

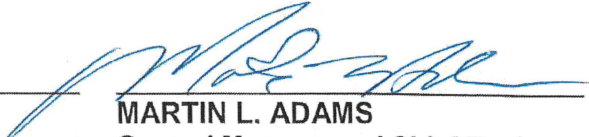
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RESOLUTION NO. _____

BOARD LETTER APPROVAL


BRIAN J. WILBUR
Interim Senior Assistant General Manager –
Power System Engineering, Planning, and Technical
Services


MARTIN L. ADAMS
General Manager and Chief Engineer

DATE: July 18, 2022

SUBJECT: Renewal Agreement for the Acquisition of Capacity (LADWP Agreement No. BP 21-004), Renewal Transmission Service Contract (LADWP Agreement No. BP 21-005), and Renewal Agency Agreement (LADWP Agreement No. BP 21-006) Between the Los Angeles Department of Water and Power and the Southern California Public Power Authority

SUMMARY

Approval of the Renewal Agreement for the Acquisition of Capacity (LADWP Agreement No. BP 21-004), Renewal Transmission Service Contract (LADWP Agreement No. BP 21-005), and Renewal Agency Agreement (LADWP Agreement No. BP 21-006) is required for the Southern California Public Power Authority (SCPPA) to be able to continue handling financings of the Southern Transmission System (STS) for the remainder of LADWP's participation in the Intermountain Power Project (IPP) under renewal agreements until 2077 (collectively, the STS Renewal Agreements).

The attached Resolution authorizes the LADWP to execute the agreements and requests that the City Council adopt the proposed ordinance to allow SCPPA to continue to issue bonds and other debt obligations for financing capital improvements in the STS.

City Council approval, by ordinance, is required pursuant to City Charter Section 674.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners (Board) adopt the attached Resolution recommending City Council's approval, by ordinance, of the STS

Renewal to allow SCPA to issue bonds and other evidences of indebtedness to provide the financing needed for the capital improvements of the STS.

ALTERNATIVES CONSIDERED

The California Purchasers of IPP, which include LADWP, considered having IPP's owner, the Intermountain Power Agency (IPA), provide the financing for the capital improvement of the STS. IPA has contracted with a bank to provide financing for the IPP Renewal Project, a capital improvement project to replace the existing coal units. However, SCPA will be able to issue tax-exempt municipal bonds and incur other evidences of indebtedness at lower yields than issuing bonds through IPA. LADWP's Financial Service Organization (FSO), in coordination with its independent municipal advisors, conducted market research and financial analysis and have determined that issuing bonds through a joint power agency like SCPA could result in total net debt service savings of approximately \$28.9 million, \$16.1 million on a present value basis, to the California Purchasers over the life of the project. The projected savings are based on the higher credit ratings anticipated for a SCPA STS Renewal Project issuance versus IPA and the pricing advantage (lower yields) of tax-exempt California municipal bonds compared to most other states, owing to California's relatively higher income tax rates.

If these agreements are not approved, IPA can issue the bonds to finance the capital improvement. However, it will be at a higher cost for the ratepayers of the California Purchasers.

FINANCIAL INFORMATION

The total construction cost for the renewal of the STS Project is currently estimated at approximately \$1.0 billion. The total cost of bonds and other debt obligations to be issued to finance the payments-in-aid of construction to IPA is estimated at approximately \$2.0 billion, including principal and interest over a 30-year term. The average annual debt service over the term of the bonds and other debt obligations is expected to be \$63.3 million. The estimated all-in true interest cost is approximately 3.13 percent, based on current market interest rates for tax-exempt bonds issued by SCPA. The debt issuance costs are estimated at \$5.3 million, equivalent to 0.55 percent of the total bond issue, which includes underwriters' discount, bond counsel, disclosure counsel, financial advisor, rating agency, and other miscellaneous financing related fees.

BACKGROUND

In 1977, 23 Utah municipalities organized IPA to finance, construct, and operate a facility to generate electricity. The original 23 Utah municipalities together with six Utah cooperatives and six California municipalities signed separate Power Sales Contracts to accept their respective percentages of the generation capacity. By Resolution No. 512 dated April 3, 1980, the Board authorized the General Manager to enter LADWP into a Power Sales Contract (LADWP Agreement No. 10437) with IPA to purchase coal-fired generation from its IPP. The entire project included a generating station, railcar service

center, the Northern Transmission System (NTS), and the STS, and has been in operation since 1986. Though IPA financed the construction of the majority of IPP, the California Purchasers of IPP financed the original construction of the STS through SCPPA.

SCPPA is a non-profit joint power agency formed in 1980 to facilitate joint power and transmission projects for the benefit of its Southern California municipal member utilities. By Resolution No. 344 dated May 12, 1983, the Board entered LADWP into an agreement for the Acquisition of Capacity (LADWP Agreement No. 10016), a Transmission Service Contract (LADWP Agreement No. 10017), and an Agency Agreement (LADWP Agreement No. 10020) with SCPPA to allow for the issuance of more economically favorable bonds and other debt obligations by SCPPA for the construction of the STS (collectively, the STS Original Agreements). The STS Original Agreements are effective until June 15, 2027, the anticipated date when the last of the debt repayment for the original bonds and other debt obligations issued by SCPPA will be satisfied by the original California Purchasers of IPP.

In the early 2000, IPA and the IPP Purchasers commenced discussions to assess the IPP assets and determine how the project could be extended and stay compatible with the changing California laws related to power generation. By Resolution 015 232 dated June 2, 2015, the Board authorized the Second Amendatory Power Sales Contract (LADWP Agreement No. 10437), Renewal Power Sales Contract (LADWP Agreement No. 10522), and Agreement for Sale of Renewal Excess Power, with IPA to allow LADWP to continue participating in IPP through June 15, 2077, pursuant to amending provisions in the Power Sales Contract providing for the early termination of coal-fired generation by 2025 and repowering to technologies complying with California law.

IPA determined that capital improvements were necessary to extend the life of the project, including the replacement, renewal, and expansion of converter stations, AC switchyards, reactive power equipment, and associated facilities of the STS (STS Renewal Project) which have reached the end of their useful lives and present increasing reliability concerns. The STS and related STS Renewal Project will be increasingly utilized not only for the transmission of IPP generation, but also to serve as an increasingly critical transmission asset for the delivery of renewable energy from sources utilizing IPP's location as a renewable energy hub.

The California Purchasers of IPP have elected to finance the STS Renewal Project through SCPPA, and LADWP now desires entering into the STS Renewal Agreements to authorize the issuance of new bonds and other debt obligations by SCPPA for the STS to provide for the continued reliable transmission of such energy from IPP to Southern California during the term of the Renewal Power Sales Contract. The STS Renewal Agreements will similarly provide better costs for LADWP and its ratepayers to enable financing of the STS Renewal Project for the transmission of electric energy.

The STS Renewal Agreements will be effective until June 15, 2077, or such later date as all bonds and other debt obligations and the interest thereon shall have been paid in full,

or adequate provision for such payment shall have been made by the California Purchasers of IPP.

The terms and provisions of the STS Renewal Agreements, discussed in detail below, are similar or identical to the terms and provisions of the STS Original Agreements and serve the purpose of continuing the existing arrangement with SCPPA, allowing for more favorable financing.

The STS Renewal Agreements

I. Renewal Agreement for the Acquisition of Capacity

- a. Purpose: The Renewal Agreement for the Acquisition of Capacity (Agreement) contains the terms and conditions under which LADWP will assign to SCPPA its right to capacity in the STS in accordance with the Renewal Power Sales Contract in order to enable SCPPA to incur indebtedness sufficient to generate funds for the payments-in-aid of construction of the STS Renewal Project.
- b. Parties: The parties to this Agreement are SCPPA and LADWP.
- c. Term and Termination: This Agreement shall become binding upon execution. The assignment of LADWP's rights and interests in the STS will be effective on the Transition Date as defined in the Renewal Power Sales Contract. The Agreement will terminate concurrently with the termination of the Renewal Transmission Service Contract between SCPPA and LADWP, at which time the right to capacity in the STS will revert back to LADWP.
- d. Principal Provisions:
 - i. LADWP assigns to SCPPA its right to capacity of the STS and all of its contract rights under the Renewal Power Sales Contract relating to the STS; provided, however, LADWP retains the right to appoint its representative to and to otherwise participate in the Renewal Contract Coordinating Committee as defined in the Renewal Power Sales Contract.
 - ii. SCPPA agrees to issue bonds or other debt obligations to provide funds to make payments-in-aid of construction with respect to the STS Renewal Project on behalf of LADWP.
 - iii. LADWP agrees that it will not consent to any amendment to the Renewal Power Sales Contract without the prior written consent of SCPPA.

- iv. LADWP agrees that all payments of Monthly Power Costs made by SCPPA, pursuant to the Renewal STS Agreement and received by IPA, shall be applied to LADWP's obligation to pay such Monthly Power Costs under the Renewal Power Sales Contract.
- v. SCPPA recognizes that LADWP has entered into or may enter into agreements with other entities pursuant to which such entities will have the right to use capacity in the STS which may, from time to time, be in excess to the needs of LADWP.

II. Renewal Transmission Service Contract

- a. Purpose: The Renewal Transmission Service Contract (Contract) contains the terms and conditions of the contractual arrangement under which LADWP shall make monthly payments for its 90.5 percent share of the capacity of the STS, as it pertains to the Renewal Power Sales Contract.
- b. Parties: The parties to this Contract are SCPPA and LADWP.
- c. Term and Termination: This Contract shall become effective only when (i) it has been executed and delivered on behalf of SCPPA and LADWP, (ii) LADWP shall have delivered to SCPPA an opinion of an attorney or firm of attorneys addressing the items described in Appendix B of the Contract, in form and substance reasonably satisfactory to SCPPA's Bond Counsel, (iii) Renewal Transmission Service Contracts between SCPPA and the Renewal Transmission Service Purchasers listed in Appendix A of the Contract providing for Renewal Transmission Service Shares equal, in the aggregate, to 100 percent shall have been executed and delivered by the parties thereto and approved by all necessary regulatory agencies, (iv) the Second Amendment to Original Southern Transmission System Agreement shall have been duly executed and delivered by the parties thereto and approved by all necessary regulatory agencies, (v) the Renewal Southern Transmission System Agreement shall have been duly executed and delivered by the parties thereto and approved by all necessary regulatory agencies, and (vi) the first series of Bonds shall have been issued. The term of this Contract shall begin and this Contract shall constitute a binding obligation of the parties hereto from and after the effective date and the term of this Contract shall end on June 15, 2077, or such later date as all Bonds and other debt obligations and the interest thereon shall have been paid in full, or adequate provision for such payment shall have been made.
- d. Principal Provisions:
 - i. The Contract provides for the contractual arrangement under which LADWP acquires transmission service of the STS.

- ii. SCPPA will prepare or cause to be prepared an annual budget which will be the basis for the billing of Monthly Transmission Costs.
- iii. The obligation of LADWP to make payments under this Contract shall constitute a cost of transmission service and an operating expense payable solely from its electric revenue funds.
- iv. Beginning on June 16, 2027, LADWP shall pay SCPPA for its share of Monthly Transmission Costs.
- v. SCPPA is obligated to issue bonds and other debt obligations, subject to the provisions of this Contract and the Renewal Indenture of Trust, to finance and refinance the costs of acquiring SCPPA Capacity.
- vi. SCPPA will prepare and issue the following reports to LADWP and other Purchasers: (i) financial and operating statements relating to the STS Renewal Project, (ii) status of the annual budget, and (iii) analysis of the operations relating to the STS Renewal Project.
- vii. The percentage breakdown of SCPPA's right to capacity in the STS is as follows:

<u>Transmission Service Purchasers</u>	<u>Transmission Service Share</u>
Burbank	4.222%
Glendale	5.278%
Los Angeles	90.500%

- viii. If LADWP or any other Purchaser defaults in the performance of any of its obligations under this Contract, upon 90 days' notice, SCPPA may discontinue transmission service during the period of default, bring any action as necessary to enforce the obligations of the defaulting Purchaser, or take any action permitted by law to enforce its rights under this Contract or recover damages for breach. In the event of a default by a Purchaser, SCPPA shall transfer on a pro rata basis to all requesting Purchasers which are not in default the defaulting Purchaser's rights and obligations. If any of the defaulting Purchaser's rights are not so transferred, SCPPA shall dispose of such remaining portion on the best terms available; provided, however, that in the opinion of SCPPA's Bond Counsel, such disposal will not adversely affect the Federal tax exemption of the related debt issued.

III. Renewal Agency Agreement

- a. Purpose: The Renewal Agency Agreement (Agreement) provides for LADWP to carry out certain activities relative to the STS, as Renewal Agent, on behalf of SCPPA.
- b. Parties: The parties to this Agreement are SCPPA and LADWP.
- c. Term and Termination: The Agreement shall become effective upon the effectiveness of the Renewal Transmission Service Contract and terminated upon the determination of the SCPPA Board of Directors upon the provision of reserves or other means of paying, satisfactory to the Renewal Agent and SCPPA, of any claims for Renewal Agency Work yet to be paid or settled.
- d. Principal Provisions:
 - i. The Agreement designates LADWP as SCPPA's Agent in connection with the financing of the construction of and improvements to the STS and in connection with the operation of the STS.
 - ii. As Agent, LADWP will perform certain work relating to the financing of the construction of and improvements to the STS and operation of the STS.
 - iii. LADWP will be reimbursed for all costs incurred in its performance of work under this Agreement.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report (CAO) was approved on June 7, 2022.

ENVIRONMENTAL DETERMINATION

Determine Item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378 (b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, the execution of the agreement between LADWP and SCPPA for the Renewal Transmission Service Contract, Renewal Acquisition of Capacity, and Renewal Agency Agreement is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the STS Renewal Agreements and Resolution as to form and legality.

ATTACHMENTS

- Resolution
- STS Renewal Agreements
- Draft Ordinance
- CAO Report