

# Presentation to KyMEA AR Members

Regarding Potential  
SEPA Arrangement Options

**For City of Falmouth**

January 26, 2017

# AR Contract Provisions Pertaining to “Local” or Member Owned Resources -- Balance Competing Principles

**Avoid Shifting Costs to  
Other Members**



***Key Principles Driving  
Pertinent Provisions of  
the AR Contract***



**Maximize Value  
to the Member**

# Member-Owned, or Local, Resource Examples

**SEPA  
Entitlements**

**Paris'  
Diesels**

*Existing*

**Direct Load  
Control**  
*(e.g., Water Heater  
Load Shedding)*

**Community  
Solar  
Facility**

*Potential*

# The All Requirements Contract Provides for KyMEA to Facilitate Member-Owned, or Local, Resources in One of Three Ways

## *Member's Options:*

### Option 1.

KyMEA will Contract to Use and Provide Value-Based Credits to Member

Credit to Member

*Based on  
100% of Value to  
KyMEA*

### Option 2.

KyMEA will Contract to Market Output on Behalf of Member

Credit to Member

*Based on  
Revenue Received,  
Less Marketing Costs*

### Option 3.

Member can Market Output through Another Party

Credit to Member

*Expect to be based on  
Revenue Received,  
Less Marketing Costs*

# Option 1 provides Benefits to each SEPA Member from the Value of SEPA Capacity and Energy

– Options 2 and 3 are Expected to Only Provide Energy Value

## Option 1.

KyMEA will Contract to Use and Provide Value-Based Credits to Member

Credit to Member  
*Includes Capacity and Energy Value of SEPA*

## Option 2.

KyMEA will Contract to Market Output on Behalf of Member

Credit to Member  
*Expected to include Only Energy Value*  
*(See next slide.)*

## Option 3.

Member can Market Output through Another Party

Credit to Member  
*Expected to include Only Energy Value*  
*(See next slide.)*

# Reasons for the Difference in Value Provided by Option 1 relative to Options 2 and 3

## Under Option 1:

The Contract with KyMEA would provide credits based on the value to KyMEA of the SEPA energy **AND capacity** – because KyMEA can effectively use SEPA capacity without incurring additional transmission charges.

## Under Options 2 or 3:

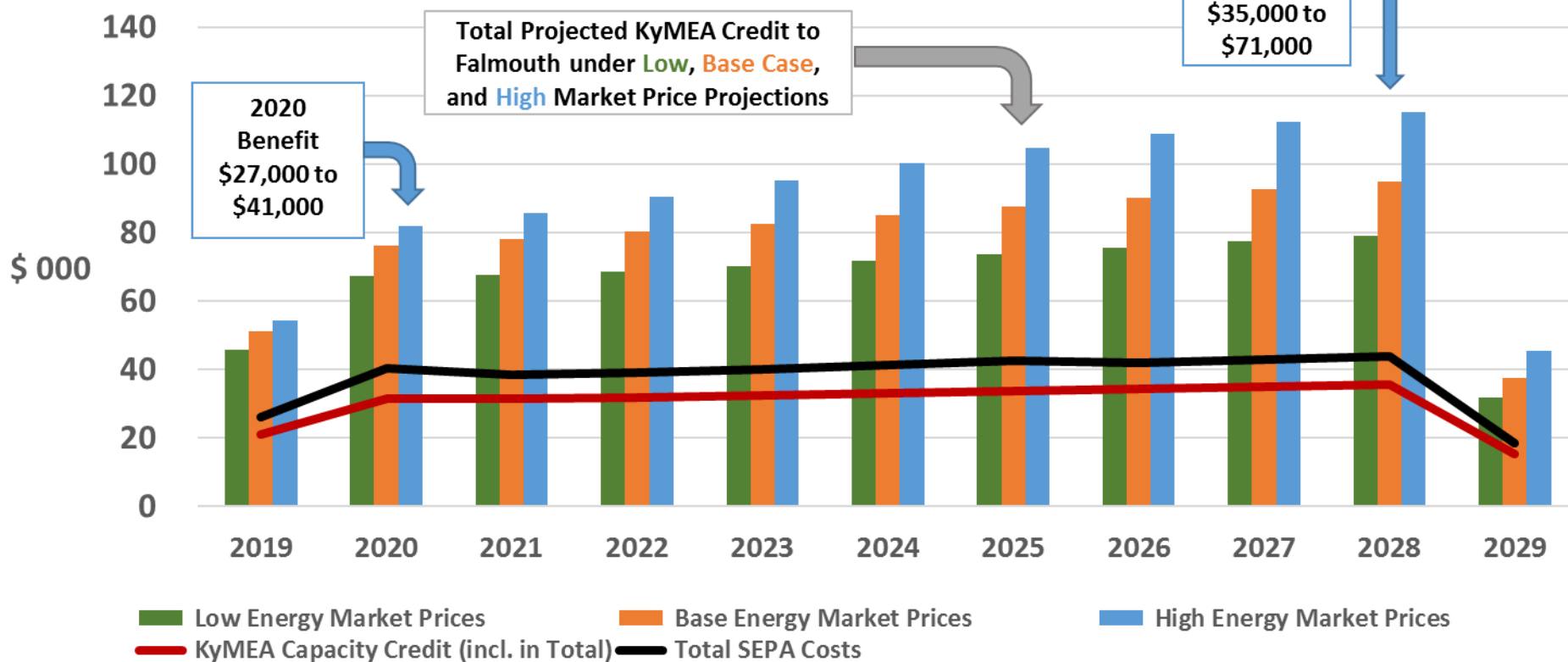
Under Options 2 and 3, the SEPA Members would have market risk that we believe would result in less if any benefit to the Members from the value of SEPA **capacity**. We expect the value Members would realize would be based primarily on the value of energy in the market – not **capacity** - through one of the following two basic marketing approaches:

1. Market only energy from SEPA
  - As is now being managed by OMU on the SEPA Members' behalf
  - Due to low energy market price levels, recently, revenue levels have not covered the cost to the Members of SEPA power
2. Attempt to also market capacity and energy from SEPA to others - However, additional transmission capacity charges to wheel the SEPA from TVA to the purchaser may be incurred and if so:
  - Can be expected to offset much if not all of the resulting additional revenue, and
  - Increase risks to the Members

# Under Option 1:

Total KyMEA Credits for SEPA Entitlements are Projected to Result in Significant Net Benefit to the Member -- KyMEA Fixed Capacity Credits Alone Would Cover Most Projected SEPA Costs

Option 1: Projected KyMEA Credits to Falmouth for SEPA Capacity and Energy versus Projected Costs of SEPA  
- For Falmouth's 0.6 MW of SEPA Entitlement

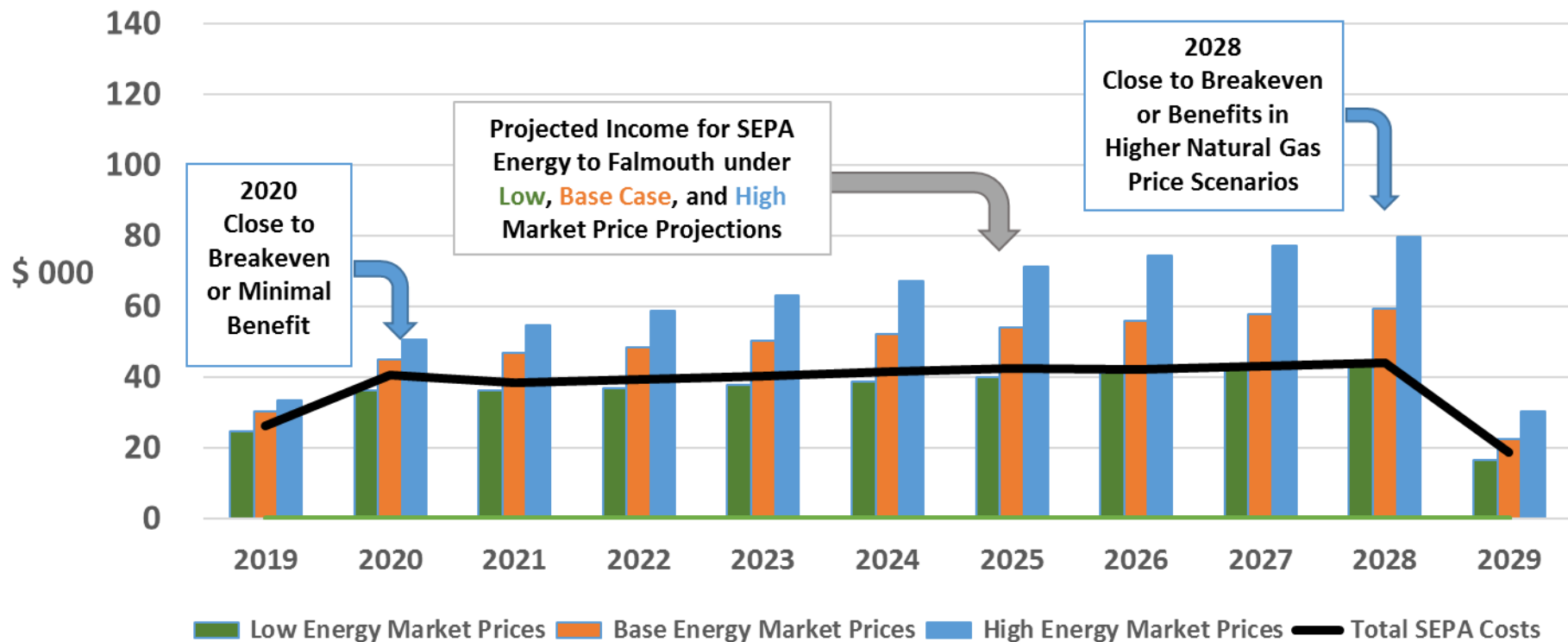




# Under Options 2 and 3:

Credits for to Members for SEPA Entitlements are Projected to Much Lower than under Option 1

**Options 2 or 3: Projected Income to Falmouth for SEPA Energy  
versus Projected Costs of SEPA**  
- For Falmouth's 0.6 MW of SEPA Entitlement





# 6 Key Provisions

## of the Proposed Contract between KyMEA and the AR Members that have SEPA

1. KyMEA commits to use SEPA as part of its AR Power Supply Portfolio to serve the loads of the AR Members
2. Because of that use, KyMEA requires less capacity and energy from other resources and passes along the resulting avoided costs and any other benefits to the SEPA Members
3. The capacity rate used to determine the credit is specified in the Member's contract with KyMEA – it tracks the capacity rate that KyMEA would have paid to Paducah for a greater entitlement to the capacity of their combustion turbine plant – fairly represents KyMEA's current long-term cost of peaking capacity
4. The energy rate will track the cost of energy avoided by KyMEA in each hour over the term of the contract – which will be close to the cost of energy purchased from MISO at the interface between MISO and the LGE/KU transmission system.
5. The proposed contract would also credit the Member for any other value that KyMEA realizes from the attributes (for example, renewable energy credits) of the project. At this time, no additional value is assumed, but circumstances could change in which additional value would be realized.
6. The term of the contract begins May 1, 2019 (or June 1, 2019 at Members' option) and continues until the earlier of May 31, 2029, termination of the AR Contract, or termination of the Member's contract with SEPA.

## Overall Conclusion:

The proposed contract for KyMEA to use SEPA provides significant benefits to the SEPA Members and is consistent with the AR Contract. Therefore, we recommended approval of the contract by KyMEA and each SEPA Member.

### Reasonable to Expect Significant Benefits

Capacity and Energy Credits are Projected to be Significantly Greater than the Cost of SEPA and Consistent with KyMEA's Avoided Costs

### Benefits Can be Expected under a Very Wide Range of Market Prices for Energy

Just the Capacity Credits from KyMEA specified in the Proposed Contract cover almost all of the currently projected cost of SEPA to the Member

### Favorable Situation for the KyMEA AR Members that have SEPA

### Renewable, Non-Carbon Source of Energy "Stays Home"

used to Serve AR Members' Loads instead of Being Used by Others

The Proposed Contract provides a Stable, Long-term Beneficial Arrangement for SEPA Resource But terminates if the Member decides to cancel its contract with SEPA or its AR Contract with KyMEA