

One Plan, Many Pieces

In these days of rising costs and higher expectations for all stakeholders, many companies are increasing their focus on strategic planning.

By Robert Zabors,
Steve Sheridan, and
Nicholas Hays

Many companies focus their strategic planning efforts in an integrated resource planning process or through annual business planning and budgeting. But is that enough?

Opening up strategic planning can seem like a risky proposition. But taking risks in the planning process is an excellent way to reduce other more significant—and potentially costly—risks in the resulting strategy and implementation. Starting in 2003, Great Plains Energy (GPE) took that risk, using a structured and inclusive process that identified and evaluated a wide range of options.

The company sought out and evaluated a variety of perspectives, which can be complicated as external information is often outdated, contradictory, and difficult to synthesize. GPE discussed the fundamental drivers of change in the industry, a range of future scenarios, and the potential impact and opportunities for business units and the overall corporate portfolio. The outcome of the process—making strategy work—required employees who understand the challenges, buy-in to the approach, and are supported by the corporate culture.

The results? Since GPE announced its strategic intent in late 2004, the resulting regulatory plans have won unanimous approval in two states, and deregulated components have led to greater focus on specific customer segments. The company's strategy won the support of employees, community leaders, investors, and most important, customers. This is GPE's story.

An Opportunity for Change

GPE is the holding company for Kansas City Power & Light (KCP&L), an integrated electric utility with approximately 500,000 customers in the Kansas City metro area, and Strategic Energy, a competitive supply business based in Pittsburgh, PA. KCP&L, known as a reliable utility with low operating costs, has seen continued growth in the Kansas City area, leading to greater peak demand and a narrowing reserve margin. But in light of 15 years of declining rates, investments requiring

rate increases—for new supply options—were a difficult topic to discuss with customers and regulators. And with utility deregulation stalled in much of the country, Strategic Energy also was looking for avenues of profitable growth.

As they looked to the future development of the company, the new GPE chairman and CEO, Mike Chesser, and KCP&L's CEO, Bill Downey, had four goals:

- define the company's strategic intent and major initiatives;
- engage employees to leverage their ideas, gain their buy-in, and build a strong "winning culture" from the outset;
- address the needs of the community KCP&L served; and
- identify and address the drivers of uncertainty, including the potential impacts of evolving technology across a range of future scenarios.

Culture was an explicit component of the strategy—a departure from the more common practice of making it a strategy by-product. They wanted

- inspired employees, who lead with an emotional, passionate style that encourages others to succeed;
- disciplined performance management, employees who adhere to a well-thought-through plan of action to achieve goals;
- engaged employees, who feel a true sense of pride in their work and know their contributions are vital to the company's growth and prosperity;
- accountable employees, who set high standards for performance; and
- dedicated employees, who value and respect each other, customers, community, company, and the shareholders.

"Culture may be the only long-term competitive advantage," Chesser said. He chartered a team to deal explicitly with the issue. Defining cultural goals as a part of corporate strategy ensures a more robust set of outcomes and speeds implementation by addressing one of the most critical barriers.

"We are able to undertake this process because of our strong operating performance," said Downey, "and the degree of trust we've earned with customers, regulators, and the community."



With the initial step of launching the strategy development teams, a winning culture at GPE began to take shape—a new model of leadership, engagement, and accountability.



Courtesy: Lyndall Blake / KCP&L

Getting Started

GPE created six employee-led working teams, each consisting of eight to ten people. Three teams focused on the business environment: community, political, and regulatory; finance; and winning culture. The other three focused on potential business opportunities in generation, delivery, and retail. Each team leader participated in the core team, which coordinated the efforts of the individual teams and presented progress to the executive steering committee.

Generally, companies limit participation in high-level planning to senior management and a few select managers who seem to participate in every major project. But to meet the goal of inclusiveness, the company staffed the strategy teams with a variety of subject-matter experts, people new to the company, and high-potential employees of varying tenures. Teams also included members of the bargaining unit. Bringing union members into a corporate planning process ensured that participants on all sides would articulate a variety of new perspectives.

The teams were to focus on long-term questions: How will the market change in the next 10 years? What are the fundamental drivers and assumptions for these drivers? What are the opportunities and risks for GPE?

At the strategy development kickoff meeting, Chesser promised these teams the resources and freedom to explore available options. But he also established a timeframe and deliverables for both the teams and the overall project.

Robert Zabors and Steve Sheridan are partners, and Nicholas Hays is a consultant at Bridge Strategy Group (www.bridgestrategy.com) in Chicago, IL.

Furthermore, he explained how this major investment was a part of an integrated performance management process: The results of the strategy would lead to measures and goals for the organization, and ultimately all of the individuals in the room, including the executives. With clear direction and context, he and Downey challenged the participants to seize an opportunity to shape the organization's future.

With the launching of strategy development teams, a winning culture at GPE began to take shape—a new model of leadership, engagement, and accountability. This emerging culture helped to guide decisions throughout the process. (See the chart, “Distinctive Components of GPE’s Strategy Planning Process.”)

The Search Begins

The first step of the core team and executive steering committee was to consider GPE’s role in the energy value chain, from coal mining and gas production through energy services. Collectively, the members of the group decided to focus the working teams on electricity and energy solutions. Following that decision, executives took the first steps to divest GPE’s gas exploration and production subsidiary.

With a more defined scope, the working teams began the process of better understanding their portion of the industry. Each team’s first deliverable was a 10-year view on how its area was likely to evolve. Ten years is a good timeframe for strategic planning, since it exceeds the traditional budgeting timeframe, is comprehensive enough to include major capital investments and a wide range of emerging technologies, and is near enough for planners to see the results.

The teams collected basic research on the industry—dynamics and forecasts, technology trends, strategies of other companies, etc. The size of the teams allowed them to conduct a broad scan of public sources, and interview representatives from industry associations, vendors, industry analysts, and even colleagues at other utilities.

Some also began to bring outside experts into the sessions, but quickly found that limited their ability to evaluate multiple perspectives. Issues were too large and uncertainties too great to simply select one expert’s “preferred” point of view.

The core team then had an epiphany: Seminars. The company would hold large forums, where a panel of experts could



Courtesy: Lyndall Blake / KCP&L

present a range of views and hold a provocative discussion. Also, GPE would open up the seminars to community representatives, regulators, and other stakeholders.

The teams put together seven seminars,

held over the course of five weeks:

- technology trends in distribution;
- Wall Street's view of energy companies;
- alternative views on generation technologies in 2014;
- employee leadership;
- workforce trends and their implications on winning culture and strategy;
- community trends; and
- customer trends.

The teams also decided to open seminars to all employees, giving them the chance to participate directly in the process and exposing everyone to the complexity of the company's challenges. All employees were randomly selected for one of the seven seminars—the company invited, but did not require, them to attend.

The extent of participation in the seminars represented a major risk. In many cases, panelists held conflicting views, and the company had no control over what they might say (or what the audience wanted to talk about). As an interactive and unrehearsed forum, there was no telling which points of view would emerge or how the audience would react.

Seminars: Moments of Truth

There was great nervousness around the first seminar. Would a loosely facilitated session driven by a panel of experts with diverse views and unscripted questions work at all? Would people even show up?

Employees also were skeptical. Many questioned how the seminar they were selected to attend would help them perform their jobs, or if it was relevant for them at all. After all, what did Wall Street's view of the company have to do with someone maintaining a boiler at a generating station?

At the first seminar, almost 300 people filled the ballroom of the Fairmont Hotel in Kansas City. It was unclear which participants were least sure of the outcome—the panelists, employees, or strategy development team members. After each panelist made a brief presentation, the moderator gathered written questions from audience members and the next few hours were filled with a serious discussion of the issues. Subsequent teams continued to innovate with the format, and the meetings became tough tickets across the organization, with many employees requesting to participate in more than one.

The juxtaposition of viewpoints was fascinating—environmentalists on the same panel as coal industry leaders, equipment manufacturers with venture capitalists. The insights were striking and proved useful—as anticipated—in the strategy development process. “It would have been more natural to orchestrate the sessions,” said Mike Deggendorf, the leader of the core team, “but instead we focused on finding some excellent speakers. Listening to the dialogue, we had a much better outcome.”

The seminars proved to the strategy teams that senior executives trusted their ability to organize major events that would shape the opinions of employees, regulators, and community leaders. They also demonstrated to the employees at large that GPE was serious about employee development and setting the right course for the organization through an inclusive and informed strategy development process. This was winning culture in action.



Courtesy: Lyndall Blake / KCP&L

The seminars proved to the strategy teams that senior executives trusted their ability to organize major events that would shape the opinions of employees, regulators, and community leaders.

Scenario Development

GPE was creating a 10-year strategic plan, so the process needed to reflect uncertainties and the likely drivers of change over that timeframe and illustrate the possible paths for the market and industry. Based on information garnered during the seminars, from research, and through several brainstorming sessions, the core team developed a set of drivers—these included energy prices, volatility, technology innovation, environmental regulation, and the regulation of retail and wholesale markets. In addition, the team recognized that certain low-probability, high-impact events—a terrorist event or flu pandemic, for example—could also have an effect on the industry environment.

The core team constructed six scenarios based on the interplay of those drivers and quantified assumptions to match each scenario. For instance, how will these needs and assumptions play out if natural gas prices skyrocket or

the political environment demands much stricter emission controls? Team members then fed these assumptions into a series of planning, dispatch, and financial models created to test the viability of investment and program options under consideration. Later in the process, they used these models to test strategic options and recommend specific strategies.

Once the working teams had created 10-year views in each of their own topic areas, supplemented by the scenarios, they discussed the opportunities and risks created by changes in the industry. After all, these opportunities would create potential avenues for GPE’s growth and highlight areas to better manage and mitigate risk. The three business line teams created a series of business options.

The generation team considered several different ways to meet various load growth projections at the utility—from coal gasification to wind to more traditional coal generation—and worked with the delivery team on efficiency and

demand response (DR). To the extent natural gas was a potential source for new generation, its volatility under several scenarios represented a high price risk for customers and shareholders alike. Based on scenarios driven by fuel prices, technological innovation, and legislative uncertainty, wind and advanced coal emerged as feasible supply options.

The delivery team evaluated myriad options, from advanced automation technologies to broadband over power lines, distributed generation using fuel cells, and photovoltaics. Research conducted to create the 10-year view made it clear that the industry saw a trend toward greater collaboration with customers through internet-based services and other programs concerning energy efficiency and DR. Falling technology prices and improved wireless and landline communications made many of these programs economically viable, even in a part of the country where wholesale prices rarely topped \$100 per megawatt-hour. New DR and efficiency programs emerged as good options for the company. The team also eliminated a number of options because they either were not a strategic fit or failed to show an adequate return on investment.

The retail team identified the need for improved segmentation and more targeted solution development in an increasingly challenging price and regulatory environment.

As the working teams examined and evaluated potential business options, the core team began to assemble portfolios of reasonable strategic alternatives. Together with the executive steering committee, the teams were forming a recommendation for GPE’s strategic intent—the general direction the company would move over the next 10 years.

FIGURE 1
DISTINCTIVE COMPONENTS OF GPE’S STRATEGY PLANNING PROCESS

Practice	Rationale
Address culture in the project plan and as a strategic dimension. Take a 10-year view.	Essential for comprehensive strategy development. Long enough to enable bigger picture thinking; yet short enough to require considering implementation requirements.
Foster open dialogue/encourage outside perspectives and creative thinking—particularly on complex topics: • Environmental • Technology • Price forecasts	Develop appreciation for complexity, breadth of issues, and respect for opinions.
Get all employees involved: • Encourage Q&A • Cross-functional teams • Unions	Including more people in “strategic learning” leads to better collaboration and implementation.
Identify key drivers and scenarios.	Plan for uncertainty and recognize drivers of change.
Model the results (quantitative and scenario-based) and alternatives.	See what actually works including financial and regulatory impact.
Integrate strategy development, budget planning, and organizational management processes.	A successful plan is not a stand-alone project. What gets measured gets done.
Expand and play an active role in facilitating public interaction: • Forums • Seminars • Hearings	Get issues out early and have flexibility to respond (such as wind and demand response).
Bring regulators into the process early.	Better quality dialog and more freedom on both sides to identify solutions.

Source: Bridge Strategy Group

With the executive steering committee, the teams were forming a recommendation for

Courtesy: Lyndall Blake / KCP&L

GPE's strategic intent—the general direction the company would **move** over the next 10 years.

Elements of GPE's strategic intent included industry leadership, leveraging the changing marketplace, technological innovation, and strong operating and financial performance. KCP&L's intent included a balanced and comprehensive approach, with additional goals of top-tier operating performance and reliability and leadership in environmental issues. An ambitious and comprehensive environmental strategy—including new wind generation and proactive emissions controls for existing plants—complemented additional baseload capacity and infrastructure upgrades necessary to meet the needs of the growing population in the Kansas City area.

Again, GPE emphasized that a winning culture was necessary if the company wanted to achieve those goals.

Putting It to the Test

After several months of intense work, the strategic intent, starting-point strategic plans, and supporting analysis were the focus of a two-day board of directors meeting. This was a critical test for the hours of research, analysis, and discussion that went into the long-term strategy. Everyone was nervous, but the board was pleased and ultimately approved the teams' recommendation.

Soon thereafter, KCP&L started a regulatory workshop process, where the company described the intent and starting point plans to regulatory staff in Kansas and Missouri. The starting point included environmental upgrades for the existing fleet, new wind and high-efficiency coal capacity,

transmission and distribution infrastructure upgrades (including pilot programs for such automation technologies as smart thermostats and residential energy gateways), and a suite of energy efficiency and DR programs for customers.

The utility also organized a series of public forums in locations across the service area to gather additional feedback from local citizens and showcase work from the strategy development effort. By using an open hall format with booths set up to demonstrate components of the plan, customers could speak directly with company experts if they had questions or wanted to discuss a particular issue. Even though the plan faced some opposition, the forums were successful in educating those most affected by the plan. And in an effort to be fair and balanced, KCP&L provided space alongside its own booths in each of the forums for groups to present alternative viewpoints.

To assist the regulatory process, the company and

Courtesy: Lyndall Blake / KCP&L

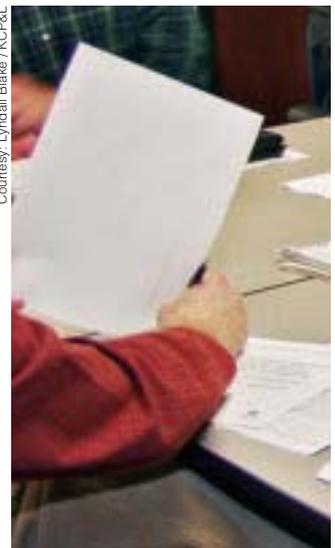
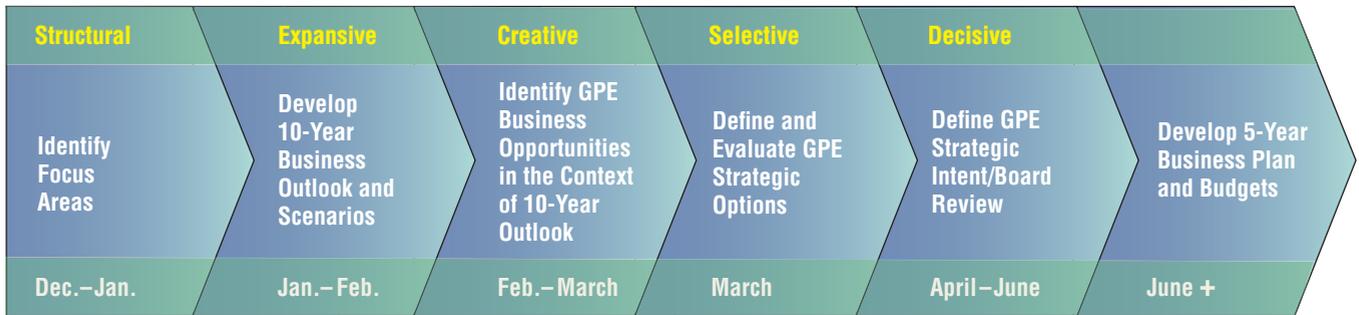


FIGURE 2
STRATEGY DEVELOPMENT PROCESS



All milestones were achieved throughout the process.

Source: Bridge Strategy Group

Missouri regulators set up a customer program advisory group, comprised of customers and community leaders—the group provided ongoing feedback on existing and new DR and efficiency programs. In its initial phase, more than 100 people were involved in the process.

Making Strategy Work: Performance Management

Developing new corporate strategy can be an exhilarating activity, especially when the process starts with a clean slate and strong executive leadership. But all too often, strategy is not effectively translated into action. An organization-wide integrated performance management process was deployed to ensure that everyone was aligned and employees were taking actions to implement the strategy.

GPE built on a performance management process already in place in several parts of the organization—KCP&L developed the process the year before the effort. It involves setting targets from the executive level to the front line: The company links tangible initiatives to the strategy and measures results. Not only is disciplined performance management part of delivering results for customers and investors, it also is an important tool for building a winning culture. By giving employees responsibility to manage initiatives and holding them accountable for results, they become more engaged in the process.

Successful Results

More than 18 months have passed since GPE finished the

Following the public forums and several months of testimony, regulators in both states unanimously approved KCP&L’s plan, and the utility is moving forward with a comprehensive and balanced investment program.



Courtesy: Lyndall Blake / KCP&L

strategy's development. From the holding company's perspective, a winning culture is taking root. Employee engagement surveys also show positive results, and employees at all levels are demonstrating leadership and innovation. To ensure that the topic stays in the executive dialogue, the company made Marvin Rollison (leader of the winning culture team and formerly a manager in a generating plant) vice president of winning culture and community strategy. Along with the strategic performance management program, strategy formulation is linked to budgeting in a continual process. And scenario planning has improved the internal dialogue and the modeling of alternative outcomes and drivers—helping the company better react to uncertainty.

Following the public forums and several months of testimony, regulators in both states unanimously approved KCP&L's plan, and the utility is moving forward with a comprehensive and balanced investment program. The delivery group recently launched several DR and energy efficiency initiatives and developed the MPower program, which offers flexible incentives for commercial and industrial customers that own generation capacity or are willing to curtail on peak days. The group also is developing state-of-the-art configurations of distribution automation—the “Circuit of

the Future”—designed to improve reliability for customers at low cost. KCP&L considers its “E-services” platform as the leader in the industry and plans additional enhancements.

Last January Edison Electric Institute gave GPE its Advocacy Excellence Award for the way the organization worked with multiple constituencies to formulate a strategic intent and resulting plan for the company's operating utility.

GPE learned that taking risks during the planning phase of a major strategy initiative—primarily by involving and listening to employees at all levels, customers, regulators, community leaders, and others—can successfully take risk out of the result.

While such an open process creates risks, it also creates a common understanding of issues and how the company's strategy addresses them—which produces a better strategy and smoothes its implementation. Employee engagement yields an additional benefit: When things change, employees at all levels of the organization are prepared to identify the changes and respond appropriately.

And if an organization's culture provides the only lasting competitive advantage, a well-designed strategy process itself can leave a legacy for the future in the way it engages, challenges, and develops employees. ♦

With over 50% of power generation in the U.S. relying on coal, can you afford not to fully understand how coal choices are made?



HILL & ASSOCIATES INC.
MANAGEMENT CONSULTANTS

222 Severn Avenue
Annapolis, MD 21403
410-263-6616

hillcoal@hillandassoc.com
www.hillandassoc.com

PRISM™ Integrated Coal and Power Model

from Hill & Associates is the first integrated energy market model that provides detailed coal sourcing options across 98 coal types.

P | R | I | S | M

PRISM simultaneously analyzes power plant production, dynamic coal choices, cleanup equipment options, new plant construction alternatives, emissions limits, mine production and reserve depletion, dispatch between coal and gas units, and much more:

- Forecasts prices for all coal types, emissions allowances, and electricity by time of day and season
- Simultaneous interplay of pollutant limits for SO₂, NO_x, mercury, and CO₂ under any environmental regulation scenario
- Minimal run-time to solution allowing for multi-year sensitivities quickly and accurately

PRISM™
A spectrum of energy solutions