



Seattle City Light Management Review

February 2003

February 27, 2003

Mr. Gary Zarker
Seattle City Light
700 Fifth Avenue, Suite 3300
Seattle, Washington 98404-5031

SUBJECT: Seattle City Light Management Review Report

Dear Mr. Zarker:

It is with pleasure that we submit our Management Review Report for Seattle City Light. This report has been prepared over the past several weeks to provide an examination of the qualifications of City Light's existing management team relative to industry peers. The report evaluates the justification for adding a Chief Operating Officer (COO) position and assesses how best to effectively integrate this position into the existing organizational structure. In addition, City Light's current performance assessment process is compared with industry best practices to determine whether improvements could be made.

We appreciate all of the help you and your staff have provided in conjunction with this report. Please feel free to contact me directly with any questions or comments.

Very truly yours,

A handwritten signature in blue ink that reads "Gary Saleba".

Gary Saleba
President

Contents

<u>Executive Summary</u>	1
<u>Background/Introduction/Purpose</u>	1
<u>Management Qualifications</u>	1
<u>The Need for Chief Operating Officer</u>	2
<u>Performance Assessment</u>	3
<u>Introduction</u>	4
<u>Background for Report</u>	4
<u>Purpose of Report</u>	4
<u>Consultant</u>	4
<u>Report Layout</u>	5
<u>Survey of Management Backgrounds and Qualifications</u>	6
<u>General Survey Approach</u>	6
<u>Results for Key Management Positions</u>	9
<u>Results for Functional Managers</u>	17
<u>Summary of Strengths and Weakness of City Light Management Team</u>	21
<u>Need for a Chief Operating Officer</u>	23
<u>Roles and Responsibilities</u>	23
<u>Common Background and Qualifications</u>	23
<u>Determining the Need for a COO</u>	24
<u>Alternatives to a COO</u>	26
<u>Appropriate Qualifications and Compensation for COO at City Light</u>	26

<u>Method for Recruiting COO</u>	27
<u>Performance Assessment</u>	29
<u>City Light Approach to Management Performance Assessment</u>	29
<u>Industry Standards for Management Performance Assessment</u>	29
<u>Strengths and Weaknesses of City Light Approach to Performance Assessment</u>	30
<u>Recommended Improvements for City Light’s Management Performance Process</u>	31
<u>Summary and Recommendations</u>	32
<u>Strengths and Weaknesses of City Light Management Team</u>	32
<u>Need for a Chief Operating Officer</u>	33
<u>Strength and Weaknesses of City Light Approach to Performance Assessment</u>	33

Executive Summary

Background/Introduction/Purpose

In response to the findings of a report by Vantage Consulting dated October 31, 2001 (“Vantage Report”), the City of Seattle City Council (“City Council”) developed a plan for reform of its electric utility, Seattle City Light (“City Light”). The first item within the City Council’s work plan for City Light reform, including an “independent performance review” of City Light’s management team and providing a plan to add a Chief Operating Officer (COO) position at City Light. EES Consulting was retained to assist the Superintendent to carry out these tasks.

The purpose of this report is three-fold. First, it provides an examination of the qualifications of City Light’s existing management team relative to industry peers. Second, it evaluates the justification for adding a COO position to City Light’s management team and assesses how best to effectively integrate this position into the existing organizational structure. Third, it compares City Light’s current performance assessment process with industry best practices to determine whether improvements could be made.

Management Qualifications

The qualifications of personnel in management positions at City Light were compared to those at larger, west coast publicly-owned utilities. The management positions included those at the executive level as well as the functional managers reporting to City Light’s Deputy Superintendents. Qualifications were compared on the basis of educational level, the presence of professional certifications or licenses, and work experience. Particularly emphasis was put into discerning the amount of electric utility experience was present and where it was obtained.

We understand the reasons for choosing this approach. We also expect that most would agree that it is one that is less than perfect and open to a fair degree of subjectivity. However, it is the most viable approach that can be taken given the limited amount of time and access to better comparative information. Given the degree of subjectivity inherent in such an endeavor and the potentially serious consequences of what might be found in this report, based on our collective professional judgment, we have allowed for a “band of indifference” to allow for factors not appropriately addressed by the information available to us. This band is meant to mitigate the occurrence of “false” adverse findings while, at the same time, not withholding credit where it is due.

That said, the strongest qualifications of City Light management, relative to the set of comparable managers at other utilities, were found with the Director of External Affairs and the

functional managers supporting the Deputy Superintendent of Distribution. Both benefited with strong educational backgrounds and solid work experience relevant to their positions.

The weakest qualifications of City Light management relative to the surveyed peer group were found in its customer service branch, both at the executive level and for its collective functional managers, and in the position of the Deputy Superintendent of Generation. The qualifications of these managers compared unfavorably to peers in other utilities primarily due to a lack of relevant job experience, although the customer service management team appeared well represented in the field of conservation.

Understanding that, with the ongoing reconfirmation process, much will be asked of our assessment of the qualifications of the Superintendent, we elect to bring this issue to the fore. While his total experience, particularly experience dealing with municipal issues, is better than other Superintendents surveyed, the City Light Superintendent has less electric utility experience. Given the multi-faceted requirements of the City Light Superintendent, lack of lengthy electric utility experience is not seen as a deficiency. Further, we find that the Superintendent's lack of professional engineering licenses is not problematic, as having a professional engineering license is not as important for a top utility manager as it once was, particularly for larger utilities. The trend in electric utilities is for top managers to have experience dealing with outside forces and politics, and to delegate more of the responsibility of day-to-day operations to others. In summary, we find the Superintendent's qualifications appropriate for his position.

The remaining management positions appear to have an equivalent level of qualifications, relative to personnel at comparable positions in the utilities surveyed.

The Need for Chief Operating Officer

The evolution of the Chief Operating Officer (COO) position in organizations of all kinds represents a growing recognition of the complexity and growing demands on top executives, with the need to separate leadership among two or more individuals in a rational way.

There are two typical Chief Executive Officer (CEO)/COO organizational models, the Line/Staff and Line Only models. In the Line/Staff model, the COO has responsibility for all line utility functions and all staff management functions. In the Line Only model, the COO is primarily only concerned with the power business line (i.e., power supply and delivery).

We believe that there are three relevant considerations, which together lead us to conclude that a new executive position at this level is appropriate for City Light. These considerations are: Span of Control, Job Factor Analysis, and Direct Observation. As discussed more fully in the report, each of these considerations point to the need for a COO at City Light.

Given the above, it is recommended that City Light adopt the use of a COO and that it use the Line Only model for incorporating this position into its organizational structure. In the Line Only model, the COO would be responsible for the day-to-day operations of City Light's Generation, Power Management and Distribution Branches. Based on our understanding of the

background and qualifications of managers in comparable positions at the surveyed utilities, we recommend that the person filling this position have 25 to 30 years of electric utility experience; a solid understanding of the electric utility industry; excellent communications, interpersonal and organizational skills; and strong leadership, negotiations, and motivational skills. Based on industry salary surveys for comparable managers at publicly-owned utilities, it is anticipated that the annual salary required to fill this position will range from \$150,000 to \$180,000. The hiring of a COO should take no longer than 90 days to complete, and should be undertaken within standard City Light hiring protocol.

Performance Assessment

City Light's management performance assessment process is part of a City-wide performance management system. This program is Accountability Pay for Executives (APEX). In our estimation, the design of the APEX meets or exceeds established best practices for executive performance management systems. However, in practice APEX has not been a fully effective approach to performance management for City Light, primarily due to the lack of funding.

We therefore recommend that the performance bonus element be restored as soon as possible, with the expectation of enhanced APEX implementation. However, with or without restoration of performance bonuses, we also recommend that a greater effort be made by either the Superintendent or by a new Chief Operating Officer to meet with direct reports on a regular basis to formally review performance.

Introduction

Background for Report

In response to the findings of a report by Vantage Consulting dated October 31, 2001 (“Vantage Report”), the City of Seattle City Council (“City Council”) developed a plan for reform of its electric utility, Seattle City Light (“City Light”). Among the findings in the Vantage Report were that City Light’s senior management team lacked the experience to effectively manage the utility and that consideration be given to adding a Chief Operating Officer (COO) to assist the City Light Superintendent manage the day-to-day activities of the utility. These findings contributed to the first item within the City Council’s work plan for City Light reform, including an “independent performance review” of City Light’s management team and providing a plan to add a COO position at City Light. EES Consulting was subsequently retained to assist the Superintendent to carry out these tasks.

Purpose of Report

The purpose of this report is three-fold. First, it provides an examination of the qualifications of City Light’s existing management team relative to industry peers. Second, it evaluates the justification for adding a COO position to City Light’s management team and assesses how best to effectively integrate this position into the existing organizational structure. Third, it compares City Light’s current performance assessment process with industry best practices to determine whether improvements could be made.

Consultant

Having not worked for City Light in recent years, an introduction to our firm and project team may prove useful in the City Council’s understanding our background and qualifications for performing this study.

EES Consulting is a firm of professionals with offices in Seattle, Portland, Spokane, and Calgary, Alberta. Professional staff members have backgrounds in the areas of economics, finance, financial analysis, engineering, public administration, business administration, operations, research and corporate management. EES Consulting is a multidisciplinary management and engineering consulting firm that provides a variety of project solutions to clients involved with electric, natural gas, telecommunications, water, wastewater and other energy and natural resource related businesses.

Specific to this undertaking, EES Consulting has a large staff of consultants and associates experienced in the area of management reviews and strategic planning. The personnel chosen for this project have extensive experience with publicly owned and municipal utilities as well as City/County government and within the private sector. These personnel are also experienced in conducting management studies and have extensive knowledge of the public policy decision-making process, including one that have served as a general manager of several publicly owned utilities.

For this project, Gary Saleba has served as project manager. Mike Vanderslice and Ed Aghjayan have served in the role of senior advisors. Jon Piliaris provided research and technical support for this report. Together, this team has over 100 years of collective management, operations and consulting experience in the electric utility industry.

Report Layout

The layout for this report corresponds to the three primary purposes for this report. Section 1 discusses the methodology used evaluate the qualification of City Light's existing management team, generally describes the source of information used in the survey, and identifies strengths and weaknesses within the current management team. Section 2 provides a framework for assessing the need for a COO at City Light, discusses the appropriate role for such a position, describes how the existing City Light organizational structure would need to be modified to effectively integrate this position, discusses the desired qualifications and backgrounds of the successful candidate filling this position and outlines a plan for hiring such a candidate. Section 3 reviews City Light's existing process for evaluating the performance of its senior management team, compares this process to industry best practices, identifies strengths and weaknesses of the process at City Light and provides recommendations for improvement. Section 4 summarizes the findings of this report and the recommendations contained herein.

Survey of Management Backgrounds and Qualifications

General Survey Approach

To better understand the survey results contained within this report, it is helpful to understand how the survey was conducted.

Methodology

First, we were provided City Light’s existing organizational structure and the job descriptions for which comparisons were desired. These were examined to determine the nature of the position and the general reporting structure within the utility. Next, comparable positions were identified at other utilities. Positions suitable for comparison were identified by examining the organizational charts and job descriptions requested from the surveyed utilities.

The qualifications of personnel filling positions at these other utilities were then compared and contrasted to those of City Light management. The metrics used to compare qualifications include education and training, licenses and certifications, and work experience.

We understand the reasons we were asked to choose this approach. We also expect that most would agree that it is one that is less than perfect and open to a fair degree of subjectivity. However, it is the most viable approach that can be taken given the limited amount of time and access to better comparative information. Given the degree of subjectivity inherent in such an endeavor and the potentially serious consequences of what might be found in this report, based on our collective professional judgment, we have allowed for a “band of indifference” to allow for factors not appropriately addressed by the information available to us. This band is meant to mitigate the occurrence of “false” adverse findings while, at the same time, not withholding credit where it is due.

In response to the question raised in the Vantage Report regarding senior management’s lack of experience outside of City Light, work experience was further delineated. First, time spent at electric utilities, non-electric utilities and entities other than utilities were delineated. Distinctions regarding whether personnel had experience at other electric utilities, or at other firms where their work related to the electric utility industry (e.g., consulting firms), were also made.

Comparisons of these key management positions at City Light were then made with peers at the survey utilities to identify relative strengths or weakness in the current management team as relates to background and qualifications. In some instances, particularly for management positions below the Superintendent’s directly reporting management team, the volume of biographical information for which comparison could be made was limited. In those cases, the “aggregate” qualifications for persons filling those positions at the surveyed utilities were compared with the qualifications of the equivalent group of City Light managers.

General Description of Utilities Included in Survey

A total of 14 utilities were contacted to participate in the management survey associated with this report. Of the 14, eleven provided information used and useful for the analysis and findings presented below. To obtain their participation in this survey and to mitigate concerns over the potential for this information being used to “poach” their valued managers, these utilities and their managers were promised anonymity. In general, these peer utilities represent a majority of the largest, publicly-owned electric utilities along the west coast.

Private utilities, for which more comparable utilities can be found in terms of utility size, were not used in this survey. The fundamental reason for excluding these utilities from the management comparisons is the wage differential. Clearly, with added compensation comes the ability to attract more qualified individuals to fill management positions. Therefore, comparing the qualifications of City Light management to those at comparably sized private utilities would result in an unfair bias against City Light’s personnel. The relative magnitude of the wage differential issue is illustrated in Table 1.

Table 1
Comparison of Salaries for City Light Senior Management versus Private Utilities

Position	City Light	APPA Survey*	Percent Difference	Private Utilities**	Percent Difference
Superintendent	\$160,880	\$217,466	35%	\$402,800	150%
Deputy Superintendent of Generation	\$128,266	\$105,697	-18%	\$152,900	19%
Deputy Superintendent of Power Management	\$128,266	\$125,065	-2%	\$152,900	19%
Deputy Superintendent for Distribution	\$128,266	\$114,036	-11%	\$152,900	19%
Deputy Superintendent for Finance & Administration	\$128,266	\$130,079	1%	\$184,400	44%
Deputy Superintendent for Customer Services	\$109,265	\$107,390	-2%	\$169,500	55%
Director of Human Resources	\$87,905	\$103,927	18%	\$138,300	57%
Director of External Affairs	\$95,651	N/A	N/A	\$171,700	80%
Director of Communications & Public Affairs	\$99,932	\$91,300	-9%	\$137,500	38%
Director of Strategic Planning, Environment & Safety	\$111,186	N/A	N/A	\$179,700	62%

*2002 Survey of Management Salaries, APPA (Average Salaries for Utilities Greater than 100,000 Customers)

**2000 Executive Compensation Survey, William M. Mercer, Inc.

Table 1 shows that the compensation at private utilities are roughly 19 to 150 percent higher than that of City Light at the top management positions. Comparing City Light’s managers salaries to those comparable publicly-owned utilities, we find that the Superintendent appears to be significantly under-compensated, while the rest of City Light’s top management are within 20 percent of the average for comparable positions. These salary level disparities add context to our comparisons of qualifications. Given the scarcity of these positions at other publicly-owned utilities, no data was for the Directors of External Affairs or Strategic Planning, Environment and Safety.

Results for Key Management Positions

Superintendent/General Manager

The first management position examined is the Superintendent. In other utilities this position carries different titles including, Chief Executive Officer, General Manager and Director. However, the roles and responsibilities are similar. These positions are generally responsible for the overall management, administration and operations of the utility, and report directly to their respective Utility Board, City Council or other governing body. The degree to which this manager oversees the day-to-day operations of the utility typically is inversely proportional to the expected level of interaction with outside influences (e.g., city councils, utility boards, regional and national organizations, regional and national policy makers, other regulatory bodies, etc.). For the comparisons used here, at a minimum, a primary duty of the comparable manager at other utilities was expected to be the handling of these external relations.

Based on the survey results, the qualifications of the comparable personnel in this type of position includes roughly 30 years of work experience, 25 of which is usually electric utility-related. This work experience typically includes many utility-related activities including, legal counsel, finance, administration and engineering. Most have some utility-related experience outside of the utility where they are currently employed. This outside utility experience accounts, on average, for half of their total work experience.

It should be noted that these results are skewed somewhat by the prevalence of utility managers coming from larger utilities, moving to the top positions within much smaller utilities late in their careers. By contrast, there is a tendency for the managers at the larger utilities in the sample to have much longer and stronger ties to their current employer. If the managers at the larger utilities had any outside utility experience, it was most often in the beginning of their careers.

The educational experience of the surveyed managers included a wide range of degrees and emphases. All had undergraduate degrees, which ranged from political science to economics to some form of engineering. Many managers have graduate or legal degrees. A few are licensed engineers.

By comparison, City Light's Superintendent has 29 years of experience, 16 of which is utility-related and 8 of which is electric utility-related. The Superintendent's background is primarily in municipal finance and overall management of municipal utility departments. The Superintendent's educational background includes an undergraduate degree in the liberal arts.

While the Superintendent's total experience, particularly experience dealing with municipal issues, is better than his surveyed peers, the City Light Superintendent has less electric utility experience. Given the multi-faceted requirements of the City Light Superintendent, lack of lengthy electric utility experience is not seen as a deficiency. Further, we find that the Superintendent's lack of professional engineering licenses is not problematic, as having a professional engineering license is not as important for a top utility manager as it once was, particularly for larger utilities. The trend in electric utilities is for top managers to have

experience dealing with outside forces and politics, and to delegate more of the responsibility of day-to-day operations to others. In summary, we find the Superintendent's qualifications appropriate for his position.

Generation

The next position examined is Deputy Superintendent of Generation. The primary responsibilities of this position include assisting the Superintendent and the city's elected officials to establish strategic direction consistent with utility goals and policy direction, directing the completion of capital and maintenance programs to assure high reliability of power generation equipment, coordinating relationships with other utility branches, and managing senior staff in the generation department to monitor performance.

Based on the survey results, the qualifications of the comparable personnel in this type of position includes roughly 25 years of work experience, 20 of which is usually electric utility-related. This work experience spans many activities including resource planning, dispatch, power generation engineering and plant operations. Slightly more than half of the personnel comparable positions have some utility-related experience outside of the utility where they are currently employed. For those with outside utility experience, this accounts, on average, for between 5 and 10 of their total work experience. In general, this outside experience was gained early in their careers.

The educational experience of the surveyed managers in comparable positions included a wide range of degrees and emphases. All had undergraduate degrees in some field of engineering. Most of these managers have graduate degrees, some in engineering and some in business. Half are licensed engineers.

By comparison, City Light's Deputy Superintendent of Generation has 33 years of total experience, 18 of which is electric utility-related. The Deputy Superintendent's non-utility experience is not directly relevant to the requirement of the current position. The Generation Deputy's background spans electrical engineering related to the distribution, transformation and, most recently, the production of power. The Generation Deputy' educational background includes a degree in electrical engineering, as well as follow-on management training.

Comparing the qualifications of City Light's Deputy Superintendent of Generation to those of comparable managers at other utilities, we note the absence of either an advanced degree or professional engineering license. The Generation Deputy also does not have any outside utility experience but, again, those included in this comparison that do usually obtained this experience much earlier in their careers. Although having some exposure to the generation operations of other utilities might be useful, having a greater knowledge of City Light's operations and generation personnel is probably of greater value for this position. In general, the qualifications of the Generation Deputy compare slightly unfavorably to survey group peers, primarily due to the relative lack of generation-related experience and advanced training.

Power Management

The next position examined is Deputy Superintendent of Power Management. The primary responsibilities of this position include assisting the Superintendent and the city's elected officials in establishing strategic direction consistent with utility goals and policy; and directing the negotiation and administration of all long-term purchase and sale of wholesale energy to assure a high reliability of the power supply and the necessary high voltage transmission to move the energy to the load center or to the market place. The Power Management Deputy also ensures that the operation of the Skagit and Pend Oreille river systems meet all federal license requirements and other federal, state, and tribal agreements for the protection and enhancement of various indigenous species. Finally, the Power Management Director works closely with the utility's generation branch and other contracted resources to meet customer loads at the lowest cost and to maximize the value of surplus energy marketing activities

Based on the survey results, the qualifications of the comparable personnel in this type of position includes roughly 25 years of work experience, all of which is usually electric utility-related. This work experience includes power scheduling, dispatch, resource planning, power marketing, engineering and power plant operations. Most of these managers have some utility-related experience outside of the utility where they are currently employed. For those with outside utility experience, this accounts, on average, for about 10 years of their total work experience, generally in the early portion of their careers.

The educational experience of the surveyed managers in comparable positions is very similar. All had undergraduate degrees; most were in electrical engineering or some other field of engineering. Most managers have graduate degrees. More than half are licensed engineers.

By comparison, City Light's Deputy Superintendent of Power Management has 34 years of experience, all of which is electric utility-related. Before coming to City Light, this experience was gained in a number of electric/utility companies over the first 18 years of his career. The Power Management Deputy is currently a member of a wide range of power market operating committees. His background is primarily in power marketing, scheduling and dispatch. The Deputy Superintendent's educational background includes an undergraduate management degree.

Comparing the qualifications of City Light's Deputy Superintendent of Power Management to those of comparable managers at other utilities, we note the lack of advanced degrees or professional licenses. However, the extensive professional experience, including work at other utilities and through membership in operating committees, appears to effectively offset these apparent deficiencies. On balance, the qualifications of the Power Management Deputy compares favorably to similarly situated managers in the surveyed utilities.

Distribution

The next position to be evaluated is Deputy Superintendent for Distribution. The primary responsibilities of this position include assisting the Superintendent and the city's elected officials to establish strategic direction consistent with utility goals and policy direction; directs

the completion of capital and maintenance programs to assure high reliability of power delivery; coordinating relationships with other utility branches; and managing senior staff to monitor performance. Functional responsibilities overseen by the Distribution Superintendent include system planning, program/project management, distribution engineering, electrical service and construction, substation engineering and maintenance, vegetation control, metering services, telecommunications, maps and records, account management and apprenticeship and technical training.

Based on the survey results, the qualifications of the comparable personnel in this type of position includes slightly better than 30 years of work experience, over 25 of which is usually electric utility-related. This work experience typically is heavily weighted towards utility engineering, operations and maintenance. Slightly less than half of the surveyed managers have some utility-related experience outside of the utility where they are currently employed. For those with outside utility experience, most appear to have relocated to their current utility midway through their careers.

The educational experience of the surveyed managers in this position included a range of degrees and emphases. Most had undergraduate degrees, usually in electrical engineering, physics or business. Few distribution managers have graduate degrees. Roughly a third of the surveyed managers were licensed engineers.

By comparison, City Light's Deputy Superintendent for Distribution has 33 years of experience, 6 of which is electric utility-related. Although only 6 is with an electric utility, we find that at least 7 more years spent as the Electrical Systems Manager at the Seattle Engineering Department appear to have relevance to the current position. So, although not explicitly stated as such, we treat the full 13 years as being relevant for purposes of our comparison.

In general, the Distribution Deputy's background is primarily in utility and transportation engineering. The transportation knowledge, particularly given that it is primarily Seattle-based, probably helps in this position given that distribution services are impacted by roadwork (e.g., road widening). The Distribution Deputy's educational background includes an undergraduate degree in electrical engineering. The Distribution Deputy is also a licensed engineer.

Comparing the qualifications of City Light's Deputy Superintendent for Distribution to those of comparable managers at other utilities, we note the overall lack of electric utility experience. However, the related engineering experience is seen as a benefit. Being a licensed engineer is also seen as beneficial. Finally, it should be noted that having experience at other electrical utilities is seen as having limited use for this position and are outweighed by the importance of personnel relations and system knowledge. Those relationships and that knowledge are most easily gained through the accumulation of tenure at a single utility. Although more electric utility experience would be helpful, on balance, the Distribution Deputy's qualifications are comparable to those of the surveyed managers.

Finance & Administration

The Deputy Superintendent of Finance and Administration was evaluated next. The primary responsibilities of this position include overseeing its three divisions, providing the utility with overall plans, policies and fiscal controls related to all financial, risk management, general facilities and information technology functions. The Finance Deputy also coordinates the utility's budget and capital improvement process, manages the financial forecasting and ratemaking processes, and works with the city to manage the utilities debt and cash portfolios. The Finance Deputy also provides oversight of accounting, general ledger and cost accounting, manages the sundry sales billing processes, accounts payable and consulting contracts.

The qualifications of the comparable personnel in this type of position include roughly 25 years of work experience. Of this amount, about 15 years are usually electric utility-related. Few have utility-related experience outside of the utility where they are currently employed, but all have some sort of experience outside the utility. The source of outside employment varied widely, with many working for non-utility businesses, accounting firms, or city government. For many, over half of their careers were spent at places other than the utility where they are currently employed, including many years outside of the utility industry.

The educational experience of the surveyed managers in comparable positions included degrees in business, accounting, or economics. All had undergraduate degrees and many had advanced degrees, primarily masters in business administration (MBA). All but a few were certified public accountants (CPA).

By comparison, City Light's Deputy Superintendent of Finance and Administration has 28 years of experience, 8 of which is electric utility-related. Like many in equivalent positions, the Finance Deputy's background is primarily in finance and administration, with more emphasis in municipal finance than most others. The Deputy Superintendent's educational background includes a bachelors and masters degree in economics.

Comparing the qualifications of City Light's Deputy Superintendent of Finance and Administration to those of comparable managers at other utilities, the most noticeable difference is the lack of a CPA and, below average amount of electric utility experience. However, given the background in municipal finance and administration, given the municipal ownership of City Light, this relevant experience tends to offset the noted shortcomings in education and professional certifications. In general, the Finance Deputy has qualifications comparable to his peers at the surveyed utilities.

Customer Services

The next position examined is the Deputy Superintendent of Customer Services. The primary responsibilities of this position includes providing executive leadership and management direction for the creation and implementation of responsive policies, practices and procedures that ensure customer satisfaction and retention, accurate and timely billing, credit and collection activities; and delivery of energy conservation programs that support community values, contribute to a healthy economy, complement other city services, and enhance the environment.

Based on the survey results, the qualifications of the comparable personnel in this type of position includes roughly 30 years of work experience, 20 of which is usually electric utility-related. This work experience spans many activities including customer service, billing, collections, human resources, operations, marketing, operations and engineering. About half of the surveyed managers in this field have some utility-related experience outside of the utility where they are currently employed. For those with outside utility experience, this accounts, on average, for a majority of their total work experience. It is interesting to note that those with outside utility experience often came to this position without significant experience in the customer service field. The average amount of customer service-related experience across the comparable personnel is slightly over 15 years. For those with the least customer-service experience, they typically have a significant amount of electric utility experience.

The educational experience of the surveyed managers in comparable positions included a wide range of degrees and emphases. All have undergraduate degrees in fields that include business, psychology, engineering, urban planning, organizational behavior and economics. About half of the managers have graduate degrees, usually MBAs. A few are licensed engineers or certified public accountants. Having a CPA or engineers license might seem misplaced for a customer service manager. However, this is typically related to the multi-purpose function of this position at different utilities where, in addition to customer service, this manager might also be responsible for other aspects of electricity delivery or finance and administration.

By comparison, City Light's Deputy Superintendent of Customer Service has 27 years of experience, 3 of which is electric utility-related and the remaining is primarily general government-related. The Deputy Superintendent's background is primarily in public finance. The Deputy Superintendent's educational background includes a bachelor's degree in science.

Comparing the qualifications of City Light's Deputy Superintendent of Customer Service to those of comparable managers at other utilities, we note that the Deputy Superintendent has considerably less electric utility and customer service-related experience than the peer group. We also note the lack of an advanced degree or certification.

Other

Apart from the Deputy Superintendent positions, City Light's Superintendent also has 4 directly reporting Director positions. The qualifications of the personnel in these positions are discussed below.

■ Human Resources

The first Director position examined is for Human Resources. The primary responsibilities of this position include overseeing equal opportunity compliance, labor relations, recruitment and employment, payroll, personnel records, personnel data management and reporting, benefits and training for City Light. The Director's responsibilities also include overseeing the coordination of employment litigation and civil service cases, classification activities, grievances, and disciplinary actions.

Based on the survey results, the qualifications of the comparable personnel in this type of position includes roughly 20 years of work experience, 5 of which is usually electric utility-related. The work experience of the persons in comparable positions primarily relate to human resource and personnel issues. For those in the sample set, their utility experience is limited outside of the utility where they are currently employed. The educational experience of the surveyed managers includes undergraduate degrees in business, sociology and history, and master's degrees in public administration and human resource management.

By comparison, City Light's Director of Human Resources has 27 years of experience, 22 of which is electric utility-related. All of the Director's work experience is personnel and human resource-related. The Director's educational background includes an undergraduate degree in history.

Comparing the qualifications of City Light's Director of Human Resources to those of comparable managers at other utilities, the primary observations are that the overall human resource-related experience, particularly in a utility environment, are greater than average. This offsets the Director's lack of an advanced degree. Based on the relatively small comparable sample set, the Director appears qualified relative to his peers.

- External Affairs

The next position evaluated is the Director of External Affairs. The primary responsibilities of this position includes developing key legislative and regulatory positions of the utility, in collaboration with the Mayor's Office, City Attorney, and City Light Executive Team, and representing these positions before Congress, the State Legislature, regional bodies, and federal regulatory agencies. The Director also has primary responsibility for developing analytic responses, testimony, and other written materials in connection with legal proceedings of the Federal Energy Regulatory Commission (FERC).

Before discussing comparables, let us first note that this position is not common among public utilities along the west coast. We were only able to locate a handful with such a position and, not surprisingly, they were typically found at the larger public utilities. Unfortunately, we were able to obtain very little biographical information from any of these utilities for their comparable manager of external affairs. However, we were able to obtain job descriptions, which includes job-related educational and work experience requirements. Although not perfect, this was thought to be a reasonable "next best" alternative to getting actual comparable information.

Based on the job descriptions of the other utilities from whom this information was obtained for this position, the desired qualifications of the comparable personnel in this type of position includes a minimum of 7 years of work experience related to representing utilities in legislative and regulatory forums. Advanced degrees are considered desirable, particularly in business, political science and/or law.

By comparison, City Light's Director of External Affairs has 30 years of experience, all of which is electric utility-related. The Director's background is primarily in research, utility

regulation and public policy. The Director's educational background includes an undergraduate economics degree and an MBA.

Comparing the qualifications of City Light's Director of External Affairs to the requirements for comparable managers at other utilities, it is clear that the Director has ample qualifications and broad experience in the electric utility industry. In general, the Director appears extremely well qualified for this position.

■ Communications & Public Affairs

The next position examined is the Director of Communications and Public Affairs. The primary responsibilities of this position include overseeing the development of the utility's strategic communications direction in partnership with elected and utility leadership, to describe the details of that direction – the audiences, messages, communication tools – and to implement those strategies.

Based on the survey results, the qualifications of the comparable personnel in this type of position includes roughly 30 years of work experience, of which, an average of 15 is in electric utility-related. This work experience typically begins with emphasis in journalism and public relations in the private sector, before joining an electric utility.

The educational experience of the surveyed managers includes degrees in English, speech and journalism. None of the comparable managers have graduate degrees or any other professional licenses.

By comparison, City Light's Director of Communications and Public Affairs has 32 years of experience, 12 of which is electric utility-related. The Director's background is primarily in journalism and public relations. The Director's educational background includes an undergraduate degree in history.

Comparing the qualifications of City Light's Director of Communications and Public Relations to those of comparable managers at other utilities, the qualifications and backgrounds compare very well. Although the Director has slightly less than average electric utility experience, the overall length and breadth of his experience is enough to compensate for this minor disparity.

■ Planning, Environment & Safety

The last Director's position examined is for Strategic Planning, Environment and Safety. The responsibilities of this position are broad and varied. The Director is responsible for three distinctly different functional areas. First, the Director provides executive leadership and management assistance to the Superintendent, Mayor, City Council and utility management and staff in the development of comprehensive, strategic policies and business practices central to the utility's success in a changing industry. The Director also oversees the Environment and Safety Division's work with all City Light branches and divisions to provide a safe workplace, protect the natural environment, and provide resources for utility compliance with laws and regulations.

None of the utilities surveyed had a comparable position. Most often, the three areas covered by this position were handled by three different managers, perhaps as part of duties related to different positions. Not being able to find a direct comparable, this position was compared to other multi-purpose, multi-functional positions at other utilities that report directly to the utility's top manager. The purposes and functions addressed by this position are often different, but many utilities have such a person to work on special assignments and to cover utilities issues that are important to their particular utility. Their work often covers issues that span different layers and functions within utility.

Based on how we chose to identify comparable positions, the qualifications of the comparable personnel includes roughly 30 years of work experience, 20 of which is usually electric utility-related. This work experience includes utility budgeting, management, administration, environmental compliance and employee issues. Few have utility-related experience outside of the utility where they are currently employed. For the few with outside utility experience, this accounts, on average, for a little less than half of their total work experience.

The educational experience of the surveyed managers in comparable positions includes undergraduate degrees with emphasis in business or political science. Most managers also have graduate degrees and one was a certified public accountant.

By comparison, City Light's Director of Strategic Planning, Environment and Safety has 30 years of experience, 14 of which is utility-related and 9 of which is electric utility-related. The Director's background is primarily in financial analysis, facilities management and solid waste. The Director's educational background includes a bachelors and masters degree in economics.

Comparing the qualifications of City Light's Director of Strategic Planning, Environment and Safety to those of "comparable" managers at other utilities, the Director has slightly less experience working in or with electric utilities. No other material difference in background or qualifications was observed.

Results for Functional Managers

In addition to those managers reporting directly to the Superintendent, we were asked to review the qualifications and backgrounds of the managers reporting to the above Deputy Superintendents. We requested such information from the surveyed utilities to make comparisons with managers in these positions. Unfortunately, in nearly all cases, either this information was unavailable or the top manager at the utilities were unwilling to allow us to speak directly with those in these positions to obtain this information through an in-person or telephonic survey.

Given the limited comparable information for each of these individual positions, the approach taken to discuss the qualifications of these managers was to aggregate the positions below each

Deputy Superintendent and to compare their collective backgrounds and qualifications with those comparable collective positions in other utilities.

Generation and Power Management

The job duties of those reporting to the Deputy Superintendents of Generation and Power Management cover all manner of power supply issues for City Light. The Director of the Generation Engineering Division is responsible for overseeing the work of the generation electrical and civil-mechanical engineering units, and capital and O&M projects in support of City Light's electrical generation facilities. The Plant Operations Director is responsible for directing and overseeing activities, programs and projects related to power generation O&M for City Light's electrical generation facilities. The Director of Power Marketing is responsible for maximizing the value of City Light's hydro system while maintaining its reliability. This director is also responsible for managing City Light's resource portfolio and ensuring that the utility is in compliance with all FERC license requirements and agency agreements. The Director of Resource Operations Planning is responsible for the forecasting of resource needs and availability, as well as market prices. This director is also responsible for risk management relating to power supply and ensures that resource balance is achieved in the lowest cost manner and in compliance with environmental regulations. Finally, the Manager of Wholesale Contracts is responsible for the negotiation and administration of wholesale power supply contracts, power system operations reporting and assisting with credit risk management.

Based on the survey results, the qualifications of the comparable personnel in these type of power supply-related positions have an average of nearly 25 years of work experience, nearly all of which is usually electric utility-related. Their work experience includes power resource planning, engineering, risk management, contract negotiations, and operations. On average, about 15 years of their electric-utility experience was obtained outside of the utility where they are currently employed. The educational experience of these managers includes undergraduate degrees in electrical engineering, and master's degree in business administration. One manager is a licensed engineer.

By comparison, City Light's functional managers in generation and power management have an average of nearly 25 years of experience, nearly all of which is electric utility-related. Between the five managers, they have an average of nearly 15 years of electric utility experience outside City Light. Their work experience includes power supply planning, engineering, risk management, contract negotiations, scheduling, dispatch, forecasting and operations. Their educational background includes bachelor degrees in economics, mechanical engineering and fisheries. One manager has a Doctor of Philosophy (PhD) in economics and another has a master's degree in fisheries. One of the managers is a licensed engineer.

Comparing the qualifications of City Light's functional managers in generation and power management to those of comparable managers at other utilities, these managers compare well on most levels. They tend to have comparable experience in terms of years, emphasis, and experience outside their current utility. These City Light managers also have comparable education levels and licenses.

Distribution

The job duties of those reporting to the Deputy Superintendent of Distribution relate to the reliable and safe delivery of power to City Light's customers. The Transmission and Planning Director is responsible for overseeing the planning and design of City Light's delivery facilities. This director also negotiates transmission contracts on behalf of City Light and assists the utility to formulate policy in response to regional transmission issues. The Directors of City Light's three Electric Services Branches are responsible for managing the distribution-level operations at their respective service centers, including customer engineering, construction, vegetation management and materials management. The Director of Power Stations is responsible for overseeing the construction, operations and maintenance of City Light's substations. Finally, the Director of Power Systems Operations is responsible for overseeing the system control center to ensure safe, reliable delivery of power to City Light customers.

Based on the survey results, the qualifications of the comparable personnel in these type of positions include an average of nearly 25 years of work experience, all of which is electric utility-related. The work experience of these personnel includes electrical engineering and operations. They tend to have less than 5 years of electric-utility experience outside of the utility where they are currently employed. The educational experience of these managers includes undergraduate degrees in business and electrical engineer.

By comparison, City Light's functional managers in distribution have almost 30 years of experience, all of which is electric utility-related. An average of almost 10 years of this experience was gained outside City Light. Their work experience is related to transmission and distribution planning, operations, maintenance and engineering. Their educational background includes undergraduate degrees in electrical engineering, business and public administration. They also include a master's degree in electrical engineering and PhD in biomedical engineering. Two of the directors are also licensed engineers.

Comparing the qualifications of City Light's functional managers in distribution to those of comparable managers at other utilities, they appear to generally be more educated, experienced and qualified than the managers to whom they are being compared. These City Light managers also have, on average, more experience at other utilities.

Finance & Administration

The Directors reporting to the Deputy Superintendent of Finance and Administration are generally responsible for the accounting, information systems, and the risk and facilities management for the utility. The Director of Finance is responsible for financial planning, accounting, procurement and payments for City Light. The Director of Information Technology is responsible for directing the management of all aspects of planning, implementing and operating City Light's information technology, including software applications and hardware infrastructure. The Director of Facilities Management oversees real estate services, facility design and building operations. City Light's Risk Officer is responsible for the oversight of City Light's risk management program.

Based on the survey results, the qualifications of the comparable personnel in these type of positions include an average of 25 years of work experience, 20 of which is usually electric utility-related. The work experience of the persons in comparable positions includes accounting, risk management, programming, engineering, power contract negotiations, and general financial analysis. They tend to have, on average, 5 years of electric-utility experience outside of the utility where they are currently employed and typically have much more experience outside of utilities. The educational experience of these managers includes undergraduate degrees in business and engineering, and masters degrees in business and economics. A manager in one comparable position is a certified public accountant, while another had a law degree.

By comparison, City Light's functional managers in finance and administration have an average of 20 years of experience, 15 of which is electric utility-related. Less than 5 years of this experience, on average, was gained outside City Light. Their work experience is generally equivalent to the group of comparable managers. Their educational background includes undergraduate degrees in economics, sociology and geography. Two of the managers have PhDs in economics and one has a master's degree in education.

Comparing the qualifications of City Light's functional managers in finance and administration to those of comparable managers at other utilities, on average, City Light's managers tend to be more educated but slightly less experienced. These factors tend to balance each other out. Thus, the overall qualifications of this set of City Light functional managers appears equivalent to the comparable group of managers at other peer utilities.

Customer Services

The Directors reporting to City Light's Deputy Superintendent of Customer Services are responsible for oversight of the utilities conservation, customer relations and customer accounting programs. The Director of Energy Management Services is responsible for directing all of the utilities conservation programs. The Director of Account Services is responsible for meter reading, billing, credit and collection services. The Account Executive Manager has oversight of City Light's business relationships with its largest industrial, commercial and governmental customers.

Based on the survey results, the qualifications of the comparable personnel in these type of positions include an average of 25 years of work experience, an average of about 15 years of which is electric utility-related. The work experience of the persons in comparable positions is related to service center operations, meter reading, billing, conservation and municipal administration. These managers tend to have very little electric-utility experience outside of the utility where they are currently employed. The educational experience of these managers includes undergraduate degrees in political science and engineering. One has a master's degree in public administration.

By comparison, City Light's functional managers in customer service have an average of 20 years of work experience, about 15 of which is electric utility-related. These managers have no utility experience outside City Light. Their work experience is weighted more heavily to conservation, with additional experience in billing, community development and customer

relations. Their educational background includes undergraduate degrees in urban planning, English and history. One manager has a master's degree in history.

Comparing the qualifications of City Light's functional managers in customer services to those of comparable managers at other utilities, these managers tend to have slightly less experience overall, but not in electric utilities. Their experience tends to be light in the traditional areas related to customer service, including service center operations, meter reading, billing, etc. They also tend to have, on average, roughly an equivalent level of education. In total, their qualifications appear slightly below those of similar managers in other the utilities surveyed in this study. The primary weakness is the lack of traditional customer service experience.

Summary of Strengths and Weakness of City Light Management Team

The strengths and weaknesses of City Light's management team are summarized below. They are generally discussed at the executive level, then at the level of the functional managers. Also, Attachment 1 to this report provides an overview of the comparison in a tabular form. It is difficult to capture all of the nuances of each comparison and, although this table provides a reasonably good vehicle for summarizing our findings, it should not be considered a substitute for the discussions contained in this report.

Superintendent and Directly Report Managers

The qualifications of City Light's executive management team are a mixed bag of apparent strengths and weakness relative to the surveyed peer group. Among the most notable strength is the qualification of the Director of External Affairs. Given the increased presence of external forces that affect and will affect City Light in the future (e.g., the standard market design being proposed for the nation's electrical system), having a well-qualified person in this position is becoming of greater importance.

The principal weakness in the qualifications City Light's executive management team is the area of customer service and in the position of the Deputy Superintendent of Generation. For the customer service management team, we note both the lack of electric utility experience, and a lack of general customer service background relative to comparable personnel at the surveyed utilities. The Generation Deputy was found to have far less relevant generation experience than those in comparable positions.

The remaining positions appear to have a roughly equivalent and appropriate level of qualifications, relative to personnel at comparable positions in the utilities surveyed. This includes the position of Superintendent.

Functional Managers

Of the functional managers, those serving under the Deputy Superintendent for Distribution appear to have the greatest advantage in qualifications relative to their surveyed counterparts at

other utilities. They tend to be generally more educated and experienced than comparable managers in the survey.

As with the discussion of the executive team, the qualifications of functional managers with the greatest relative weakness are in the customer service branch of the utility. Although their overall experience and educational levels are comparable, and their experience in the area of conservation are perhaps unparalleled, their lack of experience in the more traditional areas of customer service (e.g., call centers, billing, etc.) are apparent.

The functional managers associated with generation, power management, and finance and administration all appear to have qualifications commensurate with their collective counterparts at the surveyed utilities.

Need for a Chief Operating Officer

Roles and Responsibilities

The evolution of the chief operating officer position in organizations of all kinds represents a growing recognition of the complexity and growing demands on top executives, with the need to separate leadership among two or more individuals in a rational way.

There are two typical CEO / COO organizational models:

- Line/Staff model: In this model the COO will have responsibility for all line utility functions and all staff management functions. In this model the CEO is typically focused on non-operating matters such as regulatory affairs, strategic planning, interface with public oversight groups, interface with Boards of Directors, and so forth.
- Line only model: In this model the COO is really a line manager for the power business. The power business line manager usually manages the entire electric utility (generation and delivery). Usually, their title denotes responsibility over the entire electrical operation of the utility, but not COO. The CEO in this model continues to have direct reports for staff functions such as finance and human resources and is also focused on non-operating matters such as regulatory affairs, strategic planning, interface with public oversight groups, interface with Boards of Directors, and so forth.

More generally, the Chief Operating Officer position has become an important component of many well known and high performance Northwest businesses. Examples of organizations using this structure would include Microsoft, Starbucks, Weyerhaeuser, and Shurgard Public Storage.

Common Background and Qualifications

In our survey group we found four other utilities with positions that are associated with Chief Operating Officer responsibilities.

One of the utilities uses the title Chief Administrative Officer (CAO) to whom all assistant general managers report. The CAO is the only direct report to the CEO or General Manager (GM). The basic structure of the others has a GM with direct reports from a head of the power business line, water or some other business line, finance, customer service and one or more others. The power business line manager usually manages the entire electric utility (generation and delivery). Usually, their title denotes responsibility over the entire electrical operation of the utility, but not COO.

The qualifications of these types of managers include an average of 30 years of work experience, an average of about 25 years of which is electric utility-related. The work experience of the persons in comparable positions includes a broad range of utility engineering, operations, and finance, as well as some municipal administration. In half of the managers, all of their electric-utility experience was obtained outside of the utility where they are currently employed. The educational experience of these managers includes undergraduate degrees, primarily in engineering. Only one had an advanced degree, but half are licensed engineers.

Determining the Need for a COO

We believe that there are three relevant considerations, which together lead us to conclude that a new executive position at this level is appropriate for City Light. These considerations are: Span of Control, Job Factor Analysis, and Direct Observation. Each of these is discussed below.

- *Span of Control.* This refers to the number of subordinates who report directly to a single manager, supervisor or lead. The number of subordinates per manager is known as the span of control ratio. Management theorists and practitioners have long held that there is no “universal” ratio that fits all circumstances.

At present, City Light’s Superintendent has nine direct reporting positions, or a 9:1 ratio. This is considerably in excess of the average of our survey group across all utilities, which averaged 5.66:1.

In addition, the results of overall Span of Control studies in other jurisdictions over the last decade, reported below, are an average of 5.65:1.

Table 2 Span of Control in Selected Jurisdictions	
Jurisdiction	Span of Control
Kansas City, Missouri (2001)	4.6
Portland, Oregon (1994)	6.5
Seattle, Washington (1996)	5.9
King County, Washington (1994)	5.6
Average of Survey Group	5.65

Source: *Performance Audit: Span of Control, City Auditor’s Office, City of Kansas City, Missouri, April 2002, page 12.*

We are lead to conclude, therefore, that some consolidation of the Superintendent’s direct reports and a reduction of the present span of control are appropriate.

- *Job Factor Analysis.* This refers to an assessment of all of the factors in a particular organizational setting that lead to a rational conclusion regarding wider or narrower spans of control.

The particular job factors that we considered and our observations regarding the City Light top management environment follow:

Table 3 Job Factors Influencing Span of Control			
Factor	Narrower Span of Control	Wider Span of Control	Comments re SCL Top Management Environment
Nature of work	Complex	Not complex	Very complex and dynamic
Similarity of activities performed	Different	Similar	Different
Clarity of organizational objectives	Not clear	Clear	Clear
Degree of task certainty	Uncertain	Certain rules	Often certain but in an uncertain and changing context
Degree of risk for the organization	High	Low	Often high for SCL
Degree of public scrutiny	High	Low	High
Supervisors qualifications and experience	Weak	Strong	Generally strong except as noted otherwise in this report
Burden of non-supervisory duties	Heavy	Light	Very heavy
Degree of cooperation required	High	Low	High
Availability of staff assistance	None	Abundant	Adequate staff resources
Qualifications and experience of subordinates	Weak	Strong	Generally strong except as noted otherwise in this report

Source: City of Portland Span of Control Study, prepared for the City of Portland Audit Services Division, June 15, 1994

While not entirely clear-cut, the weight of the Job Factor Analysis falls on the side of supporting a narrower span of control for top management at City Light.

We rely particularly on the following factors in forming this conclusion: Nature of the work (highly complex); degree of risk for the organization (high); degree of public scrutiny (high), and; burden of the Superintendent’s non-supervisory duties (high)

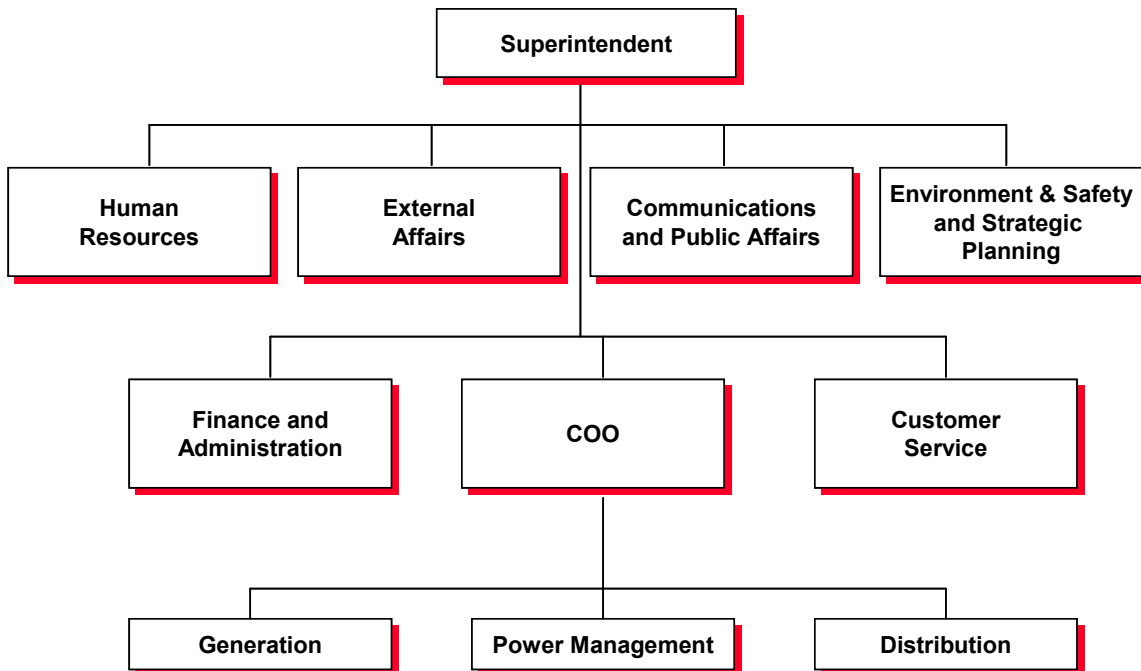
- *Direct Observation.* This project with City Light has permitted a significant amount of interaction with the Superintendent and his direct reports. This has lead us to observe that, despite best efforts, time demands on the Superintendent for external reporting and

accountability are incompatible with consistent, thoughtful involvement in all aspects City Light’s operations.

Alternatives to a COO

We believe that the Line Only model described earlier is the most appropriate structure moving forward for City Light. To recap, in this model the COO is really a line manager for the power business. The power business line manager usually manages the entire electric utility (generation and delivery). The CEO in this model continues to have direct reports for staff functions such as finance and personnel and is also focused on non-operating matters such as regulatory affairs, strategic planning, and interface with public oversight groups.

Giving consideration to City Light’s existing organizational structure, we would recommend the following organization to appropriately incorporate the COO.



Appropriate Qualifications and Compensation for COO at City Light

As the Line Only model is the preferred approach to incorporating a COO into City Light’s organizational structure, the qualifications for this position should be comparable to those of the managers observed in our survey in similar positions. To recap, this manager would ideally have 25 to 30 years of experience, preferably in the electric utility industry. An undergraduate degree

in some field of engineering, business or economics should be required, with a preference for those with an advanced degree and/or a professional engineering license.

In addition to the desired backgrounds and qualifications, the desired applicant for this position should possess a number of the following traits and skills. Most importantly, the COO should have an in-depth knowledge of the electric utility industry. This person should have excellent communications, interpersonal and organizational skills. Strong leadership, negotiations, and motivational skills would also be considered highly desirable.

Clearly, the ability to get the ideal candidate is materially impacted by the level of compensation being offered to attract such talent. To determine the appropriate level of compensation for this position, we relied on the 2002 Survey of Management Salaries, published by the American Public Power Association. The most appropriate position in this survey was described as the “Assistant General Manager.” This position is described as reporting to the general manager and being in charge of the utility in his or her absence. For utilities of comparable size (i.e., over 100,000 customers), the average salary was approximately \$150,000. Candidates in the third quartile of survey results commanded salaries of approximately \$180,000. This range in salaries would likely represent the bookends for compensation in this position at City Light. The level of compensation ultimately set will principally be driven by the quality of candidates desired for this position.

Method for Recruiting COO

The search for a new Chief Operating Officer for City Light will necessarily involve a sixty to ninety day process including the following steps:

- Search Preparation. This involves the final adoption of a job description, set of search criteria, and salary range for the position.
- Design Search Strategy. Successful searches are combination of job posting and advertising in the right places with professional networking.
- Conduct Search. This involves candidate interviews and screening, comparison of candidates to job requirements, and narrowing of candidate pool to a list of top three to five.
- Candidate Due Diligence. Candidate due diligence includes background investigations, reference checking, and informal background inquiries.
- Employment Offer. This step involves negotiating the final offer with the candidate, tailoring the offer package as needed, and generally accommodating the needs of both the candidate and the organization on the details of the employment arrangement.

Performance Assessment

City Light Approach to Management Performance Assessment

City Light's management performance assessment process is part of a City-wide performance management system authorized by Ordinance 120987. This program is Accountability Pay for Executives (APEX), and its two sub-programs APEX/SAM (for Strategic Advisors and Managers) and APEX/ITP (for Information Technology Professionals).

APEX is an incentive compensation system that is intended, among other objectives, to reward superior performance in a more direct manner than the step and grade pay progression system that it replaced. APEX is intended to link performance planning and job execution with variable cash compensation in manner found in many high performance organizations in all sectors.

We conclude that the design of the APEX meets or exceeds established best practices for executive performance management systems (see discussion below). However, in practice APEX has not been a fully effective approach to performance management for City Light. This is due to City-wide fiscal constraints over the last several years and management's inability to provide the cash rewards intended by the system, which reinforces employee effort and meeting or exceeding of job performance targets.

In essence, APEX is a pay for performance program in which the pay element has been compromised.

In all other aspects the APEX program appears to be well implemented by SCL.

Industry Standards for Management Performance Assessment

There are several "best practices" that are standard in executive performance management systems across all industries. These include:

- Ability to set enterprise wide goals and to translate these into elements of individual executive performance;
- High levels of interactivity in the executive performance planning process between managers and subordinates;
- Establishment of goals in quantitative and non-quantitative targeted performance areas;

- Clear performance coaching in the interval between planning setting and performance review;
- Performance feedback, typically multi-directional 360 degree review from superiors, peers, sub-ordinates, and;
- Meaningful linkage between personal performance and discretionary cash compensation (bonuses).

The APEX program design includes these elements.

Strengths and Weaknesses of City Light Approach to Performance Assessment

Our findings related to City Light’s performance management approach under APEX and best practices in this area are provided below.

Table 4 Performance Management Findings	
Best Practice	Findings re SCL use of APEX
Ability to set enterprise wide goals and to translate these into elements of individual executive performance.	Meets Best Practice. A good linkage exists between individual goals and those of the organization and the City.
High levels of interactivity in the executive performance planning process between managers and subordinates.	Meets Best Practice. The performance planning is bilateral involving both supervisor and subordinate.
Establishment of goals in quantitative and non-quantitative targeted performance areas.	Meets or Exceeds Best Practice. A great deal of evident care is taken to develop quantifiable or clearly observable targets for performance.
Clear performance coaching in the interval between planning setting and performance review.	Does Not Meet Best Practice. The inability to provide cash rewards for performance has lead to an unenthusiastic environment for performance coaching. The Superintendent does not hold periodic meetings as anticipated in the APEX system design with his direct reports, although informal performance discussion still occurs. In addition, the number of direct reporting positions (nine) to the Superintendent makes regular performance coaching difficult.
Performance feedback.	Meets Best Practice. Written performance reviews are carefully documented and pertinent relative to the targeted performance of individuals.
Meaningful linkage between personal performance and discretionary cash compensation (bonuses).	Does Not Meet Best Practice. This is due to City-wide fiscal constraints over the last several years and management’s inability to provide the cash rewards intended by the system, which reinforces employee effort and meeting or exceeding of job performance targets.

In essence, APEX is a pay for performance program in which the pay element has been compromised.

Recommended Improvements for City Light's Management Performance Process

We believe that the APEX program is a well conceived and well designed executive performance management system *if* properly funded. We therefore recommend that the performance bonus element be restored as soon as possible. However, with or without restoration of performance bonuses, we also recommend that a greater effort be made by either the Superintendent or by a new Chief Operating Officer to meet with direct reports on a regular basis to formally review performance.

Summary and Recommendations

Strengths and Weaknesses of City Light Management Team

The qualifications of personnel in management positions at City Light were compared to those at larger, west coast publicly-owned utilities. The management positions included those at the executive level as well as the functional managers reporting to City Light's Deputy Superintendents. Qualifications were compared on the basis of educational level, the presence of professional certifications or licenses, and work experience. Particularly emphasis was put into discerning the amount of electric utility experience was present and where it was obtained.

The strongest qualifications of City Light management, relative to the set of comparable managers at other utilities, were found with the Director of External Affairs and the functional managers supporting the Deputy Superintendent of Distribution. Both benefited with strong educational backgrounds and solid work experience relevant to their positions.

The weakest qualifications of City Light management were found in its customer service branch, both at the executive level and for its collective functional managers, and in the position of the Deputy Superintendent of Generation. The qualifications of these managers suffered primarily from a lack of relevant job experience, although the customer service management team appeared well represented in the field of conservation.

While the Superintendent's total experience, particularly experience dealing with municipal issues, is better than his surveyed peers, the City Light Superintendent has less electric utility experience. Given the multi-faceted requirements of the City Light Superintendent, lack of lengthy electric utility experience is not seen as a deficiency. Further, we find that the Superintendent's lack of professional engineering licenses is not problematic, as having a professional engineering license is not as important for a top utility manager as it once was, particularly for larger utilities. The trend in electric utilities is for top managers to have experience dealing with outside forces and politics, and to delegate more of the responsibility of day-to-day operations to others. In summary, we find the Superintendent's qualifications appropriate for his position.

Although strengths and weaknesses varied between utility branches and between managers, overall, the remaining management positions appear to have an equivalent level of qualifications, relative to personnel at comparable positions in the utilities surveyed.

Need for a Chief Operating Officer

The evolution of the chief operating officer position in organizations of all kinds represents a growing recognition of the complexity and growing demands on top executives, with the need to separate leadership among two or more individuals in a rational way.

There are two typical CEO / COO organizational models, the Line/Staff and Line Only models. In the Line/Staff model, the COO has responsibility for all line utility functions and all staff management functions. In the Line Only model, the COO is primarily only concerned with the power business line (i.e., power supply and delivery).

We believe that there are three relevant considerations, which together lead us to conclude that a new executive position at this level is appropriate for City Light. These considerations are: Span of Control, Job Factor Analysis, and Direct Observation. Each of these considerations point to the need for a COO at City Light.

Given the above, it is recommended that City Light adopt the use of a COO and that it use the Line Only model for incorporating this position into its organizational structure. Based on our understanding of the background and qualifications of managers in comparable positions at the surveyed utilities, we recommend that the person filling this position have 25 to 30 years of electric utility experience; a solid understanding of the electric utility industry; excellent communications, interpersonal and organizational skills; and strong leadership, negotiations, and motivational skills. Based on industry salary surveys for comparable managers at publicly-owned utilities, it is anticipated that the annual salary required to fill this position will range from \$150,000 to \$180,000. The hiring of a COO should take no longer than 90 days to complete, and should be undertaken within standard City Light hiring protocol.

Strength and Weaknesses of City Light Approach to Performance Assessment

City Light's management performance assessment process is part of a City-wide performance management system. This program is Accountability Pay for Executives (APEX). In our estimation, the design of the APEX meets or exceeds established best practices for executive performance management systems. However, in practice APEX has not been a fully effective approach to performance management for City Light, primarily due to a lack of funding.

We therefore recommend that the performance bonus element be restored as soon as possible. However, with or without restoration of performance bonuses, we also recommend that a greater effort be made by either the Superintendent or by a new Chief Operating Officer to meet with direct reports on a regular basis to formally review performance.

Attachment 1
Comparison of Qualifications for City Light Management Relative to Similar Positions at Comparable Utilities

Key Management Position	Utility	Education/Training			Work Experience				
		Degrees/Emphasis			Utility Experience		Other Experience	Total Experience	Relevant Experience Outside Current Utility
		Undergrad	Graduate/ Other	Certifications	Total	Electric Utility			
Superintendent	City Light	BA-LibArts			16	8	13	29	Yes
	Comparable	BA-EE/ME/Econ/PolSc	MBA/MS-EE/JD	P.E. (20%)	25	25	5	30	Most
Deputy Sup. of Generation	City Light	BS-EE			18	18	15	33	No
	Comparable	BS-EE/ME/CE	MBA/MS	P.E. (50%)	25	20		25	None
Deputy Sup. of Power Mgmt	City Light	BA-Mgmt			34	34	0	34	Yes
	Comparable	BS-EE/ChemE,BA-Mgmt	MBA/MA-Ec	P.E. (50%)	25	25		25	Most
Deputy Sup. for Distribution	City Light	BS-EE		P.E.	6	6	27	33	Yes
	Comparable	AA,BS-EE/Phys,BA	MS-EE/MPA (few)	P.E. (30%)	25	25		25	Half
Deputy Sup. for Finance & Admin	City Light	BA-Econ	MA-Econ		8	8	20	28	Yes
	Comparable	BA/BS-Bus/Acct/Econ	MBA/MS/JD (50%)	CPA (75%)	15	15	10	25	Most
Deputy Sup. for Customer Services	City Light	BA-Science			3	3	24	27	No
	Comparable	BA-Bus/Econ,BS-Eng	MBA/MPA (50%)	P.E. (20%)/CPA(10%)	25	20	5	30	Half
Director of Human Resources	City Light	BA-Hist			22	22	5	27	No
	Comparable	BA/Soc-Bus	MA/MPA		15	15	5	20	All
Director of External Affairs	City Light	BA-Econ	MBA		30	30	0	30	Yes
	Comparable								
Director of Comm. & Public Affairs	City Light	BA-Hist			12	12	20	32	Yes
	Comparable	BS-English/Speech			15	15	15	30	All
Director of Strategic Planning, Env. & Safety	City Light	BA-Econ	MA-Econ		14	9	16	30	Yes
	Comparable	BA-Bus/PolSci	MA/MBA		20	20	10	30	Most
Functional Managers - Generation and Power	City Light	BA/BS-ME/Econ/Fish	PhD-Econ/MS-Fish	P.E.	23	22	1	24	Most
	Comparable	AA/BS-EE/ME	MBA	P.E.	25	25	0	25	All
Functional Managers - Distribution	City Light	BS-EE/Bus/PA	MS-EE/PhD-BioEng	P.E. (50%)	28	28	0	28	Most
	Comparable	BS-EE			25	25	0	25	Half
Functional Managers - Finance & Admin	City Light	BA-Econ/Soc/Geog	PhD-Econ/MA-Ed		15	14	3	18	Few
	Comparable	BS/BA-Bus/Eng/EE	MBA/JD/MS-Econ	CPA	20	20	5	25	Half
Functional Managers - Customer Services	City Light	BA-UrbPI/Eng/Hist	MA-Hist		17	14	3	20	None
	Comparable	AA/BA/BS-PolSc/ME	MA-PA		15	15	10	25	Some

