

Independence Power & Light Financial Risk Assessment, Management Audit and Organizational Culture Analysis

Independence, Missouri

July 2017





July 26, 2017

Mr. Zachary Walker
City Manager
City of Independence
111 E. Maple Avenue
Independence, MO 64050

Dear Mr. Walker:

Management Partners is pleased to transmit this project report on the financial risk assessment, management review and organizational culture analysis of the Independence Power and Light Department (IPL). Although the project was called a “management audit,” we would like to point out that it was not, in any way, a financial audit—we did not evaluate the accuracy of reports, sample transactions, or test internal controls—but rather, it was a review of the structure and management of the organization.

The report presents a summary analysis of IPL’s financial condition and the potential impact on rates in order to achieve stability and sustainability. This analysis was prepared by working closely with the IPL finance staff and is consistent with those financial models. Finance staff members were especially helpful and responsive to our requests and we would like to convey our appreciation of their assistance to you.

The report makes 28 specific recommendations regarding IPL’s financial condition, management practices, and organizational culture. It notes organizational culture issues that must be acknowledged and addressed to instill an empowering and nurturing workplace. Implementing these recommendations are crucial to a future service environment that will be efficient and economical for IPL customers.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gerald Newfarmer', written in a cursive style.

Gerald Newfarmer
President and CEO

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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 project 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 IPL's financial condition with currently planned capital improvements and operating budget without regard to other new capital projects. 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 suggest 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 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.

Background

This section of the report profiles the current operating environment of IPL and discusses the issues giving rise to the financial risk assessment and management review.

IPL Operations Profile

IPL is a municipally owned utility responsible for generating and distributing electric service to 58,000 residential and commercial customers within the 78 square-mile municipality. Average power demand is 120 MW in the winter and 230 MW during summer. All-time peak demand is 315 MW. Demand for power has not increased since 2007.

The department functions as an enterprise fund of the Independence City government, meaning that it operates on revenue collected for the services it provides. Two percent of revenue collected comes from commercial customers with the balance paid by residential accounts.

IPL is a member of the Southwest Power Pool (SPP). The SPP has been in business since 1941 managing the wholesale market and bulk power grid in 14 states on behalf of several utilities and transmission companies. As a member of SPP, IPL has access to the pool to purchase and sell electric power. Each day, IPL provides notice to SPP of hourly electricity demand, and IPL production capacity and its price, for the next 24-hour period. SPP decides how much, if any, power to purchase from IPL. IPL decides how much power to purchase from SPP and how much demand to meet from power generated in its own facilities. About 3% of the power sold to its customers is generated by IPL facilities. IPL settles accounts each week by reconciling power purchased from SPP and power sold to SPP.

In exchange for being an SPP member, IPL must maintain capacity for providing 115% of its peak demand, or 360 MW. That capacity can be in

the form of power generated by IPL owned and operated facilities, or purchased power agreements (PPA).

IPL owns and operates the Blue Valley Plant that is rated at 90 MW capacity. The plant uses three natural gas-fired steam turbines. To extend the life of the turbines the operations cycle for the plant to sell power to SPP is 7 to 10 hours' advance notice and 18 hours minimum operation a maximum of three times a week. Unfortunately, this operating cycle profile does not match well with more economical SPP alternatives. The result is that the plant is up and running productively approximately 3% of the time. The Blue Valley plant is an estimated five years away from the end of its useful life, which is a primary factor in being non-competitive in the price of power.

IPL also owns and operates six combustion turbines rated for approximately 103 MW. Four of the turbines are oil fired and two can be fired by oil or natural gas. The value of combustion turbines is that startup time is instantaneous and can be efficiently operated for a minimum of two hours. This operating cycle is a better fit to the SPP demand pattern and offers a more economical price. However, these turbines are also approaching end of useful life and face being decommissioned.

IPL makes up the balance of its power availability requirement of 167 MW through a series of ownership positions in other generation facilities. IPL has a 12% share in the natural gas-fired Dogwood Plant rated for approximately 100 MW availability. IPL has a 50 MW share of the Omaha Public Power coal-fired plant. That plant is a 10-year old facility with an expected remaining life of 30 years. IPL also owns a 50 MW share of the IATAN plant, which is a coal fired plant owned by Kansas City Power and Light. IATAN is an even newer plant than the Omaha plant. An issue with the Omaha and IATAN plants is that coal-fired plants could be subjected to stricter environmental regulation in the future.

IPL also has shares in three intermittent generating facilities. It has 15 MW from the Smokey Hill and 20 MW from the Marshall wind farms. IPL owns about 3 MW of solar power from a facility that came on line in March 2017.

In summary, IPL owns and operates 193 MW of generating capacity and has approximately 200 MW of PPA capacity and 38 MW of intermittent availability. IPL also owns the Missouri City generating plant that has not

been operational for a number of years because it cannot generate electricity at a competitive cost.

IPL has 51 miles of 69 kilovolt transmission lines and 26 miles of 161 kilovolt transmission lines that provide connections to three neighboring utilities. The department operates three transmission substations and one switching station. Distribution assets include 565 circuit miles of 13 kilovolt overhead lines and 227 circuit miles of 13 kilovolt underground lines as well as 11 distribution substations.

IPL has consistently maintained a 99.9% reliability factor. The most recent critical infrastructure protection audit by the National Electricity Regulatory Council (NERC) reported that IPL had no violations and no potential violations. They are also being reviewed by the American Public Power Association's RP3 program, which evaluates electric utilities on reliability, safety, workforce development, and system improvement. We expect they will receive a high rating for their accomplishments in those areas.

IPL Operations Issues

IPL owned and operated generating capacity of 193 MW is within five years of end of life. That capacity is already more expensive to produce than is available on the SPP grid as evidenced by the fact that IPL only generates 3% of the power sold to its customers. When the current generating capacity is no longer able to be rated as reliable by SPP, likely within the next five years, IPL must decide how to meet the 160 MW deficit it will face as a member of the SPP pool. Building new owned and operated generating capacity is likely to cost more than \$90 million. The capital improvement program does not include such an investment.

The City Council has directed that the decommissioned Missouri City plant site be cleared and made environmentally safe for future use. The estimated cost for this is between \$3.5 million and \$8 million. The IPL capital improvement program does not include any reserve funding for this project.

IPL has been studying the advisability and feasibility of installing advanced metering that would accommodate operations improvements such as remote reading, peak controls, and more precise use measuring and demand forecasting. Such a project is estimated to cost \$20 million and is not provided for in the capital improvement budget.

As mentioned previously, IPL commissioned a cost of services study in 2014. That study recommended several modifications to the current rate structure designed to provide more equity and transparency and to comport to industry best practices. The recommendations of that study have not been implemented and the current rate structure does not meet industry best practices. The result is that the cost of borrowing to meet capital requirements will be more expensive. The most recent bond rating resulted in IPL bonds being downgraded from “A” to “A-”.

The potential capital investment requirements and the dated rate structure are projected to lead to a cash flow issue in the short term and an unstable financial condition in the mid-term. IPL must find the path to remain stable financially for the next two years while it analyzes the optimal approach for replacing soon to be lost generating capacity and crafts a long-term financial plan for implementing that approach.

Renewable power sources such as wind, geo-thermal and solar are having an increasing impact on generation strategy. The industry is one advance away in battery storage technology from having its business model turned on end. Changing demographic values related to reduced carbon footprint and concern for climate change must be considered. Development of micro-grids and individual solar and geo-thermal generation must be considered. All this uncertainty roils an industry that has typically been stabilized by financial models that have 40-year time horizons.

A challenge will be selecting a long-term availability/reliability plan in an industry that is being disrupted by this host of new force fields. Another challenge will be determining demand in an IPL service environment that has not seen an increase in its load for ten years. A third challenge will be choosing a strategy that will allow rapid response to residential and commercial growth without a huge upfront investment in generating capacity.

IPL is also challenged by labor force considerations. The Missouri City plant is closed, yet has been staffed for security purposes. The Blue Valley plant and the combustion generators are producing only 3% of the power sold to customers, yet must be staffed to maintain availability. Stagnant economic development results in no growth in transmission or distribution assets and diminished workload for the labor force that maintains those assets. The challenge will be to right size the labor force in the short term to match service demand and to shape the profile of the

workforce in the longer term to match the power availability/reliability strategy selected for the future.

During interviews we frequently heard the term “rate payers” used. While IPL stresses reliability and low rates, the need for additional revenue is an evident concern among staff. Seeing its market as “rate payers” as distinguished from “customers” could lead to skewing service planning to what will optimize revenue rather than what will provide the cheapest power with the most reliability. One example is a viewpoint expressed that future power availability planning must account for how to sell more power to SPP. While that viewpoint is worthy, it must be balanced against the impact that investment would have on the cost of power to customers. If investing to sell more power increases costs to customers that is a strategy that places customers secondary to rate payers.

IPL also faces organizational culture issues as evidenced by the employee survey that was part of this project. Those culture issues must be faced and initiatives to instill an enabling and respectful workplace must be developed and enacted.

While there are also other more minor issues to be confronted, the major issues are those highlighted above. The remainder of this report sets forth recommendations for dealing with the major and minor issues identified by our analysis.

Methodology

The Management Partners project team began by providing a list of documents for review and analysis. The project team included associates with extensive experience in electric utility operations and financial assessment. The project team met with Independence senior managers to finalize project objectives and deliverables. To develop a profile of the IPL culture, Management Partners prepared an employee survey and vetted the items with Independence senior managers. All key IPL personnel were identified and interviewed, including the department director who was on sick leave at the time.

The project team analyzed the documents provided and conducted interviews with IPL managers. Team members met extensively with IPL financial management staff to gain an understanding of the utility's current financial position and its future financial situation. The team reviewed the rate study that had been conducted in 2014 to understand the strengths, weaknesses and opportunities for improving the current rate structure.

An anonymous employee survey was conducted over a period of two weeks and all IPL employees were given an opportunity to participate. The results of the survey were compiled, analyzed and shared with Independence senior managers.

The project team provided a report summarizing observations and preliminary recommendations to Independence senior managers and had a follow-up discussion with that group. Based on feedback, we then prepared a draft report, formalizing our conclusions and recommendations from the management review and financial risk assessment. Independence senior managers had an opportunity to review and discuss the draft report to ensure accuracy but not modify substance. This final report is the culmination of the work of IPL staff and Management Partners' project team.

This report includes four main sections:

- » Current Organization Plan,
- » Organizational Plan Analysis and Recommendations,
- » Financial Risk Analysis and Recommendations, and an
- » Organization Culture Analysis.

Current Organizational Plan

This section of the report presents the current organizational plan and budget for IPL as of February 2017.

The FY 2016-17 budget for IPL is \$162,434,342, which is composed of \$145,945,081 for operations and \$16,390,000 for capital improvements. The agency has 240 full-time equivalent (FTE) employees. IPL is organized into the following divisions:

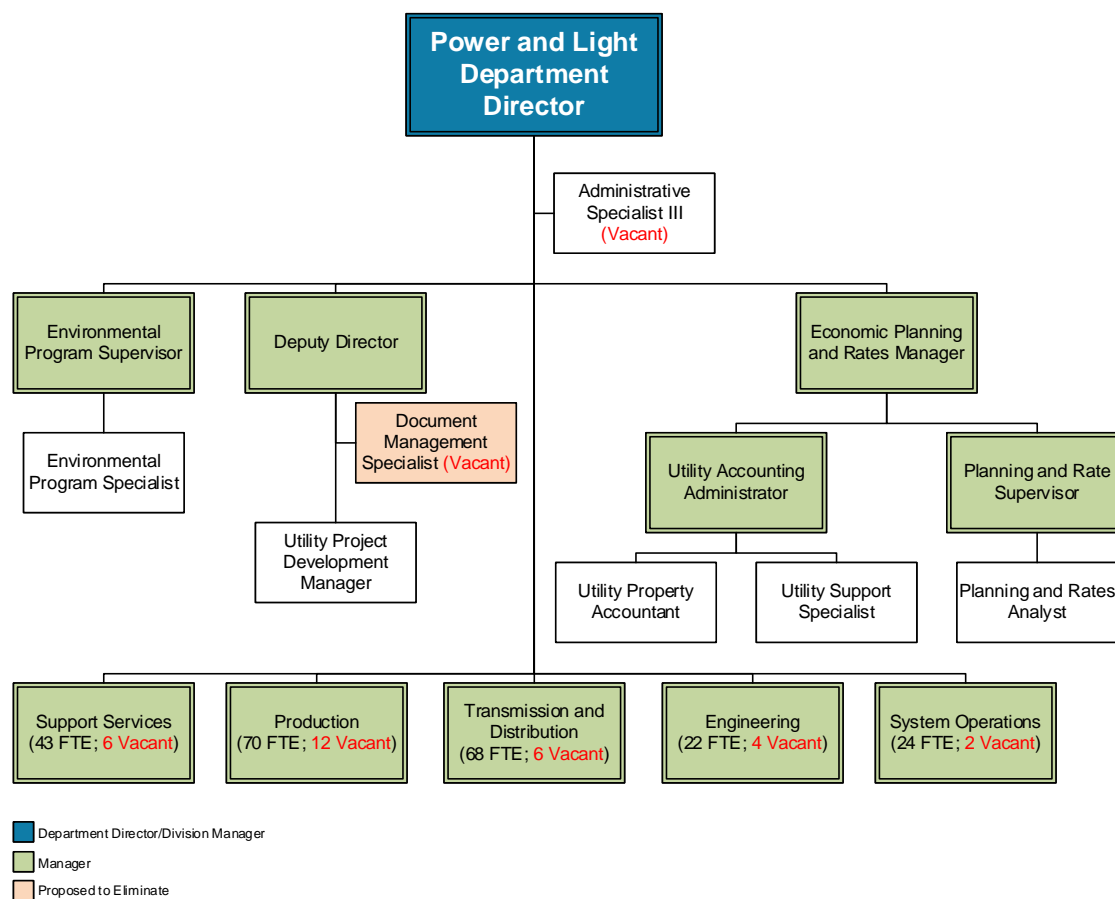
- Administration,
- Support Services,
- Power Production,
- Transmission and Distribution,
- Power Engineering, and
- Systems Operations.

A brief description of each division is included below.

Administration Division

The Administration Division is responsible for overall management of IPL including financial management, rate setting, and environmental programs. The current fiscal year budget is \$3,365,300, which includes \$1,737,030 for personal services and \$1,628,270 for other expenses. The division has 13 FTE as shown on the organization chart in Figure 1.

Figure 1. Administration Division Organization Chart



Support Services Division

The Support Services Division consists of the following bureaus: Meter Reading, Fleet, Warehouse, Customer Operations, and Customer Programs. The division has a current operating budget of \$11,346,887. There is a total of 43 FTE in the division as shown on the organization chart in Figure 2.

The meter reading unit is responsible for reading electric watt-hour meters and water consumption meters monthly on scheduled routes. The unit budget is \$2,007,597 of which \$1,857,997 is for personal services and \$149,600 is for other costs. The unit has a personnel complement of 16 FTE.

The Fleet Maintenance Unit repairs, and services all vehicles and rolling stock owned by IPL. This unit manages the vehicle replacement program

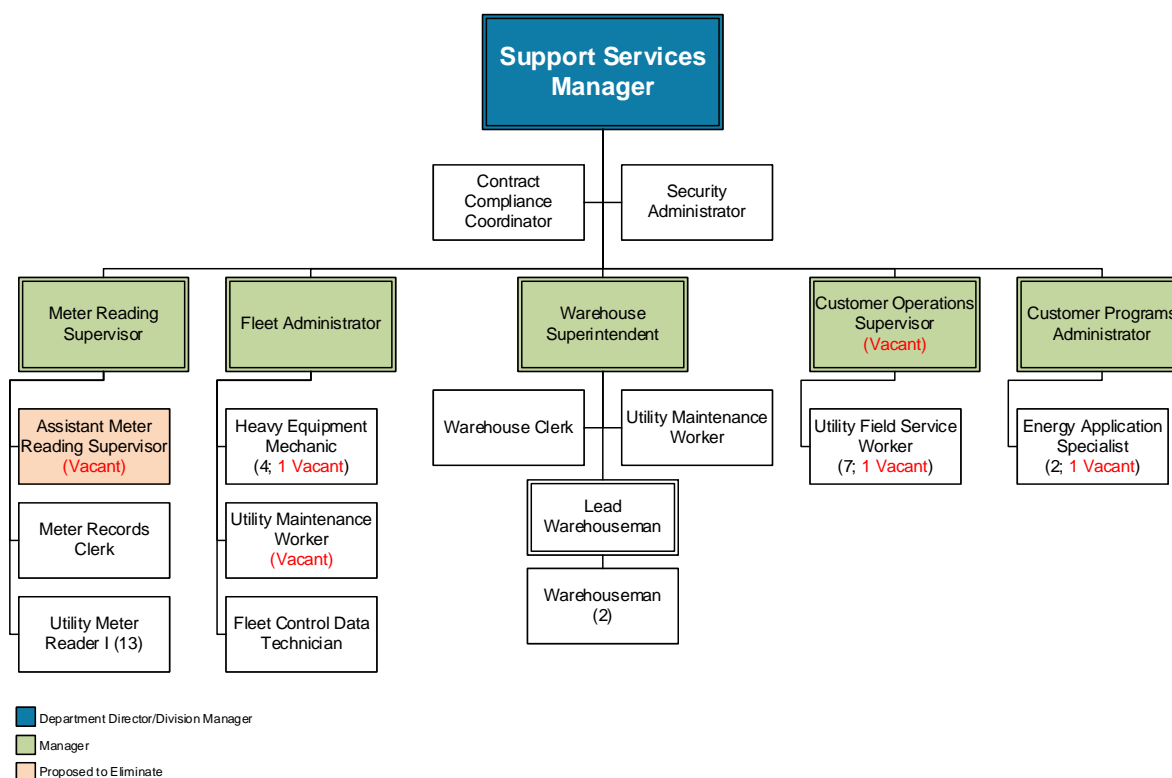
for IPL. The current budget for the agency is \$2,430,600 of which \$858,100 is for personal services and \$1,572,500 is for other expenses. There are seven FTE in this unit.

The Warehouse Unit is responsible for ordering, issuing, receiving and maintaining inventory of material and tools for line crews, maintenance personnel, and outside contractors. The unit also maintains the IPL Service Center. The Warehouse budget totals \$4,499,368 made up of \$687,768 in personal services and \$3,811,600 in other costs. This unit employs six FTE.

This Customer Operations unit is responsible for turning both electric and water services on and off, servicing delinquent accounts, and reading meters for customer transfers. The budget for the unit is \$1,071,105 consisting of \$1,050,005 for personnel costs and \$21,100 in other expenses. There are eight FTE in the unit.

The Customer Programs unit is responsible for division overall management, contract compliance, security, and customer incentive programs. The unit budget is \$1,338,217 consisting of \$625,217 in personal services and \$713,000 in other costs and is staffed by six FTE.

Figure 2. Support Services Division Organization Chart

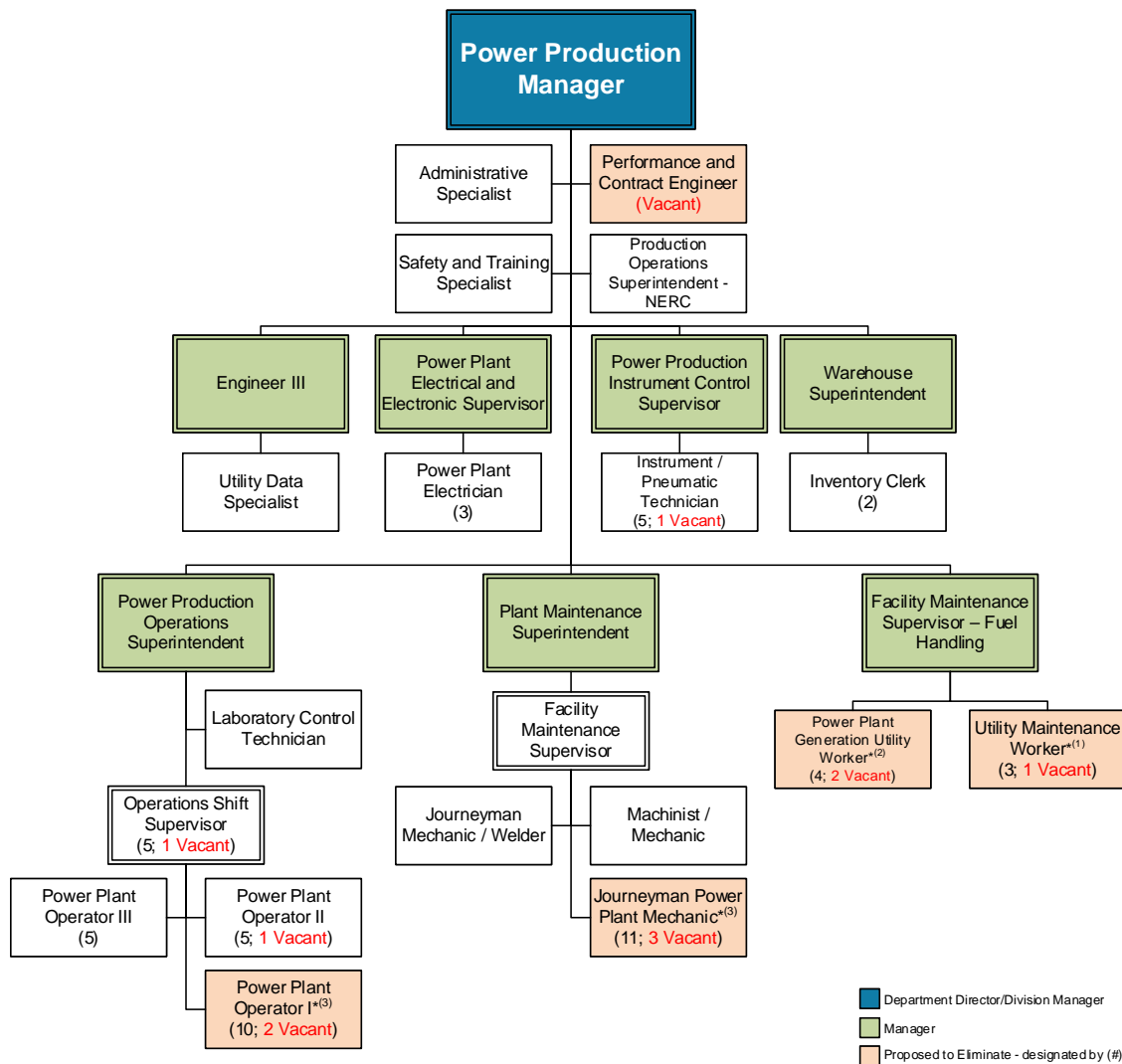


Power Production

This division is responsible for operating and maintaining all power generation facilities owned by the City of Independence. The current operating budget for the unit is \$14,024,474 of which \$9,593,099 is for personnel and \$4,431,375 is for other costs. The division is also responsible for payments for purchased power. The current year budget for purchased power is \$64,218,923 bringing the total budget for the division to \$78,243,397.

The Power Production unit has 70 authorized positions as shown on the organization chart in Figure 3.

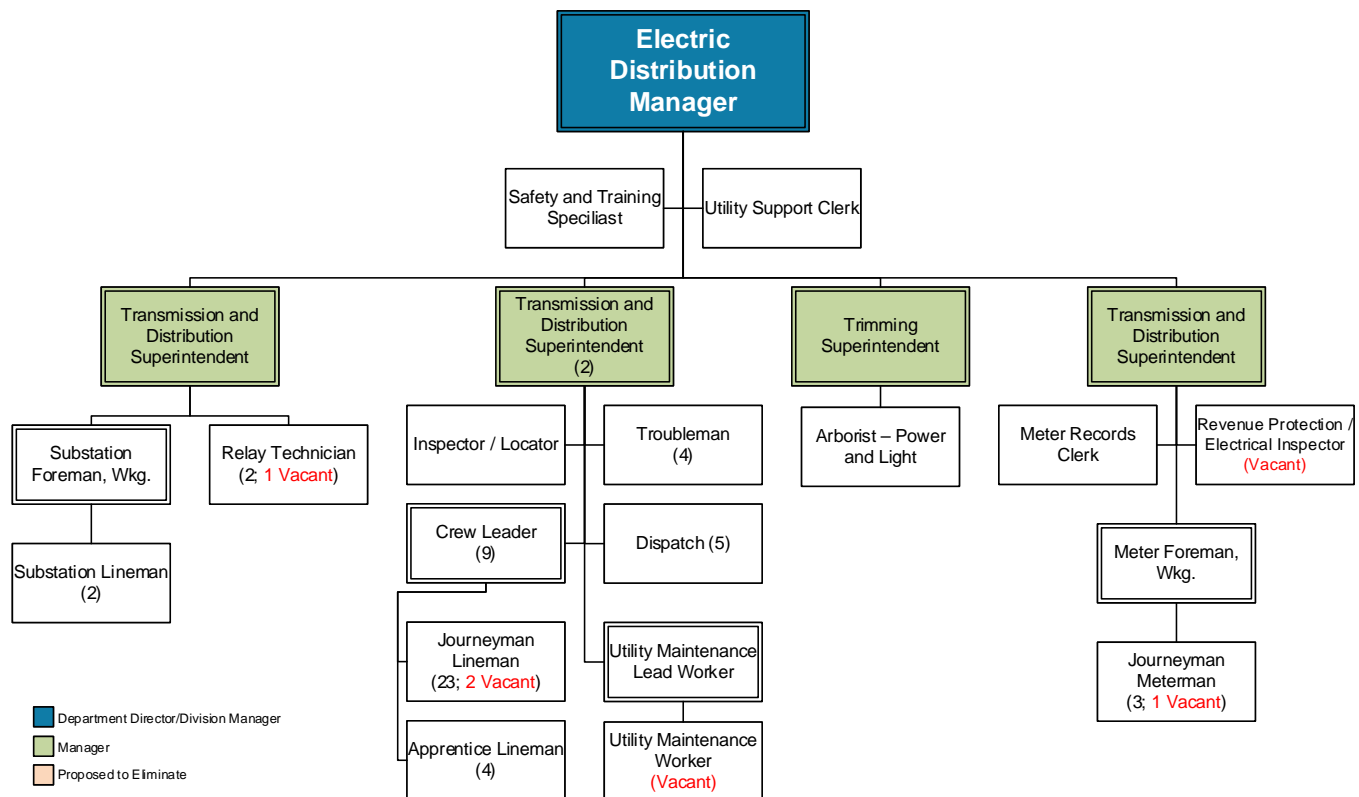
Figure 3. Power Production Division Organization Chart



Transmission and Distribution

The division is responsible for the repair, maintenance and construction of the utility's transmission and distribution system, including substation maintenance and operations. This group operates the annual tree trimming program to reduce weather related outages. The operating budget for Transmission and Distribution is \$12,664,122 composed of \$9,488,322 for personal services and \$3,175,800 in other costs. The agency has 68 authorized positions as displayed in Figure 4.

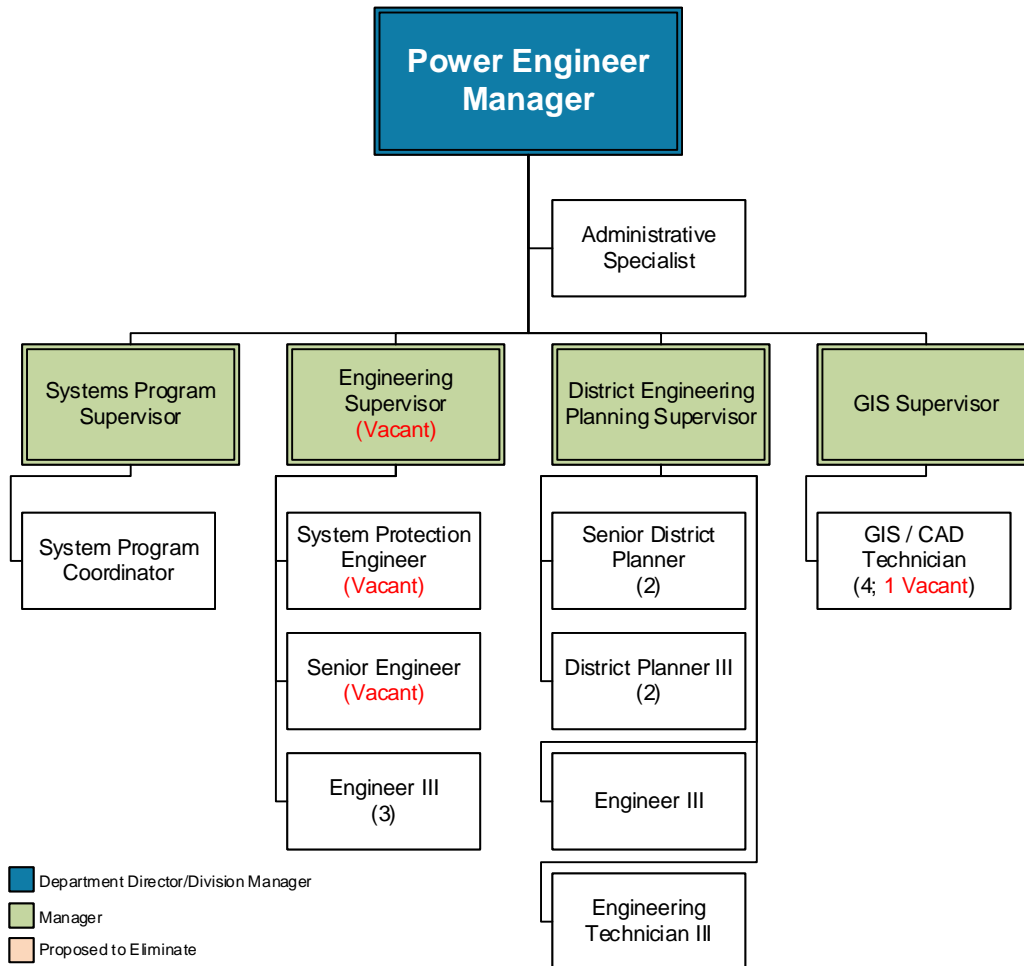
Figure 4. Transmission and Distribution Division Organization Chart



Power Engineering

This group is responsible for the overall engineering of the utility's high voltage electrical power system. Major tasks include transmission, substation and distribution design; cost estimating and contract development; and project management and administration. The unit's annual budget totals \$4,785,889 consisting of \$3,330,265 in personnel and \$1,455,624 in other costs. The unit has 22 FTE as shown on the organization chart in Figure 5.

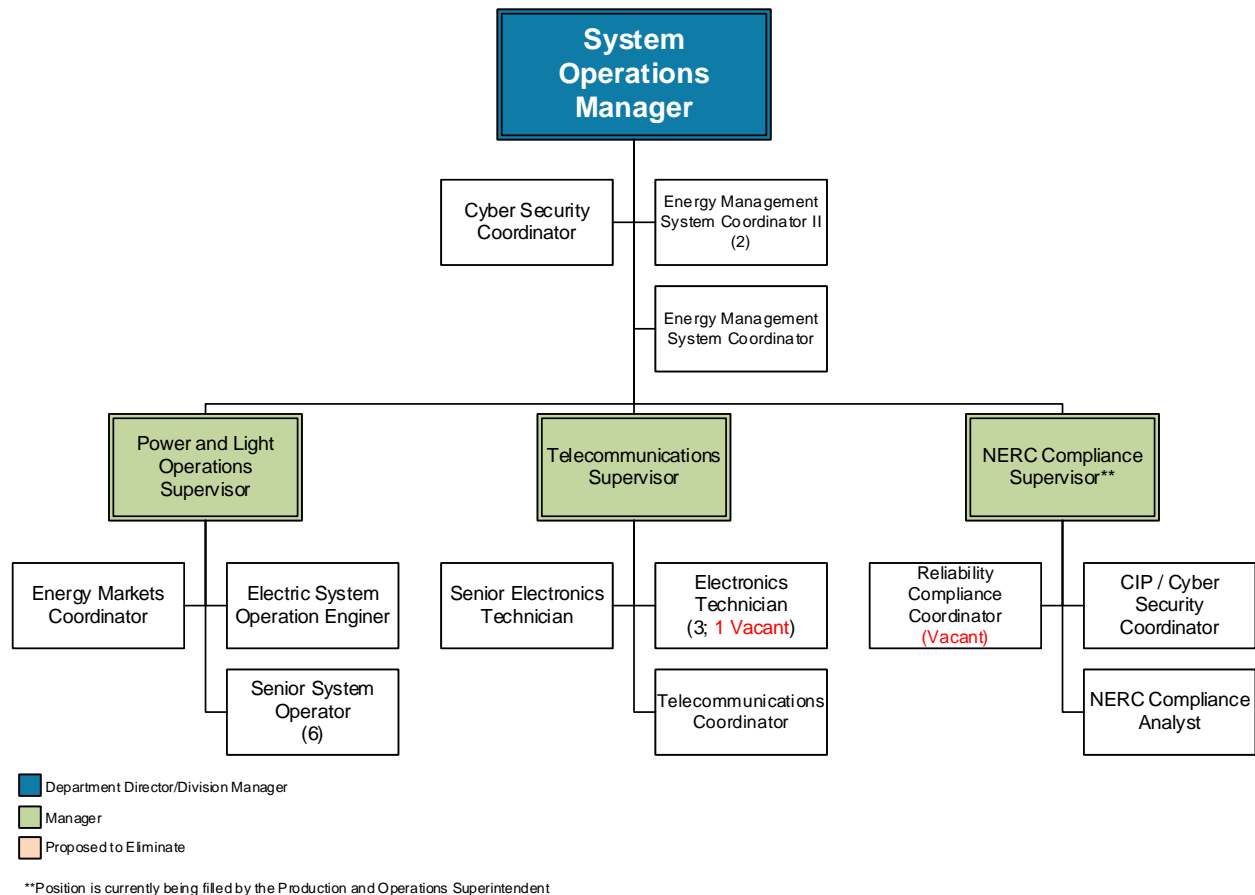
Figure 5. Power Engineering Division Organization Chart



Systems Operations

The Systems Operations division is responsible for around-the-clock operation of the utility's electrical systems. Major tasks include dispatching generation resources, operating transmission systems, wholesale power purchases and sales, and managing the agency's regulatory reliability compliance efforts. The budget totals \$3,652,912, of which \$2,568,487 is allocated to personal services and \$1,084,425 to other costs. There are 24 FTE in the unit as shown on Figure 6 below.

Figure 6. Systems Operations Division Organization Chart



Organizational Plan Analysis and Recommendations

This section of the report sets forth the analysis and recommendations resulting from the management review performed by the project team.

The project team examined the management systems and practices of IPL. The sections below discuss staffing, organizational structure, software enhancements, fleet management, loss control, succession planning and organizational culture.

Staffing

Power Production Division

Over the last three years, IPL has actually generated 5% or less of the power sold to its customers. Most of the power originates through the Southwest Power Pool (SPP) and is purchased wholesale from the SPP grid by IPL. Consequently, IPL's own generating facilities are in operation infrequently. Yet the authorized position complement for the Power Production Division remains essentially unchanged from the time when IPL's generating facilities were in frequent use.

The Power Production Division is in a period of transition. Division staff are primarily engaged in maintaining the generating equipment for the occasional events when the equipment is used to send power to IPL customers.

Eleven of the 51 currently authorized Power Production Division positions are vacant and have been vacant for at least three years. Yet these positions are all carried in the budget and the cost of these positions are included in rate base calculations. Our analysis has determined that nine of the vacant positions can be eliminated due to the divestiture of the Missouri City Plant in 2015. Power Production Division managers concur with this conclusion and it is our understanding that these positions have been eliminated from the proposed FY 2017-18 budget.

Our analysis also indicates that in the current production configuration, an additional 10 positions could be eliminated. These positions are currently filled. A power production master plan will be completed in 2017. Since the positions are filled and the master plan is pending completion, prudence suggests that these additional 10 positions remain in the next IPL operating budget.

When completed, the master plan will provide a rationale for appropriately staffing IPL for power production. If any of the 10 positions designated as potential additional reductions become vacant prior to completion of the master plan, we recommend that those positions remain vacant until the master plan is completed and an appropriate long-term staffing plan is approved.

Table 1 below itemizes the results of our analysis of Power Production Division staffing.

Table 1. Power Production Division Staffing Transition

Position Title	Current Authorized	Current Filled	Recommend Eliminated	Potential Additional Reduction
Operations Shift Supervisor	5	4	0	1
Power Plant Operator III	5	5	0	2
Power Plant Operator II	5	4	0	2
Power Plant Operator I	10	8	3	1
Power Plant Utility Worker	4	2	2	0
Utility Maintenance Worker	3	2	1	0
Journeyman Mechanic	11	8	3	2
Instrument Technician	5	4	0	1
Journeyman Electrician	3	3	0	1
Totals	51	40	9	10

This staffing level is adequate for maintaining the Blue Valley plant both in the quiet phase as well as when it is called on for the occasional event to produce power for sale.

The immediate elimination of nine positions will reduce the operating budget by approximately \$1,100,000.

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

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.

Customer Programs

The Customer Programs Unit administers the IPL Home Energy Loan Program and the Energy Efficiency Program. These initiatives are designed to help customers reduce energy costs through conservation measures and education.

The unit has two authorized energy application specialist positions. One of these positions has been vacant for four years. The demand for these programs has diminished and the fact that a position has been vacant for four years indicates it is obviously not critical to the unit's mission and should be eliminated. This action will reduce the operating budget by an estimated \$50,000.

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

Organizational Structure

Meter Reading and Utility Field Services Units

The Meter Reading and Utility Field Services Units are separate organizational entities in the Support Services Division. The two units work closely with one another. The Meter Reading Unit reads electric and water consumption meters on fixed routes. Utility Field Services is responsible for electric and water turn-ons and turn-offs, servicing delinquent accounts, and reading meters for customer transfers.

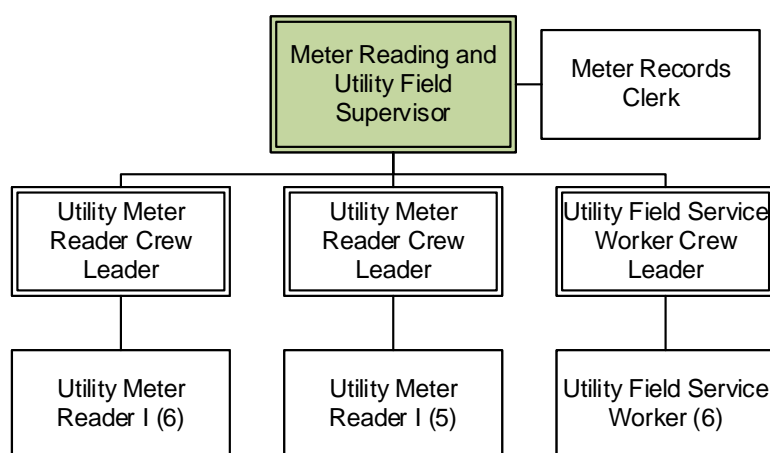
We were informed that there is an informal career path from meter reading positions to field service positions, which have promotional opportunities. Many of the field service workers had previously held the position of meter reader.

A vacancy in the field services supervisor position in the Utility Field Services unit led to temporarily merging the two units under the

customer operations supervisor. Some of the benefits of the merger include the ability to eliminate a vacant assistant meter reading supervisor position at a saving of an estimated \$60,000 and formalizing an informal career ladder and employment progression practice.

Our analysis indicates that the concept of merging the two units into a single unit is feasible, but not in its current configuration. In its current configuration, the customer services supervisor has 21 direct reports, nearly three times what is considered reasonable span-of-control. We recommend an organization plan as shown in Figure 7 below.

Figure 7. Recommended Field Services Unit Organization Plan



The organization plan above would require reclassifying two meter reader positions to crew leader status, which would provide promotional opportunities in the Meter Reading Unit. The organization plan would also reduce the span of control in the Meter Reading Unit from 13 positions to a group of six under one crew leader and a group of seven under another crew leader. The Utility Field Services Unit would also have a crew leader responsible for seven positions. The plan reduces the current customer operations supervisor's span of control from 21 positions to 4 positions.

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.

National Electric Reliability Corporation Team

Electric utility operations in America are dictated in large part by the National Electric Reliability Corporation (NERC). The interconnectedness of the electrical transmission grid requires that utilities meet specified standards for security and reliability purposes. To remain connected to the grid, utilities must meet those standards, which are continuously being updated as the industry service environment changes. Utilities must undergo audits on an ongoing basis to determine whether there are any violations of NERC standards and then to implement corrective actions plans to attain NERC compliance.

IPL has a process for continuously monitoring and auditing its operations for compliance with NERC requirements with a team of four staff. Those four staff are in the chain of command of the Power Production Division or Systems Operations Division directors. In other words, those personnel work for and are evaluated by the director of the division that is the primary focus of their audit activity. While that does not appear to have been an issue to date, it is not the recommended organizational position for that responsibility. We recommend that the four NERC audit personnel be reassigned to report directly to the IPL department director. This resolves any appearance of conflict of interest.

The four positions and their current unit assignment are as follows.

- Production Operations Superintendent/Power Production Division;
- NERC Compliance Supervisor/Systems Operations Division;
- NERC Compliance Analyst; Systems Operations Division;
- Reliability Compliance Coordinator/Systems Operations Division.

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

Software Enhancements

Inventory Control

IPL is in the process of installing *City Works* software. Doing so will provide state-of-the-art management support systems for many IPL processes such as work order processing, and tracking, productivity analysis, scheduling, project planning, and project management modules,

among others. During our review, we were informed that the *City Works* implementation plan does not include the inventory control module.

IPL has a multi-million-dollar inventory of fixtures, machinery, equipment, tools and supplies. Current inventory control and tracking systems seriously lag state-of-the-art industry practices. Our experience is that better outcomes are realized when all critical technology modules are installed as a package rather than piecemeal over time. The *City Works* inventory control module should be purchased and installed during the initial installation of the system.

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

Meter Reading Scheduling

Meter reading scheduling, as currently practiced by IPL, is a time-consuming manual task that can easily be enhanced with the acquisition and installation of software designed to support meter reading scheduling and routing. The software would automate scheduling and would also provide additional management information such as route balancing, productivity measurement, attendance information and other data. Software systems to accommodate this need include *Road Smart* and *Itron*. IPL would benefit from acquiring and installing an appropriate technology upgrade for these purposes.

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

Advanced Metering would obviate the need for meter reading and thus scheduling software. However, the Advanced Metering project, if implemented, would be installed over a five-year period, which is typical of such projects. Given the relatively low cost of meter reading scheduling software and the potential gain in efficiency it would be prudent to not wait five years for such an improvement.

Advanced Metering Systems

Many utilities have installed advanced metering systems (AMI). These systems are telemetrically linked to the utility in such a way that real-time monitoring of consumption is feasible. These systems are also more accurate in recording consumption. The systems also eliminate the need to manually eye-ball and record meter dials for individual customers. In

other words, advanced metering provides more timely notice of consumption outliers, better loss control through more accurate consumption recording, and lower labor costs.

IPL has studied installing advanced metering and determined that such a system for its 58,000 customers would require a capital investment in the range of \$15 to \$20 million. Installation of AMI would typically take three to five years. AMI is an industry best practice.

Although the payback period is typically more than 7 years, installing advanced metering systems is considered a sound investment since the useful life of the system is 15 years or longer. In addition to the financial advantages of AMI, the system generates significant real-time operations information that can result in more efficient planning, production, transmission and distribution that saves costs and reduces rates. While AMI is a desirable investment, that investment's appropriateness must be measured in the broader context of IPL's financial condition assessment, which is the subject of a different section of this report.

Fleet Management

During our review, we learned that City of Independence fleet services are spread among four different agencies: IPL, Water Department, Water Pollution Control Department, and the Public Works Department. While our focus for this project is on IPL, we believe that a detailed study by the City of the advantages and disadvantages of consolidating fleet management into a single entity is advisable.

There are clear advantages to consolidating fleet management, including the likely reduction of administrative costs. Consolidation could lead to more efficient sharing of costly specialized equipment, thus reducing the amount of such equipment that must be purchased and maintained.

It is possible that maintenance facilities could be consolidated, which would reduce operations costs. Since IPL fleet staff has a higher pay range than other fleet staff, consolidating fleet services could also lower IPL's fleet cost and have a favorable impact on IPL rates, reducing costs to its customers. The City should initiate a fleet management consolidation study.

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

We learned during interviews that even though the IPL fleet replacement policy has been modified recently from a 10-year replacement cycle to a 12-year cycle, it has not been uniformly followed. It is axiomatic that fleet replacement should be based on economic replacement cycles. Postponing vehicle replacement is a false economy that shifts costs from capital outlay to operations, usually resulting in higher operating costs and long-term capital expenditures.

Normally when vehicle replacement is postponed, it is due to tight budget constraints. IPL is an enterprise fund that typically has sufficient cash to maintain an economic replacement cycle. As an element of the fleet management study recommended above, the City should evaluate the economic impact of the 12-year replacement cycle and then adhere to the replacement cycle determined to be the most economical.

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

Loss Control

Non-payment

It is not evident that the policy regarding non-payment of customer bills is explicit and transparent. During interviews, we learned that the customer service supervisor has discretion about payment arrangements, turn-offs, forgiveness, and other aspects of billing and payment.

Best practice regarding non-payment and turn-off policy is to adopt explicit protocols. Allowing situational discretion is not a preferred practice since it has potential for disparate treatment and inconsistent service. The City should examine its policy to ensure it is specific about steps that should be taken in cases of nonpayment, including standards to apply for turn-offs, discounts, payment plans, and forgiveness.

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

Diversions

IPL estimates that it loses about \$1 million a year from diversions (revenue lost from customers who bypass the meter). While this is less than 2% of total user fee revenue, it represents a significant dollar

amount. We understand from interview information that there is no proactive protocol for discovering or dealing with this issue. We understand that the director of transmission and distribution approaches diversion on a situational basis.

The best practice is for IPL to devise a protocol for detecting and reducing diversions, and appropriately enforce repayment for lost revenue. Lack of a program and policy for dealing with diversion is an invitation to collusion and or corruption.

Recommendation 12. Implement a diversion detection program.

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

Tool Accountability

Our analysis determined a need for tighter accountability for IPL tools provided to its lineman staff. Tools are kept in trucks used by linemen. Frequently, tools are lost or missing from trucks and must be replaced. Over time, replacement of tools can be expensive. Accountability for tools can be improved by having each lineman sign a certification at the beginning and end of each shift that all issued tools are on the vehicle. If a tool has been lost or is missing the City should negotiate a disciplinary measure for the responsible party. There may be other more appropriate measures for IPL to have tighter accountability for tools than what is proposed here.

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

Succession Planning

Management Partners was asked to opine on the need for succession planning as an element of this project. Obviously, succession planning is an important factor for seamless customer service and should be a formal element of the IPL management system. The difficulty IPL will encounter in undertaking succession planning is that the future needs of the organization are uncertain. Until the aforementioned master plan is completed and adopted, an appropriate organizational structure cannot be determined. However, in the interim, the City Human Resources Department could develop a model succession planning protocol that can be applied to IPL and to other City agencies. It should focus on position

requirements, employee development and career track planning. This will allow IPL to develop an appropriate succession plan once an organizational structure is consistent with the master plan is adopted.

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.

Financial Risk Analysis and Recommendations

One of the important objectives of this analysis is to provide an independent assessment of the financial risks of Independence Power and Light, including what might be done to mitigate those risks and restore financial stability to the organization.

Management Partners' team members, including Michael Bell Management Consulting (MBMC), have reviewed the recent financial performance of IPL, reviewed other consulting reports prepared for the City, studied and considered the major revenue and cost centers for the utility, and assessed IPL's financial risks. With an understanding of the recent financial results and risks, we have worked with IPL staff to develop a forecast of financial results if nothing is done, as well as a base case recommendation which, in our opinion, may retain IPL's current A-bond rating. The City has the forecasting model with our suggestions.

This section of the report identifies and discusses IPL's current financial condition, our observations, and recommendations to alleviate these risks.

This part of the project was not a financial audit. We did not evaluate the accuracy of reports, sample transactions, or test internal controls, but rather was an assessment of financial risks.

The financial projections below are based on the organization and operations plan as submitted in the proposed operating and capital budgets. They could change, depending on the results of the power generation master plan planned for 2017, and other potential City investment decisions such as Missouri City divestiture and AMI. The master plan will present alternatives for meeting IPL's SPP membership obligation for the next 20 years. The master plan should address several key questions, such as whether the City should continue to operate power generation capability or buy power from other organizations, what capital investment is needed to support long-term capacity, and what rate structure modifications are needed to fund the utility's future operations.

Once the master plan is completed, and other significant investments are contemplated, the financial model should be updated to reflect the identified costs, potential revenues, and rate implications.

Overview

The financial condition of IPL has been deteriorating in recent years as evidenced by several factors including negative cash flow and net income, declining cash balances, declining retained earnings, and smaller fixed cost coverage margins. The debt/equity ratio of approximately 47% does not present a problem for IPL now. (The Moody's Investor Service median for like size utilities is 55%.)

Without remedying the current financial condition, funding the projects currently under consideration with debt would increase IPL's debt/equity ratio and reduce the fixed coverage ratio which could be cause for future ratings concerns. The City should be cognizant of the potential impacts should debt financing be used for future projects without correcting the underlying financial condition. A debt/equity ratio above 60%, particularly if other metrics are not improved, could result in a negative impact on IPL's bond rating. Table 2 provides the year-end financial results for several of these key categories for the last four years.

Table 2. Year-End Financial Results (in the thousands)

Category	2013	2014	2015	2016
Net Income	(\$2,821)	\$339	(\$11,440)	(\$13,930)
Unrestricted Cash	\$33,549	\$43,274	\$38,202	\$18,825
Year End Equity	\$169,352	\$170,129	\$149,308	\$135,672
Fixed Cost Coverage Ratio	1.51x	1.48x	1.23x	1.10x
Debt/Equity Ratio	43.7%	42.7%	45.2%	46.9%

Net income has consistently been negative, cash and equity have been falling, and the fixed cost coverage ratio has been below the City's 1.3 times target and falling in recent years. The debt/equity ratio has been relatively constant, but with equity falling, added debt for new projects could easily push the ratio much higher.

IPL faces major decisions regarding investment in critical infrastructure to meet customer needs. Among these are an assessment of the Blue Valley Generating Facility to determine if further investment in the

facility is justifiable, or if it should be decommissioned and closed. Another is whether to invest in Advanced Metering Infrastructure (AMI) to remain competitive with surrounding utilities and gain operational and financial advantage of smart grid technology, and ongoing investment in transmission and distribution infrastructure to preserve the City's high reliability. A funding mechanism also needs to be determined to pay for the divestiture of the Missouri City Facility. Most important, reinvesting in the existing system and funding normal depreciation of that system is crucial to maintaining high reliability.

Our team reviewed IPL's most recent cost of service and rate design report. Our independent review of those conclusions and recommendations are included for the City's benefit. Additionally, Payment In Lieu Of Taxes (PILOT) practices compared with other regional publicly owned utilities, and industry standards are discussed.

We found that the tools employed by IPL for financial modeling and forecasting meet or exceed industry standards, and appear to be accurate in terms of their performance. Additionally, we found the IPL financial staff to be well qualified and current with industry standards pertaining to their roles and responsibilities. Staff displayed considerable knowledge of industry trends and practices, and were quite helpful and timely in providing us with information needed to conduct this analysis.

Data Input Considerations

Several key decisions will need to be considered by the City before a definitive financial plan can be adopted for IPL. As outlined in other areas of this report, these considerations include:

- Amount and funding source for Missouri City divestiture;
- Development of Master Resource Plan determining the future of the Blue Valley Generating Facility, and how future load will be supplied;
- Amount, timing and funding source for the implementation of AMI improvements, if any; and
- Impact of future cost of service and rate design changes.

Financial Planning Targets

In 2016, the City issued \$47,200,000 for the utility to fund infrastructure improvements to the electric system. The issue was rated "A" with a negative outlook by Standard and Poor's. The financial targets and

recommendations contained herein are designed to maintain this rating; however, it should be noted that the financial performance in recent years puts this rating in jeopardy. Hence the negative outlook.

Without a comprehensive financial plan to address the data inputs described above and how they will be funded, it is entirely possible that the rating will be lowered. Completion of these recommended studies, development of a comprehensive plan of finance, and efficient execution of the plan will be critically important to the ongoing financial stability of IPL.

IPL uses the following targets for financial planning purposes:

- Cash Reserve Policy (\$25,000,000)
- Fixed Cost Coverage (1.3x)

Both targets are appropriate for a utility the size of IPL, with a rating of "A." Other important factors that are considered and discussed in this report include:

- Net Income,
- Debt/Equity Ratio, and
- Overall System Equity.

Each of these are presented and discussed in the scenario analyses that were run.

Financial Analysis

For long-range financial planning, we suggested that IPL staff update their forecast model to show monthly results for the first two years, and annually for another three years. IPL's earlier model provided annual results for a five-year period. This enhancement, which has already been implemented, enables IPL to track monthly progress toward meeting the \$25 million cash target so it can react quicker should performance begin to slide. This provides a better margin of safety maintaining minimum cash amounts.

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

Several likely investments beyond the base case are in various stages of development. These include:

- Missouri City Divestiture,
- New Generation, and
- AMI.

To fund these investments it will be important for IPL to maintain the financial targets. Consistently negative net income, declining equity, below-target fixed cost ratios are not sustainable. A revenue increase over the five-year forecast horizon of approximately 15% (\$14.62 a month for the average residential customer) on existing base rates, or 12% (\$11.70 per month) on overall retail revenue, will be needed to minimally meet financial targets for the utility.

With annual base rate revenue of approximately \$109 million each one percentage change in the base rate equals about \$1.1 million in revenue. Current combined retail revenue, including the fuel cost adjustment (FCA) is approximately \$135 million per year. Assuming the base rate and FCA are combined as recommended later in this section and in an earlier rate design study, each percentage change in retail revenue equals about \$1.35 million.

Base Case

The base case forecast portrays the projected financial condition of IPL based on the FY 2017-18 budget as provided to Management Partners on February 22, 2017 including the proposed position reductions. This also includes the current capital improvement budget for the planned replacement, upgrades and maintenance projects to current facilities, exclusive of Missouri City divestiture, new generation, and AMI.

Table 3 provides the forecast results, which assume the proposed budgets with no other changes.

Table 3. Base Case Scenario Year-End Financial Results (in the thousands)

Category	2017	2018	2019	2020	2021
Net Income	(\$5,494)	(\$7,396)	(\$9,013)	(\$12,402)	(\$13,849)
Unrestricted Cash	\$52,541	\$55,246	\$51,665	\$46,215	\$41,123
Year End Equity	\$130,178	\$122,912	\$113,852	\$101,544	\$87,790
Fixed Cost Coverage Ratio	1.29x	1.28x	1.25x	1.16x	1.09x
Debt/Equity Ratio	55.7%	56.6%	57.8%	59.9%	62.7%
Revenue to Meet Coverage Target	\$408	\$759	\$1,630	\$5,104	\$5,213

The base case scenario will require increases in base rate revenue of approximately 15% phased in over the forecast period to maintain minimal net income and cash targets. This increase is necessary just to maintain operations, keep up with depreciation, and carry out already planned capital improvements. A 15% increase equates to approximately \$14.62 per month on the average residential bill, which increases the rate charge from \$97.50 to \$112.12 per month, not including the fuel adjustment charge. (It is important to note that this is the average charge, meaning approximately half of the customers will experience a higher cost and half a lower cost.)

At the direction of Management Partners/MBMC, IPL adjusted the model for the necessary rate increases over the forecast period to satisfy the financial targets needed to likely maintain IPL's current A rating. Table 4 provides the forecast results based on these increases.

Table 4. Financial Forecast with Required Rate Adjustments

Category	2017	2018	2019	2020	2021
Base Rate Increase	n/a	7.0%	3.0%	3.0%	2.0%
Net Income	\$(5,494)	\$(2,858)	\$1,093	\$1,068	\$1,992
Unrestricted Cash	\$52,541	\$59,785	\$66,298	\$74,329	\$85,079
Year End Equity	\$130,178	\$127,319	\$128,413	\$129,481	\$131,472
Fixed Cost Coverage Ratio	1.29x	1.41x	1.54x	1.54x	1.61x
Debt/Equity Ratio	55.69%	55.68%	54.86%	53.86%	52.81%
Revenue to Meet Coverage Target	\$408	n/a	n/a	n/a	n/a

The 2017 increase is forecast to start October 1, 2017. Subsequent years' increases are projected to start on July 1 of each year.

There are currently three potential projects above and beyond the base case that the City is considering. These include the divestiture of the Missouri City facility, possible implementation of AMI, and the potential development of new generation resources to offset Blue Valley plant retirements. We recommend the City correct IPL's underlying financial deficiencies before committing the utility to additional financial obligations.

Missouri City Divestiture

The Missouri City divestiture is the most fully developed of the three potential additional projects, and will likely require that \$8,990,000 be

placed in an escrow account to fund the project. An additional \$1,323,315 in plant and inventory will need to be recognized as a loss on plant and inventory.

At this time it is difficult to plan or predict revenues from a potential future Purchase Power Agreement (PPA) for solar farm output at the site after remediation, since it would be years before these benefits could be accrued, and the value is still uncertain. There could be potential future benefits beyond the forecast horizon if a PPA is successfully completed.

Advanced Metering Infrastructure

The City is also well advanced in the development of this project. It has received a number of proposals for the installation of AMI. It is anticipated that the City will proceed with implementation of the improvements since the feasibility study has shown overall net benefit for the project. Even though the project shows net benefits, the investment for IPL to implement the project is expected to include approximately \$17 million in bond proceeds and all-in cost of \$19.5 million over three years as proposed by BCA.

There is a reduction in expected meter reading and field service cost, and an increase in revenues for lower theft and bad debt expense totaling between \$1.5 and \$2.5 million per year. As previously described in the Base Case and Missouri City Divestiture, it is our recommendation that the financial condition of the utility first be stabilized. Implementation of AMI may require capital up front in order to ensure the cost savings of implementation.

Recommendation 18. Develop a plan to implement and fund Advanced Metering Infrastructure.

Once it is determined how best to handle securing the short-term financial stability of IPL (base case decisions), City leaders should plan for the funding and implementation of AMI. The project clearly has long-term benefits, but will require coordinated financial planning, particularly with the competing funding of Missouri City and potential new generation.

New Generation

Should the Master Resource Plan result in a recommendation to repower the Blue Valley plant, it is likely that the City will need upwards of \$100

million funding. Given IPL's current financial condition, this amount of debt is not sustainable at current rates. Attempting to borrow this large amount without correcting the underlying financial situation could prove to be difficult and costly, putting even more upward pressure on rates.

If this option is ultimately pursued, construction would occur in the 2018 through 2020 time period. As interest would probably be capitalized a significant portion of the cost would occur beyond this short-term presentation.

Recap

The financial analysis indicates that a series of rate increases totaling approximately 15% are needed over the forecast period just to maintain financial targets without consideration of Missouri City, AMI or new generation capacity. The base case rate increase could be phased in over a five-year period (as presented in Table 4). Adding any other projects will increase pressure in terms of meeting each of IPL's targets; however, one or more may be manageable if sufficient study and financial planning are coordinated with the need to protect IPL's overall financial condition, once the base case conditions are remedied.

Cost of Service and Rate Design

Management Partners and Michael Bell Management Consulting reviewed the Electric Cost of Service and Rate Design Report (Sawvel Report) produced by Sawvel and Associates dated May 29, 2015. The work product and conclusions contained in the Sawvel Report appears reasonable given IPL's financial results, and is consistent with industry practice for such analysis; however, it was based on data inputs and information from 2014, which is now dated.

It would be prudent for Independence to revisit both the cost of service and rate design components once the IPL Master Plan is completed and direction is clarified regarding future business options. It is likely that alternative rate options such as fixed charges, environmental or regulatory riders, and new rate options such as low income and economic development rates may make sense under a new business plan.

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

There were several findings and recommendations contained in the Sawvel Report with which we concur. It is our recommendation that the City revisit several items in the next study that is performed. The items that should be considered by Independence are:

- The existing rate structure, particularly residential, is out of date and should be simplified.
- Cross-class subsidies identified in the Sawvel Report should be addressed so that IPL can maintain rates that are fair, equitable, and competitive across all customer classes.

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

It is important to note that the Sawvel report specifies a methodology for structuring rates. The rates specified in that report will be outdated based on events that have occurred since the study was completed in 2015. Thus, it will be necessary to update the rates using the Sawvel report methodology when the master plan is completed and decisions have been made on Missouri City, AMI and new generation.

IPL currently has a fuel cost adjustment (FCA), which is designed to collect changes in fuel and purchased power cost. This is a good industry practice, and is a positive characteristic with the bond rating agencies as it allows for the administrative collection of variable fuel cost. The Sawvel Report recommended that the FCA be reset to zero and that those costs that have become fixed expenses be handled through the regular rate structure.

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

It is a good practice to periodically reset to zero as it is not a good practice to have the adjustment charge represent a significant portion of the customers' bill. Today, FCA revenues make up almost 20% of IPL's retail revenue, which is significant. Most utilities address this when they update rates, and/or when the charge hits a prescribed level such as one cent. When Sawvel made their recommendation to the City, they suggested moving 2.36 cents/KWh to the base rate.

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

One additional observation is that any payment in lieu of taxes (PILOT) is shown as part of the regular rate as opposed to a separate line item on customer bills. Although this is not an uncommon practice, many utilities, including several of IPL's neighbors, report these charges as separate line items on their bills. This tends to distort the rate relationship with regional utilities that do not include these costs in their base rates to IPL's disadvantage. Consequently, bill comparisons that do not include additional charges such as the PILOT, franchise fees, and local taxes can be misleading to local consumers. The Independence PILOT represents nearly 10% of the consumer's bill which is included in the base rate.

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

Financial Risk Assessment Recap

As a utility that must go to the capital markets for funding capital investments, IPL must meet certain financial standards for net income, unrestricted cash reserves, year-end equity, fixed cost coverage and debt to equity ratios to borrow at favorable rates. The financial analysis indicates that the current rate and rate structure will not meet financial standards that would achieve a favorable bond rating. The base case assessment indicates the need to increase base rates by approximately 15% (\$14.62 per month) to meet industry financial standards.

Organization Culture Analysis

Management Partners surveyed IPL employees to develop a profile of the IPL Department culture. Project team members also formed impressions of the culture from the individual interviews with the IPL management team. This section of the report presents the results of the employee survey enhanced by the information gathered during our interviews.

Employee Survey Results

This section provides a summary of the employee survey results. A total of 131 individuals responded to the survey which represents 55% of all employees and is a good response rate for employee surveys. Those employees with city email addresses were emailed a personal link to complete the survey and all other employees were offered a workstation at which they could complete the survey which was available to be taken between February 6, 2017 and February 21, 2017.

The survey asked respondents to agree or disagree with a series of statements about organizational culture, accountability and performance and training and equipment. Staff were also asked to respond to questions about their communication preferences within the department as well as indicate what they believe are the most important issues that should be addressed in this study.

Respondent Demographics

Respondents were not required to respond to the two demographic questions about what position they hold within the department and how long they have worked for the department, with eight of the respondents choosing not to answer the first question and seven choosing not to answer the second question. Table 5 details breakdown of respondents by position.

Table 5. Which of the following describes your position with IPL?

Answer Options	Response
Executive staff	6 (4.8%)
Supervisor	35 (28.2%)
Line staff	34 (27.4%)
Other	51 (41.1%)

As expected, because they represent the fewest number of employees, only 4.8% of respondents are executive staff, while 28.2% are supervisors and 27.4% are line staff. A plurality of respondents, 41.1%, described their position as something other than executive staff, supervisor, or line staff which could be due to respondents not wanting to identify their position yet still provide an answer to the question.

Table 6 shows the breakdown of respondents by years of service with the department. Slightly over half of the respondents (55.3%) have 10 or fewer years of service.

Table 6. How long have you been employed by IPL?

Answer Options	Response
Less than 1 year	6 (4.9%)
1 to 5 years	28 (22.8%)
6 to 10 years	34 (27.6%)
11 to 15 years	14 (11.4%)
16 to 20 years	19 (15.4%)
21 to 25 years	5 (4.1%)
26 to 30 years	5 (4.1%)
Over 30 years	12 (9.8%)

Organizational Culture

Respondents were presented with 20 statements related to organizational culture and were asked to indicate their agreement with the statements using the following scale: "Strongly Agree," "Agree," "Disagree," "Strongly Disagree," or "Don't Know." For Tables 10, 12, and 13 the percentages shown for those that selected "Don't Know" are derived using the total number of respondents but these respondents are excluded in the percentages shown for those that agreed or disagreed

with the statements. Table 7 shows the results of responses to statements about organizational culture.

Table 7. Organizational Culture

Answer Options	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
	Strongly Agree / Agree		Strongly Disagree / Disagree		
1. Teamwork within the Independence Power and Light Department is good.	14 (11%)	48 (38%)	46 (36%)	19 (15%)	3 (2%)
	62 (49%)		65 (51%)		
2. Morale within the Independence Power and Light Department is good.	9 (7%)	33 (26%)	48 (37%)	39 (30%)	0 (0%)
	42 (33%)		87 (67%)		
3. I trust the executive staff (director, deputy director).	18 (15%)	44 (37%)	28 (23%)	30 (25%)	9 (7%)
	62 (52%)		58 (48%)		
4. I trust my immediate supervisor.	58 (44%)	44 (34%)	16 (12%)	13 (10%)	0 (0%)
	102 (78%)		29 (22%)		
5. I trust my co-workers.	45 (35%)	58 (45%)	20 (16%)	6 (5%)	1 (1%)
	103 (80%)		26 (20%)		
6. Department executive staff demonstrate high standards of professionalism.	14 (11%)	41 (33%)	37 (29%)	34 (27%)	4 (3%)
	55 (44%)		71 (56%)		
7. Department executive staff inspire respect.	11 (9%)	32 (26%)	42 (35%)	36 (30%)	8 (6%)
	43 (36%)		78 (64%)		
8. Department executive staff inspire me to do a good job.	14 (12%)	37 (31%)	39 (33%)	29 (24%)	8 (6%)
	51 (43%)		68 (57%)		
9. Department executive staff members are accessible.	15 (12%)	57 (46%)	28 (23%)	24 (19%)	3 (2%)
	72 (58%)		52 (42%)		
10. Department executive staff treat department members respectfully.	15 (12%)	53 (43%)	27 (22%)	27 (22%)	7 (5%)
	68 (56%)		54 (44%)		
11. Supervisors demonstrate high standards of professionalism.	20 (16%)	59 (47%)	33 (26%)	13 (10%)	2 (2%)
	79 (63%)		46 (37%)		
12. Supervisors treat department members respectfully.	24 (19%)	70 (55%)	21 (17%)	12 (9%)	1 (1%)
	94 (74%)		33 (26%)		
13. Employees are empowered to make decisions.	15 (12%)	57 (45%)	38 (30%)	18 (14%)	2 (2%)
	72 (56%)		56 (44%)		
14. Employees can raise concerns about policy violations without fear of retaliation.	12 (10%)	33 (28%)	39 (33%)	33 (28%)	11 (9%)
	45 (38%)		72 (62%)		
15. The department handles accusations of harassment in a timely manner	8 (10%)	33 (40%)	23 (28%)	19 (23%)	46 (36%)
	41 (49%)		42 (51%)		

Answer Options	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
	Strongly Agree / Agree		Strongly Disagree / Disagree		
16. The department handles accusations of harassment fairly.	9 (11%)	26 (31%)	23 (27%)	27 (32%)	45 (35%)
	35 (41%)		50 (59%)		
17. The department handles accusations of discrimination in a timely manner.	8 (11%)	28 (37%)	22 (29%)	17 (23%)	55 (42%)
	36 (48%)		39 (52%)		
18. The department handles accusations of discrimination fairly.	7 (9%)	24 (32%)	23 (31%)	20 (27%)	56 (43%)
	31 (42%)		43 (58%)		
19. I look forward to coming to work on my scheduled work days.	26 (20%)	61 (47%)	25 (19%)	19 (15%)	0 (0%)
	87 (66%)		44 (34%)		
20. I would recommend the Independence Power and Light Department as a good employer.	24 (19%)	63 (49%)	24 (19%)	18 (14%)	2 (2%)
	87 (67%)		42 (33%)		

Only one-third of all respondents strongly agree or agree with the statement that morale within IPL is good and just less than half, 49%, agree that teamwork within IPL is good. Four in five, or 80%, of respondents agree or strongly agree that they trust their coworkers, 78% trust their immediate supervisor, but only 52% trust the executive staff. Bolstering the disparity in the trust level of executive staff, only 44% of respondents agree or strongly agree that executive staff demonstrate high levels of professionalism, 43% agree that executive staff inspire them to do a good job, and even fewer, 36%, agree that executive staff inspire respect. However, more than half of respondents agree or strongly agree that executive staff treat employees with respect (56%) and that executive staff are accessible (58%).

While respondents have somewhat negative feelings regarding executive staff, those feelings are not present when asked about their immediate supervisors. Nearly two-thirds, 63%, of respondents agree that supervisors demonstrate high standards of professionalism and a greater number of respondents, 74%, agree that supervisors treat employees respectfully. More than half of respondents, 56%, agree or strongly agree that employees are empowered to make decisions.

The fear of retaliation within IPL is high among respondents. Only 38% of respondents agree or strongly agree with the statement, "Employees can raise concerns about policy violations without fear of retaliation." Furthermore, less than half of respondents agree or strongly agree that accusations of harassment are handled in a timely manner (49%) or fairly (41%) and that accusations of discrimination are handled in a timely

manner (48%) or fairly (42%). These results suggest that it would be appropriate for the City's Human Resources Department to conduct a comprehensive review of IPL policies and procedures for handling complaints of harassment and discrimination to ensure they comport with best practice.

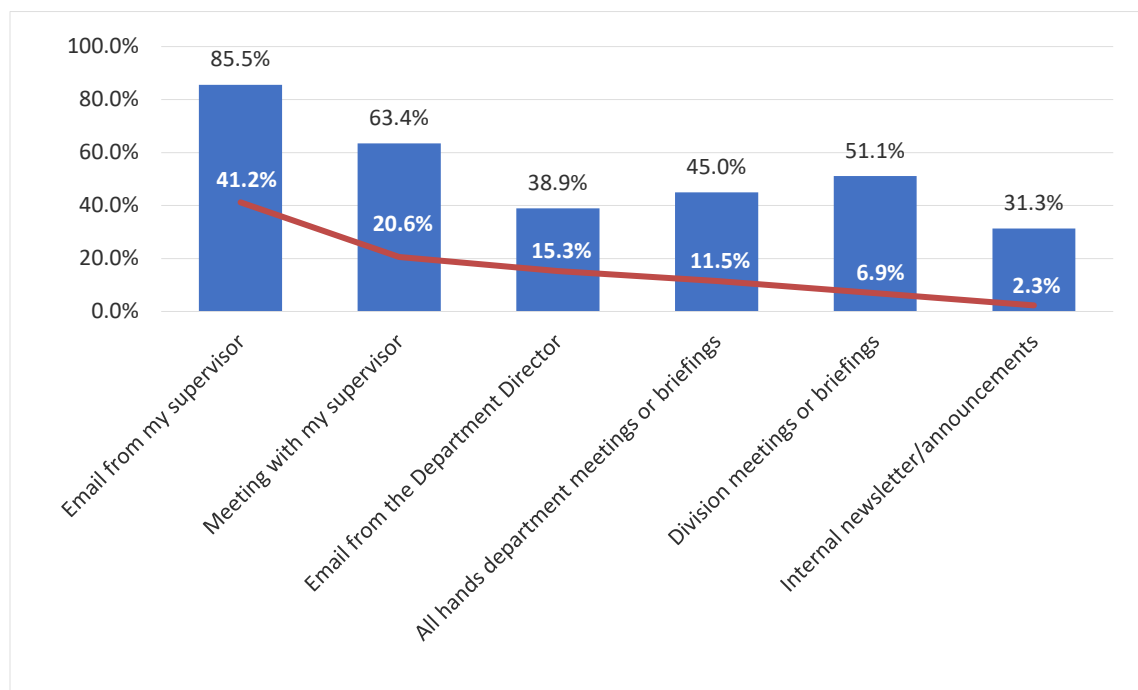
Recommendation 24. Conduct a comprehensive review of IPL policies and procedures for handling complaints of harassment and discrimination to ensure they comport with best practice.

Though the above responses indicate specific areas of concern among employees, most respondents, 66%, look forward to coming into work and 67% would recommend IPL as a good employer.

Communication

Respondents were asked to identify the methods of communication currently used to deploy information to staff as well as those methods of communication which they would prefer to be used to receive information. Figure 8 shows the results of those questions, with the bars showing the communication methods currently used and the line indicating methods staff prefer.

Figure 8. Current Communications Methods and Preferences



As the figure shows, a plurality of respondents, 41.2%, prefer emails from their supervisors to receive information with 85.5% of respondents indicating that method is currently used most often. The next most preferred method of communication is meetings with supervisors, which is currently the second most used method of communication with 63.4% of respondents indicating they receive information in that manner. While 51.1% of respondents indicated they receive information currently through division meetings or briefings, only 6.9% prefer that as a method of communication and even fewer, 2.3% prefer newsletters/announcements but 31.3% indicated that is a method through which they receive information.

Respondents were also asked to identify any information they do not currently receive that they would like to. Table 8 shows a summary of the major themes from the 58 responses received to this question.

Table 8. What information would you like to receive that you are not already getting?

Categories	Percent of Responses
Plans for the Future of IPL	51%
Directives from City Administration	9%
Budgetary Information	9%
Other	9%
Project Schedules	6%

Over half of the respondents to this open-ended prompt indicated that they want more information about future plans for IPL in terms of strategic planning and growth of infrastructure. Respondents do not feel as though they are kept apprised of the direction of the utility.

Accountability and Performance

Table 9 details the 18 statements about accountability and performance and the respondents' level of agreement with each statement.

Table 9. Accountability and Performance

Answer Options	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
	Strongly Agree / Agree		Strongly Disagree / Disagree		
1. Executive staff are held accountable for their actions.	6 (6%)	23 (23%)	34 (33%)	39 (38%)	27 (21%)
	29 (28%)		73 (72%)		
2. Supervisory staff are held accountable for their actions.	15 (13%)	54 (47%)	27 (23%)	19 (17%)	14 (11%)
	69 (60%)		46 (40%)		
3. Line staff are held accountable for their actions.	14 (13%)	70 (63%)	18 (16%)	10 (9%)	18 (14%)
	84 (75%)		28 (25%)		
4. Discipline is imposed fairly.	7 (7%)	22 (21%)	43 (41%)	33 (31%)	24 (19%)
	29 (28%)		76 (72%)		
5. Discipline is imposed consistently.	6 (6%)	17 (16%)	43 (41%)	38 (37%)	24 (19%)
	23 (22%)		81 (78%)		
6. Department policies and procedures are clear.	11 (9%)	65 (51%)	35 (27%)	17 (13%)	2 (2%)
	76 (59%)		52 (41%)		
7. Department policies support accountability.	9 (7%)	65 (52%)	36 (29%)	15 (12%)	5 (4%)
	74 (59%)		51 (41%)		
8. Department executive staff emphasize the importance of following department policies and procedures.	13 (11%)	61 (50%)	28 (23%)	19 (16%)	9 (7%)
	74 (61%)		47 (39%)		
9. Policies are enforced consistently by the executive staff.	5 (4%)	29 (25%)	50 (44%)	30 (26%)	15 (12%)
	34 (30%)		80 (70%)		
10. Policies are enforced consistently by my supervisor.	27 (22%)	62 (50%)	20 (16%)	15 (12%)	6 (5%)
	89 (72%)		35 (28%)		
11. There are consequences for not following department policies and procedures.	14 (12%)	56 (47%)	31 (26%)	18 (15%)	10 (8%)
	70 (59%)		49 (41%)		
12. I am concerned about favoritism in the department.	61 (50%)	28 (23%)	17 (14%)	17 (14%)	7 (5%)
	89 (72%)		34 (28%)		
13. I understand what is expected of me in my day-to-day duties.	47 (36%)	70 (54%)	10 (8%)	3 (2%)	0 (0%)
	117 (90%)		13 (10%)		
14. My performance is evaluated at least once a year.	33 (26%)	45 (36%)	30 (24%)	17 (14%)	5 (4%)
	78 (62%)		47 (38%)		
15. I have a good understanding of my performance based on feedback from my supervisor.	40 (31%)	54 (42%)	20 (16%)	14 (11%)	2 (2%)
	94 (73%)		34 (27%)		

Answer Options	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
	Strongly Agree / Agree		Strongly Disagree / Disagree		
16. My performance evaluations provide constructive feedback for my professional development.	25 (22%)	49 (43%)	23 (20%)	18 (16%)	15 (12%)
	74 (64%)		41 (36%)		
17. My supervisor provides me with clear goals that allow me to improve my performance.	27 (22%)	47 (39%)	28 (23%)	19 (16%)	9 (7%)
	74 (61%)		47 (39%)		
18. Quality performance is recognized and rewarded.	13 (11%)	30 (25%)	41 (34%)	37 (31%)	9 (7%)
	43 (36%)		78 (64%)		

Respondents agree or strongly agree that line staff (75%) and supervisors (60%) are held accountable for their actions, but only 28% believe that executive staff are held accountable for their actions. Similar to results from the organization culture statements, only 28% of respondents agree that discipline is imposed fairly and fewer, 22%, agree that discipline is imposed consistently. This result suggests the need for a comprehensive review of IPL disciplinary policies and practices to assure they comport to best practice.

Recommendation 25. Conduct a comprehensive review of IPL discipline policies and practices to ensure they comport with best practice.

Department policies are well understood by respondents with 59% indicating they agree that the policies are clear and that they support accountability with 61% agreeing that executive staff emphasize the importance of following department policies. However, only 30% of respondents agree that policies are enforced consistently by executive staff while nearly three-quarters of the respondents, 72%, agree that policies are enforced consistently by their supervisor, though more than half, 59% do agree or strongly agree that there are consequences for not following department policies. There is a widely held belief in the department that favoritism exists, with 72% of respondents agreeing with the statement "I am concerned about favoritism in the department."

The perception that policy is not enforced consistently by executive staff and the concern about favoritism suggest it would be prudent to further investigate these areas of concern. There is a need to determine specifics undergirding these widely held perceptions and develop approaches to changing any realities discovered regarding these issues. City leaders should engage an independent third party with human relations skills to

conduct additional interventions with IPL staff to get to the core of these issues and prescribe appropriate solutions.

Recommendation 26. Engage an appropriate agency to comprehensively analyze perceptions of inconsistent policy enforcement and favoritism and suggest appropriate solutions.

Nearly all respondents, 90%, agree that they understand what is expected of them at work. Almost two-thirds of respondents, 62%, agree that their performance is evaluated at least once per year, 73% agree that they have a good understanding of their performance based on supervisor feedback, 64% agree that performance evaluations provide constructive feedback for professional development, and 61% agree that their supervisor provides clear goals. However, only 36% of respondents agree or strongly agree that quality performance is recognized and rewarded.

Training and Equipment

Table 10 details the responses to 11 statements about training and equipment.

Table 10. Training and Equipment

Answer Options	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
	Strongly Agree / Agree		Strongly Disagree / Disagree		
1. My take-home vehicle is well maintained.	4 (25%)	8 (50%)	2 (13%)	2 (13%)	112 (88%)
	12 (75%)		4 (25%)		
2. The department provides appropriate personal safety gear.	23 (23%)	51 (52%)	15 (15%)	10 (10%)	29 (23%)
	74 (75%)		25 (25%)		
3. The department provides appropriate operational support equipment.	17 (16%)	56 (53%)	22 (21%)	11 (10%)	20 (16%)
	73 (69%)		33 (31%)		
4. I have all the equipment I need to perform my duties.	25 (20%)	70 (56%)	18 (14%)	12 (10%)	3 (2%)
	95 (76%)		30 (24%)		
5. The department provides appropriate training.	19 (16%)	64 (52%)	25 (20%)	14 (11%)	6 (5%)
	83 (68%)		39 (32%)		
6. The department provides high quality training.	17 (14%)	57 (48%)	28 (24%)	16 (14%)	10 (8%)
	74 (63%)		44 (37%)		
7. Skills acquired during training are implemented in practice.	19 (17%)	67 (58%)	19 (17%)	10 (9%)	13 (10%)
	86 (75%)		29 (25%)		

Answer Options	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
	Strongly Agree / Agree		Strongly Disagree / Disagree		
8. My training requests of supervisory staff are fairly evaluated.	16 (15%)	61 (58%)	17 (16%)	11 (10%)	23 (18%)
	77 (73%)		28 (27%)		
9. My training requests of supervisory staff are processed in a timely manner.	16 (15%)	57 (54%)	21 (20%)	11 (10%)	23 (18%)
	73 (70%)		32 (30%)		
10. Training for new employees is effective.	12 (11%)	51 (48%)	26 (24%)	18 (17%)	21 (16%)
	63 (59%)		44 (41%)		
11. I am able to obtain the skills I need to compete for promotional opportunities.	14 (14%)	47 (47%)	19 (19%)	21 (21%)	27 (21%)
	61 (60%)		40 (40%)		

Respondents are generally pleased with the equipment they use to do their work and the training they receive. Of the 16 respondents with take-home vehicles, 75% agree that it is well maintained. Respondents agree that the department provides appropriate personal safety gear (75%), operational support equipment (69%), and that they have all the equipment they need to perform their duties (76%).

Statements about training also received high marks from respondents with 68% agreeing that the department provides appropriate training and 63% agreeing the department provides high quality training. Three-quarters of respondents agree that the skills acquired during training are implemented in practice. Training requests are evaluated fairly by supervisory staff according to 73% of respondents and 70% agree that training requests are processed in a timely manner. Over half of respondents, 59%, agree that training for new employees is effective and 60% agree with the statement "I am able to obtain the skills I need to compete for promotional opportunities."

The employee survey identified a number of specific training areas that respondents would like to have offered. These are detailed in Table 11, with management training, consistency in training, and technology training mentioned most often by the 52 respondents who offered an answer.

Table 11. What types of training would you like to have that are not currently offered

Categories	Percent of Responses
Management Training	18%
Consistent/Qualified Training	18%
Technology Training	16%

Categories	Percent of Responses
Safety Training	9%
Hands-On Training	9%

Employee Survey Recap

The employee survey had a 55% participation rate, a very high level for such a survey. The high participation rate suggests an employee base committed to IPL as an organization. This is verified by nearly two-thirds of the respondents indicating that they look forward to coming to work as scheduled and that they would recommend IPL as a good employer.

The survey revealed an organization culture issue that must be addressed going forward. Based on survey results, trust in IPL leaders is low. This low trust level contrasts to a high trust level of immediate supervisors and of fellow workers.

Specifically, trust in leaders is low due to showing favoritism, and uneven and inconsistent discipline. Fear of retaliation is high while a majority of respondents indicated they do not feel that leaders model a high degree of professionalism, inspire respect nor inspire them to do a good job. It is apparent that City senior managers must direct IPL leaders to develop a corrective action plan to deal with the issues identified by the survey. The corrective action plan must define what success looks like and include milestones for measuring progress toward improvement.

Recommendation 27. Require IPL leaders to develop a corrective action plan that addresses the issues identified in the employee survey.

It is possible that IPL leaders would benefit from assistance in developing a corrective action plan. If needed and desired, IPL leaders should be provided with appropriate executive coaching as the plan is developed and while it is being implemented.

Recommendation 28. Provide executive coaching to IPL leaders if needed and desired.

Respondents indicated by significant majorities a high level of satisfaction with training and equipment provided by IPL.

In short, IPL and City leaders need to examine the results of the employee survey and develop strategies for addressing the issues identified.

Conclusion

IPL is approaching a crossroad. It must develop a plan to replace 190 MW of generation capacity that is approaching end of useful life and is already largely uneconomical to produce. It is critical that the City proceed expeditiously to develop a plan since some alternatives for power replacement have long lead times to accomplish.

The current rates need an adjustment of 15% to maintain IPL's current financial targets and maintain its bond rating. When costs related to divesting the Missouri City plant and building new IPL-owned generating capacity are considered, the impact on rates may be even greater.

The City needs to make several adjustments to the structure of its rates:

- Simplify the structure by reducing the number of classes,
- Eliminate cross-subsidies among classes,
- Reset the fuel cost adjustment to zero now and periodically in the future, and
- Account for and itemize the payment in lieu of taxes component of the bill separately.

IPL should develop an implementation plan for advanced metering infrastructure as it appears that this investment will not have a significant impact on rates and could lead to future savings and more efficient daily system management.

This study identifies several positions that have been vacant for years. A number of these positions have been eliminated in the proposed budget for a savings of approximately \$1.1 million a year. This savings is accounted for in the financial risk assessment.

IPL should also acquire software programs that will improve inventory control and meter reading scheduling. Merging the Meter Reading Unit and the Utility Field Services Unit will reduce costs and allow for creation of a formal career ladder. Loss control protocols, policies, and programs

should be developed to reduce cost, enhance revenue, create transparency, and reduce the potential for corruption.

The organizational culture has significant leadership issues that need to be acknowledged and addressed.

Attachment A – List of Recommendations

- Recommendation 1.** Eliminate nine vacant positions in the Power Production Division as specified.
- 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 audit 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 to implement and fund 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 adjustment cost to zero and incorporate fixed costs into the regular rate structure.

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

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

Recommendation 24. Conduct a comprehensive review of IPL policies and procedures for handling complaints of harassment and discrimination to ensure they comport with best practice.

Recommendation 25. Conduct a comprehensive review of IPL discipline policies and practices to ensure they comport with best practice.

Recommendation 26. Engage an appropriate agency to comprehensively analyze perceptions of inconsistent policy enforcement and favoritism and suggest appropriate solutions.

Recommendation 27. Require IPL leaders to develop a corrective action plan that addresses the issues identified in the employee survey.

Recommendation 28. Provide executive coaching to IPL leaders if needed and desired.