

LOWEST COST OF CAPITAL

Under the prepay power purchase agreement (PPA) structure, the public power entity is the offtaker who enters into a PPA with a project developer who will construct, own and operate the facility. The municipal utility agrees to prepay for a portion of the output of the facility to be delivered over time. Through the issuance of tax-exempt municipal bonds, the public power entity funds the PPA prepayment, which has the effect of lowering the delivered energy price per MWh during the PPA term. When implemented successfully, this structure provides the lowest cost of capital relative to more traditional project financing structures.

Municipal Prepayment Structure Benefits

1. Cheaper

By issuing tax exempt municipal bonds, municipal utilities can finance prepayments at a tax advantaged rate and receive the benefit of lower power prices through the PPA term.

2. Better Terms

The tax-exempt bond market has generally offered issuers more favorable terms and conditions than bank loans and other conventional lending sources.

3. Combination with Other Sources

Proceeds of tax-exempt bonds can be and often are combined with other funding sources, including equity and conventional debt financing.

