LaFontaine and KyMEA - AMP contracts

Understanding Berea's Wholesale Electric Power Purchase Contracts

Mr. LaFontaine has asked for answers to several questions about Berea's wholesale electric power contracts. Here are my responses. I have placed copies on the table and on the city's website.

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1. **Why perform "due diligence" in September 2017? It should have been done before terminating the KU contract.**

Response: To the contrary, Berea studied the issue for several years before notifying KU in May 2014 that it would terminate its wholesale electric purchase contract in May 2019. The main motive was the potential to save up to $10M over five years in the cost of electricity from another supplier.

In 2009, the electric distribution business was becoming deregulated and wholesale prices for electricity were increasing, prompting Berea and other Kentucky municipals to terminate their contracts with KU and think about forming a buying cooperative as a hedge against increasing costs.

In 2014, Berea, Barbourville, Bardwell, Benham, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence gave Kentucky Utilities the required five-year-notice to terminate these contracts.

On June 7, 2016, the Berea City Council approved Berea becoming a member of American Municipal Power, Inc. of Ohio (AMP) and purchasing its wholesale electricity from AMP when the KU contract expired in 2019.

After joining AMP, the method for transmitting electricity to Berea still had to be determined. Ultimately, Berea decided to use the Kentucky Municipal Energy Agency (KyMEA) to deliver AMP's electricity over KU's lines to Berea's sub-stations. Therefore, on September 6, 2016, the Berea Council approved joining KyMEA.

But one year later on September 19, 2017, the City Council abruptly voted to terminate all contracts with KyMEA. Two weeks later, I announced that Berea would conduct a "due diligence" investigation to assess the implications of that abrupt and unplanned vote.

2. What is "capacity?" Does Berea need it?

Response: A municipal electric system that does not generate electricity has "capacity" when it specifies a generation source for its supply. Many experts say that good utility practice requires matching electric load obligations with electric generation capacity. In fact, MISO, which stands for Midcontinent Independent System Operator and is the regional organization that coordinates AMP's wholesale electric sales to Berea, has such a requirement.

AMP explains "capacity" as follows:

- Although KU does not require a municipal electric system to designate a specific source of generation to back its energy supply, good utility practice suggests having such capacity, and MISO, in which AMP operates, requires it.
- If MISO has an emergency within its network from, for instance from exceptionally high demand caused by extremely cold weather, it can limit exports of electricity to those buyers with "capacity-backed" delivery points only (slide11) and refuse electricity to those without capacity.
- In such an emergency, because Berea has "capacity," our flow of energy would be uninterrupted from Smithland Hydro to KU and on to Berea (slide 16). Berea needs "capacity" to hedge the risk of interruption and ensure that its customers have electricity to meet their needs.

3. If Berea buys capacity, would it be cheaper to buy all 35 MW from AMP or to purchase 25 MW from AMP and 10MW from KyMEA?

Response: The most economical approach for Berea is to purchase 25 MW from AMP year-round and 10 MW from KyMEA on a seasonal basis. This scenario will net a savings of over $320,000 during the five-

year contract period because of KyMEA's ability to offer a seasonal purchase for winter months when Berea's peak demand is highest. If Berea purchases the entire 35 MW from AMP, the capacity must be purchased for 12 months.

The calculations below illustrate Berea's capacity costs for each scenario:

Scenario 1 – Purchase 25 MW from AMP and 10 MW from KyMEA

25 MW x $1.50 per kW x 12 months	$450,000 per year
10 MW x $3.85 per kW x 3 months	$115,500 per year
Total Capacity Costs	**$565,500 per year**

Scenario 2 – Purchase 35 MW from AMP

35 MW x $1.50 per kW x 12 months	**$630,000 per year**

The savings represented by Scenario 1 is $64,500 per year or $322,500 over the five-year contract term.

4. What benefit does KyMEA provide Berea?

Response: By being a member of KyMEA, Berea will:

a) Receive cheaper capacity;

b) Share the costs of fighting KU's attempt to charge 2 transmission fees in the Federal Energy Regulatory Commission (FERC) in Washington;

c) Share the costs of many required transmission and load studies; and

d) Collaborate in general with other municipal utilities in areas of planning and cost-sharing.

Simply put, the reason these opportunities are available to Berea is because we **are** KyMEA. Berea College, the Sewer Commission, and after 2005, Berea Municipal Utilities, worked for years on a variety of projects with the utilities that now comprise KyMEA.

In 1975, these utilities formed (MEPAK), the Municipal Electric Power Association of Kentucky. In 2009, MEPAK became (KMUA), the Kentucky Municipal Utilities Association. In 2011, members of the Municipal Water and Waste Water Association joined KMUA which, in 2017, had 42 municipal utility members, including Berea Municipal Utility.

The existence of these associations over the years is significant because it illustrates how municipal utilities in Kentucky have cooperated for decades prior to the formation of KyMEA. Therefore, I repeat that Berea is KyMEA. It is a new agency only in the sense that these years of previous cooperation were formalized by the Interlocal Agreement in 2015.

Jerry Hensley, a CPA and the City's former auditor, confirmed that Berea will benefit from its KyMEA connection in his portion of the "due diligence" analysis. He stressed that Berea is presently positioned to experience substantial savings in cost to deliver power to its customers through its contracts with AMP and KyMEA. He commented that membership in KyMEA enabled the City to save transmission study costs and allows it to make the seasonal purchase of capacity to comply with MISO requirements to support load requirements.

Mr. Hensley stressed that the estimated cost of energy, capacity and other services provided by AMP for FY 2020, prepared as of 10/11/2017, when adjusted for future administrative costs, would be 13.5% less than the expected average cost KU would have charged over the same five-year period.

5. **When will the electric power contracts issue be finalized?**

Response: The contracts between Berea and AMP are in place. The first is a full requirements energy supply schedule that was signed on September 2, 2016 and runs from May 1, 2019 to April 30, 2024. The other two contracts with AMP are for capacity: one is for 10 MW that runs May 1 to May 31, 2019 to complete a fiscal year; the second is for

25 MW that runs June 1, 2019 to April 30, 2024. Both have a demand rate not to exceed $1.50 per kW month.

The contracts with KyMEA cover transmission and capacity. The transmission contract was signed September 6, 2016 and runs from May 1, 2019 to April 30, 2024 unless terminated earlier by giving notice. The capacity contract is for 10 MW of seasonal capacity at cost under a one-year contract beginning in May 2019 that can be renewed annually up to four times at Berea's option. This capacity contract will cover Berea's seasonal peak demand during the winters of 2019 through 2024.

Berea now needs to start planning for its wholesale electric purchases post-2024. To do so, the City will begin by forming a permanent group to study, evaluate, and propose the criteria and possible sources for a long term power supply contract with flexible options to respond to changing market, regulatory, scientific and technological conditions. This group will design what is often called "an Integrated Resource Plan" to provide reliable and least-cost electric service to all BMU customers while addressing the substantial risks and uncertainties inherent in the electric utility business long-term.

These answers will change few minds. But, at least now "you have heard the rest of the story." Thank you for your attention.