

BOARD LETTER APPROVAL



ANN M. SANTILLI
Chief Financial Officer



David Hanson (Apr 10, 2026 07:02:45 PDT)

DAVID W. HANSON
Interim General Manager

DATE: March 31, 2026

SUBJECT: Second Amendment to International Swap Dealers Association Master Agreement No. 47641A-7 with Macquarie Energy, LLC

SUMMARY

The proposed Resolution approves a Second Amendment to the International Swap Dealers Association (ISDA) Master Agreement No. 47641A-7 with Macquarie Energy LLC (Macquarie) to replace its credit support provider. The amendment substitutes Macquarie Bank Limited with Macquarie International Finance Limited and approves a new Letter of Guarantee (Parent Guarantee) expiring December 31, 2027. The Parent Guarantee is required because Macquarie does not have a credit rating.

The Second Amendment does not extend the term of ISDA Master Agreement No. 47641A-7 beyond the existing expiration date of March 15, 2027.

City Council approval is required pursuant to Charter Section 373.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners (Board) adopt the attached Resolution recommending City Council's approval of the Second Amendment to ISDA Master Agreement No. 47641A-7 as required in Charter Section 373 and approving the new Parent Guarantee substantially as to form.

ALTERNATIVES CONSIDERED

There are no alternatives. The Parent Guarantee is required to establish a threshold amount for Macquarie for margining purposes. This amendment is requested in order to change the entity providing the parent guarantee, which also serves as the credit support provider listed on the Schedule to the ISDA Master Agreement with Macquarie, and the threshold in the Credit Support Annex to the ISDA Master Agreement with

Macquarie. Without an approved credit support provider, the threshold would be reduced, increasing the financial exposure and risk to Macquarie.

FINANCIAL INFORMATION

There is no cost involved in replacing the parent guarantee.

BACKGROUND

On July 30, 2002, the City Council adopted Ordinance No. 174755, which added Section 10.5.3 to the Los Angeles Administrative Code (LAAC) establishing the natural gas hedging program. LAAC Section 10.5.3 provided the Board the authority to enter into contracts for the purchase and delivery of natural gas and/or financial transactions on behalf of LADWP at terms of up to five years and at a purchase price not to exceed \$7.50 per million British Thermal Units (MMBtu) including broker's fees, if any. LAAC Section 10.5.3 also authorized the Board to delegate such authority to the LADWP's General Manager.

On February 28, 2006, the City Council adopted Ordinance No. 177405, which amended LAAC Section 10.5.3 by extending the maximum duration of natural gas financial transactions from five years to ten years from the date of execution, and increased the price cap of the natural gas financial contracts from \$7.50 per MMBtu to \$10.00 per MMBtu in order to provide the flexibility needed to implement a more effective long-term hedging program.

LADWP established a natural gas hedging program that includes natural gas financial transactions utilizing ISDA Master Agreements in order to lock in the price of natural gas at the date of execution for future settlements with the goal of reducing the volatility in the cost of natural gas projected for consumption in the production of electricity to serve retail customers.

The ISDA Master Agreement is a standard financial industry enabling agreement for financial risk mitigation products, including the financial contracts for natural gas authorized in LAAC Section 10.5.3. It contains terms and conditions including provisions as to payments, representations, covenants, events of default, termination, credits, and collateral posting relating to financial hedge transactions.

On March 16, 2007, LADWP entered into ISDA Master Agreement No. 47641A-7 with Macquarie Cook Energy, LLC. This agreement was set to terminate ten years after the effective date of the agreement.

On April 18, 2017, the First Amendment to ISDA Master Agreement No. 47641A-7 was approved by the Board, under Board Resolution No. 017-210, and subsequently approved by the City Council. This amendment extended the agreement term by ten years.

Because Macquarie does not have a credit rating, the Credit Support Annex to the Schedule to the ISDA Master Agreement with Macquarie required that a parent guarantee be provided by a credit support provider for Macquarie in order to set a threshold amount for margining purposes. The corresponding threshold amount is based on the credit support provider's credit ratings. Without an approved credit support provider, the threshold would be reduced, increasing the financial exposure and risk to Macquarie.

This amendment is requested in order to replace the existing credit support provider, in the form of a parent guarantee, Macquarie Bank Limited, with Macquarie International Finance Limited due to Macquarie's internal corporate restructuring and updated designation of its guarantor entity. The resolution also establishes an expiration date of December 31, 2027.

In accordance with the Mayor's Executive Directive No. 15, a transmittal from the Mayor's Office has been requested.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, amending an agreement used for hedging transactions related to natural gas prices to replace the existing credit support provider is not an action subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Second Amendment to ISDA Master Agreement and Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Second Amendment to ISDA Master Agreement
- Letter of Guarantee