

LIGHTNING ROUND

March 2020

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KPP Emergency Stabilization Fund Grows

Fund now stands at just over \$11.3 million

Following official action in the March Board of Directors meeting, the KPP Emergency Stabilization Fund grew by \$2 million for the year 2019. The size of the Fund now stands at just over \$11.3 million.

Created by the Board in November 2013, the Rate Stabilization Fund, whose stated justification is to “reduce future rate increases and offset extraordinary expenses” underwent an official name change in 2019 in order to more appropriately identify its true purpose.

Its use would be for something that could not be managed in the normal course of rate setting. KPP Members approve rates for the coming year each December at the Annual Membership Meeting.



File Photo: The KPP Board met by teleconference in March.

Subject to Board action, the accumulation of revenues for the year, in excess of the Pool’s 130% debt service coverage requirement, is the amount by which the Emergency Stabilization Fund is increased. It is important to understand that the increase and growth of the fund represents an accounting function only. It does not involve the movement of actual money – only an adjustment of deferred revenues from the KPP income statement to the KPP balance sheet.

Except for 2015 the Fund has grown each year since its inception in 2013. In 2015 financial results for the year ended just over the 1.3X debt service

coverage. During a 2017 Board of Directors meeting, KPP’s external auditor, BKD CPAs & Advisors, was requested to determine an appropriate cap for the Fund. Following advice, the Board capped the Fund at \$18 million which is the amount of depreciation beyond the repayment period of the Dogwood debt.

Each reporting opinion published by Moodys reinforces that this financial policy, among others, gives support and justification to KPP’s bond rating. In any year, any such deferrals (or withdrawals) are approved by the Board. There have never been withdrawals from the Fund.



Sometimes difficult to envision, the ESF does not involve the actual movement of funds—it’s an accounting function.

REMINDER: THE KPP ANNUAL MEMBERSHIP DINNER PLANNED FOR WEDNESDAY, APRIL 29 HAS BEEN POSTPONED TO A LATER DATE.

Amendment to Tenaska Contract Approved

Auction Revenue Rights and Transmission Congestion Rights Explained

An amendment to the existing contract with Tenaska Power Services was approved at the March meeting of the KPP Board of Directors. The existing scope of services provided by Tenaska were not changed. Rather, a service intended to bring additional value to KPP was approved when the Board met on March 19th. The base contract, which is now amended, was most recently entered into with Tenaska in July 2016 for a term of 5 years. The contract expiration is July 2021.

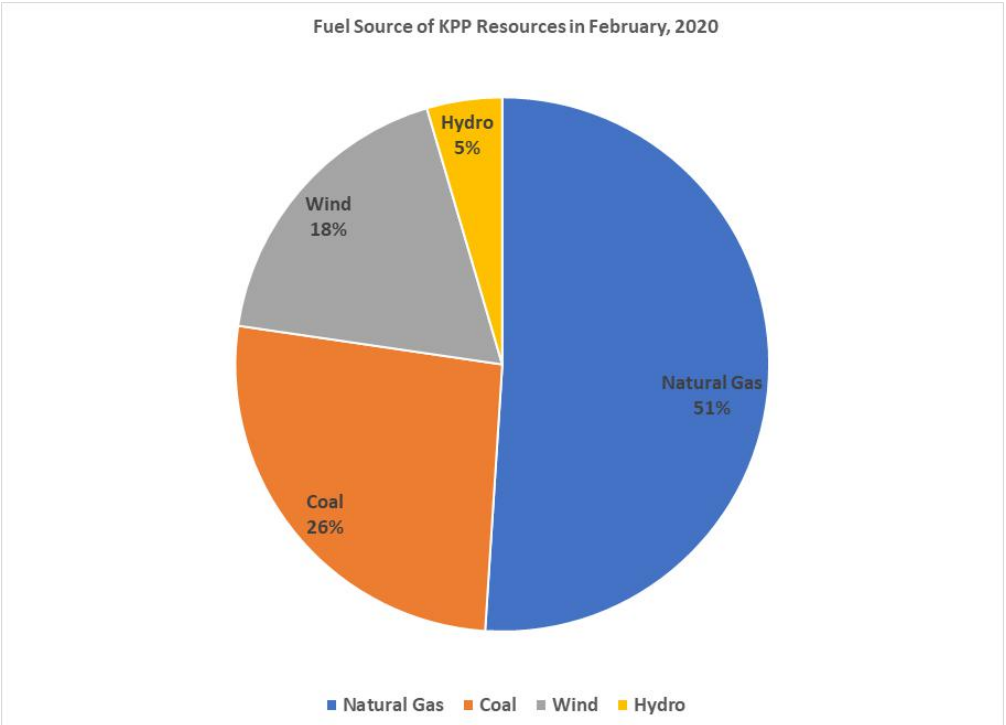
Explained by Assistant General Manager, Larry Holloway, the proposed amendment presented an opportunity to acquire additional monetary value in the Southwest Power Pool (SPP) auction revenue rights process. Tenaska currently advises KPP for the both financial benefit and protection of KPP members on managing congestion rights on transmission paths pertaining to KPP resources. Examples of paths would be from the Greensburg wind project or from the Dogwood Energy Center. Nonetheless, the SPP auction process also allows KPP and other SPP participants to assume the obligations of yet other transmission congestion paths that are not associated with a participant's resources. Larry pointed out that in the past KPP has typically acted to hedge on only the Pool's source-to-settlement paths and that from KPP's perspective other paths existing in the SPP footprint were considered speculative and therefore not obtained by KPP. Obtaining the rights to the pricing on congestion paths can be risky because the obligation assumed pertains to both the profits and losses on any such path.



KPP is already obligated to take energy from its resources and transmission congestion pricing profits or losses merely reflect the difference between the cost at the resource and the cost of KPP load. For this reason, this is a hedge to make sure we receive our generation resource at the price we pay for it, and to avoid transmission congestion price spikes for generation we must pay for anyway.

Tenaska and KPP believe there may be opportunities to capture revenue on different transmission paths made available late in the SPP auction process that are unrelated to transmission paths from KPP's resources to KPP's load. Since these paths are not needed to connect KPP resources to load, this would not be a hedge and is technically is a form of speculation. Tenaska has proposed that it assist KPP in selecting these available paths and that Tenaska would assume all of the risk. In exchange KPP would retain a percentage of any profits but not any losses. As the prospect of participating in all stages of the auction presents some financial risk, the agreement proposed to the Board for acceptance contained economic terms transferring all risk to Tenaska. There is no downside to this proposal for KPP, only the possibility to share in some of the subsequent gains, if any.

February 2020 Distribution of Energy Resources



Industry and Government Respond to Pandemic

KPP, KMU and APPA among timely information resources

The State's financial and utility industries are reporting that because of the speed and scope of the Covid-19 virus, and its affects, dramatic changes in business as usual are found in our national community affecting all segments from top to bottom. Travel limitations and person-to-person interaction are among the many changes. Working from home or not working at all is beginning now the cause the emerging of sober economic outlooks for both business and families. While all seem to be naturally bracing for an economic impact, some are suggesting that the U.S. is already in recession.

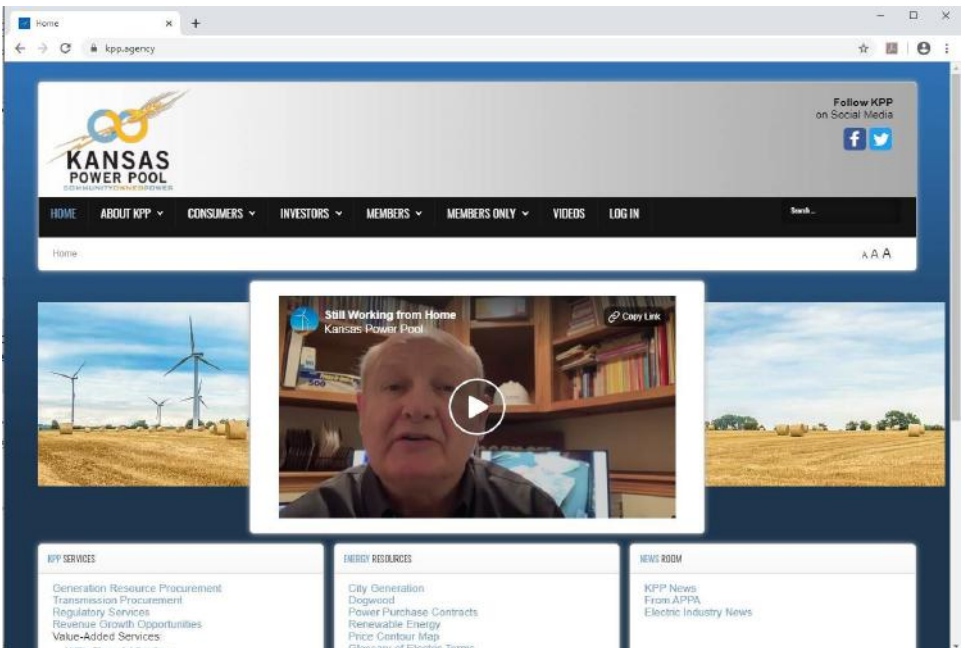
As part of a series of measures from State government, Kansas Governor Laura Kelly recently ordered that "all Kansas utility providers not under the jurisdiction of the Kansas Corporation Commission temporarily suspend the practice of disconnecting service to Kansas citizens for non-payment." This order is especially relevant to the common concern for the health, safety and well-being of residents of Kansas.

KPP had previously asked Member Cities to report on changes in policy concerning electric department practices. That request remains ongoing.

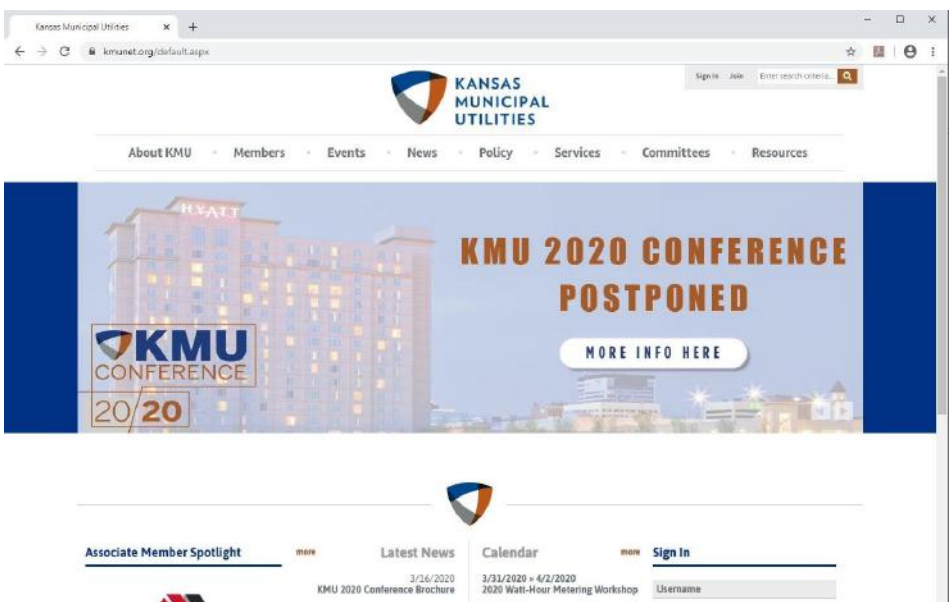


Kansas Governor, Laura Kelly

During the current shelter-in-place environment, KPP Members are encouraged to take advantage of many information resources easily available online. These include both the KPP and KMU websites where news, videos and legislative updates are found.



wpp.kpp.agency



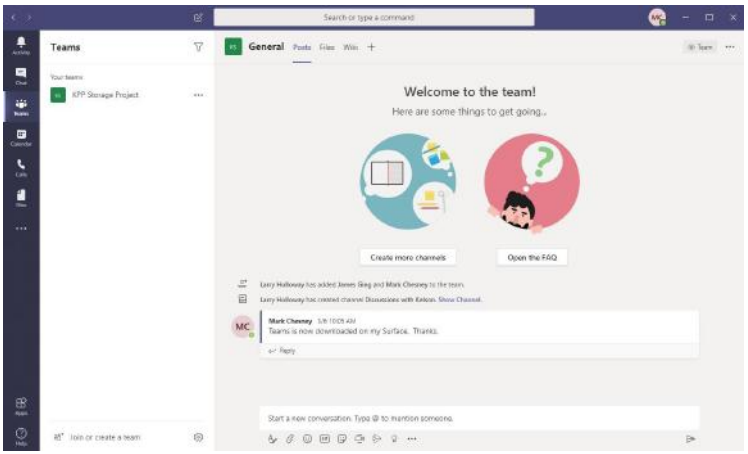
wpp.kmunet.org

KPP Staff Working from Home

March Board Meeting Held Telephonically

Just as the Coronavirus Covid-19 has imposed radical changes on many throughout the world, the KPP Staff has been working from home since Monday, March 16th. Ahead of both the President and Governor's encouragement to "shelter-in-place", the Staff has been

conducting face-to-face meetings twice weekly using Microsoft Teams technology. With "Teams" the meeting participants can not only hear discussions but are also able to see participants and share any document, calendar or any other image needed to make



meetings substantial and effective. "Similar to "Zoom" and other formats, Teams provides the next best environment to actually being there," reported Mark Chesney, KPP CEO and General Manager.

Staff has determined they will work from home at least until the end of March by which time ongoing work arrangements will have been considered.

On Thursday, March 19th, the KPP Board of Directors met in open meeting by telephone. All Board and Staff members were present along with KPP General Counsel. All KPP Members had been previously notified of the telephone meeting format with a meeting notice also posted to the KPP website.