

OCTOBER 24, 2018



# HLP STRATEGIC PLAN

2019-2023

HEBER LIGHT & POWER COMPANY  
31 S 100 W, HEBER CITY, UT 84032



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## MISSION STATEMENT

The company's mission is to provide its customers with safe, reliable energy, in an open, responsible and environmentally sound manner while undertaking a commitment to the values of integrity, innovation, accountability and community service, and to promote an internal culture that fosters safety, loyalty and creativity as well as maintaining a highly skilled, motivated workforce.

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## COMPANY OBJECTIVE

Heber Light & Power Company is a Utah energy services interlocal entity formed by Heber City, Midway City, and Charleston Town to safely acquire, operate, and maintain facilities for providing services and improvements that are necessary for the acquisition, generation, transmission, distribution and management of electric energy and related services for the use and benefit of the company's customers.

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## COMPANY VALUES

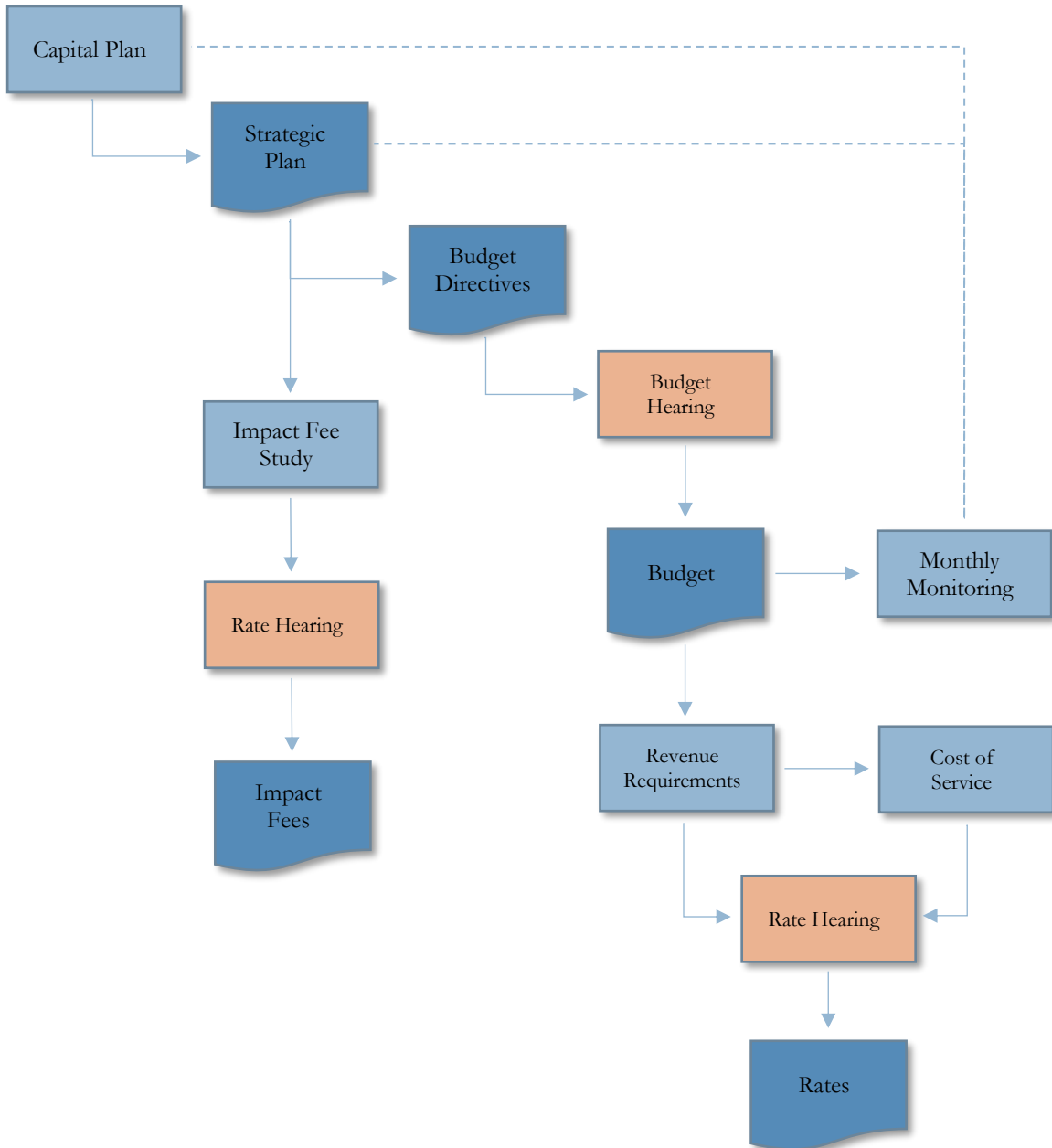
Heber Light & Power Company is driven by five key values that define the character of the company and its interactions with the customer base. These values are as follow:

- **SAFETY** – We ensure safety for ourselves, our co-workers, and the public.
- **TEAMWORK** – We look out for each other and achieve results by working together as a team toward common goals.
- **RESPONSIBILITY** – We are responsible for our actions, our resources, and the financial integrity of The Company.
- **RESPECT** – We have respect for each individual and consider the impact of our actions.
- **INTEGRITY** – We have integrity and honesty in all that we do.



## PLANNING & BUDGET PROCESS

Heber Light & Power Company uses a defined process each year to ensure appropriate financial assets are available to meet the needs of the company and the system overall. This process allows the stakeholders to provide valuable input at the appropriate times. Through this interaction, HLP is then able to work towards achieving its mission. The process is as follows:



## SWOT ANALYSIS

Heber Light & Power Company undertakes an annual SWOT analysis to ensure that the company is appropriately aligned to obtain its mission and abide by its values. This analysis is as follows:

### STRENGTHS:

- Employees (Experience, Focus, Skills)
- Culture of Safety
- Leading Edge Technology
- New Equipment
- Automation of Systems
- Relationships within the Valley
- Solid Infrastructure
- Built-in Automation
- Portfolio Diversification
- Energy Efficiency Program
- Rate Structure
- Real-time Energy Scheduling
- Distributed Generation Program

### WEAKNESSES:

- Rising Costs
- Staffing
- Changing Technology
- System Capacity
- Weather Impacts
- Service Call living Restriction
- Continuing Education Deficiencies
- Consistent Communications
- Growth Rate
- Training Options
- Fleet Maintenance
- Process Complexities
- Aged Equipment and Infrastructure

### OPPORTUNITIES:

- Strong Local and System Growth
- New Technology
- Advanced Rate Designs
- Reduced Environmental Footprint
- Advanced Mapping Systems
- Communication Tools
- Enhanced Equipment Functionality
- Regulatory Environment

### THREATS:

- Competing Utilities Stealing Employees
- Environmental Regulations
- Cyber-Security Threats
- Board Member Turnover
- Employee Related Regulatory Issues
- Single Point of Interconnect
- Interest Rate Changes
- Threatened Litigation

## STRATEGIC ANCHORS

Heber Light & Power Company adheres to a series of anchors that enables the company to focus on individualized goals while remaining firm in our attempt to fulfill our mission.



## Finance - Objectives

We strive to establish a stable and financially prudent environment by which HLP delivers its mission.

### 1. Maintain a Solid Rate Structure

Customer rates are the bedrock of our service. Appropriate rate design ensures that HLP can provide safe, reliable energy while warranting that are customers are charged a fair rate that minimizes cross-class subsidization.

### 2. Liquidity

Solid liquidity ensures that HLP can maintain strong partnerships with industry suppliers. HLP strives to ensure that adequate cash flows are available for both operational as well as capital drivers.

### 3. Bond Ratings

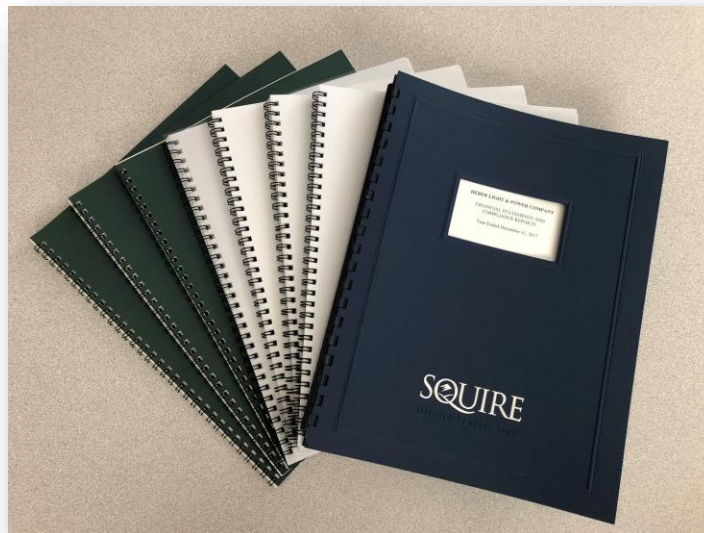
To adhere to the cost causation principle, HLP obtains financing from time to time to appropriately charge the customer base for capital improvements. As such the sale of bonds is an integral part of the HLP financing strategy and thus the need to enhance performance to maximize bond ratings.

### 4. Cost Management

As a public utility, HLP endeavors to ensure that expenditures are prudent and of the highest value before undertaking them. A solid purchasing policy ensures that competitive bidding is undertaken on all key services and items.

### 5. Revenue Growth

The HLP system continues to grow as new customers are added to the system each month. This increased customer base has provided additional revenue to the company in addition to new rate schedules. HLP employs these increased revenues to continue to be an innovative utility by advancing the technological opportunities present to the company and its customers.



## Finance - *Measurement*

HLP has identified the following as measures of financial position.

- ***Days Cash-on Hand:*** Days Cash-on Hand measures the number of days we can cover our operating expenses using unrestricted cash and investments and assumes no additional revenue is collected. This is an important measure of liquidity used by the rating agencies.
- ***Debt Service Coverage:*** Debt service coverage is a ratio of net revenues to annual debt service and is an indication of HLP's ability to meet its annual debt service obligations. Coverage requirements are set forth within HLP's bond resolutions and financial policies.
- ***Fixed Charge Coverage:*** Fixed charge coverage measures the margin of funds available to meet current debt service requirements and fixed or "debt-like" obligations related to purchased power.
- ***Debt to Capitalization Ratio:*** This is a measure of the level of debt as compared to HLP's asset base. Targets are established within HLP's financial approach and are an important measure used by the rating agencies.
- ***O&M Costs per Customer:*** HLP evaluates Operating & Maintenance costs per customer.
- ***Investment Yield:*** HLP seeks to maximize investment yield while preserving principal and investing only in those instruments allowed by State law.
- ***External and Internal Audit Results:*** Demonstrate compliance with laws, regulations, policies, and procedures.

## Finance - *Actions*

1. Continue to emphasize fiscal stewardship through sound planning and internal control systems.
2. Continue to develop benefit strategies that manage medical plan costs while maintaining good health care plans for our employees.
3. Proactively monitor system expenditures, eliminating frivolous and unnecessary purchases.
4. Ensure all purchases are made in accordance with Board adopted purchasing policy guidelines.
5. Complete a timely and accurate Fiscal Audit.
6. Ensure all regulatory filings are completed on time and in accordance with laws and regulations.

## Workforce - Objectives

We strive to establish a stable and financially prudent environment by which HLP delivers its mission.

### **1. Retention**

HLP strives to retain its investment in employees. It is the company practice to provide an attractive combination of compensation, benefits, reward programs, and to foster employee engagement and a positive and innovative working environment.

### **2. Succession Planning**

The electric utility industry is one in which an aging workforce is very much a real threat. HLP is not immune to the effects of this aged workforce dynamic. HLP recognizes the need to find and foster skilled talent. In addition, HLP understands that continuing to identify the roles of key employees is crucial to nurturing a pipeline with the right talent and skills to fill leadership positions.

### **3. Cross Training**

HLP must maintain a state of the art electrical system with a limited number of employees to do the work. It is our practice to retain employees that are multi-faceted and to invest in our workforce by providing training and learning opportunities to ensure that employees can perform cross-departmental duties. It is imperative that employees are knowledgeable and able to work safely, efficiently and effectively as a team to manage workloads.

### **4. Performance Based Culture**

A comprehensive performance management system can play a strategic role in attracting and retaining key employees and can also help improve the organization's overall performance. HLP understands that to maintain the best employees, performance levels need to be established and achievements recognized. As such HLP strives to foster a performance-based culture that identifies the strengths and weaknesses of all employees so that the organization can make informed and accurate decisions regarding an employee's contribution, career development, training needs, promotional opportunities, and compensation.

### **5. Compensation Strategy**

HLP undertakes the necessary steps to ensure that employees are compensated fairly in accordance with industry and local trends. We understand the risks of becoming a training facility for our competitors if the compensation levels are too low and therefore strive to maintain a competitive compensation structure that allows us to attract and retain a highly skilled workforce.



## Workforce - *Measurement*

HLP has identified the following as measures of workforce strength.

- ***Hiring Efficiency:*** HLP attempts to efficiently bring on new employees by regularly reviewing job classifications and write-ups to ensure prompt posting, interviewing, and hiring.
- ***Training and Development:*** HLP undertakes to ensure that all employees receive some form of regular training applicable to their position and assigned duties.
- ***RP3:*** The application process for APPA's RP3 Award includes a Workforce Development component worth 25% of the overall score. RP3 measures HLP's workforce development performance in three areas 1) Succession Planning and Recruitment 2) Employee Development and Recognition 3) Education, Participation, and Service. HLP will use this information as a guideline for determining best practices in the industry.
- ***Customer Feedback:*** Our employees are the key to our success. Success of HLP operations and service delivery to the community is reflective of our workforce. This is measured through customer feedback.
- ***Periodic Employee Surveys:*** Knowing that employees are our greatest asset, HLP conducts periodic employee surveys to help measure the engagement level of our employees.
- ***Employee Committees:*** HLP values the input of its employees and as such has various appointed employee committees to evaluate various components of the operations.

## Workforce - *Actions*

1. Continue to analyze workforce data (demographics, retirement eligibility, trends, service delivery, etc.) to identify succession planning strategies to meet current and future needs.
2. Continue to provide job shadowing, cross-training and other learning opportunities to assist in employee development and job knowledge transfer.
3. Enhance employee recognition programs.
4. Update processes relating to hiring, recruitment, and onboarding.
5. Continue to update job classifications to ensure they properly represent the necessary classification requirements and address the changing needs of the workforce.
6. Create transparency by engaging employees in matters of importance to them (i.e. development of policies which directly affect employees).
7. Review labor market data to ensure the compensation plan remains competitive and in line with industry best practices.
8. Provide ongoing structured leadership development opportunities for managers.

## Customer - Objectives

We strive to establish a customer focused environment by which HLP delivers on its mission.



### 1. Best Value for the Cost

HLP strives to provide reliable electricity at reasonable rates. In addition, we strive to provide additional services, options and programs that provide value to our customers.

### 2. Reliability

As a company, HLP desires to limit service interruptions to our customers. Efforts are regularly undertaken to mitigate the risks associated with mother nature, human interaction and cyber-security impacts on the system.

### 3. Service

HLP prides itself on the service provided to customers. From the initial interaction at account creation through billing concerns and a myriad of other contact reasons, HLP staff seeks to provide timely, friendly and appropriate service. Our local presence and shared impacts lends itself to customer service that far exceeds the standard investor owned utility experience.

### 4. Communication/Transparency

HLP seeks to be as transparent as possible. Creating and following a dynamic Strategic Communications Plan will align staff in sharing a consistent meaningful message and define the best channels to reach target audiences. HLP also intends on being transparent by adhering to the State's transparency requirements as well as the public meeting protocols.

### 5. Engagement

HLP encourages customer engagement through an open-door policy. In addition, the Company has multiple outreach events throughout the year in which employees are engaged with the public.



## Customer - *Measurement*

HLP has identified the following as measures of customer service.

- ***Customer Communication:*** HLP attempts to communicate regularly with our customers via newsletters, billing statements, social media platforms, and Public Power Week events
- ***Annual Rate Comparisons:*** HLP benchmarks the rate structures and values with other utilities throughout the state.
- ***Service Order Process:*** HLP tracks the completion of service orders as we strive to complete them in less than 48 business hours from the time the notification was received.
- ***Percentage of Customer Payments made electronically:*** Electronic payments offer an efficient and convenient method for customers to pay their bill. HLP measures the number and value of payments made via electronic means.
- ***Conservation Savings:*** HLP measures conservation savings each year as measured against goals established by the conservation potential assessment.
- ***Customer Participation:*** HLP will measure the involvement of the community through Advisory Board Participation, Public Event Attendance, Social Media Exposure/Tracking, etc....

## Customer - *Actions*

1. Support employee involvement in community organizations that demonstrates HLP's ongoing commitment to remain a valued community partner.
2. Develop financial plans to maintain retail rates that are reasonable and competitive with surrounding utilities while preserving HLP's primary goal of long-term fiscal sustainability.
3. Develop informational programs to educate and support our customers on various utility specific items such as rooftop solar investments and installations, energy efficiency measures, rate structures and key infrastructure needs.
4. Create a Strategic Communications Plan with benchmarks that define the audience, communication avenues, and align the message.

## Infrastructure - Objectives

We strive to establish a hardened and efficient electrical infrastructure by which HLP delivers on its mission.

### 1. Best Value for the Cost

HLP strives to obtain the most economical and efficient system for the delivery of energy to our customers. Typically, low-cost options are targeted but cost is only one factor in the deployment of electrical infrastructure. HLP seeks to design, develop, and deploy the most hardened infrastructure from metering to wires and poles and ultimately to the systems that collect, analyze and manipulate data.

### 2. Reliability

Many factors can impede reliable delivery of energy to our customers. Risks that can impact reliability are mitigated through investment in system upgrades, replacement of aging infrastructure, wildlife protections, maintenance programs, cyber security and improved system monitoring and controls.



### 3. Service

HLP strives to provide rapid response to all service requests. Whether it is a trench inspection, line locating request, transformer opening, or outage call, we aim for timely completion of the customer request. This is one area in which HLP prides itself as an industry leader.

### 4. Disaster Recovery

The Heber Valley is not immune from the potential for a disaster of major scale. A Disaster Recovery plan has been adopted and includes mutual aid agreements with neighboring utilities. The company also categorizes all outages as major, sustained, or momentary.

### 5. Design

The HLP system has been designed to optimize numerous contingencies. HL&P continues to seek system design improvements and future additions to the system for redundancy and efficiency based on industry standards.

## Infrastructure - *Measurement*

HLP has identified the following as measures of infrastructure development and maintenance.

- ***Electric System Reliability Indices:*** HLP monitors reliability of the electric system using three industry standard indices, System Average Interruption Frequency Index (SAIFI), System Average Interruption Duration Index (SAIDI), and Customer Average Interruption Duration Index (CAIDI).
- ***Aged Equipment Analysis:*** HLP undertakes regular reviews of equipment to ensure that losses from failed equipment are minimized.
- ***Energy Loss Percentage:*** HLP monitors the reasonableness of line loss by the ratio of energy losses within our electric system to APPA national standards.
- ***AMI Operations:*** HLP monitors the overall performance of the AMI system which correlates to improved billings and labor efficiencies.
- ***Information System Reliability:*** HLP measures the availability of critical information systems during both business and non-business hours.

## Infrastructure - *Actions*

1. Continue to maximize the value of HLP's advanced metering infrastructure (AMI) system.
2. Improve system-wide average reliability tracking by continuing to implement individual distribution feeder reliability tracking metrics and targeting system improvements where performance does not meet goals.
3. Continue to identify systematic upgrades and replacements for aging substation apparatus and line equipment.
4. The system is benchmarked every three years in the APPA RP3 program.

## Power Supply - Objectives

We strive to establish a stable and secure power supply portfolio by which HLP delivers on its mission.

### 1. Best Value for the Cost

HLP performs regular load forecasting and Integrated Resource Planning to provide the most economical energy resources that can best match system load and company values for today and in the future.

### 2. Reliability

Power Supply reliability is ensured by maintaining a diversified resource portfolio from various fuel sources and regions including local energy resources.



### 3. Internal Generation

A key element of the HLP resource portfolio is the local generation resources. To ensure that these resources are available when needed, regular service is undertaken to provide for immediate dispatch and rapid uptime. Internal Generation capacity is increased regularly based on system need.

### 4. Disaster Recovery

Due to transmission constraints on the bulk electric system, HLP on occasion needs to operate the distribution and internal generation system within the parameters mandated by the transmission service provider. HLP strives to maintain a level of adequate capacity for all critical infrastructure during these times of constraint on the system.

## Power Supply - *Measurement*

HLP has identified the following as measures of power supply diversification and availability.

- **Portfolio Mix:** HLP strives to maintain a diversified generation portfolio. Quarterly review is done on all generation shaft performance.
- **Annual IRP:** HLP performs an annual Integrated Resource Plan update to ensure that adequate resources are available for the coming year.
- **Resource Scheduling:** HLP monitors the resource scheduling mix to ensure the most economical resource is being deployed across the system.

## Power Supply - *Actions*

1. Hedge power risks associated with price and volume volatility through an active power risk management program.
2. Update the IRP plan with stakeholder input.
3. Evaluate the costs and benefits of energy storage; as it relates to generation and capacity.



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## **FINANCIAL FORECAST**

Heber Light & Power strives to accurately forecast out to five years and has included the following as such.



## Strategic Plan - 5 Year Forecast

	2018	2019	2020	2021	2022	2023
<b>Operating Revenue</b>						
Electricity Sales	18,732,219.00	20,430,440.90	21,023,147.61	21,636,472.37	22,271,178.09	22,928,056.98
Other Income	572,000.00	573,210.00	574,432.10	575,666.42	576,913.09	578,172.22
<b>Total Operating Revenue:</b>	<b>19,304,219.00</b>	<b>21,003,650.90</b>	<b>21,597,579.71</b>	<b>22,212,138.79</b>	<b>22,848,091.18</b>	<b>23,506,229.20</b>
<b>Power Production Expense</b>						
Generation Expense	(193,180.00)	(200,907.20)	(208,943.49)	(217,301.23)	(225,993.28)	(235,033.01)
Fuel Expense	(667,500.00)	(694,200.00)	(721,968.00)	(750,846.72)	(780,880.59)	(812,115.81)
Hydro Expense	(104,000.00)	(105,040.00)	(106,090.40)	(107,151.30)	(108,222.82)	(109,305.05)
Total Power Production Expense:	(964,680.00)	(1,000,147.20)	(1,037,001.89)	(1,075,299.25)	(1,115,096.68)	(1,156,453.87)
<b>Purchased Power Expense</b>	(9,704,000.00)	(10,227,100.00)	(10,553,116.40)	(10,972,832.96)	(11,158,665.84)	(12,386,966.52)
<b>Total Cost of Sales:</b>	<b>(10,668,680.00)</b>	<b>(11,227,247.20)</b>	<b>(11,590,118.29)</b>	<b>(12,048,132.22)</b>	<b>(12,273,762.52)</b>	<b>(13,543,420.39)</b>
<b>Operations and Maintenance Expense</b>						
Operations Expense	(384,000.00)	(397,660.00)	(409,861.60)	(423,484.58)	(436,855.14)	(451,729.94)
Maintenance Expense	(1,451,000.00)	(1,480,020.00)	(1,509,620.40)	(1,539,812.81)	(1,570,609.06)	(1,602,021.25)
<b>Total O&amp;M Costs:</b>	<b>(1,835,000.00)</b>	<b>(1,877,680.00)</b>	<b>(1,919,482.00)</b>	<b>(1,963,297.39)</b>	<b>(2,007,464.21)</b>	<b>(2,053,751.18)</b>
<b>Administrative and General Expense</b>						
Customer Related	(132,200.00)	(134,044.00)	(135,924.88)	(137,843.38)	(139,800.25)	(141,796.25)
Employee Related	(2,839,390.00)	(2,941,363.50)	(3,047,385.72)	(3,157,629.08)	(3,272,273.77)	(3,391,508.06)
Facilities & Supplies	(196,000.00)	(189,300.00)	(193,730.80)	(198,276.01)	(202,938.94)	(207,723.04)
IT/Communications	(405,000.00)	(422,850.00)	(441,568.50)	(461,198.69)	(473,798.28)	(486,763.51)
Vehicles	(280,000.00)	(285,600.00)	(291,312.00)	(297,138.24)	(303,081.00)	(309,142.62)
<b>Total A&amp;G Costs:</b>	<b>(3,852,590.00)</b>	<b>(3,973,157.50)</b>	<b>(4,109,921.90)</b>	<b>(4,252,085.39)</b>	<b>(4,391,892.25)</b>	<b>(4,536,933.47)</b>
<b>Total Operating Income:</b>	<b>2,947,949.00</b>	<b>3,925,566.20</b>	<b>3,978,057.53</b>	<b>3,948,623.79</b>	<b>4,174,972.20</b>	<b>3,372,124.16</b>
Depreciation	(2,100,000.00)	(2,600,000.00)	(2,678,000.00)	(2,758,340.00)	(2,841,090.20)	(2,926,322.91)
<b>Total Operating Income less Depreciation:</b>	<b>847,949.00</b>	<b>1,325,566.20</b>	<b>1,300,057.53</b>	<b>1,190,283.79</b>	<b>1,333,882.00</b>	<b>445,801.25</b>
<b>Capital Assets (Book Value)</b>	37,000,000.00	39,703,447.00	47,667,447.00	50,778,447.00	58,037,447.00	61,526,447.00
<i>Return on Investment (ROI)</i>	2%	3%	3%	2%	2%	1%
<b>Non-Operating Revenues</b>						
Build America Bond Subsidy	111,457.84	111,457.84	118,825.00	118,825.00	118,825.00	118,825.00
Interest	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00
Gain on Sale of Assets	23,000.00	-	-	-	-	-
<b>Total Non-Operating Revenues:</b>	<b>159,457.84</b>	<b>136,457.84</b>	<b>143,825.00</b>	<b>143,825.00</b>	<b>143,825.00</b>	<b>143,825.00</b>
<i>Funds Available for Debt Service</i>	<b>3,107,406.84</b>	<b>4,062,024.04</b>	<b>4,121,882.53</b>	<b>4,092,448.79</b>	<b>4,318,797.20</b>	<b>3,515,949.16</b>
<b>Debt Service</b>						
2010 Electric Revenue Bonds	(462,100.00)	(464,100.00)	(465,900.00)	(467,500.00)	(468,000.00)	(463,250.00)
2012 Electric Revenue Bonds	(363,300.00)	(357,500.00)	(358,800.00)	(354,800.00)	(355,650.00)	(361,200.00)
2019 Electric Revenue Bonds	-	(1,015,009.00)	(1,029,629.00)	(1,026,073.00)	(1,007,825.00)	(1,011,790.00)
2015 Generator Financing	(123,738.18)	(127,116.69)	(130,563.15)	(134,078.74)	(137,664.68)	(141,322.19)
<i>Total Debt Service</i>	<i>(949,138.18)</i>	<i>(1,963,725.69)</i>	<i>(1,984,892.15)</i>	<i>(1,982,451.74)</i>	<i>(1,969,139.68)</i>	<i>(1,977,562.19)</i>
<b>Debt Service Coverage:</b>	<b>3.27 x</b>	<b>2.07 x</b>	<b>2.08 x</b>	<b>2.06 x</b>	<b>2.19 x</b>	<b>1.78 x</b>
<i>Funds Available for Capital</i>	<b>2,158,268.66</b>	<b>2,098,298.35</b>	<b>2,136,990.38</b>	<b>2,109,997.05</b>	<b>2,349,657.52</b>	<b>1,538,386.97</b>
<b>Capital Plan</b>						
Lines	1,186,427.00	2,381,000.00	1,445,000.00	515,000.00	655,000.00	4,135,000.00
Substations	788,722.00	3,131,000.00	996,000.00	4,831,000.00	503,000.00	8,000,000.00
Generation	61,887.00	503,000.00	65,000.00	65,000.00	2,065,000.00	305,000.00
Systems & Technology	124,200.00	88,000.00	90,000.00	90,000.00	121,000.00	90,000.00
Tools & Equipment	44,652.00	173,000.00	45,000.00	45,000.00	45,000.00	45,000.00
Vehicle	489,456.00	350,000.00	300,000.00	-	100,000.00	400,000.00
Buildings	8,103.00	1,338,000.00	170,000.00	1,713,000.00	-	161,000.00
<b>Total Capital Additions:</b>	<b>2,703,447.00</b>	<b>7,964,000.00</b>	<b>3,111,000.00</b>	<b>7,259,000.00</b>	<b>3,489,000.00</b>	<b>13,136,000.00</b>
<i>Cash Position after Capital Plan:</i>	<i>(545,178.34)</i>	<i>(5,865,701.65)</i>	<i>(974,009.62)</i>	<i>(5,149,002.95)</i>	<i>(1,139,342.48)</i>	<i>(11,597,613.03)</i>
<i>Running total of shortfall:</i>	<i>(545,178.34)</i>	<i>(6,410,879.99)</i>	<i>(7,384,889.62)</i>	<i>(12,533,892.57)</i>	<i>(13,673,235.05)</i>	<i>(25,270,848.08)</i>