

Independence Power & Light

Financial and Management Assessment

Management
Partners



MB  MC

MICHAEL BELL MANAGEMENT CONSULTING

Background

- Independence Power & Light (IPL) generating capacity is within five years of end of useful life, and is expensive to maintain and operate
- IPL must provide 360 MW of capacity to Southwest Power Pool for reliability purposes
- Because of the condition of the facilities, only 3% of power sold to customers is generated by IPL
- IPL must decide how to replace 160 MW of aging, uncompetitive generating capacity

Background

- IPL's bond rating has been downgraded to A-
- IPL has experienced negative cash flow and negative net income, declining cash balances, declining retained earnings, and smaller fixed cost coverage margins

Background

- Rate structure does not comport to industry best practice
- Current financial trajectory is not sustainable
- Potential projects could add significant cost and financial obligations beyond current operations
 - Missouri City
 - AMI
 - New Generation
- Current organization plan and staffing must be conformed to strategic plan outcome
- Employee survey indicates significant organization culture issues

Financial Assessment

Financial condition has deteriorated

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%

(Shown in thousands of dollars)

Financial Assessment

Current financial trajectory is not sustainable

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

(Shown in thousands of dollars)

Financial Assessment

IPL must increase rates by 15% over the next four years in order to meet its financial targets and maintain a low cost of capital

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

(Shown in thousands of dollars)

Financial Assessment

- Update the cost of service and rate design study upon completion of the Master Plan

Management Assessment

- Eliminate nine vacant positions in the power production division
- Hold new vacant positions in the power production division vacant until completion of the Master Plan
- Eliminate a vacant energy application specialist position in the Customer Programs unit
- Merge the Field Services Unit and the Meter Reading Unit resulting in the elimination of a vacant assistant meter reading supervisor position

Management Assessment

- Reassign the four North American Electric Reliability Corporation (NERC) compliance positions to report directly to the IPL department director
- Purchase and install the inventory control module during the initial installation of the City Works system
- Purchase and install meter reading scheduling software
- Study the advantages and disadvantages of consolidating all City of Independence fleet operations

Management Assessment

- Adopt an explicit policy for handling non-payment of bills, including turn-offs, discounts, payment plans and forgiveness
- Implement a diversion detection program
- Develop an explicit policy for handling detected diversions
- Develop and implement a protocol for better control and accountability for IPL tools
- Develop an IPL succession plan upon completion of the Master Plan

Employee Survey Concerns

- Only 33% of IPL employees responding feel morale is good
- Various issues with IPL senior leadership
 - Nearly two-thirds of respondents fear retaliation for reporting policy violations
 - Less than half of respondents feel that accusations of harassment or discrimination are handled timely and fairly
 - Low level of respect for department leadership

Thank You

Questions?