

Amendment 3 / MOU

Update

for



May 10, 2018

AGENDA

- ◆ A Quick Review of Topics from December
- ◆ What has Changed
- ◆ New Estimated NPV Savings
- ◆ Questions?

Where We Left Off Last Meeting

- Morgan offered a 18 year capacity deal for \$125/MW-Day
 - Hedge at \$125/MW-day not a perfect hedge, but tool used to keep from large swings
- Energy Market had gone up, then come back down
 - 12/19/2017 = \$33.95 for 20 years
- Estimate of EKPC fee to be our Agent in PJM
 - Estimate to be \$400k/yr
- **New NPV \$122.8 M (\$34.00 energy price, with admin fee)**

Scenario Analysis on Final Zone Price Risk

- NPV assuming a perfect hedge = **\$122.8 M**
- Scenarios considered for increase between RTO Price and Final Zonal Pricing
 - 10% = \$137.50 / MW-day in every year - **NPV = \$119.5 M**
 - 25% = \$156.25 / MW-day in every year - **NPV = \$114.5 M**
 - 50% = \$187.50 / MW-day in every year - **NPV = \$106.2 M**
 - 75% = \$218.75 / MW-day in every year - **NPV = \$98.0 M**
 - 80% = \$225.00 / MW-day in every year - **NPV = \$96.3 M**
 - Morgan's offer to fully fix price through the Final Zonal Pricing
 - 100% = \$250.00 / MW-day in every year - **NPV = \$89.7 M**

Benefits and Risks of Executing this Contract

Benefits

- Estimated Savings – NPV
 - Between \$122.8 M and \$89.7 M (with a conservative Base Case)
- Diversity in Power Supplier
 - 15% of load served by someone other than EKPC
- Fuel Diversity
 - EKPC coal driven
 - This is fixed market energy

Risks

- PJM is constantly changing
 - New capacity and energy rules
 - Subsidized coal and nuclear
- Change in Law/Environmental
- Capacity Hedge Risk
- Future Market Energy Price below \$34.00
- SKRECC will be required to obtain a Master Letter of credit for the length of the contract
- PSC approval and scrutiny

Conclusions From Last Meeting

- This should be pretty easy
 - Yes, there is some variability in capacity pricing and other miscellaneous costs in PJM
 - These variables make up a small portion of the overall deal
 - 11% - 13% = Capacity costs
 - 10% - 13% = PJM costs and NITS
- We are still looking at probable savings well in excess of \$100 M
- Chance we pay more for this 58 MW than we would have paid if EKPC kept serving it – close to zero
- Yes, there are some risks of changes in PJM policy and Changes in Law
 - EKPC and the rest of PJM face same/similar risks
- Prepare internal strategy for PSC review

What Has Changed?

- Have the Risks Changed from What We Discussed?
 - Term? Is 20 years too long?
 - Fixed Energy Price?
 - Market Price?
 - Source of Energy?
 - Changes in Law?
 - Environmental Change in Law?
 - The Capacity Hedge?
 - Incremental auctions?
 - Future Price of Capacity?
 - PJM Market and Rules?
 - Regulatory Risk?/Cost Shifting?

What Has Changed?

- Have the Estimates of Savings Changed?
 - Yes, the estimates of savings have changed
 - Through the discovery process, the interveners questioned many of the assumptions regarding the analysis
 - In many cases we disagree with their changes and challenged those assumptions in our rebuttal testimony
 - They did make a few points in which we refined our analysis:
 - Changed and updated the base energy and capacity rates
 - Changed and updated the transmission rate issue
 - Added Fuel Adjustment Clause (FAC) and Environmental Surcharge (ES)
 - Escalated the EKPC Agency Fee (Do not agree, but small impact).

What Has Changed?

- How did these changes impact the projected savings?
 - December range of savings: - “Between \$122.8M and \$89.7M (with a conservative Base Case)”
 - Savings projections with the changes as of today:
 - \$110.8M - \$77.7M over the 20 year term.
- Do we feel these estimates are still conservative?
 - Yes, for the estimated savings of \$110.8M, we kept the FAC a credit in all years when the 2015 Long Range Financial Forecast (LRFF) has it switching to an escalating cost 2019-2034, and we de-escalated the ES by -2.33% each year according to the LRFF
 - The 2015 Long Range Financial Forecast is the most recent approved by the EKPC Board of Directors
 - In fact if we were to use the FAC and ES from the 2015 LRFF, savings are estimated at:
 - \$235.9M over the 20 year term

Q&A