



Financial and Regulatory Strategy Tool



**Helping Utilities Achieve Their
Financial Planning Objectives**

A large, stylized orange quotation mark icon consisting of two opening and two closing quotes.

Our executive management uses FRST™ for looking at strategic issues and financial information to provide for credit agencies. It is our budgeting tool from an income statement perspective.

— MCR Client



FRST™ CHOICE OF UTILITY ANALYSTS

MCR helps utilities achieve their financial planning objectives with our Financial and Regulatory Strategy Tool (FRST™).

- FRST™ is a **sophisticated planning tool** without the overhead, software coding, or expense of proprietary “black box” models on the market.
- FRST™ is **written in Excel**, allowing users to manage large amounts of data while quickly changing the model’s logic and reports to address changing business needs.
- FRST™ has a **robust reporting feature**, enabling analysts to quickly compare the results of multiple planning scenarios and perform variance reporting of budget vs. actuals and budget to forecast.
- FRST™ is the market leader in **modeling revenue requirements**, giving utilities the power to understand the financial impacts of a strategy as well as the potential impacts on each rate class.

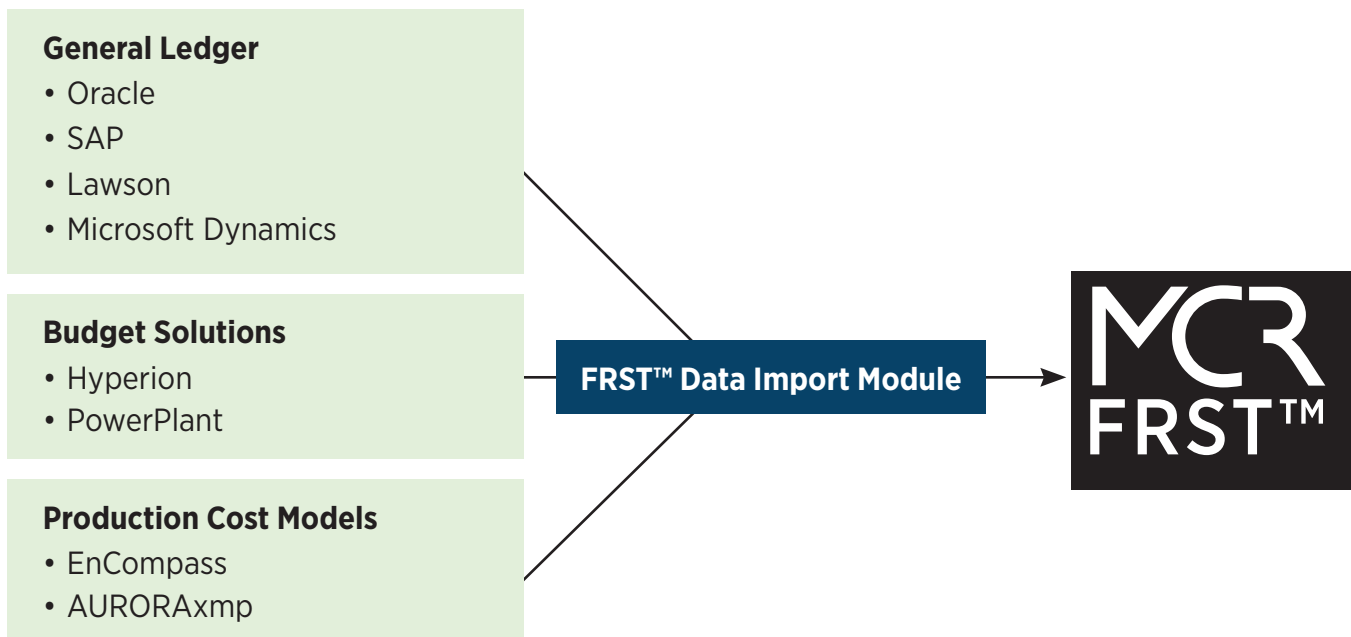
Why Our Clients Choose FRST™:

- ✓ Open, flexible model
- ✓ Fast processing
- ✓ Robust reporting and analysis
- ✓ Risk analysis capabilities
- ✓ Member-specific rates
- ✓ Knowledgeable consultants who are easy to work with
- ✓ Fast implementation: **can be up and running in less than eight weeks**
- ✓ Value: **averages one-third the cost of competing models**

FRST™ IN FLEXIBILITY

FRST™ has all the functionality of monolithic, “black box” forecasting models, but it operates in a Microsoft Excel-based application. This offers many advantages, including:

- A unique structure that requires no coding and allows users to quickly change model logic and reports to address business changes
- Flexible data-loading using data mapping templates; able to quickly load data from financial, budget, load forecasting and capital asset systems
- Seamless integration with general ledger, budget tools, production cost models, and any structured data source
- Built-in validation and error-checking of imported data
- Virtually unlimited capacity to define time periods, levels of consolidation, and numbers of distinct utility services



“ ”

We liked that FRST™ is Excel-based ...
so we could easily make changes within our model.

— MCR Client



FRST™ IN ACCURACY

FRST™ is a fully integrated model with a robust accounting backbone. Any updates are instantly and accurately calculated, then reflected on live reports.

- Financial ledger and detailed cash ledger with double-entry accounting ensures accounting integrity: FRST™ is always in balance and there is no mystery to cash flow.
- Model logic instantaneously calculates rate impacts on revenue requirements from changes in inputs and drivers for either forward or historic test periods.
- Rules-based logic automatically calculates short-term and long-term financing to meet cash requirements and targeted financial metrics.
- Live reports immediately reflect impacts on financial statements and metrics; accounting accuracy assures the integrity of the reports.
- Detailed utility-based templates provide industry-specific planning for capital investments, rate cases, debt issuances, and revenue/expense deferrals.
- Each model can be configured to handle any level of detail, from simple, single input-driven forecasting to projections requiring thousands of data points.

Existing Long-Term Debt Input Control Information									
<input checked="" type="checkbox"/> Auto Spread Active									
Scenario Base Budget - No Reduction									
Issue Name	Issue Date	Retirement Date	Outstanding Balance Dec-19	Interest Rate	Payment Months	Accrued Interest	Anamort Debt Expense	Unamort Discount (Prem)	(Gain)/Loss on Recqd Debt
\$335MM 5 5/8% Sr. Secured	3/1/20	2/28/40	335,000	5.625%	March, Sept	9,631	7,836	-	
\$275MM 4 5/8% Sr. Secured	8/15/19	8/1/31	225,000	6.750%	Feb, Aug	6,328	4,817		
\$470MM 4 1/8% Sr. Secured	11/1/08	6/15/26	99,142	7.803%	June, Dec	645	892	(2,113)	
FMB - 2031 Series G	6/1/06	6/1/36	105,000	6.700%	Jun, Dec	586	2,418	-	
FMB - 2028 Series H	6/1/06	6/1/33	39,500	6.600%	Jun, Dec	217	741		
FMB - 2031 Series J	10/1/06	10/1/36	78,000	7.200%	Apr, Oct	1,404	1,147		
FMB - 2032 Series ZK	1/1/07	1/1/38	35,000	8.500%	Jan, Jul	1,488	567		

“ ”

FRST™ has enabled us to have a much better handle on our key financial metrics and requirements, and to be able to articulate those requirements to the board and to regulators.

— MCR Client

FRST™ IN REPORTING

FRST™ is configured to meet utility reporting needs and easily evolves as the organization changes, providing a long-term solution to financial forecasting needs. Features include:

- Financial reports customized to each client's needs, including consolidated, consolidating, and business unit financial statements
- Virtually unlimited capacity to define time periods and level of detail for financial and operating data
- Auditing capabilities to quickly identify sources of information
- A reporting tool that allows for flexible time periods
- A full set of metrics for all the major ratings agencies
- A scenario tool to quickly allow comparison of multiple scenarios; configured with flexible time periods and financial metrics
- Actuals incorporated for variance reporting of budget vs. actuals and budget vs. current outlook

Moody's Dynamic Scorecard		Select Year					
		2022					
		Aaa	Aa	A	Baa	Ba	B
Long-Term Power Supply Contracts and Regulatory Status			Aa				
Rate Flexibility				A			
Board Involvement in Setting Rates / Variable Cost Adjustments				25.0%			
Purchased Power/Total MWh Sales (%)					75.0%		
New Build Exposure (5-yr Forecast Capex as % Net PP&E)					Baa		
Potential for Rate Shock Exposure							
Member/Owner Profile							
Residential Sales/ Total Sales (%)			75.0%				
Members' Consolidated Equity/Capitalization (%)				50.0%			
3-Year Average G&T Financial Metrics							
TIER					1.20		
DSC						1.05	
FFO/Debt				8.6%			
FFO/Interest				2.38			
Equity/Total Capitalization					19.0%		
G&T Size							
Megawatt hour sales (Millions of MWhs)					10.12		
Net PP&E (\$ in Billions)				1.05			
Final Composite Rating				A2			

“ ”

MCR has a great product and delivered exactly what we needed.
The MCR team has a skill set that's unique to the utility industry.

— MCR Client



FRST™ IN REGULATORY PLANNING

FRST™ is a full-featured regulatory planning model that can be customized for any type of utility. The model solves for revenue requirements at any level of detail and identifies the need for future changes in rates. It gives analysts the ability to understand the drivers of rates and zeros in on the most effective strategy. FRST™ can:

- Customize cost of service calculations at either the total utility or individual rate classes
- Solve for revenue requirements based on cost of service plus margin based on key financial metrics (e.g., TIER, MFI, and DSC)
- Provide insights into when rate increases are needed, allowing total control over when new rates are implemented
- Offer insights that help management to balance achieving financial goals with understanding the impacts on members from a rate perspective
- Integrate seamlessly with MCR's Cost of Service Tool (COST™), which provides the detailed cost of service analysis needed to support rate cases

Executive Drivers

	2022	2023	2024	2025	2026	2027
Rate Switch	Off	On	On	On	On	On
Targeted Margin	20,000	20,000	20,000	20,000	20,000	20,000
DSC on LTD	1.15	1.20	1.20	1.20	1.20	1.20
TIER on LTD	1.15	1.20	1.20	1.20	1.20	1.20
Equity/Assets	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
MFI on Secured LTD	1.15	1.15	1.20	1.20	1.20	1.20

“ ”

What set MCR's model apart for us was the ability to examine the impacts of various strategies on each member, which gave us better insights than just looking at the company as a whole.

— MCR Client

DESIGNED FOR UTILITIES

FRST™ was designed by professionals who have extensive experience working in utility planning organizations and providing consulting services to utilities.

Here's what users can expect:

- Fast implementation times by experienced people with detailed knowledge of the utility industry
- Existing templates that handle a wide array of utility modeling issues, from detailed regulatory amortizations to unconventional financing
- A tool that can be easily configured to develop cost of service for various rate classes and revenue requirements by asset class
- Consultants with detailed knowledge of many financial and other applications used by utilities that easily link to FRST™
- A service agreement to address ongoing maintenance needs

Clients that have benefited from FRST™:



MCR knows utilities. They know your language and they understand your business model. MCR was very familiar with our accounting terminology, which made them very appealing.

— MCR Client



FRST™ CLIENT STORY

How a G&T Developed Member-Specific Rate Forecasts

Background

A generation and transmission (G&T) cooperative implemented FRST™ with the goal of developing its long-term plan and providing strategic insight for its planning process. The improvements that FRST™ made in the client's forecasting capabilities after the first two planning cycles allowed them to ask and answer more questions. With this success, the cooperative's members began asking for information beyond the simple average G&T rate and were interested in seeing their specific rates for the planning horizon.

Solution

FRST™'s flexible architecture was key to incorporating a more detailed view of the forecast, enabling member rate forecasts based on member-forecasted billing determinants. MCR's initial work focused on building various "buckets" of revenue requirements to separate the original total G&T cost of service into transmission, production demand, fuel, and other charges. We updated the import control function to incorporate member forecast data at the billing determinants level. Our team incorporated logic into the final consolidation to build up the rates based on the current rate structure. Finally, we developed a report to provide detailed information for each member, including all billing determinants and the buildup of their unique rate.

Results

We quickly completed the project under the provisions of MCR's service agreement. The resulting analysis will provide each G&T member with the information they need to develop their own forecasts with more precision.

MCR FINANCIAL PLANNING AND ANALYSIS SERVICES

FRST™ is a product of MCR's Financial Planning and Analysis Practice, which specializes in finance, strategy, and risk management for electric, natural gas, and water utility businesses. Our clients are IOUs, G&T cooperatives, distribution cooperatives, municipals, and joint action agencies that are committed to developing better strategies and making astute financial and regulatory decisions.

Clients hire us because we apply analytic discipline and tools across a wide array of industry issues. We help our clients set strategic direction, allocate capital and analyze complex issues. Our deep industry insights enable us to understand and implement the financial systems and technologies that help our utility clients improve their performance.

MCR's Financial Planning and Analysis services include:

- **Financial forecasting.** With decades of utility modeling experience, our consultants can solve any financial forecasting challenge. Our models combine the latest thinking in planning and have been applied to the most difficult questions faced by utilities. FRST™ is installed at dozens of utilities across the country.
- **Regulatory planning.** FRST™ provides in-depth analysis of revenue requirements and provides regulatory groups with insights on potential needs to adjust rates. FRST™ can be linked to our cost of service and rate design tools, providing a full range of products for regulatory professionals.
- **Enterprise risk management.** We conduct enterprise risk management diagnostics to provide a comprehensive understanding of a company's current ability to identify and manage risks. Using Monte Carlo simulation tools combined with FRST™, we quantify risks and incorporate our calculations into financial forecasts of earnings and cash flow.
- **Strategic planning.** MCR engages with client teams to set strategic direction, develop operational plans, and create meaningful performance metrics and targets. Our data-driven analytic approach helps our clients understand the key issues they face and assess their potential strategic options.
- **Capital allocation.** We evaluate capital projects using a risk-based approach to assess multiple alternatives and provide objective insights into the best option. We engage middle and senior management teams in the process of determining the optimal portfolio of capital projects.



MCR FINANCIAL PLANNING AND ANALYSIS LEADERSHIP



Dave Thompson is a Vice President at MCR and leads the Financial Planning and Analysis Practice. During his 20+ years of management consulting experience to utilities, he has developed significant expertise in crafting innovative business solutions and sophisticated analytics to advance strategic planning, risk management, and financial planning initiatives. Dave played a key role in developing MCR's Financial and Regulatory Strategy Tool, which has been implemented at electric, gas, and water utility IOUs; G&Ts; distribution cooperatives; and municipals.

Contact Dave at:

dthompson@mcr-group.com
612-382-5742



Dan Rupp is a Manager at MCR and has over 20 years of industry and consulting experience. A recognized industry expert in the area of financial and economic modeling, Dan uses sophisticated modeling applications to transform clients' financial forecasting capabilities. He also provides management with insights on the impacts of alternative short- and long-term strategies and changing business and market conditions. Dan has worked with numerous energy companies across the industry, including IOU's, G&T, distribution cooperatives, and municipal utilities.

Contact Dan at:

drupp@mcr-group.com
513-520-2323

To learn more, visit mcr-group.com/financial

“ ”

We thought our problem was unsolvable. MCR took a methodical approach, showing us not only that could our problem be solved, but that a tool could be developed to address our problem. We were impressed from the beginning.

— MCR Client



MCR Performance Solutions LLC
155 North Pfingsten Road, Suite 155
Deerfield, IL 60015

mcr-group.com