

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 14**

TO: Board of Directors

FROM: Gordon Samuel, Chief Operating Officer

SUBJECT: Budget Amendment for Participation in California Community Power Exploration and Solicitation for Build-Own-Transfer Projects

DATE: April 11, 2024

RECOMMENDATION

1. Authorize participation in California Community Power’s build-own-transfer solicitation at a not to exceed cost of \$54,000.

BACKGROUND

On April 8, 2021 through VCE Board Resolution 2021-010, the Board approved application to join California Community Power (CC Power), a joint powers agency comprised of several CCAs to facilitate joint procurement of power projects and services. Subsequently the CC Power Board approved VCE’s participation at their April 21, 2021 Board meeting. Since joining CC Power, VCE has entered into four project participation share agreements through CC Power for two long- duration battery energy storage contracts and two geothermal power contracts, which are in development.

In 2022, CC Power adopted a Strategic Plan that directs strategic assessment of the Inflation Reduction Act (IRA) and possible opportunities for joint action amongst member CCAs to take advantage of incentives that IRA made available to public agencies. These incentives make it possible for tax-exempt entities to take advantage of direct-pay tax credits for clean energy projects commensurate with the tax credits that are only available to private entities. To realize these IRA direct-pay incentives on behalf of its membership, CC Power would need to be the direct owner and operator of energy projects. This would be possible through a build-own-transfer arrangement with a private developer, who would be responsible for the project up to an agreed- upon milestone, such as commercial operation, upon which ownership of the project would be transferred to CC Power for the duration of its operational life.

SUMMARY

Staff is seeking approval to participate in CC Power’s Build-Own-Transfer Solicitation, which would include development, issuance and management of the solicitation as well as desktop evaluation of proposed projects. This phase (which CC Power is referring to as “Phase 2a”) would also include preliminary review of each member’s debt capability and CC Power’s overall bond financing capacity, as well as analysis of the financial proposition associated with developing, financing and operating a project. Phase 2a would not cover contract negotiations or detailed due diligence of the proposed projects, for which staff will come back to the Board to request additional funding approval if the solicitation yields one or more attractive projects.

While the solicitation hasn't been developed yet, it is expected that it will be open to renewable generation and energy storage technologies and will be tailored to the participating CCAs' procurement needs. In addition to soliciting pricing for build-own-transfer structures, pricing for other contractual arrangements such as power purchase agreements (PPAs) or tolling contracts that have previously been used for the CC Power energy storage and geothermal procurements mentioned above will be sought for comparison purposes. Total cost estimates for this phase range from \$135,000 to \$440,000, to be split evenly among the participating CCAs. A breakdown of these costs assuming all nine members participate, as estimated by CC Power staff, is shown in the table below, including a conservative estimate of per-member costs if fewer than all nine CC Power member CCAs participate.

Cost Component	Low Estimate	High
Solicitation	\$60,000	\$180,000
Engineering Support	\$15,000	\$40,000
PPA Counsel	\$10,000	\$20,000
Build Transfer Counsel	\$25,000	\$100,000
Bond Issuance Costs	\$25,000	\$100,000
Total Cost	\$135,000	\$440,000
Cost/Member (9 participants)*	\$15,000	\$49,000
Cost/Member (6 participants)	\$22,500	\$74,000

*at this time it appears all 9 members Board's approved participation in this phase, staff is requesting a not to exceed amount of the above \$49,000 + approx. 10% contingency = \$54,000.

The following are achievable or possible benefits of participating in this solicitation:

- Build-own-transfer proforma contract documents and valuation tools that VCE can use in its own solicitations.
- Informs participants on procurement opportunities while establishing an alternative CCA procurement approach to PPAs.
- Current wholesale price data for build-own-transfer projects compared to more conventional offtake arrangements like PPAs.
- Preliminary debt due-diligence and evaluation of individual bond financing capacity for project ownership.
- Option to pursue ownership and issue bonds to capitalize on direct pay incentives with shared risk among multiple CCAs.
- Relatively low cost compared to VCE conducting our own similar solicitation.

CONCLUSION

In summary, the staff recommendation to the Board is:

1. Participate in California Community Power Exploration and Solicitation for Build-Own-Transfer Projects (Phase 2a)
2. Approve budget amendment of a not-to-exceed amount of \$54,000 associated with Phase 2a work.