

NASHVILLE ELECTRIC SERVICE

2008 – 2013 STRATEGIC PLAN

INTRODUCTION

The NES Strategic Plan for 2008-2013 articulates NES' vision and outlines the strategies the organization has identified to ensure its future success. The utility industry is evolving, and NES must be prepared to respond to the changing needs of its customers, its employees and its other constituencies. We must continue to transform our organization to increase employee capability and effectiveness and to provide products and services which meet or exceed expectations. Of course, we must accomplish our strategies while maintaining our strong financial position.

In all that we do, we must focus foremost on our mission: to provide safe, reliable and cost-effective power for the comfort, convenience and security of our customers. To accomplish this mission, we must empower our region with clean, efficient energy that maintains the current quality of life and supports progress. We must do more than repair lines promptly following a storm, more than post bill payments accurately. We must offer varied and targeted programs and services to meet both the needs of our utility and the needs of our customers.

In addition, we must become an excellent corporate citizen, committed to good financial stewardship and giving back to the community in tangible ways. NES has rates that are among the lowest in the nation, and we must monitor our finances carefully to be sure that we can continue to offer an excellent value to our customers. We must also increase our commitment to the community by being responsive to needs, not only for projects involving electric infrastructure, but also for community betterment programs and activities.

To succeed in a constantly changing environment, NES will require a pervasive mindset that is creative as well as analytical, forward-thinking and flexible enough to change quickly without losing its focus.

ORGANIZATION AND HISTORY

The Electric Power Board was established in 1939 as a separate administrative agency of the City of Nashville to operate the electric distribution system. In 1963, the Metropolitan Government was created consolidating the government of the City of Nashville and Davidson County, and provisions regarding the Electric Power Board were included in Articles 42 and 43 of the Metropolitan Charter. In conducting the operations of the electrical distribution system, the Electric Power Board does business as Nashville Electric Service or NES. The principal purpose of the organization is to deliver electric energy to the homes, businesses and industries in the utility's service area at the lowest possible cost, while maintaining an efficient electrical distribution system with a strong financial base.

The board is composed of five members appointed by the Metropolitan mayor (the "mayor") and confirmed by the Metropolitan Council (the "Council"). Members of the board serve staggered five-year terms without pay, with the chairman and vice chairman each elected for a one-year term by the board. Pursuant to the Metropolitan Charter, the board appoints the president and chief executive officer and certain assistants. The president and chief executive officer is responsible for the day-to-day operations of the electric distribution system, including hiring of employees. Except for the appointment of board members and approval of bond issues, neither the mayor, the Council, nor any other board, officer or agency of the Metropolitan Government has any control over the operation and management of the board or the electric distribution system.

According to "Public Power," a periodic publication of the American Public Power Association, NES is the 11th largest public electric utility in America based on customers served, the 13th largest based on electric revenues, and the 15th largest based on megawatt-hour sales. Its service area, which includes all of Davidson County and portions of six surrounding Middle Tennessee counties, is approximately 700 square miles.



NES has no generating capacity and purchases its power from the Tennessee Valley Authority (TVA) pursuant to a power contract dated December 19, 1977. The TVA power contract had an initial term of 20 years, but beginning December 19, 1989, and on each subsequent anniversary, the contract is automatically extended for additional one-year renewal terms beyond its then existing time of expiration. The contract is subject to earlier termination by either party with no less than 10 years' written notice.

The funds, accounts and records relating to the electric distribution system are maintained separate and distinct from all other funds of the Metropolitan Government.

CUSTOMERS

NES serves more than 350,000 customers. Residential customers account for approximately 40 percent of kilowatt-hour sales and total operating revenues. Commercial and industrial customers account for approximately 55 percent of kilowatt-hour sales and total operating revenues.* The general level of sophistication of NES customers is increasing. They have higher expectations for customer service and value.

NES conducts periodic customer surveys to gauge the satisfaction of its customers compared to previous years and to other utilities. The most recent survey (2007) indicates that overall satisfaction with NES remains high, with 86 percent of customers responding indicating that they are very satisfied or somewhat satisfied with NES, up 1 percent from the year before. The following table compares the survey results to prior years:

Year	Very Satisfied	Somewhat Satisfied	Neither Satisfied Nor Dissatisfied	Somewhat Dissatisfied	Very Dissatisfied
2007	54%	32%	5%	4%	1%
2006	55%	30%	7%	5%	3%
2005	58%	28%	5%	4%	3%
2004	59%	28%	6%	3%	3%
2003	62%	24%	5%	4%	4%

* Five percent of kilowatt hour sales are from public street and highway lighting.

NES continues to compare favorably to the other utilities in the area.

	NES	Metro Water	AT&T	Comcast	Nashville Gas
Very Favorable	54%	34%	21%	18%	23%
Favorable	32%	27%	33%	32%	18%
Total Percentage Favorable	86%	61%	54%	50%	41%

SYSTEM RELIABILITY AND MAINTENANCE

The electric energy delivery system as it exists today is a complex system of transmission lines, transformers, switches, distribution lines, controls, protective devices, meters and other components that function together to provide power to customers. Each and every part of the system must function correctly to assure proper delivery of power.

In order to have continuous service, the electric system must also have certain redundancies built in to provide a reasonable level of back-up for component failure and outages. To the electric customers, the concept of reliable electric service may simply mean that power is available when the switch is turned on; for others it may mean no interruptions.

NES uses the standard reliability indices System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI), Customer Average Interruption Duration Index (CAIDI) and Momentary Average Interruption Index (MAIFI) to monitor and track system reliability. In recent years, NES' reliability statistics have noticeably improved. The following table reflects systemwide performance for the last five years:

Year	SAIDI	CAIDI	SAIFI	MAIFI
2007	102.52 min.	50.70 min.	2.02 int.	1.51 int.
2006	128.67 min.	48.00 min.	2.68 int.	2.35 int.
2005	113.85 min.	54.20 min.	2.10 int.	2.15 int.
2004	129.87 min.	51.90 min.	2.50 int.	2.41 int.
2003	230.61 min.	72.90 min.	3.17 int.	2.49 int.

Current reliability-related activities include ensuring that the electric system is planned, designed and constructed to meet the growing needs of the community. Although it is not economically feasible to provide 100 percent assurance that the system will always function properly for all customers, careful planning and maintenance can result in a high degree of reliability. Cost is always a consideration, and as with all utility investments, the cost associated with any improvements in reliability must be carefully weighed against the estimated benefit that will be achieved.

COMPETITION

NES is a local electric distribution company. Historically, NES has been shielded from most competition because of the utility industry's status as a monopoly. Even so, NES has always faced a degree of competition from Nashville Gas, other electric distributors in the region, TVA (for direct-served industries), and self- and co-generators.

Electric utilities are making drastic changes as they position themselves to adapt to a more competitive environment. While NES, as a slow-growth business with predictable earnings, has a low degree of business risk, the organization is positioning itself to succeed in a competitive environment. Some of the more significant accomplishments in this area are:

- NES is continuing to maintain its employee complement around 1,000 since this is the largest controllable expense. This decision should preclude the need for layoffs in the future and the resulting adverse impacts on the retained work force and public perception. We have accomplished this by more efficient allocation of our personnel, using contractors to reduce backlogs, and accelerating system upgrades that will significantly improve reliability.
- NES has streamlined its organization to eliminate a number of high-level positions.
- NES' increased use of automated metering, computer-based routing and employee incentives has resulted in an average meter reading cost well below the national average.
- NES has automated operational aspects of the electric distribution system not included in the Supervisory Control and Data Acquisition system (SCADA). The system is composed of a geographical information system (GIS) based on ARC/INFO, an operational system called CADOPS, and a computer-aided planning and design system called CADPAD.
- NES has an extensive fiber-optic network and works to offset operational costs and increase its revenue by leasing spare fiber-optic capacity.

MISSION AND VALUES

NES' mission is to provide safe, reliable and economical electric power for the comfort, convenience and security of our customers. We are dedicated to being a good corporate citizen, facilitating growth, and supporting the economic and environmental health and infrastructure of our region.

NES' fundamental values are performance, service, commitment and communication.

- **Performance**

Accountability, Quality, Efficiency

We will improve accountability, quality and efficiency to ensure financial stability and to meet the needs of our stakeholders.

- **Service**

Timeliness, Professionalism, Compassion

We value every opportunity to serve our stakeholders. We are accountable for serving with a sense of urgency, compassion and professionalism essential to building lasting relationships.

- **Commitment**

Safety, Integrity, Dependability

We value the commitment of our employees and promote mutual respect to engender integrity, productivity, dedication and dependability. We support one another's needs and goals and are committed to working safely.

- **Communication**

Honesty, Flexibility, Availability

Honest and clear communication is important to us. We encourage empowerment, flexibility and reaching out to stakeholders.

STRATEGIC PLANNING PROCESS

Strategic planning is a structured process designed to identify, prioritize and address concerns and challenges critical to NES' long-term success. NES' Strategic Plan was developed with input from employees, customers and other key stakeholders in the business and governmental arenas. Many internal and external forces impact how NES does business, how it functions as an organization, and how it interfaces with its stakeholders. A clearly stated Strategic Direction for NES – and an outline for achieving it – are highlights of this plan.

The Strategic Plan was developed by a Core Planning Team (CPT), composed of employees from across the organization, and NES' Senior Management Team. Input from every employee was sought, as well as from external stakeholders, including business and residential customers, elected officials, the Tennessee Valley Authority (TVA) and others. The CPT, with input from stakeholder groups, performed an evaluation of its internal strengths and weaknesses and its external opportunities and threats (SWOT). The following is a summary of the SWOT analysis performed as part of the strategic planning process:

Strengths

- NES is financially strong as demonstrated by the AA rating it received from both Standard and Poor's and Fitch rating agencies.
- NES has an experienced, well-trained and stable work force.
- NES has a long-term all-requirements contract with TVA to provide NES and its customers with reliable power at competitive rates.
- The electric distribution system is robust, with adequate capacity for growth and expansion for its customers.
- Nashville has a diverse economy, with companies in insurance, finance, publishing, banking, health care, music, tourism, manufacturing and distribution located in the area.

Weaknesses

- NES, like most utilities in North America, has a mature work force and will be challenged with a potential loss of institutional knowledge when this group retires.
- While NES has a robust and reliable distribution system, some sections of the system are more than 40 years old, which suggests these sections are candidates for failure or replacement.
- NES' long-term all-requirements contract with TVA severely limits NES should TVA rates become noncompetitive.
- Some customers/stakeholders view NES as a bureaucratic organization with little willingness to change.
- NES has not developed a comprehensive maintenance program for all areas of the distribution system.

Opportunities

- NES has made great strides in changing its operations to become more customer-focused. We need to improve communication with our customers and other stakeholders so that they are better aware of our efforts.
- NES has a significant fiber-optic plant that is used primarily for NES internal communications, but we realize that it is a strategic asset that could be used for revenue enhancement and economic development.
- While NES has improved its reliability as a result of its vegetation management activities, further improvement in reliability may be gained through the use of new technology.
- Opportunities exist for NES to continue to improve its operations through benchmarking and implementing best practices.

Threats

- Our business is highly regulated and is always threatened by changes in laws and regulations.
- The movement for deregulation in the electric utility industry has slowed; but these discussions have forced us to change our business model, and we anticipate there are more changes to come.
- Since the cost of power consumes approximately 80 percent of every revenue dollar, NES has limited ability to control and/or reduce customer costs yet faces increasing pressure to do so.
- Customer/stakeholder dissatisfaction has decreased, but we must continue to be customer-sensitive and communicate our willingness to improve.

The SWOT analysis assisted the CPT in identifying key issues and developing strategies and tactics to address those issues. The input also led to the adoption of a Strategic Direction:

NES will be the #1 utility among our peers for customer and employee satisfaction.

The Strategic Direction is based on the intersection of three concepts — NES' passion, the organization's understanding and the economic engine.

Passion – “What NES is deeply passionate about”

We are intensely committed to meeting the varied and changing needs of our stakeholders

Understanding – “What NES can be the best in the world at”

The best at involving stakeholders in our decision-making processes to deliver best-in-class service

Economic Engine – “What drives NES' economic engine”

To offer competitive rates while remaining financially sound

NES' Strategic Plan is not static; it will be revisited periodically and updated as needed. Further, NES will develop an annual business plan from the Strategic Plan. The business plan will include Key Performance Indicators (KPIs), which will provide quantifiable criteria for measuring each strategic issue. NES' progress in meeting KPI targets will be regularly measured and reported to the board.

STRATEGIC ISSUES

The top five strategic issues identified as priorities by NES are:

- Issue 1** – Organizational issues including safety, staffing, training and accountability must continue to be improved.
- Issue 2** – System reliability must continue to meet customer expectations.
- Issue 3** – Fiscal responsibility must be ensured.
- Issue 4** – Teamwork, communications and relationships must continue to improve among employees, customers and other stakeholders.
- Issue 5** – A business development process must be established.

ISSUES, GOALS, STRATEGIES AND TACTICS

The strategies and tactics developed to address NES' top issues and to move NES toward its Strategic Direction provide tangible guidance to the organization. As the Strategic Plan is revisited on a regular basis, these strategies and tactics are expected to evolve and change, as necessary, in order to resolve each issue. In subsequent planning years, new issues will be brought to the forefront as old issues are resolved.

NES' five strategic issues, along with goals for each issue and recommended strategies and tactics to address them, are detailed on the pages following.

Issue 1 – Organizational issues including safety, staffing, training and accountability must continue to be improved.

GOAL: *NES has a safety-driven work environment and a highly skilled, efficient and accountable work force.*

Strategy 1 – A safety culture increases morale and develops a safe work environment.

- Tactic 1** – Employ outside resources to evaluate and conduct relevant safety training and assist in the development of a safety culture.
- Tactic 2** – Develop and implement employee and team reward programs that recognize employee contributions to achieving company goals.
- Tactic 3** – Educate employees on a safety culture at the start of their tenure, and provide ongoing training throughout their employment.
- Tactic 4** – Establish measurable and accountable safety tasks/activities at all levels.

Strategy 2 – Effective work force evaluations produce optimal staffing.

- Tactic 1** – Improve recruitment practices and revise the certification process.
- Tactic 2** – Continue to evaluate work force/staffing needs on an ongoing basis and make appropriate recommendations as warranted.
- Tactic 3** – Re-evaluate the NES performance appraisal system for improvements.
- Tactic 4** – Review the process for voluntarily changing career paths.

Strategy 3 – Job-specific knowledge transfer and needs-based training develop highly skilled employees.

- Tactic 1** – Complete and implement the training needs assessment recommendations.
- Tactic 2** – Implement on a consistent basis the process to transfer critical knowledge.
- Tactic 3** – Evaluate PC-based safety training for improvement.

Issue 2 – System reliability must continue to meet customer expectations.

GOAL: *Customer expectations for system reliability are continuously addressed by appropriate plans and processes.*

Strategy 1 – Better information/data enables efficient resource utilization.

- Tactic 1** – Develop a recurring process for obtaining customer feedback for reliability, power quality, etc.
- Tactic 2** – Create a cross-functional team to develop a plan for rapid implementation of mobile data.
- Tactic 3** – Conduct leading practices research among other utilities.

Strategy 2 – Prioritization of reliability issues facilitates efficiency improvements.

- Tactic 1** – Prioritize maintenance and reliability issues.
- Tactic 2** – Expand and communicate process for recurring customer and infrastructure problems.
- Tactic 3** – Create a fast-track process for critical repairs.

Strategy 3 – System improvement enhances reliability and operational flexibility.

- Tactic 1** – Create Automated Metering Infrastructure (AMI) implementation plan.
- Tactic 2** – Develop a plan for expanding the downtown underground footprint.
- Tactic 3** – Communicate and implement Transmission and Distribution plan.
- Tactic 4** – Develop a plan and process for hard-to-access facilities.
- Tactic 5** – Create a cross-functional team to develop a process for reporting and resolving material and tool problems.

Issue 3 – Fiscal responsibility must be ensured.

GOAL: *NES employees at every level perform job responsibilities and make business decisions in a fiscally responsible manner.*

Strategy 1 – Employee accountability promotes financial responsibility.

- Tactic 1** – Empower employees with organization and process knowledge.
- Tactic 2** – Proactively communicate employees’ responsibilities and their impact on the financial health of the company.

Strategy 2 – Proper utilization of resources improves company financial performance.

- Tactic 1** – Develop a project management structure.
- Tactic 2** – Review and revise budgetary process.
- Tactic 3** – Identify and correct inefficient utilization of resources.

Strategy 3 – Utilizing financial analysis results in improved business decisions.

- Tactic 1** – Initiate a mechanism to monitor, manage and adjust based on budgetary activity.
- Tactic 2** – Implement process change evaluation to determine financial impact.
- Tactic 3** – Develop a financial analysis process.

Issue 4 – Teamwork, communications and relationships must continue to improve among employees, customers and other stakeholders.

GOAL: *NES continuously assesses and improves stakeholder communications and involvement.*

Strategy 1 – Proactive communication improves relationships with employees, customers and stakeholders.

- Tactic 1** – Implement periodic educational meetings with community groups.
- Tactic 2** – Proactively communicate scheduled projects or work that may impact customers.
- Tactic 3** – Communicate energy-efficiency and environmental programs.
- Tactic 4** – Develop additional methods for communicating with employees.

Strategy 2 – Employee, customer and stakeholder involvement encourages endorsement of NES decisions.

- Tactic 1** – Implement work process sharing across departments.
- Tactic 2** – Participate in downtown re-development projects.
- Tactic 3** – Revise electric service policies and procedures.

Strategy 3 – Effective feedback encourages cooperation and teamwork among employees, customers and stakeholders.

- Tactic 1** – Proactively seek feedback from stakeholders.
- Tactic 2** – Expand the complaint tracking system across the company.
- Tactic 3** – Develop a success sharing program.

Issue 5 – A business development process must be established.

GOAL: *Business opportunities are evaluated based on a formalized business development process.*

Strategy 1 – Business development goals establish a basis for selecting new products/services.

- Tactic 1** – Establish cross-functional team to evaluate and set goals.
- Tactic 2** – Survey other utilities for potential product/service offerings/needs.
- Tactic 3** – Solicit stakeholder input for potential product/service offerings/needs.
- Tactic 4** – Identify the organizational structure to implement the business development goals.
- Tactic 5** – Identify and address business process constraints.

Strategy 2 – Leveraging our core competencies creates business opportunities.

- Tactic 1** – Identify our core competencies and available/needed resources to offer core competencies as products/services.
- Tactic 2** – Align potential products/services with core competencies.
- Tactic 3** – Evaluate costs/benefits of potential products/services.

Strategy 3 – New products and services provide additional revenue streams and other benefits.

- Tactic 1** – Select a new product/service for detailed development.
- Tactic 2** – Develop the business case/business plan for a new product/service.
- Tactic 3** – Market new products and services to new and existing customers.

APPENDIX

The following individuals participated in the preparation and development of the Strategic Plan:

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