ALAMEDA COUNTY COMMUNITY DEVELOPMENT AGENCY

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TO: CCE City Staff and City Steering Committee Representatives

FROM: Chris Bazar, Director, Community Development Agency
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RE: CCE Financing Requirements and Options

Background

The following is a detailed summary of capital and credit requirements for new Community Choice Energy (CCE) programs that is informed by the experiences of other multi-jurisdictional CCE programs in California. This framework will inform the discussions of the new East Bay Community Energy (EBCE) Board of Directors as it pursues agency working capital and longer term credit arrangements. It should be noted, however, that CCE credit terms/availability are rapidly evolving, and there may be other credit opportunities or structures the EBCE Board may wish to consider.

Financing for new, multi-jurisdictional CCE programs generally falls into three capital categories:

1) Seed Capital -- Initial program planning and start-up
2) Bridge Financing/Line of Credit -- Program launch/initial power contract(s)
3) Working Capital/Term Debt – for longer term EBCE operations, power projects

Seed Capital: Financing for pre-revenue start-up has generally been provided by local governments interested in forming a CCE program. In EBCE's case, the County of Alameda has stepped up to provide $3.7 million in upfront monies to cover the costs of early planning, technical analytics, and the various tactical steps involved in EBCE formation and program implementation. As discussed in the JPA Agreement, this initial capital investment will be reimbursed to the County within 3 or less years of EBCE program launch and revenue.

Bridge Financing/Line of Credit: New CCE programs (and their JPAs) need to form independent, long-term banking and credit relationship(s) to move from initial start-up into full operations. A bridge loan or initial line of credit covers pre-revenue, negative cash flow in the early stages of program launch and, most importantly, provides the capital necessary to sign contracts in the wholesale power market. EBCE cannot launch and begin serving customers until those contracts are signed and executed. The amount of early working capital that is needed will be dependent on EBCE's customer phasing plans, early staffing/ Agency expenses, and the size and cost of the initial energy contract(s). Lines of credit can range from a low of $5M to a high of $20M or more depending on the program size at initial launch.

This debt is usually put in place approximately 6 months prior to program launch, is short-term (e.g., a 1-2 year line of credit), and is often provided by a lender, although it can be municipally or vendor financed as well.

Unless there is some other arrangement agreed to by the JPA Board, the amount of pre-revenue credit needed to support the new program will require a credit guaranty. This credit backing, analogous to a co-sign on a mortgage loan, is usually provided by one or more members of the CCE Agency. The guaranty requirement is released soon after revenues begin flowing (usually within 6-12 months) and the Agency is ready for longer-term debt and larger lines of credit.

Some notes regarding bridge financing/early working capital:

- This type of financing requires a guaranty to cover pre-revenue credit, which will be released when the CCE is generating solid revenues
- This debt will provide the credit backing required for the initial energy supply contract, utility bond and supplier deposits, and early operating expenses.
- This debt can be used to repay initial seed capital once the program is generating revenue
- During the time the CCE is seeking working capital, it will also want to consider other banking services such as deposit accounts, secured account ("lockbox") services and the like. If these services are provided by the lender as a bundled package with the loan, interest rates and terms are generally more favorable.

Longer Term Debt/Term Loans, Etc: Once the program is revenue-positive, fully independent, and operationally more mature, EBCE will want to consider longer-term debt, lines of credit and perhaps bond financing to support an expanded portfolio of energy contracts, local energy programs, and local power development.

Typically, this type of longer-term debt is used to refinance early working capital and, because it is backed by Agency revenues, does not have a credit guaranty requirement. This type of debt is generally offered at a stable, fixed rate that can be repaid over time and may be accompanied by a separate line of credit to serve as backing for power contracts. Existing CCE programs have found it important to focus on building early program reserves in order to secure better credit terms and receive a credit rating which is required for bond financing.

It should be noted that CCE's can be very large with significant capital requirements, especially as the program matures. It is important to make sure the bank is large enough to finance your program over the long term. Banks need to live within their loan-deposit caps, so it is essential to ensure enough credit capacity for the program's long-term needs.

Underwriting Considerations

When a bank or other lender considers lending to a new CCE program, it will consider a number of factors including the management team: Does the Chairman, CEO, and other management team demonstrate knowledge of the power markets, power procurement, utility functions and energy programs? Does the team have a combination of relevant, seasoned experience and a spirit of innovation and entrepreneurship? Does it have political savvy and a robust regulatory function and marketing program?

The bank will also consider the program's revenue projections and financial modeling, which provides a detailed forecast of program expenses and revenues over a period of years. The knowledge and credibility of the author of the financial pro forma(s) and operating budget is very important. Finally, the bank will also consider the level of community support, number of local government members/ potential customers, and the efficacy of the JPA Board, governance structure and risk management controls in its underwriting process.

What Does this Mean for the Cities?

As noted earlier, Alameda County has committed to providing the upfront monies needed to support most of the pre-revenue expenses to get EBCE to launch. The debt that is contemplated above is that which is needed to support EBCE's initial power supply purchases and longer-term Agency operations.

Credit and financing is one of the first issues that the new EBCE Board will be addressing in the new year. As noted, there are a few ways to fulfill early credit needs, one of which MAY include some level of credit support (via a letter of credit) from member jurisdictions that are willing to participate. This would be a request, *not a requirement*, of EBCE Agency members.

A question has arisen about the disposition of a credit guarantee provided by a member agency if that agency decides to terminate JPA membership and participation. Per the EBCE JPA Agreement, here's how that is addressed:

1) The only opportunity for a member jurisdiction to withdraw from EBCE prior to launch of service is if the program can't beat PG&E on generation rates, level of renewables and GHG emissions. No credit will be spent (nor power contract signed) until EBCE has power supply proposals that say with certainty that these minimum thresholds can be met. If those thresholds are met, the member agencies are obligated to move forward. If the thresholds cannot be met, the line of credit will go unused and the County will be "out" its initial seed capital. We do not expect this to happen.

2) If a jurisdiction decides to terminate membership and participation after program launch, the status of the credit guarantee will be included with its pro-rata share of residual contact expenses and other carry-over costs associated with its departure. The good news is that the credit guarantee requirements don't remain in place for long (usually a year or less) and it's highly unlikely a city would leave within the first year. The cost and administrative considerations would make departure so soon after program launch difficult for the member agency.

If you have any questions about this information, please feel free to reach out to Bruce Jensen on our team by email or phone. As noted, credit and financing for the new Agency will be one of the early operational elements the EBCE Board will address.