Executive Summary of a Benchmarking Analysis

Completed for the

KANSAS CITY BOARD OF PUBLIC UTILITIES

Presented
by
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KANSAS CITY BPU
THE POWER OF COMMUNITY

MGT OF AMERICA, INC.

Background

- 3rd update benchmark review of the BPU (2007,2010)
  - Vast amount of information in our report – only cover highlights
- Primary areas reviewed
  - Benchmarking of costs (BPU vs. other Municipal Utilities)
  - Trending of costs (Trends internal to BPU over last 4-5 yrs.)
- Benchmarking sources included (2012)
  - APPA's annual Financial and Operating Ratios report
  - APPA's Annual Directory and Statistical Report
  - Includes- Ames, Cedar Falls, McPherson, Independence, Springfield, Fort Collins, Loveland, Stillwater, Lincoln, North Little Rock, Etc.
  - Financial/statistical info for Water District 1 (Waterone)
  - Financial/statistical info for Independence (Mo) Power & Light Fund
  - EIA-412 and Annual Report for Colorado Springs Utilities

Cost Benchmarking – Electric Power Supply

- Total power supply cost per kWh sold
  - BPU rate = 5.31 cents
  - APPA National median (156 utilities) = 6.10 cents (BPU 13% less)
  - APPA Southwest median (19 utilities) = 5.50 cents (BPU 3% less)
  - APPA N.Central/Plains median (47 utilities) = 6.20 cents (BPU 14% less)
  - Independence rate = 6.31 cents (BPU nearly 16% less)
  - BPU comparable to Colo Springs rate = 5.22 cents
- Purchased power costs per kWh purchased
  - BPU rate = 3.40 cents
  - APPA National = 5.50 cents; SW = 5.10 cents; NC/Plains = 5.90 cents
  - Independence = 4.88 cents; Colo. Springs 4.41 cents

- Conclusion – good job managing power supply costs
  - Costs lower or comparable to MOU's nationally & regionally

Cost Benchmarking – Transmission/Distribution

- Total T&D cost per kWh sold
  - BPU rate = 0.99 cents
  - Less than Independence rate = 1.41 cents (approx same # customers)
  - Higher than Colorado Springs rate = 0.53 cents (3 times size of BPU)
  - APPA does not publish comparable data
  - Measure highly dependent upon weather conditions
  - Costs factored into total O&M benchmark anyway

- Conclusion – good job minimizing T&D related costs
  - BPU rate of 0.99 cents is close to the median and simple average

Cost Benchmarking – Electric Customer Services

- Total annual cost per retail customer
  - 2012 BPU rate = $56.53
  - ~ 10.3% lower than APPA national survey rate of $63.00
  - Projected rate for 2013 ~ $35.23 due to new metering program
  - Independence rate = $72.09
  - Only lower <u>2012</u> rate was Colo. Springs at $48.48
  - Projected 2013 rate lower than all others benchmarked against
  - Note – removed billing cost for water pollution/residential trash

- Conclusion – excellent job controlling customer service costs
  - Costs lower than national and area averages
  - New metering program resulting in substantial savings to customers

Cost Benchmarking – Administrative and General

- Total annual cost per employee
  - 2012 BPU rate $36,516
  - Considerably lower than Colo. Springs rate of $62,026
  - Considerably lower than Independence rate of $65,320
  - 2013 BPU rate estimated to = $36,822 – less than 1% increase
  - APPA does not publish comparable data
  - Note- BPU allocates benefit costs which could distort this comparison, however BPU's Power Supply, T&D and Cust. Svc. Rates would be even lower if benefits not allocated (also reflected in total O&M anyway)

- Conclusion – excellent job controlling A&G costs
  - Costs considerably lower than other MOU's
  - Very minimal increase in A&G costs (stable trend)

Cost Benchmarking – Total O&M Costs

- Total O&M cost per kWh sold
  - 2012 BPU rate = 7.17 cents (11 months of 2013 rate = 7.07 cents)
  - ~ 4.4% lower than median MOU nationally = 7.50 cents in 2012 (APPA)
  - Considerably lower than Independence rate of 9.45 cents
  - Colo. Springs rate = 6.75 cents (but they are 3 times size of BPU)

- Conclusion – good job controlling total O&M costs
  - Costs lower than similar sized MOU's nationally
  - Lower or comparable with area MOU's
  - Also, 2013 total O&M costs are lower than 2012 (trending downward)

Rate Benchmarking – Revenue per kWh sold

- Revenue per kWh sold (Per APPA National Survey)
  - All Retail Customers- BPU rate ~ 9.3 cents
  - According to KMU - 4 area IOU' all retail customers rate ~ 9.0 cents
    - 8.40 cents; 9.00 cents; 9.90 cents; and 10.5 cents
  - For MUNI's with 50-100k customers (11 utilities):
    - APPA Median = 11.3 cents (BPU is nearly 18% below)
    - 1^{st} Quartile = 9.2 cents
    - 3^{rd} Quartile = 12.0 cents
  - Industrial Customers- BPU rate ~ 7.51 cents
    - APPA Median = 8.60 cents (Muni's with 50-100k customers)
    - APPA Median = 7.60 cents (N. Central/Plains)

- Conclusion – good job keeping rates as low as possible
  - BPU falls within the 1^{st} Quartile
  - Significantly lower than the Median, comparable to IOU's
  - Environmental mandates & many items outside direct control of BPU

Cost Benchmarking – Water

- Lack of consistency in reporting (detail) – Water District 1
- Most useful benchmark cost per gallon pumped
  - Grand total BPU cost $3.31 vs. $2.99 for WD1 comprised of-
    - Operating costs for BPU = $2.04 vs. $1.83 for WD1
    - Depreciation for BPU = $0.50 vs. $0.79 for WD1
      - BPU has older system – lower depr. but requires higher upkeep
    - Interest expenses for BPU $0.40 vs. $0.37 for WD1
    - WD1 does not have a payment-in-lieu of tax vs. $0.37 for BPU
    - **Without payment-in-lieu BPU grand total = $2.94 vs. $2.99 for WD1**
  - Closer look at operating cost by activity (BPU $2.04 vs. WD1 $1.83)
    - Production costs BPU $0.43 vs. WD1 $.97
    - T&D costs BPU $1.03 vs. WD1 $0.41
    - Customer service costs BPU $0.21 vs. WD1 $0.12
    - A&G costs BPU $0.37 vs. WD1 $0.33

Water Trending Analysis

- 5 year (2009-2013) cost trend analysis results (excl. depr.)

  - Overall (**eleven months** 2013 costs vs. 5 year averages)-
    - 1.5% upward trend in cost per gallon pumped (2006-2010 = 4.3% upward)
    - 3.4% upward trend in cost per gallon sold (2006-2010 = 3.1% upward)
    - 5.9% downward trend in cost per customer (2006-2010 = 1.2% upward)
    - Overall, costs are still trending upward, but at a much lower rate
    - All indicate BPU is doing excellent job holding the line or reducing costs

  - By activity (per gallon pumped)-
    - Direct O&M related costs- $1.22 vs. $1.20
    - Stores/Telecomm costs- $0.05 vs. $0.06
    - Transportation costs- $0.11 vs. $0.11
    - Customer related costs- $0.18 vs. $0.21 **meter reading**
    - A&G related costs- $0.44 vs. $0.41

Conclusion

- Overall - the BPU is doing a good job
  - Costs appear to be in-line with others
  - Although costs are still increasing, they are doing so at reduced rates
  - Investment in the new metering program has resulted in substantial savings to customers
- The BPU is fully committed to the Kansas City community
  - As evident by the significant contributions made (over $40 million)
- Management continues to "institutionalize" a mindset that focuses attention squarely and constantly on best practices and benchmark targets – it is working

Questions and Discussion

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BENCHMARK COMPARISON OF CONTRIBUTION TO THE COMMUNITY

(Based Upon 2010 Actual BPU Contributions and 2010 APPA National Survey)

WHAT THE BPU CONTRIBUTES TO THE UNIFIED GOVERNMENT OF KCK/WYCO

Direct Payments and Expenses:	Amount	% of Revenue	Notes
Payments-In-Lieu-of Tax	$ 27,831,160	11.74%	
Street Lighting & Signals	4,266,160	1.80%	
Fire Hydrant Services	1,298,385	0.55%	
Direct Payments and Expenses	$ 33,395,705	14.08%	
Other Services Provided Without Charge:			Contribution data taken from the *Contributions to the Community* report as shown within the BPU's 2013 Annual Budget
UG Facility Energy & Water Usage	$ 5,393,939	2.27%	
Billing Services - Water Pollution Control	1,351,054	0.57%	
Billing Services - Residential Trash	1,366,584	0.58%	
Other Services Provided to UG Without Charge	$ 8,111,577	3.42%	
Grand Total Payments and Contributions	$ 41,507,282	17.50%	
Total Annual Operating Revenue	$ 237,159,626		

BENCHMARK COMPARISON TO OTHER PUBLIC POWER SYSTEMS

This section includes all contributions in the form of taxes, fees and (free) services made by public power systems per a study conducted by the American Public Power Association as published in their 2013-2014 *Annual Directory & Statistical Report* (see attached). The Median is defined as the value where 50 percent of the utilities had contribution rates greater than the median and 50 percent contributed less than the median. A quartile represents each of four equal groups into which the population can be divided.

	17.50%	-	**BPU's contribution to the UG**		
			(as a % of annual operating revenue)		
Compared to 284 Public Power Systems:					
Median	**5.20%**	-	BPU contributes	3.4	times more
Lowest Quartile	3.00%	-	BPU contributes	5.8	times more
Highest Quartile	7.20%	-	BPU contributes	2.4	times more
Compared to 79 Public Systems in West North Central:					
Median	**4.60%**	-	BPU contributes	3.8	times more
Lowest Quartile	3.10%	-	BPU contributes	5.6	times more
Highest Quartile	6.40%	-	BPU contributes	2.7	times more
Compared to 43 Public Systems $100M+ in Revenue:					
Median	**6.10%**	-	BPU contributes	2.9	times more
Lowest Quartile	4.60%	-	BPU contributes	3.8	times more
Highest Quartile	9.80%	-	BPU contributes	1.8	times more

BENCHMARK COMPARISON OF CONTRIBUTION TO THE COMMUNITY

(Based Upon 2010 Actual BPU Contributions and 2010 APPA National Survey)

WHAT THE BPU CONTRIBUTES TO THE UNIFIED GOVERNMENT OF KCK/WYCO

Direct Payments and Expenses:	**Amount**	**% of Revenue**	**Notes**
Payments-In-Lieu-of Tax	$ 27,831,160	11.74%	
Street Lighting & Signals	4,266,160	1.80%	
Fire Hydrant Services	1,298,385	0.55%	
Direct Payments and Expenses	$ 33,395,705	14.08%	
Other Services Provided Without Charge:			Contribution data taken from the *Contributions to the Community* report as shown within the BPU's 2013 Annual Budget
UG Facility Energy & Water Usage	$ 5,393,939	2.27%	
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Total Annual Operating Revenue	$ 237,159,626		

BENCHMARK COMPARISON WITH INVESTOR-OWNED UTILITIES (IOU'S)

This section includes all state and local taxes and fees paid by investor-owned utilities as reported within their FERC Form 1 documents. The data was taken from the American Public Power Assolciation's *2013-2014 Annual Directory & Statistical Report* (see attached).

	17.50%	- BPU's contribution to the UG		
Compared to 119 Investor-Owned Utilities:				
Median	**3.90%**	- BPU contributes	4.5	times more
Lowest Quartile	2.50%	- BPU contributes	7.0	times more
Highest Quartile	5.80%	- BPU contributes	3.0	times more
Compared to 13 Investor-Owned in West North Central:				
Median	**2.60%**	- BPU contributes	6.7	times more
Lowest Quartile	2.30%	- BPU contributes	7.6	times more
Highest Quartile	4.70%	- BPU contributes	3.7	times more

CONTRIBUTION TO THE COMMUNITY - DIVIDEND CALCULATION
(Based Upon 2010 Actual BPU Contributions)

WHAT THE BPU CONTRIBUTES TO THE UNIFIED GOVERNMENT OF KCK/WYCO

Direct Payments and Expenses:		Amount	Notes
Payments-In-Lieu-of Tax	$	27,831,160	Contribution data taken from the *Contributions to the Community* report as shown within the BPU's 2013 Annual Budget
Street Lighting & Signals		4,266,160	
Fire Hydrant Services		1,298,385	
Direct Payments and Expenses	$	33,395,705	
Other Services Provided Without Charge:			
UG Facility Energy & Water Usage	$	5,393,939	
Billing Services - Water Pollution Control		1,351,054	
Billing Services - Residential Trash		1,366,584	
Other Services Provided to UG Without Charge	$	8,111,577	
Grand Total Payments and Contributions	$	41,507,282	
Total Annual Operating Revenue	$	237,159,626	

DIVIDEND CALCULATION

Grand Total Payments and Contributions-			$	41,507,282	per above
BPU Appraised Value (Capital Assets per CAFR):		Amount			
Original Cost of Capital Assets	$	1,283,384,053			
Less Accumulated Depreciation		(630,354,194)			
Construction Work In Progress		25,514,236			
Net Capital Assets	$	678,544,095			
BPU Property Tax Estimate:					
BPU Assessed Value (at 33% assessment)	$	223,919,551			
Kansas City (at 40.635% tax rate)	$	9,098,971	$	9,098,971	to the UG
Wyandotte County (at 34.076% tax rate)		7,630,283		7,630,283	to the UG
Total Property Tax Estimate	$	16,729,254	$	16,729,254	
Total Contributions less Property Tax Estimate-			$	24,778,028	
Total Annual Operating Revenue-			$	237,159,626	
Dividends To Stockholders-				**10.45%**	