

MAY 3, 2023

Energy Prepay Transaction Overview



Energy Prepay Overview

- EBCE executed two energy prepay transactions in 2021 and 2022, issuing through CA Community Choice Financing Authority (CCCFA), the JPA in which EBCE is a member
- The annual savings from these first two energy prepay transactions totals nearly \$7 Million at the outset
- Energy Prepay transactions are off balance sheet structures that allow EBCE to utilize its tax-exempt status to lower its energy procurement costs
- The discount that is applied to energy costs is based on the differential between taxable and tax-exempt dept spreads
- These spreads are historically volatile and therefore optimal prepay timing is difficult to predict
- EBCE is preparing a third energy prepay transaction and anticipates going to market in the next 2-4 months if conditions are suitable and will seek approval from the board as early as May or June 2023

Existing Energy Prepay Transaction Summary

EBCE First Transaction – Jointly executed with SVCE

- First Energy prepay closed by a CCA
- Closed: Sept. 23, 2021
- Total Bond Proceeds: \$1.48 Billion ("Green Bond" Certified)
- Initial Power Supply: 59 MW Around-the-Clock Carbon-Free Energy starting Jan 1, 2022
- Initial Bond Tenor Savings: 10 years

EBCE Second Transaction - Standalone prepay

- Third Energy prepay closed by a CCA
- Closed: July 12, 2022
- Total Bond Proceeds: \$939 Million ("Green Bond" Certified)
- Initial Power Supply: 75 MW Around-the-Clock Carbon-Free Energy starting April 1, 2023
- Initial Bond Tenor: 6 years

Historical Prepay Parties

Prepay Supplier/Bond Underwriter: Morgan Stanley

- Selected through solicitation issued November 2019

Municipal Financial Advisor: PFM

- Selected through solicitation issued September 2020

Counsel: Orrick, Herrington & Sutcliffe (Bond & Tax Counsel) | Chapman & Cutler LLP (POS, Disclosure & Issuer's Counsel)

- Both firms selected through solicitation issued June 2020

Bond Issuer: California Community Choice Financing Authority

- EBCE membership approved by Board in April 2021, JPA formed June 2021; Founding Members are EBCE, MCE, SVCE, 3CE

Custodian: BONY

- PFM issued solicitation early July 2021

Commodity Swap Counterparty: Natixis and RBC

- RBC was the swap counterparty in 2021 and Natixis was the swap counterparty in 2022

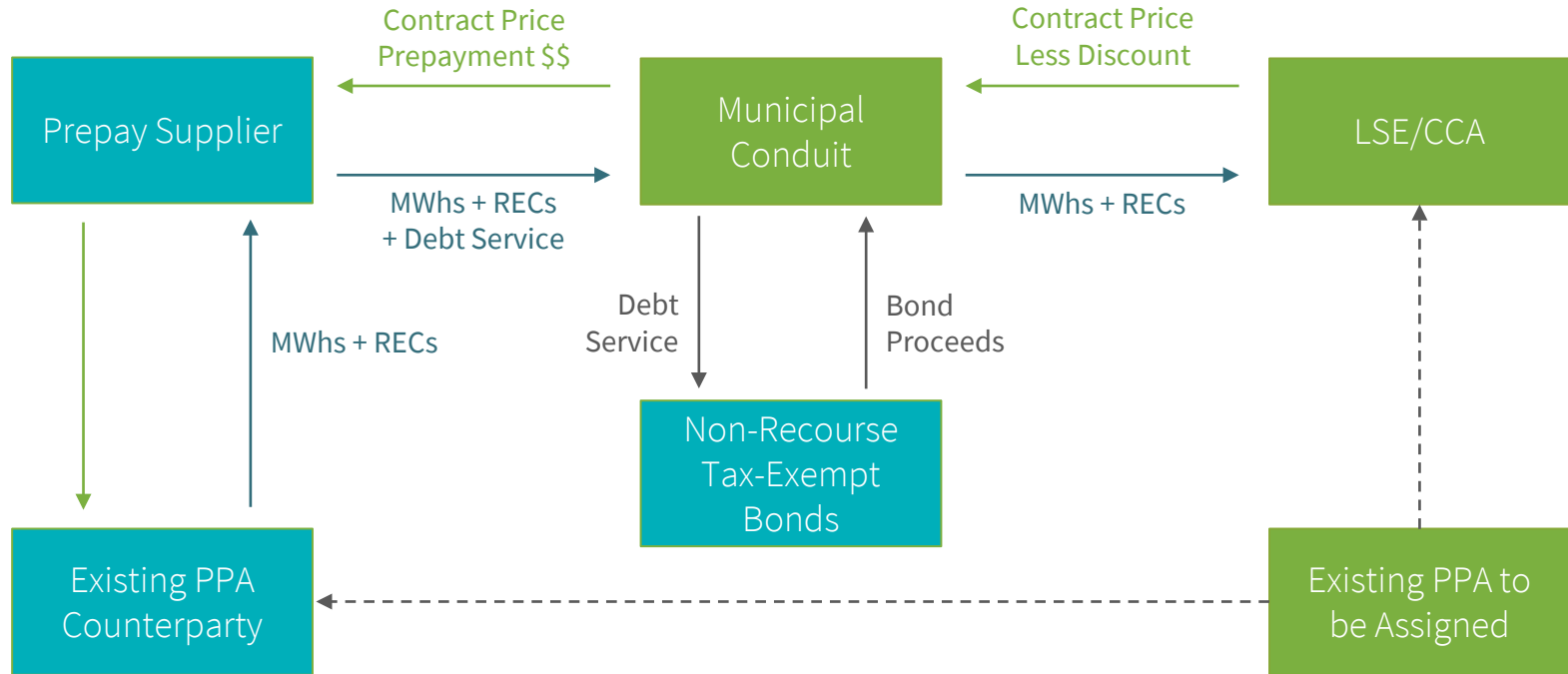
Appendix



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, LSE committing ~\$350MM-\$850MM of energy supply contracts (combined contract notional values)
- LSE utilizes in order to lower customer energy costs
- 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)

Prepay Structure



Market Statistics

- Nationwide: 90+ municipal transactions
 - \$50+ Billion combined notional contract value
- California: 11 municipal transactions
 - \$5.7 Billion combined notional contract value
- Active Suppliers: Morgan Stanley, Goldman Sachs, JP Morgan, Royal Bank of Canada, Citi, TD Securities
 - All investment grade rated financial institutions
- Resource Types:
 - Majority of transactions to date have been exclusively for natural gas, remainder including an electricity ‘switch’ at a certain year.
 - The same tax law and similar transaction structure enables the program for electricity from renewables contracts, as well. The market is seeing activity and preparation for these transactions, particularly from CCAs.

Key Elements of a Prepay Transaction

Power Contract Assignment:

- Existing renewable 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, JP Morgan 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

Prepay Sizing and Discount

- The total bond proceeds may be as high as \$1.25bn and will be dependent on the CA bond market appetite.
 - EBCE will seek the maximum bond raise while maintaining optimal bond rates
 - The amount represents the present value of the PPA cashflows over the 30-year life of the transaction
- This transaction will likely translate to an estimated \$2-3MM of annual savings for EBCE for the initial bond term.
 - The transaction assumes an increase in the cashflows running through the prepay over the 30-year life.
 - As the transaction moves forward, the arbitrage value goes down since the present value benefits reduce with a shorter remaining tenor. The future discount rates will be reset every 5-10 years based on bond tenors and be dependent on future bond market conditions, but this puts downward pressure on the future discounts.
 - There is a negotiated minimum discount that, if not met by the Prepay Supplier, allows the LSE not to move forward in the repricing.
- Ultimately the discount is established by the spread between taxable and tax-exempt rates and deducts all transaction related costs, which include fees associated with bond underwriting, counsel (bond, disclosure, underwriter's, prepay), financial adviser, swap counterparty, credit rating, custodian, etc.
- 5-10 years is typically the optimal bond spread tenor. Maintaining this spread over a 30-year transaction life maximizes the available discount. This requires a repricing and re-issuance of bonds every 5-10 years and a reset of the discount rate. In general, a high interest rate environment will lead to a higher discount.
- The initial power flows for the transaction are anticipated to begin in 2024