



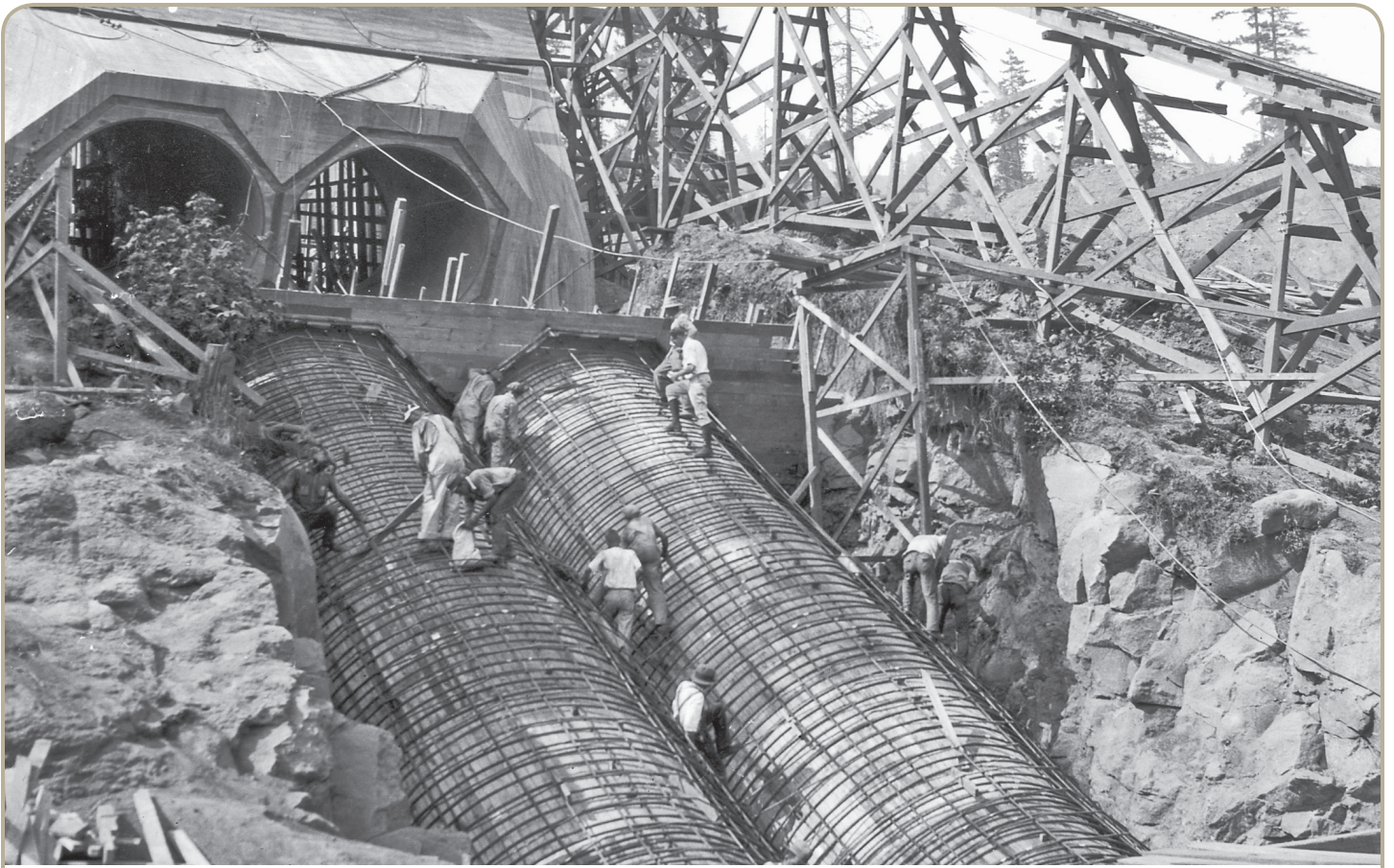
MEMORANDUM

EUGENE WATER & ELECTRIC BOARD
GENERAL MANAGER'S DIVISION

Rely on us.

TO: Commissioners Brown, Simpson, Cassidy, Ernst and Cunningham
FROM: Roger Gray
DATE: May 10, 2011
SUBJECT: 2011 Approved Strategic Plan

Attached is the amended version of the 2011 Strategic Plan approved by the Board on May 3, 2011.



2011 STRATEGIC PLAN

Road Map For Our Next 100 Years

Rely on us.



2011 Strategic Plan

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1.0 BOARD LETTER

To our EWEB customers and the community that we serve:

This year marks EWEB's centennial. It is a good time to celebrate and reflect on the past and it is an opportune time to plan for the future. This strategic plan represents EWEB's continued commitment to strategic decision making and adherence to long-term planning that will help us navigate through an uncertain and dynamic future.

EWEB's success over the last 100 years is attributable to our fore bearers who set a clear focus and practiced sound decision making that over time provided our customers clear value. Faced with difficult challenges, these individuals addressed the hard issues by resolving to find the best solutions ensuring a long-term, successful future for EWEB. Their commitment has favorably positioned EWEB today to meet tomorrow's challenges by utilizing our key strengths:

- Sufficient power resources
- Committed employees dedicated to public service
- Constructing, maintaining, and operating a reliable electric and water distribution system
- Efforts underway to seriously tackle aging infrastructure
- Superior water source from the McKenzie River
- Strong and long-term commitment to conservation and energy efficiency
- Listening to our customers

The challenges of our next 100 years will be great and fraught with significant opportunities and challenges that must be addressed in the near future. Two of these immediate challenges include:

- Obtaining a Second Source of Water Supply
- Increasing our Organization's Readiness and Ability to Adapt to Change

Other challenges emerging on the horizon include:

- Increased Service Quality and Operational Efficiency
- Meeting Customer Expectations
- Climate Change
- Expanding Regulatory Requirements
- New Types of Energy Resources
- Distributed Generation
- Advanced Technologies
- Water Quality and Security
- Infrastructure Reliability

Reaffirming our Vision and Mission for the future and furthering our customer focus and engagement will prepare a solid foundation for EWEB to address the future challenges.

EWEB Board of Commissioners:

John Brown, President

John Simpson, Vice President

Joann Ernst

Bob Cassidy

Rich Cunningham

2.0 EWEB EXECUTIVE MANAGEMENT TEAM LETTER

The Executive Management Team (EMT) wholeheartedly endorses the letter from the Board to our valued customers and community to which our organization is so privileged to serve.

Our 100th Anniversary slogan is “Water-Power-People.” Of course, EWEB will still be operating a steam system for another year and the steam system closure is representative of change. Although it is expected that EWEB will be serving water and power for the next 100 years, it is anticipated that the change over the next 10-20 years will exceed the change experienced during our first 100 years. Operating in a changing and uncertain environment will prove to be challenging for EWEB. In many respects, the utility industry has been insulated from the profound changes that have taken place around the globe over the past 25 years.

Although it isn't possible to predict the complete course of events ahead, it is possible to prepare ourselves for the uncertainty by building upon our amazing history and creating an adaptive and agile organization, thus enabling us to effectively respond to change. This strategic plan is our guiding road map of how EMT envisions going into the next millennium.

We believe that learning to be more agile, flexible and adaptable will be vital to our continued success. People, customers, stakeholders and employees remain a constant and critical part of the equation. Our relationships among these groups, however, will change and evolve to new levels of engagement and participation in power and water usage that has never happened before. Employees will continue to play a critical role in delivering high quality and reliable services at reasonable prices. Technological advancements, compliance requirements and increased partnerships with customers and stakeholders will heavily influence and change the way work is accomplished in the future.

The strategic plan before you is our general road-map for how EWEB navigates the future in terms of the “what”, “where” and “how”. Think of EWEB as a ship with the direction it's heading defined by our strategies and the state of the ship (resources, functions and capabilities) defined by our current operations. Yes, it is very high-level but it is expected that each division, section and department will further breakdown the plan into more specific projects, tasks, objectives and goals. Some of the goals will be more operational and current and others more strategic and long-term in nature. However, a line of sight should exist between all goals and the strategic plan. Our long-term success depends on keeping our strategy and current operations well aligned.

The EMT together has over 113 years of utility experience and none of us have ever experienced a time quite like this in terms of the challenges and opportunities before us. Learning to work across the organization by integrating our people, partnerships, technology and abilities to manage major change with our product and service lines will enable EWEB to effectively address and solve complex problems and new challenges successfully. Knowing that the future brings a high level of uncertainty will require thorough preparation in our short and long-term planning, the ability to anticipate and adjust to different outcomes, and the intelligence to adapt and respond to new challenges and realities.

EMT is firmly resolved and committed to our strategic plan. We must balance EWEB's current state with the future state, sacrificing neither. Each of you is being called to join us on this journey.


EWEB Executive Management Team:

Roger Gray, General Manager

Debra Smith, Director-Customer & Shared Services Division

Clay Norris, Director-Power Resources Division

Tom Buckhouse, Director-Electric, Water and Steam Divisions



EUGENE WATER & ELECTRIC BOARD STATEMENT OF LEGACY

The purpose of our legacy statement is to develop a creative tension between where we are and where we want to be. These goals guide us in our choice of paths and our desired destination.

MISSION STATEMENT

TO BE AN OUTSTANDING PROVIDER OF ENERGY AND WATER PRODUCTS THAT MEET CUSTOMER NEEDS AND BENEFIT THE CITIZENS OF EUGENE.

We meet our customers' needs by:

- providing reliable and high quality utility products
- providing services in a responsive manner
- providing rates and fees that are reasonable and stable

The organization:


- uses an integrated planning process based on vision, strategic direction, critical success factors and results management
- uses innovation and creativity to develop solutions to complex and challenging issues
- is flexible, adaptive, and learns from prior experiences
- is financially stable
- supports excellence in the workforce by providing competitive wages, benefits and development opportunities

EWEB meets the community's needs by:

- dealing effectively with tension between social, economic and environmental factors
- demonstrating concern and responsiveness to social issues involving the provision of energy and water services
- supporting a sound economy through fiscally prudent rates
- demonstrating sensitivity and responsiveness to environmental concerns, recognizing the importance of a healthy ecosystem to its operations

The Board of Commissioners:

- effectively governs, resulting in clear leadership at a policy level
- provides direction and makes decisions anchored in a sound assessment of priorities and strategic risks
- maintains a strong connection to customers and the community



Rely on us.



Mission



To be an outstanding provider of energy and water products that meet customer needs and benefit the citizens of Eugene.



Vision



To be the best community-owned water and electric utility in the nation.



Values



- Stewardship
- Integrity
- Quality of work life
- Teamwork
- Excellence



EUGENE WATER & ELECTRIC BOARD

4.0 STRENGTHS FROM THE PAST & KEY ASSUMPTIONS ABOUT THE FUTURE

The following is a representative list of EWEB’s strengths from the past and key assumptions about the future. The strengths from the past can serve as a solid foundation going forward, but we also must recognize that we cannot rely on the past for our sole guidance. What worked yesterday will not always work for tomorrow. Strengths, if overplayed, can become weaknesses.

Strengths from the Past	Key Assumptions about the Future
<ul style="list-style-type: none"> • Long-term decision making and focus 	<ul style="list-style-type: none"> • Increasing marginal cost business
<ul style="list-style-type: none"> • Excellent quality water 	<ul style="list-style-type: none"> • Infrastructure will remain a long-term focus
<ul style="list-style-type: none"> • Relatively diverse power portfolio 	<ul style="list-style-type: none"> • May move from selling “products” (e.g., kWh and kGals) to services like “connectivity” and “choice”
<ul style="list-style-type: none"> • Financially conservative 	<ul style="list-style-type: none"> • Greater uncertainty and much less stability
<ul style="list-style-type: none"> • Community-driven and publicly owned 	<ul style="list-style-type: none"> • Everything is regulated multiple ways
<ul style="list-style-type: none"> • Long-term commitment to conservation and energy efficiency 	<ul style="list-style-type: none"> • Siting and building much more complex and contentious
<ul style="list-style-type: none"> • Willing to innovate 	<ul style="list-style-type: none"> • Business models will likely be different and no longer one-size-fits-all
<ul style="list-style-type: none"> • Stability in governance and management 	<ul style="list-style-type: none"> • Competition: some direct and at least indirect in other cases
<ul style="list-style-type: none"> • Dedicated and committed employees 	<ul style="list-style-type: none"> • Technology and other changes will accelerate
<ul style="list-style-type: none"> • Operated in largely stable and more certain environment 	<ul style="list-style-type: none"> • Customer expectations will continue to grow
<ul style="list-style-type: none"> • Relatively simple regulation 	<ul style="list-style-type: none"> • Need to be faster moving
<ul style="list-style-type: none"> • Long-term employees 	<ul style="list-style-type: none"> • Employee demographics will change
	<ul style="list-style-type: none"> • Utilities will still provide essential services
	<ul style="list-style-type: none"> • Water Scarcity
	<ul style="list-style-type: none"> • Population growth
	<ul style="list-style-type: none"> • Increased documentation requirements and procedural standards

5.0 OVERARCHING STRATEGY

EWEB's overarching strategy is *"To Deliver Value for Generations."*

In support of this strategy, focus is on providing water and power to meet the basic and intrinsic needs of our community through excellent customer service and community partnership that will result in increased value to our customers and a sustainable service delivery for the next 100 years.

5.1 STRATEGY OVERVIEW

Organizations establish business strategies in order to guide and lead them in achieving their mission, while getting the organization to move in a unified direction. Furthermore, business strategies allow an organization to assess major decisions against the strategies providing guidance in making trade-offs and crystallizing thinking on issues. EWEB has established an overarching strategy and seven vertical "Whats" (product and service strategies at the Board level to guide the organization on trade-off considerations when deliberating on major decisions). In addition, EWEB has identified five horizontal strategies or "the Hows" (business systems, communications and technology) at the organizational level.

The specific strategies contained in this plan were crafted to reflect this view of balancing multiple factors to determine total value. The EWEB Board has directed the utility to plan and operate around this fundamental proposition of balance and total value. We believe that the success of EWEB has been in large part due to balanced value-based decisions. The Board and Management considered several alternative strategies that are further described in Appendix 1. Sometimes it is helpful to articulate a strategy by contrasting it to alternative strategies; therefore, please refer to Appendix 1 for discussion of the trade-offs between strategies considered.

As discussed above, the overarching strategy includes the "Whats" and the "Hows" along with the methods by which we bring those strategies together within EWEB. Section eight and section nine provide a more detailed description of the "Whats" and the "Hows."

5.2 OVERARCHING STRATEGY DESCRIPTION

In the prior section, EWEB's strengths of the past as well as assumptions about the future were addressed. In consideration of these strengths and future assumptions, our overarching strategy was built using five constructs:

1. Building upon past strengths that support a strong organizational foundation that enables EWEB to effectively address anticipated future needs.

Having strong conservation and energy efficiency capabilities is a strength of EWEB that positions our organization to meet customer expectations regarding the increased use of renewable energy and efficient use of energy and water. Other strengths of the past though, may not be suited for a different future and how we deliver these services may change.

2. Building new foundations that will institutionalize an organizational culture and practice of adapting and managing change effectively.

EWEB has operated from a position of little or no retail competition. This may not serve us well as we anticipate increasing direct or indirect competition in the future. Such competition may not necessarily be in a direct form like an alternate electric or water utility, but could be in the form of alternate energy sources including customer-generated energy. However, today EWEB is able to successfully compete at a wholesale level and this indicates our ability to rise to challenges. A fundamental contrast between the past and the future is that change in the future will occur at an accelerated rate. Learning to work across the organization by integrating our people, partnerships, technology and ability to manage through major change with our product and service lines will enable EWEB to effectively address and solve complex problems while adapting to new challenges successfully.

3. Committing to the philosophy of authentically engaged customers and active community partnership.

In the first 100 years, EWEB customers were much more engaged with their utility than other typical utilities. This has influenced the direction of our utility through their citizen-elected Board and activism. Examples of this are evident via their participation in conservation and energy efficiency to avoid the need to build additional plants, and contributing to or investing in renewable energy projects. In the next 100 years, it is anticipated that even more active engagement will occur, such as: voluntarily electing to use power during off-peak periods in response to clearer price signals and/or a desire to avoid construction of new power plants and increased utilization of renewable energy; partnering with the utility to make shifts in the timing of energy usage to offset short-term variations in renewable generation output; limit usage of power during the peak hour of the day to avoid the cost and construction of fossil fuel peaking generation; and helping EWEB design and refine product offerings that make sense for our community. It is even likely that customers may generate their own power in some cases and could be suppliers.

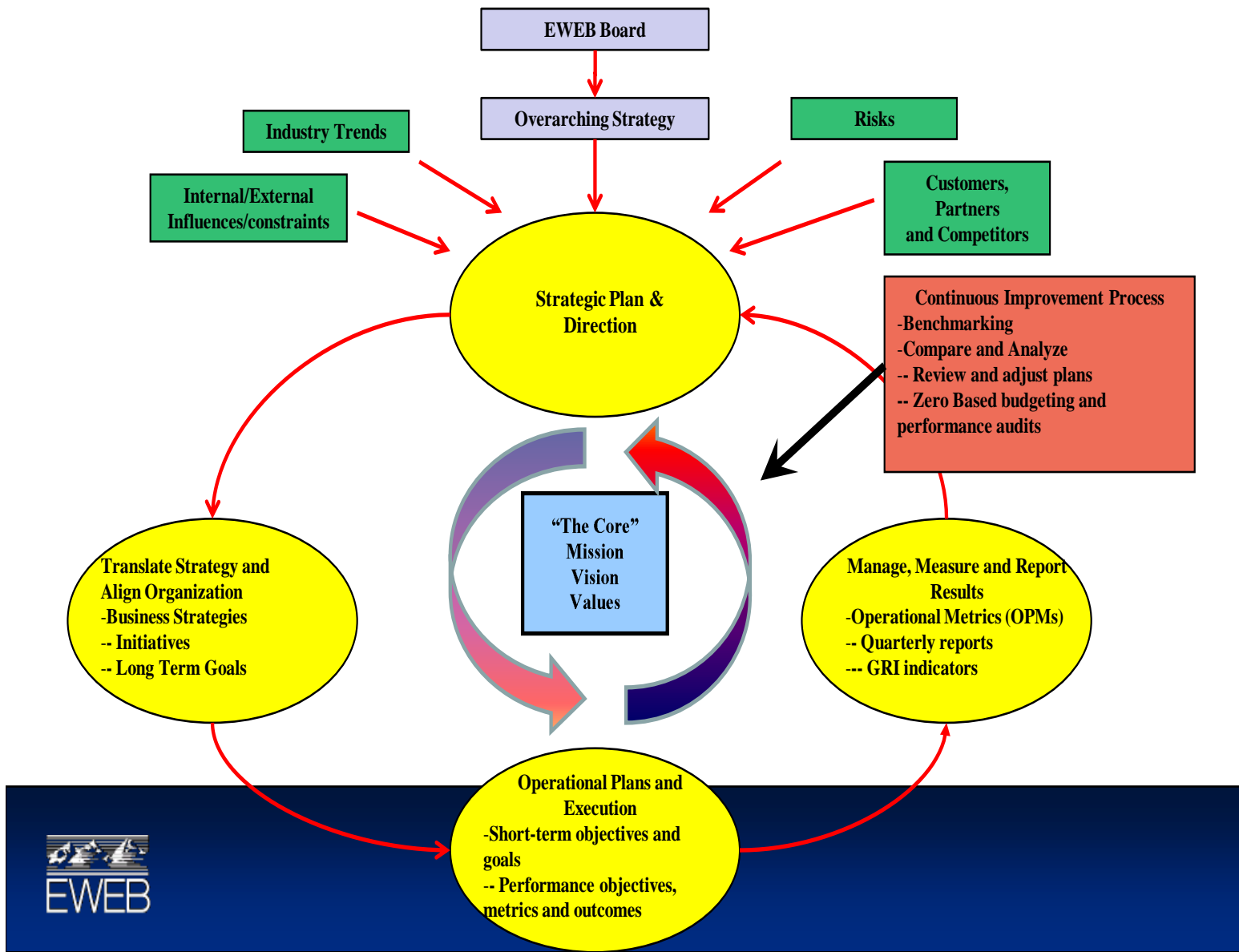
4. Committing to bring value to customers and community by offering high quality and product/service differentiation at a reasonable cost.

Value is broadly determined by our customers and community and includes such things as: product quality; reliability; safety; social and community impacts; public outreach and communication; environmental attributes; risk; aesthetics; and affordability. In pursuit of the highest overall value, EWEB will plan and operate to deliver water, power and services always considering and balancing all of these factors. It is also time to recognize and accept that what our customers and community value is not necessarily monolithic. The concept of customer choice may become increasingly important in our second 100 years as customer expectations not only grow, but diversify at the same time.

5. Investing from a long-term value and sustainable perspective.

EWEB has historically taken innovative and bold steps. Early in our first 100 years, our forbearers invested in a long-term water supply vision tied to the McKenzie River and built renewable hydroelectric projects on the river. At the time of these investments they were expensive. In retrospect they have been brilliant decisions that have served our customers well for decades. EWEB has been a pioneer utility with respect to renewable energy, conservation and energy efficiency. These decisions have not always been the most economical in the short-term. Instead, they were based on the concept of highest long-term value to our customers.

EWEB Strategic and Operational Planning Process (AKA "The Road Map")



7.0 INTRODUCTION TO “THE WHATS” (PRODUCTS & SERVICES, COST & VALUE)

On February 15, 2011 the EWEB Board affirmed an overarching strategy to “Deliver Value for Generations.” This means that EWEB provides the highest long-term customer and community value for our products and services by working in close partnership with our customers and stakeholders. In addition, we will expand on our core competencies and build an adaptive and flexible organization capable of rapidly adjusting to new and different challenges and changes in pursuit of our strategy. To determine our success, we will create a strong ability to measure and assess progress against our plan by building feedback loops. In addition to the overarching strategy, seven vertical or “Whats” strategies were discussed and selected that address both our current state and significant challenges for the future. Over the years customer satisfaction surveys, public participation and a publically elected Board indicate strong support for these products and services which are highly valued and desired by our customers and the community of Eugene. The value proposition for EWEB consists of being able to operate successfully by managing the trade-offs involved in providing high quality, consistent, reliable products and services that customers view as having value and importance to the community at a price that is deemed affordable. To that end the following vertical strategies or the “Whats” have been selected:

- **Second Source Water Supply** – lack of second source could result in serious public health and safety disaster should water outage occur. Therefore, EWEB will pursue development of both emergency and possible regular second source supplies of water.
- **Infrastructure Reliability & Cost Balancing Strategy** – continue and build upon a well planned and executed infrastructure replacement program that controls costs while meeting customer and community expected reliability goals.
- **Customer Service Strategy** – continue current customer service levels and begin to shift from a “one size fits all” business model to one that accommodates customer products and consumer choice.
- **Power Resources Planning & Cost Strategy**– strategy will be further developed upon completion of IERP plan which will count on community input during the course of 2011.
- **Financial Strategies** – continue use of the ten year financial plan as the vehicle for testing risks and tradeoffs and explore reserve policy implications. Beginning, in 2011, implement new financial planning tools such as zero-based budgeting to improve understanding of these tradeoffs and increase transparency.
- **Rate Structure Strategies** – maintain current practice for Electric Utility assuming an 85% of average generation while actively pursuing technologies that give customers better and timelier information and pricing signals regarding their consumption. Continue to move toward rate structures that balance multiple objectives such as cost causation, adequate recovery of costs, understandability and promotion of conservation.
- **Board Governance** – reaffirm the current governance work and move toward becoming a policy and strategic board.

The more thorough discussion of each of these strategies follows.

7.1 SECOND SOURCE WATER SUPPLY STRATEGY

7.1.2 PURPOSE

Continue to develop and refine adaptive water supply strategies to delivering safe, clean, and pleasant tasting water in an efficient, reliable and cost effective manner for the next 100 years by pursuing viable options to (1) secure existing water rights and (2) develop a viable second source supply capability.

7.1.3 SUMMARY OF BOARD DIRECTION

The most fundamental recommendation of the Board is to pursue a second source. The Board was in favor of additional exploration of two possible paths: Second Source Partnership and Second Source for EWEB only. At this point, it is critical to not set a single path to a final strategy but to leave both options open until several fundamental issues are resolved including, but not limited to: clarifying water claims and rights, assessing interest of potential partners and developing more detailed business cases for the options. It is critical that EWEB develop a clear way to obtain customer and community input early in this process regarding the views of customers regarding different sources of water, cost and reliability.

7.1.3.1 SCENARIO DESCRIPTION

1. “Second Source Partnership”: Continue to explore concepts of partnership with neighboring water utilities to achieve higher utilization of McKenzie Water rights and obtain access to second source(s) (e.g. ground water and surface water from the Middle Fork of the Willamette River) and facility delivery options.
2. “Second Source for EWEB only”: Develop second source of water from Willamette River (on the west side utilizing the existing intake structure near the EWEB Steam Plant) utilizing our historic pre-1909 water claim and construct a second water treatment plant and water delivery system. Develop capacity of facility to match minimum winter time flows to provide basic capacity to our customers during an outage of the McKenzie River water source or associated treatment or delivery facilities.

7.1.3.2 ASSUMPTIONS AND CONSTRAINTS

	Scenarios	
	Second Source Partnership	Second Source for EWEB Only
Description	Sharing and/or exchanging paper water rights with neighboring water utilities. Developing more robust treatment and intertie systems among neighboring water utilities.	Build second water treatment plant, pumping system, and delivery systems west of the Willamette River utilizing water from the Willamette River from our existing intake near the EWEB Steam Plant. The plant would be sized to meet the minimum water demand requirements for community utilizing demand management during emergency.
Pros	Redundant facilities. Separate source(s). Utilizes existing water rights.	Redundant facilities. Separate source. Reduces risk of not having a valid water right after adjudication of the Willamette basin.
Cons	No clear pathway to advance partnership opportunity within an established and agreed timetable.	More expensive without partnership. Legal access to the Willamette River has not been obtained.
Players	EWEB and neighboring water utilities with the greatest interest in partnerships with Springfield Utility Board due to size and possible natural relationship between the two utilities. Open to other neighbors as well, though, to increase supply diversity and share costs.	EWEB, with future opportunities from neighboring water utilities.
Timeframe	Difficult to determine at this point.	Project could be started within 5 years of completing the permitting assuming funding strategy is in place. Assume one plus additional years for permitting, the earliest completion would be within 7 to 10 years.
Cost (Today's \$)	\$40 to \$70 million*	\$50 to \$90 million*
Rate Impact (relative to status quo)	20 to 35 %	25 to 50 %
Comments	Management continues to work on relationship and concepts for collaboration. Water rights owned by other utilities.	It will take at least one additional year to determine the feasibility of access to the Willamette River.
* = High level cost estimate to be used to gauge relative project cost differences for planning purposes (30 year bonds @ 5.5%)		

7.1.4 IMPLEMENTATION OVERVIEW

Management will prepare triple bottom line analysis of the alternatives for review and approval by the Board as outlined in the following Timeframe Table. Given the complexities of the project, updates to the timetable may need to be made.

7.1.4.1 DESCRIPTION OF IMPLEMENTATION

TIMEFRAME: 03/15/2011 – 06/30/2019			
Key Steps	(Year, quarter, or month, i.e., YR1 – Q3)	Expected Outcome	Comments
Emergency/stop-gap water plan	4Q-2011	Completed plan identifying required capital expenditures and plan to fund them.	
Obtain legal access to water (water rights)	Permit Issued (4Q-2012)	Legal access to Willamette River.	
Public Education/Outreach	Start education/outreach (2012) Surveys (2014) Summarize findings (2Q-2015)	Have a public and decision making body fully up to speed in the risks associated with project choices.	
Partnership Exploration with Springfield Utility Board (SUB)	Partnership Discussion (2011) Define concepts of partnership (4Q-2012)	Develop viable option to compare to Second Source – EWEB.	
Property/Easement Issues	Begin property searches (2013)		
Alternative Evaluation and Costing	4Q-2015	Triple bottom line evaluation of alternatives.	
Develop Financial Plan	3Q-2015	Financial strategies to fund and support project.	
Board Approval to Proceed with Detailed Design	4Q-2015		Project is adopted within the Capital Improvement Program.
30% Design	3Q-2016		
Finalize Design and Bidding Documents/Additional Permitting Issues	4Q-2016	Completed Permits and Bid Package.	
Award Construction Bid	2Q-2017	Award Bid.	
Put Second Source into Operation	2Q-2019	Ability to deliver water into system from a second source.	

7.1.4.2 MAJOR TASK DESCRIPTION

Major tasks are as described above.

7.1.4.3. OPEN ISSUES

Developing a second source is still in the conceptual design phase of the project and, therefore, there are a number of significant open issues that need to be resolved. The following is a summary of these issues:

- Obtaining legal access to water for a second source is the first barrier that needs to be overcome to consider alternatives and feasibility of alternatives.
- Public acceptance to utilizing Willamette River as a water supply.
- Year round use for intermittent use.
- Partnership advantages/disadvantages.
- Size of the second source.
- Financial feasibility of the alternatives.

7.1.4.4. RISKS & CONTINGENCIES

Water supply resource investments are very long-term in nature. These water resources look comparatively more expensive now to develop, but compared to reduced flexibility to face a more uncertain future coupled with the real possibility of a water supply or facility outage the cost seems appropriate to balance the risk. This is fundamentally a short-term versus long-term decision that balances current costs and risks. EWEB having only a single source of supply also increases the risk that other communities like Veneta would not consider us as a viable wholesale water provider and may weaken support from EWEB customers to expand this strategy. Wholesale water sales are a critical component to securing existing water rights from the McKenzie River. Source diversity provides more flexibility to managing resource constraints with the least impact to the environment during times of water shortage.

Even in this difficult economic climate, we believe the community (i.e., EWEB customers) would support a strategy that results in assuring long-term water supply options that consider cost, quality and security/reliability. EWEB's progressive approach to sustainable water supply development is a reflection of the critical nature of this resource and one that is fundamental to the livability of this area for the long term. Cost reducing alternatives may be attainable through regional partnerships and should be continued to be explored.

Regardless of whether the Board ultimately approves a specific second source plan or not, EWEB Management strongly recommends that EWEB fully develop an emergency/stop-gap water plan. This is not anywhere near a true second source as discussed above. EWEB Management believes it is prudent to make this investment for several reasons including, but not limited to: (a) a true second source could take years to develop, (b) it is possible that this Board or a future Board simply cannot justify the potential increase associated with a second source and finally, and most importantly, (c) the risk of loss of our current sole source is perhaps relatively low, but the implications and human impacts are very profound.

7.2 INFRASTRUCTURE RELIABILITY AND COST BALANCING STRATEGY

7.2.1 SUMMARY OF BOARD DIRECTION

At the February 15th meeting Management heard unanimous agreement amongst Board members in favor of the current approach, i.e., “Status Quo” as the preferred strategic direction. The status quo preference is based on the fact that recent Board and Management actions have made material increases to capital infrastructure replacement with supporting rate increases. Given these recent increases, the Board supports the current strategy, but has directed Management to carefully assess the results of this new level of expenditure and to be prepared with plans that monitor the results of these increases and can be adjusted up or down depending on the results. Therefore, Management was asked by the General Manager to expand on the development of two additional scenarios for incremental increase and decrease in reliability and cost for Board consideration, as described in Table 8.2.3 below. These scenarios will begin in 2011 for the 2012 planning and budgeting process.

7.2.2 SCENARIO DESCRIPTION

As the Water and Electric Utilities develop their respective Capital Improvement Plans, strategic guidance is needed to balance and prioritize future projects in accordance with the Board’s philosophy and Customers’ expectations on reliability, risk and rate/cost implications.

There is a direct relationship between infrastructure investments and reliability; likewise there is a direct link between capital investments and rates. Fundamentally, Management’s goal is to strike a balance of providing the service level reliability our customers expect at a price they can afford to pay. The relationship between reliability and rates is non-linear, meaning that as you attempt to approach 100% reliability the cost increases exponentially.

In February, Management presented two possible “bookend” strategies that were even outside EWEB’s current philosophy and scenarios, as defined below. The first bookend assumed operation of equipment until failure and then replacement at failure; this is believed to be the lowest cost and lowest reliability approach. The second bookend aggressively maintains and replaces infrastructure so it never or rarely fails and builds redundancy into the system as part of every design; this is believed to be the highest cost and highest reliability approach.

7.2.3 ASSUMPTIONS AND CONSTRAINTS

Refer to the Scenarios Table on the next page for a summary.

Table 7.2.3	Scenarios		
	Status Quo	Small Increase in Reliability (aka “Tick Up”)	Small Decrease in Reliability (aka “Tick down”)
Description	For Electric, continue funding replacement of aging infrastructure to maintain, but not improve, the present level of reliability. For Water, increase the replacement of aging infrastructure to match the rising end-of-life quantities, through predictive measures, and look for opportunities to increase reliability and water quality by adding new facilities to meet those goals.	Make small increases each year to bolster system reliability through increased replacements and enhancement opportunities.	Make small decreases in the amount of replacements each year to fundamentally shift reliability to another level from where we are at today.
Pros	Electric, no change to existing level of service to customers. Water, existing increases in the amount of replacements continue as planned.	Small increase in Reliability.	Less cost initially.
Cons	Status Quo for Electric. Water will continue to address large aging infrastructure failure issue.	Higher cost over time.	Small Decrease in Reliability.
Players	EWEB	EWEB	EWEB
Timeframe	Currently Implemented	1-3 Year Implementation	Immediate
Cost/Rate Impact	Maintain existing rate of capital expenditures for aging infrastructure: Electric = \$9.0 million/year Water = \$7.5 million/year (Type 1)	Assume 5% increase in capital expenditures for aging infrastructure. Until reliability and redundancy meets customer expectations. Electric = \$450,000/year Water = \$375,000/year	Assume 5% decrease in capital expenditures for aging infrastructure. Until reliability and redundancy meets customer expectations. Electric = \$450,000/year Water = \$375,000/year
Comments	Water and Electric will still need modest rate increases to fund replacement strategies.	Higher cost, higher reliability. May need to add staff.	Lower cost, lower reliability.

7.2.4 IMPLEMENTATION OVERVIEW

Management will prepare the Water and Electric Utility CIP’s for review and approval by the Board in accordance with the 2011 Budget Calendar as outlined in the following Timeframe Table.

7.2.4.1 DESCRIPTION OF IMPLEMENTATION

Key Steps	(Year, quarter, or month, i.e. YR1 – Q3)	Expected Outcome	Comments
Align CIPs with L-T Financial Plans	2011 – Q2	Draft CIPs should be integrated into L-T Financial Plans, with strategies for funding.	This will align only with the “Status Quo” or base scenario.
Prepare Draft CIPs for Budget Workshop w/Alternative Scenarios	2011 – Q3 July	Management to receive feedback from Board on Draft 10-Year CIPs. Alternative scenarios will be presented.	Management will then adjust the 10 year CIP as directed from the Board for final approval in September 2011.
Prepare Final CIPs for Board Approval	2011 – Q3 Sept	Board approval of 10-Year CIP’s for Water & Electric.	Management will then Budget in accordance with approved CIP.

7.2.4.2 MAJOR TASK DESCRIPTION

Major tasks are as described above.

7.2.4.3. OPEN ISSUES

There are no open issues.

7.2.4.4. RISKS & CONTINGENCIES

EWEB Management will provide an analysis of risks and contingency plans associated with the two alternative scenarios to the current CIP strategy in place and reaffirmed by the Board.

7.3 CUSTOMER SERVICE STRATEGY

7.3.1 PURPOSE

Define the experience EWEB wants to provide to customers who are transacting business with the Utility. This includes Customer Service Analyst (CSA) availability to take calls and transact lobby business, as well as utility funding for limited income and bill payment assistance.

7.3.2 SUMMARY OF BOARD DIRECTION

Continue to provide customers with a level of service consistent with the experience EWEB is currently providing.

7.3.3 SCENARIO DESCRIPTION

- Maintain current CSA availability to customers who chose to transact business via the phone, lobby or Internet.
- Maintain current level of limited income support and bill payment assistance via EWEB's Customer & Community Care programs.
- Determine an appropriate measure and targets that allow for changes to Community Care funding as the economy improves. (Community Care Program was developed in response to the economic recession in 2009; funds are distinct from the ongoing funding EWEB has traditionally provided for limited income customers.)

7.3.3.1 ASSUMPTIONS AND CONSTRAINTS

EWEB's current customer service strategy and service levels appear to have provided relatively high customer and employee satisfaction. Continuing with this philosophy does not require incremental funding or rate action. However, there is a risk that the longer EWEB continues to provide incremental limited income assistance (Community Care Programs) the more challenging it will be to reduce funding as the economy recovers. The scenario assumes we will continue our partnership with Lane County in the delivery of our limited income programs. AMI will likely change how we execute our customer service philosophy over time, but the specific impacts have not currently been defined.

7.3.4 IMPLEMENTATION OVERVIEW

Select an appropriate measure and targets that allow for reduction or elimination of Community Care funding as the economy improves.

7.3.4.1 DESCRIPTION OF IMPLEMENTATION

Key Steps	(Year, quarter, or month, i.e. YR1 – Q3)	Expected Outcome	Comments
Identify measure and targets for local economy	2011 – Q3	Agreed upon measures and targets	Anticipate that focus will be on preventing customer disconnections.
Develop alternative budget scenarios based on economic scenarios	2011 – Q4	Alternative funding scenarios with agreed upon triggers for reduction are developed and presented to Board	Board may approve a specific funding level with an agreement that subsequent improvements in the overall economy, result in decreased funding.

7.3.4.2 MAJOR TASK DESCRIPTIONS

The Board has directed Management to identify appropriate measures that allow for changes in funding or structure of the Community Care program perhaps based on measurable improvements or degradation to the local economy, effectiveness of the EWEB programs, assessment of the need for EWEB programs and other objective criteria. For example, measures and targets may correlate to EWEB’s collections data over the past five years and will focus on the impact of incremental funding on customer service disconnections, late payments and other factors.

Proposed measures and potential targets will be presented to the Board for approval prior to the 2012 budget process. Ultimately, the funding for Community Care in the 2012 budget will be associated with the agreed upon indicators.

7.3.4.3. OPEN ISSUES

Opportunities presented as AMI is implemented. Examples include prepaid metering and potential impact on deposit policy. If the funding on Community Care extends beyond 2011, the Board may need to revisit the funding source of rates rather than reserves.

7.3.4.4. RISKS & CONTINGENCIES

Customers begin to think of increased limited income funding (Community Care) as a permanent part of EWEB's assistance programs even if the measures adopted support lower levels of funding. An ultimate reduction in funding is viewed as a "take-back", with negative perceptions and public affairs implications. If Customer Care funding continues beyond 2011 the continued use of reserves (rather than rates) would result in a long-term draw-down of reserves.

7.4 POWER RESOURCE PLANNING & COST STRATEGY

7.4.1 BACKGROUND

EWEB has historically taken a leadership role among utilities with regard to building a power supply portfolio with a focus on sustainability and price stability. EWEB has been a pioneer utility with respect to renewable energy and conservation/energy efficiency. As a result, EWEB arguably has one of the highest percentages of renewable generation and conservation in its power supply mix among all US utilities and a reputation as a leader in sustainability among Northwest utilities. However, renewable resources are presently more expensive than traditional, fossil fuel-based resources, especially in the current environment of inexpensive natural gas and no direct cost for carbon or other emissions. In addition, EWEB's existing renewable assets are likely to become even more expensive as these facilities age, advantageous purchasing agreements end, operating agreements require re-negotiation, and warranties expire.

The primary trade-off is that renewable generation is more environmentally benign, but is currently much more expensive than wholesale market purchases and more expensive than building traditional fossil generation. The preference for sustainability over cost also influences operations, where we often do more than our Federal operating licenses require to benefit the environment, fish habitat, fisheries resources or to provide recreational benefits. Similarly, conservation acquisition could be more or less aggressively pursued, depending on the importance of overall rates compared to total costs (customer bills). In a strategy driven primarily by "lowest rates", EWEB would lean toward less conservation and more short-term market purchases.

EWEB has launched an Integrated Electric Resource Plan (IERP) process that will include discussions of some of these issues and tradeoffs with a formal citizen advisory team and process that runs through much of 2011.

7.4.2 STRATEGY

The Board reaffirms its commitment to a sustainable power supply portfolio that includes conservation/energy efficiency and renewable energy as foundational. In February, 2011 EWEB established a 13-member IERP citizen Advisory Panel that will provide critical community input to management and the Board about what is most important to them as the Board considers future power supply options. The Board has "ruled out" only a few options at

the start of the IERP while it awaits the results of the analysis and recommendations from Management and the advisory panel. Resource options being considered include conservation, renewable resources, demand response, natural gas generation, distributed generation, and market purchase alternatives. The result of the IERP will be a revised resource acquisition strategy and a series of action items for Management to undertake following completion of the IERP.

As a generality a continuing shift in EWEB’s power resource planning strategy will be the ability to deal with uncertainty and change. EWEB will need to have strategies that can adapt and shift more quickly and flexibly than in the past. Economic, environmental, social and regulatory challenges will continue to grow in number and complexity and agility will be a key response strategy. The IERP should be completed by the end of 2011.

In addition to a traditional IERP, EWEB may explore introduction of the concept of 2- or 3-part power supply portfolios that provide customers different basic options on their power supply. This introduces a concept of “customer choice.” For example, there could be slightly different blends of power that reflect different trade-offs.

7.4.3 SCENARIO DESCRIPTION

Maintain historic philosophy of utility leadership on conservation and renewable generation and retain those options as first and second priorities in any new resource acquisition even in excess of regulatory mandates. Maintain a long-term diverse mixed of resources that hedges against future price volatility.

7.4.4 IMPLEMENTATION OVERVIEW

The Integrated Electric Resource Plan (IERP) process will provide input from a public panel on resource preferences and attributes. The Board will be informed by that process and will ultimately approve a long-term resource plan as a result. Management will acquire resources as necessary in a manner consistent with the IERP, subject to Board approval.

7.4.5 DESCRIPTION OF IMPLEMENTATION

Key Steps	(Year, quarter, or month, i.e. YR1 – Q3)	Expected Outcome	Comments
Develop Conservation Acquisition Plan	2011, Q3	Board approved CAP	
Develop IERP	2011, Q4	Board approved IERP	
Acquire resources consistent with preferences and priorities established in IERP	2012- 2032	Board approved resource acquisition	Updated every 5 years

7.5 FINANCIAL STRATEGY

7.5.1 PURPOSE

To provide financing for Electric and Water Utility Operations.

7.5.2 SUMMARY OF BOARD DIRECTION

A specific Board discussion on related financing strategies will occur on 7/12/2011, at the Financial Planning Retreat.

7.5.3 SCENARIO DESCRIPTION

Provided at the Financial Planning Retreat– 7/12/2011.

7.5.4 ASSUMPTIONS AND CONSTRAINTS

EWEB's funding strategies will always include a mix of the various scenarios based on short and long term needs and the availability of resources, most notably municipal debt and unrestricted reserves. The long term financial plans that are prepared annually and reviewed with the Board throughout each year provide an appropriate vehicle for testing the risks and trade-offs of the funding strategies and setting the best course. The specific choices brought to the Board each spring around disposition of reserves, provides a decision making framework. There is no "right" answer or one size fits all solution.

For example, where AMI is concerned, Management may recommend the partial use of excess reserves for project launch and implementation. We believe AMI represents a critical step in our ability to position the utility for the future. Applications around demand response and customer choice make the infrastructure project an appropriate use of excess funds in the power operating reserve. Management is working on an update to the 10-year financial plans and will model AMI as a reserve funded Type 3 project for the Board's consideration.

EWEB has three general funding sources for all O&M and capital expenditures: 1) rate generated revenue, 2) unrestricted cash reserves and 3) debt financing. "Matching" is an accounting principle that matches the expenses with the associated revenue that is generated. In EWEB's case, that means O&M expenses are incurred and matched with the rate generated revenue earned in the same time period. The same principle is often applied to asset funding: assets with longer useful lives can be paid for with debt financing over the term of the useful life. However, the fact that assets can be paid for over time, does not mean they must be funded that particular way.

In addition, EWEB's Financial Policies (SD6) includes a Debt Policy that says: Funds to acquire major capital improvements will be provided in accordance with the estimated useful lives of such assets. In the mid- 80's, EWEB had very little long-term debt on its books (\$39 million in 1985 compared to \$244 million in 2010). In the ensuing years, many generation projects as well as hydro project relicensing costs, substation renewal and replacement and physical building

costs have been funded with debt financing. Given the level of current and expected debt financing, EWEB needs to carefully manage additional debt financing in accordance with prudent financial practice and bond covenant limitations.

In 2010, Management introduced the concept of 3 types of capital projects. The definitions are summarized below:

- Type 1 – General Capital Work Projects: This is ongoing infrastructure replacement that maintains the status quo of the system. Examples are water main replacements, distribution transformer replacements and similar “in-kind” replacement infrastructure that are needed to maintain the overall viability of the system.
- Type 2 – Rebuilding and Expansion Projects: These are typically medium sized projects that are driven by expansion or growth requirements or facilities that need to undergo major rehabilitation. A typical example would be a large reservoir upgrade or new electric substations.
- Type 3 – Large Strategic Projects: These are projects that will typically provide multiple decade system wide benefits. An example of a strategic project for the Water Utility would be the Second Source of Supply, and most recently, the Hayden Bridge Expansion project. An example of a strategic project for the Electric Utility would be the Carmen-Smith relicensing project.

7.5.7 IMPLEMENTATION OVERVIEW

To be determined.

7.6 RATE STRUCTURE STRATEGY

7.6.1 PURPOSE

The purpose of EWEB’s rate structure strategy is to maintain an appropriate balance among the following four aspects of rate structure. Transparency includes customer understandability regarding rate composition. Causation refers to the degree a customer can control his or her own costs. Structure itself includes true cost recovery and the ability to send rational price signals to customers. Finally, rate stability allows customers to engage in meaningful financial planning based on reasonable expectations for the future.

7.6.2 SUMMARY OF BOARD DIRECTION

Structure rates that provide both a strong degree of cost causation and increased price signals to encourage conservation and wiser consumption of resources that reflects that truer cost of consumption. For the Electric Utility, continue to engage in financial planning and rate setting assuming generation at 85% of normal water for hydroelectric generation.

7.6.3 SCENARIO DESCRIPTION

Emphasize cost causation and price signals which place increased emphasis on recovering fixed costs through fixed rates (e.g. demand or base charges) and variable costs through variable rate components (e.g. consumption charges.)

- Actively pursue technologies and programs that give consumers better and timelier information regarding their consumption, such as AMI. These technologies would allow an informed shift to fixed based charges but also allow for voluntary programs that would give more control to the customer.
- Maintain current practice for Electric Utility - assume 85% of average hydroelectric generation for the purposes of budgeting, rate setting and financial planning.

7.6.4 ASSUMPTIONS AND CONSTRAINTS

There is little or no direct financial impact to the utility of this rate scenario: It's unlikely that changing the rate structure will result in any additional O&M cost to manage, and by definition, there is no financial impact to rates (cost of service with full cost recovery). There is a risk in changing the rate setting methodology in a manner that could invite legal action or customer complaints. This risk could be mitigated by additional legal and technical review before implementation and public participation and education processes and outreach. There is also a risk that a change in rate structure might be confused or perceived as a rate increase by customers. If there is an opportunity to change the rate structure at a time when no simultaneous rate increase is required this risk could be managed more effectively. Abundant and clear communication with customers could also help mitigate this risk.

There is one major constraint in place. At this time, we do not have sufficient information to make major changes to the rate structure. Any major change or additional program offerings would require the implementation of an AMI system and supporting IT infrastructure such as more powerful billing systems.

7.6.5 IMPLEMENTATION OVERVIEW

The implementation is split into two major phases; pre AMI implementation (Pre AMI) and post AMI implementation (Post AMI). The Pre AMI phase will focus on incrementally moving fixed charges to fixed rates and preparing to use the data that will be made available through an AMI implementation. The Post AMI phase will focus on creating and implementing rate structures that enhance and support customer choice and consumption modification (time of use pricing, for instance.)

7.6.5.1 DESCRIPTION OF IMPLEMENTATION

Key Steps	Pre AMI	Post AMI	Expected Outcome	Comments
Document 'As-is' Status	2011 – Q3		Greater knowledge regarding current structure & impacts.	This work is currently underway.
Shift rate structure	Ongoing		Shift from current state to better alignment of fixed costs with fixed revenues.	Each subsequent rate case action will move us closer.
Participate in AMI Planning	AMI Planning phase		Management is prepared to provide customer choice programs in a timely manner.	Also makes significant use of focus group results.
Implement Load Research Program & Results		Implementation plus 12 months	Defensible data by which to design rates.	Complexity to be determined.
Implement and Monitor Customer Choice rate structures		Implementation plus 18 months	Greater customer control of bills and subsequent satisfaction. EWEB better able to manage its costs.	Actual implementation of rate options will happen over time.

7.6.5.2 MAJOR TASK DESCRIPTION

Pre AMI Implementation

1. Research and document fixed costs as a percentage of total costs. Document revenues from fixed charges as a percentage of total costs. Create 'As-Is' documentation.
2. Using an incremental approach, design rates that result in collecting a greater proportion of fixed costs through fixed charges.
3. Gather information regarding alternate rate structures post AMI implementation. Clearly understand the pros, cons, opportunities and threats of each. Participate in AMI Planning.
4. Design load research program.

Post AMI Implementation

1. Implement load research program.
2. Define the desired change in consumption behavior by rate class. Revise rate classes if necessary.
3. Based on the information gathered, propose and implement changes in rate structures or design additional rate structures to allow for customer choice.
4. Monitor results to ensure they meet customer expectations and are achieving the intended change in customer consumption patterns and utility cost management.

7.6.6. OPEN ISSUES

Key to this issue is the timing and capabilities of an AMI system to provide and support sophisticated rate structures.

7.6.7 RISKS AND CONTINGENCIES

There is a certain degree of implementation risk inherent in any significant rate design work. If a proposed change does not produce the desired result, EWEB could revert back to our current, traditional rate structures or revise the proposal. Multiple Board approvals could be required and public perceptions could be negative.

In addition, and most importantly, we are still learning through focus groups and other forms of community engagement about customer interest in managing consumption and cost. Moving towards causation and price signals in our electric and water rate structures assumes a high degree of customer involvement, and in fact, requires a different type of collaborative relationship with our customers. Much work and communication will be required to change the nature of that relationship over time.

7.7 BOARD GOVERNANCE STRATEGY

7.7.1 PURPOSE

To ensure a strong governance framework for the Board to build and develop its policies and strategies in order to achieve EWEB's mission and objectives while increasing the value or the utility over time.

7.7.2 SUMMARY OF BOARD DIRECTION

Affirmation that the EWEB Board wants to be more strategic and a policy level Board. This governance approach provides Board members the ability to take ownership in shaping the organization's future, sends the message that customers and stakeholders are listened to, and provides Management clarity and focus on future direction of the utility. In addition, strong governance provides for accountability and monitoring of overall progress toward meeting the goals of the organization.

7.7.3 SCENARIO DESCRIPTION

Scenario four, "The Functional Policy Board", was the preferred scenario. Traits identified with this scenario included the ability of the Board to set clear strategic direction and policy alignment. Once the direction is set, it enables the Board to take action around achieving the results and provides open linkages for customer and stakeholder engagement. Board members take ownership in the governance process; adhere to adopted policies and work hard to increase their effectiveness.

Board decision making becomes more of a linkage discussion back to the strategic direction and policy that the Board has set forth in order to move the utility into the future. Discussions are substantive in nature, meaning the full impact of the potential options are known including the trade-offs and triple bottom line effects in the decision making processes.

Board governance at this level provides a strong linkage to customers, who more readily can understand the strategic direction and policy impacts of the Board. Diverse opinions are sought and listened to and considered. An environment of transparency is valued and maintained by the Board as well as Management.

7.7.4 ASSUMPTIONS AND CONSTRAINTS

Management’s responsibility is to conduct itself from a strategic and policy level approach in the work brought before the Board, carefully pointing out at which level the Board information or decisions fall into (i.e., strategic plan and direction, operations, or tactical levels) and clarifying why the Board is engaging at a particular level (e.g., required by regulatory or compliance mandates). However, the Board members themselves are responsible for adopting a high level governance approach, committing to honor that approach and working to improve areas that result in better progress.

Constraints occur if a Board or Board members can’t agree on a high-level governance model and fall backwards into a tactical/operational type Board.

7.7.5 IMPLEMENTATION OVERVIEW

Key Steps	Start Year/Quarter	End Status Year/Quarter	Expected Outcome
Align each Board Agenda issues to the “Roadmap” (see section 6, pg. 9).	2011 – Q1	Ongoing (becomes a normal Board meeting practice)	Board understands level of each agenda issue and gauges discussion & decision making appropriately. Works to see more long-term strategic and policy issues and a reduction of operational and tactical issues on Board agendas.
Provide scenarios around agenda issues that provided a range of options and trade-offs.	2011 – Q1	Ongoing (becomes a normal Board meeting practice)	Management provides a range of options in the form of a scenario approach that identifies trade-offs to be considered in Board decision process. Triple Bottom Line (TBL) provided per Board Policy SD 19 (Sustainability).
Create reporting mechanism on a regular basis to update Board on strategy progress or revision.	Q3 2011	On going	Board receives regular updates and reports on strategic plan to gauge progress, evaluate and go on or revise. Update Strategic Plan once a year based on both progress toward implementation and need to change or modify direction. Update to occur each Spring.
Work with Board to create an annual evaluation that identifies strengths and improvement areas.	Q4 2011	On going	Board sets an annual evaluation date to review their governance processes to determine what’s working well and what needs improvement.

7.7.6 OPEN ISSUES

Establish tools for the last key step above.

7.7.7 RISKS & CONTINGENCIES

Minimal risk if Board and Management follow through on the Board Governance strategy as described above.

Considerable risk to utility, especially in a future filled with uncertainty and high degree of change if Board and Management abandon the Board Governance strategy. Potential risks could include poor decision making processes that lead to the wrong decisions being made because trade-offs were not identified, considered or supported the decision being made. In addition, Management is sent confusing and conflicting messages regarding the direction of the utility's future and customer linkages don't encourage engagement and transparency. Increased costs may be a result of spending money on the wrong decision only to have to re-do the work because the poor decision failed.

8.0 INTRODUCTION TO “THE HOWS”

Over the past 100 years EWEB, for the most part, experienced a relatively stable environment and certainty affording EWEB the ability to organize in a formalized and centralized fashion that resulted in operational stability and delivery of consistent results, (i.e., reliability, availability and quality). This period of relative stability also led to investment in long-term infrastructure to see the utility into the next hundred years of operation ensuring vital products and services were provided to the community.

During this time however, change was afoot. Greater instability in environmental influences that affected the utility such as: global impacts with far reaching effects; the explosion of technology, digitalization and communication abilities; a shift to customer relationships, knowledge and expectations; worldwide sustainability issues; and more regulation all led to increased dynamic and continually changing conditions. Faced with this change, organizations moved to: refocus on the customer; avail themselves of technological advances in digitalization, communication, computing and business systems; and integrate sustainability practices and regulatory requirements all aimed at adjusting or changing business models to adapt to the new demands. Change that cut across the organizational product and service lines horizontally, or the “Hows” created the need for rapid communication and information sharing abilities to manage the increasingly complex and dynamic conditions organizations were experiencing.

For 100 years, EWEB has been a critical service provided to Eugene and has demonstrated leadership in the city as well as nationally. However, we cannot simply rest on our laurels. Things will change and EWEB will need to respond. In response to this change and uncertainty, EWEB has identified five strategies that address the “Hows” that cut across the vertical lines of our production and services as follows:

- People – includes complex decision making that includes people at all levels of organization, customers, and stakeholders.
- Partnerships – externally driven to include customers, other utilities, and stakeholders.
- Technology – responsive technology, tools and systems that share and inform organization at a base demanded by dynamic environment and create a more productive workforce.
- Ability to Manage through Major Change – coordinated decision making and creating a culture of change and adaptability.
- Measurement, Benchmarking and Continuous Improvement – use of systems and a culture that measures and assesses itself relative to others and strives for continuous improvement.

8.1 PEOPLE STRATEGY

As the sole provider of critical products and services within our service territory, EWEB has an absolute responsibility to fulfill its role in an outstanding way. The absence of customer choice does not lower the bar; in fact, we believe it's critical to hold ourselves to a higher standard because our customers are unable to vote with their dollars. The only way to provide excellence in a consistent manner is to employ excellent people. A culture that supports excellence results in enhanced decision making, strong communication skills and absolute accountability. We strive to align employee performance and reward systems in ways that maximize individual and organizational performance, and our goal is to make EWEB a place where people love to come to work. Developing a clear organizational "brand" and value proposition will help us attract and retain high performing individuals who will help us achieve our overall vision. As a community partner, the focus on people is both a means and end to the service we provide. Among our key strategies to deploy our people in an effective, meaningful way are:

- Increasing our sustainable business practices including a reduction in our carbon output and increased application of triple bottom line (TBL) analysis in our decision making.
- Increasing our operational efficiencies through the application of customer focused technology such as AMI. Implementation of a "smart utility" communication system will challenge our communication skills and require employees to change the nature of their customer relationships.
- Fostering and encouraging a culture internally that innovates new products and services for the benefit of our customers and owners.
- Modifying the way we look at infrastructure investment to more fully recognize the trade-offs inherent between operational flexibility and product reliability.
- Engaging customers in an authentic way to ensure the EWEB investments, operations and communications reflect community needs and priorities.

8.2 PARTNERSHIPS STRATEGY

As a community-owned utility for 100 years, EWEB has always been driven by its customer-owners. It is this very concept that we believe will expand and accelerate as a key strategy in the future of how we do our business at EWEB. Historically, utilities have tended to be very internally focused and engineering-driven cultures. Fundamentally, utilities were a problem-solving culture. However, given regulatory complexities and customer and community expectations and concerns utilities must be more externally driven. We also need to learn how to collaborate and partner with customers, other utilities, agencies and such in order to be successful. Among our key strategies to achieve these are:

- Building and fostering a culture business structure and culture that encourages collaboration.
- Engaging customers as active partners in managing power and water use and achieving new business solutions to meet future requirements.
- Working internally and externally with partners such as research institutions, technology organizations and other agencies and utilities to create innovative solutions that meet mutual interests by working across traditional boundaries.
- Engaging customers and community in open and authentic ways to ensure that EWEB plans and operations reflect customer and community needs, priorities and expectations.

8.3 TECHNOLOGY STRATEGY

As evident in EWEB’s strategic plan, the future is bringing challenges of uncertainty and high levels of change filled with increased regulatory and compliance requirements, complex decision making, new applications of technology, the need to work faster and cost effectively, all of which will require increased communication and information sharing along with integration across the product and service lines and business systems. These demands will require advanced technological systems and tools and abilities in order to successfully meet the future challenges. Among our key strategies to achieve these are:

- Strengthen internal technological foundations to a level that is compatible to the operation of an enterprise system and advanced metering technology.
- Determine EWEB’s internal technology capacity, or what we can do with excellence and those technological services to be outsourced or provided as a service or through a contractor.
- Advance technological abilities to increase operational efficiencies and resolve complex issues, i.e., compliance reporting, electronically.
- Incorporate Smart Grid to optimize conditions in supply and demand, operational efficiencies and engage customers as active partners in managing water and energy resource use. Increasing our operational efficiencies through the application of customer focused technology such as AMI. Implementation of a “smart utility” communication system will challenge our communication skills and require employees to change the nature of their customer relationships.
- Fostering and encouraging a culture internally that innovates new products and services for the benefit of our customers and owners.
- Modifying the way we look at infrastructure investment to more fully recognize the trade-offs inherent between cost, operational flexibility and product reliability.
- Using new tools and techniques to manage, operate and maintain utility infrastructure.
- Engaging customers in an authentic way to ensure the EWEB investments, operations and communications reflect community needs and priorities.

8.4 ABILITY TO MANAGE THROUGH MAJOR CHANGE STRATEGY

The age of instant information has taken hold of the American public increasing their awareness of everything in their environment. The public's expectations for EWEB's performance and the impacts we have on their lives are increasing in all areas of our work. Technology continues to advance at an ever increasing pace. Regulatory pressures drive more and costly processes and procedures putting additional resource pressures on utilities.

The typical utility's approach to the work we do and the outside influences that affect our work have changed at a very slow pace for the first 100 years of our existence. The above forces are at work to accelerate the rate of change necessary for any metropolitan utility to be successful in the future. The days where utilities had the ability to raise rates to pay for "old ways" of operating have disappeared. We must learn to be more efficient and effective, accomplish our mission and at the same time control our cost. As a general target, we must strive to maintain our costs that we control so that utility services costs don't grow at a rate higher than inflation. Otherwise, utility costs take up a growing portion of the public's income. This will require a different approach and innovation.

To accomplish this we must become far more flexible and adaptive than we have been the last 100 years. Key strategies to achieve this include:

- Improve our ability to have difficult conversations about what we do and how we work.
- Increase the ability of employees to live with ambiguity.
- Improve our quality of decision making.
- Create a culture of accountability.
- Expanded use of Scenario Planning.
- Become more effective as Influencers of culture change within the organization.

8.5 BENCHMARKING, MEASUREMENT & CONTINUOUS IMPROVEMENT STRATEGY

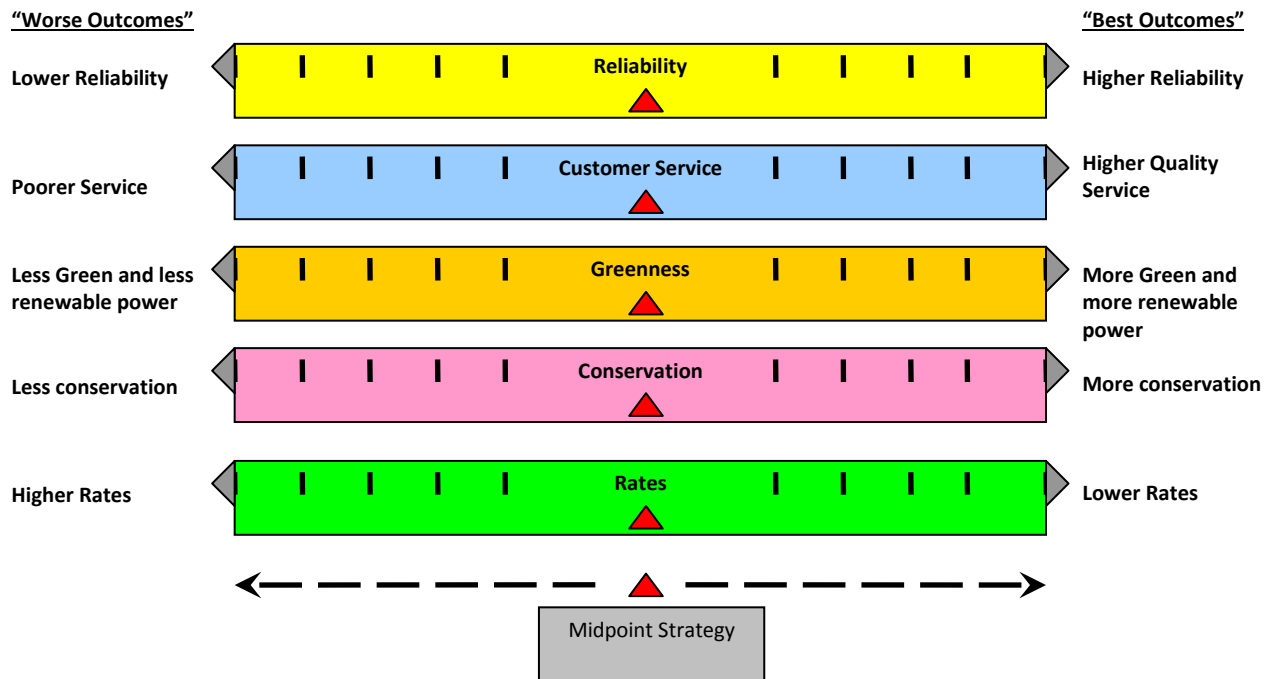
A key part of EWEB's strategic plan will be to regularly use benchmarking and measurement to assess how EWEB is performing its various business processes and service delivery relative to other utilities. EWEB will use industry standards and objective measures and data to assess its business operations as well as customer service surveys that ascertain both quantitative and qualitative assessment of performance. EWEB will begin to use performance auditing to evaluate Management and organizational performance as well. EWEB will continue to foster a culture of continuous improvement and will use measurements, benchmarking and performance auditing to evaluate progress. Finally, EWEB will link goals, performance targets and budgeting systems through zero-based-budgeting so the Board and Management can better understand, control and deliver predictable results.

APPENDIX 1

To better articulate this strategy perhaps it is helpful to contrast it against alternative strategies. For example, a low rate driven strategy would make the primary objective around lowest possible rates. In order to achieve lowest possible rates, a utility might sacrifice things such as reliability or quality or environmental attributes. A specific example of a trade-off between different values such as cost and environmental impacts might be the choice of generation resources. To illustrate this basic concept of trade-offs, refer to the diagram in Figure 1 below. This diagram represents a working model to test the balance or trade-offs for each strategy. In the model, you can see just some of the highest level directions and options that can be taken. Figure 1 assumes that all the major options have been set at a mid-point. Let's call this "mid-point" strategy. For purposes of illustration assume you can move all of the bars except the "rates" bar left and right to "better" or "worse" outcomes. Assume further that for every "tick" you move one of the non-rate bars to the right (better outcome), the rate bar moves automatically 1 tick to the left (higher rates). Conversely, you can move the non-rate bars to the left (worse outcomes) and the rate bar moves automatically 1 tick to the right (lower rates). This illustrates the fundamental tradeoffs in strategy options.

This strategy is illustrated in Figure 1 below.

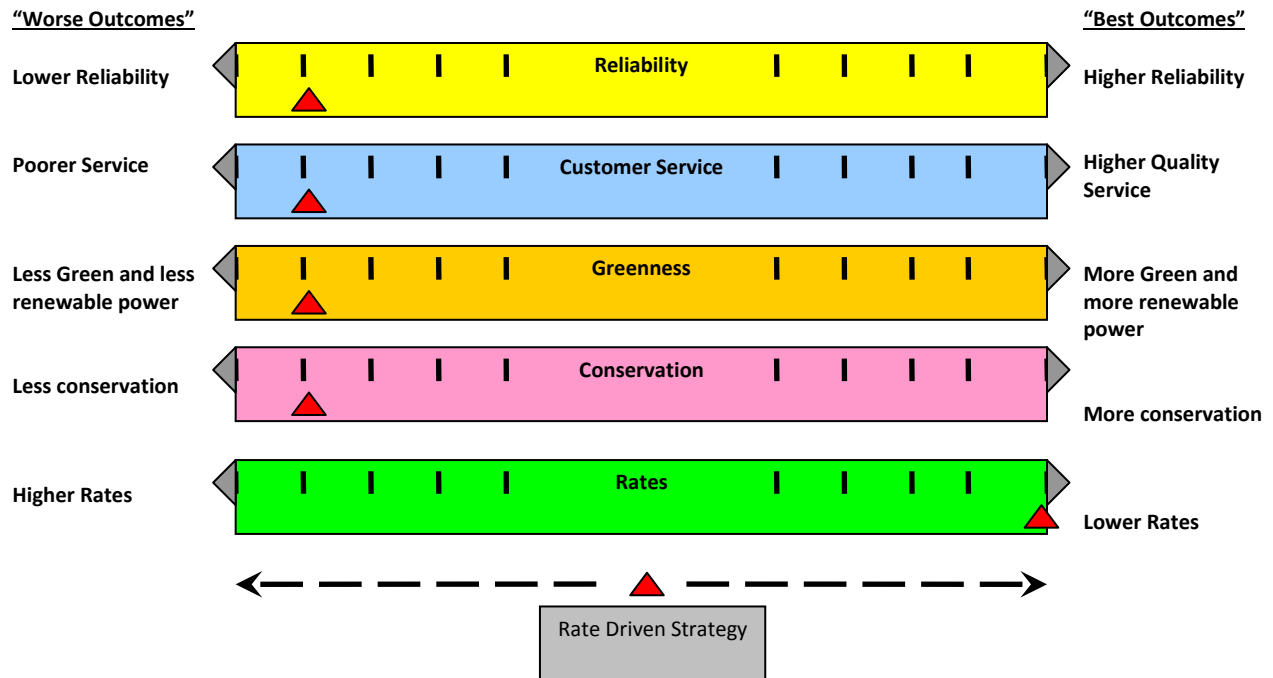
Figure 1 ("Mid-point" Strategy)



An alternative overarching strategy might be a “rates driven” strategy. This strategy is optimized around achieving the lowest possible rates as the primary metric or goal. When decisions between rates and other major considerations are made this strategy defaults to lowest rate options. In a “triple bottom line” world that considers social, economic and environmental factors, more weight would be given to economics (i.e., rates) than the other two factors.

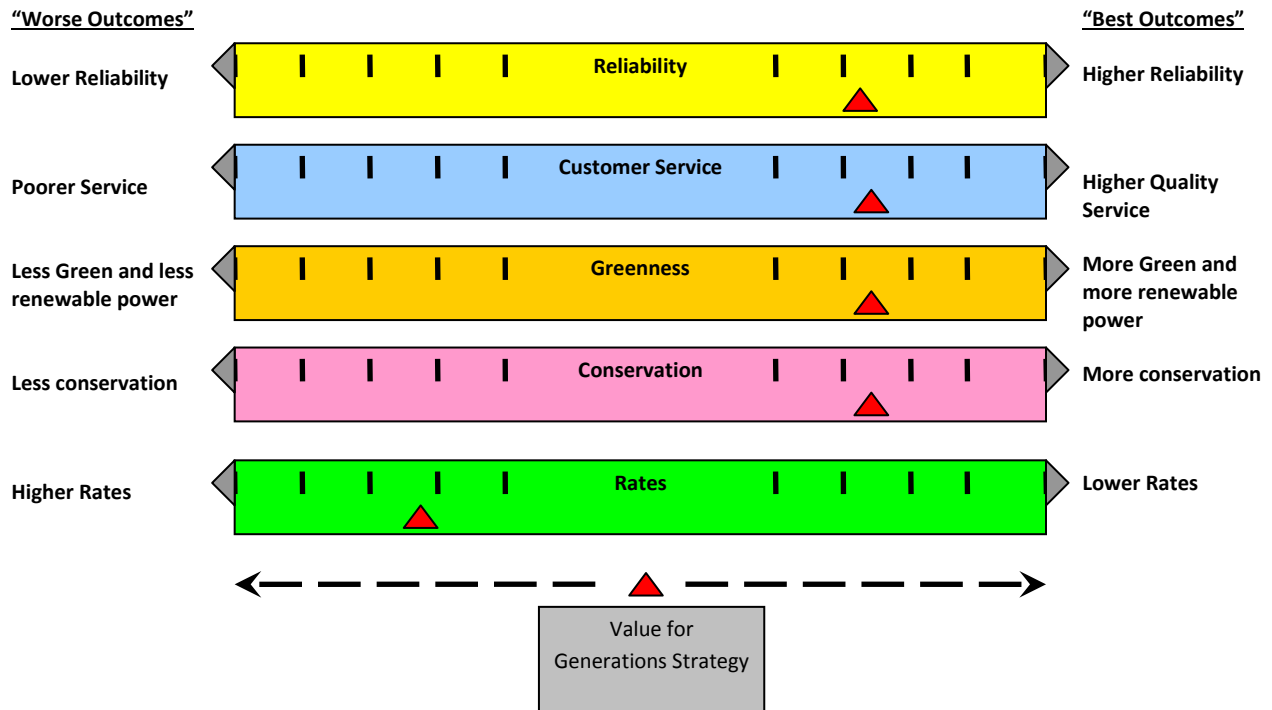
This strategy is illustrated in Figure 2 below.

Figure 2 (“Rate Driven” Strategy)



EWEB’s adopted overarching strategy is a “Deliver Value for Generations” Strategy. It consistently seeks to find the point of overall highest long-term value. This strategy is depicted in Figure 3 and assumes that customers place value on critical things such as reliability, customer service and environmental impacts.

Figure 3 (EWEB’s “Deliver Value for Generations” Strategy)



It is always important that value be understood and carefully assessed and balanced. Higher reliability is generally perceived to be a good thing, but it is no longer good when the incremental value of reliability is less than the incremental cost of reliability. This is the concept of diminishing returns. The need to constantly assess value leads to another critical part of EWEB’s “How” strategy which is the ability to assess and measure.

The ability to assess and measure progress against plan is critical to determining whether value is being achieved or not. In some cases, these measurements might be “hard” data such as reliability indices or benchmarks against industry standards. In other cases, they might be based on measures such as customer surveys and assessments or community advisory committees or stakeholder input that provide quantitative and qualitative feedback and input. Further feedback and input will be in the form of general changes in society, regulation, technology and the environment. This ability to measure and assess and to take feedback is critical to determining whether the balance of value depicted above in Figure 3 is set correctly and whether it is being achieved or not.