

## Kentucky Municipal Energy Agency Due Diligence Study

### Reference Sheet

March 19, 2018

In response to concerns raised by Berea City Council members, as well as a September 2017 council vote to terminate all contracts between the City of Berea and the Kentucky Municipal Energy Agency (KyMEA), the city administration engaged legal, utilities and financial consultants to answer two questions:

1. Does the city's agreement with KyMEA, through an inter-local agreement and electricity transmission contract, expose the city to unacceptable risk, unappreciated costs, or potentially unreliable electric service?
2. Should the city implement the council's recommendation to cancel the city's contracts with KyMEA, or, should the recommendation be modified or ignored?

#### Recommended Action Items:

1. In consultation with the city, an attorney and a financial consultant recommended that the city remain a member of KyMEA, emphasizing that the city should proceed cautiously before terminating a contract. According to the legal counsel, terminating the contract without assessing the financial ramifications for the city would be "highly imprudent."
2. Looking toward the city's future power needs after 2024, the city will form a group to study and propose long-term solutions for securing Berea's electric power from diverse resources, offering flexible options in accordance with a changing market, evolving regulations, and emerging technology.
3. Taking into consideration the concerns raised by the council, the mayor will direct staff to work to amend the KyMEA contract to allow for a termination period of 180 days instead of the 30-day period originally provided.
4. In response to concerns raised by the council, and on the advice of counsel contracted to conduct this study, the mayor will direct the city's representatives on the KyMEA board to clarify KyMEA's billing policies.
5. The mayor will also instruct Berea Municipal Utilities staff to work with AMP to document AMP's commitment to provide 25MW of capacity and at what price, and to work with KyMEA to purchase an additional 10 MW of capacity to be in reserve during

Berea's most demanding winter period. The capacity will be provided on a seasonal basis from 2019 through 2024.

Reasons for Recommended Action:

1. AMP has contracted to provide both energy and capacity. It has contracted with NextEra energy to deliver that energy through the Midcontinent Independent System Operator Inc. (MISO) power network. While AMP is committed to provide 25MW of capacity, both AMP and MISO recommend Berea engage KyMEA to acquire an additional 10 MW of capacity to ensure uninterrupted service during winter months when the network may be strained during severe weather.
2. Through its agreement with KyMEA, Berea can obtain 10MW of capacity during the city's peak usage period – only during winter months – instead of paying for an entire year of that service. Thus, instead of paying \$360,000 a year for that 10 MW, BMU would pay \$120,000 a year. The savings would be \$1.2 million over the five-year contract.
3. KyMEA estimates the annual administrative cost for Berea's membership will be approximately \$25,000 per year. After deducting the cost of KyMEA membership paid to date and the estimated future costs of KyMEA membership (\$2,100 per month) over the five-year contract, the estimated savings would amount to \$955,825.
4. By terminating its contract with Kentucky Utilities in 2019 and contracting with AMP and KyMEA from 2019 through 2024, the city will realize a projected administrative savings of 13.5% over the life of the contract.
5. The study concluded that KyMEA is an organization that is sufficiently established and equipped to provide transmission service and capacity for Berea Municipal Utilities. The organization is under the direction of an experienced CEO, and the cities of Paris and Benham have been receiving service without issue since May 2017. KyMEA is based on an established organization, the Kentucky Mutual Utility Association (KMUA), which has served several municipal power entities in Kentucky.