INDEPENDENCE
★ POWER & LIGHT ★

MEMORANDUM

DATE: April 22, 2021

TO: Zach Walker, City Manager

THRU: Adam Norris, Assistant City Manager

FROM: Jim Nail, Director – Power & Light

SUBJECT: Winter Storm Uri – Council questions regarding costs, risk mitigation and billing practices

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City Council took action Monday, April 19, to delay use of the Fuel Cost Adjustment for 30 days to recover the extraordinary costs associated with the winter storm event of February 2021. During discussion on the resolution, a number of additional questions and statements were made concerning the origin or appropriateness of the charges invoiced, the due diligence of IPL staff in assessing those costs, and some of the underlying issues surrounding Independence's participation in the energy market and consumer protection measures that may or may not have been available. The following information is provided to aid Council in further discussion of the issues involved in the winter storm.

1. **How did SPP determine the costs that were billed to IPL?** Southwest Power Pool (SPP) is a revenue neutral marketing agent for a 14 state cooperative of utilities. SPP coordinates the scheduling of all participating generation resources, balancing complex issues of lowest cost, transmission congestion, variable renewable resources, and grid stability among others. By coordinating generation across the entire region, this affords participating utilities with the lowest average costs for energy. Utilities with generation resources offer those into the market at prices they set themselves, not SPP. SPP uses those offers to determine which units to call on. Similarly, SPP will call on best available resources to resolve real-time changes in energy demand or grid stability. It should be noted that SPP does employ a ceiling to limit price spikes, however, utilities have the opportunity to challenge that ceiling when variable costs exceed those unit prices, upon the approval of the independent Market Monitor Unit. Following the close of a billing period, SPP employs a repetitive review process to settle the resulting payments/charges for each participant. That review is repeated at 7 days, 53 days, 120 days and further to make appropriate adjustments as additional facts which impact the billing calculations are reported.

2. **Does SPP's authority supersede our contracts?** SPP's scheduling authority works in concert with our Purchased Power Agreements. We have contracts with several generation resources for a specified portion of their output….if it is in operation. We do not have a guarantee that a specific unit will be operating on a given day, or what percentage of its full capacity it is scheduled to produce. When the resource fits the needs of SPP's overall plan

and is called upon to generate energy, then we receive credit for our portion proportional to the overall output of that resource.

3. **Did IPL declare Force Majeure or take any other steps to keep our options open for recovering costs?** It was not necessary for IPL to declare any objections to pricing from SPP. The SPP settlement process already includes a rigorous review over multiple months.
4. **What are our next steps? What action steps will be taken?** Staff will consult with a legal firm with specific experience in utility issues. The outcome of that review will determine whether any steps are to be taken with outside agencies. Pending other direction, IPL will resume the established procedure of evaluating fuel and purchased power costs each month and determining the appropriate adjustment to the billing formula.
5. **Has IPL consulted a legal expert with experience in utility issues?** Staff relied on their collective expertise in utility operations to review the events of the Winter Storm and the resulting costs. It was determined that the decisions made during the emergency and the built-in protections of the SPP Integrated Market did, in fact, shelter Independence from some of the worst excesses experienced in other parts of the Midwest and Texas. Staff did get input from the legal team of the Missouri Public Utility Alliance (MPUA) who concurred with the IPL staff assessment. Upon the request of Council, staff are now engaging with a legal expert for an independent review.
6. **How do we know the charges we received are legitimate? Dogwood was shut down until the gas prices returned to normal. The coal plants spiked their prices when their costs didn't go up.** Staff were monitoring the increasing costs leading up to and throughout the storm event. Natural gas prices had begun climbing well before the SPP declared emergency. Some areas were seeing record high prices as early as February 11. Dogwood did not shut down operation until February 17, after several days of extraordinarily high gas prices. Dogwood resumed limited operation after Feb 21 and while gas prices had dropped significantly, they did not return to pre-crisis levels until several days later. Dogwood's management team provided energy to the SPP pool until the decision was made that they could not risk further exposure of the ownership group's resources. Independence contracts do include energy credit from two coal plants, Iatan2 and Nebraska City 2. A thorough review of invoices show that in fact the invoices received after the event were lower than any of the preceding four months. There is no evidence that either company "spiked" their prices.
7. **What provisions does IPL have in place to mitigate risk in an unregulated market, to hedge against high prices? What is our trigger point for opting out if SPP's prices get too high?** A portfolio of diverse generation resources helps to shelter Independence from crises that may impact a specific location or a specific type of fuel/energy source. In addition, Independence does have a hedge against radical market fluctuations, membership and participation in the Southwest Power Pool Integrated Market. That is why the decision was made in 2014 to join the Integrated Market. SPP is able to leverage the purchasing power of the combined market participants and the scheduling of the most advantageous generation resources to provide the lowest average costs. There is no trigger point. A utility is either a member or they are not. A review of market prices during the winter event indicate that Independence would have faced potentially much higher prices than those from SPP, would have had to pay additional transmission charges to import the energy from outside our area, and during the worst of the crisis very possibly could have faced larger and longer power outages without the support of SPP. Regarding the impact of Texas' deregulated market, it should be understood that FERC does not regulate natural gas markets in any state. FERC abandoned price controls in the natural gas market a number of years ago

when it did not produce favorable results. The high prices were a result of very high demand that could not be matched by the supplies available. Natural gas wells produce a mixture of gas, oil and water. In production facilities across Texas and the Midwest, well heads froze when the water hit the polar temperatures, blocking the pipelines. Control valves directing the pipelines froze preventing switching between sources. Production of natural gas dropped by 20% across the entire Midwest. Commodity Market forces reacted to the shortage and drove prices exceedingly high. FERC and other agencies are actively investigating the market operations for any evidence of wrong-doing.