

Operational Review FY 2010 4th Quarter

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The IMU Board of Trustees annually adopts a Strategic Plan complete with service objectives, operating strategies, and annual goals.

The following summary provides a brief review of the various departmental activities and accomplishments in FY 2010.

In general, the following definitions apply:

Past Period: 4th quarter report of the prior fiscal year unless otherwise stated

Present:

1st & 2nd Quarters are budgeted amounts or planned activities

3rd Quarter are re-estimated budget amounts and planned activities

4th Quarter is actual results compared to re-estimated budget amounts & planned activities

Outlook: Remainder of fiscal year, next fiscal year, or beyond as stated

- **Change in Status.** The section of this report is a summary of those areas that have seen a major change in status from the previous quarterly report.

Exceeding last quarter's expectations:

- **Electric Utility: Capital Expenditures** – The bidding environment, material costs, and financing costs were all highly favorable for the underground conversion and Westside Substation projects. Favorable O&M performance should allow the utility to complete smaller major line replacements in the coming year where lines are failing.
- **Telecom Utility: Take Rate** – Good progress on selling service and installing service extensions; excess O&M revenue has been reinvested in new services that will generate future positive cash flow
- **Telecom Utility: Capital Expenditures** – Bond proceeds are unexpectedly available in FY2011 to greatly expand retail service
- **Electric Utility: Transmission** – MISO transition not as expensive as budgeted; uncertain about if this will continue in the future since it is market-rate based
- **Electric Utility: Substations / 69kV system** – New tie with CICPO at the IMU Westside Substation negotiated and line under construction; power flows should reduce MISO transmission expenses during congested periods
- **Metering: (both Electric & Water)** – Implemented new electronic work order system to identify and resolve issues; continuing to install radio read system; Water Utility will begin accessing work orders using a laptop once GIS issues are resolved
- **Management: Industry Participation** – GM selected for MEAN Power Supply & Finance committees, GM selected for MMTG Board of Directors, Tech Svcs. Director nominated for ICAAP loss prevention committee and chairing IAMU apprenticeship program, Program Coord. participating in industry events
- **Management: Bond Rating** – Received upgraded bond ratings from S&P and Moody's as part of 2010 revenue bond issuance. Outlook stable even with planned future debt.
- **Professional Services: Benefit Coverage & Cost** – Health insurance reserves near maximum annual exposure + run out due to lower than expected utilization; reserve levels should neutralize potential effects of IPERS and near-term federal legislation impacts in FY 2011 and FY 2012.
- **Professional Services: Employment Policies** – City & IMU manuals now merged, updated, and adopted.
- **Fiduciary Controls: Accounting Systems** – New computer system providing more detailed information and in a more efficient manner; improved utility billing and aging of A/R process; still more to learn to maximize the investment and additional modules to be implemented
- **Fiduciary Controls: Audited Financial Statements** – Audit for prior FY received and current FY scheduled. FY 2011 quarterly compilation reports should improve report timeliness and more effective financial management

Deterioration in expectations compared to last quarter:

- **Water Utility: Capital Expenditures** – Interior deterioration of the Simpson Water Tower was worse than expected after the tank dried out, resulting in a significant change order
- **Electric Utility: Capacity Marketing** – Excess capacity within the MISO region due to the recession makes near-term sales above MEAN contract (15MW) unlikely
- **Electric Utility: Generation Capability** – New EPA regs will affect downtown plant between now and 2013; will result in either new capital expenses, changes to capacity contracts, or reduced total annual generation allowed
- **Technical & Programming/Mapping: Software/GIS Committee** – A combination of turnover at Warren Co. and a system upgrade severely limited access this quarter; no major accomplishments
- **Professional Services: Regulatory Compliance** – New federal health care legislation will require changes to plan design once regulations are issued. New regulations typically result in increased complexity to administer plans.
- **Professional Services: Compensation Structure** – Continued use of the City of Indianola's CE salary structure may be difficult if city budget conditions deteriorate due to voluntary property tax rate limitations imposed by the City Council the past few years and limited growth in the property tax base. IMU growth plans depend on management staff enthusiastically meeting challenges and professional growth that exceeds that of most other municipal departments. Also, Trustees have expressed that the CE table may not be adequate.
- **Fiduciary Controls: Policy & Controls** – Staff experience levels monitoring internal financial control systems will cause concern over the next several quarters, which is somewhat typical with turnover at the Chief Accounting Officer position. This is a service provided by the City Council as per Trustee resolution and outside the management parameters of IMU staff. Issues will be brought to the attention of the City Manager (as the director-level supervisor) and, if unaddressed, to the IMU Board Chairperson and Mayor.

- **Financial Performance.** The first graphical condition report is on overall financial performance for each utility. In general, the utility is in a stable financial condition.

Consumption of electricity is relatively at re-estimated budgeted levels. Transmission costs were significantly less than expected, so the gross margin (sales minus wholesale & other marginal costs) is very close to expectations. Operating expenses and debt service costs were slightly less than expected, but very close to budget. Therefore return on assets slightly exceeded expectations. Capital expenditures are adequate given the issuance of bonds this year.

Reduced water consumption is impacting the utility's ability to maintain rates in a rising-cost environment. Capital expenditures are expected to increase for both utilities, which again is impacting projected rates. Resources are inadequate to meet long-term main replacement needs.

Reserves are at, and expected to continue to meet, board targets for each utility.

- **Electric Utility.** The electric utility provides reliable service by purchasing wholesale energy for the community as a whole, receiving it over the transmission system, generating electricity within Indianola as needed, and distributing it safely to customers. Significant progress towards implementing operational strategies include:

First Quarter-

- Worked with MEAN on planning and management issues related to the transition of transmission control from MidAmerican Energy to the Midwest Independent System Operator (MISO).
- Began design work with contracted engineers for the 2010 Underground Conversion Project, which will convert the entire community north of Hwy 92 and east of Hwy 65/69.
- Approved for starting a conceptual plan for converting the Simpson College Campus area to 13.2kV.
- Initiated underground conversion projects on the East Side of The Square (IUB safety compliance issue), North Howard Street (conflicts with new city trail project), W. Kentucky (deteriorating pole line) and North “Y” St. (street lighting for new paving).
- Approved electric & telecom extensions to serve the Summercrest Hills project.
- Completed construction of an 8,000 sq. ft. storage facility at the East Iowa turbine & substation site.
- Analyzed demand-side management grant opportunities; filed joint grant application with the Iowa Association of Municipal Utilities for pager-based “smart thermostat” program

Second Quarter-

- Completed construction on W. Kentucky and North “Y” Street
- Managed construction projects on the East Side of The Square, North Howard Street, Vintage Hills, and other customer extensions.
- Revised drafts of the Long Range Electrical System Conversion Plan and financing plan
- Worked extensively on design of the 2010 Underground Conversion Project
- Initiated study on NERC compliance issues
- Planned additional development areas within Summercrest Hills

Third Quarter-

- Completed updating the Long Range Electrical System Conversion Plan and financing plan.
- Completed design work on the 2010 Underground Conversion Project (East Side Conversion); began legal, bidding and financing processes
- Received study on NERC compliance issues
- Completed the East Side of The Square underground conversion project
- Completed the North Howard underground conversion project
- Worked with CIPCO officials to finalize design of the new 69kV line/tie
- Started working on an Interconnection Agreement with CIPCO

- *Fourth Quarter-*

- Completed legal, bidding and financing the 2010 Underground Conversion Project (East Side Conversion); a positive bidding and financing environment will allow for more work to be done than expected with .5% lower retail rate impact.
- Worked to get easements for the 2010 Underground Conversion Project
- Completed work on the East Side of The Square and N. Howard Underground Conversion Projects.
- Initiated engineering work for the Fuel Oil Storage Tank Painting Project.
- Began design work on Westside Substation 69kV Line Terminal Addition; negotiated interconnection with CIPCO and MEC.
- Worked with the Iowa Stored Energy Plant Agency Board of Directors on funding options to transition towards feasibility and construction
- Participated on a Midwest Municipal Transmission Group planning committee to develop a strategic plan for the joint action agency; transitioning financial responsibilities to IAMU
- Attended IAMU sessions on strategic energy acquisition policy and strategies

- **Water Utility.** The water utility provides reliable water service by pumping it from wells, treating it, keeping enough in storage to meet daily needs, and distributing it to customers. Significant progress towards implementing operational strategies include:

First Quarter-

- Completed installation for the US Cellular antennae at the Simpson water tower.
- Approved construction of variable speed drives at the treatment plant that may delay the need for a 3rd water tower and relieve excess pressure on older mains
- Worked with the contractor for painting the Simpson water tower to delay until next year due to the need to install variable speed drives at the water plant.
- Hired engineer to study Hillcrest water tower.
- Began centralizing storage of departmental equipment within Water Dept. facilities.

Second Quarter-

- Worked on plant repairs and installed new variable speed drives on 2 high service pumps

Third Quarter-

- Worked on installing radio read meters
- Repaired several water main breaks
- Completed study on the condition of the Hillcrest water tower
- Prepared rules & regs. to declare non-functioning stop boxes a public nuisance where electricity has been disconnected

Fourth Quarter-

- Worked on installing radio read meters
- Repaired several water main breaks
- Worked with the contractor to start repainting the Simpson water tower, reviewed additional scope of work for interior repairs and issued a significant change order to ensure the continued integrity of the steel envelope
- Performed major plant maintenance on the re-carb tank
- Implemented electronic work-order system with IMU administration
- Attended IAMU session on status of the Jordan Aquifer

- **Communications Utility.** The communications utility provides the infrastructure that transmits affordable, competitive, and technologically advanced telecommunications service for both retail and other public uses. Telephone and Internet services are offered to commercial customers through a contractual private/public partnership. Significant progress towards implementing operational strategies include:

First Quarter-

- Completed the ownership transition process of transferring telecom infrastructure assets to the electric utility through a buyout of private parties.
- Established Service Plan containing Rules & Regulations and licensing agreements; issued license to Mahaska Communications Group.
- Held meetings with the remaining private partner, MCG, to begin planning for an expansion of the fiber-to-the-premise system as part of upcoming electric underground conversion projects.
- Added new customers (Simpson College and US Cellular), which improved gross margin collection.
- Informed by MCG of new wholesale telecom contract terms that will improve gross margin collections.
- Installed and upgraded the fiber system at the new IMU cold storage building, turbines, and East Iowa Substation
- Staff attended the Optical Signal Processor Expo with MCG to gain technical knowledge

Second Quarter-

- Designed customer and system extensions
- Began design of the 2010 Underground Conversion Project, which includes telecom conduit
- Researched federal grant opportunities; performed survey to show lack of eligibility
- Installed fiber conduits as part of the East Side of the Square and N. Howard projects.
- Made improvements to City Hall fiber connection
- Assisted with City staff to prepare the fiber for a phone system conversion

Third Quarter-

- Worked to develop new list of potential customers with cost/benefits of extending the system.
- Completed design work related to the 2010 Underground Conversion Project
- Installed new services and system extensions around the southwest 65/69 & 92 corner and along Hwy 65/69 between Iowa and Hillcrest avenues.
- Submitted an application to Google for their Community Broadband project

Fourth Quarter-

- Installed new services and system extensions in various areas
- Attended a joint planning committee meeting with Mahaska Communications Group

- **Administration.** All three utilities are administered by a combination of the IMU Board of Trustees and their staff, services provided by the City of Indianola through cost-sharing arrangements, and third-party contractors.

Public works activities primarily involve co-managing the public right of way. IMU also supports economic development and community betterment activities. Third, there are utility-specific services such as technical activities, safety, and utility programming. Last are the governance and professional services associated with oversight, regulatory actions, general management, human resources, fiduciary controls, public notifications and information systems, and legal compliance & risk management.

Public Works-

First Quarter-

- Converted sample neighborhood to induction lighting to take measurements of actual energy used vs. comparative neighborhood. Initial month's results show a 50% reduction.
- Attempted to meet with private telecom providers to minimize rights of way issues when planning underground conversion and fiber projects.
- Tree trimming contractor hired with work to be performed in 2nd quarter.

Second Quarter-

- Moved induction lights to a roadway location to determine performance
- Completed contracted tree trimming work

Third Quarter-

- Met with lighting contractor on new LED lights; ordered 6 for North "Y" street to be placed alongside the induction lights

Fourth Quarter-

- Installed new LED lights on North "Y" street alongside the induction lights
- Issued legal notices for pole removal where IMU facilities have been installed underground

Economic Development & Community Betterment-

All Quarters-

- Funded and worked with the Indianola Development Association (IDA) to promote the community and to solicit potential customers through contacts and proposals made by the IDA, Warren County Economic Development Corp., and the Greater Des Moines Partnership

First Quarter-

- Submitted grant application to the U.S. Dept. of Energy for establishing geothermal water service to the proposed Summercrest development at Hwy 65/69 and E. Hillcrest Ave.
- Surveyed telecom services received by residents within the proposed Phase I electric underground conversion area to determine eligibility for federal telecom funding. Access to existing broadband prevents eligibility.
- Worked on layout of new Service Guide and statement billing options that would allow for 6 marketing pieces to be mailed in lieu of annual report & water quality report.
- Fireworks display and National Balloon Classic sponsorships.
- Participated in the City of Indianola Sustainability Committee

Second Quarter-

- Issued new IMU Service Guide
- Met with City Council & Trustees; IDA presented new marketing plan efforts
- IDA Marketing Committee began work on new Development Guide

Third Quarter-

- Remained involved with community recreation facility planning and other growth opportunities in the Summercrest Hills area
- Worked with Warren Co. officials on a wind turbine & geothermal unit project at the Annett Nature Center using U.S. Dept. of Energy funding
- IDA Marketing Committee complete the new Development Guide

Fourth Quarter-

- Reviewed economic development programming options with Mayor and Council
- Coordinated establishing a Community Wellness Facility Planning Committee to promote economic development and utility growth

Technical Services & Programs-

First Quarter-

- Identified potential partners for, and performed research on, a smart-grid demonstration site grant.
- Held the annual Customer Appreciation Day event complete with booths on utility operations, energy efficiency programs, and others.

Second Quarter-

- Performed research on an appropriate renewable energy target and date
- Researched, drafted, and submitted Iowa Power Fund Community Grant to perform a whole-town energy analysis and to assist in developing program and policy priorities
- Initiated plans for marketing stuffers inside statement billing envelopes
- Worked with Simpson College on an IAMU grant project for smart thermostats

Third Quarter-

- Received the Iowa Power Fund Community Grant award notice; issued RFPs and began planning for the March – September 2010 project
- Planned April 2010 Sustainability Month activities
- Worked with IAMU and NMPP Energy on the analysis of the IAMU smart thermostat project
- Researched data for setting a renewable energy purchasing target at some point in the future
- Worked with the Iowa Association of Municipal Utilities on a new services contract to provide Safety Program assistance

Fourth Quarter-

- Initiated Phase I of the IPF Community Grant; selected contractor, hired & trained intern; created surveys, collected data and worked on study drafts
- Held Sustainability Month activities throughout April
- Integrated IAMU safety services into IMU & City of Indianola safety program

Governance and Professional Services-

All Quarters-

- Met with management staff and performed an annual review of the Strategic Plan; implemented and held IMU Performance Committee meetings comprising of management staff, supervisors, crew members, and other administrative staff; met to discuss performance measurements; designed database task tracking system.
- Participated with the Midwest Municipal Transmission Group to review transmission investment opportunities.
- Maintained bond rating.
- Recognized and rewarded employees for Safety and merit performance.
- Eligible employees achieved advancement in the electric apprenticeship program.
- Participated in the Employee Insurance Committee with other city departmental staff and facilitator Debbie Dean (Benefit Source, Inc.).
- Employee evaluations performed and direction provided for the coming year.
- APPA designation as a Reliable Public Power Provider (RP3).
- Published public information via web site, bill stuffers, electronic newsletter, and bi-monthly update

First Quarter-

- Began drafting revised Electric Service Plan and IMU Board Index of Resolutions
- Drafted proposed General Manager review form
- Implemented new Water utility rates and adopted new Electric rate resolution effective November 1, 2009.
- Converting from the Request Partner program to Gov-Q to interact with customers.
- Filed application to continue APPA RP3 designation.
- Authorized staff and crews to attend general electric training.
- Began converting new accounting, billing, and HR software.
- Researching costs and began planning for re-design of web site, performance report, and service brochures. Service guide design completed.

Second Quarter-

- Drafted and completed 2010-2015 Capital Improvement Plan
- Drafted and completed a revised Electric Service Plan
- Extended banking and investment service agreements
- Held joint meeting with the City Council on economic development programming
- Audit on-site work completed
- Revised Technical Services position duties
- Drafted FY 2011 O&M budget
- General Manager attended the initial Public Power Manager certification classes
- General ledger, accounts payable, and payroll converted to new software platform and new chart of accounts

Third Quarter-

- Completed and adopted FY2011 budget
- Compiled information on long-term debt issuance financial implications
- Adopted depository resolution and investment policy (annual event)
- General Manager completed the Public Power Manager case study project towards certification
- Utility billing converted to new software platform
- Budget variance reports reformatted with new system/information
- A new Quarterly Performance Report was formatted, discussed by Trustees, and issued
- Worked on drafting new personnel policy manuals
- New employee evaluation forms implemented
- Designed new electronic work order database & tracking system

Fourth Quarter-

- Adopted personnel policy manuals
- Issued electric revenue debt
- Developed bond proceed investment strategy to maximize interest earnings on the total portfolio while maintaining liquidity to meet project expenditures
- Held planning meetings for installing the new phone system; installed wiring
- Planned for and drafted bi-annual customer survey
- Conducted General Manager annual evaluation
- Held a public information meeting on the 2010 Underground Conversion Project
- On-line utility payment option added to billing system