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# Commission Staff Report

AGENDA ITEM NO.: \_\_\_\_

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**Date:** February 19, 2014  
**To:** NCPA Commission  
**Subject:** December 31, 2013 Debt & Interest Rate Management Report

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## Background

In accordance with the newly revised "Debt and Interest Rate Management Policy" approved by the Commission in May 2013, the following semi-annual report is submitted for your information and acceptance.

## Fixed Rate Debt

No new fixed rate debt was issued and no fixed rate refunding occurred during the last six months. Moody's upgraded or reaffirmed the credit ratings for various NCPA Projects as described in the attached report. Due to the sequestration of federal budget dollars, the Build America Bond (BAB) Subsidies related to the Lodi Energy Center (LEC) BAB issues were reduced by 7.2% or \$240,887 for the December 1, 2013 debt service payments. This amount was billed to the LEC participants. Other highlights are included in the attached report, page i.

Interest Rate Swaps – At June 30, 2013 NCPA had \$86.7 million of outstanding interest rate swaps, all related to the Hydroelectric Project bonds. The fair value of these interest rate swaps on the same date was a negative \$15.1 million. This amount has decreased from the June 30, 2012 fair value which was a negative \$18.1 million. Details of the swap agreements are provided in the attached report. No new swaps or defaults have occurred in the last six months. Interest rate swaps now make up only 20% of the outstanding Hydroelectric Project debt portfolio.

Counterparties – Subsequent to the July 9, 2008 termination of most of the swaps in the portfolio, only two swaps and one counterparty remain. Citibank's credit rating was upgraded by Moody's to A2 from the previous rating of A3. They remain highly rated and no collateral calls were required under the swap terms.

Fiscal Impact/Projected Savings – Total projected savings over the life of the related bonds (23 years) was \$13.9 million at the inception of these agreements. Total savings projected to occur through December 31, 2013 was \$3,001,998 with actual results at \$4,818,303. The difference between expected savings and actual savings is due to "basis risk", or the difference between what NCPA pays for underlying variable rate bonds and the index rate used in the swap transaction. Negative results in prior reports were directly attributable to the meltdown in the variable rate bond market in 2008. For a short period of time in December 2007 and January 2008, NCPA had "bank bonds" which are variable rate bonds that are not able to be remarketed. These bonds bore interest rates at 12% for the short time they were not

remarketed, diluting the actual savings expected from these swap transactions by almost \$200,000. On a positive note, the market stabilized in early 2009 and the swaps accrued positive basis differential until approximately May 2011. A downgrade by the rating agencies of the liquidity provider for our variable rate program, Dexia, increased the weekly reset rates from approximately 30 basis points, to a high of 300 basis points. In September 2011, Citibank NA replaced Dexia as the liquidity provider. From May to September, the Agency again experienced negative basis on these swap transactions. After replacement of Dexia, the rates again improved greatly and at the current time and on a cumulative basis savings from the swap transactions have exceeded expected savings by over \$1.8 million. Staff continues to monitor the potential for refinancing these bonds and terminating the swaps, however, with current low treasury rates causing a large mark to market payment due to Citibank of over \$15 million, refunding is not feasible at this time.

#### Environmental Analysis

This activity would not result in a direct or reasonably foreseeable indirect change in the physical environment and is therefore not a "project" for purposes of Section 21065 the California Environmental Quality Act. No environmental review is necessary.

#### Committee Review

This report was reviewed by the Finance Committee on February 19, 2014 and with [REDACTED] members present it was their unanimous recommendation to accept this report as filed.

#### Recommendation

NCPA staff and the Finance Committee recommend that the Commission accept and file the December 31, 2013 Debt and Interest Rate Management Report.

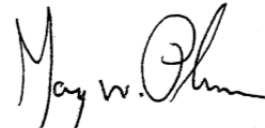
Respectfully submitted,

Prepared by:

Concurs with,

JAMES H. POPE  
General Manager

DONNA STEVENER  
Assistant General Manager  
Administration Services/Finance



GARY W. PLASS  
Chair, Finance Committee

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Attachments: December 31, 2013 Debt and Interest Rate Management Report



**Debt and Interest Rate Management Report**  
**As of December 31, 2013**

December 31, 2013

## Highlights

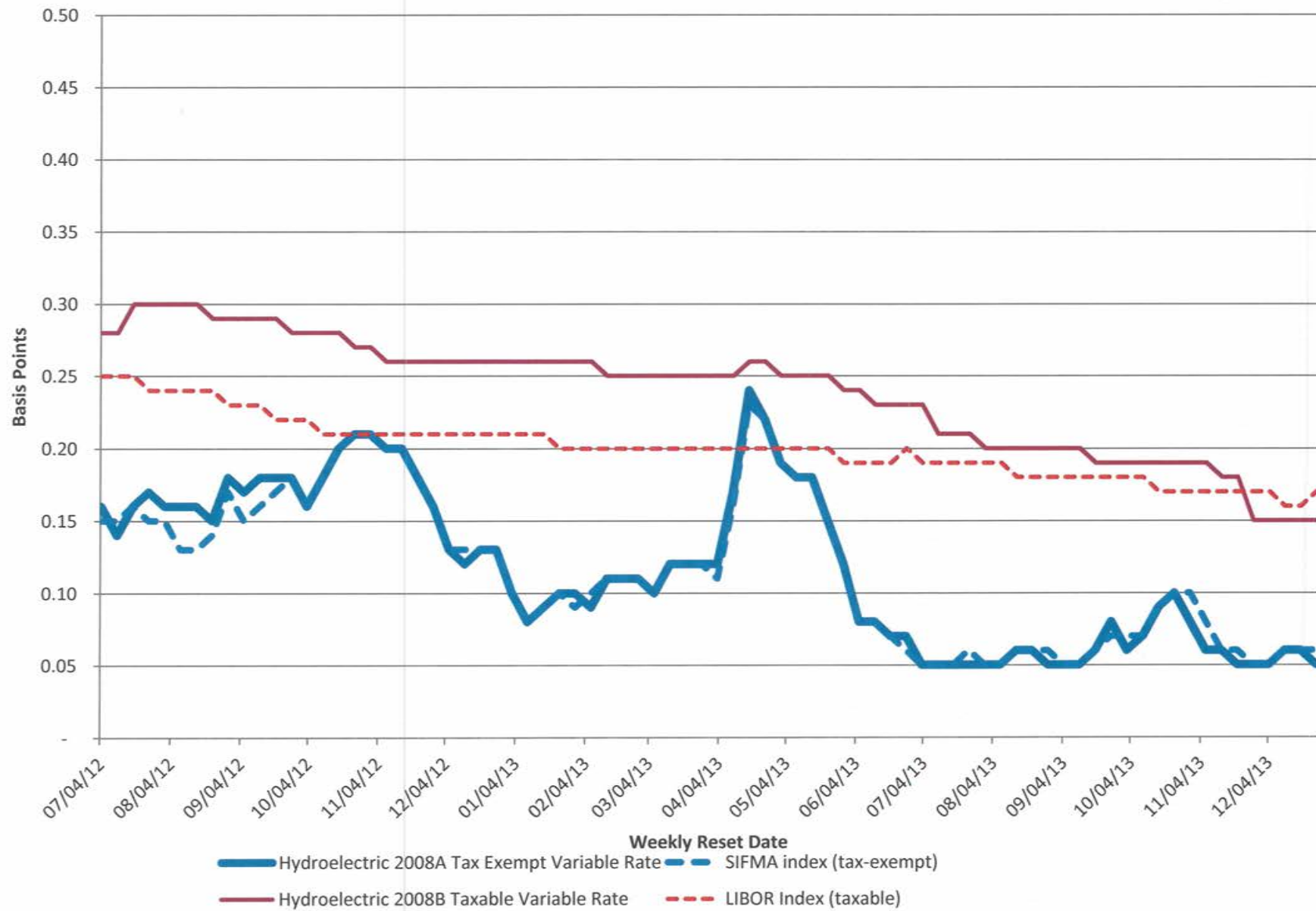
- No new debt or or any new swap agreements were entered into during the last six months and no new issues are planned.
- No fixed or variable rate debt or interest rate swaps were refinanced or terminated in the last six months.
- No material changes to any fixed rate debt, variable rate debt or outstanding swap agreements occurred during the last six months.
- The last six months included a reduction in the amount of reimbursement received from the Federal government for Build America Bond (BAB) subsidies related to the Lodi Energy Center BAB issues. Total reduction was 7.2% or \$240,887 due to sequestration of federal budget dollars.
- Notices were filed with the bond reporting depository (EMMA) related to the upgrade of NCPA ratings by Moody's described below , as well as required annual continuing disclosure documents by NCPA and the major project participants
- In mid December 2013, Moody's Investors Service reviewed NCPA's project ratings with the following updates:
  - Capital Facilities Project (STIG) bonds upgraded from A3 stable to A2 stable
  - Hydroelectric Project bonds upgraded from A2 stable to A1 stable
  - Geothermal Project bonds affirmed at A1 stable
  - Lodi Energy Center B (CDWR) bonds affirmed at Aa2 stable
  - Lodi Energy Center A bonds upgraded from A3 stable to A2 stable
  -
- Fees paid to Citigroup for remarketing the Variable Rate bonds and for credit support remain the same.
- Citigroup, our swap counterparty, received an upgrade from A3 to A2 by Moody's; no collateral posting was required by any counterparty during the last six months.
- No defaults under any swap agreements have occurred during the last six months.
- Fair value on remaining outstanding swaps improved from a negative value of \$18.1 million on June 30, 2013 to a negative \$15.1 million on December 31, 2013.
- Interest rate swaps continue to perform better than expected and variable rates remain very low and in line with the market.
- Upcoming events:
  - Renewal of letter of credit for Hydroelectric VRDO program is due on 9/27/2014

**Northern California Power Agency  
Hydroelectric Project VRDO Bonds and Related SWAPs**



	Hydro 2008A	Hydro 2008B
Variable Rate Debt		
Amount	\$85,160,000	\$1,574,000
Priced	Weekly	Weekly
Payment	Monthly	Monthly
SWAP Counter-party:	Citigroup	Citigroup
Payments	2 components Fixed @ 3.819%	2 components Fixed @ 5.291%
Counterparty	Floating rate (based on 54% of monthly Libor+.54%)	Floating rate (based on monthly Libor)
Payment terms:		
Counterparty	Semi-Annual (net) Semi-Annual (net)	Semi-Annual (net) Semi-Annual (net)
Liquidity/Letter of Credit Provider *	Citibank N.A.	Citibank N.A.
Annual Fee	50.0 bp	50.0 bp
Expiration Date	9/27/2014	9/27/2014
Credit Ratings	A3/A/A	A3/A/A
Bond Insurer	None, Option with MBIA	None, Option with MBIA
Credit Ratings	N/A	N/A
* Effective 9/27/12 Dexia Credit Local was replaced as the LOC provider with Citibank N.A.		

## NCPA Variable Rate Debt Performance Versus Indices





# Northern California Power Agency Hydroelectric Project Swaps Performance to Date



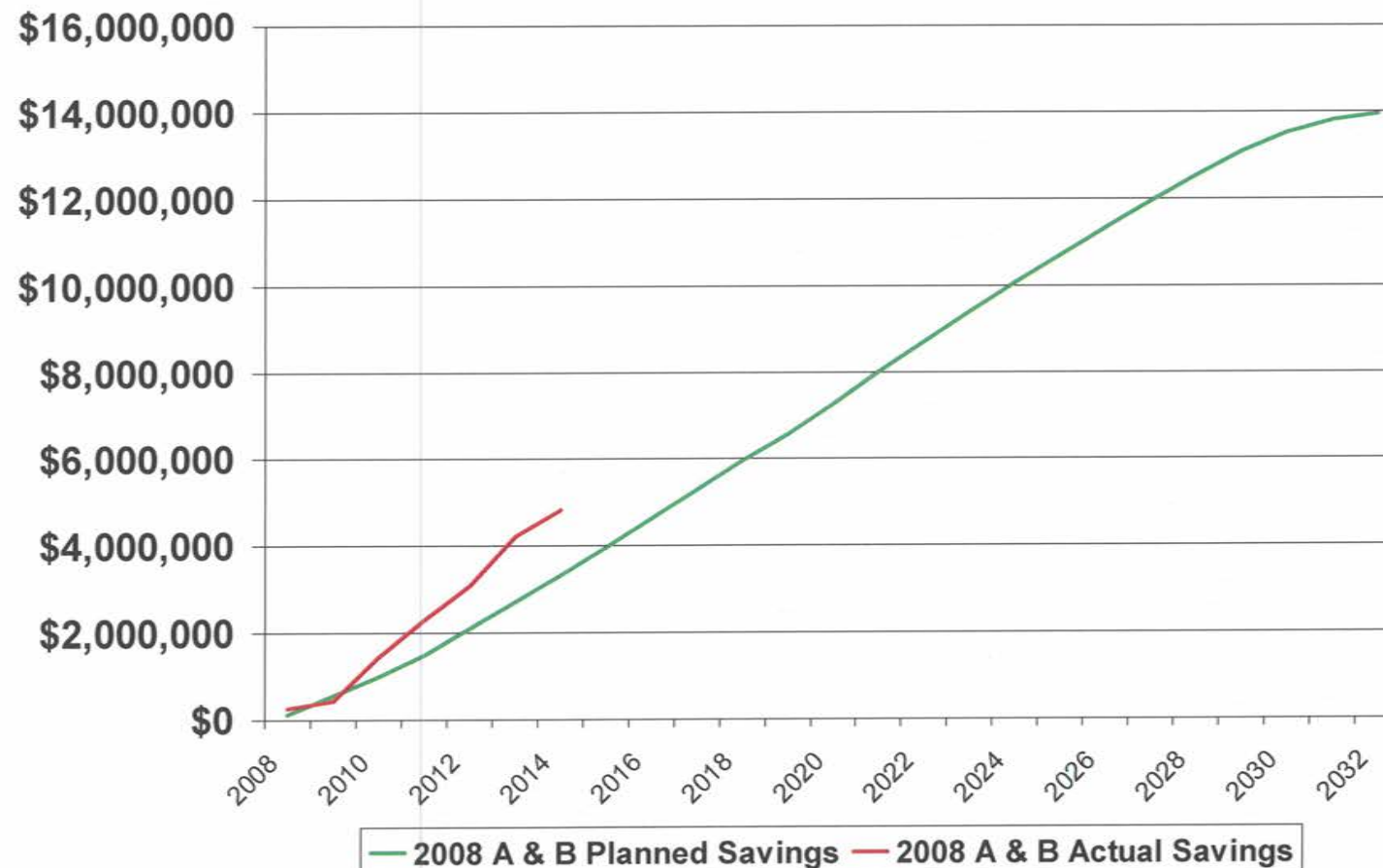
December 31, 2013

Total Projected Savings over life of bonds: \$13.9 million

Total Projected Savings to date: \$3,002,000

Actual Savings to date: \$4,818,000

Basis risk incurred (63 months) positive \$1,816,000





**Northern California Power Agency**  
Valuation Report as of 12/31/2013

Transaction Type	Project	Associated Bonds	NCPA Pays	NCPA Receives	Trade Date	Effective Date	Maturity Date	Remaining Life	Initial Notional	Bank Counterparty	Moody's	S&P	Fitch	Weighted Avg Life	Fair Value @ 12/31/2013	Impact on Value of 50 bp swing
Swap	Hydro	Series 2008A	3.8190%	54% of USD-LIBOR + .54%	11/24/2004	11/24/2004	7/1/2032	18.5	\$85,160,000	Citibank, N.A., New York	A2	A	A	15.39	(\$15,379,887)	\$3,163,000
Swap	Hydro	Series 2008B	USD-LIBOR	5.2910%	11/24/2004	11/24/2004	7/1/2032	18.5	\$1,574,000	Citibank, N.A., New York	A2	A	A	9.28	\$275,783	(\$56,200)
Total all swaps									\$86,734,000						(\$15,104,104)	\$3,106,800

**Highlights:**

- No material changes to any outstanding swap agreements or any new swap agreements were entered into during the last six months
- Counterparty was upgraded by Moody's to A2 from A3; no collateral posting by any counterparty has been required and they remain highly rated
- No defaults under the above swap agreements have occurred
- No planned swap transactions at this time
- Fair value on remaining outstanding swaps changed from a negative value of \$18.1 million on June 30, 2013 to a negative value of \$15.1 million on December 31, 2013.

The valuations of derivatives transactions provided by PFM are indicative values based on mid-market levels as of the close of business on the date they are provided. These valuations are provided for information purposes only and are intended solely for internal use. These valuations do not represent the actual terms at which new transactions could be entered into or the actual terms at which existing transactions could be liquidated. The valuations provided are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Valuations based on other models or different assumptions may yield different results. PFM believes its valuation methodology to be consistent with accepted practice in the market for interest rate swaps. Additional information is available on request. Information herein is believed to be reliable, but PFM does not warrant its completeness or accuracy. PFM does not hold a position or act as a market maker in the financial instruments of any issuer discussed herein.

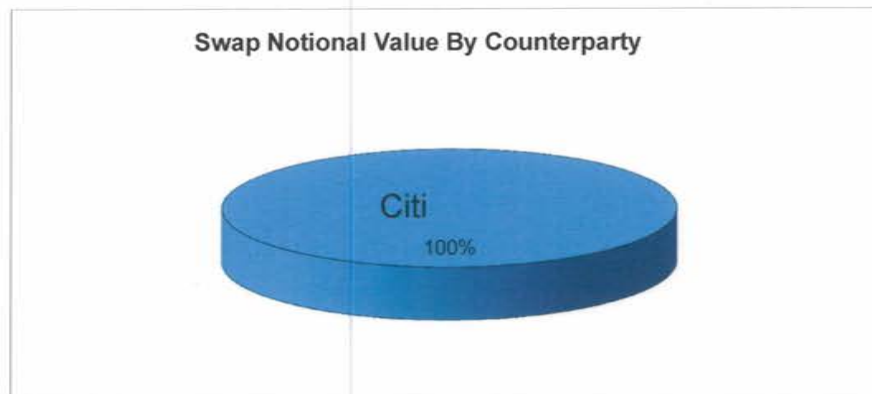


**Northern California Power Agency**  
Counterparty Report as of 12/31/2013

Transaction Type	Project	Associated Bonds	Initial Notional	Bank Counterparty	Last ratings as of 6/30/13			Current ratings as of 12/31/2013		
					Moody's	S&P	Fitch	Moody's	S&P	Fitch
Swap	Hydro	Series 2008A	\$85,160,000	Citibank, N.A., New York	A3	A	A	A2 ↑	A	A
Swap	Hydro	Series 2008B	\$1,574,000	Citibank, N.A., New York	A3	A	A	A2 ↑	A	A
			<u>\$86,734,000</u>							
			<u>\$86,734,000</u>							

Upgrade by Moody's

Due to termination of all other swaps on 7/9/08, Citibank is now the only swap provider with which NCPA has outstanding transactions.



Northern California Power Agency  
Valuation Report as of 12/31/13  
By Participant



Fair Value at 12/31/2013															
Transaction Typ	Project	Associated Bond	Maturity Dat	Initial Notional	Bank Counterparty	Fair Value @ 12/31/13	Alameda 10.00%	Healdsburg 1.66%	Lodi 10.37%	Lompoc 2.30%	Palo Alto 22.92%	Plumas-Sierra 1.69%	Roseville 12.00%	Santa Clara 37.02%	Ukiah 2.04%
Swap	Hydro	Series 2008A	7/1/2032	\$85,160,000.00	Cmbank, N.A., New York	(\$15,379,886.70)	(\$1,537,989)	(\$255,306)	(\$1,594,894)	(\$353,737.39)	(\$3,525,070.03)	(\$259,920.09)	(\$1,845,586.40)	(\$5,693,634.06)	(\$313,749.69)
Swap	Hydro	Series 2008B	7/1/2032	\$1,574,000.00	Cmbank, N.A., New York	\$275,783.00	\$27,578	\$4,578	\$28,599	\$6,343.01	\$63,209.46	\$4,660.73	\$33,093.96	\$102,094.87	\$5,625.97
Total all swaps						(\$15,104,104)	(\$1,510,410)	(\$250,728)	(\$1,566,296)	(\$347,394)	(\$3,461,861)	(\$255,259)	(\$1,812,492)	(\$5,591,539)	(\$308,124)

Impact on Value of 50 BP Swing in swap rates

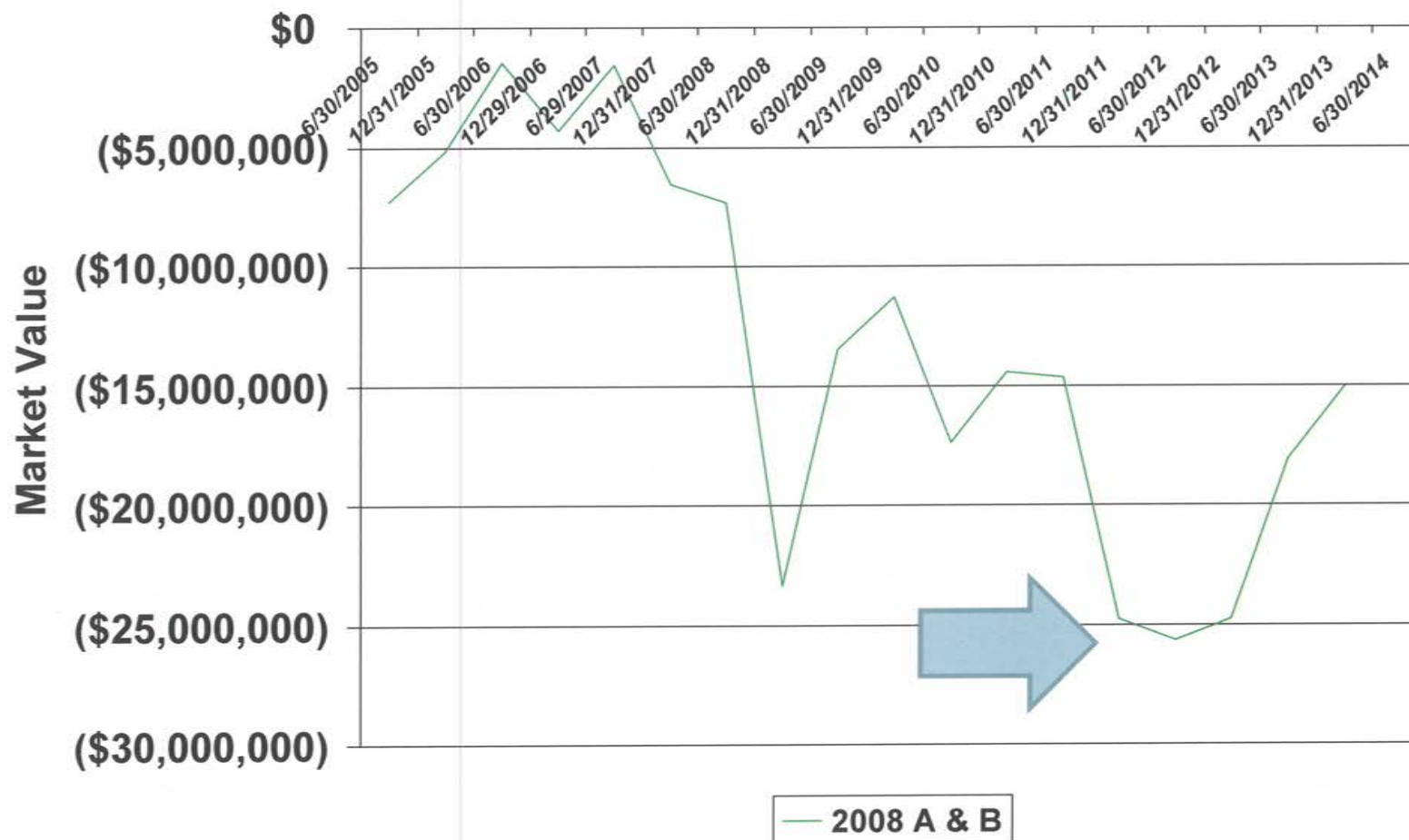
Transaction Typ	Project	Associated Bond	Maturity Dat	Initial Notional	Bank Counterparty	Impact on Value of 50 bp swing	Alameda 10.00%	Healdsburg 1.66%	Lodi 10.37%	Lompoc 2.30%	Palo Alto 22.92%	Plumas-Sierra 1.69%	Roseville 12.00%	Santa Clara 37.02%	Ukiah 2.04%
Swap	Hydro	Series 2008A	7/1/2032	\$85,160,000.00	Citibank, N.A., New York	\$3,163,000	\$316,300	\$52,506	\$328,003	\$72,749	\$724,960	\$53,455	\$379,560	\$1,170,943	\$64,525
Swap	Hydro	Series 2008B	7/1/2032	\$1,574,000.00	Citibank, N.A., New York	(\$56,200)	(\$5,620)	(\$933)	(\$5,828)	(\$1,292.60)	(\$12,881.04)	(\$949.78)	(\$6,744.00)	(\$20,805.24)	(\$1,146.48)
Total all swaps						\$3,106,800	\$310,680	\$51,573	\$322,175	\$71,456	\$712,079	\$52,505	\$372,816	\$1,150,137	\$63,379

# Northern California Power Agency

## Hydroelectric Project Swaps Value Trend



Extreme market volatility and low treasury rates have greatly impacted the mark to market value of the swaps over the last several years. While rates have increased over the last six months reducing the negative mark to market value, the mark to market value remains high and prevents refinancing of the swaps at this time.



**Northern California Power Agency**  
**Hydroelectric Project No. One 2008 A & B Variable Rate Debt Obligation**  
**Comparison of Actual vs Planned Interest Rate Swaps Savings (Cost)**  
**As of December 31, 2013**



		<b>Planned</b>		<b>Actual</b>	
		Savings (Cost)		Savings (Cost)	
		<b>Annual</b>	<b>Cumulative</b>	<b>Annual</b>	<b>Cumulative</b>
	FY2008	\$ 117,580	\$ 117,580	\$ 254,188	\$ 254,188
	FY2009	438,768	556,348	189,800	443,988
	FY2010	443,387	999,735	1,005,458	1,449,446
	FY2011	484,319	1,484,054	856,253	2,305,699
	FY2012	596,774	2,080,828	764,036	3,069,735
	FY2013	609,640	2,690,469	1,146,750	4,216,485
	FY2014 - Six Months ending 12/31/13	311,530	3,001,998	601,818	4,818,303
	Cumulative through 12/31/13	<b>3,001,998</b>		<b>4,818,303</b>	
	FY2014 - Six Months ending 6/30/13	311,530	3,313,528		
	FY2015	637,299	3,950,827		
	FY2016	652,361	4,603,187		
	FY2017	668,244	5,271,431		
	FY2018	684,949	5,956,380		
	FY2019	605,117	6,561,497		
	FY2020	710,041	7,271,538		
	FY2021	710,434	7,981,972		
	FY2022	699,418	8,681,390		
	FY2023	686,782	9,368,172		
	FY2024	671,372	10,039,544		
	FY2025	651,414	10,690,959		
	FY2026	630,888	11,321,846		
	FY2027	607,900	11,929,746		
	FY2028	582,392	12,512,138		
	FY2029	554,257	13,066,395		
	FY2030	432,154	13,498,548		
	FY2031	298,202	13,796,750		
	FY2032	150,869	13,947,620		
	<b>Total</b>	<b>\$ 13,947,620</b>		<b>\$ 4,818,303</b>	
	Cumulative Additional Savings through 12/31/13		1,816,305		
	<b>Projected Savings</b>	<b>\$ 15,763,925</b>			
			113.02%		
			Revised Savings		