Photo by Santee Cooper

John S. Rainey Natural Gas-Fired Power Plant in South Carolina

LPPC Large Public Power Council

LPPC ON PREPAYMENT TRANSACTIONS

Last Updated: September 2026

$16.7 billion in customer savings

Prepayments priced since 2021 will save electric and gas customers about $16.7 billion over a typical thirty-year supply contract.

A Long-Standing Tool that Lowers Customer Bills

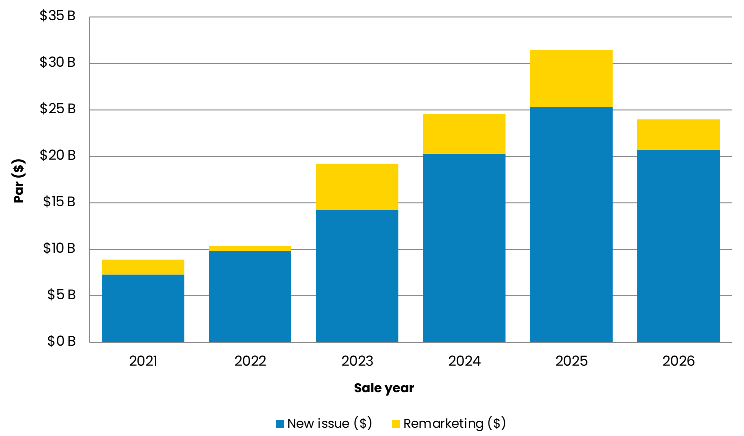
Public power utilities, public gas utilities and community choice agencies use tax-exempt prepayments to lower what customers pay for electricity and natural gas. LPPC estimates that transactions priced since 2021 will save **electric customers** about **$1.9 billion** and **gas customers** about **$2.6 billion** over their initial term, generally seven to ten years. That is about **$16.7 billion** if the discount is renewed on similar terms over a typical thirty-year supply contract.[1]

How Prepayment Works

Paying up front to pay less. The utility contracts for gas or electricity over a long term, and a public authority issues tax-exempt bonds to pay the supplier the entire purchase price at closing. Paid up front, the supplier sells the commodity at a discount to the market price prevailing at each delivery, so the saving does not depend on where prices go. The utility takes delivery over the term of the contract, pays the discounted commodity price, and passes the savings through to its customers. The discounted commodity payments cover the debt service on the bonds, so the customers taking delivery in a given year are the customers paying for it.

The structure is not new. Treasury and the IRS issued final rules permitting tax-exempt prepayments for natural gas and electricity in 2003, and Congress enacted a statutory safe harbor for gas prepayments in 2005. Utilities have used the tool under those rules ever since.

Figure 1: Prepay Transaction Volume By New Issue & Remarketing



$118.5 billion financed since 2021

Public authorities have issued $118.5 billion of prepaid energy bonds across 177 transactions in 13 states since 2021, $69.8 billion for natural gas and $48.7 billion for electricity.

Who the Savings Go To

Not-for-profit utilities have no shareholders.
Federal rules require that at least 90 percent of the prepaid gas or electricity be put to a *qualifying use*, which generally means delivery to retail customers in the utility's own service territory, or use by that utility to generate electricity for those customers. The purchaser is a public power utility, a public gas utility, or a community choice agency. Each is not-for-profit, it has no shareholders, and it retains no profit. The discount it obtains on fuel or power directly reduces its customers' bills. The bonds are limited obligations of the issuing authority secured by the utility's payments for the commodity, rather than debt of the utility.

EXAMPLE

An $800 million electric prepayment

A transaction of this size buys roughly 6.7 million megawatt-hours over a ten-year initial term, and roughly 20 million over a typical thirty-year supply contract, enough to power about 64,000 homes throughout.[2] At a 10 percent discount, a level achieved on selected transactions priced in 2026, customers can save about **$5.0 million per year**, or about **$50 million over an initial ten-year term**. If the transaction continues to be remarketed at a similar discount, savings could surpass **$150 million over the life of the bonds**.[1]

Photo from Salt River Project

Agua Fria Natural Gas-Fired Generating Station in Arizona

PREPAYMENT: A CUSTOMER-SAVINGS TOOL FOR PUBLIC POWER

Last Updated: September 2026

What is Locked In, and What Is Not

The discount resets, and the transaction has to keep earning its place. The discount is fixed for the initial pricing period, typically seven to ten years, but not for the life of the bonds. At each repricing, the bonds are remarketed or refinanced at a new interest rate and the commodity discount is renegotiated alongside it. The transaction must clear a minimum savings threshold set when the bonds were first issued. If it does not clear that threshold, the prepayment unwinds and the bonds are retired. The same is true if the supplier stops performing: if the commodity is not delivered, the supplier owes the undiscounted price of the undelivered quantity, and a delivery failure that rises to a termination event unwinds the transaction and redeems the bonds early. **Utilities are not locked into a transaction that has stopped delivering value**.

Tom Falcone
President, LPPC

> **"Prepaid energy is not exotic. It is a public power utility buying fuel and power at a discount and passing that discount to the residents and businesses it serves. The rules Congress and Treasury wrote twenty years ago were designed to keep the benefit with retail customers, and for our members that is exactly where the savings go."**

The Bottom Line

Prepaid energy is a conventional procurement tool operating under a federal framework more than twenty years old. **Not-for-profit utilities use it to help keep bills affordable by lowering what their customers pay for electricity and gas**, and the qualifying use rules Treasury and Congress wrote keep the benefit with the retail customers those utilities serve. For public power, the rules are working as designed.

Sources:

[1] LPPC estimates. The discount a utility receives is negotiated at pricing, depends on interest rates, credit spreads, and commodity prices at that time, and is fixed for an initial term of seven to ten years on a typical deal. Savings beyond the initial term assume the discount is renewed on similar terms. Prepaid energy structures have varied over time and continue to vary across issuers, in the length of the initial term, the rate mode, where the prepayment is held, and the mechanism by which the discount is reset. The $800 million example is illustrative; its volumes, forward commodity prices, savings, and initial term are representative of transactions priced in 2026.

[2] Household equivalents assume average annual U.S. residential electricity consumption of 10.5 megawatt-hours, per the U.S. Energy Information Administration.