# EWEB's 2014 Strategic Plan Update

February 25, 2014
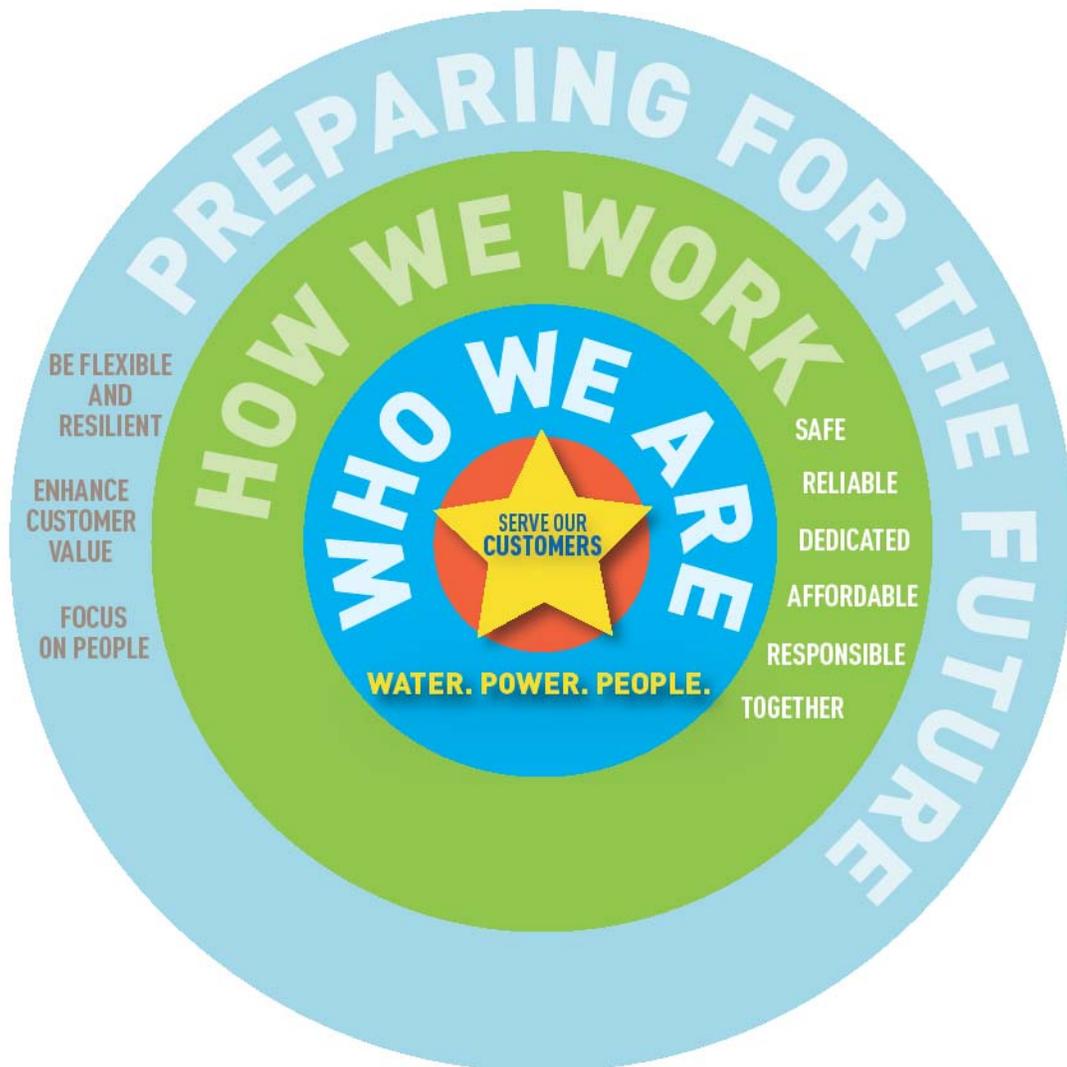
EWEB

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Executive Summary: Think Long Term, but be Agile

This Strategic Plan update reflects management's thinking over the past year since the plan was last updated. Much of change proposed in this update comes from recognition of continuing and emerging trends in the industry landscape, especially for the electric utility.

Change in the Industries:

The Past – Through much of the past century, our industry has enjoyed a stable environment with little competition. The potential for market growth and the economic model of large centralized infrastructure meant reduced units costs – as long as the market kept growing. In this stable world, the safe bets were long-term, <u>big bets</u>.

The Present – Utilities are facing continued cost pressures, due to a number of factors, such as the prolonged economic downturn and recovery, as well as needed upgrades in infrastructure ranging from business systems to relicensing of power-generating facilities to needed replacement of aging water-distribution systems. Nationwide, electricity and water rates have risen at a faster pace than inflation. EWEB has experienced the "push-pull" of trying to minimize cost increases for customers (largely through cost-cutting and rate increases) while planning for needed infrastructure and customer-facing upgrades.

The Future – National and international industry trends indicate potential for competition in the electric utility market space, coupled with decreasing demand for electricity and water. EWEB has experienced declining demand for both utilities in recent years in excess of the general national decline. Faced with greater uncertainty and a changing environment, management believes that <u>smaller bets</u> are more likely to be the successful approach. We must learn to be more flexible, adaptable and resilient.

Potential Responses:

Continue to do what we have always done. Plan for business as usual in a growing demand environment and make large investments in centralized infrastructure, counting on market growth to keep costs in check.

OR

Increase customer value by stabilizing or reducing the unit cost of the products and services we offer by partnering to invest in a more diverse set of resources, including customer-side resources and modernization of our infrastructure and use of technology to successfully integrate them.

The first response only provides customer value in the continued growth scenario. Should demand for our products continue to decline, the first response leads to increasing costs. The second response, if done right, can provide customer value regardless of the future state. While the water utility may not yet face the same competitive trends that the electric utility now faces, the water utility faces a future of flat or even declining sales. The second response makes sense for both utilities.

EWEB's Response:

This plan update relies on three cornerstone concepts to prepare EWEB for the future.

1.   <u>Be Flexible and Resilient</u> -- Create and implement flexible and resilient business plans that help EWEB to adapt and thrive as the future changes

2.   <u>Enhance Customer Value</u> -- Define, price and deliver products and services that enhance customer value

3.   <u>Focus on People</u> – Both Customers and Employees

In response to a changing environment with many possible competitive challenges, EWEB must increase customer value by improving our competitive position on traditional water & electric services and by partnering with customers to determine and offer the products and services customers want and value the most.

EWEB can only do this by relying on its people. We must develop new and agile business competencies to prepare for a more dynamic industry environment and remain responsive to changing customer needs. We must work to ensure that our long-term decisions are resilient under likely future scenarios.

So What's Changed?

Not much. Not really. At least not yet.

This is a journey. Our utility is in good shape. We've been through some rocky times, both financially and in terms of organizational structure, but we continue to have excellent quality resources – water, power and people. Our job is to ensure that we continue to use these resources to provide essential and valuable products and services to our customers for the benefit of the citizens of Eugene.

The key elements of the existing and proposed plans are presented below, side-by-side for comparison. In our review, management saw the need for increased focus both on customers and workforce. Strategies have been modified to fill these gaps. We have also worked to simplify, add clarity, and strengthen the message in this plan so that it may provide more value to employees and customers.

EXISTING PLAN: 2011-2014	PROPOSED PLAN: 2014-2019
Vision Our Vision is to be the best community-owned water and electric utility in the nation.	*No Change*
Values ❖ Providing affordable products and services ❖ Caring about our community and the environment ❖ Being flexible, innovative and adaptable to community needs ❖ Defining value through the customer's eyes ❖ Creating a quality work environment	*No Change*
Existing Mission Our mission is to be an outstanding provider of energy and water products that meet customer needs and benefit the citizens of Eugene.	Proposed Mission EWEB's core mission is to enhance our community's vitality by providing water and electric services consistent with the values of Eugene's customer-owners.

EXISTING PLAN: 2011-2014	PROPOSED PLAN: 2014-2019
Overarching Strategy Provide value for generations	Overarching Strategy Think Long-Term, but be Agile
Tools: • People • Partnerships • Technology • Ability to Manage through Major Change • Measurement, Benchmarking and Continuous Improvement	Resources: • Water • Power • People
General areas of focus: • Second Source • Infrastructure Reliability and Cost Balancing • Customer Service – move away from one size fits all and reinforce affordability • Power Resource Planning and Cost Strategy – rely on demand-side management (DSM), supply side rebalancing • Financial Strategies – aligning budget to rates rather than rates to proposed budget; test trade-offs and risks and revisit policies (use of reserves, bond ratings, etc). • Rate Structure Strategies – prepare for advanced metering infrastructure (AMI) and other industry changes, provide customer choice	PERFORM: • Continue to provide safe, affordable and reliable water and power products and services • Remain dedicated to working together to provide these products and services in a socially and environmental responsible manner TRANSFORM: • Be Flexible and Resilient Prepare for a more dynamic industry & business environment by enhancing organizational flexibility, adaptability, and resiliency • Enhance Customer Value Improve our competitive position on traditional water & electric services AND partner closely with customers to develop and enhance products & services that improve customer value

EXISTING PLAN: 2011-2014	PROPOSED PLAN: 2014-2019
• <u>Board Governance</u> – policy and strategy as charter	• <u>Focus on People</u> Leverage our greatest assets (the people of EWEB) to implement this change in pursuit of the public service we exist to provide to our customer-owners
<u>Existing Business Strategies</u> **Stabilize and improve financial health.** Implement more robust financial planning and measurement tools. Manage future electric and water rate increases. **Keep the public in public utility.** Achieve consistency with community goals and values by proactively engaging customers. Adopt a business model that accommodates consumer choice and values external partnerships. **Renew our infrastructure while controlling costs.** Continue and build upon a well-planned and executed asset management strategy that involves an infrastructure replacement program and controls costs while meeting customer reliability goals. **Secure our supply.** Develop emergency water supply and continue exploration of a second water source. Implement IERP, meeting future load growth through demand side resources and closely aligning conservation acquisition to actual load growth. **Align rate structures with goals.** Actively pursue technologies and rate structures that give customers better and timelier information and pricing signals,	<u>Proposed Business Strategies</u> 1. 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. 2. 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. 3. 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. 4. 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. 5. 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.

EXISTING PLAN: 2011-2014	PROPOSED PLAN: 2014-2019
promote conservation, and allow adequate recovery of costs. **Increase organizational efficiency.** Enhance information and operational system technologies. Create a culture that embraces change and supports flexibility and adaptability.	

Background

Strategic Planning – what is it and why do we do it?

The general approach to this strategic planning process is outlined in Appendix 1 of this report. The philosophy for how and why we engage in the process is that EWEB's leadership believes it is important to periodically assess where we are as an organization in perspective to where we have been and where we are going. This includes thinking about what are the "big questions" and considering potential answers. We can do this through assessing our current situation and the key decisions we need to make, while also considering alternative possible scenarios for the future. As we explore our options and consider different strategies, we can choose our course, while being mindful of mileposts and warning signs that indicate both success and the need for course corrections. Absent this type of proactive consideration and a resulting clear strategy, we will be forced to make a series of more tactical decisions that will ultimately define our strategy and limit our choices.

State of the Industries Summary & Implications to EWEB

As part of this update, management began by conducting an environmental scan of the industry to inform our future course. It was through this process that the strong winds of change were identified for the electric utility. While the water utility is presently much more stable, we would be wise to be mindful of the transitions occurring and be ready for the eventuality of change there as well. Significant trends identified for each utility are noted below, grouped by some high-level categories.

Significant POWER Industry Trends

Customer Demand & Economy

1) Sales growth remains slow or non-existent post-recession
   - Energy efficiency activity has accelerated
   - Customer values and preferences appear to be changing
   - Natural gas prices remain low due to fracking and other factors, which has raised concerns about fuel switching

2) Significant increase in distributed generation, particularly rooftop solar
   - Although the proportion of utility energy portfolios is small, the number of participating customers is increasing dramatically
   - Leasing model could significantly increase market potential

3) EVs are gaining traction, but at a pretty slow rate
   - Electrification of the transportation sector appears to be the most likely significant source of growth in customer demand for electricity

- Many customer incentive programs underway nationally including subsidization of EV chargers, installation of charging stations and special tariffs

4) Wholesale power prices look to remain low absent some major change

New Technology and Changing Customer Preferences

5) Distributed generation is taking on an increasing presence in grid planning – with or without utility engagement
   - Net metering has become a pivotal issue as solar costs continue to decline and more customers buy into the technology
   - PV leasing and 'virtual net metering' could enable universal access to solar, with dire consequences for utility financials under current service model (selling kWh) and rate design paradigm
   - Typical installations are increasingly sized to exceed average household consumption
   - Technology cost continues to be distorted by tax incentives, however PV costs approaching tipping point of being economic without subsidies in some regions
   - Customer expectations about utility bill savings are distorted by current rate design
   - Military bases, universities, and large industrial campuses are beginning to create microgrids (although microgrids beyond this 'campus' level may still be a long way out)
   - EV and DG interests, in addition to regulatory policy, continue to drive the pursuit of cost effective storage solutions. Break-throughs in storage would be a game changer for the industry
   - Many customer incentive programs underway nationally including subsidization of EV chargers and installation of charging stations

6) Non-industry energy service providers continue to try to expand presence in retail market
   - Service bundling options increasingly marketed from non-industry entities (e.g. cable, electric, and home security)
   - Direct customer competition from third party energy providers such as Solar City
   - Resulting risk of disintermediation between electric utility and its customers is a growing concern for utilities
   - Free Google demand response software rumored to be coming; just acquired leading home thermostat technology (Nest)
   - Smart grid is generally believed to provide competitive advantage going forward for utilities that have it

7) Cyber security is a growing concern in the industry and regulations continue to become tighter
   - Cybersecurity attacks on the nation's infrastructure are a daily occurrence
   - Unclear whether microgrids would ultimately improve or decrease grid security and resiliency

8) Interoperability of consumer end-use devices will be a key driver of who 'wins' in the retail energy space

Utility Cost Structure & Workforce

9) Fundamental changes occurring in wholesale markets
   - Lower prices continue to be driven by cheap natural gas
   - Increasing number of zero variable cost renewable resources. The result is that average energy prices are lower, hourly price variability and volatility is higher, and there is more need for standby generation capacity to respond to unanticipated changes in solar and wind ("flexible reserves")
   - Solar is anticipated to change the shape of the wholesale power price markets, which has been relatively stable for decades, possibly even resulting in night time energy being more valuable than morning and early afternoon energy in some regions (e.g. CA)
   - Generators that can vary output to respond to market conditions are increasingly valuable, while assets that cannot vary their output are at increasing risk of producing energy into a negatively priced market
   - Net result is higher risk for generation-owning utilities

10) Generation mix is changing
   - Coal retirements and renewable energy additions to the national fleet continue and possibly accelerate
   - Renewable energy integration and resulting need for increased availability of instant response capability from generation ('flexible reserve capacity')

11) A changing business model – there has been much discussion about what this means for the industry
   - Increased regulation – renewable energy and efficiency/conservation standards, CO2 legislation, net zero buildings, appliance and building code standards all driving fundamental changes to the industry
   - Adapting retail rate design to better reflect cost structure is a widely cited important step to manage many of the issues noted above
   - Better understanding of the customer and their varied interests and preferences is an oft cited second
   - Utilities increasingly dependent on partnerships – both with customers and with technology vendors
   - Discussion about potential repeal of tax-exempt financing to mitigate increasing national debt has been in the news
   - European utilities have already lost significant market value due to the lower revenue forecasts resulting from large additions of renewable energy. The conundrum is that this leaves them poorly capitalized to make necessary grid investments to continue renewable energy expansion
   - There is concern that new regulatory compliance requirements and focus on developing new products and services can shift financial focus from utility-planned infrastructure renewal resulting in more costly long term capital replacement plans
   - However, there is also concern that investing in assets that become stranded is at least equally deleterious

12) Millennials entering the work force, coupled with an aging utility workforce, poses challenges and opportunities for the industry

- Industry must adapt its culture and learn to hire for changing skill sets, workplace expectations, and world views
- This represents an opportunity for utilities to bring in new ideas and perspectives that can help champion change

Overall, What's Going Well?
- Low natural gas prices are keeping costs low for utilities that need power
- Rising building code and appliance standards are creating a more efficient infrastructure base
- Technology is creating more choices and bill management options for customers
- Customers are better informed and more interested in their energy consumption
- Investment in energy storage technology is probably higher than it's ever been, which has the power to transform our industry - presenting opportunities and challenges
- Coal plants are being closed due to competition from cheap gas and renewable standards, which is good for global climate change
- There are expected to be more opportunities to monetize generation capacity
- Public power may be best positioned to successfully evolve through this time of change!

Significant WATER Industry Trends

Utility Cost Structure & Workforce

1) Aging Infrastructure
- Industry pattern of maintenance deferral for aging infrastructure has resulted in significant deterioration, requiring critical renewal and/or replacement investments
- This impact is exacerbated by growing population
- Current rate of replacement for aging systems nationwide is less than one percent for most utilities that even track it. This implies structural assets would last 100 years or more, which is seldom the case

2) Managing Capital and Operational Costs
- Ongoing industry financial challenges have resulted in continued infrastructure maintenance deferral, now requiring a costlier replacement approach over cheaper refurbishment alternatives
- Full-cost pricing a proposed industry expectation by AWWA (American Water Works Association), providing utility financial resiliency through self-sustaining local rates and charges. This can be challenging for utilities who struggle to push through rate increases
- Greater communication industry-wide to mitigate public lack of understanding of the comprehensive monetary value of water, supportively conveying total costs inherent in delivering safe drinking water while protecting natural environmental interests, when water is seen to be literally falling freely from the sky!
- Non-revenue water (a combination of system leaks, meter inaccuracies, theft, billing system inconsistencies) considered a root challenge in meeting operational, capital and water conservation challenges, yet comparatively low level of attention across industry Non-revenue water may account for up to 30 percent, with 8-12 percent considered normal water demand leakage levels. (EWEB is in the 8-12 percent "normal")

- Growth of PPPs (Public-Private Partnerships) to manage operations & maintenance contracts in the U.S water industry

3) Workforce
- Loss of vast institutional knowledge through retirement of an aging workforce
- Utilities struggle to recruit, train, and retrain skilled newcomers to the industry
- Competition with one another for those limited skilled resources

Resource Availability

4) Funding Capital
- Traditional approaches to obtaining bond market capital may no longer be sufficient to meet increasing needs of the industry
- Discussion about potential repeal of tax-exempt financing to mitigate increasing national debt has been in the news

5) Water Availability to meet future demands
- Storm planning scenarios & protocols – emergency preparedness for multiple types of extreme weather and other emergency situations that lead to required restoration of critical services increasingly important
- Partnership opportunities with state increasing (i.e. WARN) – Water and Wastewater Agency Response Network), county, local public health, law enforcement and other entities
- Climate change, resulting in degraded water quality and subsequent treatment challenges; reduced snowpack; flooding, drought and wildfires; loss of wetlands ecosystems; mean increased risk to infrastructure
- Demand decreasing as informed population makes wiser use of water. This is a direct result of an increased adoption of environmental stewardship principles by water users, further minimizing energy, chemicals and capital resources required
- Utilities increasingly looking to reclaimed water/wastewater to expand their overall supply portfolio and increase water supply reliability for the future

Technology & Regulation

6) Increasing/Expanding regulation
- New regulatory compliance requirements can shift financial focus from utility-planned infrastructure renewal to avoid out-of-compliance penalties, resulting in irreparable infrastructure damage now requiring costlier replacement
- Potential shift of regulatory concerns pertaining to water-related ecosystems (water mitigation, wetlands and erosion control) and species-specific effects to growing appreciation for human health related consequences
- Gaseous Chlorine, a common disinfectant for water treatment, may become banned and utilities will need to seek alternatives

7) Information Technology
- Lack of strong asset management programs, resulting in operational inefficiencies, such as high impact of non-revenue water

- For certain network infrastructure, many utilities own and operate their own networks as telecommunication companies do not always align with specific utility needs
- Adoption of next-generation technologies entices the next generation of utility employees by providing greater job satisfaction and an opportunity to work with advanced tools and systems

8) AMI/AMR
- Utilities are planning for network improvements to support a variety of business and operational systems and applications to improve information accessibility. This has potential to increase functionality of information systems, facilitating timely effective decision making on important aspects crucial to effective asset management
- Automation captures institutional knowledge that can be lost through a transitioning aging workforce
- Time-Of-Use programs targeting energy efficiency in Pumping & Storage operations

Overall, What's going well?

- Protection of Public Health through existing regulations
- Technologies are allowing more efficient systems to manage infrastructure challenges (i.e. work order and work management systems)
- The monetized value of water is still relatively cheap. (This is perhaps good and bad)
- Technologies have allowed for cost effective treatments to meet current regulations
- Many communities are experiencing drops in demand which have relaxed pressures on valuable water supply resources

Implications to EWEB

As we reflected on our own recent experiences, it was clear that many manifestations of the trends listed above have already being experienced by EWEB. Examples are noted below.

Relevant Current Affairs for EWEB:

- Both water and electric sales have declined significantly over the past decade
- Major capital decisions are being made over the next several years which will impact utility costs for decades
- EWEB's current path to better align rates with underlying costs by increasing fixed cost recovery and flattening electric price tiers is an important step in the right direction
- Customer choice and convenience is valued (e.g. online bill pay and online outage notification)
- Customer preferences and values are divergent (e.g. AMI, or smart meters)
- Work Asset Management (WAM) System will help EWEB understand and better control costs

Electric Utility

- Customer load growth is projected to stay under one percent for the foreseeable future

- All load growth is planned to be offset by energy efficiency and conservation measures
- The trifecta of load loss, excess generating resources, and low wholesale market prices has been a source of economic hardship for the utility and rate pressure for customers
- Increased wholesale price volatility from a growing supply of intermittent, renewable power is beginning to shift wholesale market fundamentals (e.g. negative pricing, seasonal use and supply patterns)
- Management has been actively involved with utility working groups addressing implications of competition and displacement by DG and natural gas in joint forums
- Customers and key influencers are sharing with employees other utilities' "killer apps" that allow for great customer control
- Recent opt in approach to AMI approved by Board will provide unique opportunities and challenges
- Virtual net metering has been discussed by Oregon legislature (this is where customers gain access to onsite generation payments – net metering – even when their generation is not onsite)
- Business Growth and Retention program opens the door to additional growth opportunities for EWEB
- Amtrak service request represents another
- The proposed, net zero City Hall building represents load loss and an iconic sea change for building standards in Eugene
- EWEB has an active R&D program designed to test new technologies and customer programs and has partnered with UO on grant proposals
- If EWEB chooses not to offer these services, other vendors will
- EWEB looking at providing incentives and/or a specific rate structure for EV chargers
- Community solar continues to be discussed

Water Utility

- Capital replacement rates will need to rise over time
- Current lack of alternative water supply is a major risk to the community that is gaining awareness and support for remediation
- We received a permit from the state to develop water rights on the Willamette to fill that need
- The water utility is not currently facing the pace of change that the electric utility is, but there are lessons to be learned to be prepared should that change
- Recent hydrological studies performed at OSU suggest snowpack patterns are changing in the Willamette Valley

Future Scenarios & EWEB Readiness

After completing the environmental scan, management spent some time considering plausible, but radically different futures as a way to test our plan against the high level of uncertainty apparent in the landscape.

Consideration of Possible Futures

To help direct EWEB's future, management believes it is important to assess decision survivability under various scenarios. As part of this work we attempted to think broadly without yet overlaying judgment regarding likely outcomes. Management conducted scenario compilations both internally and externally, in collaboration with a number of other utilities across the country, in order to define and then refine plausible future scenarios impacting our utility. In both efforts, we concluded that the same driving characteristics govern our future:

1)   Economy
2)   Technology
3)   Customer preferences
4)   Regulation/politics
5)   Environment/climate

Internally, we concluded that these factors impact EWEB primarily through:

1)   Demand growth or reduction
2)   Resource availability
3)   Customer relationship
4)   Cost pressures

Ultimately, we believe the core impact, in its simplest form, is whether our customers will demand more or less of our product in the future. This information shaped our definition of key strategic issues. One of the key take-aways of this process was to refine this approach so that it can be used in major decision deliberations with the Board going forward.

Management has also begun to use this information to create a scenario-based decision framework that can be used to assess EWEB's large decisions. This is a work in progress and will continue to be refined through 2014.

Strengths-Weaknesses-Opportunities-Threats (SWOT) Assessment

Once we'd completed the industry scan and created a general framework to assess our plan against, we began the work to identify the state of the utility and EWEB's readiness to take on these challenges. We then used the SWOT analyses that have been done by both the Board as part of the 2013 plan updated and augmented it by a staff-level SWOT. As management considered possible responses to the strategic issues identified, some themes began to emerge that shaped our recommendations for the proposed Business Strategies.

The outcome of the combined SWOT assessment is shown below.

EWEB SWOT Analysis 2014

Strengths list the most effective security aspects of the system, for example tight network access controls or comprehensive security policies. Improvements to the system's security can be accomplished by building upon these strengths.

Weaknesses outline those aspects of the system that put it at risk, for instance poor input validation, or lack of effective log management. These aspects of the system should be improved.

Opportunities describe factors external to the system that can help improve its security. This might be the availability of security training funds for developers, or the existence of a logging system that has been purchased, but was never deployed. Items in this cell might be low-hanging fruit – easy wins that improve the system's security.

Threats highlight external factors that magnify the adverse effects of internal system weaknesses. For instance, the company may be subject to fine-imposing regulations, or may possess weak change management practices.

Key: *(B)* – EWEB Board of Commissioners identified

ELECTRIC UTILITY Strengths	ELECTIRC UTILITY Weaknesses

Financial
- Strong internal ethics – management of money brings community trust *(B)*
- Bond rating
- Consistent fiscal discipline *(B)*
- Public Power cost advantages *(B)*
- Robust hedging program
- Generation resources *(B)*
- Ability to raise rates and bond issuance

Customer & Community
- Trust
- Stakeholder satisfaction
- Renewable Portfolio
- Conservation programs/LI focus
- Listen to customer concerns
- Contributions to local government general fund
- Not-for-profit
- Safety record and safety culture
- Community pride (B)
- Alignment of values between EWEB and community (B)
- Value Proposition – local control; local ownership; service convenience; reliability; price/cost (B)

Internal Business Processes
- ROC building
- Technology modernization/upgrades (Web Start-Stop; Mobile Apps; Smart Metering; WAM)
- Benchmarking alongside regional/national utilities (e.g. GADS, EUCG)
- Standardizing/simplifying process to gain greater effectiveness and efficiencies (e.g. HR Job Family Review project)
- Infrastructure replacement program
- Current Strategic Plan development process
- Telecommunications/fiber optics network
- Well positioned for low-carbon future

Employee & Organizational Capacity
- Experienced, skilled, professional, dedicated workforce (B)
- Largest utility in Lane County
- Adaptable / flexible / resilient
- Safety record and safety culture
- HHUG / ROG initiatives to support service ethic

Financial
- Rate design
- Resource length
- High overhead costs
- Long term contracts affording operational flexibility and cost (B)
- PERS liability (B)
- No longer low cost power (B)
- Load loss
- Debt Service Coverage

Customer & Community
- Can be self-serving – our needs verses customer needs
- Lack of customer segmentation data
- Conservation programs – no policy to guide scaling (remediated by Redesign work) (B)
- Defensive posture (due to PERS liability etc) (B)
- Negative customer perspective (B)
- Perception of employee pay (B)
- Renewable portfolio – benefit from resizing
- NLSL status of Hynix facility
- High cost of generation resources
- Growing disconnect between customer and utility values re: solar / renewables / conservation

Internal Business Processes
- Restricted territory
- Low growth in customer base
- Loss of customer support (B)
- Recognizing coming competition
- Repetition, expecting different results (B)
- Spending money to lose money (paying contractors for work then not proceeding or delaying project) (B)
- Network security
- Develop an adaptation strategy to decrease infrastructure vulnerability related to climate change
- Development and adoption of utility-wide benchmarking against industry means
- No Electric Master Plan since 1979 (due 2014)

Employee & Organizational Capacity
- Aging workforce
- Staff retention in out years (B)
- Preparing for Millennial Workforce
- Employees reflecting changing demographics
- Slow to embrace rapid technology advances

ELECTRIC UTILITY Opportunities	ELECTRIC UTILITY Threats / Challenges
Financial • Sell/trade unprofitable plant and surplus property (B) • Closing financial gaps (B) • Review electric rate tiers / TOU pricing • Review power contracts • Local purchase of bonds; regain trust • Low cost financing (tax exempt) • Access to federal hydro power • Grow load **Customer & Community** • Local partnerships / joint ventures / co-op (B) • Enhance customer involvement /education (B) • City economic development (e.g. downtown network) • Coordination with City on infrastructure replacement • Service territory reduction/expansion • Smart meters: new programs/pricing/ options • Penetrate rental market for electric conservation and efficiency (B) • More consumer choice (TOU, prep-pay) (B) • Regulatory control on carbon/cap & trade & other pollutants • Better communications to public; articulate value of public power (B) • Joint Action Committee involvement; collaboration with SUB or other neighboring utilities to achieve economies of scale • Pilot new programs for customers • Acquire customer market segmentation data • Target marketing of services and products where customer need identified **Internal Business Processes** • Modernize (Web Start-Stop, Mobile Apps, Smart Metering) (B) • Energy storage • Mitigating strategies until future becomes known (B) • Telecom – increased utilization, sell or lease (B) • Improve benchmarking (WAM impact) • Employee & Organizational Capacity • Make employment attractive (B) • Rearticulate our purposes to employees (B) • Turnover within utility; new energy in workforce (B) • Millennial workforce	**Financial** • Lower natural gas prices due to fracking (B) • Rising interest rates • Increased power supply costs (BPA) • Wholesale trading volatility (B) • Rising electric rates • Potential repeal of tax-exempt financing to mitigate increasing national debt • Expensive renewable energy mandate policies • Eroded bond ratings (B) • Recession – slower economic growth (B) • High rates (B) • Weather extremes • Load loss / fuel switching • Impact of federal/state policies imposing cost of GHG/carbon emissions on EWEB **Customer & Community** • Lack of customer awareness/adversity to change • Special interest groups • Shifting community values (B) • Angry customers (B) • Declining affordability (B) • Growing poverty (B) • Relationship with customer may change (3rd party) • Climate change (B) • Distributed generation – solar, fuel cells. • Empty Hynix facility • Change in load • Social media and lack of trust for government makes it harder to control message • Downtown network • Privatization • Competition from outside products and services • Knowledge/impact of DR/DER on EWEB's future • National supply infrastructure failing – impact evaluation upon EWEB **Internal Business Processes** • Disasters – lack of preparedness • Overcorrecting (B) • Long term impacts of today's decisions (B) • Maintain without gutting the organization (B) • Network security • Investing in assets that could become stranded • "Shiny objects" a distraction to core work • • Employee & Organizational Capacity • Maintaining an engaged workforce • Utility not being prepared to address concerns (B) • Retention in competitive employment environment • Millennial workforce

WATER UTILITY Strengths	WATER UTILITY Weaknesses
Financial - Low rates – good DSC - Bond rating - Consistent fiscal discipline - Ability to raise rates & bond issuance - Value Proposition – Price / cost (B) **Customer & Community** - Outstanding product quality - Strong water rights - New Willamette water rights - Solid historical reputation - Safety record and safety culture - Conservation programs - Stakeholder satisfaction - Contributions to local government general fund - Not-for-profit - Alignment of values between EWEB and community - Community pride (B) - Value Proposition – local control; local ownership; service convenience; reliability (B) - Sole water provider - Largest water provider in Lane County - Wholesale water provider - No competition **Internal Business Processes** - Existing Board support AWS - Significant commitment to upgrading aging infrastructure & improvement - Telecommunications/fiber optics network - ROC building - Modernize with technology – WAM capability planned; Web Start-Stop; Mobile Apps; Smart Metering (B) - Benchmarking - Strategic Plan development/review - Strong operations & Customer Service Performance - Source protection program **Employee and Organizational Capacity** - Strong internal expertise & skilled technical capability (B) - Available logistical resources - Safety record and safety culture	**Financial** - Numerous competing demands for capital investment across utility - Rate increases needed to cover costs - High overhead - PERS liability (B) - Large AWS investment pending - Antiquated meters giving under-reads **Customer & Community** - Water supply portfolio required to ensure reliability (B) - Single source - Defensive posture (due to lack of second source, PERS liability etc) (B) - Negative customer perspective (B) - Educating customer/community on water management principles and impacts - Perception of employee pay (B) - Response to high bill / leak complaints - Lack of customer segmentation data **Internal Business Processes** - Aging infrastructure with deferred maintenance - Control system antiquity - Reaction-based CIP – road reconstruction driving main replacements - Lack of back up of electrical systems - Emergency preparedness – business continuity, disaster recovery - Non-revenue water impact on operational costs & capital costs for infrastructure support - Leaks leading to main breaks - Restricted territory – low growth in customer base - Network security - Pumping efficiencies needed to reduce impact on peak demand & increase energy efficiency - Adaptation strategy to decrease infrastructure vulnerability related to climate change - Development and adoption of utility-wide benchmarking **Employee and Organizational Capacity** - Aging workforce - Staff retention (B) - Mentoring and training development for future/staffing - Knowledge and implementation of technology Preparing for Millennial workforce

WATER UTILITY Opportunities	WATER UTILITY Threats / Challenges
Financial - Low cost financing (tax exempt) - Alternative financing mechanisms (private sector) - Local purchase of bonds; regain trust - Potential to achieve operational efficiencies through WAM implementation - DR pricing for pumping controls **Customer & Community** - Water as a regional commodity - Water rights as a regional commodity - Local partnerships/joint ventures/co-op (B) - Customer preference - Coordination with City on infrastructure replacement - Increase in population - Abundant supply - Climate change - Service territory reduction/expansion - Enhanced customer involvement & education (B) - Increased communication to public (B) **Internal Business Processes** - Technology – lower production costs & enhance sustainability goals - Water storage (B) - Water re-use as drought contingency - Water treatment technology - Formal asset management plan, not driven by City project priority. - Infrastructure condition assessment & deterioration modeling - Long-term concession agreements/privatization models - Sustainability assessment for facilities planning - Mitigating strategies until future becomes known - Improve benchmarking (WAM impact) - Modernize with technology – WAM capability planned; Web Start-Stop; Mobile Apps; Smart Metering *(B)* **Employee and Organizational Capacity** - Make employment attractive - Rearticulate our purpose to employees (B) - Millennial workforce	**Financial** - Declining sales/demand - Rising interest rates - Rising water rates - Potential repeal of tax-exempt financing to mitigate increasing national debt - Increased water supply costs - Max day demand at lowest levels since 1984 - Financial viability due to aging infrastructure - Increasing/expanding compliance/regulatory requirements – competing/conflicting requirements can drive capital investment to other projects. **Customer & Community** - Increased risks – single source - Water rights to additional sources - Disasters – natural/homemade - Climate change / drought - Economy – downturn - Customer preference – grey water, self supply - Privatization - Shifting community values (B) - Declining affordability (B) - Growing poverty (B) - Climate change (B) - Increased pollution / runoff in watershed - Inability to build second intake / treatment due to regulations - Public support for Willamette water **Internal Business Processes** - Technology change –less demand / self supply - Sustainability of traditional operational models - Changing regulatory/environmental rights - Negative supply impacts – drought/flooding - Precipitation levels consistently dropped dramatically in summer months over last 15 years - Disasters – lack of preparedness – AWS - Network security - Capital replacement rate - "Shiny objects" a distraction to core work - National supply infrastructure failing – impact evaluation upon EWEB **Employee and Organizational Capacity** - Retention in competitive employment environment - Utility not being prepared to address concerns (B) - Maintain an engaged workforce - Millennial workforce

Key Strategic Issues

As we began to consider the implications of what we'd learned, management formulated the following key questions as the list of strategic issues we believe we should focus on in 2014.

1) What long-term business model/strategic path should we pursue for our customers and the utility?
2) Do we need to morph from a more asset-focused utility to a more customer-centric one?
3) Do our identified reliability risks about business continuity, and specifically alternative water supply, comport with the public's willingness to pay to remediate them? What level of reliability are our customers willing to pay for?
4) What should be our long term resource strategy (load resource balance)?
5) What does all this mean for our upcoming capital projects, especially Carmen Smith? Are we potentially creating future stranded assets?
6) Should we be working to more aggressively manage rate increases or buy down existing debt to improve strategic flexibility in the future (or both?)
7) What advantages/disadvantages does Public Power have in this changing model?
8) What products and services will our customers value in the future?
9) What kind of relationships do we want to have with our customers in the future?

While we believe we have additional work to do mapping our own SWOT to our strategic issues, we were able to identify some basic strategic responses that we believe remain robust and enhance customer value across a number of possible future scenarios. These are listed below.

EWEB's Strategic Responses

Management brainstormed a variety of possible responses to the different futures explored, giving consideration to our own SWOT assessment. What we found through further analysis was that they could be grouped into the following general categories:

- Customer Focus
  - Increase Customer Value
  - Enhance understanding of customer through market research
  - Evaluate our role in providing customers new product & service offerings

- Pricing
  - Align rate design with cost structure
  - Consider modifying definition of products and services we provide (e.g. does our electric utility sell kWh or do we enable electrification for our customers?)

- Resource Supply
  - Enhance water utility portfolio diversity (Alternative Water Supply project)
  - Consider load-resource balance targets for the electric utility (min & max)
  - Assess customer willingness to pay for supply alternatives
  - Leverage partnerships
  - Don't create stranded assets

- Risk and Financial Management
  - Assess customer willingness to pay for reliability
  - Modularize capital investments to increase financial flexibility
  - Decrease debt to increase financial flexibility
  - Limit annual rate increases to no greater than CPI to improve rate position
  - Conduct formal risk assessment to help understand, plan for, and manage through unforeseen negative occurrences
  - Assess exposure to wholesale markets

- Workforce
  - Respond to needs of changing workforce to continue to attract and retain highly skilled and dedicated professionals
  - Enhance diversity to better prepare for changing future

- Preparation
  - Adapt our planning processes to envision possible futures and enhance organizational flexibility and resiliency to enable us to adapt
  - We can't be ready for a changing future if we don't begin to prepare now

The Big Dials

The following is a representation of what the Board can change through their Governance decisions. It provides a working construct to think about how we can create change in the utilities and, importantly, how changing any one aspect is likely to impact the other. Most of the decisions we are facing boil down to a series of trade-offs. The art of good leadership is in finding the right balance for success.
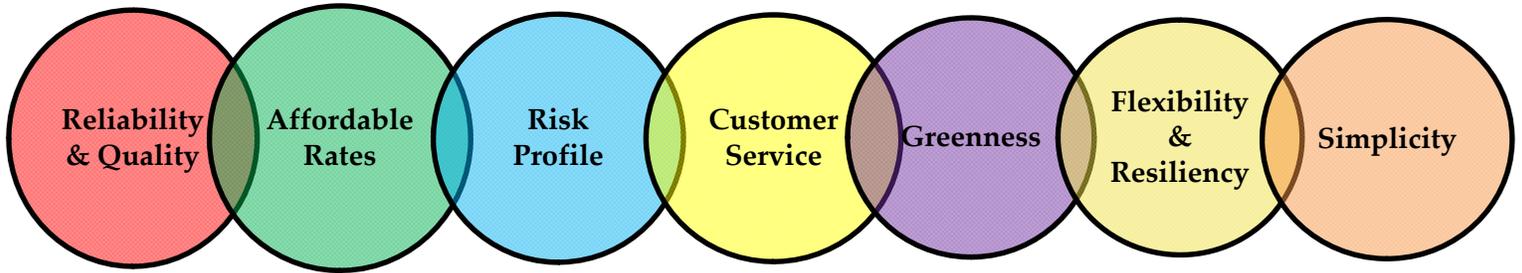
EWEB Self-Assessment of Both Utilities Dial Settings

10= Excellent   1=Poor

Electric Utility			Water Utility		
	Current	Target		Current	Target
Reliability and Quality	10	8	Reliability and Quality	10	10
Rates/Competitiveness	2	6	Rates/Competitiveness	9	6
Risk Assessment	6	6	Risk Assessment	2	6
Customer Service	6	7	Customer Service	6	7
Greenness	9	8	Greenness	9	8
Adaptability / Flexibility	5	8	Adaptability / Flexibility	3	6
Simplicity	2	6	Simplicity	4	6

'Turning the dial' on any of these impacts customer value. Take, for example, the discussion the Board embarked upon with respect to reducing investment in electric capital. The considerations and interdependencies are many, as depicted below. The ultimate gauge of success is whether the implemented changes improve customer value. As a general rule, all of the dials are inversely correlated to the Rates/Competitiveness dial. In-other-words, you cannot make everything better and rates lower. If want to turn the Rate/Competitiveness dial up (i.e. lower rates and more competitive) you have to be willing to turn something else lower.

$$\text{Customer Value} = \frac{\text{Realized Benefits or Advantages}}{\text{Price} \; (\$/\text{kGal}, \$/\text{kWH})}$$

Electric
On-Demand (Delivered)
Reliability
Power Quality
Customer Response

Water
On-Demand (Delivered)
Reliability
Purity (Healthy)
Taste
Customer Response

Reduce Electric Capital

Cost Contributors
Cost of Supply
Capital Replenishment
Operational
Maintenance
Overhead (Internal)
Overhead (External Programs)
Debt Repayment

Does Customer Value Increase?

Reducing electric capital has a negative impact on reliability and customer response, but should also result in reductions of internal overhead needed to support capital work and a reduction in debt. If the below the line cost reductions outweigh the decline in benefits, then the "customer value realized" through reliability and service reductions enhance customer value.

Board Feedback

Management shared the information covered in this plan update with the Board over a series of two four-hour workshops where a number of far-reaching concepts were covered. The Board provided feedback and perspective and was able to reach agreement on a few key areas that were used to help shape the plan, but also agreed that there is more work to do and expressed an interest in maintaining an ongoing dialogue in subsequent sessions. General Board feedback from the endeavor is represented below:

Areas of General Agreement

- Management assessment of state of the utility is largely in line with Board's perception
- Need to decrease costs and increase revenue, where possible
- Need to invest in alternative water supply for the water utility and that this will mean higher average costs overall
- Support for scenario planning as a construct to manage uncertainty
- Leverage technology (coming)
- Need to assess strategies that reflect future utility realities if sales have peaked
- Load resource balance a pivotal decision (and source of our value)
- The business could benefit from the pursuit of simplicity
- Focus on areas that make sense across scenarios until future becomes more clear ("No brainers and no regrets")
- Unwilling to compromise water quality
- Desire to be in the middle of the pack on electric pricing relative to peers
- General willingness to re-examine appropriate level of reliability on the electric side
- Perception of need to better communicate the value of what we provide to customers
- Willingness to move to the middle of the pack to mitigate the water supply risk issues
- Recognition that many of our financial troubles come from taking a $50m hit in wholesale markets. If there are things we can do beyond waiting for the market to recover, the Board would like to hear more about them

Areas Where Differing Views Prevail

- Debate around role and value of public power and public utility
- Debate about the urgency of the proclaimed competitive threats (how real and how soon)
- Views upon the speed in which we should endeavor to move our ranking in our electric pricing comparisons (but agreement on desire to do so). Most believe sooner is better
- Debate about best indices to assess competitiveness: competing fuels, utility peers, utility IOUs, or utility bills as a percentage of disposable income
- Different views on what the Board believes customers want from their utility providers now and in the future. Discussion ranged from access to new technology and changing service expectations to nothing much different than they have today

This last item is a critical point and represents a potential disconnect with other elements of EWEB's overall strategy. For example, our electric resource plan relies 100 percent on working with customers to implement energy efficiency demand response programs to meet future load growth requirement. In addition, part of our smaller Alternative Water Resource strategy will depend on customer demand reduction in a water emergency situation. If we don't think customers are willing to engage with us differently than they have in the past, we will need to reassess these strategies. This is a core item for further discussion in 2014.

We have more work to do

We made great progress over the past several months in rethinking EWEB's readiness for the future, but we have more work to do. The Board has agreed to continue the dialogue by holding two additional workshops this year, one in late Spring and another in early Fall. Management has committed to creating a scenario planning tool for use in assessing strategic decisions, such as AWS and Carmen Smith. The Board has asked for scenario based iterations of the long-term financial plan that will be brought to then for review later this year.

In addition, management will begin work on outlining a public feedback process whereby we can gain insight from key stakeholder groups on how the proposed plan impacts them and what level of support they have for the direction EWEB is headed. Additional work is needed to identify key stakeholder groups, refine the questions relevant to them and the information that hearing back from the public about will provide the most value.

Lastly, consistent with the methodology presented in the Appendix to this report, management believes there will be a time to revisit our Vision and Values, to ensure they resonate for the organization and that they continue to move us in the direction we believe we need to go. For now, however, we believe the existing Vision and Values suffice and provide a foundation for the proposed plan.

PROPOSED PLAN: 2014-2019

Together, we have developed a meaningful Strategic Plan that management believes is the right first step for EWEB in embracing and preparing for its future. The key elements of the existing and proposed plans are presented below, side by side, for comparison. In our review, management saw the need for increased focus both on customers and workforce. Strategies have been added to fill these gaps. We have also worked to simplify, add clarity and strengthen the message so that it may provide more value to employees and customers.

We Must Continue to Perform While We Transform

The overarching strategy of this plan is to think long-term, but be agile. We believe we can do this by continuing to perform strongly at our every-day tasks, while we prepare for the future. These 'how we work' elements are critically important to what we do. If we aren't doing these things well, there is no time or reason to attempt transformation. We should strive to achieve operational excellence resulting in cost effective, safe, and reliable operations.

Preparing for the future, or transforming the business, is the work we will do that will take us into the future. We can only do this when we are highly performing at our key existing functions. We

must choose carefully and focus on only a few transformational objectives at time and then execute well.

Who we are at EWEB represents the raw materials we have to work with to provide our products and services to the community. And at the core are our customers; why we exist. Our intent in this work is to move EWEB from a historically more largely asset-focused utility to a much more customer-focused one. The picture below represents our vision and a reminder of how we plan to do that.
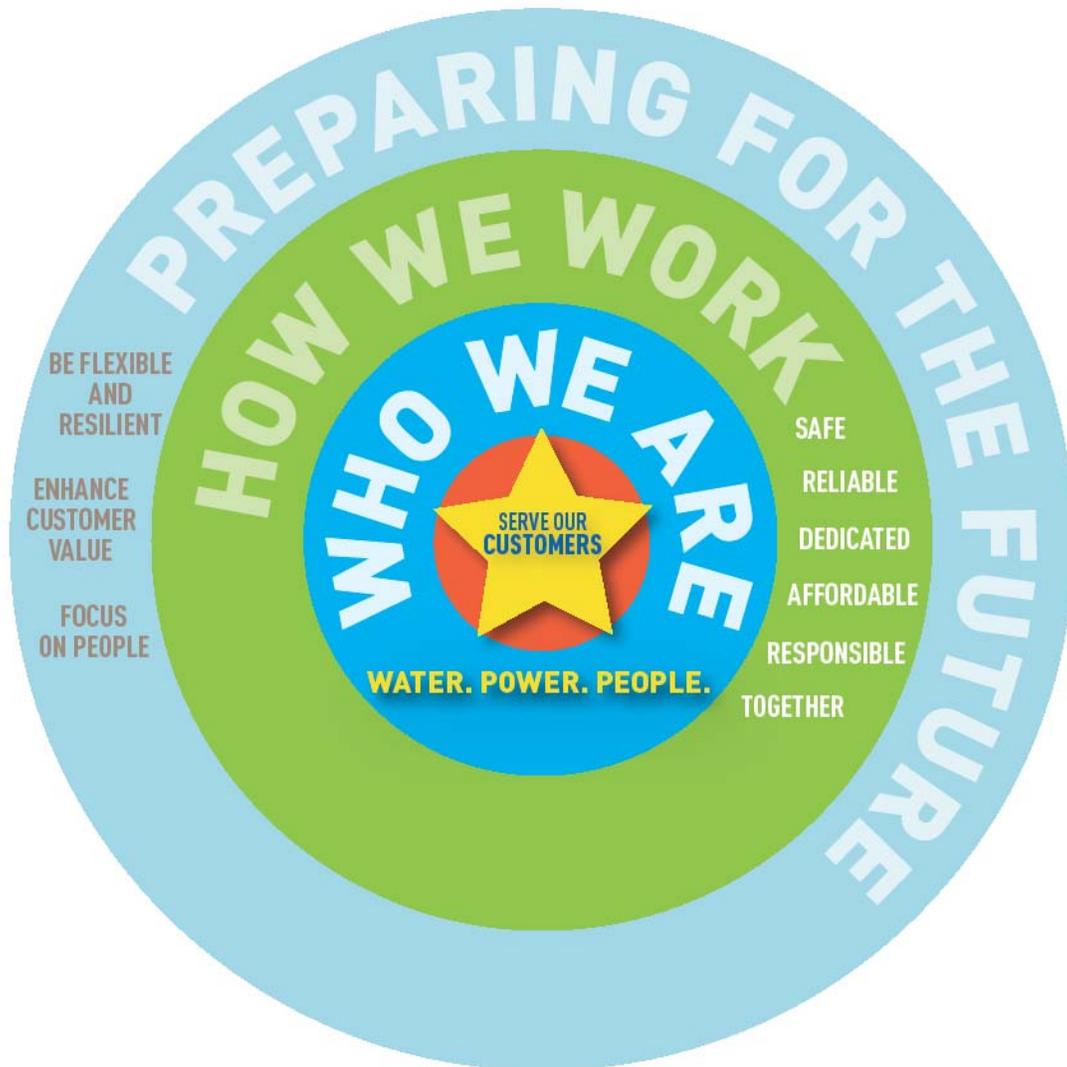
VISION

Our Vision is to be the best community-owned water and electric utility in the nation.

VALUES

- Providing affordable products and services

- Caring about our community and the environment

- Being flexible, innovative and adaptable to community needs

- Defining value through the customer's eyes

- Creating a quality work environment

MISSION

EWEB's core mission is to enhance our community's vitality by providing water and electric services consistent with the values of Eugene's customer-owners.

Business Strategies

1. 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.

2. Redefine and price the products and services that today's customers value over the next two years, in order to help prepare EWEB and the community for the utility of the future.

3. 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.

4. 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.

5. Increase organizational efficiency by using technology, business process improvements and other mechanisms to manage costs, improve service and increase customer value.

Appendix 1: Strategic Planning Overview

(Adapted from: <u>Strategic Planning for Public & Nonprofit Organizations</u>)

The Role of Strategic Planning

1) Identify and aim to resolve important issues is the heart of strategic planning (SP)
2) Improving performance, along with goal and objective setting - and associated budgets - are the realm of long-term planning
3) SP includes an assessment of the environment, both outside and inside the organization
4) It also identifies the idealized version of the organization (Vision of success) and considers how it might be achieved
5) Finally, SP considers a range of possible futures and focuses on implications of present decisions and actions in relation to that range

The Strategic Plan

<u>Includes</u>: mission statement / mandates statement; SWOT (at least as appendix, strategic issues, strategic issues (set of goals or scenarios outlining ideal future); strategies – practical alternatives, including guidance for implementation; identification of barriers; major proposals and specific steps / goals; vision of success.

Benefits of strategy development:

1) A clear picture should emerge of how the organization can meets effectively handle the situations it faces
2) Picture should have emerged from consideration of a broad range of alternative strategies. Should enhance organizational creativity
3) A new reality will emerge
4) Organizational learning
5) An emotional bond to the new reality
6) Heightened morale
7) Continued discipline of addressing strategic issues constructively becomes a habit
8) Key internal and external stakeholder issues should have been addressed, thereby creating a coalition of support for ongoing decision making
9) Organizational members gain permission to move ahead with implementation of strategies
10) If all these benefits are achieved, the organization will have achieved progress in an effective and artful way

The plan should create a baseline for judging strategic performance. It can also serve as the basis for communications and public relations material for internal and external audiences. Lastly, strategies that are unacceptable to key stakeholders will most likely need to be rethought. Strategies that do not take stakeholders into consideration are almost certain to fail. Most important, is the need to make sure strategic thinking precedes, rather than follows, budgeting.

Strategic Planning Process

1)   Clarify mission and values
2)   Assess internal environment (strengths and weaknesses)
3)   Assess external environment (opportunities and threats)
4)   Conduct stakeholder analysis
5)   Identify strategic issues facing the organization
6)   Formulate strategies to manage the issues
7)   Establish effective organizational vision for the future

A strategic issue that often arises is how to make the governing bodies more effective policy-making bodies.

Clarifying Mandates and Mission

Research indicates that one of the most important determinants of goal achievement is the clarity of the goals themselves. The mission clarifies the purpose of the organization and the philosophy and values that guide it. Unless focused on socially useful ends, and virtuous origins, the organization is not likely to survive. Agreement on mission that embraces socially desirable and justified purpose should produce enthusiasm among an organization's members.

<u>Defining the Mission</u>

1) Who are we as an organization?
2) What are the basic social or political needs we exist to fill?
3) What do we do to recognize or anticipate and respond to these needs or problems (are we active or passive? How do we stay in touch?)
4) How should we respond to our key stakeholders?
5) What is our philosophy and what are our core values?
6) What makes us distinctive or unique?

SWOT

This process yields information that is vital to the organizations survival and prosperity. It is difficult to imagine that an organization can be truly effective over the long run unless it has a close understanding of its strengths and weaknesses in relation to the opportunities and threats it faces. An important outcome may be specific actions to deal with threats and weaknesses. As soon as appropriate moves become apparent, key decision makers should consider taking action.

Establish a formal environ mental scanning operation if one does not already exist. Organizations can tend to become comfortable looking primarily inward. If reasonably routine and normal environmental scans are established, the organization will have drawn attention to, and therefore minimize, the chance of major, unexpected surprises. It will also increase the chance that an organization will be ready to respond to sudden changes.

Six categories that are typically reviewed in public and non-profit organizations

1)   Revenue-related issues and trends
2)   Social and political value shifts
3)   Computation, communication and information system trends
4)   Increases in liability and risk-management costs
5)   Health care
6)   Other issues (ex. Disaster recover, specific policies being proposed or recently approved)

Scanning should result in a newsletter or some other form of regular report distributed widely within the organization. Special studies should produce detailed analysis that also may need to be distributed widely. Scanning should not be a bureaucratic, paper, pushing exercise

Internal forces (Under the organization's control)

Assess strengths and weaknesses by monitoring and gauging resources (inputs), strategy (process), and performance (output). Most organizations focus on tracking the inputs.

External forces (Not under the organization's control)

- All too often, the focus is the negative and not the opportunities
- Should include monitoring of stakeholder groups, including clients, customers, payers, competitors, and collaborators
- Can include various scenarios to explore alternative futures, a typical practice in the private sector


Stakeholder Analysis

The key to success in public and nonprofit organizations is the satisfaction of key stakeholders.

Stakeholders will judge the worth of an organization according to how well it does against the criteria the stakeholders – not necessarily the organization – wish to use. For external stakeholders in particular, these criteria typically relate to performance (Bryson 1988).

1)   Identify key stakeholders
2)   Their stake in the organization or its output
3)   Their criteria for judging the performance of the organization
4)   How well the organization performs against those criteria
5)   How the stakeholders influence the organization
6)   In general, how important the various stakeholders are
7)   What the organization needs from its various stakeholders

Typical Governmental stakeholders:

Figure 5. Stakeholder Map for a Government.
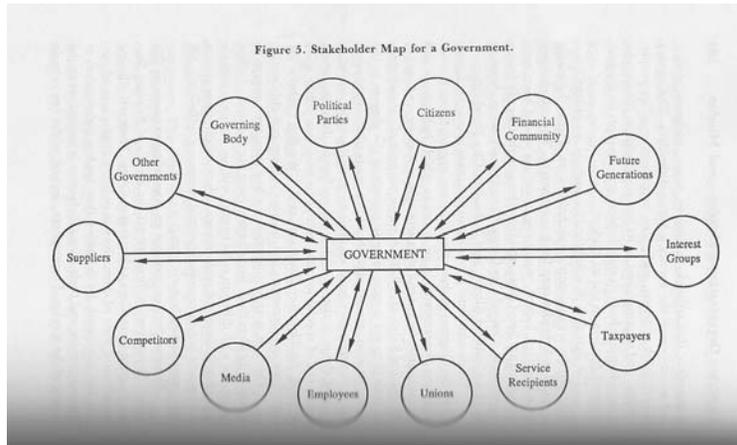
Strategic Issues

- Focus on achieving best "fit" between an organization and its environment. Strategic issues, when they arise, must generally be managed quickly and effectively if an organization is to prosper
- Is an iterative process, which, by definition, involves conflict – what, how, why, where, when and who

The strategic issue identification step is aimed at focusing attention on what is truly important for survival, prosperity and effectiveness. A strategic issue has three elements:

1) The issue should be described succinctly, generally framed as a question that the organization can do something about
2) The factors that make the issue a fundamental policy question should be listed (what is it about the organization's mandates, mission, values, or internal strengths and weaknesses and external opportunities and threats that makes this a strategic issue?)
3) Define the consequences of failure

Identifying Strategic Issues

We do not inherit the earth from our ancestors, we borrow it from our children (F.D. Roosevelt and many others)

After reviewing the mandates, mission and SWOTs, strategic issues can be identified by answering these questions:

- What is the issue?
- What factors (mandate, mission, external and internal) make it strategic?
- What are the consequences of failure to address?

Purpose – link organization and its parts to the external environment. May be developed in response to strategic issues, to achieve goals and or a vision of success.

Strategy Development Process

The public sector has a history of assuming more money equals more service and vice versa. It is possible, however, that creative effort and innovation might actually result in more service for less money (Ted Kolderie)

1) What are the practical alternatives, dreams or visions we might pursue to address this strategic issues, achieve this goals, or realize this scenario? (it is important that a wide variety of creative, even radial options be considered during the strategy formulation process. Constant awareness of the variety of options available will help ensure more comprehensive final decisions are rendered. Another way of looking at this, is that an organization should not bother to engage in strategic planning if it is not willing to seriously consider an alternative quite different to 'business as usual').
2) What are the barriers to the realization of these alternatives, dreams or visions?
(Many organizations find they must spend considerable time overcoming barriers before they can get on with achieving an alternative.
3) What major proposals might we pursue to achieve these alternatives, dreams or visions directly or to overcome the barriers?
4) What major actions with existing staff must be taken within the next year to implement the major proposals?
5) What specific steps must be taken within the next six months to implement the major proposals and who is responsible (with existing staff and existing job descriptions)?

Doing all of these steps helps manage unnecessary conflict because items proposals in answer to one will drop out if no one suggests a way to handle them in the next step. The snow card technique can be a valuable tool here (for each step). Some organizations find value in having the first two questions answered by the strategic planning team and then have the last three answered by a task force or committee that reports back.

Every 6 months, the last questions should be asked again. Every year or two the fourth questions should be asked. Every 2-3 years, the third. And every 3-5 years, the first two should be addressed again.

Strategies should be described in enough detail to permit reasonable judgments about their efficacy and to provide reasonable guidance for implementation, including:

- Principal components or features
- Intended results or outcomes
- Timetable for implementation
- Organizations and persons responsible for implementation
- Resources required
- Costs
- Estimated savings over present approaches
- Flexibility or adaptability of strategy
- Effects on other organizations, departments or persons
- Rule, policy or statutory changes required
- Effects outside of county
- Other important features

Other criteria that can be employed:

- Acceptability to key decision makers, stakeholders, and opinion leaders
- Acceptance by general public
- Technical feasibility
- Consistency with MVV
- Relevance to issue
- Cost and financing
- Long-term impact
- Staff requirements
- Cost effectiveness
- Flexibility or adaptability
- Timing
- Client or user impact
- Coordination or integration with other programs and activities
- Facility requirements
- Training requirements
- Other appropriate criteria

Identifying Strategies to Manage the Issues

Strategies are patterns of policies, programs, or actions that define what an organization is, what it does and why it does them. Effective strategy and its implementation will link rhetoric, choices and actions in coherent and consistent patterns across levels, functions and time.

Strategic development begins with identification of practical alternatives, and visions for resolving strategic issues. (It is important to also identify the barriers to achieving these visions to help plan for implementation challenges). Once identified, a team can develop proposals for achieving them.

Vision of Success

If you want to move people, it has to be toward a vision that's positive for them, that taps important values, that gets them something they desire, and it has to presented in a completing way that they feel inspired to follow (Martin Luther King, Jr.).

How the organization looks when it is working well.

If a vision of success is to provide suitable guidance and motivation, it should include:

- Mission
- Basic philosophy and core values
- Goals
- Strategies
- Performance criteria

- Important decision rules
- Ethical standards expected of all employees

The vision should emphasize purpose, behavior, performance criteria, decision rules, and standards that are public serving rather than self-serving. The statement of vision should include a promise that the organization will support its members in pursuit of the vision. It can be several pages long, but must be inspiring. It must be widely circulated among organization members and key stakeholders. Lastly, it should be used to inform major and minor organizational decisions and actions.

Benefits of a clear and compelling vision:

1) A specific, reasonable and supportive guidance about what is expected of organizational members and how they fit into the bigger picture
2) People must have some conception of what success is before can desirable behaviors can be envisioned
3) Organization will gain an added increment of power. Less time spent on what, how or why and more to simply getting on with it
4) Two things that most determine success of goals: extent to which they specific and reasonable and the extent to which people are supported in the pursuit of them
5) A way to claim or affirm the future in the present. Giving one the right to invent one's own preferred future. If a future is what we make it, then a vision outlines the future we want to have and forces us to live with it
6) Creates a useful tension between the world as it is and the world as we would like it
7) Can supply a motivation or calling.
8) A well-articulated vision of success will help people recognize the barriers to realization of the vision and thereby assist in overcoming item
9) Provides an effective substitute for leadership; empowers people to lead and manage themselves when give in clear guidance about directions and behavioral expectations
10) An agreed upon vision may contribute to a significant reduction in the level or organizational conflict
11) It takes on a moral quality that can infuse the organization with virtue

Establishing an Effective Organizational Vision for the Future

The 'vision of success' establishes what the organization should look like as it successfully implements its strategies and achieves its full potential. Descriptions of this vision include the organization's mission, its basic strategies, its performance criteria, some important decision rules, and ethical standards expected of all employees. When these are widely shared by the organization, they can allow its members to know what is expected without constant oversight, and allows them to act on their own initiative on the organization's behalf to an extent not otherwise possible. The result is a mobilization and clarity of direction of purpose. They focus on the future, hopes, employ common values, state positive outcomes and emphasize the strength of a unified group to communicate enthusiasm and excitement.