

KPP LIGHTNING ROUND

November 2022

2022 Annual Membership Meeting - December 9th

The KPP Energy Annual Membership meeting will be held Friday, December 9th at 11 a.m. at the KMU Training Center in McPherson. All KPP members are encouraged to attend. Each year, KPP holds an annual meeting in December for the purpose of approving the agency's electric rates for the following year as well as conducting other KPP business.

On November 4th, KPP released preliminary 2023 rates - as well as the primary cost drivers behind them - at the KPP Rate Forum. Those preliminary rates will be updated with the most recent forecasts and relevant information to calculate final 2023 rates which will be presented at the Annual Membership Meeting.

In addition, the annual meeting is also when other important KPP Energy business is typically conducted. One such item is the election of KPP's nine Board members and four officers. However, for calendar year 2023, there are no Board seats expiring and open for election by the membership.

Please come join us for KPP Energy's 2022 Annual Membership Meeting on December 9th at the KMU Training Center. Lunch will be served immediately following the meeting.

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UPCOMING EVENTS

**FRIDAY
DEC. 9TH**

REGISTER NOW!

**BOARD
MEETING**

10AM

**ANNUAL
MEMBERSHIP
MEETING**

11AM



KMU TRAINING CENTER
in McPherson, Kansas
Lunch @ 12 Noon

KPP Members Gather for Rate Forum

Earlier this month, KPP Energy members met to get a preliminary look at the important cost drivers for projected electric rates and energy cost adjustments for 2023. The Rate Forum was held on November 4th at the KMU Training Center in McPherson and provided an open forum to members regarding KPP's budget and rate setting process.

As is customary for the Rate Forum, KPP Assistant General Manager Larry Holloway provided a detailed and comprehensive presentation on all the numerous and varied factors and inputs that go into calculating KPP Energy rates for the next calendar year. These factors and inputs include such items as forecasted electric loads, energy and natural gas prices, transmission rates, and debt service for member projects.

The KPP Energy budget and rate setting process begins with KPP staff putting together cost estimates and forecasts, most notably on load and generation, costs related to debt service, administrative and general costs and transmission cost estimates. Cost estimates from outside sources are incorporated from outside sources – including Tenaska forecasts on Southwest Power Pool (SPP) Integrated Market (IM) cost, natural gas futures contracts, Dogwood Energy Center budget, transmission costs, and more.

As mentioned previously, the Rate Forum is held to provide the opportunity for members to get their first view of preliminary rates for 2023 and provide input and feedback. The next step in the process is for KPP staff to update SPP IM, gas prices and any other changes and present the final 2023 rate proposal to the full membership at the Annual Membership Meeting on December 9th.

The four largest change drivers in the 2023 budget (as compared to the 2022 budget) are energy costs, transmission costs, capacity demand rate, and administrative demand rate. The preliminary energy cost is estimated to increase 15.5% due to an increase in SPP Integrated Market costs and natural gas prices, as well as having less resources for KPP to sell into the market due to the termination of the Jeffrey Energy Center contract. Transmission costs continue to trend upwards and are projected to see an increase of 3.25%. The capacity demand rate will decrease by 52% due to the termination of the Jeffrey Energy Center contract and the administrative demand rate is estimated to drop by 48% due to decreased debt service coverage and other factors.

With all of these factors in mind, the projected electric rate for KPP members is estimated to decrease by 13% for 2023. It is important to remember that estimates provided at the Rate Forum are subject to fluctuations prior to the final 2023 rate being presented on December 9th.

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KPP Members Gather for Rate Forum (continued)

Members are encouraged to review the PowerPoint slides from the Rate Forum and to contact staff with any input or feedback. The slides are posted on the KPP Energy website at www.kpp.agency under “News & Links” and then “Presentations.”

As a reminder, KPP members are encouraged to attend the 2022 KPP Annual Membership Meeting on December 9th at the KMU Training Center in McPherson. The meeting will include formal consideration to approve the 2023 rates by the membership as well as to conduct other KPP business.

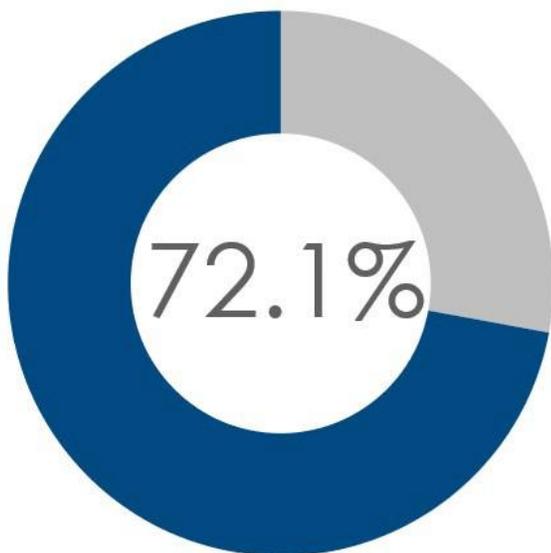
The Annual Membership Meeting will begin at 11 a.m. and be followed by lunch. Please contact Colin Hansen

at chansen@kpp.agency if you have any questions about the Annual Membership Meeting or if you would like additional information.



Winter Storm Uri

PERCENTAGE OF EXPENSES RECOVERED THROUGH OCTOBER 2022



Winter Storm Uri Total Expenses

\$21,063,883

Surcharge Recovered

\$15,188,623

Balance Remaining

\$5,875,260



November Board Meeting Review

COLIN HANSEN, CEO / GENERAL MANAGER

The KPP Energy Board of Directors held their regular monthly meeting on November 17, 2022 at KPP's offices in downtown Wichita. A summary of meeting highlights is provided here.

October 2022 ECA Analysis

The monthly member call was provided by KPP Director of Engineering Services James Ging. In his report on the energy cost adjustment (ECA), Ging noted that total cost for the month was below budget by \$2,803. Energy costs were below budget by \$28,850, transmission costs were below budget \$54,579, and capacity costs were above budget \$83,790. However, overall energy sales were significantly below budget by 12%. The calculated October ECA came in at \$0.01122 per kilowatt-hour (kWh).

Each year, KPP estimates monthly natural gas costs by utilizing NYMEX gas futures. Budgeted gas costs last month were projected to be \$3.85 / MMBtu while the actual cost of gas for the month was \$5.66 / MMBtu. This was a decrease from the prior month. Load LMPs in the SPP market were estimated to be \$24.30 per megawatt-hour (MWh), but the actual settlement cost for KPP loads was \$43.60/MWh. This was also a decrease from September LMP prices.



Financial Statements

The financial statements were presented by Vickie Matney, KPP Controller. Matney presented the income statement, balance sheet, and an in-depth review of where KPP stands in regards to Winter Storm Uri debt as of September 30, 2022. With a decline in energy sales in October, the Winter Storm Uri surcharge generated less than expected funds with which to repay the extraordinary costs of the storm. However, KPP has now paid off the full debt associated with the GRDA contract and, going forward, all of the surcharge will be dedicated to paying off the Kansas City Utility Low-Interest Loan Program debt.

Preliminary Consideration of 2023 Budget

KPP CEO & General Manager Colin Hansen noted that there were no new updates to the proposed budget since the Rate Forum, but wanted to give the Board an opportunity to ask questions or comment on the 2023 Budget.

KPP Assistant General Manager of Operations Larry Holloway reported on an option in the GRDA contract by which KPP can reduce its power supply allocation to 75 percent during non-summer months. That option has been taken in previous years. However, KPP staff recommended to the Board that the agency keep the allocation at its full 100 percent level this year to utilize the additional energy as a hedge against potential high market prices in SPP. The Board agreed with the recommendation.

Marion Project Bond Request

James Ging provided an update on the City of Marion potentially utilizing dollars remaining in 2021a bond proceeds to add to their original distribution system replacement project bond request. The Board considered the request at the regular October Board meeting and

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November Board Meeting Update (continued)

noted that excess funds are available from the bond issuance and that an expansion of the project fits well within the bond Public Offering Statement (POS). After discussion, the Board approved an additional \$400,000 be made available from bond proceeds for the expanded Marion distribution project. The next step is the consideration and possible approval of the additional debt by the Marion City Council.

Engineering Report

KPP Director of Engineering Services James Ging discussed the findings of the Southwest Power Pool (SPP) Winter Preparedness Workshop. The information provided by SPP noted that SPP members in the Central and Northern Plains should be prepared for below average temperatures, harsh stretches of cold with major storms, and one very cold month out of the next three. For the Southern Plains members of SPP, the expectation is again for one very cold month out of the next three. However, it was also projected that with a classic La Nina weather pattern the Southern Plains members – including KPP – could expect some warmth to appear during the winter months.

Member Services Report

Director of Administrative Services Brooke Carroll reported that, after considerable work by Triplett Woolf Garretson, KPP Energy was now successfully registered for federal grant application via SAMS.gov. Carroll also noted that plans were in place to hold GridEx VII on November 14-15, 2023 at the KMU Training Center in McPherson. The goal of GridEx VII is “to exercise the resilience of the North American electricity system in the face of a coordinated attack from a nation-state adversary.”

2023 Legislative Forecast

KPP CEO & General Manager Colin Hansen welcomed Kimberly Gencur Svaty to the meeting to provide a forecast of what to expect in the 2023 Kansas Legislature. Svaty first discussed the outcome of the recent elections, races for leadership positions, and the likely impact on the municipal utility community. She provided a comprehensive report on issues that may be faced in the coming session, including potential bills on right of first refusal (ROFR) for transmission investment and another push for deregulation of the electric industry. The KMU “Day at the Capitol” will be held in Topeka on February 1 and she encouraged KPP members to attend.

CEO Report

Finally, KPP CEO & General Manager Colin Hansen augmented his written report with additional comments regarding likely new Environmental Protection Agency (EPA) regulations on the electric industry that may be released as soon as March 2023. It is expected that the EPA will release a comprehensive package of new regulations in Spring 2023 that will include everything from new natural gas fired combustion turbines to existing reciprocating internal combustion engines (RICE). KPP will continue to monitor closely for the potential impact on the agency and its members.



KPP Energy Offers Assistance with Distribution Assessments & Capital Improvement Planning

JAMES GING, DIRECTOR OF ENGINEERING SERVICES

The importance of a good Capital Improvement Plan for your electric utility is especially important in our current environment. Rapidly increasing costs and supply chain issues are delaying projects. Higher costs are eating up utility reserves and fund balances. Utilities are finding that rate increases are needed to overcome deficits. Meanwhile, supply chain lead times are pushing items needed to keep the system operating way out into the future. With all of these challenges in mind, proper planning becomes critically important. Not only to make sure that electric systems remain dependable, but to ensure that utility budgets are prepared correctly. A solid Capital Improvement Plan is a key component in rate setting and keeping the systems reliable.

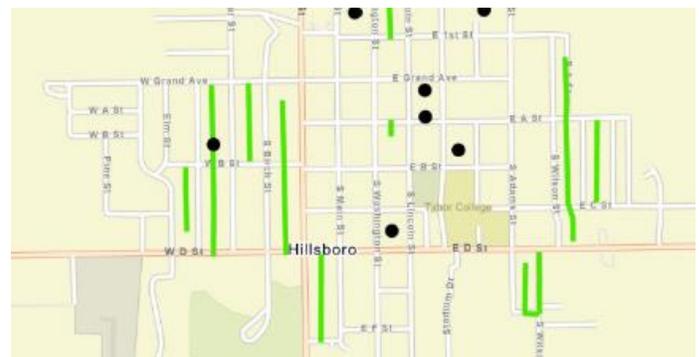
As KPP staff assist members with IIJA/BIL funding resources, a Capital Improvement Plan will assist and expedite the required paperwork to allow members to be able to apply for these funds quickly. Project budgets for potential projects will already be established to meet these very fast approaching timelines.

In addition to assisting members with the creation or review of a Capital Improvement Plan, KPP also provides members a Distribution Assessment on the health of the electric utility infrastructure. A Distribution Assessment will assess the operational condition of the electric system infrastructure, as well as the status of related practices and policies affecting the financial and/or operational sustainability of the electric utility. KPP Staff will assess utility poles, conductor, tree hazards, meters, transformers, and any other areas of concern. Projects can be identified and included on the Capital Improvement Plan.

A properly prepared Capital Improvement Plan should also include the replacement of key equipment. Pickup trucks, bucket trucks, and line trucks orders are experiencing at least an 18-month lead time. If you have any equipment to replace in the next three to four years, we recommend that you consider starting the process in the near future.

Recently, KPP staff have built tools to help with preparing projects plans and budgets efficiently for infrastructure improvements. We can evaluate key items that have been identified and build a plan accordingly. For instance, in Hillsboro, we focused on removing the remaining copper conductor in the system. The assessment concluded that the city's copper conductor circuits have lived their useful life and are sources of outages when storms arise. Reliability can be enhanced by replacing this source of conductor.

We know that everyone understands that proper planning is important. This is not a new concept. It seems today that it is more important than ever given shrinking reserves, long lead times, and higher cost. If you would like to schedule or learn more about KPP Energy's Distribution Assessments or Capital Improvement Plan Reviews, please contact James Ging at jging@kpp.agency or Brooke Carroll at bcarroll@kpp.agency.



KPP to Offer GridEx VII in November 2023

Planning Already Underway for GridEx VII on November 14 & 15, 2023

KPP Energy – along with NERC and the E-ISAC – will facilitate the seventh biennial nationwide grid security exercise, GridEx VII, on November 14 and 15, 2023 at the KMU Training Center in McPherson.

GridEx provides the electricity industry, government agencies, and other relevant organizations the opportunity to exercise emergency response and recovery plans in the event of a simulated cyber and physical security attacks and other contingencies that may affect North America’s electricity system.

As NERC and the E-ISAC put together the playbook for this event, they are considering actual real-life incidents they are seeing on a regular basis. These incidents include:

GridEx VII’s goal is:

to exercise the resilience of the North American electricity system in the face of a coordinated attack from a nation-state adversary



Ballistic Damage	Substations, Transmission Lines, and Renewables
Tampering	Wire, Manual Switching, and Cyber-Planning
Transmission Lines	Cutting, Bolt Removal, and Arson
Drone Threats	Surveillance, Injury, Outages, Air Ops, and Cyber Security Vulnerabilities

The core objections of GridEx VII will be:

1. Respond to imminent cyber, physical, and other threats with potential to affect the reliable operation of the grid.
2. Enhance coordination with federal/state/provincial and local governments, suppliers supporting critical operations, and industry partners to facilitate recovery.
3. Manage interdependencies with natural gas sector, telecommunication sector, and other critical infrastructure sectors while under abnormal operating conditions.
4. Exercise response to information technology (IT), operations technology (OT), and communications systems failures.
5. Detect, respond to, and recover from emergency events in a remote or hybrid environment with reduced staff availability and limited access to resources.

If any KPP member would be interested in being part of the 2023 GridEx Planning Team, please contact Brooke Carroll at bcarroll@kpp.agency.



Event Calender

2022-23 DATES TO REMEMBER

DECEMBER 9, 2022
KPP Board Meeting

DECEMBER 9, 2022
Annual Membership Meeting

JANUARY 19, 2023
KPP Board Meeting

FEBRUARY 1, 2023
KMU Day at the Capitol

FEBRUARY 16, 2023
KPP Board Meeting

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

KPP Resources by Fuel Source

OCTOBER 2022

