Presentation to the Frankfort Plant Board

Regarding Questions Raised by

EnvisionFranklinCounty and Synapse Energy Economics

Concerning the

AR Contract and KyMEA Power Supply Portfolio *

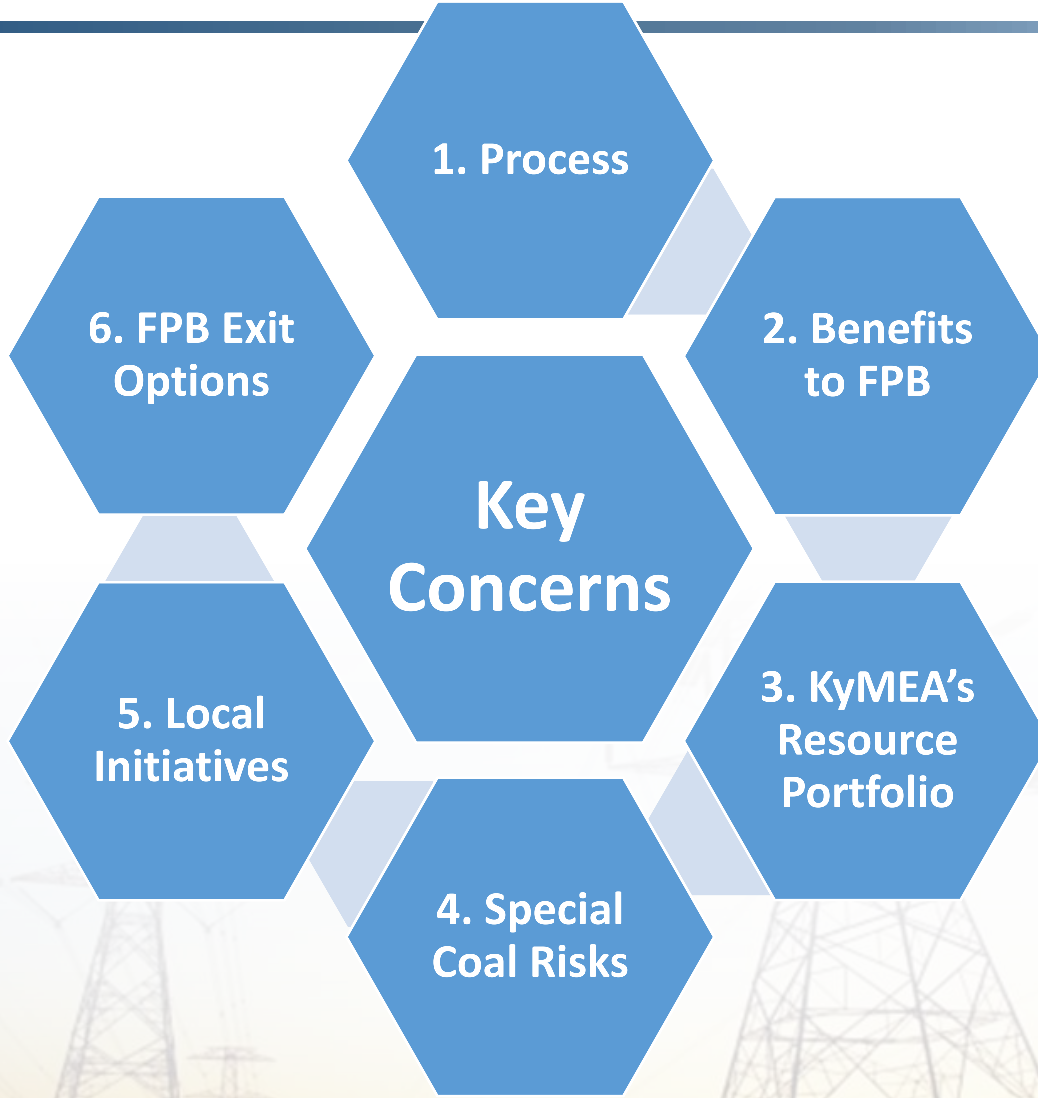
November 15, 2016

* See the presentation to the FPB by EnvisionFranklinCounty dated November 1, 2016 (the "EFC Presentation"), with the attached Synapse Energy Economics ("Synapse") report titled "Review of Frankfort Plant Board's All Requirements Contract & KyMEA's PPAs" of the same date (the "Synapse Report").

DRAFT v5 of 11/11/2016

Goal of Presentation:

Review Answers to Key Concerns in the Following Areas Raised in the EFC Presentation and the Synapse Report



KyMEA and FPB Advisors

All have Very Extensive Experience with Joint Action Municipal Power Agencies and Their Power Supply Programs

nFRONT CONSULTING LLC
Power Industry Planners • Analysts • Advisors

John Painter
Fred Haddad Jr.
Bob Davis

NewGen Strategies & Solutions, LLC

Brown Thornton

SPIEGEL & McDIARMID LLP

Tom Trauger
Margaret McGoldrick

Rubin & Hays
ATTORNEYS AT LAW

Charlie Musson

PFM

Michael Mace

Topic 1: Process

FPB's consideration of power supply alternatives has been extensive and has benefited from working with the other KyMEA Members

1. The Frankfort Plant Board (FPB) decided in 2014 to provide notice to terminate its agreement with KU after hiring independent consultants with the other 11 KU wholesale customers to help evaluate whether more attractive options likely would be available.

2. From July 2014 through May 2015, the group considered major options, such as

   - Forming an agency to assemble a portfolio
   - A special arrangement proposed by OMU
   - Joining a large, existing joint action agency that would assemble a portfolio for the Members

3. In mid 2015, FPB participated in the creation of the Kentucky Municipal Energy Agency ("KyMEA" or "the Agency") in order to work with the other KyMEA Members to obtain a more economical, diverse, flexible, and environmentally responsible power supply for the benefit of Frankfort residents and businesses.

   - During the past year, under the direction of FPB and the other KyMEA municipal members, the Agency conducted two competitive power supply procurements and extensive analyses of alternatives.
   - By acting together, FPB took advantage of the larger group's purchasing power in successfully assembling just such a supply portfolio.

Key Milestones in FPB's Process of Developing its New Power Supply Arrangements

- **Nov 2013** – Hire Consult-ants to Assess Alterna-tives to KU
- **Apr 2014** – Notice to Terminate KU Service
- **Jun 2014 - Jun 2015** – Consider Major Alterna-tives
- **Aug 2015** – Form KyMEA Interlocal Agency
- **Sep 2015** – 1st RFP Issued by KyMEA
- **Nov 2015** – Meeting with FPB to Review Progress
- **Dec 2015 - Jul 2016** – 2nd RFP for Peaking Capacity, Develop AR Contract, Negotiate 3 PPAs
- **Jul & Aug 2016** – Meetings with FPB Board; AR Contract Approval; Execute PPAs

KEY:

- FPB
- AR Group or KyMEA Board

KyMEA Received Numerous Proposals in Response to its September 2015 RFP

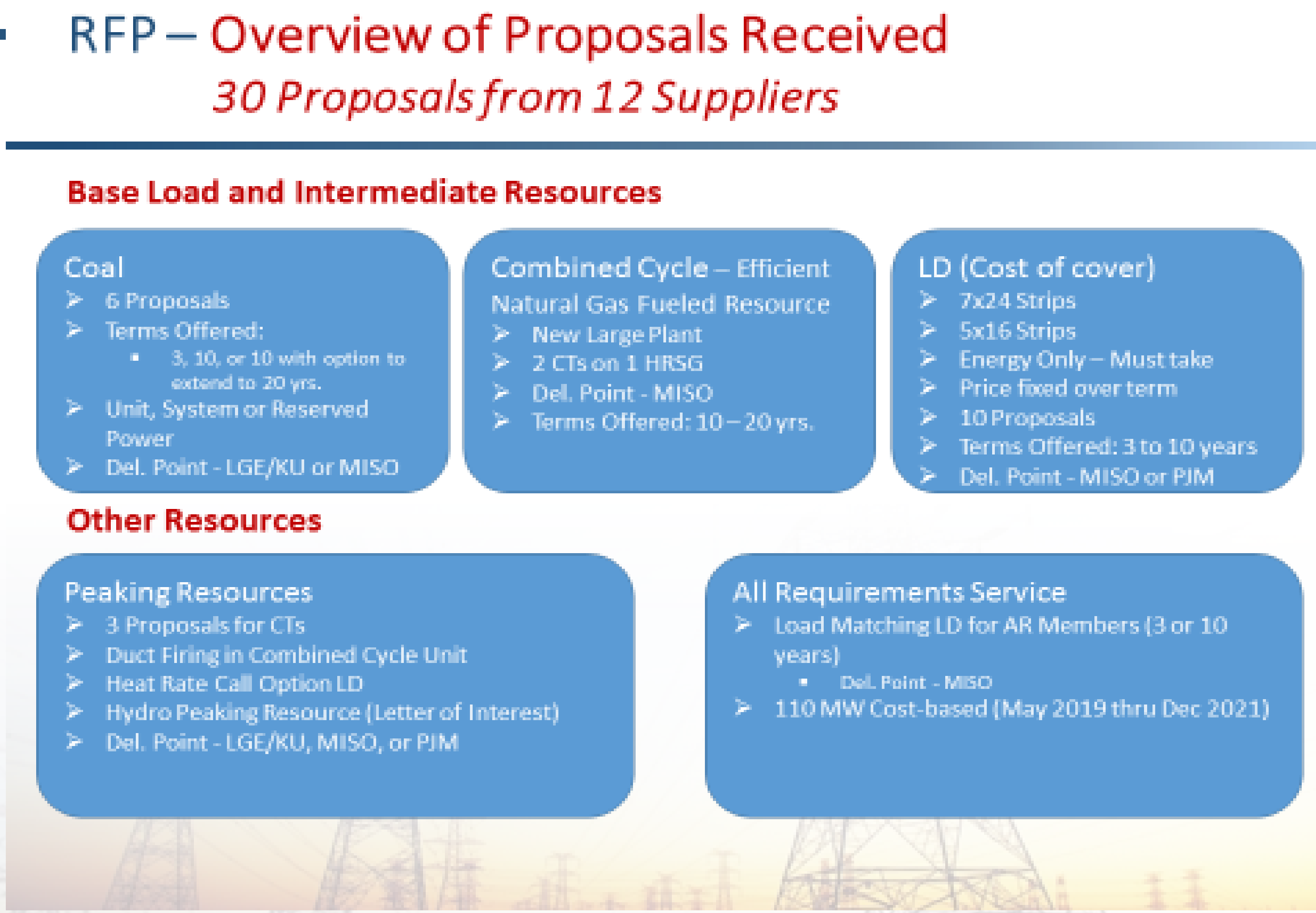


Figure 1 - Overview of Proposals Received

KyMEA also Received Numerous Proposals in Response to its April 2016 RFP

RFP – Overview of Proposals - Optionality

Number	Provider	Resource	Term	Capacity Amounts	Fuel
1	Paducah	CT - Aero	Extendable beyond 10 yrs. "at neg. price"	Can nominate lower amount down to 30 MW beginning year 4	Seller will supply gas, Buyer can supply and use Seller's firm transportation at incremental cost
2A	Dynegy/IPMC	CT - Joppa Frame 6B	NA	NA	NA
2B	Dynegy/IPMC	Coal - Joppa priced LD Energy - Variable Energy Price	NA	NA	NA
2C	Dynegy/IPMC	Coal - Joppa priced LD Energy - Fixed Energy Price	NA	NA	NA
2D	Dynegy/IPMC	CT - Joppa Frame 7B	NA	NA	NA
3	Big Rivers	CT - Reid	Neg. extension to 10 years	NA	NA
4	BP	HR Call Option - LD Energy Only - No Capacity Included	NA	NA	NA

Summary - Peaking Capacity Proposal Evaluation – May 26, 2016 - Confidential – See Slide 2

Figure 1- Overview of Proposals Received

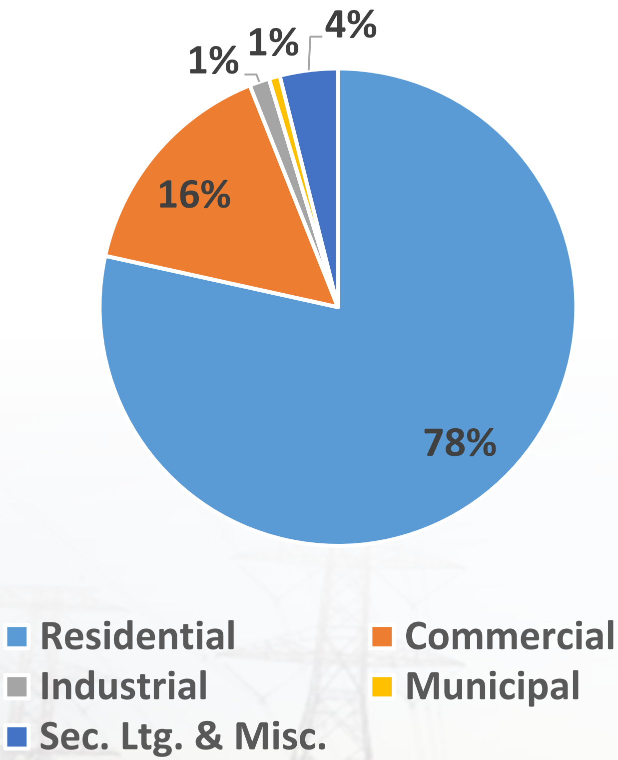
Topic 2: Benefits to FPB

	As Customer of KU	KyMEA Benefits FPB Working Collaboratively With Other Municipal Systems
Control of Future Power Supply Situation and Power Supply Costs	➢ No Control over Decisions ➢ Subject to KU's Formula Derived Cost of Service ➢ Recourse: FERC Complaints	➢ Potential for Substantially Lower Power Costs ➢ Collaboratively Plan ➢ Recourse: Discuss with other Members, Weighted voting
Reliance On Coal	Projected to Remain Very High through 2029 and Beyond	➢ Less Reliance on Coal through 2029 ➢ Additional flexibility after 2029 ➢ Expected to be less exposure to CPP costs than as customer of KU
Opportunities to Use Member-Owned Resources	Practically --- None	➢ AR Contract Provides for KyMEA to Facilitate Member-Owned Resources ➢ Increased benefit to FPB from SEPA Entitlement
Opportunities to Encourage Customer Efficiency Programs	Not Constrained	Not Constrained, KyMEA Can Assist
Opportunities to Use Renewable Resources	Practically -- Limited to Net Metering	KyMEA and/or Members can Choose to Develop Renewables

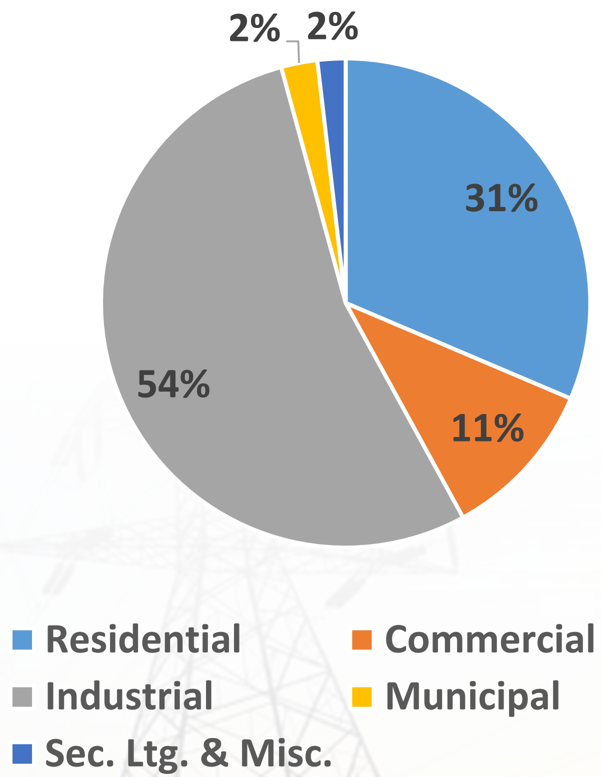
Cost of Power is Very Important to FPB Electric Customers

67% of Energy Sales are to Industrial, Commercial, and Municipal Customer Groups, and the Residential Customer Group includes low income customers, *all of which are price sensitive*

FPB Provides Service to Approximately 21,000 Customers



54% of Energy Sales are to Industrial Customers, including State Government



Prepared by NewGen Strategies & Solutions, LLC

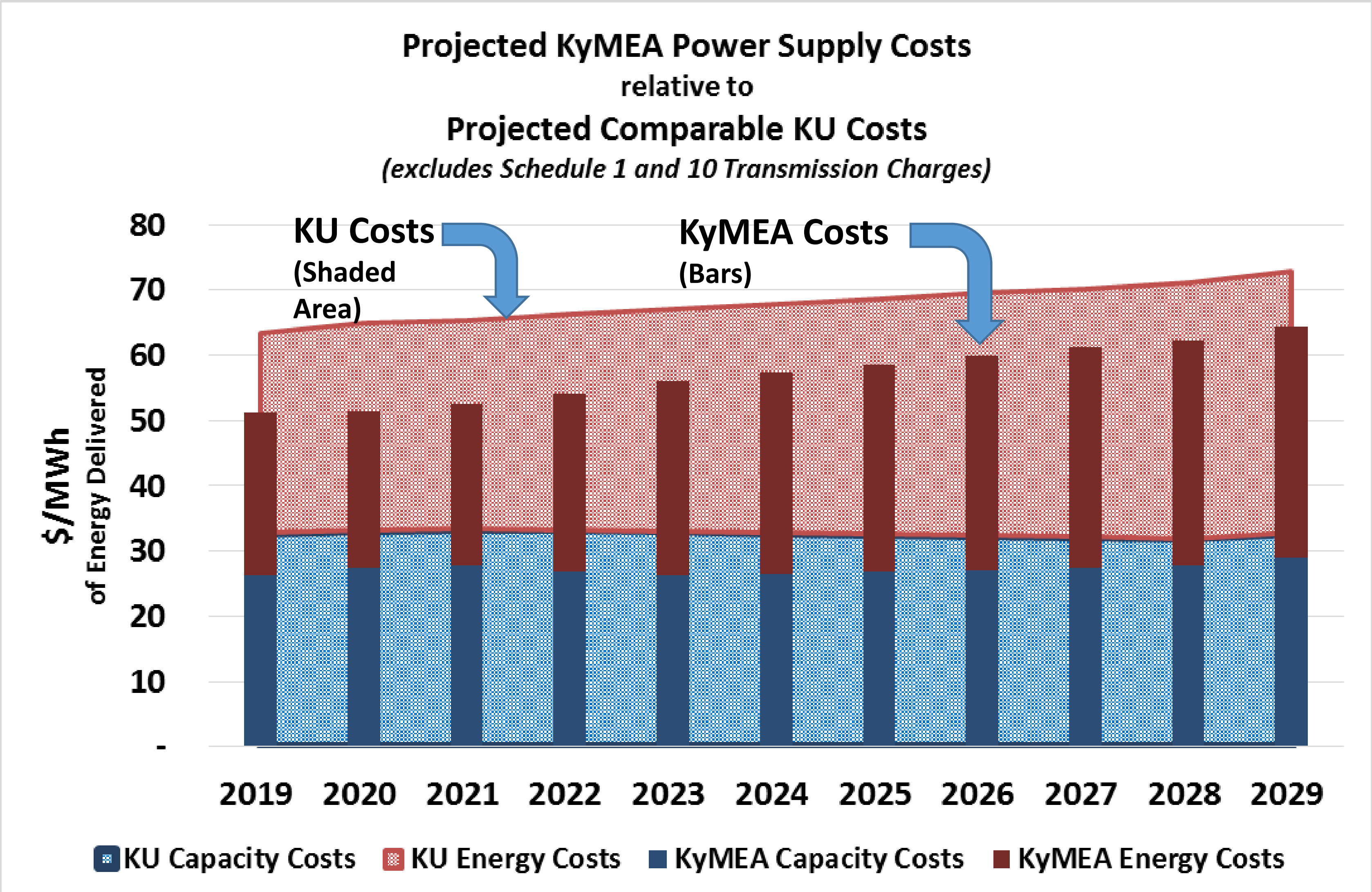
Projected Effect on FPB's Cost of Power

The projected impact of the proposed KyMEA portfolio on FPB's costs of power is very favorable

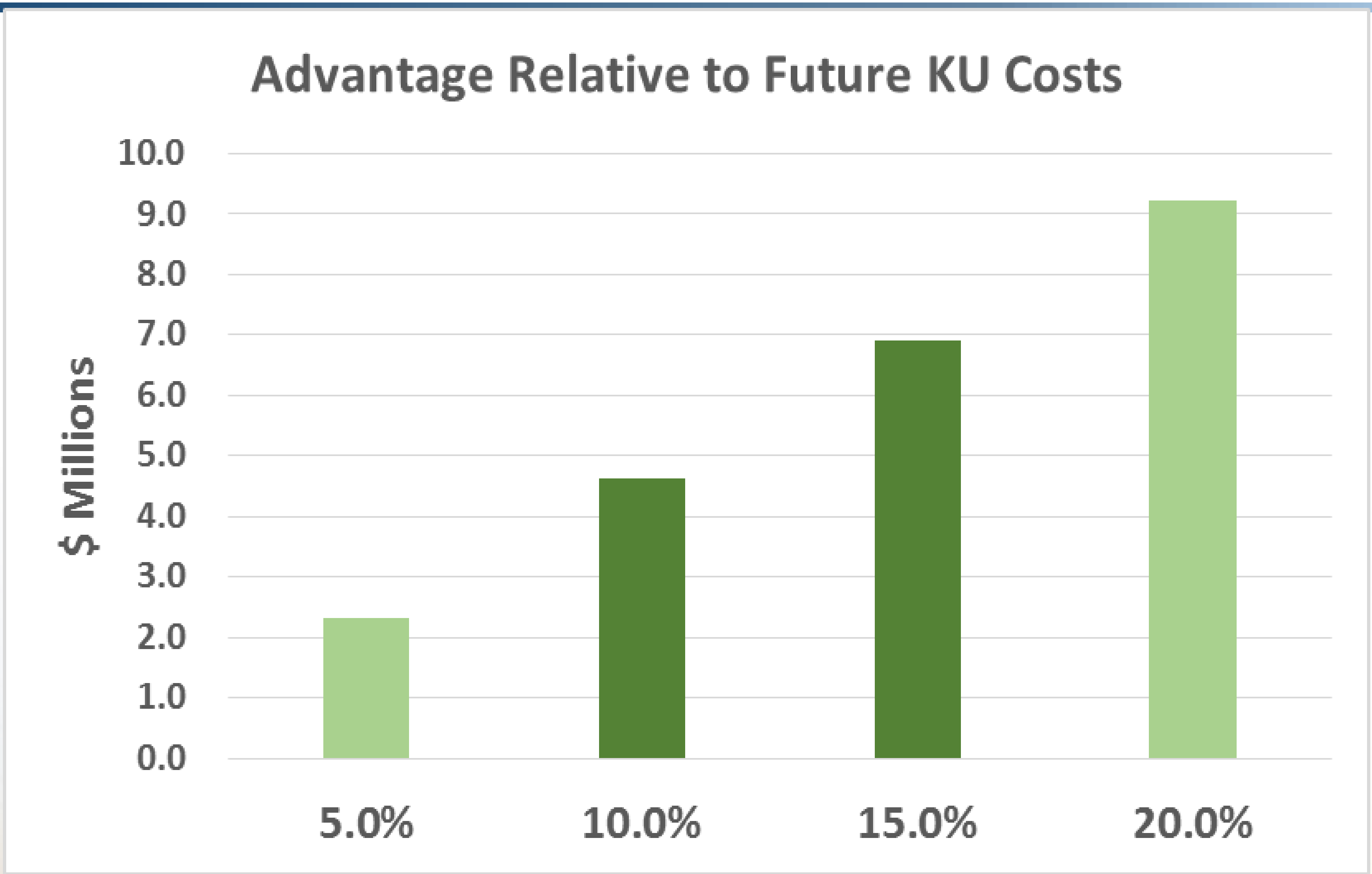
1. **KyMEA is well positioned, and is highly likely, to have a significant and sustainable competitive advantage relative to KU through the 2020s**
   - in terms of both capacity and energy related costs
   - under a wide range of future circumstances
2. **The potential competitive cost advantage KyMEA provides to FPB is very significant and important to FPB and its residential, commercial, and industrial customers**
   - Potential for $Millions in lower costs each year in the 2020s
3. **KyMEA has rights to extend key contracts beyond 2029, which positions KyMEA well to continue that advantage into the 2030s**

1. *The following slides show representative projected comparisons of KyMEA's costs to KU's costs under a consistent, reasonable, and, in key respects, conservative set of assumptions about future conditions.*
2. *Because future costs are dependent on many factors, it would be a mistake to focus on a single percentage or dollar amount of projected benefit.*

KyMEA's Power Supply Costs are Projected to be Competitive with KU – One Scenario



Potential *Annual* Benefits of Lower Projected Future Power Supply Costs -- Very Significant for FPB and the Frankfort Community

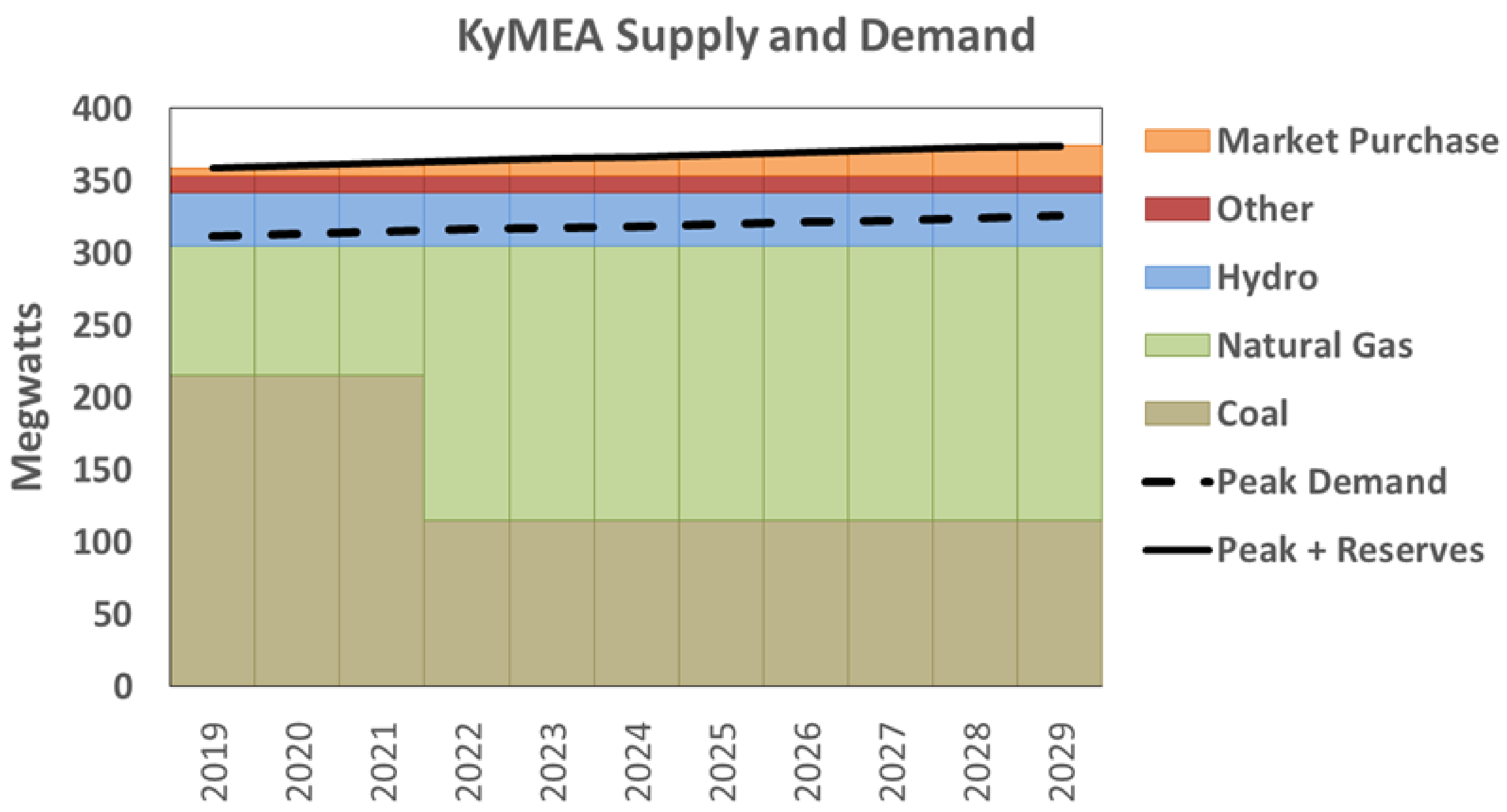


Topic 3: KyMEA's Resource Mix

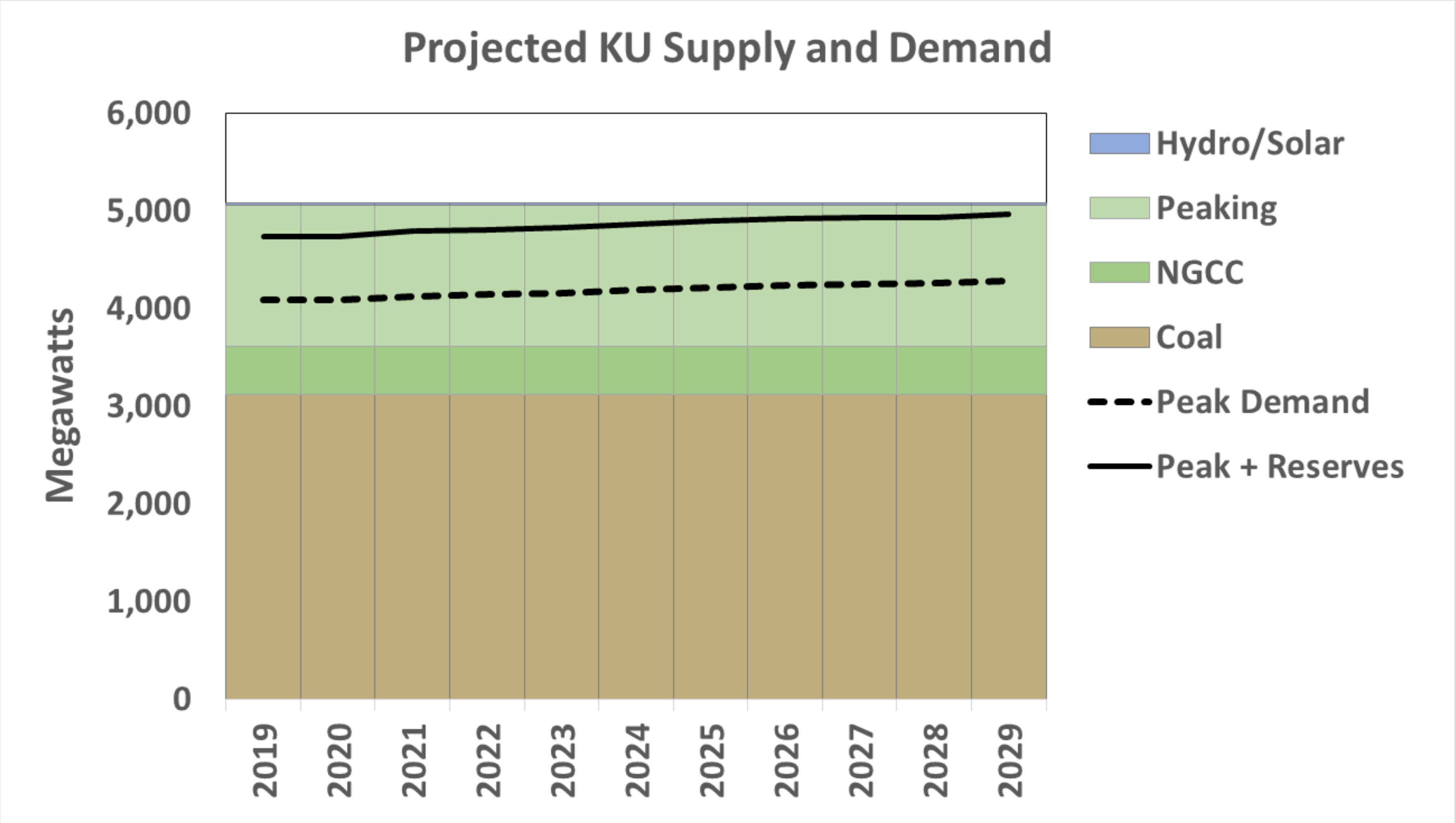
KyMEA's planned resources mix is diverse and flexible. The PPAs provide KyMEA significant flexibility to adapt as future conditions change.

1. **KyMEA is developing a diverse portfolio of resources that use coal, natural gas and water to produce electricity.**
   - KyMEA has entered PPAs for coal and peaking capacity resources and has committed to enter agreements to use the Members' SEPA Entitlements in its portfolio.
   - KyMEA is currently working to add a PPA for one or more natural gas fueled combined cycle resources ("NGCC") -- commencing by June 2022.
2. **KyMEA is positioned with considerable flexibility to adapt capacity resources if peak demands prove to be lower than current forecasts or KyMEA or Members choose to provide capacity from renewables.**
   - Through May 2019, KyMEA can provide notice to reduce the capacity to be purchased from Paducah beginning June 2022 by as much as 60 MW.
   - The portfolio is now being constructed to meet most, but not all, of KyMEA's currently forecasted peak demand requirements through May 2029.
   - KyMEA is not constrained from remarketing capacity purchased under the PPAs.
3. **The KyMEA portfolio includes hour-by-hour scheduling flexibility to accommodate more economical sources of energy or renewable energy purchases from**
4. **additional sources.**

KyMEA's All Requirements Power Supply Portfolio is a Diversified Mix of Capacity from Coal, Natural Gas and Renewable Resources



KU's Portfolio is Projected to Remain Heavily Dependent on Coal Capacity through the 2020s – with a Very Minor Renewable Component



Topic 4: Coal Resource Related Risks

The coal related risks have been well managed in the PPAs and are expected to be less than had the FPB remained a wholesale customer of KU.

1. **Pricing in the PPA with IPMC (Dynegy) will not increase:**
   a. Because of the costs to IMPC of complying with environmental rules mentioned by Synapse; or
   b. In the event other new environmental regulations are promulgated.
2. **While the terms of the BREC agreement are confidential:**
   a. Big Rivers is already in compliance with all existing regulations regarding management of coal ash, wastewater, and other pollutants and does not anticipate any associated additional costs which could impact the KyMEA PPA; and
   b. The Clean Power Plan requires states to reduce CO_2 emissions by 32%. The idling of BREC's Coleman Station has reduced the carbon footprint of Big Rivers by 33%. Big Rivers has the flexibility to either restart Coleman or utilize it as one of its CPP compliance options. In that regard, it is much better positioned than many other generators.

The AR Contract Provides Significant Flexibility to Develop Resources that Meet the Priorities of KyMEA's Members

The AR Contract Provides for 5 Types of Resources:

- **KyMEA Resources**
  1. **Portfolio Resources – like BREC, IMPC, Paducah and NGCC PPAs**
  2. **Generation Resource Projects**
     - Projects that may involve less than full participation by the KyMEA Members
     - Projects that would be financed by KyMEA

- **Local Resources by FPB or Other Members**
  3. **Member-Owned Resources**
  4. **Customer Resources**
  5. **Efficiency Programs**

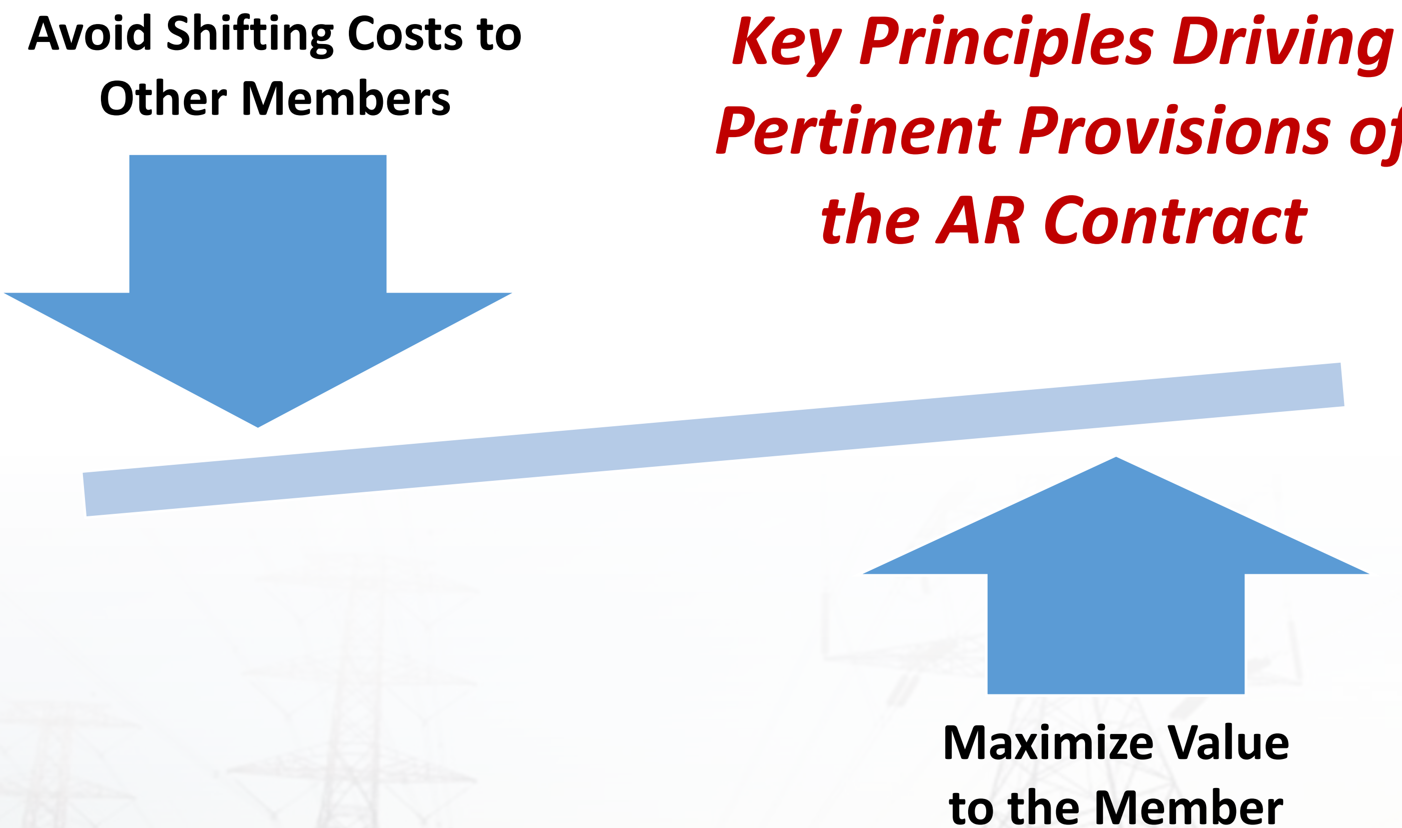
Topic 5: Local Initiatives
Provisions in the AR Contract facilitate FPB development of renewable and other resources and efficiency programs

1. **Nothing in the AR Contract prevents responsible actions by FPB with respect to:**
   - FPB resources, such as SEPA, community solar or direct load control
   - Customer resources
   - Energy efficiency programs

2. **The AR Contract**
   - Provides multiple avenues for FPB and other members, individually or collectively, to adopt energy efficiency programs and to develop renewable or other resources.

AR Contract Provisions Pertaining to Local Resources

Balance Competing Principles



AR Contract Provisions Separately Deal with Three Key Situations

Pertaining to Local Resources and Programs

Member-Owned Resources
(FPB)

Member's Generation Resources
- Owned
- Entitlements

KyMEA Facilitates (see next Slide)

Customer Resources
(City and All Other FPB Customers)

Customers' Generation Resources
- Owned
- Entitlements

Coordinated Net Metering Policies
to Avoid Shifting Costs to Other Members

Efficiency Programs

Customer Assistance Programs that encourage more efficient (less) energy use

No Interference, Expect KyMEA Could Assist

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Member-Owned Resource Examples

SEPA Entitlements

Paris' Diesels

Existing

Direct Load Control
(e.g., Water Heater Load Shedding)

Community Solar Facility

Potential

The All Requirements Contract Provides for KyMEA to Facilitate Member-Owned Resources in One of Three Ways

Member's Options:

1. KyMEA will Contract to Use and Provide Value-Based Credits to Member

Credit to Member

Based on 100% of the Value to KyMEA

2. KyMEA will Contract to Market Output on Behalf of Member

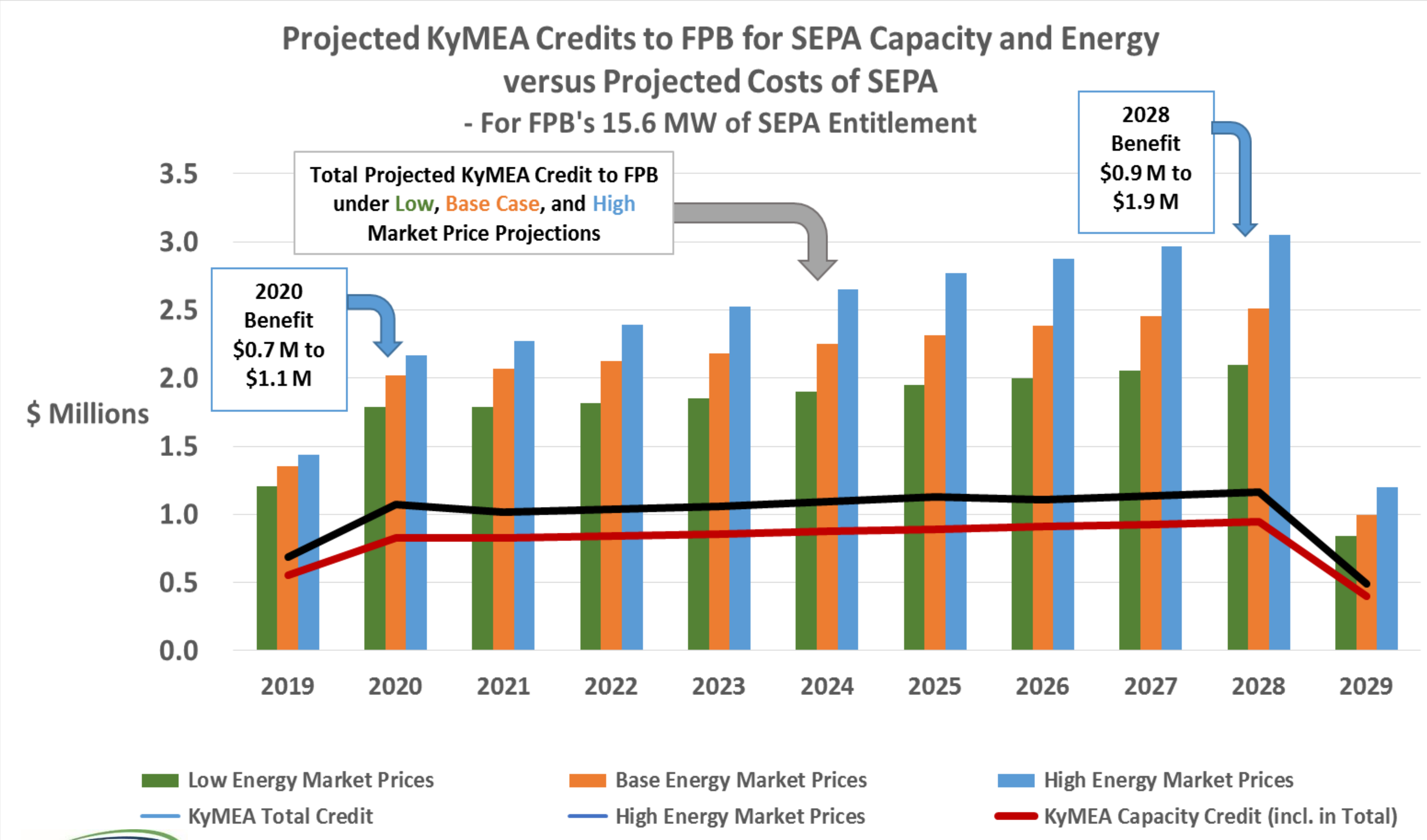
Credit to Member

Based on 100% of Net Revenue Received

3. Member can Market Output through Another Party

Under Option 1: Total KyMEA Credits for FPB's SEPA Entitlements are Projected to Result in Significant Net Benefit to FPB

-- KyMEA Fixed Capacity Credits Alone Would Cover Most Projected SEPA Costs



Topic 6: FPB Exit Options

The AR Contract balances interests of all Members in providing for any Member to terminate the agreement on reasonable terms

Avoid Exposing Continuing Members to Costs of Commitments Made for an Exiting Member

Key Principles Driving the Determination of the Exit Option Provided in the AR Contract

Realize Benefits of Planning for the Longer Term

Term and Termination

Page	Section	Summary/Key Points
6-7	2	(a) Perpetual Term, but AR Agreement may be terminated: ➢ By Member on 5 years' notice effective May 31 ➢ But not prior to May 31, 2024 ➢ Provided that the Member shall remain responsible for any Resource Obligations, as determined in accordance with Section 12 (b) Member can terminate earlier if all Agency obligations are met (c) Agreement may be terminated in the Event of Default per Section 12

Because the Agency will plan for Longer than 5 Years, Some Agency Commitments may Extend beyond the Termination by a Member

Page	Section	Summary/Key Points
14-15	6(b)	To achieve long-term economic benefits, ➢ the Agency's power supply planning horizon shall be at least ten (10) years, and ➢ the Parties anticipate that the Agency will enter into power supply-related commitments both shorter and longer than the notice of termination period specified in Section 2(a).

Member MAY have a Continuing Obligation to the Agency after Terminating the Agreement

Page	Section	Summary/Key Points
22-23	12 (d) and (e)	(d) Notwithstanding termination, ➢ A Member must fulfill any previously agreed to Resource Obligations ➢ To fulfill a Resource Obligation, a Member would pay monthly charges to the Agency designed to recover any amount by which i. costs to the Agency associated with Member's Resource Obligation exceed ii. value the Agency can realize by using or marketing the Member's allocated share of the Agency Obligation underlying the Resource Obligation. ➢ Agency may require Letter of Credit to secure Resource Obligations (e) Schedule of Agency Obligations that could result in Resource Obligations ➢ Updated annually and ➢ Member's share based on load ratio share of Billing Demands in the 12 months just before effective date of termination, unless a different basis for "share" has been established in another agreement.

Overall Conclusions: The Proposed AR Project Offers Significant Advantages to FPB

Power Supply Costs are Projected to be More Affordable

>> Relative to Projected Costs of Market Purchases and KU

Members will have More Control Over Decisions

Regarding Renewables and Other Power Supply Resources

Favorable Situation for FPB and other KyMEA Members

Provides More Stable, Predictable Benefits

from Member-Owned Resources

Consistent with Members' Goals in Setting up KyMEA –

Working Together to Better Serve their Customers