INDIANOLA MUNICIPAL UTILITIES

IMU

Electric • Communications • Water

IMU Board of Trustees
February 10, 2014
Conference Room City Hall
5:30 p.m.

Agenda

1. Roll Call

2. Consent

   A. Claims

   B. Minutes

   C. Salaries

   D. Quarterly Write-offs to State Offset Program

   E. Investment Policy

   F. Deposit Resolution

   G. Amend Miscellaneous Fee Schedule

3. Reports

   A. General Manager

   B. Chairperson

4. Discussion Items

   A. Strategic Plan (update), Service Objectives & Operating Strategies

   B. Mid-Year Performance Report

   C. Cost of Energy Adjustment Considerations

5. Other Business

6. Adjourn

IMU Regular Upstairs **2. A.**

Meeting Date: 02/10/2014

Information

Subject

Claims

Information

The February 3, 2014 Claims List was distributed previously.

Financial Impact

N/A

Staff Recommendation

IMU Regular Upstairs **2. B.**

Meeting Date: 02/10/2014

Information

Subject

Minutes

Information

Minutes of the January 27, 2014 meeting are attached.

Financial Impact

N/A

Staff Recommendation

Attachments

Minutes

BOARD OF TRUSTEE MINUTES
REGULAR SESSION – JANUARY 27, 2014

The Board of Trustees met in regular session at 5:30 p.m. on January 27, 2014 in the City Hall Council Chambers. Chairperson Eric Vander Linden called the meeting to order and on roll call the following members were present: Heather Hulen, Grant Johnson, Bob Lester (via phone), Pat Reding and Eric Vander Linden.

The consent agenda consisting of the following was approved on a motion by Johnson and seconded by Lester. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

January 20, 2014 claims

January 13, 2014 minutes

Salaries:
Nate Edwards, new appointment from Lineman (Range 26-6 at $27.028/hr.) to Lead Generation Operator (Range 25-5 at $27.951/hr.) effective January 26, 2014

Jeremy Cross, new appointment, from Water Operator I to Inventory Specialist/Storekeeper effective January 26, 2014.

Purchase of 2014 Dodge Ram Pickup Truck for the Water Department from Southtown for $23,511 plus applicable tax and license fees

Certificate of Substantial Completion for the 2012 Fiber Installation Project

Mike Metcalf presented the 4th Quarter 2013 Safety Report.

The November and December 2013 Treasurer's Report was approved on a motion by Reding and seconded by Johnson. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

The revised IAMU Line Maintainer Registered Apprenticeship Program Agreement was approved on a motion by Johnson and seconded by Hulen. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

Board Member Reding introduced the following Resolution entitled "RESOLUTION APPROVING CONSTRUCTION CONTRACTS AND BONDS" with Michels Power for the 2014 Hwy 92 Transmission Relocation Project, and moved that it be adopted. Board Member Lester seconded the motion to adopt. The roll was called and the vote was, AYES: Johnson, Hulen, Lester, Vander Linden and Reding. NAYS: None. Whereupon, the Chair declared the following resolution duly adopted:

RESOLUTION APPROVING CONSTRUCTION CONTRACCTS AND BONDS
For the 2014 Hwy 92 Transmission Relocation Project

(The complete resolution may be viewed at the City Clerk's Office)

General Manager Todd Kielkopf, presented the FY 2015 Budget.

Board member Johnson moved to approve setting February 24, 2014 as the date of public hearing for the Indianola Municipal Utilities FY 2015 budget. Board Member Hulen seconded the motion. The roll was called and the vote was, AYES: Hulen, Lester, Vander Linden, Reding and Johnson. NAYS: None. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

Meeting adjourned on a motion by Reding and seconded by Hulen.

Eric Vander Linden, Chairperson	Diana Bowlin, City Clerk

IMU Regular Upstairs **2. C.**

Meeting Date: 02/10/2014

Information

Subject

Salaries

Information

Eric Lane, Network Services Associate, from R 19-2 at $19.059/hr. ($39,644/yr) to R 19-3 at $19.821/hr. ($41,228/yr) for satisfactorily completing the appropriate waiting period for creditable service, effective 2/9/2014.

Justin Brand, Water Operator I, at R 21-2 at $20.991/hr. ($43,661/yr) effective 2/23/2014. Justin is currently employed with the City of Indianola as a WPC Operator. IDNR has indicated they will credit a portion of his experience towards obtaining a Grade I water license.

Financial Impact

N/A

Staff Recommendation

IMU Regular Upstairs **2. D.**

Meeting Date: 02/10/2014

Information

Subject

Quarterly Write-offs to State Offset Program

Information

The quarterly report of amounts being sent to the State of IA offset program is attached. Amounts may be collected over the next 10 years.

Financial Impact

N/A

Staff Recommendation

Attachments

Writeoffs

Historical Write-offs

Dec-13

		Electric	%	Water	%
December	2011	$ 16,349.05	0.68%	$ 3,001.23	0.50%
March	2012	$ 10,068.49	0.43%	$ 1,552.19	0.29%
June	2012	$ 18,338.81	0.90%	$ 5,305.90	1.09%
September	2012	$ 22,447.38	0.60%	$ 4,331.44	0.61%
December	2012	$ 26,976.89	0.97%	$ 3,778.37	0.84%
March	2013	$ 35,766.64	1.40%	$ 5,173.54	1.02%
June	2013	$ 23,778.95	1.02%	$ 5,616.54	1.17%
September	2013	$ 22,223.60	0.68%	$ 4,456.19	0.71%
December	2013	$ 23,783.45	0.78%	$ 2,920.64	0.45%
Average for Qtr			0.81%		0.60%
Average for Report			0.83%		0.74%

IMU Regular Upstairs **2. E.**

Meeting Date: 02/10/2014

Information

Subject

Investment Policy

Information

Best practice is to annually review and adopt the Investment Policy (see attached). No changes are being recommended. The City Council adopted a highly similar policy at their February 3, 2014 meeting.

Grant Johnson and Todd Kielkopf serve on the Investment Committee, which oversees the investment of reserve fund balances in a combined portfolio with those of the City of Indianola. Investments are generally highly-rated individual bonds in the form of a ladder of maturity dates and are monitored primarily by the Finance Director & Treasurer, who are the only individuals authorized to move funds and buy/sell securities.

The Committee did meet last week with the contracted manager, BTC Capital Management, and the portfolio continues to yield higher than if placed only on deposit at the bank or in Certificate of Deposits.

Financial Impact

N/A

Staff Recommendation

Attachments

Policy

INDIANOLA MUNICIPAL UTILITIES
INVESTMENT POLICY

SECTION 1 -- SCOPE OF INVESTMENT POLICY

The Investment Policy of the Indianola Municipal Utilities shall apply to all operating funds, bond proceeds and other funds and all investment transactions involving operating funds, bond proceeds and other funds accounted for in the financial statements of the Indianola Municipal Utilities. Each investment made pursuant to this Investment Policy must be authorized by applicable law and this written Investment Policy.

The investment of bond funds or sinking funds shall comply not only with this investment policy, but also be consistent with any applicable bond resolution.

This Investment Policy is intended to comply with Iowa Code Chapter 12B and 12C.

Upon passage and upon future amendment, if any, copies of this Investment Policy shall be delivered to all of the following:

1. The governing body or officer of the Indianola Municipal Utilities to which the Investment Policy applies.

2. All depository institutions or fiduciaries for public funds of the Indianola Municipal Utilities.

3. The auditor engaged to audit any fund of the Indianola Municipal Utilities.

In addition, a copy of this Investment Policy shall be delivered to every fiduciary or third party assisting with or facilitating investment of the funds of the Indianola Municipal Utilities.

SECTION 2 -- DELEGATION OF AUTHORITY

In accordance with Section 12B.10(1), the responsibility for conducting investment transactions resides with the Treasurer and Finance Director of Indianola. Only the Treasurer and Finance Director and those authorized by ordinance or resolution may invest public funds and a copy of any empowering ordinance or resolution shall be attached to this Investment Policy.

All contracts or agreements with outside persons investing public funds, advising on the investment of public funds, directing the deposit or investment of public funds or acting in a fiduciary capacity for the Indianola Municipal Utilities shall require the outside person to notify in writing the Finance Director Clerk within thirty days of receipt of all communication from the Auditor of the outside person or any regulatory authority of the existence of a material weakness in internal control structure of the outside person or regulatory orders or sanctions regarding the type of services being provided to the Indianola Municipal Utilities by the outside person.

The records of investment transactions made by or on behalf of the Indianola Municipal Utilities are public records and are the property of the Indianola Municipal Utilities whether in the custody of the Finance Director Clerk or in the custody of a fiduciary or other third party.

The Treasurer and Finance Director shall establish a written system of internal controls and investment practices. The controls shall be designed to prevent losses of public funds, to document those officers and employees of the Indianola Municipal Utilities responsible for elements of the investment process and to address the capability of investment management. The controls shall provide for receipt and review of the audited financial statement and related report on internal control structure of all outside persons performing any of the following for this public body.

1. Investing public funds.
2. Advising on the investment of public funds.
3. Directing the deposit or investment of public funds.
4. Acting in a fiduciary capacity for this public body.

A Bank, Savings and Loan Association or Credit Union providing only depository services shall not be required to provide an audited financial statement and related report on internal control structure.

The Treasurer of Indianola and all employees authorized to place investments shall be bonded in the amount of $25,000.

SECTION 3 -- OBJECTIVE OF INVESTMENT POLICY

The primary objectives, in order of priority, of all investment activities involving the financial assets of the Indianola Municipal Utilities shall be the following:

1. Safety: Safety and preservation of principal in the overall portfolio is the foremost investment objective.

2. Liquidity: Maintaining the necessary liquidity to match expected liabilities is the second investment objective.

3. Return: Obtaining a reasonable return is the third investment objective.

SECTION 4 -- PRUDENCE

The Treasurer of Indianola, when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a person acting in a like capacity and familiar with such matters would use to attain the Section 3 investment objectives. This standard requires that when making investment decisions, the Treasurer shall consider the role that the investment or deposit plays within the portfolio of assets of the Indianola Municipal Utilities and the investment objectives stated in Section 3.

SECTION 5 -- INSTRUMENTS ELIGIBLE FOR INVESTMENT

Assets of the Indianola Municipal Utilities may be invested in the following:

- Interest bearing savings accounts, interest bearing money market accounts, and interest bearing checking accounts at any bank, savings and loan association or credit union in the State of Iowa. Each bank must be on the most recent Approved Bank List as distributed by the Treasurer of the State of Iowa or as amended as necessary by notice inserted in the monthly mailing by the Rate Setting Committee. Each financial institution shall be properly declared as a depository by the governing body of the Indianola Municipal Utilities. Deposits in any financial institution shall not exceed the maximum approved by the governing body of the Indianola Municipal Utilities.

- Obligations of the United States government, its agencies and instrumentality's.

- Certificates of deposit and other evidences of deposit at federally insured depository institutions approved and secured pursuant to Chapter 12C.

- Iowa Public Agency Investment Trust (IPAIT).

- Prime bankers' acceptance that mature within 180 days of purchase and that are eligible for purchase by a federal reserve bank.

- Commercial paper or other short-term corporate debt that matures within 270 days of purchase and is rated within the highest classification, as established by at least one of the standard ratings services approved by the superintendent of banking. If rated by two services, the highest classification in both.

- Repurchase agreements collateralized at no less than 102% and provided that the underlying collateral consists of obligations of the United States government, its agencies and instrumentality's and the Trustee Clerk takes delivery of the collateral either directly or through an authorized custodian. Broker/dealer must be of highest rating or bank must be on Approved Bank List discussed earlier in this Policy Section.

- An open-end management investment company registered with the Securities & Exchange Commission under the federal Investment Company Act of 1940, 15 U.S.C. Section 80(a) and operated in accordance with 17 C.F.R. Section 270.2a-7, whose portfolio investments are limited to those instruments individually authorized in Section 5 of this Investment Policy.

- Mortgage Backed Securities that are unleveraged, straight fixed or floating rate and are issued directly by a U.S. Government Agency or securitized by Government Agency sponsored mortgages.

- All instruments eligible for investment are further qualified by all other provisions of this Investment Policy, including Section 7 investment maturity limitations and Section 8 diversification requirements.

SECTION 6 -- PROHIBITED INVESTMENTS AND INVESTMENT PRACTICES

DERIVATIVES AND STRUCTURED SECURITIES DEFINED

Financial derivatives are broadly defined as financial instruments which derive their value from the performance of a wide assortment of financial contracts, including structured debt obligations and deposits, swaps, exchange traded futures, exchange traded over the counter options, caps, floors, collars, mortgage backed securities, foreign exchange forwards, tender option bonds, and various combinations thereof.

Assets of the Indianola Municipal Utilities shall not be invested in the following:

1. Any derivative or structured security which does not have a readily available pricing service or broker/dealer quote source.

2. Any derivative or structured security whose duration cannot be modeled effectively.

3. Any derivative or structured security with exposure to the following: borrowing/external leverage, foreign currency, equity, commodity licenses or other non-fixed income instruments.

4. Any other derivative or structured security not specifically named as eligible in Section 5.

5. Reverse repurchase agreements.

6. Futures and options contracts.

Assets of the Indianola Municipal Utilities shall not be invested pursuant to the following investment practices:

1. Trading of securities for speculation or the realization of short-term trading gains.

2. Pursuant to a contract providing for the compensation of an agent of fiduciary based upon the performance of the investment assets.

3. If a fiduciary or other third party with custody of public investment transaction records of the Indianola Municipal Utilities fails to produce requested records when requested by this public body within a reasonable time, the City Treasurer shall make no new investment with or through the fiduciary or third party and shall not renew maturing investments with or through the fiduciary or third party.

SECTION 7 -- INVESTMENT MATURITY LIMITATIONS

- Operating Funds must be identified and distinguished from all other funds available for investment. Operating Funds are defined as those funds which are reasonably expected to be expended during a current budget year or within fifteen months of receipt.

- All investments authorized in Section 5 are further subject to the following investment maturity limitations:

    1. Operating Funds may only be invested in instruments authorized in Section 5 of this Investment Policy that mature within three hundred ninety-seven (397) days.

    2. The Treasurer may invest funds of the Indianola Municipal Utilities that are not identified as Operating funds in investments with maturities longer than three hundred ninety-seven (397) days. However, all investments of the Indianola Municipal Utilities shall have maturities that are consistent , with the needs and uses of the Indianola Municipal Utilities.

    3. The diversity of fixed income securities shall match cash flow needs with an absolute effective duration range of 2-5 years.

SECTION 8 -- DIVERSIFICATION

Investments of the Indianola Municipal Utilities are subject to the following diversification requirements:

Prime bankers' acceptances:

1. At the time of purchase, no more than ten percent (10%) of the investment portfolio of the Indianola Municipal Utilities shall be invested in prime bankers' acceptances, and

2. At the time of purchase, no more than five percent (5%) of the investment portfolio of the Indianola Municipal Utilities shall be invested in the securities of a single issuer.

Commercial paper or short-term corporate debt:

1. At the time of purchase, no more than ten percent (10%) of the investment portfolio of the Indianola Municipal Utilities shall be in commercial paper or other short-term corporate debt, and

2. At the time of purchase, no more than five percent (5%) of the investment portfolio of the Indianola Municipal Utilities shall be invested in the securities of a single issuer.

Where possible, it is the policy of the Indianola Municipal Utilities to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In establishing specific diversification strategies, the following general policies and constraints shall apply:

1. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide stability of income and reasonable liquidity.

2. Liquidity practices shall ensure that the next scheduled disbursement is covered through maturing investments, marketable U.S. Treasury bills or cash on hand.

3. Risks of market price volatility shall be controlled through maturity diversification so that aggregate price losses on instruments with maturities approaching one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

SECTION 9 -- SAFEKEEPING AND CUSTODY

All invested assets of the Indianola Municipal Utilities involving the use of a public funds custodial agreement, as defined in Section 12B.10, shall comply with all rules adopted pursuant to Section 12B.10. All custodial agreements shall be in writing and shall contain a provision that all custodial services be provided in accordance with the laws of the state of Iowa.

SECTION 10 -- ETHICS AND CONFLICT OF INTEREST

The Treasurer and all officers and employees of the Indianola Municipal Utilities involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

SECTION 11 -- REPORTING

The Treasurer shall submit annually an investment report that summarizes recent market conditions and investment strategies employed since the last investment report. The investment report shall set out the current portfolio in terms of maturity, rates of return and other features and summarize all investment transactions that have occurred during the reporting period and compare the investment results with the budgetary expectations. A quarterly review of the portfolio shall be received with the emphasis on performance, stress test, etc. The Board of Trustees may approve exceptions to this policy on a short term basis so long as complete compliance remains the ultimate goal.

SECTION 12 -- INVESTMENT POLICY REVIEW AND AMENDMENT

This Investment Policy shall be reviewed annually or more frequently as appropriate. Notice of amendments to the Investment Policy shall be promptly given to all parties noted in Section 1.

APPROVED THIS ______ day of February, 2014.

____
Eric Vander Linden, Chairperson

Attest:

____
Diana Bowlin, Clerk

IMU Regular Upstairs **2. F.**

Meeting Date: 02/10/2014

Information

Subject

Deposit Resolution

Information

Trustees annually adopt a resolution that limits the authorized amounts the Treasurer & Finance Director may have in any given financial institution at any one time.

Amounts are being adjusted to allow for the accessing the increased reserve portfolio balance in an emergency (BTC Capital Management would need to place funds into Community Bank or Banker's Trust).

Financial Impact

N/A

Staff Recommendation

Attachments

Deposit Resolution

Trustee member _____________ introduced the following Resolution Naming Depositories and moved its approval. ____________ seconded the motion. Question was called for and on roll call the Chairperson declared the motion carried.

RESOLUTION NAMING DEPOSITORIES

BE IT RESOLVED by the Board of Trustees of Indianola Municipal Utilities of Indianola in Warren County, Iowa; That we do hereby designate the following named banks and savings and loans to be depositories of the Indianola Municipal Utilities funds in amounts not to exceed the amount named opposite each of said designated depositories and the City Clerk is hereby authorized to deposit the Indianola Municipal Utilities funds in amounts not to exceed in the aggregate the amounts named for said banks and savings and loans as follows, to wit:

Depository	Location	Maximum Deposit In Effect Under Prior Resolution	Maximum Deposit In Effect Under This Resolution
Bankers Trust	665 Locust St. Des Moines, Ia	$15,000,000	$24,000,000
Community Bank	1401 N. Jefferson Indianola, Ia	$ 9,000,000	$20,000,000
Wells Fargo Bank	509 N. Jefferson Indianola, Ia	$ 1,000,000	$ 1,000,000
Peoples Bank	400 E. Iowa Indianola, Ia	$ 1,000,000	$ 1,000,000
Regions Bank	114 N. Howard Indianola, Ia	$ 1,000,000	$ 1,000,000
Bank of The West	211 E. Boston Indianola, Ia	$ 1,000,000	$ 1,000,000
City State Bank	1510 N. 1st Indianola, Ia	$ 1,000,000	$ 1,000,000

The vote on the Resolution is as follows: AYES: NAYS:

Dated at Indianola, Iowa this _____ day of February, 2014.

____
Eric Vander Linden, Chairperson

ATTEST:

____
Diana Bowlin, Clerk

IMU Regular Upstairs **2. G.**

Meeting Date: 02/10/2014

Information

Subject

Amend Miscellaneous Fee Schedule

Information

The miscellaneous fee schedule referred to in the Service Plans for all 3 utilities (Electric, Water, and Communications) includes various charges for items such as returned check fees and delinquent account notices.

The schedule needs amended to charge $500 to replace Optical Network Terminals owned by IMU if a customer does not allow access to the premise following a permanent disconnection of service. This has not yet been an issue, however it will recover IMU's cost to replace the unit if that situation occurs.

Financial Impact

N/A

Staff Recommendation

IMU Regular Upstairs **3. A.**
Meeting Date: 02/10/2014

Information

Subject

Administrative News Items

Information

Financial Impact
N/A

Staff Recommendation

Attachments

News Items

NEWS ITEMS

TO: IMU Trustees
FROM: IMU Administrative Staff
DATE: February 7, 2014

1. **Budget Presentation:** The first strategic plan/budget presentation was drafted and edited this week. The goal is for it to begin airing on the web site & video channel next week.

   IMU encourages those interested in IMU's budget to view the summary video, review the more detailed budget slide deck included in last week's packet, and inquire with IMU staff regarding questions prior to the public hearing. Attendance at the February 24, 2014 public hearing to ask questions directly to Trustees is also an option. Otherwise, an April joint meeting (to discuss broader topics) with the City Council is still being discussed.

2. **Community-Owned Solar:** The Energy Group, an existing IMU consultant on energy efficiency programs, is expanding their services to include feasibility studies for solar installations (for both utilities & commercial customers). Traer, for example, has developed a viable business model where individuals/corporations receive the income tax credit for a jointly-owned array maintained by the municipal utility.

   Timing-wise, it would be good to develop a cost/benefit framework so when MEAN's rate design is finished later this calendar year, staff would have an idea about the financial metrics for various strategies (i.e. a single, large installation jointly owned by customers or if individual installations are best). If feasible, it could become a popular way for ratepayers to hedge against rising retail electric costs over the next 5-10 years. Staff anticipates having the funds for a study available within the energy efficiency budget both this year and next.

3. **ICAP Meeting:** IMU & City of Indianola staff met this week with a representative from the insurance carrier, the Iowa Communities Assurance Pool. It appears to make financial sense to propose increasing the joint policy's property insurance deductible from $10,000 per incident to $25,000 when the policy is renewed this summer. Under ICAP, a municipally-owned group, the deductible applies per incident, not per property. So if a hail storm or tornado damages several IMU & city buildings, only 1 deductible applies vs. one for each building.

   It may also make financial sense to increase the General Liability deductible based on the prior 10-year history. IMU has an insurance deductible reserve fund balance of $20,000

4. **IAMU L&R Working Group:** The Iowa Association of Municipal Utilities' Legal & Regulatory Committee, which monitors state & federal public policymaking, has a working group that helps the committee interpret proposed legislation and voice concerns to legislators. Todd Kielkopf was asked to participate in that working group and is now in line for a voting committee seat when vacancies occur.

IMU Regular Upstairs **4. A.**

Meeting Date: 02/10/2014

Information

Subject

Strategic Plan (update), Service Objectives & Operating Strategies

Information

Trustees annually review Service Objectives & Operating Strategies within the context of the Strategic Plan and budget. The purpose of the document is to serve as a detailed source of information (to Trustees, staff, and the public) on why and how IMU provides various utility & administrative services/functions. The budget only describes how much those services cost.

The only update to the Strategic Plan components of the attached document is that IMU will monitor the Water Utility's financial performance, which is now projected to only equalize cash flow in (from rates) and out (for O&M, debt service, and capital projects) in FY 2015/16. The priority will continue to be debt prepayments when excess reserves are identified. Trustees will review the Strategic Plan during the summer to start the next planning cycle.

There are several proposed changes to operating strategies, including:

1. Changing from a quarterly Performance Report (dashboard) to 6 months
2. Lowering the reserve policy to 3.5% of assets for the Electric Utility as per the proposed budget
3. Removal of detail annual goals, which duplicated priorities listed in the expanded Action Items section

Financial Impact

N/A

Staff Recommendation

Attachments

Plan

Indianola Municipal Utilities

Strategic Plan,
Service Objectives,
& Operating Strategies

(FY 2014 – 2016 edition)

Winter 2013/14 Version 1

INDIANOLA MISSION STATEMENT

The City of Indianola and the Indianola Municipal Utilities will cooperatively provide essential, high-quality, and cost-effective services that give opportunities for residents to pursue the highest possible quality of life.

We Value…

A dedicated, creative, professional, and skilled workforce including appointed and elected officials that possess integrity and perform their duty in an ethical and impartial manner;

A safe and efficient workplace and community;

Attaining a high level of customer service;

Sustainable service delivery based on research and foresight;

Protection and responsible use of natural resources;

Affordable rates that balances needs in the community;

Working as partners within our community and with other entities;

Fairly and consistently imposing and applying regulatory actions;

Providing equal access to resources that benefit people’s lives;

Citizens that are knowledgeable and engaged in our community.

EXECUTIVE SUMMARY

The purpose of this Strategic Plan is to identify areas in which the Indianola Municipal Utilities (IMU) can both build upon traditional strengths while also taking advantage of new opportunities over the next 3 fiscal years.

It is a comprehensive planning resource for policymakers and staff of Indianola Municipal Utilities. The intent is for policymakers to periodically provide direction on:

1. Purpose
2. Services that define our roles
3. Objectives that guide our delivery of services
4. Strategies that fit within overall objectives
5. Goals for improving each strategy

Management staff provides input on the above items plus:

1. An implementation plan and benchmarks
2. Task management
3. Proposed budgets, financial analysis, and rates

For this planning cycle, Core Services are consistent with those contained in previous plans.

The Strategic Analysis (page 4) contained in this Executive Summary compiles Trustees' and management staff's assessment of the organization's operating environment to provide those Core Services. The analysis identifies:

1. Traditional strengths of IMU.
2. Activities that can improve those traditional strengths without being detrimental to capitalizing on new opportunities.
3. New opportunities arising in the electric, water, communications industries.
4. Activities that can help IMU capitalize on new opportunities and be complimentary to traditional organizational strengths.

Using the Strategic Analysis, Trustees and staff developed 10 Action Items (page 5) that impact the broader organization in the areas of:

- Personnel/staffing
- Infrastructure
- Financial resources
- Customer service
- Community support

These Action Items are then placed into the detailed plan as Strategies or Goals for individual Core Services (page 6) and marked as priorities (*). Additional steps and milestones are also noted within the detailed plan.

No planning system is complete without a method to determine progress, successes, and warning signs of impending challenges. IMU uses a quarterly performance report with indicators to communicate these.

Strategic Analysis-

Traditional strengths:

Educated, trained and committed workforce and consultants that operate in a team-based culture

Workforce sized to respond to outages and emergencies in a timely manner

Utility plant assets are proactively maintained to provide long-term reliable services with capacity to meet future needs

Competitive rates and fees built on a relatively conservative financial plan

Commitment to safety

Diverse wholesale sources with relative price stability

Brand name associated with quality, community leadership and customer service

Stable economy & consumption patterns

New opportunities to capitalize on:

Broad marketing of the fiber system expansion & new service offerings

Attract strategic partners that bring dynamic perspectives & new auxiliary network services

Increased visibility within the Indianola and metro

Commercial development with a focus on technology-oriented companies and entrepreneurialism; community desire to partner on these activities

Directly engage larger customers on local telecom, auxiliary services, energy efficiency, and business opportunities that deliver economic benefits

Monitor the viability of customer-owned solar arrays as on-peak resources to reduce demand charges

Ways to improve traditional strengths & overcome known challenges:

Promote a learning culture where new ideas are tried without fear of failure; train and reward those that successfully meet challenges

Consistently reinvest to proactively counteract decaying infrastructure & facilities; Implement the Master Facilities and other long-term plans

Maintain stable rate revenue, in real terms, allocated to long-term infrastructure improvements based on 3-5 year rate studies and forecasts

Train, plan, and equip for unexpected events that disrupt commerce, workforce activities & customers

Plan how to adapt to regulatory changes, particularly those impacting air quality and fluoride tolerance

Ways to capitalize on opportunities & overcome potential challenges:

Hire employees with the abilities to implement the utility's strategies during the upcoming retirement transition; also invest in mentoring as needed

Integrate media/technology platforms that create PR synergies between public/utility services including those provided by private partners; focus on the holistic value proposition of IMU

Proactively maintain high customer satisfaction by communicating progress, opportunities, and value; consistently address IMU's roles on city projects and with service partners

Address cyber security issues to avoid negative perceptions and events

Action Plan-

1. Develop and adopt viable Capital Improvement Plan (CIP) schedules for each utility and implement budgeted projects annually (IMU Trustees, GM & Dept. Heads):

   - Complete construction of the IDOT-related projects.
   - Resolve CenturyLink & Mediacom pole attachment issue/demo pole lines via formal compliance agreements.
   - Design & engineering for a target of $5 million in electric, conduit, and fiber to serve the NW quadrant of Indianola. Begin with conceptual designs that are divided into 3 to 4 prioritized sub-areas (April 2014).
   - Allocate 80% of capital-based revenues & water loan principal payments to address asset/facility replacements-
     - Generation & transformer capacity payments to address future major maintenance at generators/controls & substations.
     - 69kV credits to re-build the transmission line over time.
     - Remove water loan principal payments from the retail rate base by 2020; currently equal to vehicles & major maintenance.

   - Pro-active maintenance projects at the Water Plant to prolong its lifespan.
   - Engineer and construct prioritized main replacements; alternate between 2 projects in FY 2014 then 1 project the next year, 2 projects the next, etc.

   - Continue fiber extensions where conduit exists and other fill-in projects; bolster the IMU/MCG brand and build a wider geographic customer base.

   - Delay Master Facilities Plan projects until July 1, 2016 at the earliest; use water loan repayments to electric save for future major repairs & fiber extensions after transitioning out of the electric base rate.

2. Annually budget for, and impose, rates adequate to support long-term infrastructure needs, relatively stable staffing, required debt service coverage, and stable gross margins (IMU Trustees & GM):

   - Monitor financial performance in relation to 2012 Electric rate study recommendations to cover wholesale cost increases-
     - Move dates of new rates from November to January in any given year.
     - Annually analyze financial data through August; minimize base rate increase or Cost of Energy Adjustment.
     - Fund cost of energy + PILOT + reserve additions beyond FY 2015; MEAN's rate track implies 3 - 4% retail rate increases annually.

   - Monitor how favorable financial trends due to weather patterns, project bids & advance debt repayments can result in stable or slightly declining water rates.

   - Stable Communication system per-mile and per-customer fees until July 1, 2015 at the earliest.

3. Enhance marketing and customer awareness/outreach to communicate the holistic value of IMU and its services, including economic development efforts (GM & IMU staff).
    - Develop target markets and key messages using a combination of staff, interns, and contracted professionals; deploy using multi-platform distribution channels for print, slide shows, and video.
    - Emphasize IMU Network Services, energy efficiency programs, audits, consumption trends, rate track, economic development participation/opportunities, WCEDC BRE data collection, etc.
    - Coordinate IMU's efforts with the IMU Partners program (i.e. selling the attributes of MCG and others), Economic Gardening model (Indianola & Simpson College destinations for innovative growth), and WCEDC (general awareness of IMU); coordinate with City & other community marketing efforts as opportunities arise.
    - Participate in utility growth planning & marketing for business retention, start-ups, expansions, and attraction with the City of Indianola, IDA, WCEDC, and Greater Des Moines Partnership; include planning with MidAmerican on industrial growth.
    - Conduct routine one-on-one meetings with key accounts.

4. Develop plans for staffing levels, development & training (GM & Dept. Heads).
    - Hiring plan for the lineman retirement transition (October 2013).
    - Evaluate boring options to extend electric & fiber systems (conditional on Phase II construction strategy).
    - Hire the budgeted 20 hrs/week PT position for meter reading & Network Services (conditional on volume of new customers; by October 2014).
    - Develop formal succession & training plan (by June 2016).

5. Evaluate services shared between the City & IMU to determine if strategic options exist to improve finance, GIS mapping, information technology, safety programs, disaster/recovery and outage reporting (GM & IMU and city departments).
    - Monthly accrual-based accounting reports.
    - Deploy server & storage arrays with redundancies provided via IMU Partners.
    - Evaluate improvements for reverse 911 & media streaming content delivery.
    - Integrate the use of teleconferencing.
    - Increase the GIS Committee's coordination of add-on software options.
    - Develop hazard mitigation plans and funding options

6. Use technology to improve both the customer experience & information flows throughout the service delivery process, including customer sign-ups, permits, work orders, metering and auditing, etc. (GM & IMU and city departments).
    - Review Service Plans with Clerk's Office to improve the customer experience; review fee structures as needed.
    - Hold mediated in-house staff training on multi-department workflow processes to improve both understanding & communication.
    - Evaluate the need to conduct a LEAN process (or a similar facilitated format) to determine workflow improvements.
    - Work to find & contract with technology solution providers as needed.

CORE SERVICES OBJECTIVES, STRATEGIES, AND GOALS

Public Rights of Way Services

Objective: To co-manage, with other City of Indianola departments, the rights of way in the best interests of the public.

Strategies:

- Construct and maintain streetlights for the City of Indianola within the electric utility's territory.

- Manage vegetation to avoid conflicts with the electric system and for public safety
  - 5-year tree trimming schedule for all areas of the community in relation to the distribution system
  - Annual inspection of the IMU 69kV transmission line

- Coordinate construction projects with other utilities and other city departments

Economic Development Planning, Marketing & Incentives

Objective: To promote responsible growth in utility consumption that benefits the community in terms of jobs, tax base, and enhancements to the local economy.

Strategies:

- Participate in the Indianola Development Association
  - Funding agreement for development services via a Memorandum of Understanding that progresses to a 28E agreement
  - Appoint 1 Member of the IDA Board of Directors Executive Committee
  - Approve funding request at levels appropriate for services being performed by the IDA and its subcontractors
  - Annually review the IDA's performance relative to the contract terms
  - Participate on IDA committees to improve community marketing efforts and to extend infrastructure as needed

- Maintain the IMU web site to provide general information about utility infrastructure; incorporate with printed materials provided to prospects

- Attract network partners who help the greater Indianola area foster a vibrant technology sector

- Provide direct incentives as provided for in an economic development policy that is compatible with that of the City of Indianola.
  - Construction of public infrastructure
  - Forgiveness of private service installation costs
  - Assistance in the form of rebates, grants and loans for non-infrastructure uses.
  - Funding for electric utility customers may be derived from that utility's revolving loan fund, which is to maintain a balance adequate for this purpose.

<u>Community Betterment, Tourism, and Promotion</u>

Objective: To use utility operations, assets, and equipment to benefit the community within the constraints of Iowa law.

Strategies:

- Reduce citizens' property tax burden by annually declaring a surplus to the City of Indianola for payments in lieu of property taxes (PILOT) at a predetermined rate set by resolution of the IMU Board of Trustees.

- Assist with installing and maintaining electric, water, and telecommunication infrastructure and providing services for community betterment projects including parks, Veteran's Memorial Pool, the Community Athletic Facility, The Square, the Warren Co. fairgrounds, and others.

- Sponsoring community events and publications such as the 4th of July celebration, membership in the Chamber of Commerce, etc.

- Cooperate with other City of Indianola departments to achieve mutually desired outcomes for citizens.

- Provide space on water towers for public entities' radio communications equipment; lease space to cellular telephone companies.

- Participate in developing criteria and promoting sustainable practices (see Technical & Programs section) via the Indianola Sustainability Committee

Utility Services – Water

Objective: Provide reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers.

Strategies:

- Water source attainment
    - Utilization of deep wells from pure sources
    - Adequate well pumping capacity to meet pumping & storage needs
    - Emergency connections as appropriate

- Treatment
    - Treat water to minimum levels required by regulatory authorities such as the Iowa Department of Natural Resources and test compliance accordingly
    - Efficient plant operations
    - Evaluate the effectiveness of treatment processes

- Storage
    - Plan future storage needs based on trends & land use plans
    - Maintain capacity equal to Indianola's peak consumption and fire protection needs
    - Have excess high-pressure pumping ability during extreme conditions

- Distribution system
    - Identify and replace high-maintenance mains as needed
    - Maintain existing equipment, replacing as needed
    - Efficient system design as modeled by professional contracted engineers and verified by staff
    - Maintain adequate pressure to meet service and fire protection requirements
    - Effectively respond to main breaks to minimize water losses & inconveniences to customers

- Operations
    - Staffing for efficient operations
    - Safety program implementation
    - Inventory management
    - SCADA system
    - Implementation of capital improvement projects
    - Research, develop, and train on new methods, equipment, etc.

- Administrative functions
    - Participate in national, regional, and local industry-related organizations
    - Compliance with regulatory authorities through operating permits
    - Filing of reports and providing information on activities
    - Maintaining financial controls through budgeting and expensing

Utility Services - Electric

Objective: Provide reliable electric service by purchasing wholesale energy for the community as a whole, receiving it over a transmission system, generating electricity within Indianola as needed, and distributing it safely to customers.

Strategies:

- Purchase wholesale energy
    - Long-term supplier of affordable and stable-priced electricity
    - Regionally diversified power supply portfolio
    - Renewable energy as a component of the portfolio as both a desired attribute and carbon regulatory hedge
    - Pooled operating and risks with other utilities

- Transmission access
    - Minimize constraints and outage potential feeding Indianola by having 3 distinct sources
    - Access within Mid-American control area tariff/contract and the Midwest ISO market
    - Plan and participate with other transmission providers to alleviate regional constraints

- Generation assets
    - Maintain capacity equal to Indianola's projected peak load
    - Periodically test units according to standard operating procedures
    - Sell electricity into the wholesale market, as profitable
    - Sell excess capacity, as profitable

- Distribution system
    - Meet guidelines set by the National Electric Safety Council as regulated by the Iowa Utilities Board
    - Efficient system design as developed with contracted engineers
    - Convert to primarily a 13.2kv system
    - Replace aging lines as needed; apply for overhead waivers as necessary
    - Incorporate constructing & owning fiber infrastructure and leasing to telecom utility as part of the underground conversion plan
    - Maintain existing equipment, replacing as needed
    - Effectively restore service during outages through proper planning and training

- Operations
  - Construct & maintain facilities for efficient operations
  - Staffing for efficient operations
  - Safety program implementation
  - Inventory management
  - SCADA system
  - Implementation of capital improvement projects
  - Maintain mutual aid agreements
  - Research, develop, and train on new methods, equipment, etc. using national, regional, or local programs

- Administrative functions
  - Compliance with regulatory authorities such as NERC, MISO and IDNR
  - Filing of reports and providing information on activities
  - Maintaining financial controls through budgeting and expensing
  - Track reliability data
  - Regulate customer connections to the electric system

Utility Services – Telecommunications Network Services

Objective: Provide systems and partnerships that deliver affordable, competitive, and advanced network services to retail and internal customers.

Strategies:

- Develop fiber optic-based content delivery facilities on an active-Ethernet platform from PoP to premise
  - Construct and maintain a point of presence facility served by a minimum Tier 2 Internet wholesale provider with SONET service; balanced access to multiple Tier 1 providers
  - Construct and maintain an active Ethernet fiber network to connecting the point of presence facility to areas of the community; incorporate connections to public facilities for their own use
  - Contract for private-sector network design, construction management, network management, and security integration

- Administrative activities
  - Compliance with regulatory authorities through operating permits
  - File reports and providing information on activities
  - Maintain financial controls through budgeting and expensing
  - Manage licensing arrangements

Utility Services – Technical & Programs

Objective: Promote the safe delivery of services in compliance with laws, rules, regulations, and best practices.

Strategies:

- Safety Program
  - Maintain a Safety Manual detailing the program
  - Named Safety Officer to coordinate the program
  - Safety Committee meets to discuss the program and incidents
  - General training programs provided by outside contractors
  - Facility inspections
  - Equipment & vehicle inspections
  - Position analysis
  - Accident investigations
  - Reporting system including tracking and benchmarking safety performance, such as incident rates and others
  - Quarterly safety reviews with all employees
  - Annual safety survey for employees to evaluate departmental attitudes
  - Awards programs

- Departmental safety and compliance programs
  - Written programs required by OSHA
  - IUB, IDNR, and other regulatory inspections and reports
  - Worker's Comp. & ICAP inspections
  - Certifications
  - Specialized training and continuing education
  - Morning briefings specific to the workday
  - Employee evaluation system

- Partner with other entities to develop best safety practices
  - IAMU
  - Iowa-Illinois Safety Council
  - Iowa Electric Utility Safety Training Association

Objective: Maintain an accurate mapping system of the location and attributes of utility infrastructure and equipment.

Strategies:

- Participate in an agreement with Warren County and the City of Indianola for access to a Geospatial Information System and GIS support

- Use in-house staff to build data layers

Objective: Maintain building security, preparedness for outages, and systems to respond to disasters.

Strategies:

- Enhanced facilities and security systems
- Facility access procedures
- Emergency Response Plans
  - Citywide Emergency Operations Plan
  - Hazard Mitigation Plan
- Outage Response Plans

Objective: Maintain an efficient system for collecting accurate monthly consumption data to be used to produce accurate bills and to minimize losses from incorrect consumption data.

Strategies:

- Meter inventory system
- Meter installations
- Automated Meter Reading system
- Changes to meters & services
  - Internal reporting
  - Reporting to billing personnel
- Auditing systems
  - High/low monthly readings
  - Periodic reports of repeated low readings
  - On-site inspections
  - Testing as per Service Plan rules

Objective: Partner with community members and outside stakeholders to promote the expansion of Network Services facilities and to offer auxiliary communications services.

Strategies:

- IMU Network Services Partners Program
  - 28E Entity consisting of IMU, MCG, and the IDA
  - IDA Members Council

- Common license to offer and deliver auxiliary communications services
  - Local advertising
  - Local channels
  - Content production
  - Multi-platform content delivery
  - Research & development

- Connected Communities Certification by Connect Iowa
  - Submission of data for certification
  - Review plan for continual adoption improvement
  - Develop & implement community outreach programs

Objective: Educate customers on safety and efficiency in the consumption of electricity and water.

Strategies:

- Convert non-compliant overhead electric services to compliant underground services though Project 700 ($700 in assistance)

- Energy efficiency rebate program
  - Residential
  - Commercial & Industrial

- Energy auditing program
  - Partnership with MEC on residential audits
  - Use of The Energy Group on commercial audits

- Backflow prevention program

- Renewable Energy Credit voluntary contribution program

- Sustainability planning and implementation
  - *Eco@home* printed newsletter
  - IMU Energy Partner e-newsletter
  - Indianola Update articles
  - April events in conjunction with the City of Indianola Sustainability Committee

- Historical water and electric consumption provided data provided to largest customers on a quarterly basis

- Demand Side Management program

- Time of Use Metering program

- Project SHARE (voluntary donations for low-income) and LIHEAP (federal program) administered by Red Rock Community Action Center

- Customer Appreciation Luncheon with education booths

- Public Power Week tours for Indianola 4th graders

- Host High School Project Lead the Way & Hyperstream classes

- 8th Grade Science Class guest presentation on factors impacting alternative energy

- One-on-one and group meetings with Key Accounts

Governance – Oversight & Regulatory Activities

Objective: Appoint a trusteeship board to manage and control the electric, water, and telecommunications utilities.

Strategies:

- Trusteeship compliance with the laws of the State of Iowa and local ordinances
  - Trustees appointed by the Mayor and confirmed by the City Council
  - Term limits set by ordinance of the City Council
  - Power and authority in Iowa Code
  - Iowa Utilities Board administrative rules for certain aspects of service plans

- Adopt resolutions to implement utility services
  - Responsibilities of officials
  - Meeting procedures
  - Financial commitments

- Adopt and maintain service plans to regulate utility services; modify as needed

- Adopt and annually review a Strategic Operating Plan
  - Objectives and strategies for the major operational components
  - Goals for the coming planning cycle

- Review and set rates
  - Based on long-term cost of service
  - Promote efficient use of resources

- Adopt an annual budget
  - Identify projects that achieve goals
  - Prioritize projects into a 5-year Capital Improvement Plan (CIP)
  - Fund the CIP and operational items and daily operations in the annual budget
  - Maintain minimum fund balances of-
    - ✓ 2-months operating income for each utility; plus
    - ✓ 3.5% of electric utility assets, 2% of water utility assets
    - ✓ Bond reserves as required
    - ✓ Support adequate reserves for self-funded health insurance pool

- Adopt policies to guide operations and interpret service plan regulations
  - Union contract
  - Personnel policies for non-union employees
  - Employee handbook for all employees
  - Non-employee policies and procedures

- Submit an annual report to the City Council for each fiscal year

- Serve on boards and commissions related to utility operations
  - City of Indianola Investment Committee
  - Chamber of Commerce ad hoc board member

- Annually review the performance of the General Manager; discuss, plan, and coordinate issues and projects of mutual interest with the Mayor, City Council, and City Manager

- Monitor performance by reviewing semi-annual organizational performance reports, quarterly and monthly financial reports, and weekly updates; maintain internal board self-evaluation process aligned with APPA best practices, including attending training & industry networking opportunities

- Meet in joint session with the City Council on the following topics
    - Operating plan including objectives, strategies, and goals
    - Submittal of the annual report
    - As needed for appointments of personnel delegated responsibilities
    - Items of mutual interest

Professional Services – Management

Objective: Have professional management to advise policymakers, supervise operations, coordinate activities, and maintain customer service systems.

Strategies:

- Duties prescribed by resolution of the Board of Trustees, adoption of job descriptions with substantial separation of powers, and suitable qualifications for officeholders:
    - General Manager
    - Clerk
    - Chief Accounting Officer
    - Treasurer
    - Attorney

- Major functions outlined in an Organizational Chart
    - Functions led by department managers
    - Span of control that encourages delegation of duties
    - Job descriptions that provide adequate supervision authorities

- Periodic review of managing ongoing polarities within the community, customer groups, organizational structure, and culture
    - Periodic meetings with stakeholders including staff
    - Monitor the quality of feedback mechanisms
    - Review key early warning signs and discuss status

- Preparation of a strategic operating plan & reporting system
    - Prepare action steps for improvements to operating objectives & strategies and new opportunities
    - Develop implementation milestones and assign achievable annual goals
    - Semi-annual reporting & benchmarking system
    - Staff performance committee meetings with open feedback
    - Future planning

- Budget preparation, rate analysis, and competitiveness position
    - Input from crews to utility management on items of concern
    - Collaborative process between management team members

- Effective communications between all stakeholders that includes public, board, staff, other city officials and their management & departments, and other utilities, suppliers, and contractors

- Participate on industry boards & committees as appropriate
    - Iowa Association of Municipal Utilities & MMTG
    - NMPP & Municipal Energy Agency of Nebraska
    - State utility associations
    - National utility associations

- Maintain effective customer service systems for processes ranging from sign-ups to disconnections.
    - Seamless customer service integration between IMU administrative offices and City Hall for telephone and walk-in traffic
    - On-line services
    - Coordinate an integrated partnership to deliver customer-centric services related to IMU Network Services
    - Help set strategic direction of information technology systems, safety programs, and financial analysis/reporting with city management staff; analyze alternatives
    - Implement coordinated systems and in-house training on IMU service delivery methods such as Gov-Q, telephone routing, etc. both during the workday and after-hours.

- Attain a high level of industry performance recognition
    - A2 and A+ bond ratings or higher; review and improve financial outcomes as needed.
    - Maintain American Public Power Association RP3 designation; annual review of criteria and incorporate into goals and benchmark reports.

Professional Services – Human Resources

Objective: Select, hire, compensate, train, and retain employees.

Strategies:

- Use of a centralized human resources department and information systems with other city departments, paying a proportionate share of expenses for services rendered
  - Applications
  - Advertising & posting processes
  - Interviewing
  - Salary & benefit tracking for budgetary planning
  - Annual reviews & compensation changes
  - Exit interviews

- Meet requirements set forth in federal, state, and local laws and best practices, including access to services/programs to meet Federal non-discrimination tests

- Compensation and benefits set by union contract or in non-union wage scales
  - Scales with ranges and steps that reflect job duties, education & experience requirements, and market factors
  - Meet the current and future benefit needs of employees to attract & retain the best candidates
  - Across the board adjustments set through contract negotiations
  - Annual adjustment to non-union wage scales
  - Movement in wage scale based on merit as determined through annual evaluations
  - General benefits and reward programs same for union & non-union personnel

- Annually review health insurance coverage options and costs
  - Benefit levels set through union negotiations
  - Additional benefits provided that are in the public's best interest
  - Self-funded plan that attain stated benefit levels is administered by the City of Indianola
  - Reserves adequate to meet maximum expenses for 1 year and 40% of annual claims without dramatic year-to-year premium increases
  - Premiums charged to each city department based on actual coverage selected by the employee (i.e. single or family)

- Make recommendations regarding employment policies, staffing levels, succession plans, salaries, and benefits

- Require participation in the Iowa Association of Municipal Utilities' Apprenticeship program for Electric Lineman

- Support Water Operators to increase their knowledge of water systems through training programs administered by the Iowa Dept. of Natural Resources (Grade I, II, III, or IV)

- Support participation in administrative and management training programs including attendance at national association conferences by department heads & GM

Professional Services – Fiduciary Controls

Objective: Account for utility funds in accordance with appropriate standards and state law and to report financial activity to policymakers and the public.

Strategies:

- Use of a centralized accounting and billing department and information systems with other city departments
    - Duties delegated to the Clerk & Chief Accounting Officer by resolution
    - Pay ½ of the City Clerk's Office and Chief Accounting Officer expenses
    - Ability to annually review quality of services rendered
    - Annual review procedure for services rendered as per board resolutions

- Purchasing policies and inventory controls

- Annual audited report of each utility on an accrual basis and report combined operations

Professional Services - Public Notifications & Information Systems

Objective: Maintain cooperative and efficient data management systems.

Strategies:

- Use of centralized personnel and information systems with other city departments
    - Pay portion of department expenses
    - Advise on utility needs and improve system capabilities as appropriate

- Contracted services for systems when appropriate
    - E-mail and scheduling (Nolasoft)
    - Web site (Nolasoft)
    - Customer communications and work orders (Gov Q)

Objective: Notify the general public on matters of legal importance regarding utility operations.

Strategies:

- Use of a centralized clerk department and information systems with other city departments
    - Duties delegated to the Clerk & Chief Accounting Officer by resolution
    - Pay ½ of the City Clerk's Office expenses

Objective: Educate, inform and involve stakeholders on electric, water, and network service plans, projects, and programs.

Strategies:

- Internal staff to write or coordinate articles, publications, and productions under a comprehensive marketing plan
    - Annual report
    - Water Quality Report
    - E-newsletters
    - Web site
    - Video/Cable Channel
    - Customer Surveys
    - Letters to the editor

- Use of centralized methods with other city departments
    - Pay ½ of the publication costs for the bi-monthly Indianola Update (newsletter)
    - Public Information Coordinator to publish the newsletter
    - Pay ½ of the video equipment costs for the Cable Channel

- Conduct bi-annual customer survey in even-numbered years; present and incorporate results into strategic planning; create annual electronic survey/feedback.

<u>Professional Services - Legal Compliance & Risk Management</u>

Objective: Effectively control risks to utility property & operations and maintain compliance with applicable laws, rules, and regulations.

Strategies:

- Annually review insurance coverage and receive competitive quotes
    - Liability
    - Property
    - Casualty
    - Worker's Compensation
    - Boiler & Machinery
    - Vehicles

- Maintain high-deductible liability and property insurance coverage with self-funded reserves

- Utilize contracted attorneys that specialize in various aspects of the law in conjunction with the City Attorney to prevent and resolve legal issues

- Periodically re-quote insurance coverage & carriers

IMU Regular Upstairs **4. B.**

Meeting Date: 02/10/2014

Information

Subject

Mid-Year Performance Report

Information

IMU staff has prepared the attached Operational Review spanning the first half of FY 2014.

The report attempts to evaluate the implementation of major operational objectives, strategies, and qualitative goals contained in the Strategic Plan and its subsequent updates.

It is also a useful dashboard to identify areas for future improvement and a feedback tool as to if staff's concerns mirror Trustees'.

Last, it is useful to explain how the utility's plans and budgets address pertinent targets. Both staff & board can more easily explain that "ABC" activities are planned at $XYZ funding levels to address "cautionary" performance issues.

Thus, it is timely to prepare & review the report within the budgeting process (i.e. February) and after year-end (i.e. August) heading into the next planning & implementation cycle.

No action is needed on the report, however discussion is encouraged.

Financial Impact

N/A

Staff Recommendation

Attachments

Report

Operational Review
FY 2014 Mid-Year Update

The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals. Utility operations are divided into departments, all of which work to provide superior services to the citizens of Indianola.

This report provides a brief review of the various departmental activities and accomplishments in FY 2014. A graphical condition report and trend analysis for each departmental function is also included in this report. Condition analysis uses the following color codes:

White	Not applicable
Red	Not meeting expectations or Poor
Yellow	Deteriorating or Below Average
Black	Meeting expectations
Blue	Improving or Above Average
Green	Exceeding expectations or Excellent

In general, the following definitions apply:

Past Period: last report of the prior fiscal year unless otherwise stated

Present:
First Half- Budgeted amounts or planned activities
Second Half- Re-estimated budget amounts and planned activities

Outlook: Remainder of fiscal year, next fiscal year, or beyond as noted

- **Change in Status.** The section of this report is a summary of those areas that have seen a major change in status from the previous report.

  <u>Exceeding last quarter's outlook expectations:</u>

  Water Utility: Debt/Assets & Debt Coverage – Refinanced the debt with the Electric Utility and has a positive outlook for FY 2014 & FY 2015 without rate increases.

  Water Utility: Capital Projects (Quantity) – Funds appear to be available to quicken the pace of replacing the most problematic mains in future years.

  Electric Utility: Transmission – MidAmerican Energy intends to re-study the regional 69kV grid to ensure long-term constraints are addressed.

  Water Utility: Rates – Des Moines Water Works intends to have sustained rate increases while IMU does not, which should increase IMU's regional position relative to the metro.

  Fiduciary Controls: Investment Portfolio – The outlook has stabilized and the portfolio should hold at an average rate near, if not higher, than today's yield.

  Public Information: I.T. Systems – The City of Indianola proceeded to purchase new server & storage arrays that should increase internal reliability & performance.

  <u>Deterioration in expectations compared to last quarter:</u>

  Electric Utility: Gross Margin – The outlook for the remainder of 2014 & 2015 is for it to decline due to higher wholesale energy & transmission costs (including an unanticipated MEAN Purchased Energy Adjustment).

  Electric Utility: Debt/Fixed Obligations Coverage – This will decline in FY 2014 & FY 2015, depending on retail rates approved.

  Electric Utility: Capital Projects (Quantity) – The enlarged scope and higher costs of the two 69kV relocation projects decreases funds available for future distribution system improvements. Will also be postponing underground & conversion plans for the NW quadrant of Indianola.

  Electric Utility: Return on Assets – Future returns will be negative or minimal due to rate increases not being in proportion to wholesale costs.

  Network Services: Capital Projects (Quantity) – The timetable to extend the system is more unknown due to both pace of adoption and future availability of capital funds.

Technical & Programs: Workman's Comp – Claims by City of Indianola departments and other factors are raising both the experience MOD factor & rates for individual classes of workers; result is much higher premiums due to loss of discounts.

Professional Services: Health Insurance – Claims are starting to draw down reserves; premium expected to increase 15%+ in FY 2016

<u>Progress in fixing deficiencies or cautions identified in prior reports:</u>

Water Utility: Source Attainment – Staff is investigating marginally-beneficial fluoride reduction options.

Electric Utility: Substations / 69kV system – Result of 2014 construction projects will be significant sections of new facilities with longer life spans.

Network Services: Source attainment – BroadNet Connect fixed redundancy issues and MCG worked with INS on a 2nd redundant video feed (if ever needed).

Network Services: Partnerships – Still working on the maintenance agreement and improved marketing plans.

Economic Development: Regional coordination – IMU staff is working closer with WCEDC staff to focus on programming/activities that support overall Trustee goals.

Economic Development: Economic Gardening – The second Capstone class worked on 3 projects within the EMERGE@Simpson College program. Workshops were held in conjunction with WCEDC and Simpson College with several local business owners.

Oversight & Regulatory: Coordination with Mayor & Council – Routine meetings held with the City Manager. Trustees & Council need to routinely meet to discuss items of mutual interest.

Fiduciary Controls: Financial statements – New financial reporting expectations were clarified within the hiring process for the new Finance Director; minimal progress to-date.

<u>Areas of continuing cautions/concerns as identified in prior reports:</u>

Network Services: Synergy – Focus will be on promoting retail sales and setting up the Partners program prior to investing time on synergistic opportunities.

Technical & Programs: Emergency Operations & Outage Response – Little attention being paid by the overall entity to proactive planning.

Management: Segregation of Duties & Organizational Structure – Staff is transitioning to being more involved in the telecom expansion and Partners Program; Still have 20-hour per week budgeted position unfilled to meet needs.

Professional Services: IAMU Electric Apprenticeships – New apprentices will limit the number of on-call personnel and work that can be accomplished over the next 1-2 years.

Management: Customer Service Systems – Will work with the City Manager to make inroads on priorities.

- **Financial Performance.** The first graphical condition report is on overall financial performance for each utility. In general, the utility is in a stable financial condition**.**

  Consumption of electricity ended December below budgeted levels. Wholesale energy costs per kWh were less than expected based on the combination of both demand & electricity. The gross margin (sales minus wholesale & other marginal costs) is running slightly below expectations. Operating expenses and debt service costs are lower than expected. Other income (fees, refunds, scrap sales, etc.) exceeds expectations. The budgeted rate increase and constructing Phase II of the underground conversion project were removed from plans.

  The Water Utility had higher sales volume and revenue than budgeted.

  The Communications Utility met its budget target from MCG's licensing revenue. There is some growth uncertainty due to the need to improve the pace of new signups.

  Resources from rate revenue and other sources are reasonably adequate to meet medium-term replacement needs.

  Reserves are at, and expected to continue to meet, board targets for all 3 utilities over the next two years.

Criteria	Past Period	Present	Outlook	Notes
Financial Performance:				
Electric Utility-				
Peak Use				Room to improve load factor
Sales of Electricity (Volume)				Construction/hot spell/normal outlook
Sales Concentration				Good diversity
Sales of Electricity (Dollars)				May need to adjust sooner than hoped
Other Revenue				Will receive new capacity sale starting in Jue
Gross Margin from Sales				MEAN PCA & rate increases
Operating Expenditures				Within budget expectations
Net Addition to Net Assets				Decreasing ROA & future negative cash flow
Capital Expenditures-				
Amount available				69kV improvements & lack of rate revenue
Expenditures vs. budget				Projects coming in on budget/few changes
Reserves & Liquidity Ratios				Adequate but committed to capital projects
Debt & Fixed Oblig. Coverage				MISO credits & capacity sale added coverage
Debt/Asset Ratio				No new debt planned
Return on Assets				Minimizing rate increases
Write-offs as % of billings				Stablizing of prior negative trend
Water Utility-				
Sales of Water (Volume)				Dry summer/normal outlook
Sales of Water (Dollars)				Dry summer/normal outlook
Sales Concentration				Diversity remains good for bond rating
Other Revenue				Good return on investments
Operating Expenditures				Within budget expectations
Net Addition to Net Assets				Minimal but stable with future rate increase
Capital Expenditures-				
Amount available				Adequate but minimal given 4" mains
Expenditures vs. budget				Below budget; looking at future projects
Reserves				Stable and improving
Debt Coverage				Good use of G.O. debt to minimize coverage
Debt/Assets				Plans look better over next 5-10 years
Write-offs as % of billings				Stablizing of prior negative trend
Network Services-				
Number of customers & locations				New system and extensions adds capacity
Take rate				New system has low initial rate
Monthly Sales				Commercial sales keep expanding
Monthly Revenue				Meeting break-even model
Operating Expenditures				Meeting budget expectations
Net Addition to Net Assets				Declining due to facility use lease pmts
Capital Expenditures				Few additions to the network planned
Reserves				Use of reserves for facility improvements
Debt Coverage				N/A
Debt/Assets				N/A

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress towards implementing operational strategies include:

  First 2 Quarters-
  - Monitored progress on Hwy 65/69 Conversion Project
  - Continued wreck-out of the East Side Conversion Project; negotiated final terms and conditions towards accepting the project as-is with IMU to complete restoration work
  - Prepared options to replace streetlights on The Square
  - Finished plans & specifications for the I-35 Transmission Relocation Project; purchased materials
  - Added to authorized amounts of participation (using existing bond proceeds) in the CAPX2020 project to reflect lower-than-budgeted construction costs

Criteria	Past Period	Present	Outlook	Notes
Electric Utility:				
Competitive Rates per Kwh-				
Surrounding Area				Average within group/more than MEC
Statewide				Comparative to averages
U.S. Average				Below average in all 3 price classes
Wholesale Electric Sourcing				MEAN resources offset new EPA regs
Carbon intensity per kwh ratio				LFG project in FY 2014
Capacity marketing				Higher prices expected in 2016+
Transmission				MEC wants to re-study the regional grid
Generation Capacity				Overall able to serve load in emergencies
Combustion Turbines				Able to serve capacitity
Downtown Plant				Decommission units limits future uncertainty
Substations / 69kV system-				CIPCO tie improving voltage & reliability
Patterson Line				Pole line relocation due to IDOT plans
East Side #1 & #2				Testing transformers & relays regularly
West Side				CIPCO Tie adds reliability
Distribution System Reliability				Underground conversion projects improving
Losses				4kV sub removals reduce losses
Outages				Managing vulnerabilities well
Recovery ability				Truck/manpower levels adequate + 2 new
Regulatory & financial controls				New Title V Permit filed
Operations-				
Facility maintenance				Schedule being maintained w/budgets
Inventory management				Quarterly inventory balance within tolorance
Capital projects (quantity)				Shift to 69kV projects using reserves
Capital projects (quality)				Underground project monitoring

Water Utility. The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:

First 2 Quarters-

- Completed construction on the Ann Parkway Water Main project
- Finalized the A.T&T. (New Cingular) cellular tower lease contract to be located at the Simpson Water Tower
- Prepared engineering work to get quotes to replace the aerator at the Water Treatment Plant
- Transferred 210 N. First to the City of Indianola in exchange for $100,000 over 5 years
- Began engineering & design work for the 2014 West Iowa Ave. Water Main replacement project
- Updated Flouride notices with an FAQ and other pertinent information
- Completed repairs to Well #11

Criteria	Past Period	Present	Outlook	Notes
Water Utility:				
Competitive Rates-				
Surrounding Area				DSM rates rising/no IMU increases
Statewide				Adequate/need to look at 2011 surveys
Source attainment				Proactive maintenance
Treatment ability				Proactive maintenance needed to maintain
Storage				Repaired & painted both towers
Distribution system				Pace of 4" main replacements/aging system
Regulatory & financial controls				IDNR reports few suggestions
Operations-				Truck/manpower levels adequate
Facility maintenance				Schedule being maintained w/budgets
Inventory management				Quarterly inventory balance within tolorance
Capital projects (quantity)				Street replacement mains done/Ann Pkwy
Capital projects (quality)				On time/budget

- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:

  First 2 Quarters-
    - Continued to connect new residential & commercial customers and address operational issues with MCG
    - Worked with MCG staff on new marketing efforts & plans for multi-family dwellings transitioning from free internet service (as part of rent) to MCG service
    - Worked to initiate service at the Indianola YMCA after competitors were not able/willing to serve the new facility

Criteria	Past Period	Present	Outlook	Notes
Network Services:				
Competitive Rates-				
Surrounding Area				Telecom 15% less than private
Statewide				Statewide is lower than surrounding area
Source attainment				Duel INS feeds + Iowa Health network
Distribution system				Pace of expansion slowing
Regulatory & financial controls				New licnensing rules/regs being drafted
Operations-				
Facility maintenance				Underground conversion project
Inventory management				No known issues
Capital projects (quantity)				Slower pace of expansion anticipated
Capital projects (quality)				In-house design/underground
System synergy with electric svc.				Need to research DSM & outage abilities
Cyber security systems				Need to address but no known issues

Administration. All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

Public Works-

First 2 Quarters-

- Continued removing IMU poles; indication from both CenturyLink & Mediacom that they will soon start on priority areas
- Repainted street lights along north Hwy 65/69 (from Hillcrest south) where corrosion was visible

Economic Development & Community Betterment-

First 2 Quarters-

- Planning meetings held regarding potential on-campus and outreach EMERGE programs
- Classes held to help new small business owners
- Meetings held with Simpson College regarding their upcoming strategic planning and developing EMERGE@Simpson College stands as a priority program
- Meetings held with the IDA & Warren County to review both the proposed EMERGE hub (software platform), 28E building proposal, and local programs\

Criteria	Past Period	Present	Outlook	Notes
Public Works:				
Locate volume/response times				Underground conversion project
Streetlight construction/repairs				Hwy 92 completed + Downtown project
Pole Attachment Compliance				Issues on removal of poles in ROW
Vegetation Management				Rotation plan on schedule
Econ. Development & Community:				
Regional coordination				GroWarreNow plan being implemented
Direct incentives programs				
Economic Gardening/iSC.EDI				EMERGE@Simpson program launched
Development web site content				WCEDC Redesign underway
Community betterment projects				
Community event participation				4th of July & NBC sponsorships
Interaction w/ city departments				No operational issues
Sustainability integration				April events bing held & planned

Technical Services & Programs-

First 2 Quarters-

- IMU Network Services summary edited & published in the founding issue of innovationIOWA
- Held the annual Customer Appreciation Luncheon in the IMU line shop
- Finished drafting bylaws to form the IMU Partners Agency (sent on for legal review)
- Set up Internet video channel; held planning meetings regarding video options
- Renewed the GIS Agreement with Warren Co. & City of Indianola
- Began using LinkedIn to update customers on IMU activities
- Expanded Key Account personal visits with larger customers

Criteria	Past Period	Present	Outlook	Notes
Technical & Programs:				
Safety program-				
Safety manual				Periodic reviews being done
Safety committee meetings				Monthly meetings held
In-house Training				IAMU contract/good attendance
Facility Inspections				Being performed
OSHA & other filings				Being made
Incidents				Returing to average, reviewing trend
IMWCA Claims vs. Premium				5-year surplus
Reviews				Being completed
Security/disaster preparedness-				
Systems				Adequate security given risks
Emergency operations planning				Exersice held; needs to continue
Outage response planning				Working to improve manual systems
Metering-				
Electric installations/testing				Continuing to monitor warranty issues
Water installations/testing				Improvement to tracking problems
Error detection				Need to interact with new billing system
Auditing systems				Need to interface w/ new billing system
Mapping-				
Software/GIS Committee				
Data layer improvement				
Safety & efficiency education-				
Project 700				Limited use/need
Backflow prevention				
Time of Use / DSM				Needs reviewed with rate structure
Customer interaction/events				Events held; new focus on marketing
Alternate energy promotion				
Wind				Currently 3-4%; voluntary donation program
Landfill Natural Gas				FY 2014 project for 4%; CO2 reduction more
Energy efficiency				
Conservation education				Bill stuffers, newsletter, eco@home
Rebates				Stable yet declining demand
KWH avoidance				OEI project identified major areas
Audits				Commercial areas identified & completed
Network Services Partners-				
Formation & management				Progress on business planning
Collaborative accomplishments				Conceptual plan needs refined
Customer experiences				Some "growing pains" at MCG

Governance and Professional Services-

First 2 Quarters-

- Provided input on 2013 – 2015 Strategic Plan
- Adopted Strategic Plan and reviewed associated Capital Improvement Plan components
- Updated & adopted new Employee Handbook, Mgmt. Personnel Policy Manual, and misc. policy manual
- Held first "General Manager Year-End" event and selected Jason Henle as the first IMU Employee of the Year
- Developed a hiring plan to begin training new linemen in anticipation of pending retirements over the next 3-5 years
- General Manger Todd Kielkopf was named Chair of the MEAN Risk Management Committee and elected Secretary/Treasurer of the MEAN Board of Directors

Criteria	Past Period	Present	Outlook	Notes
Oversight & Regulatory:				
Electric service plan	Blue	Blue	Black	Newly completed
Water service plan	Blue	Blue	Black	Newly completed
Network Services licensing	Black	Black	Black	Newly completed
Rate-setting & Cost Recovery	Blue	Black	Yellow	Will need to balance rates to long-term costs
Strategic planning	Blue	Blue	Blue	Semi-annual review & updates
Budget-				
CIP	Black	Black	Black	Compiled/adopted by Trustees
O&M	Black	Black	Black	Compiled/adopted by Trustees
Monthly Reporting	Black	Black	Black	Variance Reports & Scorecard development
Policy setting	Black	Black	Black	Board reviewing as needed
Annual report to City Council	Black	Black	Blue	Report issued; Presented at joint meeting
General Mgr review process	Blue	Blue	Blue	Criteria-based process
Coord. with Mayor, Council	Yellow	Yellow	Black	More meetings planned
Management:				
Segregation of duties	Yellow	Black	Black	Higher-level financial duties clarified
Organizational structure	Black	Black	Black	Stable
Orientations	Black	Black	Yellow	Needs done in conjunction w/city
Annual evaluations	Black	Black	Black	Implemented feedback on forms
Operating plan & reporting	Black	Blue	Blue	Prioritized system
Industry participation	Blue	Blue	Blue	MEAN, MMTG, APPA, IAMU safety, etc.
Bond Rating	Black	Black	Yellow	Potential for outlook to go negative
Customer Service Systems-				
Signups	Black	Yellow	Yellow	Expectations raised for Internet-based
Dispute resolution	Blue	Blue	Blue	Good process
Disconnections	Blue	Blue	Blue	Firm yet fair implementation of rules
Work orders	Black	Yellow	Yellow	Need all city depts. to be fully effective
Inquiries	Black	Black	Black	Phone system gets calls to people
Permits/New construction	Black	Yellow	Yellow	Need to change from paper-based permits
System extensions planning	Black	Black	Yellow	Need clearer definition of criteria
Contractor relations	Black	Black	Black	No known issues
Professional Services:				
HR information systems	Black	Black	Black	Few ongoing issues
Regulatory compliance	Black	Black	Yellow	New health insurance regs forthcoming
Compensation structure	Black	Black	Yellow	Potential need to review perf/comp balance
Benefit coverage & adm costs	Blue	Black	Yellow	Health Ins + W/C costs increasing
Health Ins. Reserves	Blue	Blue	Yellow	Runout + 2 above ave. years in reserves
Employment policies	Black	Black	Black	Adopted revised manuals
IAMU Electric Apprenticeships	Blue	Yellow	Black	2 new hires going through the program
IDNR Water Dept. training	Black	Black	Yellow	Need more at higher grades
Other training & development	Black	Black	Black	Training being pursued when needed

Criteria	Past Period	Present	Outlook	Notes
Fiduciary Controls:				
Accounting systems				New computer system reached potential
Policy & controls				New(er) staff learning internal systems
Investment Porfolio Returns				Persistent low interest rates for reinvest.
Audited financial statements				Complilation needs to be timely
Public Information:				
IT systems				Coord. Improving systems + MCG integration
Web site				Updated site & video player
Cablecast systems/TV updates				No issues / future MCG integration
Telephone systems				No issues
Publications/content				Presentations & video content available
Public presentations				Periodic reports to various classes/groups
Legal & Risk Management:				
Insurance coverage				Healthy self-funded dedcutible levels
Access to attorneys & legal info.				Access to general & specialized as needed

IMU Regular Upstairs **4. C.**

Meeting Date: 02/10/2014

Information

Subject

Cost of Energy Adjustment Considerations

Information

A positive contributor to IMU's Electric Utility bond rating is having both a Cost of Energy Adjustment and a Maintenance Adjustment that communicates to bondholders Trustees' ability to recover costs within the defined service territory and the willingness to implement those cost recovery mechanisms:

"2.4(9) Cost of Energy Adjustment
The Board of Trustees shall periodically establish a base energy allowance per kWh for all services. An energy surcharge or credit may be administratively imposed and adjusted at the same rate per kWh for all services to recoup energy-related costs incurred that are in excess of the base energy allowance. Energy-related costs include production & transmission costs charged by the utility's supplier(s), system losses, and costs for generating electricity not otherwise reimbursed."

Trustees last set the base on March 9, 2009 at $40.50/MWh or $.0405/kWh. IMU is budgeted to sell 118,850 MWh in FY 2015 and 119,700 in FY 2016. Staff has not administratively imposed an adjustment over the past many years since Trustees routinely set new rates, based on anticipated costs, that met minimal financial metrics to retain IMU's bond rating. Recently, liquidity has been strong and profitability (due to new revenue sources other than retail rates) stable or rising.

This is changing in a rising (and more unpredictable) cost environment, which warrants more clearly defining when a cost of energy adjustment is needed vs. placing the full cost recovery within a fixed retail rate that needs periodically updated. MidAmerican has included, for the first time, a similar adjustment in its recent rate increase filing, so there may also be future comparison reasons to recover costs in this manner.

A benefit of this approach is that consumers see the exact per kWh surcharge that is due to higher wholesale costs on their bill. They can then adjust their consumption to reduce the amount of it paid in any given month. This is also more easily explained than raising base rates, which contain all costs. The major drawbacks are that there is often some time delay between cost recognition & billing, which can result in a slight seasonal time shift between users and also some shift of demand costs into the kWh rate for industrial users.

The first consideration in evaluating this option is if Trustees should raise the base (by simple motion) from today's level. Staff's recommendation is to do so given the extended time delay since it was last set. Since the utility is operating at essentially a break-even O&M position at today's wholesale energy & transmission cost, it would be prudent to raise it to the average wintertime (8-months) delivered wholesale cost over the past year, or $55.00/Mwh or $.055/kWh, on the next meeting agenda.

The second consideration is to direct staff to draft a policy prescribing direction on how to proceed with imposing any adjustment in the future and under what financial metrics. Factors include-

1. It should be prescribed within the policy at a minimum amount using qualitative direction, with flexibility to increase over time for anticipated costs increases based on a range of criteria such as financial metrics. This allows for recovery of different cost drivers such as wholesale energy (April),

transmission (January & July), and excess demand charges or unreimbursed generation expenses (July - October) during summer peaking season.

2. Qualitative criteria should retain today's protection for bondholders to recover unexpected costs, such as a Purchased Energy Adjustment imposed in any given month by IMU's wholesale supplier.
3. The policy should provide for recovery over both summer (when both wholesale & retail rates are set to be higher) and winter seasons. So while the base is set at one amount year-round, it should be directed within the policy that the adjustment is only for net unrecovered costs per kWh.
4. The policy should also prescribe the trigger events for both imposing and removing the adjustment. So, for example, if Trustees wish to begin imposing it on July 1 of any given year, it would be the start of a particular reason such as the summer season. Other points are when new rates by transmission & wholesale providers. If Trustees raised base retail rates at some point in the future sufficient to meet the financial metrics set out in Factor #1 above, then subsequently raised the base energy allowance, staff would be able to budget and set the cost of energy adjustment accordingly.

Trustees can also provide staff direction at this meeting on other factors to include in a draft policy.

The third consideration is timing and an initial level. For example, a minimum of 2.75% of today's average base rate collections across all 12 months would collect $320,000 using a Cost of Energy Adjustment of $.0027/kWh. This is much less than the annualized wholesale cost increase so Trustees should expect it to rise to $.0089/kWh by the end of March, 2016 to attain the same ending liquidity as two 5.75% retail rate increases in January 2015 & January 2016. It would thus periodically tick up based on seasonal factors described in #1 above until all O&M costs are being recovered and the utility breaks even on O&M activities through rates. Again, this is only an example of how such an adjustment works in relation to periodic base rate increases.

No action is required on this agenda item, however discussion is encouraged.

Financial Impact

N/A

Staff Recommendation