

LIGHTNING ROUND

March 2021

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Moody's Reaffirms KPP A3 Bond Rating

Plan to Rebuild Liquidity and Cash Reserves Topic at Regular March Meeting

After very much had been said and written about the cost effect of the Winter Storm "Uri", Moody's Investor Services reaffirmed the KPP bond rating of A3. In a Zoom teleconference on March 22nd, KPP Staff was given advance notice of a pending press release.

"What this means certainly is that future borrowing costs will be less than had been expected on the heels of our February performance", commented

KPP CEO/General Manager, Mark Chesney, following the Zoom call. Moody's noted that a quick recovery plan, made formal by the KPP Board, was instrumental in the reaffirmation. Although the "outlook" was changed from "Stable" to "Negative", Moody's noted that KPP's updated rating performance exceeded that of other public power utilities in the Southwest Power Pool and in Texas.

Hours before providing the formalized plan to Moody's, recovery of cash resources and liquidity was given much attention during the regularly scheduled Board meeting on March 18th. Those discussions were intended as a follow up to the March 12th special meeting. On the 12th, reports were given concerning the extent to which cash resources had been accessed, and would be, to pay the Agency's bills through to the end of March. Emphasis was given on the 18th confirming that the Pool will begin rebuilding those resources as payments are received from Members on the February bill.

Formal approval of a recovery plan would include the affirming of a \$0.01/kWh surcharge on monthly bills. The recovery time period was to be 24 months with periodic progress updates from Staff. Also included is a proposed effort to increase the Agency's line of credit.

KPP Staff reported that the Agency should begin very soon going to the bond market to finance several projects already in progress. With a bond issue, KPP will be reimbursed prior

cash outlay to begin projects. Expenses paid already primarily pertain to the Kingman-Cunningham transmission line but also include some expenses paid on AMI projects and the Solomon River Storage Center. Finally, bond financing will also provide funding for Member projects in Marion and Waterville. Those projects, like AMI, will have debt serviced by the Cities.

Barring unforeseen emergencies, Staff reports that KPP's financial health should return to normal by

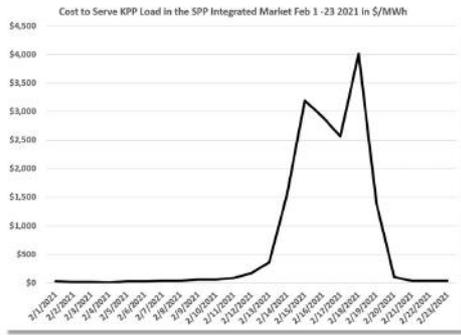


KPP Board Meeting File Photo approximately January 2023. Staff adds that this will be an important milestone to achieve prior to financing power supply needed to replace the expiring participation agreement in the Jeffrey Energy Center.

All Extraordinary Expenses to Members Deferred

KPP Board Special Meeting Sets Forth Financial Results Addressing Winter Storm

Making aggressive use of available cash resources, KPP disposed of approximately \$20 million in extraordinary winter storm expenses charging Members only for actual February usage. That was the outcome of a Special Meeting of the KPP Board of Directors held virtually on March 12th. Earlier in the week, Members learned that costs for February were 5 times that which was expected and \$19 million above budget.



In a lead up to the Special Meeting a series of virtual presentations were held each day for Members during the week of March 8th. Members then reviewed all KPP financial policies and practices in all fund strategies and the Energy Cost Adjustment (ECA). Members were also informed on costs to serve load and locational marginal prices (LMP) in the Southwest Power Pool (SPP) integrated market and at Dogwood respectively. It was reported before the presentations that Staff's intention was to

prepare all Members by knowing informed decisions going forward would be based on the Pool's financial position and strengths.

With concerns over the cost effect of the winter storm, Members inquired of Staff regarding future KPP bond ratings. These inquiries occurred during both the regular February Board meeting and the Special meeting. Responding to those concerns, CEO/General Manager, Mark Chesney, commented that all utilities in the SPP were "financially comprised" by the storm event. All are expected to be unfavorably reviewed by ratings agencies. "We are confident of this having conferred with both our auditor and also our bond underwriter", he said. Mark expressed his opinion that few utilities were as well prepared to address this event as KPP.



To recover cash outlay for the extraordinary expenses, Board Members considered 3 options. Formal action was taken to surcharge the budgeted ECA for February with an additional \$0.01/kWh.



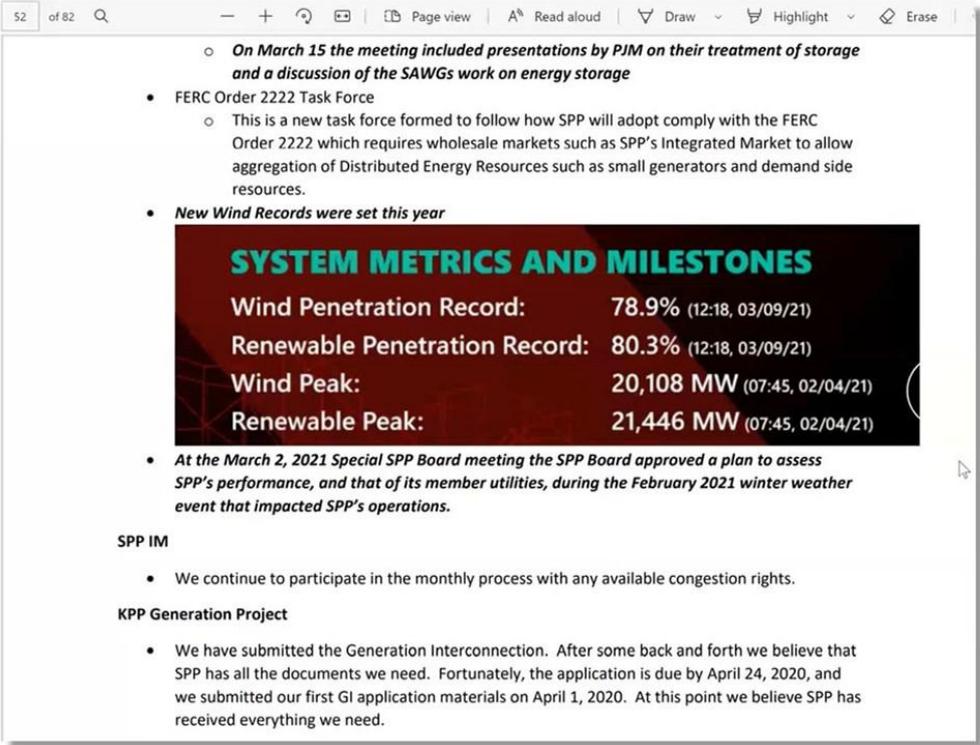
The same surcharge would be applied also to the March and April bills with the understanding that further consideration will be given to subsequent bills later this Spring. It has been speculated, based on historical energy sales, that the surcharge would recover less than \$20 million in 24 months' time.

Screenshot from Special Meeting on March 12th

**NEXT BOARD MEETING
THURSDAY,
APRIL 15, 2021, 11:30am**

March Board Meeting Highlights

- Staff reports that \$6 million was moved from the Emergency Stabilization Fund to the operating fund with prior Board authorization. These monies were paid against February costs. It was also reported that the annual audit has gone very well. Although a winter storm note is anticipated, no other changes, notes or adjustments are expected. A formal report is coming in April.
- Approval was given for the establishment of a regulatory asset intended to accommodate an outflow of resources. Pertaining to the collection of surcharge revenue, a regulatory asset allows for avoiding impact to the income statement which would in turn complicate the calculation of required debt service coverage. With Board action, Staff will be able to defer the extraordinary storm cost and amortize expenses monthly to match the surcharge revenues.
- The Board approved a \$1000 economic development favoring a commercial customer in the City of Wellington.
- Approval was given on a construction agreement with the City of Kingman for the 34.5 kV transmission line to be built (4.5 miles) to the new Kingman-Cunningham substation. Approval is still needed by the City's governing body. Energization of line is hoped for by the middle of June.
- Resolutions were adopted pertaining to the Waterville substation and the Marion distribution voltage upgrade. Also adopted was a supplemental resolution pertaining to the Kingman transmission line project. These projects and others are anticipated soon to be rolled together for tax-exempt bond financing before this summer.
- Pertaining to the Winfield annual transmission revenue requirement FERC filing, Staff reported that it appears we have finally achieved settlement with FERC Staff and intervenors. This action has been important to KPP and Winfield's work with GridLiance.
- It was also reported that both FERC and NERC have investigations into price transparency in the natural gas market during the winter storm Uri. Interesting outcomes are expected but it is uncertain as to when those might be anticipated.
- On March 9th, the Southwest Power Pool reported that wind resources contributed 78.9% to the overall resource mix throughout the region.



Screenshot from March 18th Board Meeting

- Generation compensation terms from the Pool's operating agreement were reviewed. This was pertinent following the winter storm and generation contributed to the integrated market.

Member Appreciation Dinner Date Announced

Event to Resume After Cancellation in 2020

Wednesday evening, April 28th, is the date for this year's "annual" KPP Member Appreciation Dinner. The dinner will be held again this year in the Birch Room of the Hyatt in downtown Wichita. Once again, KPP members, friends and guests have an opportunity to get together in connection with the annual KMU conference.

After the cancellation last year due to COVID-19, many have expressed enthusiasm to get back out again. We are asking that members and friends register ahead of time. Just click on the banner found prominently on the KPP website at www.kpp.agency and let us know. Registration deadline is Wednesday, April 21st.

Date and exact start times are also shown on the website. Look for more details in next month's issue of the *Lightning Round*.

CLICK ANYWHERE ON WEBSITE BANNER



ANNUAL MEMBER APPRECIATION DINNER
Wednesday, April 28, 2021
RECEPTION - 6:30 PM
DINNER - 7:00 PM
HYATT REGENCY, WICHITA

CLICK HERE TO REGISTER
REGISTRATION DEADLINE WED. APRIL 21ST

February 2021 Distribution of Energy Resources

