report to Finance and Admin Committee SVCE provides Prepay Status Report to Executive Committee
April-2021	SVCE Board Approves Participation in the California Community Choice Financing Authority Joint Powers Authority
Aug-2021	The Finance and Admin Committee reviews the Prepay Transaction and votes to recommend Board approval. Board authorizes execution of the first Prepay Transaction subject to parameters including that bonds are not obligations of SVCE, size of the bonds, and minimum savings target.
Sept-2021	Sept 9, 2021 bonds priced
Jan-2022	Power delivery under Prepay begins

Details of the First Prepay Transaction

Aggregate Principal Bond Amount	**$1,234,720,000 (SVCE and EBCE combined)**
Total Bond Proceeds	$1,475,895,642.5 (SVCE and EBCE combined)
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	• 10 years. • After the initial period, bonds will be repriced per the negotiated repricing agreement, and a new discount will be established based on the then prevailing market conditions.
Final Bond Maturity Date	• February 1, 2052.
Discount Achieved	• $4.38 per MWh, about 10% of the energy cost of SVCE's 3-year transaction initially assigned into the Prepay. • ~$1.9 million per year for SVCE during the initial bond pricing period of ten years.
Energy Volume Supported by Bond Proceeds	109 MW, of which SVCE's share is 50 MW (about 11% of load) and EBCE's share is 59 MW for approximately the first ten years of the transaction; after that, the same proportional volume split will be maintained between SVCE and EBCE.

First Prepay Transaction Cost Breakdown ($000)

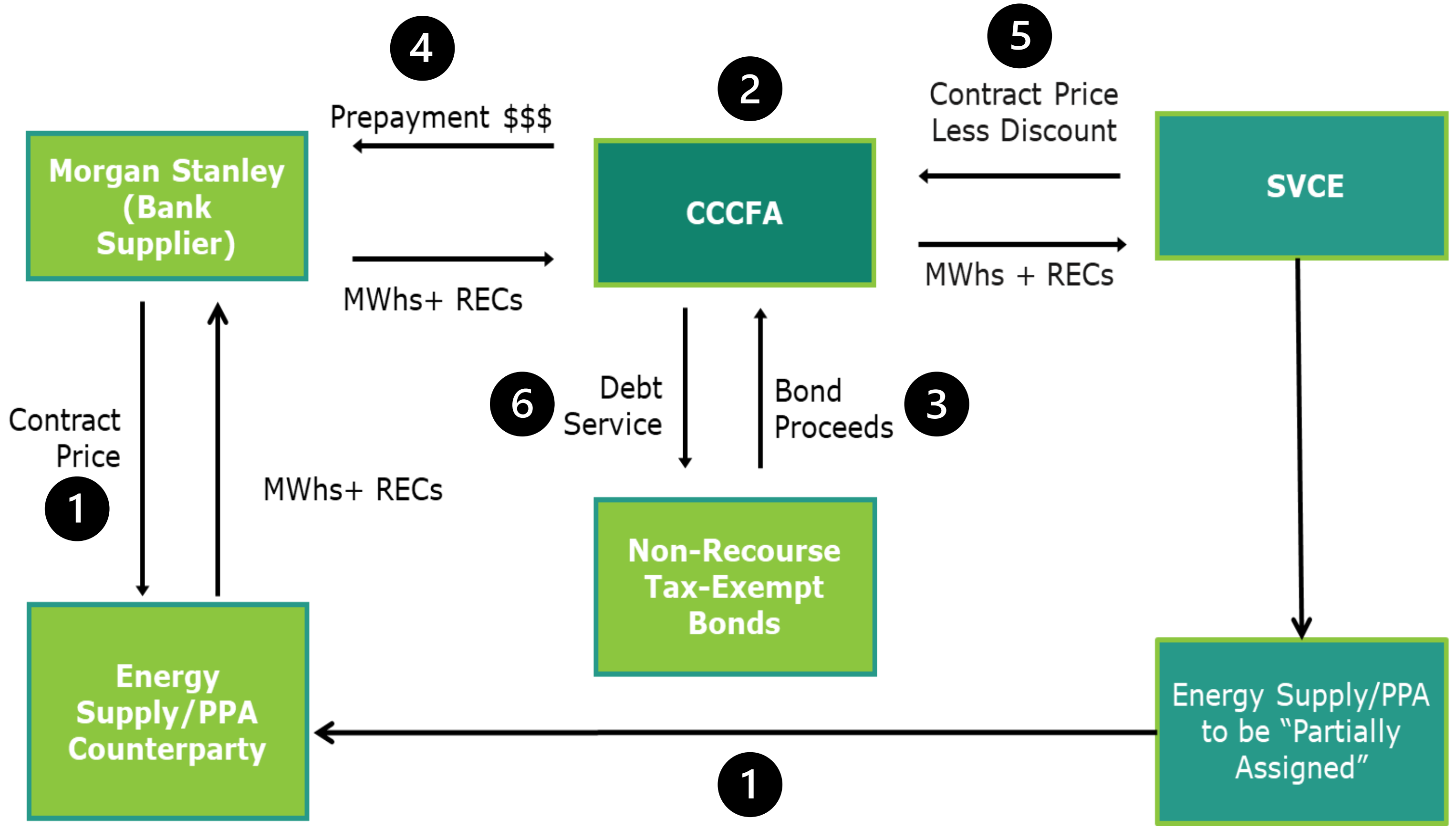
Bond and Tax Counsel: Orrick, Herrington & Sutcliffe	**425**
Credit Rating: Moody's	315
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	310
Municipal Advisor: Public Financial Management	250
Investment Advisor: Public Financial Management Asset Mgmt	42
Trustee: Bank of New York (BNY)	32
Trustee Counsel: BNY Counsel	35
Printing Cost	3
Contingency/Other	10
Total COI	1,422
Morgan Stanley Underwriting	6,341
Total	7,763

Overview of Prepay Structure

Term: 30-year with bonds repricing every 5-10 years depending on the optimal spread between taxable and tax-exempt interest rates.

Process:

1. SVCE partially assigns, using Limited Assignment Agreement, energy contract to Morgan Stanley (MS), Prepay Supplier. MS agrees to pay contract price to energy supplier.
2. CCAs created CCCFA, a separate legal entity that can issue tax-exempt debt.
3. CCCFA issues non-recourse tax-exempt bonds.
   - Bonds not guaranteed by SVCE or CCCFA.
   - Bonds secured by the contractual rights and transaction cashflows; Bonds carry MS credit ratings.
4. CCCFA pays bond proceeds, net of transaction fees, to MS as prepayment for energy and related products that MS will provide over the 30-year term. Executes Prepaid Agreement.
5. SVCE and CCCFA execute Power Supply Agreement, where SVCE pays CCCFA contract price less discount for energy delivered by CCCFA.
6. CCCFA uses payments from SVCE to pay interest and principal payments to bondholders.



Review of Prepay Background Info.

Goal: Reduce the cost of power purchases

- Savings achieved by leveraging SVCE/CCCFA's ability to fund low-cost tax-exempt interest rates
- Used since the 1990s for natural gas transactions
- Over 100 transactions totaling over $55 billion completed in the US
  - Over 95% of them for natural gas
  - 14 prepayments totaling over $8.7 billion completed in California
- Codified in the US Tax law
  - Part of the National Energy Policy Act of 2005
- Seasoned team of professionals will help to guide, negotiate and structure the transactions. Fees for professionals are contingent on the completion of the deal and paid from the deal proceeds.

History and Tax Law Behind Municipal Prepaid Energy Transactions

- Municipal electric and gas utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable (corporate) entity and fund that prepayment with tax-exempt municipal bonds:
  - Must sell that commodity to their retail end-users that reside within their traditional service area.

- Prepayment transactions are legal and Codified in US Tax Law: Since first prepayments of natural gas were done in the early 1990’s, the IRS issued rules allowing tax-exempt prepayments and Congress enacted legislation specifically allowing the transactions (National Energy Policy Act of 2005; Section 1327).

Community Resilience Program Update

Zoe Elizabeth – Deputy Director of Decarbonization and Grid Innovation
Jess Cornejo – Program Specialist in Policy & Government Initiatives

November 9, 2022

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Objective

Provide an update on community energy resilience grants

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Program Background

- The Board approved a $5M investment in community energy resilience as part of the 2020 Customer Relief and Community Resilience package in response to COVID-19
- These funds were combined with an existing allocation of $150K to create a combined total investment of $5.15M

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SVCE's Role

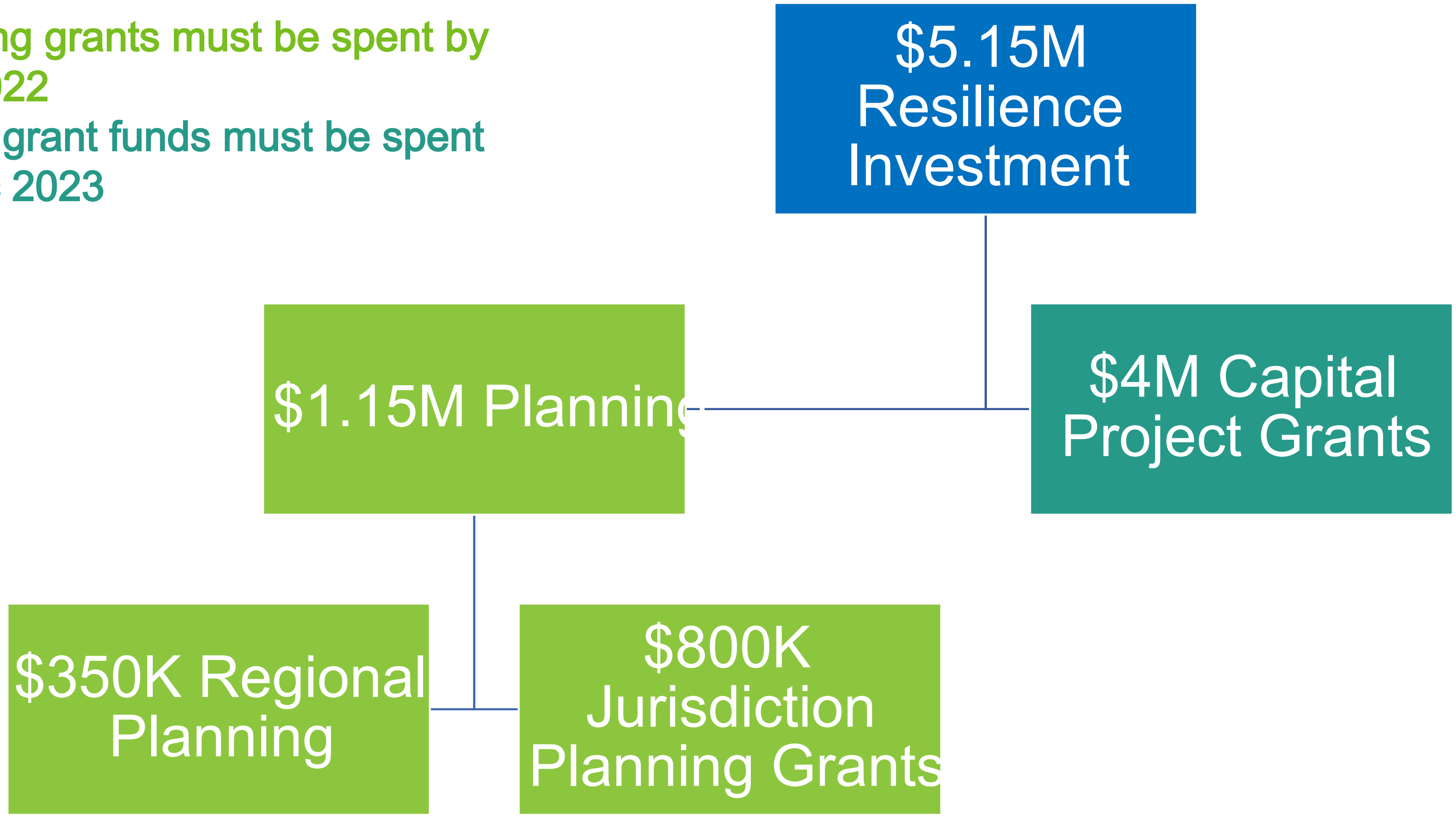
SVCE supports site-level investments at critical community sites.

Site-level projects are the "last -mile" of energy resilience.

They can enhance, but not replace, the grid reliability responsibilities of PG&E.

Investing Over $5M in Community Energy Resilience

- Planning grants must be spent by Dec 2022
- Capex grant funds must be spent by Dec 2023



COMMUNITY RESILIENCE GRANT STATUS

Your Jurisdiction's Grant Status

Jurisdiction	Grant Details				Funds Allocation (Thousand $)		
	Status	Location	Battery Storage	Solar EV Charger	Total	Committed	Remaining
Campbell	Planning	TBD	X		$ 240	$ 40	$ 200
Cupertino	Planning	TBD	X		$ 255	$ 43	$212
Gilroy	Planning	TBD			$ 314	$ 52	$ 262
Los Altos	Planning	TBD			$ 150	$ 25	$ 125
Los Altos Hills	Constructing	City Hall	X		$ 50	$50	$ 0
Los Gatos	Constructing	Library	X		$ 215	$215	$ 0
Milpitas	Complete	Community Center	X		$ 700	$700	$ 0
Monte Sereno	Planning	Town Hall	X		$ 18	$0	$ 18
Morgan Hill	Constructing	Recreational Center	X		$ 245	$245	$ 0
Mountain View	Constructing	Community Center	X		$ 635	$635	$ 0
Saratoga	Complete	Traffic Signals	X		$ 140	$140	$ 0
Sunnyvale	Constructing	City Hall	X	X	$ 1300	$1300	$ 0
Santa Clara County	Planning/Constructing	Fire Station	X	X	$ 410	$ 220	$ 190

City of Milpitas – Solar + Battery Project

Community Center and Senior Center– Completed April 2022

- Solar + battery storage system provides backup power to the buildings during emergency events
- Allows the buildings to **become cooling and heating centers** during extreme weather events or power shut-offs
- Additional upgrades include:
  - Two dual EV charging stations
  - Led lighting upgrades
  - Smart dashboards to display real time energy usage data

City of Saratoga – Battery Back-Up Project

Street Light System – Completed May 2022

- Battery systems installed at all fifteen intersections
- Street signals will be operational during a power outage
- Enables signals to be controlled during evacuations

Location: Saratoga Ave & Bellgrove Circle

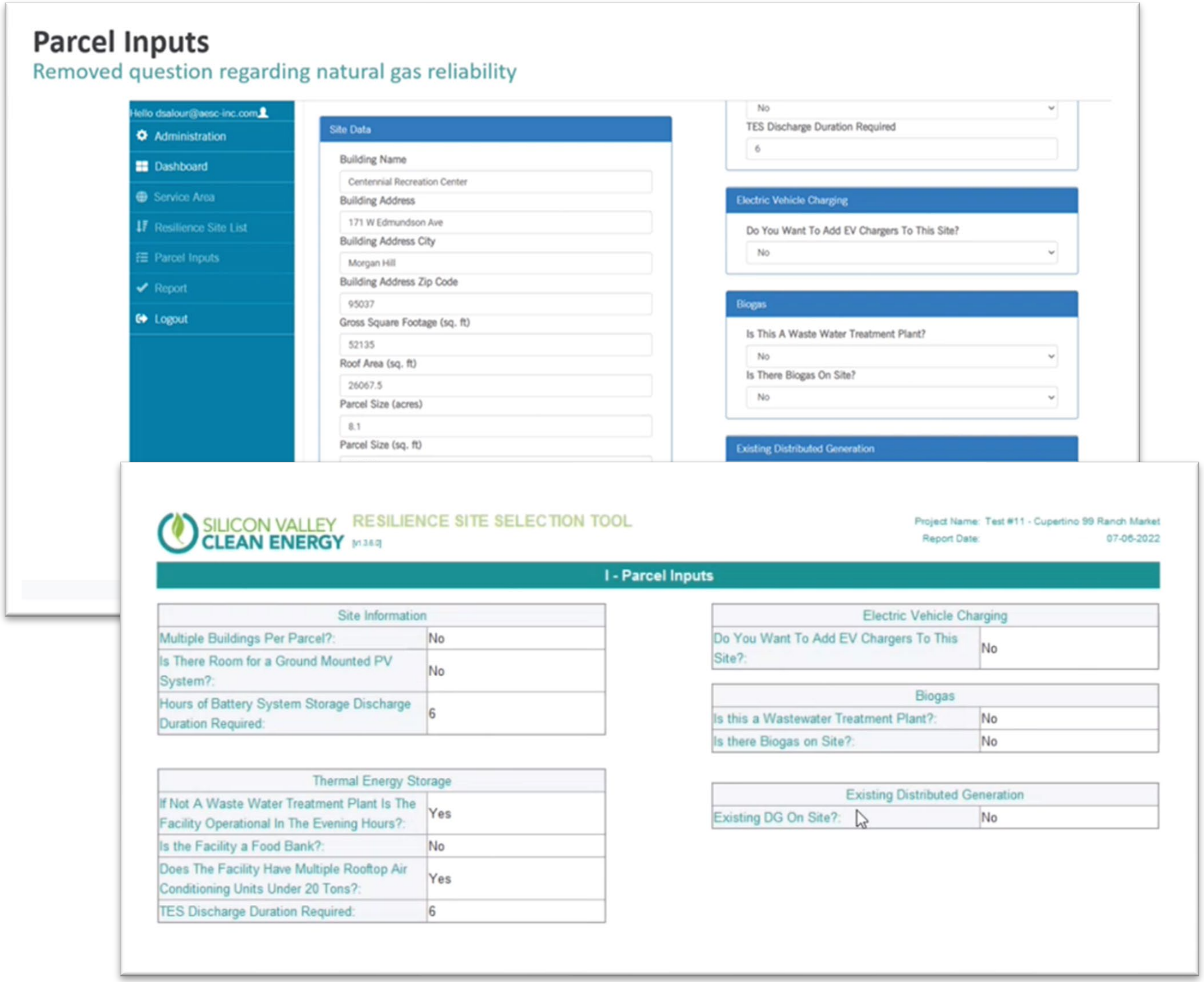
On-going Support for Your Agency

Resilient Site Selection Tool

- Developed by SVCE and shared with cities
- Identify sites and assess opportunities for resilience
- 1:1 trainings available

External Funding Opportunities

- The state has committed over **$100 million** to community resilience grants
- SVCE identified and shared opportunities with your staff
- Tools and resources from SVCE's program will support grant application development and increase competitiveness



THANK YOU!

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Monthly Reach Code Update

Zoe Elizabeth
November 2022

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Objectives

1. Provide a quick status update
2. Highlight upcoming actions

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2022 Building Reach Code Summary

2022 SVCE Reach Codes

Jurisdiction	
Campbell	Considering All Electric
Cupertino	All Electric
Gilroy	Considering Increase minimum EVCI requirements
Los Altos	Mostly Electric
Los Altos Hills	Mostly Electric
Los Gatos	All Electric
Milpitas	Considering All Electric
Monte Sereno	Considering Mostly Electric
Morgan Hill	All Electric
Mountain View	All Electric
Santa Clara County Unincoporated	All Electric
Saratoga	Considering Mostly Electric
Sunnyvale	All Electric

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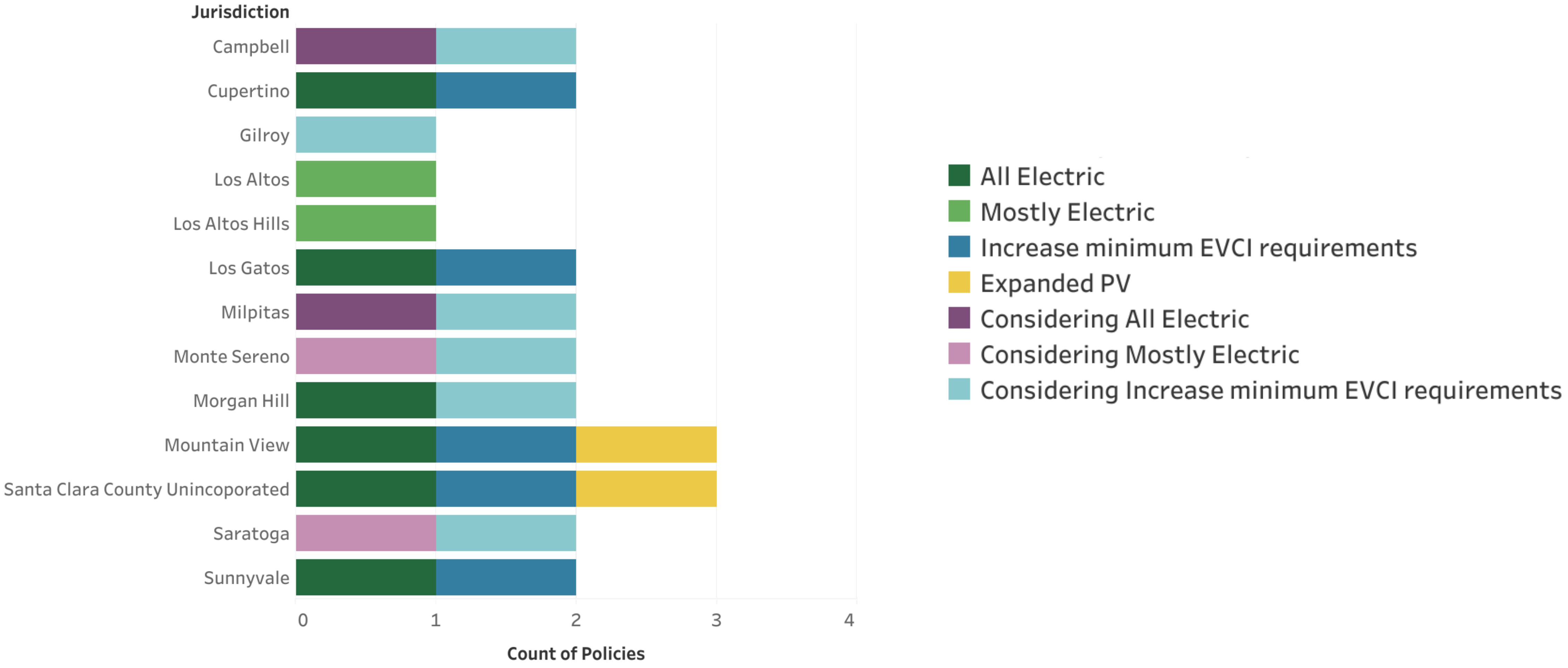
2022 Building Reach Code Summary



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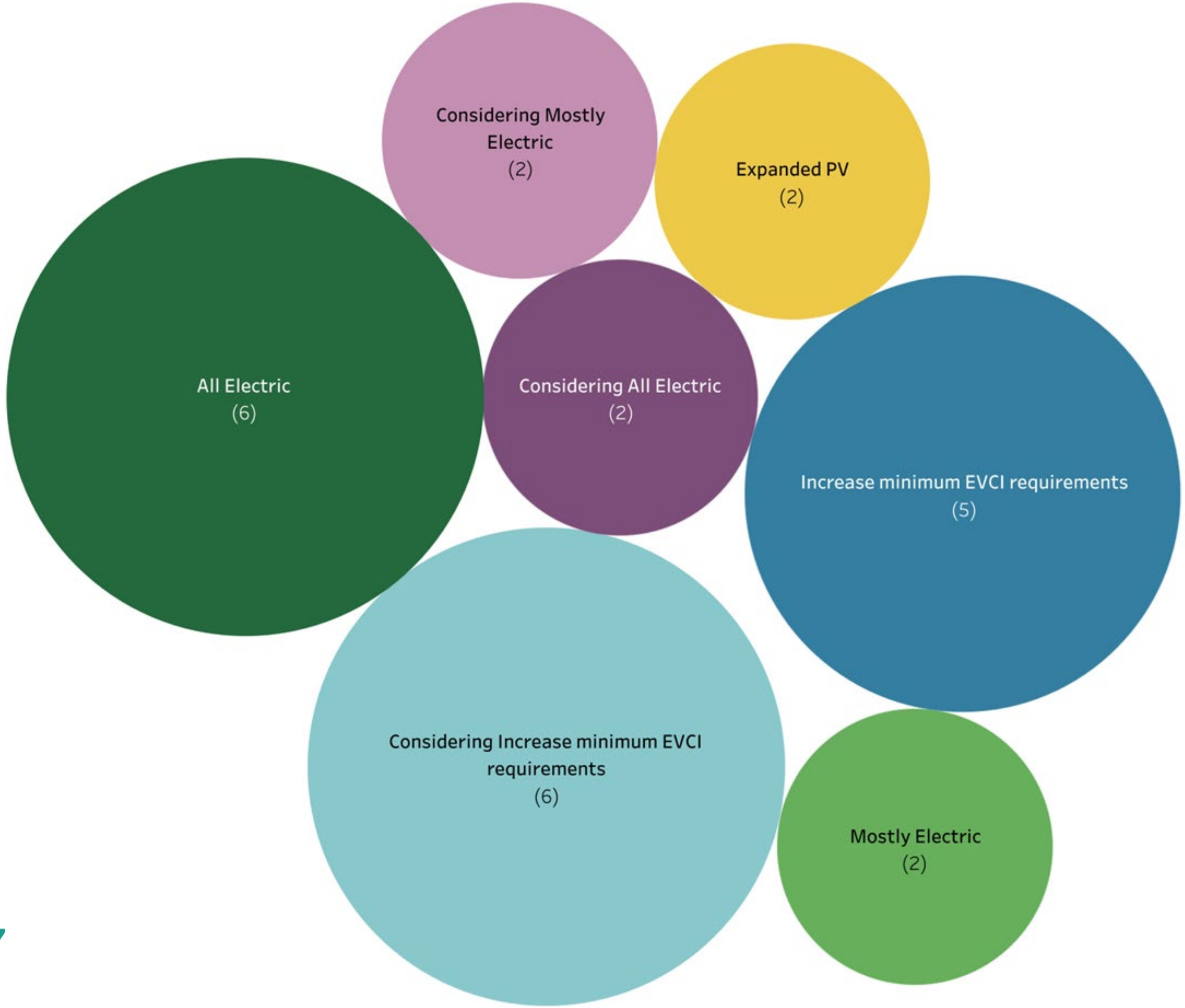
2022 Count of Reach Code Policies



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Reach Code Steps Board Member Checklist

- This list can help you track progress.
- SVCE can provide technical assistance and outreach support throughout the process.

Action	Suggested Completion Date	Done?
Attend first meeting w/SVCE staff	2/1/2022	
Identify your ideal level of reach (your goal)	3/31/2022	
Confirm appropriate staff are engaged and aware of your goals	3/31/2022	
Confirm council info sessions and vote sessions are agendized	4/30/2022	
Confirm City Manager signed LOI	4/30/2022	
Vote	10/31/2022	

Jurisdiction	Council Information Session	First Reading	Second Reading	Link to Staff Report
Campbell	10/4	11/1	TBD	
Cupertino	N/A	10/18	TBD	
Gilroy	8/1	11/07	TBD	Link to Council Info Session
Los Altos	9/6	11/15	TBD	Link to Council Info Session
Los Altos Hills	9/15	10/20	11/17	Link to Council Agenda Packet- Item starts on page 407
Los Gatos	6/7	11/1	11/15	Link to Council Info Session
Milpitas	N/A	10/18	12/6	
Monte Sereno	9/20	11/1	10/18	Link to Council Info Session
Morgan Hill	N/A	11/18	11/16	
Mountain View	N/A	11/1	12/13	
Saratoga	9/21	11/2	11/16	Link to Council Info Session
Sunnyvale	N/A	10/25	TBD	Link to Staff Report
Santa Clara County	N/A	11/15	TBD	

Thank you!

svcleanenergy.org

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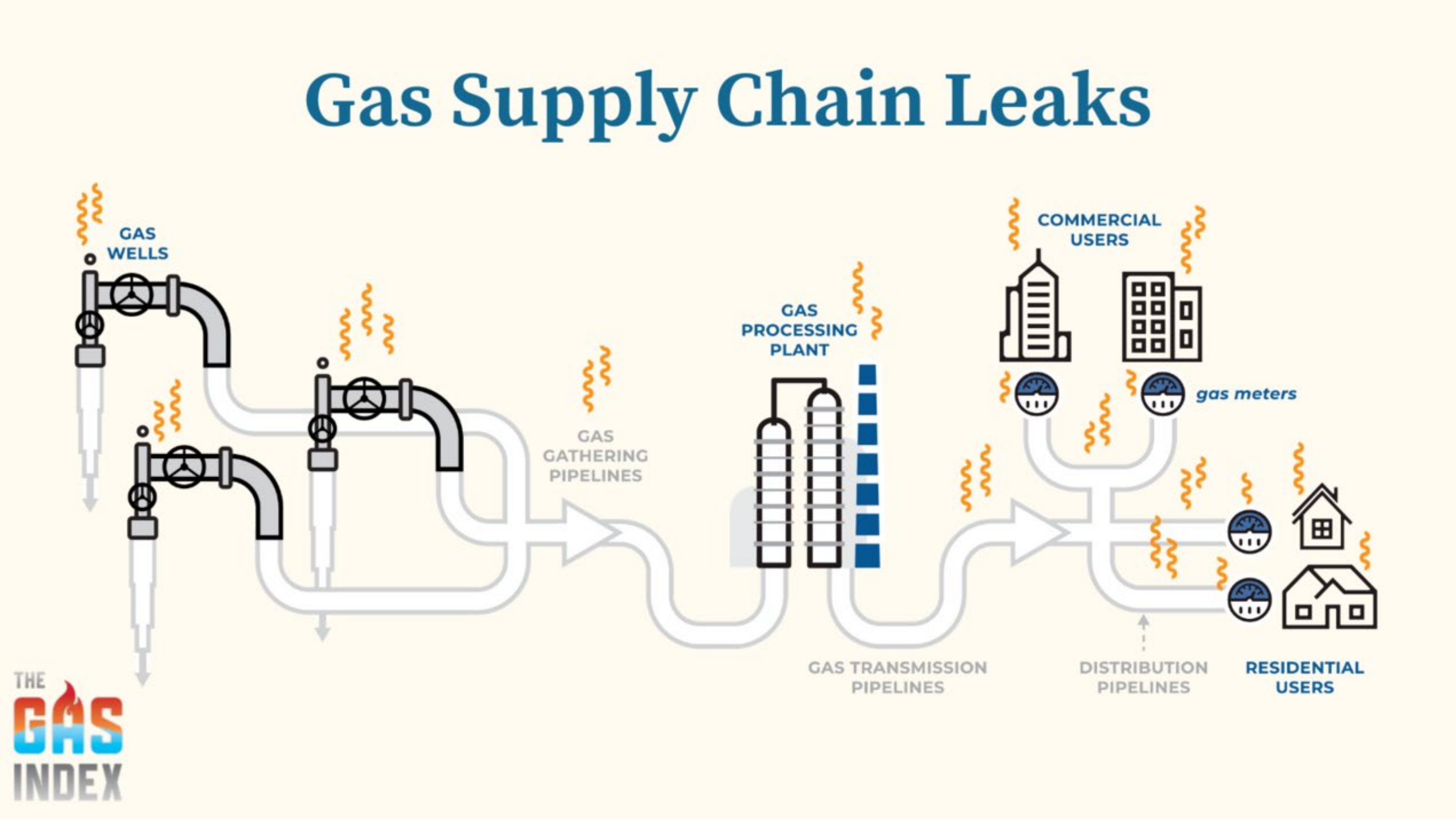
The 2022 State Code is Electric Preferred.

New Construction Energy Code (Part 6)

- Electric heat pumps are prescribed for:
  - Residential HVAC
  - Nonresidential – most include one or both of water heating and HVAC, depending on building type
- Residential
  - Performance credit for all-electric buildings
  - Required higher ventilation rate for gas stoves
  - Pre-wiring required for residential dwellings
  - Energy storage readiness
- Nonresidential - Solar PV and Battery Storage required

Even small gas appliances require a large, expensive distribution system.

A gas range is not just a gas range. It is the tailpipe of a complex system.



Source: The Gas Index, 2020

Reach codes help your community prepare for the electric future.

Any natural gas appliances installed today becomes a costly stranded assets
.

Illustrative example:

Assume 3500 new housing units are built per year for the next three years with gas cooking and gas water heating. A future incentive program to replace these appliances would cost:

- $5.25M for cooktops ($500 incentive)
- $21M for water heaters ($2000 incentive)

Plus: **Building all -electric today can be less expensive than building mixed fuel.**

Six jurisdictions have an all -electric code and six have a code with at least one exception.

Type		How it works	SVCE Members
Building	Electric Preferred	Allows mixed-fuel buildings with high energy performance. Electrification-ready panel and wiring in mixed-fuel buildings.	2 – Milpitas, Monte Sereno
	Mostly-Electric	Water and space heating must be electric, exemptions for other appliances. Electrification-ready panel and wiring in mixed-fuel buildings.	4 – Campbell (res), Los Altos, Los Altos Hills (res), Saratoga
	All-Electric	All appliances must be electric, with very limited exemptions.	5 – County of Santa Clara, Cupertino, Los Gatos (res), Mountain View, Sunnyvale
	Gas Ban	No gas hookup (via municipal ordinance). Limited exceptions.	1– Morgan Hill
	No Reach	Meet state code minimum requirements.	1– Gilroy

2022 Model Reach Codes – New Buildings

Code Approach	Benefits	Considerations
All-Electric Municipal Ordinance	• Avoids CEC review and approval • Flexible (i.e., timecertain or existing buildings policies can be included) • Avoids triennial cycle	• Must exceed future code updates to stay relevant (i.e., most effective for all-electric with limited exceptions)
CALGreen– All-Electric amendment	• Avoids CEC review and approval	• Requires triennial update or more if intervening cycle

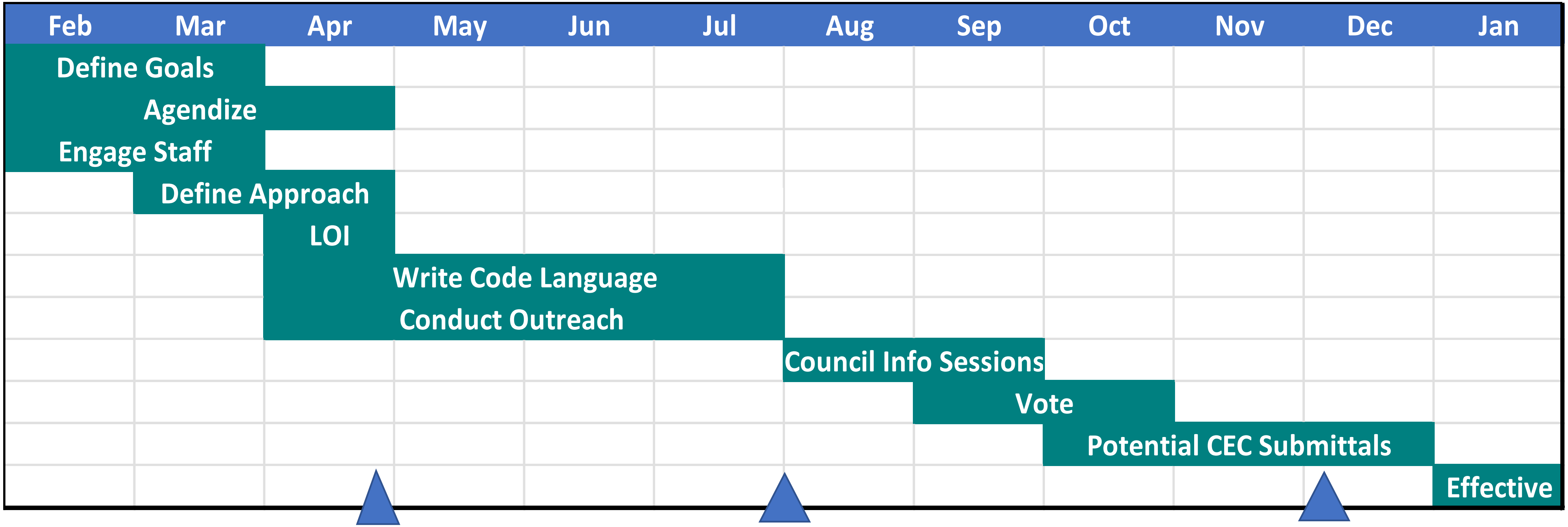
Model code language for both approaches can be found at BayAreaReachCodes.org

In Summary

- Our 2022 model code is all-electric to help our communities to prepare for an all-electric future.
- Member jurisdictions can tailor the codes with exceptions as they deem appropriate.
- The model code includes both an energy code amendment and the municipal ordinance option.

Your efforts matter. We look forward to supporting you.

Member Agency Reach Code Tasks and Milestones



Goals and Approach Defined
Reach Codes Agendized
City Manager LOI Signed
Staff Responsibilities Defined

Proposed Code language complete
Outreach conducted
Council informed

Final code language complete
Vote complete , same meeting as state code adoption
Documentation done

Orange text indicates a Boardmember task