

## VALLEY CLEAN ENERGY ALLIANCE

### Staff Report – Item 12

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**TO:** Board of Directors

**FROM:** Edward Burnham, Finance and Operations Director  
Mitch Sears, Executive Director

**SUBJECT:** Authorize the Executive Officer to Approve Power Purchase Agreements  
Legal and Prepay Counter Party Agreements

**DATE:** July 11, 2024

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#### **RECOMMENDATION:**

Authorize Executive Officer to Approve Energy Prepayment Counsel and Energy Prepayment Counter Party Agreements.

#### **BACKGROUND**

At the June 13, 2024 Board meeting, the Board received a presentation from PFM Financial Advisors providing an overview of power purchase agreement (PPA) prepay transactions. Based on Board direction, VCE has issued a Request for Proposal (“RFP”) for Energy Prepayment Counter Party (“Bank”) and Energy Prepayment Counsel (“Legal”) services in order to provide power cost savings starting in 2025.

#### Energy Prepayment Transaction

An energy prepayment – or “prepay” – is a long-term financial transaction available for municipal utilities and tax-exempt entities such as Community Choice Aggregators (“CCAs”) that enables a meaningful power procurement cost savings opportunity. This prepay structure has historically been utilized for natural gas procurement and is now being applied towards renewable energy. A number of other CCAs have either executed or are in the process of completing a similar structure.

#### **DISCUSSION & ANALYSIS**

The purpose of pursuing the prepay transaction is to achieve meaningful energy procurement cost savings. This initial transaction will amount to approximately \$600 million of procurement costs running through the prepay; an estimated minimum 7% discount target from the original PPA prices which translates to ~\$47M total/\$1.4 million annual savings for VCE. The fees paid to all of the various parties involved in the prepay will all be payable from the proceeds of the prepay bonds. This results in

no out-of-pocket cost to VCE; the cost will be paid out of the savings realized from the prepay transaction. As part of the transaction structure described at the June Board Meeting, the transaction requires membership in the California Community Choice Financing Authority Joint Powers Authority (CCCFA). The only estimated cost to VCE will be the membership fee to CCCFA and Financial Advisor Services as per contracted rates.

#### California Community Choice Financing Authority Overview

The Joint Exercise of Powers Act, California Government Code Section 6500 et seq. (“The Act”), permits two or more public agencies to create, by agreement, a joint powers authority for the purpose of jointly exercising any common powers and certain additional powers provided for in the Act, including the power to issue bonds for the purposes specified in the Act. East Bay Community Energy, Silicon Valley Clean Energy, Marin Clean Energy and Central Coast Community Energy are the founding members of CCCFA with the purpose of the JPA to serve as a conduit financing joint powers authority. CCCFA’s objective will be to undertake the financing or refinancing of energy prepayments that can be financed with tax advantaged bonds on behalf of one or more of its members by, among other things, issuing or incurring bonds and entering into related contracts with its members.

By entering into the CCCFA JPA Agreement, VCE will have the opportunity, but not the obligation, to structure a prepay transaction and issue the bonds through CCCFA. This is a project financing based public agency, rather than policy making agency. It is not intended to be a policy maker nor advocate, though it may, from time to time, advance or support public policies in support of its purpose that do not conflict with interests or policies advanced by any Member.

#### Membership Options

There are two membership options: (1) associate membership and (2) founding membership. The primary difference between the options is the founding membership option requires VCE to appoint a representative to serve on CCCFA’s Board of Directors. Due to the Board being represented by other CCAs that operate in the best interest of CCAs and VCE most likely will only be engaging in one prepay transaction, staff is assessing the associate membership option.

#### Non-Resource Debt

It is important to note that the CCCFA JPA will be the counterparty with the Prepay Supplier in the prepay transaction, and therefore the counterparty to all the underlying agreements. That is, VCE will sign an agreement with the CCCFA JPA, and the CCCFA JPA will be the entity to sign all the rest of the transaction documents. Under California law and the JPA Agreement, the CCCFA will be a public entity separate and apart from the parties to the JPA Agreement, and the debts, liabilities and obligations of the CCCFA will not constitute debts, liabilities or obligations of VCE.

Additionally, it is important to note that the prepay is non-recourse to VCE. The ultimate counterparty with the Prepay Supplier is CCCFA; CCCFA is therefore the counterparty to all the underlying agreements. CCCFA is a public entity separate and apart from the parties to the CCCFA JPA Agreement, and the debts, liabilities, and obligations of the CCCFA will not constitute debts, liabilities, or obligations of VCE.

### Timeline

Based on the general direction provided by the Board at its June meeting, staff has begun the RFP Process for the selection of Legal and bank services for the prepay transaction. The targeted timeline is to have draft documents prepared for a deal execution by the end of the year to provide 2025 savings as early as possible. As presented in the June board materials, the details of the prepay agreement will be brought to the Board for review and approval once the documents are negotiated and prepared over the coming months.

### Tentative Schedule for Prepay Transaction:

- August 2024: VCE Award of Prepayment Counsel and Energy Prepayment Counter Party
- September 2024: Board Approval of Prepayment Counsel Contract and CCCFA membership
- October 2024: Estimated PPA savings incorporated into the Preliminary 2025 Budget.
- Q4 2024/ Q1 2025: Board Approval of Final Prepay Transaction.
- Q2 2025: Estimated Power Purchase Transaction Implementation.

Note: Board Updates and formal contract approvals will be brought before the Board as needed throughout the process.

### **CONCLUSION**

Staff recognizes that resource adequacy, weather, and regulatory conditions outside VCE's direct control continue to impact financial results and create volatility for power costs. VCE's current power portfolio provides the opportunity to reduce power costs through a PPA prepayment transaction allowing VCE to more easily set rates to meet costs/build reserves, it enhances local control, customer choices, cost competitiveness, and VCE's ability to execute local programs. Authorizing the Executive Officer to Approve Power Purchase Agreements Legal and Prepay Counter Party Agreements will enable VCE to take the next step in the process of the prepay transaction.

### **ATTACHMENT**

- 1) Resolution 2024-XXX

**VALLEY CLEAN ENERGY ALLIANCE**

**RESOLUTION NO. 2024-\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY CLEAN ENERGY ALLIANCE (VCE)  
AUTHORIZING THE EXECUTIVE OFFICER IN CONSULTATION WITH LEGAL COUNSEL TO  
APPROVE ENERGY PREPAYMENT COUNSEL AND ENERGY PREPAYMENT COUNTER PARTY  
AGREEMENTS**

**WHEREAS**, the Valley Clean Energy Alliance (“VCE”) was formed as a community choice aggregation agency (“CCA”) on November 16, 2016, under the Joint Exercise of Power Act, California Government Code sections 6500 et seq., among the County of Yolo, and the Cities of Davis and Woodland, to reduce greenhouse gas emissions, provide electricity, carry out programs to reduce energy consumption, develop local jobs in renewable energy, and promote energy security and rate stability in all of the member jurisdictions. The City of Winters, located in Yolo County, was added as a member of VCE and a party to the JPA in December of 2019; and,

**WHEREAS**, beginning in 2020, VCE faced financial constraints associated with power market and regulatory volatility driven by forces outside VCE's direct control; and

**WHEREAS**, to address volatility driven by forces outside of VCE’s direct control there is a need to reduce costs where possible for competitive rates and building reserves for VCE’s strategic goal of financial strength.

**NOW, THEREFORE**, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. The Executive Officer, in consultation with legal counsel, is authorized to execute Energy Prepayment Counsel and Energy Prepayment Counter Party Agreements and associated agreements.

**PASSED, APPROVED, AND ADOPTED**, at a regular meeting of the Valley Clean Energy Alliance, held on the \_\_\_ day of \_\_\_\_\_ 2024, by the following vote:

AYES:  
NOES:  
ABSENT:  
ABSTAIN:

\_\_\_\_\_  
Lucas Frerichs, VCE Chair

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Alisa M. Lembke, VCE Board Secretary