



Phase 1 Report Highlights Utility Operations Management Services

August 7th, 2020

DKMT
Consulting LLC

Who we are

- Team of experienced utility professionals who have worked together on various previous engagements
- Consulting experience inside and outside of the municipal electric industry brings a broad perspective to addressing Independence Power and Light's (IPL) challenges
- Pride ourselves on working collaboratively with clients to identify challenges, address issues and realize opportunities
- We would like to thank all the IPL and City personnel who participated in the interview process and shared their insights and concerns with our team
- We found the IPL staff to be highly professional, knowledgeable, and eager to address the challenges facing the organization

Our Approach

- Through the structured interview process we conducted a gap analysis and assessment of the organization's internal ability to close the gaps or recommended external resources to address gaps
- Gap analysis prioritized issues that need to be addressed short term and over a 5-year+ horizon
- Key components of our approach included two additional items that are critical to continued success for IPL
 - Alignment with key stakeholders (the City, the customers, Council, PUAB, and the employees)
 - Ability of IPL management and staff to implement and maintain improvements

Goals and Outcomes of Engagement



This engagement could last anywhere from 6 to 24 months. At the end of that time, what does success look like?

- IPL will have a clear and concise 5-year strategy to address immediate and longer-term issues that is aligned with its stakeholders
- IPL will have a detailed prioritized gap analysis and action plan to address each gap
- IPL will have knowledge of its technology limitations and recommendations to address them
- IPL has an engaged staff that is fully supportive and enthusiastic about the initiatives and meeting the objective of IPL
- A detail communication plan will be developed to support the City's public relations efforts
- IPL will be seen as a trustworthy, transparent and progressive utility by its customers and owners.

Phase I High Level Review



- Using our structured interview process and standard operating model, our team conducted a high-level review of IPL operations and identified challenges and opportunities in the following areas.
 - Administration
 - Asset Management
 - Business Operations
 - Construction
 - Customer Service
 - Environmental
 - Generation
 - Information Technology
 - Operations
 - Project and Contractor Management
 - Quality Assurance
 - Work Management and Maintenance

Phase I High Level Review



- We used the following scoring system in our review.

Red

Represents a significant area of risk that requires direct action and senior management attention. Management should be directly made aware of the higher risk of these issues and their potential impact on IPL. The condition(s) requires improvement with more than usual management involvement and monitoring until the higher risk is mitigated. A formal management action plan should be developed, and at least some of the countermeasure actions should be considered a “high” priority item. Progress should be reported through enhanced reporting processes.

Yellow

Represents a moderate area of risk that requires management action. Management should develop appropriate countermeasures to remediate the risk and improve the overall functional or control environment. Management action plans should identify countermeasures that would be considered a “medium” priority and be tracked through normal reporting processes.

Green

Represents a lower risk area that is unlikely to result in moderate or significant impacts to the IPL. Management should develop countermeasures OR accept the risk with the formal approval of senior management. Action plan to remediate the identified risks would likely be considered normal management activities and tracked through normal reporting processes.

Phase I High Level Review Results



Review Area	Urgency		
	Short Term Risk	Medium Term Risk	Long Term Risk
	0- 3 years	3- 6 years	> 6 years
Administration	Red	Yellow	Green
Asset Management	Red	Yellow	Green
Business Operations	Red	Yellow	Green
Construction	Yellow	Green	Green
Customer Service	Yellow	Green	Green
Environmental	Green	Green	Green
Generation	Yellow	Yellow	Yellow
Information Technology	Yellow	Green	Green
Operations	Yellow	Yellow	Yellow
Project and Contractor Management	Yellow	Green	Green
Quality Assurance	Yellow	Green	Green
Work Management and Maintenance	Yellow	Green	Green

Phase I High Level Review Results



- In the interest of time and desire to maximize Q&A, this presentation and proposed expansion in contract Scope of Work focuses on the three areas with Red Evaluations
- Numerous other recommendations have been made throughout the report that we expect to be part of Q&A

Administration

- The city is missing an opportunity to leverage the value of IPL without the focus of a unified strategic plan that articulates a set of near term and long terms goals that could include economic development, power supply and rates.
- Due to a lack of formal policies and procedures, IPL may not be taking advantage of best practices and achieving optimum operating results. Employees currently rely on institutional knowledge which puts the organization at risk when experienced workers leave. Consistency in performing tasks is compromised and continuous improvement against baseline processes is precluded.
- Accurate consistent data can inform key decisions, strategies, and identify opportunities. Without a data driven culture PUAB, City and Council may not have the information that is consistent and of the quality to be comparable to other utilities which facilitates objective transparent decision making.

Administration-Recommendations



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- Develop an integrated IPL Strategic Plan collaboratively with the Council, City Administration, and PUAB.
- FERC accounting and accurate reliability reporting need to be implemented to facilitate the development of meaningful performance measures, align IPL processes with standard industry benchmarks, and provide straightforward comparisons.
- Create Standard Operating Procedures and train staff in their use.
- Develop a robust communication strategy with all stakeholders.
- To enhance operations, better leverage IPL and City staff skills, and gain efficiencies, IPL needs increased HR support. This will be critical for any reorganization, working with union contracts, and guiding cultural change.

Asset Management

- Lack of a formal Asset Management program promotes ad hoc asset condition monitoring, thwarts systematic plans for replacement, and prevents linkage with the Capital Improvement Budget.
- Lack of structured condition monitoring, reliability centered, or preventive maintenance programs contribute to unknown or uncertain asset conditions.
- Lack of critical asset information can lead to inventory shortages of critical spares and prolonged outages.

Asset Management-Recommendations

- Develop a priority list in Citiworks of critical assets. Consider tying these assets to areas important to IPL performance such as:
 - Safety
 - Regulatory compliance
 - System reliability
 - Cost improvement
 - Customer Service
- Conduct a risk analysis for the identified priority assets.
- Implement a Condition Monitoring Program.
- Link the Asset Management Program to the Budgeting Process.

Business Operations

- The budget process could be improved with more transparency in the calculation of labor, overtime, and allocated City services. IPL managers should have the opportunity to provide input to reduce the confusion and distrust regarding the cost to operate IPL. Areas of opportunity include:
 - Ensuring the Budgeting process considers IPL 24/7 operations and work rules in union agreements
 - Documenting and reviewing the methodology for Shared Services charges to ensure transparency and avoid FERC disallowances in settlement of reimbursable costs from participation in the Southwest Power Pool
 - Actions to improve financial reporting are needed, but additional staffing is also needed for IPL accounting requirements
- Power purchase agreements appear to be unmonitored due to personnel retirements potentially resulting in contract violations or incorrect charges to IPL.

Business Operations- Recommendations

- Map FERC accounts and add an IPL dedicated accounting resource.
- Document and periodically review allocation methodologies.
- Formally delineate responsibilities between City and IPL accounting staff.
- Increase transparency around capital improvement program (CIP) budgeting and implement sunset provisions for cancelled or delayed projects.
- Redesign targeted financial reports to improve quality and usefulness for all stakeholders.
- Increase skills and competency of all staff to better monitor PPA agreements.
- Tie the budgeting process to work rule provisions in labor agreements.

Next Steps Phase II

Our Phase I report provided estimated levels of effort (LOE) to address various challenges. Phase II would be supporting IPL address some of the more urgent challenges. We propose:

- Supporting IPL and the City of Independence in developing a unified Strategic Plan. We would use a combination of remote and in-person meetings depending on the COVID situation and City policies around meetings. Estimated LOE including the travel is \$87K (275 hrs.)
- Supporting IPL and the City improve its FERC accounting and financial reporting. This would be done remotely. Estimated LOE \$68K (244 hrs.)
- Supporting IPL improve its OMS Reliability reporting. This would determine where the breakdown is in the current process for SAIDI, SAIFI CAIDI etc. reporting and outline a new process with training for the staff. Estimated LOE \$26K (80 hrs.). Performed remotely.
- Supporting IPL in the development of a formal Asset Management Process. Working in parallel with the FERC accounting and OMS reliability efforts we would develop a process for condition monitoring, asset investment prioritization, and link results to the capital improvement budget. Estimated LOE \$58K (176 hrs.). Performed remotely.