
Gas Prepayment Discussion



Interstate Municipal Gas Agency

ANNUAL MEETING

Northfield Inn, Suites & Conference Center
Springfield, Illinois
March 28, 2023

The Black Belt Energy Gas District

McCarter & English, LLP

Municipal Capital Markets Group, Inc.

Goldman Sachs & Co. LLC

Stifel, Nicolaus & Company, Incorporated

Summary of the Opportunity

| | |
|--|---|
| <p style="text-align: center;">Opportunity</p> | <ul style="list-style-type: none"> ■ Prepays generate discounts of 5-7% off the forward price of natural gas or electricity <ul style="list-style-type: none"> — Such savings can be achieved on existing and future contracted quantities ■ Transactions are structured to be non-recourse to the municipal utility, offering a nearly risk-free way to reduce costs |
| <p style="text-align: center;">Background</p> | <ul style="list-style-type: none"> ■ Since 2003, IRS regulations explicitly permit the prepayment of natural gas and electricity ■ Over \$60bn has been issued since such time ■ Public power has represented only ~15% of issuance over the last 5 years |
| <p style="text-align: center;">Applications</p> | <ul style="list-style-type: none"> ■ Structure has improved such that public power utilities can now prepay: <ul style="list-style-type: none"> — Natural gas and electricity <ul style="list-style-type: none"> – Including existing and/or future third-party supply arrangements – Including gas supplied to public power generation assets — RNG / RSG |
| <p style="text-align: center;">Market</p> | <ul style="list-style-type: none"> ■ Prepays are most valuable when there is a material spread between taxable and tax-exempt rates: <ul style="list-style-type: none"> — When tax-exempt market is very strong — When interest rates rise |

Regulations Allowing Tax-Exempt Prepayments are Quite Specific

IRS Regulations Published in 2003

- The IRS regulations effectively permit an arbitrage between the supplier's discount rate and the tax-exempt rate on the bonds issued to fund the prepayment

Key Requirements of IRS Rules:

- Prepayments for electricity or natural gas to be used by a municipal utility
- Must be a prepayment rather than a deposit or a loan
- If a commodity swap is used, the swap counterparty cannot be the provider of the commodity prepayment contract
- Regulations are silent as to whether the prepayment must be to the unit of the commodity or can be structured as a fixed dollar amount of the commodity based upon market prices

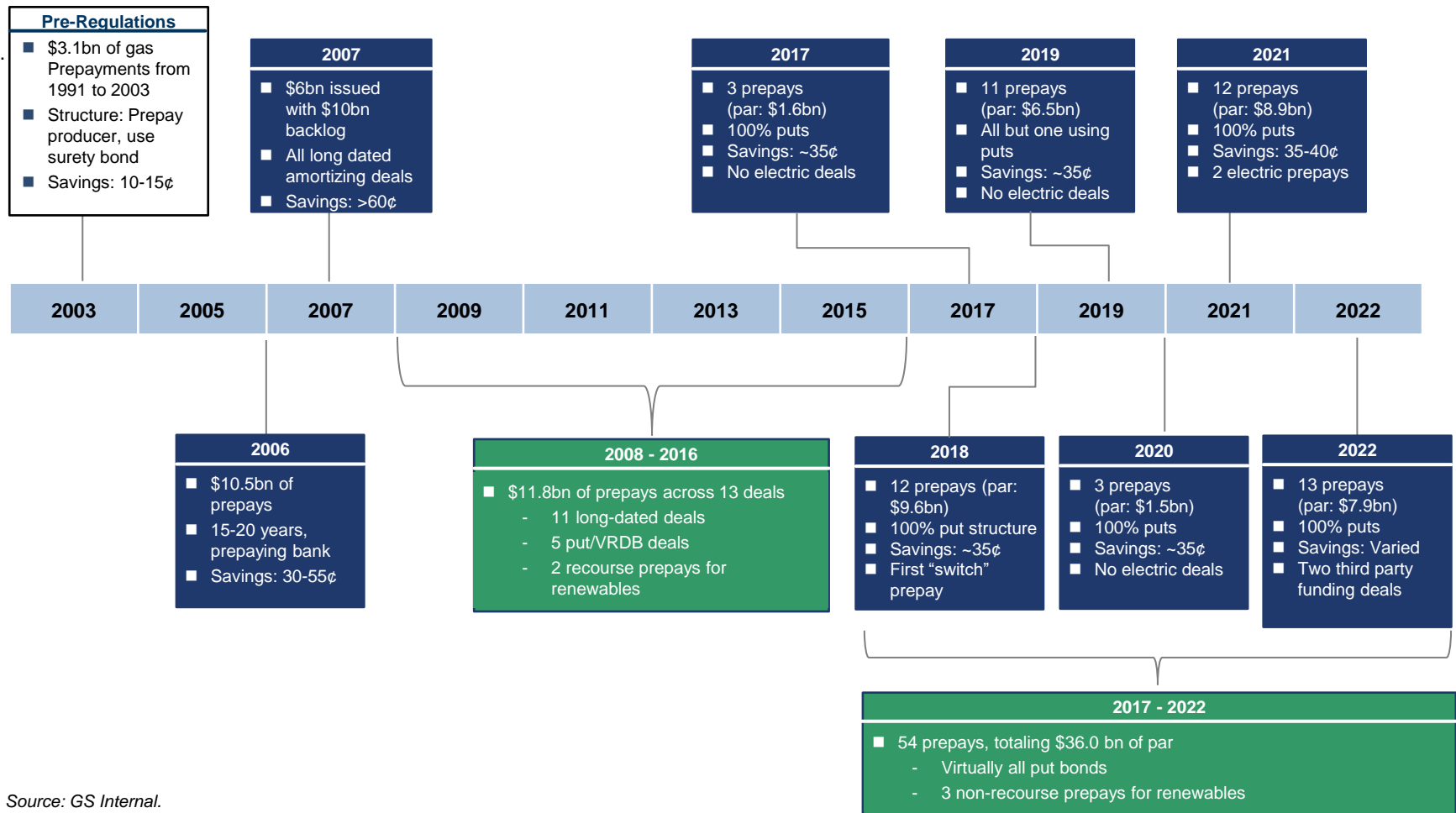
■ **Sizing:**

- IRS regulations ("Regs") have an expectation based test: Expected use over the course of the transaction to meet native load
- Energy Policy Act of 2005 ("Act") provides a historic brightline: Average annual amount of gas purchased for sale to retail customers in the most recent 5 calendar years

Goldman Sachs is not an accounting firm or a tax counsel and utilities should depend on its accountants and tax counsel for any accounting/tax advice.

Original Wave of Transactions Occurred in 2006-2007 Before a Quiet Patch of Almost 10 Years

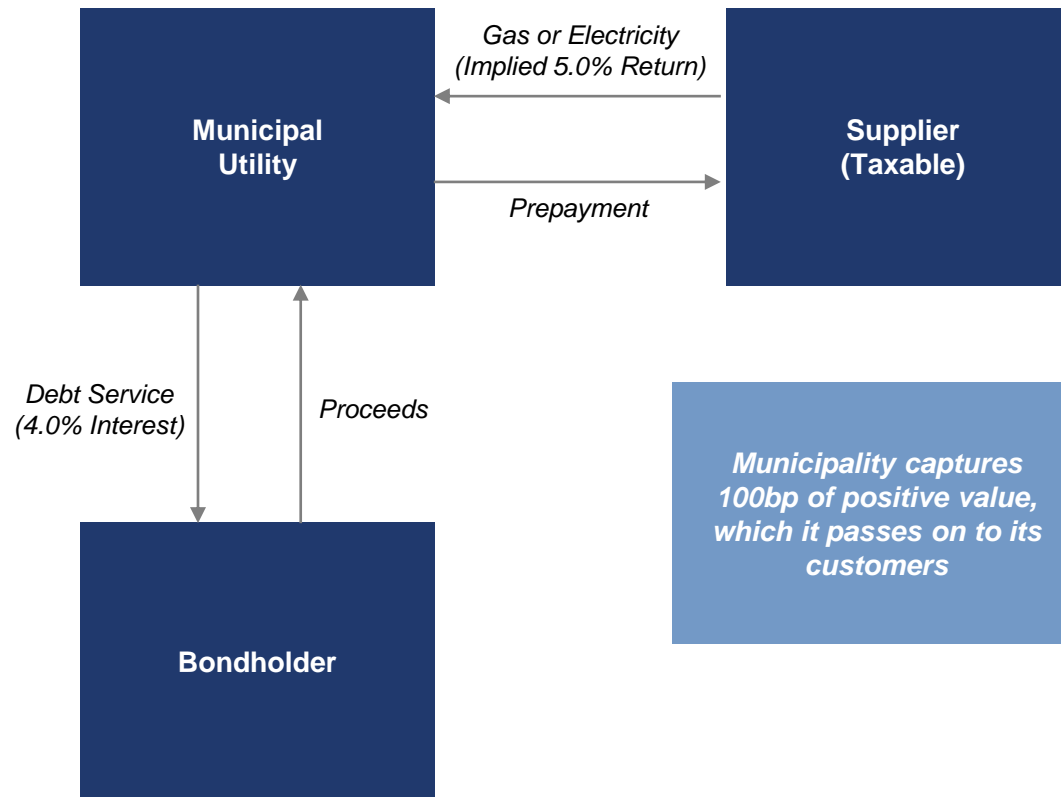
Prepayment Transaction Timeline and Historical Tax-Exempt Spread



Source: GS Internal.
For illustrative purposes only.

Basic Tax-Exempt Prepayment Structure

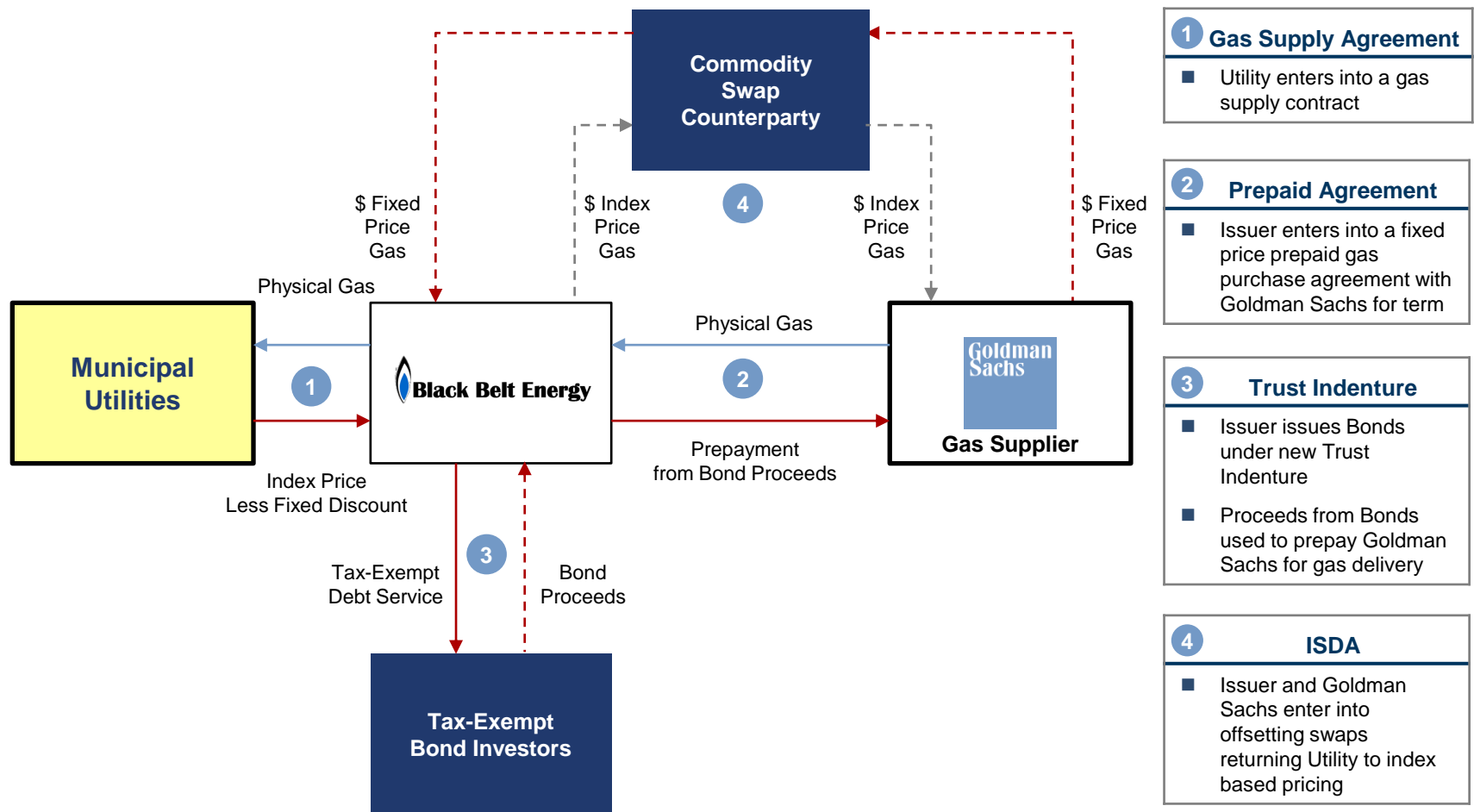
Conceptual Prepay Diagram



Prepayments allow municipal utilities to use tax-exempt financing to lock-in a long term energy supply at below market pricing.

Note: Numbers are theoretic for demonstrative purposes only.

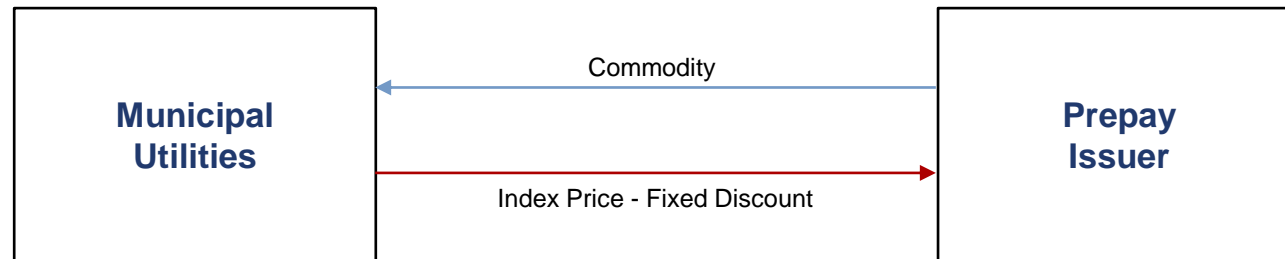
The Standard Gas Prepay Utilizes Four Key Contractual Relationships



- In the presentation, we will use Goldman Sachs and J. Aron interchangeably
 - J. Aron is Goldman Sachs' wholly owned commodity subsidiary

Participating in a Prepay Primarily Requires Signing One Commodity Contract

Take-and-Pay Commodity Contract



Key Terms

- **Length of Agreement:** 30 years
- **Deliveries / Points:**
 - Quantities (sculpted on a monthly basis)
 - Ability to change delivery points
- **Minimum Savings:** Currently, ~5-7% off forward curve for the initial period¹
- Annual refund terms
- **Any ongoing obligations**
 - Obligation to take commodity if need exists

Benefits

- Only sign 1 agreement, based on industry standard documents
- Only pay for commodity taken
- Allows for multiple delivery points
- Firm remarketing as principal or agent by Supplier
- **No obligation to pay debt**
- **No impact on credit metrics**

¹ After initial financing term (5-7 years), the discount will reset to an agreed upon minimum reset discount at transaction onset.

Gas Delivery Options

- For gas deliveries, we would work with municipal utilities to determine the best procurement process. Several options (all of which J. Aron has used in prior prepaids) include:

| Procurement Strategy | J. Aron procures supply at the preferred points | J. Aron is mandated to find supply, but utility must first agree to pricing | J. Aron uses utility's existing / future negotiated supply contracts | J. Aron assists utility in conducting an RFP process for supply |
|----------------------|--|--|---|--|
| Benefits | <ul style="list-style-type: none"> • Utility receives deliveries at its preferred points with no time spent on supply origination | <ul style="list-style-type: none"> • Utility receives deliveries at its preferred points • Utility has input into supply decisions | <ul style="list-style-type: none"> • Utility receives deliveries at its preferred points • Utility can keep its regular supplier(s) and scheduling process | <ul style="list-style-type: none"> • Utility receives deliveries at its preferred points • RFP can follow utility's usual form, with the addition assignment to J. Aron language |
| Considerations | <ul style="list-style-type: none"> • J. Aron passes through its actual procurement costs / utility bears the risk of supply costs | <ul style="list-style-type: none"> • Utility still bears pricing risk • If J. Aron and utility do not agree on pricing, deliveries revert to previously agreed liquid pool | <ul style="list-style-type: none"> • Supplier(s) must be enabled with or willing to become enabled with J. Aron • Without agreement, deliveries revert to previously agreed liquid pool | <ul style="list-style-type: none"> • Suppliers must be enabled with or willing to become enabled with J. Aron • If RFP is unsuccessful, deliveries revert to a liquid pool |



Least work / responsibility required by utility

Most work / responsibility required by utility

Utility's Financial Obligations if Needs Materially Decrease

Our structure is designed to provide flexibility to address the risk that a utility is not able to use prepaid natural gas or electricity temporarily or permanently.

Remarketing Provisions

- If utility's load changes, and it needs less gas/electricity, J. Aron remarkets the commodity:
 - **Monthly Remarketing:** Utility pays the difference between the monthly index and:
 - If J. Aron remarkets through a qualified sale: Greater of (i) actual sale price and (ii) amount owed by utility if it had taken the commodity; in both cases less the remarketing fee
 - If J. Aron remarkets through a non-qualified sale: Index price less remarketing fee
 - *In either case, utility would never be required to make a net payment, and may even realize some discount*
 - **Daily Remarketing:** Utility pays the difference between the monthly index and:
 - If J. Aron remarkets through a qualified sale: Greater of (i) sale price or (ii) daily index price low; in each case less the remarketing fee
 - If J. Aron remarkets through a non-qualified sale: Daily index price low less remarketing fee
 - *In either case, utility would never be required to make a payment greater than the difference between the monthly index and the Daily index price low less a remarketing fee*
- **Structural Remarketing:** If utility cannot take the commodity because of a change in regulation or law, it can request the commodity be remarketed for the remaining term

Remediation Provisions

- Utility may sell the commodity and buy an equal-value of gas or power elsewhere, however, such action may trigger a “bad-sale”
- Utility will have full remediation rights (gas or electricity) over the course of 6 months

Assignment

- Subject to the Issuer's consent, tax counsel approval, and a rating confirmation, utility can assign its contract to another municipal utility

For illustrative purposes only

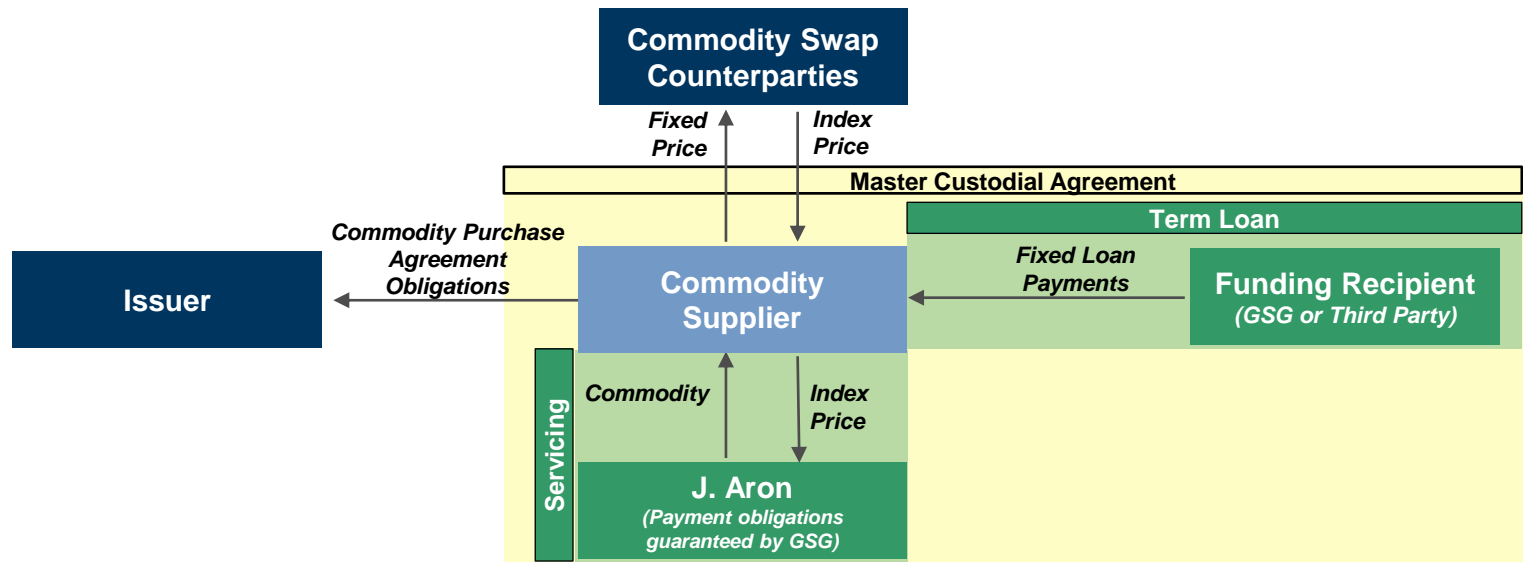
Savings (Discount to Index) is Based on Market Conditions and is Driven by Five Key Variables

| Factors that Affect Prepay Savings | Change in Factor Resulting in Increased Savings | Cause of Change |
|---|---|-------------------|
| Tax-Exempt Funding Rate Issuer tax-exempt borrowing cost <i>(Effectively Gas Supplier's tax-exempt borrowing cost)</i> | Lower ↓ | Tax-Exempt Market |
| Supplier Discount Rate Supplier cost of capital, used to discount future gas deliveries to arrive at Issuer prepayment | Higher ↑ | Taxable Market |
| Gas Prices Price of gas used for sizing transaction | Higher ↑ | Gas Market |
| Overall Interest Rates The spread differential between Issuer and Supplier's borrowing costs | Higher ↑ | Economy |
| Term of Contract Length of prepayment transaction | Longer | Issuer's Choice |

Structural Innovation: LLC Structure

- J. Aron forms an LLC for each deal
 - LLC uses the prepayment to make an amortizing loan to GSG or a third party and enter into a Commodity Supply and Servicing Agreement with J. Aron
- Structure has two benefits:
 - *Provides Issuer more flexibility*: Able to bifurcate the physical supply from the funding, such that an Issuer could replace either the physical supplier or the funding recipient without transaction terminating
 - As bondholders get closer to being “full” on specific bank names, provides path for funding diversification
 - Investors would prefer to see greater prepay scarcity (~3-4 prepays a year per credit)
 - **Structure allows utility to complete transactions on its timetable without needing to wait in a queue (including at future repricings)**
 - *Assists Goldman Sachs with capital treatment*: As funding goes to Goldman Sachs through the parent company, it receives superior capital treatment, and consequently, the firm could pay a potentially higher rate on the funding

LLC Structure



For Illustrative Purposes Only.

Prepayment is Financed by “Put Bonds” Issued by the Municipal Issuer

Initial Financing

- Issuer sells 5-10 year fixed rate hard put bonds
- Put bond debt service paid by participating utilities payments for commodity and Commodity Swap settlements, if any
- Put bond mandatory tender paid by:
 - If remarketed: Remarketing proceeds of put bonds for the next term
 - If transaction cannot be remarketed: Prepaid termination payment from J. Aron
- Savings derived by analyzing typical cost of commodity versus debt service that must be paid during put bond period to amortize sufficient bonds such that the Supplier termination payment on mandatory tender date is sufficient to redeem outstanding bonds

Future Reset Periods

- Utility’s commodity supply contract specify minimum savings level at which they are required to buy the commodity
- On remarketing, Supplier re-amortizes prepayment for new term at then current rates
- If new prepayment amortization combined with put bond refinancing debt service is sufficient to meet participating utilities’ minimum savings, bonds are remarketed
- If transaction does not meeting minimum savings, participating utilities could:
 - Buy gas / electricity at available savings level
 - If participating utilities do not elect to buy gas/electricity, J. Aron has right to terminate prepay
- Re-pricing agreement seeks to provide full transparency

For discussion purposes only. Not a comprehensive analysis.

Key Considerations for Participating in a Prepay

Savings

- Can achieve up to 5-7%¹ off existing and/or future gas supply

Staff Time / Operations

- Transaction largely handled by Black Belt and Goldman Sachs
- Existing scheduling/operations remain essentially unchanged outside of billing and payment aspects

Non-Recourse

- Fully non-recourse to municipal utility and does not impact the municipal utility's balance sheet or credit metrics²
- No obligation to pay for debt issued, only to pay for gas/power delivered

Future Resets

- No guaranty of savings in future reset
- If agreed upon minimum discount for future resets not achieved, retain option to opt out, but would be required to participate if minimum discount is achieved including future reset periods

Transaction Termination

- In the event the transaction terminates, assignments and all other contracts terminate and municipalities return to status quo, but will forego savings

¹ After initial financing term (5-7 years), the discount will reset; under transaction terms, the reset discount must be at least a specified minimum discount.

² Goldman Sachs does not provide accounting advice, utilities should consult with their respective accounting firms.

This material is for discussion purposes only, and does not purport to contain a comprehensive analysis of the risk/rewards of any idea or strategy herein.

Introduction to The Black Belt Energy Gas District Team

The Black Belt Energy Gas District

BBE has a staff of 14 employees



Matthew McKinley
CEO & General Manager
 13 Years of Prepay Experience



Kelly Henry
Managing Director & CFO
 15 Years of Prepay Experience



Charles "CJ" Arnold
Advisor
 17 Years of Prepay Experience



Neal Grimes
Director of Operations
 30 Years of Gas Experience

Gas Counsel



James Choukas Bradley
McCarter & English
 30 Years of Prepay Experience

Tax Counsel



George Wolf
Orrick Herrington & Sutcliffe
 30 Years of Prepay Experience

Financial Advisor



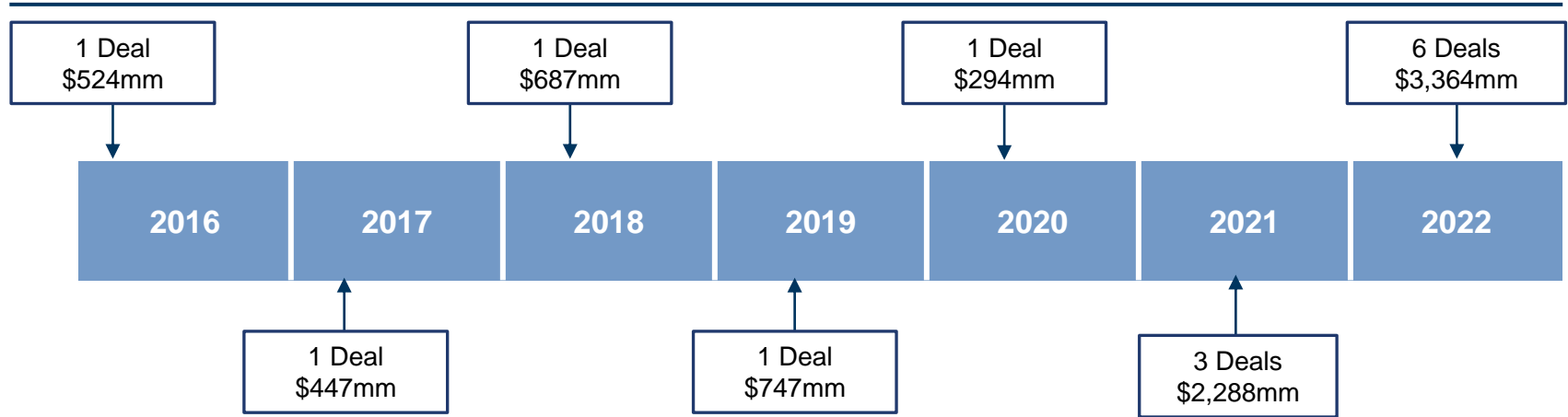
John Norman
Municipal Capital Markets
 30 Years of Prepay Experience

BBE Background

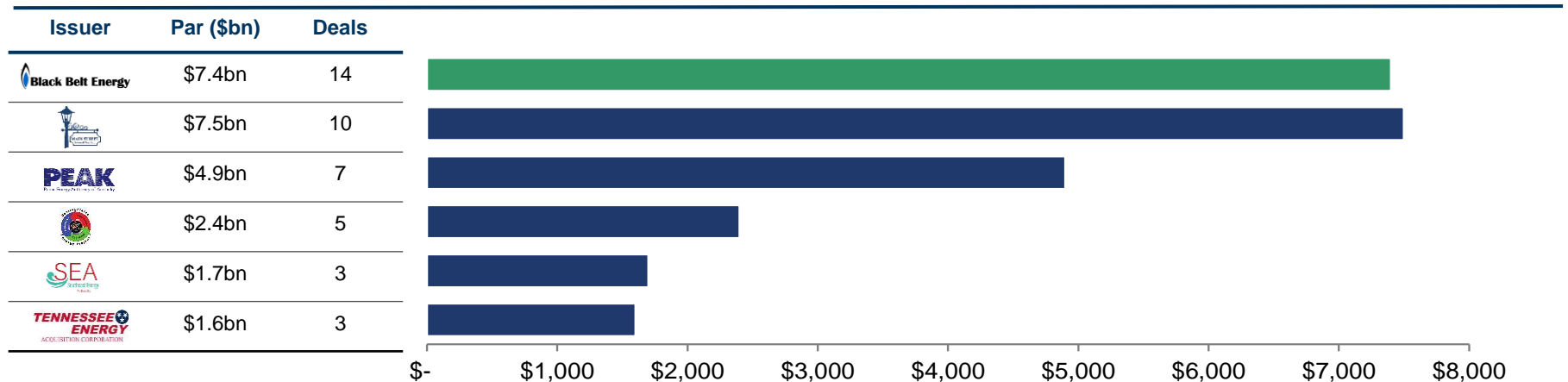
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| <p>Establishment</p> | <ul style="list-style-type: none"> ■ Black Belt was established in August 2008 as a public corporation and gas district under the laws of the State of Alabama, including Sections 11-50-390 et seq. of the Code of Alabama 1975, as amended ■ Black Belt was formed for the purpose of acquiring long-term natural gas supplies for sale to Clarke-Mobile Counties Gas District for the benefit of its Member Municipalities and the natural and corporate citizens thereof, and to other public gas customers within and outside of the State of Alabama |
| <p>Governance</p> | <ul style="list-style-type: none"> ■ BBE is governed by a three-member Board of Directors: <ul style="list-style-type: none"> — Sheldon Day, President (Mayor of Thomasville, AL) — Ross Wood, Vice President (Mayor of Grove Hill, AL) — Paul South, Secretary (Mayor of Jackson, AL) |
| <p>Powers</p> | <ul style="list-style-type: none"> ■ Including but not limited to the ability to: <ul style="list-style-type: none"> — Acquire and own gas supplies and acquire, construct, establish, own and operate systems for the transmission, transportation, delivery, distribution and sale of gas throughout Alabama or outside Alabama for the benefit of the Member Municipalities and other customers, and to further CMC's objectives and purposes; and — Sell gas to consumers directly, to gas distribution systems, and to other governmentally owned wholesale customers |
| <p>Goals</p> | <ul style="list-style-type: none"> ■ Assist in the economic development of Member Municipalities and participating Municipalities ■ Provide a dependable, long-term supply of natural gas to Municipalities ■ Reduce gas cost across municipal utilities |

BBE Has Executed 14 Gas Prepay Transactions Over the Past Seven Years

BBE Transactions

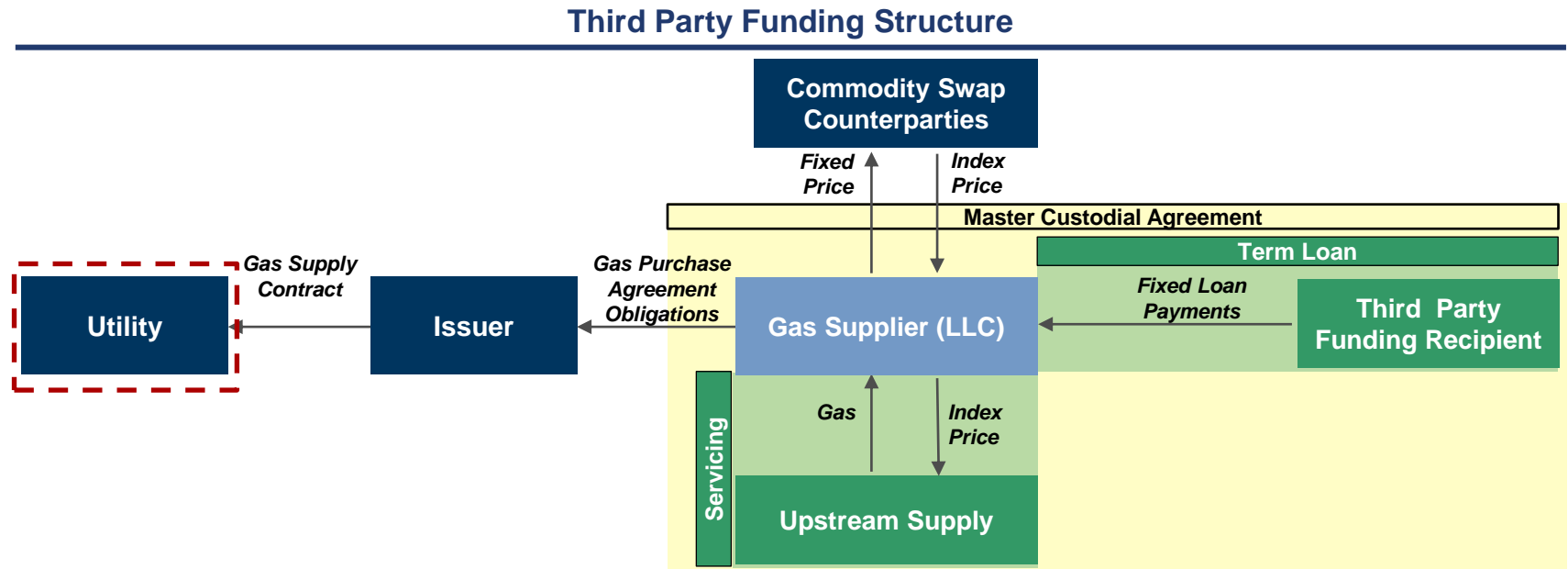


Largest Gas Prepay Issuers¹ (\$MM)



Source: SDC Thompson, gas issuances, 2017-2022

Third Party Funding Structure Provides: (1) Flexibility, (2) Funding Level Competition, and (3) No Deal Queue



For Illustrative Purposes Only.

Benefits

- **Economics:** The structure allows for a competitive process to select the funding recipient providing higher discounts for the desired tenor
- **Capacity:** Selling bonds backed by the credits of a variety of funding recipients captures scarcity value from investors and mitigates concerns about investor concentration in a handful of prepay suppliers
- **Flexibility:** Funding can be bid out to funding recipients after initial reset period
- **No Deal Queue:** By having a variety of potential credits, no need to wait for black out window or prior deals to clear market

BBE's Value Add is its Experience, Flexibility, and Ability to Innovate

■ **Can Help Facilitate Approvals** – Work with utility to provide guidance through approval process

■ **Third Party Funding** – Provides utility the flexibility along the spectrum of credit quality and overall savings

■ **Deliveries** – Transaction can work with existing utility gas suppliers and delivery points

■ **Experienced staff** – Seasoned professionals who know the gas and prepay market, including executing multiple transactions supplying gas to public power generation assets

■ **High degree of surety of execution** – Flexibility, market knowledge and experience provides ability to maximize the market opportunity

■ **Timing** – Transaction schedule built around utility's process and approval schedule

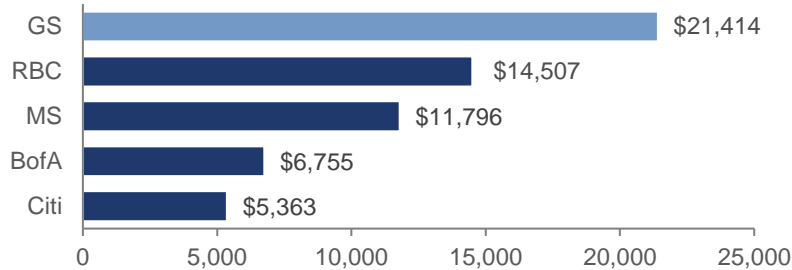
Goldman Sachs Is a Leader in Commodity Prepayment Transactions

Leadership

Prepayment Supplier League Table Since 2006 (\$mm)¹

Greatest indication of GS skills is the number of repeat issuers:

- TEAC: 5
- CPEP: 4
- Black Belt: 8
- Southeast: 4



Municipalities With Which We Have Worked²



Goldman Sachs Executed Prepayment Transactions³

| | | | | | | | | | | | | | | | | |
|-----------------------------|----------------------------|-----------------------------|------------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|--------------------------|-------------------------|
| \$2.1bn New Deal 7/2006 | \$1.1bn New Deal 12/2006 | \$0.5bn New Deal 2/2007 | \$0.6bn New Deal 6/2007 | \$0.3bn New Deal 7/2007 | \$0.5bn New Deal 10/2007 | \$138mm Restructure 8/2009 | \$165mm Restructure 10/2009 | \$16mm Restructure 10/2009 | \$98mm IR Cap 12/2009 | \$1.8bn Credit Rest. 1/2012 | \$0.6bn New Deal 5/2012 | \$90mm Restructure 10/2012 | \$111mm Restructure 2/2013 | \$445mm Restructure 2/2013 | | |
| \$180mm Credit Rest. 4/2013 | \$235mm Restructure 8/2013 | \$318mm Credit Rest. 9/2013 | \$736mm Credit Rest. 10/2013 | \$60mm Inv. Agree. 10/2014 | \$45mm Inv. Agree. 10/2015 | \$55mm Inv. Agree. 10/2015 | \$0.6bn New Deal 3/2016 | \$0.4bn Credit Rest. 6/2016 | \$678mm New Deal 11/2017 | \$503mm Refunding 12/2017 | \$687mm New Deal 3/2018 | \$722mm New Deal 5/2018 | \$515mm New Deal 8/2018 | \$535mm New Deal 11/2018 | \$535mm New Deal 11/2018 | \$615mm New Deal 5/2019 |
| \$634mm New Deal 2/2020 | \$420mm New Deal 4/2021 | \$466mm New Deal 6/2021 | \$723mm New Deal 9/2021 | \$603mm New Deal 11/2021 | \$1.0bn New Deal 12/2021 | \$493mm New Deal 2/2022 | \$523mm New Deal 3/2022 | \$641mm New Deal 6/2022 | \$549mm New Deal 7/2022 | \$626mm New Deal 7/2022 | \$576mm New Deal 10/2022 | \$576mm New Deal 11/2022 | \$460mm New Deal 11/2022 | \$787mm Remarket. 1/2023 | \$998mm New Deal 2/2023 | \$675mm New Deal 3/2022 |

Note: Blue highlighting represents new prepays. For discussion purposes only. Past performance not indicative of future results

¹ Source: SDC.

² Source: GS Internal.

³ Restructure indicates acceleration of savings.

J. Aron is a Top Energy Supplier With the Ability to Perform Even in Stressed Conditions

J. Aron Performance During Recent Extreme Weather Event

- During the February 2021 weather event J. Aron received several force majeure letters from upstream suppliers for a substantial volume of delivery failures
- Nearly all of the notices were for force majeure at liquid pools where:
 - The pipeline operator did not declare force majeure at the pool
 - Liquidity via various venues (ICE, broker market) remained as J. Aron was able to use it in some cases to cover client needs
 - The pool (by definition) had multiple interconnections meaning regardless of any upstream force majeure, alternate supply procurement arrangements still existed
- Given the extreme pricing conditions there are numerous public lawsuits regarding the extreme pricing in the weather event and what constitutes force majeure
- Many of these lawsuits involve marketers ranked in the Top 30 per Platts Gas Daily
- J. Aron issued **zero** force majeure letters and absorbed substantial costs performing where other long-term, contractually-obligated suppliers failed, sometimes repeatedly and despite intraday assurances to the contrary
 - This absorption of costs came despite an uncertain and lengthy path to reclaiming damages

J. Aron worked to ensure clients felt as little impact as possible despite the extreme event.

Source: Goldman Sachs Global Markets Division

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