Seventy-two years ago, Nashville Electric Service (NES) was founded with a mission to provide safe, reliable and affordable power that benefits our customers, employees and community. Today, we’ve grown to become one of the 12 largest public utilities in the United States, serving more than 360,000 customers, with annual revenues of more than $1 billion per year.

Despite our growth, our mission has remained constant. This strategic plan confirms NES’ mission and outlines five strategic issues identified to keep us moving toward future success.

The five strategic issues are as follows:

1. **Operational effectiveness must continue to be improved to provide a safe and efficient work environment.**

2. **Assets must be effectively managed to ensure system reliability meets customer expectations.**

3. **Fiscal responsibility must be enhanced through comprehensive financial planning in order to provide reliable electric service at competitive rates.**

4. **Proactive communication and education of stakeholders must continue to promote their involvement and endorsement of NES’ direction.**

5. **A business development strategy must be developed.**

In the following pages, we lay out strategies and tactics to address each strategic issue. We’ll keep revisiting these issues, modifying plans and evaluating our progress.

While the coming years will present us with many challenges, NES is well-positioned for the future. We are financially strong, our business plan is sound, and our employees understand the responsibility they have to provide our customers with the reliable energy needed to power Nashville in the years ahead.
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 & Chief Executive Officer and certain assistants. The President & 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 12th-largest based on electric revenues, and the 18th-largest based on megawatt-hour sales. Its service area, which includes nearly 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 360,000 customers. Residential customers account for approximately 42 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. An increasing number of residential customers use computers at home and, as a result, have higher expectations of service quality.

NES conducts periodic surveys to gauge the satisfaction of its customers compared to previous years and to other utilities. The most recent survey, conducted earlier this year, indicates that customer satisfaction remains high. The impact of TVA’s fuel cost adjustments and rate structure changes have had an impact on customer satisfaction, however. Cost seems to be the driver of satisfaction results, as the detailed survey confirms that NES maintained high ratings for restoring power, reliability and customer service.

The following table compares the overall satisfaction results to those of previous years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Very Satisfied</th>
<th>Somewhat Satisfied</th>
<th>Neither Satisfied Nor Dissatisfied</th>
<th>Somewhat Dissatisfied</th>
<th>Very Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>53%</td>
<td>27%</td>
<td>7%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>2010</td>
<td>57%</td>
<td>31%</td>
<td>7%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>2009</td>
<td>56%</td>
<td>30%</td>
<td>9%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>2008</td>
<td>57%</td>
<td>30%</td>
<td>6%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>2007</td>
<td>54%</td>
<td>32%</td>
<td>5%</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>
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 Frequency 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:

<table>
<thead>
<tr>
<th>Year</th>
<th>SAIDI</th>
<th>CAIDI</th>
<th>SAIFI</th>
<th>MAIFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>101.45 min.</td>
<td>46.88 min.</td>
<td>2.16 int.</td>
<td>2.06 int.</td>
</tr>
<tr>
<td>2009</td>
<td>112.69 min.</td>
<td>53.61 min.</td>
<td>2.10 int.</td>
<td>1.91 int.</td>
</tr>
<tr>
<td>2008</td>
<td>105.06 min.</td>
<td>47.81 min.</td>
<td>2.20 int.</td>
<td>1.84 int.</td>
</tr>
<tr>
<td>2007</td>
<td>102.52 min.</td>
<td>50.70 min.</td>
<td>2.02 int.</td>
<td>1.51 int.</td>
</tr>
<tr>
<td>2006</td>
<td>128.67 min.</td>
<td>48.00 min.</td>
<td>2.68 int.</td>
<td>2.35 int.</td>
</tr>
</tbody>
</table>

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 Piedmont Natural 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 continues to maintain its employee complement below 1,000 since payroll and benefits costs are large controllable expenses. 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.

• Increased use of automated metering and Smart Meters, computer-based routing, and employee incentives have 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 (SCADA) system. 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 FeederAll. NES enhances the functionality of those systems through the use of Automatic Vehicle Location (AVL) and mobile data applications.

• NES has an extensive fiber-optic network, and NES offsets operational costs and increases its revenue by leasing its spare fiber-optic capacity.
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 and key stakeholders. 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. The CPT, with input from stakeholders, 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 from both Standard and Poor’s and Fitch rating agencies.

• The organization and its employees are committed to being good corporate citizens, actively participating in endeavors to support the philanthropic and economic vitality of the community.

• NES has an experienced, well-trained and stable work force.

• NES’ long-term contract with TVA enables the organization to provide reliable power to its customers at competitive rates.

Weaknesses

• The changing utility environment in combination with an all-requirements contract with TVA confronts NES and its customers with increasing rate fluctuations.

• NES has a mature work force, and the organization will be challenged to replace the potential loss of institutional knowledge as its work force retires.

• Some customers and stakeholders view NES, as a governmental entity with a civil service structure, as reluctant to change.

• NES has opportunities to improve the effectiveness of its internal work processes and cross-functional communications.
Opportunities

• As a good corporate citizen and in an effort to postpone the need for additional power generation, NES should support clean energy and energy efficiency initiatives.

• NES’ fiber plant is a significant asset which could be utilized to enhance revenue and economic development.

• New technology may enable NES to offer additional rate options to its customers in addition to making operational improvements.

• NES continues to be customer-focused, and NES can look for new and better ways to enhance customer communication.

Threats

• The utility industry is highly regulated, and NES is always threatened by changes in laws and regulations.

• NES faces increasing demand to control customer costs and is challenged to do so since the cost of power consumes approximately 80 percent of every revenue dollar.

• While the move in the utility industry toward deregulation has slowed, the changing environment demands that NES revisit its business model.
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, an intersection of NES’ passion, understanding and 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

The Strategic Direction for the 2011 Plan is:

**NES will be the No. 1 utility among its peers for customer and employee satisfaction.**

NES’ Strategic Plan is not static; it will be revisited 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** – Operational effectiveness must continue to be improved to provide a safe and efficient work environment.

**Issue 2** – Assets must be effectively managed to ensure system reliability meets customer expectations.

**Issue 3** – Fiscal responsibility must be enhanced through comprehensive financial planning in order to provide reliable electric service at competitive rates.

**Issue 4** – Proactive communication and education of stakeholders must continue to promote their involvement and endorsement of NES’ direction.

**Issue 5** – A business development strategy must be developed.

ISSUES, 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 recommended strategies and tactics, are detailed on the pages following.
Issue 1: Operational effectiveness must continue to be improved to provide a safe and efficient work environment.

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

**Tactic 1:** Re-evaluate the delivery method for safety training provided to employees.

**Tactic 2:** Develop a job-based safety training and testing program.

**Tactic 3:** Continue to support the current Safety Culture Program.

**Strategy 2:** Effective employee attraction, retention and development maximize the potential and contributions of each member of the organization.

**Tactic 1:** Develop a job-specific training program to enhance employee performance, development and safety.

**Tactic 2:** Create specific performance expectations for each job classification.

**Tactic 3:** Develop standards for creating a departmental knowledge-based library.

**Strategy 3:** Appropriate work measures promote operational effectiveness.

**Tactic 1:** Determine which processes/functions need to be evaluated.

**Tactic 2:** Analyze the existing processes/functions.

**Tactic 3:** Set goals for improvement of processes/functions.
Issue 2: Assets must be effectively managed to ensure system reliability meets customer expectations.

**Strategy 1:** Understanding customer expectations defines asset management objectives.

**Tactic 1:** Implement a recurring process for obtaining customer expectations regarding reliability, power quality, service restoration, etc.

**Tactic 2:** Implement a recurring process for obtaining input from government officials and other stakeholders regarding reliability, power quality, service restoration, etc.

**Tactic 3:** Conduct research on leading practices among other utilities.

**Strategy 2:** Identification and prioritization of asset management opportunities facilitates efficiency improvements.

**Tactic 1:** Develop asset management objectives.

**Tactic 2:** Identify asset management opportunities.

**Tactic 3:** Establish criteria for and prioritize asset management opportunities.

**Strategy 3:** Effective implementation of asset management opportunities enhances reliability.

**Tactic 1:** Continue implementation of Smart Grid as an enabling technology.

**Tactic 2:** Continue implementation of mobile data as an enabling technology.

**Tactic 3:** Continue implementation of CASCADE as an enabling technology.

**Tactic 4:** Implement data warehousing as an enabling technology.
Issue 3: Fiscal responsibility must be enhanced through comprehensive financial planning in order to provide reliable electric service at competitive rates

**Strategy 1:** Proper utilization of resources improves company financial performance.

**Tactic 1:** Implement project management process.

**Tactic 2:** Develop an ideal budgeting and forecasting process and conduct gap analysis against current processes.

**Tactic 3:** Identify management information that is needed for more efficient work processes, and implement the development of those reports.

**Strategy 2:** Design retail rate structures that recover wholesale power costs and generate net revenue.

**Tactic 1:** Research retail rate structures offered by peer utilities.

**Tactic 2:** Develop a rate analysis process.

**Tactic 3:** Identify tools and information necessary for efficient and flexible rate design.

**Tactic 4:** Utilize Smart Grid technology to enable voltage control and other means of managing our purchased power costs and provide better information for rate design.

**Strategy 3:** Financial flexibility mitigates the impact of emerging issues.

**Tactic 1:** Improve accuracy and reliability of the five-year financial model.

**Tactic 2:** Evaluate financial practices to ensure they are consistent with maintaining our high bond rating.
Issue 4: Proactive communication and education of stakeholders must continue to promote their involvement and endorsement of NES’ direction.

**Strategy 1:** Proactive communication improves relationships with stakeholders.

**Tactic 1:** Implement a rate-change communication plan to all customer groups.

**Tactic 2:** Investigate communication tools to improve dialogue between departments.

**Tactic 3:** Develop a process to communicate planned work in residential areas.

**Strategy 2:** Soliciting feedback from stakeholders provides awareness of their concerns.

**Tactic 1:** Investigate additional survey mechanisms for customer feedback.

**Tactic 2:** Host focus groups to gauge stakeholder attitudes and solicit feedback.

**Strategy 3:** Education of stakeholders promotes teamwork and understanding.

**Tactic 1:** Enhance customer awareness and education regarding industry issues and technologies.

**Tactic 2:** Provide consistent position papers and talking points to equip employees and stakeholders for customer interactions.
Issue 5: A business development strategy must be developed.

Strategy 1: A low-risk and low-cost strategy for participation in Seven States produces lower power cost for all NES customers.

   Tactic 1: Evaluate accounting treatment of Seven States, participation, and make recommendations to the Electric Power Board.

   Tactic 2: Evaluate and address financial implications of NES’ participation.

   Tactic 3: Evaluate and address rating agency concerns.

Strategy 2: Participation in the Governor’s Zero Emission Mobility Program as utility provider increases revenue potential with minimal investment risk.

   Tactic 1: Demonstrate commitment to the Zero Emission Mobility Program.

   Tactic 2: Develop a plan to understand and accommodate the loading impacts of electric vehicles on the distribution system.

   Tactic 3: Develop a long-term strategy for charging stations in the NES service territory in conjunction with TVA, Metro and other zero emissions partners.

Strategy 3: Successful strategies for participation in energy efficiency initiatives maintain adequate margin on electric sales.

   Tactic 1: Develop a rate program that reflects fixed and variable costs and aligns with energy efficiency initiatives.

   Tactic 2: Design and implement the voltage regulation pilot program and the direct load control pilot program.

   Tactic 3: Evaluate participation in TVA-sponsored energy efficiency initiatives, and develop a comprehensive strategy.
APPENDIX

The following individuals participated in the preparation and development of the 2011 Strategic and Business Plan:

**Electric Power Board**
Richard Courtney, Chairman  
Robert A. McCabe, Vice Chairman  
Samuel H. Howard  
Yanika Smith-Bartley  
Robert Mendes

**NES Management Team**
Decosta Jenkins,  
President & CEO  
Allen Bradley, Executive Vice President  
& Chief Operating Officer  
Teresa Broyles-Aplin, Vice President  
Finance/Administration  
& Chief Financial Officer  
Paul Allen, Vice President  
Operations Engineering  
Eddie Andrews, Vice President  
Operations C&M  
Dennis Boehms, Vice President  
Operations T&D  
Teresa Corlew, Vice President  
Chief Customer Care Officer  
Herb DeBerry, Vice President  
Human Resources & Corporate Services/  
Secretary Civil Service  
Sandra Durbin, Vice President  
& Internal Auditor  
Vic Hatridge, Vice President  
& Chief Information Officer  
Laura Smith Tidwell, Vice President  
Corporate Affairs & Strategic Initiatives  
and Interim General Counsel

**Core Planning Team**
Roger Anderson  
Bridgett Bess  
Andy Bickerstaff  
Natalie Billingsby  
Bill Braswell  
Vaughan Charles  
Amanda Cochran  
Cheryl Cole  
Brian Covington  
Sara Elliott  
Glen Gibbs  
Brad Heck  
Jeremy Hitchcock  
Don Hill  
Marybess Hostettler  
Shane Lankford  
Carla Nelson  
Laurie Parker  
Lennon Payne  
Nancy Poindexter  
Marietta Rooks  
Marvin Sain  
Troy Smalling  
Tad Thompson  
Dave Van Hooser  
Chris Wheeler

NES extends its thanks to all NES employees for providing valuable feedback throughout the planning process.

*Plan facilitated by Fred Jennings – R.W. Beck, Inc.*  
*Proprietary Planning Process – All Rights Reserved*