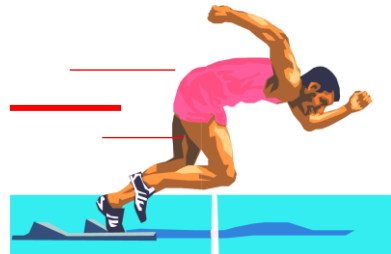


Heber Light & Power

Thanks Heber City Council
for 10 minutes

A lot to cover



Heber Light & Power

My Qualifications

2013 and 2014 Budgets Messed Up – Some Examples

What's the Real Issue?

Where to Start – Recommended Actions

Suggested Strategic Goals – Fiscally Responsible

My Qualifications

HL&P customer

2 degrees in Engineering

40 years auto/truck component manufacturing

20 years operations management – US and overseas

5 successful turnarounds - from \$30M to \$250M sales

2013 Budget Forecast vs. 2012 Actual Results

Operating Income before Depreciation	2012 = \$2.7M 2013 Budget (\$0.3M)
Revenue	down 5%
Cost of Sales Expense	up 28%
Operating Expense	up 10%

Sandbagging, in business, is ... when company managers temper the expectations of superiors or shareholders by giving guidance below what they know will be achieved.

Once the better than expected results are presented, the firm looks all the better. -

Investopedia.com



2013 Actual Performance vs. 2013 Budget

Operating Income before Depreciation:

2013 actual **\$1.4M** better than 2013 budget

- \$0.3M - electricity sales higher than *low budget forecast*
- \$0.9M - contributed capital & impact fee revenue *not in budget*
- \$1.0M - less purchased power than *high budget forecast*
- (\$0.7M) – ledger adjustment writeoff *not in budget*

\$1.4M

-> better by \$2.1M before 2012 writeoff

2013 Performance to Budget

Operating Income before Depreciation:

2013 actual was **\$1.4M to \$2.1M** better
than 2013 budget

Not due to performance
Improvement

2014 Budget Forecast vs. 2012 & 2013 Actual Results

	2014 Budget vs. 2012-2013 History
Operating Income before Dep.	- 68%
2012-13 Ledger adjustment (average)	(\$0.4M) = -58%
Revenue with 4-1/2% rate increase	-1%
Revenue without rate increase	- 5-1/2%
Impact Fees	Not in budget
Cost of Sales Expense	up 16%
Power Purchased	up 14%
Generator Maint./Fuel	up 32%
Operating Expense	up 9%
We've all heard examples	

2014 Budget Forecast vs. 2012 & 2013 Actual Results

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Operating Expense	up 9%
We've all heard examples	

Less revenue & much more expense although underlying volume increases 3%



Quick Note

Total expenses in 2014 Budget (approved 12/18)
are \$1.9M higher than 2014 Forecast in the
2014-18 Strategic Plan (approved 12/9)

Realistic 2014 Budget

	2014 Budget vs. 2012-2013 History	2014 Budget should be Better by at least:
Operating Income before Dep.	- 68%	\$2.9M - \$3.9M
2012-13 Ledger adjustment	(\$0.4M) = -58%	+ \$0.4 -> should be \$0
Revenue with 4-1/2% increase	-1%	
<i>Revenue without rate increase</i>	- 5-1/2%	<i>-\$0.6M -> should be even</i>
Impact Fees	Not in budget	+ \$1.0M more revenue
Cost of Sales Expense	up 16%	\$1.0M less expense
Power Purchased	up 14%	
Generator Maint./Fuel	up 32%	
Operating Expense	up 9%	\$0.9M less expense

Realistic 2014 Budget

	2014 Budget vs. 2012-2013 History	2014 Budget should be Better by at least:
Operating Income before Dep.	- 68%	\$2.9M - \$3.9M
2012-13 Ledger adjustment	(\$0.4M) = -58%	+ \$0.4M -> might be \$0??

With

no rate increase

Operating Expense

up 9%

+0.9M

What Issues Are Talked About?

- CFO mess
 - “Unethical” Board of Directors increase in pay (A. McDonald)
 - Bond rating downgraded
 - \$0.7M Ledger adjustment
 - 2 new board members removed, 2 old ones reinstated
 - General Manager retired
 - Budgets messed up
 - 5 year strategy not fiscally responsible
-
- RMP needs another line to serve Park City & Brighton *, big controversy in Park City – is HL&P paying for it?

* Public Service Commission Document 69589, Exhibit H

What's the Real Issue?

- CFO mess – bond rating downgraded
- \$0.7M Ledger adjustment
- 2 new board members removed, 2 old ones reinstated

Credibility

- RMP needs another line to serve PC & Brighton *, big controversy in Park City – HL&P paying for it?

* Public Service Comm. Document 69589, Exhibit H

Where to start ... NOW

- Adjust 2014 budget
- Start NOW on 2015 strategic plan
 - Use baseline financials & volumes from past 5 years
 - Open up the process for public input
 - **Agree on strategic goals** with justified investments
 - Develop action plans to make sure they're achieved
- While finding the right manager with the right stuff

communicate

communicate

community

Current Strategic Plan 2014-2018

Mission: “Be a recognized leader by providing outstanding customer value and reliable service.”

Two Greatest Risks for Customers

- Rising Price of Purchased Power – 50% of expenses
- Single Line from RMP – risk of outage or brownouts

Goals in the Plan

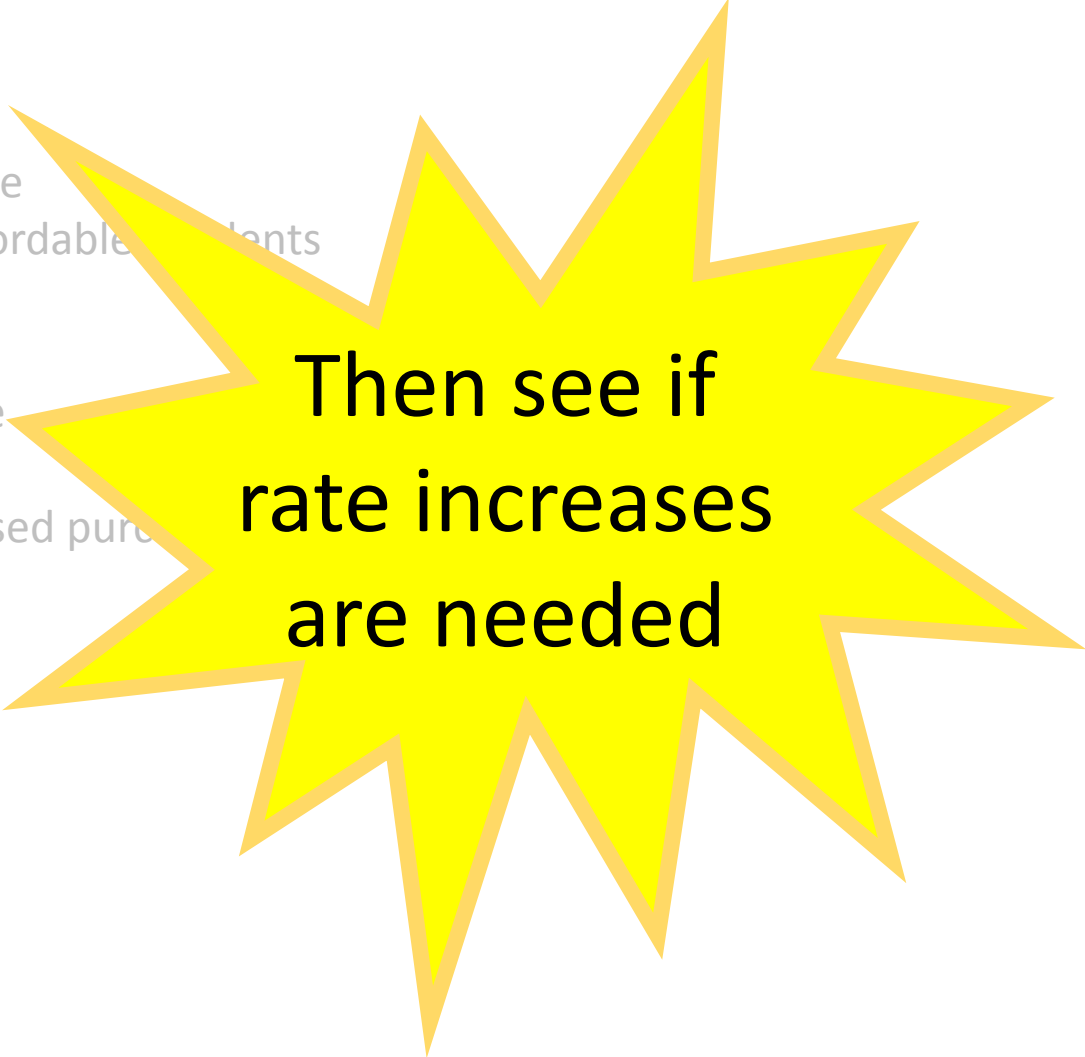
- “Manage wholesale energy assets”
- Install \$8M Interconnection Line to RMP
- 4-1/2% per year Rate Increase
- Great Safety/Security Performance
- Well Trained People

Suggested strategic goals for the path forward

- **Strengthen Leadership Team**
 - fiscal skills & accountability
 - Performance oriented
 - **Install Rigorous Cost Management**
 - History based budgets – where did the money go?
 - What can we really afford to meet our goals?
 - **Improve Operating Performance**
 - Better every year
 - Based on volume: power purchased, generated, sold
 - **Justify every investment**
 - Expect a return on our money
 - **Reduce dependency on coal-based purchased power**
 - No need for \$8M second RMP line with \$0 Payback
 - **Invest in renewable energy production rather than diesel & natural gas – justified with real payback**
 - Solar panels – could be small increments starting now
 - Pumped storage
 - Geothermal
- Great Safety Performance
 - Well Trained People

Suggested strategic goals for the path forward

- Great Customer Service
- Reliably provide electrical service
- Great Safety Performance – recordable incidents
- Strengthen Leadership Team
- Rigorous Cost Management
- Improve Operating Performance
- Justify all investments
- Reduce dependency on coal-based purchases
- Utilize renewable energy



**Then see if
rate increases
are needed**

Thank You

How Can I Help?