

STRATEGIC PLAN 2021



TRAVERSE CITY
LIGHT & POWER

INTRODUCTION

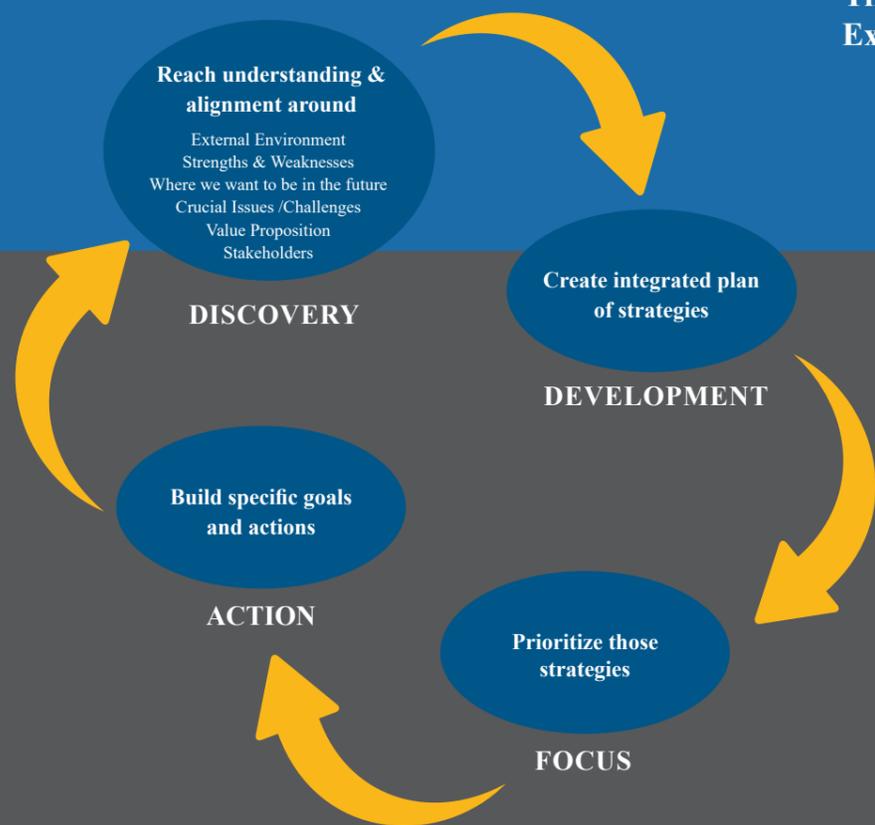
From the Executive Director

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. The plan was adopted on January 28, 2014.

The purpose of the Plan was 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



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WHO WE ARE



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 prides itself on being a responsive and community-friendly electric utility. The core purpose of the utility is electric service, but it has grown to provide telecom services with the new TCLP*fiber* as well as a complimentary downtown Wi-Fi network, dark fiber system, and street lighting, 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.

TCL&P provides electric service to Traverse City and parts of outlying areas in East Bay, Elmwood, Garfield and Peninsula Townships. Electricity is distributed 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 focused on system reliability and transitioning the system to a looped system. This included construction of a transmission and distribution substation, upgrades of key transmission lines, replacement of two substation transformers and construction of two transmission switching stations.

Currently, TCL&P is a \$34 million operation with net assets of \$76.7 million. The largest portion 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.

As of fiscal year-end June 30, 2020, the utility served an average of 12,044 utility meters and sold 326,654 mega-watt hours (“MWh”) of electricity. 73% of the utility’s customers are residential providing 20% of the utility’s revenues; conversely, 27% are commercial customers that provide 80% of the utility’s revenues. An average residential customer uses 539 kWh per month, which equates to a monthly bill of \$55.38.

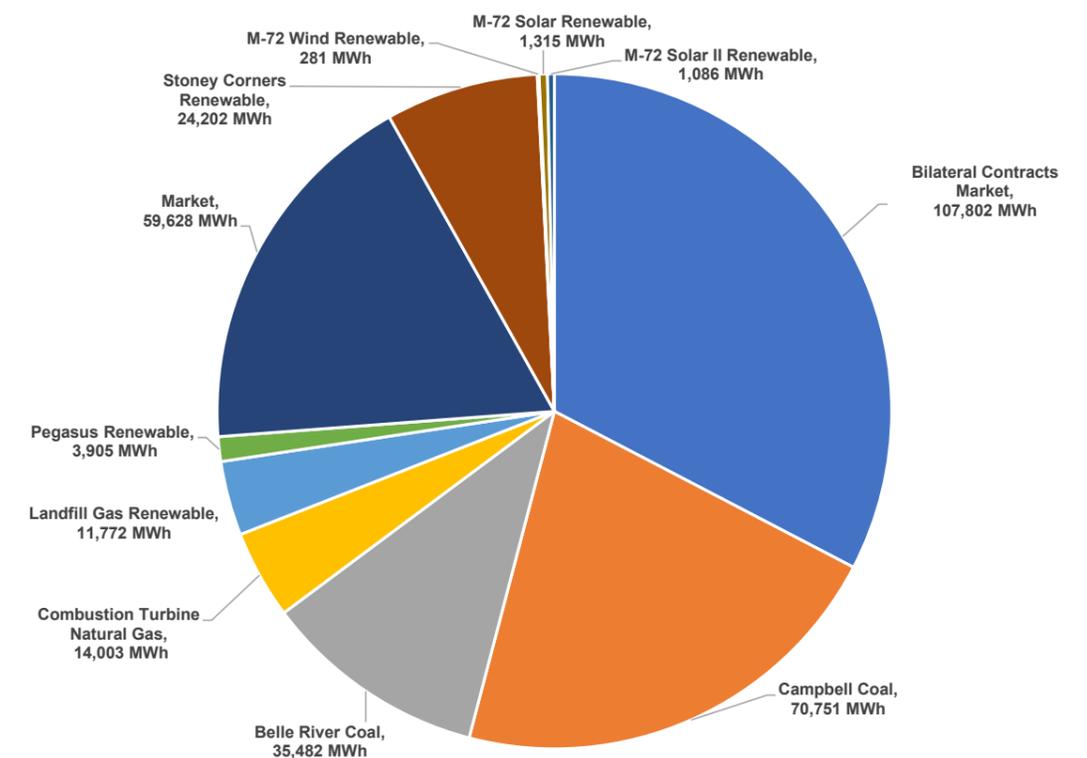
WHO WE ARE

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 June 30, 2020, the utility’s renewable generation was at 13%. However, based on current commitments, we will be at 28% in the coming years.

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.

Generation in MWh by Project
June 30, 2020



OUR BOARD



JOHN TAYLOR
BOARD CHAIR



ELYSHA DAVILA
BOARD VICE-CHAIR



PAUL HEIBERGER
BOARD MEMBER



PATRICK MCGUIRE
BOARD MEMBER



ROSS HAMMERSLEY
BOARD MEMBER



AMY SHAMROE
CITY COMMISSIONER



TIM WERNER
CITY COMMISSIONER



MARTY COLBURN
CITY MANAGER
(EX-OFFICIO)

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 comprised of seven-members 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. TCL&P looks forward to serving its customers with these principles for many years to come.

OUR HISTORY

1920 - 1970

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, 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.

In 1920, the Traverse City Chamber of Commerce had to pause its efforts in pursuing new businesses because of the lack of reliable 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.

In 1948, an \$850,000, five-year expansion program for the Bayside Power Plant was approved. This allowed 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 further impacted 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. The 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 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.

HISTORY

1970 - 2005

During the blizzard of 1977, work crews braved snow depths of more than eighteen inches to restore power. Fortunately, because TCL&P had locally generated power, 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 became 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.

HISTORY

2005 - 2013



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.

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 100th 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 2012, TCL&P was hit with one of the worst winter storms in the utility’s history. Approximately 8,000 of TCL&P’s 11,500 customers experienced outages. Due to the extent of the storm, TCL&P enacted, for the first time ever, a mutual aid agreement to request assistance from other electric utilities to help in the restoration effort. All TCL&P customers were restored within three days.

HISTORY

2013 - 2018

In the spring of 2013, TCL&P partnered with Cherryland Electric Cooperative to offer the first Community Solar Project in Michigan and the first such partnership in the United States between a municipal and cooperative utility. 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 December 2014, TCL&P signed over ownership of the M-72 wind turbine to Heritage Sustainable Energy, LLC, 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 within the DDA’s jurisdiction. The DDA desired to have this secure municipal network to provide electronic parking services. TCL&P will be fully reimbursed for the installation and maintenance by 2025.

In June 2015, the East Hammond Substation was placed in service to increase transmission system reliability. This was followed by the South Substation in January 2016 for reliability of the distribution system. Total cost on both projects was approximately \$12.3 million.

In May 2017, TCL&P implemented an Art on Utility Infrastructure program providing customers the opportunity to have artwork placed on TCL&P owned infrastructure.



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 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 provided 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.

HISTORY

2018 - 2020

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.

In June 2019, the Board agreed to execute a construction and operation agreement with Fujitsu for Phase I Fiber to the Premise Project (FTTP), putting the City of Traverse City at the forefront of becoming both a tech hub in Northern Michigan, as well as a “smart city”.

In August 2019, the Board approved the Resolution of Intent to establish a residential clean energy financing plan (On-Bill Financing) described in the State of Michigan Public Act 408 of 2014. The plan would provide easy affordable loans to Traverse City homeowners for qualifying energy efficiency and renewable energy improvements. Customers would pay back the loan through a per meter charge on their utility bill for electric services. The program launched in September 2020.

In December 2019, the utility installed a dual port Level 2 electric vehicle charging station in the main parking lot of the Hastings Street Service Center.

In August 2020, the Board approved FTTP Phase 1.1 to expand the service offering to include an additional 1,000 customers in Central Neighborhood through an interfund loan with the City’s Economic Development Fund. This was followed by approval from the City Commission in September.

In September 2020, the United States Department of Agriculture (USDA) Rural Utilities Service awarded TCL&P a \$1.8 million USDA loan to support the utility’s On-Bill Financing Program. The awarding of funds for such a program was the first of its kind in the nation.

On October 1, 2020, TCL&P officially launched Phase 1 of the Fiber to the Premise Project. Branded as TCLP*fiber*, the ultra-fast internet and digital voice services became available for customer sign ups through the new TCLP*fiber* website.



UNDERSTANDING THE UTILITY ENVIRONMENT

The last several decades have seen the emergence of low-cost renewable energy and increasing emphasis and technologies for energy waste reduction. We have seen changes with our evolving workforce, the physical environment, regulation, growing demand, legacy costs and many others that we expect will continue to impact the utility environment and traditional service delivery model. This changing landscape means the utility also must evolve, taking an approach that builds on our existing strengths, improves on our weakness, addresses any threats, and rises to opportunities, all while doing our best to represent the values of the community we serve.

TCL&P is taking a proactive approach to create synergy between our focused initiatives. It's a puzzle that once the pieces are in place, the picture will display a utility that has been proactive in minimizing its carbon footprint and helping to reduce the impacts of climate change, while ensuring reliability and financial stability that are at the core of our delivery model.

Within our overarching vision and mission, the utility has identified four strategic priorities that serve as a framework for these efforts.



UTILITY ENVIRONMENT FINANCIAL STABILITY

The utility continues to be mindful of legacy costs as it is the utility's largest liability. The utility has made significant strides in reducing these costs. With our pension system, the utility implemented ten-year amortization accelerated pension payments, revised pension plans for new hires with a reduced multiplier and most recently, transferred line workers hired after July 1, 2012 from a defined benefit plan to a defined contribution plan. For the OPEB plan the utility continues to annually pay the required contribution in addition to the retiree's annual health insurance premiums. The retiree health care benefit for new hires has been reduced from coverage for life to when they are Medicare eligible. Also, 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.

In addition to legacy costs, utility sales have been impacted through customers conserving or implementing energy waste reduction products or programs. One less megawatt of sales is less revenue to capture to cover capital costs and expenses relating to replacing aged infrastructure and operations 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 fixed 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. One less megawatt defers the utility cost relating to new generation, transmission and distribution at a fraction of the cost to construct this infrastructure. This saves the customer money on their monthly bill and avoids negative impacts on the environment by preventing the demand of new generation.

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. One example of this is transition through electrification or using electric for power traditionally sourced by fossil fuels. Some examples are transportation (EV), space heating, and manufacturing. This can be done with carbon free renewable energy as long as there is sufficient generation to allow the customer to benefit from this low-cost energy while providing environmental benefits at the same time.

Other initiatives underway include implementation of pilot time of use rates where prices are based on certain times of the day at varying rates to reflect the utility's typical peak and off-peak times. It is the intention of the utility to change customer habits and reduce the utility's peak demand. This will result in lower costs for the utility and the customer through purchase power and capital costs. Capacity costs relating to generation along with distribution and transmission infrastructure are based on the utility's peak demand. Any reduction in these costs ultimately leads to a cost savings to the utility that are passed through to the customer. This rate can also encourage investment in electric vehicles and it aligns costs with the residential customers who have distributed energy resources. The time of use rate will also support the Board's 100% renewable energy goal by reflecting lower energy prices when clean power is abundant and high prices when energy is at its peak demand and more carbon intensive.

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.

UTILITY ENVIRONMENT FINANCIAL STABILITY



TCL&P was awarded \$1.8M in United States Department of Agriculture Financing for the utility's On-Bill Financing Program. The Program allows the utility to loan money to residential customers to make energy efficiency upgrades or invest in renewable energy at their home while repaying their loans through their monthly electric bill.

As mentioned previously, TCL&P embarked on Phase 1 of Smart Grid/Fiber to the Premise Project October 1, 2020 bringing broadband and VOIP services to those utility's customers while providing mechanisms for the Smart Grid initiatives of the utility. This phase is financed through an internal fund of the Electric Fund in the amount of \$3.5M.

In August, the Board approved Phase 1.1 which expands the territory of the Smart Grid/Fiber to the Premise Project to include the neighborhoods to the west of Union Street, south of Front Street to fourteenth Street. This phase is being financed through an internal fund loan through the City of Traverse City's Economic Development Fund in the amount of \$800K.



UTILITY ENVIRONMENT POWER SUPPLY & ENERGY CONSERVATION



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. 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 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.

The utility is also mindful of the potential constraints such as remaining terms of existing entitlement contracts and the uncertainty of future MISO tariff adjustments as more intermittent renewable energy sources come online replacing the traditional coal generation. Also 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 are on our radar.

Additionally, as mentioned previously, the utility is moving forward with Smart Grid implementation. The smart grid will be used to create reduced peak demand opportunities and reduction in energy consumption.

UTILITY ENVIRONMENT



ENHANCING OPERATIONAL EXCELLENCE

TCL&P customers currently enjoy reliable 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 service. Truly effecting this change will require employee involvement in necessary improvements to their department and for each employee to understand the flow of 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.

The utility is fortunate to have a workforce that is committed to the community they serve. However, the challenges we have seen in years past continue to exist across the industry when it comes to recruiting and retaining skilled labor. TCL&P will need to continue to implement best practices to not only recruit but also retain employees. Where applicable, the identification and institution of formal technical training programs, such as the three-year System Operator Certification program is an example of one practice to ensure the success of the employee and TCL&P.

In addition to garnering best practices through employee involvement, optimizing internal labor and technology resources will help TCL&P become more effective and efficient. Data is invaluable for decision-making; however, accurate data is necessary for making wise decisions. TCL&P can further leverage its existing GIS investment and labor resources by routinely capturing field data for its facilities such as:



Asset Conditioning Requirements



Streetlight Information



Joint Use Attachments



Necessary Mapping Corrections

The long-term integrity of the data can only be supported through process improvements. Maintaining data routinely with improved processes in an ongoing fashion reduces the need to perform costly full-system inventories with external resources to verify data in the future. Even more important, this work also minimizes the need or scope of individual circuit rebuild projects and increases reliability, as field assets requiring repair are identified and more quickly maintained throughout the system utilizing the internal workforce as much as possible.

In an effort to further increase efficiencies, creating detailed project designs utilizing a new estimating tool will allow more accurate estimating that will be used for calculating TCL&P and customer costs, providing material pick lists for staging of material in advance, planning and executing projects, and eventually for providing improved asset accounting information.

UTILITY ENVIRONMENT



ENHANCING OPERATIONAL EXCELLENCE

Outdated or undocumented processes and policies can create inefficiencies, inconsistencies, frustrations and costly mistakes. Some areas identified for improvement in the near term include banner attachments, new streetlighting installations, line extension policies, information documenting and sharing for customer project meetings.

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.



UTILITY ENVIRONMENT CUSTOMER SATISFACTION



TCL&P's Board and staff are continuously researching and implementing innovative programs and services to meet the evolving expectations of our customers and the community we serve. The utility is also committed to accessibility, communicating awareness and providing education about these programs and services. One challenge, however, is ensuring the delivery methods used are successful in reaching the broad spectrum of customer preferences that range anywhere from the highly digital interaction and use of technology, to engagement done through a more hands-on approach.

With 80% of the utility's revenues coming from our commercial customers, we have implemented a Key Accounts Program that places increased focus on the top revenue generating customers within this class. The mission of our Key Accounts Program is to keep these customers informed on everything happening at Traverse City Light and Power while offering customized and personalized service that fits each business's individualized needs. Creating strong, direct relationships with each of the accounts is the key to our program.



STRATEGIC PRIORITIES

The plan centers around the four key strategic priorities:

 **FINANCIAL STABILITY**

 **POWER SUPPLY & ENERGY CONSERVATION**

 **ENHANCING OPERATIONAL EXCELLENCE**

 **CUSTOMER SATISFACTION**

These priorities were identified during planning sessions between the Board and staff which would be the overarching focus both now and into the future.

From these, an operating strategy was developed, followed by business goals to sustain and improve the strategic priority.



STRATEGIC PRIORITY

FINANCIAL STABILITY



This function allows the possibility for the goals to be achieved in every other strategic priority. 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.

Area of focus ----- **Practice good financial stewardship.**

Operating Strategy: "Maintain positive operating cash flows and adequate capital reserves to sustain the financial health of the utility."

Goal #1: Develop and implement rate structures to promote financial stability and environmental sustainability.

The electric utility industry is in a new era of regulations. The impacts range from the decommissioning of aged coal plants, utilization of energy efficiency programs and new and improved technologies like renewable generation and battery storage. The utility is seeing the impacts with the implementation of new technologies such as AMI which allows for significant data collection for multiple benefits (energy efficiency, demand side management, distribution network management, improved data quality and accurate billing). The utility is also exploring time of use rates as a method to reduce the utility's peak demand and shifting usage to off peak periods in the efforts of reducing the demand or need for inefficient generation that is typically more carbon intensive. Even with all these impacts, the utility is 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.

Goal #2: Continue to enhance internal controls over financial accounts by improving current procedures and processes along with identifying cost savings.

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.

Goal #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.

FINANCIAL STABILITY

Goal #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).

Goal #5: Continue to work with Michigan Public Power Agency on understanding the financial impacts of 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.



STRATEGIC PRIORITY



POWER SUPPLY & ENERGY CONSERVATION

Power supply 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.

Areas of focus ----- (1) Manage load growth through energy efficiency programs (2) Create a diversified cost-effective generation portfolio

Operating Strategy: "Ensure sufficient power supply in a fiscally responsible manner."

Goal #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:

- 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;
- Second, TCL&P intends to obtain sufficient generation to fulfill at least 40% of its energy portfolio requirements from clean & renewable energy by 2025;
- Third, the utility will strive to obtain 100% of its generation with renewable energy by or before 2040.

Develop an integrated resource plan to develop a strategy for the utility's 100% renewable energy purchase power goal while providing transparency to consumers and the ability to comment on the strategy.

Goal #2: Utilize technology such as AMI to implement additional tools that are in the best interest of the utility and its customers to achieve energy savings that manage load growth and are aimed at reducing on-peak demand and customer bills.

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 major upgrades to power delivery systems. Additionally, staff will be continually focused on creating energy waste reduction initiatives that provide the biggest impacts on the utility and make the most financial sense.

POWER SUPPLY & ENERGY CONSERVATION

Goal #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 Michigan Energy Measures Database report and look for new and innovative ways to achieve the desired goals as technology evolves. Continuation of an Energy Waste Reduction Program in some form is inevitable based on the need to minimize energy generation requirements. With any moves towards electrification in order to reduce carbon footprints, this will become even more critical.

Goal #4: Create an electric vehicle charging station network.

Staff is committed to helping Traverse City become an environmental leader by creating a network of electric vehicle charging stations to reduce carbon emissions. With major shifts in production, vehicle manufacturers have signaled that change is coming. As Traverse City is a popular destination spot, it is critical to be prepared. An initial pilot mix of level II and DC fast chargers is proposed, with key considerations being: location, rates, customer support, available federal grants and stakeholder buy-in. Analysis of the pilot along with future grant programs will determine recommendations for expansion.



STRATEGIC PRIORITY



ENHANCING OPERATIONAL EXCELLENCE

Striving to achieve operational excellence is one of the most important aspects of an organization's sustainable performance. Utilities that strive for 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.

Areas of focus ----- (1) Improve system reliability in both the short and long term (2) Processes that maximize effectiveness and efficiency (3) Investigate and implement technological solutions that are cost effective and efficient (4) Create a culture of employee motivation for continuous improvement through involvement

Operating Strategy: "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."

Goal #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 utilizing transmission, distribution and substation asset management plans involving routine field inspections and maintenance targets. 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, improvements to vegetation management contracts have been made to ensure cycles are being completed irrespective of emergent tree work.

Goal #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. Staff has created a detailed estimating tool that will provide detailed work instructions and simpler prints for crews, a material list for the warehouse to pull the material (currently crews pull their own material), man-hours for crew scheduling, joint use information for notifications to other utilities, as well as customer costs which will allow TCLP to be ready for future line extension policy changes. All stakeholders are being involved in these changes.

ENHANCING OPERATIONAL EXCELLENCE

Goal #3: Completion of Phase 1.1 of the FTTP Project.

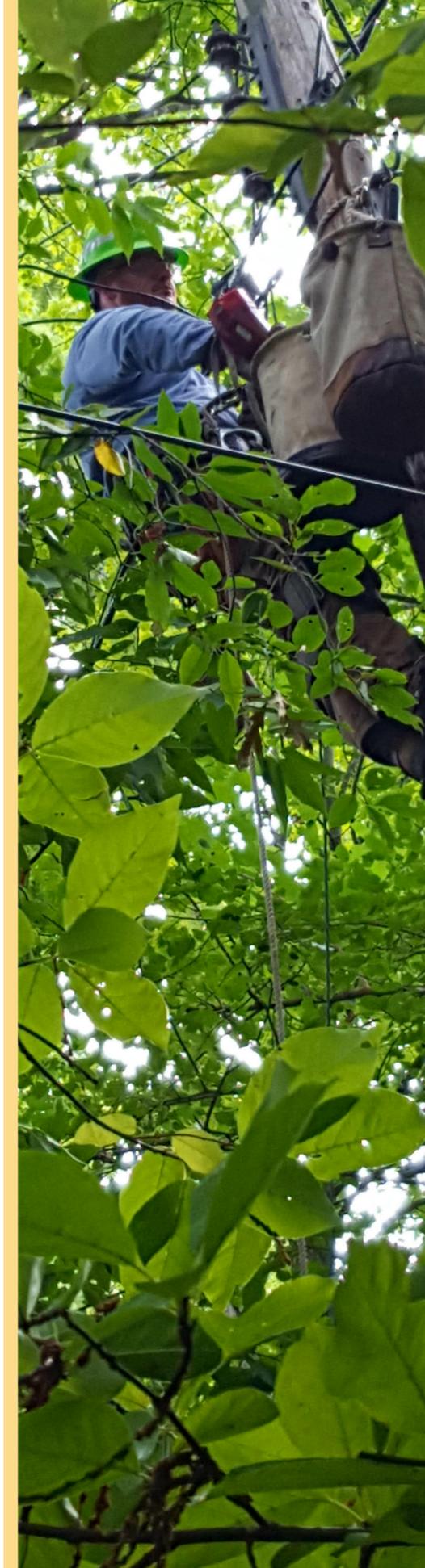
Complete construction on backbone of phase 1.1 smart grid expansion.

Goal #4: Continue to enhance and modify recruitment and retention efforts that attract and retain a qualified, competent and professional workforce.

TCL&P will continue to place emphasis on positive employee relations taking into consideration the employee experience. This will involve embracing and fostering a diverse workforce with flexible skills and competencies that allows for innovation and collaboration in the work environment. As well, maintaining a competitive compensation and benefit package along with providing opportunity for professional growth while simultaneously ensuring transfer of knowledge.

Goal #5: 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.

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 continue to remain 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.



STRATEGIC PRIORITY

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.

Areas of focus ----- (1) Maintain a high level of customer service (2) Improve current, and develop new, communication avenues with customers (3) Provide a variety of value-added programs to customers (4) Strengthen partnerships for the betterment of the community (5) Ensure lowest rates possible while meeting customer expectations.

Operating Strategy: “Meet the evolving needs and expectations of the utility’s customers.”

Goal #1: Maintain and improve the level of services to meet customer expectations.

With today’s customer wanting instantaneous access to information as well as programs and services that promote sustainability, the utility focus will be to ensure we are meeting those expectations. This will be done through new innovative programs and services as well as reviewing and implementing new streamlined processes for areas such as bill payment, outage communication and account management.

Goal #2: Enhance the utility’s communications efforts and community involvement.

The utility will continue to expand efforts on effectively communicating and educating customers and the public on services and programs provided by the utility. Emphasis will be placed on determining effective communication channels that successfully reach the broad spectrum of customer preferences. As well, providing easily accessible, useful information that both markets and educates on what TCL&P has to offer.

Goal #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 has been created to gain feedback on services provided and suggestions for improvements.



MOVING FORWARD

Traverse City Light & Power will continue to use this Strategic Plan as its guiding document to identify, consider and act on the internal and external issues expected to have the greatest influence on TCL&P’s ability to successfully achieve its vision and mission in the future.

The utility’s energy supply will remain nimble to meet future increases in demand when considering electrification and density. At the same time, we will lead as an example for other communities and utilities on carbon footprint reduction efforts to mitigate the effects of climate change by embracing new technologies and programs.

The TCL&P Board and staff will review the Plan on a regular basis to monitor progress and update as necessary to reflect changing Board and customer expectations of its public utility. This will ensure that the strategic priorities identified, as well as goals and action items that complete the framework, stay relevant in this evolving industry.

TCL&P has a very long and proud history of serving the needs of the Traverse City community. Using this Strategic Plan will be for the betterment of the City of Traverse City, its residents and all TCL&P customers.



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