



DATE: September 13, 2016

CATEGORY: New Business

DEPT.: Finance and Administrative Services/City Manager's Office

TITLE: **Authorize the City Manager to Execute Documents Related to Financing for the Silicon Valley Clean Energy Authority (SVCEA)**

RECOMMENDATION

Authorize the City Manager to execute documents associated with providing a loan guarantee for the Silicon Valley Clean Energy Authority of up to \$700,000.

BACKGROUND

On January 12, 2016, the Mountain View City Council unanimously approved the actions required to form and participate in the Silicon Valley Clean Energy Authority (SVCEA). The SVCEA will operate a Community Choice Energy (CCE) program to pool the electricity demand within the 12 participating jurisdictions to directly procure or generate electrical power supplies on behalf of their residents and businesses.

The January 12, 2016 report to Council (Attachment 1) detailed the next steps for forming the SVCEA and the early operational steps to develop and launch a CCE program. The report discussed that the SVCEA would require operating capital and significant credit capacity for its initial power supply purchases until sufficient ratepayer revenues are received, and it also described that such financing would likely require some form of limited-term guarantee typically provided by one or more member agencies. The report also noted that staff would return to Council with an update and potential action regarding this bridge financing.

ANALYSIS

The City of Mountain View has taken the lead in evaluating financing options for the SVCEA to provide the essential financing that bridges the early operations and electricity purchases until sufficient revenues are received. The financing team initiated a Request for Proposals (RFP) for credit and banking services on behalf of the SVCEA, and staff led the team reviewing the RFP responses.

Initially, it was anticipated that the member agencies may need to provide some form of limited guarantee to a bank, or provide direct financing to the SVCEA as has been the case for all other CCEs. After reviewing the proposals, the credit terms provided by the selected bank are such that direct loans from the member agencies for up to the \$20 million of financing for power will not be required. This is the first known credit offered without a guarantee for a CCE and is a very favorable result. However, there still is some level of short-term (one to two years) guarantee that will be required for up to \$2 million in additional startup costs prior to launch. On August 9, Sunnyvale authorized up to \$1.3 million in short-term financing to the SVCEA. This action would authorize up to the other \$700,000 needed. However, the County of Santa Clara and City of Gilroy may also participate (only charter agencies can). If they do, Mountain View's participation may drop to \$480,000. The City's guarantee for financing is intended to be in a priority position relative to the funding provided by all agencies for general prelaunch expenses. The attorneys from the four agencies are meeting to come to consensus on the wording of the form of guarantee with the bank as well as an agreement between the agencies and SVCEA.

The financing team has determined that in order to meet SVCEA's timeline for program launch, it is valuable for member agencies involved in the financing to take action in September. The SVCEA Board is expected to select its bank in September and the financing agreements in October/November.

General Project Update

The SVCE Board was convened in April with 1 representative of each of the 12 agencies, and now meets regularly on the second Wednesday of the month. They have hired a CEO and subsequently approved key policies that defined program roll-out in three short phases beginning on April 1, 2017 and concluding October 1, 2017; offer default rates at 1 percent below PG&E; acquire carbon-free supplies to meet the needs of the SVCE customers; and set aside 6 percent of its operating revenues for a rate stabilization fund and to establish programs to promote renewable resources locally.

During its August meeting, the Board of Directors approved SVCE's organizational structure, recruiting plan, job classifications, and compensation schedule for prospective employees. The first three positions were posted and plans are under way to conduct interviews in October 2016. They are actively looking for a permanent location.

They have issued two Requests for Proposals for power supply and scheduling coordination services and for data management services. It is expected that more than 95 percent of SVCE revenues will be spent on these services.

In November, staff will develop and seek Board approval of SVCE's first strategic plan. The plan will outline the goals, strategies, and tactics to chart SVCE's course for the next five years. In December, staff will present preliminary rates for the first two years of operation. Rates will be finalized and recommended for approval in January 2017.

Notifying the customers (one segment at a time) of their options will start in January and will be done monthly through November except for March, June, and September.

SVCE staff will negotiate contracts with several power suppliers to provide electricity for SVCE residents and businesses for all of 2017 and 2018 and portions of the SVCE's electricity demand in 2019 through 2021. In addition, a data service management agreement will be negotiated to provide the interface between the SVCE and PG&E.

More information, and updates, can be found on the SVCE website: www.svcleanenergy.org.

FISCAL IMPACT

The City could be at risk for up to \$700,000 if the entire guarantee is needed and the SVCEA failed to generate revenue to pay the City back, which is considered highly unlikely.

ALTERNATIVES

1. Do not provide a guarantee to the SVCEA.
2. Provide other direction.

PUBLIC NOTICING

Agenda posting and copy to the SVCEA, City of Sunnyvale, City of Gilroy, and County of Santa Clara.

Prepared by:

Patty J. Kong
Finance and Administrative
Services Director

Approved by:

Daniel H. Rich
City Manager

PJK/LS/7/CAM
546-09-13-16CR-E

Attachment: 1. [January 12, 2016 Council Report](#)