President & CEO Update

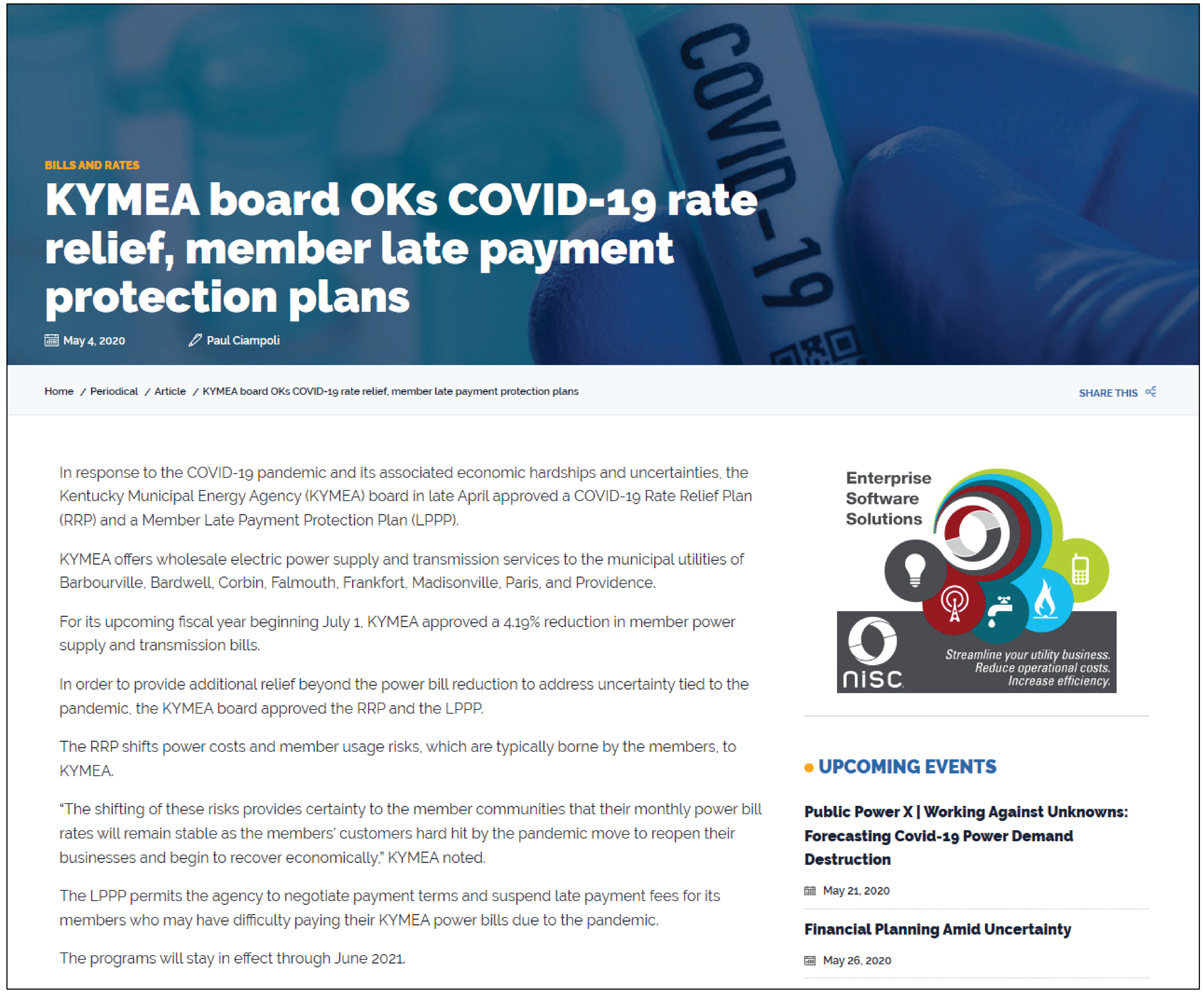
Doug Buresh

May 28, 2020

KYMEA – APPA Press Release

Press Release

- May 4, 2020
- KYMEA FY2021 Rate Reduction
- COVID-19 Rate Relief Plan (RRP)
- Member Late Payment Protection Plan (LPPP)



BILLS AND RATES

KYMEA board OKs COVID-19 rate relief, member late payment protection plans

May 4, 2020 Paul Ciampoli

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In response to the COVID-19 pandemic and its associated economic hardships and uncertainties, the Kentucky Municipal Energy Agency (KYMEA) board in late April approved a COVID-19 Rate Relief Plan (RRP) and a Member Late Payment Protection Plan (LPPP).

KYMEA offers wholesale electric power supply and transmission services to the municipal utilities of Barbourville, Bardwell, Corbin, Falmouth, Frankfort, Madisonville, Paris, and Providence.

For its upcoming fiscal year beginning July 1, KYMEA approved a 4.19% reduction in member power supply and transmission bills.

In order to provide additional relief beyond the power bill reduction to address uncertainty tied to the pandemic, the KYMEA board approved the RRP and the LPPP.

The RRP shifts power costs and member usage risks, which are typically borne by the members, to KYMEA.

"The shifting of these risks provides certainty to the member communities that their monthly power bill rates will remain stable as the members' customers hard hit by the pandemic move to reopen their businesses and begin to recover economically," KYMEA noted.

The LPPP permits the agency to negotiate payment terms and suspend late payment fees for its members who may have difficulty paying their KYMEA power bills due to the pandemic.

The programs will stay in effect through June 2021.

UPCOMING EVENTS

Public Power X | Working Against Unknowns: Forecasting Covid-19 Power Demand Destruction
May 21, 2020

Financial Planning Amid Uncertainty
May 26, 2020

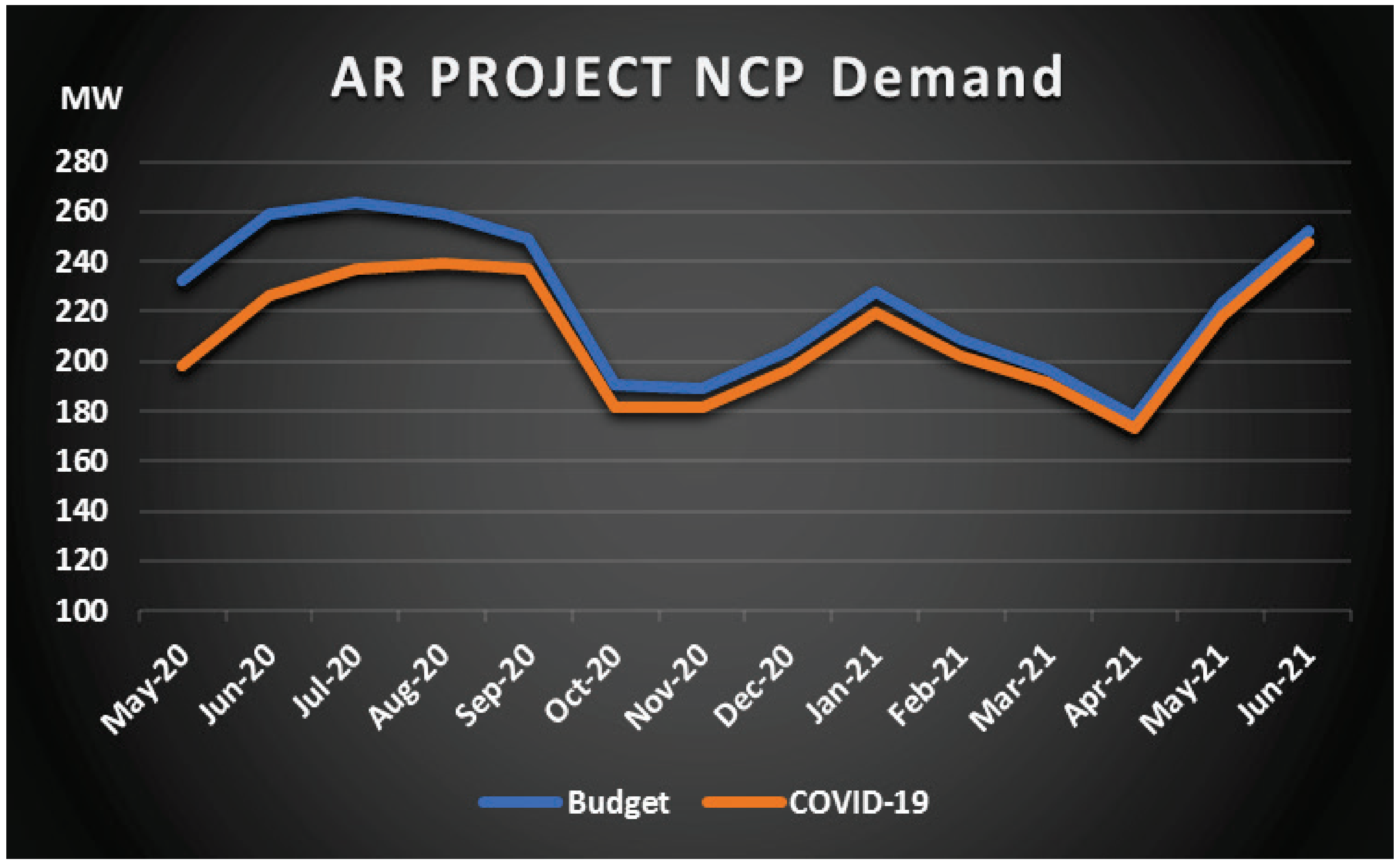
https://www.publicpower.org/periodical/article/kymea-board-oks-covid-19-rate-relief-member-late-payment-protection-plans

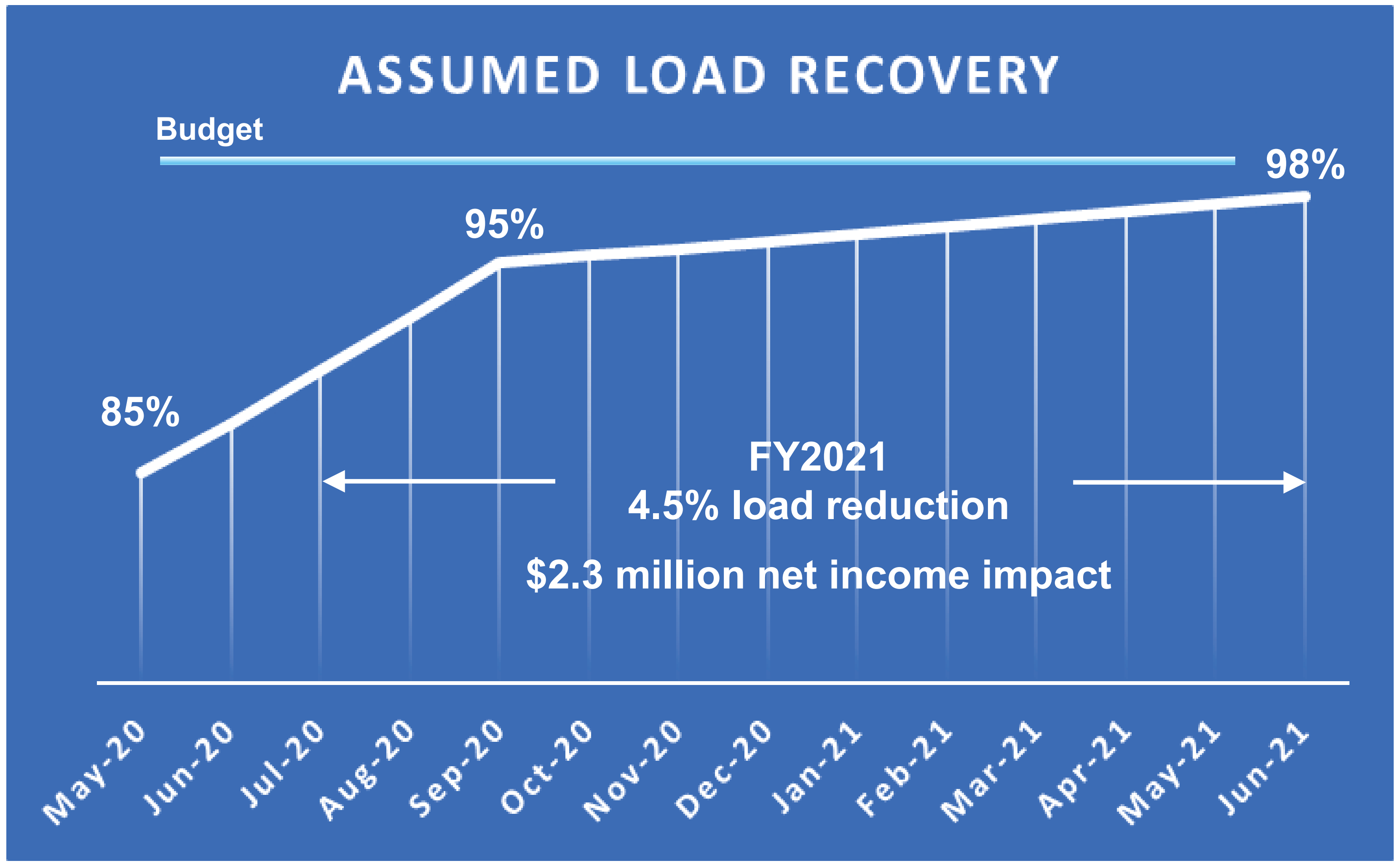
KYMEA COVID-19 Load Forecast Adjustment

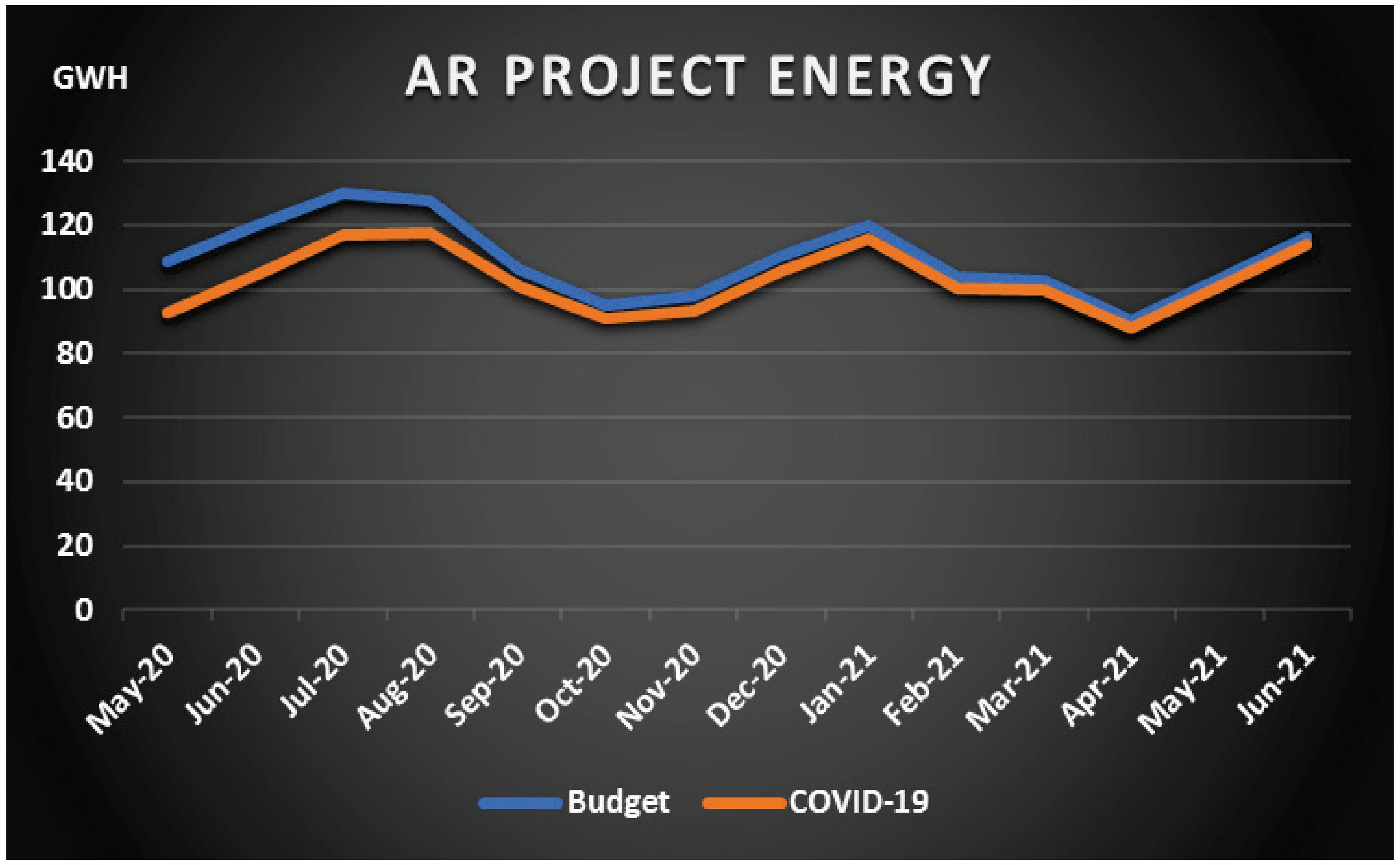
Kentucky COVID-19 Re-openings

- May 11: Office Businesses (50%)
- May 20: Retail (33%)
- May 22: Restaurants (33%)
- June 1: Movie Theaters
- June 8: Outdoor Attractions
- June 15: Youth Sports
- June 29: Bars, groups of 50 or less

https://govstatus.egov.com/ky-healthy-at-work







COVID-19 Industry News

Discussion

- ❑ **Article regarding lost COVID-19 Revenues**

Headline - Indiana utilities seeking permission to charge customers to recover revenue lost due to pandemic

- ➢ **A group of 10 Indiana utility companies is seeking permission to charge customers in an attempt to recover revenue lost during the COVID-19 pandemic.**
- ➢ **Pandemic has resulted in significantly reduced load and revenues for some utilities.**

https://energycentral.com/news/indiana-utilities-seeking-permission-charge-customers-recover-revenue-lost-due-pandemic?utm_medium=eNL&utm_campaign=DAILY_NEWS&utm_content=501143&utm_source=2020_05_18

Opposite approach of KYMEA. KYMEA is supporting its members and their customers by assuming the impact of lost revenue. The IOUs are seeking permission to recover the lost revenue.

Industry News – PJM Capacity Market

Minimum Offer Price Rule (MOPR)

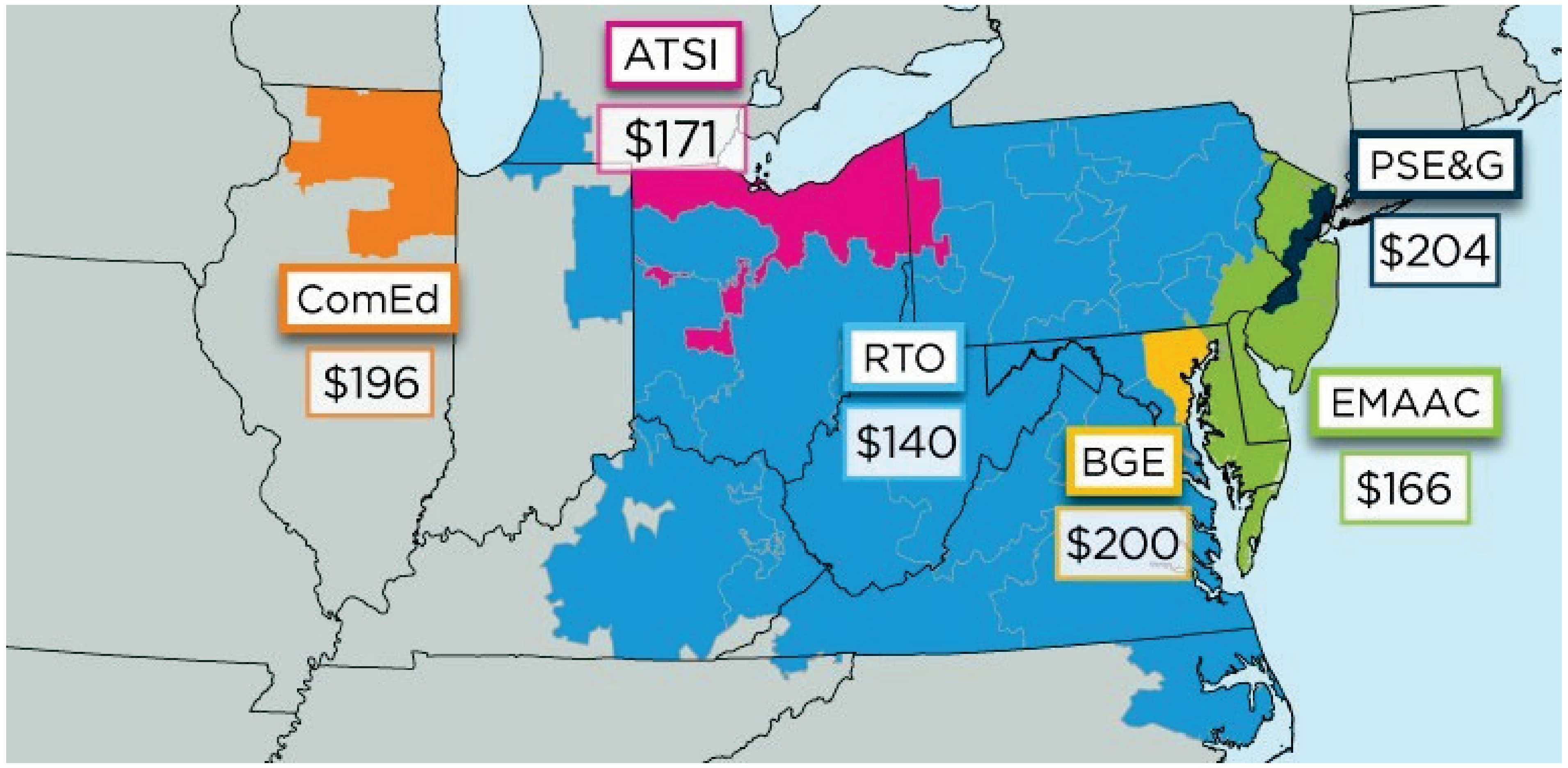
- ❑ **Issue: Certain PJM States are offering subsidies for nuclear, wind, and solar.**
- ➢ **Providing subsidies lowers the PJM resource planning auction (PRA) clearing prices.**
  - **The generators who receive the subsidies have two capacity revenue streams (state subsidy + PJM capacity market).**
  - **This enables subsidized generators to bid lower than cost recovery since they receive a subsidy.**

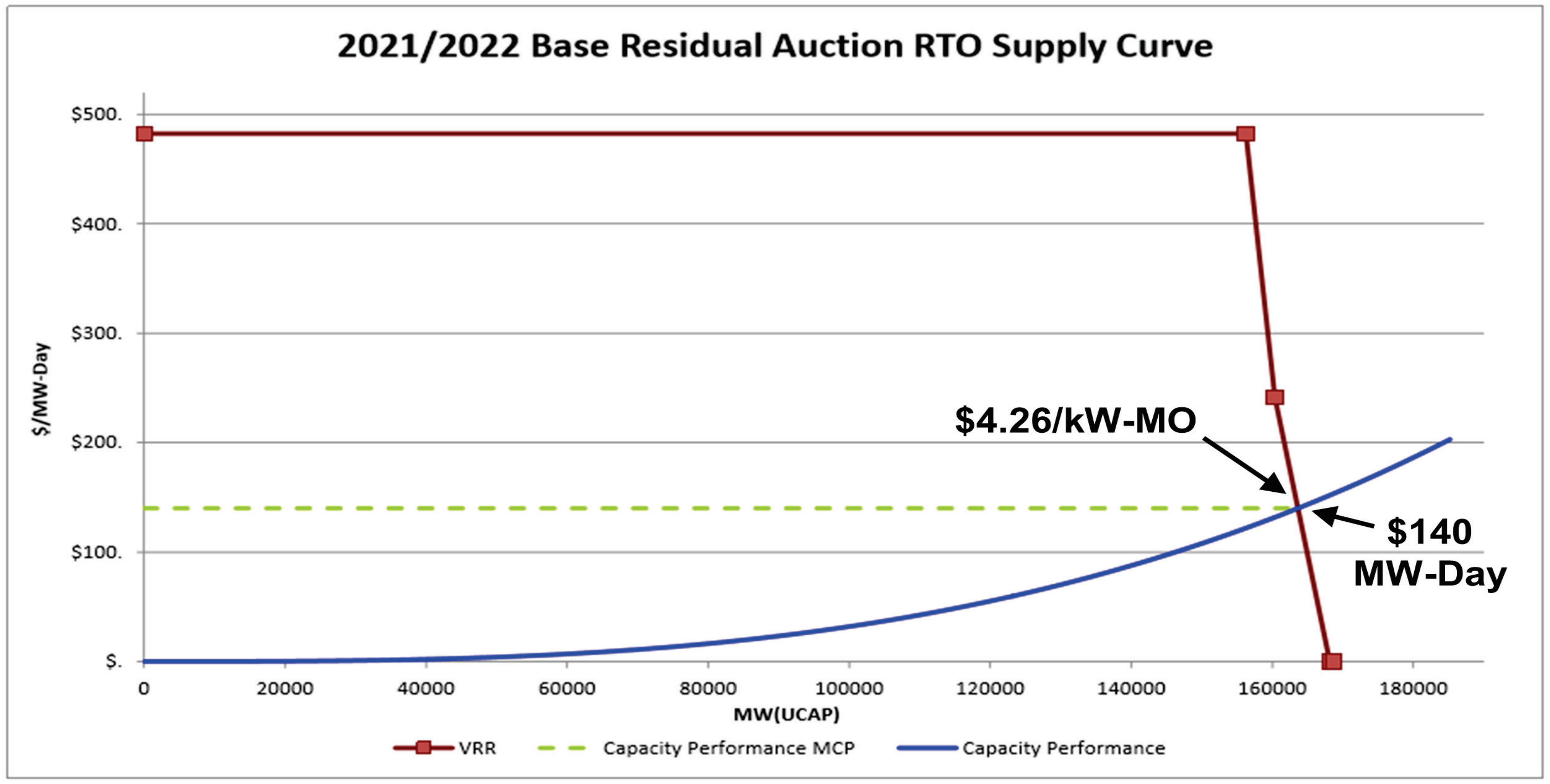
To address this issue, FERC issued a minimum offer price rule (MOPR) December 19, 2019

How the PJM Reliability Pricing Model (RPM) Works

- **Generators offer their generation into the auction at an offer price.**
- **This creates an offer curve.**
- **The intersection of the demand with the offer curve sets the market clearing price.**
- **The prices can vary by capacity region due to capacity import/export constraints.**

Capacity Market Opt Out: PJM allows utilities to opt out via Fixed Resource Requirement (FRR) if they can serve power demand with their own generation resources.





What are the Subsidies?

Subsidies (aka Out-Of-Market Solutions)

- Nuclear Power
  - Zero Emission Credits (ZECs)
  - Preserve nuclear industry jobs
  - Political influence (Illinois lobbying scandal)

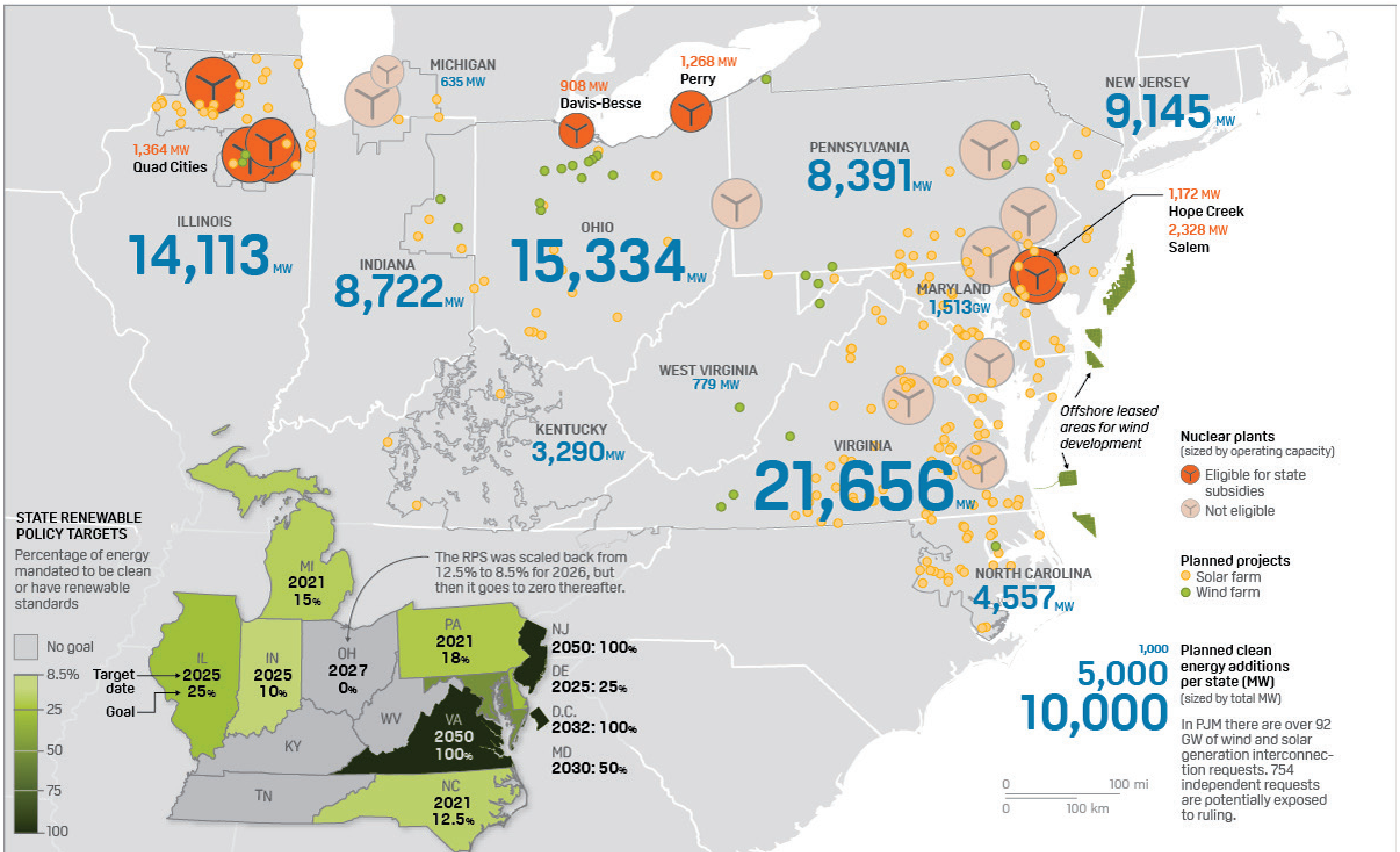
    https://energynews.us/2019/11/06/midwest/illinois-lobbying-scandal-rattles-alliance-backing-state-clean-energy-legislation

- Wind and Solar
  - Renewable Energy Certificates (RECs)
  - Political influence

PJM Generators with Out-Of-Market Payments

PJM MARKETPLACE FACES WIDESPREAD IMPACTS FROM FERC'S MOPR ORDER

The Federal Energy Regulatory Commission issued an order December 19 (EL16-49, EL18-178) designed to combat the potential price-suppressing effects of subsidized resource participation in PJM Interconnection's capacity market by expanding application of the minimum offer price rule (MOPR) to all new and existing resources in PJM that are eligible to receive state subsidies. Renewable projects close to interconnection are exempt from the MOPR and could clear in the next auction, but there is uncertainty regarding renewable energy project competiveness longer-term for non-exempt projects. The proceeding continues to unfold and the ultimate impact on state-subsidized resources is still being determined.



Sources: PJM, S&P Global Market Intelligence, S&P Global Platts; PJM Interconnection Queue

Minimum Offer Price Rule (MOPR) Floor Table

*** FERC has not yet approved the MOPR Floor Table

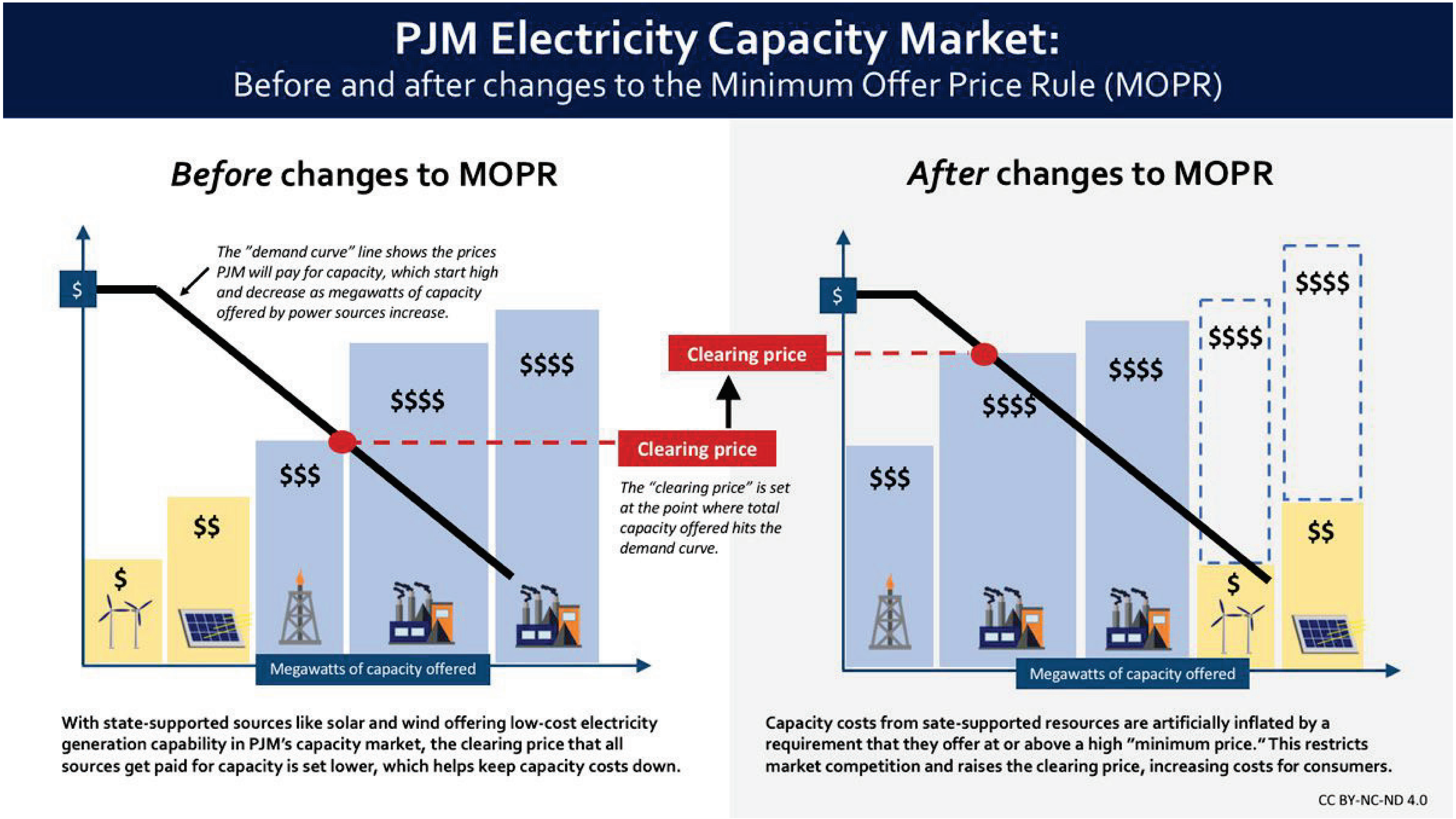
TABLE 1. *Changing proposed default bid levels for relevant resources*

RESOURCE TYPE	PRELIMINARY IMM-RECOMMENDED DEFAULT BID LEVEL $/MW-DAY[15]	PJM 2018 FILING DEFAULT BID LEVEL $/MW-DAY[16]	PJM MARCH 2020 COMPLIANCE FILING DEFAULT BID LEVEL $/MW-DAY[17]
Existing Nuclear - Single Unit	$179.79	$631	$210
Existing Nuclear - Dual Unit	$0	$593	$0
New Hydro	NA	$1,066	NA
New Pumped Hydro	NA	NA	NA
New Solar PV (Tracking)	$532.07	$387	$175
New Solar PV (Fixed)			$367
New Onshore Wind	443.89	$2,489	$1,023
New Offshore Wind	$1,741.83	$4,327	$3,146

For reference, the capacity market clearing price for the most recent PJM auction was $140/MW-day, with some zones within PJM clearing at higher prices between $165.73/MW-day and $204.29/MW-day.[18] With very few exceptions, the allowed renewable bids are above these clearing prices.

Source: Grid Strategies | May 2020

MOPR Floor Impact on Capacity Markets



APPA's Response

APPA: The MOPR Floor means that every new resource built in the future—whether it is a renewable, storage, or energy efficiency resource—will run the risk of not clearing the capacity auction (even after they have initially cleared an auction), causing public power utilities and their customers to face the risk of paying twice for that resource every year.

https://www.publicpower.org/node/18325?MessageRunDetailID=1861557592&PostID=15235474&utm_medium=email&utm_source=rasa_io

Why This Matters to KYMEA

- **The Falmouth load is in PJM**
- **In the future, it is possible KYMEA's load could be in PJM if LG&E/KU joins PJM.**
- **The FERC ruling for PJM sets precedent for other RTO's such as MISO.**

- **Further, as the baseload retirements continue to mount, ensuring resource adequacy coupled with intermittent resources (wind and solar) will need to be addressed by FERC.**