



TRAVERSE CITY  
LIGHT & POWER

Investing Our Energy In You

# Traverse City Light & Power Strategic Plan 2020

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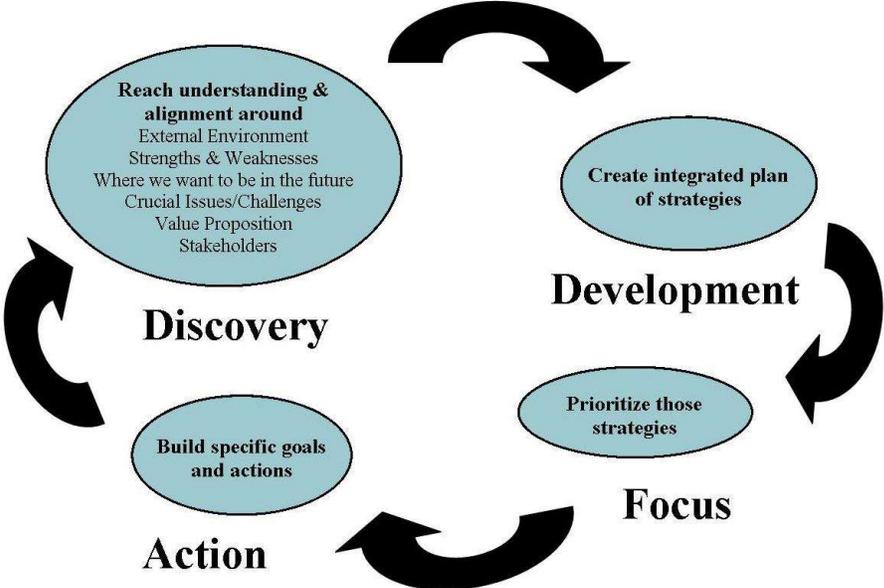
**TRAVERSE CITY  
LIGHT & POWER**  
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### *Introduction from the Executive Director*

In 2013, Traverse City Light & Power (TCL&P) embarked on developing a Strategic Plan (“Plan”) that could challenge the public power utility to exceed customer expectations while meeting the everchanging challenges of the electric utility industry. For 2018 and beyond, financial stability, power supply strategy focusing on environmental stewardship, enhancing operational excellence, and customer satisfaction are among the core values of the utility.

The purpose of the Plan is to serve as a guiding document for the Board and utility staff and to support the vision and mission of the utility by achieving goals and objectives that enhance the value of the utility to its owners and the community it serves.

The Plan provides a blueprint for strategic planning and goal setting into the future and its development follows the process outlined in the diagram below. Semi-annually, the utility staff reports to the Board on the progress towards specific goals identified in the Plan, and annually, staff and the Board update the Plan to ensure it remains a relevant guiding document for TCL&P in this ever-changing utility industry. Then, at least every five years, or earlier if needed, the Board and staff goes through a more in-depth process of strategic planning which may include revising the strategic issues of the utility.



Timothy J. Arends  
Executive Director

# Table of Contents

- 1. Who We Are..... 4
- 2. History ..... 6
- 3. Understanding the Current Utility Environment ..... 12
- 4. Strategic Issues..... 15
  - 4.1 Financial Stability ..... 15
  - 4.2 Power Supply Strategy ..... 17
  - 4.3 Enhancing Operational Excellence ..... 19
  - 4.4 Customer Satisfaction ..... 21
- 5. Conclusion..... 22

## 1. Who We Are

TCL&P prides itself on being a responsive and community-friendly electric utility. The core purpose of the utility is electric service, but has grown to provide traffic signal operation and maintenance, complimentary downtown Wi-Fi network, dark fiber system, street lighting, and is embarking on a community wide fiber to the premise system, all of which enhance the quality of life and make Traverse City a better place to live, work and play as exemplified in the utility's vision and mission statements:

- **Vision Statement**

"To build the long-term value of Traverse City Light & Power for the benefit of the City and its residents and all Traverse City Light & Power customers."

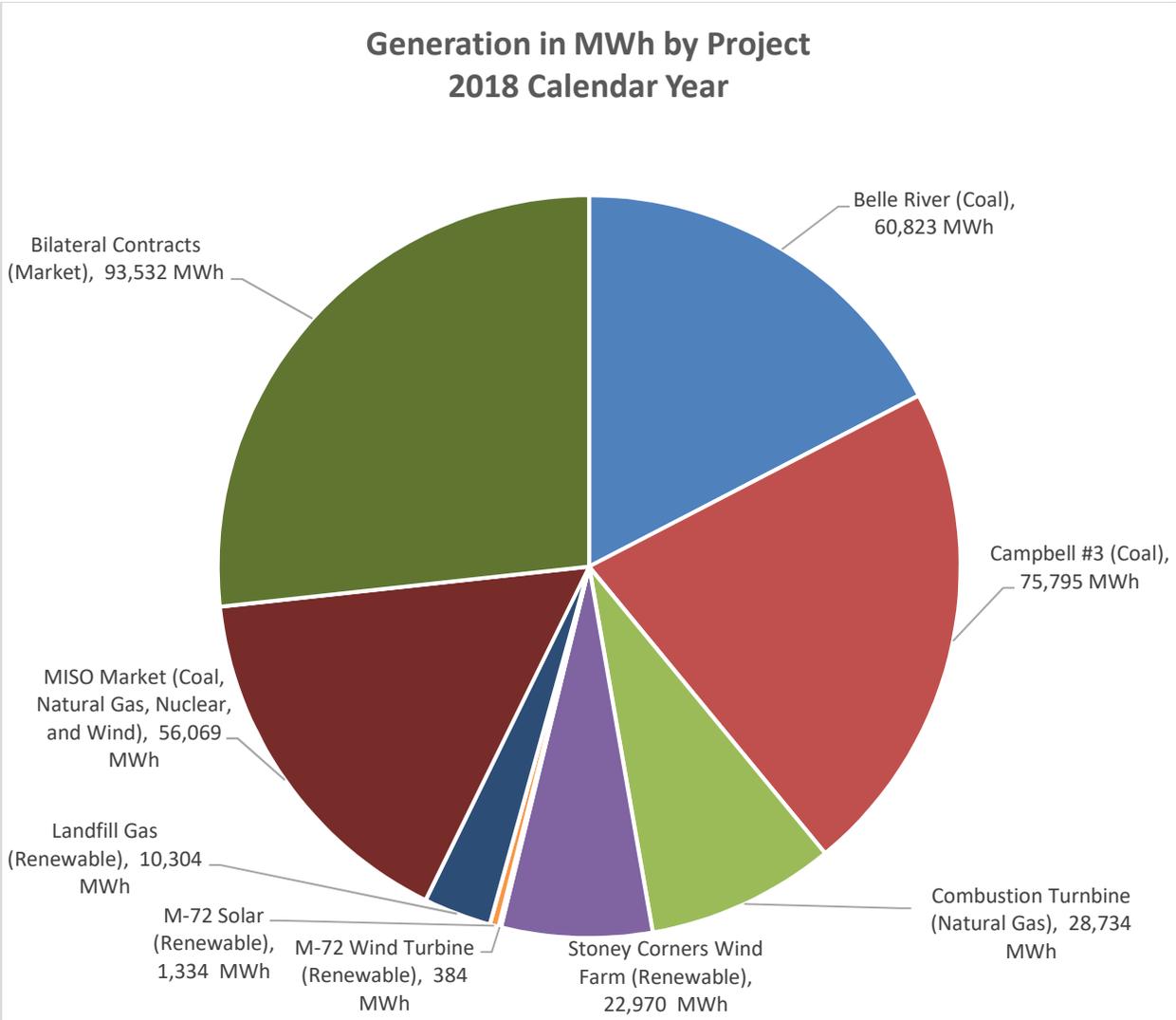
- **Mission Statement**

"The Mission of Traverse City Light & Power is to provide the Public Power benefits of safety, lower rates, high reliability, local control and exceptional customer service to the City and its residents and all Traverse City Light & Power customers."

TCL&P provides electric services to Traverse City and parts of outlying areas in East Bay, Elmwood, Garfield, and Peninsula Townships. The utility distributes electricity to these areas through an electrical infrastructure system consisting of three transmission substations, approximately thirty-five miles of transmission lines, five distribution substations, two hundred miles of overhead distribution lines, one hundred and fifty miles of underground distribution lines, seven thousand poles and two thousand transformers. In the last five years, capital projects have been focusing on system reliability and transitioning the system to a looped system. These include construction of new transmission and distribution substations, upgrades of key transmission lines, and planned construction of a switching station.

Currently, TCL&P is a \$35 million operation with net assets of \$75 million. The largest portion of net assets is TCL&P's investment in capital assets that are used to provide service to customers. The utility currently has no outstanding debt issuances and remains financially strong. Operations are maintained with thirty-eight full-time equivalent employees.

TCL&P, along with other Michigan municipal utilities, is a member of Michigan Public Power Agency ("MPPA"). The Agency was formed to acquire interest in certain electric generating plants and related transmission lines to service its members. TCL&P is able to provide reliable electric service through a diversification in purchase power contracts and ownership in various sources, a majority of which are with MPPA, as shown in the graph below.



As of fiscal year-end, June 30, 2019 the utility served an average of 13,267 utility meters and sold 349,945 mega-watt hours (“MWh”) of electricity. 75% of the utility’s customers are residential that provide 18% of the utility’s revenues; conversely, 25% are commercial customers that provide 82% of the utility’s revenues. An average residential customer uses 503 kWh per month, which equates to a monthly bill of \$55.52. In 2019, TCL&P surveyed the rates of forty-one utilities in Michigan, and ranked third lowest for residential, seventh lowest for small commercial, and fifth lowest for large commercial.

Our residential, commercial and industrial customers enjoy reliable power at low rates because we are a community-owned not for profit public power utility. Public power is a collection of more than 2,000 community-owned electric utilities that serve over forty million people or about 15% of the nation’s electricity consumers. Public power utilities are operated by local governments to provide communities with reliable, responsive, not-for-profit electric service. Public power utilities are directly accountable to the people they serve through local elected or appointed officials.



TCL&P is governed by a Board of Directors which was created in 1979 as a discrete component unit of the City of Traverse City and is referred to in the City Charter as a Department. A separate board was created to manage all aspects of the utility, with the City Commission approving its budget.

The TCL&P Board is a seven-member board appointed by the City Commission, plus one non-voting ex-officio member, the City Manager. At least five of the seven members are non-commissioner members with five-year alternating terms. One of the five may be a non-city resident but must be a TCL&P customer. As part of the seven-member Board, at least one member, but no more than two, must be a City Commissioner that serves a two-year term.

In addition to the utility's budget the City Commission approves the six-year capital improvements plan, authorizes bond issues, ordinance change requests, agreements that directly impact the City, and provides for the utility's vehicle fleet needs through the Garage Internal Service Fund.

Local control, low rates and reliable service are the key pillars to providing the benefits of public power to the utility's customers and TCL&P looks forward to serving its customers with these principles for many years to come.

## 2. History

In the early 1900's, as demand for electric power grew in Traverse City, competition to meet this demand grew as well. The Queen City Light & Power Company was in operation only a few short years as a direct competitor to Boardman River Electric Light and Power Company. In September 1912, the City of Traverse City purchased Queen City Light & Power for \$150,000. The purchase included sixty acres at Keystone and the property and flowage rights seven miles upstream including the Brown Bridge Dam area and pond. The new power company was known as the Traverse City Municipal Light and Power Department, known today as Traverse City Light & Power Department.

In the early days of TCL&P, working conditions were challenging. Linemen camped in tents and worked with teams of horses to haul poles into place. Holes were dug by hand using picks and shovels. Linemen had to manually combat the elements, especially in winter.

Attracting new commerce to the Grand Traverse area required reliable and plentiful electric power. In 1920, the Traverse City Chamber of Commerce had to pause its efforts in pursuing new businesses because of the lack of such power. Fortunately, in 1921, the construction of Brown Bridge Dam began. Once completed in 1922, the dam produced reliable energy for TCL&P for the next eighty years.



In 1928, the first steam turbine was added to the Traverse City Waterworks building, which became the site of TCL&P's coal-fired Bayside Power Plant.

In 1937, TCL&P celebrated twenty-five years of supplying electricity to Traverse City. During this time, growth had continued to drive electric demand. A second steam turbine was installed in the Bayside Power Plant with an additional capacity of 1,000 kilowatts; the largest at that time and necessary to keep Traverse City growing and thriving.

In 1948, an \$850,000, five-year expansion program for the Bayside Power Plant was approved. This new capital would allow TCL&P to purchase new equipment to increase generation capacity. Throughout the late 40's and 50's, TCL&P added new and more powerful generators, opening the way for more growth and prosperity for the Traverse City area.

Other milestones and events occurred that would further impact the delivery of electricity to Traverse City residents and businesses. In 1950, Consumers Power Company purchased all assets of the Michigan Public Service Company. In 1961, the Keystone Dam washed out due to heavy rains and extensive flooding of the Boardman River. That dam was never rebuilt.



In 1964, the city explored the possibility of expanding the Bayside Power Plant at a cost of \$3.5 million. In 1965, voters approved the expansion by an over 2-to-1 margin and construction began. In 1967, the Bayside Power Plant expansion was completed. The peak of the new addition was almost ninety-nine feet; roughly the height of the top of the historic Park Place Hotel. The height was necessary to house the overhead coal conveyor and handling system.

During the blizzard of 1977, work crews had to brave snow depths of more than eighteen inches to restore power. Fortunately, because TCL&P had locally generated power, TCL&P customers had plenty of power for their consumption needs during that tough winter, while other major Midwest utilities had to ask customers to cut down on their consumption. The utility hit a lifetime peak production of 22,200 kilowatts on January 19, 1977.

In 1976, as the electric utility industry and how it operated had become more complex, the City Commission established an ad hoc committee to study the advisability of establishing a separate TCL&P Board. In January 1977 the ad hoc committee submitted its recommendation to create a two-year TCL&P Advisory Board which was approved by the voters in April 1977. In 1979 the TCL&P Advisory Board submitted a draft charter amendment to the City Commission, a public hearing was held, and the City Commission approved putting the draft charter amendment on the next ballot. After much analysis and public input, the voters approved the creation of the TCL&P Board on April 2, 1979.

In 1981, the Department of Natural Resources ("DNR") and TCL&P began discussing the development of a Fish Management Plan for the migratory fish, primarily salmon, that ran up the Boardman River each fall. After numerous meetings and approvals of the City Commission, the Michigan DNR, the Natural Resources Committee and the TCL&P Board, the Boardman River Trap and Transfer Harvest Facility was approved. The facility, located east of Hall Street, was completed in 1987.

In 1988, TCL&P held its first annual tree seedling giveaway at the Bayside Power Plant in celebration of Earth Day. Seedlings were given away to customers and local community groups.

1996 was a major milestone year for TCL&P. The utility, long committed to exploring renewable energy sources, pioneered the first utility grade wind turbine in Michigan. The turbine was installed on M-72 and was, at the time of installation, the largest utility grade wind turbine in the United States.

Prior to the installation of the M-72 wind turbine, TCL&P developed the Green Rate. This rate allowed customers to voluntarily pay more on their monthly utility bill. The money collected went towards paying for the wind turbine, thereby supporting renewable energy. The Green Rate was the first of its kind in the country and is now used as a model nationwide.

As the new millennium approached, TCL&P was on the cusp of significant changes and innovations. In 2002, TCL&P, along with four other municipal electric utilities, participated in the Michigan Public Power Agency's natural gas-fired combustion turbine project in Kalkaska, MI. The project continues to provide reliable energy to the electric grid during peak demand times in the summer and winter months.

In 2005, the Bayside Power Plant (located in Traverse City's "Open Space" on West Grand Traverse Bay), which had been relegated to a lesser role of peak power support, was removed. Parts of the plant were sold to a Honduran company that planned to reassemble the power-generating portion of the plant in Guatemala.



In the fall of 2006, the license to generate electricity at the Boardman, Sabin and Brown Bridge dams was surrendered to FERC. The Brown Bridge Dam was removed in 2013 and subsequently the Sabin and Boardman dams were removed, returning the river to its natural state.

In response to Michigan Public Act 295 legislation, in 2009 TCL&P contracted with Heritage Stoney Corners to purchase all generation output from five, two-megawatt wind turbines located in McBain, MI (now owned by DTE). In the fall of 2010, when all five turbines were operational, TCL&P had the highest percentage of renewable generation to total generation of any utility in Michigan.

Also, in 2010, stemming from TCL&P's announcement to construct a biomass generation facility, a ballot proposal was approved by voters to amend the City Charter to provide that any decision to build or acquire a power generation facility shall be subject to a referendum of city resident voters.

In 2012, TCL&P celebrated its 100<sup>th</sup> Anniversary. TCL&P's focus remains much the same as it has over its many years of service, providing customers with safe, reliable and affordable electricity.

In March of 2012, TCL&P experienced one of the worst winter storms in the utility's history. At the peak of the storm, approximately 8,000 of TCL&P's 11,500 customers experienced outages. Due to the extent of the storm, TCL&P enacted a mutual aid agreement to request assistance from other electric utilities to help in the restoration effort. This was the first time in utility history that TCL&P requested mutual aid. Crews from Lansing Board of Water & Light, Grand Haven Board of Light & Power, Zeeland Board of Public Works, Lowell Light & Power, Trees Inc. and NG Gilbert responded and provided assistance. All TCL&P customers were restored within three days of the initial storm while some customers in the surrounding areas experienced outages for more than one week.

In the spring of 2013, TCL&P partnered with Cherryland Electric Cooperative to offer the first Community Solar Project in Michigan. The project allowed TCL&P customers to purchase a SUN Share (one solar panel) in the project and receive a monthly bill credit equal to the amount of energy produced by their share. In addition to the project being the first in the State of Michigan, it was also the first such partnership in the United States between a municipal and cooperative utility.

In December of 2014, TCL&P signed over ownership of the M-72 wind turbine to Heritage Sustainable Energy, LLC, owners of Stoney Corners Wind Farm in McBain, MI and entered into a Power Purchase Agreement to buy the output of the turbine.

In April 2014, TCL&P collaborated with the Downtown Development Authority ("DDA") to provide a complimentary Wi-Fi internet service to the public within the DDA's jurisdiction. The DDA desired to have this secure municipal network to provide electronic parking services. TCL&P is responsible for installing and maintaining the Wi-Fi system with the DDA reimbursing TCL&P for the costs. TCL&P will be fully reimbursed in 2025.



On Sunday, August 2, 2015, a severe storm caused widespread outages to approximately 5,000 TCL&P customers. Due to the extent of the damage done to TCL&P's electrical system, and the number of customers without power, TCL&P immediately called for mutual aid assistance from partnering utilities. Lowell Light & Power, Marquette Board of Light & Power, Lansing Board of Water & Light, Grand Haven Board of Light & Power, Zeeland Board of Public Works and Penn Line Service

responded to the mutual aid request and assisted TCL&P for several days. A majority of TCL&P's customers had power restored by August 7, with the remaining handful needing the assistance of an electrician to complete power restoration. During the restoration process, TCL&P, and the multiple mutual aid crews, did not experience any safety incidents.

As of June 2015, TCL&P placed in service the East Hammond Substation to increase reliability of the transmission system and meet FERC reliability standards. The overall project cost was approximately \$7.3 million when encompassing the related joint transmission line construction projects with Consumers Energy.

As of January 2016, TCL&P placed in service the South Substation to increase reliability of the distribution system in order to handle the load growth from 1987 when the last substation was constructed. Overall the project cost was approximately \$5 million.

During 2017, Cherryland Electric Cooperative (“Cherryland”) and TCL&P performed a customer territory swap as a result of the River Road line no longer serving a purpose for TCL&P due to the decommissioning of the Brown Bridge Dam. In exchange for River Road, TCL&P received Cherryland customers on Three Mile Road and in the Barlow Street area. This benefited TCL&P by securing the revenue base going forward without impairing future expansion of the utility and allowed the TCL&P service area to become more condensed, providing operational efficiencies.

In May 2017, TCL&P implemented an Art on Utility Infrastructure program that provides customers the opportunity to have artwork placed on TCL&P owned infrastructure. Since its inception, artwork has been placed on ten padmounted cabinets throughout the City.



In the fall of 2017, the M-72 Solar Project was completed. This collaborative project between TCL&P, City of Traverse City and Heritage Sustainable Energy, LLC provides 1 megawatt of solar energy towards the City of Traverse City’s 100% renewable goal. A total of 3,400 solar panels were installed on approximately 5.5 acres near the M-72 Wind Turbine. The City subscribed through the Utility’s Solar Governmental Renewable Power Cost Recovery Rate as a mechanism to have the generated renewable energy from M-72 Solar array dedicated to the City. In 2019, Heritage Sustainable Energy, LLC proposed an amendment to the existing purchase power agreement to incorporate an additional 2-megawatt solar array to the site. The Board approve the amendment with the renewable energy contributing to the increase in the utility’s renewable energy portfolio.

In May 2018, TCL&P again received the prestigious RP3 platinum designation by the American Public Power Association (“APPA”). RP3 is APPA’s program to encourage public power systems to demonstrate basic proficiency in four important disciplines: reliability, safety, workforce development and system improvement. TCL&P was previously awarded platinum in 2015 and the gold designation in 2013.

In August 2018, the Board approved the strategic plan goal to have the utility power supply become 100% renewable by 2040 with intermediate goals of 15% renewable by 2021 and 40% renewable by 2025. This complemented the City of Traverse City’s commitment to power all city operations with 100% clean energy while making a significant impact on reducing the community’s carbon footprint.

In June 2019, the Board agreed to execute a construction and operation agreement with Fujitsu for Phase One Fiber to the Premise Project. This project will attract industry and entrepreneurs to the area and put the City of Traverse City in the forefront of becoming a tech hub in Northern Michigan. While not only being an economic driver for the community, it will provide benefits to the electrical grid such as distribution automation, allow the ability for City of Traverse City to become a “smart city” and for the City to collect data and manage assets, resources and services efficiently.

In August 2019, the Board approved the Resolution of Intent to establish a residential clean energy financing plan to promote the use of renewable energy systems and energy efficiency improvements described in the State of Michigan Public Act 408 of 2014. This plan will provide easy affordable loans to Traverse City homeowners for qualifying energy efficiency and renewable energy improvements. Customers pay back the loan through a per meter charge on their utility bill for electric services.

### 3. Understanding the Current Utility Environment

The energy landscape and traditional utility service delivery model is changing as a result of the emergence of new products, services, technologies, evolving workforce and increasing regulation.

#### **FINANCIAL STABILITY**

Some of the key trends within the financial area is legacy costs, the potential risk of eliminating tax exempt bonds as a financing mechanism for municipal utilities and impacts of new technology and trends on the utility's tariff rates/revenue base.

In the past few years, the State of Michigan passed legislation protecting local government retirement and benefits. The act has three primary purposes 1) Requiring greater reporting and transparency of the government entity's pension and other post-employment benefit plans ("OPEB"); 2) Implement a pension and OPEB stress test regarding the financial health of the entity's plans; and 3) Create a Municipal Stability Board to review the corrective action plans for those entities not meeting the stress test.

The utility has made significant strides in reducing legacy costs, including ten-year amortization accelerated pension payments, revised pension plans for new hires with a reduced multiplier to minimize final average compensation and most recently, line workers hired after July 1, 2012 were transferred from a defined benefit plan to a defined contribution plan. For the OPEB plan the utility annually pays the required contribution in addition to the retiree's annual health insurance premiums. This benefit for new hires has been reduced from retiree health care for life to when they are Medicare eligible and line workers hired after July 1, 2012 no longer participate in the OPEB plan and instead receive an additional one percent of the employee's gross salary to the Health Care Savings Program. Although the utility has been proactive in addressing these costs, they remain a significant liability on the financial statements that need to be continually monitored.

Even though the utility currently does not have an established bond rating, on an annual basis MPPA provides a credit rating analysis similar to a third-party credit rating agency. This year, like past years, the utility received an excellent rating. It is important for the utility to preserve this rating as it will allow the utility to easily borrow money with optimal terms for financing. Additionally, at the federal level it seems the risk for elimination of the tax-exempt bonds appears to be minimal. However, in the future, if this were to be proposed again through legislation at the federal level, it will impact the utility's borrowing costs and the ability to sell bonds.

It is becoming more common today for customers to install and generate their own power at a financial benefit to them. With the installation of a customer owned system, the electric utility's traditional service model, serving as the primary feed, is now becoming the customer's secondary source for electric power.

TCL&P must maintain the system's infrastructure assets (substations, poles, transmission and distribution lines, etc.), which are considered fixed costs for those customers when called upon as the secondary source. The cost of maintaining that infrastructure needs to be passed onto the customer irrelevant of their use and is commonly referred to as "buy all sell all". While the utility must address the current customer desire for distributed generation, TCL&P must also plan for the next era. Energy storage is on the horizon and the utility expects it will have similar system and financial impacts that TCL&P is experiencing today with distributed generation.

Additionally, utility sales have been impacted through customers conserving or implementing energy waste reduction products or programs. This is often referred to as the “negawatt” or avoided energy. The effects of avoiding this energy at peak time is preventing infrastructure in place to handle peak times that occur for a limited amount of time, basically laying idle causing an increase in costs to our customers. Also, there is an increase in generation and transmission costs in generating the energy avoided through the negawatt. On the other side, one less megawatt of sales to the utility is less revenue to capture to cover capital costs and expenses relating to replacing aged infrastructure and the operational costs of the utility. To prevent the utility from not recovering their costs, the rate structure needs to match the cost structure, which means moving fixed costs away from variable consumption. In other words, electricity costs are being significantly paid through a per kWh charge based on consumption, rather these should be a monthly fixed charge since the utility’s costs do not decline when customers consume less electricity.

As TCL&P moves forward and away from the traditional customer service model it must envision and incorporate new revenue streams to diversify its revenue base to ensure financial sustainability into the future.

### **POWER SUPPLY**

In December 2016, the governor signed into law energy legislation to ensure Michigan has sufficient generation capacity, as several coal-fired plants are planned to close in the next several years. The legislation also modified requirements of Public ACT 295, specifically, requiring utilities to obtain levels of renewable energy in their portfolio over the next few years with the final allocation being 15% by 2021. Additionally, the legislation also includes an energy waste reduction component that focuses on reducing energy consumption.



The State increased the mandated energy savings from 1 percent cap of utility sales to 1.5% or higher.

As typical generation sources such as coal fired generation transitions and continues to decommission, the utility must look toward other resources such as renewable energy, and battery storage. To complement the transition of generation sources, the utility also needs to consider other methods to reduce our load such as demand response and energy waste reduction programs.

The current state of the electrical market has shown unprecedented surplus in natural gas inventory which has caused energy prices to decline to historic lows. This impacts the utility’s wholesale rate and contributes to overall lower customer rates.

Additionally, the utility is mindful of the potential constraints such as remaining terms of existing entitlement contracts, the uncertainty of future MISO tariff adjustments as more intermittent renewable energy sources come online replacing the traditional coal generation, availability of suitable renewable energy projects due to complications with siting approvals, and current battery technology status versus evolving technologies that will continue to improve price and performance.

## **ENHANCING OPERATIONAL EXCELLENCE**

TCL&P customers currently enjoy a reliable electric service, low rates and a general sense of a utility that is easy to work with; however, there are constant pressures on these that may only be mitigated by an enterprise-wide cultural shift towards improving both the value and delivery of electric service. Truly effecting this change will require employee involvement in necessary improvements to their department and for each employee to understand the flow of the value to TCL&P customers. Through involvement in cradle to grave process reviews, as well as training and resource needs, employees can feel more empowered and motivated to bring about the changes necessary to increase value and delivery to TCL&P customers.

However, significant challenges continue to exist across the industry when it comes to recruiting and retaining skilled labor, especially within the trade positions like Journeyman Lineworkers. TCL&P will need to continue to implement processes to effectively transfer knowledge from seasoned employees as well as analyze what employees and potential employees' value in the workplace in order to compete for talent across the utility industry.

In addition to garnering best practices through employee involvement, advancements in technology are driving change within the electric utility industry, specifically the amount of data technology is able to provide to the utility. The volume of data created by technology offers tremendous opportunities to mine both customer and operational related information. Effective mining of this data can enhance preventative maintenance and storm response capabilities. However, it requires significant storage abilities and data analytics tools in order to use this information for proper decision-making.

Technology also brings the need for defense against cyber security threats. The threat landscape continues to evolve and become ever more challenging, requiring constant attention and appropriate adjustments to the utility's defense strategy. In addition, there are many legislative and political challenges that require the attention and engagement of the utility

While the FTTP Project is a huge economic development opportunity for the community, as with all new ventures, there is significant operating risk especially in an already established market with similar services provided. These risks include effective price points, take rates, determination of level and type of services provided, effective marketing campaigns, adequate staffing and overall financing and infrastructure construction. Staff continues to work collaboratively with its turnkey third-party provider, Fujitsu, to mitigate the exposure to these risks to ensure a successful phase one deployment.

## **CUSTOMER SATISFACTION**

TCL&P is committed to building and maintaining strong relationships with our customers by delivering services that meet or exceed their expectations in this ever-changing environment. To do this will involve implementation of new technologies, offering value added programs and providing timely and informational communications all while taking into consideration the diverse mix of consumers ranging from residential to large commercial. At the forefront is ensuring the delivery methods used can reach all customer classes and demographics.

## 4. Strategic Issues

At the beginning of the strategic planning process, the Board and staff participated in focused planning sessions to identify the top priorities of the utility now and into the future. Below is a summary of the four Strategic Issues that were identified through this process. In the following pages, each will be discussed further to show how the Strategic Issues impact the utility.

- Financial Stability
- Power Supply Strategy
- Enhancing Operational Excellence
- Customer Satisfaction

### 4.1 Financial Stability

Financial stability is an important strategic issue because it is the function that allows the possibility for the goals to be achieved in every other strategic issue. It is not the sole function, but one that is necessary. Additionally, with management being financially responsible and transparent of its operations, it ensures the public's trust to continue with the strategic plan goals set forth by management and approved by the Board. The area focused on for this strategic issue include:

- Practice good financial stewardship

The Operating Strategy for Financial Stability is to:

**“Maintain positive operating cash flows and adequate capital reserves to sustain the financial health of the utility.”**

Five main Business Goals were identified to sustain and improve TCL&P's Financial Stability:

- 1. Develop and implement rate structures to promote financial stability while keeping in mind the impacts of federal and state regulations, increased energy efficiency and distributed generation.**

The electric utility industry is in a new era of regulations that may affect all types of generation including causing aged coal plants to be decommissioned, utilization of energy efficiency programs along with new and improved technologies (renewable generation and battery storage) installed at the customer level reducing the overall customer usage and demand. Additionally, the utility is implementing new technologies such as AMI that allows for significant data collection for multiple benefits (energy efficiency, demand side management, distribution network management, improved data quality and accurate billing). Even with all these impacts, the utility will be committed to providing competitive and equitable rates to the customers. Additionally, staff will be exploring new revenue streams such as electric vehicle charging stations for the purpose in diversifying the utility's revenue base to provide financial stability well into the future.

**2. Continue to enhance internal controls over financial accounts by improving current procedures and processes.**

As the utility launches its FTTP business and On-Bill Finance system it is important to develop, maintain and monitor internal controls to ensure they operate effectively and efficiently. Internal controls are also important because they make certain a reliable financial reporting system exists to safeguard assets and allow for the ability to generate complete and accurate financial information for the board, management and the utility's rate payers.

**3. Commit to monitor performance measurements as it relates to industry standards as compared to other utilities.**

Staff will continue to review performance measurements published by the American Public Power Agency and thresholds used by credit agencies to ensure the utility will receive an above average bond rating while providing a mechanism for management to identify effectiveness and efficiency of operations. In addition, staff will develop internal performance measurements to be reported on a quarterly basis for the purpose to keep the administration team well informed on the operations of the utility.

**4. Maintain an above average bond rating for municipal utilities.**

The benefit of having an above average bond rating is lower yield on bond issuances which translates into lower cost to the utility. To obtain the low interest rates, staff must be continually mindful of the criteria rating agencies take into consideration. Some of the criteria used are business characteristics (ability to fund its operations and capital needs and the health of its operations), financial strength (the ability to financially handle unforeseen circumstances), management track record (how management operates the system), and legal provisions (ability to meet various debt covenants).

**5. Continue to work with Michigan Public Power Agency on understanding the financial impacts of purchase power generation sources decommissioning.**

As the utility entitlement commitments, Belle River and Campbell coal plants, begin the decommissioning process there are financial/legal implications to consider such as decommissioning costs exceeding the estimated liability, and legal implication of the transmission rights continuing or ceasing with the decommissioning of the plant. These are only a few examples of financial impacts caused by the decommissioning process, which could either have a cost or benefit to the utility's ratepayers. Staff believes it is important to gain a full understanding of these implications once information is available to properly plan for these future costs or benefits.

## 4.2 Power Supply Strategy

Power Supply Strategy is an important strategic issue because it represents 70% of TCL&P's operating costs and impacts Traverse City's local economy through the utility's rate structure. Having a diverse portfolio and implementing state and Board requirements, including energy efficiency and renewable energy, allows the utility to be in regulatory compliance while not at major risk with only one fuel source. The areas focused on for this strategic issue include:

- Manage load growth through energy efficiency programs.
- Create a diversified cost-effective generation portfolio.

The Operating Strategy for Power Supply Strategy is to:

**“Ensure sufficient power supply in a fiscally responsible manner.”**

Three main Business Goals were identified to sustain and improve TCL&P's Power Supply Strategy:

- 1. Traverse City Light & Power commits to setting a goal of providing 100% renewable power to its customers in a fiscally sound manner. The utility intends to meet this goal by progressing from its current renewable portfolio of roughly 12% (wind, landfill gas and solar) by achieving the following interim goals.**
  - a. First, TCL&P will obtain new generation capacity from clean energy to meet or exceed the statutory mandate of 15% from clean & renewable energy sources by 2021;**
  - b. Second, TCL&P intends to obtain sufficient generation to fulfill at least 40% of its energy portfolio requirements from clean & renewable energy by 2025;**
  - c. Third, the utility will strive to obtain 100% of its generation with renewable energy by or before 2040.**

Staff plans to develop board approved guidelines regarding fiscally sound power purchase commitments to mitigate technology, concentration, capacity and pricing risk of the utility's purchase power portfolio.

- 2. Utilizing technology such as AMI to implement additional tools that are in the best interest of the utility to achieve energy savings that manage load growth and are aimed at reducing on-peak demand.**

Knowing that *“the lowest cost energy is the energy that is saved,”* TCL&P plans on utilizing tools and data from the Automated Metering Infrastructure program along with industry best practices to develop mechanisms such as demand response, time of use rates, electrical vehicles and energy storage as tools to level out daily electricity demand. These tools provide valuable resource options towards potential savings through reduction of on peak demand and defer construction of new power plants and power delivery systems. Additionally, staff will be following the recommendations in the Energy Waste Reduction Program Planning report which focuses on the energy waste reduction initiatives that provide the biggest impacts on the utility that make the most financial sense.

**3. Develop a long-term plan for the Energy Waste Reduction Program that strives to achieve an additional one percent above the State mandate.**

The utility will continue to utilize the Energy Waste Reduction Program Planning report and look for new and innovative ways to achieve the desired goals as technology evolves. Continuation of an Energy Waste Reduction Program is inevitable based on the need to lessen the energy generation at power plants which will reduce greenhouse gas emissions while allowing our consumers to save on energy costs.

### 4.3 Enhancing Operational Excellence

Striving to achieve operational excellence is one of the most important aspects of an organization's sustainable performance. Utilities that reach for a higher level of operational excellence receive numerous benefits that includes processes that are well thought out and efficient; a continually productive workforce; and an organization that consistently monitors and grows with industry changes. This results in properly managed assets that maintain the integrity of the system, utilization of technology to support streamlined processes, and a committed and empowered workforce. The objectives for this strategic issue are:

- Continually Improve system reliability in both the short and long term.
- Ensure processes maximize effectiveness and efficiency.
- Investigate and implement technological solutions that are cost effective and efficient.
- Create a culture of employee motivation for continuous improvement through involvement.

The Operating Strategy for Enhancing Operational Excellence is to:

**“Involve employees in planning, process and technology improvements to create a culture that supports the delivery of highly reliable energy in a safe, efficient and cost-effective manner.”**

Six main Business Goals were identified to enhance TCL&P's Operational Excellence:

- 1. Annually review, enhance and develop system maintenance programs ensuring System Average Interruption Duration (“SAIDI”) remains below 52.4 minutes.**  
SAIDI is the average outage duration for each customer served (total minutes of customer minutes out/total number of customers served). FY2018-19 resulted in 81.5 minutes for SAIDI. TCL&P is developing a transmission and distribution asset management plan involving routine field inspections and maintenance targets (this has already been created for substations). The company's GIS system will be utilized to track and report upon conditions requiring repair. This will result in improved asset data, budgeting, reliability and safety, as well as the maximization of assets and labor resources. In addition to creating a system of record for joint use billing data, a field inventory of all joint pole attachments will be the precursor to routine inspections and will provide physical numbering for all poles and any necessary map corrections. In addition, improvements to vegetation management contracts have been made to ensure cycles are being completed irrespective of emergent tree work.
- 2. Review current workplace flows for efficient and effective improvements that will provide for proper planning, review, approval and execution of utility projects.**  
Involving employees in the mapping of process flows leads to the entire group having a broader knowledge of how each area contributes to, and is affected by, the overall process. This results in a greater sense of ownership and motivation in contributing to positive changes. A few of the processes that require improvements in the near future are estimating, project review, work order management and logistics. The new work order management system will be instrumental in enabling these improvements.

**3. Safeguard the utility from cyber threats to stay current with industry standards.**

The cyber security threat environment is one that is constantly changing and evolving rapidly. The Federal Energy Regulatory Commission (FERC) and National Electric Reliability Commission (NERC) have guidelines and standards to follow for cyber threats. By following these guidelines TCL&P will maintain an electric system that is highly reliable against cyber intrusions that could affect TCL&P customers. On the business side, examples of cyber threats include data theft, denial of service attacks, website defacement and customer information disclosure or privacy breaches. On the operations side, cyber threats could target the generation and delivery of power. The greatest threat to electricity delivery is a sophisticated and coordinated cyber-physical attack on the operations side aimed at causing regional power outages. TCL&P will continue to adapt and follow guidelines provided by NERC and FERC to ensure system reliability.

**4. Completion of phase one of the FTTP project.**

Staff is working with the turnkey provider, Fujitsu, through the construction process along with developing the operations environment. This entails finalizing the data center, core network, marketing and sales, billing and customer service (not an all-inclusive list). Concurrently, staff is developing a strategy for onboarding the strategic plan from the turnkey third-party provider, Fujitsu, to the utility.

**5. Continue to enhance and modify the utility's recruitment and retention efforts to attract and retain a qualified, competent and professional workforce.**

TCL&P will place emphasis on maintaining a competitive compensation and benefits package, while simultaneously continuing to look at what current and potential employees' "value" from their employer. Additionally, knowledge transfer along with training and professional development will be at the forefront to ensure that our workforce has the necessary skills to evolve with the ever-changing utility environment.

**6. Continue to promote employer and employee awareness of, commitment to, and involvement with safety for employees and the public through cooperative efforts and strong leadership.**

The utility will continue to promote ownership and accountability of safety for both the workforce and the community. Employee communication and participation in safety activities/programs such as serving on the Safety Committee, helping to identify and resolve safety issues and implementing safety programs will be at the forefront. Additionally, resources that support an environment of safety will be promoted both internally and within our community through ongoing training and external educational opportunities.

## 4.4 Customer Satisfaction

Although Customer Satisfaction is affected by all previous Strategic Issues identified in this Plan, there are many ways for the utility to encourage, track, and modify how services are provided that will assist in attaining a higher level of customer satisfaction. The areas focused on for this strategic issue include:

- Maintaining a high level of customer service.
- Improving current, and developing new, communication avenues with customers.
- Providing a variety of value-added programs to customers.
- Strengthening partnerships for the betterment of the community.
- Ensuring lowest rates possible while meeting customer expectations.

The Operating Strategy for Customer Satisfaction is to:

**“Meet the evolving needs and expectations of the utility’s customers.”**

Three main Business Goals were identified to sustain and improve TCL&P Customer Satisfaction levels:

**1. Maintain and improve the level of services to meet customer expectations.**

The utility will continue to provide customers with the high level of service and responsiveness they expect. This will be done by reviewing and implementing new streamlined processes for areas such as bill payment, outage communication and account management. Success or improvement of these initiatives will be monitored using quarterly outage surveys and implementation of automated phone surveys following customer service interaction to ensure we remain at or above this threshold.

**2. Enhance the utility’s communications efforts and community involvement.**

The utility will continue to expand efforts on utilizing technology to effectively communicate with and educate customers and the public. However, technology will not be the only medium used. Additional opportunities to give back to the community that will involve sponsorships, employee volunteerism and other community events will be another outreach tool provided.

**3. Continually evaluate and implement services focused on assisting the unique needs of the utility’s key account and critical service customers.**

Key account and critical service customers represent some of the utility’s largest consumers and most impactful from a community service standpoint. Although all customers are of value to TCL&P, the distinct needs of this customer group require additional attention from staff due to the level of electrical demand and the economic impact of their business on the greater community. As the key accounts program develops, more programs will be added and defined to assist the customers growth and show our appreciation. A survey will be created to retain feedback on services provided and suggestions for improvements.

## 5. Conclusion

The fundamental purpose of TCL&P's strategic planning process was to identify, consider and act on the internal and external issues that are expected to have the greatest influence on TCL&P's ability to successfully achieve its vision and mission in the future.

Staff will provide semi-annual updates to the Board on its progress towards implementing and/or achieving the identified goals. As the utility moves forward, this Plan will be used as a guide for future strategic planning.

Annually, the Board and staff, through the budgeting process, will review and update the Plan as necessary to reflect changing Board and customer expectations of its public power utility. The utility must stay in-tune with the evolving electric industry, economic conditions, and customer expectations. The strategic issues of today including financial stability, power supply strategy, enhancing operational excellence, and customer satisfaction may not be the strategic issues of the utility in the future. It is the intent of TCL&P staff and its Board that this Plan be modified from time-to-time to remain relevant and useful in managing the utility.

TCL&P has a very long and proud history of serving the electrical needs of the Traverse City community. The utility looks forward to implementation of this Plan for the betterment of the City of Traverse City, its residents and all TCL&P customers.

