

LIGHTNING ROUND

February 2021

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Gas and Electric Industries Rocked by Arctic Blast

KPP Praised for Advanced Financial Preparation and Cities' Ability to Generate

A review of last week's headlines from local, state and national news outlets often contained words like "soaring", "surging" and "blackout". Even without reading headlines, the dangerously cold weather throughout the interior of the country in mid-February was felt both physically and financially. Although final financial costs are still being gathered everywhere, the arctic blast and its financial impact on KPP was understandably front and center at the February meeting of the KPP Board of Directors.

In praising past Boards KPP CEO/ General Manager, Mark Chesney expressed optimism to those present in the virtual meeting that KPP was prepared not only to meet immediate calls for gas purchase collateralization at Dogwood, but also to "smooth out or help offset" the cost anticipated to be otherwise confronted in the February Energy Cost Adjustment (ECA). The Board intends to further take up that discussion next month. KPP Members have recently received a memo to that effect from Director of Administrative Services, Brooke Carroll.



Mark Chesney (center) addresses the KPP Board on Feb. 18th.

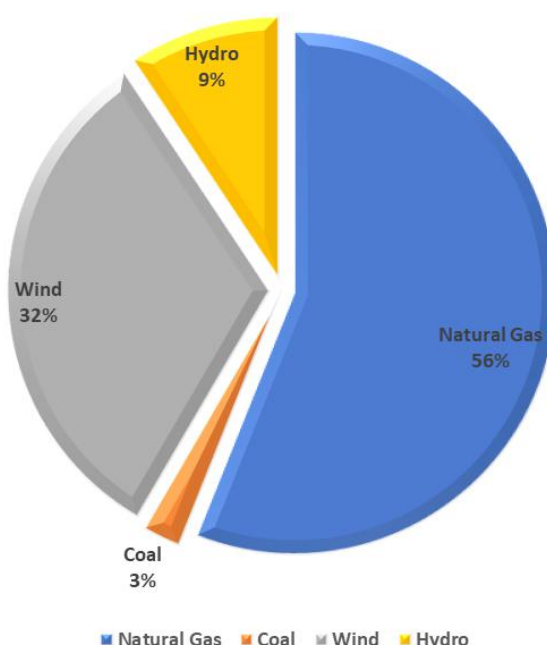
Before ending the meeting, General Counsel, J.T. Klaus placed a well-appreciated exclamation point on the meeting's tone. "I just want to tell everybody how proud I am of you all." Referencing discussions over the years concerning the Rate Stabilization Fund (now called Emergency Stabilization Fund) and KPP's extensive line of credit, he added, "I have had conversations with you, not as your financial advisor, but about the importance of credit ratings and the importance of cash. I just want to say you have always listened. And while I have always thought of it in terms of the ability to borrow money, it surely matters in times of crisis management, too."



J.T. Klaus addresses the KPP Board on Feb. 18th.

January 2021 Distribution of Energy Resources

Fuel Source of KPP Resources in January, 2021



KPP Board Hears Legislative Update

KMU Executive Director, Colin Hansen, was recently invited to attend KPP Board meetings several times throughout each year to provide legislative updates. KPP Members, and other municipal utilities throughout Kansas, are aware that Colin and Kimberly Svaty are quite active each year in advocating Public Power interests and monitoring proposed legislation which possibly affects municipal concerns generally.

Selected summary of his update includes:

SB 24 – provides that a city cannot prohibit a choice of fuel. The bill apparently grew from the observed prohibition of natural gas by cities elsewhere in the U.S. The Kansas Senate Utilities Committees recently passed the bill out favorably sending it to the House Energy Committee where a hearing is not yet scheduled.

SB 80 – requires any changes in transmission cost for Evergy or IOUs to be considered in a utility rate case and not simply through a transmission rider. KMU, in behalf of municipalities, holds a neutral position.

SB 245 – addresses the securitization of generating facilities and essentially would give Evergy an option to issue bonds for the purpose of avoiding stranded cost in retiring power plants in anticipation of possibly adding more renewable resources to its generating mix.



KMU Executive Director, Colin Hansen (lower left), addresses the KPP Board on February 18th.

HB 2291 – would require municipal utilities in Kansas and electric cooperatives to comply with provisions of net metering legislation passed many years ago. Colin noted that for nearly 10 years municipals have secured exemption from net metering requirements and maintain a fair amount of confidence to that end going forward.

HB 2145 – is an electric vehicle charging bill with a Senate companion bill, SB 133. Such legislation was introduced last year. Well-known charging infrastructure company, ChargePoint, and gasoline retailers are pushing this bill allowing such to avoid being classified as utilities. This bill seems to have good prospects.

Colin also reported on efforts to help alleviate the effects of the recent gas supply shortages impacting municipal utilities. With many conversations with both state and federal government officials, helping to ensure the continual flow of gas has been paramount affecting both gas and electric utility providers. KMU will be monitoring and will alert Members to any availability of funding to soften the financial impacts from last week. Of special note, it was reported that the Governor’s office decidedly declined to appeal to President Biden for a federal declaration of emergency. This apparently is due to the range of impractical and expensive mobilizing or activation of resources needed to qualify and receive federal benefit.

Expressing appreciation for Colin’s skill, insight and continual efforts, KPP Board President, Gus Collins, noted KPP’s excitement that Colin becomes chairman of the APPA Board of Directors this summer.

NEXT BOARD MEETING
THURSDAY,
MARCH 18, 2021, 11:30am

KPP Member Cities Take Formal AMI Action

Equipment Purchases Commence Ahead of Bond Financing

The governing bodies of numerous KPP Members have recently approved city ordinances and related documentation to set forth their intention to participate in the much talked-about AMI projects. Where 8 cities have previously expressed an interest in the project for their community, 4 have now formalized their intention.



Knowing that equipment purchases would necessarily precede the issuance of project funding debt, Staff consulted with Counsel to determine how to best protect all KPP Members – particularly Members not participating in the project. Consequently, participating Cities have adopted the Project Schedule found at the back of each Member's purchase power contract with KPP.

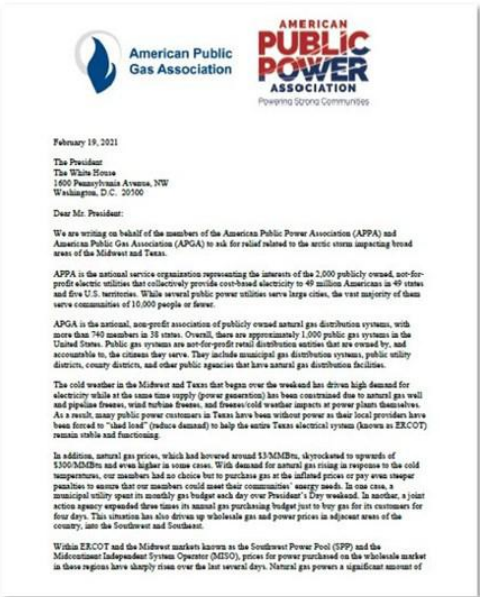
APPA and APGA Advocate for Relief

Joint Letter to President Biden Urges Declaration of Supply Emergency

In a letter to President Biden from February 19th, both the American Public Power Association (APPA) and the American Public Gas Association (APGA) have urged the use of Presidential authority under the Natural Gas Policy Act to declare a natural gas supply emergency calling also for the capping of natural gas prices. The assumption is that such caps, done retroactively in the marketplace, would help give utilities and communities needed relief.

Concurrently, many APPA member utilities in the Southwest Power Pool (SPP) and the Electric Reliability Council of Texas (ERCOT) participated in a recent conference call to discuss extraordinary gas price run ups and mandates for load-shedding as well as urgent health and safety concerns. Other areas of the country, including Oregon, Virginia and Ohio experienced significant winter storms last week activating mutual aid efforts while not constraining generating resource capacity.

As many local utilities throughout Kansas and the SPP express cost anxiety, the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC) have reportedly commenced investigations and have also received requests to examine the root cause of natural gas price runups. In advancing such requests, some have hinted there is a rough comparison to market manipulation by Enron twenty years ago.



See full copy of letter to the President [here](#).

Hey, Exactly What Did Happen Last Week and Why?

Breathtaking Market Prices Cause Unsettling Anxiety

Although some KPP Cities, and many other generators, had offered units into the SPP Integrated Market, there were simply insufficient gas supplies to cover all loads. If what happened last week could be summarized in this most concise way, that would be the description.

KPP Assistant General Manager, Larry Holloway, who is also part of the Dogwood Management Committee gave detailed accounts last week of gas and electric markets operating in unprecedented environments. Larry explained that, “market prices got so high (clearing at more than \$2500/mWh at times) that it made a lot of sense for our dual fuel units to run on diesel.” He explained that with cities having such units “we started setting up communications with them on a daily basis.”



File photo - Caterpillar class engines, 1.2 MW capacity; Oxford

In explaining the SPP emergency level stages and the need to conserve, Larry pointed out that environmentally compliant, as well as emergency-only engines, ran during times of energy curtailment. At Level 0, which is normal operations, SPP can enter conservation status and request that generators remain online – even those for which planned maintenance may be deferred. During much of the past week, SPP operations were at Level 1, a stage at which all available resources are instructed to be brought online. SPP operations were also designated at times as Level 2 and 3 last week. Level 2 indicates the possibility that even reserve capacity margins are insufficient to meet all electric loads. Level 3 is the stage at which SPP instructs utilities to curtail customers by shedding loads.

The Kansas Department of Health and Environment (KDHE) allowed the running of emergency engines in Level 3 and other compliant engines ran in Levels 1, 2 and 3 fueled by diesel. Larry explained that generators ran with the understanding of being “made whole” by the Pool.

Referencing Dogwood operations, Larry noted that gas prices per MMBTU reached more than 200 times their normal value this past week. He went on to explain difficult circumstances requiring bold decisions throughout almost the entire week.

For several years the Dogwood Power Management team has engaged Evergy (previously Westar) as the facilitator helping with many aspects of running the plant. Among other things, they assist with daily marketing and the procuring of natural gas. Ordinarily, Dogwood owners will pay Evergy for natural gas within timeframes reflecting “normal” market conditions. Things were quite different last week. Incidental to the relationship between individual owners and Evergy is the establishing of an amount of credit reflective of an individual owner’s bond rating or other appropriate metrics for financial worthiness. Throughout each year, the “normal” operating assumption is that any individual owner, including KPP, will not have obligated itself for more than its credit limit within the standard timeframe for invoicing and bill payment. With gas price runups far exceeding normal ranges, KPP and other owners quickly reached their credit limits.



File photo - aerial view of Dogwood Energy Center

Even by Wednesday, February 10th, it became apparent that gas supplies were tightening and prices rising. By Saturday, the gas price had risen overnight to \$200 from Friday’s gas price of \$14. Fearing the potential for additional collateralization for gas purchase, there was an initial decision to not run Dogwood past the weekend. However, discussions with SPP produced their commitment for “make-whole payments” to Dogwood owners for running the plant as available. Even so, the plant only ran at minimum levels through Tuesday, February 16th, due to insufficient gas supplies for the entire plant capacity.

Because of the extraordinary gas prices by Tuesday, the respective Dogwood owners had essentially “maxed out their credit cards”, Larry explained. He noted also that by Tuesday it was clear that Wednesday operations and beyond would involve running the plant at gas costs of “between \$9 and \$18 million each day.” KPP’s portion of the Dogwood ownership is almost exactly 10%. With a desire by all owners to avoid additional, expensive collateralization, the team decided that Dogwood would not run after Wednesday at 9:00 AM.

A decision was also made at that time to resume operations if the gas price market returned close to normal – even \$20/MMBTU prospectively. Working with Evergy, it was determined among owners that collateral would be posted with Evergy to resume operations through the following Tuesday. Indeed, on Thursday, February 18th, KPP did provide additional collateral in the amount of \$300,000. All owners agreed that additional collateral would be provided as needed on an ongoing basis.

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By Saturday, February 18th, it was clear that gas prices were returning to normal. By Sunday, prices were at \$9.

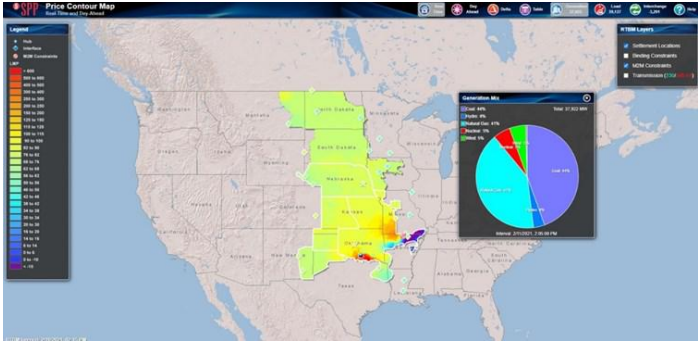
An important variable to understand, Larry pointed out, is that “when we’re buying this gas, we’re running it through the Dogwood power plant and we’re selling energy at SPP prices. We are making money on this.” Larry added that in the previous week, the margins captured daily by Dogwood, as compared to the gas prices, were over \$1 million. The challenge, Larry concluded, “is staying liquid long enough to enjoy it.”



Larry Holloway (upper left) addresses the KPP Board in February

Last week many utilities and consumers heard the oft-repeated references to the 2000 movie ‘*The Perfect Storm*’ after realizing several factors collided in real-time, such as: 1) renewable resources could not adequately perform due to extreme temperatures and overcast skies, 2) natural gas had inhibited flows with equipment failures due to extreme temperatures, and; 3) natural gas wholesale prices skyrocketed cascading into electric energy prices not seen since the late 1990s.

While it cannot be overemphasized that final costs have not been tallied, nor can they be just



Nearly \$200/mWh on February 11 gave indications of a coming crisis..

yet, KPP Staff is carefully examining the Pool’s ability to mobilize cash reserves and “smooth out” the financial impact of the crisis – as comfortably as possible. Meanwhile, more and more actors throughout the SPP are calling for formal investigations into price discovery and price transparency.