



Financial and Regulatory Strategy Tool



Helping Utilities Achieve Their
Financial Planning Objectives

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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.

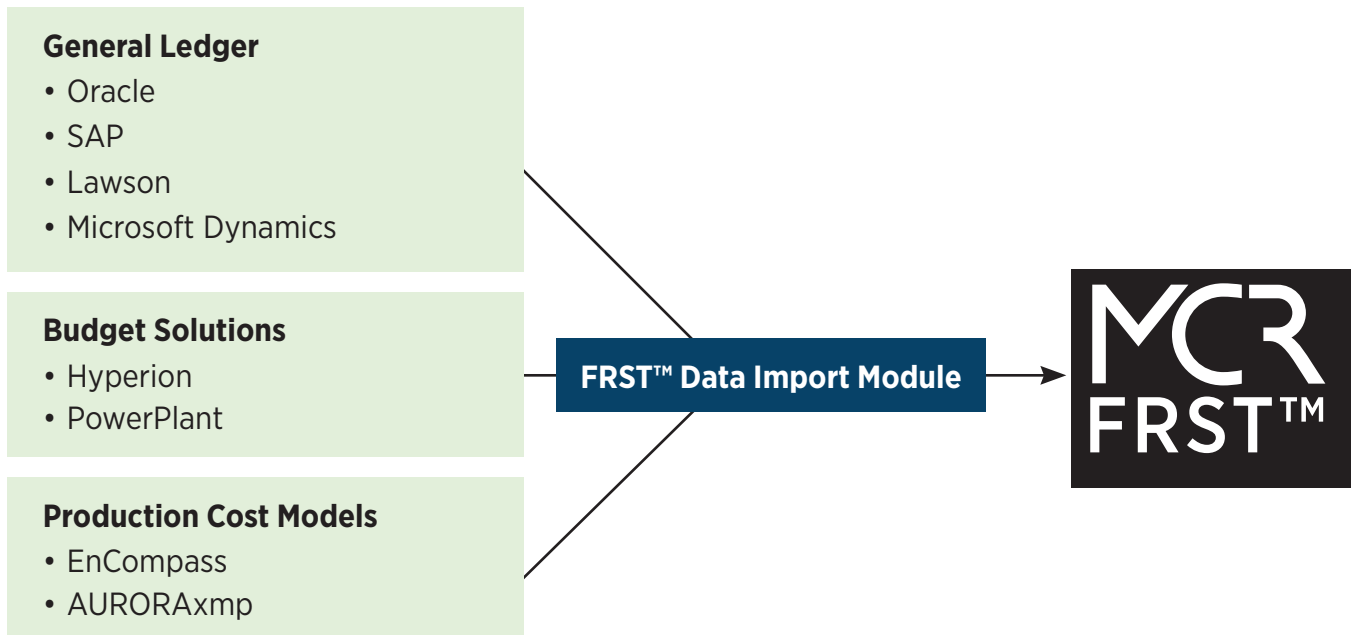
Why Our Clients Choose FRST™:

- ✓ Open, flexible model
- ✓ Fast processing
- ✓ Robust reporting and analysis
- ✓ Risk analysis capabilities
- ✓ Customer-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

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		



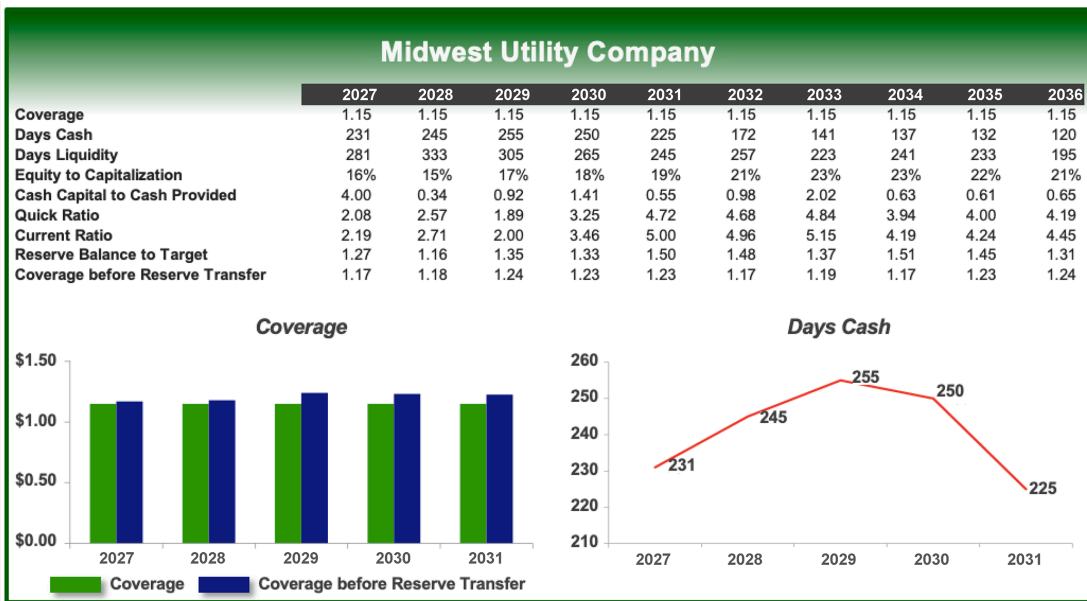
FRST™ has enabled us to have a much better handle on our key financial metrics and requirements, and to be able to articulate those requirements to the board and to regulators.

— 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



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 customers 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

Priority		2027	2028	2029	2030
	Targeted DSCR	2.00	2.00	2.00	2.00
	Maximum DSCR	3.00	3.00	3.00	3.00
1	DSCR Switch	Off	Off	Off	On
	Targeted FCC	2.00	2.00	2.00	2.00
	Maximum FCC	3.00	3.00	3.00	3.00
2	FCC Switch	Off	Off	Off	Off
	Targeted Days of Cash	100	100	100	100
	Maximum Days of Cash	200	200	200	200
3	Days of Cash Switch	Off	Off	Off	Off



What set MCR's model apart for us was the ability to examine the impacts of various strategies on each rate class, 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 Municipal Agency Transformed Its Financial Forecasting

Background

Southern Minnesota Municipal Association (SMMPA) was using a cumbersome, database-oriented financial planning tool to develop its long-range financial plans and rate forecasts. The planning tool was a “black box” system that required the system vendor to make all logic changes. In addition, the tool required manual loading of production cost forecast data, which created bottlenecks in the planning process as well as potential for data input errors. With the goal of fixing these planning issues and improving their ability to quickly create and analyze asset and financing scenarios, SMMPA asked MCR for help.

Solution

MCR worked with SMMPA to install the FRST™ financial planning model. The base planning model was implemented in just eight weeks and included seamless integration with SMMPA's production cost model, financial accounting system, and other input sources. MCR developed a customized financing capability to enable specific bond funding for unique categories of capital spending. Additional financing logic was implemented to allow planners to target the use of reserve funds under various scenarios.

Results

The FRST™ model has significantly enhanced SMMPA's financial forecasting capabilities. The company's planners can now make model logic changes without relying on an outside vendor. The planning process is more efficient with automated interfaces for production cost, accounting, and other sources of data. The planners now have the custom financing capabilities they need to plan funding and reserves that reflect how they manage the business.

“In order to properly configure the FRST™ model, MCR had to thoroughly understand our drivers and business model. It never ceases to amaze me how quickly the MCR staff figured out our business model. FRST™ has enabled us to have a much better handle on our financial metrics and requirements, and the ability to articulate those requirements to the board and to regulators.”

— John Winter, Former Director of Finance & Accounting, SMMPA

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.

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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.

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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



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