



Staff Report Item 6

TO: East Bay Community Energy Board of Directors

FROM: Bruce Jensen, Alameda County Community Development Agency

SUBJECT: Approval of EBCE Budget for Program Launch

DATE: March 1, 2017

Recommendations

- 1) Review and approve budget allocations for EBCE's pre-launch budget.

Direct County finance staff to establish an 'EBCE Fund' within the County Treasury, and develop a EBCE chart of accounts to track external/hard costs (per the implementation budget) and internal/staff and soft costs incurred by County and City staff working on behalf of EBCE.

Authorize CDA staff to forward billings to County finance staff as authorized officials to approve payments and costs until a CEO is hired; and

- 2) Direct staff to develop and issue an RFP for EBCE Banking and Credit Services

Analysis and Discussion

A. Program Implementation Budget/Allocation of City and County Contributions

In June of 2014, the Alameda County Board of Supervisors approved the Phase 1 funding of developing a Community Choice Energy program. That funding totaled \$1.325 million, which was followed up by a second tranche of \$2.41 million for a total of \$3.735 million. This amount includes the funding for the local development business plan (LDBP). As of late January, about \$560,000 had been spent, meaning that about \$3,193,000 remains available.

As the implementation budget in Attachment A below indicates, CDA staff and the consultants estimate a total cost of \$2.4 million to get through the launch period and enrollment of Phase One customers, and thus there would appear to be more than enough resources available to launch. However, these expenses cover only the identified external/hard costs associated with the next stages of EBCE start up. They do not cover internal staff time or other soft costs incurred by the County on behalf of EBCE nor the pre-launch expenses associated with power procurement, related security deposits, and any additional costs for customer noticing. These

Spending to Date

Category	Cost
MRW technical study and peer review	\$210,105
Sequoia Foundation	\$283,045
MIG (website, brochure)	\$24,725
Other (load data, honorarium, audio, mtgs)	\$41,016
Total	\$558,891

costs can be covered by a line of credit to be provided by a third-party lender as discussed below. This budget was also prepared based on the assumption of a Fall 2017 launch. Assuming the launch takes place in early 2018, these numbers would be adjusted upward to take into account six additional months of spending on, for example, initial EBCE staffing costs.

The EBCE Board is asked to approve the implementation budget, which will be integrated into the County's chart of accounts. Integration into the County's chart of accounts will allow both revenues and expenses to be tracked throughout the start-up period, and budget reports will be generated and shared with the Board at regular intervals.

B. Fiscal Management Services Provided by the County

Staff will be recommending approval of a Cooperation Agreement between Alameda County and EBCE, whereby the County will be reimbursed for the costs associated with providing, among other services, County finance staff to assist with the fiscal management services until such time the EBCE Board authorizes its Executive Officer, or other EBCE finance staff to assume financial management responsibilities for the Agency. These services include the following:

- 1) Establish a EBCE Fund and chart of accounts within the County accounting system and coordinate with interim EBCE staff for the transfer funds as necessary;
- 2) Cut warrants and pay authorized invoices
- 3) Track expenses and produce monthly financial statements for Board review
- 4) Assist with development of initial pro forma and longer-term Agency operating budgets (to be approved in June for FY 2017-2018)
- 5) Assist with development of Banking and Credit Services RFP and credit negotiations
- 6) Assist with requirements for an anticipated credit guarantee to be provided by member jurisdictions (described below)
- 7) Assist in supporting an independent audit when time appropriate

Staff is seeking Board direction for County finance staff, working in conjunction with CDA staff, to have authority to authorize EBCE expenditures and payments as per approved contracts until permanent staff are hired.

Planning for Agency Financing

Financing for new, multi-jurisdictional CCE programs generally falls into three capital categories:

- 1) Start-Up Capital – Provided by Alameda County for planning and implementation
- 2) Initial Line of Credit – For power contract(s) and early operations
- 3) Working Capital/Term Debt – for longer term operations, power projects, etc.

Start-Up Capital: As noted above, \$3,735,000 in start-up capital for EBCE planning and implementation expenses has been provided by the County of Alameda as a loan to EBCE until such time that EBCE is operational and the loan can be repaid. This number does not include costs for staff time, and estimates for this will be forthcoming.

Line of Credit/Credit Guarantee: Once the Agency is formed and moving toward operations, it will need to establish an independent, long-term banking and credit relationship to move from initial start-up into full operations. A line of credit obtained from a third-party lender will cover pre-revenue, negative cash flow in the early stages of program launch and operations and, importantly, provides the capital necessary to sign contracts in the wholesale power market. EBCE cannot launch and begin serving customers until those contracts are signed and executed.

The amount of early working capital that is needed will be dependent on EBCE's early staffing and Agency expenses, and the size and cost of the initial energy contract(s). Lines of credit can range from a low of \$3M to a high of \$10M or more depending on the program size at initial launch. The amount of credit required by EBCE will be clarified once the pro-forma operating budget is updated with new market pricing and revenue assumptions.

The agency line of credit is usually established approximately 4- 6 months prior to program launch, is short-term (e.g., a 1-2 year line of credit), and will require a credit guarantee to cover some portion of the loan. An important question to be answered is which jurisdiction(s) will provide that guarantee. While most CCE programs have launched with only a guarantee by the County (eg: San Mateo), Silicon Valley Clean Energy's guarantee was provided by several cities and the County together. If EBCE were to take this route, the Board will need to discuss in the near future which cities might join the County in providing a share of the guarantee requirement. This guarantee would come in the form of cash collateral or letter of credit, and this authorization will likely include a requirement for approval from a jurisdiction's governing body to authorize the credit guarantee. It is anticipated that this credit backing, analogous to a co-sign on a mortgage loan, would remain in place until revenues commence and the Agency is operationally stable, approximately 12 months post launch.

Working Capital/Term Debt: Once the program is revenue-positive, fully independent, and operationally mature, EBCE will want to consider longer-term debt, lines of credit and perhaps bond financing to support an expanded portfolio of energy contracts, local energy programs, and local power development.

Typically, this type of longer-term debt is used to refinance early working capital and, because it is supported by Agency revenues, does not have a credit guaranty requirement. This type of debt is generally offered at a stable, fixed rate that can be repaid over time and may be accompanied by a separate line of credit to serve as backing for power contracts. Existing CCE programs have found it important to focus on building early program reserves in order to secure better credit terms and receive a credit rating which is required for bond financing.

Financing Next Steps: Once the operating pro-forma in the technical study is updated with new market pricing and revenue projections, Staff will finalize a Request for Proposals (RFP) for Banking and Credit Services. This approach has been used successfully by a few recent CCAs including Silicon Valley Clean Energy and Monterey Bay Community Power. From whatever date the RFP is sent out, Staff would

anticipate negotiating terms and selecting a banking partner within a few months of that date. As noted previously, established credit will be required in order to sign wholesale power contracts, the terms of which must be known in order to set rates.

During the time that EBCE is seeking its initial line of credit, it will also want to consider other banking services such as deposit accounts, secured account (“lockbox”) services and the like. If these services are provided by the lender as a bundled package with the loan, interest rates and terms are generally more favorable.

Finally, it should be noted that EBCE may grow and have significant capital requirements as the program matures in the future. Thus, it is important to make sure its banking partner is large enough to finance its program over the long term. Banks need to live within their loan-deposit caps, so it is essential to understand the bank’s credit capacity for the program’s long-term capital needs.

Attachment A: Proposed EBCE Implementation Budget

Note: This budget assumes a October 2017 launch and may have to be updated based on a Spring 2018 launch

East Bay Community Energy Proposed Implementation Budget	
Technical Services	
Expert Resources (Miscellaneous consulting and management)	\$80,000
Finalize Power Supply Mix/Draft RFP, assist in evaluating bids	\$25,000
Develop Master PPA with ESP/assist negotiations	\$25,000
Customer Phase-In Schedule	\$5,000
Refine Operating Budget	\$90,000
Prepare Implementation Plan for CPUC (and respond to CPUC questions)	\$35,000
Assist with Program Financing, prepare banking services RFP	\$25,000
Prepare Rate Schedules, develop related energy programs including FIT, NEM	\$35,000
Registrations and Regulatory Agreements	\$15,000
Draft Integrated Resource Plan	\$75,000
TOTAL:	\$410,000
Communications/Outreach/Marketing (By External Marketing Firm)	
Task A and Task 1. Kick-off meetings, outreach plan, program branding, design, identity	\$260,000
Task 2. Community Outreach/Stakeholder Engagement (public outreach, e-newsletters, advocate training)	\$190,000
Task 3. Pre-Launch Marketing Campaign (social media, outreach, advertising campaign)	\$280,000
Task 4. Customer Notification (opt out notices and call center script)	\$270,000
TOTAL:	\$1,000,000
Sequoia (or other), Legal and Other/Misc.	
General consulting assistance from Sequoia (or successor) consultant(s)	\$90,000
Legal Review of Banking, Lockbox and Energy Supply Agreements	\$60,000
Executive salaries paid prior to program revenues commencing	\$150,000
Start up administrative costs (office rent, equipment, insurance, etc.)	\$60,000
Gain party status/register at CPUC; legislative participation, CCA Bond	\$130,000

TOTAL:	\$490,000
Local Development Business Plan	
Overall Tasks	\$500,000
TOTAL:	\$500,000
GRAND TOTAL:	\$2,400,000

