

LIGHTNING ROUND

October 2019

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Cost of Service Study and Electric Rate Design

New Services to be Offered to KPP Members

KPP members may now be poised to soon receive cost of service studies and electric rate design services offered by Pool personnel. The offering of these services by the Pool allows KPP members to refresh their financial policies and practices while avoiding large consultation fees for the same professional service otherwise procured.



Cost of service is a method to equitably allocate the revenue requirements of the utility among the various customer classes of service. It is a way of learning what revenues should be recouped from whom and how it should be done. Cost of service studies should be conducted at least every 3-5 years and then reviewed annually to

ensure a utility's revenue requirement is being met.

In preparing for this new member service offering, Director of Administrative Services, Brooke Carroll, recently returned from extensive training offered by New Mexico State University following her coursework presented by the American Public Power Association (APPA). James Ging, Director of Engineering Services had also previously undergone the training earlier this year in New Mexico.



Conducting a successful cost of service and rate design will also work towards creating financial policies that will then provide for positive financial metrics and trends that are illustrated in the annual KPP Financial Scorecard.

2018 Financial Scorecards have been completed for 17 of the 24 KPP Member cities thus far. Four of those cities have done some sort of a cost of service study and have addressed their electric rates within the past five years. The other cities have expressed interest in doing a study and would like KPP to assist them with doing so. James and Brooke have begun by working with the cities that have requested assistance and, those that had a low score on the KPP Financial Scorecard. Please contact Brooke if you would like to know more about having a KPP Cost of Service and Rate Design for your utility.

KPP Bond Ratings Updated

“Stable” Outlook Maintained by Both Agencies

Since the end of the summer KPP has undergone regular reviews with both Moodys and Fitch. The renewed outlook in both cases has been “Stable”.



Both Moodys Investors Service and Fitch Ratings have regularly updated the credit profile of KPP since the Pool first entered the bond market in 2012 to finance the acquisition of an asset. KPP's first rating from Fitch was requested in 2015 when KPP acquired its additional ownership interest in the Dogwood plant. Both agencies have rated KPP identically although each agency expresses the rating differently. Moodys rating for KPP is A3 and Fitch is an equivalent A-.



For the purpose of advising investors, and potential bond purchasers, Moodys indicates that the rating and stable outlook are supported by “KPP's trend of improving liquidity”. Indeed KPP has worked hard over the past 5 years to achieve financial targets pertaining to cash on hand and more than required debt service coverage. Fitch mentions KPP's “strong operating cash flow” as well as “its strong revenue defensibility and low operating risk” as supportive of their recently reaffirmed rating.



In the view of both agencies, the full-requirements contracts that KPP members have among themselves are fundamental to the prospect of continually maintaining the lower cost of borrowing. The ratings help assure that. As KPP has notable construction projects in the near future with both transmission and additional generating resource installations, the timing of the rating updates could not be better.

The financial strength of each KPP member is a contributor to the financial success of KPP. In this way, members are mutually reliant on one another. In recent months, this has become fundamental to KPP's financial scorecard for each KPP member as analyzed and produced by KPP's Director of Administrative Services. In addition to confirming individual strengths and weaknesses, it is also a validation of the local utility's value to the community

A New Industrial Customer Prospect for Wellington

Council Votes to Allow Electric Service by the City

The prospect of a biofuel producer commencing operations in Wellington is inching closer to reality. For many months City representatives have kept KPP officials apprised of the progress of the possibility. Incident to the planning has been an anticipated debate over whether this high load factor industrial customer would be served by the City or by the neighboring rural electric cooperative. The planned location for the facility is on property that was annexed by the City in August. Although the location is within the service territory of the cooperative, it is currently bare ground to which no services have been built.



The *Wellington Daily News* reported earlier this month that officials reminded the City Council on October 15th that with the annexation, the City intends “to provide water, sewer and trash service and it would be a public convenience for electric service to also be provided by the city.”

Although the customer expressed written preference that the City provide electric service, the cooperative had made application for a franchise agreement with the City.

That proposal was to provide electric service to the industrial site and provided for a franchise arrangement throughout the remainder of the City. The Council voted in favor of a motion to deny that proposal on the belief that services by the City offered the best economic favorability to citizens and all customers.

'Let Me Talk to the Mayor!'

Editor's Note: In February, KPP introduced this new segment to the Lightning Round. Each month, our intention is to report on a Q&A between CEO/General Manager Mark Chesney and the mayor of a KPP Member City. This edition features Mayor Terry Somers of Mount Hope.

Mark: Terry, we were very pleased to see you at our annual Fall Planning Retreat in September. That's probably the third or fourth one you've attended.

Terry: I think that's right.

Mark: And I think you were probably one of about three mayors from KPP cities. So, thanks for attending and participating. And thanks also for speaking with me today. I have to ask you, are you a lifelong Mount Hope guy?



Terry Somers

Terry: The Retreat is well-done and very informative. Well, I was born and raised in Delphos, Kansas, a community in north central Kansas. We moved to Mount Hope in 1978.

Mark: 1978. So you've seen some changes in Mount Hope no doubt. What have you observed?

Terry: Mount Hope was a strong agricultural community and still is. However, the economic conditions of the late '70's and early '80's changed the picture for the community and area forever. There was a significant reduction in the number of farmers, which changed Mount Hope from a strong, independent community to a bedroom community. Agriculturally related jobs were waning, and the increase in manufacturing jobs in the nearby cities contributed to this change.

In 2010 the school district began procedures to close the local elementary school. This led to a tremendous reduction in housing starts, which slowed any momentum towards economic growth and development. Family businesses, a staple of the past, suddenly began closing, with no plans of succession for those entities.

Mark: A few years ago, I stopped my car and sat alone in the gazebo on the pond north of town. I just rested there and while I thought for a time I was captured by the serenity. I was particularly attracted to the surrounding lighting. How did that project come to be?

Terry: The concept of Woodland Park was to have a place to enhance the quality of life for the residents of Mount Hope. The project was



Mark Chesney and Terry Somers



really suggested and was a part of the original comprehensive plan of the mid '90's. The suggestions were to create a fishing pond with a walking path around the pond. In fact, the walking path turned into a walking trail with the intention of connecting the elementary school to the park via the trail. Such a connection would have enhanced the school science curriculum as well as provided an avenue for personal fitness for the students. Even though the school closed, the park committee wanted a safe walking environment for the general public to enjoy. Hence, the lighted trail was developed using LED lights, which provided great candlepower at a very efficient cost.

Mark: Not long ago we got reports occasionally about your project to go underground with portions of your electric distribution system. What is the status of that project and what was your motivation to commence it?

Terry: The completion is in sight. We have a couple more lines to bury, and some transformers need to be converted to dual voltage. At least two thirds of our town is now operating on 7200 volts. When done, the efficiency of the overall system will be beneficial, and we will be able to eliminate our substation because of the transformer changeovers.

We have had far fewer outages since we have begun this project, so the reliability of the effort has been very positive.

Mark: Excellent. Did city workers handle the project, or did you contract it?

Terry: Most of the work has been accomplished by our city employees. There have been times when we have called in other expertise to assist our people.

Mark: What future goals do you have for your electric system?

Terry: Essentially, we need to maintain what we have and create a system where expansion of the capacity is possible at a minimal cost. Our future depends upon having a stable, efficient infrastructure.

Mark: I learned a month ago that if I don't ask about hobbies or avocations, the interview might turn out to be just a little less interesting than it could have been. So, do you have any? If so, please tell me about them.

Terry: Since I retired, my energy has been focused toward our city. This is really more than a hobby, however. It is an enjoyable endeavor, most of the time. I do enjoy singing and attending athletic events, watching great athletes with their marvelous skills.

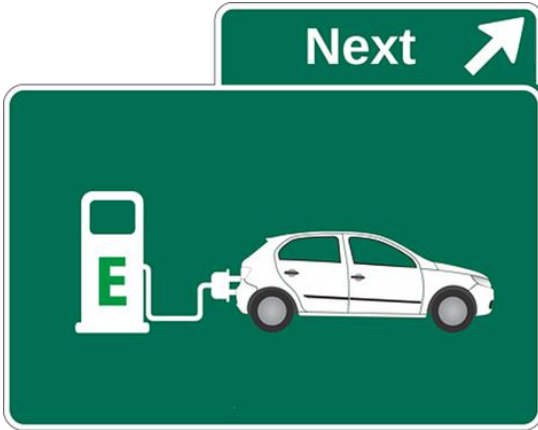
Mark: Terry, we were very pleased to see you at our annual Fall Planning Retreat in September. It was good to see you then and thanks for today in visiting with me.



'Electrification' Explained

Potential for Load Growth Amid Declining Energy Usage

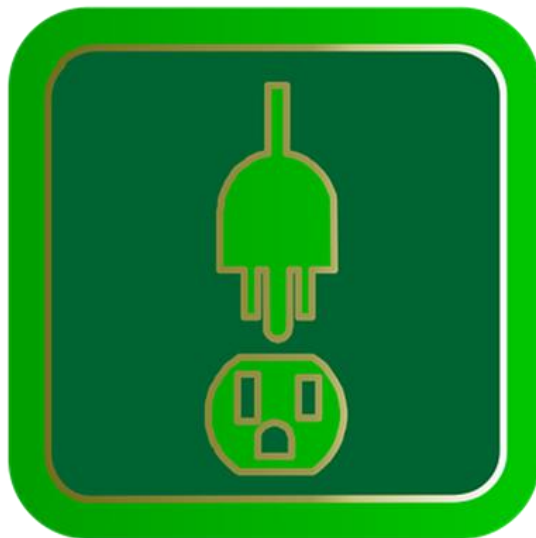
Seemingly everyone in our industry is aware that energy consumption has only declined or been flat in the past 10 years or so. The state of the economy had something to do with it. So does energy efficiency. Reflecting that trend, the 2019 EIA Annual Energy Outlook forecasts a 22% decrease in energy use from 2018 to 2050.



But wait, EPRI (the Electric Power Research Institute) paints the picture of stunning changes in the industry suggesting load growth of 20% or even 50% over the next 30 years. Although the components of such changes amount to upgrades in the grid, new fuels, new data management tools such as AMI and changes in policy, the basic explanation for these startling predictions can be adequately summed up in one word – electrification.

Electrification is the aggregate effort of replacing carbon-based methods for heating, lighting, construction and transportation with electricity. Yes, yes, electric power has some measure of emissions associated with it, too. But emerging technologies are changing the landscape.

The extent to which electrification is pervasive will be different in Kansas than in other states. That's because the broader adoption of technologies such as heat pumps and electric vehicles will vary by region. But with wide ranging forecasts of acceptance, and the potential for enormous changes in consumer behavior and electric loads, utilities simply must pay attention to the opportunities and promote them where we can. For these reasons and others KPP will try to lead members in understanding what is emerging, how communities and citizens can benefit and what are the potential bottom line impacts.



APPA President and CEO Sue Kelly, who recently addressed KPP members at our Fall Planning Retreat, editorialized on this subject in the September/October print edition of Public Power Magazine. Sue noted, "(s)ome public power utilities are promoting electric heat pumps and electric stoves. They are rethinking their relationship with large commercial and industrial customers and how they can better support those customers' operations." She continued, "(e)lectrification isn't just good for utilities' bottom line, but the trends around it directly support the Public Power business model. Electrification means more energy use is kept local and more revenue stays in your communities."

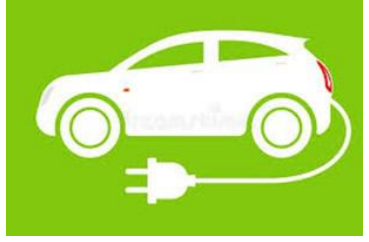
KPP members should be urged to follow trends and position their utility to be a trusted energy advisor to their customers. As a Pool, we are committed to assisting with that challenge.



Questions About EV Charging

Can you answer this quiz?

Your retail customers and citizens are probably not yet asking hard questions about electric vehicles. But you might consider getting ready. In fact, here's a quiz borrowed from the September/October print edition of *Public Power Magazine*. Do you know the answers? We'll find out at the upcoming annual Membership Meeting on December 15th. But for now, check it out.



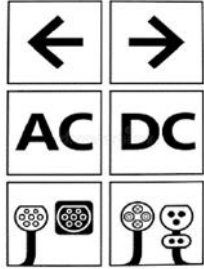
How Long Will it Take to Charge My Car? Sounds like a good question doesn't it? Well, the quick answer is – it depends. Do you know the longer answer? Vehicle batteries are measured in kilowatt-hours. The more kilowatts that can flow to the battery at once, the quicker it will charge. So, how would you answer this question from one of your customers?



Who doesn't want to know that before they buy an electric vehicle (EV)? Of course, costs vary depending on where the charging occurs but there is certainly a well-known range that could be given as an answer. And actually, electric utilities are designing rates to charge during periods of low electricity usage. So, what's your answer?



How Much Does it Cost to Charge? Who doesn't want to know that before they buy an electric vehicle (EV)? Of course, costs vary depending on where the charging occurs but there is certainly a well-known range that could be given as an answer. And actually, electric utilities are designing rates to charge during periods of low electricity usage. So, what's your answer?



Can I Use Any Public Charging Station? Okay, that's an easy one. Different manufacturers use different plugs. Some, but not all, stations can accommodate multiple plugs. Drivers can use onboard systems or mobile apps to look for compatible stations.

How Often Will I Have to Charge it? Here's where it gets really interesting. What do you think?

Did You Know?

The Nissan Leaf, like the one KPP Staff occasionally drives, provides a \$3,500 rebate for Public Power customers and employees. That rebate is offered through January 2, 2020. You might want to check it out. By the way, KPP's Leaf has now been spotted in parade events at two KPP member Cities – Marion and Glasco. If you have a parade upcoming, let us know.

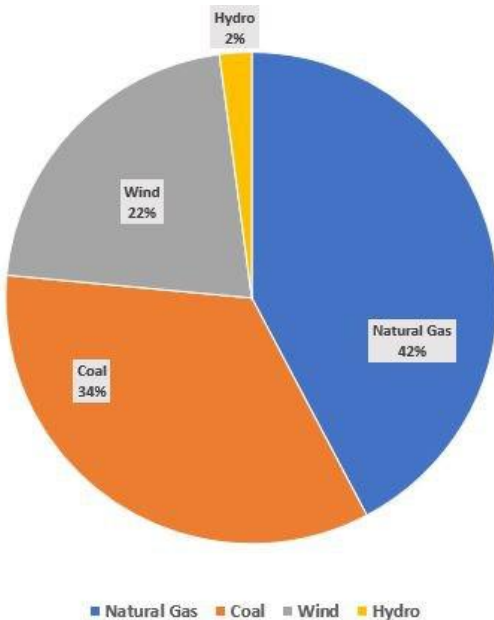


Glasco



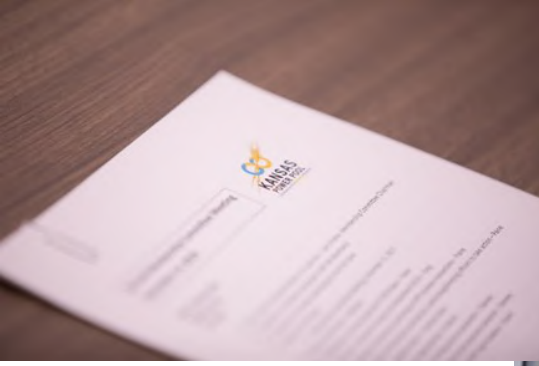
Marion

September 2019 Distribution of Energy Resources



Annual Membership Meeting

Mark Your Calendars for December 13th in McPherson



Inching closer to year-end, KPP members will plan to gather at the annual Membership Meeting at the KMU Training Center in McPherson on December 13th. The 11:00 meeting will be followed by lunch. At this important meeting, members will formally consider rates for 2020 and will collectively vote to install at least one new member to the KPP Board of Directors.

Member Cities should review to make sure that both a delegate and an alternate from each City have been authorized by the governing body to cast a vote. This will help to make sure that official actions comply with the requirements of law where the setting of rates and policies are concerned.



Following the Rate Forum on November 1st, members will have had approximately 6 weeks to consider the preliminary draft of the 2020 budget and rates.



Please mark your calendar for December 13th and make plans for someone from the City to attend who has never attended before. A registration banner is on the Home page of our website: www.kpp.agency. Please register soon. See you there!



*Annual Membership Meeting
Friday, December 13 - 11:00 a.m.
KMU Training Center, McPherson*

Register Here

Observations

By Mark Chesney, KPP CEO/General Manager

I spoke with someone over the weekend who I think you know. He made me want to again refine my “elevator speech”. It’s the Public Power elevator speech I have been trying to perfect for years.

Who is this person I am talking about? Well, let me tell you about our conversation and we’ll see if you know him – or someone just exactly like him. I think you do.

I was at church this past weekend and was approached by a young man (I would estimate his age to be about 25 or 27) who wanted to make my acquaintance. He and I had a few moments to kill. I believe we were waiting for our wives before making the drive home. He asked about my occupation. I told him I was in the municipal side of the electric utility business. He frowned. ‘And what does that mean, he asked?’ ‘Oh boy, I thought.’ To be sure, this was not some under-achiever who could not wait to get home so he could resume playing video games. I now know this was a well-educated, well-read and well-adjusted young man who was in fact a solid and productive citizen in the work world. It is just that my industry – yours and mine – was foreign to him.



Let me shorten this. He had difficulty with the concept that the city, itself, could be an electric utility. He had difficulty imagining the concept of an integrated transmission system. I admired his interest held in the subject matter. After all, he was not merely listening to a lecture from an old man more than twice his age. He was asking questions.

“Ignorance” is a word that just seems too harsh. I have come to realize that you cannot hold it against people who do not know or understand. Not asking questions sooner rather than later only partially explains their ignorance. So, there is a lesson here for those in our industry. It is this: you cannot wait for someone to express curiosity. You simply have to actively work your way into their lives with a positive message that establishes the economic benefits of Public Power and engenders a friendly relationship of loyalty and trust. Simple, isn’t it? Well actually, no, it isn’t simple at all.

But what if we DON’T do that? What if we just continually make assumptions about what people know or don’t know? I like what my friend Dave Osburn, who runs the Oklahoma Municipal Power Authority, recently said to a group of his own peers. The time comes when there is a change in the City Council, or there is a new banker who moves into town. Or maybe it is the neighboring REC who aggressively takes advantage of the fact that the citizenry is not well informed. Eventually the question gets asked, ‘why are we in this business.’ If the answer is not quick and resounding, it just might be too late. It is better that the question never gets asked.



It has been well-researched and is well-established across the country that only 1 in 5 citizens under the age of 55 know that their electric utility is community owned. This young man I referred to earlier is at the prime age for which the local utility needs to be turning him into

a loyal customer and an ambassador. We cannot wait for him to come to us. We have to go to him