

Marin Energy Authority
Responses to Current Frequently Asked Questions
12-7-09

1. Issue: Rate payer risk and bond repayment

Response: Ratepayers are not obligated to pay for energy they do not use. Revenue bonds are secured by the sale of the power from the asset.

The bonds that would be issued for building a new project would be covered by ratepayers in the normal course of business, just as is now the case with the incumbent utility. But to take it a step further, it is actually the revenue from the newly created asset that will secure payback on the bonds. So, for example, if a solar field is built using a bond issuance, the energy being created from that asset is sold to repay the bond over time. In the normal course of business the ratepayers would be covering that debt by paying for the energy generated each month. If MEA failed, however, or ratepayers were not available to cover the cost, then the power would be sold elsewhere and revenue from that sale would cover the bond repayment. Rate payers are only obligated to pay for the electricity they purchase from MEA, and rates will include debt service on any bond issuances as is now the case with the current utility. Under no scenario would ratepayers be obligated to help pay for energy they do not use or to “bail out” MEA in the unlikely event of an organizational default.

2. Issue: MEA Member General Fund Exposure

Response: Cities and Towns do not have any financial liability for MEA debts and liabilities or MCE costs.

There is a legal firewall between MEA and its member agency general funds that is codified by State law and further codified in the JPA Agreement and the Marin Clean Energy Power Supply Contract. Although cities and towns are members of MEA, it will function as a governmental, non-profit agency whose operations and financial obligations are completely separate from that of its local government members.

In fact, there are multiple layers of protection for member agencies against the debts, liabilities and obligations of the MEA. Under Government Code Section 6507, the MEA is a legal entity separate from its members. Government Code Section 6508.1 authorizes a Joint Powers Agreement to provide that the debts, liabilities and obligations of the Joint Powers Authority shall not be the debts, liabilities or obligations of the individual members of the JPA. The MEA Joint Powers Authority Agreement provides that the debts, liabilities and

obligations of the MEA shall not be the debts, liabilities and obligations of the members of the MEA.

The final layer of protection is that under the contract with our proposed energy services provider, Shell Energy North America, Shell agrees that its only legal recourse is against the MEA and that will have no legal rights or remedies against the individual JPA members.

3. Issue: Contract Pricing and Execution

Response: Prices for the contract will be refreshed and known prior to contract execution.

Indicative pricing will be refreshed in late January and early February 2010, just before the MEA Board approves the final contract. Actual prices will be known at the time the contract is executed. Market pricing is the key factor in determining costs for electricity. As stipulated in an MEA Board resolution passed on November 4, 2009, the contract will not be executed until the pricing refresh allows costs to be at or below PG&E's projected costs for the light green option. This is true for both Phase I and Phase II customers.

4. Issue: Consumer Awareness and Notification

Response: MEA's ratepayers will be notified about the shift in energy provider and their cost of electricity 60 days before service begins.

Customers in member jurisdictions will be notified 60 days before service begins through four opt-out notices and other marketing material. For phase I customers, opt-out notification will begin in March to prepare for service beginning in June.

5. Issue: Energy Market Volatility

Response: The cost of power will be locked in for the term of the five year contract.

The cost of power will be locked in on the date of contract execution and will include a capped escalation rate that keeps costs at or below PG&E's projected costs.

6. Issue: MEA and PG&E Costs

Response: MEA's costs will be lower than PG&E's projected costs.

The difference between MEA and PG&E is the difference between a locked in cost and a fluctuating cost. MEA will be locking in costs that start-out at or below PG&E in year one and will remain below PG&E's projected costs in future years. The MEA Board will review its pricing structure annually (and more often

as necessary) to remain competitive with PG&E rates. It should be noted that in the unlikely event that PG&E's costs drop below their historic threshold, their cost could drop below MEA costs. Conversely, if what market analysis suggests is true and the costs of fossil-based energy and natural gas continue to rise, then PG&E's prices will continue to climb above MEA's projected costs. The good news here is that with MEA, customers will have a choice of energy providers and can choose the lower cost of two options (subject to nominal exit fees) at any time.

7. Issue: Staff Expertise and Expense

MEA has and will hire additional highly qualified professional staff whose costs account for only 3% of the MEA budget.

MEA has and will continue to draw on the same market expertise that has served many utilities and municipal utilities for several decades. MEA will combine that expertise with reliable technical and legal support under a governmental, not-for profit structure, which has significant economic benefits over that of a private utility, helping keep costs down. Currently, MEA has three staff, three legal firms, multiple technical consultants, and is making full use of expert consultants in the areas of energy modeling and implementation support, transactional and municipal law, infrastructure finance and planning. In the future, MEA's plans call for a staff of 20.5 professionals, which is quite small compared to other municipal utilities and also the incumbent utility.

8. Issue: Exit Fees and Customer Choice

Response: Most PG&E exit fees for customers will be covered by MEA; Customers have the option of switching suppliers at any time

MEA will cover the projected PG&E "exit fee" for customers that choose to stay with MEA as their energy supplier during the 120-day opt-out period. During that opt out period consumers can make a decision with no exit fee either way. After the opt-out period, both suppliers (i.e. MEA and PG&E) will charge a nominal exit fee for customers that choose to switch between companies. This fee covers the cost of unused power purchased on their behalf and amounts to a few dollars per month on the monthly bill.

9. Issue: Contract Support and Review

Response: The Contract, or Power Supply Agreement (PPA), has been subject to extensive review from industry experts, member agencies and the public.

The PPA has been reviewed by City and Town Councils, City and Town Attorneys, City Managers, and an extensive cadre of Legal and Technical support for MEA including Navigant Consulting, Nixon-Peabody LLP, Milbank,

Tweed, Hadley & McCloy LLP, and Richards, Watson & Gershon LLP and members of the public. Also, a peer review of the PPA was conducted on behalf of the City Managers by MRW & Associates, an independent energy consulting firm with years of expertise in this area. The Final Draft PPA was approved by the MEA Board on November 5, 2009 and is now undergoing a 90-day review period. It is then scheduled to be approved by the MEA Board on February 4, 2010. The current draft of the PPA can be found on the MEA website: www.marinenergyauthority.org

*Please stay tuned and check MEA's website often.
More answers to FAQ's forthcoming.*