Third Prepay Transaction

Amrit Singh
Finance and Administration Committee
October 03, 2023

SILICON VALLEY CLEAN ENERGY

Purpose

Action:

1. Recommend that the Board Authorize the CEO to Execute Agreements with Firms Providing Services to Enable SVCE to Execute its Third Prepay
2. Recommend Board Approve the Parameters of the Transaction

Main Areas of Discussion

1. Review of Prepay Goal and Structure
2. Leverage the First and Second Prepay Structure
3. Fees for Consultants and Counsel
4. Board-authorized parameters for execution of the deal
5. Fiscal Impact
6. Next Steps
7. Appendix
   - Review of First 2 Prepays
   - Overview of Prepay Structure and Background Information

Review 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

SILICON VALLEY CLEAN ENERGY

Leverage the Existing Prepay Structure

Recommend the Board Authorize Agreements to Initiate Third Prepay Transaction

Slides in the appendix provide:

- Timeline of the first Prepay transaction
- Details of the SVCE's Two Prepays transaction and cost breakdown
- Overview of the Prepay Structure

- Replicate the existing Prepay transaction structure
    - Benefit from over two years of effort to establish the structure
    - Successfully executed two prepays using this structure
    - Combined savings of two completed transactions are about $6.5 million annually
- 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 EBCE:
    - MCE, CPA, and Pioneer have executed Prepays
    - EBCE has executed 3 Prepays, and CPA has executed 2
    - 3CE is pursuing its first Prepay transaction
    - Par Value of CCCFA transactions is just over $7 Billion

Recommend Board Adopt Execution Parameters

Prepay Transactional Agreements Contingent on Board-Authorized Parameters

- Expect principal bond amounts to be in the range of $900 Million to $1.5 Billion
- Actual realized discount will depend on the spread between taxable and tax-exempt rates (net of transaction costs)
  - Savings could be $5 million or more a year 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 prevailing market conditions.
  - The 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 $1.5 billion
  - Bonds issued by the 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
  - The commodity swap counterparty fee is not to exceed $0.50 MWh.

Recommend Board Approve Morgan Stanley as Prepay Supplier

Morgan Stanley was the Prepay Supplier for SVCE's First 2 Prepay Transactions

Morgan Stanley Fee Structure (same as that of First Two Prepays):

- Bond underwriting fee of $5/bond plus underwriter expenses not to exceed $0.50/bond.
  - E.g., For issuance of $1 billion in bonds, with a face value of $1000 a bond, the underwriting fee would be $5 million.
- Energy Service Revenue of $1.10 per MWh
- If floating rate debt is issued, a 2 to 6 basis point charge on an interest rate swap

- *Minimal risk to SVCE.*
- *All costs (underwriting, consultants, and attorneys) are paid from the bond proceeds.*
- *The Board-designated savings target will be net of all costs.*

Recommend Board Approve 3rd Party Agreements to Initiate Prepay

At ~35% Discounted Fee for Third Prepay

- Expected Cost of 3rd Party Agreements is $852,200

- Authorize the CEO to execute up to 1% of the bond proceeds

  Account for other ancillary services, including green bond verification, bond trustee and counsel fees, an investment advisor fee, other miscellaneous costs such as printing, and Morgan Stanley underwriting-related fees described in the earlier slide.

Firms	Role	First Prepay	Second Prepay	Proposed for Third Prepay
PFM Financial Advisors LLC / PFM Swap Advisors	Municipal Advisor: Advises prepay buyer in negotiations, required by the Municipal Securities Rulemaking Board (MSRB), and on commodity and interest rate swaps.	$250,000	$175,000	$155,000
Chapman & Cutler	Disclosure and Issuer's Counsel: Provides legal counsel and prepares official statement and prospectus	$310,000	$200,000	$175,000
Ballard Spahr*	Bond and Tax Counsel: Represent bondholders and provide tax opinion on the transaction	N/A*	$300,000	$250,000
Moody's Investor Service Inc	Rating Agency: Provides the credit rating for the bonds	$315,000	$232,500	$272,500
Total		$1,300,000	$907,500	$852,500

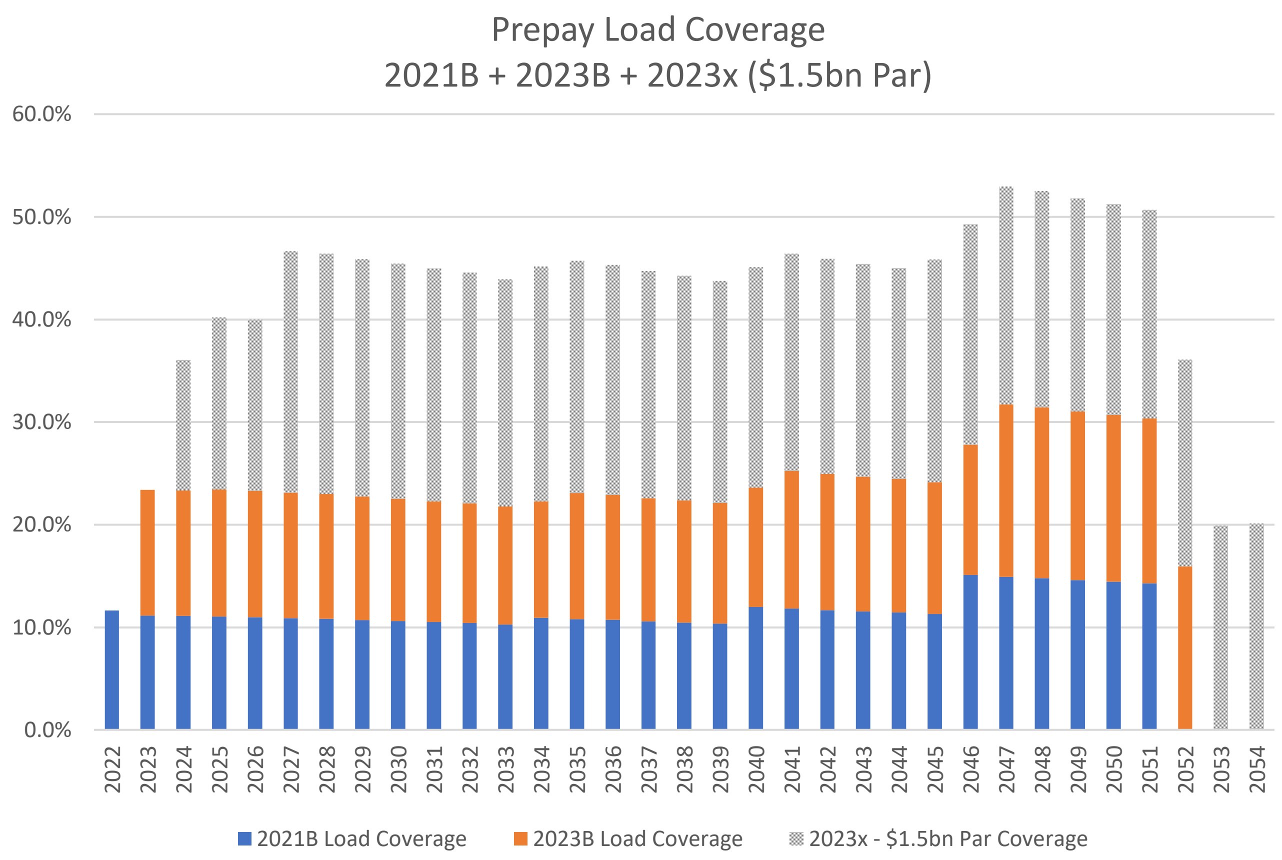
Except for Moody's all payments are contingent on the execution of the transaction.

The agreement with Moody's will be executed later when there's more certainty on the likelihood of a transaction.

** For the first Prepay, SVCE worked with Orrick, Herrington & Sutcliffe as the bond and tax counsel at a higher cost of $425,000.*

Prepay Load Coverage

Can easily cover 50-60% of load; after that we will need to further optimize the portfolio.



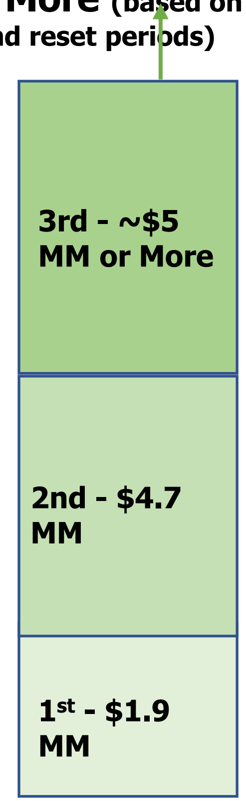
On average:

- Prepay 1 covers about 11% of the Load
- Prepay 2 covers about 12% of the Load
- Prepay 3, if executed at $900 Million Par, would cover 12% of Load
- Prepay 3, if executed at $1.5 Billion Par, would cover 20% of the Load

- Total average load coverage is expected to be around 35% to 45% of Load

Fiscal Impact

Cumulative Savings from 3 Prepays Could be $11.5 million a Year or More **(based on initial bond reset periods)**



- Actual savings depend on market conditions - the spread between taxable and tax-exempt debt rate
- Illustrative:
  - If we get savings of 8 to 10% for a 50 MW around-the-clock transaction at current commodity prices, this could amount to $5 million savings per year
- Minimal Risk to SVCE
  - 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

Next Steps

- Seek California Community Choice Financing Authority (CCCFA) Board Approval at its October 26th, 2023, Meeting

- Target bond issuance for November 2023. Timing will depend on market conditions.

Recommend for Approval

- Staff requests that the Finance and Administration Committee recommend that the Board authorize the CEO to approve or execute the following contracts for services these firms will provide to enable SVCE to execute its third Prepay transaction. The combined fees for services provided by the firms identified below shall not exceed 1% of the bond proceeds amount, including other ancillary services such as green bond verification, bond trustee and counsel fees, an investment advisor fee, and other miscellaneous costs such as printing.
  1. PFM Financial Advisors LLC & PFM Swap Advisors - $155,000
  2. Chapman & Cutler (Disclosure/Issuer’s Counsel) - $175,000
  3. Ballard Spahr (Bond and Tax Counsel) - $250,000
  4. Moody’s Investor Service Inc (Credit Rating) - $272,500
- Staff requests that the Finance and Administration Committee recommend that the Board approve engagement with Morgan Stanley as the Prepay Supplier with the following fee structure:
  - Bond underwriting fee of $5/bond
  - Underwriter expenses not to exceed $0.50/bond.
- Staff requests that the Finance and Administration Committee recommend that the Board authorize the CEO to execute Power Supply Contract with 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 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 $1,500,000,000.
  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.
  4. The energy service revenue fee in the transaction shall not exceed $1.10 per MWh.
  5. The commodity swap counterparty fee in the transaction is not to exceed $0.50 MWh.
  6. If floating rate debt is issued, Morgan Stanley shall charge no more than six basis points on the interest rate swap spread to mid-market.

Thank you! / Questions?

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 began

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

Details of the Second Prepay Transaction

Aggregate Principal Bond Amount	**$841,500,000**
Total Bond Proceeds	$891,418,648.1
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	• 6.5 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	• July 1, 2053.
Discount Achieved	• $9.77 per MWh, about 10% of the price established for energy deliveries under the power supply contract. • ~$4.7 million per year during the initial bond pricing period of 6.5 years.
Energy Volume Supported by Bond Proceeds	~55 MW (about 12% of load; a slight escalation in the latter half of the transaction)

Second Prepay Transaction Cost Breakdown ($000)

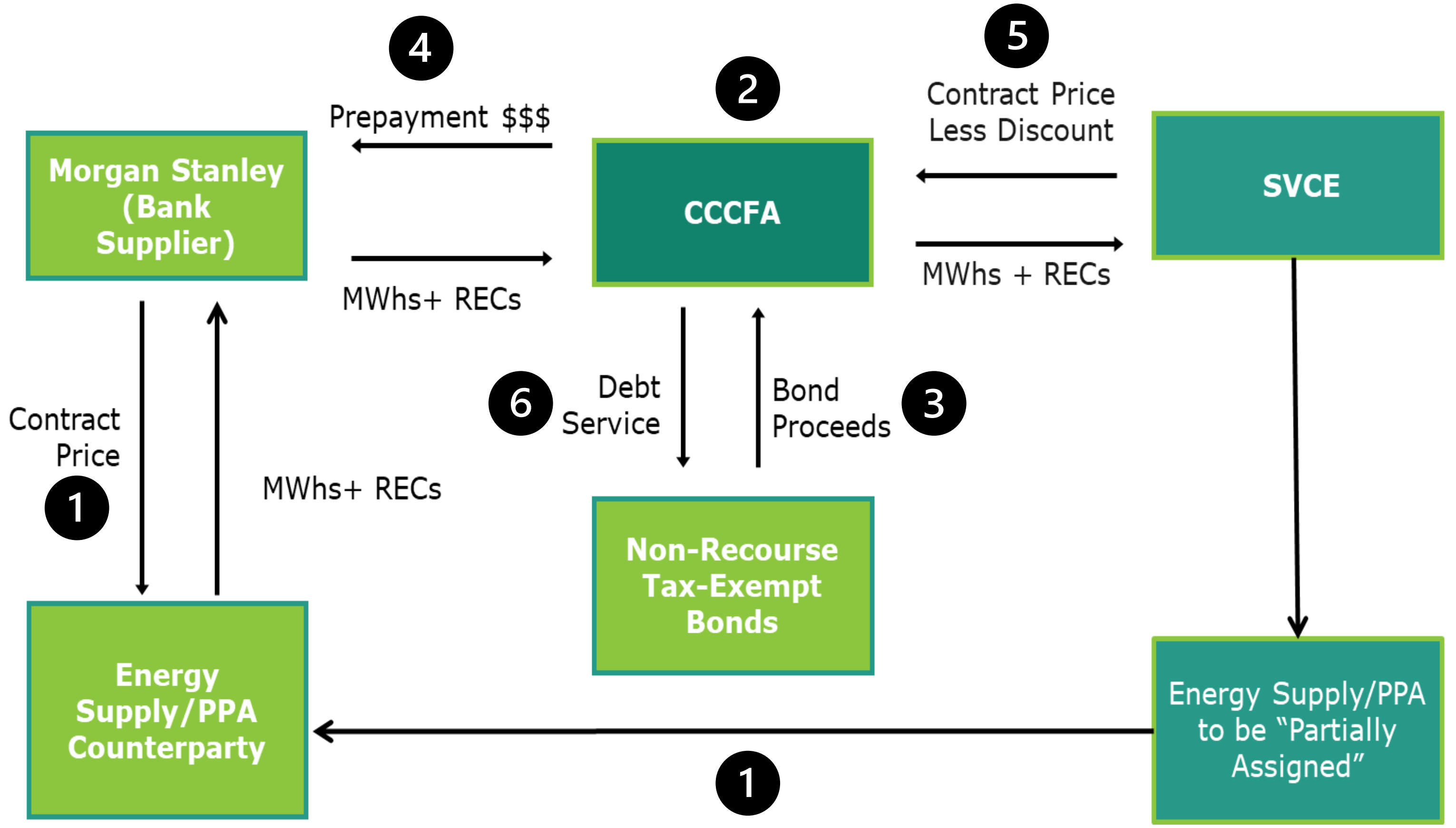
Cost of Issuance (COI)	$ in 000's
Bond and Tax Counsel: Ballard Spahr	300
Credit Rating: Moody's	232.5
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	200
Municipal Advisor: PFM Financial Advisors LLC	175
Investment Advisor: PFMAM (US Bank)	35
Trustee: BNY Mellon Corporate Trust	30.9
Trustee Counsel: Ballard Spahr	30
Printing Cost: ImageMaster	3.3
Green Bond Second Party Opinion: Kestrel	22
Contingency/Other	16.8
Total COI	1,045.5
Morgan Stanley Underwriting	4,359.2
Total	5,404.7

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
- Codified in the US Tax law
  - Part of the National Energy Policy Act of 2005
- Seasoned professionals will help 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).