Los Alamos County
Department of Public Utilities

Overview of RBC Gas Prepay Structure

February 5, 2025

LOS ALAMOS
Department of Public Utilities

RBC Capital Markets

Prepaid Gas Transactions

Executive Summary

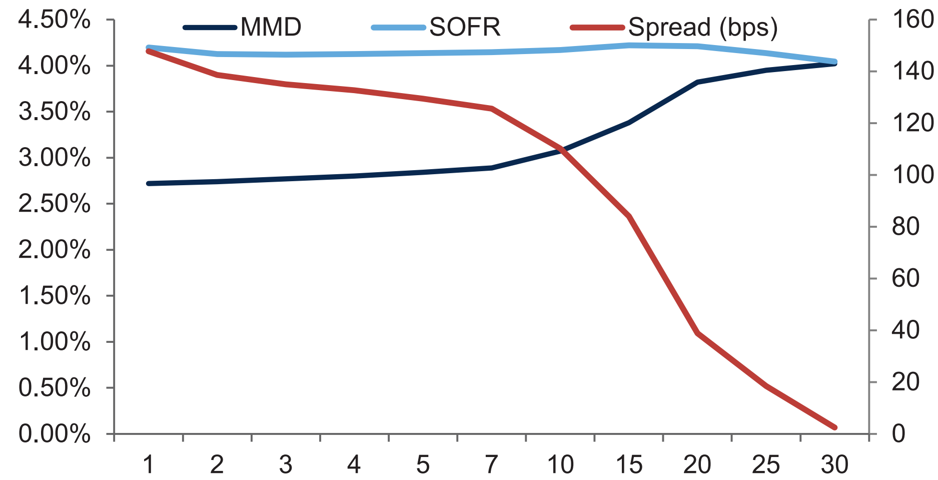
- Prepaid Gas Transactions entail a US Tax-Exempt Issuer (NMMEAA) issuing tax-exempt bonds to prepay for its future energy needs
  - Bond issue size is based on the aggregate cost of the gas (discounted at Gas Supplier’s taxable cost of funding), plus costs of issuance
- The ability of NMMEAA to borrow the pre-payment cost at a lower, ***tax-exempt*** rate than the pre-payment discount rate (RBC’s ***taxable*** cost of funds), results in a funding arbitrage that is shared by the municipality and the Gas Supplier
  - Los Alamos, as a participating Gas Purchaser, realizes its benefit in the form of reduced natural gas costs
  - RBC, as Gas Supplier and Underwriter, benefits from underwriting and commodity fees.
- Prepayments are permitted under the tax code through statute and codification
  - In 2005, Congress passed the National Energy Policy Act of 2005 (Section 1327), which specifically provides for these transactions.
    - The statute provides a Safe Harbor for Prepaid Natural Gas in the “Arbitrage Rules” under § 148 (b)(4)
    - A change of law is required to change the statute
  - Prior to the enactment of the statute, Issuer’s relied solely on § 148-1(e)(2)(iii) of the Tax Code, which provided for Prepayments to acquire natural gas or electricity

Prepaid Energy Transactions | Why Transact Now?

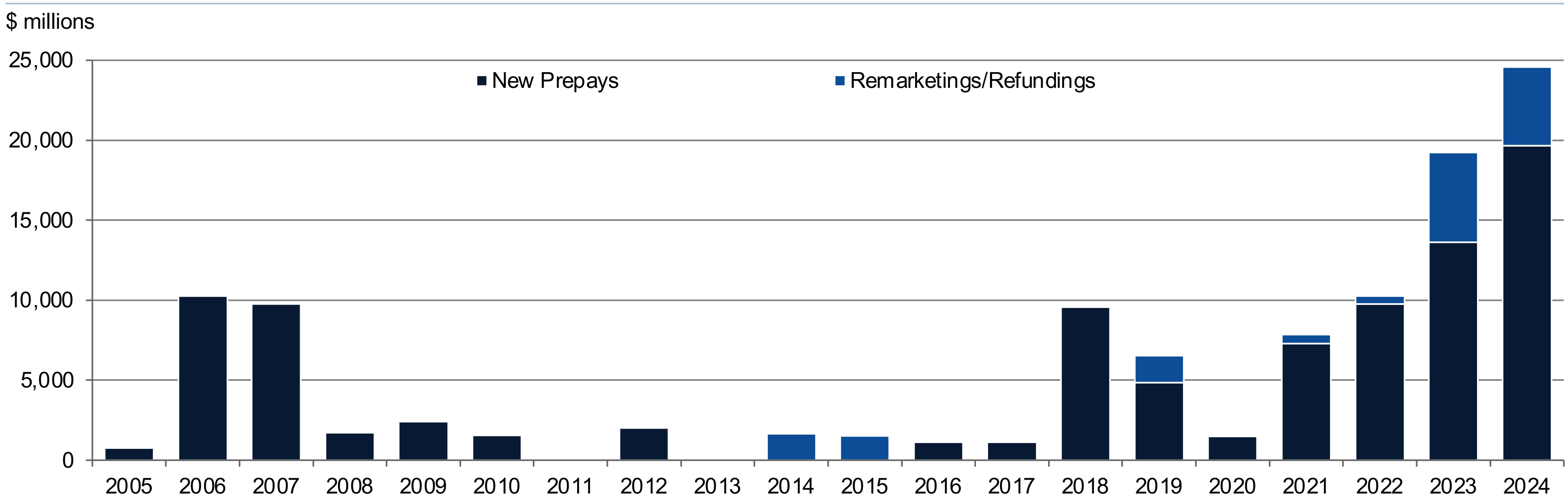
Interest rate relationships are currently favorable

- Prepaid energy transactions rely primarily on the relationship between the tax-exempt market and the taxable market (inclusive of credit spreads in each market) to provide benefits to both the municipal utility and the energy supplier
- Disruptions in rates, spreads and ratios has, at times, resulted in little or no gas cost benefit (i.e., discount) to be available.
- Disruptions are unpredictable and can be caused by numerous events
  - Tax law changes
  - World economic events
  - Systemic credit events
  - Relationship between fixed income and equity markets

Tax-Exempt and Taxable Relationship



Par Amount of Energy Prepays Issued from 2005 to Present



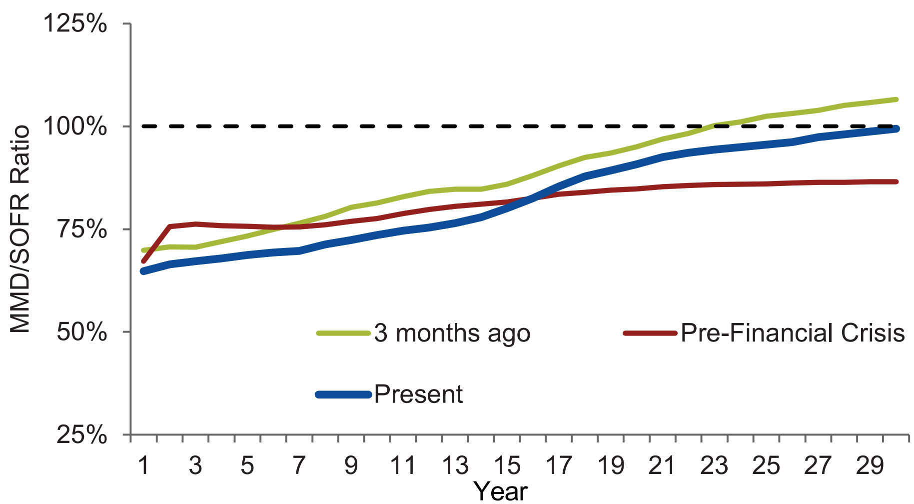
Source: Refinitiv TM3, Bloomberg as of 01/23/2025

Energy Prepay Market Update & Structure Overview

Energy prepayment transactions are generally structured with 25-30 year tax-exempt bonds, subject to a mandatory put in 5-7 years

- Prepaid energy (natural gas and electricity) transactions provide larger energy discounts when the difference between taxable and tax-exempt markets (including credit spreads) are greater.
- Long-term (25-30 years) tax-exempt bonds with 5-7 year put structure maximizes transaction economics
  - The greatest difference in tax-exempt and taxable rates usually falls within the 1-7 year range
  - The gas price discount is locked in for the initial period and then subject to reset at the mandatory put date
  - Terms shorter than 5 years require more frequent remarketings, increasing the risk of less favorable future conditions and increasing costs
  - If a refinancing cannot produce adequate energy discount, the transaction is unwound on the mandatory put date and the unamortized prepayment is used to redeem the bonds, terminating the Prepaid Transaction
- The put structure developed by RBC is the current market standard for prepaid energy bonds
- **RBC has acted as Energy Supplier and Underwriter on over $20.2 billion of Prepaid Energy Bonds from 2014 to present**

MMD / SOFR Term Structure



MMD vs. SOFR Swap Yield Curves
Rates as of Market Close January 23, 2025

Term (Yrs)	MMD	SOFR	Spread (bps)
1	2.72%	4.20%	148
2	2.74%	4.13%	139
3	2.77%	4.12%	135
4	2.80%	4.13%	133
5	2.84%	4.13%	129
7	2.89%	4.15%	126
10	3.07%	4.17%	110
15	3.38%	4.22%	84
20	3.82%	4.21%	39
25	3.95%	4.13%	18
30	4.02%	4.04%	2

Note: *Conversion of Pre-Financial LIBOR Swap rates less 11 bps equate to SOFR Swap rates*

- Current Rate (01/23/2025): 5-year MMD: **2.84%**, 5-Year SOFR: **4.07%**, spread: **123 bps** | 10-year MMD: **3.04%**, 10-Year SOFR: **4.09%**, spread: **105 bps**
- Average Rate 2024: 5-year MMD: **2.60%**, 5-Year SOFR: **3.85%**, spread: **125 bps** | 10-year MMD: **2.71%**, 10-Year SOFR: **3.78%**, spread: **107 bps**

Source: *Refinitiv TM3, Bloomberg as of 01/23/2025*

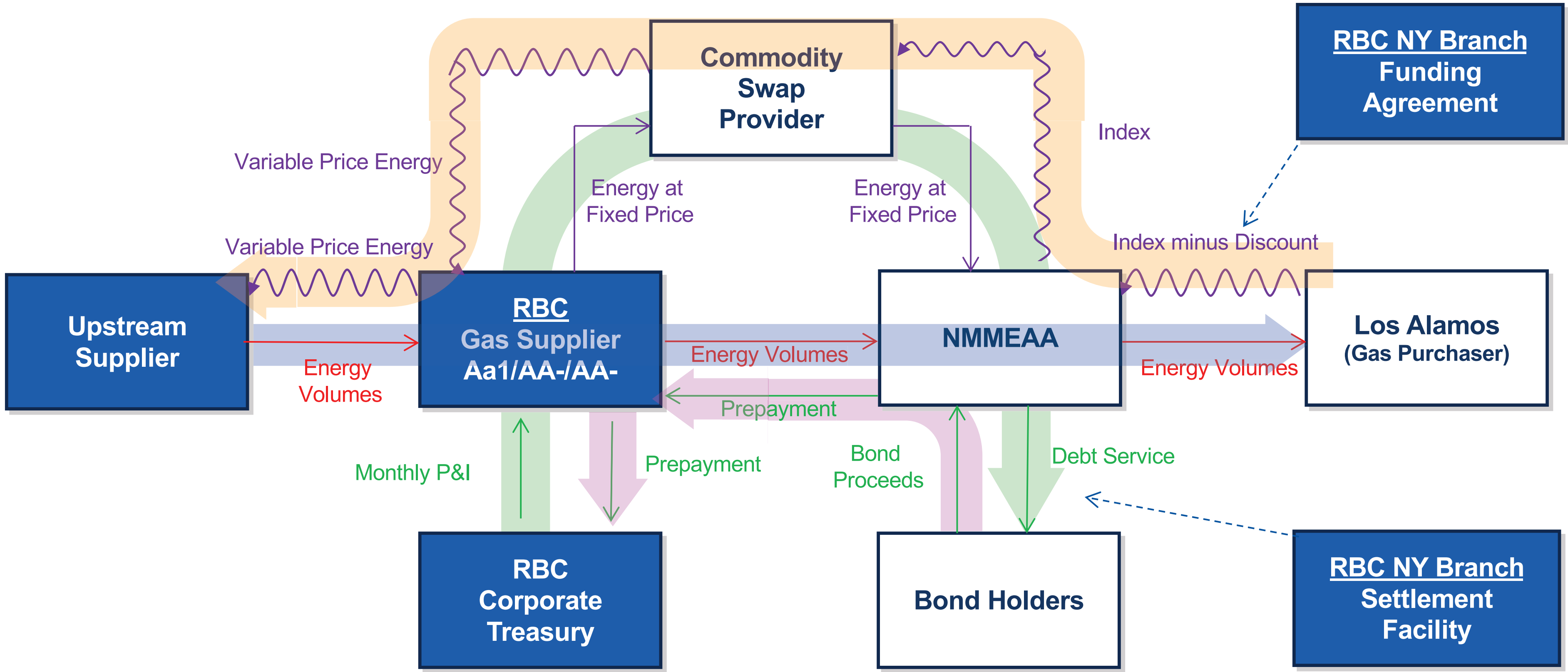
Parties Involved in a Prepaid Gas Transaction

NMMEAA (Bond Issuer / Conduit Borrower)	▪ A Joint Action Agency or a Conduit Borrower ▪ Sells the tax-exempt bonds to fund prepayment for natural gas, capitalized interest account (if needed), and costs of issuance ▪ Enters into Prepaid Natural Gas Purchase and Sale Agreement and sells 100% of gas delivered by the gas supplier to the gas purchasers
Los Alamos (Gas Purchaser)	▪ An end user of the gas; purchases at first of month index less the discount ▪ Enters into a Natural Gas Supply Agreement with the Issuer to receive specified monthly quantities of gas for the life of the bonds ▪ Participation limited to purchasing gas on a “take and pay basis”
RBC (Gas Supplier)	▪ Enters into the Prepaid Natural Gas Purchase and Sale Agreement with the Issuer to deliver specified monthly quantities of gas for the life of the bonds ▪ Receives the proceeds of the bonds
Commodity Swap Provider	▪ Enters into a pair of back-to-back commodity swaps with the Issuer and Gas Supplier – Hedges the Issuer and Gas Supplier’s fixed price commodity exposure
Other Parties	▪ Bond Counsel ▪ Tax Counsel ▪ Financial Advisor ▪ Underwriter’s / Gas Supplier’s Counsel

Prepaid Gas Transactions

The Big Picture - Flow of Funds

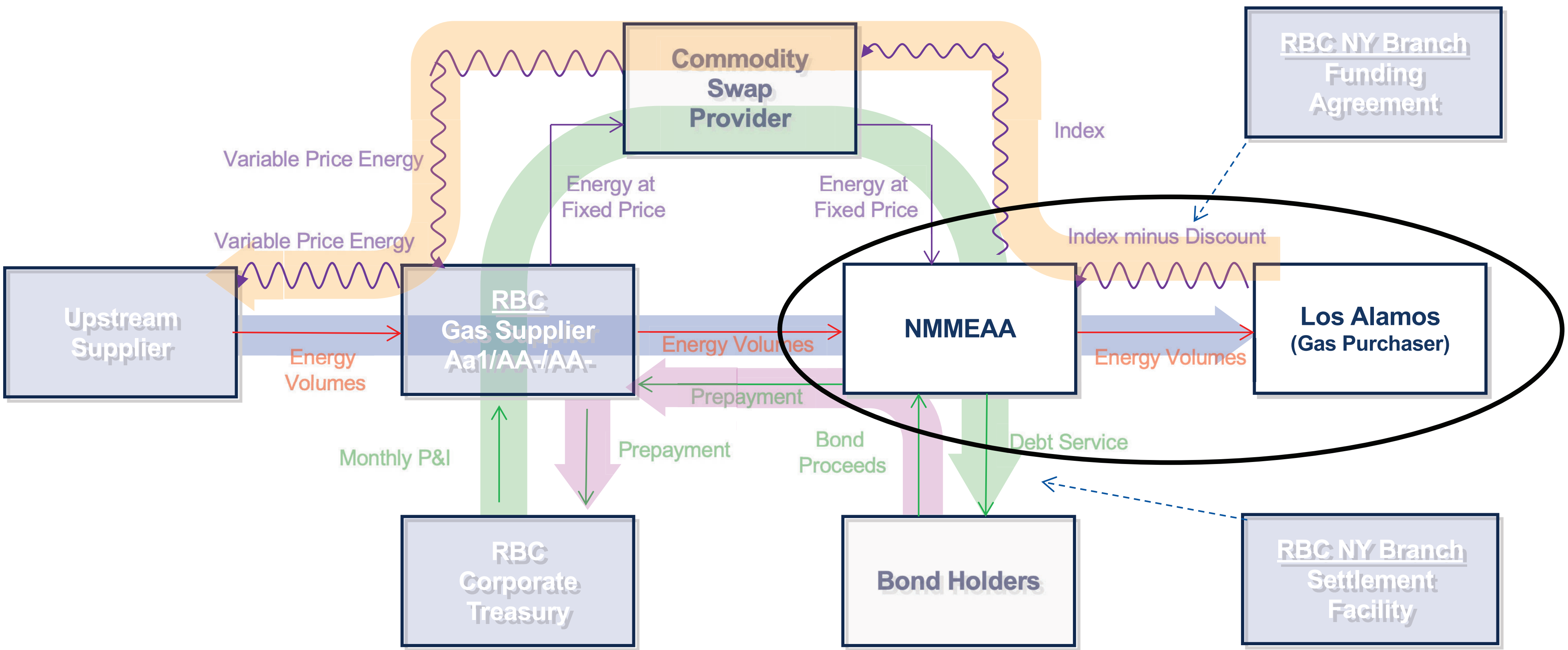
- **Los Alamos's only obligation is to pay for energy delivered by NMMEAA under the Gas Supply Agreement**
- A prepaid gas transaction can be broken down into physical and financial flows
- Under conduit or participant structure, the Gas Purchaser's obligation is to purchase energy delivered to it by the issuing entity
- RBC Commodities manages the physical aspects of the Prepaid Gas Transaction
  - Scheduling
  - Nominations
  - Delivery



Prepaid Gas Transactions

The Big Picture - Flow of Funds

- Los Alamos's participation is limited to a supply agreement with NMMEAA
- Los Alamos is only responsible for paying for gas that is delivered through the transaction
- Investors have no recourse to Los Alamos



Attachment B

Put Structure Summary

Prepayment

- Prepayment for 30 years of fixed gas deliveries, based on a 30 year forward gas price curve

Bond Financing

- Municipality issues the bonds for the prepayment
- 5 - 7 year amortizing debt with balloon payment (a hard put bond) at the end of the original financing term
  - Tenor optimizes spread between taxable and tax-exempt rates while spreading out issuance costs
  - Bonds are remarketed or refinanced at end of the first period and each successive period thereafter
  - Successive periods expected to be in 5 - 7 year range dependent on market conditions at the time of the remarketing

Target Economics / Term

- **Fixed discount to index is initially set only through initial 5 - 7 year period, followed by a reset of the fixed discount for each subsequent reset period**
  - Minimum savings threshold established at the outset for future reset periods
  - No guarantee of future savings beyond the initial discount period

Termination Events

- Failure of Gas Supplier
- Failure of Participants to pay for gas delivered by Issuer
- Termination of commodity swap, without replacement
- The failure to generate savings in excess of minimum savings threshold in any discount reset will provide the Participant with the option to have its quantities remarketed until the minimum savings threshold can be achieved in a future reset period

Termination Payment

- In all Termination Events, RBC is required to make a Termination Payment, which along with funds on hand, is calculated to be sufficient to redeem the bonds
- Transaction ratings reflect RBC's ability to perform and make Termination Payment, if necessary

Participant Exposures

- Participant is required ONLY to pay for gas delivered by or on behalf of the Conduit Issuer
- Participant's risk is limited to loss of access to discounted gas, in the event of Early Termination
- **The financing is non-recourse to gas purchasers**

Economic Drivers of the Discount & Current Market Conditions

Component	Definition	Impact on Gas Discount	Current Market Condition
Term of the Prepaid Gas Agreement	Time period from the delivery date to final maturity of the Agreement	The longer the term, the greater the quantity of gas and the associated discount	Recent transactions have been 30 years
Natural Gas Price Curve	A series of forward prices at which parties can purchase gas at fixed prices	The higher and/or steeper the gas price curve, the greater the gas discount	Relatively low gas prices across the curve are having a negative effect on gas discount
Gas Supplier's Discount Rate	Gas Supplier's cost of funds expressed as a spread over SOFR swaps	The higher the funding spread, the greater the gas discount	Regulatory change has driven increased funding needs for financial institutions
Tax-Exempt Bonds' Trading Levels	Gas prepaid bonds trading levels expressed as a spread over MMD benchmark rates	The lower the credit spread, the greater the discount	Prepaid Gas bonds trade at a wider spreads vs. comparably rated credits due to investor sophistication in extracting a portion of the available arbitrage
Yield Spread Between Taxable (SOFR) and Tax-exempt (MMD) Market	Relationship between taxable and tax-exempt markets	The wider the spread in bps, the greater the discount	Spreads have narrowed given "flight to quality" in response to bank credit concerns

Transaction Risks and Mitigants

Structural Bondholder Protections

Project Participants fail to take or pay for Commodity Supply	▪ Draw on DSRF (funded with RBC Funding and Assignment Agreement) allows the Trustee to make required payments ▪ RBC will remarket to other parties with priority given to other municipal utilities ▪ RBC option to terminate transaction and make a Liquidation Payment sufficient to retire the Bonds
Commodity Supply is not Delivered	▪ RBC pays replacement cost (but not less than the monthly Index price), or in the event of force majeure, the monthly Index price to the Issuer and the Issuer pays cost of "Replacement Gas" to Project Participants ▪ By virtue of RBC's payment to the Issuer, the Trustee has sufficient funds to make required payments
Persistent Delivery Failure	▪ Prepaid Commodity Purchase and Sale Agreement terminates at the option of the Issuer ▪ A Liquidation Payment is made by RBC to the Issuer, calculated to be sufficient to retire outstanding Bonds
Commodity Swap Terminates	▪ Prepaid Commodity Purchase and Sale Agreement terminates ▪ If necessary, RBC's payment under the commodity swap is passed to the Issuer by the Custodian, allowing the Trustee to make required payments ▪ A Liquidation Payment is made by RBC to the Issuer under the Prepaid Commodity Purchase and Sale Agreement calculated to be sufficient to retire the Bonds
Failed Remarketing of Put Bond	▪ Royal Bank of Canada, NY Branch, Settlement Facility in effect on remarketing date ▪ A Liquidation Payment is made by RBC to the Issuer under the Prepaid Commodity Purchase and Sale Agreement calculated to be sufficient to retire the Bonds

Disclaimer

Disclosure of Role:

RBC Capital Markets, LLC ("RBCCM") is providing the information contained in this document for discussion purposes only in anticipation of serving as underwriter to the recipient of this presentation (the "Recipient"). The primary role of RBCCM, as an underwriter, is to purchase securities, for resale to investors, in an arm's-length commercial transaction between the Recipient and RBCCM and that RBCCM has financial and other interests that differ from those of the Recipient. RBCCM is not acting as a municipal advisor, financial advisor or fiduciary to the Recipient or any other person or entity. The information provided is not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. The Recipient should consult with its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate. If the Recipient would like a municipal advisor in this transaction that has legal fiduciary duties to the Recipient, then the Recipient is free to engage a municipal advisor to serve in that capacity.

Disclaimer:

This presentation was prepared exclusively for the benefit of and internal use by the recipient for the purpose of considering the transaction or transactions contemplated herein. This presentation is confidential and proprietary to RBC Capital Markets, LLC ("RBCCM") and may not be disclosed, reproduced, distributed or used for any other purpose by the recipient without RBCCM's express written consent.

By acceptance of these materials, and notwithstanding any other express or implied agreement, arrangement, or understanding to the contrary, RBCCM, its affiliates and the recipient agree that the recipient (and its employees, representatives, and other agents) may disclose to any and all persons, without limitation of any kind from the commencement of discussions, the tax treatment, structure or strategy of the transaction and any fact that may be relevant to understanding such treatment, structure or strategy, and all materials of any kind (including opinions or other tax analyses) that are provided to the recipient relating to such tax treatment, structure, or strategy.

The information and any analyses contained in this presentation are taken from, or based upon, information obtained from the recipient or from publicly available sources, the completeness and accuracy of which has not been independently verified, and cannot be assured by RBCCM. The information and any analyses in these materials reflect prevailing conditions and RBCCM's views as of this date, all of which are subject to change.

To the extent projections and financial analyses are set forth herein, they may be based on estimated financial performance prepared by or in consultation with the recipient and are intended only to suggest reasonable ranges of results. The printed presentation is incomplete without reference to the oral presentation or other written materials that supplement it.

IRS Circular 230 Disclosure: RBCCM and its affiliates do not provide tax advice and nothing contained herein should be construed as tax advice. Any discussion of U.S. tax matters contained herein (including any attachments) (i) was not intended or written to be used, and cannot be used, by you for the purpose of avoiding tax penalties; and (ii) was written in connection with the promotion or marketing of the matters addressed herein. Accordingly, you should seek advice based upon your particular circumstances from an independent tax advisor.