

# Citizens

## Message to EMP Cities – 3/17/21 FROM KMEA

We wanted to provide an update on the February Extreme Cold Weather event with some background and a list of current efforts that are on-going as we speak.

### **SPP Background**

SPP runs an organized electricity market, called the Integrated Marketplace. This market is a very defined and structured system. SPP is regulated by the Federal Energy Regulatory Commission (FERC) and has a FERC approved tariff that it is obligated to follow. This tariff provides for the rules and regulations for SPP to operate the day-ahead and real-time markets. The market participants, including KMEA, have to abide by these rules and regulations. All market participants experienced the same high electric prices during the February extreme weather event. Each of our members were impacted differently based on their power supply portfolio. Cities that have generation were somewhat shielded by the high prices since they generated power to limit their exposure. Other cities saw significant costs due to a higher level of net purchases from the market at these higher prices.

### **SPP Payment Terms**

The SPP tariff contains provisions for payment by the market participants. KMEA is the market participant for 41 cities (7 from EMP1, 14 from EMP2, 19 from EMP3 and the City of Eudora). SPP's billing is done on a weekly basis. We, at KMEA, have always billed our members on a monthly basis. Unfortunately, due to the high prices and the enormity of the dollars, we had to change to weekly billing for the 2-week period covering the extreme cold weather event in February.

The SPP payment provisions require us to pay the bill when due. If not paid, it is an automatic default of the terms of the tariff. The ramifications of payment default are severe. The market participant has a 2-day cure period to make payment. If not paid within 2 days, then SPP will draw and deplete any existing collateral that they hold on our behalf. Second, they will pursue all legal options to collect and finally, they can cease market participation. Although each remedy is severe, the last one is very concerning as it would leave the 41 cities in an unknown situation on how we would be able to provide the energy supply to the cities.

We were able to make payment to SPP for the two weekly invoices that included the high prices. We had three cities from whom we either did not receive a payment or we received only a partial payment. We utilized existing cash reserves to cover the shortfall and pay the bills when due. We are currently working with those three cities and expect to receive payment in the near future. If we do not receive payment by March 19, we will most likely need to pull on the UMB Bank line-of-credit to cover the shortfall. We will continue to pursue payment from any city that has not paid us. Again, I'm expecting that these three cities will be making payment in the near future.

### **High Gas and Electric Prices**

The core reason for the high electric prices was the escalated natural gas prices. The price of natural gas soared to never-seen-before levels reaching as high as \$630/MMBtu in Kansas and over \$1,000/MMBtu in Oklahoma. In my career, the highest price that we have seen in the Kansas was \$31/MMBtu and that

occurred for one day in 2014 during the polar vortex. These prices are over 20 times the highest price ever seen before.

This led to extremely high SPP day-ahead and real-time prices. The table below shows the average SPP Day-Ahead prices for each KMEA load point for the period from February 12-20.

Average Day-Ahead LMPs					
	EMP1 load	EMP2 (GC/Meade) load	EMP2 (Legacy) load	EMP3 load	Eudora load
	KMEA_EMP1_KCPL	KMEA_EMP2_SECI	KMEA_EMP2_WPEK	KMEA_EMP3_WR	KMEA_EUDORA
2/12/2021	\$165.97	\$161.31	\$168.77	\$166.44	\$164.01
2/13/2021	\$160.86	\$164.84	\$168.30	\$163.56	\$159.22
2/14/2021	\$1,159.15	\$1,128.78	\$1,188.48	\$1,166.97	\$1,148.80
2/15/2021	\$3,004.16	\$2,852.17	\$3,055.97	\$3,024.24	\$2,967.45
2/16/2021	\$2,721.97	\$2,688.05	\$2,743.71	\$2,753.54	\$2,693.75
2/17/2021	\$2,270.20	\$2,178.87	\$2,247.56	\$2,273.95	\$2,280.90
2/18/2021	\$3,840.51	\$3,750.33	\$3,887.00	\$3,904.10	\$3,852.27
2/19/2021	\$1,127.87	\$1,151.69	\$1,162.02	\$1,141.38	\$1,109.14
2/20/2021	\$94.36	\$93.73	\$94.76	\$97.44	\$93.25
2/14-2/19 Avg	\$2,353.98	\$2,291.65	\$2,380.79	\$2,377.36	\$2,342.05

You can see that the daily average for February 18 was \$3,700-3,900 per MWh. The highest one-hour price that we saw for EMP load was over \$4,600 per MWh.

### **Efforts On-going Related to the High Gas and Electric Prices**

We are pursuing and monitoring various efforts that are on-going regarding this event.

1. SPP Dispute Resolution: SPP has a dispute resolution process and we initiated that process on March 9 by filing a dispute on the two February invoices. We believe that many other Market Participants have also filed disputes. We will work with SPP but we believe these disputes won't be addressed until after the Market Monitor review is completed (see below).
2. SPP Independent Market Monitor Unit (MMU): SPP's Independent Market Monitor is responsible for monitoring SPP's Markets and services. The group's primary purpose is to ensure SPP's markets are efficient and fair. The Market Monitor is currently investigating the high electric prices and, in particular, the SPP tariff requirement that Market Participants submit support to the MMU for actual costs for offers above \$1,000/MWh. The tariff requires that this process be completed within 45 days of the Operating Day. SPP and the MMU made a joint filing to FERC on March 11 requesting that the 45 days requirement be extended to 105 days. This extension is needed due to the volume of information that the MMU must review. It is our understanding that any adjustments in the market prices and charges would occur during the month of June.
3. SPP Assessment: In addition to the independent MMU review, SPP announced that they were also going to do a comprehensive review of the February event. This review will include various groups (SPP staff, stakeholders, the independent SPP Market Monitoring Unit and the SPP Regional State Committee) and initial findings should be completed in April with final assessment and recommendations to be completed in July.
4. FERC Investigation: On February 22, FERC announced that they will be doing an investigation on the wholesale natural gas and electricity markets to determine if any market participants engaged in market manipulation or other violations. These investigations will be done on a

confidential basis and not in a public forum. We will monitor these investigations as best as we can.

5. Kansas Attorney General: We have been in contact with the Kansas AG's office regarding the high natural gas prices and are cooperating with them and providing information as requested as they investigate the markets during the February event.

### **Final Thoughts**

We appreciate the financial difficulty the recent bills have caused our members. We will continue to pursue and monitor the activities listed above. Any corrections in the prices or charges that we will receive will be passed on to our members.

Let me know if there is any additional information you need from us regarding our invoices.