



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners
FROM: EWEB Leadership Team, Frank Lawson
DATE: June 7, 2016
SUBJECT: 2016 Strategic Plan Update
OBJECTIVE: Annual Review and Approval of Updated Business Strategies

Issue & Background

Board Policy GP3 requires that the Board review and approve the strategic direction of the organization on an annual basis. The last Board review of the Strategic Plan was approved on October 6, 2015. In this annual progress update, management reaffirms the strategic direction of the plan, reflects on what has been accomplished, and looks at what is next. No action is required at this time to modify Board Policy Strategic Direction (SD) 1: Mission, Vision, Values & Legacy, since the only proposed changes are to the underlying business strategies, which are not reflected in SD-1.

This year, we moved up the annual review date to June, from October, in order to get ahead of the annual budget cycle. This will allow us to accommodate any change in strategic direction from the Board that would impact the budget. Going forward, pursuant to the Board's feedback at the spring workshops, we will plan to hold work sessions with the Board each year in preparation for an annual June update. This year, two work sessions were held on March 15 and April 19, wherein management first reviewed key aspects of the existing plan and then went into detail on current issues the Board selected for deeper review. Since there has been only seven months since the last update and we are approaching the mid-point of this Strategic Planning period (2014-2019), this memo will focus on an overview of the first half of the plan and recap 2015 performance.

Discussion

The current Strategic Plan was designed for implementation between 2014 and 2019, with annual check-ins pursuant to SD-1 direction. At the April 19 workshop, the Board validated the mission, vision and values as still relevant. The business strategies were noted to be in need of update, given one had been achieved and the time frame to achieve another had arrived. Since the plan is annually reviewed by the Board, we have removed reference to specific time frames to the revised business strategy. Discrete annual deliverables for the plan instead will be provided in the management dashboard, which sets the goals of the organization and is presented and at the beginning of each calendar year. This also provides some flexibility in the event that the new General Manager should choose to revisit this plan and take the organization in a new direction.

This plan and its supporting Key Performance Indicators distinguish between Perform goals and Transform goals. Over time, the Perform goals have focused on meeting operational metrics as laid out to the board each January in the dashboard report. This is then reviewed with the Board each quarter to gauge progress and identify potential areas of concern. In addition, the overarching business strategies have been revisited periodically in both the annual plan update and when topical areas under the plan have come to the board for decision or discussion.

Recap of Business Strategy Performance

With respect to the business strategies, the following represents progress at the highest level toward these organizational goals:

EWEB 2014-2019 BUSINESS STRATEGIES

<p>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.</p>	<p>Since introduced, the need to become an organization that is more flexible and resilient has clearly emerged and is reiterated in work plans throughout the utility, ranging from Engineering’s infrastructure-related master planning processes to HR’s strategic workforce plan.</p>
<p>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.</p>	<p>A significant amount of progress was made in thinking about and reshaping our existing retail pricing structure for both water and electric over the past several years. While the electric goal of redefining the products and services we offer was not obtained, and this work has necessarily slowed to have a larger conversation with the community about why this is important for the electric utility, important groundwork has been laid, including the reduction of competitive threats, such as uneconomic natural gas conversion, improved fixed cost recovery for utility financial stability and price certainty for customers and focus on business growth and retention. We have made headway on R&D pilots with customers to test their receptivity to new programs and have laid the groundwork for AMI which will facilitate technology modernization at the interface with the customer.</p>
<p>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.</p>	<p>A significant amount of time has been invested over the past few years in attempting to refine our focus and better align with customer values. There have been successes, such as coalescence around Disaster Recovery planning, the Grid Modernization effort, and the Community Engagement and Customer Experience efforts being pursued for 2016-2017. However, greater focus and clarity on EWEB’s future direction is still required.</p>

<p>Increase customer value within the next five years for both utilities by targeting a competitive and comparator position around the middle of the pack as compared to industry peers.</p>	<p>Based on the comparator group the Finance Department has been benchmarking our average retail cost against, EWEB has attained our target of making the “middle of the pack” on electric prices. Water remains near the lower end of its pack.</p>
<p>Increase organizational efficiency by using technology, business process improvements and other mechanisms to manage costs, improve service and increase customer value.</p>	<p>Over the past several years, EWEB has put a clear focus on cost reduction and recently, revenue enhancement. Over the 2014-2016 period covered by this plan, EWEB reduced almost \$7 million in O&M expense, another \$20 million in capital was deferred or eliminated, and about 20 positions were eliminated.</p>

For 2015, transformation goals in the KPI dashboard and the corresponding year-end results reported out for Q4 were as follows:

<p>Financial Position Narrow the current 2017 budget gap in 2015 through increased revenue generation, cost reduction, and rate design changes that accumulate to a 2015 net gain of \$2 million for electric and \$350 thousand for water.</p>		<p>Targets achieved. Work will continue in 2016 to further enhance Financial position</p>
<p>Balancing Demand and Supply to Enhance Customer Value In 2015, focus efforts on the demand side of demand-supply balance by exploring partnerships with customers that help to create more flexibility in customer demand by providing data on consumption, time or situation dependent price signals, and the use of technology to automate customer response</p>		<p>Positive: Microgrid pilot grant funding awarded. Set-back: in supporting pricing strategy. Will need to reassess priorities in the Strategic Workshop discussions in 2016.</p>
<p>Risk Management By the end of 2015, specifically define and measure (baseline) our formal risk tolerance(s) in all operating departments (divisions), including a comparison of risk exposure to risk tolerance in “key” processes.</p>		<p>Risk tolerance discussions occurred in 2015, but baseline not created. Risk work focused on other areas in 2015 (contract management, IS internal controls, fleet operations review). Department transitioned to S. Fahey in December. 2016 work plan focuses on division risk identification and management.</p>
<p>Process Efficiencies Optimize our human and financial resources by using "lean" tools to reduce waste and costs that don't provide customer value. In 2015, benchmark our performance to reasonable comparators, focusing on areas we are aiming to improve, and seek to execute a continuous improvement process.</p>		<p>Efficiency work performed through various avenues in 2015 – LEAN, XLR8, GRC reviews. However, no centralized effort. Managers are developing 2016 goals which will include benchmarking for process improvement. Until an organization-wide model is adopted, this is considered trending down.</p>
<p>Asset Management / Planning Update water and electric T&D master plans in 2015 and create a path to integrate source, delivery, demand, and IRP planning processes into the electric plan. Get Board approval of the Water Master Plan by the end of Q2.</p>		<p>Water Maser Plan approved in June 2015. Electric master plan to be approved in Q2 2016. Electric Plan is progressing.</p>
<p>Workforce Development Create, adopt, and begin implementation of a long-term Workforce Development Plan that fosters the flexible and skilled workforce needed to meet future business needs.</p>		<p>With pilot of Learning Management System and development of training for new hire onboarding, activity target was met. Workforce Planning Activities to take place in 2016, including full rollout of Learning Management System in Q1.</p>

<p>Information Systems Plan and implement technology solutions supporting parent business lines (Water, Power Generation, Transmission & Distribution, Customer Services, and Shared Services) and refine work intake process to be prioritized by operational or strategic value by the end of 2015.</p>		<p>IS Service Management initiative launched to overhaul and streamline work intake and management processes in 2016.</p>
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Results of 2016 Strategic Planning Workshops

At the March 15 Board workshop, management recapped the existing plan and asked Commissioners for feedback on their preferred areas of focus. Using that feedback, a series of topic-specific presentations were provided to the Board on April 19, covering Regional Water Supply Provision, Smart Electric Growth and Retention Opportunities, Community/ Grid resiliency planning, and ways to leverage our existing dark fiber assets for Telecom.

In the Regional Water Supply discussion management shared with the Board how EWEB is well positioned to be a regional water provider where there is need and interest. The Board generally supported this direction. For smart growth, the Board gave management broad support for pursuing load growth programs that 1) benefit our customers financially and 2) benefit the environment and community through emissions and CO2 reductions. An overview of the electric grid resiliency vision was laid out and the Board was generally supportive as long as EWEB doesn't spend significant incremental dollars on this endeavor. Lastly, Telecom and EWEB's role in this space was addressed in some length. Management proposed a measured and conservative approach to expanding EWEB's presence in the Telecom sector, while the Board encouraged a more aggressive approach, including profit based pricing.

Also from that session, the following overarching "Big Ideas" were identified by the Board. These will be used to influence future direction and discussion with the Board.

- "Smart" growth and conservation – how do we support both?
- Position EWEB to act quickly when opportunities arise
- Fixed cost recovery and "equity" (and what equity means to different people)
- Technology and infrastructure investment for "new" products and services (appropriate? Address for each utility)
- Role in economic development (community stewardship role)
- Monopoly (cost-based) services and obligation to serve vs. competitive service provision
- Clearly defining and leveraging comparative advantage
- Marketing as a statement of identity
- Need to increase our products and services because we cannot compete on price alone
- How would the community pay the marginal cost of increased resiliency investments?
- Look at adding customer willingness to pay for resiliency enhancements to the public engagement effort being formulated (one more category of value)
- Align our Values statement with customer values
- Modify Board meeting format to accommodate more dialogue (landed on 2-4 sessions per year, no more than 2 being during the day, and not seeking to add to overall meeting time commitment)

- Broaden opportunities for community engagement on identified topics

Over the coming year, management will follow up on the specific feedback for each of the three lines of business: water, electric and telecom.

Update to the Business Strategies

As a result of the Board feedback at the workshops and subsequent internal review with managers and supervisors, the following update to the Business Strategies is being proposed:

Leverage our value as a public utility to provide products, services and pricing that meet or exceed our customer-owners' expectations by focusing on the following priorities:

- *ENHANCE AFFORDABILITY: meet or exceed established financial metrics while keeping average prices below regional industry averages by enhancing utility efficiency, standardization and flexibility*
- *CONNECT WITH CUSTOMERS: remain aligned with our customers to reflect community values and enhance community vitality and resiliency while preserving affordability*
- *READY WORKFORCE: attract, retain and cultivate an empowered, engaged and highly-skilled workforce equipped to perform and adapt as we transform to meet the challenges and opportunities of a changing future*

Recommendation and Requested Action

Management recommends affirming the existing Strategic Plan for another year and approving the update of a revised business strategy, intended to simplify and add focus to the direction of the Plan.