Effective Governance

CPS Energy Board Development

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About the Instructor

• Tim Blodgett, President and CEO, Hometown Connections

• On the staff since 1998, serving as CEO since 2001

• Responsible for HCI’s overall efforts in delivering value to public power utilities

• Provides consulting, training and facilitation support to public power utilities, joint action agencies and their governing boards

• Prior to Hometown, worked at en.able, an affiliate of KN Energy and PacifiCorp, assisting energy distribution companies with their customer care programs. Prior to that, worked for Phillips Petroleum in exploration and production

• Served on non-profit boards and currently serves on Hometown Connections, Inc. Board
Hometown Connections is Dedicated to Public Power

- Not for profit, *owned by and working for public power*
- *Trusted entity* with public power’s best interests in mind
- *Extensive knowledge* base of public power systems, including operations, planning and purchasing decisions
- Offers public power utilities *guidance and access* to quality products/services
- *Networking relationships* with utilities, joint action agencies and state associations
- *Partner of the American Public Power Association*
### Public Power Collaboration

<table>
<thead>
<tr>
<th>Organization</th>
<th>Location</th>
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<th>Retail</th>
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<tr>
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<td>AMP</td>
<td>Columbus, OH</td>
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<td>NCPA</td>
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<td>VPPSA</td>
<td>Waterbury Center, VT</td>
<td>12 Members</td>
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Hometown Connections Services
A non-profit utility services organization offering public power utilities guidance and access to quality products/services from a trusted entity with public power’s best interests in mind

Management Consulting
Governance
Strategic Planning
Customer Service
Process
Improvement Talent
Management

Advanced Metering Solution
Full Managed Solution
Reduces Complexity
Lowers Risk
Improves Efficiencies
Data Management
Data Analytics

Third Party Partners
Engineering & Ops System
Improvement Customer Connections
Business & Finance
Timed Agenda

:20  Course Overview, Introductions, Board Objectives
:20  The Public Power Advantage
:20  Governance 101
:20  Board Effectiveness
:20  Board Development
:10  Break
1:15  Board Best Practices Discussion
:15  Recap
The Public Power Advantage
5 Key Values of Public Power

#PublicPower

Community Owned

Public power utilities are owned by the communities they serve. They provide local jobs and support the local economy. You’ll see your friendly utility staff at the ball games and the grocery store.
5 KEY VALUES OF PUBLIC POWER

LOW-COST
Public power utilities have access to tax-exempt financing and generally have stronger credit ratings than privately owned utilities. Community-owned utilities operate efficiently, and many have access to less expensive federal hydropower.

#PublicPower

5 KEY VALUES OF PUBLIC POWER

NONPROFIT
Surplus revenues stay in the community and are invested in system improvements, shared with the local government, or used to lower your electric bills. Revenues are not distributed among outside shareholders.

#PublicPower

CPS ENERGY = AN ENTERPRISE FUND
**LOCALLY OPERATED**

Public power utilities are run by the city. They are regulated and governed by the city council or a board with local representatives. If you live in a public power community, you have a voice in decision-making for your utility.

#PublicPower

**RESPONSIVE**

Public power utilities focus on delivering the highest level of service and value to customers. They are committed to meeting the needs of the community through environmental stewardship, high reliability and economic development.

#PublicPower
2,011 PUBLIC POWER UTILITIES PROVIDE ELECTRICITY TO 49 MILLION PEOPLE* IN 49 STATES AND 5 U.S. TERRITORIES

1 IN 7 ELECTRICITY CUSTOMERS IN THE U.S. ARE SERVED BY PUBLIC POWER

*Based on U.S. Census Bureau stats of 2.54 people per household/meter
How many customers does a public power utility have?

1,352 Public power utilities have under 4,000 customers

332 Public power utilities have 4-10K customers

247 Public power utilities have 10-40K customers

45 Public power utilities have 40-100K customers

30 Public power utilities have 100K+ customers
IN ALL STATES & TERRITORIES EXCEPT HAWAII
The Public Power Advantage

PUBLIC POWER GIVES BACK

✔️ 5.6% of electric operating revenues to state and local governments

• CPS Energy = 14%

✔️ Property-like taxes, payments in lieu of taxes, general fund transfers, free and reduced cost electric services
Public power utilities pay 33% more... back to the community than private utilities — through taxes, fees, and special services.
Public power utilities employ 93,000 people and earn $58 BILLION in revenue annually.
The Public Power Advantage

PUBLIC POWER COSTS LESS

National average retail rates: cents per kilowatt hour

<table>
<thead>
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<th>Category</th>
<th>Investor-Owned Utilities</th>
<th>Rural Electric Cooperatives</th>
<th>Public Power Utilities</th>
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<tr>
<td>Overall</td>
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<td>10.4</td>
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Who owns your electric utility?

YOU do!

#PublicPower = Community Power
PUBLIC POWERHOUSES

Large public power utilities are a significant part of the U.S. electric utility industry.

The largest 25 public power utilities serve 11.5M customers.

The largest 50 utilities bring in more than $44.6 billion in annual revenue.

The 25 biggest producers of public power generated 310,684,060 megawatt-hours in 2018, representing 16% of all public power generation, and 7.5% of all electricity generated in the U.S.

The largest utilities also employ more than 50,000 people in local, hometown jobs.

5/10 and 12/25 of the most populous cities in the U.S. are served at least in part by public power utilities.

Half of all public power customers.

The top 10 serve nearly 2 in 5 (3.8M) public power customers, and a far more favorable median number of customers for investor-owned utilities.
Is the Value of Your Utility clear to your community?

• Visibility – do you appear on the radar?
• Communications – how are you doing today?
• Media relations – Good? Bad? Indifferent?
• Transfers? In-kind services?
Governance 101
Governance Have Never Been More Important
Public Power Is Entering a Time of Great Change

Factors driving this change:

• Shifting regulatory environment
• Changing power supply
• Aging infrastructure
• Workforce/policy maker issues
• New technologies
• Evolving customer preferences
• Asymmetric competition
• Financial pressures
Governing Body’s Role

• What are the roles of a quality Board
Governance: Defined

The process by which a governing body, in partnership with management:

• Oversees the direction and goals of the organization
• Assures goals are achieved
• Requires management to meet legal and fiduciary responsibilities
• Ensures the organization continues to improve
• Provides accountability to the owners
Governance: Role

• Represent the interests of utility customers and the community as a whole (Fiduciary)
  • Utility Budget and Rate approvals
  • Purchasing approvals
  • Maintaining fiscal oversight while ensuring a fair rate of return to the owner/municipality
  • Hire/Fire/Review of the CEO

• Oversees the Formulation of strategic planning and policy development that focuses on key utility priorities
  • Reviews and provides input while relying on staff to develop the plan
How much involvement is too much...or too little?

• The key is what kind of involvement
  • Provide balanced consistency
  • Respect reporting relationships
  • Provide the CEO regular feedback
  • Focus on strategy and priorities: reliability, customer service, rates, value

• Good governing bodies focus more on the Ends and less on the Means!

• NIFO
Quality Board Characteristics

• A clear sense of the purpose of the organization and a unified view of its future direction
• An effective working relationship with the CEO, that results in the successful implementation of policy direction and goals
• Individual board members who are interested, engaged, effective and meet their fiduciary responsibilities
Effective Governance

1. Meet statutory/fiduciary duties
2. Set strategic direction
3. Monitor performance
4. Assure effectiveness of chief executive
5. Assure effective board performance
Common Problems

• Too much time on trivial *(focus of meetings)*
• Short-term bias *(budget vs. goals)*
• Reactive stance *(strategic perspective)*
• Leaky accountability *(delegations to management)*
• Role confusion *(board vs. management responsibilities)*

Rubber Stamp  ←  Micromanage
For all Governing Boards & CEOs

Make clear the value of public utilities to the community
Board Effectiveness

How can the board add the most value?
Board Effectiveness

• Represent the wishes and expectations of their owners  
  • Don’t depend on staff to provide insights into your constituents  
  • Build a plan of outreach
Board Effectiveness

• Hire a strong CEO and manage for success
  • Understand the skills you need and pursue the right candidate
  • Be willing to compensate at market rates
Board Effectiveness

• Understand the utility’s financial condition
  • Establish board-level financial goals
  • Don’t get buried in the details
  • Develop and monitor financial policies that ensure the long-term viability of the utility
Board Effectiveness

• Review and provide input in a strategic plan that reflects current and anticipated conditions
  • Understand where the utility best fits as changes continue in technology, customers and regulations
  • Continue to build a strong dialogue with the utility’s owners/customers
Board Effectiveness

• Periodically evaluate the board’s effectiveness
  • What does the board do well?
  • Where could it improve?
• Consider Board Self-Evaluation
Reasons for Board Self-Evaluation

• Promotes understanding of roles and responsibilities
• Provides orientation for new members
• Addresses, and may help resolve, board conflicts
• Clarifies what members expect from group and self
• Identifies priorities for board’s future efforts
• Identifies strengths and weaknesses
• Clarifies areas for improvement in board performance
Attract and retain high quality board members with the skills necessary to lead today’s public utilities
Board Succession Planning

• Know who is considering rotating off or is term-limited
• Inventory the skills represented on the board and how to maintain or enhance them (financial, legal, organizational, leadership, etc. utility?)
Attracting Viable Board Candidates

• Ensure the utility plays a visible and positive role in the community
• Be active in the community
• Community leadership academies
• Look for good matches…and make the ask
• Seek Board diversity
Candidate Orientation

- If possible, meet one on one with each candidate
- This is especially true of those candidates you’d prefer NOT be on your board
- Inform them of the issues facing the utility and the industry
- Who provides this? Manager or board members?
New Board Member Orientation

• Electric & Gas Industry 101
• Local Control and Local Ownership Advantage
• Your Utility 101
  • Touring the system
  • History of the utility
  • Review charter and bylaws, legal responsibilities and liabilities.
  • Review existing plans, policies and other documents that provide insight into the direction the utility is going.
  • Set expectations on role and duties relating to local, state and national policy making and advocacy.
• Consider Board mentors
Question

Does your organization have an active or formal board recruitment/development program?
Indicators Of An Effective Board*

1. Is there an understanding among board members on the key drivers of the organization’s business?

2. Does the board focus on long-term trends and strategic issues facing the organization, instead of details of day-to-day operations?

3. Does the board have an understanding of appropriate metrics of corporate performance?

4. Does the board have manageable agendas and allocate time appropriately at meetings?
Indicators Of An Effective Board* cont.

5. Is information disseminated to board members before the meeting so they can prepare ahead of time?

6. Are board members clear with themselves and with management about the complimentary roles each must play?

7. Does the board see that the next generation of senior leaders are being developed within the organization?

Thank You

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