

# Financial Effects of the February 2021 Extreme Winter Weather and the Proposed Extraordinary Event Cost Recovery Rider

Public Information Session  
March 29, 2021

1

## What happened?

- ▶ In February 2021, extreme cold weather across much of the central United States caused an increase in demand for natural gas for home heating and power generation.
  - ▶ Natural gas production was limited due to cold weather conditions.
  - ▶ Demand for natural gas exceeded supply.
- ▶ Wind was not as available due to operational limitations during cold weather.
- ▶ Many other conventional power generation sources were offline for myriad of reasons.
- ▶ The shortages of available generation during a period of increased electric demand created reliability concerns and increased the cost of market energy.
- ▶ As the regional transmission organization and balancing authority, SPP determined their 14-state region did not have enough available generation to meet region-wide demand for electricity. They issued energy emergency alerts and directed generation and transmission-operating utilities (like Sunflower Electric) to reduce their system energy use by the amount needed to bring supply and demand into balance.

2

## Organizational Roles and Responsibilities

### Victory Electric

- Your local distribution electric cooperative based in Dodge City.
- Serves all or part of Ford, Gray, Hodgeman, Finney, Clark, Edwards, Haskell, Kiowa, and Meade counties.
- Victory Electric does NOT own any power generation.
- *Examples of other distribution co-ops include Wheatland in Scott City, Pioneer in Ulysses, Lane-Scott in Dighton, etc.*

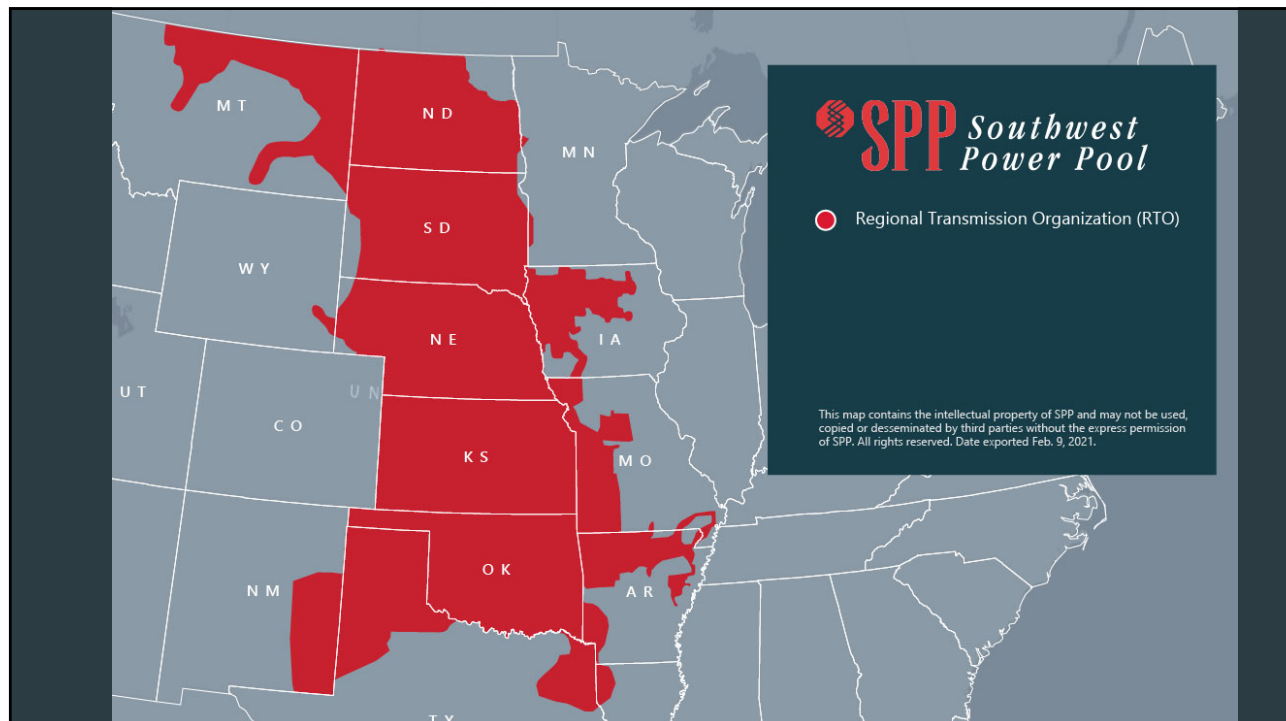
### Sunflower Electric

- A Generation and Transmission (G&T) utility
- Victory Electric's wholesale power supplier.
- When SPP issues a load shed directive during an energy emergency, Sunflower chooses "load block" areas to curtail in order to meet SPP's directives.
- Sunflower owns a coal plant in Holcomb, various natural gas generating plants, a solar farm, and has purchase power agreements with several wind farms.
- *(Examples of G&Ts include Tri-State in Colorado, OG&E in Oklahoma, etc.)*

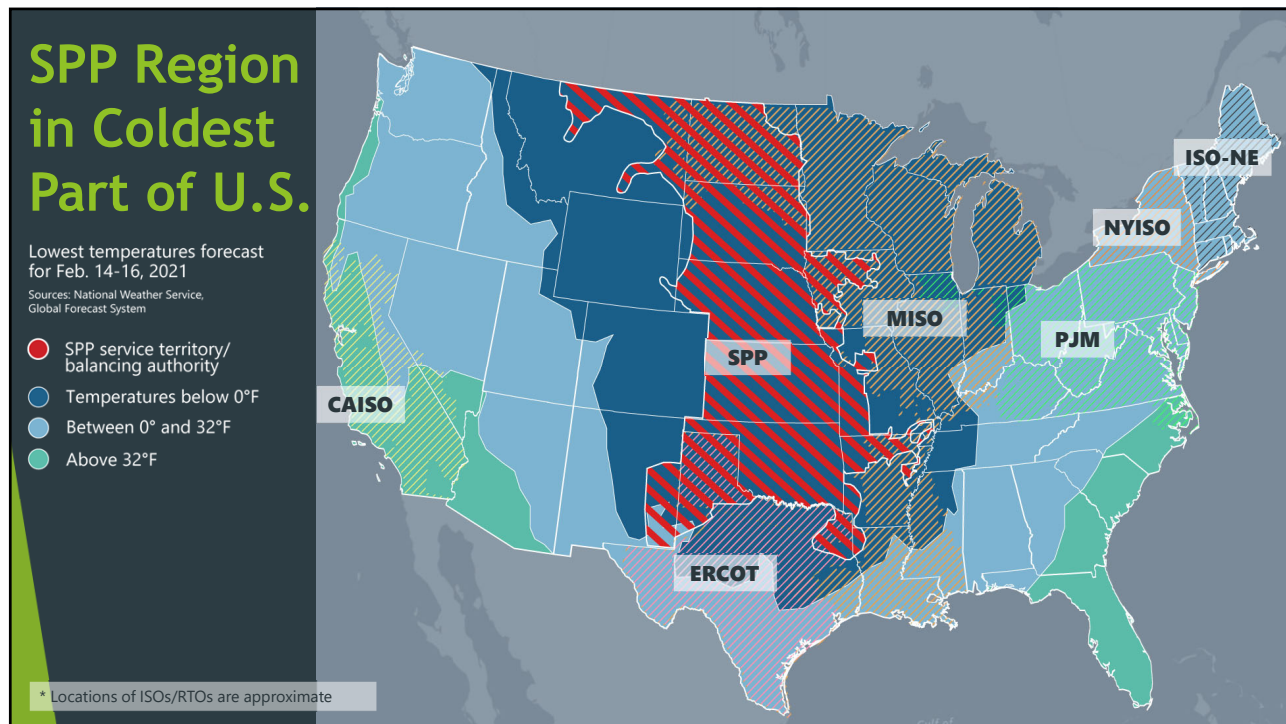
### Southwest Power Pool

- Regional transmission organization (RTO)
- The Federal Energy Regulatory Commission grants RTOs regulatory responsibilities and authorities to ensure the reliability of the regional electric grid.
- SPP coordinates the dispatch of the region's power generators (*power plants*) and high voltage transmission lines to **keep electric supply and demand balanced** across 14 states.
- If SPP determines the region doesn't have enough generation to meet demand, they issue an energy emergency alert and direct G&T utilities to reduce system energy use by the amount needed to bring supply and demand into balance.

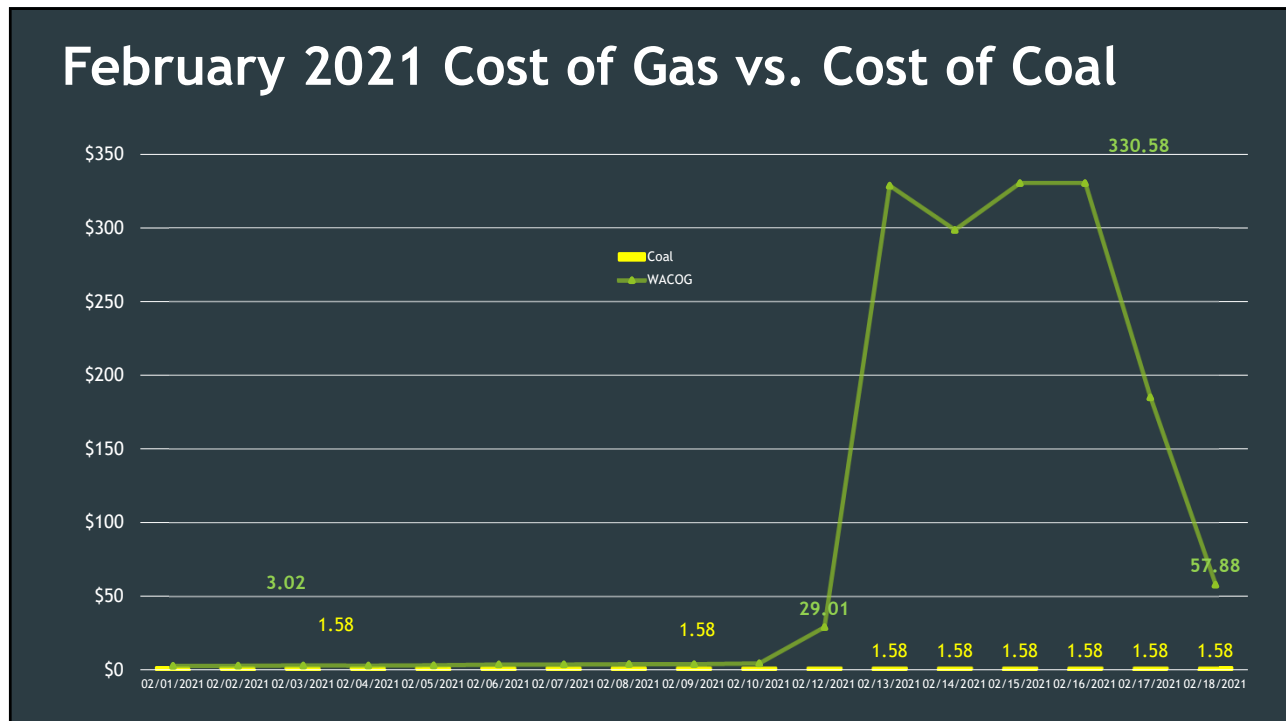
3



4



5



6

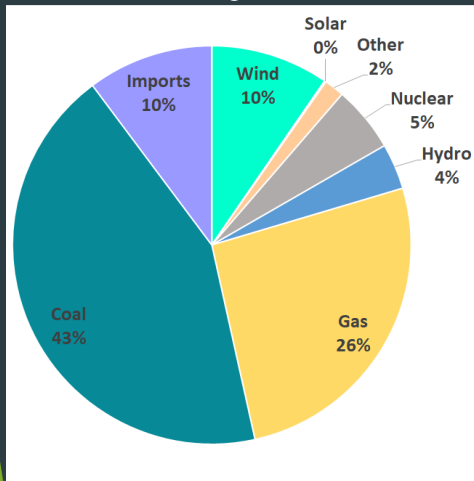
## Sunflower's Fuel Hedging Strategy

- ▶ Holcomb provided a significant hedge against market energy prices throughout the month of February and especially during the period when market prices were high
  - ▶ Holcomb hedge for Feb. 10 - 20 = 63.6%
  - ▶ Holcomb hedge during EEA = 70.2%
- ▶ Sunflower's renewable energy PPAs also provided a hedge
  - ▶ Renewable hedge for Feb. 10 - 20 = 5.4%
  - ▶ Renewable hedge during EEA = 5.3%
- ▶ The total hedge provided by Holcomb and the renewable energy PPAs covered almost 3/4ths of Sunflower's exposure to the market during these periods
  - ▶ Total hedge for Feb. 10 - 20 = 69.0%
  - ▶ Total hedge during EEA = 75.5%

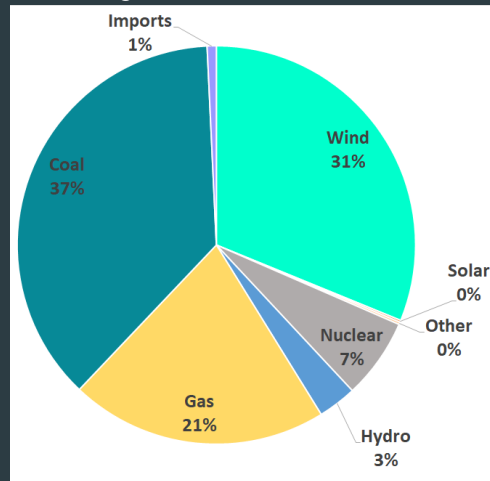
7

## SPP Generation Fuel Resource Mix

Generation mix during the cold weather event



SPP YTD generation mix (excluding the event)



8

## February Average Power Prices / RTO

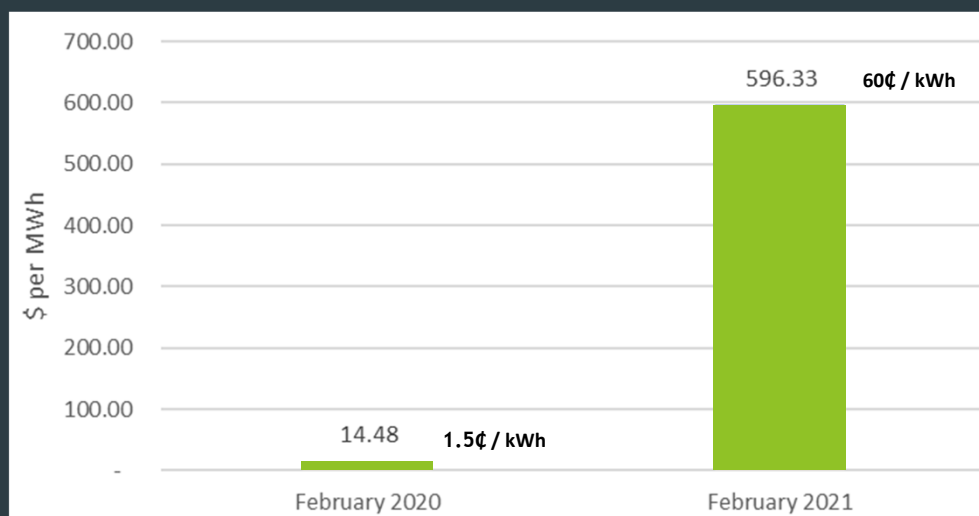
### Average on-peak power prices (\$/MWh) DAM

Region	Feb. 2021	Jan. 2021	Change prior month (%)	Feb. 2020	Change prior year (%)
NYISO	60.93	34.72	75.5	20.71	194.3
PJM	49.73	27.05	83.9	21.02	136.5
MISO	92.33	26.58	247.4	22.95	302.3
ISO-NE	82.62	44.57	85.4	25.01	230.4
CAISO	69.19	34.29	101.8	26.96	156.6
ERCOT	1,800.98	25.58	6,939.5	27.99	6,334.4
SPP	676.81	22.90	2,855.5	20.87	3,143.7
South	41.89	27.63	51.7	25.06	67.2
West	60.88	28.30	115.1	21.31	185.6
<b>Total US</b>	<b>326.15</b>	<b>30.18</b>	<b>980.7</b>	<b>23.54</b>	<b>1,285.4</b>

Data compiled March 1, 2021.  
Source: S&P Global Market Intelligence

9

## Comparison of SPP Energy Costs



10

# Sunflower's February Cost and Revenue

## Market cost of energy to serve Sunflower load

- ▶ Feb. 2021 - \$194.2 million for 325,099 mWh
- ▶ Previous 27 months - \$195.1 million for 10,443,297 mWh

## Gas units

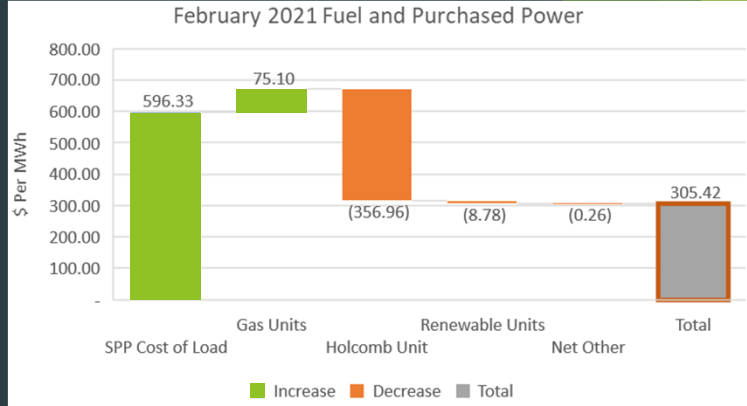
- ▶ Seeking additional market makewhole credits to recover part of these costs

## Holcomb margins (Market revenue/production costs)

- ▶ Feb. 2021 - \$116.24 million
- ▶ Previous 83 months\* - \$25.02 million  
*\*Since Integrated Market started in March 2014*

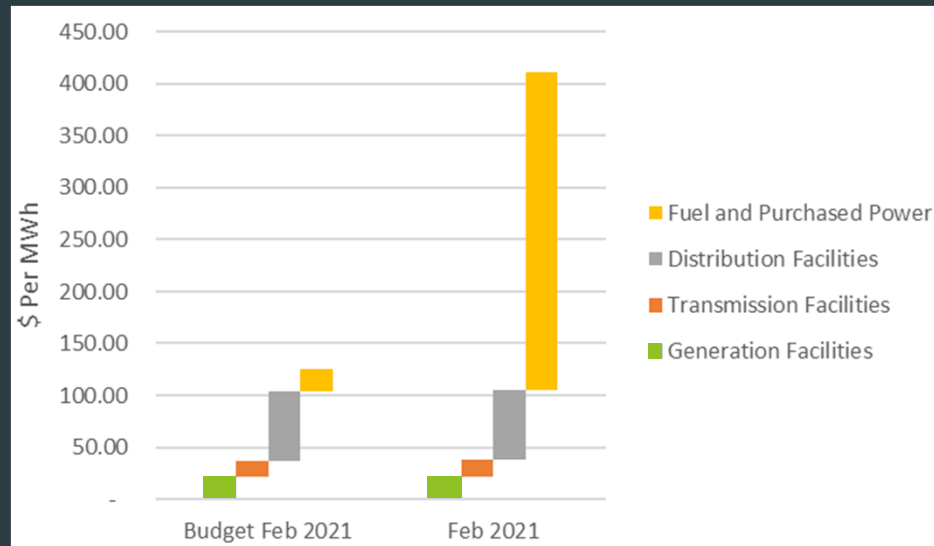
## Other margins

- ▶ Anticipating additional market makewhole charges to cover Sunflower's load ratio share of generator makewhole payments.



11

# Sunflower's kWh Budget vs Estimate



12

## Financial Impact on Members

- ▶ Victory Electric's February 2021 wholesale power costs were an additional \$15 million
- ▶ Normally, the fluctuating cost of fuel for wholesale power generation – natural gas, wind, solar, coal, etc.—is recovered through the Energy Cost Adjustment (ECA) bill component.
- ▶ The ECA can either be a charge or a credit depending on energy markets and the price of fuel. The ECA allows us to respond to monthly market fluctuations without implementing a rate change.

13

## Financial Impact on Members, cont.

- ▶ Victory Electric recognized when an extraordinary event happens like February's extreme cold, recovering increased costs through a single-month ECA charge would create financial hardships. **The proposed Extraordinary Event Cost Recovery Rider allows Victory Electric to lessen the financial burden on members by extending the recovery of the February 2021 wholesale power costs over 24 months.**
  - ▶ With the proposed rider, starting in April, Victory Electric billing statements will have an Extraordinary Event Recovery (EER) bill component
    - ▶ The average residential member can expect to see an estimated EER of \$300, which when extended over 24 months will be approximately \$12.50/month.
    - ▶ Only members who used electricity between February 15-19 will receive the EER bill component, and the impact will be less for those who switched to self-generation, conserved energy, or had an outage as a result of the rotating power interruptions.

14

