

COUNCIL AGENDA: NOVEMBER 14, 2023

FILE: 23-1542

ITEM: 3.3

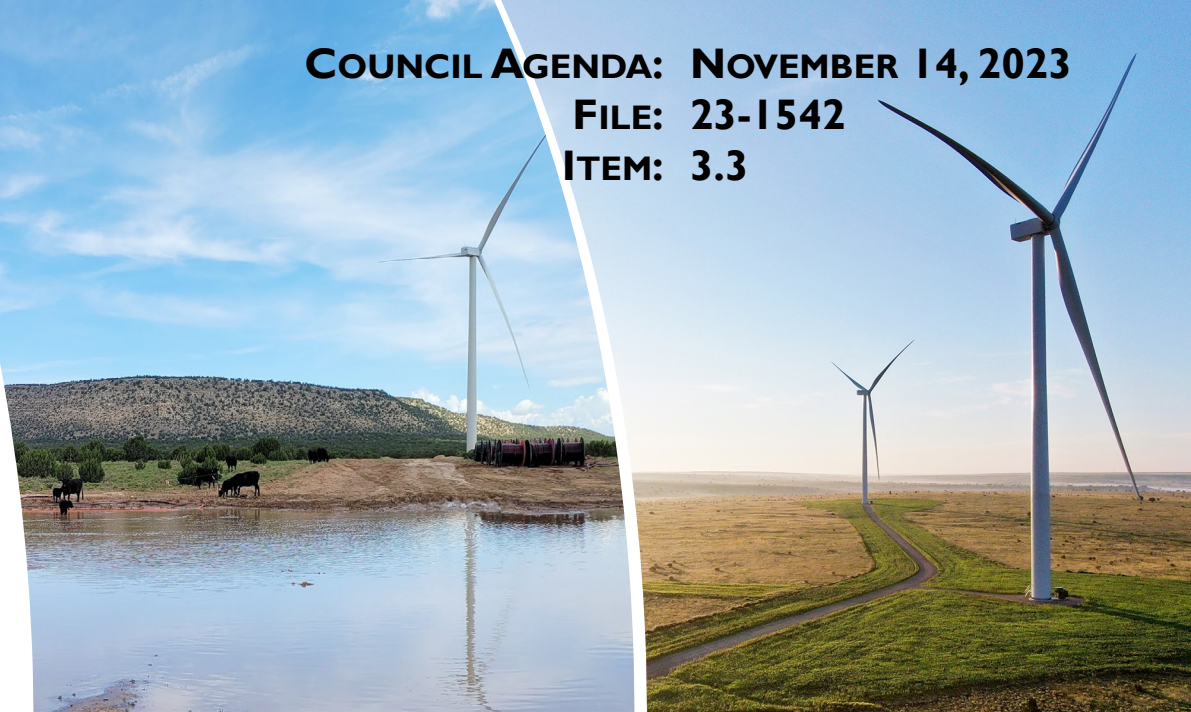
AUTHORIZING THE DEPARTMENTS OF FINANCE AND ENERGY TO EVALUATE THE FEASIBILITY OF ENERGY PREPAYMENT TRANSACTIONS

Rick Bruneau, Director of Finance

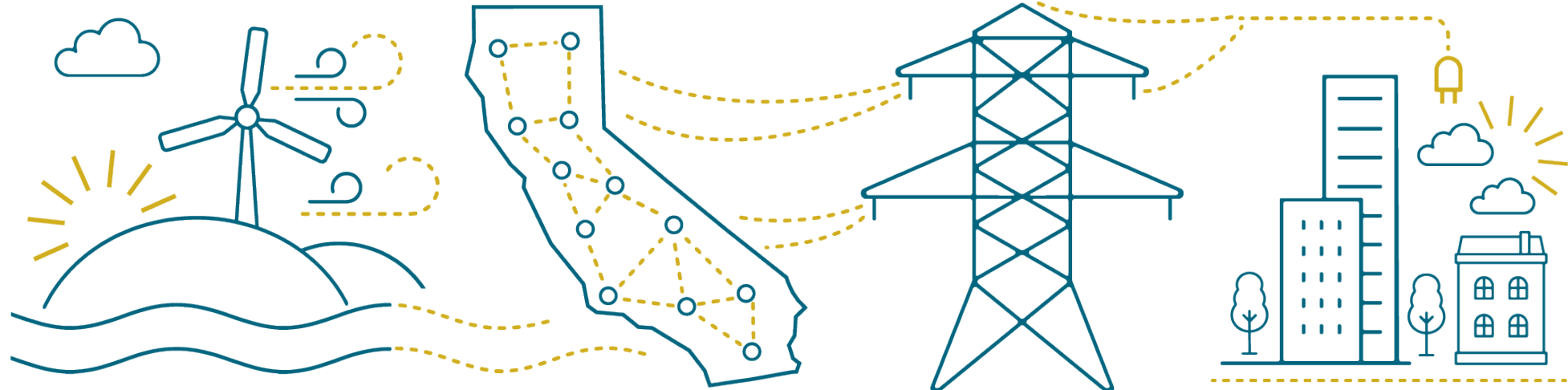
Luz Cofresí-Howe, Assistant Director of Finance

Lori Mitchell, Director of Energy

Zach Struyk, Assistant Director of Energy



How COMMUNITY CHOICE WORKS



SOURCE SJCE

Sourcing and building
cleaner energy

GRID CALIFORNIA

Flowing clean energy into our
state's power supply

DELIVERY PG&E

Delivering energy,
maintaining lines, serving
customers

CUSTOMER YOU

Using cleaner energy,
preserving the environment



CUSTOMER CHOICES

- Customers can opt out at any time; only City utility that competes
- Currently customers save 1-3% on electric generation with SJCE

	SJ CARES* 60% RENEWABLE (95% CARBON-FREE)	GREENSOURCE 60% RENEWABLE (95% CARBON-FREE)	TOTALGREEN 100% RENEWABLE	PG&E 48% RENEWABLE (91% CARBON-FREE)
Electric Generation (including PG&E added fees)	\$57.93	\$64.25	\$68.52	\$65.17
Electric Delivery	\$30.61	\$83.08	\$83.08	\$83.08
Total Bill	\$88.54	\$147.33	\$151.60	\$148.25

Based on a typical residential usage of 427 kWh under the E-TOU-C rate schedule at SJCE rates effective January 1, 2023. Actual costs will vary depending on usage and other factors.

*SJ Cares gives an extra 10% discount to customers enrolled in CARE/FERA



BACKGROUND

- Through September 30, 2023, San José Clean Energy has procured ~\$4.19 Billion in renewable energy power products
- The Clean Energy portfolio includes long-term power purchase agreements totaling ~\$2.41 Billion spanning through 2045
- Energy prepayment financing offers the potential to reduce the cost of these long-term power purchase agreements
- Energy prepayment transactions are well-established financing mechanisms implemented for natural gas since the 1990s, now being used for renewable energy power products

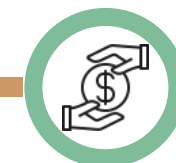


ELECTRICITY PREPAYMENT TRANSACTIONS

(CONDUIT ISSUER: CALIFORNIA COMMUNITY CHOICE FINANCING AUTHORITY)

COMMUNITY CHOICE AGGREGATORS (CCAs)	CLOSED	TOTAL (\$ MILLION)
EAST BAY CLEAN ENERGY ¹ AND SILICON VALLEY CLEAN ENERGY	9/23/2021	\$ 1,234.72
MARIN CLEAN ENERGY	11/24/2021	602.66
EAST BAY CLEAN ENERGY ¹	7/12/2022	931.12
PIONEER COMMUNITY ENERGY	1/4/2023	459.64
SILICON VALLEY CLEAN ENERGY	1/27/2023	841.55
CLEAN POWER ALLIANCE	2/23/2023	998.78
CLEAN POWER ALLIANCE	6/15/2023	958.29
EAST BAY CLEAN ENERGY ¹	8/16/2023	997.90
CENTRAL COAST COMMUNITY ENERGY	10/26/2023	647.75
	TOTAL	\$ 7,672.41

¹EAST BAY COMMUNITY ENERGY REBRANDED AS AVA COMMUNITY ENERGY ON OCTOBER 24, 2023



ENERGY TRANSACTION PARTICIPANTS

- San José Clean Energy / Finance Department
- Energy Counterparty
 - The other party to an agreement with the City for the purchase or sale of power products

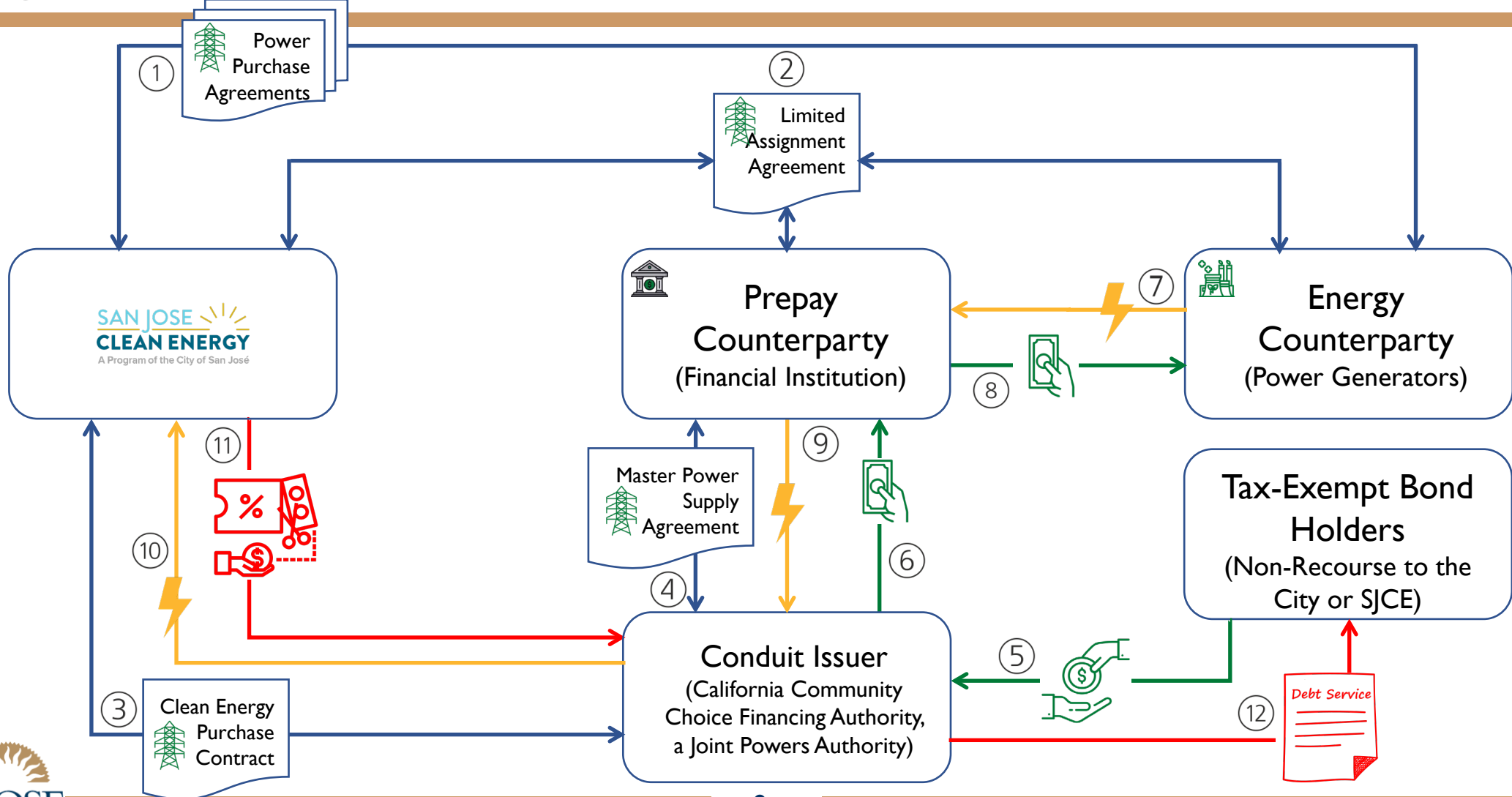


ENERGY PREPAYMENT TRANSACTION PARTICIPANTS

- San José Clean Energy / Finance Department
- Energy Counterparty
 - The other party to an agreement with the City for the purchase or sale of power products
- + Conduit Issuer
 - An arms-length tax-exempt bond issuer
- + Prepay Counterparty
 - A financial institution or other investment grade, credit-rated entity
- + Tax-Exempt Bond Holders
 - Purchasers of prepay bonds in exchange for principal and interest payments (debt service) over the term of the respective bond
- + Transaction Consultants
 - Support the structuring and issuance of the prepay bonds
 - Bond and Tax Counsel, Municipal Financial Advisors, others



ENERGY PREPAYMENT TRANSACTION STRUCTURE AND PARTICIPANTS



ENERGY PREPAYMENT FINANCING TRANSACTIONS – CONSIDERATIONS

- Savings only “locked in” during initial pricing period (tenor) of 5-10 years
 - Potential for unsuccessful remarketing at future mandatory tender date(s)
 - * If so, the original power purchase agreement terms and conditions, including costs, would prevail
 - Economics over the 30-year life of the bonds are unknown
- Complex, lengthy transaction structure
- Multiple remarketings during life of bonds



ENERGY PREPAYMENT FINANCING TRANSACTIONS – BENEFITS

- Potentially realize 7% to 10% savings (\$4-6 million/year) over existing power purchase agreement pricing
 - City would require a minimum of 8% savings over existing power purchase agreement pricing during the initial pricing period (tenor) of 5-10 years
- Conduit Issuer Bonds are non-recourse to the City or SJCE
 - Conduit Issuer Bonds will not be on City or SJCE balance sheets, or affect SJCE future credit ratings or debt capacity
- Provide a source of savings that can help SJCE stay competitive with rates, fund reserves, fund customer programs and/or energy-related ClimateSmart work



ENERGY PREPAYMENT FINANCING TRANSACTIONS – RISKS AND POTENTIAL MITIGATIONS

- Financial Risk
 - Minimized as the Conduit Issuer Bonds are non-recourse to the City or SJCE
- Prepay Counterparty Risk – Prepay Counterparty fails to meet its obligations to pay
 - Select a Seasoned Prepay Counterparty with demonstrated experience in the commodity business and energy prepay transactions
 - Require a termination payment sufficient to redeem all outstanding conduit issuer bonds should a termination event occur
- Volumetric Risk – Energy Counterparty fails to deliver required energy volumes
 - Assign only a portion of eligible power purchase agreements
 - Structure transaction to allow substitution and additions of other power purchase agreements
 - Include a backstop to remove/replace underperforming Energy Counterparties
- Regulatory Risk
 - U.S. Treasury, through Internal Revenue Service, changes treatment of these transactions



NEXT STEPS

- | | |
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| <input checked="" type="checkbox"/> November 2023 | <ul style="list-style-type: none">• Present Energy Prepayment Financing Concept• Recommend City Council Authorization to Evaluate Energy Prepayment Financing Feasibility• Recommend City Council Authorization to join California Community Choice Financing Authority, if necessary |
| <input type="checkbox"/> December 2023 to May 2024 | <ul style="list-style-type: none">• Complete Energy Prepayment Financing Feasibility Evaluation<ul style="list-style-type: none">➤ Issue Request for Proposals to Potential Prepay Counterparties for a San José Clean Energy Prepayment Program➤ Amend Power Purchase Agreements as needed to include assignment language➤ Finalize Portfolio of Potential Power Purchase Agreements➤ Join California Community Choice Financing Authority, if necessary |
| <input type="checkbox"/> June 2024 | <ul style="list-style-type: none">• Present results of Energy Prepayment Financing Feasibility Evaluation• If recommended to proceed, outline proposed energy prepayment transaction, and present required agreements and ancillary documents for City Council approval |



RECOMMENDATION

- a) Authorize the Departments of Finance and Energy to evaluate the feasibility of reducing San José Clean Energy power purchase costs by financing energy prepayment transactions through the California Community Choice Financing Authority, a Joint Power Authority and conduit issuer of tax-exempt bonds.
- b) Adopt a resolution authorizing the Director of Finance, the Director of Energy, the Assistant Director of Finance, and the Assistant Director of Energy or their designees to join the California Community Choice Financing Authority, if necessary, including execution of any required documents and payment of membership fees under City Manager authority, subject to the appropriation of funds.

Approving the recommended City Council actions above does not authorize an energy prepayment financing transaction.

