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Commission Staff Report

AGENDA ITEM NO.: _____

Date: February 25, 2016
To: NCPA Commission
Subject: December 31, 2015 Debt & Interest Rate Management Report

Background

In accordance with the "Debt and Interest Rate Management Policy" approved by the Commission in May 2015, 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. 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 6.8% or \$227,505 for the December 1, 2015 debt service payments. This amount was billed to the LEC participants. Other highlights are included in the attached report, page i.

Interest Rate Swaps – As of December 31, 2015, 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 \$21.0 million. This amount has changed from the June 30, 2015 fair value, which was a negative \$19.5 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 approximately 24% 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. Citi's (swap counterparty) credit ratings were upgraded by Fitch from A to A+. They remain highly rated with all other rating agencies 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, 2015 was \$4,277,007 with actual results at \$7,398,206. 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. Prior to the replacement, 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 \$3.1 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 Citigroup of over \$21.0 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 10, 2016 and with _____ 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, 2015 Debt and Interest Rate Management Report.

Respectfully submitted,

Prepared by:

Concurs with,

RANDY S. HOWARD
General Manager

DONNA STEVENER
Assistant General Manager/CFO
Administration Services/Finance

GARY W. PLASS
Chair, Finance Committee

Attachments: December 31, 2015 Debt and Interest Rate Management Report



Debt and Interest Rate Management Report
As of December 31, 2015

December 31, 2015

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 for the December 1, 2015 debt service payment was 6.8% or \$227,505 due to sequestration of federal budget dollars.
- Notices were filed with the bond reporting depository (EMMA) as required for annual filing of continuing disclosure documents by NCPA
- No changes in bond ratings occurred during the last six months. Moody's affirmed current ratings for all the projects.
- Fees paid to Citi for remarketing the Variable Rate bonds remained the same. Fees paid to the provider of the letter of credit support (Bank of Montreal) remained the same.
- Citigroup, our swap counterparty was granted an upgrade in credit rating to A+ by Fitch Ratings during the last six months; 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 changed from a negative value of \$19.5 million on June 30, 2015 to a negative \$21.0 million on December 31, 2015.
- Interest rate swaps continue to perform better than expected and variable rates remain very low and in line with the market. As expected, in December the Fed ended the "zero" rate era and raised rates for the first time in almost a decade. The impact to date is a flattening of the yield curve as short term rates increased and long-term rates fell due to global economics. Short-term taxable rates increased to their highest level since 2009 due to the 25 basis point (bps) Fed rate hike. NCPA short-term tax-exempt debt stayed the same at 1 bp, while the variable taxable debt increased from around 20 bps to 42 bps. Further gradual increases are expected in 2016.
- Upcoming events:

Nothing to report

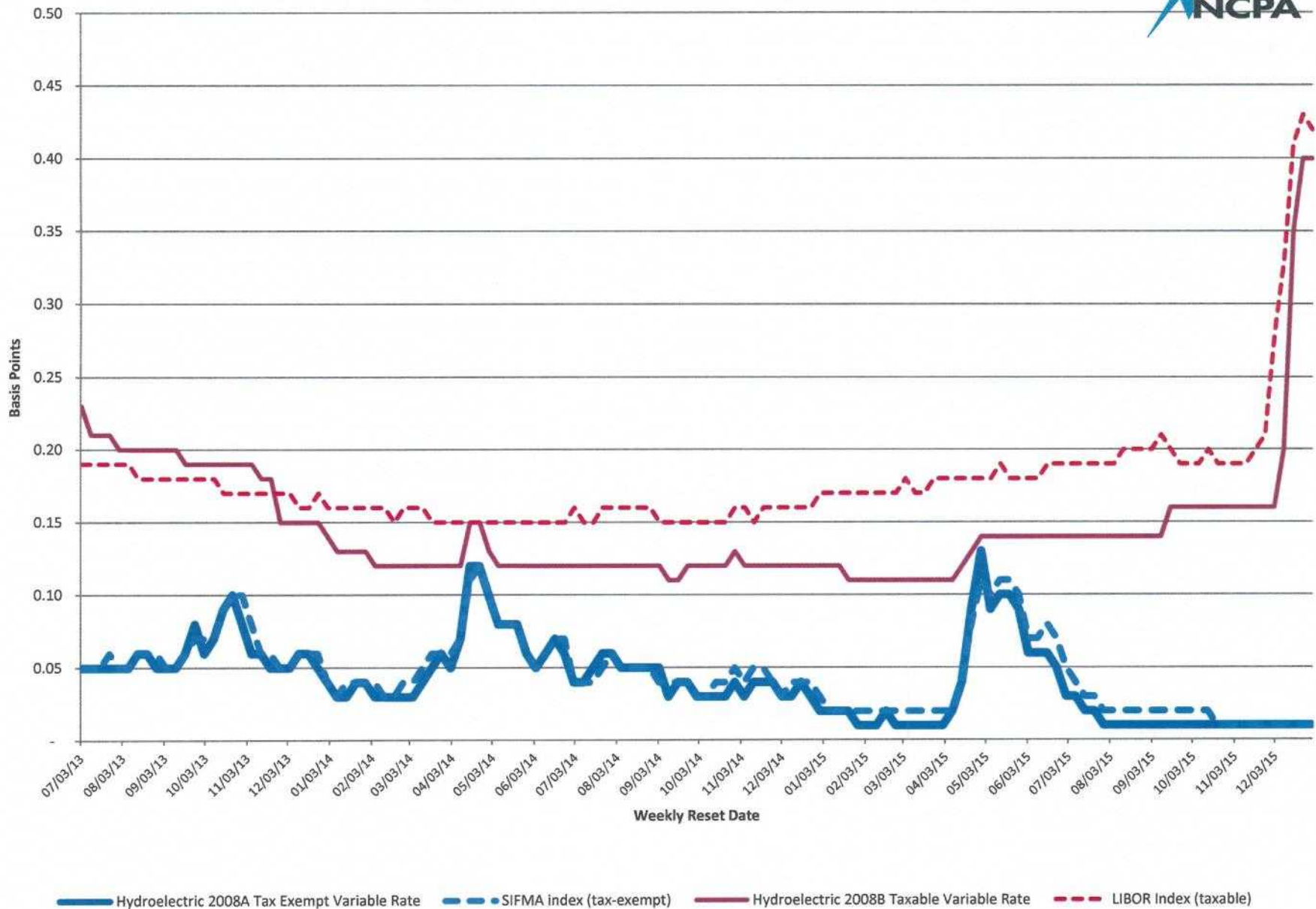
Northern California Power Agency
Hydroelectric Project VRDO Bonds and Related Interest Rate Swaps



		Hydro 2008A	Hydro 2008B
Variable Rate Debt	Amount	\$85,160,000	\$1,574,000
	Priced Payment	Weekly Monthly	Weekly Monthly
Swap Counter-party:		Citigroup	Citigroup
Payments	NCPA	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:	NCPA	Semi-Annual (net)	Semi-Annual (net)
	Counterparty	Semi-Annual (net)	Semi-Annual (net)
Liquidity/Letter of Credit Provider ¹		Bank of Montreal	Bank of Montreal
	Annual Fee	39.0 bp	39.0 bp
	Expiration Date	9/9/2019	9/9/2019
	Credit Ratings	Aa3/A+/AA-	Aa3/A+/AA-
Bond Insurer		None, Option with MBIA	None, Option with MBIA
	Credit Ratings	N/A	N/A

¹ Effective 9/10/14 Citibank N.A. was replaced as the LOC provider with Bank of Montreal.

NCPA Variable Rate Debt Performance Versus Indices



Northern California Power Agency Hydroelectric Project Swaps Performance to Date



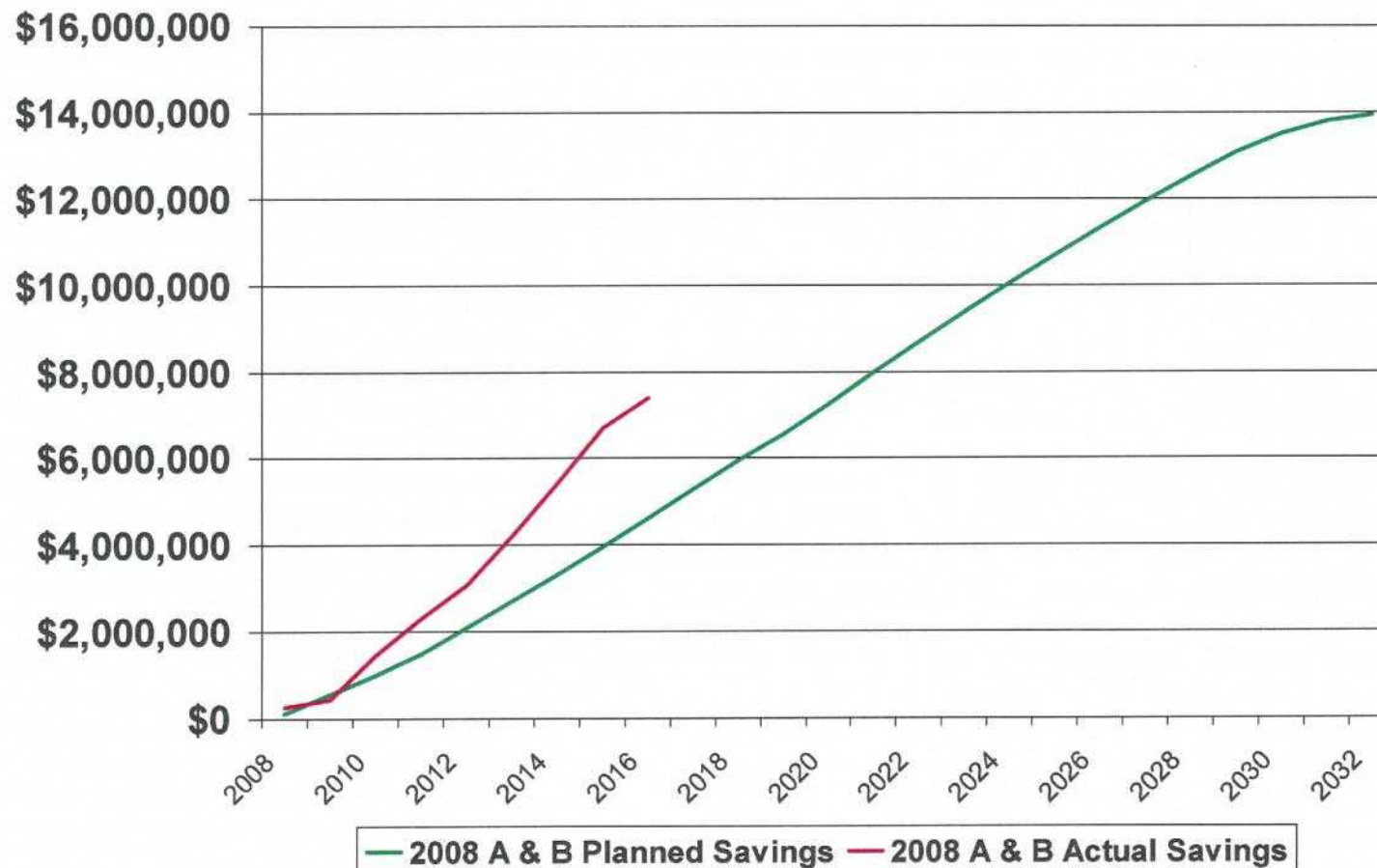
December 31, 2015

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

Total Projected Savings to date: \$4,277,000

Actual Savings to date: \$7,398,000

Basis risk incurred (93 months) positive \$3,121,000





Northern California Power Agency
Valuation Report as of 12/31/2015

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 @ 12/31/2015	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	16.5	\$85,160,000	Citibank, N.A., New York	A1	A	A+↑	13.40	(\$21,284,634)	\$3,184,503
Swap	Hydro	Series 2008B	USD-LIBOR	5.2910%	11/24/2004	11/24/2004	7/1/2032	16.5	\$1,574,000	Citibank, N.A., New York	A1	A	A+↑	8.00	\$316,312	(\$48,119)
Total all swaps									\$86,734,000						(\$20,968,322)	\$3,136,384

Highlights:

- No material changes to any outstanding swap agreements or any new swap agreements were entered into during the last six months
- Counterparty ratings were upgraded by Fitch Ratings to A+; 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 \$19.5 million on June 30, 2015 to a negative value of \$21.3 million on December 31, 2015.

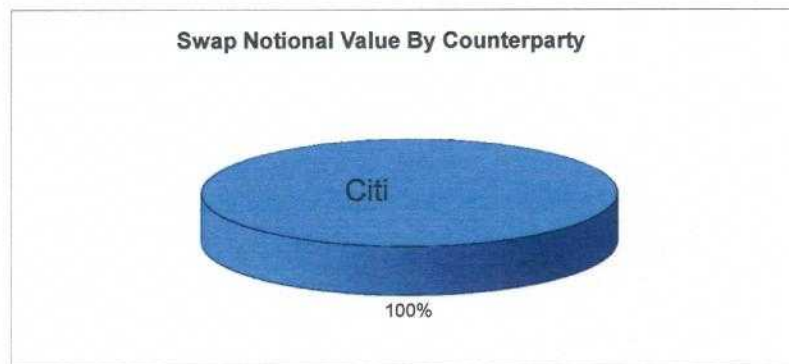
The valuations of derivatives transactions provided by PFM are indicative values based on mid-market levels as of the close of business on the date they are provided. These valuations are provided for information purposes only and are intended solely for internal use. These valuations do not represent 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 12/31/2015

Transaction Type	Project	Associated Bonds	Initial Notional	Bank Counterparty	Last ratings as of 12/31/2014			Current ratings as of 12/31/2015		
					Moody's	S&P	Fitch	Moody's	S&P	Fitch
Swap	Hydro	Series 2008A	\$85,160,000	Citibank, N.A., New York	A2	A	A	A1	A	A+ ↑
Swap	Hydro	Series 2008B	\$1,574,000	Citibank, N.A., New York	A2	A	A	A1	A	A+ ↑
			<u>\$86,734,000</u>							
			<u>\$86,734,000</u>							

Fitch upgraded Citibank rating from A to A+

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
By Participant

12/31/2015



Fair Value at 12/31/2015															
Transaction Type	Project	Associated Bonds	Maturity Date	Initial Notional	Bank Counterparty	Fair Value @ 12/31/15	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	(\$21,284,634.00)	(\$2,128,463)	(\$353,325)	(\$2,207,217)	(\$489,546.58)	(\$4,878,438.11)	(\$359,710.31)	(\$2,554,156.08)	(\$7,879,571.51)	(\$434,206.53)
Swap	Hydro	Series 2008B	7/1/2032	\$1,574,000.00	Citibank, N.A., New York	\$316,312.00	\$31,631	\$5,251	\$32,802	\$7,275.18	\$72,498.71	\$5,345.67	\$37,957.44	\$117,098.70	\$6,452.76
Total all swaps						(\$20,968,322)	(\$2,096,832)	(\$348,074)	(\$2,174,415)	(\$482,271)	(\$4,805,939)	(\$354,365)	(\$2,516,199)	(\$7,762,473)	(\$427,754)

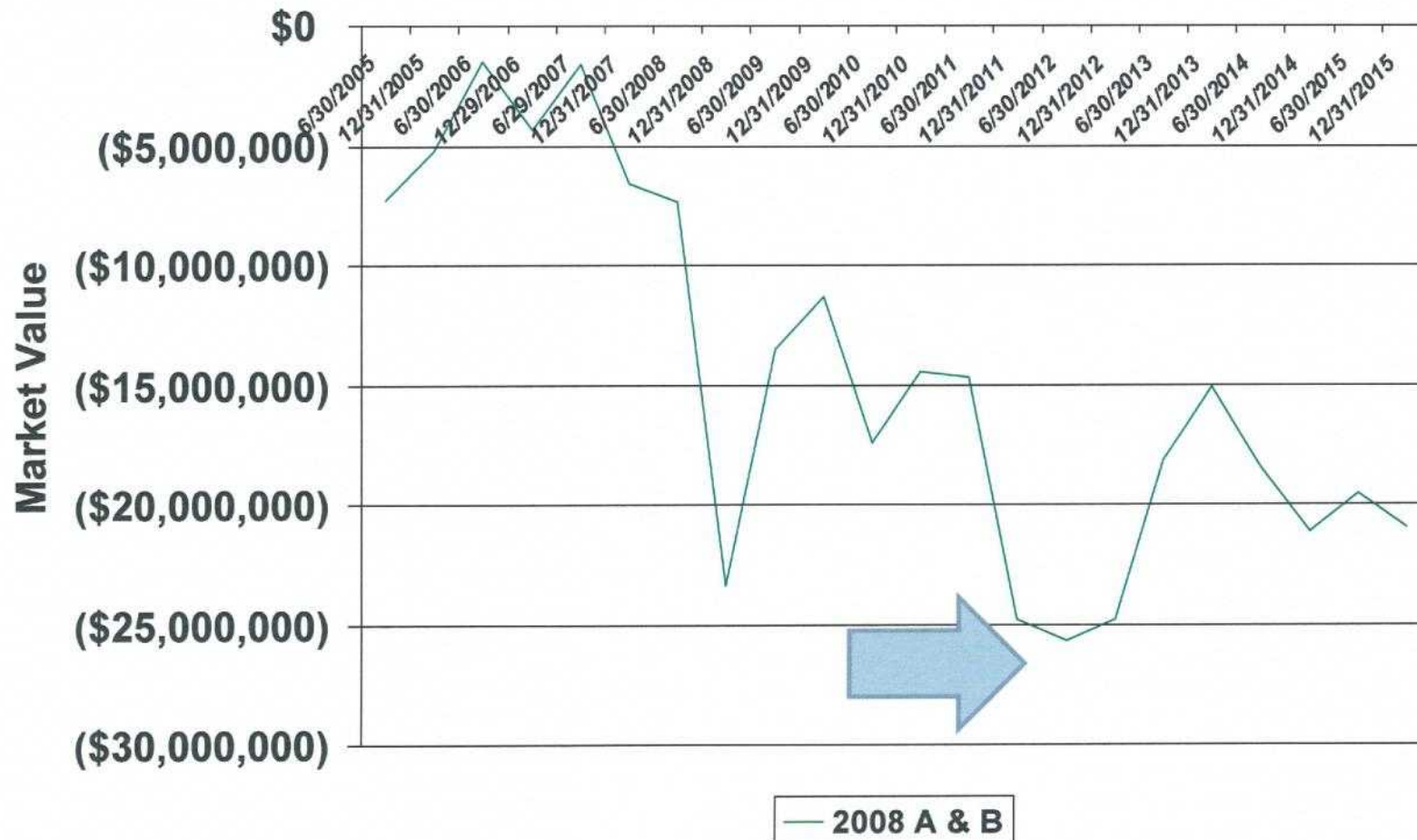
Impact on Value of 50 BP Swing in swap rates

Transaction Type	Project	Associated Bonds	Maturity Date	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	\$3,184,503	\$318,450	\$52,863	\$330,233	\$73,244	\$729,888	\$53,818	\$382,140	\$1,178,903	\$64,964
Swap	Hydro	Series 2008B	7/1/2032	\$1,574,000.00	Citibank, N.A., New York	(\$48,119)	(\$4,812)	(\$799)	(\$4,990)	(\$1,106.73)	(\$11,028.76)	(\$813.20)	(\$5,774.22)	(\$17,813.47)	(\$981.62)
Total all swaps						\$3,136,384	\$313,638	\$52,064	\$325,243	\$72,137	\$718,859	\$53,005	\$376,366	\$1,161,089	\$63,982

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. Rates have decreased slightly over the last six months increasing the negative mark to market value.



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, 2015



	Planned		Actual	
	Savings (Cost)		Savings (Cost)	
	Annual	Cumulative	Annual	Cumulative
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	849,010	2,298,456
FY2012	596,774	2,080,828	775,362	3,073,818
FY2013	609,640	2,690,469	1,146,750	4,220,568
FY2014	623,059	3,313,528	1,200,879	5,421,447
FY2015	637,299	3,950,827	1,297,694	6,719,140
FY2016 - Six Months Ending 12/31/15	326,180	4,277,007	679,065	7,398,206
Cumulative through 12/31/15	4,277,007		7,398,206	
FY2016 - Six Months Ending 6/30/16	326,180	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		
Total	\$ 13,947,620		\$ 7,398,206	
Cumulative Additional Savings through 12/31/15	3,121,199			
Projected Savings	\$ 17,068,818			
	122.38%			
		Revised Savings		