



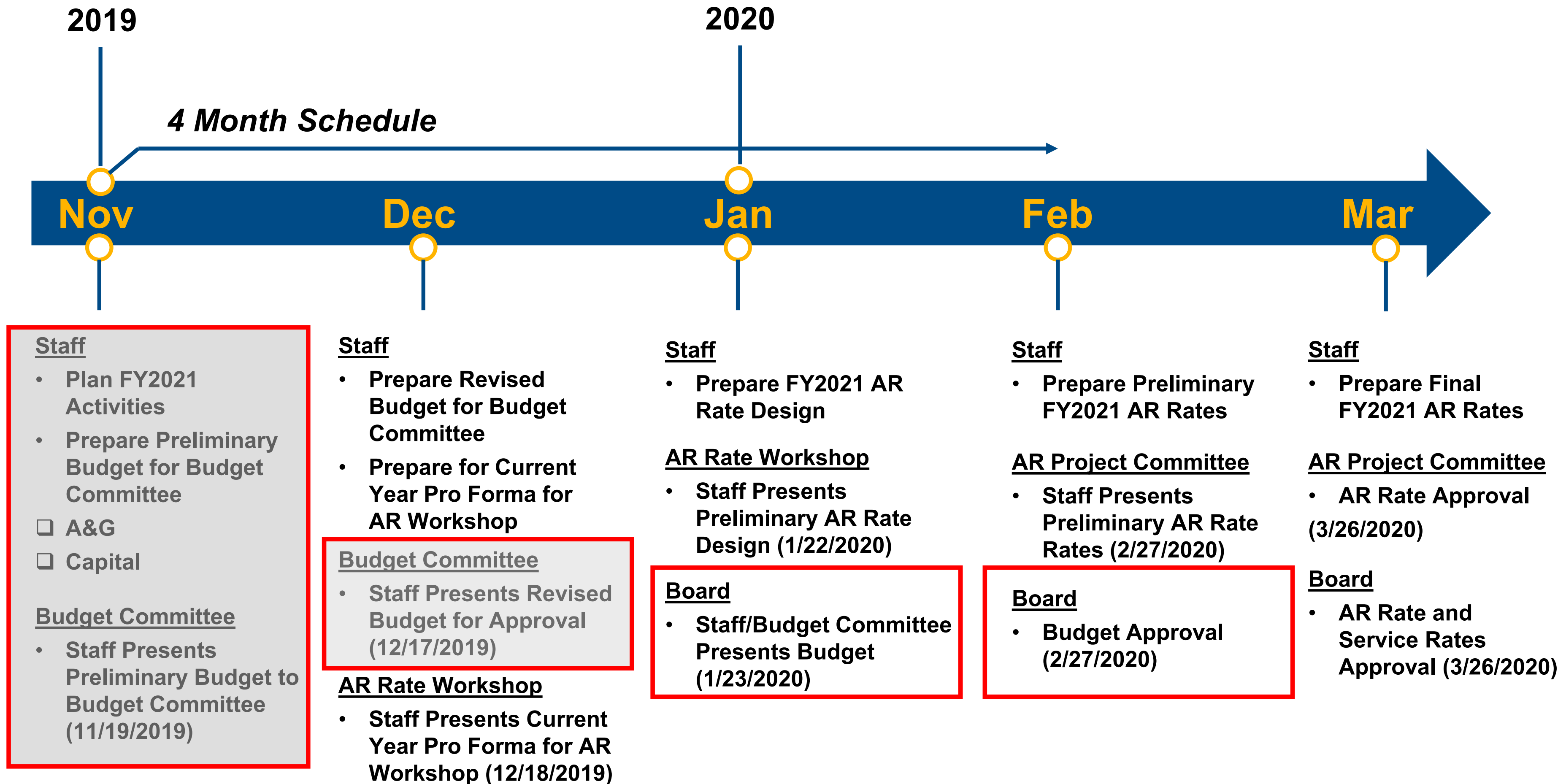
# **FY2021 Operating and Capital Budget**

**KYMEA BOARD Presentation**

***Staff/Budget Committee Recommendation***

January 23, 2020

# FY2021 Operating Budget Process



# Market Analytics Center Activities



- Front/Middle/Back Office
- Portfolio Optimization
- Integrated Resource Planning
- MDMS Operation/Proficiency
- Modeling/Financial Workflow
  - Budget/Actual/Projection
    - Updated Monthly for Markets/Portfolio
    - Rate Model/ECA/Financial Metrics
- Engineering/Testing



# Energy Service Partner (ESP)

ACES Power Marketing acts as KYMEA's Agent

## Front/Middle/Back Office

 <b>ACES</b> <i>excellence in energy</i> <b>Role of Energy Services Partner</b>		 <b>Division of Duties</b>
<b>FRONT OFFICE SERVICES</b> <ul style="list-style-type: none"> <li>• Portfolio Strategy</li> <li>• Short-Term Trading and Operations</li> <li>• Short-Term Load Forecasting</li> <li>• Origination and Long-Term Trading</li> <li>• Portfolio Dispatch and Optimization</li> <li>• Delegated Electric Reliability Standard Compliance</li> <li>• Power Transmission Scheduling and Tagging</li> <li>• Physical Gas Trading and Scheduling</li> <li>• Financial Gas Trading</li> <li>• Gas Service Consulting</li> <li>• Coal and Emissions Consulting</li> <li>• Renewable Analysis and Transactions</li> <li>• Financial Transmission Right Evaluations and Hedge Execution</li> <li>• Transmission Analysis and Advice</li> <li>• Long-Term Generation and Transmission Planning Studies</li> <li>• Standard Portfolio Model and Risk Analytics</li> </ul>		<b>Market Analytics</b> <p>Front Office: Coordinates and handles all the needs with respect to hedging and 24 hour dispatch operations.</p> <hr/> <p><i>Responsibility: Vice President, Market Analytics</i></p> <hr/> <p><i>Oversight: President and CEO</i></p>
<b>MIDDLE OFFICE SERVICES</b> <ul style="list-style-type: none"> <li>• Credit Analysis and Counterparty Monitoring</li> <li>• Credit Exposure Monitoring and Management</li> <li>• Credit Negotiations</li> <li>• Credit Reports</li> <li>• ISO/RTO Credit Monitoring Service</li> <li>• Master Agreement Negotiations</li> <li>• Emissions Allowances and Renewable Energy Credits Agreement Negotiations</li> <li>• Contract Monitoring and Administration</li> <li>• Trade Capture and Validation</li> <li>• Policy Compliance Monitoring</li> <li>• Forward Curve Development and Mark-to-Market Valuations</li> <li>• Risk Management Policy Development</li> <li>• Education and Training</li> <li>• Regulatory and Market Development Participation</li> <li>• Reliability Compliance Consulting</li> <li>• Dodd-Frank Compliance</li> </ul>		<b>Accounting and Finance</b> <p>Middle Office: Ensures the control and processing of the Front Office.</p> <p>Back Office: Monitors the post-market processing of transactions: confirmation, payment, settlement and accounting.</p> <hr/> <p><i>Responsibility: Vice President, Finance and Accounting and CFO</i></p> <hr/> <p><i>Oversight: President and CEO</i></p> <hr/> <p><i>Subject to External Audit</i></p>
<b>BACK OFFICE SERVICES</b> <ul style="list-style-type: none"> <li>• Bilateral Power and Transmission Settlements</li> <li>• Bilateral Natural Gas and Transportation Settlements</li> <li>• RTO/ISO Pool Settlements</li> <li>• Energy Imbalance Validation</li> <li>• Cost Allocation Settlement Model</li> <li>• Electric Quarterly Report (EQR) Filing Support</li> </ul>		

# Power Monitoring Expert



## Customized real-time monitoring

- Access real-time status of sensitive power distribution components
- Trend chart tools with customized views to reveal patterns and anomalies quickly

## Data analytics and visualization

- Smart dashboards with configurable presentation widgets and kiosk options
- Powerful graphics templates and libraries
- Automated power quality reports and waveform analysis tools
- Comprehensive templates for energy and power reporting, with flexible report distribution options





# Modeling/Financial Workflow

1

KYMEA - Pro Forma													
Line No.	Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
	Item	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020
<b>Revenue</b>													
1	AR Project	\$ 7,934,079	\$ 7,833,750	\$ 7,210,226	\$ 6,044,441	\$ 5,999,882	\$ 6,589,337	\$ 6,839,847	\$ 6,432,711	\$ 6,025,348	\$ 5,699,333	\$ 6,660,718	\$ 7,412,702
2	Transmission Services	56,962	56,477	54,276	41,801	47,697	58,059	73,796	65,434	53,807	43,787	49,707	56,090
3	Energy Services	44,470	41,218	35,355	31,566	29,100	32,001	34,042	28,343	29,781	28,190	38,026	42,593
4	Market Sales	-	-	-	-	-	-	-	-	-	-	-	-
5	ST - Revenue	\$ 8,035,510	\$ 7,931,445	\$ 7,299,857	\$ 6,117,808	\$ 6,076,679	\$ 6,679,397	\$ 6,947,685	\$ 6,526,488	\$ 6,108,936	\$ 5,771,310	\$ 6,748,451	\$ 7,511,385
<b>Expenses</b>													
6	Purchased Power	\$ 6,072,022	\$ 5,964,593	\$ 5,225,455	\$ 4,871,137	\$ 4,996,832	\$ 5,227,136	\$ 5,398,346	\$ 5,069,711	\$ 4,900,517	\$ 4,934,140	\$ 5,429,618	\$ 5,947,971
7	Transmission Services	903,033	887,349	820,253	663,199	672,644	744,059	791,323	740,601	666,204	631,239	758,167	849,286
8	Energy Service, Schedule and Dispatch	41,613	41,613	41,613	41,613	41,613	41,613	41,613	41,613	41,613	41,613	41,613	41,613
9	Administration & General	192,757	192,688	192,688	192,021	190,902	207,371	215,654	215,654	217,604	219,827	219,552	218,361
10	ST - Operating Expenses	\$ 7,209,425	\$ 7,086,243	\$ 6,280,009	\$ 5,767,970	\$ 5,901,991	\$ 6,220,180	\$ 6,446,936	\$ 6,067,580	\$ 5,825,937	\$ 5,826,819	\$ 6,448,949	\$ 7,057,232
11	Operating Income	\$ 826,085	\$ 845,202	\$ 1,019,848	\$ 349,838	\$ 174,687	\$ 459,217	\$ 500,749	\$ 458,908	\$ 282,998	\$ (55,509)	\$ 299,502	\$ 454,153
<b>Non-Operating Expenses</b>													
12	Depreciation	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169
13	Interest Payment	34,029	34,029	32,929	34,029	32,929	34,029	34,029	31,830	34,029	32,929	34,029	32,929
14	Other Non-Operating Expense	-	-	-	-	-	-	-	-	-	-	-	-
15	ST - Non-Operating Expense	\$ 57,198	\$ 57,198	\$ 56,098	\$ 57,198	\$ 56,098	\$ 57,198	\$ 57,198	\$ 54,999	\$ 57,198	\$ 56,098	\$ 57,198	\$ 56,098
16	Net Margin	768,887	788,004	963,750	292,640	118,589	402,019	443,551	403,909	225,801	(111,608)	242,304	398,055
17	Funds Available for Debt Service and Capital	\$ 826,085	\$ 845,202	\$ 1,019,848	\$ 349,838	\$ 174,687	\$ 459,217	\$ 500,749	\$ 458,908	\$ 282,998	\$ (55,509)	\$ 299,502	\$ 454,153

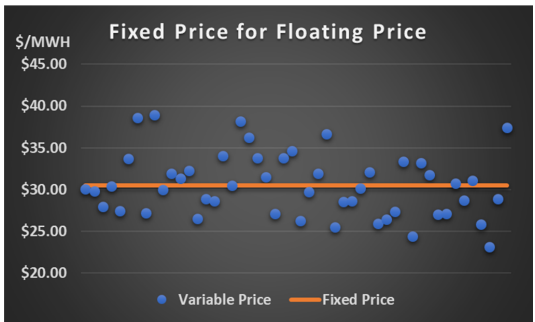
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## Risk Management Hedge Adjustments



Fixed Price  
Cash Settlement  
Floating Index

Swap  
Provider

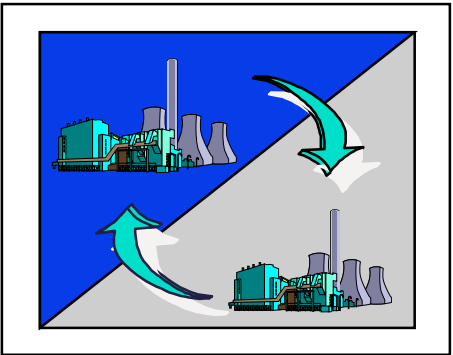


2

Jul
2020
\$ 8,047,234
57,861
44,470
-
\$ 8,149,565
\$ 6,215,163
918,250
42,778
237,592
\$ 7,413,783
\$ 735,782
\$ 23,169
34,029
-
\$ 57,198
678,584
\$ 735,782

3

## Projected Months



Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020
\$ 7,935,837	\$ 7,313,806	\$ 6,130,334	\$ 6,082,731	\$ 6,674,236	\$ 6,941,972	\$ 6,434,980	\$ 6,115,493	\$ 5,784,827	\$ 6,761,314	\$ 7,514,284
57,218	55,100	42,424	48,455	58,863	74,744	67,572	54,644	44,582	50,529	57,006
41,218	35,355	31,566	29,100	32,001	34,042	28,343	29,781	28,190	38,026	42,593
-	-	-	-	-	-	-	-	-	-	-
\$ 8,034,273	\$ 7,404,261	\$ 6,204,323	\$ 6,160,286	\$ 6,765,101	\$ 7,050,758	\$ 6,530,895	\$ 6,199,918	\$ 5,857,600	\$ 6,849,868	\$ 7,613,883
\$ 6,269,145	\$ 5,436,216	\$ 5,059,056	\$ 5,204,792	\$ 5,345,077	\$ 5,502,808	\$ 5,238,107	\$ 4,971,672	\$ 4,986,171	\$ 5,497,639	\$ 6,085,384
900,263	836,870	676,099	685,844	757,370	805,415	768,125	679,621	644,130	773,379	865,241
42,778	42,778	42,778	42,778	42,778	42,778	42,778	42,778	42,778	42,778	42,778
237,592	237,133	235,534	235,277	235,277	240,881	240,881	241,147	243,798	243,514	242,288
\$ 7,449,778	\$ 6,552,998	\$ 6,013,468	\$ 6,168,692	\$ 6,380,502	\$ 6,591,882	\$ 6,289,892	\$ 5,935,218	\$ 5,916,876	\$ 6,557,310	\$ 7,235,691
\$ 584,495	\$ 851,263	\$ 190,855	\$ (8,406)	\$ 384,599	\$ 458,876	\$ 241,004	\$ 264,700	\$ (59,276)	\$ 292,558	\$ 378,192
\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169	\$ 23,169
34,029	32,929	34,029	32,929	34,029	34,029	30,730	34,029	32,929	34,029	32,929
-	-	-	-	-	-	-	-	-	-	-
\$ 57,198	\$ 56,098	\$ 57,198	\$ 56,098	\$ 57,198	\$ 57,198	\$ 53,900	\$ 57,198	\$ 56,098	\$ 57,198	\$ 56,098
527,297	795,165	133,657	(64,504)	327,401	401,678	187,104	207,502	(115,375)	235,360	322,094
\$ 584,495	\$ 851,263	\$ 190,855	\$ (8,406)	\$ 384,599	\$ 458,876	\$ 241,004	\$ 264,700	\$ (59,276)	\$ 292,558	\$ 378,192

# Strategic Goals

## 3

### RESOURCE PLANNING

The KYMEA resource planning process applies modern portfolio theory when assembling its power supply portfolio; focusing on long-term, low-cost, reliable, and sustainable supply while minimizing risk.

- 3.1 **Long-Term Planning:** KYMEA will investigate, analyze, and report on potential resource, and transmission options as part of its 2020 Integrated Resource Plan with updates thereafter.
- 3.2 **Low-Cost Power Supply:** Develop wholesale rate benchmarks for the agency by June 30, 2021 and refresh annually thereafter.

- 3.3 **Risk Mitigation:** The Internal Risk Committee (IRC) and Board Risk Oversight Committee (BROC) will, at a minimum, hold quarterly meetings to assess, report on, and develop mitigation measures for the board's consideration regarding identified business, energy, and financial risks.

# Portfolio Optimization Integrated Resource Planning

ENCOMPASS  
POWER PLANNING SOFTWARE

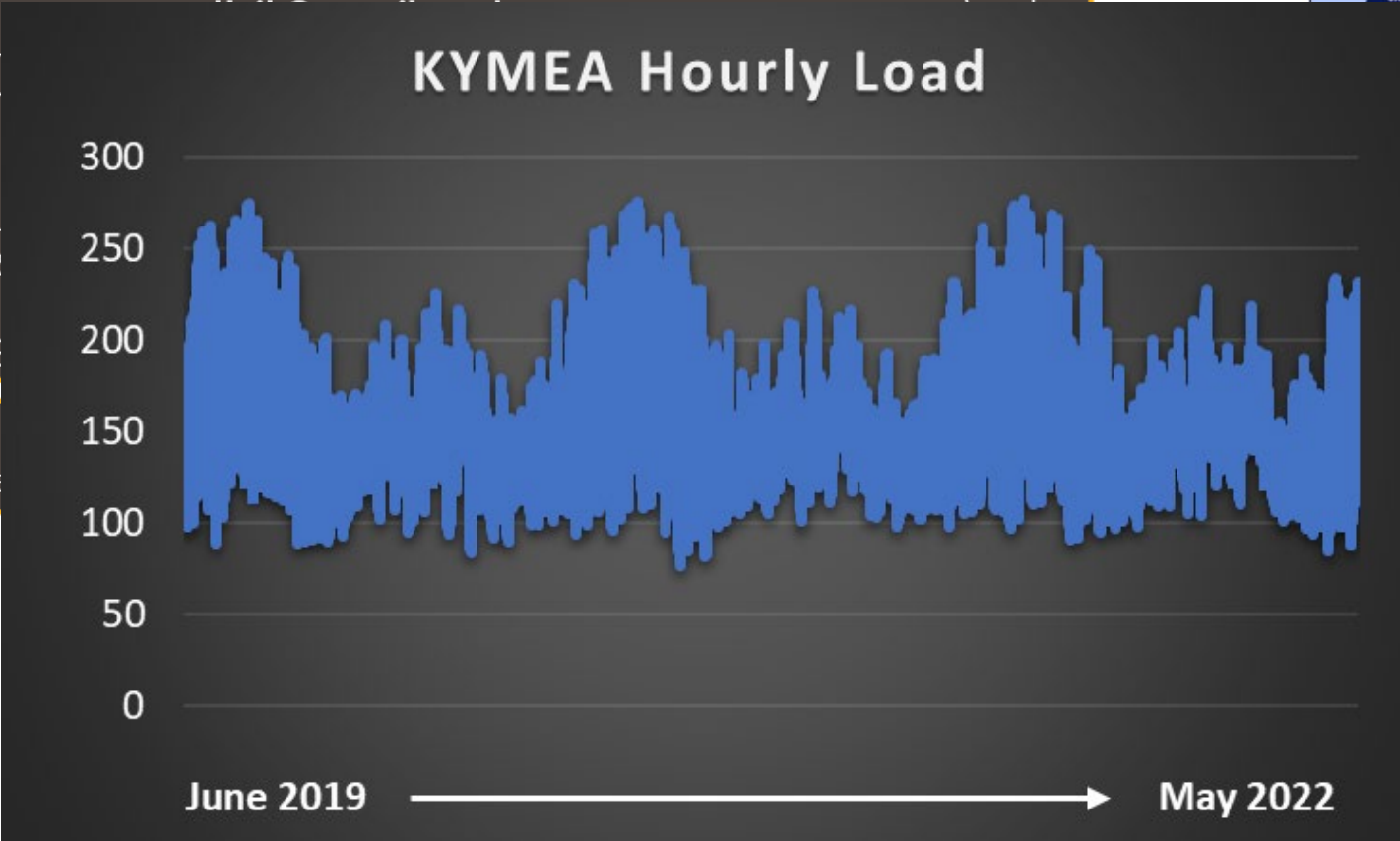
Optimize Decisions Across Multiple Commodities

**Capital Projects**  
Multiple annual plans with capital costs and constraints

**Capacity**  
Regional reserve margin requirements with demand curves

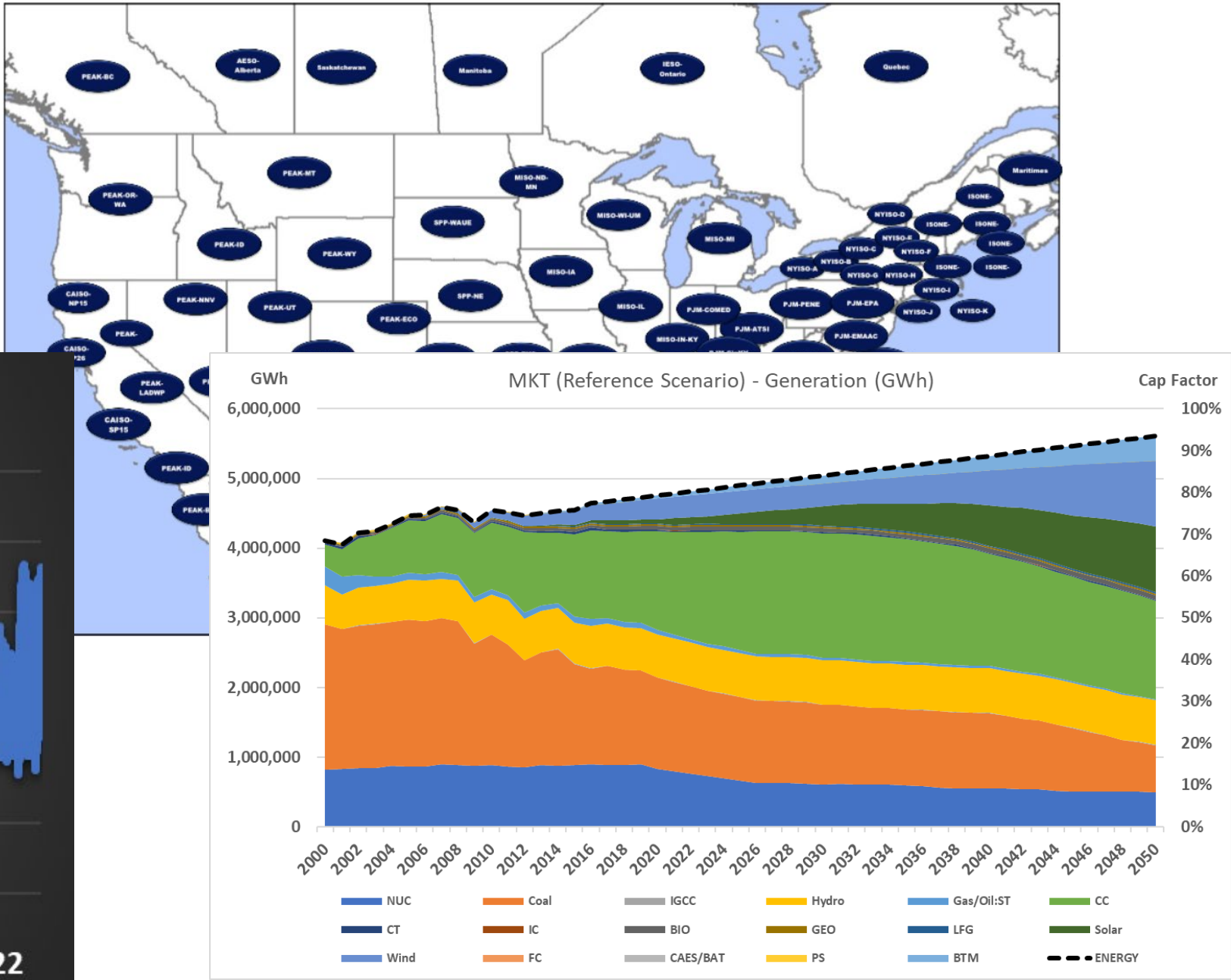
**Environmental Programs**  
Renewable portfolio standards, mass and rate-based emissions

Full commodity  
Dispatch  
Fuel  
Reserve  
Nodal /  
Maintenance



National Database/Market Intelligence

Market Price Forecasting  
Policy Analysis





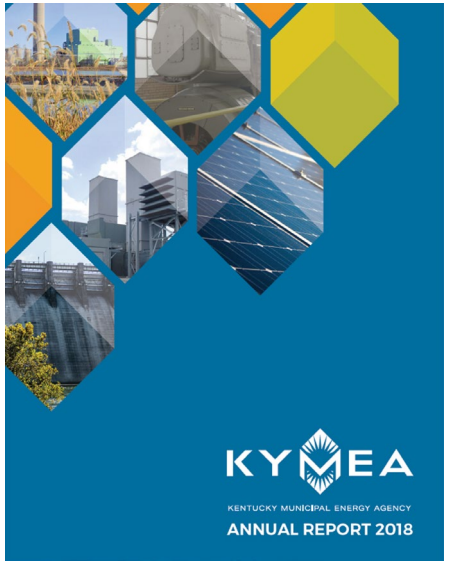
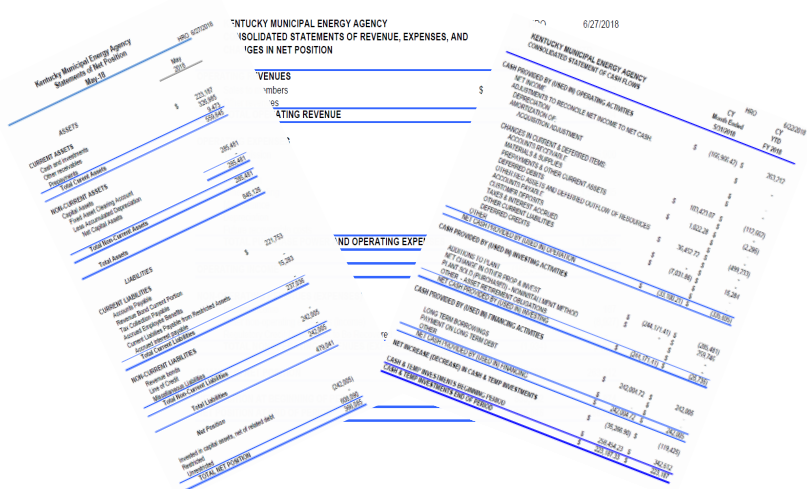
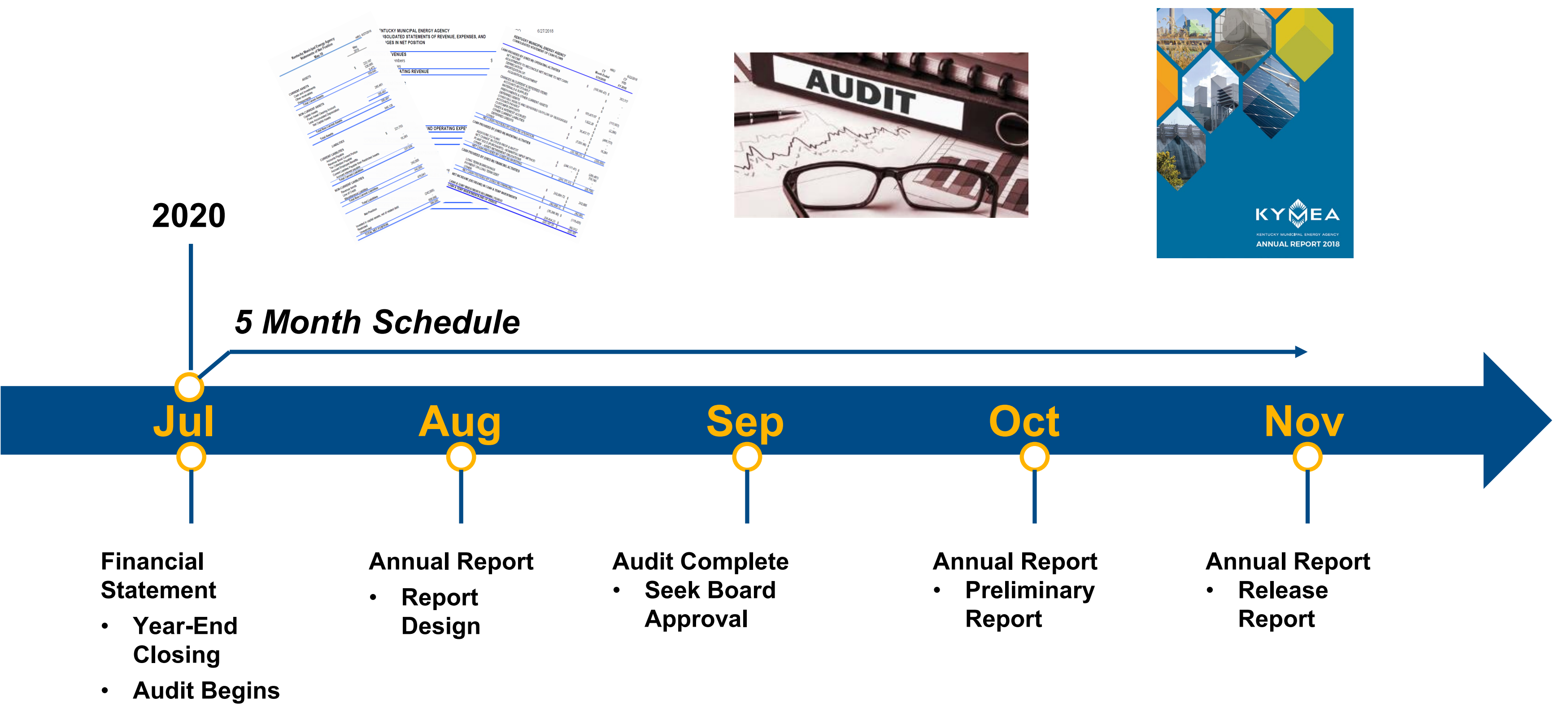
# Budget – Dispatch, Scheduling, Modeling

Dispatch, Scheduling, Modeling	FY2020	FY2021	Notes
<b>1400. Energy Services Partner</b>			
1400.01 ACES - Standard Service	\$ 456,140	\$ 469,220	24-Hour Service/Support
1400.02 ACES - Additional Services	\$ 108,615	\$ 57,587	Congestion/model runs
1400.03 ACES - Additional RTOs	\$ 80,000	\$ 41,402	PJM
1400.04 Front/Middle/Back Office Services	\$ 144,900	\$ 40,719	Market accounts, ISDA support
1400.05 Back-Up Server	\$ -	\$ 4,200	ACES Back-Up Server Fee
<b>Energy Services Partner</b>	<b>\$ 789,655</b>	<b>\$ 613,129</b>	
<b>1500. MAC Software, Data, Training, Studies, Subscriptions</b>			
1500.01 MAC Software	\$ 47,500	\$ 43,981	Optimization, Load Forecasting
1500.02 Data and Market Intelligence	\$ 45,500	\$ 36,360	Data and market intelligence
1500.03 RTO Membership Fee	\$ 5,000	\$ 5,000	PJM Fee
1500.04 Training	\$ 22,000	\$ 17,600	Training and Fees
1500.05 Studies/Support	\$ 40,519	\$ 85,000	Optimization, Load Forecasting
<b>MAC Software, Data, Training, Studies, and Subscriptions</b>	<b>\$ 160,519</b>	<b>\$ 187,941</b>	
<b>1600. MDMS/Communications/Meters</b>			
1600.01 Annual License/Maintenance	\$ 82,203	\$ 68,461	Schneider MDMS, SQL
1600.02 Communications	\$ 26,110	\$ 8,555	Verizon
1600.03 Engineering Support/Meter Testing	\$ 13,599	\$ 44,000	P&D Engineering
<b>MDMS/Communications/Meters</b>	<b>\$ 121,912</b>	<b>\$ 121,016</b>	
<b>Subtotal Dispatch, Scheduling, Modeling</b>	<b>\$ 1,072,086</b>	<b>\$ 922,086</b>	\$150,000 decrease (14%)
		\$ (150,000)	

# Administration/Project Activities

- Legal Counsel/Advisory Support
- Office Space/Costs/Insurance
- Software/IT/Infrastructure/Auto
- Rating Agency
- Audit and Annual Report
- Strategic Goals/Retreat
- Transmission Studies
- Members Services
- Communications
- Government Relations/Lobbyist

# Audit and Annual Report





# Member Communications

- KYMEA News
- Published Quarterly
- Audience
  - Member Community Stakeholders



# Strategic Goals

## 1

### FINANCIAL STABILITY

KYMEA will provide stable and competitive rates in a fiduciarly responsible manner.

1.1 **Rates:** Annually establish rates that support the agency's financial health metric and cash reserve policy.

1.2 **Reserve Fund:** Adopt cash reserve policy by June 30, 2020.

1.3 **Financial Health Metrics:** Develop financial health metrics scorecard for the agency by June 30, 2020 and score annually thereafter.

# Strategic Goals

## 2 GROWTH

KYMEA will promote organic growth within our communities and seek mutually beneficial new membership opportunities.

2.1 **Communication & Education:**  
Enhance KYMEA's brand by hosting two training and educational events annually, beginning January 1, 2020.

2.2 **Membership Growth:** Seek to grow membership by visiting three potential members annually over the next three years.

2.3 **Member Services:** KYMEA will identify and evaluate a minimum of one new member service annually for the next three years that brings value to the agency and the communities we serve.



# Strategic Goals

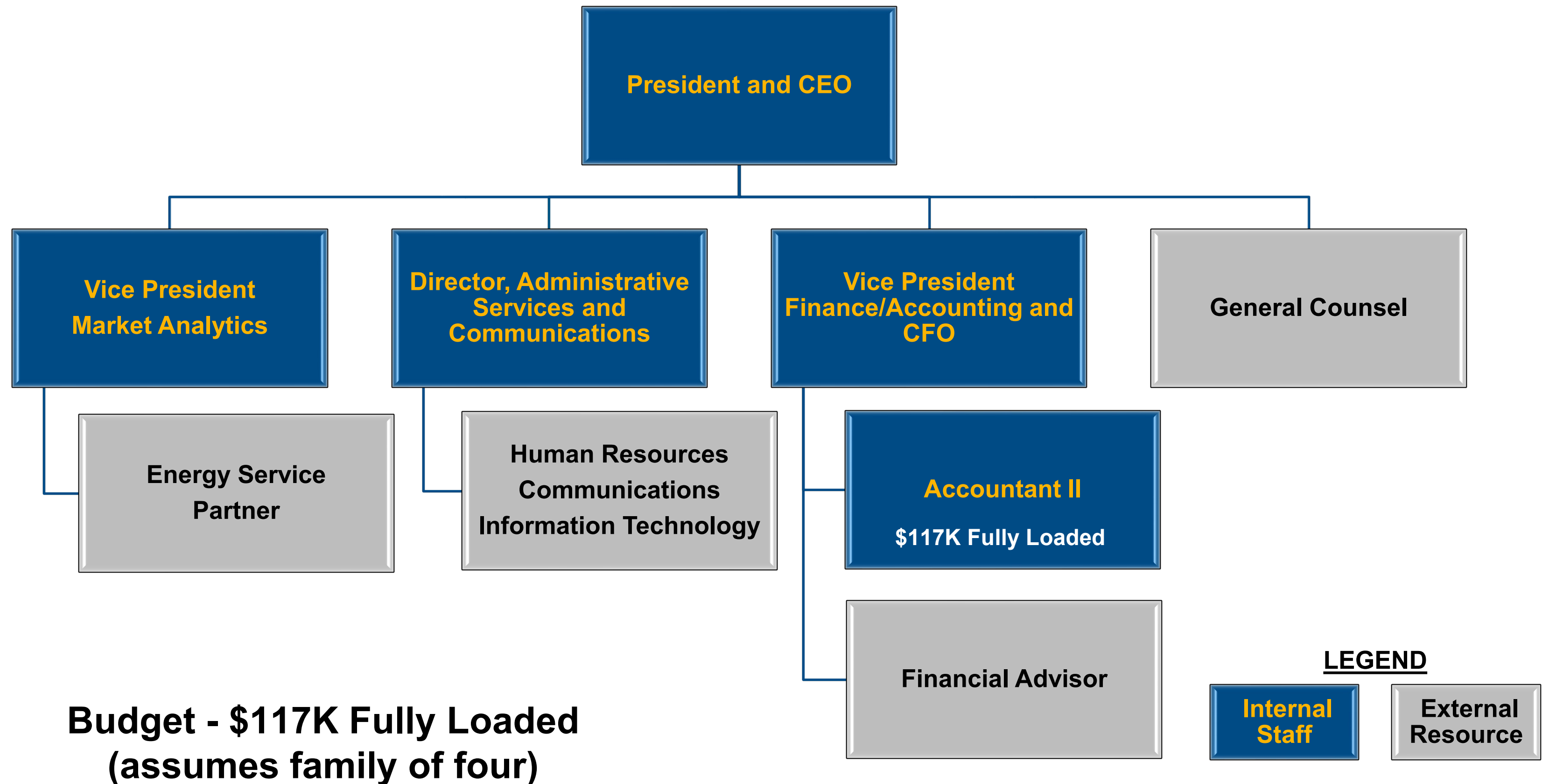
## 4

### ORGANIZATION

KYMEA will achieve and maintain an organizational structure that supports our vision, mission, and core values.

- 
- |  |  |
|--|--|
| <p>4.1 <b>Operations:</b> The budget committee and staff will evaluate resource needs, compare operations to industry benchmarks, and recommend necessary solutions for the boards consideration as part of the annual budget process.</p> <p>4.2 <b>Governance:</b> KYMEA will annually provide Board member orientation and materials containing information needed to fulfill their role in the organization.</p> | <p>4.3 <b>Legislation:</b> Promote and support federal, state, and local legislative initiatives that benefit KYMEA and its communities through lobbying efforts by participating in a minimum of two legislative events annually.</p> <p>4.4 <b>Strategic Retreat:</b> KYMEA will facilitate an annual strategic retreat with the Board of Directors as a way to review and update the agency's strategic plan.</p> |
|--|--|

# FY2021 One Additional Staff



# Finance/Accounting Staff Needs

## Accountant II

Supports VP, Finance/Accounting & CFO

- Accounts Payable
- Bank Accounts
- Journal Entries
- Audit and 1099s
- Unclaimed Property
- Document Retention



# Accountant II Hiring Plan

## Hiring Plan

- Zip Recruiter
- College Grads
- APPA Job Posting
- ✓ Looking for someone to help with accounting/finance
- ✓ Also looking for a strong analyst with the ability to wear many hats

# Budget – Administrative & General

<b>Total Operational Costs</b>				
Administration/Advisory/Projects		<b>FY2020</b>	<b>FY2021</b>	<b>Notes</b>
100	Salaries, Benefits, Retirement, Accrued PTO	\$ 1,108,091	\$ 1,356,371	Market Adjustment + Accountant II
200	Legal Counsel	\$ 96,000	\$ 117,000	Slightly increased number of hours
300	Advisory Support	\$ 397,056	\$ 164,300	Decreased number of hours
400	Office Space Lease & Costs	\$ 165,000	\$ 175,478	Scheduled increase + lease accounting
500	Member Services, Board Meetings, Training	\$ 119,643	\$ 129,000	Increase for strategic/legislative goals
600	Auto Expense	\$ 10,702	\$ 13,808	Better estimate based on actuals
700	IT/AV/Software	\$ 107,148	\$ 133,427	Updated with IT Service and SEDC
800	Insurance	\$ 9,491	\$ 14,303	Better estimate based on actuals
900	Advertising & Marketing	\$ 19,400	\$ 17,612	Better estimate based on actuals
1000	Audit & Annual Report	\$ 55,000	\$ 55,840	Little change
1100	Rating Agency	\$ 10,000	\$ 30,000	Fitch + Moody's and S&P
1200	Associations & Lobbyist	\$ 29,150	\$ 57,780	Added TAPS
1300	Project Planning	\$ 75,000	\$ 72,000	Transmission Studies + Retreat
<b>Subtotal Administration/Advisory/Projects</b>		<b>\$ 2,201,680</b>	<b>\$ 2,336,920</b>	<b>\$135,240 increase (6.1%)</b>
			<b>\$ 135,240</b>	

# Total Operating Budget

## Total Operational Costs

Administration/Advisory/Projects		FY2020	FY2021	Variance	
100	Salaries, Benefits, Retirement, Accrued PTO	\$ 1,108,091	\$ 1,356,371	\$ 248,280	Market Adjustment + Accountant II
200	Legal Counsel	\$ 96,000	\$ 117,000	\$ 21,000	Slightly increased number of hours
300	Advisory Support	\$ 397,056	\$ 164,300	\$ (232,756)	Decreased number of hours
400	Office Space Lease & Costs	\$ 165,000	\$ 175,478	\$ 10,478	Scheduled increase + lease accounting
500	Member Services, Board Meetings, Training	\$ 119,643	\$ 129,000	\$ 9,357	Increase for strategic/legislative goals
600	Auto Expense	\$ 10,702	\$ 13,808	\$ 3,107	Better estimate based on actuals
700	IT/AV/Software	\$ 107,148	\$ 133,427	\$ 26,279	Updated with IT Service and SEDC
800	Insurance	\$ 9,491	\$ 14,303	\$ 4,813	Better estimate based on actuals
900	Advertising & Marketing	\$ 19,400	\$ 17,612	\$ (1,788)	Better estimate based on actuals
1000	Audit & Annual Report	\$ 55,000	\$ 55,840	\$ 840	Little change
1100	Rating Agency	\$ 10,000	\$ 30,000	\$ 20,000	Fitch + Moody's and S&P
1200	Associations & Lobbyist	\$ 29,150	\$ 57,780	\$ 28,630	Added TAPS
1300	Project Planning	\$ 75,000	\$ 72,000	\$ (3,000)	Transmission Studies + Retreat
Subtotals - Administration/Advisory/Projects		\$ 2,201,680	\$ 2,336,920	\$ 135,240	
Dispatch, Scheduling, Modeling					
1400	Energy Services Partner	\$ 789,655	\$ 613,129	\$ (176,526)	Less ACES studies
1500	MAC Software, Data, Training, Studies, and Subscriptions	\$ 160,519	\$ 187,941	\$ 27,422	Increase for Load Forecasting
1600	MDMS/Communications/Meters	\$ 121,912	\$ 121,016	\$ (896)	Better estimate based on actuals
Subtotals - Dispatch, Scheduling, Modeling		\$ 1,072,086	\$ 922,086	\$ (150,000)	
<b>Total Budget</b>		<b>\$ 3,273,766</b>	<b>\$ 3,259,006</b>	<b>\$ (14,760)</b>	0.5% Under over FY2020 Budget
			\$ (14,760)		



# FY2021 Capital Budget

- Capital Budget Needs (\$100,000)
- IT Equipment - \$25,000
- Transmission Contingency
  - Delivery Equipment - \$75,000

No Change from FY2020 Capital Budget