



# **Board Packet**

## **October 22, 2020**



October 22, 2020	Committee Reports	Administration Reports	Discussion Topics	Action Items
	FERC Litigation Committee	CEO	2022 Budget & Rates Timeline	FY 2020 Audit Report
		Finance and Accounting	IRP Action Plan	
		Market Analytics		
		Member Communications		
November 18, 2020	Committee Reports	Administration Reports	Discussion Topics	Action Items
	Budget	CEO		IRP Action Plan
	Compensation	Finance and Accounting		
		Market Analytics		
		Member Communications		

December 16, 2020	Committee Reports	Administration Reports	Discussion Topics	Action Items
	BROC	CEO	IRP Report	CEO Compensations & Performance Bonus
	AR Project	Market Analytics		
	Budget	Member Communications		

January 28, 2021	Committee Reports	Administration Reports	Discussion Topics	Action Items
	AR Project Committee	CEO	FY 2022 Administrative, General, and Capital Budget	IRP Report
	Budget Committee	Finance and Accounting	FY 2022 AR Rates	



KENTUCKY MUNICIPAL ENERGY AGENCY

		Market Analytics	Legislative Update	
		Member Communications		

February 25, 2021	Committee Reports	Administration Reports	Discussion Topics	Action Items
	AR Project Committee	CEO	IRP Schedule	FY 2022 Administrative, General, and Capital Budget
		Market Analytics	Legislative Update	
		Member Communications	FY 2022 AR Rates	

March 25, 2021	Committee Reports	Administration Reports	Discussion Topics	Action Items
	BROC	CEO	IRP Schedule	FY 2021 AR Rates
	AR Project	Finance and Accounting	Legislation Update	FY 2021 Service Rates
		Market Analytics		
		Member Communications		

**\* This calendar is intended for planning purposes and may be changed at any time.**



KENTUCKY MUNICIPAL ENERGY AGENCY

## **Notice of the Regular Meeting of the KYMEA Board of Directors (Video Meeting)**

**Location: WebEx Video Meeting (if you would like to attend please contact [mhixon@kymea.org](mailto:mhixon@kymea.org))**

**1700 Eastpoint Pkwy Ste. 220, Louisville, KY 40223**

**Thursday, October 22, 2020, 10 AM**

### **A. Meeting Opening**

- A.1 Attendance
- A.2 Guest Introductions
- A.3 Call to Order

### **B. Meeting Minutes of the KYMEA Board of Directors**

### **C. Financial Reports**

### **D. Committee Reports**

- D.1 FERC Litigation Committee (Closed Session)

### **E. Administration Reports**

- E.1 CEO
- E.2 Market Report
- E.3 Member Communications

### **F. Discussion Topics**

- F.1 FY 2022 Budget & Rates Timeline
- F.2 IRP Action Plan

### **G. Action Items**

- G.1 FY 2020 Audit Report

### **H. Public Comments**

### **I. Upcoming Meetings & Other Business**

### **J. Closed Session**

- J.1 Litigation/Depancaking

### **K. Actions Related to Closed Session**

- K.1 None Expected

### **L. Adjournment**



# Meeting Minutes





## **Notice of the Meeting of the KYMEA Board of Directors (Video Meeting)**

**Location: WebEx Video Meeting, 1700 Eastpoint Pkwy Ste. 220, Louisville, KY 40223**

**Thursday, September 24, 2020, 10 AM**

### **A. Meeting Opening**

A.1. Attendance: Taken at 10:13 AM

#### **Present Board Members:**

Josh Callihan  
Ronald Herd  
Chris Melton  
Kevin Frizzell  
Kevin Howard  
Philip King (Present at 10:35 am)  
Susan Bishop (Alternate for Ramona Williams)  
Gary Zheng

#### **Absent Board Members:**

Carl Shoupe  
Doug Hammers  
Mike Withrow

#### **Staff Present:**

Michelle Hixon  
Heather Overby  
Doug Buresh  
Rob Leesman  
Molly Roesler

#### **Others Present:**

Abby Dobson (BKD)  
Andy McDonald  
Anna Marie Pavlik Rosen  
Arthur Dent  
Austin Horn  
Brent Sweger  
Brown Thornton  
Charles Musson



Chris Lindner (BKD)  
David Denton  
Fred Haddad  
Hance Price  
James  
John Painter  
Kevin Crump  
Latif Nurani  
Pat Pace  
Tom Trauger  
Dr. Thomas Vitolo  
Tim Lyons  
Vent Foster  
Walt

A.2. Call to Order: Chairman, Ron Herd, called the meeting to order at 10:13 AM. A quorum of board members was present, and the Board was ready to proceed with business.

## B. Meeting Minutes

B.1 Approval of the minutes of the Board of Directors on August 27, 2020.

**Motion Passed:** Approval of the August 27, 2020 meeting minutes of the Board of Directors passed with a motion by Chris Melton and second by Kevin Frizzell.

**7 Yeas - 0 Nays.**

Josh Callihan	Yes
Ronald Herd	Yes
Chris Melton	Yes
Mike Withrow	Absent
Carl Shoupe	Absent
Philip King	Absent
Kevin Frizzell	Yes
Doug Hammers	Absent
Kevin Howard	Yes
Susan Bishop	Yes
(Alternate for Ramona Williams)	
Gary Zheng	Yes



## C. Financial Reports

### B.2 Approval of the August 2020 Financial Reports

**Motion Passed:** Approval of the August 2020 financial reports passed with a motion Josh Callihan and second by Chris Melton.

### 8 Yeas - 0 Nays.

Josh Callihan	Yes
Ronald Herd	Yes
Chris Melton	Yes
Mike Withrow	Absent
Carl Shoupe	Absent
Philip King	Yes
Kevin Frizzell	Yes
Doug Hammers	Absent
Kevin Howard	Yes
Susan Bishop	Yes
(Alternate for Ramona Williams)	
Gary Zheng	Yes

## D. Committee Reports

D.1 Executive Committee Report: The Executive Committee met with the audit partners, BKD, to review the FY 2020 Audit on September 16<sup>th</sup>.

D.2 BROCC Report: The BROCC met this morning at 8:30 and discussed any agency risks and specifically the recent summer hedge that is complete and was noted in the Audit Report.

## E. Administration Reports

E.1 CEO: Doug Buresh presented the CEO report regarding the Agency's past and upcoming activities.

E.2 Member Communications: Michelle Hixon updated the Board on upcoming events and member activities.

E.3 Market Report: Heather Overby discussed the previous month's markets in relation to KYMEA.

## F. Discussion Topics

F.1 IRP Schedule: Doug Buresh reviewed the IRP schedule and reported on recent progress.



F.2 Audit Report: BKD's Chris Lindner and Abby Dobson presented the FY 2020 Audited Financials to the Board. The Board will review and staff expects to request approval at October's meeting.

F.3 Open Records Requests: Charlie Musson advised the Board of 4 open records requests that the Agency received in the past 10 days. Staff has provided the requested documents to the best of their ability. Staff expects to provide and answer to the most recent request this week.

## G. Action Items

### G.1 Transmission Service Requests

**Motion Passed:** Motion to authorize staff to submit a Transmission Service Requests for a System Impact Study in LG&E and Point-to-Point in MISO passed with a motion by Gary Zheng and a second by Josh Callihan.

### 8 Yeas - 0 Nays.

Josh Callihan	Yes
Ronald Herd	Yes
Chris Melton	Yes
Mike Withrow	Absent
Carl Shoupe	Absent
Philip King	Yes
Kevin Frizzell	Yes
Doug Hammers	Absent
Kevin Howard	Yes
Susan Bishop	Yes
(Alternate for Ramona Williams)	
Gary Zheng	Yes

## H. Public Comments

This was an opportunity for members of the public to provide input to the KYMEA Board and was limited to 5 minutes per speaker.

Andy McDonald encouraged the Board not to enter into any more fossil fuel contracts. He also let the Board know that he has hired a consultant, Dr. Thomas Vitolo, to review KYMEA's IRP process.



Dr. Thomas Vitolo encouraged the Agency to be thorough in its analysis throughout the IRP process and to post all information for public consumption. He encouraged people to view his analysis of KYMEA's not yet complete or published IRP at [www.synapse-energy.com/kymeairp](http://www.synapse-energy.com/kymeairp).

## I. Upcoming Meetings and Other Business

The next meeting is Thursday, October 22<sup>nd</sup> at 10 AM at the Louisville office.

The KYMEA Board of Directors shall hold its regular meetings on the fourth Thursday of each month, except for the months of November and December, when the regular meeting shall be held on the third Wednesday. The regular meetings shall convene and commence at 10:00 AM Eastern time on said dates. The regular meetings shall be held at the KYMEA Board Room, 1700 Eastpoint Pkwy, Suite 220, Louisville, Kentucky.

### 2020 Board Meetings

Thursday, January 23, 2020, 10:00 AM Eastern Time, KYMEA Board Room

Thursday, February 27, 2020, 10:00 AM Eastern Time, KYMEA Board Room

Thursday, March 26, 2020, CANCELLED

Thursday, April 23, 2020, 10:00 AM Eastern Time, WEBEX VIDEO CALL

Thursday, May 28, 2020, 10:00 AM Eastern Time, WEBEX VIDEO CALL

Thursday, June 25, 2020, 10:00 AM Eastern Time, WEBEX VIDEO CALL

Wednesday, July 23, 2020, 1:00 PM Eastern Time, WEBEX VIDEO CALL

Thursday, August 27, 2020, 10:00 AM Eastern Time, WEBEX VIDEO CALL

Thursday, September 24, 2020, 10:00 AM Eastern Time, WEBEX VIDEO CALL

Thursday, October 22, 2020, 10:00 AM Eastern Time, KYMEA Board Room

Wednesday, November 18, 2020, 10:00 AM Eastern Time, KYMEA Board Room

Wednesday, December 16, 2020, 10:00 AM Eastern Time, KYMEA Board Room

## J. Closed Session

Closed Session Authorization for the September 24, 2020 Board Meeting

Approval to enter into Closed Session pursuant to KRS 61.810(1)(c) for the purpose of discussing proposed, potential or pending litigation relating to KYMEA and its members relating to transmission issues and cost adjustments..

KRS 61.810(1)(c) allows for closed session for the purpose of discussing proposed, potential and pending litigation relating to the agency.



**Motion Passed:** Motion to enter into Closed Session was passed with a motion Gary Zheng and second by Philip King.

**8 Yeas - 0 Nays.**

Josh Callihan	Yes
Ronald Herd	Yes
Chris Melton	Yes
Mike Withrow	Absent
Carl Shoupe	Absent
Philip King	Yes
Kevin Frizzell	Yes
Doug Hammers	Absent
Kevin Howard	Yes
Susan Bishop	Yes
(Alternate for Ramona Williams)	
Gary Zheng	Yes

**J.1 Litigation/Depancaking**

**Motion Passed:** Motion to return to Open Session was passed with a motion Philip King and second by Chris Melton.

**8 Yeas - 0 Nays.**

Josh Callihan	Yes
Ronald Herd	Yes
Chris Melton	Yes
Mike Withrow	Absent
Carl Shoupe	Absent
Philip King	Yes
Kevin Frizzell	Yes
Doug Hammers	Absent
Kevin Howard	Yes
Susan Bishop	Yes
(Alternate for Ramona Williams)	
Gary Zheng	Yes

**K. Actions Related to Matters Discussed in Closed Session**



No actions were taken.

## L. Adjournment

**Motion Passed:** Motion to adjourn the KYMEA board meeting passed with a motion by Philip King and a second by Susan Bishop.

### 8 Yeas - 0 Nays.

Josh Callihan	Yes
Ronald Herd	Yes
Chris Melton	Yes
Mike Withrow	Absent
Carl Shoupe	Absent
Philip King	Yes
Kevin Frizzell	Yes
Doug Hammers	Absent
Kevin Howard	Yes
Susan Bishop	Yes
(Alternate for Ramona Williams)	
Gary Zheng	Yes

X

Chairperson

X

Secretary



# Financial Reports





KENTUCKY MUNICIPAL ENERGY AGENCY



# Financial Presentation

October 22, 2020

Heather Overby

# Statement of Net Position – September 2020



KENTUCKY MUNICIPAL ENERGY AGENCY

## Statements of Net Position Sep-20

HRO

	September 2020	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 13,693,032	(1)
Other receivables	7,193,978	(2)
Interest receivable	-	
Prepayments	7,415	
<b>Total Current Assets</b>	<b>20,894,425</b>	

- 1) Checking account cash
- 2) Billing to AR & Transmission service members and ancillary services

# Statement of Net Position – September 2020

## NON-CURRENT ASSETS

### Restricted Assets

Pledged collateral	2,679,746	(3)
Total Restricted Assets	2,679,746	

### Unrestricted Assets

Investment in SEDC	757
Total Unrestricted Assets	757

### Capital Assets

Fixed Asset Clearing Account	-
Office Buildout	260,238
Meters - AR Project	215,985
Meter Comm Equipment	330,672
General Plant	783,619
Construction work in progress	-
Less Accumulated Depreciation	(303,777)
Net Capital Assets	1,286,737

<b>Total Non-Current Assets</b>	<b>3,967,240</b>
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<b>Total Assets</b>	<b>24,861,665</b>
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3) Collateral represents  
\$1.9m at MISO and  
\$800k at PJM

# Statement of Net Position – September 2020

## **LIABILITIES**

### **CURRENT LIABILITIES**

Accounts Payable	\$	9,650,232	(4)
Accrued Employee Benefits		135,571	
Accrued interest payable		132	
<b>Total Current Liabilities</b>		<b>9,785,935</b>	

### **NON-CURRENT LIABILITIES**

Deferred Lease Liability		39,604	(5)
Line of Credit		-	(6)
<b>Total Non-Current Liabilities</b>		<b>39,604</b>	

<b>Total Liabilities</b>		<b>9,825,539</b>	
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## **Net Position**

Invested in capital assets, net of related debt		1,286,737	
Restricted		-	
Unrestricted		13,749,389	
<b>TOTAL NET POSITION</b>		<b>15,036,126</b>	(7)

- 4) AP represents purchased power
- 5) Deferred Lease Liability represents the difference in average monthly rent for term of office lease and actual lease payments
- 6) Line of Credit paid off in August 2019
- 7) Positive net position - LTD

# Statement Revenue, Expenses, and Changes in Net Position– September 2020

	September 2020	YTD FY21	
<b>OPERATING REVENUES</b>			
Sales to members	\$ 6,544,994	\$ 21,718,928	(8)
RTO Market Revenue	\$ 17,678	\$ 129,058	(9)
Transmission Services	78,727	229,409	(10)
Miscellaneous Revenue	-	-	
<b>TOTAL OPERATING REVENUE</b>	<b>6,641,399</b>	<b>22,077,395</b>	
<b>OPERATING EXPENSES</b>			
Transmission	659,547	2,152,756	(11)
Production	4,969,092	16,165,282	(12)
Administrative and General	210,003	610,648	
Depreciation	15,564	46,399	
<b>TOTAL PURCHASE POWER AND OPERATING EXPENSES</b>	<b>5,854,206</b>	<b>18,975,085</b>	
<b>OPERATING INCOME</b>	<b>787,193</b>	<b>3,102,310</b>	
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest expense on debt	\$ -	\$ -	
Interest income	\$ 32	\$ 1,275	
Other non-operating expenses (income)	\$ (4,040)	\$ (13,008)	
Regulatory Credit/Debit - Cost to Be Recovered	-	-	
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(4,008)</b>	<b>(11,733)</b>	
<b>CHANGE IN NET POSITION</b>	<b>783,185</b>	<b>3,090,577</b>	(13)
		\$ -	
<b>NET POSITION AT BEGINNING OF PERIOD</b>	<b>\$ 14,252,941</b>	<b>\$ 11,945,549</b>	
<b>NET POSITION AT END OF PERIOD</b>	<b>\$ 15,036,126</b>	<b>\$ 15,036,126</b>	

- 8) Sales to AR Members
- 9) RTO Auction Revenue Rights
- 10) Sales of transmission and ancillary services
- 11) Transmission from MISO, PJM, and KU net of depancaking credit
- 12) All purchased power including PPA, ITO, and SEPA
- 13) Positive Net Income

# Indirect Statement of Cash Flows – September 2020

CONSOLIDATED STATEMENT OF CASH FLOWS	CY Month Ended 9/30/2020	CY YTD FY 2021	
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
NET INCOME	\$ 783,185	\$ 3,090,577	(14)
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH:			
DEPRECIATION	\$ 15,564	\$ 46,399	
CHANGES IN CURRENT & DEFERRED ITEMS:			
ACCOUNTS RECEIVABLE	\$ 865,578	\$ 426,268	
PREPAYMENTS & OTHER CURRENT ASSETS	\$ 1,236	\$ 3,708	
DEFERRED DEBITS	\$ -	\$ -	
OTHER REG ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ -	\$ -	
ACCOUNTS PAYABLE	\$ (1,070,698)	\$ 1,178,852	(15)
COLLATERAL DEPOSITS	\$ -	\$ -	
TAXES & INTEREST ACCRUED	\$ 1,101	\$ 1,637	
OTHER CURRENT LIABILITIES	\$ 5,043	\$ 20,079	
DEFERRED CREDITS	\$ 314	\$ 943	
OTHER	\$ -	\$ -	
NET CASH PROVIDED BY (USED IN) OPERATION	\$ 601,322	\$ 4,768,462	
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>			
ADDITIONS TO PLANT	\$ (5,159)	\$ (15,764)	
NET CHANGE IN OTHER PROP & INVEST	\$ (32)	\$ (1,275)	
OTHER - ASSET RETIREMENT OBLIGATIONS	\$ -	\$ -	
NET CASH PROVIDED BY (USED IN) INVESTING	\$ (5,192)	\$ (17,039)	
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>			
LONG TERM BORROWINGS	\$ -	\$ -	
OTHER	\$ -	\$ -	
NET CASH PROVIDED BY (USED IN) FINANCING	\$ -	\$ -	
<b>NET INCREASE (DECREASE) IN CASH &amp; TEMP INVESTMENTS</b>	\$ 596,130	\$ 4,751,422	
<b>CASH &amp; TEMP INVESTMENTS BEGINNING PERIOD</b>	\$ 13,096,901	\$ 8,941,609	
<b>CASH &amp; TEMP INVESTMENTS END OF PERIOD</b>	\$ 13,693,032	\$ 13,693,032	(16)

14) Net Income

15) Timing of Accounts Payable has largest effect of operational items on cash

16) Cash balance in checking account

# Financial Metrics – September 2020



## KEY FINANCIAL METRICS

FY2021 Actuals Through September 2020

Days Cash on Hand

65.03 ▲

Target: 67.00

Leverage

6.96 ▼

Target: 7.08

Coverage of Full Obligations

1.06 ▲

Target: 1.03

Debt Service Coverage

1.06 ▲

Target: 1.04



# Financial Metrics – September 2020

## Days Cash On Hand

Financial flexibility - the number of days KYMEA can pay its operating expenses with the given cash available.

**\$13.7M**

Unrestricted Cash

\$12.8M EOY Projection

**\$210,576**

Adjusted Operating Expense per Day

\$76.86M / 365 days

**65.03**

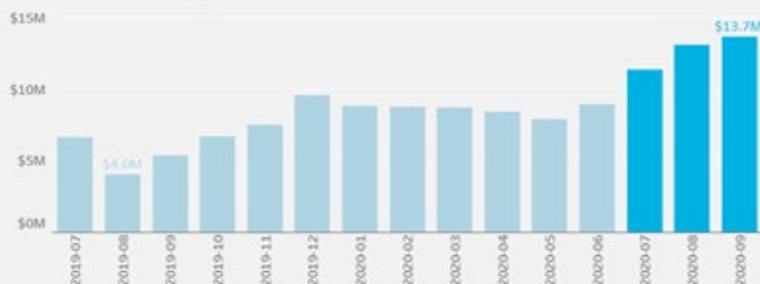
Days Cash on Hand

Target: 67.00

Unrestricted Cash

Adjusted Operating Expenses

### Cash on Hand through Current Month



## Days Cash On Hand

Financial flexibility - the number of days KYMEA can pay its operating expenses with the given cash available.

**\$13.7M**

Unrestricted Cash

\$12.8M EOY Projection

**\$210,576**

Adjusted Operating Expense per Day

\$76.86M / 365 days

**65.03**

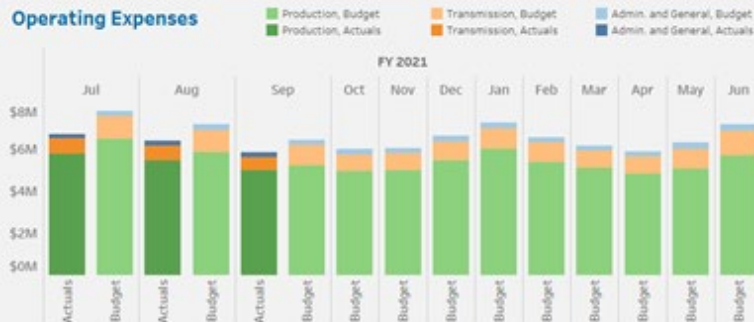
Days Cash on Hand

Target: 67.00

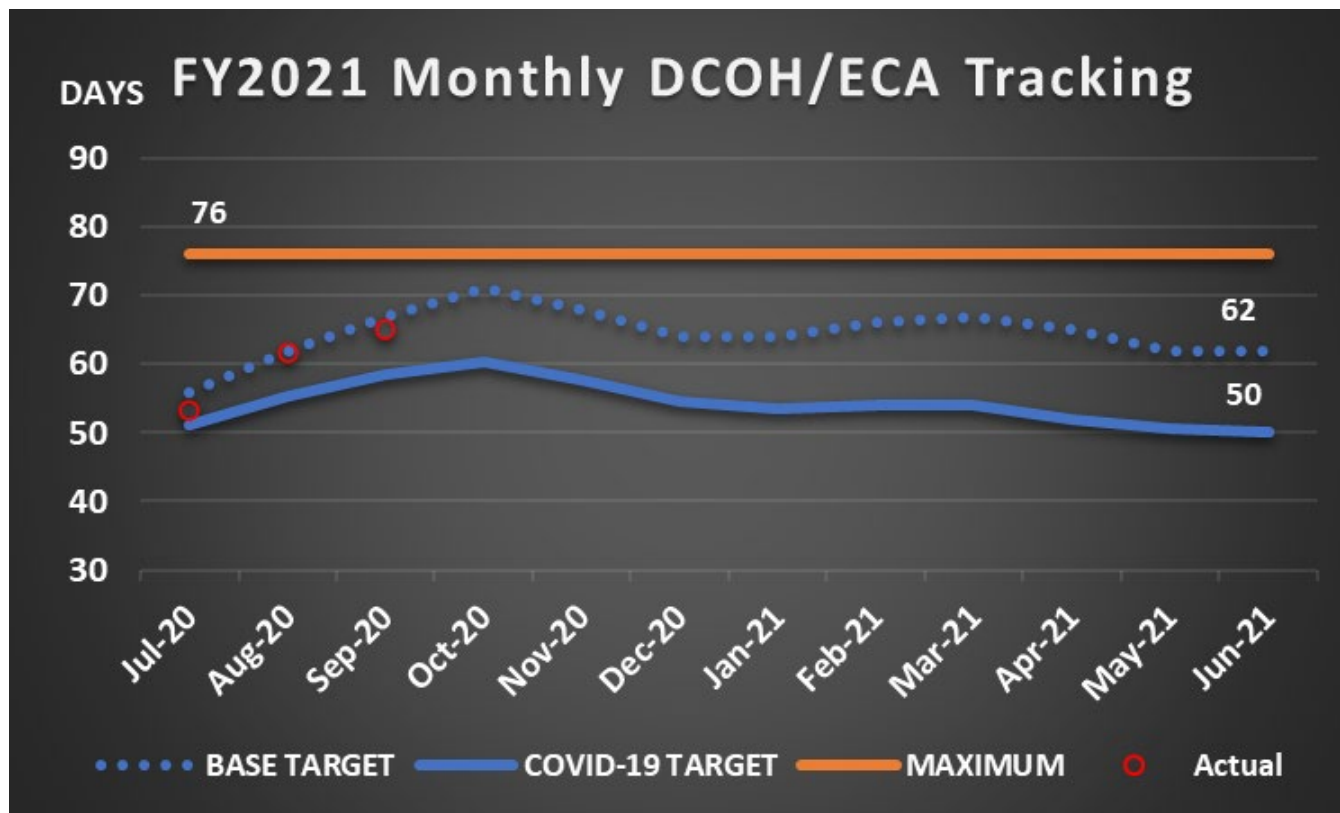
Unrestricted Cash

Adjusted Operating Expenses

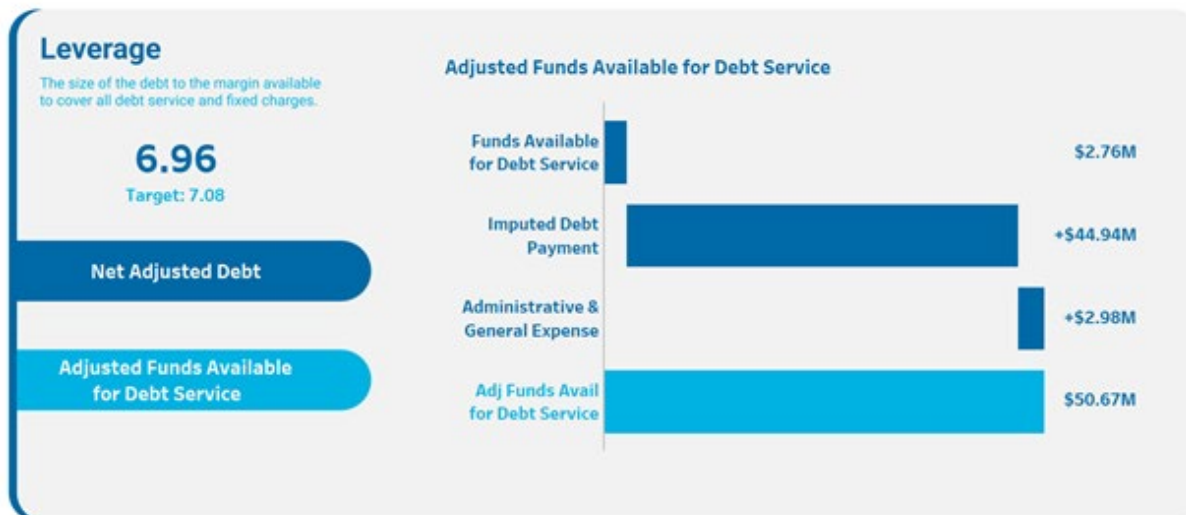
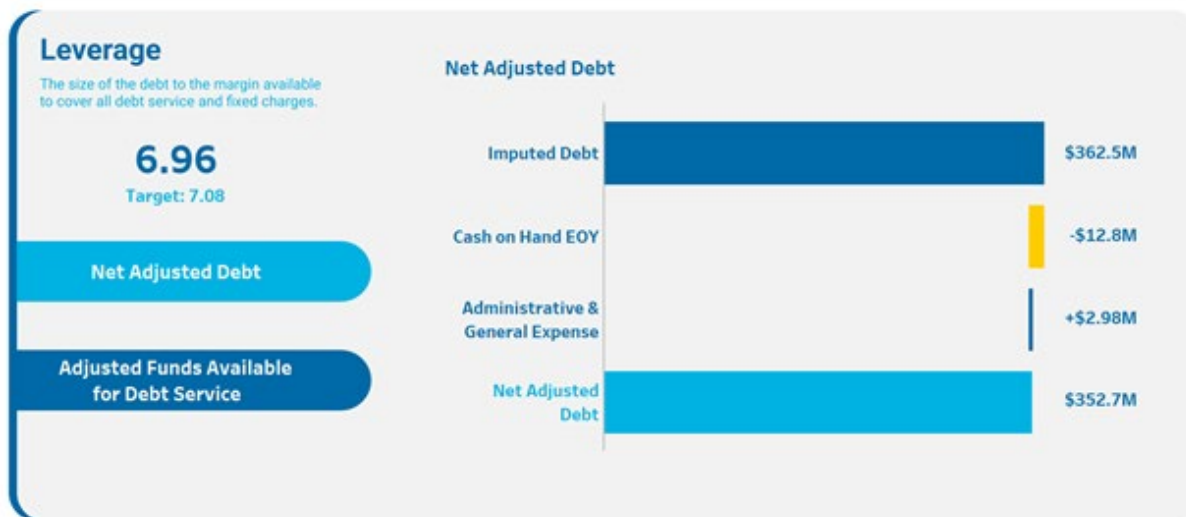
### Operating Expenses



# Financial Metrics – September 2020



# Financial Metrics – September 2020



# Financial Metrics – September 2020

## Coverage of Full Obligations

1.06

The funds available from operations to cover current debt service and fixed charges requirements.

Target: 1.03

Funds Available for Debt Service ÷ Total Debt Service & Fixed Charges

Imputed Debt Payment

\$44.94M

Administrative & General Expense

\$2.98M

EBITDA & Interest Income

\$2.76M

## Debt Service Coverage

1.06

The funds available from operations to cover current debt service.

Target: 1.04

Funds Available for Debt Service ÷ Total Debt Service

Imputed Debt Payment

\$44.94M

EBITDA & Interest Income

\$2.76M



KENTUCKY MUNICIPAL ENERGY AGENCY

**Statements of Net Position**  
**Sep-20**

HRO

	September 2020
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 13,693,032
Other receivables	7,193,978
Interest receivable	-
Prepayments	7,415
<b>Total Current Assets</b>	<b>20,894,425</b>
<b>NON-CURRENT ASSETS</b>	
Restricted Assets	
Pledged collateral	2,679,746
<b>Total Restricted Assets</b>	<b>2,679,746</b>
Unrestricted Assets	
Investment in SEDC	757
<b>Total Unrestricted Assets</b>	<b>757</b>
Capital Assets	
Fixed Asset Clearing Account	-
Office Buildout	260,238
Meters - AR Project	215,985
Meter Comm Equipment	330,672
General Plant	783,619
Construction work in progress	-
Less Accumulated Depreciation	(303,777)
<b>Net Capital Assets</b>	<b>1,286,737</b>
<b>Total Non-Current Assets</b>	<b>3,967,240</b>
<b>Total Assets</b>	<b>24,861,665</b>



KENTUCKY MUNICIPAL ENERGY AGENCY

**Statements of Net Position**  
**Sep-20**

HRO

September  
2020

***LIABILITIES***

**CURRENT LIABILITIES**

Accounts Payable	\$	9,650,232
Accrued Employee Benefits		135,571
Accrued interest payable		132
<b>Total Current Liabilities</b>		<b>9,785,935</b>

**NON-CURRENT LIABILITIES**

Deferred Lease Liability	39,604
Line of Credit	-
<b>Total Non-Current Liabilities</b>	<b>39,604</b>

**Total Liabilities** 9,825,539

***Net Position***

Invested in capital assets, net of related debt	1,286,737
Restricted	-
Unrestricted	13,749,389
<b>TOTAL NET POSITION</b>	<b>15,036,126</b>



KENTUCKY MUNICIPAL ENERGY AGENCY

HRO

**CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND  
CHANGES IN NET POSITION**

	September 2020	YTD FY21
<b>OPERATING REVENUES</b>		
Sales to members	\$ 6,544,994	\$ 21,718,928
RTO Market Revenue	\$ 17,678	\$ 129,058
Transmission Services	78,727	\$ 229,409
Miscellaneous Revenue	-	\$ -
<b>TOTAL OPERATING REVENUE</b>	<b>6,641,399</b>	<b>22,077,395</b>
<b>OPERATING EXPENSES</b>		
Transmission	659,547	\$ 2,152,756
Production	4,969,092	\$ 16,165,282
Administrative and General	210,003	\$ 610,648
Depreciation	15,564	\$ 46,399
<b>TOTAL PURCHASE POWER AND OPERATING EXPENSES</b>	<b>5,854,206</b>	<b>18,975,085</b>
		-
<b>OPERATING INCOME</b>	<b>787,193</b>	<b>3,102,310</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest expense on debt	\$ -	\$ -
Interest income	\$ 32	\$ 1,275
Other non-operating expenses (income)	\$ (4,040)	\$ (13,008)
Regulatory Credit/Debit - Cost to Be Recovered	-	\$ -
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(4,008)</b>	<b>(11,733)</b>
<b>CHANGE IN NET POSITION</b>	<b>783,185</b>	<b>3,090,577</b>
		\$ -
<b>NET POSITION AT BEGINNING OF PERIOD</b>	<b>\$ 14,252,941</b>	<b>\$ 11,945,549</b>
<b>NET POSITION AT END OF PERIOD</b>	<b>\$ 15,036,126</b>	<b>\$ 15,036,126</b>



KENTUCKY MUNICIPAL ENERGY AGENCY

HRO

CONSOLIDATED STATEMENT OF CASH FLOWS	CY Month Ended 9/30/2020	CY YTD FY 2021
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
NET INCOME	\$ 783,185	\$ 3,090,577
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH:		
DEPRECIATION	\$ 15,564	\$ 46,399
CHANGES IN CURRENT & DEFERRED ITEMS:		
ACCOUNTS RECEIVABLE	\$ 865,578	\$ 426,268
PREPAYMENTS & OTHER CURRENT ASSETS	\$ 1,236	\$ 3,708
DEFERRED DEBITS	\$ -	\$ -
OTHER REG ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ -	\$ -
ACCOUNTS PAYABLE	\$ (1,070,698)	\$ 1,178,852
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NET CASH PROVIDED BY (USED IN) INVESTING	\$ (5,192)	\$ (17,039)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
LONG TERM BORROWINGS	\$ -	\$ -
OTHER	\$ -	\$ -
NET CASH PROVIDED BY (USED IN) FINANCING	\$ -	\$ -
<b>NET INCREASE (DECREASE) IN CASH &amp; TEMP INVESTMENTS</b>	\$ 596,130	\$ 4,751,422
<b>CASH &amp; TEMP INVESTMENTS BEGINNING PERIOD</b>	\$ 13,096,901	\$ 8,941,609
<b>CASH &amp; TEMP INVESTMENTS END OF PERIOD</b>	\$ 13,693,032	\$ 13,693,032



Reconciliation Transactions Report

10/14/20 11:39:33 AM

09/01/20-10/01/20 131.00 CASH

User Id: 2014

Statement Ending Balance :	13,655,965.73
Outstanding Payments(-) :	73,624.60
Adjustments in Transit(+) :	.00
Deposits in Transit(+) :	.00
Adjusted Bank Balance :	<div><div></div><div>13,582,341.13</div></div>
Book Balance :	13,582,341.13
Pending Adjustments :	.00
Adjusted Book Balance :	<div><div></div><div>13,582,341.13</div></div>
Difference :	.00

# Committee Reports

## D. Committee Reports

### D.1 FERC Litigation Committee (closed session)



# Administration Reports

## E. Administration Reports

E.1 CEO

E.2 Member Communications

E.3 Market Report





KENTUCKY MUNICIPAL ENERGY AGENCY



# KYMEA President & CEO Report

Doug Buresh

October 21, 2020

- **IRP Focus Group Feedback**
  - KYMEA Market Access
  - MISO Capacity Market
  - KYMEA Energy Mix/Competitive Portfolio
- APPA Communications Awards
- COVID-19 Disconnections

To encourage public participation in the development of its IRP, KYMEA held two Community Focus Group Sessions (June 24 and September 2).

## Community Feedback Report

1. Apogee Climate & Energy Transitions (Apogee) contracted Synapse Energy Economics (Synapse) to prepare a report regarding the KYMEA IRP Community Focus Group Sessions (September 30).
2. Apogee distributed the Synapse report to the governing bodies of the KYMEA members (October 7).

KYMEA welcomes the Apogee/Synapse participation in the IRP process, but we are concerned that certain elements of the Synapse Memorandum may contribute to public confusion and promote unrealistically rosy expectations, due to some fundamentally mistaken assumptions about KYMEA's market position and the resource alternatives available to it.

- KYMEA offered some clarifying facts and explanations (October 12).

# AGENDA

- IRP Focus Group Feedback
  - KYMEA Market Access
  - MISO Capacity Market
  - KYMEA Energy Mix/Competitive Portfolio
- APPA Communications Awards
- COVID-19 Disconnections

# KYMEA Market Access

**EEl Market Access** requires purchases from the Joppa plant and LG&E/KU Network Service. EEl sold the transmission system to GridLiance 9/10/2018. The grandfathered EEl/Joppa path ends 5/31/2022 when GridLiance becomes part of MISO.

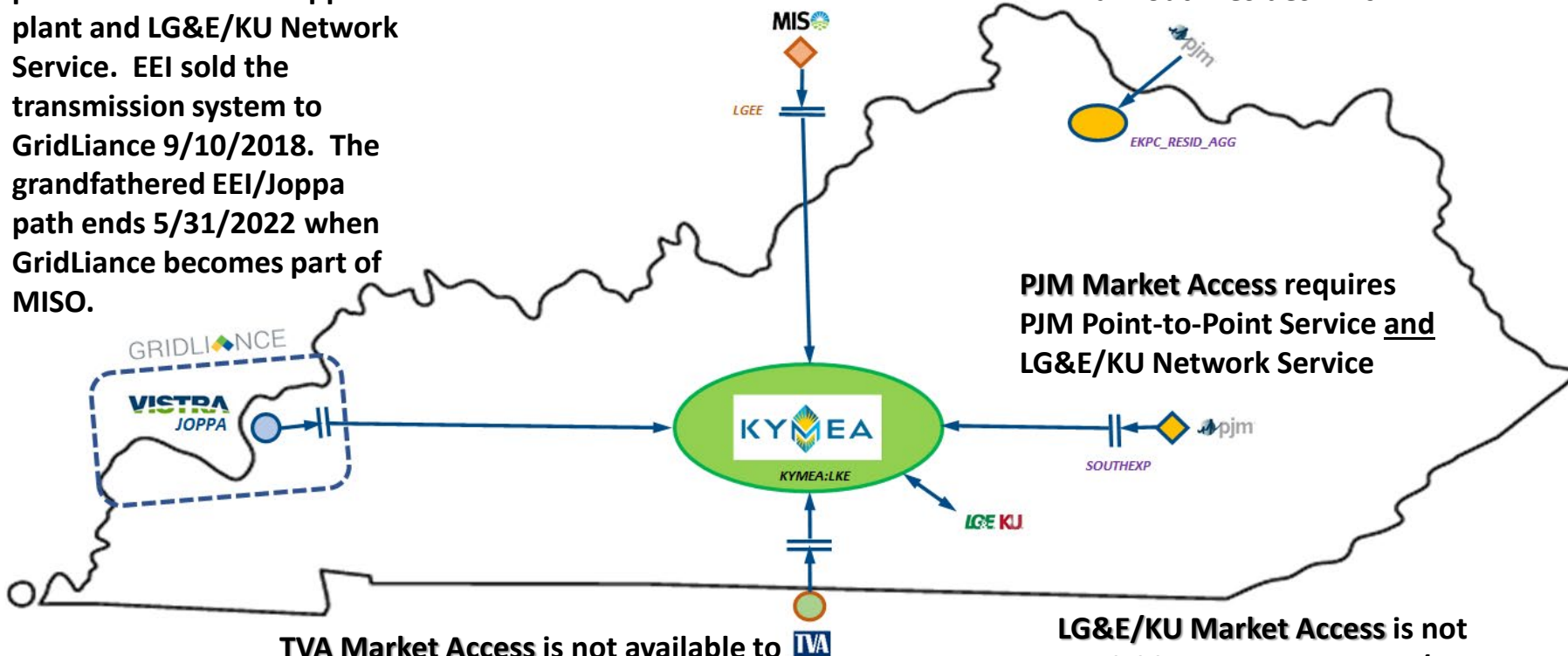
**MISO Market Access** requires MISO Point-to-Point Service and LG&E/KU Network Service

**PJM Market Access** for Falmouth is unconstrained as Falmouth resides in PJM

**PJM Market Access** requires PJM Point-to-Point Service and LG&E/KU Network Service

**TVA Market Access** is not available to KYMEA or Kentucky Municipals due to the 1959 TVA Act Amendment. It is possible to pancake wheel from non-TVA companies over this path.

**LG&E/KU Market Access** is not available to KYMEA. LG&E/KU has horizontal market power in the LG&E/KU control area so they can only sell cost-based power.





# Point-to-Point Tariff

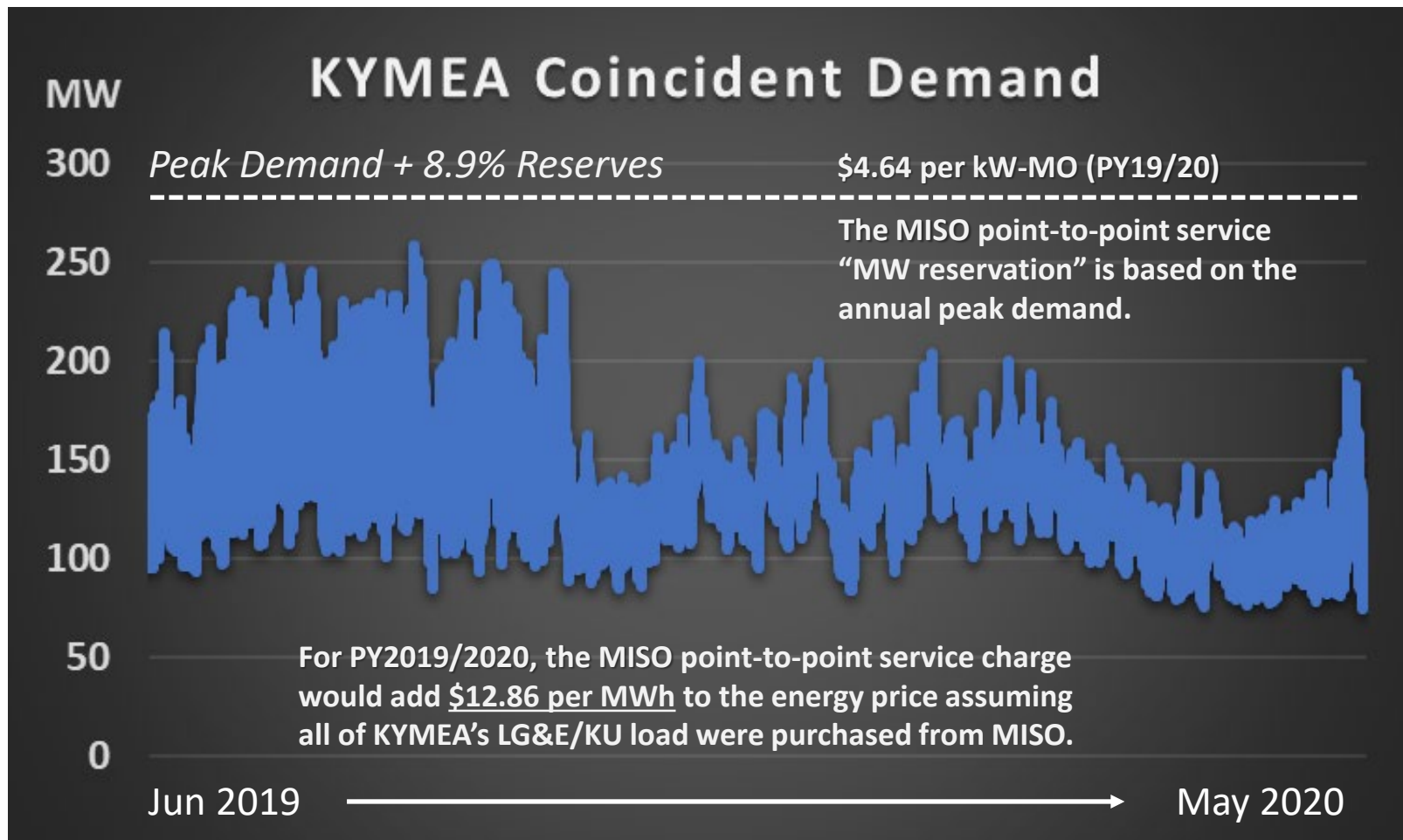
**MISO “Drive Out” Rate**  
(point-to-point) requires  
Tariff Schedules 1, 2, 7, 26,  
26a, and 45.



**PJM “Drive Out” Rate** (point-  
to-point) requires Tariff  
Schedules 1, 2, 6, and 9.



# MISO Point-to-Point Price



# AGENDA

- IRP Focus Group Feedback
  - KYMEA Market Access
  - **MISO Capacity Market**
  - KYMEA Energy Mix/Competitive Portfolio
- APPA Communications Awards
- COVID-19 Disconnections

# MISO PRA

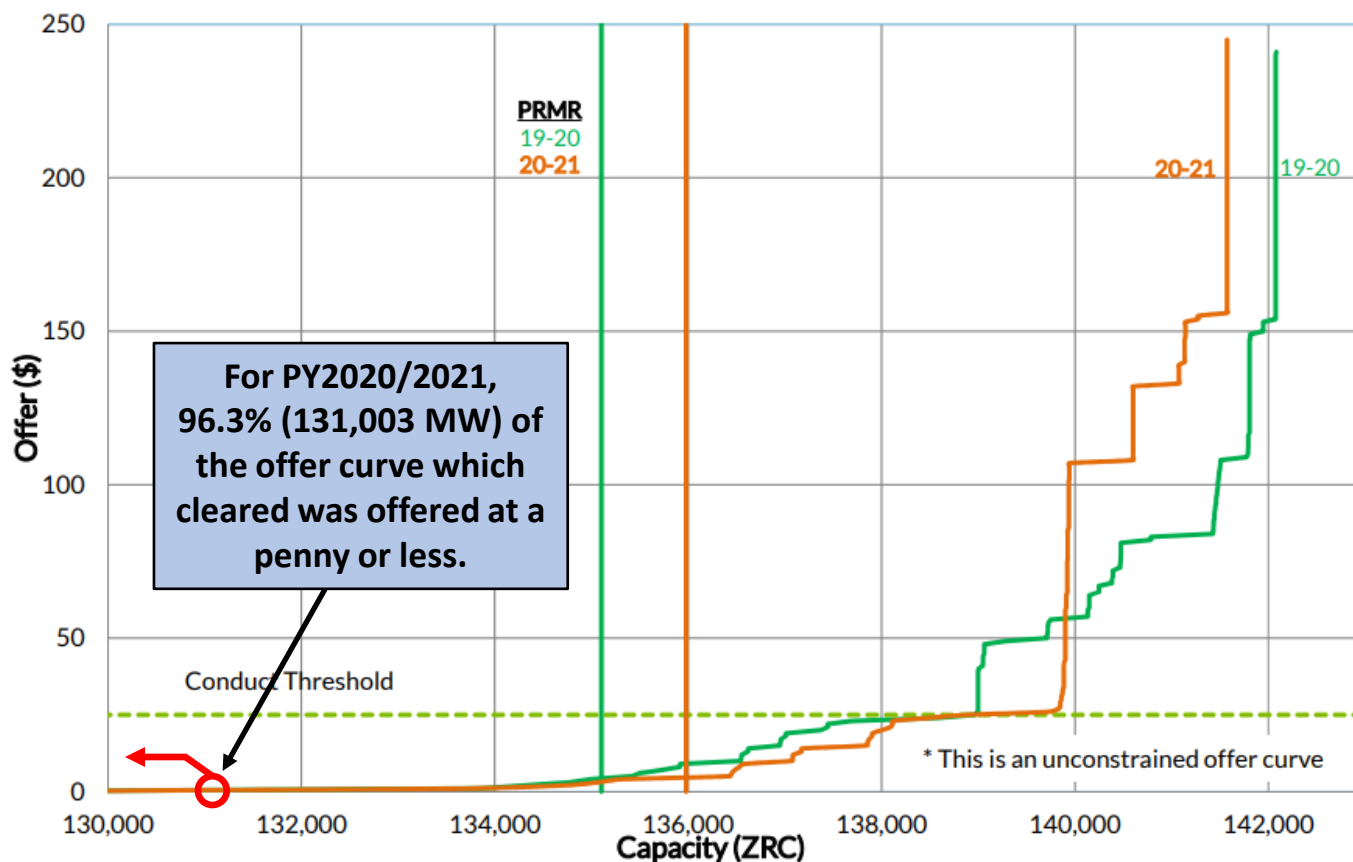
MISO holds a voluntary annual capacity auction called a Planning Resource Auction (PRA).

The PRA provides a way for MISO Market Participants to meet resource adequacy requirements. The PRA's location-specific approach encourages resources to take part in the zones where they provide the most benefit.

***BREC PPA: KYMEA has 100 MW in MISO Zone 6 which we remove from the MISO Auction and direct to our load in LG&E/KU.***



# MISO PRA Offer Curve

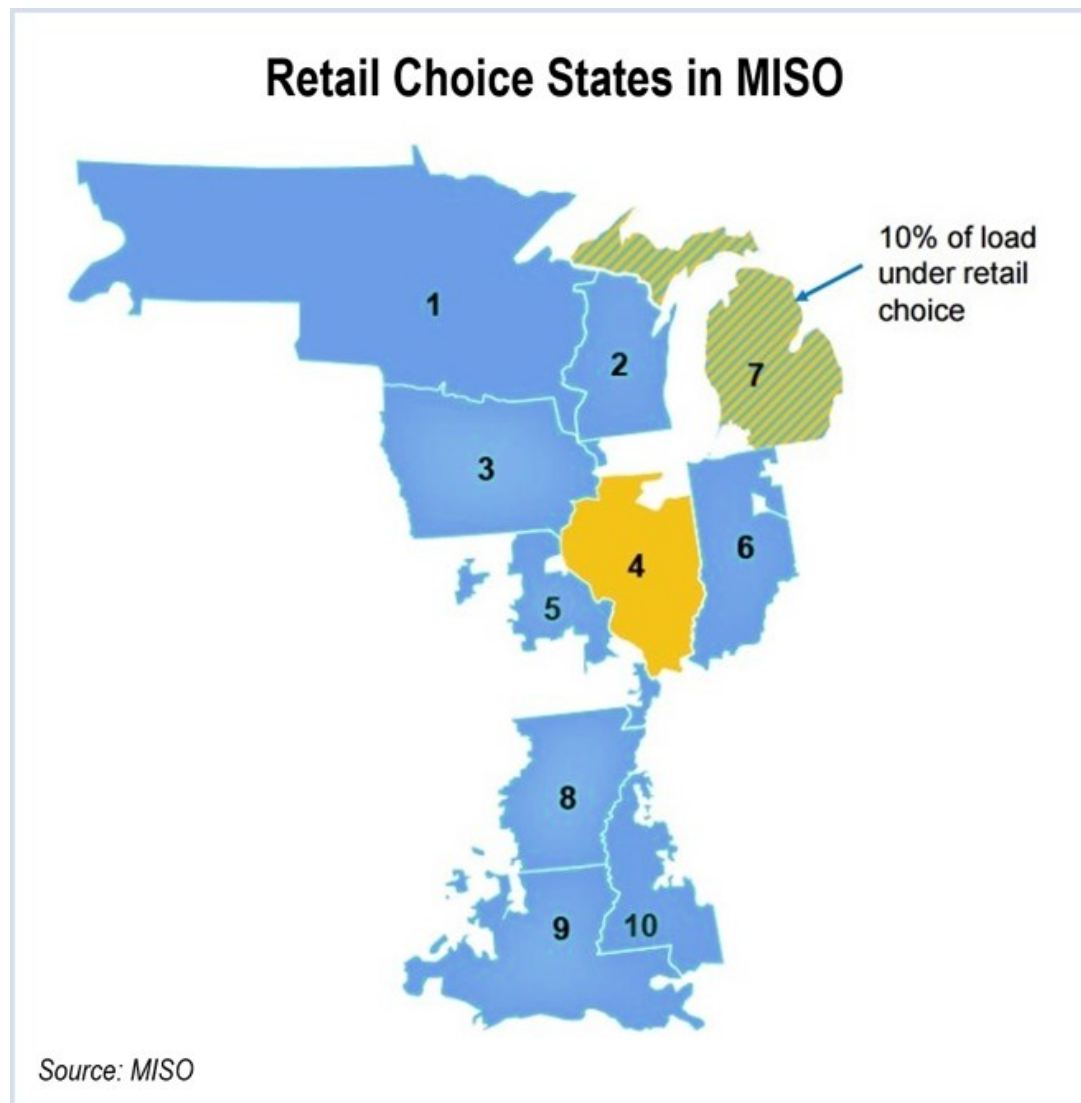


# MISO Bid Behavior

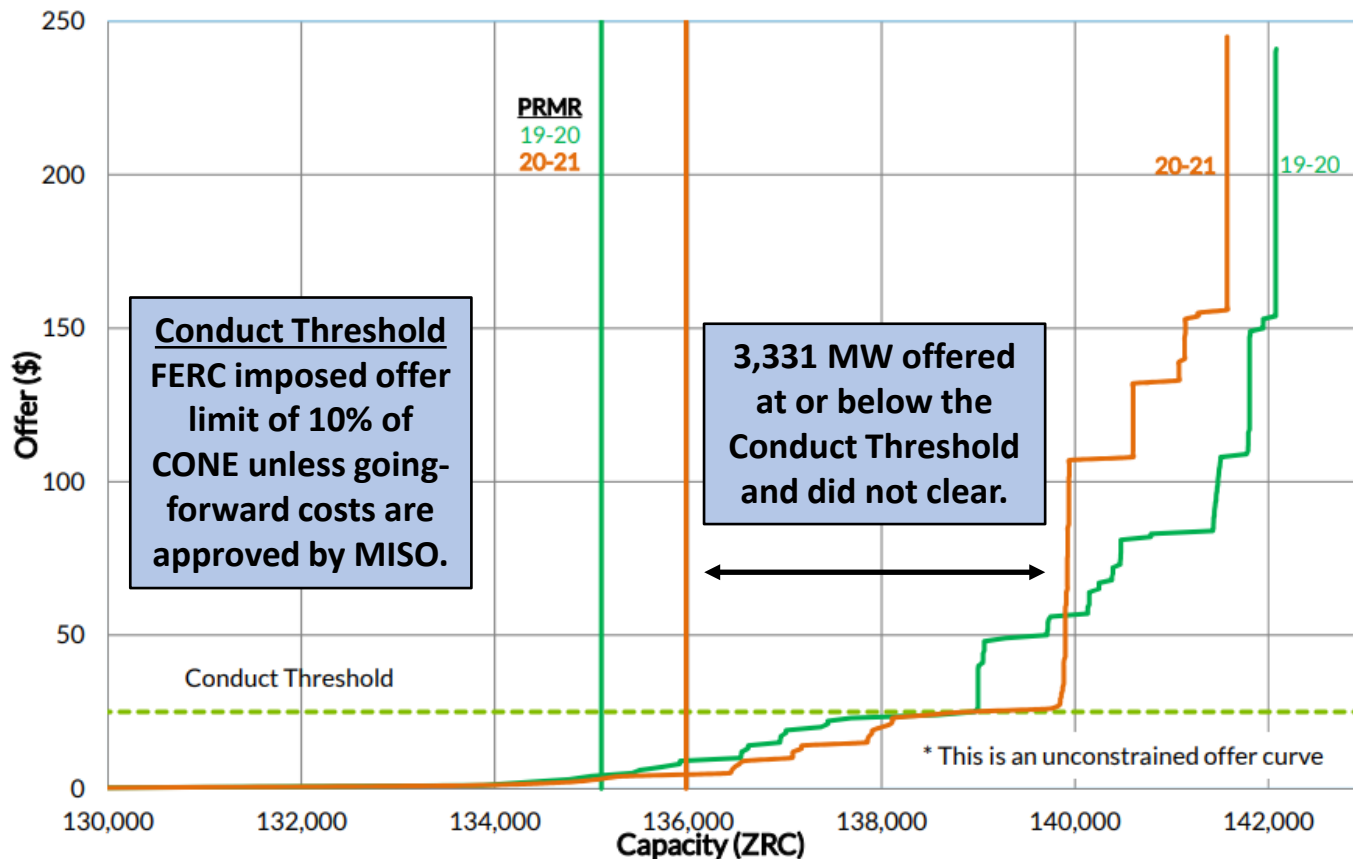
The reason the majority of MISO market participants (MP) offer at a penny or less is because most of MISO States are not retail choice states.

The MPs are largely vertically-integrated utilities with both supply and demand.

The vertically-integrated MP is highly motivated to ensure their supply clears in the auction since their load must purchase from the auction.



# MISO PRA Offer Curve



# MISO Capacity Balance

## Supply Offered & Cleared

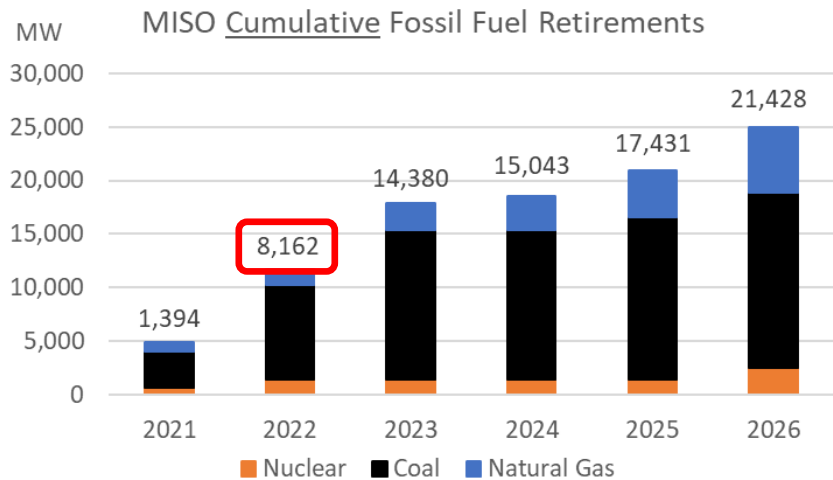
	Offered (ZRC)			Cleared (ZRC)		
Planning Resource	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Generation	126,159	125,290	125,341	120,855	119,779	120,143
External Resources	3,903	4,402	3,832	3,089	3,183	3,736
Behind the Meter Generation	4,176	4,202	3,997	4,098	4,097	3,892
Demand Resources	7,370	7,876	7,754	6,964	7,372	7,557
Energy Efficiency	173	312	650	173	312	650
Total	141,781	142,082	141,574	135,179	134,743	135,979

5,294 MW  
Uncleared



# MISO Fossil Retirements/Additions

***By 2022, there is expected to be great upwards pressure on the MISO Capacity Market Price.***



## ***Fossil Additions***

Unit Name	Type	MW	On-Line	State
Blue Water Energy Center	CC	1,146	4/1/2022	Michigan
Delta Energy Park	CC	224	6/1/2021	Michigan
Montgomery County	CC	993	2/1/2021	Texas
		2,363		

# MISO Capacity Market Design

## Excerpt from IMM Report

### PRA Demand Curve

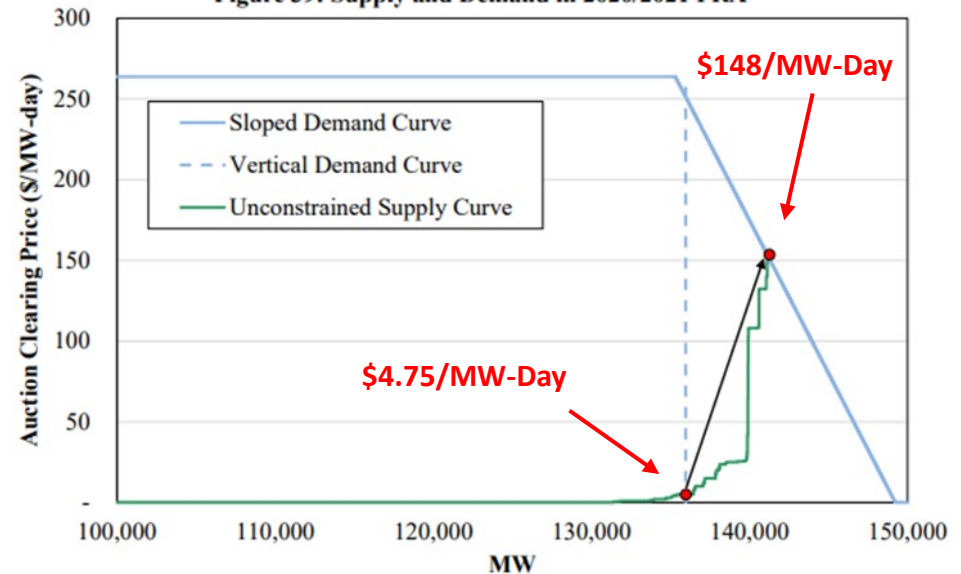
“The demand for capacity in the PRA continues to poorly reflect the true reliability value of capacity and undermines the market’s ability to provide efficient economic signals.”

“We have sought to address this flaw by recommending that MISO implement a sloped demand curve. A sloped demand curve would produce more stable and predictable pricing, which would increase the capacity market’s effectiveness in providing incentives to govern investment and retirement decisions.”



In the 2020/2021 MISO PRA, Zones 1 through 6 and 8 through 10 cleared at clearing prices between \$4.75 per MW-day and \$6.88 per MW-day. These prices are close to zero, reflecting less than 3 percent of the CONE for investing in a combustion turbine in the Midwest. Zone 7 was short of the local clearing requirement and cleared at the \$257.53 per MW-day price cap set at the CONE in that region. Almost 136 GW of capacity cleared in the 2020/2021 auction.<sup>39</sup>

Figure 39: Supply and Demand in 2020/2021 PRA



In our sloped-demand-curve simulation, we found that more than 141 GW of capacity cleared, while 431 MW of offered capacity would not have cleared. Auction clearing prices by zone would have been:

- \$148 per MW-day in Zones 1 through 6, 8, and 10, and for all external zones;
- \$155 per MW-day in Zone 9; and
- \$270 per MW-day in Zone 7, which is 5 percent higher than CONE.

# AGENDA

- IRP Focus Group Feedback
  - KYMEA Market Access
  - MISO Capacity Market
  - **KYMEA Energy Mix/Competitive Portfolio**
- APPA Communications Awards
- COVID-19 Disconnections

# KYMEA Energy Mix

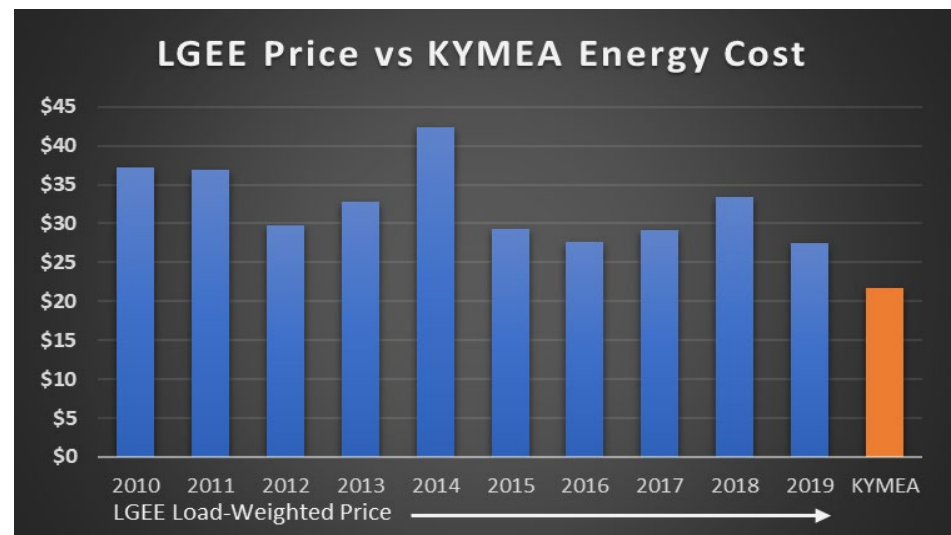
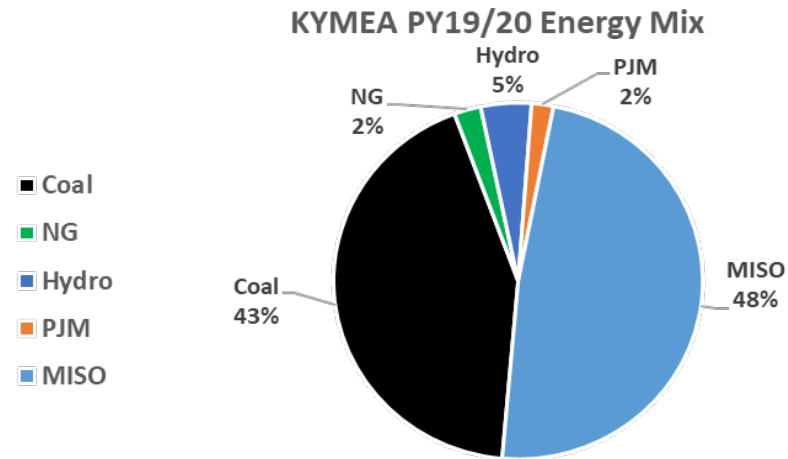
## KYMEA Energy Mix

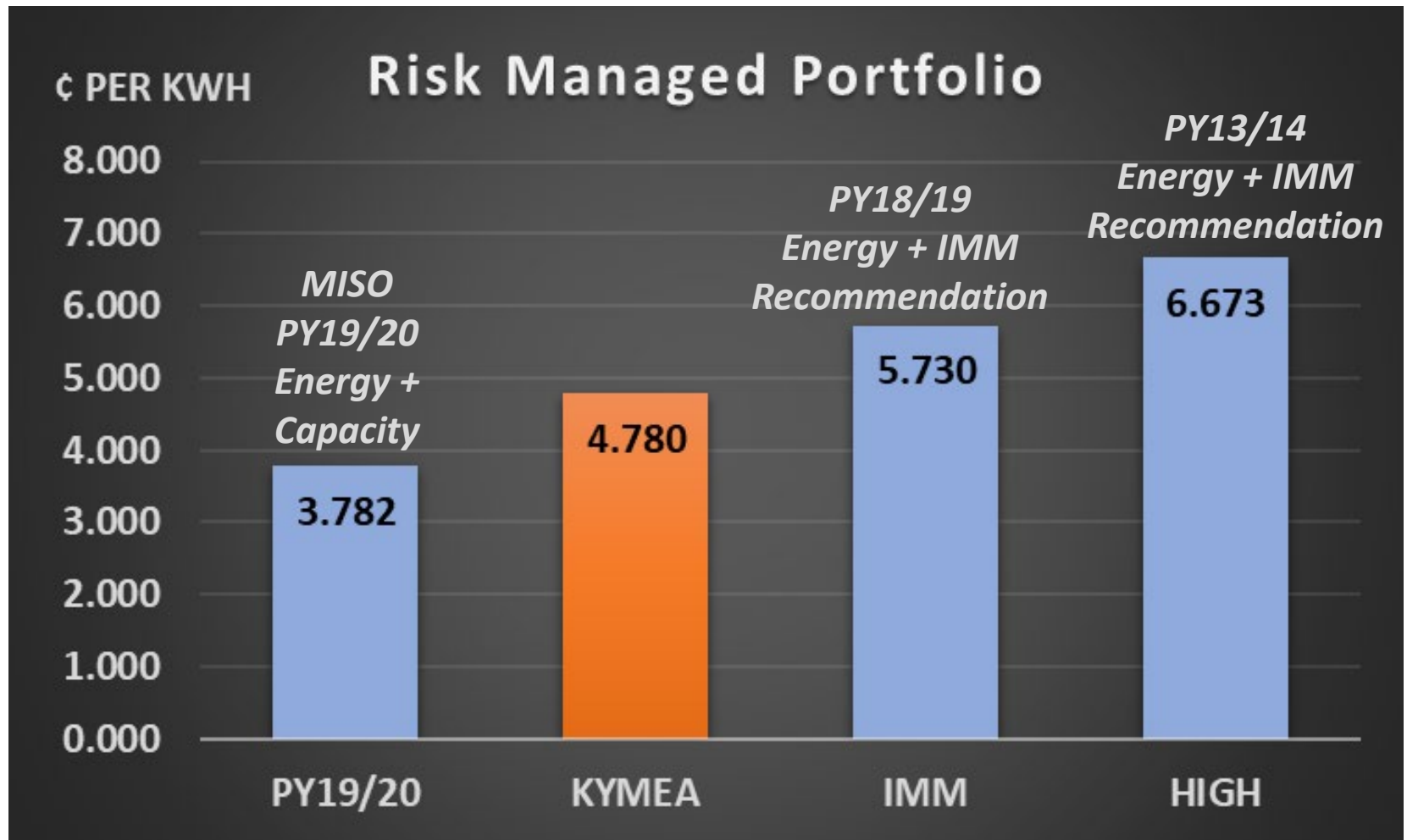
As Illustrated by the chart to the right, KYMEA purchased half of its energy needs from MISO/PJM in PY19/20.

## KYMEA Energy Cost

KYMEA's energy cost in \$/MWh (PY19/20) is lower than the LGEE interface price for each of the previous 10 years.

*For every dollar per MWh increase in energy cost, KYMEA has \$1.3 million in added expense. The KYMEA PPAs cap our exposure to high market prices while allowing KYMEA to take advantage of low market price opportunities when they present themselves.*





# AGENDA

- IRP Focus Group Feedback
  - KYMEA Market Access
  - MISO Capacity Market
  - KYMEA Energy Mix
  - KYMEA Competitive/Risk Managed Portfolio
- **APPA Communications Awards**
- COVID-19 Disconnections Order

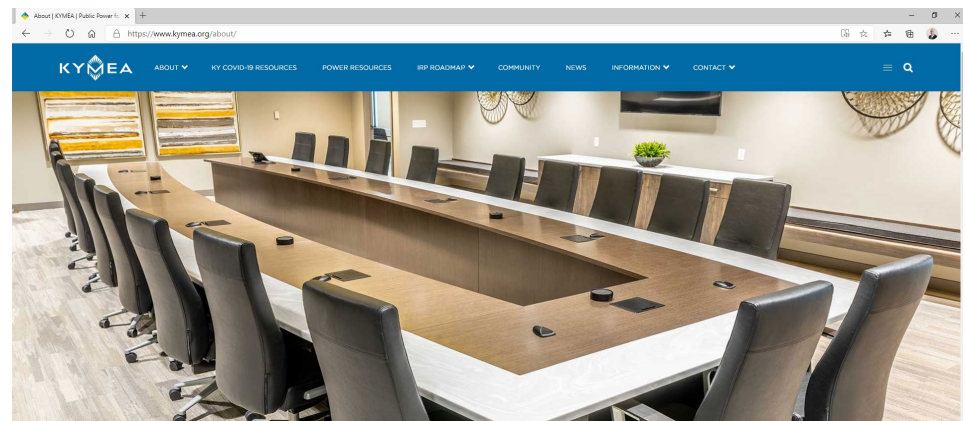


# APPA Communications Awards

KYMEA is pleased to report that the 2019 Annual Report won the Excellence in Public Power Communications and Individual Achievements Award. This is the second year in a row the agency has won this prestigious award.



Equally exciting is KYMEA won the Merit in Public Power Communications Media Award for its Website.



# AGENDA

- IRP Focus Group Feedback
  - KYMEA Market Access
  - MISO Capacity Market
  - KYMEA Energy Mix/Competitive Portfolio
- APPA Communications Awards
- **COVID-19 Disconnections Order**



On October 6, 2020 KYMEA sent a letter to Governor Beshear for consideration to lift and remand Directive #6 of the Governor's Executive Order 2020-323 (May 8, 2020) on behalf of the KYMEA member communities.

## Governor Beshear's New Executive Order Dated October 19, 2020

1. Suspension of disconnects for nonpayment rescinded effective November 6, 2020.
2. Continue to waive assessment of late payment fees for residential customers through December 31, 2020.
3. By November 6, 2020, create payment plan for all affected residential customers.
4. Make reasonable efforts to contact affected residential customers on ways to pay, details of payment plan, sources of potential assistance.

KYMEA appreciates the acknowledgement in the Synapse Energy Economics (Synapse) Memorandum that the Integrated Resource Plan (IRP) process demonstrates KYMEA's focused interest in prudent decision-making that is in the best interest of its members and the residents and businesses those members serve. As part of the ongoing IRP process, KYMEA has invited participation and feedback from the public and interested stakeholders. KYMEA welcomes Synapse's participation in this process, but we are concerned that certain elements of the Synapse Memorandum may contribute to public confusion and promote unrealistically rosy expectations, due to some fundamentally mistaken assumptions about KYMEA's market position and the resource alternatives available to it. KYMEA here offers some clarifying facts and explanations.

## KYMEA Market Access

Synapse states that KYMEA is surrounded by market opportunities. Specifically, in addition to MISO and PJM, Synapse emphasizes proximity to TVA and non-RTO investor-owned utilities within Kentucky as market opportunities<sup>1</sup>.

***Synapse's market opportunities statement is not accurate. KYMEA is an island in the middle of the LG&E/KU transmission system with very limited access to MISO and PJM. To gain access to the MISO and PJM markets, very expensive firm transmission rights must be secured, generally years in advance.***

Ten of the eleven KYMEA members' load reside in the LG&E/KU transmission service area. One KYMEA member, Falmouth, resides in the PJM (EKPC) service area. The Falmouth load has unencumbered PJM market access allowing KYMEA to purchase power at the PJM EKPC\_RESID\_AGG commercial pricing node under the EKPC network transmission service.

In contrast, KYMEA members' load in the LG&E/KU service area does not have unencumbered access to RTO markets, and LG&E/KU does not belong to an RTO. As such, KYMEA must acquire, generally, years in advance, firm transmission service to gain access to the MISO and PJM markets. Further, KYMEA has no market opportunity with TVA or non-RTO investor-owned utilities within Kentucky.

## Facts

1. Gaining RTO Transmission Access
  - Access to MISO and/or PJM requires firm point-to-point transmission service plus LG&E/KU network service. Transmission access is obtained for a set number of years at a set MW quantity. For example, a 50 MW point-to-point transmission path with MISO for five years would require the following studies.
    - System Impact Study (Both MISO and LG&E/KU)
    - Facilities Study (Study required if system impact study identifies overloading problems)

<sup>1</sup> Synapse Comments Regarding KYMEA's IRP, page 2

- Facilities Upgrades (Equipment capital expenditures such as transformers, line reconductoring, etc. identified to rectify overloading issues)
  - KYMEA cannot simply purchase energy from MISO or PJM without acquiring and paying for RTO point-to-point transmission service. The scheduling of power from the RTOs is further complicated by import/export RTO hourly ramp availability.
- 2. MISO Market
  - RTO Node: MISO LGEE Interface
  - Access to the MISO market requires firm point-to-point transmission service from MISO with charges under MISO tariff schedules<sup>2</sup> 1, 2, 7, 26, 26a, and 45.
  - As of July 1, 2020, the MISO point-to-point transmission rate is:
    - Monthly Firm: \$4.04 per kW-MO (schedules 1, 2, 7, 26) plus \$1.67 per MWh (schedule 26a)
      1. The equivalent around-the-clock (ATC) firm transmission adder for a 1 MW block purchase is \$7.20/MWh ( $4.04 \times 12000 / 8760 + 1.67$ ).
      2. If KYMEA were to purchase its entire load, including 8.9% reserves from MISO, the firm transmission adder for a load following product is \$12.86/MWh.
- 3. PJM Market
  - RTO Node: PJM South Export
  - Access to the PJM market requires firm point-to-point transmission with PJM tariff schedules<sup>3</sup> 1, 2, 6, 7, and 9.
  - As of August 1, 2019, the PJM point-to-point transmission rate is:
    - Monthly Firm: \$4.03 per kW-MO (schedules 1, 2, 6, 9) plus \$0.75 per MWh (schedule 7)
      1. The around-the-clock (ATC) firm transmission adder for a 1 MW block purchase is \$6.27/MWh.
      2. If KYMEA were to purchase its entire load, including 8.9% reserves from PJM, the firm transmission adder for a load following product is \$11.95/MWh.
- 4. TVA Access is Not Available
  - Except for the members' Southeastern Power Administration (SEPA) hydroelectric power entitlement, KYMEA cannot purchase power from TVA due to "The Fence."
    - The Fence Background: In 1959, an amendment was added to the TVA Act<sup>4</sup>, which created a Fence around TVA. The Fence prohibits TVA from selling power to any municipality which received service from another source on or after July 1, 1957. As such, KYMEA and its members cannot purchase from TVA.

<sup>2</sup> <https://www.misoenergy.org/markets-and-operations/settlements/ts-pricing/#nt=tspricingtype:Schedule%201%20Data>

<sup>3</sup> <https://www.pjm.com/library/governing-documents/effective-documents.aspx>

<sup>4</sup> <https://www.tva.com/about-tva/our-history/tva-heritage/the-great-compromise>

5. LG&E/KU Access is Cost-Based
  - KYMEA cannot purchase power at market-based rates from LG&E/KU. LG&E/KU has horizontal market power within the LG&E/KU transmission system. KYMEA can purchase cost-based power from LG&E/KU. The reason the Kentucky Municipals left LG&E/KU as their power supplier and formed KYMEA was due to the increasing cost of the LG&E/KU cost-based power.
6. Non-RTO investor-owned utilities within Kentucky
  - Synapse states KYMEA could purchase power from non-RTO investor-owned utilities within Kentucky. KYMEA is confused by this assertion since LG&E/KU is the only investor-owned utility in Kentucky in the LG&E/KU control area. Duke Energy and AEP are in PJM. The cooperatives of Big Rivers and East Kentucky are in MISO and PJM, respectively. And the federally owned corporate agency, TVA, has its own balancing authority.

## MISO Capacity Market

### Facts

MISO holds a voluntary annual capacity auction called a Planning Resource Auction (PRA). The PRA provides a way for MISO Market Participants to meet resource adequacy requirements. The PRA's location-specific approach encourages resources to take part in the zones where they provide the most benefit.

***KYMEA is not located in MISO. Synapse has suggested that KYMEA should be able to purchase capacity at a MISO PRA clearing price of \$3/MW-Day or \$0.09/kW-MO<sup>5</sup>. This sounds great but unfortunately is unrealistic. This suggestion indicates a fundamental misunderstanding of what the PRA represents.***

Here is how the PRA works. Resource owners offer their generation and demand-side resources into the auction. Electric providers must secure enough resources to meet their Planning Reserve Margin Requirement (PRMR) either through self-supply, bilateral contracts, or through auction purchases. For providers participating in the auction, MISO will clear resources from within each local resource zone based upon economic merit, until the zone's Local Clearing Requirement (LCR) has been reached. After the zone's LCR has been reached, MISO will continue to clear resources from both within and outside of the local zone based upon economic merit, until the zone's PRMR is reached. The auction clearing price is the price of the most expensive resource that clears in the auction. In the event that there are insufficient resources to meet the zone's LCR or the zone's PRMR, the auction clearing price will be the Cost of New Entry (CONE), which is the cost of a new natural-gas-fired combustion turbine facility in the zone. For PY20/21, the CONE for MISO Zone 6 (Indiana/Kentucky) was \$240.49/MW-Day or \$7.31/kW-MO.

<sup>5</sup> Synapse Comments Regarding KYMEA's IRP, page 9

## 2019/2020 PRA Results

As shown in the graph below, 16 market participants in the MISO Zone 6 auction offered 16,359.9 MW. 15,578.1 MW (95.2%) of the generation was offered at a penny or less. The reason 95.2% of the offer curve is offered at a penny or less is because the vast majority of the market participants (Duke, IPL, NIPSCO, Vectren, Big Rivers) have load in Zone 6 and simply want their generation to clear in the auction. The PRA structure is that generators sell all of their capacity into the auction and load buys all of its capacity from the auction.

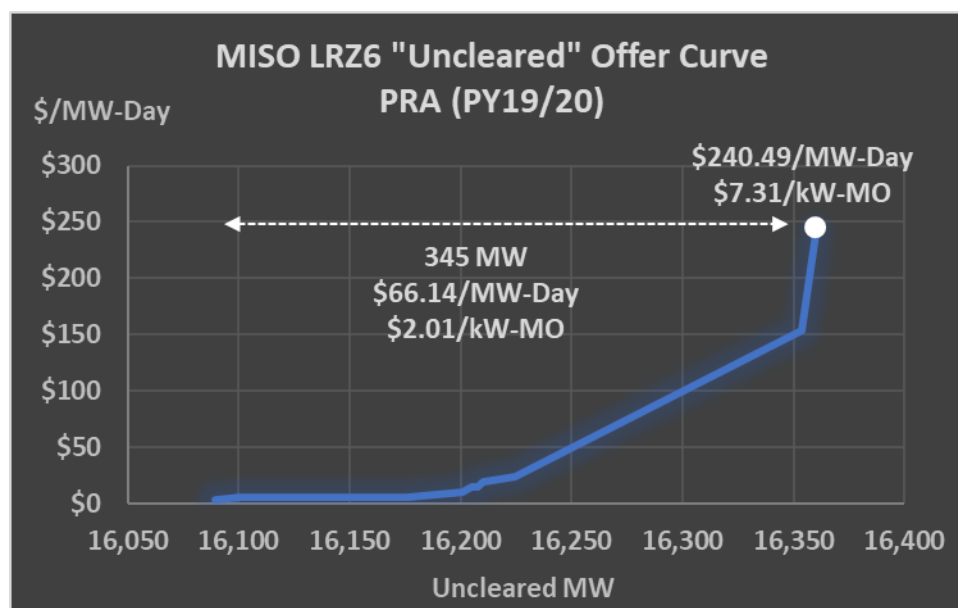
**Chart 1 – MISO LRZ6 Offer Curve PRA (PY19/20)**



The MISO Zone 6 market participants are primarily vertically integrated utilities regulated by their state utility commission. As such, there is no benefit to offer capacity into the PRA other than at a penny or less since their capacity for load must be purchased from the auction.

In Zone 6, 345.4 MW did not clear in the auction. The offer curve of the uncleared MW, which averaged \$66.14/MW-Day or \$2.01/kW-MO is shown below. The last increment was offered at \$240.49/MW-Day or \$7.31/kW-MO, which is equal to the CONE price.

**Chart 2 – MISO LRZ6 “Uncleared MW” from Offer Curve PRA (PY19/20)**



It is essential to recognize that the tail of the offer curve contains non-traditional resources such as behind-the-meter (BTM) generation, demand resources, and energy efficiency. These are MISO customer-specific resources that can be offered into the auction. For example, a DR resource may be a large industrial customer who is able to curtail a portion of its load in response to a MISO directive. These types of resources would not be available to KYMEA in a bilateral market transaction.

- In the PY19/20 PRA for all 10 Zones in MISO, 609 MWs that did not clear in the auction were either BTM generation, demand resources, or energy efficiency.

In a telling understatement, Synapse acknowledges that it “can be challenging for a non-member to acquire capacity at the market price.”<sup>6</sup> Yet its recommendations are premised on the availability of capacity at the MISO PRA auction clearing price.

Synapse states that capacity in the MISO PRA has cleared at a very low price, which is true for the MISO members who have load in MISO. KYMEA does not have load in MISO.

- Notable exceptions to the Synapse very low capacity price statement is Zone 7 (Michigan) which in PY19/20 cleared at \$24.30/MW-Day and in PY20/21 cleared at \$257.53/MW-Day (\$7.83/kW-MO), and Zone 4 (Illinois), which in PY14/15 cleared at \$16.75/MW-Day and in PY15/16 cleared at \$150/MW-Day (\$4.56/kW-MO).

<sup>6</sup> Synapse Comments Regarding KYMEA’s IRP, page 6

- The potential price volatility of the MISO PRA is very concerning. NIPSCO<sup>7</sup> (Zone 6) has announced it is retiring 2,094 MW of coal. Vistra<sup>8</sup> (Zone 4) has announced it is retiring 3,255 MW of coal. Alliant<sup>9</sup> (Zone 3) is closing the 619 MW Duane Arnold nuclear plant this year. Combined, this is 5,968 MW that will be taken out of the auction in the next few years.
- Synapse states there is approximately 3,000 MW of low-cost capacity available<sup>10</sup>. But as KYMEA points out in the previous bullet, nearly 6,000 MW has been announced to be retired.

KYMEA, along with the MISO Independent Market Monitor, strongly disagrees that the past PRA price provides a market signal for the bilateral market from which KYMEA can purchase.

- KYMEA has conducted a request for indicative proposals for capacity only (no energy) and has found the bilateral market to be in the range of \$123.29/MW-Day.

Synapse's assertion that KYMEA can purchase capacity for \$3/MW-Day and have appropriate energy pricing indicates a lack of understanding of the market from which KYMEA can purchase capacity. Suggesting price benchmarks or alternatives that are unattainable invites public misunderstanding and unrealistic expectations.

### MISO Independent Market Monitor Evaluation

The MISO Independent Market Monitor (IMM), Potomac Economics, is tasked with evaluating the MISO capacity market design.<sup>11</sup> In a recent report, Potomac states, **"The demand for capacity in the PRA continues to poorly reflect the true reliability value of capacity and undermines the market's ability to provide efficient economic signals."**

Potomac calculated if MISO moved to a sloped-demand-curve method, which is the same method used by PJM, then the Zone 6 market clearing price would have been \$148/MW-Day (\$4.50/kW-MO). Potomac recommends that MISO move to a sloped-demand-curve method along with other recommended improvements to the PRA. Synapse's contention MISO PRA prices will stay at \$3/MW-Day ignores the future impact of MISO's IMM recommendations.

<sup>7</sup> <https://www.chicagotribune.com/suburbs/post-tribune/ct-ptb-nipsco-coal-energy-st-0927-story.html>

<sup>8</sup> <https://www.forbes.com/sites/scottcarpenter/2020/09/30/power-company-will-shut-all-of-its-illinois-and-ohio-coal-plants-by-2027/#594d9ae5f3cd>

<sup>9</sup> <https://www.powermag.com/duane-arnold-nuclear-plant-will-close-in-2020/>

<sup>10</sup> Synapse Comments Regarding KYMEA's IRP, page 6

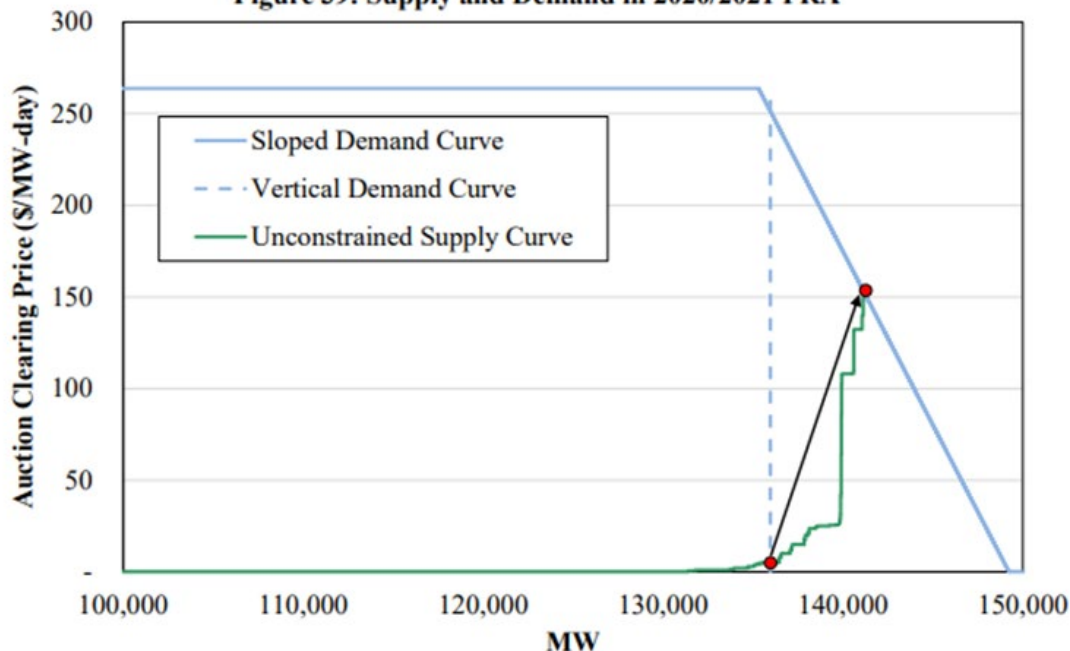
<sup>11</sup> <https://cdn.misoenergy.org/2019%20State%20of%20the%20Market%20Report453426.pdf> | 2019 State of the Market Report, page 91



Report Excerpt: MISO IMM Sloped-Demand-Curve Recommendation

In the 2020/2021 MISO PRA, Zones 1 through 6 and 8 through 10 cleared at clearing prices between \$4.75 per MW-day and \$6.88 per MW-day. These prices are close to zero, reflecting less than 3 percent of the CONE for investing in a combustion turbine in the Midwest. Zone 7 was short of the local clearing requirement and cleared at the \$257.53 per MW-day price cap set at the CONE in that region. Almost 136 GW of capacity cleared in the 2020/2021 auction.<sup>39</sup>

Figure 39: Supply and Demand in 2020/2021 PRA



In our sloped-demand-curve simulation, we found that more than 141 GW of capacity cleared, while 431 MW of offered capacity would not have cleared. Auction clearing prices by zone would have been:

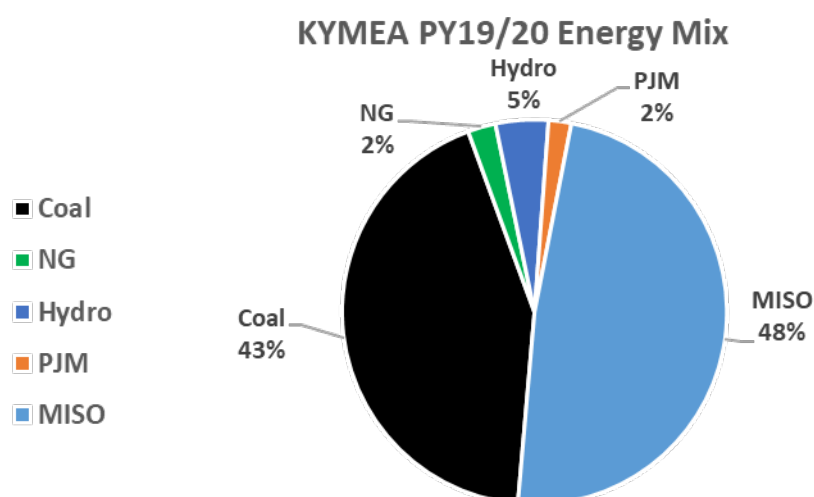
- \$148 per MW-day in Zones 1 through 6, 8, and 10, and for all external zones;
- \$155 per MW-day in Zone 9; and
- \$270 per MW-day in Zone 7, which is 5 percent higher than CONE.



## KYMEA PY19/20 Energy Mix

Synapse states that KYMEA is currently over-reliant on coal. This statement does not reflect the reality of KYMEA's PPAs. While it is true the dispatch prices under KYMEA's coal PPAs are based on coal fuel costs, the PPAs provide complete flexibility for the agency to purchase energy from the market, if the market is cheaper. The PPAs can be thought of as heat rate call options, where the strike price of the options is tied to low-cost and stable coal-based energy. In PY19/20, KYMEA purchased 50% of its native load energy from the MISO and PJM markets, as illustrated by the pie chart.

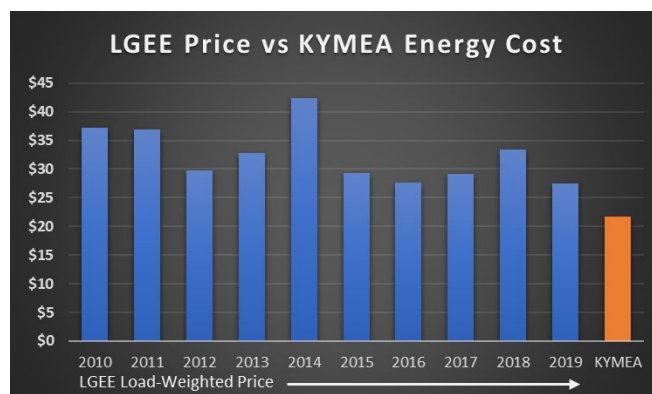
Chart 3 – KYMEA PY19/20 Energy Mix



KYMEA's energy cost was \$21.64/MWh, which is 20.3% lower than the load-weighted 2019 average LGEE price of \$27.14/MWh<sup>12</sup> referenced by Synapse.

As illustrated by the chart to the right, KYMEA's energy cost in \$/MWh (PY19/20) is lower than the LGEE interface price for each of the previous 10 years.

**Important: For every dollar per MWh increase in energy cost, KYMEA has \$1.3 million in added expense. The KYMEA PPAs cap our exposure to high market prices while allowing KYMEA to take advantage of low market price opportunities when they present themselves.**



<sup>12</sup> Synapse Comments Regarding KYMEA's IRP, page 9

## KYMEA's Competitive and Risk Managed Portfolio

Synapse's statement that KYMEA holds several overpriced contracts and is overly reliant on coal is unsupported<sup>13</sup>. And its claim that KYMEA should be able to acquire future resources at costs approximating those as if KYMEA were able to purchase from MISO at current prices ignores the sensitivity of MISO energy and capacity prices. To demonstrate the riskiness of the Synapse recommendation, let us assume the entire KYMEA LG&E/KU load were able to be served by MISO (pseudo-tied).

As illustrated in Table 1, it is true that spot market prices in MISO, largely driven by the impact of the coronavirus pandemic on loads, were very low in PY19/20. If KYMEA had been able to purchase all of its power from the MISO market, it would have saved \$11.2 million.

**Table 1 – KYMEA Actual vs MISO Market Power Cost**

	Total	Energy	Capacity	PtP Trans	RTO Fees
<b>KYMEA Actual</b>	\$58,135,511	\$26,317,352	\$31,818,158	\$0	\$0
	<b>4.780¢</b>	\$21.64/MWh	\$9.21/kW-MO	\$0.00/MWh	\$0.00/MWh
<b>Market Actual</b>	\$46,922,104	\$30,410,162	\$488,104	\$15,713,681	\$310,157
	<b>3.782¢</b>	\$24.51/MWh	\$0.14/kW-MO	\$12.67/MWh	\$0.25/MWh

### Market Price Risk

Now, let us consider two changes in the market price assumptions. Instead of using the LGEE market price of \$24.51/MWh, we will use the previous year's price of \$32.12/MWh. And for the capacity market, we will use the Potomac Economics sloped-demand-curve recommendation of \$4.50/kW-MO. In this very possible case, the cost would have been \$13.1 million higher.

**Table 2 – KYMEA Actual vs Market Risk Case Power Cost**

	Total	Energy	Capacity	PtP Trans	RTO Fees
<b>KYMEA Actual</b>	\$58,135,511	\$26,317,352	\$31,818,158	\$0	\$0
	<b>4.780¢</b>	\$21.64/MWh	\$9.21/kW-MO	\$0.00/MWh	\$0.00/MWh
<b>Market Risk Case</b>	\$71,289,041	\$39,848,933	\$15,416,270	\$15,713,681	\$310,157
	<b>5.746¢</b>	\$32.12/MWh	\$4.48/kW-MO	\$12.67/MWh	\$0.25/MWh

As illustrated in Tables 1 and 2, the market energy and capacity price can be extremely volatile, swinging costs between (\$11.2 million) and \$13.1 million. Given KYMEA's entire production cost expense was \$58.1 million, swings of +/- \$13 million are unacceptable. Further, in the polar vortex year of 2014, the market energy price was \$41.39/MWh. In that scenario, KYMEA's production cost would have exploded to \$82.8 million (41.2% higher).

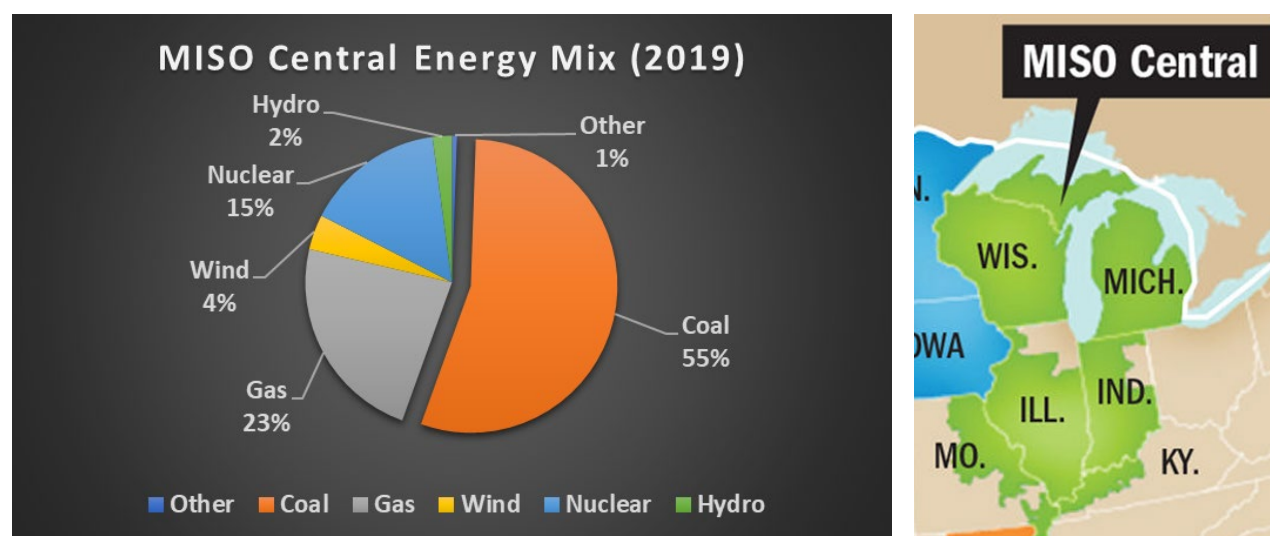
<sup>13</sup> Synapse Comments Regarding KYMEA's IRP, page 10

The Synapse recommendation of purchasing LGEE spot energy with an assumed extremely low capacity price is far too risky, promoting unrealistic expectations at enormous risk. KYMEA's portfolio protects the agency from energy and capacity risks while still providing significant savings. If Synapse can guarantee the low prices of PY19/20 will continue, then an unhedged market position would be terrific. Of course, no reasonable agency practicing prudent risk management would operate in such a risky manner.

### MISO Energy Mix

It is also confusing that Synapse states KYMEA is over reliant on coal while at the same time recommending KYMEA purchase from MISO. As shown in the chart below, MISO Central (Indiana, Kentucky, Illinois, Missouri, Wisconsin, and Michigan) is 55% coal. As shown earlier in Chart 3, KYMEA's coal mix in PY19/20 was 43%.

Chart 4 – MISO Central 2019 Energy Mix<sup>14</sup>



### Conclusion

KYMEA's contracts are not overpriced and are in fact very competitive and stable. While the agency recognizes there is inherent risk in the energy industry, public power customers expect, and in fact demand, low and stable rates. That is the agency's mission. Leaving KYMEA members vulnerable to wild market swings is inconsistent with that mission. KYMEA is adding 54 MW solar in 2022 which diversifies our portfolio even further. The added solar, as a percentage of our load, places KYMEA as the leading solar producer in Kentucky.

<sup>14</sup> [https://www.misoenergy.org/markets-and-operations/real-time--market-data/market-reports/#nt=%2FMarketReportType%3ASummary%2FMarketReportName%3AHistorical%20Generation%20Fuel%20Mix%20\(xlsx\)&t=10&p=0&s=MarketReportPublished&sd=desc](https://www.misoenergy.org/markets-and-operations/real-time--market-data/market-reports/#nt=%2FMarketReportType%3ASummary%2FMarketReportName%3AHistorical%20Generation%20Fuel%20Mix%20(xlsx)&t=10&p=0&s=MarketReportPublished&sd=desc)

October 6, 2020

Honorable Andy Beshear  
Governor, Commonwealth of Kentucky  
Kentucky State Capitol  
700 Capital Avenue, Suite 100  
Frankfort, Kentucky 40601

Re: Executive Order 2020-323 issued May 8, 2020  
Suspension of utility disconnections

Dear Governor Beshear:

The Kentucky Municipal Energy Agency (KYMEA), a Kentucky interlocal agency, was created by 11 Kentucky municipal electric utilities for the purpose of providing reliable, affordable, and sustainable energy services to their communities. The 11 Member utilities that established KYMEA and which stretch across the Commonwealth are the Cities of Barbourville, Bardwell, Berea, Corbin, Falmouth, Madisonville, Owensboro, Paris and Providence, the Benham Power Board, and the Frankfort Electric and Water Board. In its two year period of service to its Members, KYMEA has been able to reduce their underlying power costs by approximately 15%.

Per your Executive Order 2020-323, issued on May 8, 2020, our Member utilities, who are not subject to jurisdiction of the Kentucky Public Service Commission, have complied with your directive to suspend utility disconnections and waive late payment fees. In addition, KYMEA instituted certain COVID-19 rate relief initiatives to assist our Members in keeping their customer rates low.

Recently, the Kentucky Public Service Commission (PSC) in its Order in Case No 2020-00085, dated September 21, 2020, determined that its previous Order, dated March 16, 2020, establishing a moratorium for utilities in disconnections for nonpayment of invoices and the waiving of late fees by utilities subject to PSC jurisdiction, shall be lifted as of October 20, 2020.

In order to treat fairly all Kentucky utilities in a similar manner, whether subject to PSC jurisdiction or not, the purpose of this letter is to request your consideration to lift and remand Directive #6 of your Order 2020-323. We believe the PSC has set forth appropriate guidelines for Kentucky

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utilities to follow in establishing payment plans and procedures for customers who have suffered financially during the pandemic. In order to treat all Kentucky utilities equally, we believe it would be appropriate for you to issue a new order lifting and remanding Directive #6 of Executive Order 2020-323 and request Kentucky utilities, which are not subject to PSC jurisdiction, to follow the guidelines set out in the September 21, 2020, PSC Order.

We have attached a copy of the September 21, 2020, PSC Order for your review, and we appreciate your time and consideration in this matter. If you or any of your staff wish to discuss this matter in greater detail, please let us know.

Sincerely,



Doug Buresh  
President and CEO

Enclosure: PSC Order in Case No 2020-00085





**ANDY BESHEAR**  
**GOVERNOR**

**EXECUTIVE ORDER**

**Secretary of State**  
Frankfort  
Kentucky

**2020-881**  
**October 19, 2020**

**STATE OF EMERGENCY RELATING TO UTILITIES**

The novel coronavirus (COVID-19) is a respiratory disease causing illness that can range from very mild to severe, including illness resulting in death, and many cases of COVID-19 have been confirmed in the Commonwealth.

The Kentucky Constitution and Kentucky Revised Statutes, including KRS Chapter 39A, empower me to exercise all powers necessary to promote and secure the safety and protection of the civilian population. Under those powers, I declared by Executive Order 2020-215 on March 6, 2020, that a State of Emergency exists in the Commonwealth.

On May 8, 2020, I issued Executive Order 2020-323, encouraging Kentuckians to remain Healthy at Home to help protect the Commonwealth from the spread of COVID-19, including by ensuring Kentuckians have power, shelter, and water, but also to allow Kentuckians to be Healthy at Work. Paragraph 6. of Executive Order 2020-323 suspended utility disconnections due to non-payment by all entities that provide natural gas, water, wastewater, or electric utility service within the Commonwealth, including, but not limited to entities created under KRS Chapters 96 and 279. The provision expressly provided that nothing within the Order shall be construed as relieving any individual of the obligation to pay for a utility service provided, or to comply with any other obligation that an individual may have with a utility.

Even as efforts have been made to reopen the economy, the Commonwealth and the United States remain in a daily battle with COVID-19. Kentuckians must work together to ensure our citizens have power, water, wastewater and other utility services to remain Healthy at Home in order to protect the public from the transmission of the disease.

**NOW THEREFORE**, I, Andy Beshear, by virtue of authority vested in me pursuant to the Kentucky Constitution and by KRS Chapter 39A, do hereby Order and Direct as follows:





**ANDY BESHEAR**  
**GOVERNOR**

**EXECUTIVE ORDER**

**Secretary of State**  
**Frankfort**  
**Kentucky**

**2020-881**  
**October 19, 2020**

1. Pursuant to the authority vested in me by KRS Chapter 39A, paragraph 6. of Executive Order 2020-323, the suspension of disconnections due to non-payment by all entities that provide natural gas, water, wastewater, or electric service within the Commonwealth, including, but not limited to entities created under KRS Chapters 96 and 279, shall be rescinded effective November 6, 2020, subject to the conditions in this Order.
2. All entities that provide natural gas, water, wastewater, or electric service within the Commonwealth, including, but not limited to entities created under KRS Chapters 96 and 279, shall continue to waive the assessment of late payment fees for residential customers through December 31, 2020.
3. Between the date of this Order and November 6, 2020, all entities that provide the services to residential customers as described in paragraph 1. of this Order shall:
  - a. By default for all affected residential customers, create payment plans for all arrearages accumulated from service rendered on or after May 8, 2020, and before October 25, 2020, to the extent that past due balances exist. The term of the default payment plan shall be no less than six months. Regardless of the length of the default payment plan, each default payment plan shall only require the customer to pay a fixed, equal installment over the term of the plan. For example, a default payment plan of six months for an arrearage of \$120.00 would have a monthly payment of \$20.00. It shall not be required to automatically enroll customers in a default payment plan for an arrearage of \$25 or less, provided that the customers will not be disconnected for the arrearage and that the utility shall enroll the customer in a payment plan at the customer's request identical to a default payment plan described above. An entity may maintain current payment plans entered into voluntarily provided that the utility convert the existing payment plan to the required default payment plan upon either the customer's default on their existing plan or at the request of the customer.; and
  - b. Take all reasonable efforts to contact all customers who have received default payment plans to convey information about their accounts, including, but not limited to, customer arrearages, ways to pay, details of payment plans, and sources of potential assistance; and
  - c. Work with any customer who requests an alternative to the default payment plan under this Order on a payment plan that accommodates the customer's circumstances while balancing the concern of the entity, including the entity's income and cash flow. Nothing in this or any other Executive Order shall be construed to prohibit an entity that provides electric, gas, water or wastewater service to enter into a payment plan with a customer that requests an alternative to the required default payment plan as long as the request is made by the customer and the customer is made explicitly aware of their right to the default payment plan.; and



**ANDY BESHEAR**  
**GOVERNOR**

**EXECUTIVE ORDER**

**Secretary of State**  
**Frankfort**  
**Kentucky**

**2020-881**  
**October 19, 2020**

- d. Consider any customer with arrearages subject to a payment plan “on-time” for all purposes, except those explicitly exempted in this Order, so long as the customer timely pays his or her bill for current service and the amount required under a default, existing, or alternative, agreed-upon payment plan.
4. If a customer fails to maintain an “on-time” status with regard to current service and a default, existing, or agreed-upon payment plan, the customer may be subject to disconnection beginning on November 6, 2020. To ensure continuity of service during a global pandemic, entities are encouraged to offer subsequent payment plans to customers who have an initial payment plan for arrearage amounts between May 8, 2020, and October 25, 2020, and are unable to maintain an “on-time” status as explained in this Order. When a customer is no longer considered “on-time” regarding arrearage amounts accumulated between May 8, 2020, and October 25, 2020, entities shall follow their tariffed or written procedures for disconnection should they choose to disconnect a customer.
5. To allow eligible customers to seek relief under any assistance program that requires customers to be late or subject to disconnection in order to qualify for utility assistance, any customer with a default or agreed-upon payment plan for a minimum of six months after November 6, 2020, is late and subject to disconnection for assistance program purposes only.
6. Entities that provide natural gas, water, wastewater, or electric service to nonresidential customers within the Commonwealth, including, but not limited to entities created under KRS Chapters 96 and 279, are encouraged to establish nondiscriminatory payment plans to customers as described in paragraph 3. of this Order.
7. Federal Coronavirus Relief Funds in the amount of \$15 million will be dedicated for a Healthy at Home Utility Relief Fund that will be created to provide relief from utility service disconnection, primarily relief from disconnection of water and wastewater services.
8. Other funds exist that may also help some utility service customers in Kentucky, including, but not limited to: the Team Kentucky Fund; the Salvation Army; United Way; Catholic Charities; federal Coronavirus Relief Funds distributed to local governments; the One Louisville: COVID-19 Response Fund in Jefferson County; the Association of Community Ministries in Jefferson County; the Financial Assistance Program of the Louisville Metro Department of Community Services; the Emergency Financial Assistance Program of the Lexington-Fayette County Urban Government Division of Community Services; the Kentucky Low-Income Home Energy Assistance Program (LIHEAP); Home Energy Assistance programs administered by Community Action Kentucky; Community Winterhelp, Inc. in Jefferson County; the Federal Emergency Management Agency Individuals and Households Assistance Program; and the Kentucky American Water program named H2O.





**ANDY BESHEAR**  
**GOVERNOR**

**EXECUTIVE ORDER**

**Secretary of State**  
**Frankfort**  
**Kentucky**

**2020-881**  
**October 19, 2020**

9. No provision contained within this Order shall be construed as relieving any individual of the obligation to pay for a utility service provided, or to comply with any other obligation that an individual may have with an entity subject to this Order's terms.
10. Although entities that provide natural gas, water, wastewater, or electric service within the Commonwealth will be permitted to resume service disconnection due to non-payment on November 6, nothing in this Order should be interpreted as requiring these entities to disconnect those services. Any entity may continue to or voluntarily choose to suspend disconnections due to non-payment.
11. Nothing in this Order should be construed to prevent or prohibit any entity that provides provide natural gas, water, wastewater, or electric service within the Commonwealth to voluntarily enter into payment plans with customers for arrearages accumulated for service rendered before or after the time period of May 8, 2020 to October 25, 2020.
12. Any communication related to this Order should be directed to the Kentucky Public Service Commission.
13. Nothing in this Order is intended to supersede the orders of the Kentucky Public Service Commission for utilities under its jurisdiction. The Kentucky Public Service Commission's orders continue in full effect until rescinded or modified by the Kentucky Public Service Commission.
14. Nothing in this Order should be interpreted to interfere with or infringe on the powers of the legislative and judicial branches to perform their constitutional duties or exercise their authority.

This Order is effective on October 19, 2020, and shall be in effect through the duration of the State of Emergency under Executive Order 2020-215, or until this Order is rescinded by further order or by operation of law, and shall be subject to renewal if necessary to protect the lives, property, or welfare of the citizens of the Commonwealth.

  
ANDY BESHEAR, Governor  
Commonwealth of Kentucky

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MICHAEL G. ADAMS  
Secretary of State



KENTUCKY MUNICIPAL ENERGY AGENCY



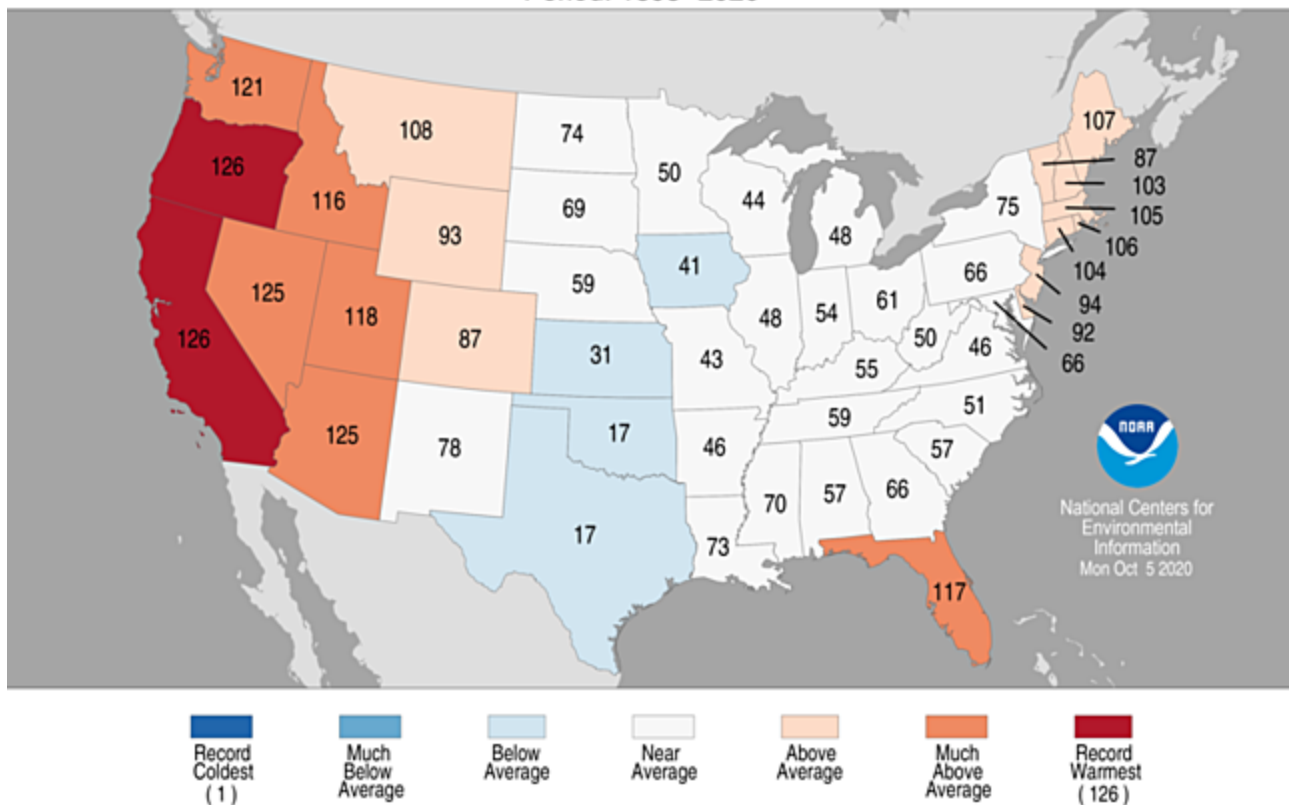
# September 2020 Market Report

Rob Leesman

October 22, 2020

## Statewide Average Temperature Ranks

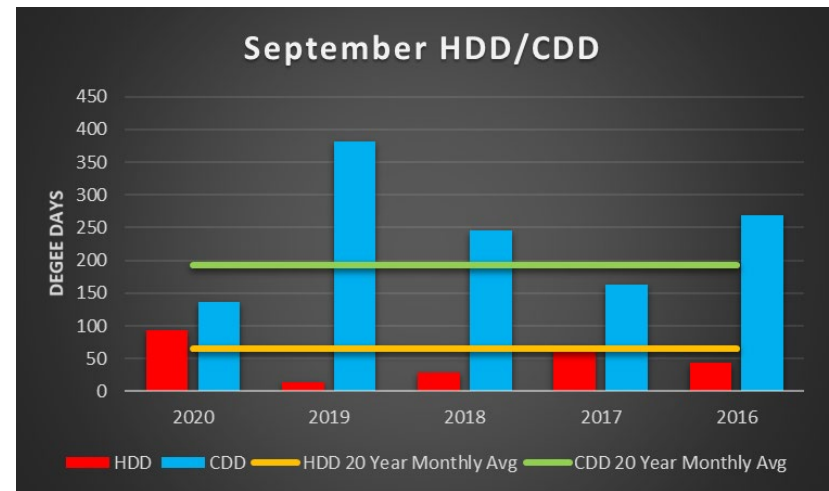
September 2020  
Period: 1895–2020



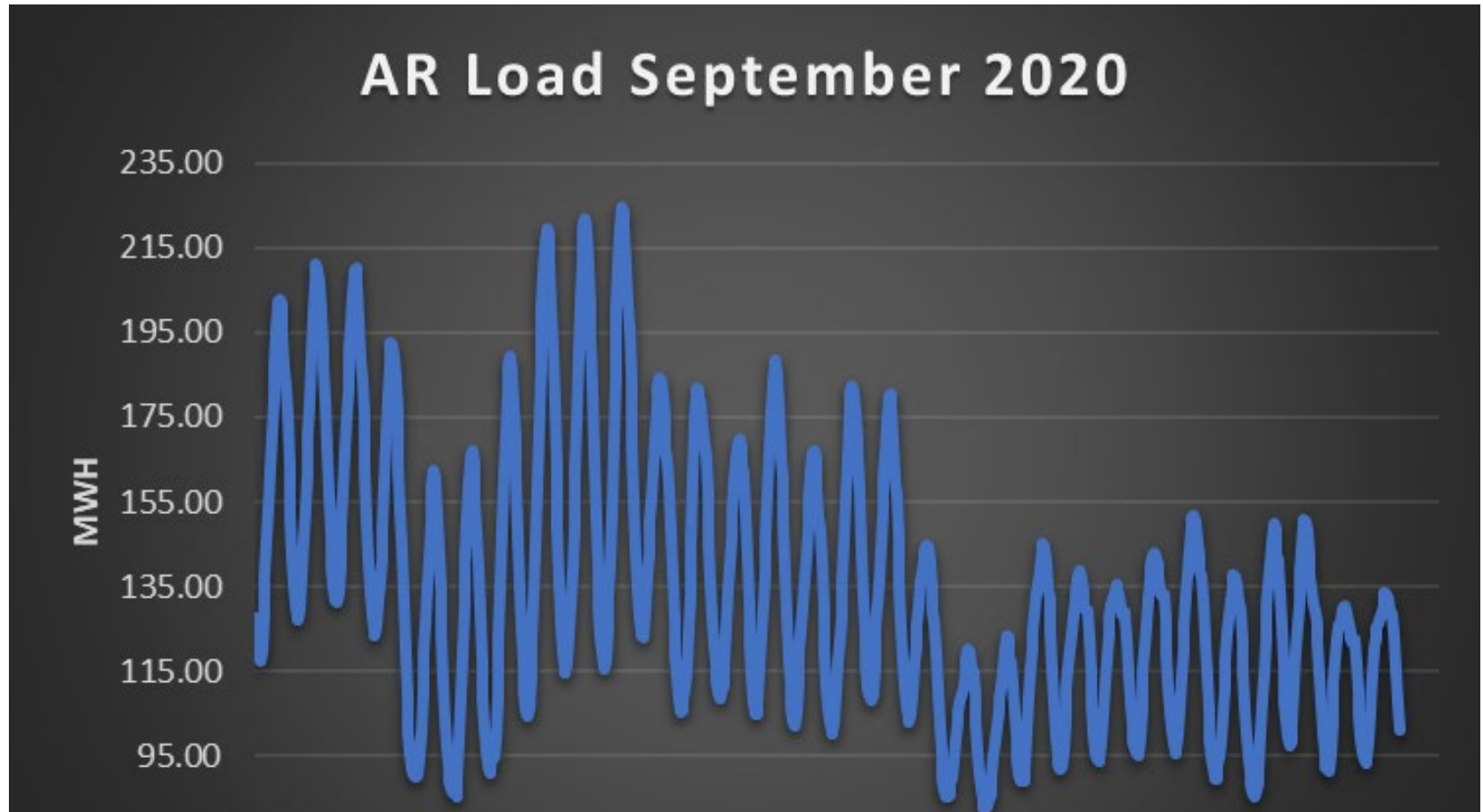
<https://www.ncdc.noaa.gov/temp-and-precip/us-maps/>

# Degree Day

- Degree days are measures of how cold or warm a location is. A degree day compares the mean (the average of the high and low) outdoor temperatures recorded for a location to a standard temperature, usually 65° Fahrenheit (F) in the United States. The more extreme the outside temperature, the higher the number of degree days. A high number of degree days generally results in higher levels of energy use for space heating or cooling.

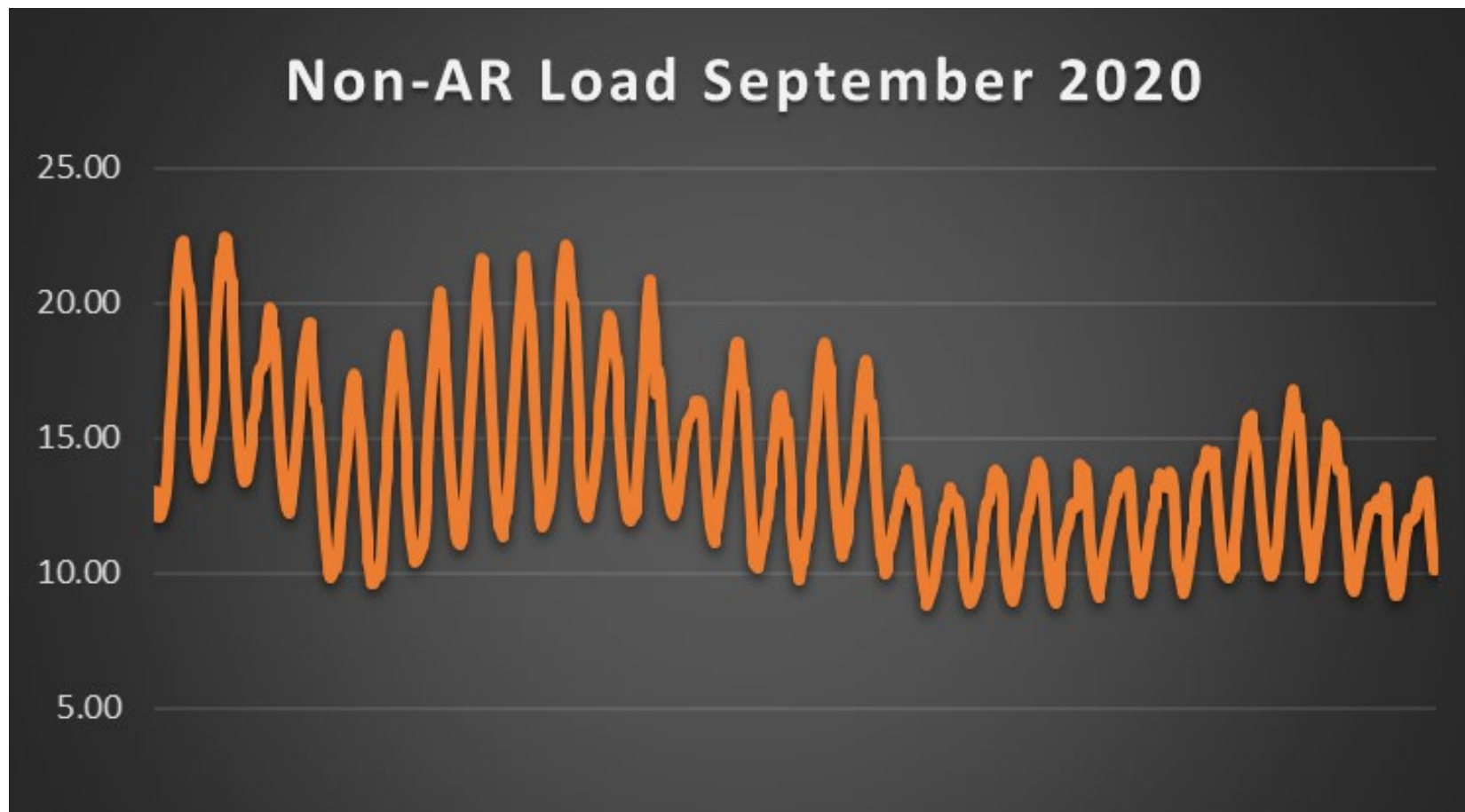


# AR Load September 2020





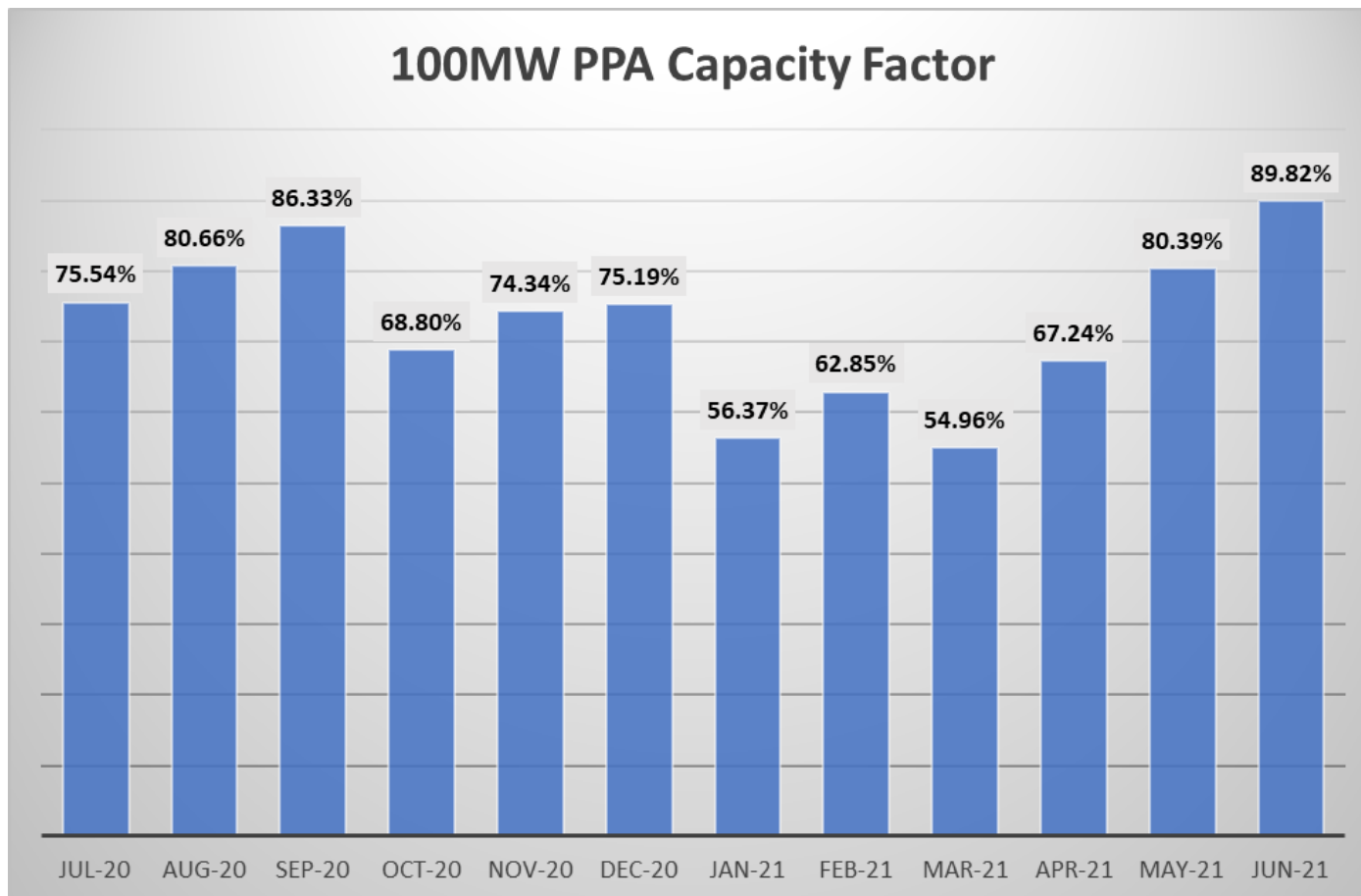
# Non-AR Load September 2020



# September 2020 Snapshot

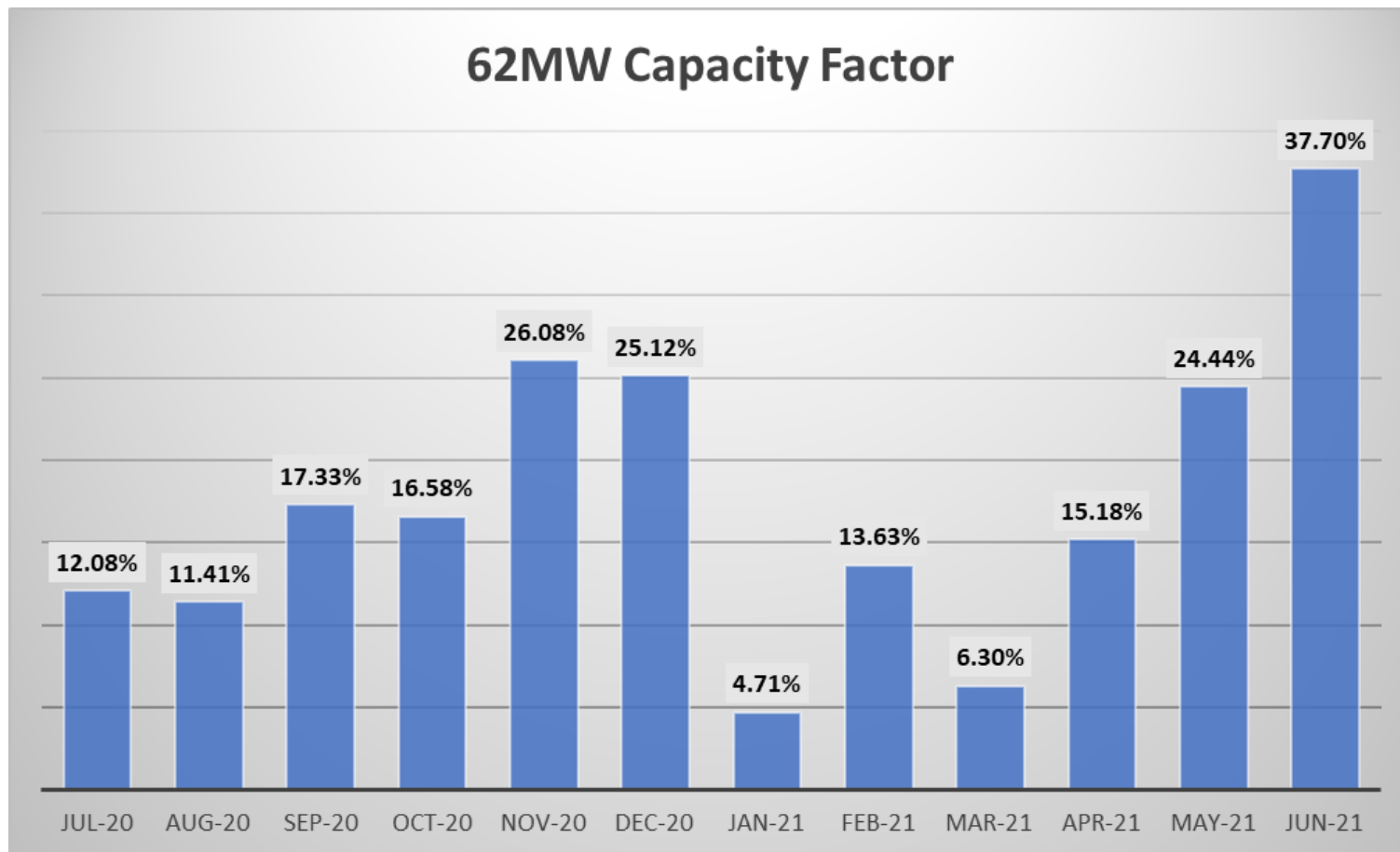
Sep-20							
Member	Budget Energy (MWh)	Actual Energy (MWh)	Actual vs. Budget Energy	Budget NCP (MW)	Actual NCP (MW)	Actual vs. Budget NCP	Timestamp (HE EST)
Barbourville	7,071	6,733	95%	18.69	17.60	94%	9/1/2020 3:00 PM
Bardwell	737	669	91%	2.01	1.74	87%	9/11/2020 4:00 PM
Benham	330	338	103%	0.84	0.89	106%	9/1/2020 5:00 PM
Berea	10,920	9,600	88%	24.97	21.77	87%	9/2/2020 4:00 PM
Corbin	7,089	6,424	91%	19.02	16.60	87%	9/1/2020 3:00 PM
Falmouth	1,448	1,463	101%	3.09	3.74	121%	9/10/2020 5:00 PM
Frankfort	55,400	52,860	95%	127.04	118.98	94%	9/10/2020 3:00 PM
Madisonville	24,929	21,644	87%	58.60	50.36	86%	9/10/2020 3:00 PM
Owensboro	75,615	68,682	91%	170.00	158.00	93%	
Paris	4,163	4,578	110%	10.61	12.52	118%	9/9/2020 4:00 PM
Providence	2,258	2,357	104%	6.05	5.94	98%	9/9/2020 5:00 PM
AR	103,095	96,728	94%	245.09	227.47	93%	
Non-AR	11,250	9,938	88%	25.81	22.66	88%	
All	114,344	106,666	93%	270.90	250.14	92%	
Total	189,959	175,348	92%	440.90	408.14	93%	

# BREC PPA Capacity Factor

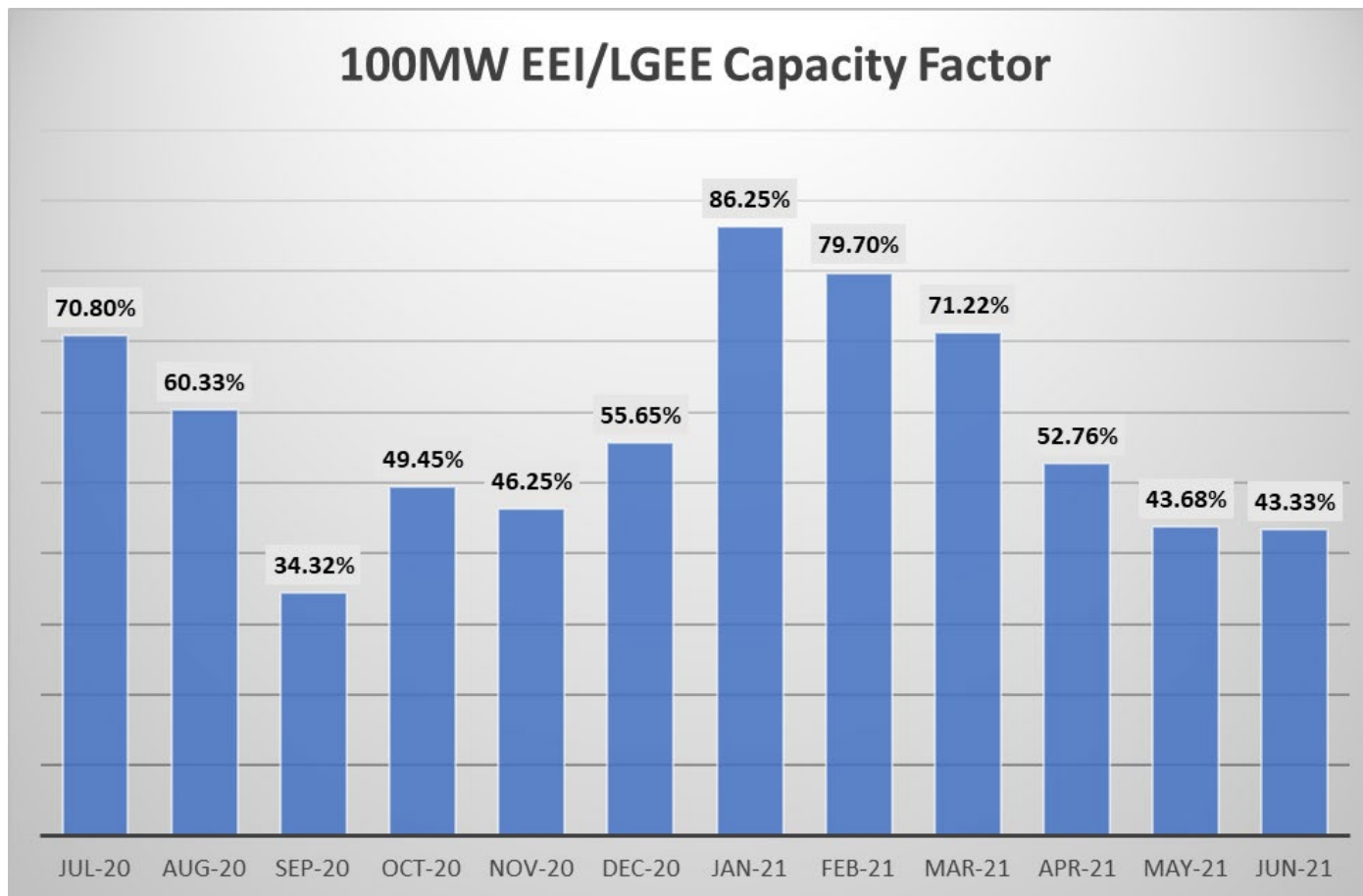




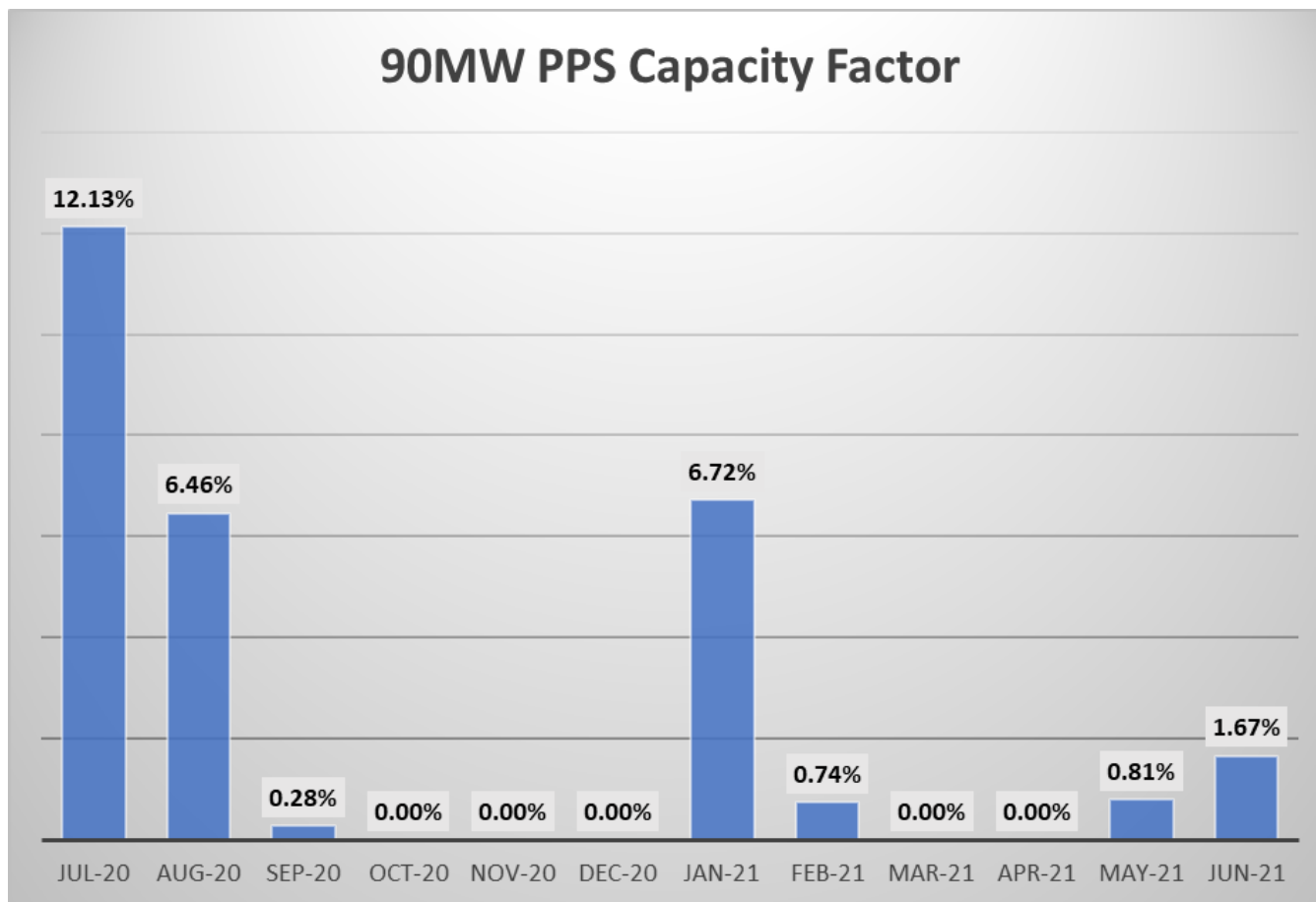
# BREC Option Capacity Factor



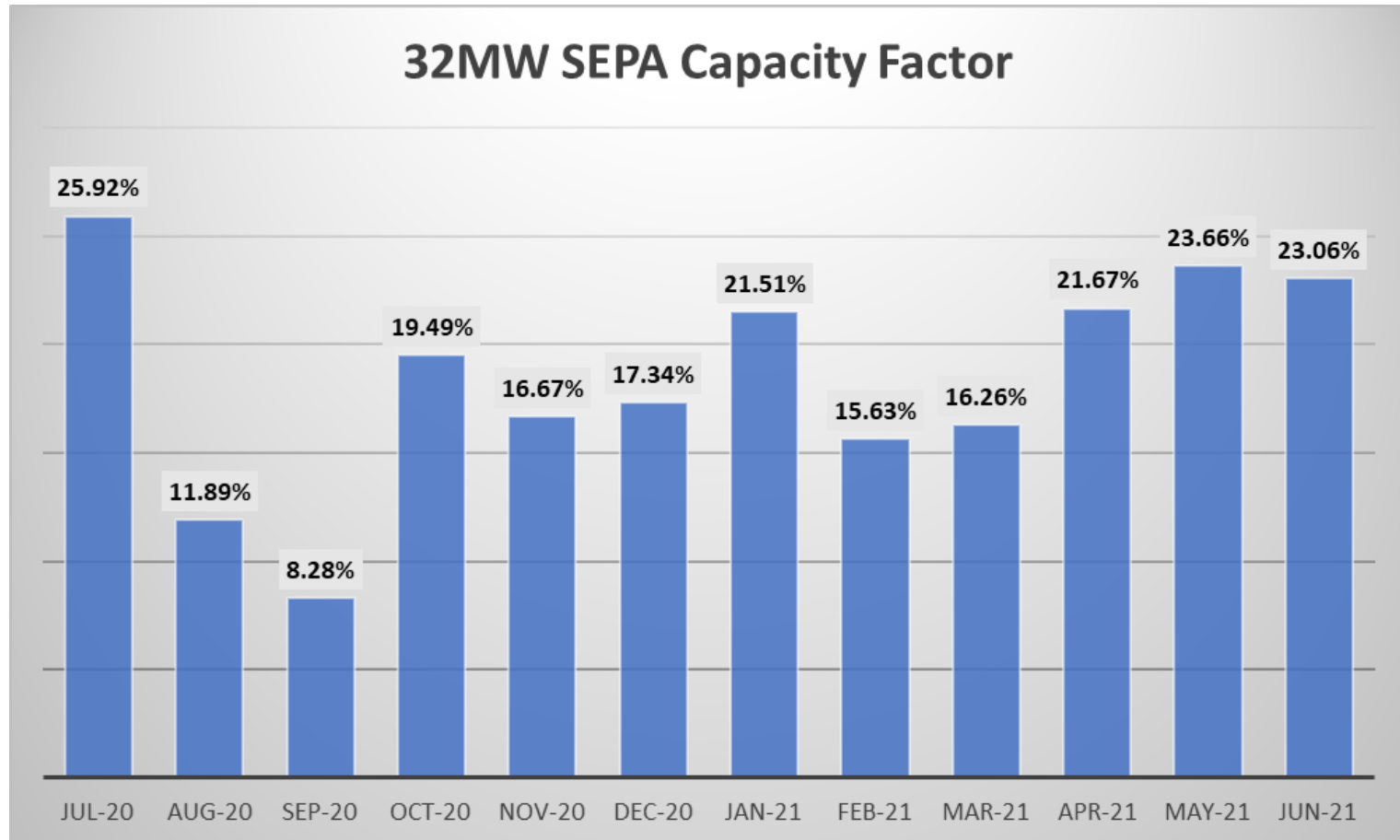
# EEI/LGEE Capacity Factor



# PPS PPA Capacity Factor

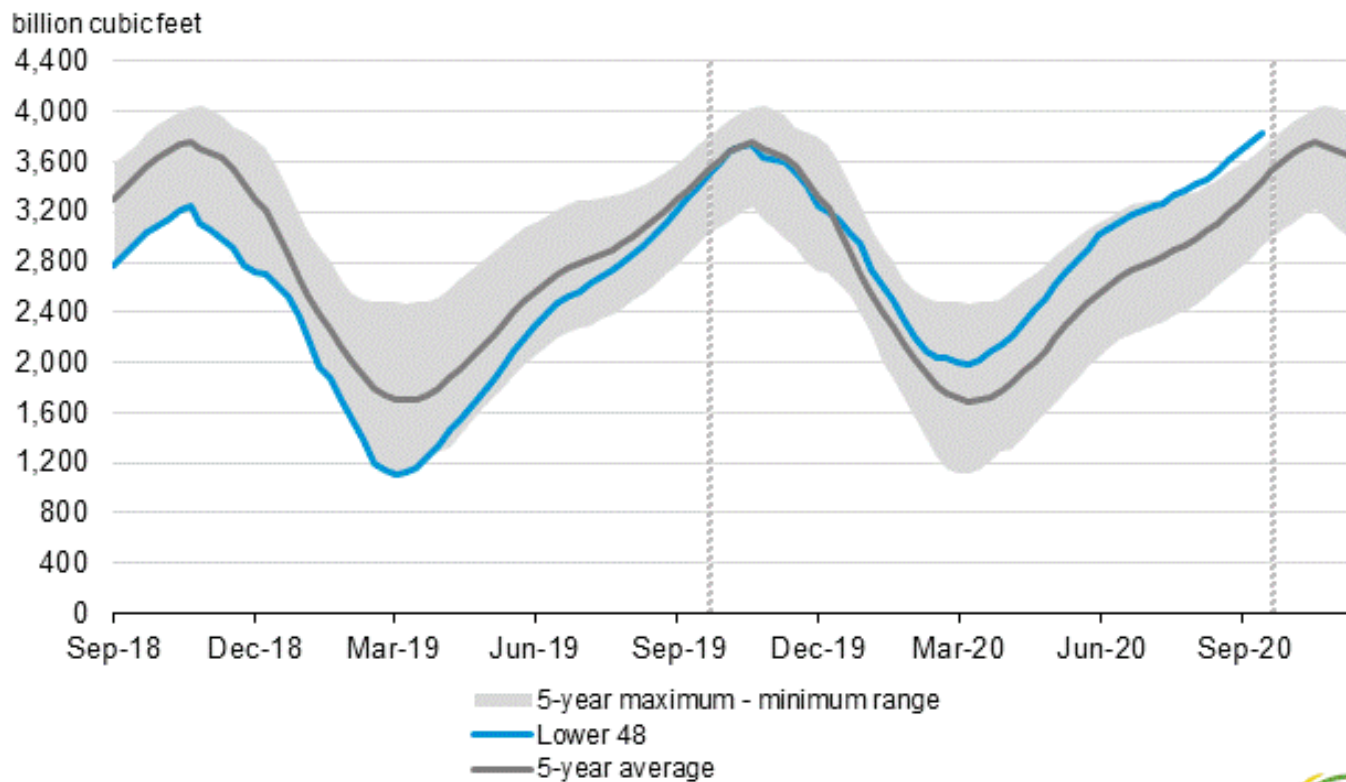


# SEPA Capacity Factor



# Working Gas in Storage

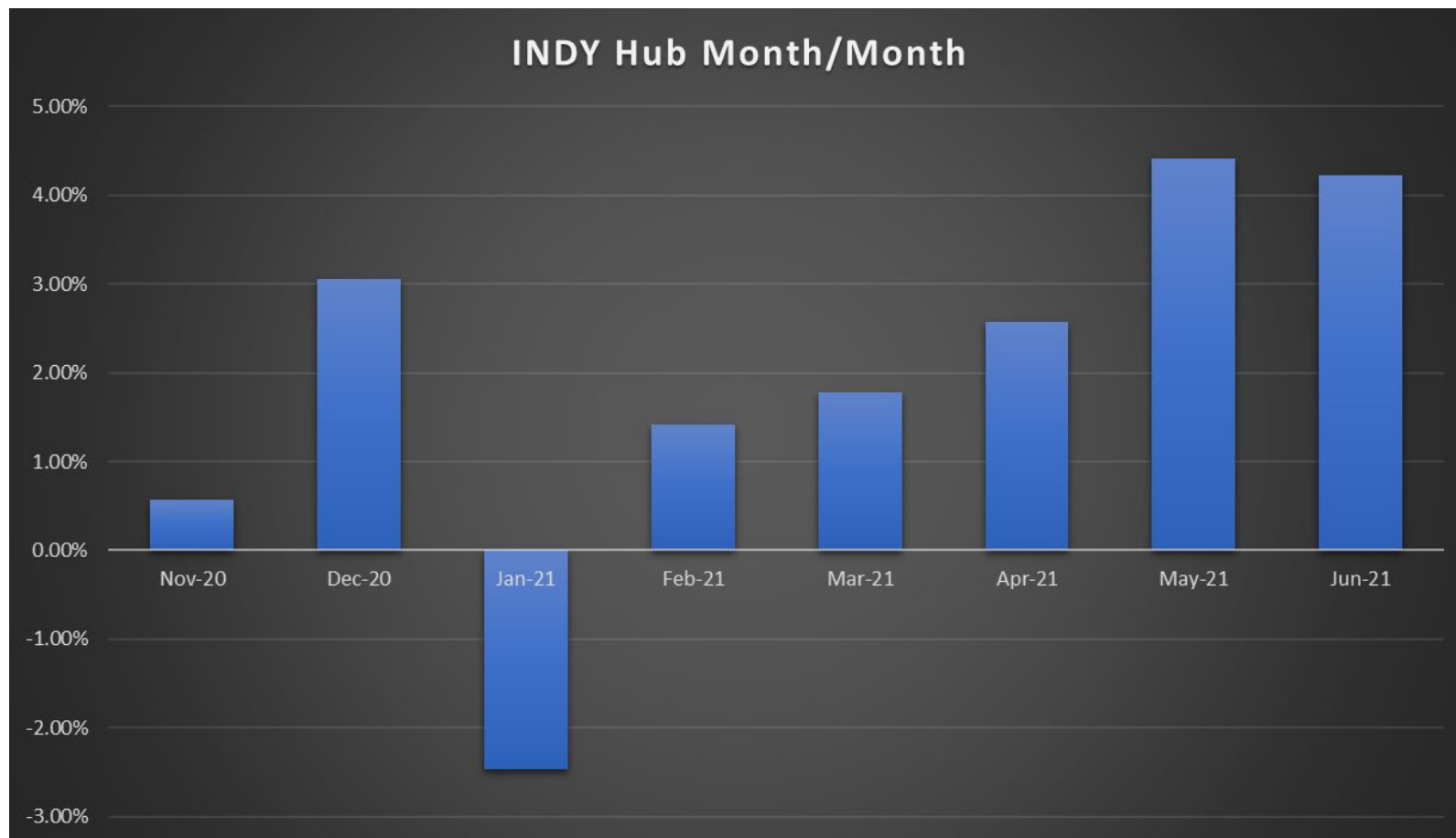
Working gas in underground storage compared with the 5-year maximum and minimum



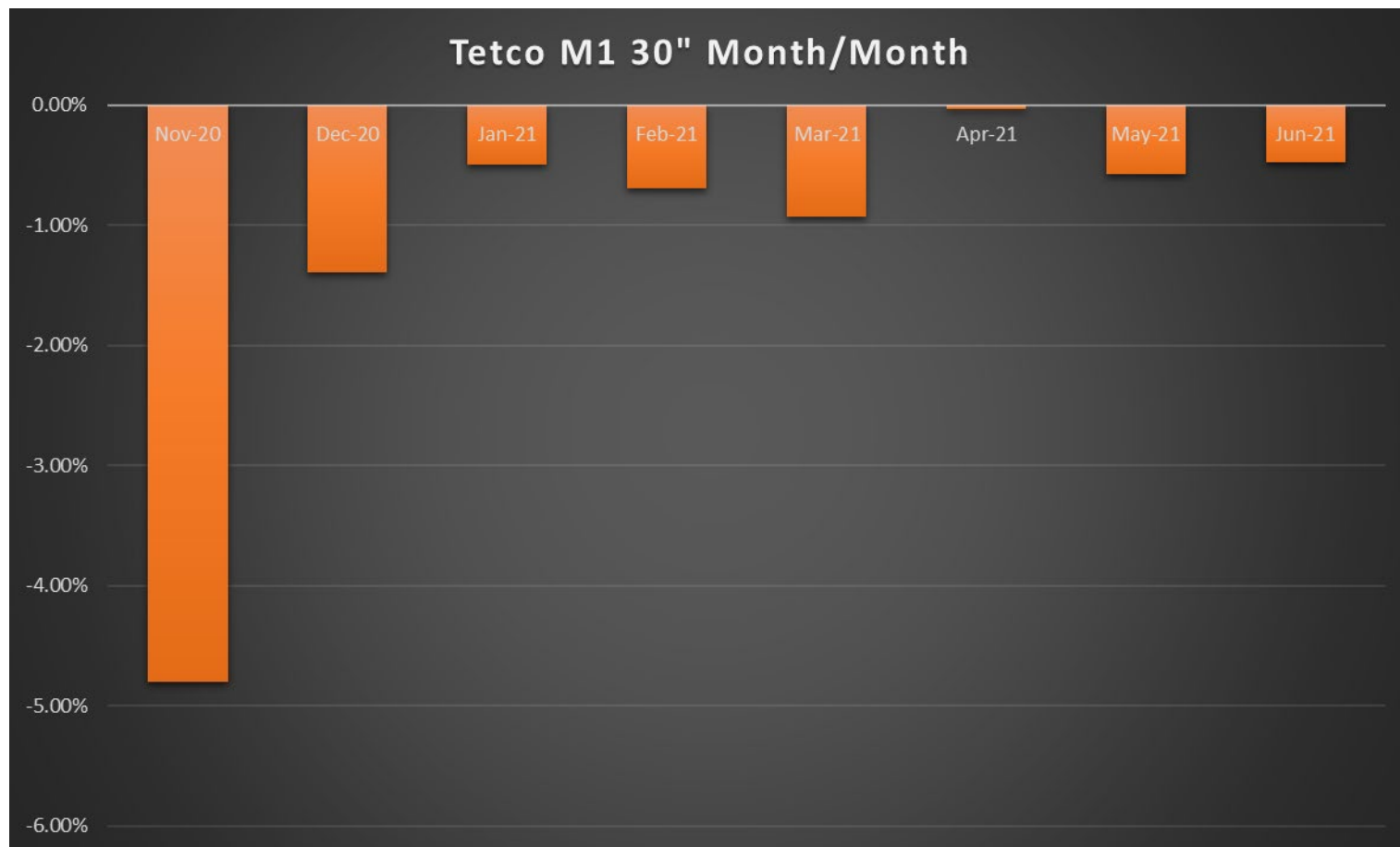
Source: U.S. Energy Information Administration



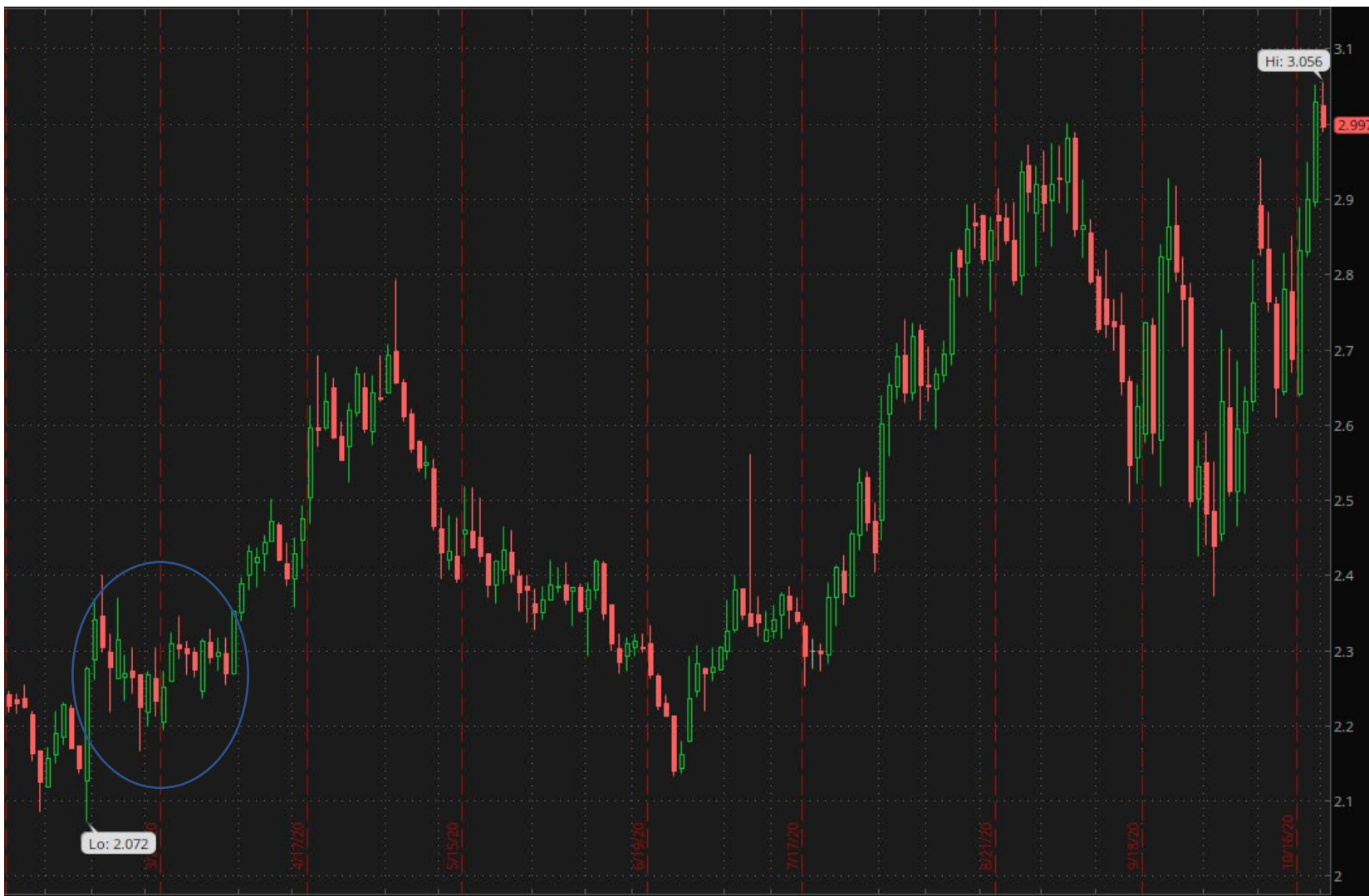
# Indiana Hub ATC



# Tetco M1 30"



# November 2020







KENTUCKY MUNICIPAL ENERGY AGENCY



# Member Communications

Michelle Hixon

October 22, 2020

# Dates to Remember

## November Dates

17 <sup>th</sup> at 2 PM	Budget Committee Meeting
18 <sup>th</sup> at 8:30 AM	Compensation Committee Meeting
18 <sup>th</sup> at 10 AM	KYMEA Board Meeting
26 <sup>th</sup> -27 <sup>th</sup>	Office Closed for Thanksgiving

# Public Power Week 2020

**How did your utility celebrate Public Power Week?**



# Discussion Topics and Miscellaneous Materials

## F. Discussion Topics

- F.1 FY 2022 Budget & Rates Timeline
- F.2 IRP Action Plan





KENTUCKY MUNICIPAL ENERGY AGENCY



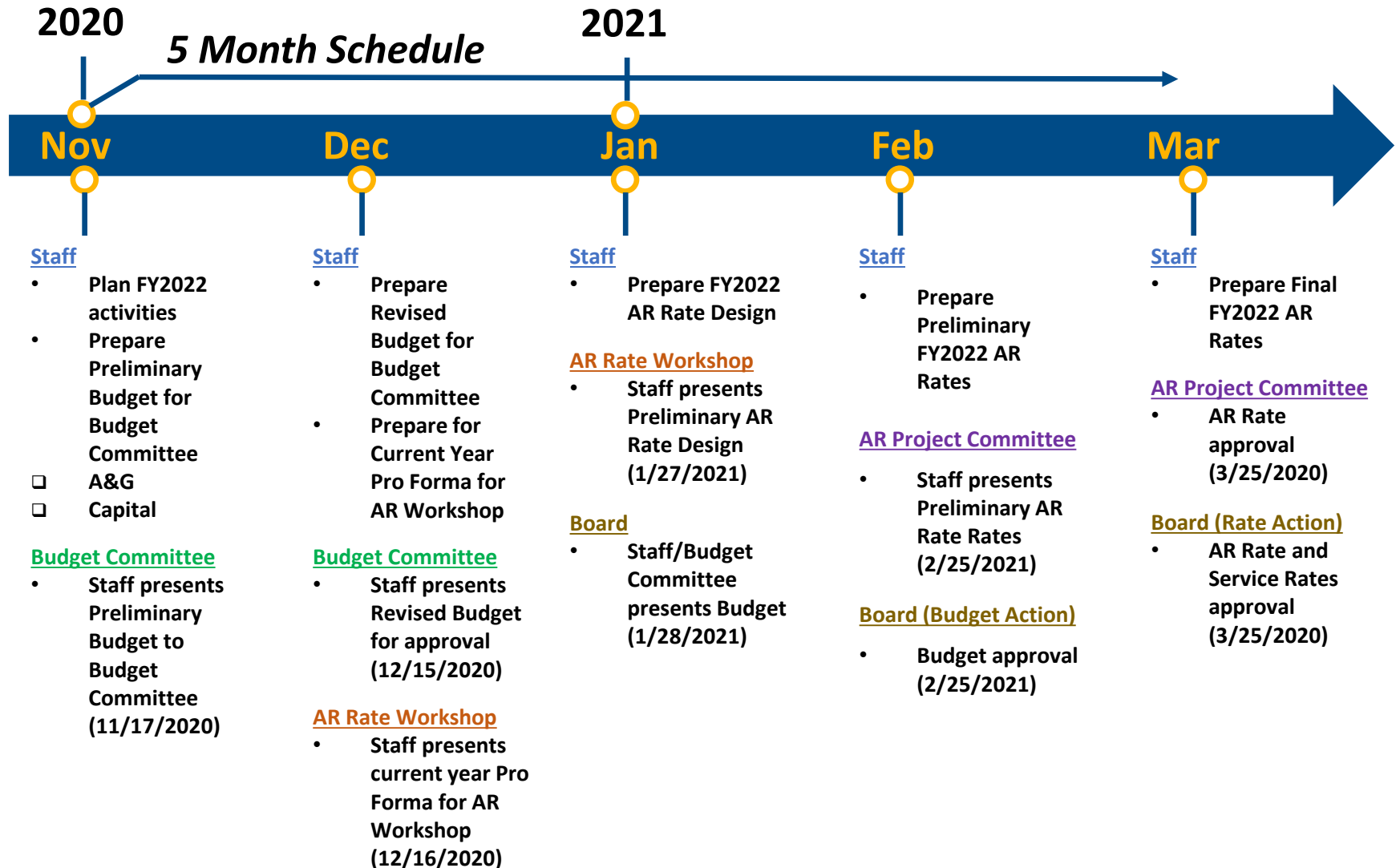
# FY2022 Budget and Rates Schedule

Doug Buresh

October 22, 2020



# FY2022 Budget and Rates





KENTUCKY MUNICIPAL ENERGY AGENCY

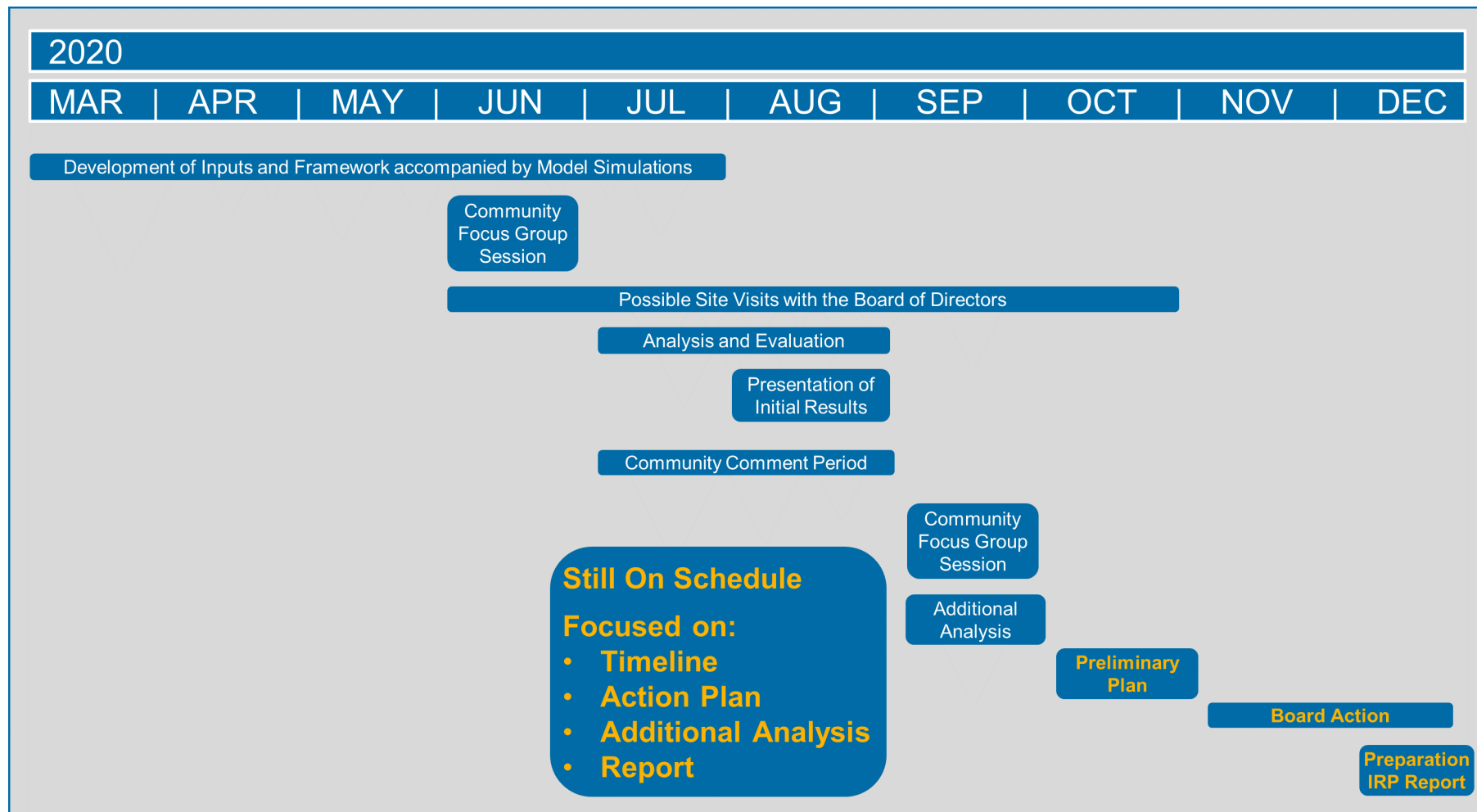


# IRP Schedule / Action Plan

Doug Buress

October 21, 2020

# IRP Key Tasks Timeline - 2020





# IRP ROADMAP TIMELINE

From KYMEA Website

## IRP ROADMAP TIMELINE



### OCTOBER

Preliminary results of the study, to include the IRP recommendation, near-term actions and key elements, and the final environmental assessment.



### NOVEMBER

Expected Request for Approval of the IRP Recommendation from the Board. Nov-Dec. 2020.



### DECEMBER

Publication of the Final IRP by July 2021, on KYMEA's website.

# Key Task Status

- Load Forecast
- Short-Term Action Plan(s)
  - Market + Transmission
  - Short-Term Market with RICE Units
- CO<sub>2</sub> Rates

# Load Forecast

**The 50/50 Load Forecast includes near-term impacts of COVID-19.**

**The 2022 CP 50/50 Forecast is 255 MW and the 90/10 is 276 MW.**

**The compound annual peak demand growth rate (CAGR) is 0.44%**

## AR Group – 50/50 and 90/10 Results

Table 3-1 below provides the summary results for annual demand actuals for 2015-2019 and the 50/50 and 90/10 forecast results through 2030 for both summed NCP and for the combined CP of the AR Group.

**Table 3-1**  
**AR Group – Summed NCP and CP Annual Demand Actuals and Forecast Results**

Year	AR Group Summed NCP (kW)			AR Group CP (kW)		
	Actuals	Forecast 50/50	Forecast 90/10	Actuals	Forecast 50/50	Forecast 90/10
2015	269,379			265,162		
2016	268,916			264,079		
2017	260,552			258,076		
2018	258,678			257,459		
2019	260,934			258,993		
2020						
2021		254,001	275,150		249,897	270,704
2022		258,480	280,138		254,303	275,611
2023		259,559	280,947		255,364	276,407
2024		260,537	282,106		256,327	277,547
2025		261,394	282,958		257,170	278,386
2026		262,175	284,033		257,938	279,443
2027		263,198	284,928		258,945	280,324
2028		263,950	286,067		259,685	281,444
2029		264,864	286,898		260,584	282,262
2030		265,388	287,515		261,100	282,869
2015-2019 CAGR	(0.64%)			(0.47%)		
2020-2030 CAGR		0.439%	0.441%		0.439%	0.441%

# Key Task Status

- Load Forecast
- Short-Term Action Plan(s)
  - Market + Transmission
  - Short-Term Market with RICE Units
- CO<sub>2</sub> Rates

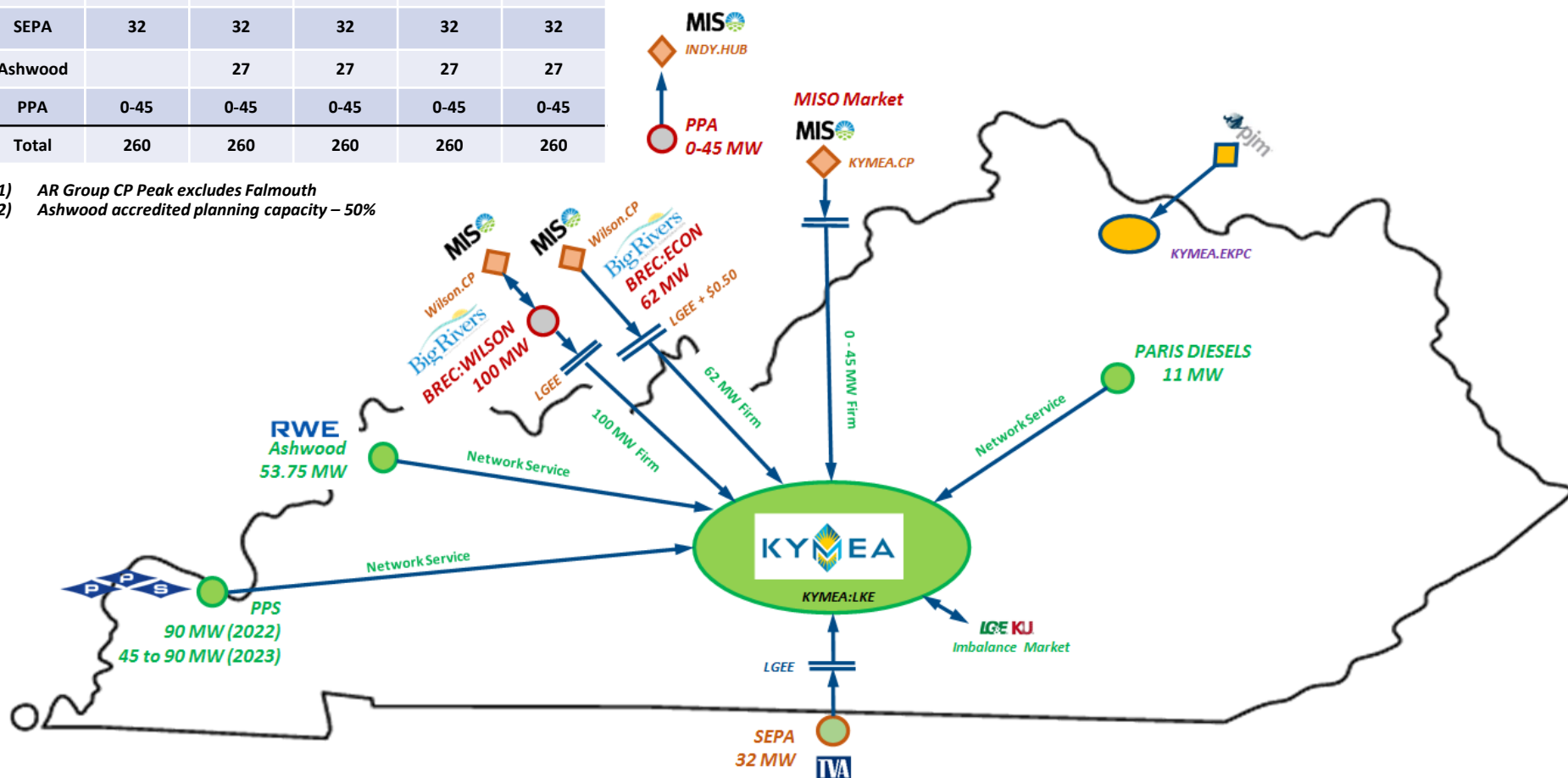
# Market + Transmission + PPA

	PY22/23	PY23/24	PY24/25	PY25/26	PY26/27
CP Peak	255	256	257	258	259
Wilson	100	100	100	100	100
PPS	90	45-90	45-90	45-90	45-90
Paris	11	11	11	11	11
SEPA	32	32	32	32	32
Ashwood		27	27	27	27
PPA	0-45	0-45	0-45	0-45	0-45
Total	260	260	260	260	260

- 1) AR Group CP Peak excludes Falmouth
- 2) Ashwood accredited planning capacity – 50%

## MISO Market

Beginning PY23/24, sum of PPS + PPA = 90



# Key Task Status

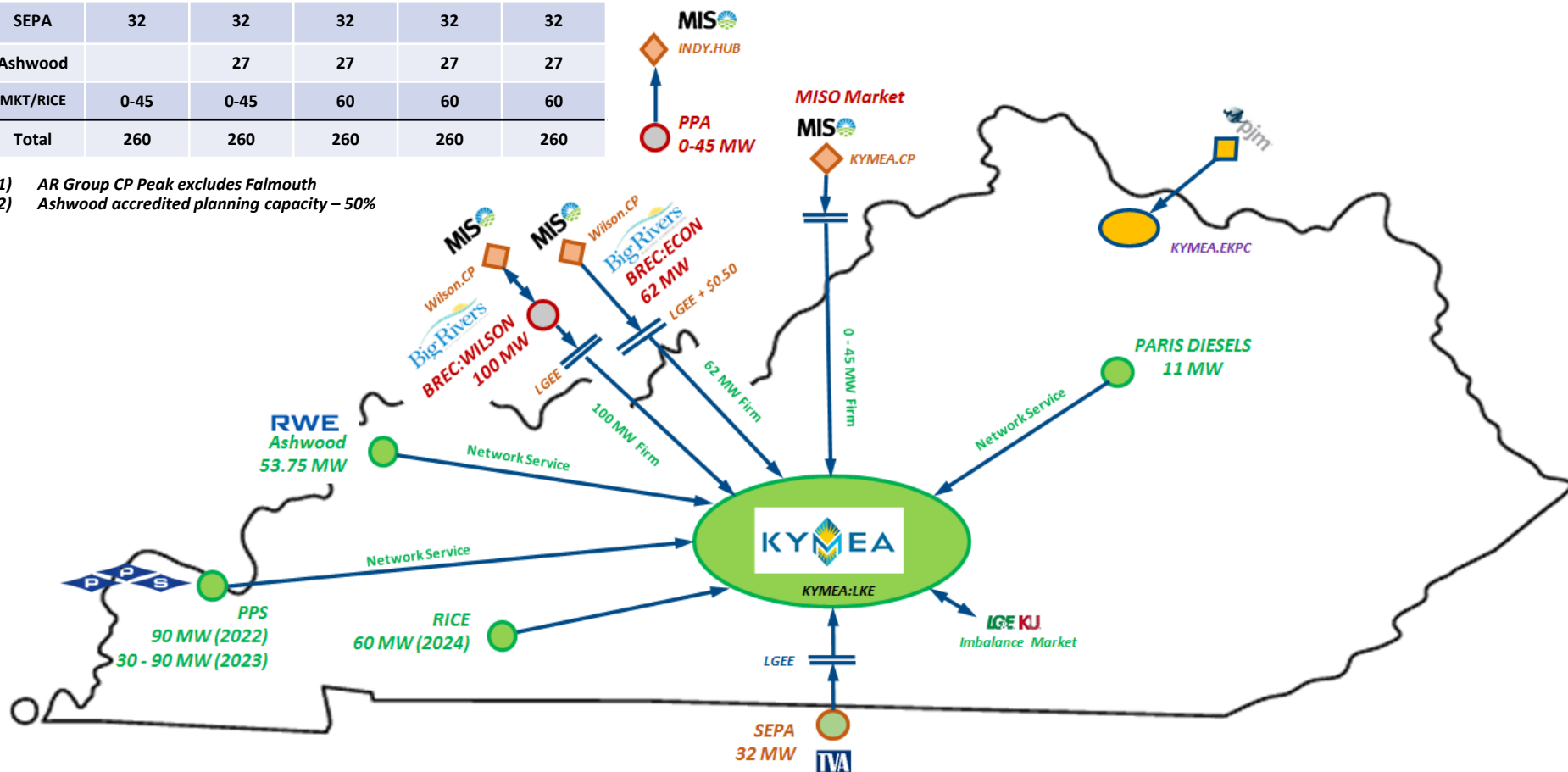
- Load Forecast
- Short-Term Action Plan(s)
  - Market + Transmission
  - Short-Term Market with RICE Units
- CO<sub>2</sub> Rates

# Market + Trans + PPA + RICE

	PY22/23	PY23/24	PY24/25	PY25/26	PY26/27
CP Peak	255	256	257	258	259
Wilson	100	100	100	100	100
PPS	90	30-90	30	30	30
Paris	11	11	11	11	11
SEPA	32	32	32	32	32
Ashwood		27	27	27	27
MKT/RICE	0-45	0-45	60	60	60
Total	260	260	260	260	260

- 1) AR Group CP Peak excludes Falmouth
- 2) Ashwood accredited planning capacity – 50%

*Short-Term MISO Market*  
*Beginning PY23/24, internal generation*

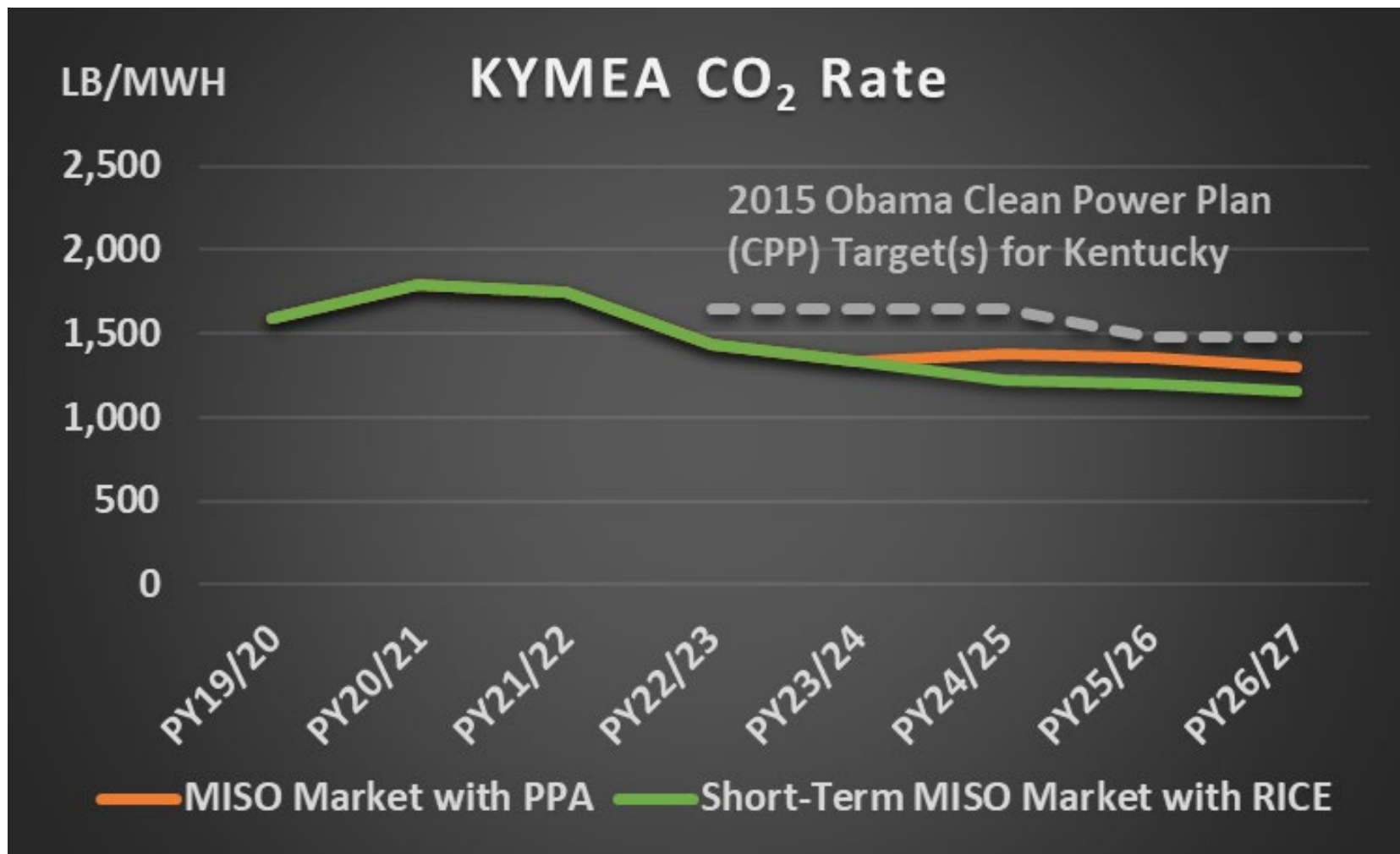


# Key Task Status

- Load Forecast
- Short-Term Action Plan(s)
  - Market + Transmission
  - Short-Term Market with RICE Units
- **CO<sub>2</sub> Rates**



# KYMEA CO<sub>2</sub> Rate



# Action Items

## Action Items

F.3 FY 2020 Audit Report





KENTUCKY MUNICIPAL ENERGY AGENCY



# Audit Report Approval

Doug Buresh/Heather Overby

October 21, 2020

# 2020 Audit and Annual Report

Financial statements of KYMEA for 2019, including a balance sheet and income statement. The balance sheet shows assets of \$1,000,000 and liabilities of \$1,000,000. The income statement shows revenue of \$1,000,000 and expenses of \$1,000,000.



2020

4 Months

Jul

Audit field work completed

**Financial Statement**

- Year-End Closing
- BKD Audit Begins

Aug

**Annual Report**

- Report Design

Independent Auditor's Report

Sep

**Audit Complete**

- Executive Committee Presentation
- Board Presentation

Oct

**Audit Report**

- Seek Board Approval

KYMEA Board Action Required

**Annual Report**

- Staff Internal Report Review

Nov

**Annual Report**

- Release Report

Board of Directors and Management  
Kentucky Municipal Energy Agency  
Louisville, Kentucky

As part of our audit of the financial statements of Kentucky Municipal Energy Agency (the "Agency") as of and for the year ended June 30, 2020, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### **Qualitative Aspects of Significant Accounting Policies and Practices**

#### **Significant Accounting Policies**

The Agency's significant accounting policies are described in Note 1 of the audited financial statements.

#### **Alternative Accounting Treatments**

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- Proper accounting treatment in accordance with the regulated operations provisions of Governmental Accounting Standards Board (GASB) Statement No. 62

### Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Derivative instruments

### Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Commitments
- Derivative instruments

### Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. No audit adjustments were proposed as a result of the fiscal year 2020 audit engagement.

### Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Agency's application of accounting principles. The Agency implemented the following Governmental Accounting Standards Board (GASB) Statements for its fiscal year ended June 30, 2020:

- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

### Other Material Communication

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of Kentucky Municipal Energy Agency (the "Agency") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of

expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matter that we consider to be a deficiency.

### **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.

### **OTHER MATTERS**

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

*New Accounting Standards*

**Governmental Accounting Standards Board Statement No. 87**

The Governmental Accounting Standards Board has issued Statement No. 87, *Leases* (GASB 87). GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

This statement will be effective for the Agency's fiscal year ending June 30, 2022.

**Governmental Accounting Standards Board Statement No. 89**

The Governmental Accounting Standards Board has issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported on the Balance Sheet.

This statement will be effective for the Agency's fiscal year ending June 30, 2022.

**Governmental Accounting Standards Board Statement No. 96**

The Governmental Accounting Standards Board has issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires not disclosures regarding a SBITA.

This statement will be effective for the Agency's fiscal year ending June 30, 2023.

\*\*\*\*\*

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

September 11, 2020



September 11, 2020

**BKD, LLP**

Certified Public Accountants  
1248 "O" Street, Suite 1040  
Lincoln, Nebraska 68508

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2020 and 2019. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 27, 2020, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes



referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
  - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - (b) Additional information that you have requested from us for the purpose of the audit.
  - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - (d) All minutes of meetings of the governing body held through the date of this letter.
  - (e) All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
  - (a) Misappropriation of assets.
  - (b) Misrepresented or misstated assets, liabilities or net position.
8. We have no knowledge of any known or suspected:
  - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
  - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Agency received in communications from employees, customers, regulators, suppliers or others.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.



11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
12. Except as reflected in the financial statements, there are no:
  - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
  - (b) Material transactions omitted or improperly recorded in the financial statements.
  - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
  - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
  - (e) Agreements to purchase assets previously sold.
  - (f) Restrictions on cash balances or compensating balance agreements.
  - (g) Guarantees, whether written or oral, under which the Agency is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe the Agency owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
15. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims



during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

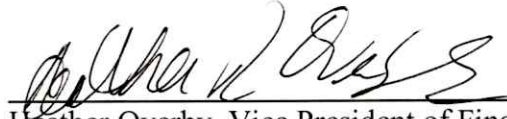
16. Adequate provisions and allowances have been accrued for any material losses from:
  - (a) Uncollectible receivables.
  - (b) Sales commitments, including those unable to be fulfilled.
  - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.
17. Except as disclosed in the financial statements, we have:
  - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
  - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
18. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
19. With regard to deposit and investment activities:
  - (a) All deposit and investment transactions have been made in accordance with legal and contractual requirements.
  - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
  - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
20. With respect to any nonattest services you have provided us during the year, including assistance with drafting of the financial statements and related notes:
  - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
  - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

- (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
  - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
21. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
22. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
23. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
24. We believe the commodity swaps are effective in hedging the risk of market price fluctuations and should be considered qualifying hedging derivative instruments, as defined by GASB Codification Section D40, for financial statement presentation purposes.
25. We acknowledge the current protracted economic decline presents difficult circumstances and challenges for the governmental industry. Governmental entities are facing declines in the fair values of investments and other assets, declines in the volume of business, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the

financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts and notes receivable, etc. that could negatively impact the Agency's ability to meet debt covenants or maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Agency's financial statements. Further, management and the Board are solely responsible for all aspects of managing the Agency, including questioning the quality and valuation of investments, other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.



Doug Buresh, President and CEO



Heather Overby, Vice President of Finance  
& Accounting / CFO



# **Kentucky Municipal Energy Agency**

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

# Kentucky Municipal Energy Agency

## June 30, 2020 and 2019

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## Independent Auditor's Report

Board of Directors  
Kentucky Municipal Energy Agency  
Louisville, Kentucky

We have audited the accompanying financial statements of Kentucky Municipal Energy Agency (the Agency), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Municipal Energy Agency as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**BKD, LLP**

Lincoln, Nebraska  
September 11, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Municipal Energy Agency's ("KYMEA" or the "Agency") financial performance provides an overview of the Agency's activities for the fiscal years ended June 30, 2020, 2019 and 2018. It should be read in conjunction with the basic financial statements and the accompanying notes.

### ***Background***

KYMEA is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KYMEA was created to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency's Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the "Members").

KYMEA was created in 2015 and began supplying power to Members beginning on May 1, 2019. The Agency also incurred costs for administration, which were billed to the Members.

### ***Summary of the Financial Statements***

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about KYMEA's financial position and activities.

**Management's Discussion and Analysis** – provides an objective and easily readable analysis of the financial activities of KYMEA based on currently known facts, decisions or conditions.

**Balance Sheets** – provide a summary of the assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position of KYMEA, as of the Agency's fiscal year end.

**Statements of Revenues, Expenses and Changes in Net Position** – present the operating results of KYMEA into various categories of operating revenues and expenses, and non-operating revenues and expenses.

**Statements of Cash Flows** – report the cash provided by and used for operating activities, as well as other cash sources and uses.

**Notes to the Financial Statements** – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

## Financial Analysis

The following comparative condensed financial information summarizes the Agency's financial position, operating results and cash flows for the years ended June 30, 2020, 2019 and 2018.

### Condensed Balance Sheets

	2020	2019	2018
<b>Assets</b>			
Current assets	\$ 16,643,933	\$ 15,743,430	\$ 410,198
Other noncurrent assets	2,678,471	2,276,111	-
Capital assets	1,317,371	1,363,459	406,037
Total assets	<u>\$ 20,639,775</u>	<u>\$ 19,383,000</u>	<u>\$ 816,235</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
Current liabilities	\$ 8,614,537	\$ 8,145,713	\$ 640,561
Noncurrent liabilities	-	9,032,768	392,005
Deferred inflows of resources	70,198	-	-
Total liabilities and deferred inflows of resources	<u>8,684,735</u>	<u>17,178,481</u>	<u>1,032,566</u>
Net position			
Investment in capital assets	1,317,371	1,363,459	54,487
Unrestricted	10,637,669	841,060	(270,818)
Total net position	<u>11,955,040</u>	<u>2,204,519</u>	<u>(216,331)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 20,639,775</u>	<u>\$ 19,383,000</u>	<u>\$ 816,235</u>

Current assets increased \$0.9 million from the fiscal year ending June 30, 2019 to the fiscal year ending June 30, 2020. This increase resulted from an increase in unrestricted cash from normal operations during the year. Noncurrent assets increased by \$0.4 million in the same period due to an increase in collateral deposits held by regional transmission organizations.

Current assets increased \$15.3 million from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2019. This increase resulted from cash drawn from the line of credit of \$7.7 million and accounts receivable from energy sales to members beginning on May 1, 2019 of \$7.6 million. Noncurrent assets increased by \$2.3 million in the same period due to collateral deposits held by regional transmission organizations.

Current liabilities increased \$0.5 million from the fiscal year ending June 30, 2019 to the fiscal year ending June 30, 2020. This increase was related to the timing of purchased power expenses to serve the electricity needs of KYMEA's members. Noncurrent liabilities decreased by \$9.0 million in the same period due to the line of credit being paid off during fiscal year 2020.

Current liabilities increased \$7.5 million from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2019. This increase was entirely related to purchased power expenses to serve the electricity needs of KYMEA's All Requirements members beginning on May 1, 2019.

### **Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Operating revenues	\$ 80,073,606	\$ 15,488,616	\$ 2,195,330
Operating expenses	70,316,505	12,968,750	2,514,447
Operating income (loss)	9,757,101	2,519,866	(319,117)
Net nonoperating revenues (expenses)	(6,580)	(99,016)	(88)
Change in net position	9,750,521	2,420,850	(319,205)
Net position - Beginning of Year	2,204,519	(216,331)	102,874
Net position - End of Year	\$ 11,955,040	\$ 2,204,519	\$ (216,331)

During May 2019, KYMEA began providing electricity to its All Requirements member communities; therefore, the fiscal year ended June 30, 2020 contains a full twelve months of related operating revenues, as well as purchased power and production costs, related to this service and the fiscal year ended June 30, 2019 contains two months of related operating revenues, as well as purchased power and production costs, related to this service. All increases in operating revenues and operating expenses from the fiscal years ending June 30, 2018 to 2019, and June 30, 2019 to 2020 are a result of this activity.

### **Financing**

In December 2018, the Board approved the Agency to execute a revolving line of credit agreement, expiring March 1, 2021 for advances up to \$30,000,000. 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 \$9,032,768 as of June 30, 2019. There were no amounts outstanding under this line of credit as of June 30, 2020.

In July 2017, the Board approved the Agency to execute a revolving line of credit agreement, expiring October 19, 2019 for advances up to \$5,000,000. Advances under this agreement bear interest at two percent (2%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$392,005 as of June 30, 2018.

### **Capital Assets**

The agency's investment in capital assets (net of accumulated depreciation) as of June 30, 2020 and 2019 totaled \$1,317,371 and \$1,363,459, respectively. This investment includes transportation equipment and building improvements and other equipment related to the Agency's office headquarters.

### **General Trends and Significant Events**

KYMEA will continue to search for additional power and energy resources for its Members, which may include purchased power agreements, investments in power projects and other sources. KYMEA's goal is to establish a portfolio with renewable, coal and natural gas resources to provide more flexibility in response to market changes and future regulations.

**Contact Information**

This financial report is designed to provide a general overview of KYMEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Heather Overby, Chief Financial Officer, 1700 Eastpoint Parkway, Louisville, KY 40223, (502) 640-1304.

# Kentucky Municipal Energy Agency

## Balance Sheets

June 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 8,941,609	\$ 7,755,194
Accounts receivable	7,620,246	7,977,472
Prepaid expenses and other assets	11,880	10,764
Fair value of derivative instruments	70,198	-
Total current assets	<u>16,643,933</u>	<u>15,743,430</u>
<b>Collateral Deposit</b>	<u>2,678,471</u>	<u>2,276,111</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>1,317,371</u>	<u>1,363,459</u>
Total assets	<u><u>\$ 20,639,775</u></u>	<u><u>\$ 19,383,000</u></u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,428,989	\$ 8,001,235
Accrued liabilities	185,416	125,347
Accrued interest payable	132	19,131
Total current liabilities	<u>8,614,537</u>	<u>8,145,713</u>
<b>Line of Credit</b>	<u>-</u>	<u>9,032,768</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows from derivative instruments	<u>70,198</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>8,684,735</u>	<u>17,178,481</u>
<b>Net Position</b>		
Investment in capital assets	1,317,371	1,363,459
Unrestricted	<u>10,637,669</u>	<u>841,060</u>
Total net position	<u>11,955,040</u>	<u>2,204,519</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 20,639,775</u></u>	<u><u>\$ 19,383,000</u></u>

**Kentucky Municipal Energy Agency**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Revenues</b>		
Billings to members	<u>\$ 80,073,606</u>	<u>\$ 15,488,616</u>
Total operating revenues	<u>80,073,606</u>	<u>15,488,616</u>
<b>Operating Expenses</b>		
Production and purchased power	61,031,150	7,314,580
Transmission	7,401,625	2,942,783
Depreciation	176,122	79,134
Other operating expenses	<u>1,707,608</u>	<u>2,632,253</u>
Total operating expenses	<u>70,316,505</u>	<u>12,968,750</u>
<b>Operating Income</b>	<u>9,757,101</u>	<u>2,519,866</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	(26,302)	(107,487)
Interest income	<u>19,722</u>	<u>8,471</u>
Total nonoperating revenues (expenses)	<u>(6,580)</u>	<u>(99,016)</u>
<b>Change in Net Position</b>	<u>9,750,521</u>	<u>2,420,850</u>
<b>Net Position, Beginning of Year</b>	<u>2,204,519</u>	<u>(216,331)</u>
<b>Net Position, End of Year</b>	<u><u>\$ 11,955,040</u></u>	<u><u>\$ 2,204,519</u></u>



# Kentucky Municipal Energy Agency

## Statements of Cash Flows

### Years Ended June 30, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b>Cash Flows From Operating Activities</b>		
Receipts from members	\$ 80,430,832	\$ 7,851,449
Payments to service providers and others	(68,786,310)	(4,480,061)
Payments to employees	(867,366)	(917,210)
Collateral deposit remittances	(402,360)	(2,276,111)
	<u>10,374,796</u>	<u>178,067</u>
<b>Net cash provided by operating activities</b>	<u>10,374,796</u>	<u>178,067</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Advances from line of credit	37,000,000	11,445,933
Payments on line of credit	(46,032,768)	(2,805,170)
Interest payments	(45,301)	-
	<u>(9,078,069)</u>	<u>8,640,763</u>
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>(9,078,069)</u>	<u>8,640,763</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase of capital assets	(130,034)	(1,043,902)
Interest payments	-	(89,647)
	<u>(130,034)</u>	<u>(1,133,549)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(130,034)</u>	<u>(1,133,549)</u>
<b>Cash Flows From Investing Activities</b>		
Interest income	19,722	8,471
	<u>19,722</u>	<u>8,471</u>
<b>Net cash provided by investing activities</b>	<u>19,722</u>	<u>8,471</u>
<b>Net Increase in Cash</b>	1,186,415	7,693,752
<b>Cash, Beginning of Year</b>	<u>7,755,194</u>	<u>61,442</u>
<b>Cash, End of Year</b>	<u><u>\$ 8,941,609</u></u>	<u><u>\$ 7,755,194</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 9,757,101	\$ 2,519,866
Depreciation	176,122	79,134
Changes in operating assets and liabilities		
Accounts receivable	357,226	(7,637,167)
Prepaid expenses and other assets	(1,116)	(2,313)
Fair value of derivative instruments	(70,198)	-
Collateral deposit	(402,360)	(2,276,111)
Accounts payable	427,754	7,395,734
Accrued expenses	60,069	98,924
Deferred inflows from derivative instruments	70,198	-
	<u>10,374,796</u>	<u>178,067</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 10,374,796</u></u>	<u><u>\$ 178,067</u></u>

# **Kentucky Municipal Energy Agency**

## **Notes to Financial Statements**

**June 30, 2020 and 2019**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Kentucky Municipal Energy Agency (“KYMEA” or the “Agency”) is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KYMEA was formed in 2015 to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency’s Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the “Members”).

Eight of the eleven Members have entered into All Requirements Power Sales Contracts (“Contracts”). Under the Contracts, these eight members will purchase all power and energy needed to meet their respective retail requirements, beginning May 1, 2019, and the Contracts also obligate these members to provide revenue sufficient to allow the Agency to meet its obligations, including those related to power purchases, administration and prospective debt issuance.

KYMEA’s Board of Directors (the “Board”) is comprised of representatives from each of the Members. The Board directs and makes all significant decisions relating to the operations of the Agency.

#### ***Reporting Entity***

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency’s ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity’s fiscal dependency on the Agency. Based upon the above criteria, KYMEA has determined that it has no reportable component units.

#### ***Basis of Presentation***

KYMEA’s activities are accounted for on the economic resources measurement focus and use the accrual basis of accounting. KYMEA’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). KYMEA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

# Kentucky Municipal Energy Agency

## Notes to Financial Statements

June 30, 2020 and 2019

### Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

#### ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported balance sheet amounts and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Accounts Receivable***

Accounts receivable are stated at the amount billed to the Members. Accounts receivable are due immediately upon issuance of the invoice, which is ordinarily 20 days after the end of the prior month. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2020 and 2019.

#### ***Collateral Deposit***

KYMEA is a transmission dependent utility of both the Midcontinent Independent System Operator (MISO) and PJM Interconnection LLC (PJM), regional transmission organizations whose purpose is to ensure the reliability of their respective integrated, regional electrical transmission systems, to facilitate a regional wholesale marketplace, to provide non-discriminatory access to the transmission system and to maintain and improve electric system reliability.

The collateral deposit represents funds remitted to these organizations as a form of financial assurance to secure the Agency's performance under the terms and conditions of the respective MISO or PJM Tariffs related to the purchase of transmission service, market services, ancillary services, and related products or services.

#### ***Capital Assets***

Capital assets are stated at cost less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. The following estimated useful lives are being used by the Agency:

Building improvements	15 years
Equipment	5 - 10 years

#### ***Compensated Absences***

Agency policies permit employees to accumulate vacation, personal time and sick leave benefits that may be realized as paid time off or as a cash payment upon retirement. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absences are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

# Kentucky Municipal Energy Agency

## Notes to Financial Statements

June 30, 2020 and 2019

### Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

#### **Net Position Classification**

Net position is required to be classified into three components – investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**Investment in capital assets**- This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if applicable.

**Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Agency has no net position that meets the restricted definition at June 30, 2020 and 2019.

**Unrestricted** - This component of net position consists of the net amount of assets and liabilities that do not meet the definition of “restricted” or “investment in capital assets.”

#### **Classification of Revenues and Expenses**

Operating revenues and expenses are defined as revenues and expenses directly related to, or incurred in support of, the future procurement and distribution of power and energy to KYMEA’s Members. Operating revenues currently include billings to Members to cover Agency administration costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Derivative Instruments**

Derivative instruments are utilized by the Agency to manage market risk and reduce exposure resulting from fluctuations in prices of power and energy. These instruments include commodity swap agreements. Additional information regarding these instruments is shown in Note 5.

#### **Income Taxes**

KYMEA, as a unit of local government of the State of Kentucky, is exempt from federal and state income taxes.

#### **Adoption of Accounting Standards**

At the beginning of the year ended June 30, 2020, the Agency adopted GASB Statement No. 84, *Fiduciary Activities* and paragraphs 4 and 5 of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. Adoption of GASB No. 84 and GASB No. 97 had no effect on the Agency’s financial statements.

# Kentucky Municipal Energy Agency

## Notes to Financial Statements

June 30, 2020 and 2019

### Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Agency's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky, bonds of any city, county, school district or special road district of the State of Kentucky or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to \$250,000 per official custodian at each covered institution. At June 30, 2020 and 2019, the carrying amount of the Agency's deposits were \$8,941,609 and \$7,755,194 and the bank balances were \$8,942,109 and \$7,771,133, respectively. At June 30, 2020 the Agency's deposits exceeded FDIC coverage and collateral held by approximately \$8,692,109.

### Note 3: Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019 was as follows:

	July 1, 2019	Increase	Decrease	Transfers	June 30, 2020
Equipment	\$ 1,191,078	\$ 130,034	\$ -	\$ -	\$ 1,321,112
Building improvements	253,638	-	-	-	253,638
Less: accumulated depreciation	(81,257)	(176,122)	-	-	(257,379)
Totals	<u>\$ 1,363,459</u>	<u>\$ (46,088)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,317,371</u>

	July 1, 2018	Increase	Decrease	Transfers	June 30, 2019
Construction work in progress	\$ 372,498	\$ 1,036,556	\$ -	\$ (1,409,054)	\$ -
Equipment	35,662	-	-	1,155,416	1,191,078
Building improvements	-	-	-	253,638	253,638
Less: accumulated depreciation	(2,123)	(79,134)	-	-	(81,257)
Totals	<u>\$ 406,037</u>	<u>\$ 957,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,363,459</u>

# 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
<b>Cash Flow Hedges:</b>				
		Hourly starting	Hourly through	
19,600 MWh	6/15/2020	7/1/2020	8/31/2020	\$ 19.70
19,600 MWh	6/26/2020	7/1/2020	8/31/2020	\$ 18.50

# Kentucky Municipal Energy Agency

## Notes to Financial Statements

### June 30, 2020 and 2019

#### Note 5: Derivative Instruments – Continued

##### *Objectives and Terms of Derivative Instruments – Continued*

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to a transaction will not fulfill its obligations. At June 30, 2020, for the swaps with a positive fair value, the Agency was exposed to credit risk in the amount of the fair value of the swaps. The Agency reduces its exposure to credit risk by requiring the counterparty to maintain credit ratings as defined in contract documents.

**Termination Risk** – The Agency or the counterparties may terminate the swaps if either party fails to perform as outlined in the terms of the contracts. If a swap agreement is terminated, each party will make the calculations on its part, and will provide to the other party a statement showing relevant quotations and specifying any amount payable according to the applicable swap agreements.

**Basis Risk** – The Agency is exposed to basis risk on the swaps because the variable payments on the commodity swaps are based on the Indiana Hub Day-Ahead pricing point, which is different than the pricing point used by the Agency to purchase power. The basis difference can vary depending on the geographical location of the pricing point.

#### Note 6: Operating Leases

The Agency has entered into a noncancellable operating lease for office space expiring in fiscal year 2024. The lease contains two renewal options for 60 months each. The Agency took occupancy of the office space on August 1, 2018 and recorded rent expense of \$163,587 and \$146,490 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments at June 30, 2020 were:

2021	\$ 162,695
2022	164,426
2023	164,426
2024	41,107

#### Note 7: Retirement Plans

The Agency offers all employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457 (“457 Plan”). The 457 Plan permits employees to defer a portion of their salary until termination, retirement or death.

The Agency also sponsors a defined contribution retirement savings plan, created in accordance with Internal Revenue Code Section 401(a). All full-time employees are eligible to participate in this plan. The Agency contributes 10% of base wages to eligible employees. Eligible employees are those that contribute a minimum of 3% to the 457 Plan. Employer contributions of \$72,032 and \$74,747 were made for the fiscal years ended June 30, 2020 and 2019, respectively.

# Kentucky Municipal Energy Agency

## Notes to Financial Statements

June 30, 2020 and 2019

### Note 7: Retirement Plans - Continued

Assets and liabilities of the retirement plans are not included in the Agency's financial statements as all assets are held and managed by a third-party administrator and the retirement plans are not considered to be component units of the Agency under the applicable accounting guidance.

### Note 8: Commitments

#### *Purchased Power Agreements*

KYMEA expects to supply nearly all of its power requirements through a portfolio of purchased power agreements. The Agency currently has three purchased power agreements in effect, with varying terms, to supply its power requirements beginning May 1, 2019. The first agreement is a 10 year arrangement with Big Rivers Electric Corporation (BREC) for 100 megawatts (MW) of firm base load capacity from BREC's portfolio of owned resources. The second agreement is a three year contract with Illinois Power Marketing Company (IPMC) for 100 MW of capacity from IPMC's 500MW Joppa Power Station, which consists of three coal-fired generating units. The final agreement provides for an initial nomination of 90 MW of peaking capacity from Paducah Power System.

KYMEA has also entered into an agreement to purchase 62.5% of the capacity from Ashwood Solar I, LLC upon Commercial Operation, for a period of 20 years. KYMEA expects to start receiving energy from Ashwood Solar I, LLC in 2022.

### Note 9: Risk Management

KYMEA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to agents and others; and natural disasters. The Agency carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

### Note 10: Subsequent Event

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Agency. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.



# Public Comments

This is an opportunity for members of the public to provide input to the KYMEA Board and is limited to 5 minutes per speaker.



# Upcoming Meetings and Other Business

Next Meeting is Wednesday, November 18<sup>th</sup> at 10 AM at the KYMEA offices

The KYMEA Board of Directors shall hold its regular meetings on the fourth Thursday of each month, except for the months of November and December when the regular meeting shall be held on the third Wednesday. The regular meetings shall convene and commence at 10:00 AM Eastern time on said dates. The regular meetings shall be held at the KYMEA Board Room, 1700 Eastpoint Pkwy, Suite 220, Louisville, Kentucky.



# Closed Session

## K. Closed Session

### K.1 Litigation/Depancaking



## Closed Session Authorization for the October 22, 2020 Board Meeting

Approval to enter into Closed Session pursuant to KRS 61.810(1)(c) for the purpose of discussing proposed, potential or pending litigation relating to KYMEA and its members relating to transmission issues and cost adjustments.

KRS 61.810(1)(c) allows for closed session for the purpose of discussing proposed, potential and pending litigation relating to the agency.

# **Actions Related to Matters Discussed in Closed Session**

## **L. Actions Related to Closed Session**

None expected



# Adjournment

