

2013-2025 STRATEGIC PLAN

Lihue, Kauai

April 23, 2013 (Draft)

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August 27, 2013 (Approved)

THE STRATEGIC CONTEXT

The isolation of Kaua`i and its dependence on imported oil was never more apparent as the global economic recession took hold in late 2007. This dependence exposed Kaua`i Island Utility Cooperative and its members to a record surge in the price of oil at the same time the economic free-fall battered the budgets of island businesses and families.

These events brought urgency to the mission of the KIUC Board of Directors to decrease reliance on fossil fuels and to strengthen the Kaua`i economy by keeping on-island the millions of dollars paid annually for foreign oil.

In 2008, the board of directors adopted an ambitious goal that would be embedded within nearly every aspect of its strategic planning. That goal is to use renewable resources to generate at least 50 percent of Kaua`i's energy by 2023.

This goal exceeds the requirements established by Act 234, the 2007 law establishing the framework to reduce greenhouse gas emissions emitted in 2020 to the 1990 emission level. It also surpasses the requirements set by Act 73 in 2010, the Hawai`i Clean Energy Initiative, which calls for 70 percent clean energy by 2030, with 40 percent of that amount coming from renewable sources.

KIUC is making rapid progress toward its goal, with renewables accounting for 15 percent of sales today, up from 5 percent in 2008. By 2015, renewable generation is projected to be at 42 percent, with a mix of solar, biomass and hydropower on line.

Having proven that it has the will and the expertise to develop utility-scale renewable energy projects, the challenge for KIUC moving forward is to efficiently incorporate renewables into the grid and onto its balance sheet.

Among the unanticipated changes since the strategic plan was last revised in December 2009 is the boom in commercial and residential photovoltaic installations. Once only an option for the wealthy, generous state and federal tax incentives, no down payment financing arrangements and plummeting material costs have made PV more affordable. By the end of 2012, more than 1,200 PV systems had been installed on Kaua`i, generating nearly 7 megawatts. In 2013, 1,500 more systems representing an additional 9 megawatts are scheduled to come on line.

These PV systems only generate during a few hours of the day, contributing little or nothing to the grid the rest of the time. Management of this intermittent resource requires engineering expertise and a robust grid, the cost of which is substantial.

This rapid expansion of PV is not only eroding KIUC's ability to recover fixed costs, but it has the potential to exceed load demand, forcing KIUC to consider actions including curtailment, essentially reducing the amount of power generated by KIUC-owned PV systems before it comes into the grid.

This is not only a technological challenge, but a financial one that must be addressed through rate redesign that recognizes the changing nature of electric utilities and ensures the costs of running the utility are fairly allocated among members.

Since the strategic plan was last updated, KIUC also has adjusted its forecasts of load growth and its assumptions about how the economic revival will impact sales. It is no longer a given that a robust tourism economy will generate increased demand, especially as hotel customers turn to PV and cogeneration.

While Kaua'i experienced a record year in tourism in 2012, up 7.3 percent from 2011 to 1.08 million visitors, electricity sales were essentially flat. Sales are expected to decline in the near term, reach 2012 levels again in 2016 and increase slightly through the end of the decade.

Average residential electric use has fallen 10 percent since 2007 to about 465 kilowatt-hours a month, the lowest of any Hawai'i utility. The introduction of new technologies will enable members to monitor their consumption on a nearly real-time basis, potentially leading to further conservation.

As more renewables come on line, there is a clear expectation by members that their bills will go down. That desire is shared by the Board of Directors and staff members, who are committed to aggressive cost controls and intelligent deployment of the co-op's resources.

An adequate supply of energy would have no meaning without a means to reliably deliver that energy to KIUC's members and customers. The shift to local, sustainable sources of energy also affects KIUC's transmission and distribution infrastructure. This network must be maintained and upgraded to ensure that its high standards for safety and reliability continue to be met.

This Strategic Plan is an update and expansion of the Strategic Plan 2008-2023, which was last updated in December 2009. The goal remains the same: to faithfully serve KIUC's members with reliable, reasonably priced electricity and to improve the quality of their lives.

This plan identifies the key issues KIUC will face in the next five years, and provides a common framework for the strategic direction of KIUC now and in the future.

KEY ISSUES

KIUC board members and key staff (see Attachment C) have identified the issues that will need to be addressed during the next five years, 2013-2018:

- Continue to build on KIUC's strong record of safety
- Reduce member costs
- Enhance member satisfaction
- Effectively adjust to potential disruptive technologies, such as distributed solar generation and battery storage
- Maintain reliability

- Ensure the fairness of the rate structure
- Continue implementing sustainable and diverse energy solutions
- Improve organizational/employee development

The Strategic Plan deals with these key issues and is described in more detail in the following sections.

VISION, MISSION AND CULTURE

Vision

Improve the quality of life for KIUC's members and on Kaua'i

Mission

To be an energy solutions leader by:

- Safely providing reliable power that is fairly and competitively priced
- Practicing conservation and efficient use of energy resources
- Increasing sustainable power supply and environmental stewardship

Statement

Empowering Kaua'i

Culture

The **culture** is shaped by several elements, all critical to its success. KIUC embraces the seven principles of a cooperative, as shown in Attachment A. *Ho`oka`ana Waiwai* is an agreed-upon set of Hawaiian-based values that provide a guiding statement and is shown in Attachment B.

Core Values

Core values that are to be tied to work performance, practiced daily, promoted without compromise and communicated through actions are:

- **Respect (Kupono):** treating everyone with fairness, integrity and honesty
- **Teamwork (Laulima):** looking out for each other and working together as one team toward common goals
- **Excellence (Ho`okela):** striving to provide the best professional service to our members by producing high quality work and excelling in everything one does
- **Responsibility (Kuleana):** practicing stewardship and the privilege of doing the right thing for our members in a responsive manner

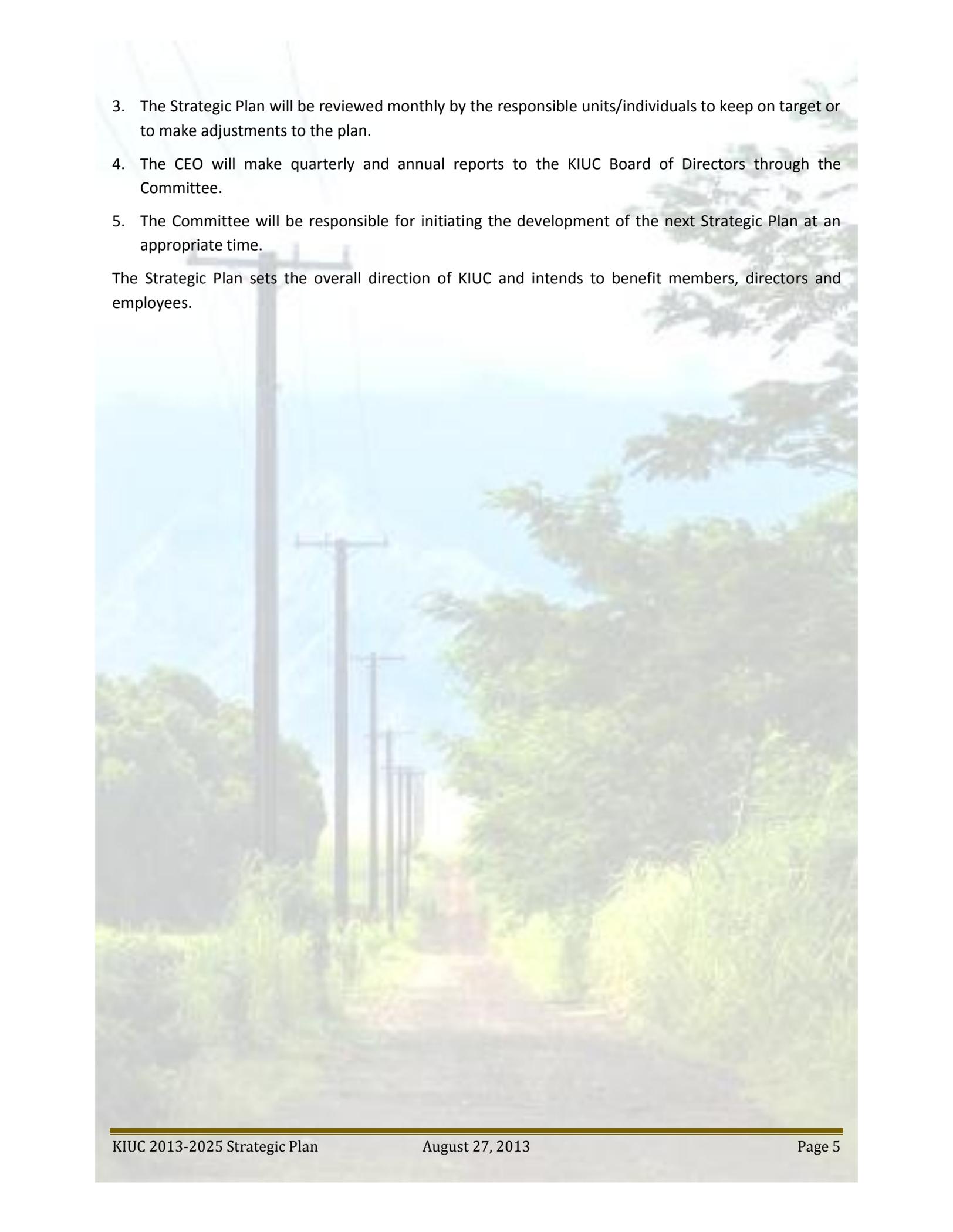
STRATEGIC GOALS AND ACTIONS

- A. Decrease average residential energy bill by 10 percent, after adjusting for oil prices, over the next 10 years through implementation of renewable energy plan, assertive cost control measures and innovative efficiency solutions for members.
- B. Generate at least 50 percent of electricity by using renewable resources by 2023.
- C. Reduce carbon emission levels to 1990 levels by 2023.
- D. Hold controllable cost increases at or below the level of inflation while maintaining system reliability at the average achieved between 2010 and 2012.
- E. Establish rate structure that “de-couples” margin from sales level; minimizes subsidies between customer classes; recovers more of the actual cost of service through fixed charges.
- F. Maintain a safe, diverse, well-trained, competitively compensated and motivated work force aligned with organizational strategies and able to respond quickly to business opportunities and threats.
- G. Maintain a prudent financial structure and access to capital. Target a TIER of 1.8 to 2.0 annually and an equity-to-assets ratio of approximately 35 percent.
- H. Be a leader in deployment of energy storage technology with a goal of meeting more than 100 MWh of daily demand with stored renewable energy.
- I. Develop additional revenue streams targeted at generating \$2 million in annual incremental margins.
- J. Increase focus on high sales volume accounts, providing value, expertise and customized energy solutions.
- K. Seek additional fuel supply options with a goal of ensuring that one source does not provide more than 25 percent of annual fuel consumption.

IMPLEMENTATION

The Strategic Plan goals and actions will be implemented upon approval by the Board of Directors according to the following guidelines:

1. The Strategic Plan will be implemented by an Agenda for Action (The Agenda) that will cover a two-year period. The KIUC Management Team will review the Strategic Plan every year and develop a “rolling” Agenda that covers the following two years.
2. The Agenda will be developed by the KIUC Management Team through collaboration with the Board Strategic Planning Committee (The Committee). Together, they will identify the outcomes and timelines for each action. The Management Team will be responsible for carrying out the specific actions and will provide periodic status reports. The Committee will have oversight of the Agenda to ensure the Strategic Plan is implemented in a timely manner.

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3. The Strategic Plan will be reviewed monthly by the responsible units/individuals to keep on target or to make adjustments to the plan.
 4. The CEO will make quarterly and annual reports to the KIUC Board of Directors through the Committee.
 5. The Committee will be responsible for initiating the development of the next Strategic Plan at an appropriate time.

The Strategic Plan sets the overall direction of KIUC and intends to benefit members, directors and employees.

Seven Cooperative Principles

Why Cooperatives Are Special. All cooperative businesses adhere to these seven guiding principles:

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

3. Members' Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.

Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of cooperation.

6. Cooperation Among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

Ho`oka`ana Waiwai (Shared Values)

Preamble: We, as a company and as individuals, accept these shared values as a guide to making ethical decisions and promoting harmony with KIUC and our island community.

Aloha

- We welcome our members with respect, sincerity and graciousness
- I will seek to be trustworthy, to share, respect and be kind to my KIUC brothers and sisters, and members

Ho`ohiki

- We are committed to keeping our promises to each other and our community
- I am accountable for what I say and do

Ho`okela

- We strive to provide the best service to our members
- I will contribute my best to attain the highest level of achievement

Ho`omau

- We will persevere in our journey together toward member satisfaction
- I will not waiver from the path

Kuleana

- We accept our responsibility to our island community as a privilege
- To do the right thing is a privilege I accept

Kupono

- We will treat members with fairness, integrity and honesty
- I am committed to treat others the way I like to be treated

Laulima

- We will work together toward common goals where one person's success is everyone's success
- I will combine my best efforts with others

`Ohana

- Community and co-workers, everyone is part of the KIUC family

KIUC Leadership Team That Updated Strategic Plan 2013-2025

2013 Board of Directors

Carol Bain
Karen Baldwin
David Iha (Secretary)
Patrick Gegen
Calvin Murashige
Allan A. Smith (Chairman)
Teofilo “Phil” Tacbian (Chairman Emeritus)
Jan TenBruggencate (Vice Chairman)
Peter Yukimura (Treasurer)

KIUC Management and Staff

David Bissell, President and Chief Executive Officer
Karissa Jonas, Financial Vice President and Chief Financial Officer
Kathleen “Pua” Chin, Executive Administrator to the Board and CEO
Tim Blume, Regulatory Affairs Manager
Jim Kelly, Communications Manager
Carey Koide, Transmission and Distribution Manager
Laurel Loo, General Counsel
Barbara Nagamine, Member Services Manager
Edwin Nakaya, Key Accounts Executive
Brad Rockwell, Power Supply Manager
Lisa Ubay, Human Resources Manager
Michael Yamane, Chief of Operations