

Late Backup

PARTIAL AUSTIN ENERGY RESPONSE

TO TLSC DISCOVERY REQUEST

PRESENTED TO AUSTIN CITY COUNCIL

MARCH 1, 2012

BY

TEXAS LEGAL SERVICES CENTER, ON BEHALF OF

Texas Legal Services Center

TEXAS RATEPERS ORGANIZATION TO SAVE ENERGY

GRAY PANTHERS OF TEXAS



Austin Energy

Operating and Capital Cost Structures and Benchmarking Analysis

***Final Report
March 5, 2007***

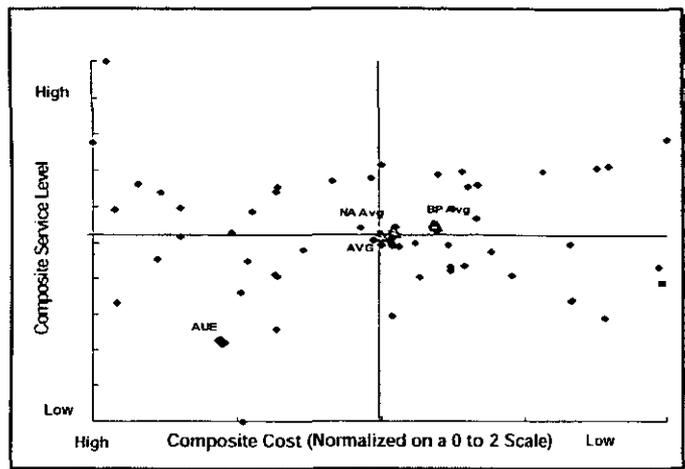
In reviewing AE's performance at the General Performance Diagnostic level there are opportunities to improve efficiencies across the enterprise, particularly when compared to industry "Best Performers."

PERFORMANCE IMPROVEMENT OPPORTUNITY

FUNCTION	CURRENT SPEND	GAP TO AVERAGE	GAP TO BP
Distribution	\$26.3M	(\$10.0M)	(\$16.8M)
Transmission	\$4.2M	(\$0.9M)	(\$1.9M)
Generation (Gas)			
Customer Service	\$23.3M	(\$6.2M)	(\$10.7M)
Shared Services	46.3M	(\$7.0M)	(\$13.2M)
TOTAL			

NOTE: With the implementation of specific short-term improvement initiatives there may be opportunity to reduce the current Capital and O&M cost structure by as much as \$24.7M; specific longer term improvement initiatives could potentially improve this projection by an additional \$20.6M

Electric Distribution General Performance Diagnostic: Target Reduction \$7.5M



DISTRIBUTION PERFORMANCE SUMMARY

SUB-FUNCTION	COST	SERVICE LEVEL
Asset Strategy	↘	↔
Capital Design	↓	↔
Overhead Construction	↓	↔
Underground Construction	↗	↔
Overhead Maintenance	↗	↓
Underground Maintenance	↗	↔
Vegetation Management	↓	↓
Reliability	↘	↔

LEGEND	
↑	First Quartile
↔	Second Quartile
↔	Average
↘	Third Quartile
↓	Fourth Quartile

SUB-FUNCTION	COMMENTS
Asset Strategy	Gap to Average: (\$.4M)
Capital Design	Gap to Average: (\$1.8M) Issues with Productivity and Utilization Staff size larger than normal Degreed/Non-Degreed mix lower than the norm
OH/UG Construction	Gap to Average: (\$2.9M) Low Productivity/High OT Worker to Supervisor Ratio lower than the norm High Contractor to FTE ratio
OH/UG Maintenance	Low Productivity/High OT Large Number of Supervisors Worker to Supervisor Ratio 50% of NA Average
Vegetation Management	Gap to Average: (\$4.9M) Productivity 20% of NA Average
Reliability	High Cost linked to Vegetation Management

ORGANIZATION DESIGN:

Verify current approach re: use of contractors vs. in-house staff
Evaluate current staffing philosophy against overall maintenance strategy (programmed overtime, use of contractors, staffing mix, etc.)

STAFFING SIZE AND MIX:

Develop strategy/plan to improve worker to supervisor ration over time (Balancing Recruiting and Retention Plan with anticipated turnover of an aging workforce)
Challenge amount of in-house staff required to plan/oversee Vegetation Management activities

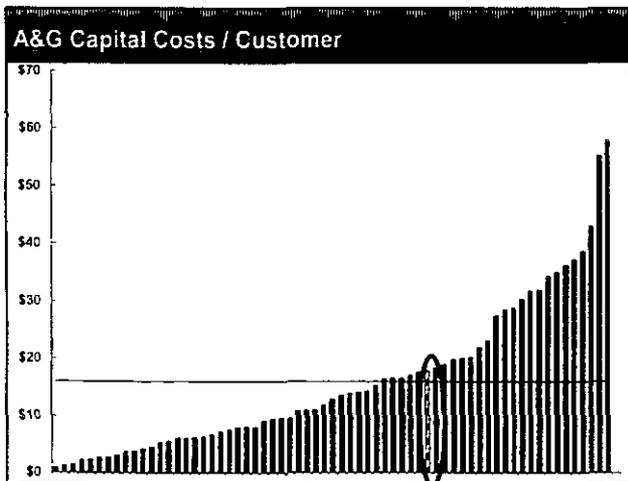
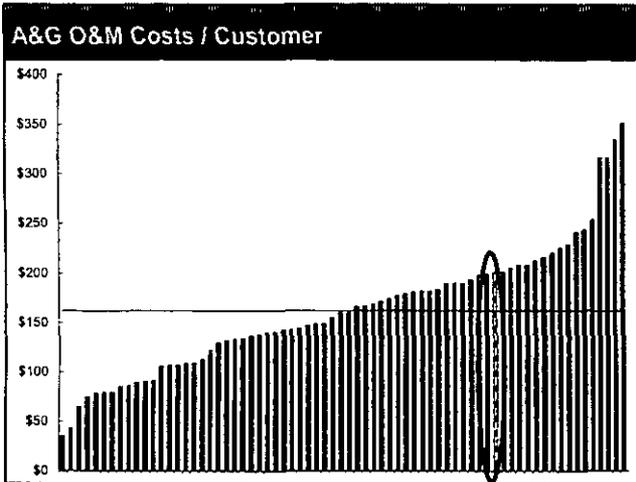
PROCESS EFFICIENCY:

Audit Project Execution Process (Conceptual Design to Final Closeout)
Improve work planning/materials management related processes (pre-staging, logistics, etc.)

STRATEGY AND ANALYSIS:

Align contractor compensation with performance objectives

A&G/Shared Services: Infrastructure appears too high for current customer and/or employee base



FUNCTION	Per Customer	Per Operating Revenue	Per Operating Cost	Per Employee
Information Technology	↓	↗	↔	↘
Property Services	↓	↗	↔	↘
Finance	↓	↗	↔	↘
Human Resources	↓	↓	↗	↘
Fleet	↓	↗	↔	↘
Corporate Support	↓	↗	↔	↘

LEGEND	
↑	First Quartile
↖	Second Quartile
↔	Average
↘	Third Quartile
↓	Fourth Quartile

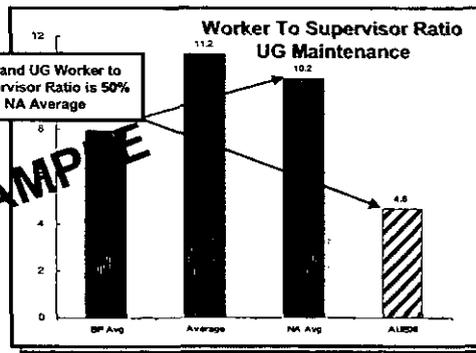
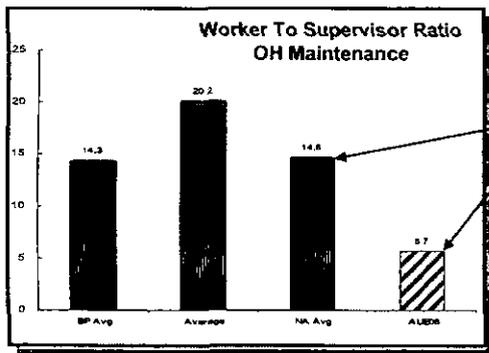
PERFORMANCE IMPROVEMENT OPPORTUNITY

FUNCTION	GAP TO AVERAGE
Information Technology	(\$2.6M)
Property Services	(\$0.4M)
Finance	(\$0.8M)
Human Resources	(\$0.7M)
Fleet	(\$0.8M)
Corporate Support	(\$1.7M)

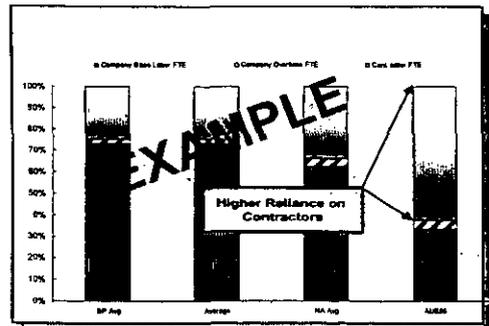
Long-Term Staffing Strategy:

In reviewing the results of the surveys and assimilating the information gleaned from the interviews, it appears that AE faces the challenge of rapidly aging work force and a comparatively high labor cost structure. The symptoms that lead to this hypothesis include:

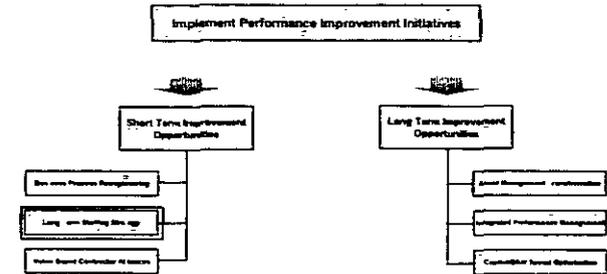
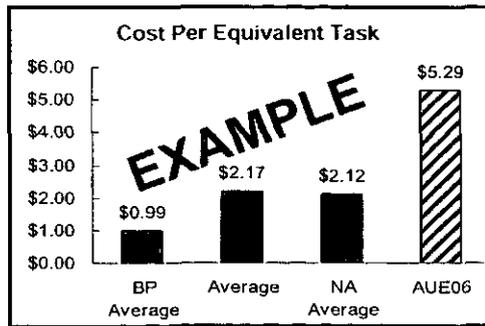
Low Worker to Supervisor Ratios (Connotes Higher Labor Cost and Less Productivity):



Higher Reliance on Contractors (Staff Supplementation):



Higher Task Cost (For Comparable Activity Level):

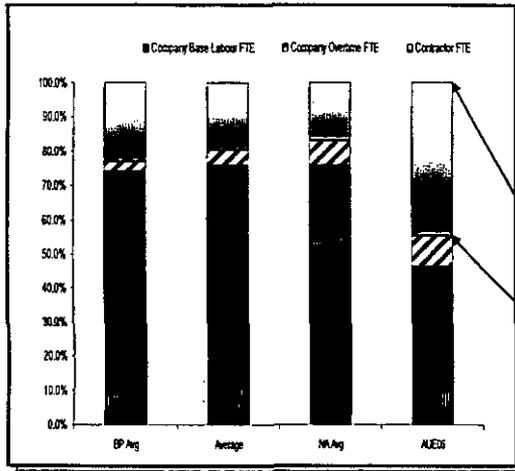


Potential Remedies Include:

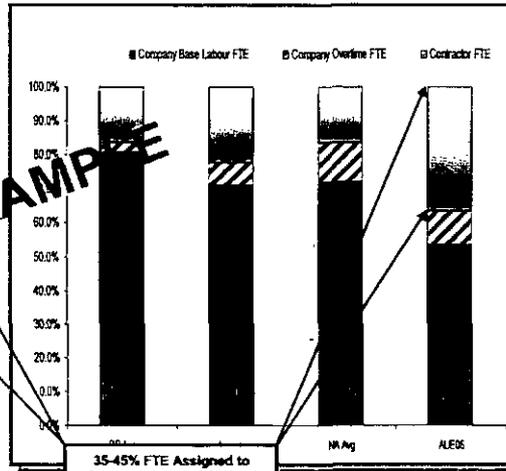
- Junior-level recruiting
- Focus on Developing Leadership Competencies
- Conversion of Contractors (Base Load)
- Integrate Business Process Reengineering Initiatives into the Job Position Descriptions

Value-Based Contractor Alliances: Heavy reliance on outside contractors suggests potential value in evaluating the key aspects of contract management

Underground Maintenance FTE Breakdown



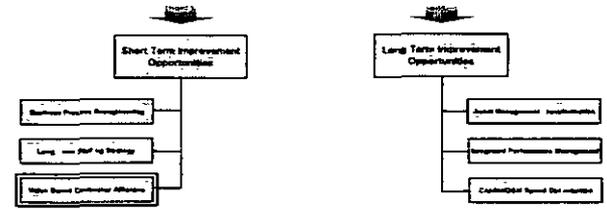
Overhead Maintenance FTE Breakdown



EXAMPLE

35-45% FTE Assigned to Contractors vs. 15-20% for Best and Average Performers

Implement Performance Improvement Initiatives



ITEMS FOR CONSIDERATION:

Establish Contracting Strategy in conjunction with Long Term Staffing Strategy and Business Process Reengineering efforts

Apply concept of pre-negotiated "work units" in lieu of traditional "one-off" bidding to ensure AE is receiving maximum value at market cost

Establish 2-tiered incentive compensation approach:

- Schedule/Budget/Safety Performance
- Direct Contribution to AE Performance Goals