

MARCH 2022

Prepay Energy Update



Existing Prepay Overview

Recap:

- Closed: Sept. 23, 2021
- Total Bond Proceeds (EBCE+SVCE): \$1.48 Billion
- Rating: A1, “Green Bond” Certified
- Volume to EBCE: 59 MW Around-the-Clock Carbon-Free Energy
- Power Supply Start: January 1, 2022
- EBCE Savings, Years 1-10: ~\$2 Million / year

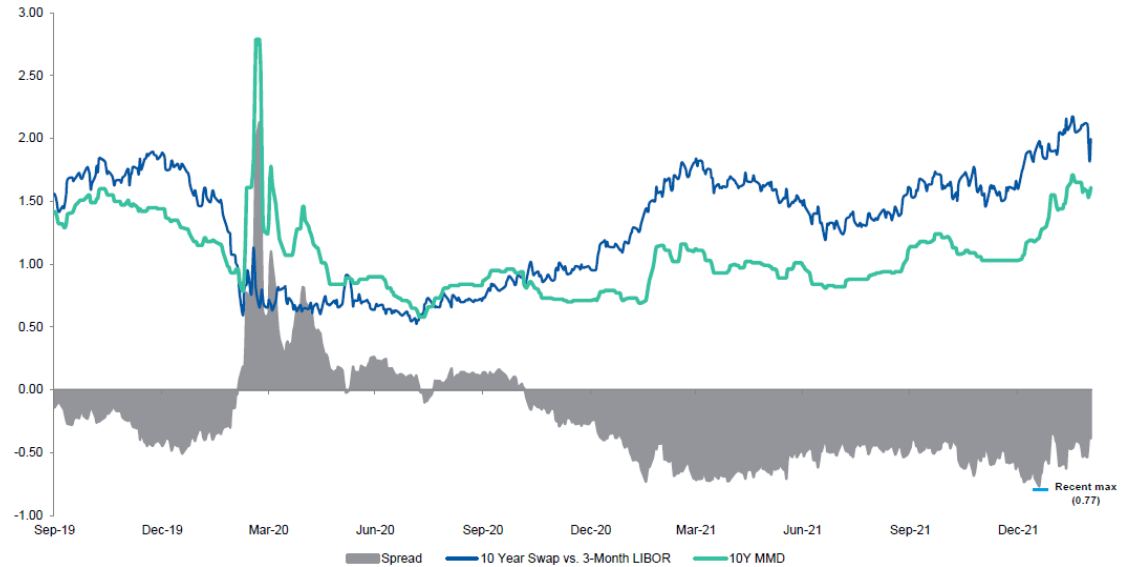
In progress / Ongoing:

- Settlements and invoicing were initiated on January 1, 2022
- Assessing future PPAs to be put through prepay structure

Current Market Conditions

- Conditions are suitable for prepays when the taxable and tax-exempt spreads are wide
- Spreads have been volatile in recent years and conditions have been suitable for the last 9-12 months
- With an expectation for increasing interest rates, this may improve spreads in the near term
- 8 prepay deals have priced since EBCE's transaction in September - primarily gas deals

10-Year LIBOR Swap vs. 10 Year MMD (%)



Proposed Prepay Transaction

- Standalone EBCE Prepay transaction issuing through CA Community Choice Financing Authority (CCCFA), the JPA in which EBCE is a member
- Anticipate utilizing the prior RFPs issued/awarded in 2020 and 2021 to renew various counsel and advisory roles to gain efficiencies
- Prior transactions required >1.5yrs to complete and targeting 3 to 6 months for the second transaction
- Anticipate \$500M to \$1bn total size

Next Steps:

- March: Re-introduce the prepay structure to Exec Comm
- April: Present to FAP and seek board approval to be enabled with various advisors/counsel in April
- May/June: Seek EBCE board and CCCFA board approval to transact
- May/June onwards: Go out to market and close. This will be dependent on market conditions

Prepay Overview

- An energy prepayment is a long-term non-recourse financial transaction between a tax-exempt Load Serving Entity (LSE) and a taxable financial counterparty (bank, called “Prepay Supplier”) utilizing the municipal bond market
 - Typically 30-year term where the bond is repriced every 7-10yr, LSE commits ~\$400MM-\$1BN of energy supply contracts (combined contract notional values) per transaction
 - LSE utilizes the prepay discount benefits in order to lower customer energy costs. The savings are incorporated into EBCE's overall procurement portfolio, not allocated to any individual customer segments
- Prepay Supplier is assigned an existing energy supply contract, pays the contract price to PPA Seller and immediately transfers all electricity and attributes to LSE. LSE pays the Prepay Supplier.
- Municipal utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable entity and fund that prepayment with tax-exempt municipal bonds. The LSE must sell the commodity to their retail end-users residing within their traditional service area.
 - This structure is well known and regularly used for gas and is now being applied towards renewables PPAs
 - 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)

Key Elements of a Prepay Transaction

Power Contract Assignment:

- PPAs are assigned to the taxable Prepay Supplier. The LSE continues to take and pay for energy and attributes delivered through the contract.
- All other terms of the PPA are unchanged
- If the prepay program terminates early, prepaid supplier fails to perform, or LSE fails to perform, the LSE forgoes the future savings and the assigned PPA contract is put back to the original LSE
- Active Suppliers: Goldman Sachs, Morgan Stanley, Royal Bank of Canada, Citi, Bank of America are all investment grade rated financial institutions

Debt:

- **Non-Recourse:** Prepays utilize non-recourse municipal bonds and are *not* secured or guaranteed by the referenced entity (i.e. the CCA). Rather the debt is recourse to the Prepay Supplier (i.e. the bank receiving the prepayment). This significantly protects the CCA and mitigates risk related to the payment of power contracts novated through the prepay.
- **Off Balance sheet** for LSE: Bonds are issued by a municipal bond conduit and arranged by the Prepay Supplier

Thank You!



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