



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Frank Lawson, General Manager
DATE: April 25, 2018
SUBJECT: Annual Review of Strategic Plan
OBJECTIVE: Direction

Issue:

According to the *Eugene Water & Electric Board Strategic Plan (2017-2020)*, approved August 1, 2017, EWEB will “review and update the plan annually, or when impactful changes occur.”

Background

The intent of the strategic plan is to provide the context and understanding needed to manage policies, establish priorities, and make decisions. The plan should guide and align the organization, inspire action, and motivate us to achieve desired results. Management is recommending that the plan be reviewed in late spring, prior to the development of the annual Capital Improvement Plan (CIP), Long Term Financial Plan (LTFP), annual budget(s), and pricing recommendations.

Discussion

Over the past eight months, the strategic plan has provided guidance for several decisions, including those associated with alternative water sources and advanced metering. Additionally, the plan is providing context and understanding for updates to customer service policies, and approaches to help build customer confidence through performance, cost controls, simplicity of customer interaction, and transparent community communications.

Management has observed or obtained strategic feedback from Commissioners and members of the community for Board consideration, including the following:

1. The plan should be more descriptive as to the makeup of the future power generation portfolio, including “renewables”, “green”, non-carbon, fossil free, etc.
2. The plan should more clearly define EWEB’s role in climate recovery, including decarbonizing any or all sectors (energy, transportation, industrial).
3. The plan should provide more clarity regarding EWEB’s role in social and community programs, including limited income (social equity, affordability, crisis support).

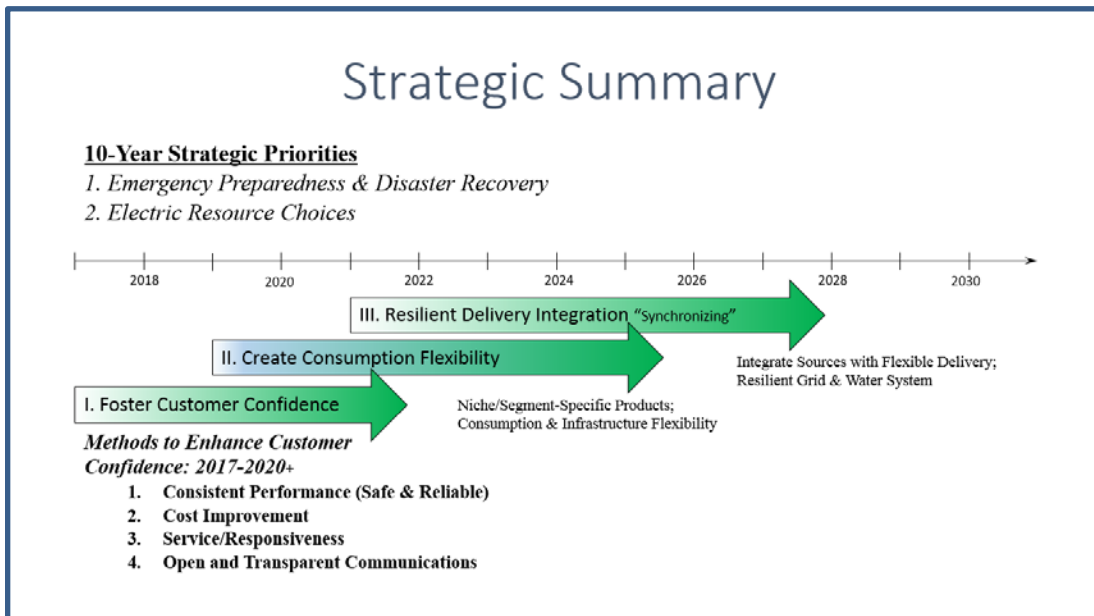
Requested Board Action

In the context of working with the new strategic plan since August 2017, Management requests Board feedback on the aforementioned areas, strategic feedback and any additional updates for consideration. Management will return in June with strategic updates based on the Board's direction.

Attachment: EWEB Strategic Plan, August 1, 2017.

Eugene Water & Electric Board Strategic Plan (2017-2020)

Adopted by the EWEB Board of Commissioners on August 1, 2017



Purpose

The intent of this strategic plan is to provide the context and understanding needed to manage policies, establish priorities, and make decisions. The plan should guide and align the organization, inspire action, and motivate us to achieve desired results. We will review and update the plan annually, or when impactful changes occur.

Introduction

The Eugene Water & Electric Board (EWEB), one of the oldest publicly owned utilities in the Northwest, was founded in 1911. Today, EWEB is Oregon's largest customer-owned utility serving approximately 200,000 people in the greater Eugene and McKenzie Valley areas. Each year, EWEB is responsible for delivering 7.5 billion gallons of drinking water and 4.5 million megawatt-hours of electricity. In accordance with the City of Eugene Charter, a five member Board of Commissioners is elected by the citizens of Eugene for staggered, four-year terms.

EWEB serves a city that is known for its dedication to action and self-sufficiency. The inspiration for creating a publicly-owned utility came from an increasing dissatisfaction with the private water company serving the community. In 1916, the Board purchased the Oregon Power Company's electric system, positioning the utility as the full-service provider it is today. The utility's name changed to Eugene Water & Electric Board in 1949.

Strategic Priorities...the two “Big Ones”

The most significant decisions confronting EWEB in the next decade involve sources of supply, including the renewal, replacement, or termination of major electric generating resource contracts, and decisions involving the diversification of drinking water sources for purposes of community resiliency and disaster recovery.

Prior to 2028, EWEB will need to reassemble a power generation portfolio, renewing or replacing over 400 MW of resources, including EWEB's contract with Bonneville Power Administration (BPA) and the Carmen-Smith hydro facility relicensing project requiring an additional \$115 million investment. These decisions are worth billions, and will be made in the context of changing technology, markets, and customer expectations.

Eugene is also the largest community in the Pacific Northwest without a second source of drinking water. Ultimately, another surface water plant on the Willamette will be required to meet demand, and will justify the investment and associated rate increases. However, up until more volume is needed, using partnerships to create emergency water response, independent of the condition of our transmission and distribution pipes, is a more practical and effective approach for an Alternative Water Source (AWS).

Addressing these strategic priorities will require a deeper understanding of product consumption patterns, including the impacts to both wholesale and retail markets, and the value created for our customer-owners. During both normal and disruptive circumstances we will rely on our consumers to help us execute and make decisions, which will require their enhanced trust and confidence in EWEB. Confidence will be enriched through our consistent performance and transparent communications. Ultimately, our strategic priorities can be achieved using a “resilient delivery” utility business model, and require concentration on improving resiliency in the following two areas.

10-Year Strategic Priorities...the two “Big Ones”

- 1. Emergency Preparedness & Disaster Recovery*
- 2. Electric Supply Resources*

Vision

Our vision describes our future and what we want to achieve, and is stated as follows:

Vision

Our vision is to be a local utility that inspires our customer-owners to invest in and rely on us.

This vision implies that customers will have more utility and consumption choices in the future, and as owners will be integral in investing in that future, both financially and through program participation. We will have to earn their ownership and business.

Mission

Our mission describes how we will achieve our vision, and is stated as follows:

Mission Statement

Our mission is to enhance our community's vitality by delivering drinking water and electric services consistent with the values of our customer-owners.

We exist for the benefit (“enhancement”) of our local community. “Vitality” acknowledges the essential services that we provide, and highlights our vital contribution to the health and welfare of our community. “Consistent with the values” recognizes our owners are Eugene residents and our customers, and stresses the importance of the methods we use to deliver our services.

Values

Decisions will be made to support a strategic direction without sacrificing “core values”. Therefore, we have re-crafted our core values to provide a simpler basis to guide and/or overrule decisions. These values are unique and sacrosanct; they cannot be compromised for convenience or short-term gain. As proven by our decisions and actions, our core values are the following:

Organizational Core Values

SAFE: *We value workforce and public safety.*

RELIABLE: *We value the continuous, on-demand, delivery of quality drinking water and electricity.*

RESPONSIBLE: *We value the prudent and sustainable local stewardship of our customers’ limited financial and natural resources.*

COMMUNITY: *We value our commitment and obligation to serve our local community.*

Fundamental Legacy

Our values are supplemented by a set of principles and behavioral expectations, as stated in Board Policy SD1. We care about our community and the environment. We strive to provide affordable products and services, continuously improving our efficiency and effectiveness. We emphasize customer service, defining value through our customers’ eyes. We treat each individual respectfully, and provide a quality work environment for our employees.

Strategic Evolution

Optimizing our resource and resiliency decisions over the next decade will require a *sequence* of strategic efforts and accomplishments. The eventual “resilient delivery” business model will be based on providing critical services more resiliently using a path that begins with the following.

Initial Phase Strategic Summary

Over the next three years, increasing customer value will cultivate the confidence needed for resiliency and long-term resource decisions.

This strategy denotes the impact of near-term performance on our customer relationship, and the role of our customers in pursuing our 10-Year Strategic Priorities. It is expected that our strategy will evolve as we progress through the following phases over the next decade.

Strategic Phases

<u>Phase</u>	<u>Theme</u>	<u>Method</u>
2017-2020+	Foster Customer Confidence	Focused Performance (Cost, Responsiveness)
2018-2022+	Create Consumption Flexibility	Niche/Segment-Specific Products; Delivery & Infrastructure Flexibility
2020-2026+	Resilient Delivery	Integrate Sources with Flexible Consumption; Resilient Grid and Water Network

Phase I – Foster Customer Confidence

Our relationship with our consumers will impact the execution of our water and electric strategies. Both utilities require that customers help us understand and potentially adjust consumption patterns in the future. Widespread customer trust is essential. While this phase is an extension of our previous “*perform while we transform*” strategy, it more clearly focuses “perform” improvements on cost and customer responsiveness through improved efficiency, simplicity, and ease of doing business with us.

Methods to Enhance Customer Confidence: 2017-2020+

1. Consistent Performance (Safe & Reliable Delivery)
2. Cost/Efficiency Improvement (Responsible)
3. Service/Responsiveness – Ease of doing business (Community)
4. Open and Transparent Communications

Other than product value (benefits versus cost), customers evaluate us based on their unique, non-routine service-based experiences (storms, billing questions, rebates/credits, renovations, etc.).

The objective of this phase is to cultivate customer confidence by consistently and transparently improving our performance.

Phase II – Create Consumption Flexibility

Organizational performance and resiliency are aided by agility, whether referring to negotiating contracts, optimizing resources, or responding to emergency or unanticipated events. In some cases, for our customers to “Rely on Us”, we need their help. Electric energy market dynamics are creating

acute swings in seasonal, daily, hourly, and within-the-hour prices. The time of power consumption (or conservation) is equally important to how much average energy is consumed, but will require we facilitate flexible consumption programs to take advantage of this market characteristic. Additionally, our ability to be resilient in cases of electric or water disruptive events will require customer involvement. **The objective of this phase is to create products, services, and infrastructure that facilitate consumption flexibility.**

Phase III – Resilient Delivery

Changes in technology, regulations, markets, and customer expectations will drive business model choices for utilities, including EWEB, in the future. Our future requires an enhanced agility, including system and customer flexibility in order to resiliently deliver our critical services. Our major decisions involving sources and supply will be influenced by, and will impact our future ability to fulfill our mission. How effectively we make our major resource decisions will depend on our ability to dynamically synchronize these resources with changing customer needs under a variety of future conditions including emergencies and natural disasters. We will need to integrate sources of supply (including new and/or distributed sources), fortified links between sources and critical consumption hubs “resilient spines”, and flexible distribution (consumption and infrastructure) in order to resiliently deliver our future services. **The goal of this phase is to create a more resilient grid and water network through the complete integration of our sources of supply, resilient spine(s), and flexible distribution and consumption components.**

Future State Business Model

Resilient Delivery Model =	(Sources of Supply + Resilient Spine(s) + Flexible Distribution & Consumption)
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Strategic Implementation

Our resources belong to our customer-owners and community, including financial (money, assets) and natural (rivers, air, wildlife). Investments are required to improve essential “compulsory” services, as well as achieve strategic objectives. The essential functions listed below are required for the utility to deliver basic service levels. The strategic investments support the improvement of sustainable performance over time, including the evolution of our products and services, and the progression of EWEB toward a “resilient and independent delivery” model.

While all of these investments are important, priorities must be guided by regulations and statutes, Board direction, policy, and our values. Strategic investments will be scaled to align with good financial responsibility, spending at sustainable levels that our customer-owners can afford. Along with strategic initiatives, safety, reliability, and responsible stewardship of our customers’ resources, including money and natural resources, will be the priorities that drive decisions and investments.

Essential Operations

Effectiveness and efficiency improvements target cost and customer responsiveness through simplicity and ease of doing business with us, while maintaining safety and reliability of existing essential services, including the following.

- *Regulatory (financial, NERC, FERC, PUC, ODH, DEQ, etc.)*
- *Continuance of Operations (reliable delivery of drinking water and electricity)*
- *Obligation to Serve (Customer Service, New Connections, etc.)*
- *Chartered (City Billing)*

Over the next three years, we will aspire to the following management levels of our essential functions.

- MAINTAIN our safety, reliability, and delivery performance
- MAINTAIN our regulatory compliance and legality
- IMPROVE our storm and disruptive event response
- IMPROVE our responsiveness to customers; become simpler and easier to transact with
- EMPHASIZE Cyber and Physical Security on protecting personal information and critical operational infrastructure and systems.

Strategic Investments

Strategic investments will focus on the pursuit of our strategic priorities, sequenced with our strategic evolution phases. The following areas will be strategic investments, executed according to our values.

Infrastructure Replenishment & Replacement (Capital) - Water & Electric

- Replenish and replace assets at approximately 1.5-2.0 times annualized depreciation rates, including strategic spending on the Water Reliability Initiative (WRI) and the Carmen-Smith Relicensing Project.
- Emphasize emergency preparedness & disaster recovery, working with local partners to enhance system resiliency.

Power/Energy Resource Planning (beyond supply chain management)

- Develop dynamic, stackable and interactive models of resources, prices and markets, and consumption to optimize resource choices for different scenarios.

Community Leadership and Responsibility (conservation, efficiency, education)

- Focus our efforts on maximizing the broadest benefits of our essential services (safe, reliable, responsible/affordable) for all customers.
- Emphasize programs and leverage partnerships with other institutions that support vulnerable members of our community.

Modernization (Technology, Customer Information System, Advanced Metering Infrastructure (COM, MDMS, Meters, Intg.), Infrastructure and Control Systems)

- Arrange the investments to align with the strategic phases starting with “Foster Customer Confidence” (e.g. Customer Information System, operational (safe, reliable, responsible), customer responsiveness), then progressing toward consumption and infrastructure flexibility, followed by the integration of sources, resilient spine, and delivery flexibility.