2018-2022

River Falls Electric Utility Business Plan

RIVER FALLS MUNICIPAL UTILITIES

"Respecting our history while embracing our future"

http://www.rfmu.org/

Solar Panels give customers a renewable energy option.

Introduction

The purpose of creating the 2018-2022 Electric Utility Business Plan is to help guide River Falls Municipal Utilities (RFMU) toward defining its goals and strategies and identifying steps needed to work toward achieving those goals and strategies. Staff used internal and external cost projections for the business plan to identify future infrastructure improvements and to estimate growth and operating costs.

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Letter from the Mayor and RFMU Director

The City of River Falls is a growing community that prides itself on providing quality services to residents. River Falls Municipal Utility is a service that is an excellent benefit to the community and one that is constantly looking to improve.

To maintain excellence and to keep up with customer needs, the creation of an Electric Utility Business Plan is necessary to keep up with reliable and quality services that customers have come to expect. Creating a business plan will help guide the Electric Utility for the next five years and allow for improvements on both the external and internal operations of our Electric Utility. This business plan will show where progress can be made and how to achieve our goals to provide reliable power to customers for the best overall value.

Thank you for your support in making River Falls a wonderful place to live, work and play.

Dan Toland, Mayor

As a local Municipal Electric Utility, we are continually focusing on putting customers first. We are always striving to deliver electricity safely and reliably while providing the best overall value to our customers.

This business plan will help us look ahead to plan and prepare for changing customer expectations, innovative technologies that will enhance customer experiences, and explore possibilities in budding markets for customer electricity generation. Electricity generation models, customer expectations, reliability, modern technologies, and the value proposition that includes services and price will be the main drivers in the electric industry over the next five years and will also impact our decisions at River Falls Municipal Electric Utility.

We are proud to serve electricity to River Falls, Wisconsin and thank you for your help with our business plan.

Kevin Westhuis, Utility Director

River Falls City Council and Utility Advisory Board

River Falls Common Council from left to right: Scott Morrissette, Christopher Gagne, Todd Bjerstedt, Mayor Dan Toland, Diane Odeen, Hal Watson, Jeff Bjork, Sean Downing

The City Council is the governing body for the City of River Falls and is comprised of a Mayor and seven councilmembers who are elected in the spring election to the Council: one member from each of the four aldermanic districts and three at-large.

The Common Council Bylaws regulate the business of the Council by clarifying or summarizing City ordinances and policies, or guiding the City Council in municipal matters. Except as otherwise provided by law, the City Council handles the management and control of City property, finances, highways, streets, utilities, and the public services. The Council acts for the government and good order of the City for its commercial benefit and for the health, safety, welfare, and convenience of the public.

River Falls Utility Advisory Board from left to right: Patrick Richter, Tim Thum, Diane Odeen, Adam Myszewski, Kevin Swanson, Former Commissioner Grant Hanson, Duane Pederson.

The Utility Advisory Board (UAB) is comprised of six residents of the City who are appointed by the Mayor and approved by the Council to serve three-year terms, along with one appointed Council representative.

The UAB advises the Council on matters regarding public utility property, plant, equipment owned by the City for the conduct of the electric, water, sewer, and storm sewer utilities, its facilities and infrastructure, subject to the general control and supervision of the Council and its designee. The UAB is integral in visualizing and developing the programs, policies, and projects that makes RFMU a successful organization.

Snapshot of River Falls

River Falls was founded in 1848 by Joel Foster, a Mexican War veteran from Illinois and was incorporated as a City in April 1885. Today, the City of River Falls is home to over 15,000 residents.

While River Falls is known for its scenic beauty, outdoor activities, arts/cultural events, and hometown charm, it is also home to the University of Wisconsin-River Falls (UWRF), Chippewa Valley Technical College (CVTC), and multiple corporate parks housing numerous home-grown, regional, national --and international -- businesses.

UWRF is an NCAA Division III institution that has been a staple of the River Falls community since 1874. The main campus is situated on 226 acres in the heart of River Falls and includes 26 buildings and two lab farms. Enrollment is approximately 6,500 students.

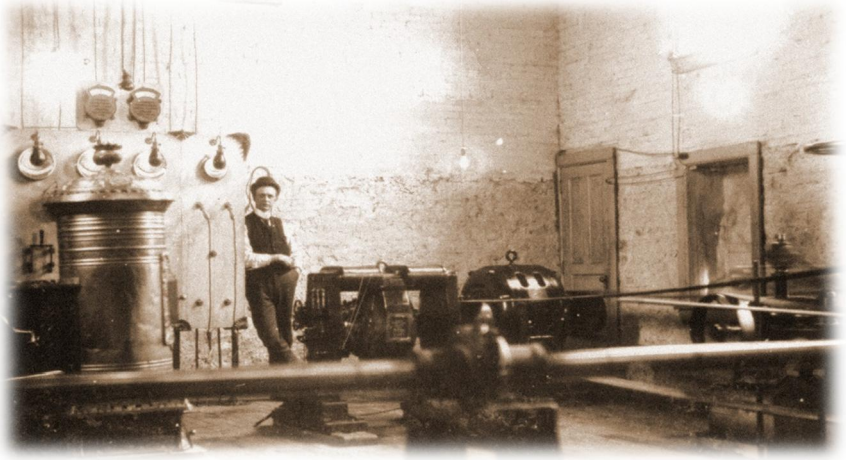
The City is nationally known for its Kinnickinnic River, a Class 1 trout stream that flows through downtown. River Falls currently holds designations as a Bird City, a Tree City USA, a bronze-level biking community, a Monarch City USA community, Playful City USA and more.

Main Street River Falls.

Electric Utility Background

Our Origins

The creation of River Falls Municipal Utilities (RFMU) had modest beginnings: to replace gas lamps with lights powered by the nearby falls for which the City was named for. For over 117 years, RFMU has been a community-owned and operated as an electric utility founded by the residents of River Falls.



H. Sterling inside power plant, 1900.

Power plant on the old bluff, date unknown.

Where we are today

RFMU has made a commitment to instilling a strong conservation ethic in the community while demonstrating the effectiveness of energy efficiency, conservation and renewable resource development. In 2015, the City was the first municipality in Wisconsin to build a community solar garden. In 2017, the River Falls' community ranked first in the state and fourth in the country for the percentage of utility customers participating in renewable energy programs at almost 10%. Long and short-term reliability, community involvement and stable rates are aspects RFMU prides itself on.

Partnership with WPPI Energy

Since 1980, River Falls has partnered with Wisconsin Public Power Incorporated (WPPI) Energy to provide River Falls customers with a sense of local ownership, local control and commitment to customers.

WPPI is a joint action committee and owner of power distribution resources for its members. WPPI members benefit from joint action by keeping wholesale energy costs low, which would be costly and difficult to do alone. Together members have ownership in generation resources and transmission assets, offer cost-effective programs and services for customers, share technology resources, and advocate on behalf of customers. As a result, WPPI members are better equipped to operate successfully as the industry changes.

RFMU was one of the original founders of WPPI. The model of and decision to develop, join, and support joint action and bulk power supply purchasing has been advantageous for River Falls. Being a member of WPPI has created a stable rate environment for the City that businesses can depend on and presents an overall value proposition through competitive rates and high levels of service that residents have come to expect.

In 2016, the City signed a long-term power supply contract with WPPI that extends their relationship with RFMU until December 31st, 2055. Agreeing to this long-term power supply contract extension enables RFMU, through WPPI, to continue to own a share of generating resources and a well-diversified power supply portfolio (see pages 30 and 31), while also receiving services that allow operations to run efficiently and successfully for the benefit of electric utility customers.

Vision, Mission, and Values

Our Mission

To provide customers with safe and reliable electricity at the best overall value.

Our Vision

- We put people first
- We pursue excellence
- We embrace change
- We serve our community

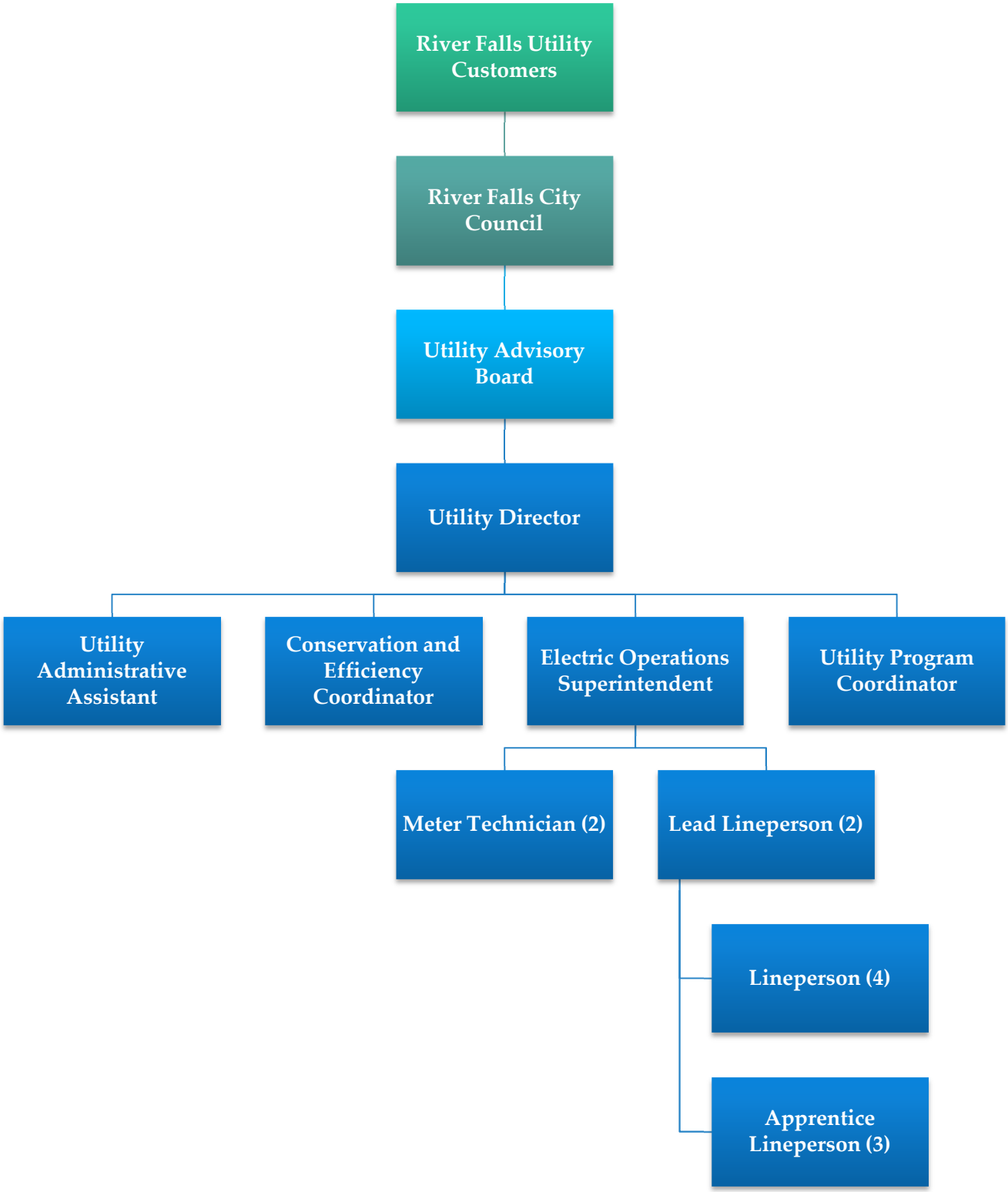
Our Values

- Ensuring Financial Sustainability
- Consistently Delivering Quality Municipal Services
- Promoting Economic Vitality
- Connecting Community Members
- Considering Future Generations

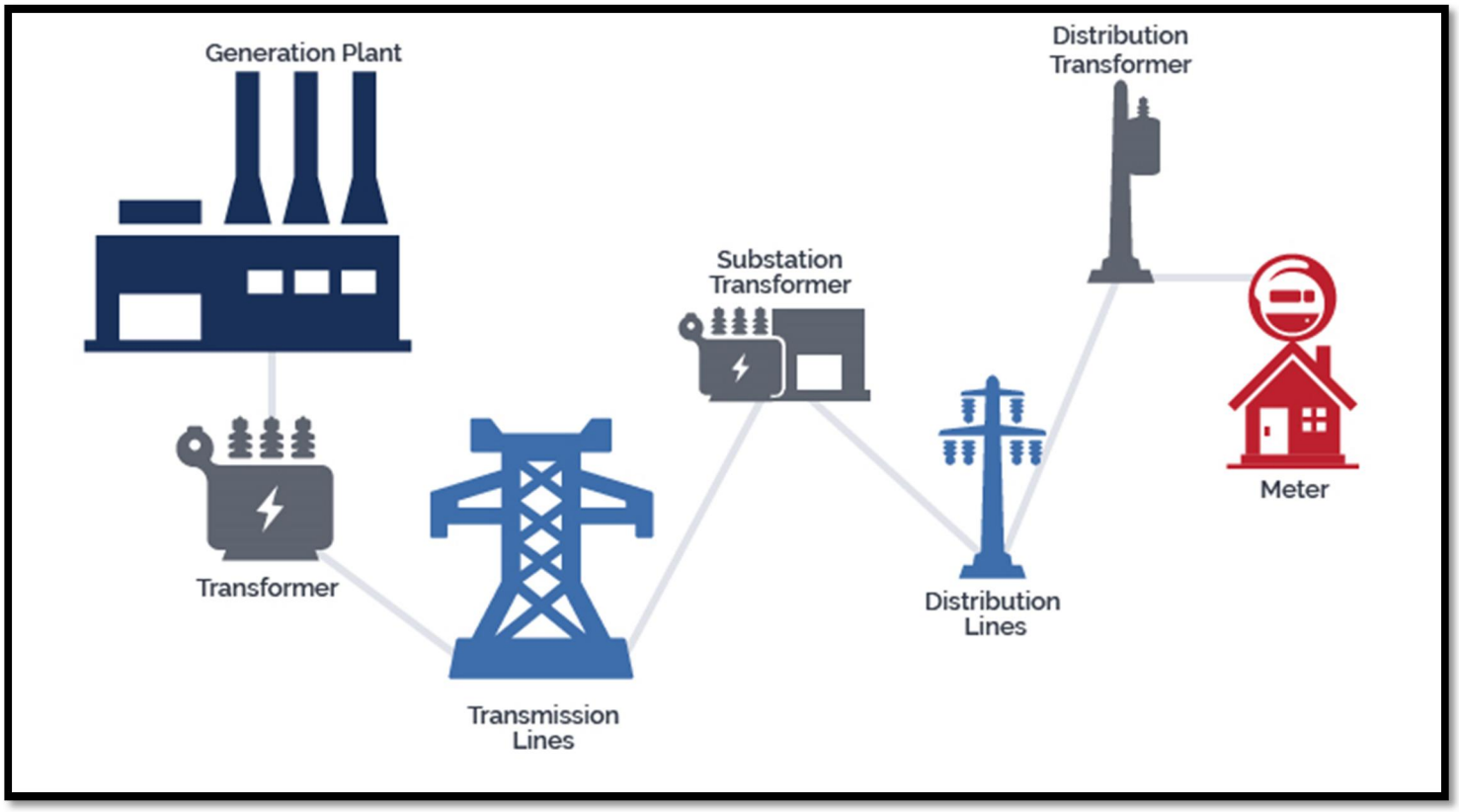
2016 scholarship winner Hanna Brager.

Community Solar River Falls Food Pantry.

Organizational Chart



Electric Service Overview



Graphic courtesy of the American Public Power Association

Statistics

Number of Active Residential Electric Meters: 5,803 (2016)

Number of Active Commercial and Industrial Electric Meters: 739 (2016)

Annual Electric Use: 121,219,310 kWh (2016)

Hydro-Electric Generation: 2,108,903 kWh (2016)

Community Solar Generation: 330,000 kWh (2016)

Average Service Reliability: 99.9985%

Our Objective

The Electric Utility Business Plan serves as a guide for RFMU to innovate, anticipate, and advance electric utility service in the City for its customers. Providing safe reliable electricity at the best overall value to customers is the goal of RFMU and this business plan will aid in advancing the processes to make customer service and reliable electricity delivery even better than it already is. Embracing opportunities in a changing electric utility environment is a key part of the business plan's success.

Value in customer service and a commitment to providing power through positive leadership, continuous improvement, and embracing planning and stakeholder communication are aspects that will maintain quality service to electric customers. We manage and operate municipal utility infrastructure to provide reliable services to promote and support a sustainable environment and healthy community.

The Annual Customer Appreciation Event is our way of giving thanks to the community.

SWOTT: A Strategic Analysis

RFMU prides itself on being collaborative and is always looking for ways to innovate and improve. Performing a SWOTT Analysis is a strategic way our electrical operations can breakdown and identify its strengths and weaknesses and look closely at opportunities, threats, and trends to provide a blueprint for RFMU to work from.

A SWOTT Analysis isolates specific items that can be continued with, improved upon, discarded of, or implemented on an organization wide scale. Identifying these items aids in the growth of the electrical operations and allows us to look at all available options for systems improvements. Internal and external SWOTT analyses performed by City staff and members of the community reflect the areas where electric operational opportunities should be prioritized going forward.

Our electric utility workers ensure that power is readily available.

Strengths

River Falls Electric Utility's current strengths puts itself in a position that will allow for continued growth and stability. These strengths improve business practices, customer service satisfaction, community collaboration, and stable electricity costs that provide high value.

Long-Term View

As a municipal utility, our long-term envisioned view for the community is the reason for such commitment to excellence. By having strong public support of RFMU's long-term view from customers, it helps create an environment for continued investment in positive customer service practices.

APPA and WPPI Partnership

The American Public Power Association (APPA) and WPPI Energy provide resources such as trainings, seminars, statistical modeling, etc. that help strengthen RFMU's business processes. Both entities assist in giving a political voice to municipal utilities and advocate for the advancement of public power that benefit our community. These resources allow leadership within RFMU to be well trained and have up to date knowledge that aids in giving customers safe and reliable power.

POWERful Choices

POWERful Choices is a uniquely River Falls program that encourages public participation in energy initiatives that help customers be more energy efficient. POWERful Choices is a proactive program that brings $2 back in the community for every dollar invested. POWERful Choices seeks to inform the public on energy saving opportunities and provides opportunities for the public to be actively involved in their public utility.

Local Ownership/Responsiveness to the Community

Because RFMU is a municipally owned utility, customers have access to direct lines of communication with administrators and operators of the electrical system and respond to inquiries in a timely manner. As a result, customers know that their issues will be heard and will get in touch with the appropriate people to resolve those issues quickly and efficiently.

Weaknesses

Identifying our weaknesses is crucial to the implementation of this business plan as it allows RFMU to take in constructive criticism of our operations that need improvement or potential future vulnerabilities. Through self-critique and community input the weaknesses underscore the importance of developing a strategic approach to improving the services delivered to our customers.

Aging System

Infrastructure ages and with that comes the need to plan for future investment to replace and update our existing infrastructure and continue providing customers the with high quality service. Our depreciated assets equal 45% of our total assets in 2016 which shows the continued need for updating the electric system infrastructure. Investments such as undergrounding the electrical system, constructing a new substation, and maintaining our transmission lines ensure we can provide safe, reliable, and affordable electricity to our customers.

Transfer of Knowledge

RFMU must be able to transfer knowledge of the electric system to new and current electric utility employees. Time and effort must be taken to make sure that proper training measures are taken to get the right knowledge to employees that come into RFMU. Making sure that proper retention of current electric employees and recruitment of potential employees is made to ensure knowledge transfer is completed in an efficient way.

Outdated Management System Technology

Reviewing and updating how we manage the electric systems is needed to provide the quality service that customers come to expect. Putting a concerted effort into implementing management system best practices that are geared toward customer satisfaction will take priority. Systems such as a Supervisory Control and Data Acquisition (SCADA) system, Advanced Metering Infrastructure (AMI) and the outage management system that will be created with AMI will aid in keeping systems running efficiently and give customers better system reliability.

Clarifying Billing and Rate Information

Keeping customers informed with up to date information regarding rates and billing must be prioritized. This involves increased transparency and constant forms of communication with our customers through one on one communication, website updates, social media outreach, and flyers in paper bills to give customers accurate information. This communication gives customers the ability to make informed decisions about how to manage their energy usage.

Opportunities

Creating opportunities to innovate and advance the delivery of electricity and other related services to our customers. Staff continually strives to maintain the best service for our customers. Opportunities that enhance the customer experience are at the forefront of the decisions made every day at RFMU.

Re-Use of Power Plant

Depending on the relicensing of the hydro-electric dams, in particularly the relicensing for the upper dam, there is a potential opportunity to repurpose the power plant in that location. Currently UWRF occupies office space there, however they are planning on moving their offices out of the plan and into the St Croix Valley Business Incubator in 2018.

AMI Metering

Advanced Metering Infrastructure (AMI) creates the ability to read and send information about electric usage to and from the customer in real time. AMI provides our customers service-staff accurate and immediate information to assist with any system problems that occur with a customer's meter. The AMI meters will allow for ancillary services such as outage management systems, energy alerts and potential interaction with home devices. This system gives RFMU precise information regarding the transmitting of electricity from a customer's home or business, allowing for more accurate data to be transmitted.

Undergrounding the Electric System

Currently the City of River Falls is 65% underground. Undergrounding the electric lines is a potential way to create a safer electrical system as underground lines are less susceptible to natural disasters such as ice, wind, snow, or animal contacts, thus potentially creating a more reliable system with less maintenance. Undergrounding the electric system also provides a more aesthetically pleasing community because of the reduced overhead clutter from above-ground power lines. During the next five years an underground line plan will be drafted and implemented for the potential development of the electric system.

Hydro Relicensing

Relicensing the hydro-electric dams through the Federal Energy Regulatory commission presents the opportunity to continue the use of hydro-electricity in one or both dams in River Falls. The relicensing process will be part of the Kinni Corridor Planning project with discussions between City staff, consultants and the public ongoing over the duration of this business plan.

Improved Customer Service

Improving the processes in how we respond to our customers is always an opportunity. Having excellent customer service is something that RFMU strives for every day. Improving

our systems and practices to give customers the quality customer service they deserve is paramount in our system operations.

Base Load Growth Opportunities

Growing RFMU's base load operations is an opportunity to expand the customer base in the City. Expanding the base load allows for economic growth through industrial lots, commercial developments, and residential developments.

Threats

Threats to our electrical operations on a safety, administrative, and systematic scale are always present and identifying these threats and knowing how to react to them is a priority. Having a grasp on how our electrical operations could be threatened or compromised can better prepare RFMU to become more resilient in its preparations withstanding those threats.

Territory Issues

Territory issues regarding investor owned utilities, rural electric owned cooperates, private energy providers and public energy providers have the potential to cause problems for future expansion of our service area. Future service area disputes may cause problems with extending electrical service to potential customers currently not in RFMU's service territory.

Regulatory Environment

The regulatory environment to maintain lower rates in an era of conservation causes RFMU to evaluate how to establish rates to remain favorable for customers while also remaining financially stable for the organization. Regulation, deregulation, and legislative changes create challenges for public utilities to maintain the services that customers are accustomed to.

Cost of Power

The cost of power can fluctuate depending on supply and demand which affects the cost at which the electricity is purchased. This fluctuation can affect the wholesale cost of the electricity as well as the cost that the customer pays for the electricity. The uncertainty of future energy markets due to self-generation, battery storage, and distribution generation puts the future of energy markets in flux.

Decentralization and Security of the Electrical Grid

Investing in technology that allows for efficient transmission and safe delivery of electricity going forward will ensure that customers receive power without disruption. In addition, customers have the potential to go "off the grid" which threatens to decentralize the electric system. With new potential threats to our system occurring every day, we are always thinking about the security of our system both physically and online. We are actively taking steps to protect the system and our customer's information from future threats.

Trends

Reviewing what trends are occurring with other municipal electric utilities and in the utility industry helps provide ideas to consider updating our electrical system and processes. Understanding trends helps give customers what they want and allows RFMU to stay current with best practices that are industry standard. Finding ways to bring services to add value to the customer experience.

SCADA Updating

Supervisory Control and Data Acquisition (SCADA) allows for the smoother processing of data in the electric system and has been utilized by the electric utility for years. SCADA also allows for real time interaction between or electric personnel and our system. It will assist with shorter outages, safer work environments, and overall greater customer satisfaction. SCADA improvements come with updating technology and software allows for smoother processing of data and a more integrated technology that allow for greater control over the physical electrical system.

Social Media

Social media (Facebook, Twitter, Instagram, Snapchat, etc.) is becoming more integrated in our society with people more likely to get their information off social media than any other news platform. Harnessing social media platforms to reach out to customers and allowing them to interact with our social media accounts can be used for instantaneous rating of our services that allows RFMU to have up to date customer ratings.

Renewable Energy

Investing in forms of renewable energy (solar, wind, etc.) are quickly becoming integrated in how electricity is generated and RFMU is in support of investing in renewable energy sources. Our wholesale energy provider, WPPI, is projected to generate 22% of its power through renewable energy sources by 2021 with the addition of solar and wind farms to their system.

Evolving Customer Expectations

Improving the processes in how we respond to our customers is always an opportunity. Customer expectation change over time and being aware of these changes and taking steps to mitigate those changes is a necessity. Listening to customers and giving them platforms to express what they want out of their electric utility is part of the ongoing improvements for our customer service model.

Operational Resiliency

The Electric Utility Business Plan looks at how the organization can be improved and how it can provide its services in a reliable way for its customers and its employees. As a result, an assessment of how to provide reliable services are outlined so that RFMU can improve the overall quality of its services for its customers and employees is needed.

This assessment involves the identification of four main goals. The goals are:

Goal 1	Goal 2	Goal 3	Goal 4
Customer Service and Engagement	Workforce Development and Safety	Organizational Performance	Improve and Ensure System Reliability

These goals are then broken down into objectives with broad action plans that fall into six services/outcomes that better illustrate how the goals benefit electric customers. By isolating the services/outcomes we can then establish measurements to track how successful we are at achieving the goals. The table below shows how the services/outcomes are broken down:

Service/Outcome	Benefit to Customers	How We Measure It
Dependable/Reliable Power	Power at your convenience.	At or above 99% reliable service hours every year.
Effective Customer Service	Timely response to customer problems and questions.	Respond to 90% of calls within an hour.
Transparency	Commitment to a transparent electric utility.	Performing bi-annual Q&A's on social media each year.
Financial Stewardship	Maintain investment in infrastructure.	Maintain a rate of return at or close to 6.5% yearly.
Employee Reinvestment	Improved organizational effectiveness.	Achieving a yearly employee turnover rate of less than 15%.

Goal 1: Customer Service and Engagement

River Falls residents expect responsive customer service that represent their interests and delivers power in a timely and efficient manner. Having objectives that represent a commitment to give customers easy access to electric goods and services as well as avenues for communication are necessities that will provide the best customer experience with the electric utility.

Objective: Proactive Customer Service

- Action Plan
  - Getting accurate and reliable information to customers.
    Improving our systems and practices to give customers the quality customer service and taking steps to address issues in a timely manner.
- Service/Outcome
  - Effective Customer Service

Objective: Responsiveness to Customers

- Action Plan
  - Timeliness of response to customer inquiries.
    Assuring customers that staff is attentive to their needs and to address their issues as quickly as possible.
- Service/Outcome
  - Effective Customer Service

Objective: Social Media Communication

- Action Plan
  - High engagement numbers with customers.
    Communicate via social media with customers on a more frequent basis and track the number of people engaging with the accounts.
- Service/Outcome
  - Effective Customer Service

Objective: Customer Benchmarking

- Action Plan
  - Giving out customer satisfaction surveys.
    Create a replicable customer satisfaction survey to establish customer satisfaction level on an annual basis.
- Service/Outcome
  - Effective Customer Service

Goal 2: Workforce Development and Safety

Addressing the Electric Utility's workforce challenges is crucial as the electric utility faces risks in its workforce infrastructure in terms of retaining and providing ample safety to employees. These objectives allow the Electric Utility to assess employees and their work environment to provide appropriate safety measures and opportunities to grow within the organization.

Objective: Invest in Employee Training

- Action Plan
  - Evaluated appropriate training levels.
    Identifying the appropriate trainings for employees to give them the best tools to supplement the organization.
- Service/Outcome
  - Employee Reinvestment

Objective: Invest in Workforce Flexibility and Efficiency

- Action Plan
  - Review the roles of employees to eliminate redundancies.
    Assess duties, job title, and job description of utility workers to support and enhance organizational, City, and customer needs.
- Service/Outcome
  - Employee Reinvestment

Objective: Create Employee Benchmarks

- Action Plan
  - Establish and review employee benchmarks on a regular basis.
    Develop a standardized approach to employee evaluation that includes goals expectations and training needs tied to organizational needs.
- Service/Outcome
  - Employee Reinvestment

Objective: Succession Planning

- Action Plan
  - Establish clear paths for succession.
    Create a succession plan process to recruit employees, develop their knowledge, skills, and abilities, and to prepare them for career advancement into larger roles within the organization.
- Service/Outcome
  - Employee Reinvestment

Goal 3: Organizational Performance

Improving the organization is a continuous goal that the Electric Utility strives for to bring customers the best quality and employees the best tools to perform their job functions. Reviewing the Electric Utility and predicating the needs of the future are outlined in these objectives to get the most out of the Electric Utility for customers and employees.

Objective: Public Accountability

- Action Plan
  - Making published reports easily accessible.
    Upload and promote reports on the RFMU webpage and social media accounts to inform the public on new documents relating to the utility as they occur.
- Service/Outcome
  - Transparency

Objective: Financial Forecasting

- Action Plan
  - Updating and reviewing financial forecast models on an annual basis.
    Resolve previous projected financial estimates and evaluate future impacts on capital improvement projects and operational demands.
- Service/Outcome
  - Financial Stewardship

Objective: Maintaining Fiscally Responsible Practices

- Action Plan
  - Align budgets with rates in a fiscally responsible way.
    Implement an internal budgeting process, make sure rates are synchronized with approved budgets, and assure budgets are consistent with the utility's authorized rate of return.
- Service/Outcome
  - Financial Stewardship

Objective: Security System Updates

- Action Plan
  - Continually looking at ways to protect the electric grid and information from physical and cyber threats.
    Set up a process to report system issues and reporting those issues to the appropriate person to resolve in an efficient manner.
- Service/Outcome
  - Dependable and Reliable Power

Goal 4: Improve and Ensure System Reliability

An up to date electrical system is imperative to have the Electric Utility provide quality services to customers. System improvements require investment by the Electric Utility and the public to have power be readily available for all customers. Reviewing and analyzing system improvements allow RFMU to plan so that it may continue to provide power in a dependable and secure manner.

Objective: System Reliability

- Action Plan
  - Improve the infrastructure system on a regular basis.
    Maintaining lines and making sure that the electric system is continuing to be reliable even when problems occur with the system.
- Service/Outcome
  - Dependable and Reliable Power

Objective: Outage Management Systems

- Action Plan
  - Integrating AMI and SCADA systems to provide up to date and accurate information on the electric system.
    Providing the information obtained from AMI and SCADA to customers to answer and clarify inquiries made.
- Service/Outcome
  - Dependable and Reliable Power

Objective: SCADA System Implementation

- Action Plan
  - Implement updated software to manage the electric system in real time.
    Proceed with rolling out SCADA and ensuring that it is implemented effectively.
- Service/Outcome
  - Dependable and Reliable Power

Objective: Advanced Metering Infrastructure

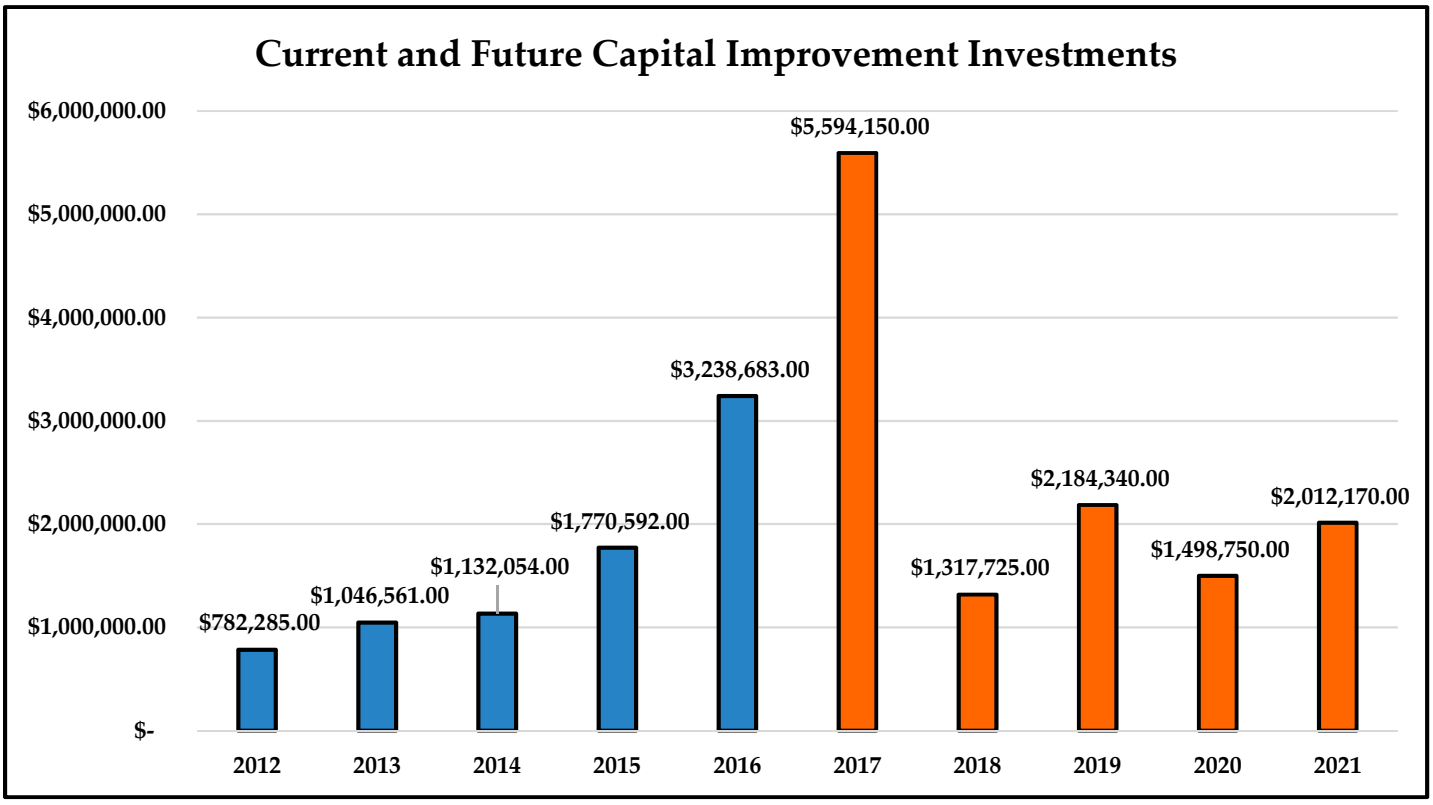
- Action Plan
  - Implement a program to replace manually read meters in the City.
    Educate customers on AMI on the RFMU website and social media to prepare them for potential changes to outage management.
- Service/Outcome
  - Effective Customer Service

Busting Open the Books: Financial Breakdown

RFMU is keenly aware that the financial decisions we make regarding how we operate today and how we position for tomorrow impact the rates on our customers. Therefore, we work hard to ensure our financial decisions and policies are analyzed, projected, and meet the present and future needs of our customers and RFMU.

Because we are a public not for profit utility, the rate revenues go to support improving services and insuring long term stability and reliability.

Revenue captured through rates goes a long way into ensuring services are provided as reliable and cost effective as possible. As the chart below illustrates, RFMU makes and plans for new large investments to ensure continued service quality is delivered on a continuous basis.



Source: City of River Falls Capital Improvement Plan

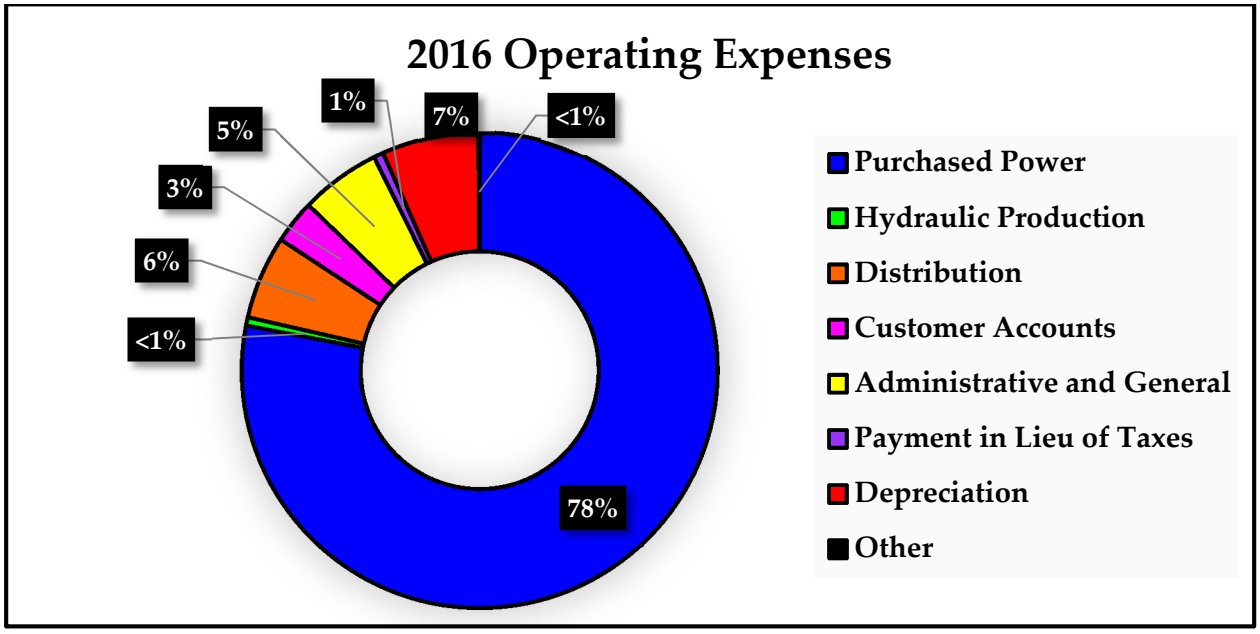
Busting Open the Books: Financial Breakdown

Current and Future Capital Improvement Projects		
Project	**Projected Completion Date**	**Total Estimated Cost**
New Electric Substation	2017	$4,200,000
SCADA Implementation	2017-2019	$650,000
Complete Electrical Looping	2019	$50,000
AMI Implementation	2018-2021	$1,750,000
Underground Cable Additions	Annual	$625,000*
New Street Lights	Annual	$584,000*
Electric Distribution Improvements	Annual	$870,450*
Updating Transformers	Annual	$625,000*
Total Estimated Cost: $9,354,450		

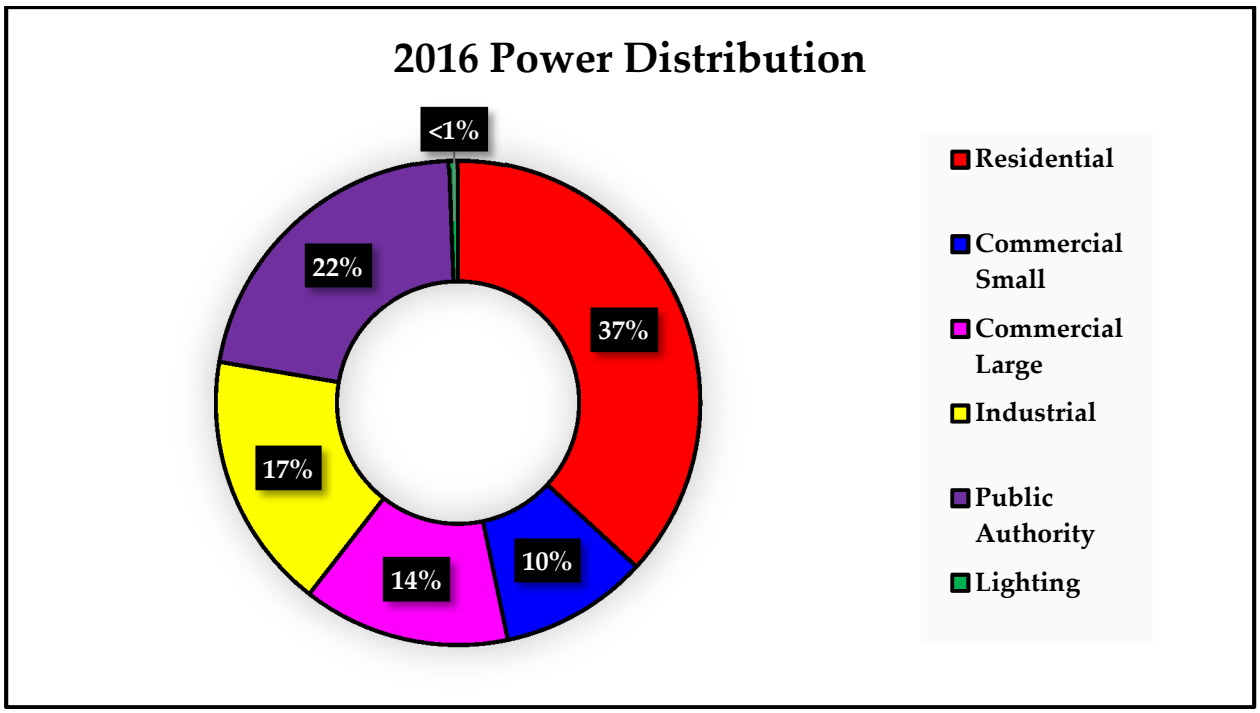
Source: City of River Falls Capital Improvement Plan
*Denotes total cost over five years

With these infrastructure needs, the capital improvement projects above are a necessity to keep River Falls electricity delivery services reliable. Because of expansion of service in the City due to growth in residential, commercial, and industrial areas these infrastructure improvements are needed to continue providing quality electric delivery services to RFMU customers now and in the future.

Busting Open the Books: Financial Breakdown



Source: 2016 City of River Falls Financial Audit



Source: River Falls Municipal Utilities 2016 Electric Dashboard

Busting Open the Books: Financial Breakdown

Top 10 RFMU Electric Customers (by kWh)	
Customer	**Percent of Total**
UWRF	11.7%
River Falls School District	5.8%
Rise Baking (Best Maid)	3.6%
Minnesota Rubber and Plastics	3.2%
Nash Finch Company	2.1%
River Falls Area Hospital	2.0%
RFMU	1.2%
Crystal Finishing Systems	1.2%
Dick's Fresh Market	1.1%
Shopko	0.9%
Total	**32.8%**

Source: Based on information Collected from North Star Harris System

Busting Open the Books: Financial Breakdown

Top 10 RFMU Electric Customers (by revenue)	
Customer	**Percent of Total**
UWRF	9.8%
River Falls School District	5.0%
Rise Baking (Best Maid)	3.0%
Minnesota Rubber and Plastics	2.6%
Nash Finch Company	1.8%
River Falls Area Hospital	1.6%
Crystal Finishing Systems	1.1%
Dick's Fresh Market	0.9%
RFMU	0.9%
Shopko	0.8%
Total	**27.5%**

Source: Based on information Collected from North Star Harris System

While we encourage customers to conserve energy, RFMU understands that operating revenues are dependent on energy usage. If each of RFMU's top ten customers used 1% less kWh in 2016, then RFMU would have had $31,754 less in revenue that year. If those same customers used 5% less kWh in 2016 it would mean $153,099 less in revenue for the utility.

Busting Open the Books: Financial Breakdown

Top 10 Largest kWh Increases by RFMU Electric Customers since 2014	
Customer	**Percent Increase**
NCCM Company	82%
Crystal Finishing Systems	56%
River Falls Industrial Center	24%
Air Motion Systems	20%
River Falls School District	18%
O'Keefe	17%
Rise Baking (Best Maid)	16%
Cabrio Companies	16%
McDonald's	15%
Kwik Trip (North Main)	11%

Source: Based on information Collected from North Star Harris System

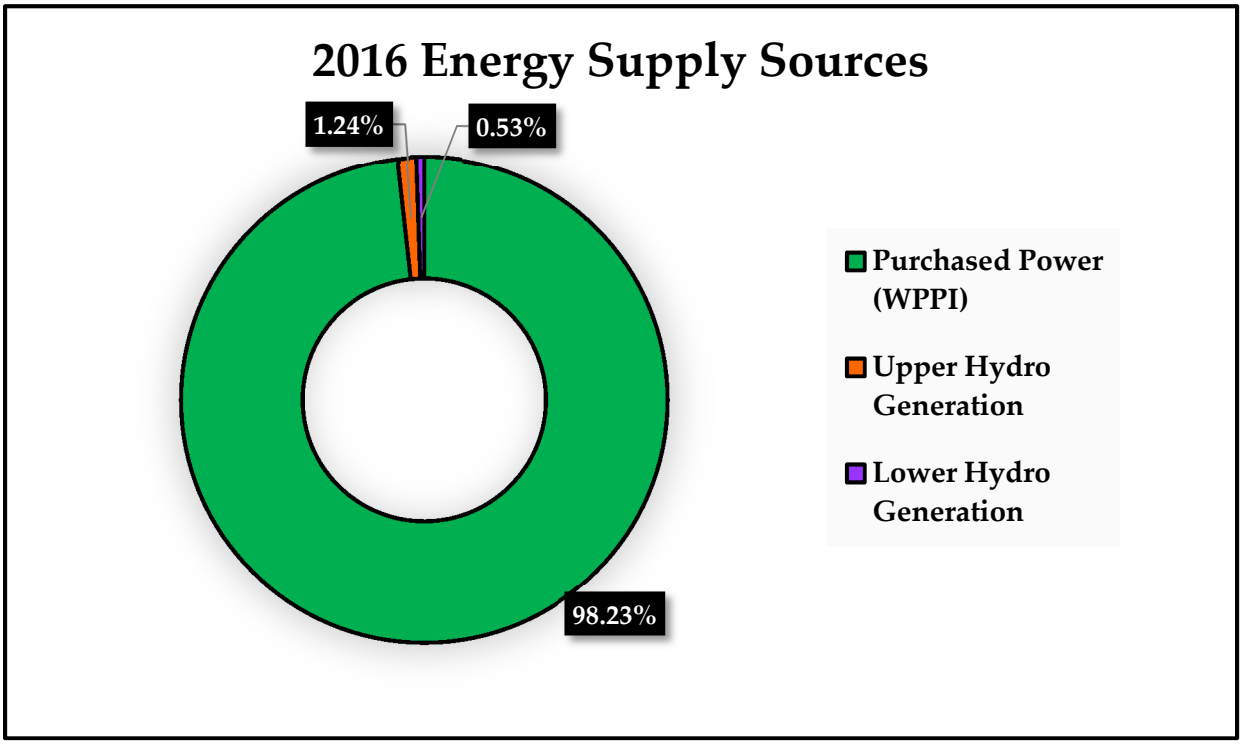
Busting Open the Books: Financial Breakdown

2016 River Falls Energy Sources			
Fuel % of WPPI portfolio	**Fuel**	**Energy Source**	**% of Fuel**
46.7%	Coal	Boswell	33%
		ERGS	25%
		WPS PPA	20%
		Alliant PPA	14%
		WEPCO PPA	6%
		Misc.	1%
19.6%	Nuclear	Point Beach	86%
		WEPCO PPA	7%
		WPS PPA	4%
		Alliant PPA	3%
		Misc.	1%
19.3%	Gas	Kendall County	43%
		WPS PPA	32%
		Alliant PPA	16%
		WEPCO PPA	6%
		Misc.	2%
		Island Street	1%
		South Fond du Lac	1%
9.6%	Wind	Butler Ridge	25%
		Top of Iowa	22%
		Alliant PPA	14%
		Barton	13%
		WPS PPA	12%
		Forward	12%
		WEPCO PPA	1%
		Misc.	1%
		Worthington Wind	1%
3.6%	Hydro	River Falls Hydro	47%
		WPS PPA	33%
		Alliant PPA	10%
		Kaukauna Kimberly Hydro	7%
		WEPCO PPA	2%
		Kaukauna John Street Hydro	1%

		Misc.	1%
0.8%	Solid Waste	Outagamie Landfill Gas	77%
		WPS PPA	18%
		WEPCO PPA	3%
		Alliant PPA	2%
0.4%	Biomass	Richland Center Renewable Energy	48%
		Alliant PPA	33%
		WPS PPA	16%
		Misc.	1%
		WEPCO PPA	1%
0.08%	Wood	WPS PPA	51%
		Alliant PPA	23%
		WEPCO PPA	19%
		Misc.	7%
0.04%	Solar	Jefferson Solar	54%
		River Falls CSG	13%
		New Richmond CSG	13%
		WPS PPA	11%
		Alliant PPA	7%
		Misc.	2%
0.04%	Oil	WPS PPA	47%
		Alliant PPA	33%
		Misc.	10%
		Maquoketa	7%
		WEPCO PPA	2%
0.002%	Biofuel	WPS PPA	51%
		Alliant PPA	37%
		Misc.	11%

Includes WPPI Energy Purchases and Behind the Meter Hydro

Busting Open the Books: Financial Breakdown

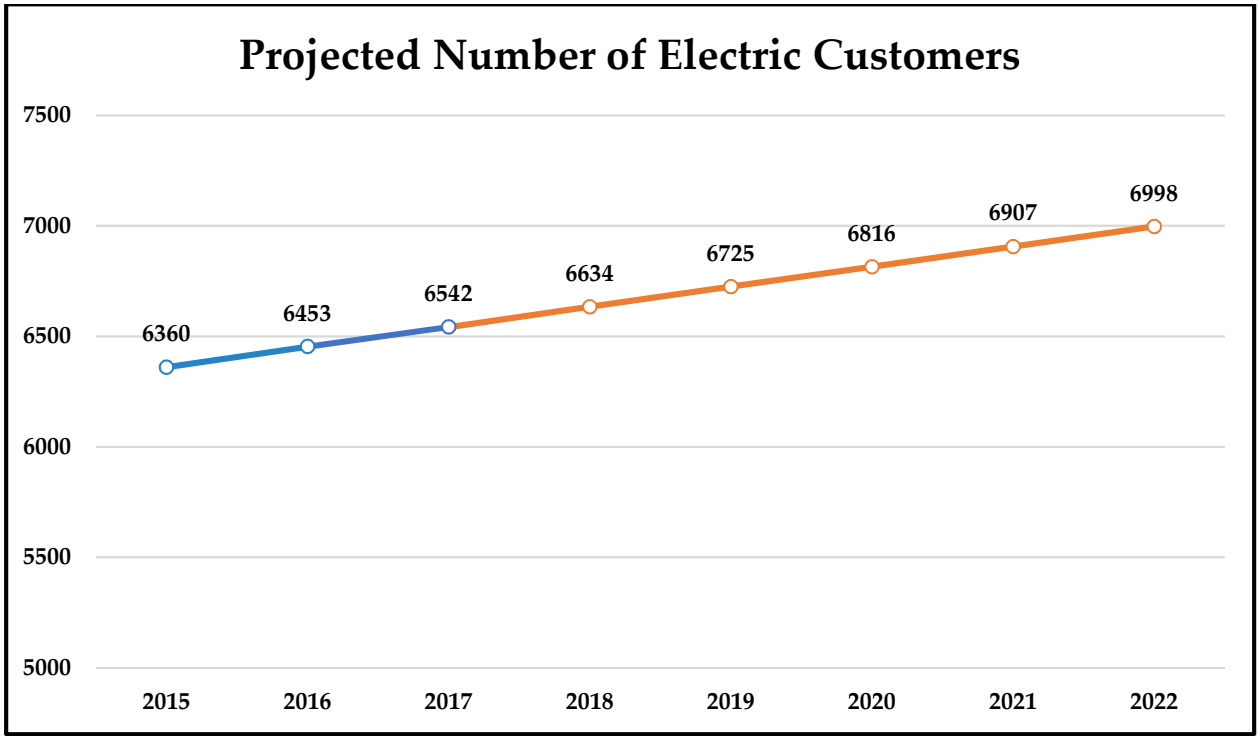


Source: River Falls Municipal Utilities 2016 Electric Dashboard

2016 Hydro-Electric Data			
	Total kWh	Revenue Generated	Total Revenue
Upper Hydro	1,473,267	$143,938	$206,040
Lower Hydro	635,636	$62,102	

Revenue generated based on 2016 WPPI rate data

Busting Open the Books: Financial Breakdown



Source: Annual Electric Revenue Analysis Audits

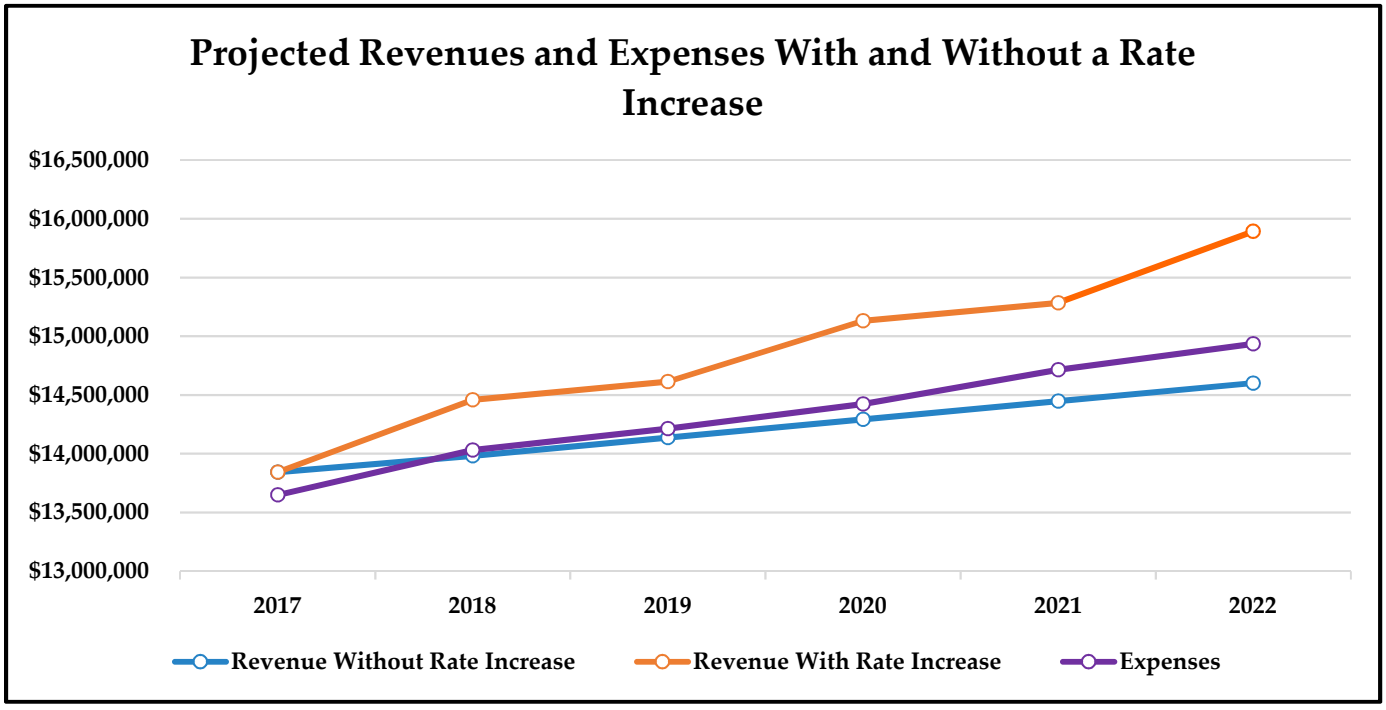
Views along the Maple Street Bridge.

Busting Open the Books: Financial Breakdown

Rates

Tariffed rates have remained the same since 2008. This, along with increased costs and large infrastructure projects, means that a Cost of Service Study will need to be conducted to review RFMU's utility rates. This study will help determine where RFMU's rates should be relative to the cost of operations and how to account for changes made both internally and externally. It is anticipated that the findings of the study will necessitate a rate increase to fund increased operational costs, a proposed new lineperson position scheduled for 2021, and projects identified in the Capital Improvement Plan (CIP).

The graph below illustrates that expenses will exceed revenues an average of 0.7% each year between 2018 and 2022 if rates remain the same. The projected rate increases in the graph below illustrate a 3.5% rate increase in 2018, a 2.5% increase in 2020, and a 3% increase in 2022. Based on pro forma analysis, a rate increase would be needed for expenses to stay below revenues and keep the electric utility in good financial standing.



Projections Based off Pro Forma Analysis of RFMU Financial Data and Do Not Include the TW Expansion, Winfield Solutions, or the St. Croix Valley Business Innovation Center.

Busting Open the Books: Financial Breakdown

Projected Balance Sheet with Rate Increases

Assets		2016	2017	2018	2019	2020	2021	2022
Current Assets								
	Cash & Investments	$ 7,045,643	$ 6,792,049	$ 6,941,103	$ 6,245,341	$ 6,614,160	$ 6,384,112	$ 7,608,874
	Other Assets	1,754,758	1,804,758	1,854,758	1,904,758	1,954,758	2,004,758	2,054,758
	Infrastructure Assets Net of Depreciation	13,011,307	17,771,557	18,051,594	19,148,121	19,486,247	20,286,169	20,018,255
	Total Assets	21,811,708	26,368,364	26,847,454	27,298,220	28,055,166	28,675,038	29,681,887
Deferred Outflows		435,932	440,291	444,694	449,141	453,633	458,169	462,751
Liabilties								
Current Liabilities								
	Accounts Payable	1,272,757	1,285,485	1,298,339	1,311,323	1,324,436	1,337,680	1,351,057
	Other Liabilties	202,715	204,742	206,790	208,857	210,946	213,056	215,186
	Debt Payable	239,061	4,441,452	4,234,089	5,018,336	4,708,614	4,386,833	4,052,524
	Total Liabilities	1,714,533	5,931,678	5,739,218	6,538,516	6,243,997	5,937,569	5,618,767
Deferred Inflows		158,797	160,385	161,989	163,609	165,245	166,897	168,566
Net Position								
	Net Investment in capital Assests	12,992,377	17,771,557	18,051,594	19,148,121	19,486,247	20,286,169	20,018,255
	Unrestricted	7,381,933	$ 2,945,035	$ 3,339,348	$ 1,897,115	$ 2,613,310	$ 2,742,573	$ 4,339,049
	Total Net Position	$ 20,374,310	$ 20,716,592	$ 21,390,941	$ 21,045,237	$ 22,099,557	$ 23,028,741	$ 24,357,304

Projections Based off Pro Forma Analysis of RFMU Financial Data

Busting Open the Books: Financial Breakdown

Projected Income Sheet with Rate Increases

	2016	2017	2018	2019	2020	2021	2022
Operating							
Public Charges for Services	13,523,199	13,502,711	14,120,272	14,275,036	14,790,545	14,945,309	15,553,075
Total Operating Revenue	13,523,199	13,502,711	14,120,272	14,275,036	14,790,545	14,945,309	15,553,075
Salaries*		881,275	903,307	925,890	949,037	1,052,763	1,079,082
Benefits*		358,526	376,452	395,275	415,039	455,791	478,580
Operation and Maintenance	1,902,653	933,291	973,423	1,015,280	1,058,937	1,104,471	1,151,963
Purchased Power	9,631,080	9,841,893	9,940,312	9,990,013	10,039,964	10,090,163	10,140,614
Depreciation	812,396	833,900	1,037,688	1,087,813	1,160,624	1,212,249	1,285,988
Total Operating Expense	12,346,129	12,848,885	13,231,182	13,414,270	13,623,600	13,915,436	14,136,227
Net Operating Income	$1,177,070	$653,826	$889,090	$860,766	$1,166,946	$1,029,873	$1,416,848
Non-Operating							
Interest Income	44,158	50,072	40,000	40,000	40,000	40,000	40,000
Interest Expense	-	-					
Miscellaneous	(218,590)	300,000	250,000	250,000	250,000	250,000	250,000
Capital Contributions	45,617	95,000	50,000	50,000	50,000	50,000	50,000
Transfers to other Funds	(670,950)	(792,242)	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)
Total Non-Operating	(799,765)	(347,170)	(460,000)	(460,000)	(460,000)	(460,000)	(460,000)
Change in Net Position	$377,305	$306,656	$429,090	$400,766	$706,946	$569,873	$956,848
*2016 Costs Included in Operation and Maintenance							

Projections Based off Pro Forma Analysis of RFMU Financial Data

Financial Wrap-Up

Based on the projections and financial analysis of future revenues and expenses for the electric utility, the RFMU rate structure in its current form is not a sustainable financial model. Because of increased operational costs, capital improvement projects, and additional staff expenses will exceed revenues in 2018 if rates remain the same.

Key Takeaways

- A Cost of Service Study will be required to evaluate our current rate structure.
- Projected expenses will exceed projected revenues an average of 0.7% each year between 2018 and 2022 if rates and expenses remain the same.
- The projected change in net position will run a deficit of $48,000 in 2018 with that deficit rising to $334,000 in 2022 if rates and expenses remain the same.
- Based on these projections, the electric utility will run a negative rate of return by the end of 2018 if the rates and expenses remain the same.
- To achieve our authorized rate of return at or around 6.5% per year as allowed by the Public Service Commission (PSC), the rate increases of 3.5% in 2018, 2.5% in 2020, and 3% in 2022 are being considered.
- Because 98.23% of electricity from RFMU is purchased power from WPPI, the hydro-electric dams have little impact on energy production and RFMU rates.
- RFMU's top ten customers by kWh make up 32.8% of power consumption while RFMU's top ten customers by revenue makes up 27.5% of all revenue to RFMU, highlighting the importance of those top customers in the community.

What it All Means

This business plan is intended to be a guideline for RFMU to follow for the five-year period between 2018 and 2022. The purpose of this business plan is to track the following benchmarks.

- Rate Adjustments Based on Cost of Service Study Findings
- Customer Service and Engagement Enhancements
- Workforce Development and Safety Improvements
- Organizational Performance Review
- Improving and Ensuring System Reliability

These benchmarks will be measured by the following metrics to ensure that the electric utility is monitoring the progress that this business plan puts in place by:

- Being at or above 99% reliable service hours every year.
- Responding to 90% of electric service calls within one hour.
- Performing bi-annual interaction with the public on social media each year and tracking engagement numbers.
- Maintaining a rate of return at or close to 6.5% yearly.
- Achieving a yearly employee turnover rate of less than 15%.

These metrics are intended to track progress and to show that the electric utility is investing the time and resources to benefit customers as much as possible.

To track the progress there will be two reviews conducted for this business plan. The first review will be conducted in 2020 with another review occurring in 2022. These reviews will show how the electric utility has done at following the benchmarks of this business plan and how to continue the improvements going forward.

In addition, an updated business plan will be drafted in and completed by the end of 2022 to set new goals and strategies to account for changes in the electric utility and the adjustments that need to be made to reflect current practices and trends in electric utility operations. The next business plan will cover the years of 2023-2027.

For more information please visit
http://rfmu.org/