



MEMORANDUM

TO: SLDMWA Finance & Administration Committee, Board of Directors, Alternates

FROM: Frances Mizuno, Special Projects Administrator

DATE: September 13, 2021

RE: Recommendation to Board of Directors to Pursue Self-Funding or Public-Private Partnership Option for San Luis Transmission Project Financing

BACKGROUND

The San Luis Transmission Project (SLTP) would consist of:

- A new 230 kV transmission line about 65 miles in length between the new Tracy East and Los Banos West Substations;
- A new 230 kV transmission line about 3 miles in length between the new Los Banos West Substation and Western Area Power Administration's (Western) existing San Luis Substation;
- A new 230 kV transmission line about 20 miles in length between Western's existing San Luis Substation and Western's existing Dos Amigos Substation or a new 230 kV transmission line about 18 miles in length between the new Los Banos West Substation and Western's existing Dos Amigos Substation; and
- A new 70 kV transmission line about 7 miles in length between the existing San Luis and O'Neill Substations.

Western would construct, own, maintain, and operate the lines, which would be located mostly adjacent to existing transmission lines in Alameda, San Joaquin, Stanislaus, and Merced Counties in California.

Additional components of the SLTP would include new 230 kV line terminal bays at Western's San Luis and Dos Amigos Substations, which are operated and maintained by DWR, as well as a new 230/70 kV transformer bank and interconnection facilities at the San Luis Substation.

The 230 KV transmission line will provide for 600MW of bi-directional capacity. Reclamation's need for the project is 400M of North to South Capacity. The excess capacity is available to be marketed to third party(s). The cost to build a 400 MW vs a 600 MW project is essentially the same. Western advised that the impact to the construction cost of a 400 MV vs a 600 MW project would be negligible related to the overall cost. The current design has a very low economy of scale and downgrading it further does little to impact cost. For example, the transmission line

right-of-way and structures would remain the same and the only real cost savings would be downsizing the conductor which would result in about a \$3M savings overall.

The overall construction costs of the project are estimated to be approximately \$282 million dollars (July 2020 estimate). The estimated annual O&M costs of the project are between \$500,000 and \$750,000 per year. The planned financing period is assumed to be 30 years, with the estimated life of the SLTP to exceed 40 years in life.

On October 5, 2020, the Water Authority issued a Request for Proposals (RFP) relating to the SLTP. The RFP was distributed by the energy division of Foley & Lardner, LLP to various transmission investors (coordinated through Dennis Cardoza), published in transmission/energy trade newsletters (e.g. Power Finance and Risk), distributed by Mark Gabriel, Western Administrator and CEO to various transmission investors, and posted on the Water Authority website.

A Special Board of Directors Workshop was held on August 23 where the financing options by private investors and self-financing using taxable Bond financing were presented. The least cost option presented was the Water Authority self-financing option. The Board requested staff to bring the financing options (private versus self-financing) to the Board of Directors for action in the September 16 Board meeting.

Subsequent to the workshop, staff provided an addendum to the RFP to the three private investors that provided proposals under the original RFP to allow for an opportunity to provide a best and final offer that would be comparable to the Water Authority self-financing option. Details for the Water Authority financing was provided under the Addendum.

All three private investors were asked to submit best and final offers by Wednesday, September 8. The results of the analysis of these best and final proposals compared to Water Authority financing will be presented at the Board of Directors meeting on September 16th.

ISSUE FOR DECISION

Whether to pursue financing of the SLTP by:

1. Water Authority issuance of a 100% taxable bond (self-financing option);
2. Selection of a private investor and negotiation for Public Private Partnership (P3) financing; and/or
3. Retention of consultants/attorneys to assist in contracting with Western and long-term leases for excess capacity.

ANALYSIS

1. SLDMWA Financing Option – (See attached schedule and cost estimate for Bond issuance)

- Water Authority would issue a 100% taxable bond (taxable bond provides more flexibility and would not limit marketing of excess capacity for only public use).
- Water Authority would enter into a Project Development Agreement (PDA) with Reclamation and Western Area Power Administration (Western) to provide funds for the SLTP with terms and conditions for long term use of capacity.
 - Western would own, operate and maintain and own the capacity. Western would reserve 400 MW of N-S capacity for CVP use.
 - Western would enter into long-term (30-year) transmission service agreements with the Water Authority for the 200 MW of N-S and 600 MW of S-N capacity rights with first right to renew after 30-years.
 - Water Authority can enter into long term lease agreements with solar developer(s)/others (off takers) for the capacity rights under the transmission service agreement.
 - Water Authority collects payment from CVP contractors/Reclamation and off takers to make full debt payment.
- Golden State Energy would need to assign the queue to the Water Authority for transmission service connection to Western's transmission system.
- Water Authority would enter into a Transmission Service Agreement (TSA) with Western for 200 MW of N-S and 600 MW of S-N capacity.
- Would require CVP contractors to take on 100% of cost of financing unless/until excess capacity is marketed.
- Golden State Energy/Westland Solar has expressed interest in entering into contract for 600 MW of S-N Capacity at a rate of approximately \$6.15M/year with 1.5% escalator per year.
- Requires Water Authority to market excess capacity at negotiated rates. Would require retention of consultant to perform this task and possibly additional staff to manage the contracts.
- Revenue from excess capacity sales would offset cost to Reclamation (CVP contractor cost) for the term of the Bond repayment (30-years).
- Reclamation's cost for the SLTP would be included in the Project Use Energy (PUE) rate and Reclamation would collect from CVP rate payers and remit payment to the Water Authority or establish direct payment methodology to the Water Authority for STLP debt obligation.
- Revenue from excess capacity sales after 30-year when debt has been paid would be retained by the Authority.

Pros:

- Lowest cost option
- Cleanest and understandable concept
- Most expedient option to provide funds for Western to proceed with construction
- Water Authority would have long-term rights to capacity on entire project
- Greatest revenue generation potential

- Golden State Clean Energy is currently in the queue for transmission connection to Western's system and has indicated willingness to assign its position to the Water Authority
- Golden State Clean Energy willingness to enter into long-term lease for 600 MW of S-N capacity with the Water Authority

Cons:

- Water Authority responsible for 100% of debt payment
- Potential impacts to future Water Authority borrowing capacity
- Requires assurance from Reclamation to collect from CVP contractors to pay debt
- Water Authority responsible for marketing excess capacity for off takers
- Greater risk/exposure for non-payment by parties (CVP Contractors and off takers)
- Requires Water Authority to negotiate long term leases for excess capacity
- Requires Water Authority to administer bonds, collect for debt payment and market excess capacity.

2. Initial Public/Private Partner (P3) Proposals Received-with the best and final offer analysis will be provided for the September 16th Board of Director's meeting.

- Horizon West
 - Would serve as a banker to finance 100% of the project
 - Horizon would contract with Western to provide the funds for construction and the use of the total 600 MW of bi-directly capacity and the responsibility for the entire cost of the Project financing. Reclamation CVP contractors would be able to utilize 400 MW of N-S capacity but would need to assume the entire cost of financing. Western would market excess capacity including the 600 MW S-N capacity at a rate based on actual cost of the project. Western does not have the discretion to negotiate rates. Rate has to be based on actual cost. Revenue received from excess capacity sales would be applied to Reclamation to offset costs.
 - Assuming the 600 MW of S-N Capacity can be contracted to a Solar Developer at a rate of \$6.150M per year with a 1.5% /year escalation this would be the lowest P3 cost option.
 - Would require Golden State Energy to assign their place in Western's queue to the Water Authority.
- Starwood Energy
 - Would finance 100% of Project
 - Starwood would need to submit a TSR to Western to get in the queue for transmission service for SLTP. Golden State Clean Energy would need to agree to assign their place in the queue.
 - Starwood would enter into a TSA with Western for 600 MW bi-directly capacity for long-term capacity rights.

- Starwood would enter into separate contract with Reclamation for 400 MW of N-S capacity and be responsible for the entire financing cost of the Project
- Starwood Energy will the market excess capacity with revenue applied to Reclamation to reduce cost. (Third Party marketing of excess capacity allows for negotiated rates.)
- Golden State Clean Energy/Westlands Solar Project (*Conditioned on Golden State's ability to purchase 5000 acres of land for the Westlands Solar Project*)
 - Would finance 100% of Project
 - Golden State has submitted a TSR to Western and has been accepted in the queue for SLTP transmission capacity (replaced DATC). If another party finances the SLTP, it would require Golden State to assign the queue to that party.
 - Golden State would enter into TSA with Western for long term rights to the 600 MW of bi-directional capacity.
 - Golden State would enter into contract with Reclamation for 400 MW of N-S capacity at a fixed annual rate.
 - Golden State would enter into a contract with Westlands Solar Project for 600 MW of S-N capacity at agreed upon rate.
 - Golden State would market excess capacity and share in the revenue with Reclamation to reduce annual cost.
 - GSE working with WWD on an Options Land Purchase Agreement for the Westlands Solar Project.

IMPLICATIONS

Without a viable financing option to present to Western soon, Western will not be able to continue to provide staff to support the SLTP and will take this project off of their work list. The SLTP EIS/EIR was completed and adopted in 2016. Continued delay could also increase the cost of the project and its financing. In addition, CVP contractors will continue to pay increasing Transmission Access Charges (TAC) to CAISO.

BUDGET

The Authority has included a total of \$100K in the FY22 O&M and Activity budget for financial consultant and outside legal counsel to support Reclamation in developing a financing option. It is anticipated that at a minimum, outside legal counsel and possibly a consultant with experience with contracting with Western and with solar developers will be needed. More significant costs associated with this effort will be included in the cost of issuance of the Bond and will be paid out through bond proceeds. See Attachment for the estimated cost of issuance.

San Luis & Delta-Mendota Water Authority (SLTP) Revenue Bonds, Series 2022

TIME AND RESPONSIBILITY SCHEDULE

Revised on: **September 1, 2021**

- I = Issuer** - San Luis & Delta-Mendota Water Authority
 - OP = Obligated Party** - Westlands Water District*
 - BC = Bond Counsel** - Stradling Yocca Carlson & Rauth PC
 - DC = Disclosure Counsel** - Stradling Yocca Carlson & Rauth PC
 - FA = Financial Advisor** - Fieldman, Rolapp & Associates, Inc.
 - T = Trustee** - US Bank
 - UW = Underwriter** - TBD
 - UC = Underwriter's Counsel** - TBD
 - RA = Rating Agencies** - TBD
 - WG = Working Group** - I, OP, BC, FA, UW, UC
- * Other Obligated Parties will be added.*

Note: FAC meets first Monday of the month and Board meets first Thursday of the month

Date	Description	Responsible Parties	Status
Wednesday, September 1, 2021	Call with Authority, Westlands and Finance Team to discuss bond structure	All	
Monday, September 6, 2021	HOLIDAY - LABOR DAY		
Thursday, September 16, 2021	Board meeting to provide direction to Staff on SLTP financing	All	
Monday, September 20, 2021	Call with WAPA on Transmission Service Agreement ("TSA")	I, FA	
Monday, September 20, 2021	Draft of Authority Section to POS distributed to I, MA	BC	
Tuesday, September 21, 2021	Distribution of 1st draft of Bond Indenture, Transmission Service Agreement with WAPA and Activity Agreements to WG	BC	
Thursday, September 30, 2021	Prepare Substantially final Activity Agreements, if used	BC	
Monday, October 4, 2021	Authority distributes all final financial information to BC	I	
Monday, October 4, 2021	Finance & Admin. Committee meeting to consider Activity Agreements, if used	All	
Thursday, October 7, 2021	Board Meeting to consider Activity Agreements, if used	All	
+/- Friday, October 8, 2021	Distribution of 1st draft of Preliminary Official Statement ("POS")	BC	
Thursday, October 21, 2021	Package to RA and Bond Insurers	All	
Monday, November 1, 2021	Finance & Admin., Committee meeting to consider the approval of [Activity Agreements], Bond Documents and arrangements with BOR	All	
+/- Monday, November 8, 2021	Rating Agency presentations	All	

San Luis & Delta-Mendota Water Authority
(SLTP) Revenue Bonds, Series 2022

TIME AND RESPONSIBILITY SCHEDULE

Date	Description	Responsible Parties	Status
Thursday, November 25, 2021	HOLIDAY - THANKSGIVING DAY		
Monday, December 6, 2021	Finance & Admin., Committee meeting to consider the approval of POS and Bond Documents; TSA with WAPA	All	
Monday, December 6, 2021	Finalize arrangements with Westlands Solar	All	
Monday, December 6, 2021	Finalize Transmission Service Agreement with WAPA	All	
Monday, December 6, 2021	Finalize arrangements with BOR and agreement for collection/payment of debt obligation	All	
+/- Monday, December 6, 2021	Receive ratings from Rating Agencies	All	
Thursday, December 9, 2021	Board meeting to consider the approval of POS and Bond Documents	All	
+/- Monday, December 13, 2021	Due-diligence call	All	
Wednesday, December 15, 2021	Bond Insurance analysis complete, recommendation made	I, FA, UW	
+/- Monday, December 20, 2021	Post POS electronically	BC	
Friday, December 24, 2021	HOLIDAY - CHRISTMAS DAY		
Friday, December 31, 2021	HOLIDAY - NEW YEAR'S DAY		
+/- Wednesday, January 5, 2022	Pricing call @ TBD / Execute BPA	All	
+/- Wednesday, January 19, 2022	Closing	All	

**San Luis & Delta Mendota Water Authority
(SLTP) Revenue Bonds, Series 2022**

ESTIMATED COSTS OF ISSUANCE / PLANNING PURPOSES

Role / Purpose	Firm	NTE Fees & Expenses
1 Bond & Disclosure Counsel	Stradling Yocca Carlson & Rauth	200,000
2 Financial Advisor	Fieldman, Rolapp & Associates	130,000
3 Credit Rating	Moody's	155,000
4 Credit Rating	S&P	95,000
5 Trustee	US Bank	7,500
6 Printing of OS / POS	ImageMaster	5,000
7 Miscellaneous / Contingency	N/A	7,500
Total Cost of Issuance (paid from bond proceeds)		\$ 600,000
Underwriter Discount (paid from bond proceeds)		\$ 1,607,500

* preliminary subject to change