

KPP LIGHTNING ROUND

February 2023

New KPP Base Rate, Mild Weather Delivers Savings

Unexpectedly mild weather, combined with the new KPP base rate for calendar year 2023, delivered savings to the customers of KPP member cities in January electric bills. The lower electric bills come as a relief after the past year of high wholesale power and natural gas prices.

The overall electric rate for KPP Energy decreased by nearly one cent per kilowatt-hour, beginning with the February billing period. This equals a 13.1 percent decrease in the wholesale rate. The rate decrease is largely due to the expiration of a contract for coal-fired energy and capacity from the Jeffrey Energy Center, owned by Evergy.

Mild winter weather in January also equaled savings for KPP members. For January, total costs were \$939,276 under budget, largely due to the decrease in energy purchases. In fact, energy cost was \$913,375 under budget while minimal changes from budget were seen in transmission and capacity costs. As a result, and expected 0.088 cent per kilowatt-hour (kWh) was flipped to a negative 0.696 cent per kWh energy cost adjustment.

Average monthly cost of energy for January was 5.625 cents per kWh and opposed to the budget estimate of 6.321 cents per kWh.

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The KPP Electric Utility Analysis Report... How Did Your City Measure Up?

BROOKE CARROLL, DIRECTOR OF MEMBER SERVICES

Each year, KPP Energy offers an analysis of the financial condition of the electric utility for each member, upon completion of the city audit. The KPP Electric Utility Analysis Report has been developed to complete a financial review of the electric utility for informational purposes that will assist city staff and governing body members when working towards and maintaining a financially healthy electric utility fund.

This report encompasses publicly available metrics utilized by major credit rating agencies and the American Public Power Association (APPA) to encourage members to achieve high results and to assist KPP with maintaining the highest possible bond rating for KPP projects and member financing. High bond ratings result in lower borrowing costs and subsequently lower cost of electricity for all KPP members.

The Electric Utility Analysis focuses on these areas:

Financial Ratios

- Revenue per kWh Sold
- Operating Ratio
- Debt Service Coverage
- Net Income as a Percentage of Operating Revenue

Operating Ratios

- Operation and Maintenance Expense per kWh Sold
- Operation and Maintenance Expense per Retail Customer
- Purchase Power Costs per kWh Sold
- Days of Operating Expenses Covered by Unrestricted Cash
- Energy Loss Percentage – Unsold Energy



KPP is required to reports various financial metric on the top seven largest KPP members annually, which include Augusta, Burlington, Clay Center, Kingman, Mulvane, Wellington, and Winfield. However, every member is offered this report free of charge, for being a member of the pool.

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Electric Utility Analysis Report (continued)

Other

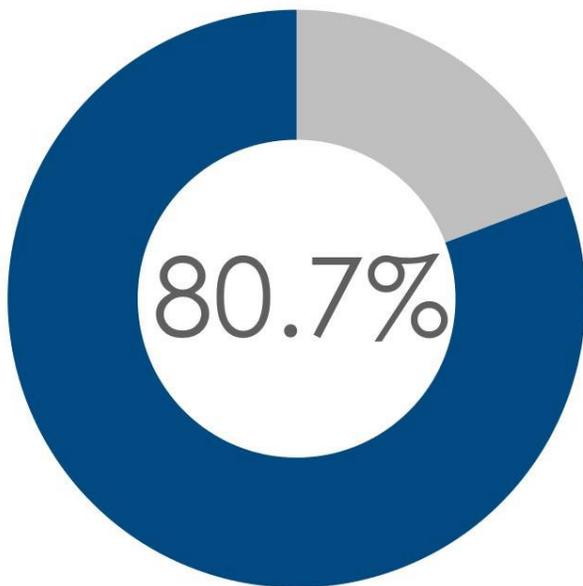
- Transfers as a Percentage of Customer Revenue
- Fund Balance Comparison
- Revenue and Expense Comparison
- Customer Revenue Allocation
- KPP Purchase Power Costs & Distribution Facility Charges
- Cash Reserve Calculation



After the report has been completed, Brooke Carroll, Director of Member Services, will review the report in detail with City Staff and if invited, the report can be presented at a city council meeting to the governing body. If you have questions about this report or any other KPP Member Services, please contact Brooke Carroll at bcarroll@kpp.agency.

Winter Storm Uri

PERCENTAGE OF EXPENSES RECOVERED THROUGH NOVEMBER 2022



Winter Storm Uri Total Expenses

\$21,063,883

Surcharge Recovered

\$17,008,842

Balance Remaining

\$4,055,041



February Board Meeting Review

COLIN HANSEN, CEO / GENERAL MANAGER

The KPP Energy Board of Directors held their regular monthly meeting on February 16, 2023 at the KPP offices in Wichita. A summary of meeting highlights is provided here.

January 2023 ECA

KPP Director of Engineering James Ging presented the monthly update relating to the January 2023 ECA calculation. Total cost was below budget \$939,276. Energy costs were below budget \$913,375, transmission costs were above budget \$15,262, and capacity costs were below budget \$38,378. Energy sales were below budget by 10%. With the significant decrease in energy costs for the month, the average cost of energy for KPP members in January was \$56.25 per megawatt-hour (MWh). This resulted in a negative ECA of 0.696 cents per kWh.

Financial Report

KPP Controller Vickie Matney reviewed the financial statements for the Board. Presenting the 2022 year end statements, Matney noted that KPP needed to reach \$11.21 million in “Net Position before DAI” in order to meet debt service coverage goals established by the rating agencies. As of the Board meeting, the KPP Net Position Before DAI is \$11.62 million.

Matney also provided an update on Winter Storm Uri. After collecting almost \$629,000 and putting it towards the state loan, KPP currently estimates that the surcharge will be \$0.0073 for July 2023 to pay off the full amount.

Operations Report

An update on KPP operations was provided by KPP Assistant General Manager of Operations Larry Holloway. Holloway provided an update on several cases at the

Federal Energy Regulatory Commission (FERC) and the Kansas Corporation Commission (KCC) in which KPP Energy has intervened. Two particular cases mentioned deal with Evergy’s generation formula rate and the Sunflower depreciation charge. Holloway also provided the Board with an update on several important developments at the Southwest Power Pool (SPP).

The Operations Report included an update on two important KPP projects – Walnut Energy Center and Solomon Energy Storage Center. Solomon Energy Storage Center was qualified with SPP to begin offering regulation in the market the first week of March and KPP continues to optimize the unit with price volatility during high wind periods during the winter months.

Regarding Walnut Energy Center, KPP Energy continues to await the results of the SPP DISIS-2020, the generation interconnection study. KPP worked with Gridliance to provide an estimate of the upgrade costs at the East Substation in Winfield that would be needed for the project.

Engineering Report

KPP Director of Engineering James Ging provided an update on a number of KPP projects, including AMI, mapping, solar, the Marion distribution system project, Mulvane’s transmission project, Kingman Direct Connect, and more. Ging provided the preliminary results of the 2023 KPP resource adequacy data. With the new 15% reserve margin required at SPP, KPP appears to have sufficient reserves for 2023-2025, but would become deficient in 2026 should Walnut Energy Center not be built.

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February Board Meeting Review (continued)

Member Services Report

Brooke Carroll, KPP Director of Member Services, reviewed the wide variety of member services activities over the past month. Carroll continues to work with KPP Cyber Analyst Gavin Rose to develop the GridEx VII event for KPP members in November and has been very involved in researching potential IIJA grant opportunities.

2021 Electric Utility Reports have been completed for most KPP members. Carroll provided an in-depth presentation to the board with the findings of the compiled reports. She noted trends in such metrics as sales revenue per kWh sold, operating ratio, debt service coverage, days of cash on hand, transfers as a percentage of customer revenue, energy loss percentage, and more.

Market Update

The market update, as developed by Tenaska Power Services, was presented by KPP Senior Accountant Ivan Seward. Seward noted the decrease in the cost of natural gas. 2023 forward gas for the March through October range fell below \$3 per MMBtu while winter forward gas nears \$4 per MMBtu.

General Counsel Report

KPP General Counsel J.T. Klaus provided a written report to the Board, but noted that 29 cities have now completed the necessary paperwork to formally change the name of the agency to “KPP Energy.” Two cities that do not currently receive power from KPP are the last remaining cities from which the name change documents are needed.

CEO Report

Finally, KPP CEO & General Manager Colin Hansen also provided a comprehensive written report to the Board, but touched on a few items during the meeting. He gave a brief legislative report, focusing on four particular bills of concern – right of first refusal (ROFR), net metering, purchase power agreements for renewable energy projects for certain customers, and the election of Kansas Corporation Commission (KCC) commissioners. KPP continues to stay active in legislative issues with the leadership of Kansas Municipal Utilities (KMU). Hansen also updated the Board about the upcoming APPA Legislative Rally in Washington, D.C. and APPA National Conference in Seattle, Washington. In conclusion, Hansen discussed preliminary plans to hold a strategic planning retreat for KPP during calendar year 2023.



EIA's Adjusted Outlook Lowers Natural Gas Prices by More Than 40 Percent

FEBRUARY 16, 2023*(Reprinted with permission from APPA Public Power Current)*

The Department of Energy's Energy Information Administration (EIA) has revised its short-term outlook on natural gas prices, lowering them from its October forecast.

In a Short-Term Energy Outlook supplement, Market Drivers and Other Factors Affecting Natural Gas Prices, the EIA said it now expects wholesale natural gas prices during the first quarter of 2023 to average more than 40 percent lower than the agency forecast in October.

"The U.S. natural gas market in early February 2023 is much different from what we forecast when we published our STEO Winter Fuels Outlook in October 2022, and reflects the significance of price volatility in the current industry," the EIA said in the report.

The significantly lower prices emerged even though the EIA said it made only "very minor" adjustments in its forecast, an increase of less than 0.5 percent in consumption that was offset by an increase of nearly one percent in natural gas production.

In one example of the changes in the natural gas market, the EIA cited temperatures across the United States in January that were milder than any since 2006, which factored into a reduction in the agency's February Henry Hub natural gas price forecast by more than 30 percent or by almost \$1.50 per million British thermal units (MMBtu).

The EIA is still expecting continued robust growth in natural gas production. The agency expects 92 percent more dry natural gas to be produced in the United States in 2023 than in 2003 and sees production continuing to grow in 2024.

Higher production lowered prices and stimulated demand, which has grown by more than 40 percent over the past two decades. Most of the growth in consumption came from the electric power sector as generators switched from coal to lower cost gas.

By the end of the year, the EIA expects natural gas consumption by electric utilities will have grown 130 percent from 2003. Commercial and industrial gas consumption will each have grown slightly more than 10 percent over the same time period. And residential gas consumption will actually shrink slightly.

But the market for natural gas as an electric generation fuel is changing. Renewables have begun to displace some of the share of natural gas used in generation, and over time the EIA said it expects the shift in generation sources will affect natural gas use with some of those effects becoming clear in the summer of 2023 with additional effects in the summer of 2024.

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EIA Outlook Lowers Natural Gas Prices (continued)

The agency noted that the deployment of natural gas combined-cycle gas turbine plants is slowing after decades of growth. Developers and project planners plan to add about 5 gigawatts of new CCGT capacity in 2023, but after that, “the number of confirmed new projects drops considerably.”

Meanwhile, developers plan to add about 38 GW of new renewable energy capacity from October 2022 to September 2023, including 23 GW of solar photovoltaics, 7 GW of wind, and about 8 GW of battery storage.

The EIA forecasts that solar and wind generation will account for 18 percent of U.S. generation in 2024, up from 16 percent this year.

Rising natural gas production has also freed up supplies for international trade, resulting in significant growth in U.S. exports, particularly of liquefied natural gas (LNG), the EIA noted.

In 2003, the United States was a natural gas importing country with imports accounting for about 17 percent of U.S. gas supplies. The United States began exporting more natural gas than it imports in 2017, and this year the EIA expects that almost 20 percent of U.S. natural gas production and imports will be exported.

The EIA also noted that although its supplemental STEO focuses on the next two years, “the same fundamental dynamics we discuss in this report will continue to influence natural gas markets well into the future.”



Event Calender

2023 DATES TO REMEMBER

**FEBRUARY 26 -
MARCH 1, 2023**
APPA Legislative Rally

MARCH 16, 2023
KPP Board Meeting

APRIL 20, 2023
KPP Board Meeting

APRIL 26-27, 2023
KMU 2023 Conference
Wichita Hyatt Regency

MAY 18, 2023
KPP Board Meeting

JUNE 17-21, 2023
APPA National Conference
Seattle, Washington

JUNE 19, 2023
KPP Board Meeting

SEPT. 28-29, 2023
KPP 2023 Conference

NOVEMBER 3, 2023
KPP Rate Forum

NOV. 14-15, 2023
GridEx VII

DECEMBER 8, 2023
KPP Annual Members
Meeting

KPP Resources by Fuel Source

JANUARY 2023

