Staff Report Item 18

To:	Ava Community Energy Authority
From:	JP Ross, Vice President of Local Development
Subject:	*Updating the board on the status of the Critical Municipal Facilities Program*
Date:	2/14/2025

Summary/Recommendation

This memo updates the Board on recent uncertainty in the Critical Municipal Facilities Program and options to consider for continuing the program.

Financial Impact

N/A, this is an informational item

Analysis and Context

Ava's Critical Municipal Facilities resilience hub program has been impacted by recent Federal action which has significantly increased uncertainty. This information item will update the Board on the risks to the Program and Ava's options for continuing this work.

Attachments

A. PowerPoint presentation

Ava Community Energy

Critical Municipal Facilities Update
Feb 19, 2025

Overview

1. Program & Portfolio Summary
2. Risks Identified
3. Mitigation Potential
4. Ava’s Options

Executive Summary

- Ava has been working with a renewable energy developer, Green Bridge Energy, to design, construct, and operate solar and storage systems across 30 municipal sites by entering power purchase agreements (“PPAs”) with 6 participating cities.
- City project portfolios are designed to deliver energy savings over the contract terms, as well as resiliency benefits to protect against grid outages and extreme weather events.
- Ava has been working towards execution of a master PPA with Green Bridge to enable early-phase projects to kickoff development to support NEM2.0 qualification deadlines, which require online dates by April 2026
- Smaller (20-200kW) solar & storage energy systems have always presented a technical challenge due to the unique nature of the facilities and small sizes with very few installers and solar PPA counterparties focused on this segment
- Combining the portfolio, creating greater scale, and applying the Ava CMF incentive program is intended to enable this portfolio to be built

City	Total sites / NEM2	kW (Solar)	kWh (Battery)	Savings as % of total bill*
Berkeley	2 / 2	186	387	15.7%
Fremont	6 / 2	318	697	14.5%
Hayward	4 / 3	219	387	8.9%
Livermore	5 / 4	2,822	1,754	5.6%
Oakland	8 / 4	909	1,703	6.0%
San Leandro	7 / 5	882	1,780	11.4%

*Based on last available PPA pricing

- Types of facilities include libraries, senior centers, community centers, city halls, police & fire stations, corporation yards & service centers.

Risks Identified (1)

NEM 2.0 Savings

- Savings are primarily driven by systems that are grandfathered into NEM2.0 with savings created by lowering/hedging electricity rates, reducing demand charges, federal investment tax credit, the Ava storage incentives, and 2 federal grants that were awarded. NEM2.0 sites must be completed by April 15, 2026 to receive NEM2.0 status.
- The risk and uncertainty have increased significantly over the last several months impacting the viability of this portfolio achieving NEM2.0.

Political & Economic

- Tariffs with China, Canada, and Mexico have been identified specifically impacting battery systems, steel, and aluminum. Some tariffs are already implemented while additional tariffs and counter-tariffs are anticipated. These are expected to increase project costs and could cause import delays.
- The Federal Investment Tax Credit (ITC) is a longstanding solar related tax incentive that lowers project costs by >30% traditionally. ITC is key to project economics and tax equity investors are fundamental to project-based financing. Changes to ITC likely require legislation to overturn and there is bipartisan support for this tax credit. However, White House Executive Orders are causing uncertainty and high potential for anti-renewable energy legislation. This is creating uncertainty on key project funding sources. Ava could monetize the ITC through the direct pay structure that allows tax exempt entities to retain the tax credit, but recent anti-renewable sentiment in Washington puts that at risk.
- Ava was awarded approximately $2MM in federal grants/earmarks. It is uncertain if those grants are secure, but we anticipate risk.
- The tax credits and grants can only be sought when the projects are completed in 12-18 months, which adds to their uncertainty. The risk of tariffs being applied, losing ITC, and losing the grants is born between Ava and our counterparty.

Risks Identified (2)

Schedule & Counterparty

- NEM 2.0 related deadlines are increasingly at risk in light of new Federal policies and counterparty uncertainty. The current negotiated agreements (not yet executed) allocate the majority of the risk to Ava's counterparty and their subcontractors, allowing for damages and termination rights if the NEM 2.0 deadline is not reached.
- The qualified labor market is an additional risk factor in meeting the volume of projects in light of the NEM2.0 deadline. Given the tight project schedules and overall uncertainty, the Engineering, Procurement, and Construction (EPC) partner – Gridscape - and underlying subcontractors may not be willing to bear the risk of missing the NEM 2.0 deadline.
- Green Bridge, the PPA counterparty, has raised significant concerns on the ability to deliver on the NEM 2.0 deadline at current PPA rates. In light of the overall uncertainty, they have currently paused work on this portfolio, and we anticipate that they may walk away from this partnership.

Risk Mitigation Discussion

A. **Timeline extension –** Request PG&E to extend the NEM2.0 deadline in light of Federal uncertainty

B. **Direct ownership** – Ava ownership of assets, increases flexibility by removing Green Bridge, but shifts development, performance and tax credit risks to Ava

C. **Labor training program** – Work with Labor to secure contractors and provide training to reduce construction risk

D. **Downsize the portfolio** – Reduce the size of the portfolio to at least 1 project per City that can be completed by April 2026 in order to increase schedule confidence and lower capital at risk

E. **Use all domestic equipment –** Increase cost certainty and lower delivery timing risk, however this increases cost and requires revised designs, which adds to overall project timeline

F. **Increase incentive levels** – Provide additional incentives to cover (potential) cost increases (this may be required to implement some of the mitigants listed above)

G. **Seek new counterparty –** Availability of financing counterparties in this space was already limited and further limited due to uncertain environment. Securing and negotiating with a new counterparty would add significant time.

H. **Decouple solar and storage –** Expedite standalone solar installations to preserve NEM 2.0 eligibility and augment with battery storage later

Options

1) Move forward with Green Bridge/Gridscape on the current portfolio with revised PPA terms that allocate significantly more risk to Ava
2) Downsize the portfolio and work with Green Bridge/Gridscape to deliver a subset of the faster/easier NEM2.0 projects
3) Downsize portfolio to a subset of faster/easier NEM2.0 projects with Ava owning the assets and Gridscape as developer
4) Downsize portfolio to a subset of faster/easier NEM2.0 projects with Ava owning the assets and issue a Public Works RFP to secure a new Developer
5) Downsize portfolio and Ava owns it under Solar Billing Plan (NEM 3.0) with a new developer to allow for a more feasible project timeline
6) Cancel entire portfolio and move CMF funding into Resilience Hub incentives (consider allocating funding specifically to municipal sites)

Conclusion and Next Steps

1) We are at a critical juncture with this CMF portfolio in light of the NEM 2.0 deadline in April 2026, which requires projects to be online prior to this date to preserve maximum cost savings.
2) Any opportunity to meet this deadline on the full portfolio requires us to move forward immediately to complete project designs and order long-lead equipment.
3) Losing NEM 2.0 status would significantly reduce cost savings, making City portfolios no longer cost neutral
4) Our financing counterparty, Green Bridge, is pausing work on this process and re-assessing their risk and ability to continue moving forward.
5) Ava staff to continue to assess this risk and further diligence options presented to provide a recommendation to the board, likely in March.
   - A potential recommendation is to focus on NEM 2.0 sites and downsize the portfolio in order to derisk our build timeframe and select the highest margin and most straight forward construction projects. *(Options 2 or 3 from prior slide)*
   - Focus diligence on owning and building projects on Ava's balance sheet, Public Works requirements, and the capital costs of such an investment. Further model various downside economic scenarios such as: missing the NEM 2.0 deadline, tariffs, losing ITC/direct pay/federal incentives