Executive Summary

The Independence Power and Light (IPL) Department is at a crossroad. Its 193 megawatts (MW) of generating capacity is within five years of end of life. The utility must replace that capacity to meet its contractual obligation to the Southwest Power Pool (SPP) and remain a member of the pool.

The City will be commencing a master plan for power generation in 2017 that aims to present alternatives for meeting its SPP membership obligation for the next 20 years. That master plan will serve to guide IPL's capital investment program in the immediate future and provide form to the rate structure modifications needed to fund the utility's future operations. The master plan should also address the question of whether the City of Independence should continue to generate power, or if it would be more economical to enter in a purchase agreement with another provider.

In addition to developing a power generation master plan, the City felt it prudent to also assess IPL's financial condition, organization and management, and its culture. Such an analysis, when joined with the master plan, will allow the City to take a comprehensive approach to positioning IPL for future service to the residents of Independence.

Management Partners and Michael Bell Management Consulting (MBMC) worked with the IPL financial staff to forecast its financial condition on a month-by-month basis for the next 24 months and on an annual basis for the following three years after that. The base case projected the financial condition without any new large capital investments. There are three potential large capital projects to be considered beyond the base case, including: divesting the currently closed Missouri City plant; building new generating capacity to meet SPP obligations; and installing advanced metering technology.

The base case forecast projected declining unrestricted cash reserves, negative net income, rising debt to equity ratios, and decreasing fixed cost coverage ratios. IPL must maintain access to capital markets in order to fund the three potential projects, but these outcomes could increase borrowing costs by tens of millions of dollars over the next decade. The base case suggests that rates would have to be increased by approximately 15% over the forecast period, and the other projects, if approved, could add more, depending on the capital investment and funding decisions, to maintain IPL's current financial targets and its bond rating of A–. In short, rate increases in the near-term will create the financial stability that will reduce borrowing costs and result in less expense for customers for these future projects. The amount of future increases will be a function of the replacement power generation path chosen based on the development of the master plan, and decisions regarding Missouri City and advanced metering infrastructure (AMI).

Our analysis also examined IPL's current rate structure. In 2015, IPL had an independent cost of services study. Management Partners reviewed that study and concluded that its recommendations comport to best industry practice and should be implemented. The study documented that commercial and industrial rates were subsidizing residential rates by approximately 4%. A 4% increase to the average residential bill is about $3.90 per month.

To ensure that IPL is currently operating most efficiently, Management Partners conducted a management review. This report recommends staffing adjustments that would reduce operating expenses by more than $1.1 million. The staffing adjustments call for eliminating positions in the Power Production Unit that have been vacant but still carried in the budget, eliminating a position in the Customer Programs Section that has been vacant for four years, and merging the Meter Reading and Utility Field Services units to eliminate a vacant supervisory position. We understand that these recommended staffing adjustments have been included in the proposed operating budget.

Two software enhancements are recommended for implementation. One would provide state-of-the-art inventory controls and management systems and the other would facilitate meter reading scheduling. Each of these systems would improve efficiency and the inventory control system is likely to reduce costs through better inventory management.

The management review also revealed a need for improving loss prevention practices that will enhance revenue and reduce expenses. There is a need to have a more formal policy for non-payment of bills. The current practice leaves too much to the discretion of a manager, which could result in disparate handling and potential for corrupt practices. The report calls for development of a policy that is more structured and specific to eliminate discretion and create transparency and predictability.

IPL estimates it loses about $1 million a year from diversions, which is the practice of a customer bypassing the electric meter and accessing power illegally. While the loss is less than 2% of sales revenue, it still represents a substantial dollar amount. There is no articulated policy for dealing with diversions, neither a loss prevention program nor a policy for handling cases of proven diversions. It appears that handling diversions is totally at the discretion of the director of transmission and distribution. The current practice not only exposes the utility to significant revenue loss, but also to charges of corruption if diversion cases are handled differently from one another. This report recommends developing a diversion control protocol or program and articulating a policy for handling diversion cases both from a criminal and civil point of view.

The organization culture assessment was derived from our individual interviews with IPL management staff and a department-wide employee survey that achieved a 55% response rate. The results of our interviews and the employee survey revealed several elements that should be addressed. Over 60% of survey respondents fear retaliation for reporting violations of policy. The survey indicates a very high level of trust with coworkers and immediate supervisors, but a much lower level of trust with executive management. The survey indicated most respondents do not feel that senior management displays a high degree of professionalism, inspires them to do a good job, or inspires respect. Only one-third of respondents feel that department morale is good.

Attachment A – List of Recommendations

Recommendation 1. Eliminate nine vacant positions in the Power Production Division.

Recommendation 2. Hold new vacant positions in the Power Production Division vacant until completion of the Power Production Master Plan.

Recommendation 3. Establish future Power Production staffing levels in conformance with the outcome of the Power Production Master Plan.

Recommendation 4. Eliminate a vacant energy application specialist position in the Customer Programs Unit.

Recommendation 5. Merge the Meter Reading Unit and Utility Field Services Unit into a single unit in accordance with the organization plan recommended in this report.

Recommendation 6. Reassign the four NERC compliance positions to report directly to the IPL department director.

Recommendation 7. Purchase and install the inventory control module during the initial installation of the City Works system.

Recommendation 8. Purchase and install appropriate meter reading scheduling software.

Recommendation 9. Study the advantages and disadvantages of consolidating all City of Independence fleet management.

Recommendation 10. Evaluate the economic impact of the 12-year vehicle replacement cycle compared to a 10-year replacement cycle.

Recommendation 11. Adopt an explicit policy for handling non-payment of bills, including turn-offs, discounts, payment plans and forgiveness.

Recommendation 12. Implement a diversion detection program.

Recommendation 13. Develop an explicit policy for handling discovered diversions.

Recommendation 14. Develop and implement a protocol for better control of and accountability for IPL tools.

Recommendation 15. Develop a succession plan that can be applied to all City agencies.

Recommendation 16. Prepare an IPL succession plan that reflects the new master plan when it is completed.

Recommendation 17. Develop a forecast model that shows monthly results for 24 months and annually for another 3 years.

Recommendation 18. Develop a plan of implementation and funding for Advanced Metering Infrastructure.

Recommendation 19. Update the cost of service and rate design study upon completion of the Master Plan.

Recommendation 20. Adopt the Sawvel report recommendations pertaining to simplifying the rate structure and cross class subsidies.

Recommendation 21. Reset the fuel cost adjustment to zero and incorporate fixed costs into the regular rate structure.

Recommendation 22. Adopt a policy of periodically resetting the fuel cost adjustment to zero.

Recommendation 23. Itemize payments in lieu of taxes separately on customer bills rather than including it in the base rate.