



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.

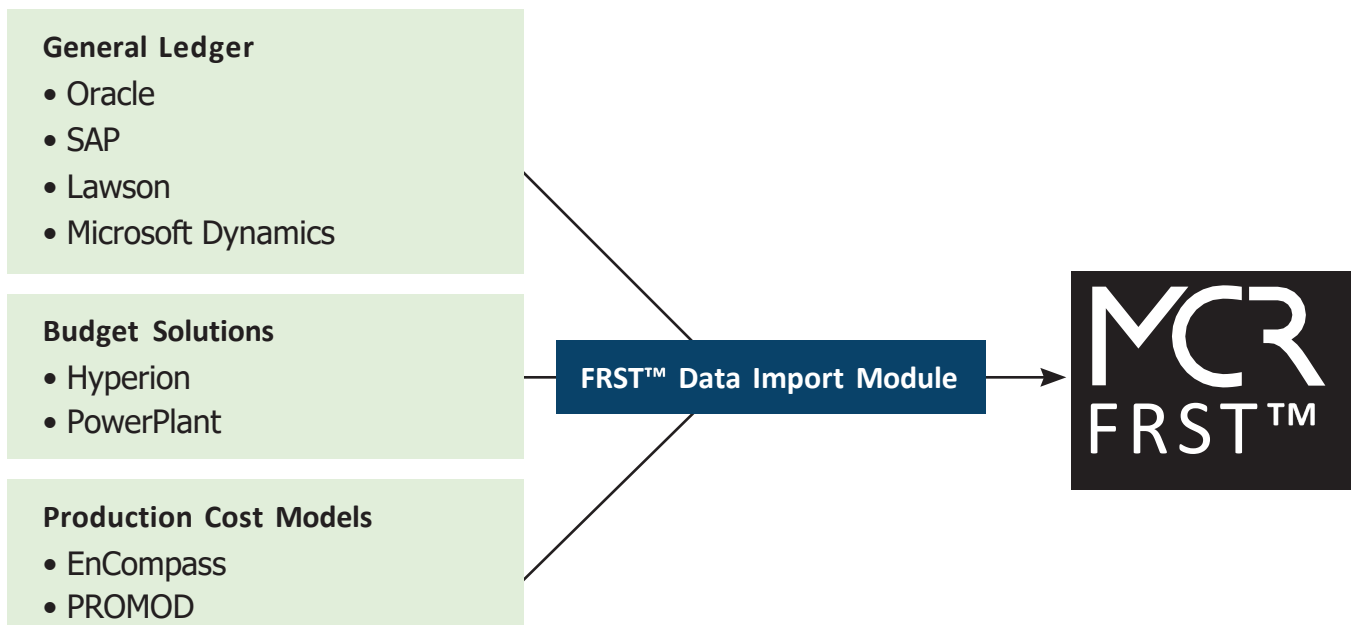
Why Our Clients Choose FRST™:

- ✓ 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										
<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			

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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

Select Two Cases to Compare:		Midwest Utility Company Consolidated Statement of Income				
Case 1	2025 Strategic Plan – Base Case	2027	2028	2029	2030	2031
Case 2	2025 Strategic Plan – Investment					
<input type="checkbox"/> Detailed Format <input type="checkbox"/> Activate Scenario						
<i>Dollars in Thousands</i>						
Operating Revenues						
Electric Revenue		\$ 1,567,520	\$ 1,539,353	\$ 1,640,542	\$ 1,659,579	\$ 1,754,800
Gas Revenue		\$ 139,290	\$ 125,437	\$ 143,204	\$ 145,904	\$ 148,625
Water Revenue		\$ 5,308	\$ 5,327	\$ 5,283	\$ 5,309	\$ 5,336
Non-Regulated Revenue		\$ 18,494	\$ 20,367	\$ 20,340	\$ 20,340	\$ 20,340
Intercompany Revenue		\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Revenues		\$ 1,730,612	\$ 1,690,485	\$ 1,809,368	\$ 1,831,131	\$ 1,929,102
Total Operating Revenue Deductions		\$ 1,439,360	\$ 1,411,178	\$ 1,503,644	\$ 1,515,830	\$ 1,571,378



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.

- Customizes cost of service calculations at either the total utility or individual rate classes
- Contains a high degree of flexibility to develop ratebase, cost of service, and revenue requirements
- Has flexible regulatory logic, allowing for historic and future test years with movable test periods and rate effective dates
- Provides insights into when rate increases are needed and allows total control over when new rates are implemented
- Offers insights that help management balance achieving financial goals with understanding the impacts on customers from a rate perspective
- Integrates seamlessly with MCR's Cost of Service Tool (COST™), which provides the detailed cost of service analysis needed to support rate cases

TEST YEAR INPUTS	Test Year 1	Test Year 2	Test Year 3	Test Year 4	Test Year 5	Test Year 6
Rate Switch	Off	Off	Off	Off	Off	Off
Start Date	Jan-27	Jan-28	Jan-29	Jan-30	Jan-31	Jan-32
End Date	Dec-27	Dec-28	Dec-29	Dec-30	Dec-31	Dec-32
Expected ROE	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Income Tax Rate	23.62%	23.62%	23.62%	23.62%	23.62%	23.62%
Income Tax Rate Override						
Income Tax Rate Used	23.62%	23.62%	23.62%	23.62%	23.62%	23.62%
Rate Effective Date	Jan-28	Jan-29	Jan-30	Jan-31	Jan-32	Jan-33
Working Capital Input \$	-	-	-	-	-	-
Test Year Type	Historic					
Include ST Debt in Cost of Capital	No	No	No	No	No	No
CALCULATED DEFICIENCY:	33,047	36,672	28,320	58,632	71,477	66,489
GENERAL RATE INCREASE:	-	-	-	-	-	-



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

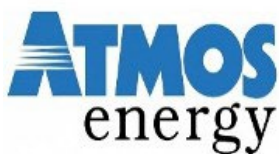
DESIGNED FOR UTILITIES

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 an IOU Enhanced Its Financial Planning Capabilities

Background

A mid-sized investor-owned utility (IOU) was using an inefficient “black box” planning model to develop its financial forecasts. The time required to manage the data inputs and generate reports was incompatible with the company’s goal to quickly produce alternative regulatory and financing scenarios. In addition, the company wanted to dramatically improve the flexibility of its financial forecasting process and more efficiently generate new forecasts. To achieve these goals, the company chose to implement MCR’s FRST™ financial planning model.

Solution

MCR worked closely with the client to tailor key features of FRST™ to meet their financial and regulatory planning needs. Their previous database-oriented planning model created a complex array of output reports that were difficult to compare and contrast in a quick and useful manner.

MCR configured the construction module to allow specific assets to be associated with regulatory jurisdictions and enabled detailed forecasting of capital spending, including the impacts of renewables on the utility.

The regulatory logic incorporated automated revenue requirements calculations for state- and FERC-regulated jurisdictions. FRST™’s unique risk analysis logic was implemented for developing risk management scenarios. MCR also worked with the client’s staff to develop a scenario tool that compares multiple runs of the model and is flexible enough to allow changes in time periods and corporate entities.

Result

This client was up and running with FRST™ in just eight weeks, and their planning process was dramatically improved. The scenario tool MCR developed cut days off the time to generate scenario comparisons, and the client can now provide quicker turnaround of new forecasts with a significantly reduced staff. The risk analysis function provides senior management and the board with greater clarity around the potential variability of future financial metrics.

“It was lightning speed ahead of our prior model. With FRST™, we could create more reports and more dimensions in a fraction of the time. There hasn’t been a need that’s come up that we haven’t been able to solve with FRST™.”

—MCR Client

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