

LIGHTNING ROUND

April 2021

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KPP Board Gives “Green Light” to New Bond Issue

Bonds set to finance multiple projects

Giving formal follow up to discussions over the past many months, KPP took a significant step forward on April 15th to officially begin the process of financing multiple, needed projects. Noting the “first step” in the issuing of tax-exempt bonds, General Counsel, J.T. Klaus, presented to the KPP Board an “inducement” resolution authorizing the bond underwriter and bond counsel to commence the early stages of an issuance.

CEO/General Manager, Mark Chesney, in responding to related questions, briefly described the multiple projects anticipated. They include the Kingman/Cunningham transmission line work, the battery storage facility now known as the Solomon Energy Storage Center, the distribution voltage upgrade in Marion, a new city-owned substation in Waterville and the various AMI city projects underway. Mark clarified that except for the transmission and bat-



These April 14th photos show progress made on the Kingman/Cunningham transmission project



tery projects, associated debt service on the others are the strict responsibility of the respective cities.



File Photo of KPP General Counsel, J.T. Klaus

The “approximate amount” of \$22 million was cautiously and prudently reflected in the authorizing resolution for an eventual debt amount anticipated to be noticeably below that figure.

J.T. described the legal and financial processes and documents needed to advance the work and gave indication that an anticipated closing date might be accomplished in early June.

New Video Posted Explaining Winter Storm Costs

Video messaging intended to assist in explaining surcharge to retail customers

A 7-minute video is now posted to kpp.agency as well as the Agency’s Facebook page. This comprehensive yet concise rundown on the cost effect of the February winter storm is presented by KPP CEO/General Manager Mark Chesney. The video methodically describes the Pool’s monetary approach to paying the extraordinary costs and the implementing of a surcharge to rebuild cash reserves.



Believing it will greatly assist in explaining a very unusual February, Members are encouraged to direct retail customers to this video presentation.

A “Clean” Audit

Auditors give annual report to the KPP Board

Noting a “very strong cash position at the end of 2020”, BKD CPAs and Advisors met with the KPP Board in a virtual format on April 15th to present the annual audit report. Presenting a “clean or unmodified opinion”, BKD Director, James Gripka, and BKD Partner, Chad Moore, gave assurance that materials were presented according to generally accepted accounting principles.

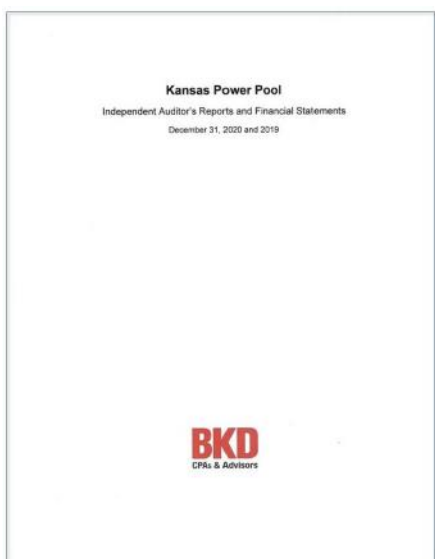
Before commenting on the cost effect of winter storm Uri, the auditors were careful to describe investments and cash as well as to validate the prudent practice by others of setting money aside for emergencies. Each year KPP routinely flows funds

into its money market account. Also, when the annual audit is completed, typically in March or April, it has been KPP’s practice to place excess cash into the Emergency Stabilization Fund. This was not done for the year 2020 due to the need for cash to help pay for the February storm costs. Had KPP added to that fund, it would have been the approximate amount of \$1.3 million.

The audit report did include a “subsequent event” comment referencing the “extraordinarily high costs” from this past February. The auditors reviewed the steps taken by Staff to address the resulting \$20 million expense. They observed that cash was used and also subsequent follow up with Members to recover cash using the Board-approved storm surcharge of \$0.01/kWh.



BKD Auditors, Chad Moore, left and James Gripka presented to the KPP Board on April 15th.



An interesting wrap up to this part of the presentation was James Gripka’s comment that, “we work with a lot of utilities throughout the Midwest and in Texas, and (KPP) was definitely in a position to weather the storm better than a lot of your peers.” He spoke also of “the Board’s willingness to be very conservative as far as putting excess cash back in case of emergency.” He concluded that this explains why “Moody’s did not downgrade you. They gave a negative outlook to you but then they gave everyone a negative outlook in the utility industry. We saw quite a few utilities get downgraded because of (the cost of the storm).”

In answer to a question from Board President, Gus Collins, Chad Moore commented that “many utilities are accessing securitization bonds to fund liabilities and help offset those costs for both the electric and gas side of the industry. In KPP’s case, your liquidity, your cash on hand and your emergency stabilization fund really showed the opportunity to weather these once-in-a-lifetime storms – at least, I hope it’s once-in-a-lifetime.” He concluded by referencing the surcharge mechanism and saying that KPP effectively is financing this cost well below what “the end consumer can do. You are actually saving the end consumer money today.”

NEXT BOARD MEETING

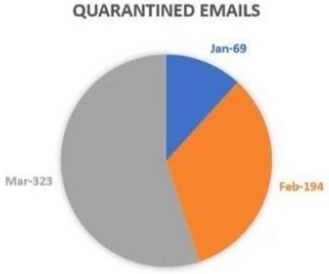
THURSDAY,
MAY 20, 2021, 11:30am

Cybersecurity Report Shows Interesting Discoveries

Quick, easy and free video training now available to Member City personnel

Responding to credit analysts heightened concerns about cybersecurity, KPP has initiated a quarterly system of monitoring, detecting, and training. This overall effort will result in bringing reports to KPP’s highest organizational level. In the first of a continuing series, Gavin Rose of Custom Internet Services, briefed the Board of Directors on April 15th. Gavin, whom KPP Members have become acquainted with as KPP’s cyber analyst, reported results from the first quarter of 2021.

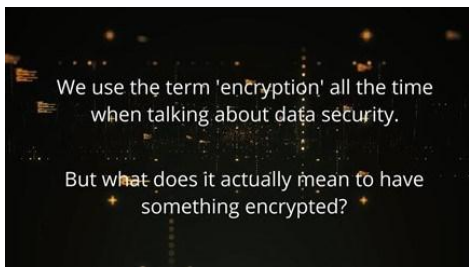
The number of quarantined emails by month were noted. Gavin commented that, “if we didn’t have security controls in place many bad emails would have shown up in KPP Staff inboxes.”



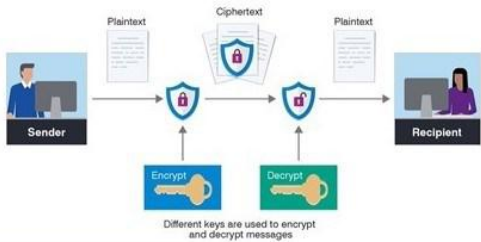
Quarantined emails are those suspicious ones that hit the network. These and yet other cyber incidents are threats for which recognition and remediation training are now easily available.

Gavin also highlighted an email phishing/spam and malware report for the same period saying these emails may initially get through the quarantine before they are caught and examined in the secondary level of security.

Related to KPP’s overall efforts toward security, it is believed that KPP and credit analysts may have high confidence in vulnerability scans of both the Agency’s internal network as well as the Cyber and Infrastructure Security Agency external networks. Other items reported to the Board



per pertained to such things as firewall viruses blocked and scanned as well as threat hunting. Gavin noted that “KPP’s network is continuously being attacked.”



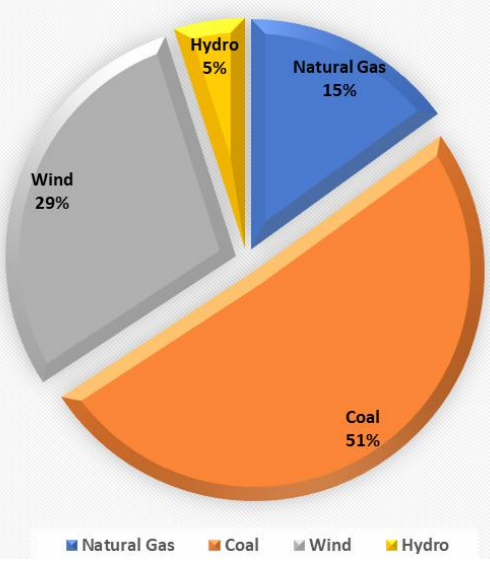
In answer to a question by Board member Rex Reynolds, Gavin indicated that the most recent video training undertaken by KPP staff, as well as the “weekly video shorts” are available to all KPP Members. He added that any City personnel that are not already signed up can simply contact him and he’ll assist with that. Member Cities and personnel can contact Gavin at gavin@custominternet.biz



KPP Cyber Analyst, Gavin Rose of Custom Internet (file photo)

March 2021 Distribution of Energy Resources

Fuel Source of KPP Resources in March, 2021



Hillsboro faces rate increase for power

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BY LAURA FOWLER PAULUS

The Free Press

February brought record breaking low temperatures across the nation and many communities went without power including some homes in Marion County. Hillsboro residents were warned that they may face some rolling blackouts as well, but fortunately, it never happened thanks to the city's partnership with the Kansas Power Pool (KPP).

According to Hillsboro Mayor Lou Thurston, who serves on the KPP Board of Directors as the Secretary/Treasurer, KPP is one of two municipal energy agencies in Kansas. It was founded in 2004 and currently consists of 24 municipal electric utilities.

"Municipal energy agencies are not-for-profit, quasi-municipal organizations and organized under state statute with operating policy overseen by a governing body as directed by the statute and approved by the Attorney General's office," said Thurston.

He explained that KPP is a member driven agency that is comprised strictly of Kansas municipalities.

"It was organized to take collective action to preserve and invest in the member's energy facilities to satisfy, in the most efficient manner possible, the members' collective future energy and transmission requirements," said Thurston. "KPP operates in such a manner that all members equitably share resources and costs, utilizing member owned generation as well as collectively owned generation assets to provide cost effective and reliable power to its membership."

This is good for Hillsboro since membership in KPP means local control. Decisions about operating policies, rate-setting, service priorities and community support are all made at the local level. Local control promotes transparency and accountability.

"We are beholden to the citizens of Hillsboro and not to a profit-driven organization outside of our control. Additional benefits of KPP are the combined financial strength of the organization (24 Cities) and the 'buying power' that this provides. KPP also owns generation assets, transmission assets that help control electric costs to our users," said Thurston.

So while Hillsboro's partnership with KPP was able to keep the rolling blackouts from happening, the cold temperatures led to an extremely high demand for natural gas and the prices for natural gas (critical to run electrical generation in this part of the country) spiked at unheard of levels. It was these costs that created the financial burden that we are now working through.

So what does this mean exactly for Hillsboro?

"The core of it is that the bills [from the weather in February] that KPP received amounted to \$42 million beyond what is normally expected due to the outrageous spikes in natural gas prices. Because of the generation that KPP was able to sell in the market, the credits reduced the bill amount to \$17 million.

While that is still high, it is manageable due to the fiscal responsibility of KPP," said Hillsboro City Administrator Matt Stiles.

"This was more than 12 times the February budget for energy cost that was approved by the members before the start of 2021," said Thurston.

Stiles explained that KPP has a \$10 million rate stabilization fund that the KPP Board voted to utilize to help smooth the unforeseen costs out. KPP will also utilize its line of credit to pay the immediate bills.

"One thing is clear, our membership in KPP has once again proven itself to be extremely valuable. Purchasing power wholesale outside of the KPP organization could have led to massive bills which the city would not have been able to pay without outside assistance," said Stiles.

At a special board meeting on Friday, March 12 the board also took action to begin recovering the rate stabilization fund via an Energy Cost Adjustment (ECA) surcharge of \$.01 per kilowatt-hour (kWh) for the next three months until it is determined what the length of time and charge is best to recover the reserve funds. The discussion was around a 24-36 month time period using a surcharge method.

Stiles and Thurston proposed to the Hillsboro City Council that the city that the best option would be directly passing that surcharge through to our retail customers. The surcharge would be shown separately and stop after the repayment period for KPP is completed. The current consumption charge rate for both residential and commercial customers is \$.1195 per kWh. If the surcharge were to remain at \$.01 per kWh it would amount to an 8.4% increase for the proposed two year repayment period.

"To give an example of what this looks like, last year my personal highest electric usage came in August. My kWh were 2,100 for that month. Taking the 2,100 X .01 would add \$21 to my bill. My average usage of approx 1,000 kWh per month would add \$10.00 per month," said Thurston. "While we don't like having to increase the rate at all, if we were not members of KPP and acquiring power on our own, it could have been much worse."

Thurston also pointed out that according to the Department of Energy, the average rate for Kansas residential is \$0.1221 per kWh while Hillsboro's rate is \$0.1195 per kWh.

So when will the increase begin and how long will it go?

"We are going to be talking about it at the April 6 meeting. The charge will begin showing up on the June bills depending and be tied to the KPP surcharge. The current plan for KPP is to go 24 months, but it may end up being less if the reserve fund is recovered more quickly. Our surcharge will be terminated once the KPP surcharge terminates," said Stiles.

