

Briefing Document

Description:

A RESOLUTION AUTHORIZING A TAX CERTIFICATE AND AGREEMENT FOR UAMPS' PAYSON POWER PROJECT; AND RELATED MATTERS.

Presenter: Rick Hansen

Submitted By: Rick Hansen

Recommendation:

Recommend to the City Council to approve the provided Resolution Authorizing a Tax Certification and Agreement for UAMPS Payson Power Project

Background Information:

UAMPS staff has identified an opportunity to realize a cost savings to the Payson Power Project by utilizing a Pre-Pay arrangement for the natural gas used by the project. See included UAMPS talking points for additional details.

Fiscal Impact:

Through the pre-pay transaction it is anticipated that a savings of 7.5% will be realized for the natural gas purchased for the Payson Project. This will result in lower operating costs to the project participants.

Impacted Fund: Electric

A RESOLUTION AUTHORIZING A TAX CERTIFICATE AND AGREEMENT
FOR UAMPS' PAYSON POWER PROJECT; AND RELATED MATTERS.

*** *** ***

WHEREAS, WASHINGTON CITY, UTAH (the "*Participant*") is a member of Utah Associated Municipal Power Systems ("*UAMPS*") and is a Participant in the Payson Power Project (the "*Project*") under the Payson Power Project Power Sales Contract dated as of June 1, 2002, as supplemented (the "*Power Sales Contract*") between the Participant and UAMPS;*

WHEREAS, the Participant has been advised that UAMPS proposes to enter into a Commodity Supply Contract (the "*Supply Contract*") with Southeast Energy Authority, a Cooperative District ("*SEA*") to purchase a portion of the natural gas necessary for the operation of the Project at price that reflects a discount from the current contract price of natural gas for the Project being paid by UAMPS, and that the savings from such discount will be applied by UAMPS for the benefit of the Participant and the other Participants in the Project based on their respective Entitlement Shares;

WHEREAS, the Participant has been advised that SEA will issue bonds to finance a prepayment for the natural gas that it sells to UAMPS under the Supply Contract (the "*Prepay Bonds*") with the intention that the interest on the Prepay Bonds will qualify for tax exemption under Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*"); and

WHEREAS, the Participant acknowledges that its use of the electricity it purchases from its Entitlement Share under the Power Sales Contract will be subject to certain restrictions that are necessary to establish and maintain the tax-exempt status of interest on the Prepay Bonds, and desires to adopt this resolution to authorize a Tax Certificate and Agreement that sets forth the Participant's agreement to comply with such restrictions;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF WASHINGTON CITY, UTAH, AS FOLLOWS:

Section 1. Approval of Tax Certificate and Agreement. The Tax Certificate and Agreement, in substantially the form attached hereto as *Exhibit A*, is hereby authorized and approved.

Section 2. Authorized Officers; Final Changes and Dating. The Participant's Representative and Alternate Representative to UAMPS (the "*Authorized Officers*") are each hereby authorized to execute and deliver the Tax Certificate and Agreement and to deliver the same to UAMPS on behalf of the Participant. Each of the Authorized Officers is hereby delegated

* Capitalized terms used and not otherwise defined herein have the meanings assigned to them in the Power Sales Contracts and the Tax Certificate and Agreement.

authority to approve such changes to the Tax Certificate and Agreement as are necessary to complete the form thereof, together with any minor or non-substantive changes, and his or her execution of the Tax Certificate and Agreement shall be conclusive evidence of such approval. The Authorized Officers shall deliver an executed and undated copy of the Tax Certificate and Agreement on or prior to the date requested by UAMPS, and UAMPS is hereby be authorized to deliver the Tax Certificate and Agreement, dated the issue date of the Prepay Bonds, to SEA on behalf of the Participant.

Section 3. Other Actions With Respect to the Tax Certificate and Agreement. The Authorized Officers shall take all action necessary or reasonably required to carry out and give effect to the Tax Certificate and Agreement including adjusting the priority of the Participant's resources within the UAMPS Power Pool to ensure the Qualified Use of the electricity from the Participant's Entitlement Share in the Project.

Section 4. Severability. If any section, paragraph, clause, or provision of this resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall not affect any of the remaining provisions of this resolution.

Section 5. Effective Date. This resolution shall be effective immediately upon its approval and adoption.

ADOPTED AND APPROVED by the City Council of Washington City, Utah, this day,
_____.

WASHINGTON CITY, UTAH

By _____
Mayor

[SEAL]

ATTEST:

City Recorder

EXHIBIT A

TAX CERTIFICATE AND AGREEMENT

This Tax Certificate and Agreement is executed in connection with the Commodity Supply Contract (the “*Supply Contract*”) between Southeast Energy Authority, a Cooperative District (“*SEA*”) and Utah Associated Municipal Power Systems (“*UAMPS*”).

WHEREAS, _____ (the “*Participant*”) is a member of UAMPS and has entered into the Payson Power Project Power Sales Contract dated as of _____¹ (the “*Power Sales Contract*”) with UAMPS;

WHEREAS, the Participant understands that UAMPS has entered into the Supply Contract to obtain a supply of natural gas for use as fuel in the operation of the Payson Power Project, and that UAMPS will sell a portion of the electricity generated with such natural gas to the Participant in accordance with its Entitlement Share under (and as such term is defined in) the Power Sales Contract;

WHEREAS, the Participant further understands that SEA will issue bonds to finance a prepayment for the natural gas that it sells to UAMPS under the Supply Contract (the “*Prepay Bonds*”) with the intention that the interest on the Prepay Bonds will qualify for tax exemption under Section 103 of the Internal Revenue Code of 1986, as amended (the “*Code*”); and

WHEREAS, the Participant acknowledges that its use of the electricity it purchases from its Entitlement Share under the Power Sales Contract is subject to certain restrictions that are necessary to establish and maintain the tax-exempt status of interest on the Prepay Bonds;

ACCORDINGLY AND IN FURTHERANCE OF THE FOREGOING, THE PARTICIPANT HEREBY CERTIFIES AND AGREES AS FOLLOWS:

1. The Participant is a political subdivision of the State of _____,² and owns and operates a municipal utility system that provides electricity service to retail customers located in an established service area (the “*System*”).

2. The Participant will (a) use all of the electricity it acquires from its Entitlement Share under the Power Sales Contract in a Qualified Use (as defined below), (b) not take any action (or make any allocation) that is inconsistent with the Qualified Use of such electricity, (c) not take or omit to take any action which could adversely affect the tax-exempt or tax-advantaged status of interest on the Prepay Bonds or any refunding bonds issued by SEA, (d) take, and pay the costs of, such remedial actions as may be necessary to maintain the tax-exempt or tax-advantaged status

¹ (a) “June 1, 2002” for Fairview, Monroe, Mt. Pleasant, Payson and Springville, (b) “June 1, 2002, as supplemented” for Ephraim, Hurricane, Hyrum, Kaysville, Lehi, Logan, Santa Clara, Spring City, SEDS and Washington, and (c) “December 1, 2009” for TDPUD.

² Utah for all Participants, except California for TDPUD.

of interest on the Prepay Bonds or any refunding bonds in the event of its failure to use such electricity in a Qualified Use, and (e) act in accordance with such reasonable written instructions as may be provided by SEA (through UAMPS) from time to time in order to maintain the tax exempt or tax-advantaged status of the Prepay Bonds.

3. “*Qualified Use*” means the sale of electricity to retail customers located within the “electricity service area” of a municipal utility pursuant to generally applicable and uniformly applied rate schedules or tariffs; *provided* that: (a) “Qualified Use” shall not include any sale of electricity that gives rise to “private business use” or a “private loan” within the meaning of Section 141 of the Code; and (b) “Qualified Use” shall include such additional uses of electricity as may be approved by SEA (through UAMPS) with a favorable opinion of bond counsel. For purposes of this definition: (i) “electricity service area” has the meaning assigned to such term in U.S. Treasury Regulation Section 1.148-1(e)(2)(iii); and (ii) a “municipal utility” is a state or local government unit that owns and operates an electric distribution utility.

4. In each of the five calendar years preceding 2024, the amount of electricity sold to retail customers in the Participant’s electricity service area has equaled or exceeded the amount of electricity attributable to its Entitlement Share under the Power Sales Contract (excluding the amount of electricity that the Participant was obligated to take under a long term agreement that was either (i) purchased pursuant to a long term prepaid agreement using the proceeds of tax-exempt or tax-advantaged obligations, or (ii) generated from gas that a person is obligated to take under a long term agreement that was purchased pursuant to a long term prepaid agreement using the proceeds of tax-exempt or tax-advantaged obligations), and it anticipates this to be the case in 2024.

5. References to the “Bonds” in Section 17(c) [Sale or Assignment of Electric System or Power Sales Contract] and Section 17(f) [Tax Status] of the Power Sales Contract shall be deemed to include the Prepay Bonds at all times while the Supply Contract is in effect.

6. The Participant expects to make the required payments under the Power Sales Contract solely from the current revenues of the System.

Dated: _____, 2024.

[NAME OF PARTICIPANT]

By: _____
[Name]
[Title]

TALKING POINTS RE PREPAY TRANSACTION
NOVEMBER 27, 2023

OVERVIEW

- The Internal Revenue Code and US Treasury Regulations ("Tax Code and Regulations") contain special provisions that allow tax-exempt bonds to be issued to finance prepayments for natural gas and electricity. The prepay transactions are structured to convert the difference between the issuer's lower (tax-exempt) cost of funds and the prepaid energy supplier's higher (taxable) cost of funds into a discounted price for prepaid energy.
 - The initial discount is expected to be at least 7.5% and will be determined before closing.
 - The amount of the discount will be reset periodically over the term of the prepay (every five to ten years) when the bonds are refinanced.
- UAMPS will assign existing gas or electricity purchase agreements into the prepay transaction and the discount will be applied to the contract prices under these agreements.
- The Tax Code and Regulations require that the prepaid (discounted) gas or electricity (including electricity that is generated using prepaid natural gas as fuel) be used by UAMPS members to serve retail customers in their municipal utility service areas. This is referred to as the "Qualifying Use" requirement.
- The date of closing has not yet been determined but will likely take place in Q1 2024.
- The term of the transaction is thirty years.

CONTRACT STRUCTURE

- Southeast Energy Authority ("SEA") will issue bonds for a 30-year prepayment for gas or electricity from a special purpose entity ("Prepay LLC") organized by J. Aron & Company, the commodities affiliate of Goldman Sachs & Co.
 - UAMPS has no obligation on the bonds issued by SEA.
- UAMPS will assign previously-executed gas purchase or power purchase agreement(s) to J. Aron through a Limited Assignment Agreement ("LAA").
 - The LAA does not require any changes to the existing purchase agreement, but will be consented to by the seller.
 - The LAA is designed to leave the seller indifferent to the prepay. All interactions between UAMPS and seller remain the same.
 - The amount of gas or electricity purchases assigned to J. Aron under the LAA establishes the monthly cashflows required over the 30-year term of the prepay.
- UAMPS will first assign a 5-year gas purchase made to fuel the Nebo Power Plant into the prepay.
 - UAMPS is assigning less than the total amount of prepaid gas to allow for flexibility in future assignments.
 - In the future UAMPS will assign other gas or power purchase agreements, such as Red Mesa or Steel Solar, into the prepay to support the required monthly cashflows and to continue to receive the discount from the prepay.
- The LAA provides J. Aron "flash title" to the assigned gas or electricity, which is then delivered to Prepay LLC, which is then delivered to SEA, which then delivers the gas or electricity to UAMPS.

- If the prepaid transaction terminates for any reason, the LAA also terminates and UAMPS and the seller are restored to their original positions.
- UAMPS will enter a “Commodity Supply Agreement” with SEA to purchase the gas or electricity from SEA at a discount.
- The bonds issued by SEA will need to be refinanced from time to time over the 30-year term of the prepay. When the bonds are refinanced, the discount available to UAMPS under the Commodity Supply Agreement will need to be reset.
 - Changes in market conditions could lead to a lower (or higher) savings for UAMPS.
 - The Commodity Supply Agreement will specify the minimum discount to be achieved for each reset period. If minimum is not achieved, UAMPS may choose not to take energy from the prepay project during the reset period.

QUALIFIED USE CERTIFICATE

- UAMPS has provided a resolution for the governing boards of the Payson Power Project Participants (“Participants”) that approves the form of a “Qualified Use Certificate” for the prepaid energy. Please have the resolution signed and returned to UAMPS.
 - Complete the resolution by filling in the date it was adopted on page 2 Please do not make changes to these documents without contacting UAMPS.
 - The resolution may be passed at any time.
 - Do not complete or sign the generic form of the Qualified Use Certificate that’s attached to the resolution. We will send you a final, individualized Qualified Use Certificate a few weeks before the bond closing for execution.
- The Qualified Use Certificate states that the electricity that the Participant receives from the prepay will be used to serve retail customers located in the established service territory of its electric utility system.
 - If, during the term of the prepay, a Participant uses the electricity for a non-Qualified Use, it agrees that it will cooperate with UAMPS to remediate the non-Qualified Use through its other power purchases from UAMPS.
- The Participant must also confirm in the Qualified Use Certificate that the amount of its historic electricity sales to its retail customers equals or exceeds the amount of electricity attributable to its Entitlement Share under the Payson Power Sales Contract.

2023 Southwest Utah Post-Peak Report



Let's turn the answers on.

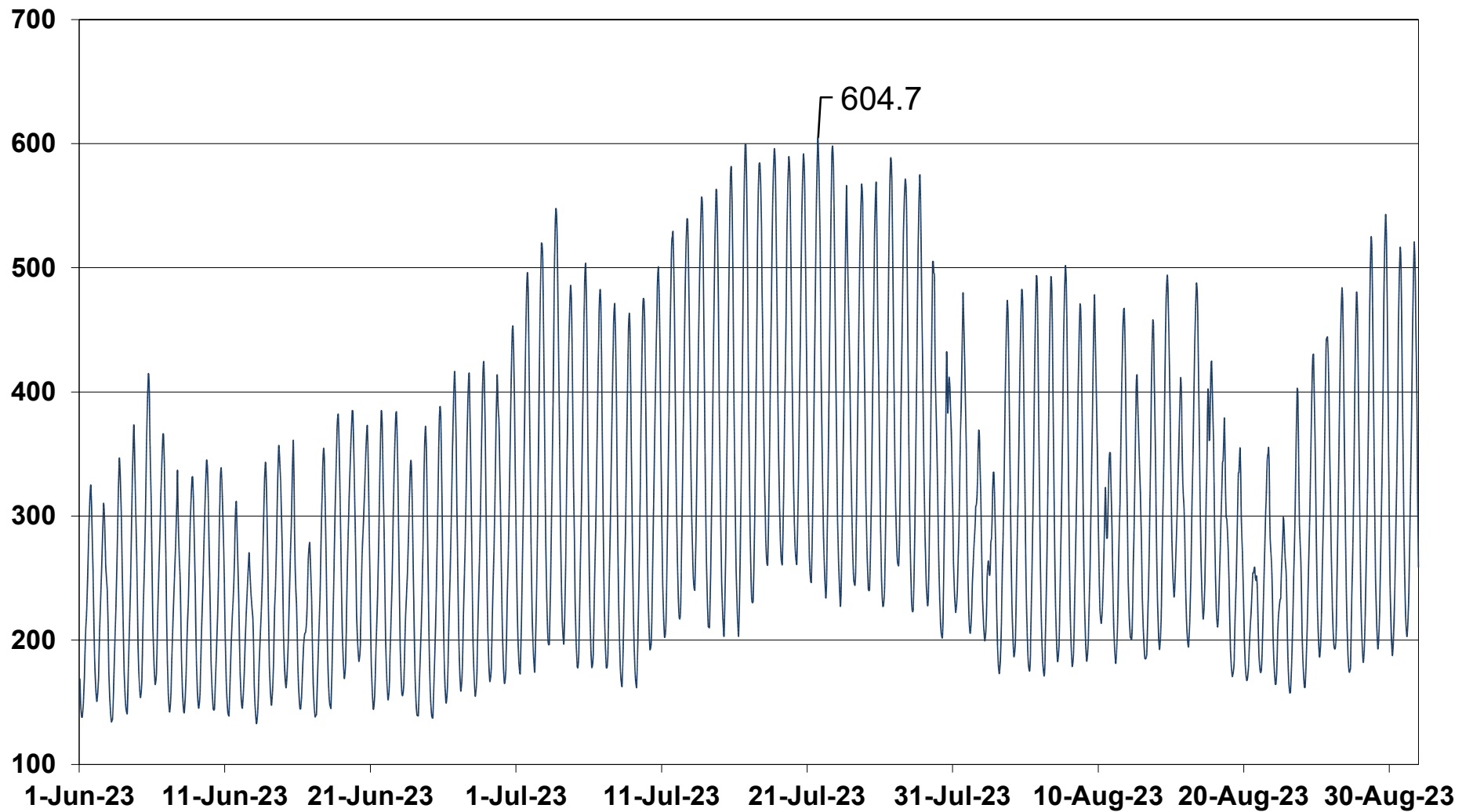
Washington County Area Peak

604.7 MW

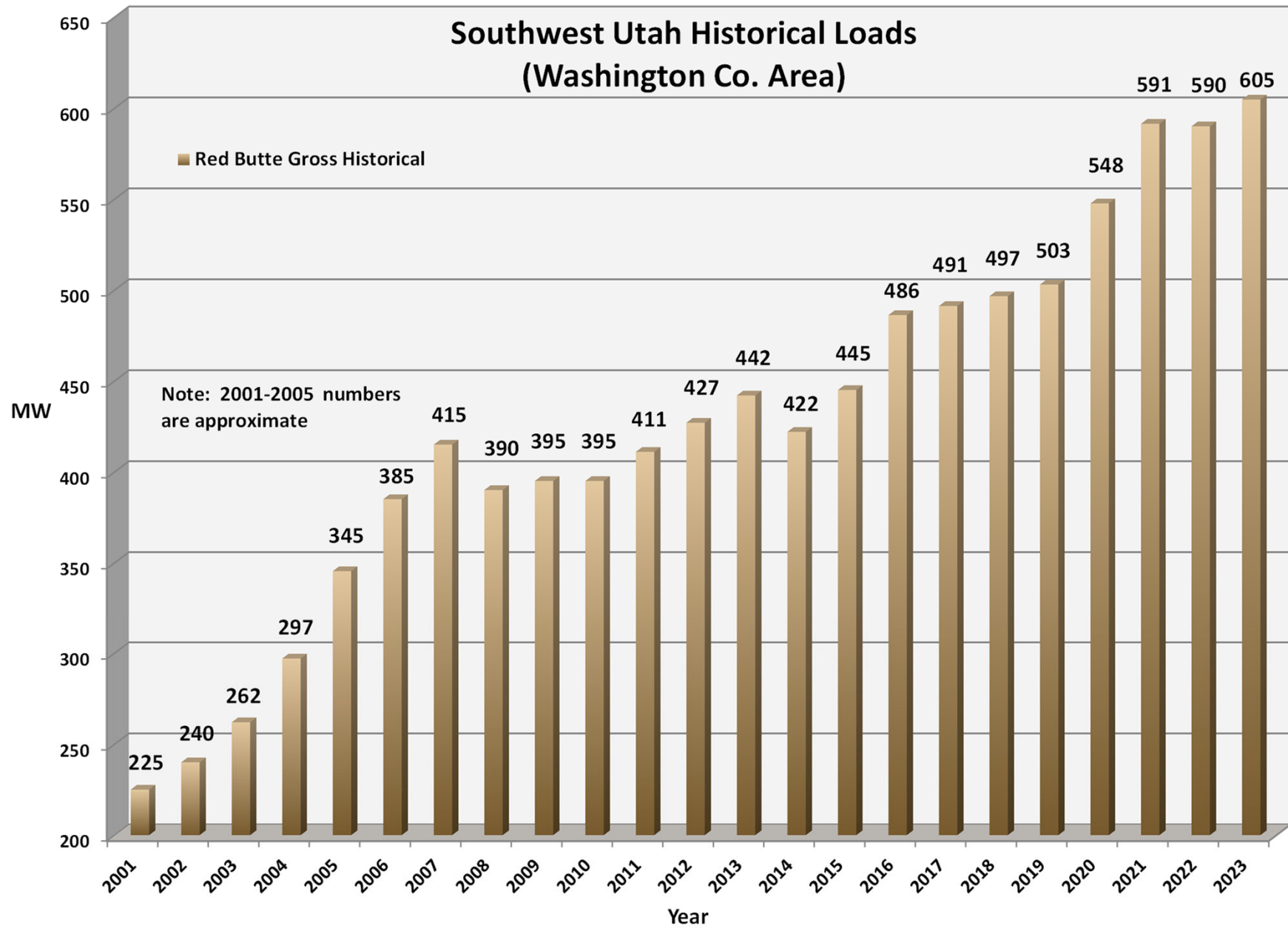
July 21st (Friday)

Between 5:00 and 6:00 pm

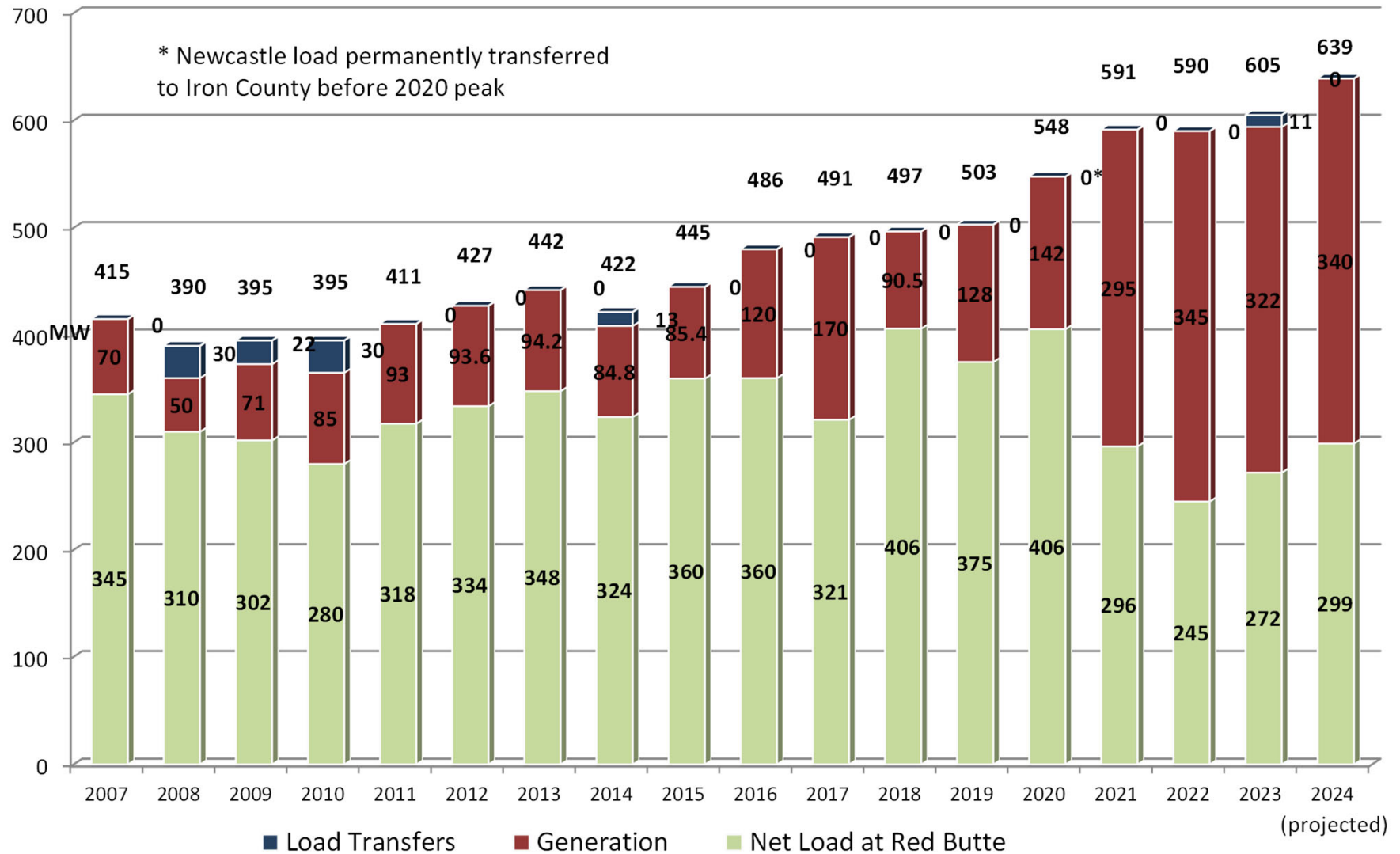
Southwest Utah - Washington County Area June-August 2023 Gross Summer Peak Load



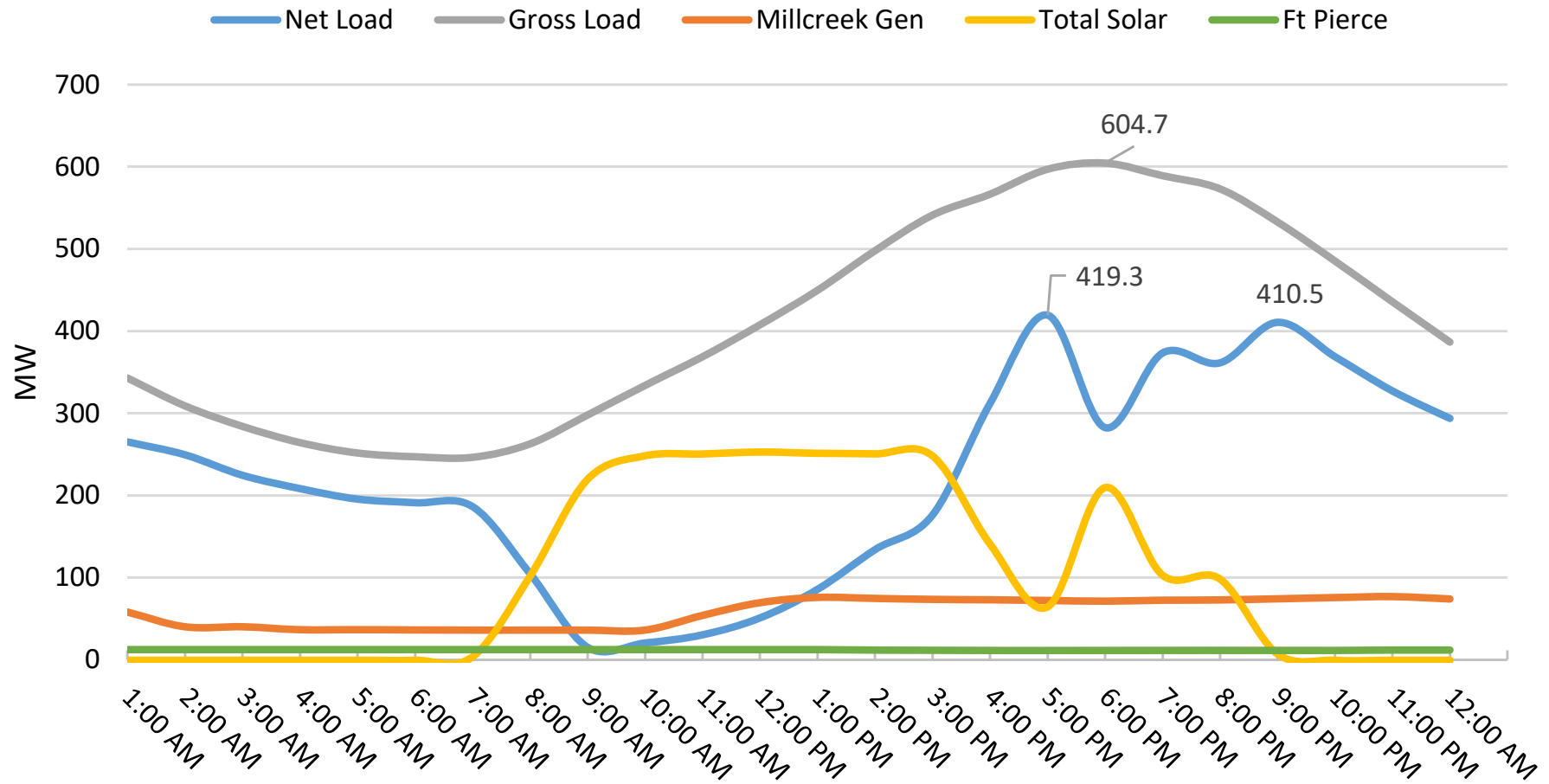
Southwest Utah Historical Loads (Washington Co. Area)



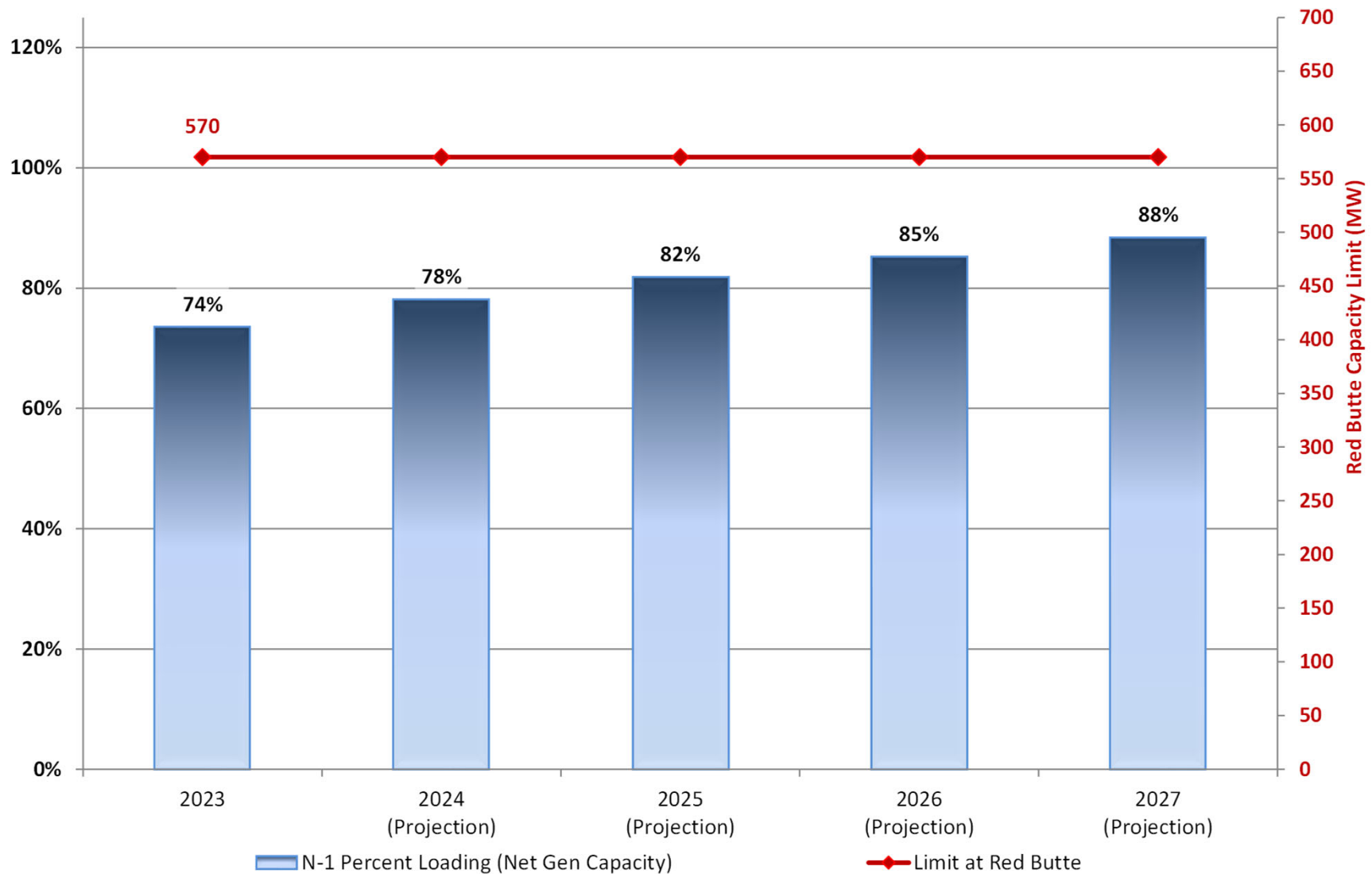
Washington County Area Detailed Historical Loading



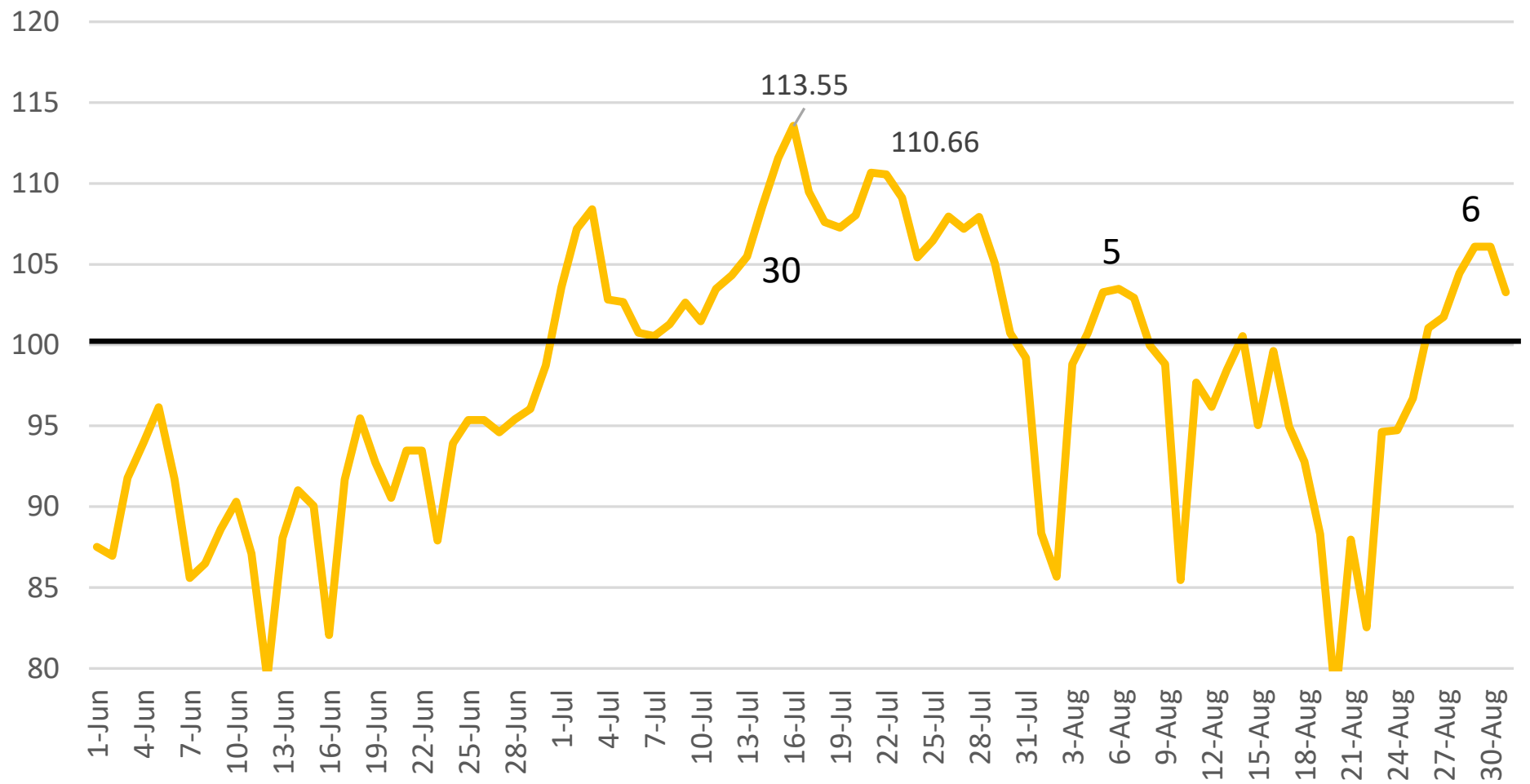
July 21, 2023 Washington County Profile



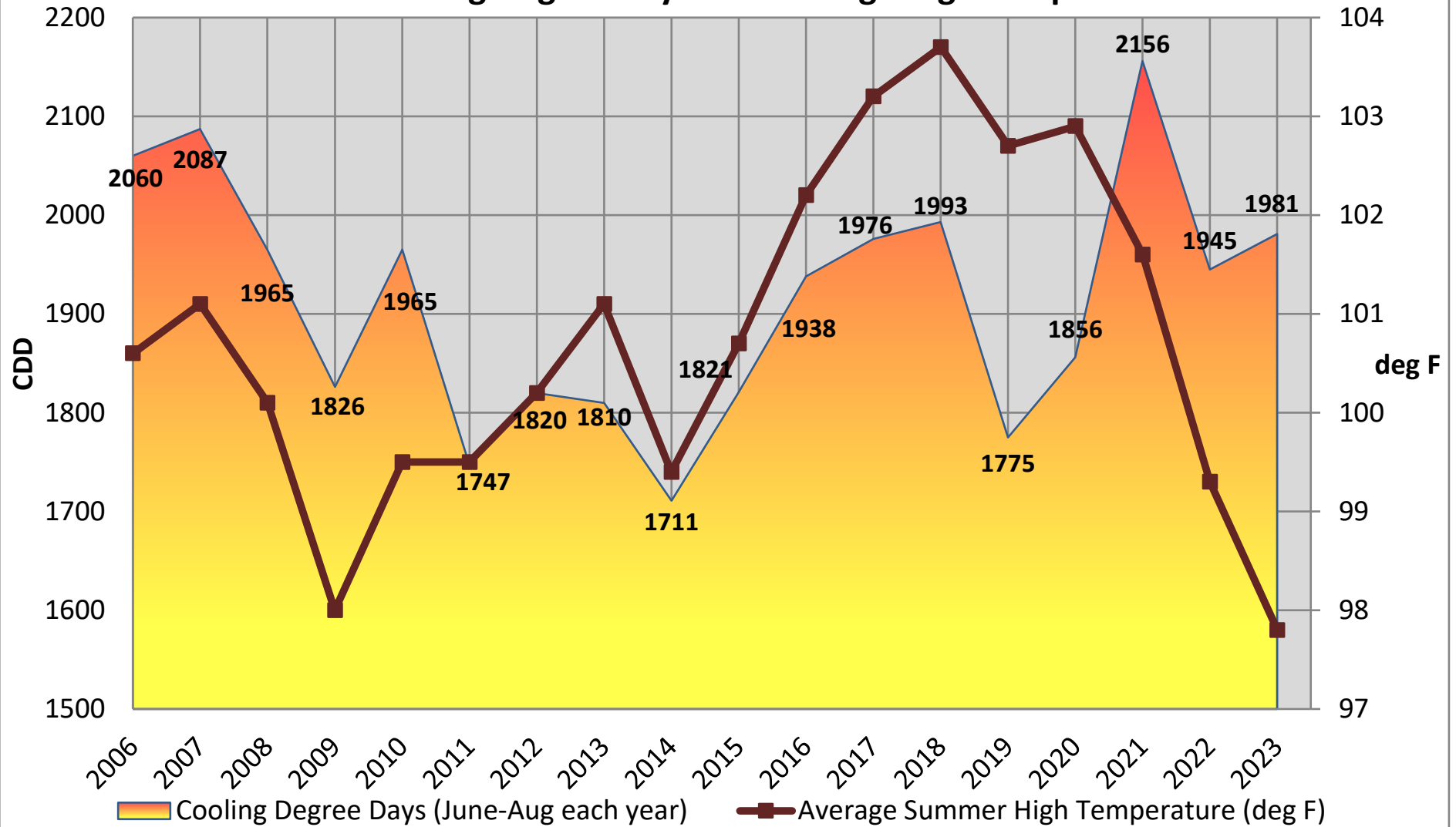
Washington County Area Planning Criteria Loading for Red Butte transformer failure



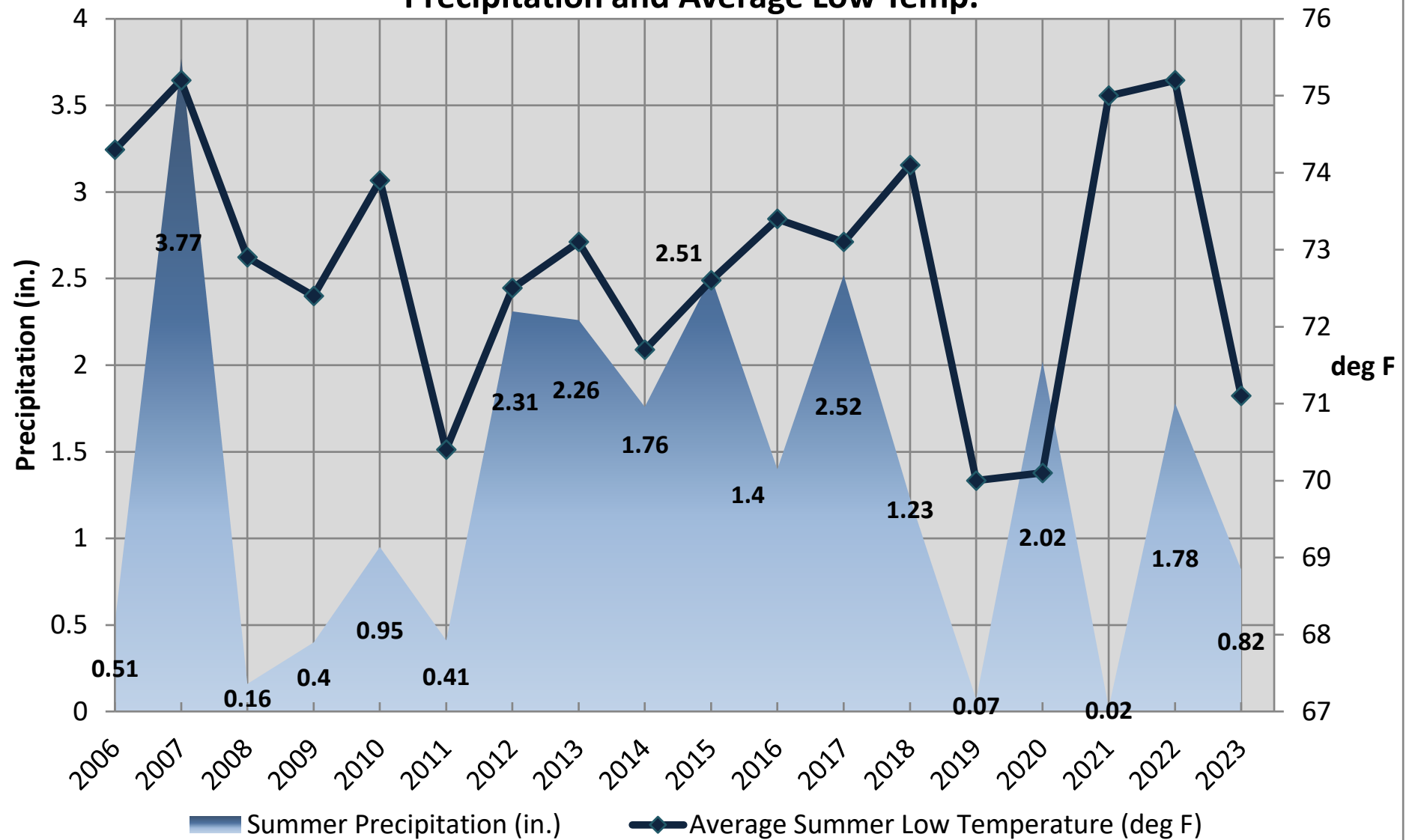
Daily Max Temperature



Cooling Degree Days and Average High Temp.

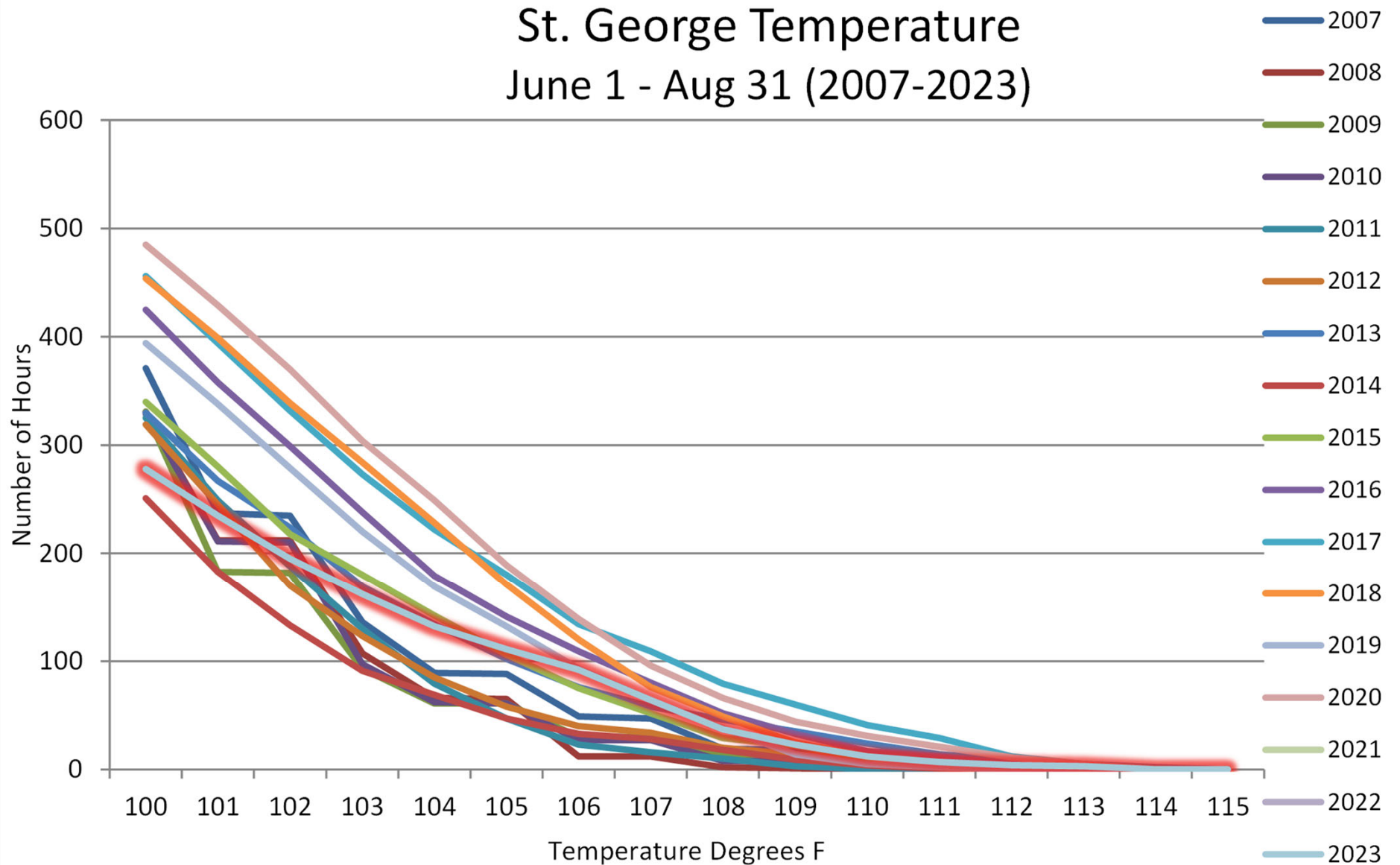


Precipitation and Average Low Temp.

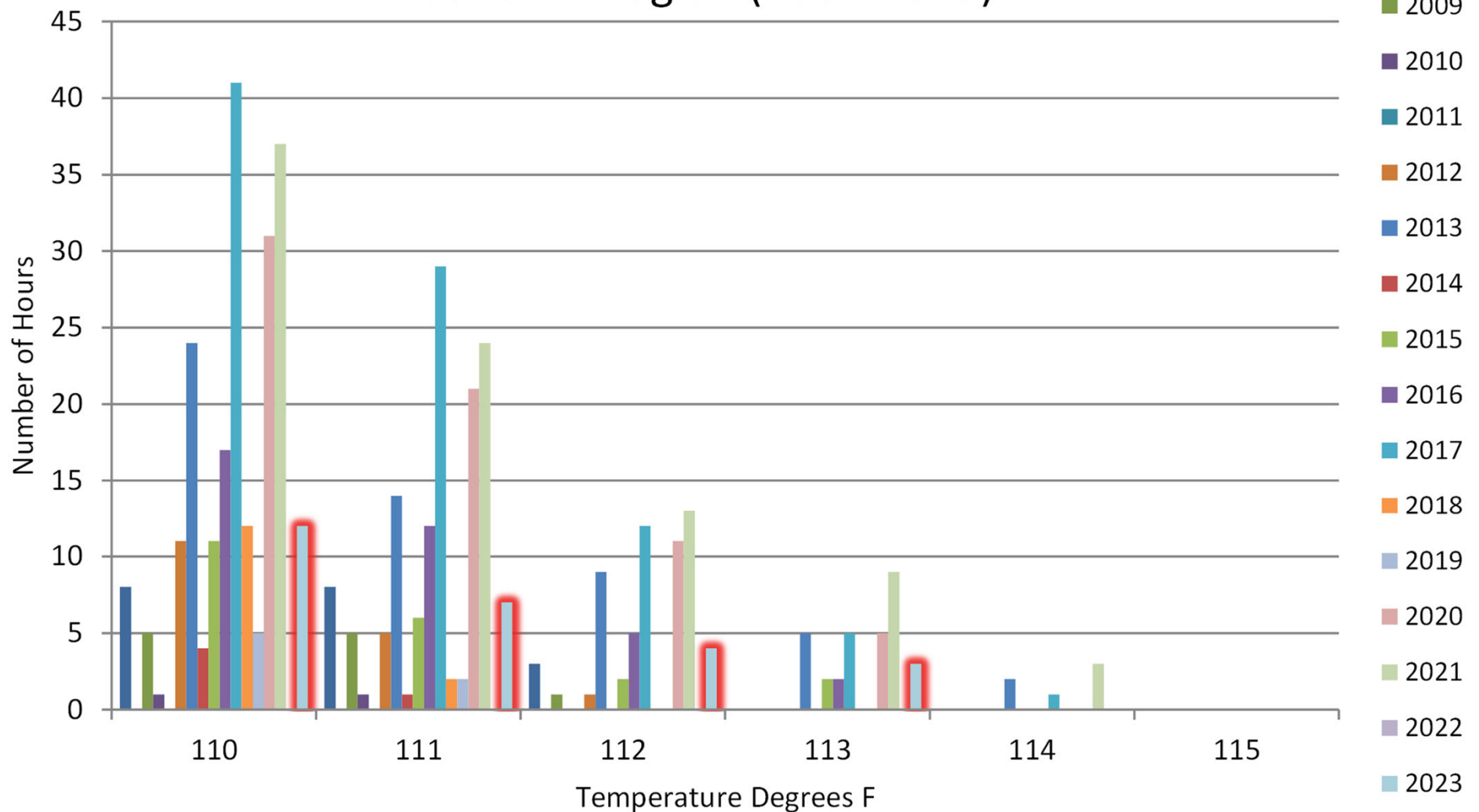


St. George Temperature

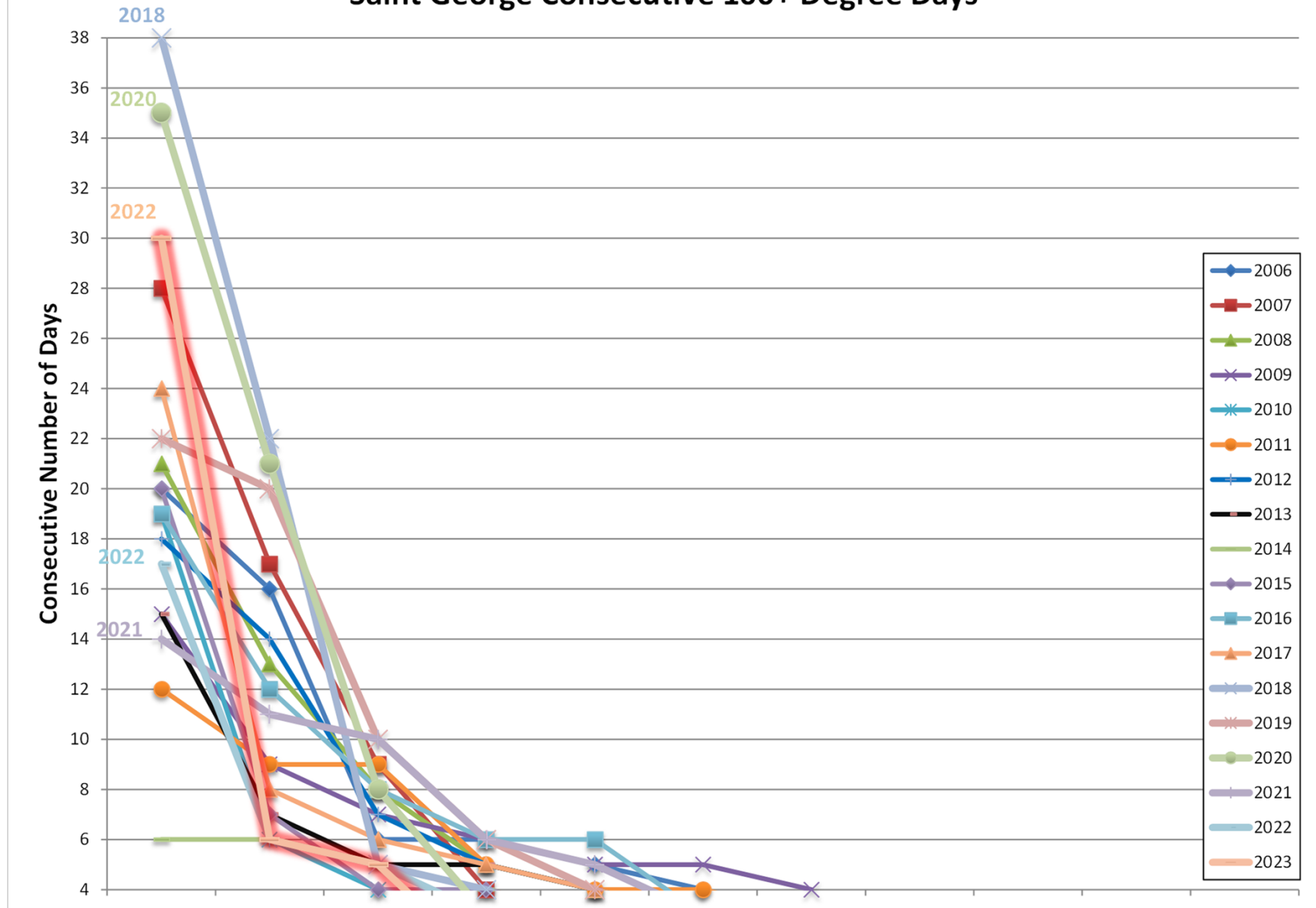
June 1 - Aug 31 (2007-2023)



St. George Temperature, 110 Degree and Above June 1 - Aug 31 (2007-2023)



Saint George Consecutive 100+ Degree Days



Projected Load

- 2023 Projected Non-Coincidental Load was 639 MW based on L&R. Future growth expected at 3-4%.

Washington County Area Annual Load and Resource Projections (received Spring 2023)

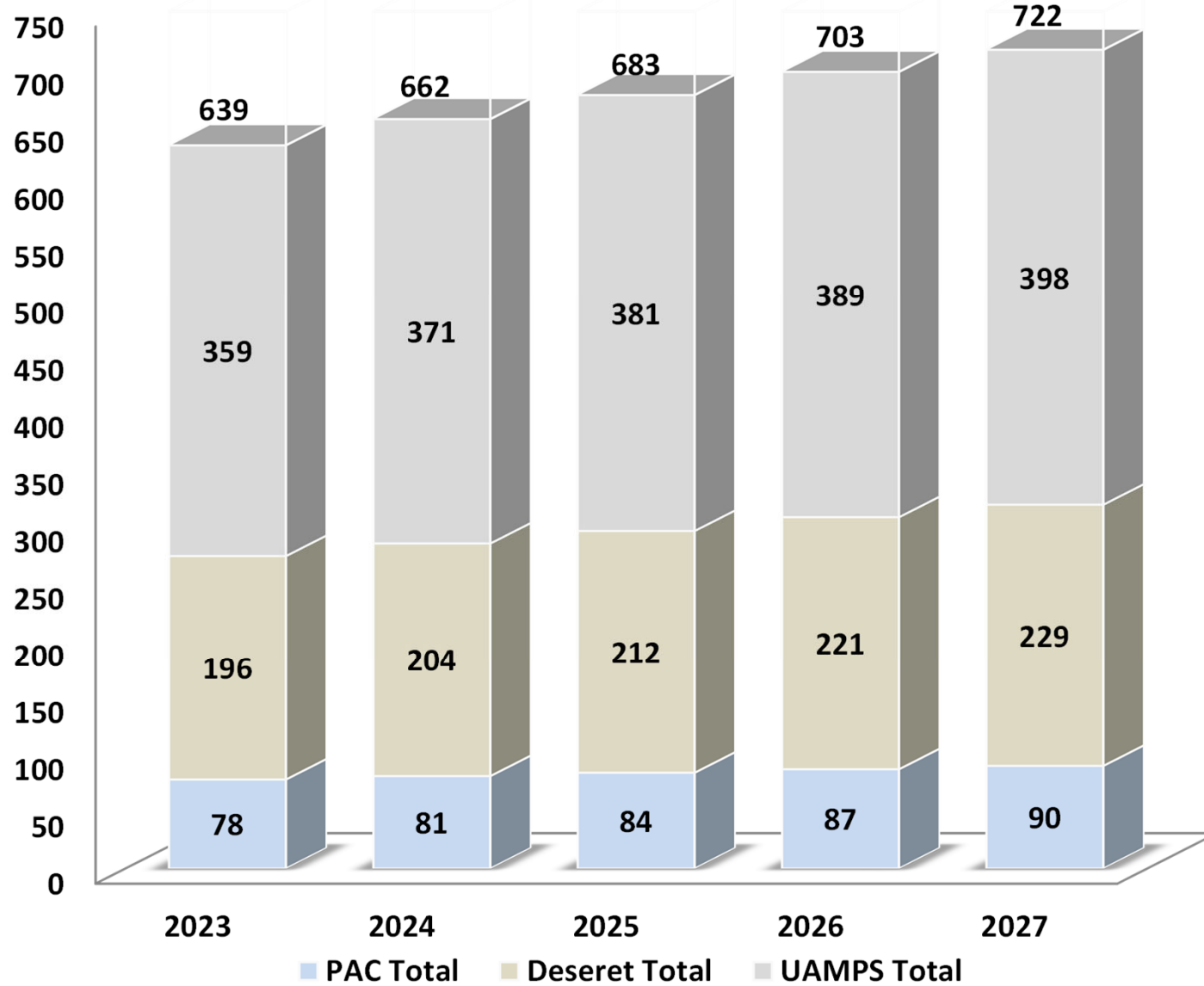
	"Non-Coincidental" (MW)				
	2023	2024	2025	2026	2027
St. George Sub - Skyline #1	85.3	87.2	88.5	89.6	90.8
St. George Sub - Skyline #2	85.3	87.2	88.5	89.6	90.8
St. George Sub - River	69.7	71.3	72.2	72.9	73.7
Purgatory - Anticline	28.4	29.9	31.4	32.4	33.4
Purgatory - Clifton Wilson	48.3	50.8	53.3	55.5	57.8
Purgatory - Millcreek	36.5	38.2	39.8	40.9	41.9
City of St. George (Ledges Sub)	5.9	6.7	7.5	8.5	9.4
UAMPS Total	359.3	371.2	381.2	389.4	397.7
Growth Rate		3%	3%	2%	2%

Middleton - Dixie REA	185.0	193.0	201.0	210.0	218.0
Twin Cities - Garkane REA	11.0	11.0	11.0	11.0	11.0
Deseret Total	196.0	204.0	212.0	221.0	229.0
Growth Rate		4%	4%	4%	4%

Enterprise	7.8	7.8	7.8	7.8	7.8
Gateway/Quail Creek/Toquerville	30.7	32.0	33.3	34.7	36.0
Ivins/Red Mountain	26.0	27.3	28.5	29.8	31.0
Middleton #4	13.3	13.7	14.1	14.5	15.0
PAC Total	78	81	84	87	90
Growth Rate		4%	4%	4%	3%

Total Area Projected Load (MW) (all loads typically fed from Red Butte Substation-6MW of Losses Added)	639	662	683	703	722
Total Area Growth Rate		4%	3%	3%	3%

2023-2027 Washington County Projection



Upcoming Southwest UT Projects

- 2024
 - Addition to Red Butte/Central RAS that covers N-1-1 and N-2 issues between Red Butte/Central and St. George substations
- 2026
 - Convert Red Butte-St. George line to 345 kV and install 345/138 kV transformer at St. George

Conclusions

- 2023 gross peak load - 605 MW was higher than the 2022 peak
- Summer weather conditions – below average
Even with lower temperatures, loading grew 15 MW
- Sufficient transmission capacity for projected future growth



Washington City Power Board
111 North 100 East
Washington City, UT 84780
Phone: (435)-656-6300
Fax: (435)-656-6370
WashingtonCity.org

Power Board Meeting Schedule 2024

**The Board will meet the first Tuesday of the month.
All meetings will commence at 5:00 P.M. unless otherwise announced.**

Previously Approved by the Power Board | January 2, 2024

February 6, 2024

March 5, 2024

April 2, 2024

May 7, 2024

June 4, 2024

July 2, 2024

August 6, 2024

September 3, 2024

October 1, 2024

November - No Meeting- Election Day- unless otherwise determined

December 3, 2024

January 7, 2025