Northern California Power Agency

Energy Prepayment Discussion

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Prepayment Transaction Overview

- **Goal –** Reduce cost of power purchases by 5% to 8%
- **How –** Leverage use of tax-exempt bonding capacity to secure long-term supply

Background

- Codified in the U.S. tax law
- Used since the 1990s largely for natural gas transactions
- Over 100 transactions totaling over $70 billion completed in the U.S. – mostly for gas
- Ten energy prepayment transactions totaling $9.8 billion completed last few years for five California Community Choice Aggregators:
  - East Bay Community Energy
  - Silicon Valley Power
  - Marin Clean Energy
  - Pioneer Community Energy
  - Clean Power Alliance
  - Central Coast Community Energy

Prepayments That Have Been Completed by Public Utilities in California

Date	Amt. ($000)	Issuer	Description	Beneficiary
06/2006	230,845	Vernon Nat. Gas Fin Auth	Nat Gas	City of Vernon Elec
01/2007	209,350	Roseville Natural Gas Fin Auth	Nat. Gas	City of Roseville Elec
05/2007	757,055	Northern Ca Gas Auth No. 1	Nat. Gas	SMUD
09/2007	887,360	Long Beach Bond Fin Auth	Nat. Gas	City of Long Beach
10/2007	504,445	So. Ca. Pub. Power Auth	Nat. Gas	Multiple MOUs
10/2007	251,695	Long Beach Bond Fin. Auth	Nat. Gas	City of Long Beach
08/2009	901,620	M-S-R Energy Authority	Nat. Gas	MID/Redding/SVP
10/2009	514,160	So Ca Pub Power Auth (Windy Flats)	Elec (Wind)	LADWP, Mult. MOUs
04/2010	778,665	Cal. Statewide Comm Dev Auth	Nat. Gas	SMUD
2010/11	394,700	So Ca Pub Power Auth (Milford 1 & 2)	Elec (Wind)	LADWP, Mult. MOUs
12/2018	539,615	Northern Ca Energy Auth	Gas/Elec	SMUD
Total	**$5,969,510**			

Prepayments That Have Been Completed by CCAs in California

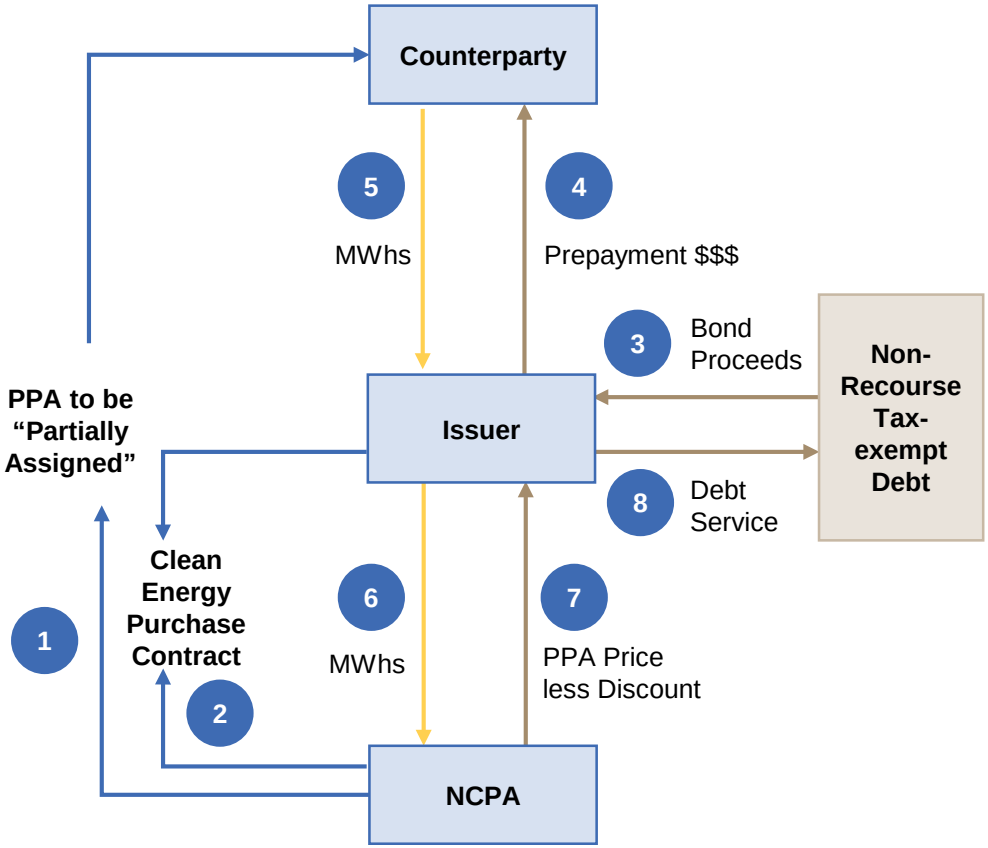
Date	Amt. ($000)	Issuer	Description	Beneficiary
09/2021	1,234,720	California Community Choice Fin Auth	Elec (Green)	SVCE, EBCE
11/2021	602,655	California Community Choice Fin Auth	Elec (Green)	MCE
06/2022	931,120	California Community Choice Fin Auth	Elec (Green)	EBCE
12/2022	459,640	California Community Choice Fin Auth	Elec (Green)	Pioneer
01/2023	841,550	California Community Choice Fin Auth	Elec (Green)	SVCE
02/2023	998,780	California Community Choice Fin Auth	Elec (Green)	CPA
06/2023	958,290	California Community Choice Fin Auth	Elec (Green)	CPA
08/2023	997,895	California Community Choice Fin Auth	Elec (Green)	EBCE
10/2023	647,750	California Community Choice Fin Auth	Elec (Green)	CCCE
12/2023	1,038,285	California Community Choice Fin Auth	Elec (Green)	MCE
01/2024	1,101,625	California Community Choice Fin Auth	Elec (Green)	SVCE
Total	**$9,812,310**			

Entities Involved in an Energy Prepayment Transaction

- **Participants/NCPA** – Have an existing Power Purchase Agreement for clean energy.
- **Prepay Counterparty** – Typically a financial institution with a commodity presence or a financial institution partnered with a commodity market participant
- **Issuer** – Bond issuing entity formed for sole purpose of selling the prepayment bonds, typically a Joint Powers Authority (“JPA”).
- **Existing Power Supply Counterparty –** Agrees to partial assignment of the existing PPA
- **Bond Investors** – Purchase the non-recourse prepayment bonds

Summary of Energy Prepayment Structure Mechanics

1) NCPA partially assigns PPA to Counterparty
2) NCPA and Issuer execute a Clean Energy Purchase Contract
3) The Issuer issues non-recourse tax-exempt bonds
4) The Issuer makes a prepayment to the Counterparty for power supply
5) The Counterparty delivers power to Issuer via a Master Power Supply Agreement
6) Issuer delivers power to NCPA
7) NCPA makes payments to the Issuer net of savings
8) Issuer makes debt payments with payments from NCPA



How are the Savings Generated?

- The Counterparty values prepayment as an alternate source of capital funding at its higher cost of capital ~ 5%
- PPA fixed price cash flows of ~$45MM annually over the life of the deal are discounted at that 5% rate to establish the upfront prepayment amount
- JPA issues tax-exempt bonds to pay the upfront prepayment at a lower interest cost ~ 4.25% versus the counterparty's funding rate of ~5%
- JPA bond payments ~$40MM annually are lower than the existing ~$45MM PPA payments
- ~$5MM in cashflow savings are generated
- Savings are quoted net of all upfront and annual transaction expenses

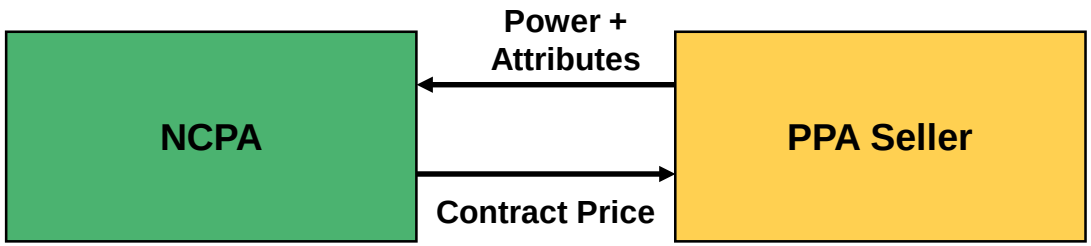
Numbers are for illustration purposes only.

How Does Partial Assignment of a Power Purchase Agreement Work?

- NCPA will partially assign certain rights and obligations, including the title and ownership of the energy, under the existing PPA to its Prepay Counterparty
- Rights not assigned remain with NCPA. No other changes are made to the existing PPA
- Existing PPA Counterparty would then deliver energy to the Prepay Counterparty who has assumed responsibilities as energy purchaser under the PPA
- Prepay Counterparty will then sell that energy to Issuer. Issuer has a separate agreement with NCPA to sell that energy to NCPA – **at an 5% to 8% discount**
- NCPA will need to negotiate the partial assignment with its Existing PPA Counterparty
  - This will take place via a Limited Assignment Agreement

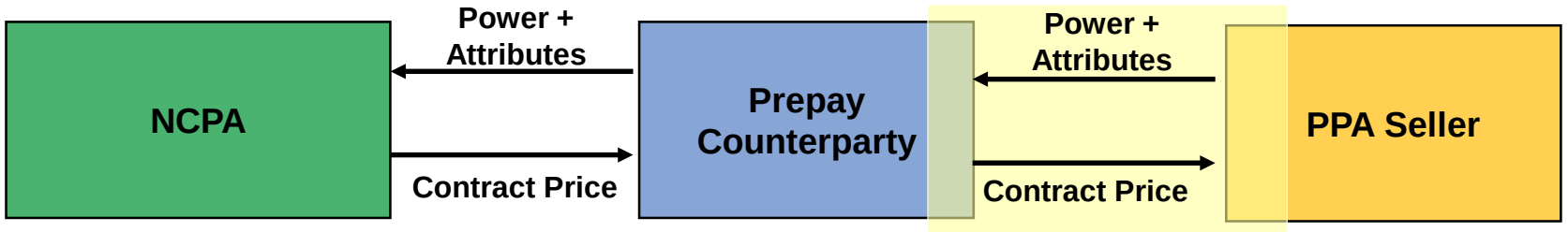
PPA Assignment Overview

Current Structure



- NCPA enters into a PPA with PPA Seller
- The PPA Seller delivers as-generated power/attributes
- NCPA pays monthly for as-generated (or fixed volume) power and attributes

Post-Assignment Structure



In event of Intermediary Bank failing to perform, NCPA guarantees payment

- Instead of facing NCPA, the PPA Seller faces an Prepay Counterparty (structure remains the same)
- If Prepay Counterparty fails to pay, NCPA guarantees payment

- Under certain scenarios, assignment can be terminated, and PPA Seller goes back to facing NCPA

- The existing Scheduling Coordinator will remain the Scheduling Coordinator; the only change is that Intermediary Bank is copied on bills

Favorable Risk Allocation – "Take-and-Pay" Structure

Key Risk – Transaction terminates and NCPA no longer receives expected savings

Risk	Mitigation
Supplier default on energy delivery	NCPA only pays for energy if/when Supplier delivers the energy Supplier/Guarantor assumes debt obligations in the event of Supplier default
NCPA receives too much energy and is unable to have Qualified Use and/or has to meet new renewable mandates in the future	Supplier/Guarantor will remarket the energy to qualified entities to ensure NCPA compliance with Qualified Use
Debt obligation could obligate NCPA over long-term Rating agency treatment of prepay debt	Debt is non-recourse to NCPA, and NCPA's obligation is take and pay. Rating agencies do not count prepay transactions as debt or fixed costs of NCPA
Investment GIC provider counterparty fails to perform	Documents allow for replacement of GIC provider; Supplier is likely GIC provider (thus no additional risk)

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