

LIGHTNING ROUND

March 2021

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Moody's Reaffirms KPP A3 Bond Rating

Plan to Rebuild Liquidity and Cash Reserves Topic at Regular March Meeting

After very much had been said and written about the cost effect of the Winter Storm "Uri", Moody's Investor Services reaffirmed the KPP bond rating of A3. In a Zoom teleconference on March 22nd, KPP Staff was given advance notice of a pending press release.

"What this means certainly is that future borrowing costs will be less than had been expected on the heels of our February performance", commented

KPP CEO/General Manager, Mark Chesney, following the Zoom call. Moody's noted that a quick recovery plan, made formal by the KPP Board, was instrumental in the reaffirmation. Although the "outlook" was changed from "Stable" to "Negative", Moody's noted that KPP's updated rating performance exceeded that of other public power utilities in the Southwest Power Pool and in Texas.



Hours before providing the formalized plan to Moody's, recovery of cash resources and liquidity was given much attention during the regularly scheduled Board meeting on March 18th. Those discussions were intended as a follow up to the March 12th special meeting. On the 12th, reports were given concerning the extent to which cash resources had been accessed, and would be, to pay the Agency's bills through to the end of March. Emphasis was given on the 18th confirming that the Pool will begin rebuilding those resources as payments are received from Members on the February bill.

Formal approval of a recovery plan would include the affirming of a \$0.01/kWh surcharge on monthly bills. The recovery time period was to be 24 months with periodic progress updates from Staff. Also included is a proposed effort to increase the Agency's line of credit.

KPP Staff reported that the Agency should begin very soon going to the bond market to finance



KPP Board Meeting File Photo

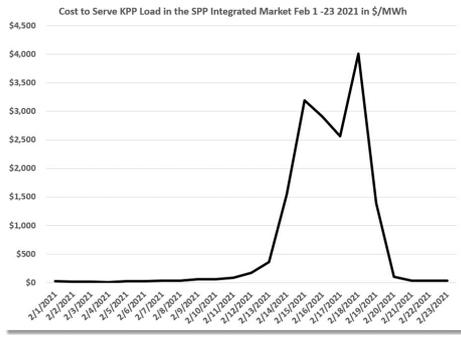
several projects already in progress. With a bond issue, KPP will be reimbursed prior cash outlay to begin projects. Expenses paid already primarily pertain to the Kingman-Cunningham transmission line but also include some expenses paid on AMI projects and the Solomon River Storage Center. Finally, bond financing will also provide funding for Member projects in Marion and Waterville. Those projects, like AMI, will have debt serviced by the Cities.

Barring unforeseen emergencies, Staff reports that KPP's financial health should return to normal by approximately January 2023. Staff adds that this will be an important milestone to achieve prior to financing power supply needed to replace the expiring participation agreement in the Jeffrey Energy Center.

All Extraordinary Expenses to Members Deferred

KPP Board Special Meeting Sets Forth Financial Results Addressing Winter Storm

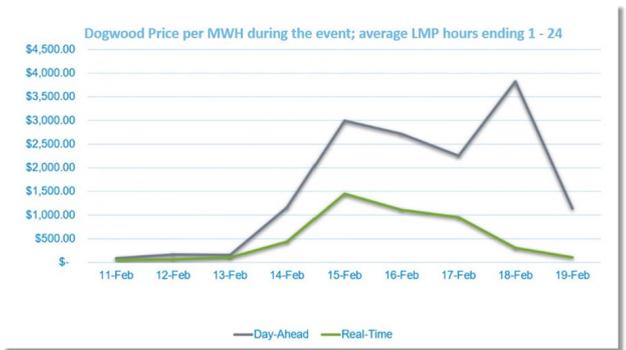
Making aggressive use of available cash resources, KPP disposed of approximately \$20 million in extraordinary winter storm expenses charging Members only for actual February usage. That was the outcome of a Special Meeting of the KPP Board of Directors held virtually on March 12th. Earlier in the week, Members learned that costs for February were 5 times that which was expected and \$19 million above budget.



In a lead up to the Special Meeting a series of virtual presentations were held each day for Members during the week of March 8th. Members then reviewed all KPP financial policies and practices in all fund strategies and the Energy Cost Adjustment (ECA). Members were also informed on costs to serve load and locational marginal prices (LMP) in the Southwest Power Pool (SPP) integrated market and at Dogwood respectively. It was reported before the presentations that Staff's intention was to

prepare all Members by knowing informed decisions going forward would be based on the Pool's financial position and strengths.

With concerns over the cost effect of the winter storm, Members inquired of Staff regarding future KPP bond ratings. These inquiries occurred during both the regular February Board meeting and the Special meeting. Responding to those concerns, CEO/General Manager, Mark Chesney, commented that all utilities in the SPP were "financially comprised" by the storm event. All are expected to be unfavorably reviewed by ratings agencies. "We are confident of this having conferred with both our auditor and also our bond underwriter", he said. Mark expressed his opinion that few utilities were as well prepared to address this event as KPP.



To recover cash outlay for the extraordinary expenses, Board Members considered 3 options. Formal action was taken to surcharge the budgeted ECA for February with an additional \$0.01/kWh.



The same surcharge would be applied also to the March and April bills with the understanding that further consideration will be given to subsequent bills later this Spring. It has been speculated, based on historical energy sales, that the surcharge would recover less than \$20 million in 24 months' time.

Screenshot from Special Meeting on March 12th

NEXT BOARD MEETING
THURSDAY,
APRIL 15, 2021, 11:30am