



## Municipal Gas Prepayment Transaction Q2 2018



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# What is a NG Prepayment Transaction?

- A long-term take-and-pay NG supply contract (up to 30-years)
- Combined with a structured financing
- Designed to capture the benefits of tax-exempt financing
- To reduce the price of NG to participants
- Participants have to be “qualified load”
  - Municipal LDC
  - Municipal electric generator
- The new structure has the bonds priced, and re-priced in 5-10 year segments through to the end of the final term
- Debt sold by PEAK **IS NOT** your debt



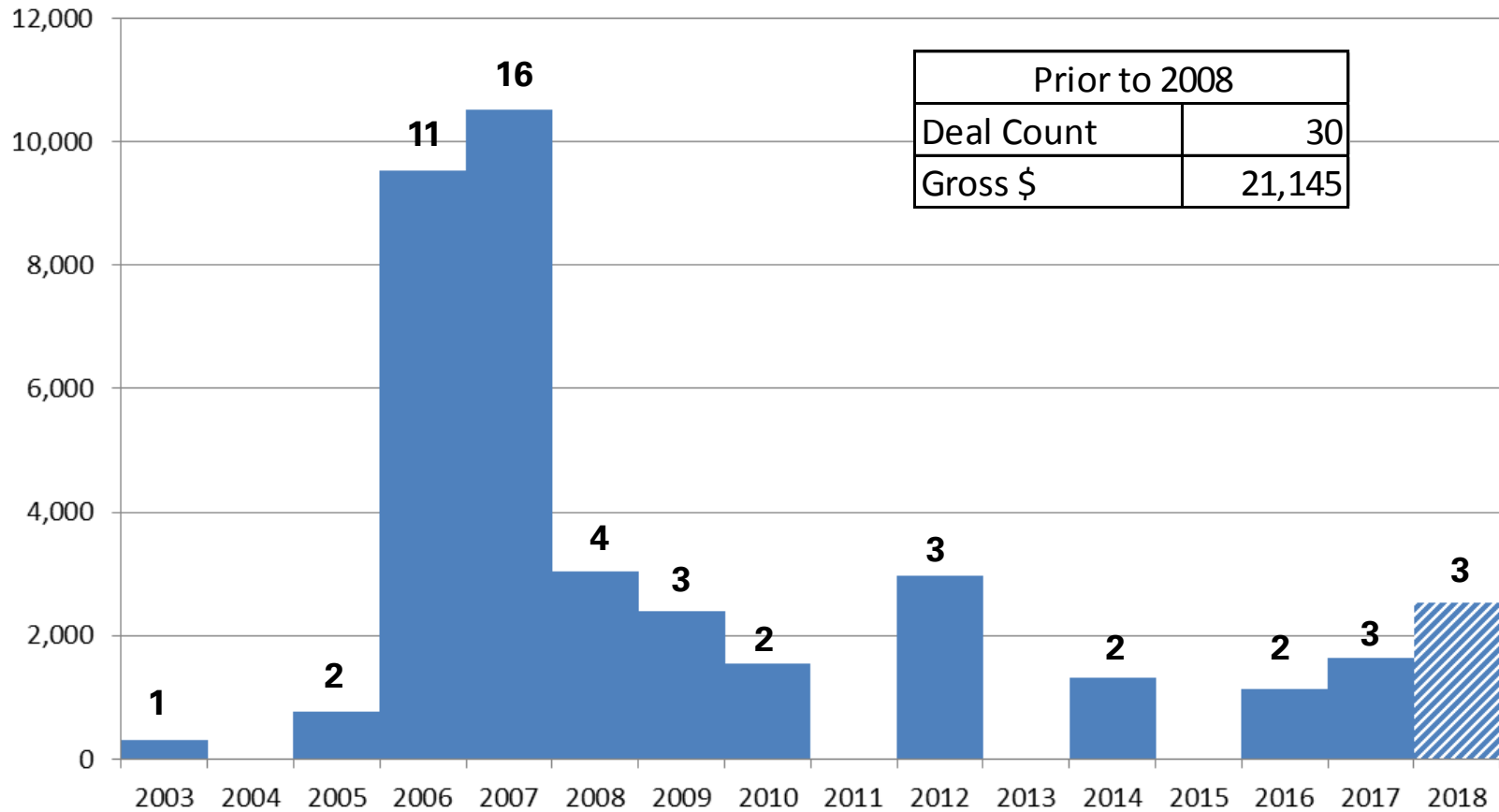
# What drives value to participants?

- NG prepayment transactions may increase value with:
  - Higher interest rates
  - Higher NG prices
  - Longer tenors
  - Increasing volumes over time
- Additionally:
  - Weaker credit prepaid suppliers = higher interest rates
  - Winter dominated volumes = higher NG prices
  - Ability to take more volumes in the future = higher NG prices

# Historical Prepay Issuance

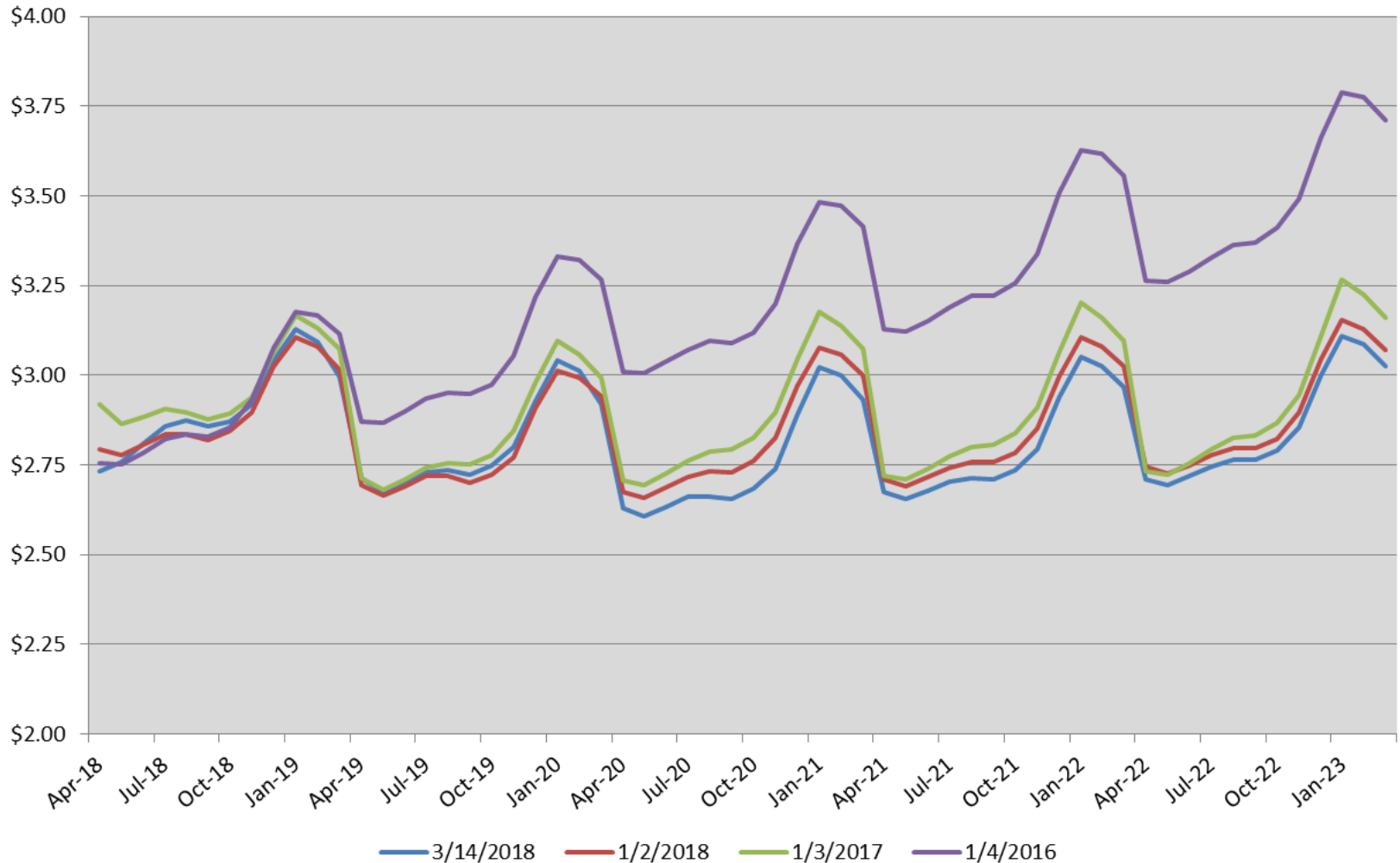


## Par Amount of Gas Prepays Issued



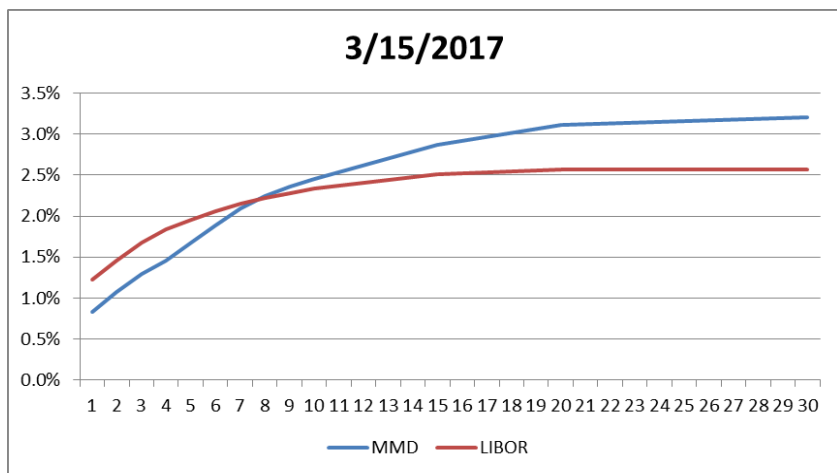
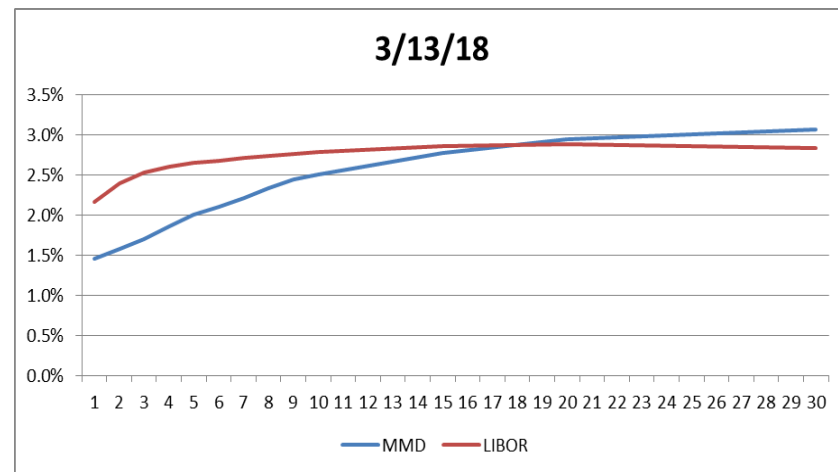
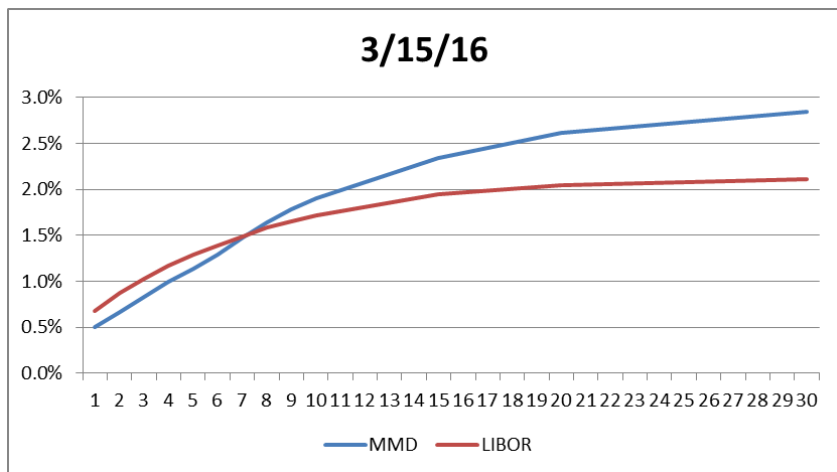
Source: Morgan Stanley

# Historical Nymex Forwards



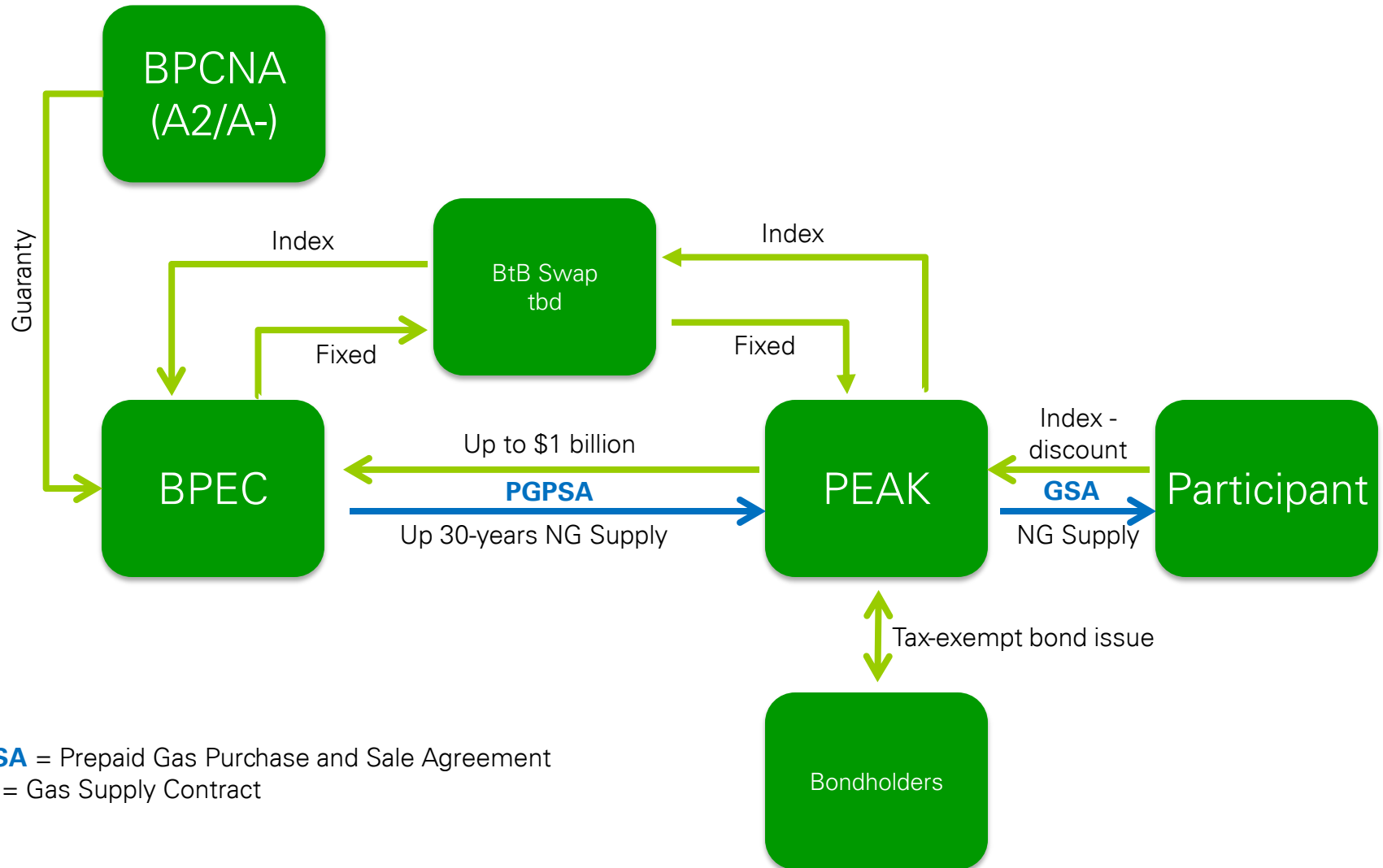


# Taxable LIBOR vs. Tax-Exempt MMD



Source: Morgan Stanley

# Transaction Diagram – LT Participant



**PGPSA** = Prepaid Gas Purchase and Sale Agreement

**GSC** = Gas Supply Contract

\*BP Energy Company is provisionally registered under the US Dodd Frank Act





# Proposed BPEC Gas Prepay Transaction

- PEAK will sell 30-year (maximum maturity) debt and make an up to \$1 billion prepayment to BPEC to purchase an identical term gas supply contract.
  - Bonds will be sold with a 5-10 year initial term and repriced periodically on similar terms over their life until the final maturity is achieved.
  - Future bond repricings will be for minimum terms of 5-years
- PEAK will have a portfolio of Participants (municipal NG LDC's) reasonably acceptable to BPEC to purchase and consume the prepaid gas supply.
  - Two pricing models:
    - 1. Market discount (\$0.xx/ mmbtu) for initial pricing period based on interest rates at time of pricing
      - \$0.zz/mmbtu future minimum discount for maximum term commitment
      - As long as minimum discounts can be achieved in future bond repricing periods, the Participant will continue with the transaction
      - Up to 50,000 mmbtu/d total volumes with at least 60% pricing model #1
    - 2. Initial term only commitment only for reduced discount:
      - \$0.05 if initial pricing period is up to 6 years,
      - \$0.06 if initial pricing period is between 6 and 8 years,
      - \$0.07 if initial pricing period is between 8 and 10 years
- Repricing Reserve...there will be a Repricing Reserve funded at \$0.05/mmbtu collected during the initial pricing period that will be available to help fund future minimum discounts

PEAK = Public Energy Authority of KY



# LT Participants Repricing Period Example

Bond Repricing Periods (30-year total term)	5-10* years	5-10* years	5-10* years	5-10* years
Min Discount	\$0.zz	\$0.zz	\$0.zz	\$0.zz
Mkt Discount	\$0.xx	\$0.30	\$0.12 assuming < min	\$0.15 assuming < min
Part Discount	\$0.xx	\$0.30 because > min	\$0.zz	\$0.zz+
Repricing Reserve Status (5 ¢ requirement)	Grows at 5 ¢ per MMBtu delivered over the Initial Pricing Period.	Unused because the participant discount is greater than the minimum discount	Some of balance used to increase discounts to minimum. The rest carries forward.	The remaining balance in the repricing reserve MUST be used for discounts in the last Repricing Period. In this scenario that helped get discounts up above the minimum.
Participant Option	Start of transaction...Deal closes meeting all discount and reserve expectations.	None. Minimum discount is met.	None. Minimum discount was met through use of the repricing reserve.	None. Minimum discount was met through use of the repricing reserve.

\* Likely repricing period range. However, could go to the remaining term of the deal.



# Effect of Escalating Volume

## Level Volume

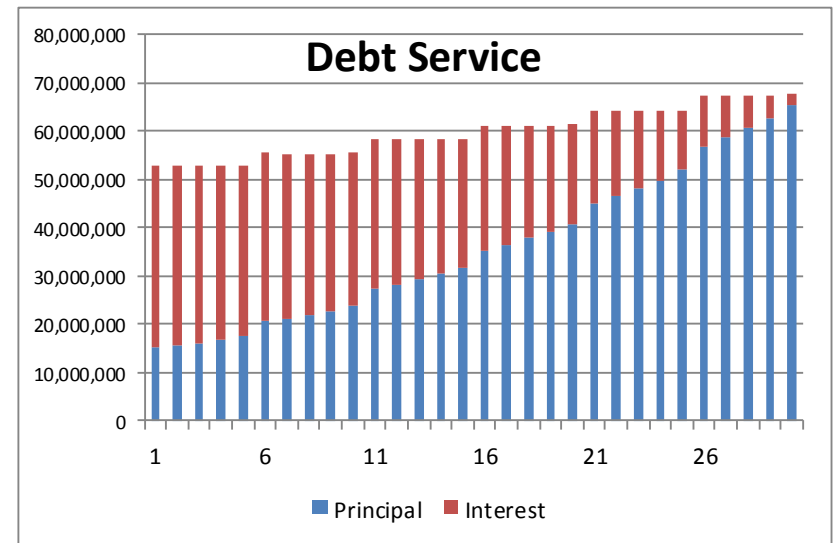
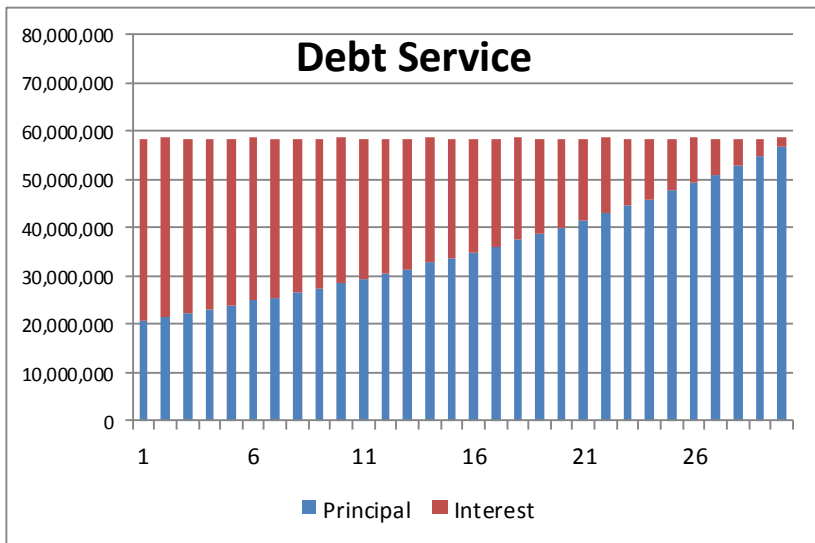
Segment Start month	Segment End Month	Bond Year Start for Segment	Segment volumes	Outstanding Debt	Debt/Volume Ratio
			552,283,200		
1	60	1	92,030,400	1,077,168,168	11.70
61	120	6	92,080,800	965,322,772	10.48
121	180	11	92,030,400	832,318,964	9.04
181	240	16	92,030,400	674,530,546	7.33
241	300	21	92,030,400	487,121,595	5.29
301	360	26	92,080,800	264,532,538	2.87

Initial period volumes (mmbtu/d) **50,400**  
 NG swap price (\$/mmbtu) \$ 3.488  
 Participant discount **\$ 0.157**  
 Volumes escalate 0 percent every 60 months

## Escalating Volume

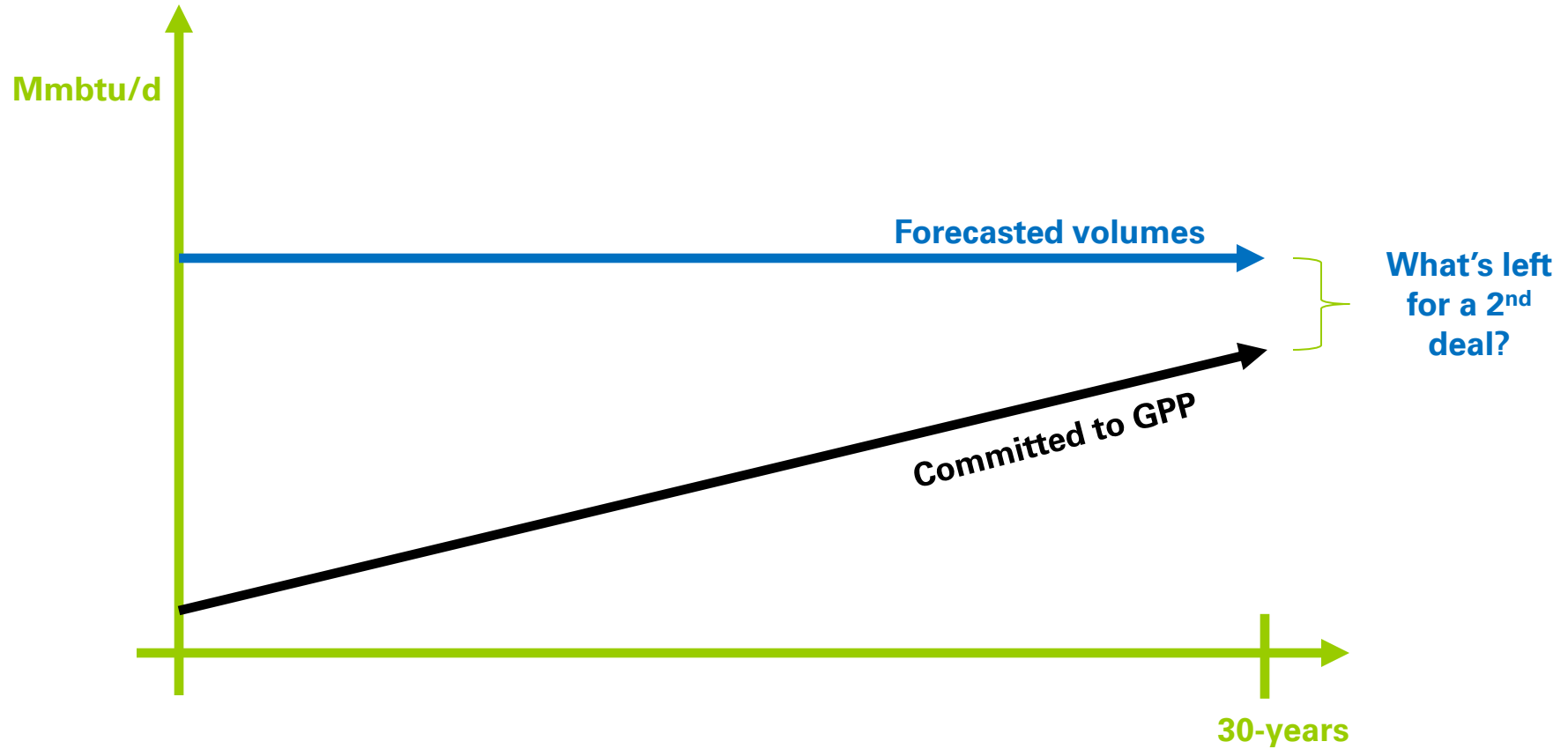
Segment Start month	Segment End Month	Bond Year Start for Segment	Segment volumes	Outstanding Debt	Debt/Volume Ratio
			559,492,292		
1	60	1	82,239,750	1,074,866,086	13.07
61	120	6	86,398,988	993,434,364	11.50
121	180	11	90,669,324	882,402,966	9.73
181	240	16	95,202,791	735,835,435	7.73
241	300	21	99,962,930	546,144,001	5.46
301	360	26	105,018,509	304,453,616	2.90

Initial period volumes (mmbtu/d) **45,000**  
 NG swap price (\$/mmbtu) \$ 3.542  
 Participant discount **\$ 0.181**  
 Volumes escalate 5 percent every 60 months





# Another consequence of escalating volume





# In Summary

- Municipal NG prepayment transactions are a tool available to municipal gas systems to get materially below market gas
- The transactions are low risk to the participants
  - No connection to the debt sold
  - Only pay for delivered NG
  - Commercial terms very similar to what's in a NAESB
- BUT the transactions are VERY long term
- BPEC is advancing a transaction and would welcome IMGGA's interest
- BPEC might also be able to introduce IMGGA to other transactions we are involved in