

IPL STRATEGIC PLAN

Presented August 15

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Agenda

- Introduction
- Approach
- Vision
- Strategies
 - Financial Strategy
 - Customer Strategy
 - Power Supply Strategic Scenarios
 - Operations Strategy
- Financial forecast

Introduction

DKMT Consulting was retained to perform two independent studies. The first was a Cost-Benefit Analysis. The second report is a Strategic Plan which is presented here.

APPROACH

DKMT Overall Approach

- Held Strategic Planning Sessions with Staff
- Met with City leadership
- Met with PUAB member
- Met with City Council members
- Met with various representatives from the community
- Analyzed data from IPL and industry sources

With the objective of identifying common priorities to drive strategic planning.

What We Heard

- Need for better governance
- Data driven decision making
- Transparency
- Run IPL like a business
- IPL as an economic development tool
- Ability to replace and retire generation
- A place where employees want to work and be their best

What We Heard cont'd

- Best in class reliability
- Improved communication/educated customers
- Rates – simplified, competitive and low cost
- More programs supporting low income customers which reduce usage (weatherization, energy efficiency)
- Better and more services (24 hour, DSM, Solar rebates, Battery, Key Accounts, Commercial lighting rebates)
- Improved ease of doing business with IPL (technology)

What We Heard cont'd

- Green Power
- More tools to service customers and help customers manage their bills
- AMI (Advanced Metering Infrastructure) enabled technology

What We Learned

- Difficult to access consistent financial data, forecasts not regularly updated, staff has no or limited access to budgets for managing.
- Rates are higher than neighboring utilities.
- Ratemaking is a cross between data driven and political decision making.
- Utility economic development rates and programs are not competitive.
- Lack of modern technology and AMI has limited IPL's ability to provide current industry standard services.
- Lack of evaluation and monitoring tools limits the understanding of what programs are successful and achieve specific goals.

What We Learned

- Critical need to address future power resources.
- Lack of AMI limits efficiencies and increases cost of operations.
- High staff turnover is a problem

Conclusion

IPL's initial strategy needs to focus on bringing the utility up to modern standards for a utility its size (foundational strategies), before considering implementation of the suggested future strategies.

VISION

Vision of an Ideal State for IPL

- IPL is operated in a business-like manner for the benefit of the community.
- A well-informed public that understands and supports the decisions made by the utility.
- A governing body of well-educated professionals who are responsive to the needs of the utility.

Vision of an Ideal State for IPL

- Business decisions are based both on quality data and qualitative experience.
- Continue to have best reliability in their class of utilities.
- A plan for rates to be equal to or lower than neighboring utilities
- Economic Development Programs that support commercial and industrial growth.

Vision of an Ideal State for IPL

- Employees that want to work for IPL and have the skillsets that support strategic priorities, which includes succession planning.
- Modern technology to support communication, increase efficiency, and expand customer-enabling services to manage electricity usage.
- The ability to add or replace resources in a cost-effective way.

STRATEGIES

Strategic Plan Priority Areas

- *Financial Strategy*
- *Customer Strategy*
- *Power Supply Strategic Scenarios*
- *Operation Strategy*

Note: Governance is a significant strategic area and is addressed in a separate presentation

WHAT'S WORKING AND NOT WORKING TODAY

Keep Doing!

- Excellent Reliability
 - Positive customer perception
 - National recognition
- Customer Services
 - Responsive to Developers
 - Multiple payment options
 - Low Income Assistance
- Employees
 - Dedicated and resourceful

What Needs Improvement

- Data Based Decision Making
- Strategic Planning
- Financial Information and Support
- Economic Development
- Technology

FINANCIAL STRATEGY

The Plan – Let's Start With The Basics

Foundational Strategies

Know and understand the cost of doing business

- Establish budgets, goals, and monitoring processes that support transparency and accountability.
- Update financial forecasts regularly to monitor the need for future rate adjustments.
- Timely, complete, and accurate reporting
- Financial/rate decisions need to consider reserve funds, debt service coverage, ability to cover costs, bond ratings, and ability to fund strategic initiatives.
- Streamlining administrative processes to create efficiencies and facilitate decision making.

Foundational Strategies

Once costs are understood, they can be managed and facilitate strategic decisions.

- Update IPL cost of service studies, annually, to identify cost drivers and move revenue allocation closer to the cost of service.
- Simplify and continue to modernize rate design
- Provide customers with rate choices based on how and when they use electricity, to facilitate management of their usage and bills.

Foundational Strategies

Implement changes supported by good data analytics

- Cost studies and rate design updating, more equitable
- The SPP market provides energy, on average that is 40% renewable and is a resource for customers with stated green energy goals.
- **Strategic Economic Development Rider**
 - Discounts predicated on job creation or increased tax revenue
 - Make available to all business types
 - Increased load should not increase risk if costs are properly assigned (transmission & distribution charges + generation based on market + IPL margin)

Future Strategies

- Debt fund capital plan to ease financial burden and allocate long term investment costs appropriately to future customers using those assets. Can lower rates and provide strategic funding.
- Pursue outside funding sources, DOE and IRA grant and loan programs to offset investments in innovation
- Leverage the value of Public Power for Economic Development
 - Develop rates and services to attract businesses
 - Non-firm interruptible rate options, market-based pricing

Future Strategies

- Future Rate Design
 - Time of Use rates and demand charges
 - EV rates
 - Space heating – heat pump incentive rates
 - Demand response incentive rates

Resource Requirements

- Staffing
 - Financial analysts
 - Technology support to upgrade and integrate systems
 - Rate design expertise

CUSTOMER STRATEGY

Foundational Strategies

- Communication and Extension of Service Offerings
 - Make it easy to do business with IPL
 - Proactive customer solutions – be present and transparent
 - Communication and active outreach, using multiple mediums
 - Build better customer relationships, Key Account Management
 - Create a unified value system, regularly communicate it, and implement personnel practices supporting ethics and transparency.
 - Evaluate all current programs for expansion or change based on established and monitored performance metrics.

Foundational Strategies

- Communication and Extension of Service Offerings
 - Help customers reduce bills, have more control over decisions on how and when electricity is used, through technology, programs, and rates.
 - Leverage utility rates and services to enhance economic development and attract new jobs, strengthen and diversify the economy and spread costs over more users to lower rates.

Foundational Strategies

Technology Enabling Customer Service Tools

- Outage Management Systems integrated with existing tools
- Billing system enhancements (consolidate bills, historic usage and bill comparison, graphic options)
- Website and App Customer tools
- AMI

Future Strategies

- Once the foundational strategies are in place – expand customer knowledge and engagement utilizing modern technology to enhance participation and ownership in IPL's future direction.
- After AMI is implemented, evaluate combining incentives and rate plans (heat pump rebates + heat pump off peak rate) to motivate customers to consume electricity more efficiently, reducing the need for additional future power supply.

Future Strategies

- Website and app used to message customers on usage increases, high bill warnings, outage updates all require AMI.
- Bill savings through remote control of thermostats in extreme temperature situations, tariffs to incent efficient use, and tools that allow customers to monitor their usage real-time.
- Technology is viewed as an investment, not just an expenditure, which adds long term value.
- Automation and regular reporting of customer program performance.

Resource Requirements

Staffing

- Key Account Managers
- Professional Marketing and outreach personnel dedicated to IPL
- IPL based HR professional to develop cultural alignment program
- Staff or consultant to evaluate, develop or modify customer programs
- Staff, hired over time, to implement and monitor programs, as they grow
- Technology support for AMI, OMS, Website, APP and help desk

POWER SUPPLY STRATEGIC SCENARIOS

Background

- DKMT was asked to present 3 power supply scenarios
 - 100% IPL owned generation
 - No IPL owned generation, all purchased power contracts
 - A hybrid scenario, similar to what exists today

Background Cont'd

- Currently IPL has adequate resources
- Under a status quo scenario they will need new resources as early as 2028
- If more than 10 to 13 MW of load is added or generation retired, replacement power will be needed sooner
- The power capacity market in SPP is limited
- 4-6 years to construct a new generation resource

Foundational Strategies

- In order to prepare for the future, most integrated utilities rely on an integrated resource plan which projects load growth by customer type, evaluates the power market, considers distributed generation and energy efficiency, develops options depending on the need for power and financial capacity.
- IPL has a basic plan but needs to invest in a detailed integrated resource plan to be ready to respond to future demand, plant retirements, and PPA expiration. IPL has a short timeline to act.

Strategic Scenarios

- **IPL owns 100% of its power supply resources**
 - Benefits – would meet the energy needs of the City, Long term control, revenue potential to sell into the market
 - Drawbacks – large capital and O&M investment, staffing resources and training on new technology
 - Risk – Extreme from a cost and obsolescence

Strategic Scenarios

- **All power is purchased, and IPL is only a T&D utility**
 - Benefits – reduces operating risk, allows focus to narrow on economic development and meeting customer needs
 - Drawbacks – must invest in “best in class” energy management systems including governance, processes, models, would likely require SPP to develop an Energy Imbalance Market (EIM).
 - Risk – Extreme financially and operationally if no EIM, fully exposed to the whims of the market – good and bad.

Strategic Scenarios

- **IPL maintains current diverse portfolio of owned and purchased power.**
 - Benefits – can build on current processes and expertise, can utilize a mix of fully owned and fractional ownership of generation assets, balanced with PPAs, allows migration to a real time market purchase as an EIM develops.
 - Drawbacks – requires improved financial and load modeling with a longer-term strategic approach to adding power supply, investment in skills to support resource planning and market monitoring.

Future Strategies

- Increase renewable or green energy
 - SPP Market is about 40% renewable energy so any increase in market purchases adds to IPL's renewable portfolio.
 - Invest in Demand Response, Energy Efficiency, and Distributed Energy Resources to help customers reduce bills and slow the need for future generation to meet growth.

Future Strategies

- To hedge the risk of coal plant shutdowns (Iatan 2 and NC2) evaluate options to pay off fixed capacity payments earlier.
- Negotiate a prepayment option to shorten long term PPA commitment.
- Join with other municipal organizations under a separate governance to develop a lower cost power supply option.

OPERATIONS STRATEGY

Foundational Strategies

- Excellent Reliability – continue investing in infrastructure and undergrounding
- Outage reporting and management tools are antiquated, inefficient (require manual intervention) and not customer friendly – upgrading and integrating current software to optimize the full capabilities of the technology will bring IPL up to modern day standards.
- Implement AMI to bring IPLs data capture and response up to modern day standards.

Future Strategies

- Cybersecurity investment – poses one of the largest risks to utilities, prevents IPL from developing its own EV infrastructure due to cyber risk, and has growing regulatory requirements.
- Resilience – strengthen IPL's ability to respond to unexpected event, driven by weather, pandemic, cyber attacks, and more, by developing plans, performing simulations, and evaluating system resilience.

Future Strategies

- Safety – Evaluate and take actions to minimize risk to the public of electricity encounters.
- Hiring and Retention – a utility is only as good as its employees. As IPL implements its strategic plan, new skills and technologies will be essential. Planning for the aging out of the workforce and developing recruiting strategies is a challenge faced by the industry. Evaluating compensation structures, benefits, as well as recruiting techniques will be critical to helping IPL be a place employees want to work and have the skillsets to do a good job.

Resource Requirements

- Capital Investment in AMI and other technology enhancements will be partially offset by efficiency savings.
- Capital asset replacement and upgrade are reflected in the financial forecast developed by DKMT.
- Future strategies will require retraining and upgrading current employee skillsets. In addition, using attrition to create openings to recruit employees with new skills for the future can be a strategy for managing some of the O&M impacts.

FINANCIAL FORECAST OF STRATEGIC PLAN IMPACTS

Financial Model

- DKMT used IPLs base financial model, updating for actual costs through 2023, revised growth projections to resemble historic trends and adjusting for anomalies, and added financial impacts of the foundational strategies. Capital was funded 50% debt and 50% current revenues.
- DKMT incorporated long term PPA fixed capacity payments, which are essentially debt, into a calculation of fixed coverage (similar to Debt Service Coverage with added capacity payments) as a means of evaluating financial health.

Results

- The updated financial model shows, with status quo growth, no need to increase rates until 2028.
- However, this strategy could change if financial indicators deteriorated, or IPL wanted to implement a more methodical rate change process to avoid significant rate impacts.
- Finances are healthy. Debt Service Coverage and Fixed Coverage both exceeded targets, while maintaining a \$25 mill reserve.

Caveats

- The financial model did not incorporate the cost of new generation or the addition of a large industrial customer.
- DKMT recommends a more formal financial planning process be developed which incorporates an integrated resource plan and is updated at least annually. This will provide real time scenarios and impacts of major decisions on rates and financial indicators.

Questions ?



SPARE SLIDES FOR REFERENCE

Additional Future Strategies

- Cultural Transformation – unified mission, vision and values
- Future Tariff Design to support Distributed Energy Resources, incent customers to use electricity when costs are low because they can get real time cost signals.
- Ways to support new end uses – expansion of electrification from EVs, high efficiency heat pumps, and the desire for customers to chose a rate that fits their lifestyle must be addressed to avoid customer defection to other power sources.