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

<table>
<thead>
<tr>
<th>FUNCTION</th>
<th>CURRENT SPEND</th>
<th>GAP TO AVERAGE</th>
<th>GAP TO BP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>$26.3M</td>
<td>($10.0M)</td>
<td>($16.8M)</td>
</tr>
<tr>
<td>Transmission</td>
<td>$4.2M</td>
<td>($0.9M)</td>
<td>($1.9M)</td>
</tr>
<tr>
<td>Generation (Gas)</td>
<td>$23.3M</td>
<td>($6.2M)</td>
<td>($10.7M)</td>
</tr>
<tr>
<td>Customer Service</td>
<td>$23.3M</td>
<td>($6.2M)</td>
<td>($10.7M)</td>
</tr>
<tr>
<td>Shared Services</td>
<td>46.3M</td>
<td>($7.0M)</td>
<td>($13.2M)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>46.3M</strong></td>
<td><strong>($7.0M)</strong></td>
<td><strong>($13.2M)</strong></td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>SUB-FUNCTION</th>
<th>COST</th>
<th>SERVICE LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underground Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhead Maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underground Maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetation Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 ratio 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

SUB-FUNCTION | COMMENTS
--- | ---
Asset Strategy | Gap to Average: ($4.4M)
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

Overhead Construction | Gap to Average: ($2.9M)
Low Productivity/High OT
Worker to Supervisor Ratio lower than the norm
High Contractor to FTE ratio

Underground Construction | Low Productivity/High OT
Large Number of Supervisors
Worker to Supervisor Ratio 50% of NA Average

Underground Maintenance | Gap to Average: ($4.9M)
Productivity 20% of NA Average

Vegetation Management | High Cost linked to Vegetation Management

© 2006 UMS Group Inc., All Rights Reserved

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

A&G O&M Costs / Customer

<table>
<thead>
<tr>
<th>FUNCTION</th>
<th>Per Customer</th>
<th>Per Operating Revenue</th>
<th>Per Operating Cost</th>
<th>Per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fleet</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LEGEND
- First Quartile
- Second Quartile
- Average
- Third Quartile
- Fourth Quartile

PERFORMANCE IMPROVEMENT OPPORTUNITY

<table>
<thead>
<tr>
<th>FUNCTION</th>
<th>GAP TO AVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>($2.6M)</td>
</tr>
<tr>
<td>Property Services</td>
<td>($0.4M)</td>
</tr>
<tr>
<td>Finance</td>
<td>($0.8M)</td>
</tr>
<tr>
<td>Human Resources</td>
<td>($0.7M)</td>
</tr>
<tr>
<td>Fleet</td>
<td>($0.8M)</td>
</tr>
<tr>
<td>Corporate Support</td>
<td>($1.7M)</td>
</tr>
</tbody>
</table>

© 2006 UMS Group Inc., All Rights Reserved

UMS Proprietary Methodology
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):

![Graph showing worker to supervisor ratio for OH and UG maintenance]

- Worker To Supervisor Ratio
  - OH Maintenance
  - UG Maintenance

**Higher Reliance on Contractors** (Staff Supplementation):

![Graph showing higher reliance on contractors]

**Higher Task Cost** (For Comparable Activity Level):

![Graph showing cost per equivalent task]

- Cost Per Equivalent Task
  - BP Average
  - Average
  - NA Average
  - AUJE06

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

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