



MEMORANDUM
EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Mital, Helgeson, Manning and Simpson
FROM: Roger Gray, General Manager
EWEB Leadership Team
DATE: October 24, 2014
SUBJECT: 2014 Quarter 3 Operating Plan Dashboard Results & 2014 Quarter 3 Management Letter Findings Dashboard Results
OBJECTIVE: Information Only (report of KPIs & Management Letter Findings)

Issue

EWEB Management submits the EWEB Performance Dashboard Report quarterly to provide a comprehensive, high-level view of EWEB's organizational performance and progress on implementation of the annual operating plan. The attached report provides Q3 results. In addition, and as a result of the Management Letter Findings from the 2013 Moss Adams Audit, EWEB Management also submits the EWEB Management Letter Findings Dashboard Report quarterly.

Background

As EWEB moves forward following a challenging couple of years, we continue to refine basic business priorities in accordance with the Board-adopted strategic plan. These include a greater emphasis on financial health, product affordability, and preparation for an increasingly uncertain future. The 2014 operating plan better links organizational goals to the strategic plan and the EWEB Performance Dashboard has been further refined to reflect what we believe is an appropriate level of detail to best gauge the overall health of the utility today and in preparation for future transformation.

Discussion

Q3 2014 results

Within the 4 reporting perspectives of Customer & Stakeholder; Financial, Operational; Continuous Improvement and Efficiency; and, People/Cultural, in keeping with EWEB's Strategic Plan the reporting is split in to the two sub-categories of *Perform* and *Transform*. Q3 results presented in the attached stoplight dashboard report indicates that of the 30 discrete *Perform* organizational goals identified for 2014, the management team believes we are either doing well or excelling in 23, and keeping a cautionary eye (or aiming to do better) on 7. In addition, the attached stoplight dashboard report indicates that of the 16 *Transform* initiatives identified for 2014, the management team believes we are either doing well or excelling in 11, and keeping a cautionary eye (or aiming to do better) on 3. No goals or initiatives are currently causing an elevated concern for significant additional attention, and 2 are categorized as too early to tell. Throughout the dashboard report, the trend column indicates where we see performance heading for a given metric over the coming quarters. It is important to take these individual metrics and to put them into an overall assessment and context.

In 2012 and 2013, EWEB went through some very tough challenges to effectively manage its financial situation. Significant effort has been taken by LT and staff alike to rise to the present challenges and the

resulting positive outcomes are evident in the metrics. Through the identified initiatives, opportunities continue to present to embrace future challenges faced by our utility that has the best value and outcomes for our customers and beyond.

Overall, the general operation of both utilities remained solid into Q3 2014. Highlighted below are both call-out successes and areas of concern within the subcategory of *Perform*, either due to current state or because we believe they may be trending down.



Areas of Notable Success:

- Financial Contribution of Trading Operations
- Financial Metrics – Both Utilities
- Employee Engagement
- Work Asset Management (WAM)
- Plan for Internal Audit & Process Improvement Function



Areas of Notable Concern:

No areas of notable concern in Q3



Areas to Watch:

- Product Delivery – Electric Service
- Product Delivery - Water
- Sale of Generating Assets
- Sale & Management of Real Property
- AMI/MDM Projects
- Generation Asset Efficacy
- Regulatory Compliance & Self Reporting



Areas Recognized as Too Early to Tell:

No Perform issues within this category.

Financial Contribution of Trading Operations

Continued excellent year to date results in client services, hydro optimization, transmission savings, and trade performance leading to increased financial contributions of the Trading Operations, reflected in the dashboard by a continued horizontal trending arrow in Q3 2014.

Financial Metrics – Both Utilities

Financial performance of both utilities remained strong in the third quarter. Water sales have increased compared to last year at this time due to 2013 and 2014 rate increases and increased pumping volumes of about 3.7% over 2013 levels. Electric retail sales are expected to continue to be under budget at year end based on reduced consumption, however wholesale sales continue to be higher than budgeted resulting in an overall projected positive contribution margin of \$5.6 million. For a complete report, refer to the board memorandum on 3rd quarter financial performance.

Employee Engagement

Following a highly successful mid-year employee survey, the third quarter included high participation in the annual Health & Safety Expo in September, along with the formation of a team to construct a Community Investment Strategy for EWEB volunteering opportunities.

Work Asset Management

This project is slated to be completed on budget, demonstrated by a horizontally trending arrow, and a “go live” milestone date of November 2014. The trend is upwards recognizing the significant work staff has undertaken to steer the course of this project to ensure a successful completion.

Plan for Internal Audit & Process Improvement Function

This is a new metric for 2014, borne out of the findings of the 2013 Year-End Audit by Moss Adams. A draft plan was developed earlier this year and progress is being made against that plan. Additional training was delivered in July to managers & supervisors and other key operational areas related to internal controls best practices and methodologies. In addition, the release of the Work Asset Management (WAM) system later this year will afford EWEB significant modernization of business processes to further strengthen plant, purchasing and inventory controls going forward. This spotlight is now green since the new Enterprise Risk, Internal Controls and Business Process Improvement Manager (ERIC-BPI) manager is in place effective September 2014.

Product Delivery – Electric Service

Following February’s extreme weather event that held significant impact upon the electric utility operations, product delivery has improved, with the SAIFI metrics now lower than the 5-year average. SAIDI metrics remain higher than the 5-year average. Overall this is reflected by a change of trend arrow from downward to horizontal.

Product Delivery – Water

The water operations staff has prioritized resources toward customer-driven work, including EmX. The move from green to yellow represents the potential deferring of maintenance work on the EWEB system contained in 2014 goals, including valve exercising, along with some capital work such as large meter replacement. While no direct quality issues have resulted to-date, this work is classified as preventative, and warrants additional scrutiny in this category. The water utility is developing plans to handle both EmX and regular EWEB work going forward in order to maintain our long-term commitment to regular maintenance work on water assets.

Sale of Generation Assets

The potential Smith Creek sale is progressing with several potential buyers visiting the site in Q3. Qualified bidders are trying to recruit third-party power purchasers and develop transmission arrangements as part of the site evaluation process.

Sale of Real Property Assets

Progress occurred on the Riverfront surplus property with the selection of a preferred Master Developer to initiate detailed negotiations. Staff continues to address multiple additional encroachment issues, along with the sale of the West 3rd street property.

AMI/MDM Projects

Staff continues re-planning efforts with expectations of presenting potential budgets and contracts to the Board in December.

Generation Asset Efficacy

Several incidents lowered the generation availability in the third quarter, including an equipment issue at International Paper (Co-Gen), and a transformer issue at Carmen-Smith. These issues have been addressed and are being monitored, so the outlook for Q4 is improved.

Capital Improvement Program Implementation ↓

Customer-driven work, including EmX, is creating additional pressure on future project schedules in water and electric distribution. Equipment and construction delays are impacting Generation projects, including the Leaburg Roll Gate project.

Regulatory Compliance & Self Reporting ↑

Several self-reporting issues arose over Q1 and two in Q2, both minor. In Q3, a minor NERC asset classification assessment process was self-reported, and resolutions continued on previously self-reported violations.

As previously mentioned, the subcategory of metrics under the *Transform* sections of the dashboard report are new for 2014 and reflect the desired direction of the Board-adopted Strategic Plan. These initiatives are progressive and dynamic over time, and planning efforts have begun in many of the identified business functions. While some transform areas are progressing, several of these metrics carry a gray stoplight as they are in the early conceptual stages of development and it is simply too early to know at this stage how they will perform. Others reflect ongoing metrics important to the long term vision, transformation and health of the organization where efforts have already begun, and monitoring is ongoing.

TBL Assessment

No TBL assessment was conducted for the quarterly update.

Recommendation

These reports are provided for information only.

Requested Board Action

Review reports and direct comments, concerns or questions to Management.

**EWEB ORGANIZATIONAL PERFORMANCE DASHBOARD - CY2014
QUARTERLY REPORT**

Customer & Stakeholder Perspective									
	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Owner	Trend	Expected Finish	Comments	Sources
PERFORM									
Customer Communication & Engagement					LR		Ongoing		Public Affairs 2014 Operational Plan
Customer Satisfaction					LR		Ongoing	Overall satisfaction remains very high but is slightly lower than in the 2013 annual survey. The decline from a mean of 8.0 to 7.7 also remains within the long-term range of overall satisfaction. A decline of 0.3 is not considered statistically significant, but is below the goal of 8.0. The 2015 annual survey, combined with previous surveys, will be an indicator of longer term customer satisfaction trends.	Public Affairs 2014 Operational Plan
Customer Service Operations					MF		Ongoing	Lost calls, adherence, Key Accounts all on track. Bad Debt will exceed budget of \$600k	CS&EMS 2014 Operational Plan
Environmental Stewardship					SN		Ongoing	Goals have been reduced to reflect current spending levels; EWEB is meeting legally mandated stewardship requirements (Green Light), however voluntary GHG, fuel, and solid waste reduction rates have slowed.	Environmental 2014 Operating Plan
Product Delivery – Conservation, DR, & EE					MF		Ongoing	Will meet goals for EE, less IP contribution which will be combined with 2015 or IP will refund to EWEB	CS&EMS 2014 Operational Plan

Product Delivery – Electric Service					TS		Ongoing	SAIFI near 5 yr avg., SAIDI higher than 5 yr avg. PUC corrections still lagging due to February storm.	Electric 2014 Operational Plan
Product Delivery - Water					BT		Ongoing	Some operational benchmarks have been compromised as a result of work load issues resulting from the MX project and other customer side driven work request.	Water 2014 Operational Plan
Water Reliability Initiative: Emergency					BT		Ongoing	Progress is being made on emergency preparedness and community education and outreach activities.	Water 2014 Operational Plan
TRANSFORM									
Redefine and price the products and services that today's customers value over the next three years, in order to help prepare EWEB and the community for the utility of the future.									
Partner with customers of both utilities to redefine services, pricing and options that include increasing levels of customer-side DR and DM for both the Electric Utility and Water Utility to develop balanced, adequately diverse, and cost effective resource portfolio that include demand management strategies and appropriately size and maintain reliable delivery infrastructure systems.					EE		Ongoing	Cross functional R&D team re-planning program offerings to support AMI Opt-in strategy. Residential-TOU pilot and Commercial Aggregator pilot slated for Fall go-live customer engagement & execution.	R&D Pilot Programs Quarterly Reporting Board Backgrounder. AMI Re-Planning Team documentation.
Refine product definitions and pricing for both utilities (un and repackage services to accurately reflect customer services such as back-up, storage/banking, delivery, supply) over the next three years to enable customers to more clearly respond to the cost and value of the products and services we offer.					EE		Ongoing	Preparing Rate-Design proposal for inclusion in 2015 budget and long-term financial plan update; to be presented to Board of Commissioners on October 7, 2014, for guidance.	http://www.eweb.org/public/commissioners/meetings/2014/141007/M11_2015ElectricRateDesignProposal.pdf

Water Reliability Initiative: AWS					BT		Ongoing	We have been encountering numerous delays on property acquisition.	Water Operations Manager
Financial Perspective									
	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Owner	Trend	Expected Finish	Comments	Sources
PERFORM									
Budget Adherence – Electric Utility					CB		In progress		Q3 Electric Financial Statements – Nov Bd Run
Budget Adherence – Water Utility					CB		In progress		Q3 Water Financial Statements – Nov Bd Run
Sale of Generating Assets					DC		Q4	RFP process executed well and on schedule but hearing concern regarding availability of transmission to NW markets.	Asset sales plan
Sale & Management of Real Property Assets (Includes Riverfront Property and Asset Utilization Efforts)					SN		Ongoing	Progress made on selection of Riverfront Developer to initiate negotiations; Issues remain with general encroachments, maintenance, & environmental contamination.	In development
Financial Contribution of Trading Operations					DC		Ongoing		Power Operations 2014 Operational Plan
Financial Health Recovery Plan Implementation					CB		In progress		Long Term Financial Plan
Financial Metrics – Electric Utility (Reserves, DSC, etc.)					CB		In progress		Q3 Electric Financial Statements – Nov Bd Run

Financial Metrics – Water Utility (Reserves, DSC, etc.)					CB		In progress		Q3 Water Financial Statements – Nov Bd Run
TRANSFORM									
Increase customer value within the next five years for both utilities by targeting a competitive comparator position at the middle of the pack when compared to industry peers.									
Improve our comparator position among peer electric utilities to at least 10% below Oregon-based IOUs within 5 years. Improve our relative comparator position among NW-based COUs by moving closer to 50th percentile within 5 years.					CB Finance & Budget Horizontal Team		In progress	Long-Term Financial Plan update and 2015 Budget (Board presentation in October) will include a 0% & 1% revenue requirement increase options for 2015.	Long-term Financial Plan and comparator graph
Maintain our comparator position among peer water utilities to no more than the 50th percentile after implementing alternative water supply.					CB Finance & Budget Horizontal Team		In progress		Long-term Financial Plan and comparator graph
Operational, Continuous Improvement and Efficiency Perspective									
	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Owner	Trend	Expected Finish	Comments	Sources
PERFORM									
AMI/MDM Projects					EE		Planning complete EOY	Work plan development ongoing. Overall objectives and targets established. Execution to commence following formal Board budget approval in December.	I.S. 2014 Operational Plan

Capital Improvement Program Implementation					MD		Ongoing	Schedule slipping for Water is causing some concern for future resource availability, especially in light of LTD EmX. Generation slipping on schedule for a couple of major projects.	Engineering 2014 Operational Plan
Carmen Smith Relicensing Project					MM		Ongoing	Meeting organizational objectives; renegotiation of d/s passage is ongoing; no FERC action on license application until mid-2015.	Generation 2014 Operational Plan
Generation Asset Efficacy					MM		Ongoing	Unit availability decreased in Q3 due to planned and unplanned outages in hydro and co-gen resources. Expect recovery in Q4.	Generation 2014 Operational Plan
IS Project Execution					MS		Ongoing		I.S. 2014 Operational Plan
Regulatory Compliance and Self Reporting					MD		Ongoing	Continuing self reports and potential violations are being resolved.	Engineering 2014 Operational Plan
Vehicle Safety and Property Preservation					MM		Ongoing	Continued improvement over previous year's incidents.	Generation 2014 Operational Plan
Work Asset Management Project (WAM)					CB / RK Steering Committee		09/30/2014	Slight adjustment to go live date – NOW 11/3/14	Quarterly capital plan update
Plan for Internal Audit and Process Improvement Function					RG		12/31/14	Enterprise Risk/Internal Controls/Business Process Improvement Manager (ERIC-BPI) is in place effective 9/14/2014. (Roger Kline). Transfer of various issues, resources and initial training completed. Initial plan developed and 2015 plan will be completed by 12/31/2014.	Roger Kline, Roger Gray

TRANSFORM									
Increase organizational efficiency over the next five years by using technology, business process improvements, partnerships, and other mechanisms to manage costs, improve service, and increase customer value.									
Develop and implement tools to reduce waste and reduce or eliminate costs that don't provide customer value within the next two years.					RK		Ongoing	Have initiated ER/IC work with hiring FTE and program development.	Department Operational Plans
Build and fully implement the 10 year information systems plan meeting scope, cost and schedule.					MS		Ongoing	BSPHT Charter has been drafted. Internal recruitment process has been defined. Initial role recruitment to begin November 3 – 17. EAHT has been approved.	I.T. Manager
Use technology and business systems to improve customer experience and information flow, beginning now.					MS		Ongoing	Project and capabilities to be reviewed at December BSPHT Business Charter Team meeting.	I.T. Manager
Adopt benchmarking as a standard EWEB practice to measure and assess efficiency of all EWEB work processes and functions by EOY 2014.					EE		End of year	Generation/ hydro in year 3 of industry benchmarking successful participation (EUCG). Piloting metric-centric KPI Dashboard in Q3/Q4 2014.	Power Planning gathering industry benchmarks across all business functions
People/Cultural Perspective									
	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Owner	Trend	Expected Finish	Comments	Sources
PERFORM									
Employee Engagement					LK		Ongoing	Planning for the 2014 Survey. Engagement activities have included: <ul style="list-style-type: none"> • Health and Safety Expo • Developing Community Investment Strategy for 	Public Affairs 2014 Operational Plan Human Resources 2014 Operational Plan

								EWEB volunteering opportunities	
Employee Safety, Health, & Wellness					LK		Ongoing	<p>68% of employees attended the Safety and Health Expo.</p> <p>Invest Campaign = 52 skin cancer screenings completed w/16 referrals out for further evaluation (31%)</p> <p>Metric indicators show an increase in incident rate driven by multiple factors including a protracted absence due to a workplace injury.</p> <p>Increased focus on injury prevention, near miss reporting, tail boarding, and a renewed stretch program. The program has been rolled out to 75% of employees</p>	Human Resources 2014 Operational Plan
Workforce Composition					LK		Ongoing	85% of new hires were diverse in Q3	Human Resources 2014 Operational Plan
Workforce Performance					LK		Ongoing	M&S continue to submit reviews on time	Human Resources 2014 Operational Plan
Workforce Development					LK		Ongoing	Developing Integrated Training plan to ensure timely and effective delivery of training. Implementing LMS/CBT	Human Resources 2014 Operational Plan




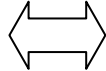



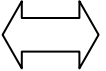
TRANSFORM

Leverage the power of our people to create and implement flexible and resilient business plans over the course of this strategic plan to allow EWEB to better adapt and thrive as the future changes.

Assess and enhance employee engagement, awareness of EWEB's strategic direction, alignment with current EWEB and department goals, and willingness and ability to embrace change.					LK		Ongoing	Activities have included: <ul style="list-style-type: none"> Individual work group sessions around the strategic plan 	Employee surveys
Effectively implement scenario-based planning that includes broader horizons ranging from traditional centralized to decentralized utility futures and considers enterprise risk management.					EE		Ongoing	Scenario based strategic plan adopted and ongoing deployment & implementation underway.	2014 Strategic Plan update
Ensure major work processes and functions can scale up and down more flexibly without disruption to business or people.					RK		Ongoing	Have initiated ER/IC work with hiring FTE and program development.	Business Unit Operating Plans; LTFFP
EWEB people receive increasing levels of (re)training to perform EWEB work now and in the future and are hired and retained for ability to adapt and learn over time.					LK		Ongoing	Development of CBT is underway	Safety Training Dashboard

Refine our focus over the course of this strategic plan to clearly reflect the vision and values of EWEB employees and the community we serve in the work that we do each day, while we transform vital aspects of our business.

Clearly define and then deliver the unique benefits of being a public utility within 2 years to better leverage the value of the public utility business model.					LR		Ongoing	Quarterly customer advisory panel, Reservoir of Goodwill activities and expanded public engagement around budget, riverfront and other issues help demonstrate value.	Public & Stakeholder input.
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Position EWEB as a competitive employer within the next 5 years.					LK		Ongoing	EWEB continues to show strong growth in this area	HR metrics
Make EWEB a “Great Place to Work” right now, with people who are highly engaged and committed to our customers.					LK		Ongoing	Prepping for next survey offering in November	Employee survey



Red Light = Significant actual or projected miss in cost, scope or schedule. Issues that will likely cause material impacts.




Yellow Light = Potential or minor miss with respect to cost, scope or schedule. No major impacts in spite of miss.

Gray Light = too early to tell; metrics in process of being defined or collected.

Green Light = Completed or projected to complete with respect to cost, scope or schedule. Results exceed or expected to exceed objective.

**EWEB MONITORING AND REPORT OF MANAGEMENT LETTER FINDINGS - CY2014
QUARTERLY REPORT**

<u>2013 Moss Adams Management Letter</u>	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Trend	Expected Finish	Comments	Assigned to
2013 MANAGEMENT LETTER FINDINGS – CONTROL DEFICIENCY/MATERIAL WEAKNESS								
Internal Audit	n/a				↔	12/31/2014	Expect all items to be closed by 12/31/2014.	Roger Gray, Roger Kline
IT Circumvention of Controls	n/a				↑	Ongoing	Significant progress on tactical opportunities since April 2014 internal memo. Additional strategic progress has been made with ERIC-BPI and IS Department as it relates to IS 2015-2016 Strategic Plans.	Matt Sayre, Roger Gray
Inventory Purchases Outside of Inventory System	n/a				↔	4 th Qtr 2014	WAM delayed until Nov. 3, Consumables in progress, planning for remote sites in progress.	Todd Simmons
Approval of Pay Rate Changes	n/a				↔	1/1/2014	Complete	Lena Kostopulos
Purchasing Card Purchases that should go through PO Process	n/a				↑	Completed	Met with each LT, M/S and provided instruction & follow up.	Gail Murray
2013 MANAGEMENT LETTER FINDINGS – CONTROL DEFICIENCY								
Timely Bank Reconciliations	n/a				↑	10/31/2014	All bank reconciliations are completed and final review by Oct 31, 2014.	Susan Eicher
Breach of EWEB Policy for Procurement Threshold	n/a				↑	Completed	Met with each LT, M/S and provided instruction & follow up. New process of reporting out to Board any threshold breach included in quarterly contract report.	Gail Murray

Timeliness of Loan Receivable Reconciliation	n/a					Bi-monthly	Complete - Accounting & Loan Administrator to reconcile jointly at least bi-monthly. Process defined.	Mark Freeman
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2013 MANAGEMENT LETTER FINDINGS – OTHER MATTERS								
Linux Administrator Position	n/a					Completed	Hired – date of hire February 2, 2014.	Matt Sayre
Service Level Agreements with Third Party Vendors	n/a					Completed	Share Point Site has been established and is active.	Matt Sayre
2012 MANAGEMENT LETTER FINDINGS – CONTROL DEFICIENCY								
Update of Purchasing Card Policy and Review of Number of Credit Card Users	n/a					Completed	Revised P&P and Cardholder & Supervisor Agreement forms – Met with each LT M/S and provided instruction & follow up. # of cards & limits adjusted as requested. All complete by 10/10/14.	Gail Murray
Review of Customer Adjustments Report/Adjustments to CIS	n/a					Ongoing monthly	Complete	Mark Freeman
IT Active Directory Account Review	n/a					Ongoing	Automated monthly team reports are made that indicate all active and inactive accounts. Those are ultimately deleted if the corresponding supervisor verifies they are no longer needed.	Matt Sayre

- Red Light = Significant actual or projected miss in cost, scope or schedule. Issues that will likely cause material impacts.
 - Yellow Light = Potential or minor miss with respect to cost, scope or schedule. No major impacts in spite of miss.
 - Gray Light = too early to tell; metrics in process of being defined or collected.
 - Green Light = Completed or projected to complete with respect to cost, scope or schedule. Results exceed or expected to exceed objective.
- Improving, positive trend
 No changes or status quo
 deteriorating, negative trend