



KH's Approach with Utilities

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DYNAMIC TIMES DEMAND DYNAMIC RESPONSES

Utilities worldwide face rapid and unexpected changes. They face new demands from managers, workers, customers, oversight groups, and environmental organizations.

There is concern about the cost and consequences of the way energy is produced and used. Users need to become more efficient and reduce the impact of energy consumption on the environment. The concern with global warming has brought about public demand for changes in past practices with greater emphasis on alternative fuels. All of this must be done with public accountability for effective and efficient operations and staffing configurations.

Worldwide, the population is rising. While, theoretically, there are enough resources for everyone, there is a lack of adequate distribution. Some people have more goods and services than they appear to need, while others are destitute.

The answers to these needs lie in a combination of technological, political, and social change that present considerable challenges. In addition, effective action must be global, requiring use of emerging worldwide information, alternative energy, and communications networks to their fullest extent.

KH SERVICES OFFERED

KH is a full-service management consulting firm. We offer services in:

- Strategic Planning
- Organizational Design
- Business Process Re-engineering
- Human Resources
- Information Technology (IT)

KH services address these developing challenges and shifting demands. KH's clients struggle to change their organizational structures, learn new ways to work, and invest in the technology they must have to meet the expectations of their constituents. Utility clients find that they need better strategies, improved organization design, and better ways to adopt emerging technology. KH specializes in quasi-governmental entities that are highly regulated but must operate as a profitable operation.

All of this must be balanced with traditional missions in environments where resources cannot be increased as rapidly as cumulative expectations. This represents a thorny problem in strategic design, and it requires innovative ways to measure and communicate the accomplishments of the utilities.

KH develops practical, workable recommendations. More importantly, KH builds the consensus so critical to rapid adoption of new ways of working. Consensus, in turn, allows KH clients to reap the benefits of improved strategy, organizational design, and Balanced Scorecard performance measurements in a timely fashion.

In the public sector and for utilities, KH focuses on improving performance for a wide range of essential services,

KH Know-How

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programs, operations, and administrative functions. We work with client organizations to create new visions of success, and we deliver the tools and support to make these visions real. Our larger studies primarily involve:

Strategic Planning. KH's Strategic Planning practice:

- Facilitates strategic planning and assists with preparation of strategic plans or master plans
- Analyzes customer satisfaction; evaluates different scenarios for service delivery
- Assesses an organization's resources (staffing, capital, facilities, etc.) and competencies to determine if they are sufficient for achieving the desired strategic directions
- Assesses environmental and competitive situations
- Conducts market research, including community needs assessments and opinion surveys
- Evaluates options (acquisitions, divestitures, mergers) available to enterprises and selects among them
- Structures strategic initiatives to achieve strategic goals and objectives
- Defines policies, objectives, and goals for building a long-term competitive advantage
- Delineates strengths, weaknesses, opportunities, and threats (SWOT analysis)
- Prepares Balanced Scorecards for accountability and achievement of Strategic Plans
- Analyzes an organization's external environment and competition
- Analyzes market position and opportunity; evaluates different scenarios for product, geographic, and service diversification
- Conducts Board and management planning retreats

Organizational Assessments and Management Audits.

Even the most successful organizations periodically need an outside assessment of current management, operations, and organization design. These reviews provide executive management and elected boards with an improved understanding of the existing organization, and sharpened insights on where improvements can be made. KH has developed a comprehensive, thorough, and highly cost-effective approach to these assignments. A typical evaluation includes:

- Use of one or more advisory groups, including union representatives, to ensure that the study addresses constituent concerns
- Broad-based input from the community, employees, and management for stakeholder and customer input
- In-depth probing into problem areas
- Thorough review of findings and recommendations with management, advisory groups, and others who would be affected by the outcomes
- Integration of recommendations with existing strategies, operations, and plans

Business Process Reengineering. The conflict created when rising standards and expectations collide with declining revenues requires radical change. For many public sector entities today, incremental change will no longer suffice. Reengineering takes advantage of analytical techniques and advanced technology, proven in the private sector, to improve productivity and quality of services significantly for organizations that:

- Face serious financial difficulty, necessitating major cost reductions, improved service, quality, or higher service levels
- Currently perform adequately, but foresee changes that will severely challenge them
- Lead their peers and want to maintain their status

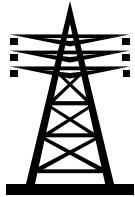
MASTER AGREEMENTS

KH has a number of Master Agreements with governmental agencies, including:

- **Office of the Chief Administrative Officer, County of Los Angeles:** Master Agreement (2001-2016) to perform Strategic Planning, Customer Service, Performance Measurement, and Special Studies
- **Office of the Auditor-Controller, County of Los Angeles:** Master Agreement (since 1994) to perform Management Audits and Special Studies
- **Office of the City Controller, City of Los Angeles:** Master Agreement (since 2001) to perform Management Audits and Special Studies
- **Information Technology Service (ITS) of the County of Los Angeles:** Master Agreement (three years) to perform Technical Systems Consulting
- **Public Utilities Commission (PUC) of Pennsylvania:** Master Agreement (pre-approved list of consultants) to perform Management Audits
- **State of California, Department of General Services (DGS):** Master Agreement to perform Business Management Consulting Services
- **Los Angeles World Airports (LAWA):** Master Agreement to perform Audit Services
- **Community Redevelopment Agency of the City of Los Angeles (CRA/LA):** Master Agreement to perform General Audit and Review Services
- **Salt Lake City, Utah:** Master Agreement to perform Management Studies

To be certified as a firm capable of performing management audits, KH has completed several Peer Reviews, as per the **U.S. Government's Yellow Book** requirements.

Representative KH Utilities Projects



The following projects show the size and scope of projects we can manage. We conduct small and large studies – both in terms of dollar amount and complexity of management issues. KH has performed more than 200 consulting studies in 25 states and 6 foreign countries.

We have a track record of providing our clients with a thorough and well-documented set of alternatives for their consideration. The detailed processes that lead to conclusions ensure that the alternatives developed are all feasible and applicable. Our approach to sharing developing ideas throughout the study ensures “buy-in” and commitment to the final recommendations, thus facilitating implementation.

Telstra International, Telstra Enterprise & Government (Australia)

▶ Activity Analysis Linked to Strategic and Marketing Initiatives

Telstra International is Australia’s leading telecommunications and information-services company, offering a full range of services and providing more than 9.94 million Australians with fixed-line services and more than 8.5 million



Australians with mobile services. Telstra provides local and long distance telephone,

broadband, mobile, Internet, cable television, and a variety of other IT and telecommunications services to most homes and businesses in Australia.

Telstra Enterprise & Government (TE&G) serves Telstra’s 1,500 largest customers, including major corporations, government agencies, and educational institutions. KH was retained to help “down size” TE&G without adversely affecting revenues. KH’s approach involved the conduct of an Activity Analysis survey of 3,000 employees. KH worked with an internal committee of 22 TE&G managers to design and customize the Activity Analysis survey, conduct the survey to solicit high participation rates (97%), and interpret the results. The KH team trained the managers in strategic cost management approaches and the use of “right-sizing” tools.

At the end of the seven-month project, the KH-client team identified cost savings of between \$25 million and \$40 million over a two-year period. The majority of the cost savings involved: a) elimination of redundancies, b) streamlining of processes, c) a restructuring of the sales teams with greater emphasis on solving client problems versus selling products, and d) partnering with other companies to strengthen TE&G’s value proposition to its customers.

Metropolitan Water District (MWD) of Southern California

MWD of Southern California is one of the largest water districts in the world and is known for its quality and innovation.

▶ MWD: Performance Appraisal and Pay Plan for Management and Professional Employees

KH designed a new Performance plan for approximately 225 members of the Management and Professional Association (MAPA) – the mid-level management group at MWD. The new plan furthers the District’s goal of rewarding top performance with pay and provides a framework for linking group and individual objectives to District-wide strategic goals.

Throughout the study, KH worked closely with the MAPA Pay-for-Performance (PFP) Team charged with developing the plan and with the Human Resources Division, which will administer the plan.

The fact-finding component of the study included the review of all documents relating to the prior plan, as well as structured interviews and focus groups with all groups involved with or affected by the plan, including plan participants, their Division Heads, the Executive Committee, and the District General Manager. As part of consensus building, throughout the plan design and implementation processes, KH consultants presented findings and plan concepts to the MAPA PFP Team and other key constituents to ensure the plan met broad MAPA, District, Division, and Human Resources requirements.

▶ **MWD: Linkage of Performance Pay Plan for Management and Professional Employees to Confidential Employees**

KH was subsequently retained to assist with implementation (via training) and to expand the Plan to include ACE (confidential) employees.

▶ **MWD: Case Studies of Public-Private Partnerships in Government**

MWD had identified specific capabilities and intellectual property it had internally that could be marketed within the United States or internationally, including desalinization of salt water for commercial use and identification of cryptosporidium in drinking water. KH prepared a series of case studies of government agencies that had either privatized a portion of their operations or entered into partnerships with private sector companies. On the basis of these case studies, KH identified a number of “lessons learned” from these case studies for consideration by MWD when embarking on similar strategies. Moreover, KH also interviewed a cross-section of MWD managers involved with MWD’s entrepreneurial efforts to determine what were the major internal barriers that needed to be overcome in such initiatives.

Los Angeles Department of Water and Power (DWP)

▶ **Organizational Review and Management Audit of the Energy Services Division**

DWP was preparing for an external decennial management audit. In preparation for the audit, the Energy Services Division of DWP retained KH to review and enhance its operations and organizational reporting relationships. As part of this review, KH interviewed Energy Services staff, met with department heads who routinely worked with Energy Services staff, and reviewed various documents, including a recent strategic plan prepared by the Division. KH also randomly selected approximately

100 major customers (from DWP’s listing of its 1,000 largest customers) to survey by telephone to solicit their perceptions of the major accounts program. We restructured the Division by expanding the span of control of the Director and emphasizing the importance of marketing to DWP. The aim was to strengthen the organization by applying many of the concepts found in private sector major accounts programs. The Division implemented KH’s recommendations which assisted the Division in achieving a “clean bill of health” during the subsequent decennial audit.

Edison International, Southern California Edison (SCE)

▶ **Strategic Marketing Assessment**

(SUBCONTRACT TO ANNE MILLER & ASSOCIATES)

Customer Service Business Unit (CSBU)

SCE is one of the largest electric utilities in the United States and is the largest subsidiary of Edison International. In addition to its primary purpose of



providing energy to millions of Southern California customers, SCE is committed to providing its customers with energy

management and energy efficiency education and training. To achieve this mission, SCE established two Energy Centers:

- Agricultural Technology Application Center (AgTAC), located in Tulare, California
- Customer Technology Application Center (CTAC), located in Irwindale, California

KH assisted SCE with the development of an Energy Center Marketing Plan. The market analysis efforts resulted in strategies to enhance the Energy Centers’ marketing efforts to increase customer awareness of, and participation in, the Energy Centers’ facilities, programs, and seminars. Specific project objectives included:

- Evaluation of marketing and communication initiatives
- Research of additional or alternative marketing tools and strategies
- Proposal of alternative or enhanced marketing tools and methods
- Performance of a cost analysis for implementing the recommendations
- Development of a SWOT Analysis
- Establishment of market success measurements

► Strategic Planning

Energy Conservation Program

KH conducted a telephone survey of 800 English-speaking, low-income customer households drawn from a customer base of 3,000 residents serviced by Edison. Selected households participated in a fluorescent relamping program; the interviews evaluated usage of the bulbs and assessed attitudes regarding energy conservation, bill paying practices, and Edison's image.

Health Department

KH surveyed 220 staff members regarding their job responsibilities and requirements. KH then developed position descriptions for a new organizational structure for the Health Department.

The Gas Company

LOS ANGELES, CA

► Review of the Discretionary Bonus Program

The Gas Company was considering whether to extend its existing Discretionary Bonus Program to include all management employees. KH conducted focus



**Southern
California
Gas Company**

group interviews with approximately 100 management representatives, representing distribution, operations, and corporate. In addition, KH conducted a written survey of previous discretionary bonus recipients.

The results of the study assisted Company management in determining not to extend the Program in the near term and establishing some guidelines for making future awards.

► Extension Staffing Services

KH furnished a programmer with unique computer language skills to complement in-house staff skills to finish the development of a new software platform. KH's programmer designed and installed the customized software to time and cost budgets.

Texas Utilities Electric (TU)

DALLAS, TX

► Activity Analysis

(SUBCONTRACT TO RONALD DOADES & COMPANY)

As part of a larger project, KH applied its Activity Analysis approach for assessing approximately 250 incumbents in multiple locations. The Activity Analysis reports were used to streamline the current organizational structure and to define staffing requirements for the longer term.

Illinois Power Company (IP)

PEORIA AND SPRINGFIELD, IL

► Activity Analysis of Engineering Functions

(SUBCONTRACT TO STONE & WEBSTER ENGINEERING)

As part of a larger study, KH conducted an Activity Analysis study of the engineering functions (nuclear, fossil, gas, and electric) at Illinois Power Company. In performing this study, KH developed a detailed directory of activities, surveyed 800 individuals involved in engineering functions, collected relevant employee background data, generated 20 standard Activity Analysis reports, designed a training manual for interpreting the Activity Analysis reports, and conducted a series of workshops with IP managers and Stone & Webster consultants to develop staffing alternatives and reallocations. IP purchased the KH-customized Activity Analysis software, which KH installed on the client's premises.

WHY HIRE KH?

In these dynamic times, boards, corporate executives, educational leaders, elected officials, and public sector administrators retain KH because of their need to:

- Bring about change from within
- Accomplish specific initiatives despite internal time pressures and staff constraints
- Remain or become a regional, state, national, or international leader in their industry or market (and potentially to counter competitive actions that might erode their current market position)
- Acquire special expertise and tools
- Solicit a fresh perspective, as well as independence, objectivity, and discretion
- Bypass both “politics” and natural resistance to examination and change, particularly in environments with diverse agenda
- Solicit external, professional opinions without the risk of prejudice (i.e., internal managers may be defensive when their operations are under review)
- Obtain insights into “best practices” and “lessons learned” at other comparable companies and organizations
- Have nothing taken for granted, including data that might otherwise be overlooked or unused (e.g., consultants can ask “naive questions” such as “why are you doing that task that way?”)
- Leverage respected external authorities before their boards or executive team

Additional descriptions of KH firm capabilities, including a general KH firm brochure, are available upon request.

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