



Town Council Agenda Report

Date: December 10, 2019 Item No. 15

To: Honorable Mayor and Town Council

Subject: APPROVAL OF NEW LOCKBOX AGREEMENT WITH RIVER CITY BANK FOR THE APPLE VALLEY CHOICE ENERGY (AVCE) CCA

From: Douglas Robertson, Town Manager

Submitted by: Sydnie Harris, Director of Finance
Finance Department

Budgeted Item: Yes No N/A

RECOMMENDED ACTION

That the Town Council approve the opening of a new Associated Lockbox Agreement for the Apple Valley Choice Energy (AVCE) CCA with River City Bank.

BACKGROUND

On January 24, 2017 AVCE entered in to the Intercreditor and Collateral Agency Agreement, the Security Agreement and the Deposit Account Control Agreement (“Lockbox Agreements”). These three (3) Agreements all relate to the creation of a “Multi-Party Lockbox”. The “Multi-Party Lockbox” agreements are a form of assurance that AVCE can provide to power providers, agreeing to place ratepayer revenues into a “lockbox” with instructions that the power supplier has a priority interest in the ratepayer funds. The “Multi-Party Lockbox” will facilitate contracting with multiple power suppliers by allowing AVCE to authorize distribution of lockbox proceeds to more than one (1) power supplier. The lockbox is managed by a bank, acting as collateral agent for the benefit of the secured power suppliers.

With Resolution No. 2017-03, Wilmington Trust Bank was selected to administer the Multi-Party Lockbox. In conjunction with Wilmington Trust Bank, M&T Bank was contracted to manage the transactional detail with the SCE deposits of the AVCE portion of customer billings.

DISCUSSION:

For the 18/19 fiscal year, AVCE paid bank fees of \$66,771.86, or approximately \$5,565.00 per month for the Lockbox account in conjunction with the M&T Bank deposit maintenance. AVCE and its partnership CalChoice, have sought out a more economical solution to the “Multi-Party Lockbox” agreement that will facilitate the interest of most of the power providers contracted with AVCE and CalChoice.

The “Multi-Party Lockbox” account with Wilmington Trust currently serves as the primary distributor to the following energy providers;

- Shell Energy North America
- Direct Energy

If approved, the River City Bank “Multi-Party Lockbox” agreement will service as the primary distributor to include the following providers;

- Direct Energy
- Inland Empire Energy Center, LLC
- EDF Trading North America, LLC
- TGP Energy Management, LLC
- High Desert Power Project, LLC
- Calpine Energy Services, L.P.

The providers mentioned above that are not in our current lockbox agreement are paid outside of the AVCE Wilmington Trust account through our general accounts payable function. Actions to reconcile the payment are then made monthly.

Shell Energy North America is the only provider that will be excluded from the new agreement provided that ongoing negotiations with CalChoice are not concluded by the onset of the new lockbox agreement. Shell is currently discussing terms of the collateral agent agreement with CalChoice and AVCE. Negotiations are expected to conclude by the end of this calendar year.

CONCLUSION:

Assuming Council authorization, the Town Manager intends to execute the “Multi-Party Lockbox” agreement with River City Bank and the installation of AVCE’s power providers with lockbox. Following execution of the “Multi-Party Lockbox” agreement with River City Bank, AVCE will discontinue the use of the Wilmington Trust account in conjunction with M&T Bank.

FISCAL IMPACT:

River City Bank estimated bank fees will be approximately \$6,000 per year. That's 10% of the current amount of bank fees currently paid for the use of the "Multi-Party Lockbox" agreement with Wilmington Trust and M&T Bank. A total net savings of approximately \$60,000 per year.