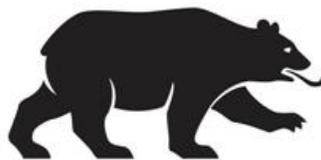

Organization Check Up – Follow Up

Final Draft



NEW BERN

NORTH CAROLINA

Everything comes together here

NEW BERN ELECTRIC UTILITY
New Bern, North Carolina

Prepared by
Hometown Connections, International, LLC
A Subsidiary of the American Public Power Association
October 7, 2015

Hometown Connections®
DELIVERING VALUE TO PUBLIC POWER

Organization Check Up - Final
City of New Bern Electric Utilities, New Bern, North Carolina

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Executive Summary

In July of 2012 Hometown Connections conducted an Organization Check Up for New Bern Utilities. The check up consisted of two days onsite by Hometown Connections senior staff, assessing the wide range of operations, business process and policies that support the utility’s delivery of service. A wide range of recommendations and plaudits were provided through the subsequent report.

In July of 2015, Hometown Connections returned to New Bern to review the many changes that have occurred, both inside the utility and outside, and how they have affected utility operations. As was the case in 2012, the review looked at all aspects of the utility’s operations, including those listed below. Each is discussed in its own section, identifying strengths and weaknesses. Additionally each section is assigned a rating, based on four stars, also shown below.

Operational Areas	Rating
Customer service	★★★★
Customer Outreach and Communications	★★★★
Utility Programs	★★★☆☆
Power supply	★★★★
Distribution operations	★★★☆☆
Employee safety	★★★★
Governance	★★★☆☆
Strategic Planning	★★☆☆☆
Rates	★★★☆☆
Administration, Accounting and Finance	★★★☆☆
Technology	★★★★
Human resources	★★★☆☆

Compared to the results in 2012, observations made this year show all areas holding steady or improving, with the exception of human resources. The emphasis on this year’s review is mostly on changes made, as well as new developments.

New Bern’s Electric Utility, at 22,000 customers, is 153rd largest public power system in the US from among 2010 public power systems across the nation, and among the larger systems of the 70 public power systems in North Carolina. Formed in 1901, New Bern is among the older public power systems, although public power has been around since soon after Thomas Edison first harnessed the power of electricity with the creation of the incandescent bulb. Today there are nearly 900 public power utilities that are 100 years old or older. The electric utility employs 58 people.

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The utility has enacted many changes in its operations that should provide more consistent, affordable and reliable service. Two significant, and at times difficult, changes are noteworthy:

Perhaps the most significant change was the restructuring and sale of NECMPA's generation assets to Duke Energy Progress for \$1.25 billion. This will help to reduce NCEMPA membership debt by more than 70 percent. It provides member utilities, such as New Bern, rate relief and options for strengthening their financial condition and stabilizing rates. This was a major step for NCEMPA and its members; all should be applauded for their tenacity seeing this through. We do believe, however, that New Bern lost an opportunity to strengthen its financial position by passing along the largest possible rate reduction now, realizing that in so doing, rates will likely need to be increased as early as next spring when wholesale rates rise. We believe that a more fiscally conservative choice of a smaller rate reduction now, would not only help postpone the next rate increase, but could also allow for New Bern to take any number of steps to strengthen the utility through debt reduction, the creation of a rate stabilization fund or other needed investments in the utility such as infrastructure replacement or expansion.

Another noteworthy change that has taken place was the difficult but important decision to address a long history of lenient payment arrangements that each month resulted in well over a 1,000 time-consuming individualized monthly arrangements to be made for customers requesting them. When Hometown Connections first learned of this practice in 2012, it was staggering to us the extent to which payment arrangements were being used each month. Although the sentiment behind trying to respond to customers struggling to make payments was laudable, the accommodations themselves rarely solved the problem, and created untold hours of additional staff time month in and month out to manage this increasingly onerous practice. The resolve of both board and staff to address this problem, despite knowing the backlash that would occur, is remarkable. The board in particular must be called out for its political courage in making this happen, as the politically expedient route would be simply to "kick the can down the road."

Apart from these two high profile events above, New Bern has made many less visible, yet equally important changes to various aspects of its operations. The utility has taken a much stronger stance on the adoption of new technologies, in particular its new advanced metering infrastructure (AMI) and new supervisory control and data acquisition (SCADA) system, as well as continuing the development of its geographic information system (GIS). All of these pieces, when carefully managed and integrated, comprise the elements of a smarter grid, allowing for improvements in reliability, conservation and customer information.

On the topic of the customer, New Bern, both the utility and the city, have shown increasing savvy in reaching utility customers and the community. The growing use of social media, a refurbished website, the addition of a utility newsletter and a new key accounts programs all close the distance between the New Bern resident and customer, and the city. However, we

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still believe New Bern would benefit from more regular market research and customer satisfaction surveys to better capture the “voice of the customer.”

The voice of the customer is a key element of board governance, as each alderman strives to represent his or her constituencies. It seems evident that when it comes to the electric utility, there is not a single voice from the board on its roles and responsibilities. The electric industry is in a significant state of flux, as new technologies, new competitors, new regulations and new customer challenges are forcing all electric utilities to look very hard at where we fit in this future landscape. Hometown Connections would very much like to see the utility, in close coordination with the board of aldermen, engage in a far reaching and strategic dialogue on the future of New Bern utilities.

Change is also imminent from within the utility, as staff retirement and turnover, particularly among senior staff; threaten to wipe out decades of experience and knowledge. Morale is already perceived as low; the potential loss of this institutional knowledge will likely make that morale worse. It is Hometown Connections’ belief that an empowered, focused workforce, aligned with governing board priorities, is critical to strong utility operations and morale. We remain concerned about the condition of the utility workforce.

As in much of public power, New Bern has experienced waves of growth and stagnation, vast changes in technology, the greatly expanded use of how electricity is used in the home and at work, and a shift in how customers expect to interact with the companies that serve them. Like much of North Carolina, New Bern was affected by the economic recession of 2008 – 09, although its diverse economy buffered it from the worst impacts more than some regions of the state. Today, New Bern and Craven County’s unemployment rates are well under 6%, tracking closely to U.S. averages. Given this rebound and the historic opportunity presented to New Bern and the members of the North Carolina Eastern Municipal Power Agency (NCEMPA) through the sale of its ownership in its nuclear asset, we believe the utility today is poised to serve the region more effectively and at lower cost, providing greater value to its utility customers.

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Methodology

Hometown Connections engaged two of its employees, Tim L. Blodgett and Steve VanderMeer (see bios in Appendix), to conduct the review on June 25 – 26, 2015 in New Bern, North Carolina.

The process used meetings and discussions with key utility and city personnel to gather information and performance results in the following key areas of running an electric public power utility:

1. Customer service
2. Customer outreach and communications
3. Utility programming
4. Power supply
5. Distribution operations
6. Employee safety
7. Governance
8. Rates
9. Administration, accounting and finance
10. Strategic planning
11. Technology
12. Human resources

Hometown Connections and New Bern staff discussed participation in the study prior to Hometown Connections' visit, settling on a final agenda, timing and participation. Multiple employees from within both the utility and the general fund were involved in the ensuing onsite discussions. The objective of these discussions was to document service offerings, business processes, organizational policies and the supporting human and capital infrastructure that allows for the effective delivery of electric services.

The results of these discussions were then reviewed and analyzed by the Hometown Connections team and evaluated against their experience with comparable public power utility operations and benchmarked against national industry standards. This resulted in the summary recommendations contained in this report.

Observations and Findings

Customer Service

The overall objective of good customer service is to meet or exceed customer needs and expectations.

These can be measured in a number of ways:

- Customer satisfaction (service, complaints)
- Billing and payment options and performance
- Bad debt (collections) ratios



In Hometown Connections' 2012 site visit, New Bern's customer service delivery and business processes received good marks – three stars – but also received some of the harshest criticism from among the 12 functional areas explored. These arose primarily from the highly customized services that many customers were seeking and receiving and the financial risks and impacts on the utility of the large number of transactions that fell outside the standard payment policies.

All organizations must balance rigorous processes and organizational efficiency against remaining flexible in response to varying customer needs and situations. A classic business book, first published in 1995, reflected this balancing act through three “values propositions.” *The Discipline of Market Leaders*¹ noted each organization must identify and embrace its values proposition to its customers. Those included:

1. **Operational Excellence:** delivering low cost, hassle-free service with few bells and whistles. Processes are optimized, standardized and streamlined to minimize cost. The customer must be willing to accept the product or service as delivered and in return receives a low cost. Examples include Wal-Mart, McDonalds.
2. **Product Leadership:** creating the best products or services with less emphasis on low cost and more on innovation, product development, pushing performance boundaries. Customers are willing to spend more for a product or service to access something of perceived higher quality or innovation. Examples include Apple, 3M.
3. **Customer Intimacy:** delivering what specific customers want, with an emphasis on understanding and responding to specific customer needs with multiple customized solutions available. Products or services are highly customized to address the individual needs of its customers. Examples include Nordstrom, Blank Label (customer shirt maker)

¹ Treacy, Michael and Fred Wiersema. *Discipline of Market Leaders, Choose Your Customers, Narrow Your Focus, Dominate Your Market.* 1995

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As a monopoly service provider, public power does not generally have customers choosing one provider over another based on cost, service and quality factors. Because public power serves all customers, representing the entire spectrum of customer needs, preferences and sophistication of energy use, utilities will often struggle with how best to accommodate this wide range of needs. The result can be a mash-up of tightly written policies combined with a sincere effort to respond to customer requests that fall outside of normal operations.

This was the situation in New Bern, where a long history of accommodation had led to well over a 1,000 of individual payment arrangements each month for customers seeking an extension in their payment deadline. As noted in the earlier report, New Bern billing staff was handling between 1,200 to 1,500 payment arrangements each month. Although the sentiment behind trying to accommodate customer requests was admirable, the reality was that billing staff was devoting thousands of additional hours each year managing these non-standard payments. Although it is not unusual in Hometown Connections' experience with public power to encounter some level of special arrangements made for a handful of customers, the magnitude found in New Bern was unprecedented.

It is for this reason that the changes that New Bern has enacted in the intervening years are so impressive. No small amount of planning and execution was required to largely end a practice that had existed for many years and had become for many customers, *their* standard method of payment. It also cannot be overemphasized the important role and strong political leadership from the governing board that made this possible. The pushback from parts of the community was no doubt significant and the politically expedient response would have been to kick the can down the road. To the board's credit, it held firm.

New Bern phased in a series of customer service changes, implementing a plan to reduce the number of payment arrangements from ten per year to four and capping the amount that can be included in the payment arrangement, increasing the late penalties, eliminating door hangers (except for a small number of customers on medical alert), matching reconnection fees to more closely mirror the actual cost of service and revamping its security deposit policy. North Carolina's Debt Setoff program is one of a growing number of state programs nationally that allow for the recovery of debt through withholding on tax refunds. This can be an effective tool for debt recovery, within certain limitations within the state tax code. New Bern is currently evaluating the use of a collection agency to further reduce delinquencies and write-offs.

The result of this revamped policy has been significant, greatly reducing the number of payment arrangements and cutting in half the delinquencies. This has allowed billing staff to redeploy their resources more effectively, including the ability to conduct cross-training as part of ongoing professional development and to relocate one billing staff member from the Utility Billing Office customer service center offsite to a central information desk at City Hall. The customer pushback has subsided and the utility is running more smoothly and in a stronger financial position. From Hometown Connections' perspective, this is a story worth sharing broadly with the public power community as a textbook case study on how to regain

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control of a billing process that over the years had become inefficient and even dysfunctional.

There remain some customer service challenges, although the recent deployment of the utility's AMI system will allow additional efficiencies that should serve to the utility and its customers well. These include pre-pay options for those customers looking for more direct control over their usage, and remote disconnect and reconnect capabilities, which allows for the avoidance of expensive truck rolls.

Hometown Connections continues to recommend that New Bern evaluate discontinuing the addition of a fee for those customers paying by credit card. Public power has historically passed along the transaction fee that credit card companies typically charge. Yet times are changing: the most recent APPA survey notes that public power utilities are increasingly choosing to waive transaction fees: of those accepting credit card payments, over half are now absorbing the transaction fees.² Many utilities do not take into consideration offsetting cost reductions that come with this increased level of automation. Credit card payments can also insulate the utility from the risks of uncollectibles, which is instead borne by the credit card company.

Safety for billing staff remains a concern to Hometown Connections. To New Bern's credit, staff has evaluated the physical safety of the customer service area. They have consulted with a number of safety experts, including a private security firm, the New Bern Police Department, the statewide head of security and risk management at a large credit union, and a physical security manager over all branches of an NC regional bank. . Further, staff has visited other utilities to benchmark their safety practices. The governing board has approved \$100,000 for interior safety renovations at the customer service facility, which started in July of 2015. The project includes updated physical security including customer safety glass, lighting, and customer focused aesthetic improvements. New Bern has taken, and continues to take a number of positive steps toward the welfare of its financial operations and the employees to administer them.

Overall, Hometown Connections is extremely impressed with the improvements that New Bern staff has made to their customer service operations. We are optimistic that additional changes will continue to enhance the effectiveness and efficiency of its customer service operations.

² APPA Customer Service Survey, 2013. This is not a random sample survey, but is comprised of self-selected respondents who may be more likely to be trend leaders or early adopters.

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Community Outreach and Communications

The overall objective for good community relations is to establish and maintain in the public mind confidence in and support for the public power utility.

Areas often used to describe community outreach include:

- Communications with the customer
- Community outreach
- Relationship with local media



At the time of Hometown Connections' last site visit, New Bern had just hired a public information officer, a new position for the city. It was clear then that with the filling of this position, plans and expectations for stronger outreach were growing exponentially. Some changes were already underway and our review of New Bern's outreach and communications efforts reflected these heightened activities, providing a three star rating. Our comments at the time noted "New Bern's communications and outreach to the community and customers is good, with recent improvements that will likely make it better." In reviewing the progress that has been made, it is clear that indeed, outreach efforts have improved significantly.

Several noteworthy improvements in outreach and communications have taken place. Perhaps the most visible ones were New Bern's continued growth in the use of digital media to reach customers and stakeholders. The city's website continues to improve, with visually appealing pages containing additional information on the utility, electric conservation and relevant links to outside pages. Hyperlinks provide easy movement between utility and utility business office pages as well as other relevant city webpages, although we would like to see contact information included on more pages.

The use of social media has also grown considerably. New Bern has made good use of Facebook and Twitter to establish additional avenues of communication with its customers. Staff has noted that the foray into social media has been a positive experience, allowing greater feedback from customers and occasionally, such as during the last hurricane, providing helpful data on outage locations.

More traditional methods of outreach have also grown, as the utility now publishes three times a year *eco@home*, providing useful information, tips and updates that foster a stronger understanding of the utility's operations. City staff has also made good use of local publications to reach customers. Internally, an employee newsletter, *Bear City News* also allows for stronger links with city employees.

Utility staff has also been active in the community, speaking to community service organizations on topics such as the AMI implementation, energy efficiency and the utility in general.

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One recommendation from the earlier Organization Check Up was to find ways of playing a more active role in the local schools. New Bern, in conjunction with ElectriCities of North Carolina, has recently rolled out an education program for schoolkids teaching them about energy consumption and conservation. Hometown Connections applauds New Bern's additional commitment to education of school age children.

Customer Service staff has also been more active in community programming with the launch of New Bern CONNECTS. This initiative includes several programs for customers, most notably the round-up programs allowing customers to add an additional amount to their monthly bill for low income members of the community, and the load management program with financial incentives for customers to install load control devices. Staff is actively marketing these programs and has seen good growth since their inception. It is often difficult for customer service representatives to find time to do more than process payments, phone calls and walk-ins, so it is admirable that New Bern has been able to devote this kind of additional time with customers to discuss important program options.

The city and the utility continue to make excellent use of the government cable access channel as well as streaming programming through the website. In addition to locally produced videos, the utility takes advantage of a large video library available from ElectriCities of North Carolina. Staff also used cable access to provide advance notice and explanation of the changes made in payment arrangements.

In 2012 New Bern had not recently conducted a customer satisfaction survey among its utility customers. This is not changed, although staff is aware of the need to do more to capture of the voice of the customer. Much of the reluctance to move forward has come from the unfavorable rate comparisons that have existed between New Bern and neighboring electric utilities. The recent changes in New Bern's power supply and generation portfolio will allow the utility to attain a more competitive position. From this, staff believes that the timing of a customer satisfaction survey may now be more appropriate as rates may not dominate customer feedback as much as they would in the past. Hometown Connections would encourage the utility to conduct in-depth customer satisfaction surveys at regular intervals.

Another area Hometown Connections will continue to advocate for is exploring the value of expanded or shifted customer service center hours, which run from 8:00 a.m. to 5:00 p.m. Monday through Friday. The city of New Bern and its utility are of a size that, at a minimum, should test customer interest in service center hours that fall outside the 8:00 to 5:00 time frame. Hometown Connections is increasingly working with utilities that have extended or shifted call center hours certain days of the week or Saturday mornings.³

³ The most recent APPA survey reveals that nearly 20% of public power respondents offer additional hours beyond the traditional nine hour day. This survey does not, however, reflect whether respondents are shifting hours to provide early morning or late afternoon hours. 2013 APPA Customer Service Policies Survey

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Hometown Connections would encourage New Bern to test the need for additional or different office hours.

The utility and the city have many opportunities to enhance the ways that it reaches its citizens and customers. If it is not able to tell its own story, someone else surely will, with little or no ability on the city's part to influence the message. To its credit, it has been much more active in making those connections. Overall, Hometown Connections is impressed with the actions being taken to reach the New Bern utility customer and the close relationship between the utility and the city to optimize these customer interactions.

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Utility Programs

The overall objective of utility programs is to provide additional resources to customers that assist in advancing desired public policy, such as energy conservation, environmental stewardship and stronger customer satisfaction and other community priorities. Differing political and economic conditions will dictate whether programs such as those described below are important or not.

These programs often fall in four main categories:

- Economic development
- Key Account Management
- Energy Efficiency/Demand Side Management
- Renewable Energy



New Bern’s utility programs received good marks and continue to score well in this latest review. The addition of a key accounts manager is the most significant improvement from Hometown Connections’ earlier visit. Utility programming above and beyond the provision of electricity must reflect the needs and values of the community. As such, there is no list of “correct” activities for a utility to pursue. The section merely attempts to capture the strengths and weaknesses of typical programs found in a public power utility. The utility, city and ElectriCities of North Carolina have made many tools available for adding value to existing and potential New Bern electric utility customers.

Economic Development

Some uncertainty continues to surround the economic development function in the region and in particular the utility’s role in supporting it. As noted in the earlier report, the degree to which public power utilities engage in economic development activities varies tremendously. In high growth regions, little to no importance may be placed on this function, as new industry may already be driving the expansion of electric infrastructure at a pace difficult for the utility to maintain. In slower growth areas, and in rural areas with small or underfunded economic development councils (EDC), the local public power utility may be asked to play a much more prominent role.

The economic development function in North Carolina typically resides within the county government. For New Bern, this function would be served by Craven County yet it was noted that the economic development position in the county has been vacated and the county has chosen not to fill it. Without the regional focus and coordination, it is no doubt more challenging to effect a strong economic development program, although New Bern, in contrast to some parts of the state, has a noticeable economic vibrancy. Nonetheless, the utility is well positioned to play a stronger economic development role should that become more of a priority in the city and county. The economic development rates and coincident peak rates through its distribution generation, allows New Bern to offer rates very competitive with the neighboring IOU. Further, ElectriCities of North Carolina can offer

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economic development tools through programming and dedicated staff should they be needed.

Key Account Management

New Bern has taken a strong step on providing greater support of the utility's key accounts, with the revamping of its energy management position to include duties developing and maintaining a key accounts management program. Any public power utility that serves one or more large commercial or industrial customers should be knowledgeable about that account's use of power and their financial implications on the utility. New Bern had earlier gone through an analysis of its eight largest accounts, but aside from some infrared scanning and work provided through ElectriCities of North Carolina, little else had been done. With this new hire and the development of a strong key accounts program, the utility is better positioned to effectively serve those key accounts. Hometown Connections is pleased to see New Bern build this capacity in its utility and is optimistic that it will provide long term benefit in maintaining strong relationships with those key accounts.

Energy Efficiency/ Demand Side Management

New Bern continues to offer a robust and sophisticated demand response and load management program. Although little has changed in this program in the past years, few improvements have been necessary to what was already a strong program. With the changed generation ownership relationship and power supply portfolio, New Bern will continue to look to its demand side management to optimize wholesale rate impacts.

Renewable Energy

Renewable energy continues to play a relative small role in New Bern. To date, 29 states have some type of renewable portfolio standard. In, 2007, with the signing of Session Law 2007-397 (Senate Bill 3), North Carolina became the first state in the Southeast to adopt a *Renewable Energy and Energy Efficiency Portfolio Standard* (REPS). Under this law, investor-owned utilities in North Carolina are required to meet up to 12.5% of their energy needs through renewable energy resources or energy efficiency measures. Rural electric cooperatives and municipal electric suppliers are subject to a 10% REPS requirement. NCEMPA falls under the state REPS and, with the new power supply relationship with Duke Progress, will do a "carve-out" to be able to show compliance with the 10% threshold through renewable energy certificates, or RECs.

There are some solar installations for which the utility has set up bilateral meters and are crediting those customers \$0.0487 per kWh put into the system. This is an avoided cost approach, as opposed to net metering (in place due to the restrictions in New Bern's power supply agreement with ECNC), which tends to provide less financial incentive for the end use customer to install their own solar.

It is Hometown Connections' belief that efforts made now toward the development of renewable energy sources not only will be well received by utility customers, it will blunt criticisms among lawmakers that public power is shirking its responsibilities. Hometown

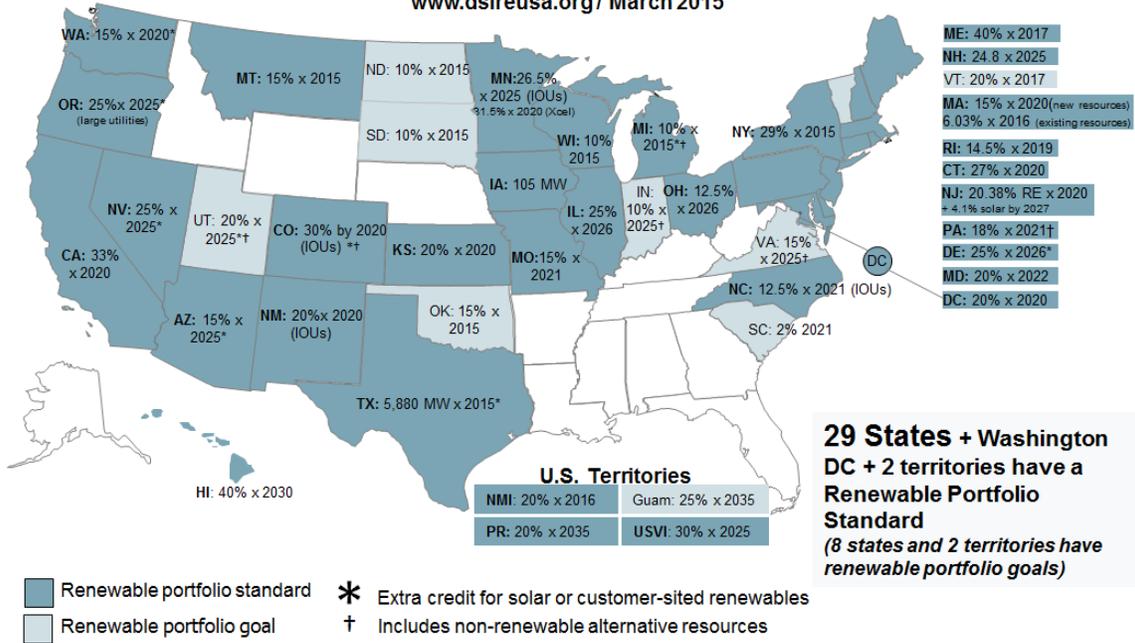
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Connections would encourage New Bern and ElectriCities of North Carolina to continue monitoring state and federal renewables rulemaking as well as renewables technology that make the most economic sense to the utility and its customers.

Renewable Portfolio Standard Policies

www.dsireusa.org/ March 2015



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Power Supply

The overall objective for power supply is to ensure the utility is able to provide long-term, reliable, low cost electricity while minimizing price volatility for its customers.

Areas for measuring a utility regarding power supply include:

- Understanding of the utility load characteristics
- Understanding of suppliers in the marketplace
- Understanding of current supply participants and their roles
- Understanding of how owned generation would affect customers
- Costs for available types of supply
- Reliability of supply
- Term of supply available
- Market and counterparty risk
- Price volatility
- Understanding of the delivery system, its participants and their roles
- Regulatory oversight
- Employee skills



Although New Bern's rating on power supply has not changed from Hometown Connections' earlier report, a great deal has changed in 2015, which, if anything, strengthens New Bern's power supply situation.

In August of 2015, North Carolina Eastern Municipal Power Agency (NCEMPA) completed the sale of its generation assets to Duke Energy Progress. These assets were sold for \$1.25 billion, helping to reduce debt to NCEMPA members by more than 70 percent. This gives New Bern additional near term options for providing significant savings to its customers while retaining a stable, dependable and more diversified source of power. Going forward, the new wholesale power rate will be tied to *system average* and not just the five nuclear units. Wholesale power supply costs are projected to be about 16 percent less now that the sale is complete.

The effect of this sale is to uncouple NCEMPA and New Bern's power supply future to the life of individual nuclear assets. Now New Bern will have a 20 year contract, at which time the utility may serve notice.

With this change in the power supply portfolio, there is an even great incentive for strong load management practices. As demand charges increase, the financial impact on the utility and New Bern customers of load shedding becomes that much greater. New Bern's existing load management programs, combined with its ability to offer a time-of-use (TOU) rate through the utility's new AMI solution should position the utility very well to better control its demand charges. With the retirement in 10 years of the bonds issued for AMI, the additional savings will be even greater.

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With its peak shaving capabilities through both local generation and demand controllers, New Bern has been able to reduce its peak by up to 30 MW or nearly a third of its load. This includes operating 20 MW of distributed generation (35 units of which are owned by New Bern and the balance owned by its customers), and 10 MW of appliance demand controllers spread across its residential and small commercial customers. New Bern staff notes that in the past its peak shaving program has saved the utility and its customers approximately \$3 million per year in power supply costs. Staff is optimistic that these savings will only grow under the new power supply contract.

New Bern has a full requirements power supply contract with the NCEMPA through January 2032. The agreement with NCEMPA is for any power supply requirements above and beyond that which is self-generated by New Bern and/or its customers.

New Bern staff relies on ElectriCities of North Carolina (ECNC), the management services provider for NCEMPA, for information related to the supply business and as an active participant in this increasingly complex side of the business. ECNC is a large joint action agency comprised of 91 utility members in North Carolina, South Carolina and Virginia, and provides an array of member services beyond simply power supply. New Bern rates ECNC's expertise as very good. The relationship between the utility and its joint action agency is good.

New Bern has had two delivery points with Progress Energy, its transmission provider, which has resulted in some delivery point congestion. With the completion of a new substation and a separate 115 kV feed, the utility now has greater redundancy on its transmission path and system operations. Some delivery congestion issues remain that New Bern will continue to address.

Overall, New Bern's power supply outlook is very strong.

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Distribution Operations

The overall objective for a utility in operating the distribution system is to design, construct and operate a distribution system that is safe, reliable and cost effective.

Areas for measuring a utility regarding Distribution Operations include:

- Age of equipment (substations, feeders, system protection, etc.)
- Reliability
- Design
- Maintenance requirements
- New construction demands
- Capital budgets
- Maintenance budgets
- Safety performance
- Utilization of the workforce, including outside contractors
- Employee skills and training



New Bern continues to make improvements to the reliability of its distribution system, although some challenges remain in its operations.

Among the most notable changes that have occurred is the relocation of the utility operations to a larger and more modern space on Kale Road. This has allowed for significant improvements in crew quarters and provided more functionality for office space in general. Warehouse operations are also planning to relocate to this facility. Hometown Connections is pleased to see city leaders get past some of the earlier resistance to making this move.

Reliability of the system remains good. As noted earlier, New Bern's delivery system has been very reliable, with three points of delivery at either 115 or 23 kV. New Bern owns all of its substations, in contrast to some NCEMPA utilities that lease them from Duke Progress. Following New Bern electric's policy, it is a fully loop-fed system, allowing for multiple redundancies. This level of redundancy is unusual to find within much of public power and is to be applauded in New Bern.

The age and overall condition of the substations are good and all have seen upgrades as necessary. In addition to a third substation with a separate transmission line being added; land has been secured for a fourth substation should future system growth dictate the need for it. New Bern has taken several strong planning steps to ensure the age and condition of distribution infrastructure remains good.

If there is any part of the distribution system showing some age, it is the older underground installations serving some subdivisions. This cable is unjacketed and has been showing wear and some failures. Staff is currently reacting to situations as they arise and have not yet

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developed an inspection and testing schedule. Hometown Connections would encourage New Bern to create a more definitive plan for addressing the growing potential of underground cable failure. The good news is that the utility has taken positive steps to build stronger GIS mapping, OMS and work order capabilities. This should serve the entire distribution system well in identifying and correcting weaknesses. This will be covered further in the Technology section.

New Bern continues to develop a more sophisticated and “smarter” grid. As it expands into AMI, voltage control, load balancing, and capacitor banks, the utility is building a more robust system that can respond quickly and efficiently to changing conditions of the grid.

As part of these advance grid initiatives, Hometown Connections would encourage New Bern to integrate a strong maintenance and inspection schedule. This applies equally to underground equipment as well as overhead and vegetation. This was an issue in our earlier assessment, and remains a concern today. With the deployment of AMI technology and the lack of monthly meter reads on customers’ premises, an inspection routine becomes that much more critical. New Bern’s size and sophistication would suggest a more formal, regularly scheduled maintenance program.

New Bern continues to rely on a combination of in-house and outsourced tree-trimming and vegetation management crews. As noted above, this activity should be part of a formal vegetation management plan.

Physical security of equipment, substations and other non-public areas is generally good, and continues to improve with the recent addition of cameras and alarms at all the substations. Staff continues to evaluate other security options in the field.

New Bern has migrated from APPA’s CD-based *Reliability Tracker*, to the online *eReliability Tracker* and is generally pleased with the results. It would like to see more comparative data available online, which Hometown Connections will explore further with APPA staff.

In general, New Bern’s electric distribution operations are well run, using mostly newer equipment. Recent awards from APPA through its RP₃ program are a testament to the utility’s commitment to operational excellence.



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Employee Safety

The overall objective for safety is to determine a utility's commitment and performance related to employee safety.

Measures in this area include:

- Budget
- Equipment
- Training
- Goals and Recognition
- Performance



New Bern received strong marks for safety in Hometown Connections' initial assessment. Today, those marks remain the same, but only because four stars is our highest rating. The few areas of concern we observed in 2012 have been largely addressed. New Bern continues to have among the more complete safety processes, awareness, tracking and culture of the utilities with which Hometown Connections has worked. With the hiring of a new safety officer at the city level, New Bern continues to elevate safety in prominence both within the utility as well as city-wide. It has created a strong safety program with necessary equipment and training, with improving measures for tracking, and reinforcing safety practices, all supported by a budget to support these activities.

Many public power utilities have solid safety programs, with modern safety equipment and strong training. Where a few go above and beyond is how they push to make safety a part of the organizational culture. This can include:

- Making safety as an integral part of the employee review process
- Formal action by the governing board to reinforce safety as a priority
- Safety presentations made by crew members
- Continuously refreshing safety topics and materials to avoid getting stale
- Tracking a wide range of safety metrics – including not only outputs, such as lost time and near misses, but inputs as well, such as hours of safety training, attendance, etc.
- Safety recognition and rewards

New Bern has taken many excellent steps to build a strong safety culture. Reward and recognition is an area that many utilities struggle with. Indeed, poorly conceived reward and incentive programs can unintentionally cause under-reporting or create ill will between employees or between crews and management. New Bern has taken a team-based approach through its "Safety Incentive Program" where the utility splits all of its employees into five teams annually, assigning creative names to each team. The teams earn credit for working safely and participating in the monthly and quarterly meetings. The credit system is set up to

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reward more for proactive safety steps, such as attending safety meetings and reporting near misses, and less on actual violations. Program awards are presented at the annual Electric Utilities Employee Safety Incentive Luncheon held during public power week. Hometown applauds New Bern for this program; it remains one of our favorite examples of an incentive program.

Hometown Connections noted in its 2012 assessment room for a broader range of safety metrics. This continues to be an area for further focus, although the utility and city have begun tracking more measures, particularly the input-type metrics described above.

The utility's track record on safety has been strong. These are results worth celebrating and rewarding – and building upon. A challenge for any utility with a quality safety program and record such as that of New Bern's, is complacency. Maintaining a high level of emphasis and seeking improvement should continue being a high priority of the utility.

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Governance

The objective for this area is to develop and sustain an environment of trust and involvement with the governing body to allow the utility to accomplish its business plan.

The measures in this area are:

- Understanding of roles for the governing body and staff
- Existence of an approved strategic plan
- Effective utilities director
- Active performance monitoring of utility operations



New Bern continues to get good marks for governance, with an engaged board and good staff-governing board relations. We would encourage both board and staff to address issues of strategic importance. Hometown Connections met with the city manager and two aldermen for this discussion. We were pleased to be joined by Alderman Schaible and White who provided additional perspectives on the governance process in New Bern.

New Bern is a council-manager form of government; the mayor serves as the chairmen of the board, with the same authority as other aldermen. The city manager serves as the chief executive officer of the organization, responsible for carrying out board policy through the administration of the various departments and their staff. As a city department, the electric utilities director reports to the city manager. This is the most common arrangement among public power utilities operating under a council-manager form of government. As a governing board comprised of city aldermen, rather than an independent board, it can sometimes be challenging for the utility to receive the attention sometimes necessary for major decisions. City council or aldermen boards must juggle the diverse needs of multiple services and constituencies, often leaving utility staff to do more interpretation of policy direction than might be found with an independent board devoted solely to utility operations. Where this can be an issue is those instances where significant policy changes are warranted or desired, either by the utility or board, without the benefit of adequate dialogue. While this issue does exist to some degree in New Bern as well, the board has exhibited a great deal of focus and in some cases political fortitude in governing utility policies.

Not surprisingly, public power utilities governed by a city council will typically receive less focus from its governing board than one governed by an independent board. This typically does not pose any issues if the utility director and city CEO (city manager or mayor depending on the form of government) ensure strong communications are in place and the board is well versed on utility issues and enterprise funds in general. In general Hometown Connections is a strong supporter of providing governing boards adequate orientation into the complex workings of a utility enterprise fund, ensuring that the distribution asset be adequately maintained while still fulfilling community priorities. We were pleased to hear

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from the board of aldermen with whom we spoke that they thought their orientation to utility operations was thorough and effective.

New Bern's governing board took on a very difficult challenge in 2014 when it backed utility efforts to undue many years of the lenient practice of allowing for special payment arrangements to be made by customers. The practice was of a magnitude not seen before or since by Hometown Connections, with over a thousand customers each month making special payment arrangements. With the roll back of this practice, even phasing it in over time as the utility has been doing, significant protests and media coverage resulted. To the board's credit, it held firm on its commitment to see this policy change through, which was no doubt very difficult with many constituents voicing their opinion. Hometown Connections applauds the political fortitude shown by the board.

A few concerns remain as it relates to New Bern's governance of the utility. First, New Bern, like virtually every utility nationwide – public or private – is entering into a period of much greater uncertainty about how they will successfully deliver service in the future. Revolutionary changes in technology, combined with evolutionary changes in state and federal legislation and rule-making, are radically challenging the way that electric utilities does business today. Public power utilities across the nation are going through strategic planning processes in order to recalibrate their utility's response to this changing landscape. Yet probably more public power systems are not; business remains status quo. While certainly not scientific, it is our assessment that a much higher proportion of utilities with an independent board are going through strategic planning than those with a city council governing board. Some are reluctant to conduct a utility strategic plan prior to completing a city-wide strategic plan, under which the utility would then fall. In other cases there are simply higher perceived priorities in the community that have pushed the utility's long term focus off of the radar screen. It is Hometown Connections strong belief that every public power utility should be working off of a current and deliberative strategic plan and that the governing board must play an integral role in the development of that plan.

Our second concern is more specific to New Bern. It seems clear that the New Bern board of Aldermen have differing opinions of the role of the utility and its priorities. There is certainly nothing wrong with that and is preferable to simply a rubber stamp board. In our conversations with board members and staff, however, it seems that for some areas of disagreement, the board response is to choose not to embrace the disagreement, seeking clarification and ultimately board direction. Instead these discussions seem to be getting tabled. For some of these topics, the decision not to come to resolution results in the utility being put in an extended holding pattern. This could include decisions around technology acquisition, transfers to the general fund, staffing and the future of the utility itself. Hometown Connections would encourage the board of aldermen to explore the differences of opinion that reside among board members and reach consensus or, if necessary, a majority vote that allows utility staff to more effectively plan for the future.

Community support for the utility seems somewhat in flux. Without the benefit of any recent market research, much of the information is anecdotal. Nonetheless, staff is of the

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belief that the utility continues to garner good support among most customers. This is tied back to the excellent reliability of the utility compared to neighboring utilities and the responsive customer service provided. High rates have clearly been a source of customer discontent, yet with the change in its power supply contract, New Bern is well-positioned to provide more competitive rates.

Despite the perception of broad community support, there are members of the community, including some board members, who believe there is value in selling the utility. As a subsidiary of the American Public Power Association, Hometown Connections clearly has a preferred position of retaining local ownership. Nonetheless, if this remains a significant issue in the community, our desire would be for the community to engage in a deliberative dialogue of the advantages and disadvantages of local ownership by the city of New Bern. In general, we believe there are enormous advantages to public power, from financial to reliability to customer service, but it is only the community that can decide what the value of public power ownership is to them.

During our last assessment, we discussed the existence of the Electric Services Board. This is an advisory board that is included in New Bern's Code of Ordinances, with specific descriptions of board composition and duties. In 2012 the advisory board had just been disbanded and discussion centered on whether to start over again or whether the board should continue to exist. In 2015 this advisory board continues to exist in the city's code, but it has not been reconstituted. Staff and board members have both commented on the perception that this board was no longer useful and that it had primarily served as a forum for customer complaints.

Advisory boards can pose challenges in the governance process. Those with no formal authority often end up being bypassed in any meaningful dialogue between governing board and staff. Those that have been given specific authority can cloud the governing process, creating internal divisions and sending mixed messages to staff. Nonetheless, a well-devised and maintained advisory board can add great value in some situations. One of those situations is where the governing board is comprised entirely of city residents and the utility serves a significant population outside of the city. This is the case in New Bern, where 40% of its electric customers reside outside of the city.

Therefore, our concern of 2012 remains today: the loss of representation from outside the city limits. If the current structure of an advisory board is not working for board or staff, Hometown Connections would strongly encourage some other mechanism for giving voice to non-resident customers of New Bern utilities.

Overall, New Bern's governance is good. We would encourage board and staff to explore additional opportunities to discuss the many strategic issues facing the utility.

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Strategic Planning

The objective of utility strategic planning is to determine what the utility intends to do to be successful and describe specific steps to accomplish that plan.

Specific measurable areas include:

- Guidelines set by governance and executive management
- Overall goals for the entire organization
- Specific goals and objectives set by areas in the utility
- Action items recommended to meet these goals
- Specific responsibilities and accountability to implement the plan
- Resources, money, materials and people to accomplish the plan
- A functional approval process that goes beyond the dollar budget for the next year



New Bern's marks for strategic planning have declined somewhat. This is due primarily to what Hometown Connections believes is the continued need to address many strategic issues that will impact the utility's operations in the coming years. In Hometown Connections' opinion, urgency of addressing the changing electric industry landscape has only increased. Continued advances in technology are making possible completely new ways of utilizing energy, and in the process inviting many new participants into the industry, such as Google, Tesla, Solar City and others. Those electric utilities that insist on maintaining the status quo will likely not survive or at a minimum will be severely hamstrung compared to their peer group.

Hometown Connections' experience in public power is that strategic planning is typically given far too little attention. Planning is usually restricted to system planning, focusing on expansion and integrity of the distribution system. Some utilities will also incorporate goals and objectives through their budgeting process, but time horizons tend to be short. In general among public power, we tend to see a strong culture of shorter term planning and responsibility, but rarely do we see much evidence of longer term strategic planning, where the utility's current and future roles are deliberated and a document generated to create organizational focus and alignment. We don't believe this mindset can continue. Soaring energy and distribution equipment costs, concerns over global climate change, explosive advances in communications technology, changing demographics (including an aging utility workforce), and escalating customer expectations have all come into alignment in such a way that the future of how people use electricity is far from certain.

New Bern has had strategic discussion in the past few years that have resulted in a clearer focus for the utility, and this is to be applauded. Under the conditions present in 2015 and into the future, it is Hometown Connections' belief that stronger, more formal, more inclusive strategic planning will be increasingly important to the success of public power utilities.

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Hometown Connections would encourage New Bern to push its strategic thinking ahead further and develop a strategic plan that addresses more far reaching goals for how the utility can operate successfully while providing benefit to the city government, to its customers and to the community as a whole. As personnel and governing board members change, such a plan can be instrumental in creating a roadmap that continues to inform, bridge and align future leaders' actions. This is even more critical in New Bern's case where there is the possibility of a 100% turnover in the board of aldermen every four years as terms are not staggered, which is a more common practice among elected governing boards.

Hometown Connections would encourage any strategic planning effort to engage the governing board and to the degree possible, customers and other stakeholders. Hometown Connections sees too many public power utilities developing strategy without properly engaging its governing board, particularly those whose board is a city council. Without board involvement, strategic planning rarely breaks through into the level of public policy, meaning it often isn't strategy at all, but rather tactics on how best to sustain the status quo. The development of a strategic plan can further align the utility and ensure it remains on a course toward a high functioning organization, and not simply maintaining the status quo.

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Rates

The overall objective for rates is to assure that the utility will generate revenues sufficient to sustain utility operations while offering customers options to best meet their needs.

Areas to measure rates include:

- Rate policies
- Rate options
- Rate planning
- Approval process
- Rate performance
- Customer input/involvement



New Bern continues to get mixed marks for rates. While the recent changes in generation ownership will provide significant rate relief and bring all rate classes more in line with neighboring utilities, New Bern has under-developed rate making practices than would be expected of a utility of this size.

Although New Bern's rates in the near term are slated to come down, a rate comparison between New Bern's new rates and competitors' rates was not available at the time of this report. Regardless of how a utility fares against the competition, we believe it is important as part of public power's value of transparency and access to share rates and rate comparisons publically.

The ability to lower rates for the first time in many years, and the public goodwill that comes from that seems somewhat muted by the decision to apply the largest possible rate reduction in 2015, creating the likelihood that a rate *increase* will be necessary again as early as April of 2016. Customers' memories tend to be short, which could mean that eight months from now, all they are focusing on is the rate increase they've just gotten. Such a windfall as New Bern received with the power supply restructuring does not come along often. The ability to build a rate stabilization fund, address critical deferred maintenance or create capital reserves to allow for system upgrades or expansion would be attractive options to a utility looking to build a stronger financial position.

In addition to the rate decreases scheduled, New Bern's AMI implementation will give the utility many more options to address coincident peak shaving through time-of-use pricing. With such strong incentives to stay off of coincident peak, New Bern is well-positioned not only to provide additional cost saving opportunities to customers, it should likely pay off the investment in its AMI system more quickly than others. Time-of-use pricing also allows New Bern to replace its tiered resident rates, which increases above 300 kWh per month, with something that can actually encourage load shifting, rather than the crude incentives that tiered pricing generates. Hometown Connections would encourage New Bern to

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revamp its rate structure as soon as practical in order to better leverage the capabilities of its AMI system.

No written rate policy is in place to guide rate making. With all of the changes occurring in the utility (Duke Progress, AMI, etc.) that will affect electric rates, and given the size of the utility, we would expect New Bern to regularly be conducting rate and cost of service studies to ensure rates reflect the cost of delivery by customer class and that they continue to be fair, competitive and reflective of the city's revenue goals.

Hometown Connections is a strong proponent of cost-of-service studies, periodically performed by an independent, external entity. This independent review is nearly always a good litmus test of how well rates are performing relative to costs and also in identifying cross subsidization between utility services and customer classes. Rate and cost-of-service studies are excellent rate planning tools and ensure that there is minimal rate class subsidization or cross-subsidization across utilities or services. This is instrumental in ensuring that the utility's rates generate revenues sufficient to sustain ongoing utility operations while offering customer stability, predictability and options to best meet their needs. Cross-subsidization between utilities (e.g. from electric to water) or between rate classes (e.g. from commercial to residential) can be a significant issue for many public power utilities. While some cross-subsidization is an inherent part of any regulated utility created for public benefit, extreme examples can obscure price signals and excessively penalize certain customer groups. Staff notes that significant progress has been made minimizing cross-subsidization between electric rate classes and between utility services.

Overall, New Bern's administration of its electric rates is good, although there remain opportunities for improvement. Many of these opportunities can be addressed through the completion of an in-depth rate and cost of service study.

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Administration, Accounting and Finance

The objective in this area is to assure that the business is well managed and that management and governance has the tools available to properly plan and account for business activities.

Areas to measure Administration, Accounting and Finance include:

- Annual budget
- Accounting and reporting systems to enable up-to-date information for decision makers
- Clear policies and procedures for consistent application in purchasing, planning and finance
- Financing requirements
- Policies for managing cash reserves
- Cash flow forecasting and management
- Internal controls to assure that policies and procedures are being followed



New Bern continues to get good ratings in Administration, Accounting and Finance. It has made several strides that strengthen and make more equitable its financial position. Some concerns remain regarding the absence of information and policies that would foster greater financial strength.

A well-conceived budgeting process is critical to ensuring that the strategies and priorities outlined by the utility and its governing board will be implemented. It coordinates resources and expenditures and provides legal authority to obligate and spend funds. An operating budget provides a summary of the planned revenues and expenditures for the fiscal year for services and programs, including all revenue and expense assumptions.

The annual operating budget begins with a city council retreat that allows staff and council to develop goals and objectives that are used to measure budget requests against. A budgeting committee further develops the budget with the city manager ultimately submitting a proposed budget back to city council for approval. Hometown Connections applauds the inclusion of the city council early in the budgeting process, allowing more policy level discussion to inform budgetary considerations.

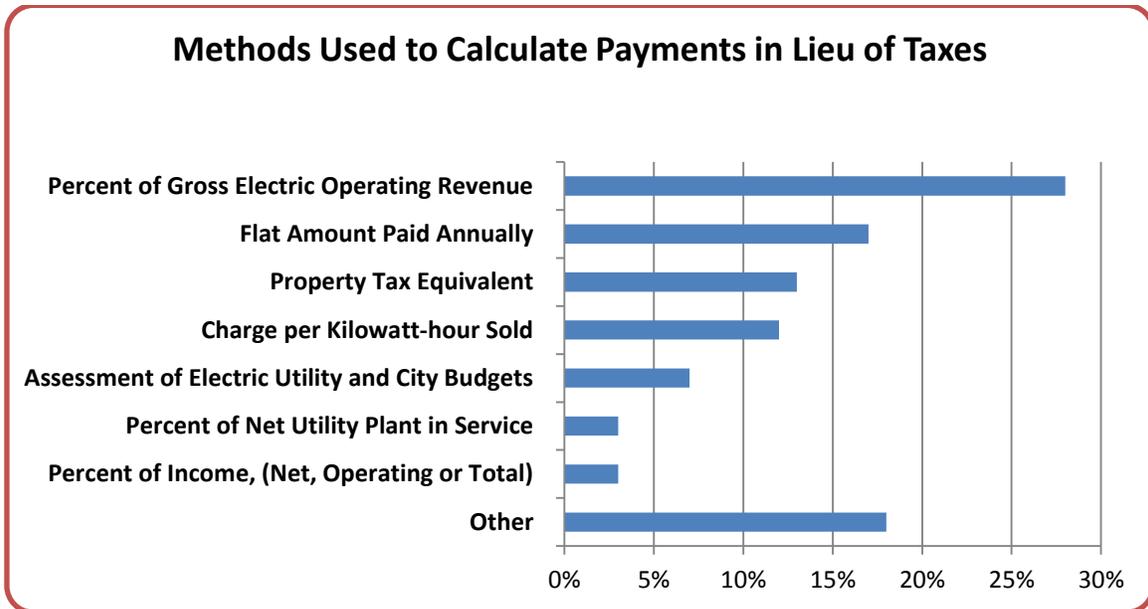
During the 2012 assessment, it appeared that New Bern's capital planning process was fairly informal and somewhat periodic. In 2015 New Bern has taken steps to formulate more robust capital planning with the creation of a five year capital plan. Yet it is still not a formal process with no governing board action. As a tool to assist staff in doing more long-range planning, it has been considered helpful. But without greater board engagement, it is limited in how much of a tool it can be. Hometown Connections would encourage New Bern to adopt a more formal and long term capital planning process that more clearly identifies anticipated needs and required resources.

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A significant improvement that has been made since the last assessment is the creation of a cash reserve or fund balance policy. Change is coming slowly to public power on cash reserve policies, as it is still uncommon within public power, however, to find a formal cash reserve policy, describing how levels are determined and how funds are accessed. Hometown Connections was pleased to see New Bern’s installation of a fund balance policy that keeps 90 days cash on hand.

Transfers or payments-in-lieu-of-taxes to a city’s general fund can be the source of significant conflict between enterprise fund operations and the general fund. Certainly any municipality that owns their utility or utilities should expect a rate of return on their investment. The New Bern Board of Aldermen has devoted significant time to these interfund transfers and taken several steps to clarify and reinforce its transfer policy. Hometown Connections is a proponent of clearly defined formulas for setting annual transfers at a fixed percentage of operating revenue. This rewards the utility for operating efficiently and effectively and helps discourage future administrations from jeopardizing the electric utility fund. The board has defined the interfund transfer to be 5% of gross annual revenues, a change from its earlier policy of 3% of gross capital assets. Both of these options are part of the state of North Carolina General Statutes on electric revenue transfers.⁴

From the 2010 APPA report on payments and contributions from electric utilities,⁵ methods of transfer are shown on the chart below.



⁴ § 159B-39. Permitted uses of revenue from electric power rates

⁵ *Payments and Contributions by Public Power Distribution Systems to State and Local Governments*, 2012 Data. Published February 2014. APPA

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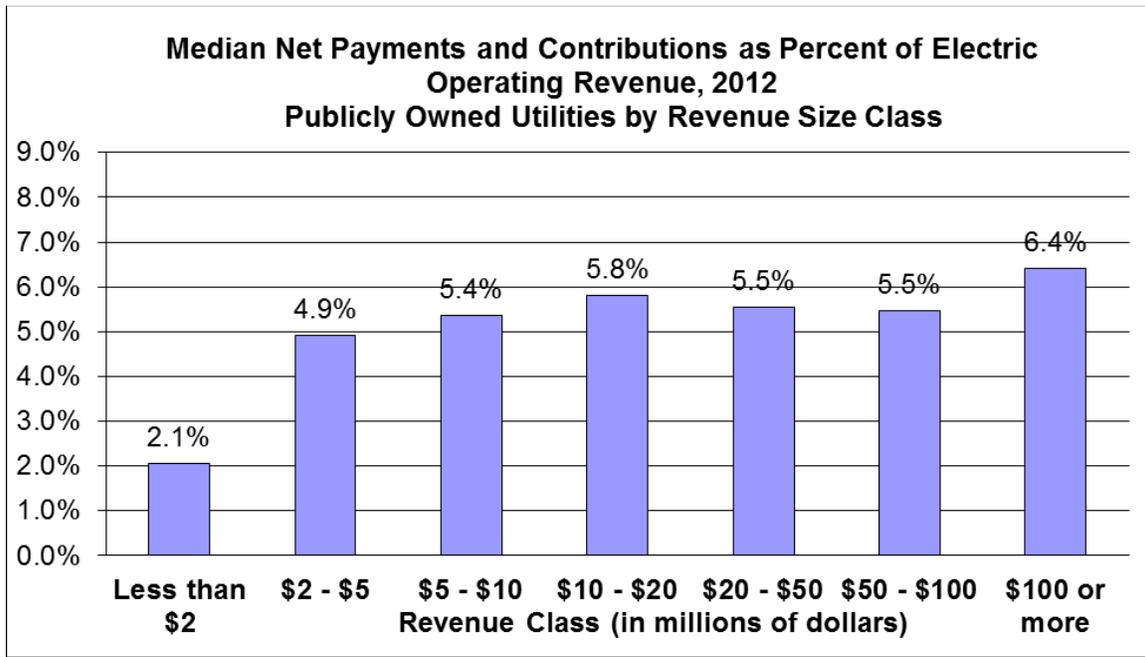
This above amount does not include in-kind services. In-kind services have included fiber installation, undergrounding in the downtown area and the installation and removal of sculptures. The utility does charge for street lighting but street lighting is not metered so it is based on an estimate. The most recent study conducted on the cost of street lighting suggests that the utility is collecting less than half the revenues it should be to fully recover the cost of street lighting. Ideally, a utility is tracking and reporting on total net dollar transfers and other contributions. In many cases the overall value of the utility to the community is lost or obscured when in-kind services are not accurately tracked and reported. Hometown Connections would strongly encourage New Bern to track in-kind services provided to the general fund, other funds or the community at large. A monetary value should be assigned to them and this dollar amount included in the overall promotion of the electric utility's value to its stakeholders.

Among participants in the most recent APPA study, the median amount transferred was 5.5 percent of electric operating revenues.⁶ The amounts vary slightly depending on utility size and are shown below.

With \$5,823,375 transferred out of total revenues of \$62,503,419, New Bern's transfers and shared service contributions are 9.3%. Most of the respondents to the APPA survey have attempted to account for all in-kind contributions as well, which are not reflected in New Bern's calculations. These levels fall well above national averages for similar sized utilities and appear to fall above New Bern's own policy. It should be noted, however, that for fiscal year 2016, the board has budgeted for a decrease of 24% in transfers from the \$5.8 million in FY2015 to \$4.4 million. With budgeted revenues of \$54.5 million in 2016, the general fund transfers as a percent of total revenue drops to 8.1%, which is still higher than the national averages of public power

⁶ *Payments and Contributions by Public Power Distribution Systems to State and Local Governments*, 2012 Data. Published March 2014. APPA

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Transfer calculations typically do not count administrative or overhead allocations charged by the general fund. Such charges assume the allocation attempts to match actual expenditures required to serve the enterprise fund. This is not to say that overcharging of administrative charges does not occur in many public power systems. It is Hometown Connections’ observation that in North Carolina, administrative charges are considerably higher relative to utility size than what we have encountered elsewhere. Because each public power utility has a unique business relationship with its general fund operations, there is simply no effective manner by which to make apples to apples comparisons between systems. This reflects the fact that for some internal services, such as billing, IT, HR, purchasing, legal, warehouse, etc. the function may reside in either the general fund or the utility fund. Nonetheless, it is worth noting that among public power utilities in other states, we have seen administrative charge-backs on the order of less than one percent of total utility revenue, while those we encounter in North Carolina have been between three and five percent. Hometown Connections attributes this to the caps that have been placed at the state level on transfers, leaving local governments with fewer options to move desired revenues from the enterprise to the general fund. To New Bern’s credit, staff notes that the board has taken steps to control administrative allocations that do not seem to reflect the cost of providing that service to the utility.

The state legislative activity in North Carolina to cap enterprise fund transfers to the general fund may be well intended. Unfortunately, in addition to undermining the authority of local governments and their enterprise operations, it seems to be fostering a tendency to inflate administrative charges from the general fund to the enterprise fund for internally provided services. This is likely happening for the provision of in-kind services as well, which also fall outside the state caps on transfers. The problem that Hometown Connections sees is that it

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makes it more difficult for the utility to fully account for its operations and ultimately hides the true value of the utility to the city and the community.

A key element of transfers to the general fund is a comparison to what a competitor would pay to the city if there were no municipal utility. If the nearby IOU was the city's electric provider, what would *they* be paying to the general fund through franchise fees, pole attachments, occupation taxes, etc.? One of the positives of public power frequently touted is the additional benefits that come back to the city and the community. Toward this end, transfers or PILOTs plus administrative overhead and other contributions, made in the form of free or reduced cost services, will typically exceed the franchise fee amount that an investor owned utility would pay. Franchise fees paid by the neighboring investor-owned electric utilities in North Carolina are levied at 3.22%.⁷ Given the lack of specific information on in-kind services and the potential ambiguity of the administrative charges, it is difficult to say with certainty how the New Bern contribution to the community compares. As noted above, Hometown Connections would strongly encourage New Bern to gain a complete understanding of the value to the city and the community and be able to compare that value to what an IOU would offer.

As value to the city is being discussed, it should be noted here that of the revenues being generated by the utility, 30% of them are being generated through sales to customers outside of the city limits. To make a direct comparison between what an IOU would pay through a franchise fee and the New Bern utility pays, that 30% would of course not be a part of the IOU's taxable gross receipts equation.

Overall, New Bern's administrative functions, both within the utility and those provided through general fund services, seem to function well and support effective and efficient business processes.

⁷ § 105-116. Franchise or privilege tax on electric power, water, and sewerage companies: The tax on an electric power company is three and twenty-two hundredths percent (3.22%) of the company's taxable gross receipts from the business of furnishing electricity, electric lights, current, or power.

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Technology

The overall objective for technology is to determine the extent a utility utilizes technologies to improve customer service and operations.

Measures in this area include:

- Transmission
- Distribution
- Meter reading
- Communications
- Information technology
- Integration with community infrastructure



New Bern has made tremendous advances in its technology since 2012. At that time, New Bern had a sound technology program in place, but was lagging much of public power, particularly in grid technologies. Today New Bern has implemented a broad advanced metering infrastructure (AMI) program that provides strong additional functionality. New Bern has upgraded its SCADA system and has taken steps to upgrade its communications technologies. City and utility IT staff have collaborated to integrate these new technologies that cross departmental lines.

On the meter reading front, New Bern went from using functional but clearly limited automated meter reading (AMR) technology to AMI technology that should greatly support enhanced customer service and the utility's reliance on load management to control costs. Given the wholesale pricing structure of power supply and the incentives for peak shaving among NECMPA members, it is likely that the paybacks on an AMI system will be much quicker for New Bern than in other parts of the country. This despite New Bern's already sophisticated load management program. AMI technology allows New Bern to explore time-of-use or real time pricing, customer-facing information streams and remote disconnect and reconnect options. All of these can create more responsive customer service and give information and tools to the end use customer to more directly monitor and control their usage.

New Bern has also taken several steps to upgrade the technology in its SCADA system. Recently New Bern transitioned over to the Survalent SCADA system, which is a strong player in the public power arena. Additionally, the utility is installing reclosers and breakers throughout its system, and replacing RTUs (remote terminal unit) with RTACs (real-time automation controller). And while not specific to the SCADA system, having its substations connected through fiber optics will provide higher bandwidth and shorter latency in its communications with remote equipment. This should give New Bern additional distribution automation options in the field that it has not previously had.

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All of these technology upgrades should also serve to strengthen New Bern's already extensive load management and distributed generation programs. With real time communications, control and switching in the field, New Bern can more easily monitor and manage its direct load control activities.

The city and the utility continue to build a strong geographic information system (GIS). In 2012 some of the system had been mapped, leaving mostly lines, over and underground transformers. Since that time New Bern has mapped 15,000 poles and completed mapping of about 10% of its underground.

There remain a few areas Hometown Connections would like to see New Bern place some additional emphasis on. Most critical in our minds is cyber-security. This has become an increasingly significant issue within the electric industry. Highly visible hacks of Sony, JPMorgan Chase, Home Depot, Target, the IRS and the defense department capture the headlines, but it is the disabling of the nation's critical infrastructure – communications, transportation, and utilities – that has the greatest ability to directly impact the lives of millions of Americans. New Bern has been conscious of its critical infrastructure and vulnerabilities and has taken some steps to maintain the integrity of its distribution system. Hometown Connections would encourage New Bern to maintain cyber-security as a priority and, to the degree possible, coordinate with its joint action agency and others to monitor the ongoing security of its infrastructure.

New Bern is also struggling with an aging CIS, Banner Advantage software. Staff has many complaints with the system, including its limited ability to communicate with other software solutions. Further, the staff person most familiar with Advantage will likely be retiring in two years. Given the already high level of new technology acquisition, now is not the time to also replace the city's CIS. It is our experience that while a new AMI implementation can be temporarily disruptive to staff and utility operations, a new CIS can be overwhelming. Attempting to do both simultaneously or back to back with each other would no doubt introduce a high level of stress to the organization. We would certainly encourage getting the AMI system firmly in place and running before tackling a new CIS. This is not to diminish the importance of replacing the legacy CIS; it clearly needs to be done and planning and budgeting for its conversion should begin in the near future.

New Bern has begun evaluating outage management systems (OMS) and integrated voice response (IVR) to support its outage restoration and customer communications – during an outage or other times. OMS have been fairly uncommon in public power prior to the move to AMI. As a standalone solution, OMS had limited functionality, but with the real time communications infrastructure that a smart grid creates, an OMS adds greater analysis and response sophistication that can reduce outage times. Adding in an IVR, the linkages between customer and utility during an outage become more seamless. And outside of an outage situation, an IVR can ensure information can be exchanged 24/7. Hometown Connections supports New Bern's exploration of these additional grid enhancements.

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The one overarching piece Hometown Connections would like to address is the continued need for a technology plan. New Bern's roll-out of technology has mostly been good: logical, reasonably scheduled, etc. Yet Hometown Connections has worked with too many utilities whose technology adoption was haphazard, poorly coordinated, not fully implemented, implemented on top of each other, not fully interoperable or not properly budgeted for. A technology plan can ensure a more deliberative approach that aligns both staff and board and minimizes the likelihood of unforeseen circumstances. New Bern staff on both the city and utility side have clearly discussed the adoption of technology – and for the most part these efforts have been effective. Nonetheless, Hometown Connections believes that a more formal plan that involves the governing board is an appropriate way to go.



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Human Resources

The objective for Human Resources is to assure the workforce is well trained, properly motivated and fairly compensated.

The measures in this area include:

- Knowledgeable HR staff
- Procedures and practices
- Compensation, benefits
- Staffing levels
- Employee morale
- Training and development
- Career opportunities
- Expertise



New Bern's human resources and employee development activities have not necessarily taken a turn for the worse, so perhaps a lower score is not appropriate. Yet it cannot be ignored that since our assessment in 2012, the utility workforce is working with fewer staff and morale is considered lower than it was three years earlier.

Hometown Connections, through this organization check up, is in no position to assess appropriate staffing levels; that would involve a more specialized study than what has been done here. Yet in talking with staff about the staff changes, it appears positions have been cut primarily in response to board direction to reduce budgets. This was certainly an issue across much of the U.S. and North Carolina during the recession, when major industries in communities were shutting down, cutting shifts or hours. Electric revenues in some communities dropped precipitously, where the recession took its heaviest tolls. The past few years, however, have largely seen a rebound in most regions, including North Carolina's Coastal Plain. New Bern's electric revenues have increased 3.97% since 2009. Many utilities have been able to return to pre-recession staffing levels (except in those cases where positions are not being filled because of a lack of qualified applicants).

Despite stronger economic and financial conditions, it was a surprise to Hometown Connections to learn that electric operations staffing has declined in the number of full time employees from 65 to 58. Part of this appears to be due to the difficulty of attracting and retaining several skill positions, exacerbated by the city cutting many vacant positions across municipal operations, despite some of those unfilled positions being perceived as important to utility operations. This may make fiscal sense during economic downturns, particularly among general fund operations where tax receipts are in decline. But among enterprise fund operations such as electric utilities experiencing a rebound in revenues, it is less clear the rational. Indeed, a local electric utility is often one of the few sources in a community of good paying jobs for local citizens and as such serves as an economic engine to the community it serves. Certainly a governing board has the prerogative to approve a budget

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and staff at the level they deem appropriate. What does not seem clear to employees, however, is the reasons for these position cuts.

The city has recently completed an employee survey that provided good feedback. Morale was perceived as improving somewhat across the city, although this was not the case in the utility.

Employee recognition is a cost-effective way to ensure employees are valued and morale remains high. Many options can be done at little cost. One of the major findings of the employee survey was a desire for better employee recognition. To the utility director's credit, he did write letters of thanks to employees for their accomplishments with regard to utility projects. Hometown Connections would encourage New Bern to evaluate both monetary and non-monetary forms of employee recognition.

In 2012 a wage study was about to be undertaken. Since the completion of this analysis, adjustments have been made in wages and compensation. Utility staff notes that some engineering and technical positions in the electric utility are being clumped with like-sounding positions elsewhere in the city organization, even when industry benchmarks show significant differences in their respective salary ranges. This is an issue Hometown Connections witnesses at many public power utilities that are run as a city department. The reality is that cooperative and investor-owned electric utilities have created a vastly different compensation landscape in electric distribution positions than what is going on in transportation, water and wastewater. For some skill positions, public power is regularly being outbid by the coops and IOUs. Compensation studies at both the national and state level are regularly conducted that shine additional light on electric industry compensation levels. APPA regularly conducts a salary survey by various utility positions. The North Carolina Department of Commerce also maintains a database of wage information by job type. Hometown Connections would encourage New Bern to make use of these and other tools to accurately benchmark compensation levels of its utility employees.

Succession planning continues to be a big challenge for New Bern. The utility is finding it increasingly difficult to fill technical roles. Succession planning elements typically revolve around four strategies:

1. Keep existing employees longer, through flexible work hours, part-time employment, light duty work and other concessions for an aging workforce. New Bern, and other North Carolina public power utilities, face the additional challenge of working within restrictions spelled out by the state retirement system.
2. Plan for the transition periods: monitor age to retirement and know employee's plans when they reach retirement age; document job responsibilities and capture procedures and skill necessary to complete those responsibilities; prioritize duties and responsibilities, and be willing to discontinue or delay lower priority duties.
3. Anticipate and fill the gaps: hire the successor before the incumbent leaves; explore interim solutions to vacant positions, such as outsourcing.
4. Build future capacity through cross-training and the adoption of technologies that make it easier on employees still there.

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New Bern has taken some steps to better prepare for a growing exodus of utility employees, including cross-training and using overlapping transitions to mentor and train new hires. Hometown Connections would encourage New Bern to continue making knowledge management and succession planning a high priority. There seems to be a strong need for it in New Bern.

Overall, New Bern has a strong employee workforce and many commendable human resource practices. However, we remain concerned by the continuing perception of low employee morale and the appearance of not fully valuing employee contributions.



Appendix

Hometown Connections Information

Hometown Connections is a utility services subsidiary of the American Public Power Association (APPA). APPA is the national service organization representing the nation's more than 2,000 community- and state-owned electric utilities. It owns 65% of Hometown Connections through its Public Power, Inc., subsidiary. Alabama Municipal Electric Authority owns the remaining 35% of Hometown Connections.

Hometown Connections was formed in 1998 and provides value to public power in two ways.

First is by assessing public power product and service needs and identifying best-in-class vendors that can meet these needs. By partnering with these vendors, Hometown Connections secures discounted pricing, group packaging and high levels of service for members of the American Public Power Association. Hometown Connections makes products and services directly available in every part of the country through its direct sales staff and alliances with 22 public power joint action agencies and state associations. These products and service fall into three categories:

1. Utility Operations Services: Including AMI, SCADA, outage management, IVR, engineering and GIS software, meter data management, smart grid energy management, online energy audits and billing systems.
2. Retail Services: including surge protection.
3. Business Planning Services: including market research, interim staffing solutions and compensation studies in addition to the strategic consulting and utility assessments discussed below.

Second, is by leveraging Hometown Connections substantial in-house expertise to provide consulting and facilitation of utilities' operations and planning. Hometown Connections staff bring considerable experience and expertise on the energy industry, public power and municipal government. Since 1998, Hometown Connections has worked with over 900 public power utilities, joint action agencies and state associations across the U.S., giving the staff unique insights into the operations of an enormous variety of public power organizations. Hometown Connections has several pre-packaged consulting services and also provides customized consulting, facilitation and research services.

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Hometown Connections Bios

Tim L. Blodgett

Mr. Blodgett has held the positions of President and CEO of Hometown Connections, the utility services subsidiary of the American Public Power Association, since January 2001. Mr. Blodgett is responsible for Hometown's overall efforts in delivering value to public power utilities. Mr. Blodgett has worked with many public power utilities in the area of strategic consulting with an emphasis on continuous improvement and is a frequent guest speaker at industry forums across the country.

Mr. Blodgett joined Hometown in May of 1998 as the Vice President, Sales and Marketing where he assisted in the molding of a startup organization into a well-recognized company known for value adding products and services specifically designed to meet public power's needs.

Prior to joining Hometown, he was the Director of Sales for **en-able**, an affiliate of KN Energy and PacifiCorp, where he assisted energy distribution companies with their customer care programs. Mr. Blodgett played a key role in the development and sales of Simple Choice, a broad residential package of products and services including energy and home services, infotainment and communications services.

Prior to the formation of **en-able**, Mr. Blodgett worked for KN Energy where he focused on the sale of energy and related services to local distribution companies. He also participated on the consumer services team that led the industry in becoming one of the first to promote consumer choice. The end result of this effort was the largest retail consumer choice program in the natural gas industry in 1996. Mr. Blodgett spent six years with Phillips Petroleum Company in various positions ranging from natural gas marketing to business development in exploration and production.

Mr. Blodgett holds a Bachelor of Arts Degree from Northwestern Oklahoma State University in Business Management. In 2010 Mr. Blodgett was honored when his alma mater invited him back to provide the commencement address at its spring graduation ceremony. He is also an active volunteer in Colorado's youth basketball scene.

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Steve VanderMeer

Mr. VanderMeer is the Senior Vice President for Planning and Marketing for Hometown Connections. He joined Hometown Connections in October of 1998 and provides sales and marketing support and consulting to public power utilities.

He comes to Hometown Connections from a Colorado public power utility, Fort Collins Light & Power, where he was the Director of Marketing and Energy Services. Mr. VanderMeer directed the development and promotion of a stronger utility image and brand. He oversaw the launch of several new products and services including the very successful Wind Power Program, winner of the 1997 APPA Energy Innovators Award.

Prior to his work with Light & Power, Mr. VanderMeer was Assistant to the City Manager with the City of Fort Collins. During this time he managed numerous community outreach and citizen participation programs. He facilitated strategic planning efforts at the department, organization and community levels. Mr. VanderMeer also directed the City's Total Quality Management program and is a certified TQM instructor.

Mr. VanderMeer gained his early experience while Assistant to the Vice President of Marketing and Development and later Assistant to the President at the Philadelphia Zoo.

Steve is a native Michigander. He holds a Bachelor of Arts Degree from the University of Michigan and a Master's Degree in Governmental Administration from the University of Pennsylvania. Steve is active with the Discovery Science Center in Fort Collins, where he serves as the President of the Board of Directors.

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APPA List Servers and Electronic Discussion Groups

Accounting and Finance

Policies and procedures for daily accounting management, accounting for utility transactions, debt management, financial reporting to the board, reserve fund policies and other accounting and finance issues. Information on new GASB and FASB standards or interpretations, IRS regulations, and federal legislation.

Broadband Marketing

For the discussion of topics related to marketing communications services, such as internet, telephone, and cable television.

Community Broadband

Providing (or considering the providing of) advanced communication systems or services, including dark fiber leasing, Internet data, telephone service, and city or school communications. Also barrier to entry, marketing, advertising topics.

Customer Services

Call centers, customer billing, credit and collections, revenue security, customer service representative selection and training, other service quality issues. (M)

DEED

The DEED list serve will provide an opportunity for DEED members to discuss innovative research ideas and will offer a forum for disseminating information related to the DEED program, its research projects, and other research of interest to the membership. All topics of interest to public power electric utilities may be discussed as it relates to innovative research and demonstration projects. (Only DEED members may participate)

Economic Development

Community economic development, business retention and expansion, new product development, and direct utility involvement in economic development efforts.

Energy Services

Energy efficiency, load management, integrated resource planning and demand-side management. (M)

Environmental Issues

Federal environmental regulatory issues. Disseminates memos and documents pertaining to environmental regulations and compliance. The weekly e-mail notice also provides helpful industry compliance tips. (M)

FERC

Dissemination of news, analyses and documents pertaining to the Federal Energy Regulatory Commission. (M)

Generation & Fuels

Problems and solutions associated with power generation and the fuels used in the generation process. (M)

Human Resources

Human resources policies and practices, utility issues impacted by aging and retiring workforce, labor relations, compensation and benefits, employee training, and the importance of investing in your employees.

Information Technology

Information technology in an electric utility, including enterprise-wide strategic planning, security, equipment, systems and procedures used in data and information processing. (M)

Key Accounts

Development and maintenance of mutually beneficial long-term relationships with major commercial and industrial customers and other key accounts.

Legal

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Discussion of major litigation developments, policies and procedures for managing legal offices, contracts, tort liability, litigation practice, and legal aspects of risk management, governance, human resources, debt issuance, information practices, intellectual property, and privacy. (M)

NERC-NAESB

Development of and ballot recommendations on proposed NERC and NAESB WEQ business standards, and other related activities of the North American Electric Reliability Organization (NERC) and/or the North American Energy Standards Board's Wholesale Electric Quadrant (NAESB WEQ).

Pricing & Market Analysis

Primarily for APPA's Pricing and Market Analysis Committee (professionals in costing, pricing, load research and market analysis) but other member-utility employees may join with permission of list owner.

Public Communications

For public power communicators, topics ranging from public relations to advertising and marketing to employee communications. Forum may be used to post announcements from individual utilities.

Risk Management & Insurance

To help facilitate information exchange between public power utilities and help with day to day operational issues related to risk management and insurance. To join, please contact Diane Moody at APPA directly. (M)

Safety

Provides information on safety information, policies and practices to member utilities. (M)

Security

Provides Department of Homeland Security (DHS) including NIPC, NERC and DOE security bulletins and alerts to subscribers. Facilitates security information exchange between participants. (M)

Supply Management

Forum for discussion of topics related to supply chain management, procurement, inventory and warehousing for publicly owned electric utilities.

Transmission and Distribution

Construction, operation and maintenance of utility transmission and distribution equipment. (M)

"M" designates a list moderated by APPA staff.