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# Enterprise Accountability & Validation

FY2019 Metrics Results Validation  
and Proposed FY2020/21 Metric Goals



Independent Report

Prepared for the Board of Trustees

April 29, 2019

Rev



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# Overview

**Today’s Objective – Provide an updated report to the Board of Trustees on the attainment of key performance metrics and recommended goals for FY2020/21**

## Background

- CPS Energy management reports two types of metrics to the Board of Trustees:

<b>Annual Metrics</b>	Annual metrics specific to all salaried employees at CPS Energy, including the President & Chief Executive Officer (“CEO”).
<b>Long-Term Metrics</b>	Two-year metrics specific to the President & CEO and Senior Chiefs.

- These metrics combine to provide an environment with a focused attention on performance accountability, in accord with accepted industry practices, that encourages sustained strategic success across the enterprise



# FY2019 Metrics Validation



# Validation Approach and Goals

**ScottMadden independently validated the result of each FY2019 key performance metric**

- Conducted data gathering sessions with metric SMEs to understand the calculation sources, systems, and processes
- Reviewed supporting documents to confirm activities, communication, and historical performance



## Participants

### CPS Energy

- Business Planning
  - Marisol Weymouth, Polo Moncada, Gonzalo Cortinas, Daniel Escarcega, Lauren Stone
- Metric SMEs
  - Shannon Albert, Lisa Clyde, Ken Cramblitt, Jacob de Leon, David Detelich, Chris Garcia, Mario Guzman, Janna Junkin, Gaelen McFadden, Hassan Mkhantar, Claudia Orosco, Gautam Shringarpure, Kim Stoker, Zada True-Courage, Rhoda Villarreal, Blake Williams, Jeff Wright, Cheryl Yaeger, Trey Zuniga
- Audit Services
  - Marisela Castanares

### ScottMadden

- Todd Williams, Jonathan Aronoff



## Objectives

- Validate the metrics included in the financial standard
- Validate all FY2019 metrics and results across the following plans:
  - Annual Plan
  - Long-Term Plan
- Document and present the validation findings



## Validation Goals

- The validation effort has four goals:

**Validate that the calculation is accurate, sound, and reasonable**

**Validate that the data in the system of record is verified, confirmed, and reliable**

**Validate that the data flow is traceable and documented**

**Validate that the final result is communicated and approved**

# ScottMadden Findings

Metric	Validation Status
Adjusted Debt Service Coverage	●
Days Cash on Hand	●
Debt to Capitalization Ratio	●
Customer Satisfaction - Residential	●
Enterprise Recordable Incident Rate	●
Environmental Compliance Issues	●
Enterprise O&M	●
System Average Interruption Duration Index (SAIDI)	●
Portfolio Commercial Availability (PCA)	●
Two-Year Average Customer Satisfaction Index	●
Enterprise Readiness	●
Residential Management Reputation	●
Senior Lien Bond Ratings	●
Two-Year Average SAIDI	●
Two-Year Average System Average Interruption Frequency Index (SAIFI)	●
Two-Year Average PCA	●

Based on our review, we are able to make the following statements to the best of our knowledge and belief and without any qualification or reservations:

- The metric values for FY2019, as reported by each metric SME, faithfully reflect the source data in the system of record. The values within the individual system of records matched the reported values. The metrics were calculated true to the design intent
- For the performance period, each metric calculation was accurate, sound, and reasonable; the data in the system of record was verified, confirmed, and reliable; the data flow was traceable and documented, where applicable; and the final result was communicated
- The metrics, as calculated and reported, represent normal and customary metrics used by generation, transmission and distribution electric utilities, and gas utilities
- Senior Chiefs demonstrate appropriate ownership of metrics and metrics results

Supporting documentation from our assessment is available in our final report to Management.

**Legend**

● Valid Results   ● Variant Results   ● Incomplete Results

# CPS Energy Audit Services Findings

CPS Energy Audit Services recently completed an *Audit of Tier 1 Metrics Sensitive to Technology Systems* to assess, document, and validate systems used to calculate SAIDI, SAIFI, and Portfolio Commercial Availability.

Audit scope included IT systems and other select input systems that directly perform the calculations for SAIDI, SAIFI, and PCA or serve as a data aggregator from other source systems for these calculations:

SAIDI/SAIFI	PCA
<ul style="list-style-type: none"><li>■ The Outage Manage System (OMS)</li><li>■ The Power Quality &amp; Reliability Database in Access (PQRDB)</li><li>■ Macro-enabled Excel file</li></ul>	<ul style="list-style-type: none"><li>■ Margin Analyzer</li><li>■ Energy Supply &amp; Market Operations' Business Data Repository (ESMO)</li><li>■ PowerGADS</li></ul>

Audit scope areas of focus included:

- Document the end-to-end integrity of the data and verify that the data is reviewed, managed, validated, and reliable
- Evaluate the effectiveness, completeness, and sustainability of processes, procedures, and controls by assessing the documentation and conducting process walkthroughs with process owners and subject matter experts
- Document the security, reliability, and effectiveness of the systems by verifying the level of system monitoring, access management, data protection, and continuity

**Based on the criteria described in the audit scope, Audit Services concluded that systems and/or processes were:**

- 1. Adequate to maintain consistent data integrity reviews and validation processes**
- 2. Effective to support sustainability of operations and controls related to data integrity**
- 3. Reliable and sufficient in monitoring data, access management, data protection, and security**

# Financial Standard Metrics Results

Three financial standard metrics must be met each year:

Metric	FY2019 Threshold	FY2019 Results	FY2019 Attainment
Adjusted Debt Service Coverage Ratio	1.50 ↑	2.00	Met
Days Cash on Hand	150 ↑	246	Met
Debt-to-Equity ratio to not exceed 62.2%	62.2% ↓	61.8%	Met

All financial standard metrics were met for FY2019.



# Annual Metrics Results

Performance Measure	Category	Desired Direction	Target <sup>1</sup>	Outstanding <sup>1</sup>	FY19 Results	FY2019 Attainment
Customer Satisfaction – Residential <sup>2</sup>	Customer	↑	77.5	79.0	82.3	ACHIEVED OUTSTANDING
Enterprise Recordable Incident Rate	Employee	↓	0.43	0.37	1.16	UNRECOVERABLE
Environmental Compliance Issues (NOV/NOE)	Community	=	0 NOEs	0 NOEs & 0 NOVs	0 NOEs & 1 NOV	ACHIEVED TARGET
Enterprise O&M	Financial	↓	0–2.5% below Budget (Budget=\$617.2M)	2.5% or more below Budget (\$601.2M or less)	\$606.9M	ACHIEVED TARGET
SAIDI <sup>2</sup>	Operational	↓	61.00	55.40	54.49	ACHIEVED OUTSTANDING
PCA <sup>2</sup>	Operational	↑	89.5%	90.6%	93.2%	ACHIEVED OUTSTANDING

<sup>1</sup> Relative to this simple presentation, the actual results are aligned to their closest attainment levels. Precise interpolation techniques are used to ensure accuracy.

<sup>2</sup> Calendar Year (CY) Measure

# Long-Term Metrics Results

Performance Measure	Category	Desired Direction	Threshold <sup>1</sup>	Target <sup>1</sup>	Outstanding <sup>1</sup>	FY18 Results	FY19 Results	FY18-19 Results	FY18-19 Attainment
Two-Year Average Customer Satisfaction Index <sup>2</sup> (Residential + Small/Medium + Large)	Customer	↑	81.0	81.5	81.9	83.4	83.9	83.7	ACHIEVED OUTSTANDING FY18-19
Enterprise Readiness <sup>3</sup>	Employee	↑	64%	68%	76%	66%	73%	N/A	ACHIEVED TARGET FY19
Residential Management Reputation <sup>3</sup>	Community	↑	76	77	78	78	81	N/A	ACHIEVED OUTSTANDING FY19
Senior Lien Bond Ratings <sup>3</sup>	Financial	=	1			1	1	N/A	ACHIEVED OUTSTANDING FY19
Two-Year Average SAIDI <sup>2</sup>	Operational	↓	61.00	55.00	54.11	53.97	54.49	54.23	ACHIEVED TARGET FY18-19
Two-Year Average SAIFI <sup>2</sup>	Operational	↓	0.830	0.817	0.804	0.831	0.844	0.838	UNRECOVERABLE FY18-19
Two-Year Average PCA <sup>2</sup>	Operational	↑	89.5%	90.3%	91.4%	90.8%	93.2%	92.0%	ACHIEVED OUTSTANDING FY18-19

<sup>1</sup> Relative to this simple presentation, the actual results are aligned to their closest attainment levels. Precise interpolation techniques are used to ensure accuracy

<sup>2</sup> Calendar Year (CY) measure, calculated as two-year average

<sup>3</sup> FY19 Threshold, Target and Outstanding Performance Measures



# Recommended FY2020/21 Goals



## Goals Overview and Approach

The Board of Trustees requested that CPS Energy management seek a third party to independently recommend goals for annual and long-term metrics

- Business Planning engaged ScottMadden to perform this work
- ScottMadden has completed this assignment using the approach shown below

### Approach

Business Units (BU) set goals as part of their Business Plans

ScottMadden performed independent evaluation; blind to BU goals

BU and ScottMadden met to examine goals and arrive at co-recommended goals

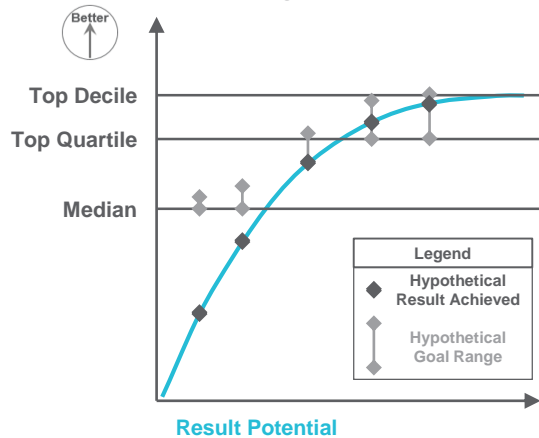
Results reviewed with President & CEO

Final proposal made to Board of Trustees during April Board meeting

# Goal Setting Philosophy – Inputs

Goal setting is both art and science. ScottMadden leveraged common goal setting principles as shown here:

- As performance improves, a point of diminishing returns is reached (e.g., top decile among peers) where it is better to stay consistent and maintain prior results
- On the other hand, stretch goals are used for low performance to drive improvements
- See below graph:



- Goals should be reasonable compared to historical performance and results achieved

- Goals should align with strategy. If the strategy is to be the top performer, then ambitious goals should be set (even if more costly to achieve)

- The availability of resources and money affects the ability to attain more stringent goals and sustain continuous improvement

- Benchmarking studies are used to understand the range of results that others have achieved and describe performance against peers (e.g., median, top quartile)



# FY2020 Recommended Goals for Annual and Long-Term Metrics

The following table shows the FY2020 co-recommended goals for the metrics, organized by strategic driver:

Strategic Drivers	Annual Metrics <sup>1</sup>			Long-Term Metrics <sup>2</sup>			
	Metric	Target	Outstanding	Metric	Threshold	Target	Outstanding
<b>CUSTOMER RELATIONSHIPS</b>	Customer Satisfaction – Residential	78.2	80.7	Two-Year Average Customer Satisfaction Index	81.0	81.6	82.2
<b>EMPLOYEE RELATIONSHIPS</b>	OSHA Severity Rate <sup>3</sup>	10.5	6.2	Enterprise Readiness	66%	73%	76%
	Enterprise Recordable Incident Rate <sup>3</sup>	1.10	0.90				
<b>COMMUNITY</b>	Environmental Compliance Issues	0 NOEs	0 NOEs and 0 NOVs	Residential Management Reputation	77	78	79
<b>FINANCIAL INTEGRITY</b>	Enterprise O&M	Under Budget by 0.0%-2.5%	Under Budget by >2.5%	Senior Lien Bond Ratings	N/A	N/A	1
<b>OPERATIONAL EXCELLENCE</b>	SAIDI	61.00	54.17	Two-Year Average SAIDI	66.03	60.10	54.17
	Portfolio Commercial Availability	85.9%	88.2%	Two-Year Average SAIFI	0.824	0.809	0.794
				Two-Year Average Portfolio Commercial Availability	89.6%	90.7%	91.3%








<sup>1</sup> Annual Metrics also include a Leadership Effectiveness metric, for which a score is assigned by the Board of Trustees

<sup>2</sup> Long-Term Metrics goals are recommended for both FY2020 and FY2021

<sup>3</sup> Enterprise Recordable Incident Rate is included in case proposal to replace with OSHA Severity Rate is NOT accepted

# Goals Comparison Analysis – Annual Metrics








The following table shows the FY2020 co-recommended goals as compared to the FY2019 goals for the Annual Metrics program.

Metric	FY2020		FY2019		FY2020 Goal Compared to FY2019 Goal		Notes
	Target	Outstanding	Target	Outstanding	Target	Outstanding	
Customer Satisfaction – Residential 	78.2	80.7	77.5	79.0	↑0.7	↑1.7	Target and Outstanding raised to median and top quartile, respectively
OSHA Severity Rate <sup>1</sup> 	10.5	6.2	N/A	N/A	N/A	N/A	Proposed new metric with no goals from prior years
Enterprise Recordable Incident Rate <sup>1</sup> 	1.10	0.90	0.43	0.37	↑0.67	↑0.53	Goals set within top quartile benchmark; raised to aim for improvement over prior year result
Environmental Compliance Issues 	0 NOEs	0 NOEs & 0 NOVs	0 NOEs	0 NOEs & 0 NOVs	=	=	Consistent with strategy articulated by the Board's Personnel Committee
Enterprise O&M 	0% - 2.5% Below Budget	>2.5% Below Budget	0% - 2.5% Below Budget	>2.5% Below Budget	=	=	Target set to budgeted O&M
SAIDI 	61.00	54.17	61.00	55.40	=	↓1.23	Target maintained at midpoint between top decile and top quartile
Portfolio Commercial Availability 	85.9%	88.2%	89.5%	90.6%	↓3.6%	↓2.4%	Goals adjusted to reflect analysis of fleet attributes

<sup>1</sup> Enterprise Recordable Incident Rate is included in case proposal to replace with OSHA Severity Rate is NOT accepted

# Goals Comparison Analysis – Long-Term Metrics

The following table shows the FY2020 and FY2021 co-recommended goals as compared to the FY2019 goals for the Long-Term Metrics program.

Metric	FY2020 and FY2021			FY2019			FY2020 and FY2021 Goals Compared to FY2019 Goal			Notes	
	Threshold	Target	Outstanding	Threshold	Target	Outstanding	Threshold	Target	Outstanding		
<b>Two-Year Average Customer Satisfaction Index</b>		81.0	81.6	82.2	81.0	81.5	81.9	=	↑0.1	↑0.3	Threshold maintained above top quartile; Outstanding raised to reflect high FY2019 result
<b>Enterprise Readiness</b>		66%	73%	76%	64%	68%	76%	↑2%	↑5%	=	This metric is trending up, but has not previously met top goal
<b>Residential Management Reputation</b>		77	78	79	76	77	78	↑1	↑1	↑1	Increased all goals by 1 to align Target with 5-year average
<b>Senior Lien Bond Ratings</b>		N/A	N/A	1	N/A	N/A	1	N/A	N/A	=	Consistent with strategy articulated by the Board
<b>Two-Year Average SAIDI</b>		66.03	60.10	54.17	61.00	55.00	54.11	↑5.03	↑5.10	↑0.06	Threshold set above top quartile; Outstanding set to top decile
<b>Two-Year Average SAIFI</b>		0.824	0.809	0.794	0.830	0.817	0.804	↓0.006	↓0.008	↓0.010	Threshold set to median benchmark
<b>Two-Year Average Portfolio Commercial Availability</b>		89.6%	90.7%	91.3%	89.5%	90.3%	91.4%	↑0.1%	↑0.4%	↓0.1%	Goals balance analysis of fleet attributes with exceptional performance in prior year