



KENTUCKY MUNICIPAL ENERGY AGENCY



KYMEA President & CEO Report

Doug Buresh

September 24, 2020

- Introduction of New Staff Accountant/Financial Analyst
- Discussion of KYMEA's first derivative instrument
 - *Summer Off-Peak Fixed-for-Floating Swap*
- DCOH/ECA Tracking
- Annual Report Update
- Ashwood Solar I Townhall
- PSC Order: COVID-19 Disconnections

Accountant/Financial Analyst

Molly Roesler



- B.S. Accounting (Spalding University)
- M.S. Exercise Physiology (U of L)
- B.S. Exercise Science (Belmont University)

Job Responsibilities

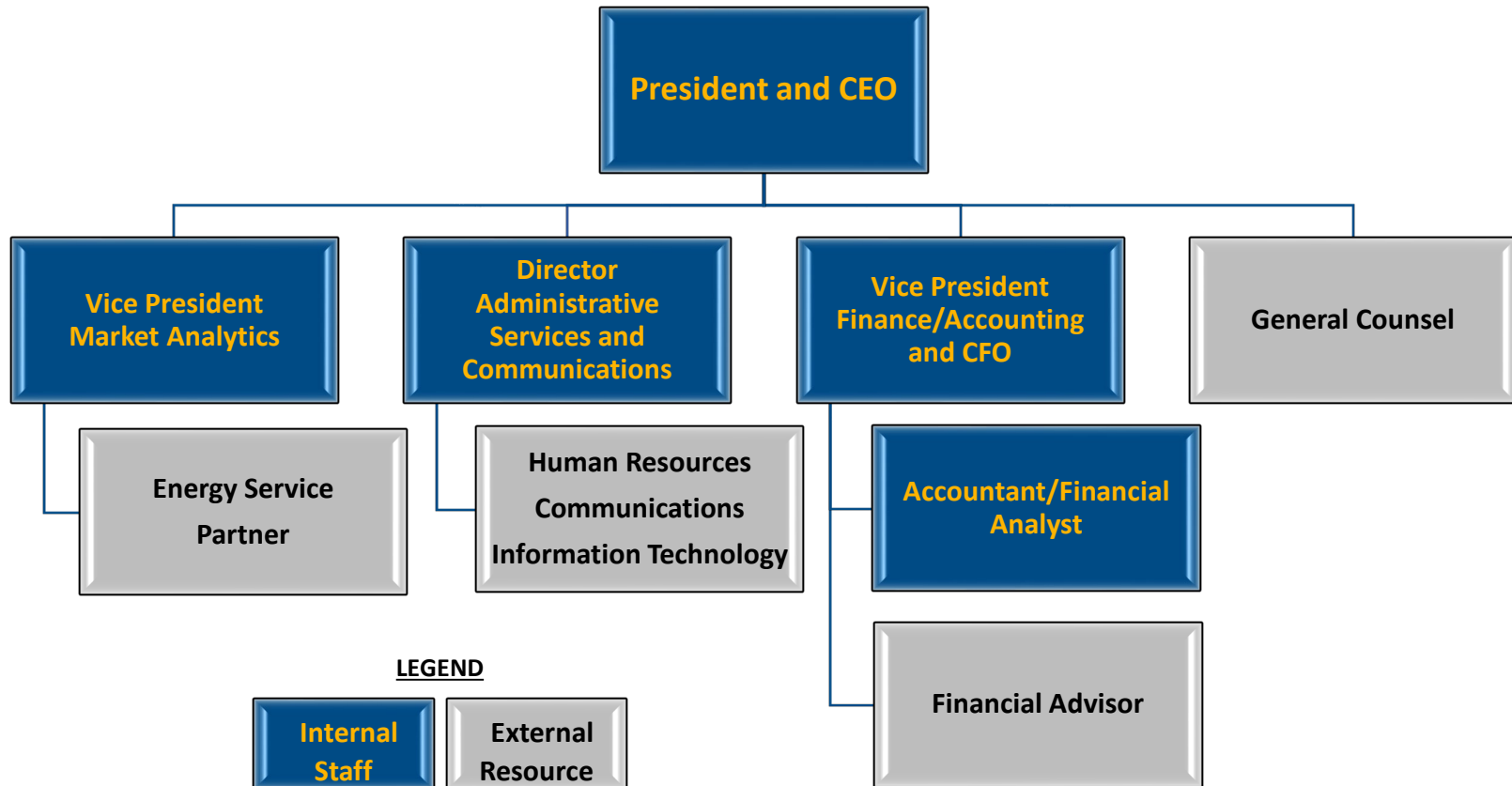
- Supports VP, Finance and Accounting & CFO
- Accounts Payable
- Bank Accounts
- Journal Entries
- Audit and 1099s
- Unclaimed Property
- Document Retention

Addresses Independent Auditor Report *Segregation of Duties* Deficiency

Segregation of Duties

We noted the Vice President of Finance and Accounting/CFO has incompatible duties within the cash outflows transaction cycle. Proper internal control would have the preparation of checks, authorization of wire transfers, and reconciliation of accounting records performed by different individuals, with these abilities being limited for any individuals with review and approval responsibilities. With the limited number of staff employed by the Agency, complete segregation of duties is challenging, however the Agency does employ mitigating controls to address some of these segregation of duties issues. We acknowledge that the Agency is currently in the process of hiring an accountant/financial analyst to further segregate duties.

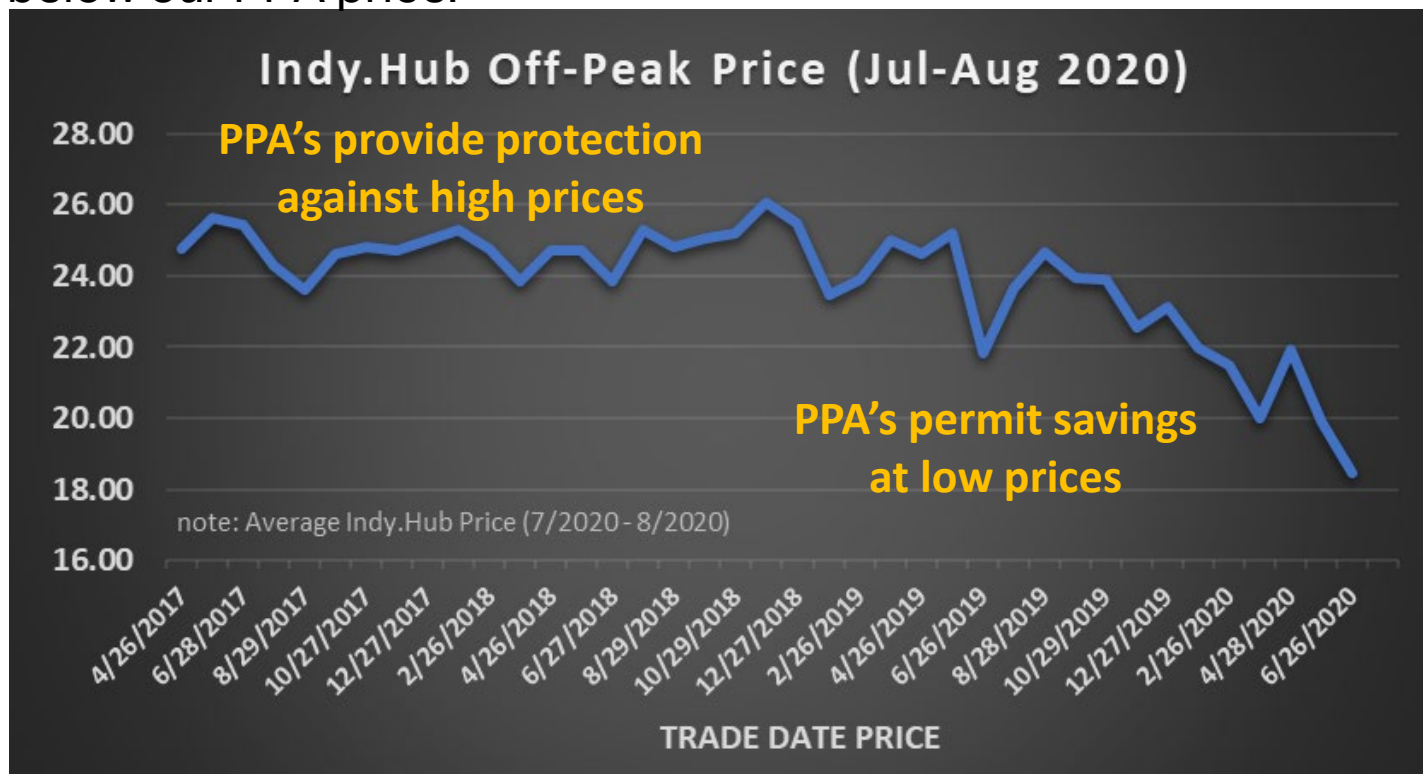
KYMEA Organizational Chart



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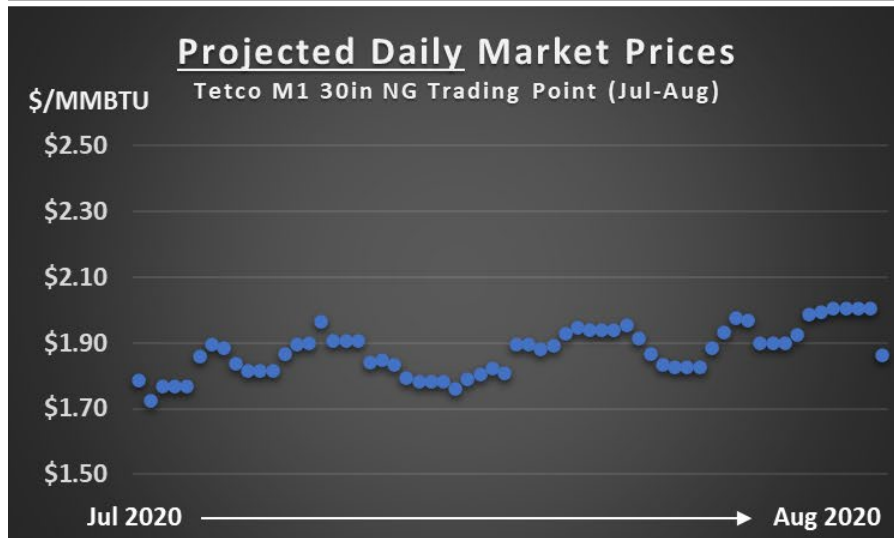
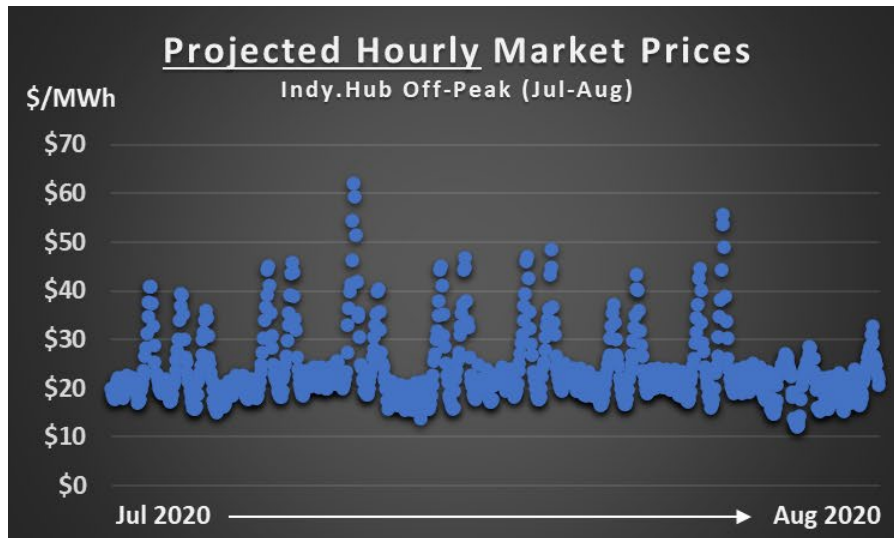
Summer Off-Peak Hedge

- The KYMEA PPA's provide optionality where the Agency can purchase from the market, if the market is cheaper while providing protection against higher prices.
- KYMEA observed that the impact of COVID-19 was driving down forward prices to the point where the summer (Jul-Aug) off-peak prices were well below our PPA price.



Projected Market Prices

June 9th 2020 Projection for Jul-Aug



KYMEA Position Report (6/9/2020)

At projected prices, the calculated off-peak hedge quantities were:

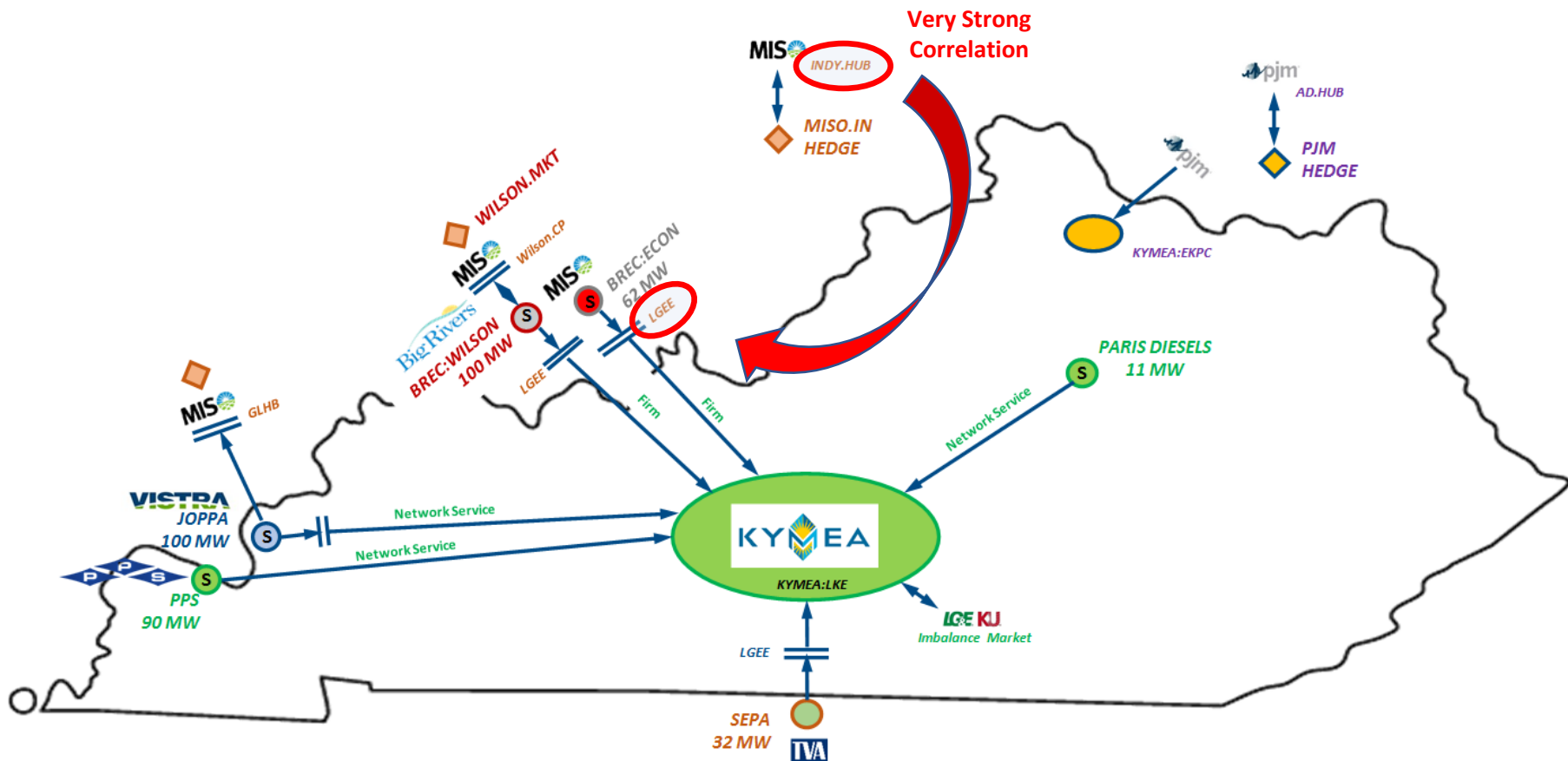
Month	Off-Peak (MW)
July	72
August	95

COVID-19 Load Impact

Given the load uncertainty from COVID-19, KYMEA decided to hedge no more than 50 MW.

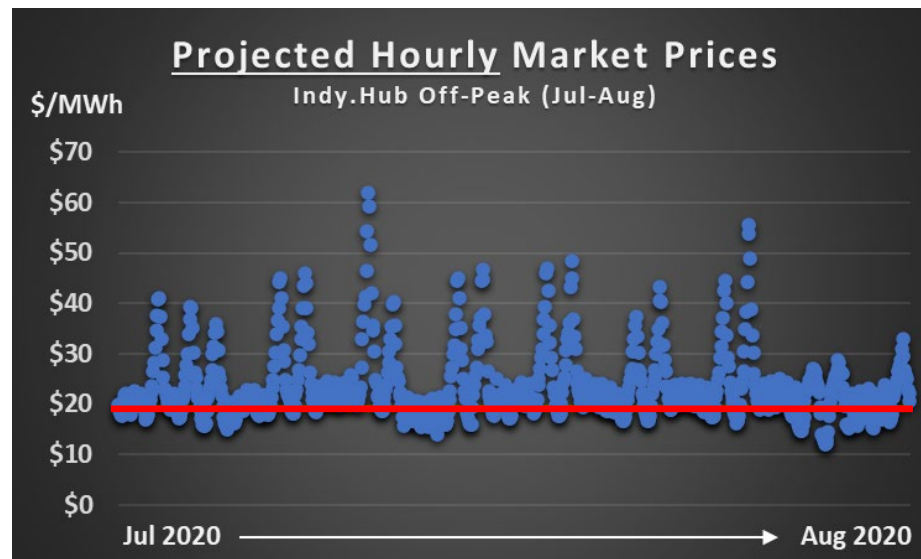
LGEE | INDY.HUB Correlation

- While KYMEA purchases MISO energy at the LGEE interface point, the MISO INDY.HUB provides far more liquidity.
- The historical (2010-2019) correlation between the LGEE and INDY.HUB is very strong (0.9960) for the Jul-Aug off-peak period.



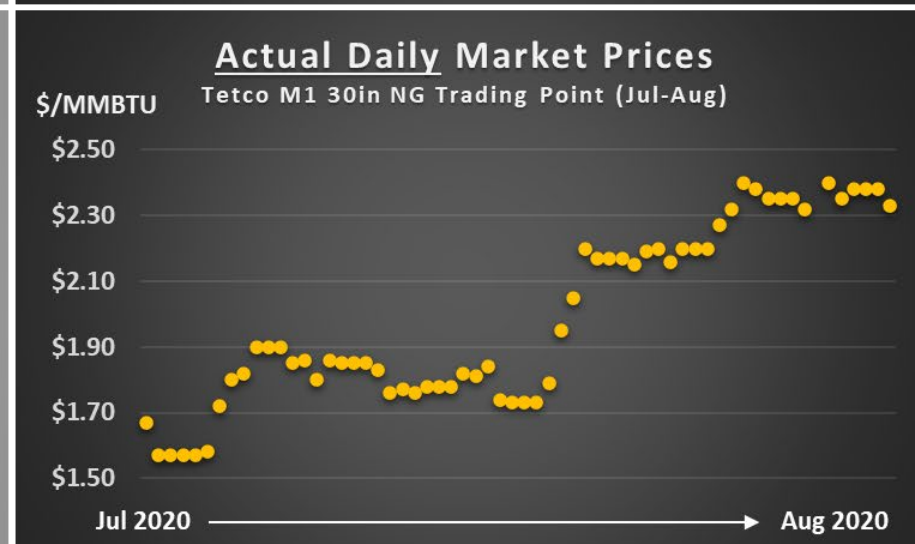
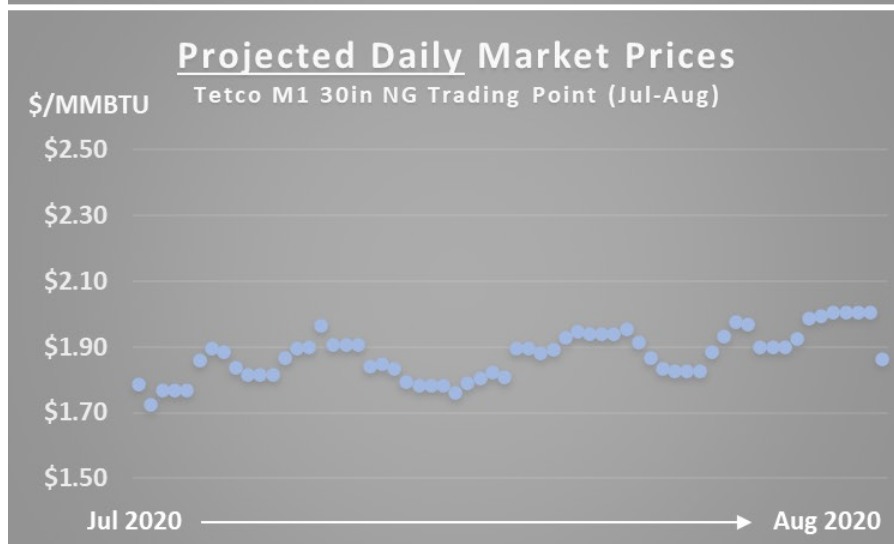
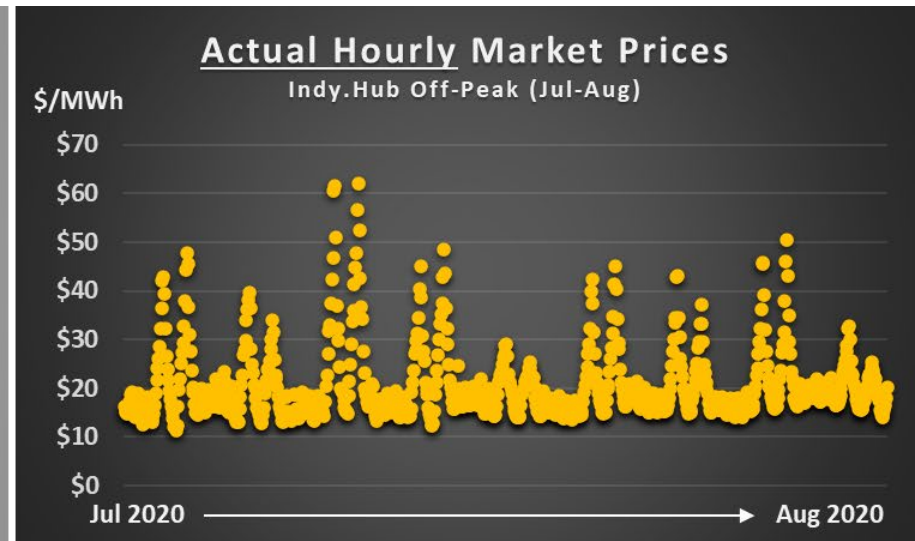
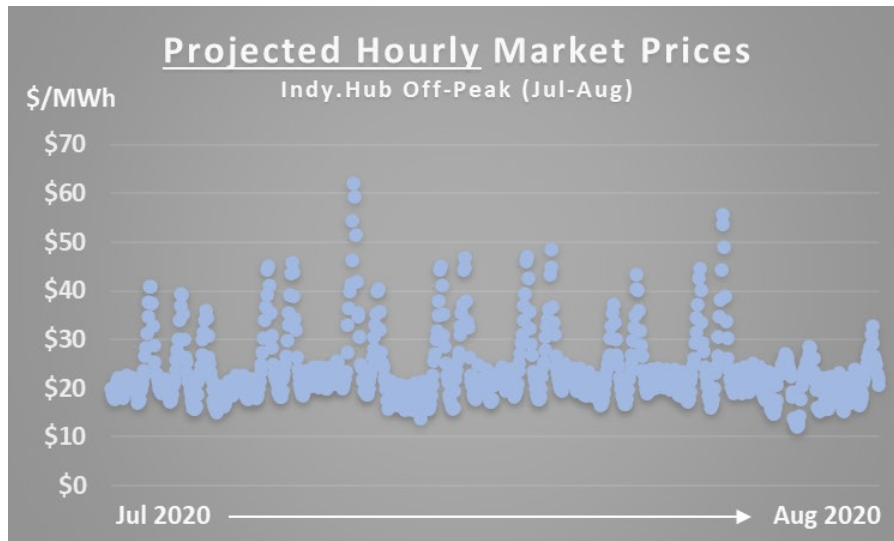
Fixed for Floating Swap (Hedge)

- **Financial Deal:** No physical delivery. No power flows.
- **The swap is settled daily at the INDY.HUB day-ahead index (settlement) price.**

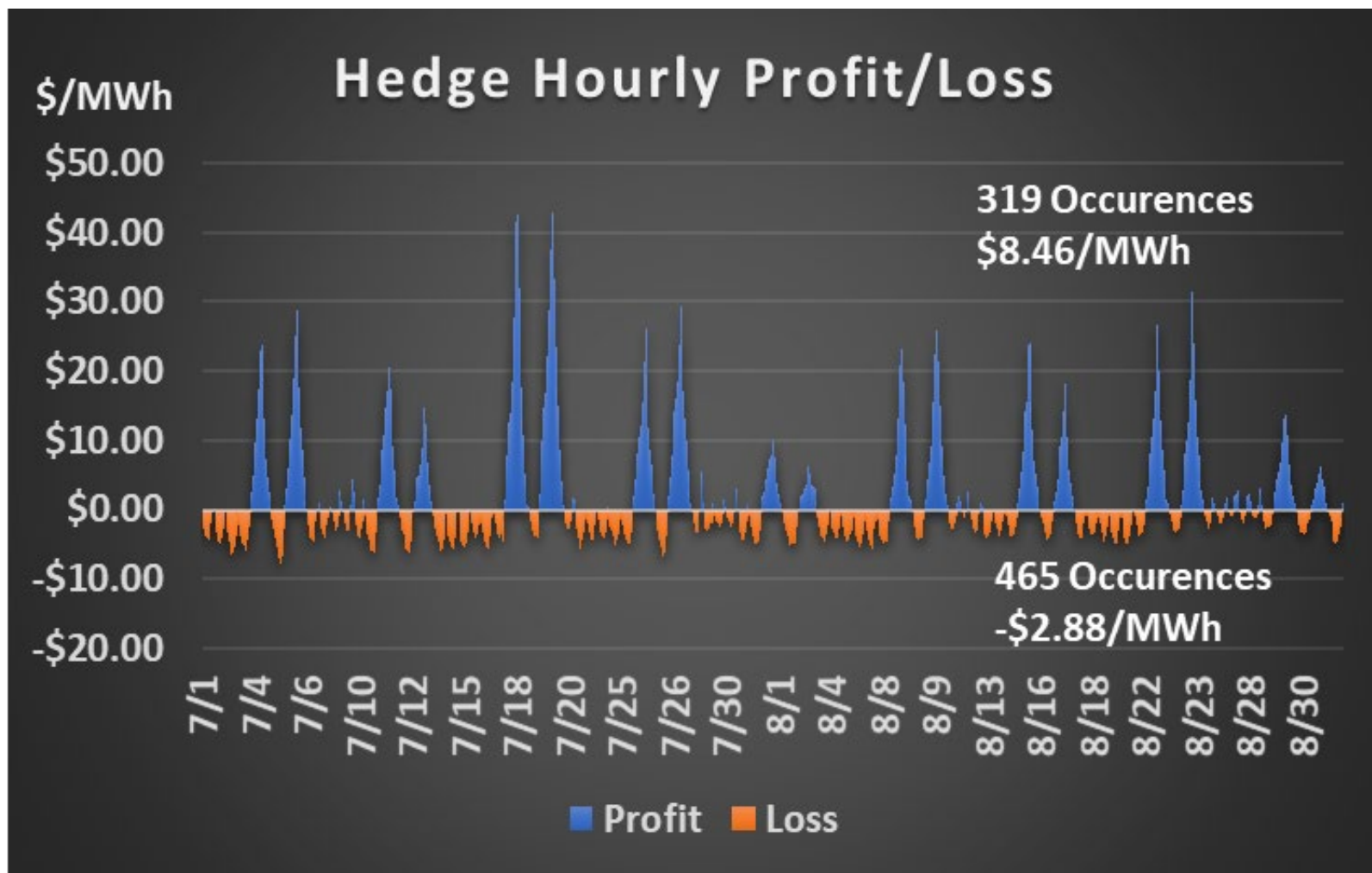


Actual Market Prices

Jul-Aug 2020 Actual

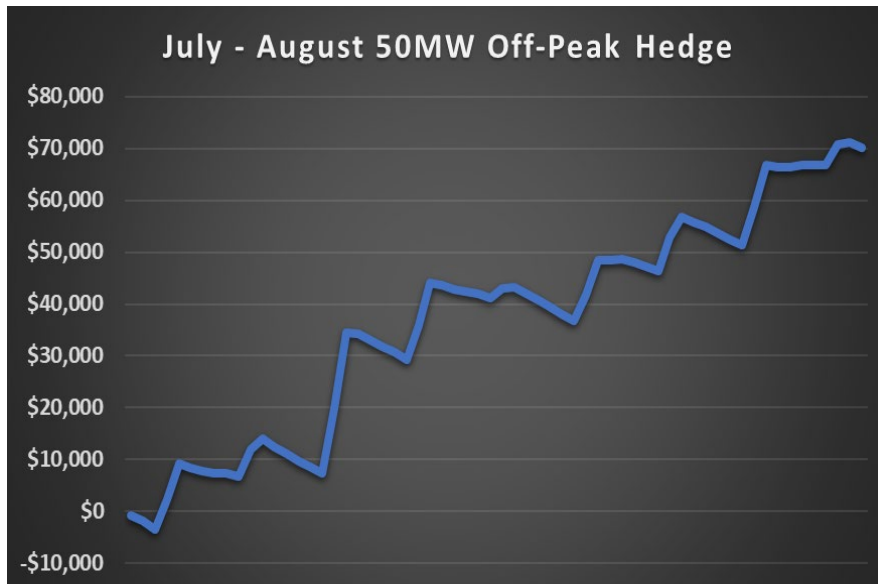


Hedge Hourly Profit/Loss



Hedge Cash Flow

- The fixed-for-floating swap is a derivative instrument and is reported as Note 5: Derivative Instruments on page 14 of the Independent Auditor's Report.
- The fair value of the swap is \$70,198.



Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2020 and 2019

Note 4: Line of Credit

In March 2019, the Agency executed a revolving line of credit agreement, expiring March 1, 2020 for advances up to \$30,000,000. This agreement was later extended to March 1, 2021. Advances under this agreement bear interest at thirty-five basis points (0.35%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$0 and \$9,032,768 as of June 30, 2020 and June 30, 2019, respectively. This agreement is collateralized by substantially all assets of the Agency and secured by a pledge of the revenues from the Agency's Contracts with the Members.

Note 5: Derivative Instruments

Objectives and Terms of Derivative Instruments

The Agency has entered into commodity swaps to hedge changes in cash flows and reduce exposure due to fluctuations in the market price of energy. These commodity swaps are considered derivative instruments under the provisions of GASB Codification Section D40, *Derivative Instruments*. The fair value of the commodity swaps are based on actual settlements at June 30, 2020.

Cash Flow Hedges – Cash flow hedges are derivative instruments associated with a hedgeable item that significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of the hedgeable item. At June 30, 2020, the positive fair value of commodity swaps considered cash flow hedges is classified as a current asset on the balance sheet, with an offsetting deferred inflow of resources for the same amount. The change in fair value of cash flow hedges was an increase of \$70,198 for 2020. The change in fair value is reflected within deferred inflows from derivative instruments in 2020.

During 2020, the Agency had pay-fixed, receive variable commodity swaps with a national energy corporation. The Agency pays the predetermined fixed price and the counterparty pays the variable price, which is based on the Indiana Hub Day-Ahead settlement price for the contractual hour. As of June 30, 2020, the counterparty was rated A- by Standard & Poor's and Baa1 by Moody's Investors Service.

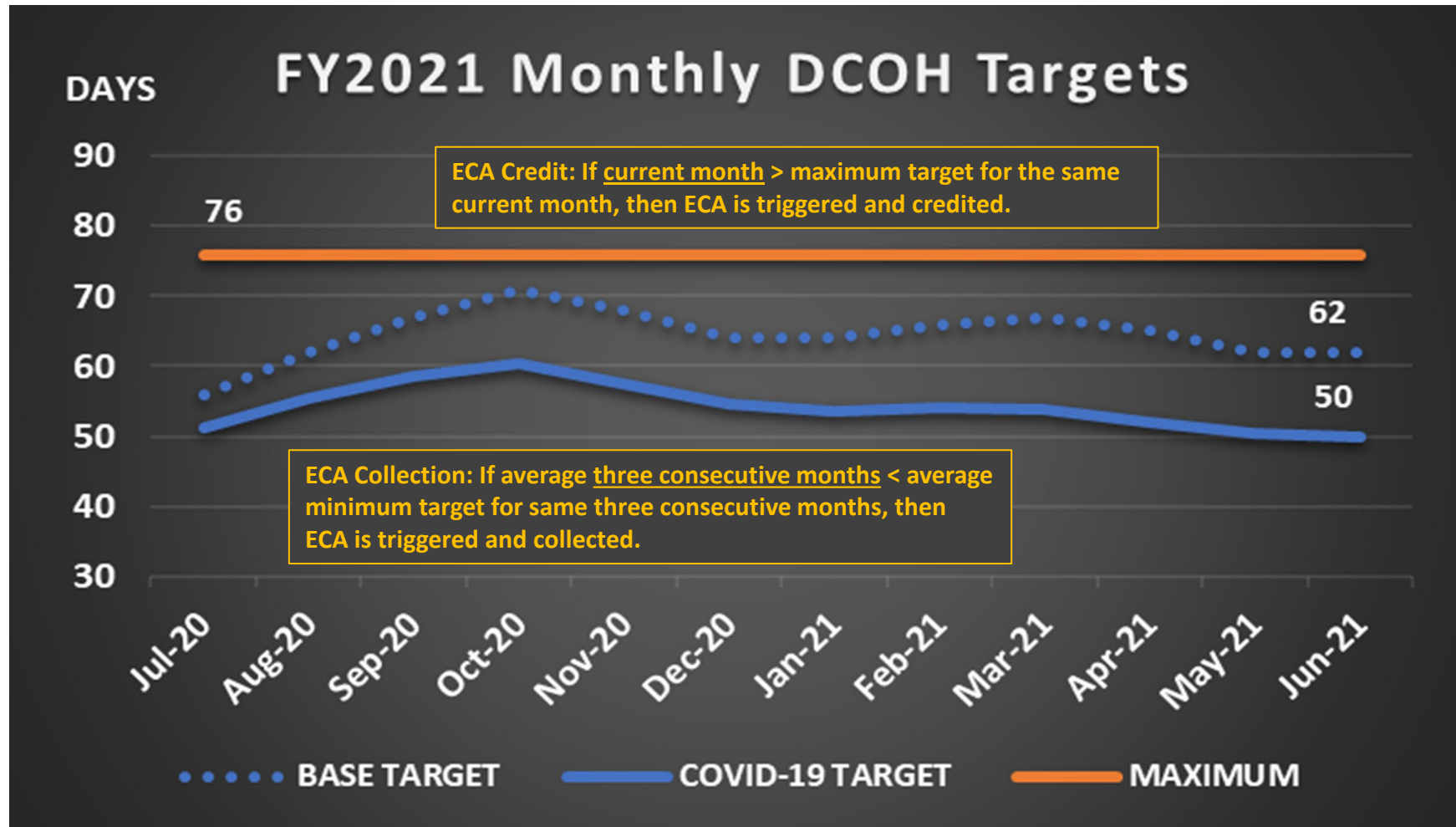
The fair value of the Agency's derivative instruments at June 30, 2020 is \$70,198.

A summary of objectives and terms of the Agency's derivative instruments at June 30, 2020, (all contracts are structured with a quantity of 19,600 MWh per contract) follows:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Price per MWh
Cash Flow Hedges:				
19,600 MWh	6/15/2020	Hourly starting 7/1/2020	Hourly through 8/31/2020	\$ 19.70
19,600 MWh	6/26/2020	7/1/2020	8/31/2020	\$ 18.50

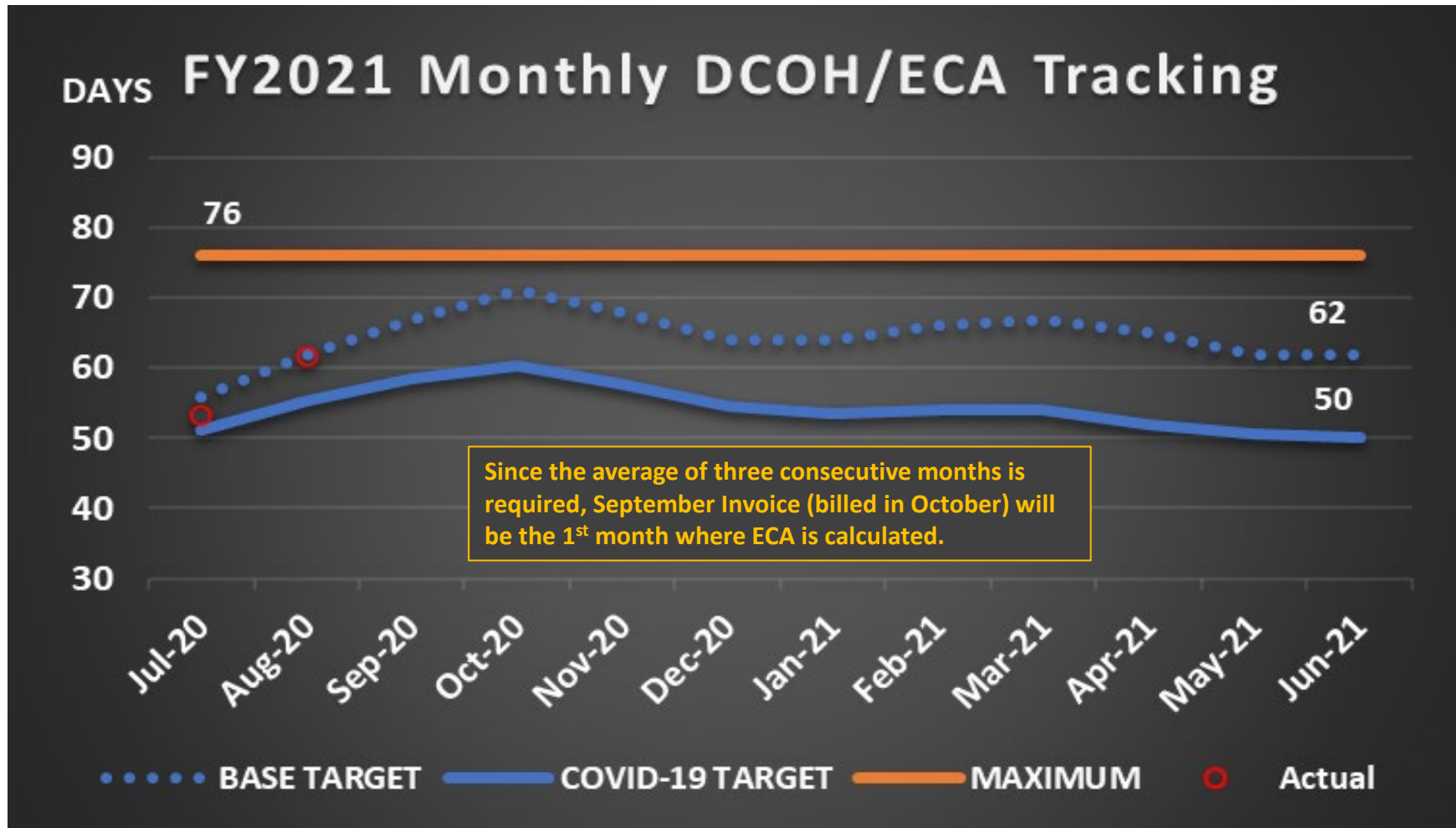
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FY2021 Budget with RRP



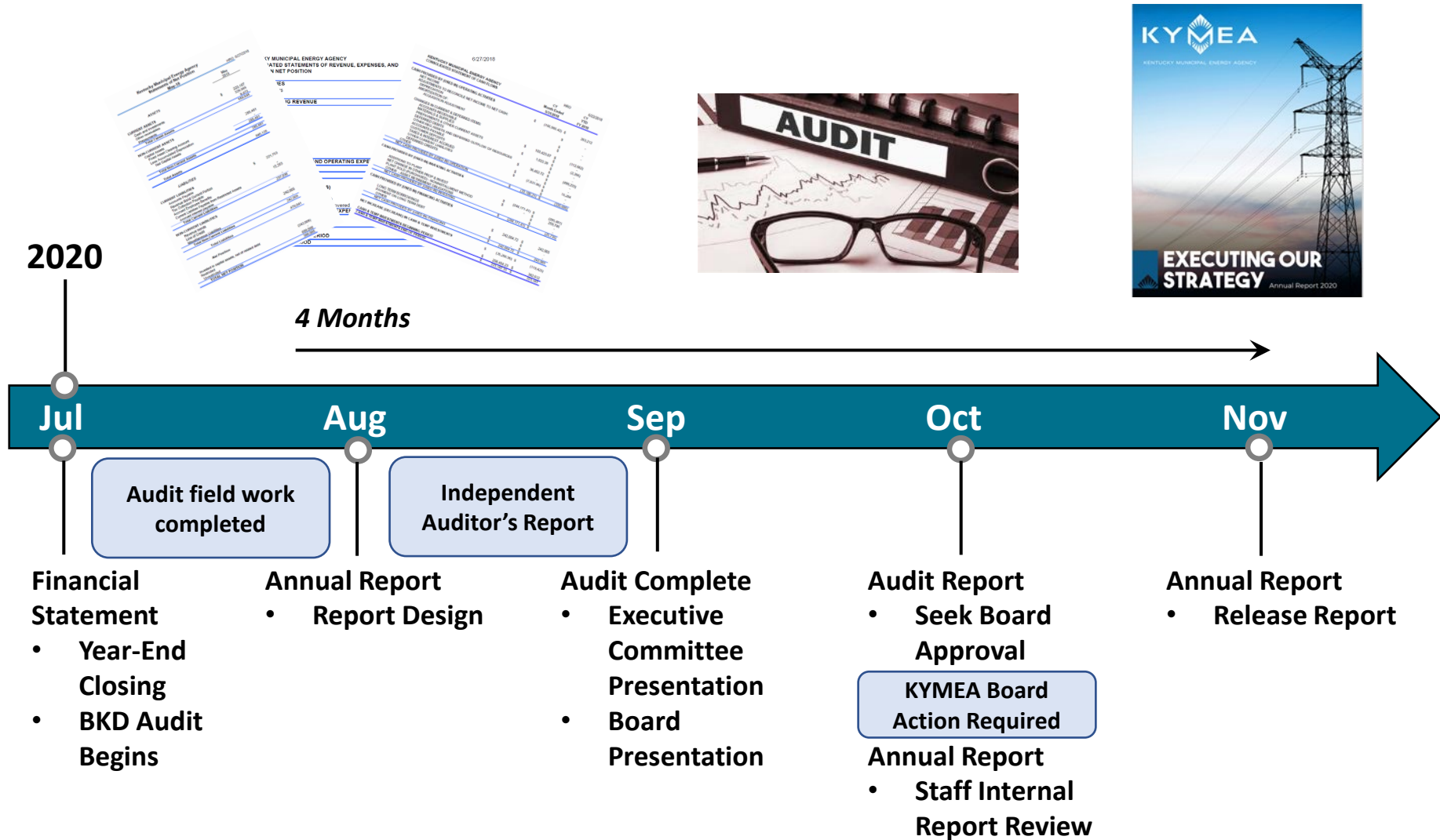
Where RRP = COVID-19 Rate Relief Plan

DCOH/ECA Tracking



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2020 Audit and Annual Report



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Ashwood Solar I Overview

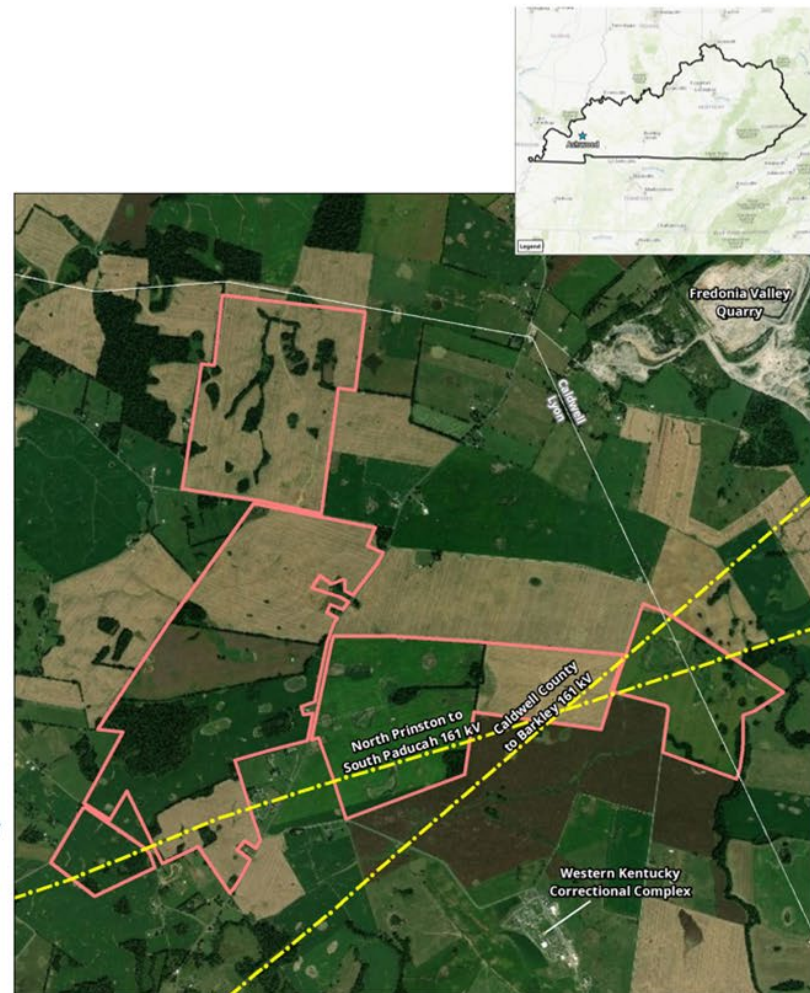
Ashwood Solar I

Summary

- Location: Lyon & Caldwell County, Kentucky
- Project Nameplate: 86 MWac
- POI: North Princeton – Livingston County 161kV
- Market: LGE-KU
- Interconnection Status: LGIA fully executed
- Offtake: 20 yr PPA
- Target NTP: Jan 2022
- Target COD: Dec 2022
- Technology: Bi-facial panels, single-axis tracker, central inverters
- Site: Leases executed on 1,680 acres of previously disturbed agricultural parcels that are currently row-cropped and have been in agricultural production for years.

Outstanding Permits:

- Kentucky State Board on Electric Generation and Transmission Siting (“Siting Board”) Approval
- Kentucky Pollutant Discharge Elimination System (“KPDES”)
- Section 401 Water Quality Certification (“WQC”) in connection with any permit issued by the U.S. Army Corps of Engineers (“USACE”) for minor disturbances of jurisdictional wetlands under Section 404 of the federal Clean Water Act (“CWA”)



Ashwood Solar I Benefits

Ashwood Solar I

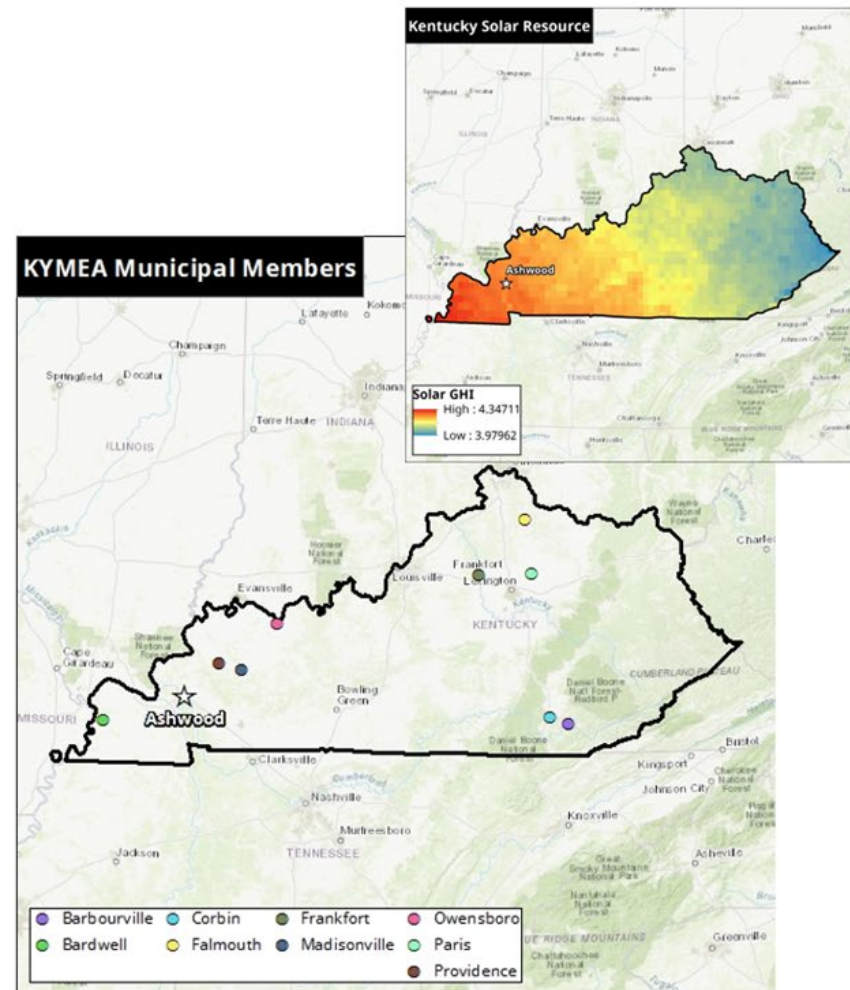
Key Benefits

- **Renewable Energy** - Project will deliver clean renewable energy for approximately 9% of KYMEA load
- **Direct jobs** - Project will create approximately 100-200 local construction jobs during 9-to-12 month construction phase.
- **Local tax revenue** - Project will implement local Industrial Revenue Bond ("IRB") to ensure tax revenue flows to local community
- **Long term lease revenue** - project will provide stable income for up to 40 years to local families participating in the project
- **Indirect impacts** - local community will benefit from the increased spending that will flow from construction activities to the local restaurants, gas stations, hotels, and other community members.

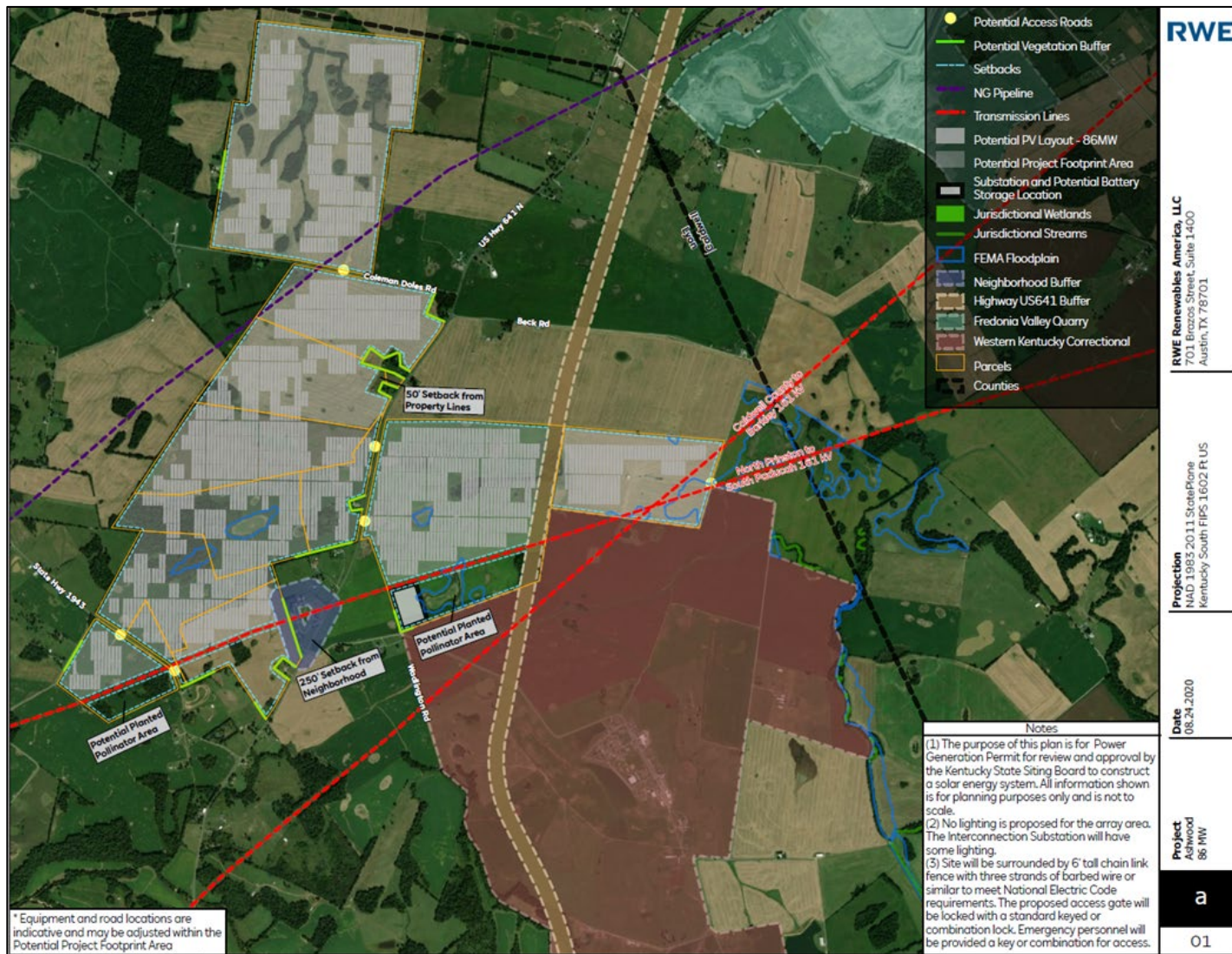
Special Considerations

- RWE is proposing vegetative screening to mitigate viewshed issues with neighboring properties
- RWE intends to use native seeding as part of our erosion control plan.
- RWE will selectively use of pollinators to enhance local habitat
- Decommissioning Bond will be put in place to ensure land is restored at end of project life
- RWE is open to pursuing local partnerships with colleges and universities to support Science, Technology, Engineering and Math (STEM) programs.

RWE



Ashwood Solar I Site Detail



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COVID-19 Disconnections

PSC Order Dated September 21, 2020

1. Beginning on October 20, 2020, PSC lifts the moratorium on utility disconnects for nonpayment.
2. PSC order continues the moratorium on the assessment of late payment charges through December 31, 2020, for residential customers only.
3. Utilities are to create payment plans for all accumulated arrearages for service rendered on or after March 16, 2020. Payment plans shall be no less than 6 months and no longer than 2 years and shall provide for the payment of a fixed equal installment over the term of the plan. "Work with customers on payment plans."
4. Utilities are to take all reasonable efforts to contact customers to convey information regarding arrearages.
5. If customer fails to maintain an "on-time" status with regard to current service or an agreed upon payment plan, the customer may be subject to disconnection beginning October 20, 2020.
6. "Carrying charges" may be applied to payment plans for any customer so long as the payment plan is for arrearages accumulated on or after March 16, 2020 and before October 1, 2020 (includes payment plans for up to 2 years in length).
7. PSC says moratorium being lifted due to the financial strain on publicly owned utilities that require income to provide service. PSC says permanent solutions are required.