CITY OF OAKLAND

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2016 NOV 22 PM 1:15

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Brooke A. Levin
Director, Public Works

SUBJECT: East Bay Community Energy Authority Joint Powers Agreement Loan Guaranty; Port of Oakland Resolution

DATE: November 21, 2016

City Administrator Approval [signature] SBL Date: 11/22/16

Reason for Supplemental

This Supplemental Report provides City Council with additional information regarding the need for the proposed East Bay Community Energy Authority (EBCEA) to obtain capital to finance the early stage costs of administering the Community Choice Energy (CCE) program, including an option to request that the City provide a partial loan guaranty for the startup capital needed to pay for initial electricity contracts. This issue was identified late in the process during a staff phone call with consultants to Alameda County, and was thus not included in the original Council Report on this topic. As the request of Oakland staff, the County prepared a memo detailing the potential EBCEA financing implications for cities, entitled "CCE Financing Requirements and Options", included as **Attachment A**. In addition, this Supplemental Report addresses the resolution of concerns expressed by the Port of Oakland.

ANALYSIS

Initial costs associated with the creation the EBCEA, including costs for early planning, technical analysis, and initial program design and launch steps, have been covered by Alameda County. The County has allocated $3.7 million for these efforts. However, additional early stage finance needs include significant capital to cover the signing of new energy contracts before the EBCEA begins collecting revenues. According to the County's memo, "Unless there is some other arrangement agreed to by the [EBCEA] Board, the amount of pre-revenue credit needed to support the new program will require a credit guaranty." Such a guaranty is typically provided by one or more members of EBCEA, and the guaranty requirement is released following the flow of program revenues, usually within 12 months of program launch. This capital need is part of the overall short-term financing strategy to be developed by EBCEA.

Short-Term Financing
The EBCEA Board of Directors is expected to oversee an all-inclusive financing strategy for the operations of the program. This strategy will identify additional capital needed and the methods for covering such costs, including allocation of costs to the member jurisdictions, and is anticipated to require up to $50 million in total financing. This covers pre-revenue spending,

primarily for securing contracts for wholesale power to support program launch, as well as other initial staffing and administrative costs. Contracting for the initial supply of electricity will require sufficient capital to cover contract costs, which far exceeds the initial investment provided by Alameda County. These energy contracts must be signed and executed prior to the launch of the program, and the total cost will vary depending on the phasing of customer enrollment and the size and cost of the energy purchased. A loan guaranty of 10 percent has been communicated as the potential for a typical bridge financing structure that the CCE Board may consider. The amount to be allocated across participating cities, if that is the strategy selected by the Board of Directors, would be determined by the Board and is not known at this time. For reference, the City of Oakland represents approximately 25 percent of the total electricity load in the County, which could be the basis for the division of loan guaranty responsibilities. Thus, for a $50 million bridge financing loan, a 10 percent loan guaranty would require $5 million in total guarantees. If apportioned equally among all the proposed members, the guaranty requested of Oakland would be $1,250,000. Staff contacted other CCE programs to determine the extent to which this structure has been used, and found that at least four of the five Bay Area CCE programs did not use City-backed loan guarantees as part of their financing structure.

A guaranty of a CCE loan by the City of Oakland would be considering a borrowing subject to the California constitutional debt limit if it were to cross into a fiscal year beyond the one in which the loan guaranty was issued. If Council approves the CCE, City staff will work with the EBCEA Board of Directors and their future staff to structure any such guaranty request in a way that does not violate this California constitutional debt limitation.

Longer-Term Financing
Following the startup period of program operations, the EBCEA Board of Directors may elect to pursue long-term debt or lines of credit to finance a variety of operational activities, including an expanded portfolio of energy contracts, local programs, and local power generation. Financing associated with these longer-term activities would be backed by the revenues of the program, and thus would require no commitment or guaranty by the City.

Additional Optional Financing Participation by City
In addition to the loan guaranty issue discussed above, the County noted in their memo that the EBCEA Board of Directors may elect to request some level of credit support, via a letter of credit, from member jurisdictions. If this were to occur, it would likely take place during the early stages of program development, prior to program launch. Any such request would not be a requirement of any participating city.

Resolution of Port of Oakland Issues with the CCE
The Council Report contained discussion of concerns expressed by the Port of Oakland, specifically as identified in a letter received from Nicolas Procos, the Port's Manager of Utilities Administration, dated October 18, 2016. Staff responded to this letter on November 8, 2016, clarifying the City's position and offering to work with Port staff to ensure that the identified issues were successfully resolved. On November 18, 2016, staff discussed the matter by phone with Mr. Procos, who indicated that the Port was satisfied with the City's response, and considered the matter resolved.

For questions regarding this report, please contact Daniel Hamilton, Sustainability Program Manager, at (510) 238-6179.

Respectfully submitted,

for BAL

BROOKE A. LEVIN
Director, Oakland Public Works

Reviewed by:
Susan Kattchee, Assistant Director

Reviewed by:
Becky Dowdakin, Environmental Services Manager

Prepared by:
Daniel Hamilton, Sustainability Program Manager

Attachments (1):

A: County Memo Titled "CCE Financing Requirements and Options"

ATTACHMENT A

ALAMEDA COUNTY COMMUNITY DEVELOPMENT AGENCY

Chris Bazar
Agency Director

224 West Winton Ave
Room 110

Hayward, California
94544-1215

phone
510.670.5333
fax
510.670.6374

www.acgov.org/cda

TO: CCE City Staff and City Steering Committee Representatives

FROM: Chris Bazar, Director, Community Development Agency
Bruce Jensen, Senior Planner
Shawn Marshall, CCE Consultant

DATE: November 8, 2016

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 startup 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.

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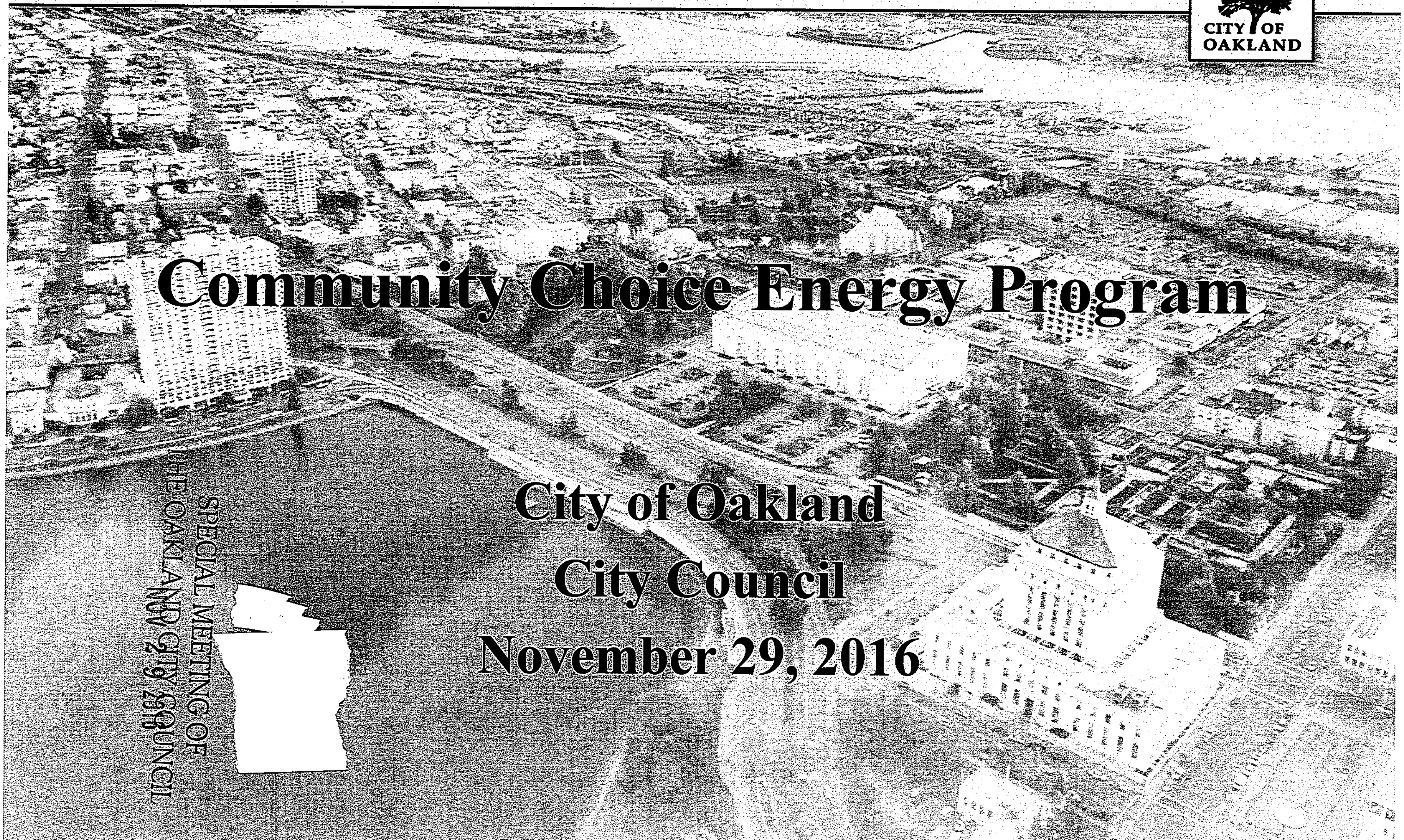

Community Choice Energy Program

City of Oakland

City Council

November 29, 2016

East Bay Community Energy Authority

Joining Community Choice Energy (CCE or CCA) would:

- Procure cleaner, lower cost electricity for homes and businesses throughout Oakland
- Provide for the creation of local clean energy jobs
- Provide public accountability for procurement decisions regarding electricity
- Reduce greenhouse gas emissions

CCA programs are opt-out, meaning all PG&E customers are automatically enrolled in the program.

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East Bay Community Energy Authority

History of CCA Efforts in Oakland:

- 2005: Council begins pursuit of CCA program
- 2009: CCA Program determined to be infeasible
- 2014: County begins CCA formation action
- 2016: JPA Negotiated and Feasibility Evaluated

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CCA Steering Committee

In May 2015, Alameda County created a 39-member Steering Committee to guide the CCA development process.

- Membership included representatives from cities, organized labor, environmental advocates, and energy experts. CM Kalb represented City of Oakland.
- Monthly meetings held from May 2015 – November 2016 to direct and review Feasibility Analysis, JPA language, and program considerations

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CCA Technical Analysis

Feasibility Analysis reviewed four potential scenarios:

1. Minimum compliance with CA standards (33% clean by 2020)
2. 50% clean energy on Day 1
3. Scenario 2, with 80% clean energy by Year 5
4. Scenario 2, but with 50% of renewable energy provided within the County by 2030

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CCA Technical Analysis

Feasibility Analysis concluded that each of the scenarios would result in lower electricity bills and create local jobs

Financial Impacts of CCA: 2017-2030

Scenario	Renewable Energy $	Bill Savings	Avg. Annual Direct Jobs	Avg. Annual Total Jobs
1	$420M	$1.57B	165	1,322
2	$420M	$1.51B	166	1,286
3	$450M	$0.52B	174	731
4	$1,840M	$0.52B	579	1,617

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Council Ordinance and Resolution

Requested actions to create and join the CCA:

Two step process:

- Resolution: Approve and Execute the JPA, and adopt CEQA findings
- Ordinance: Authorize implementation of the CCA program throughout Oakland

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CCA Joint Powers Agreement

JPA negotiated among Steering Committee:

- Board of Directors: 1 elected official from each agency
- Nine Member Community Advisory Committee
- Voting Structure
  - Initial Vote: One Agency, One Vote
  - Voting Shares Vote: 3 Agencies to invoke, share = % of load
- Withdrawal Opportunities
- Business Plan

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CCA Finance Summary and Issues

Financing for the proposed CCA Program entails the following:

- $3.74 million contributed by County for start up costs
- $51 million in working capital likely needed to fund initial activities, including energy contracting and staffing
  - Funding decisions to be made by CCA Board of Directors

- Penalties for withdrawal vary depending on contracting status of energy procurement and other factors

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CCA Finance Summary and Issues

Loan Guaranty Potential:

- $51 million in working capital would likely require backing by one or more member agencies of the JPA
  - Loan guaranty issue identified in Supplemental Report
- Based on County analysis, the CCA could request that the City provide a partial loan guaranty of up to $1.25M for start up capital.

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CCA Cost Benefits for Oakland

- Oakland homes and businesses used 2.14 billion kilowatt-hours of electricity in 2015, representing 25% of total energy use in Alameda County.
  - Oakland CCA customers could save up to $24 million/year
  - Average customer savings of $81 per year
- City of Oakland spends $7.58 million on electricity per year
  - As a CCA customer, City could save up to $530,000 per year on energy costs

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Community Choice Energy Program

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Agenda Memo

CITY HALL - ONE FRANK H. OGAWA PLAZA - OAKLAND - CALIFORNIA - 94612

FROM:

DAN KALB
Councilmember District 1
(510) 238-7001
E-mail: dkalb@oaklandnet.com

LIBBY SCHAAF
Mayor
510-238-3141
E-mail: lschaaf@oaklandnet.com

TO: Members of the Oakland City Council

SUBJECT: Community Choice Energy Program

DATE: November 22, 2016

RECOMMENDATION

Councilmember Kalb and Mayor Libby Schaaf recommend that the City Council accept the staff report and adopt the following pieces of legislation:

AN ORDINANCE AUTHORIZING THE IMPLEMENTATION OF A COMMUNITY CHOICE ENERGY PROGRAM WITHIN THE CORPORATE BOUNDARIES OF THE CITY OF OAKLAND TO BECOME EFFECTIVE THIRTY DAYS FOLLOWING THE FINAL PASSAGE OF THE ORDINANCE

A RESOLUTION APPROVING THE EAST BAY COMMUNITY ENERGY AUTHORITY JOINT POWERS AGREEMENT AND AUTHORIZE THE CITY ADMINISTRATOR TO EXECUTE THE EAST BAY COMMUNITY ENERGY AUTHORITY JOINT POWERS AGREEMENT; AND ADOPTING CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) EXEMPTION FINDINGS

BACKGROUND

In June 2015 Alameda County Board of Supervisors in collaboration with all the cities in Alameda County and other interested stakeholders, including labor unions and environmental organizations, formed a county-wide Steering Committee to advise the County and to facilitate the creation of Community Choice Energy Program in Alameda County.

Councilmember Kalb served as an official appointed City of Oakland representative on that Steering Committee. The committee met on monthly bases for over a year.

To ensure the success of the Community Choice Energy Program all the cities within Alameda County are asked to join the Program.

CONTACT INFORMATION

Please contact Office of Councilmember Kalb, dkalb@oaklandnet.com, Phone: (510) 238-7240 with any questions or concerns.

Respectfully submitted,

Councilmember Dan Kalb

Mayor Libby Schaaf

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NOTICE AND DIGEST

ORDINANCE AND RESOLUTION AUTHORIZING THE IMPLEMENTATION OF A COMMUNITY CHOICE ENERGY PROGRAM IN THE CORPORATE BOUNDARIES OF THE CITY OF OAKLAND, TO BECOME EFFECTIVE THIRTY DAYS FOLLOWING THE PASSAGE OF THE ORDINANCE, APPROVING THE EAST BAY COMMUNITY ENERGY AUTHORITY JOINT POWERS AGREEMENT, AND ADOPTING CEQA EXEMPTION FINDINGS

The proposed community choice energy program, titled East Bay Community Energy, would purchase electricity on behalf of all existing Pacific Gas & Electric (PG&E) electricity customers. The purpose of the program is to provide for local control of the type of electricity purchased, increasing the percentage of clean energy used in Oakland and providing public accountability for decisions made regarding the purchase and delivery of electricity. This Ordinance and Resolution would make the City of Oakland a member of the East Bay Community Energy Authority, approve a Joint Powers Agreement that would govern the program, and authorize the program to operate within the boundaries of the City of Oakland. Alameda County and its cities, excluding the City of Alameda, are also eligible to participate and are considering joining the program. If approved, the program is expected to publicly launch in 2017.