



Executing Strategy Using The Balanced Scorecard

Jason Stults
Reliant Energy, Inc.

Oct. 22, 2008

Presentation Overview



- **About Reliant Energy, Inc.**
- **Strategy Mapping**
- **Balanced Scorecards**
- **Implementing Dashboards**
- **Results**

About Reliant



- Provides electricity and energy services to Retail and Wholesale customers in the United States and employs over 3,600 people.
- The Retail energy segment has over 1.8 million customers in Texas
- The Wholesale energy segment owns, has an interest in, or leases 38 operating electric power generation facilities with an aggregate net generating capacity of 16,337 megawatts in 5 regions of the United States.
- 2007 Revenues: \$11.2 Billion

3

10/7/2008 11:37:19 AM

The Energy Industry



Retail Energy Segment

- Residential Customers
- Commercial & Industrial Customers
- Deregulation
- Competition / Market Share
- New Market Entries
- Marketing Effectiveness
- Market Influences



Wholesale Energy Segment

- Regulatory bodies
- Safety & Environmental concerns
- Increased Competition
- Market Changes
- Market Prices
- Fuel Prices
- Plant efficiency

4

10/7/2008 11:37:19 AM

Past Scorecard Example



Values in \$MM

Measure	Metric	Variance			YTD				Status	Comments
		MTD Actual	Forecast	YTD Actual	Balance of Year Forecast	Actual + BV Forecast	Target	YTD Actual		
Economic	Generation	3.2	3.9	(0.7)	32.8	7.0	40.8	38.8	✓	
	CO2	88.3%	83.6%	5.7%	83.6%	88.3%	83.6%	85.1%	✓	
	Open Energy Margin	35.5	36.8	2.3	488.8	132.8	722.8	748	✗	
	LMO	9.2	8.5	(0.7)	134	95	132	134	✓	
	PJM Coal	4.8	3.8	(1.0)	62	6	68	76	⚠	
	MISO Coal	3	3	0.8	38	7	45	42	✓	
	PJM/MISO Gas	8.5	8.7	0.2	86	3	82	89	✗	
	West	1.7	1.8	(0.1)	18	3	22	17	✓	
	ACP Other Margin	17.1	22.8	5.7	445.5	45.8	491.2	495.5	⚠	
	RA Cap Offset	1.8	1.8	(0.0)	7	2	5	6	✓	
Reg Cap Offset	2.8	1.7	1.1	7	1	8	11	✓		
Capitalization Total	15.8	14.8	1.0	188	12	192	198	✓		
West Obligation	1.8	4.0	(2.2)	15	4	19	18	✓		
TX Obligation	10.0	9.8	0.2	5	8	14	18	✓		
SAM	4.8	8.8	4.0	188	15	115	119	✓		
SE	6.8	8.8	2.0	105	4	101	115	✓		
Other Regulate	8.8	8.8	0.0	5	9	14	5	✓		
PPAs	16.2	13.1	3.1	192	11	203	205	✓		
Non-ACP Other Margin	2.8	2.1	0.7	48	5	44	58	⚠		
ED Utility	3.2	4.4	1.2	51	23	74	62	✓		
West	8.5	8.1	0.4	18	5	15	18	✓		
SE	8.5	8.1	0.4	5	7	12	18	✓		
East Power	1.5	1.0	0.5	12	5	17	18	✓		
Gas	8.2	8.8	0.6	4	2	6	5	✓		
Total Cost	8.5	1.1	(7.4)	5	2	7	18	✓		
Coal Optimization	8.2	8.8	0.6	3	1	4	5	✓		
FER	8.2	8.5	0.3	2	1	3	5	✓		
Oil	2	2	0	4	8	6	4	✓		
SO ₂ Pollution Management	8	8	0	7	2	9	5	✓		
Plant O&M includes Ops Support & Services	35.4	37.1	1.8	327.4	48.2	398.8	351.4	✓		
Plant CAPEX	8.7	23.8	15.1	48.4	25.1	115.1	105.8	⚠		
Support Services	3.4	3.2	(0.2)	33.5	8.4	48.4	35.8	⚠		
Open CM	14	4.8	9.8	355.8	162.8	489.8	481	✓		
Operational	EP	93	91	2.0	93		91	91	✓	
	SP	92	93	(1.0)	92		93	93	⚠	
	CR	180	180	180	180	180	180	180	✓	
	Adherence to Risk Policy	1.8	1.1	(0.7)	2.3	8.8	8.8	8.8	⚠	
FC	87%	88%	1.2%	87%	87.3%	83.3%	85.8%	✗		

Too Many Measures?

The Right Measures?

10/7/2008 11:37:19 AM

Balanced Scorecard Evolution at Reliant



2006 – Scorecards with multiple focuses and plenty of detail utilized sporadically throughout the company

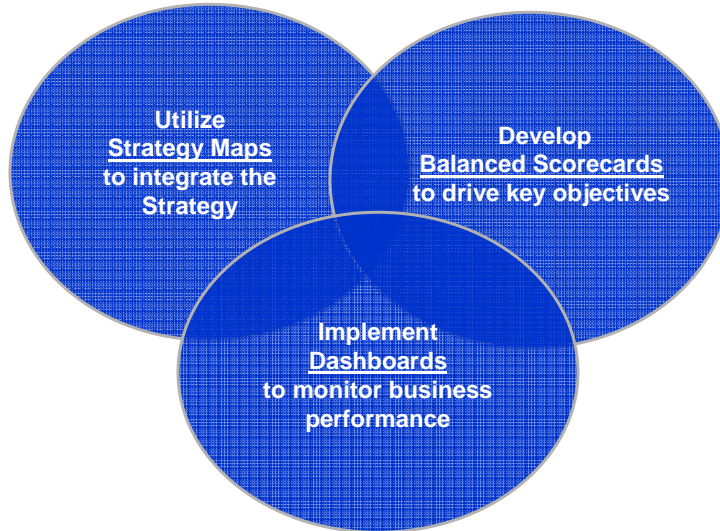
Late 2006 – Large Scale Project introduced across the wholesale business segment

- Forced conversations on forward thinking
- Brainstorming sessions were held to determine where value drivers/levers were within the company
- Once levers were identified, short-term and long-term targets to shift levers were formed
- Teams utilized Scorecards to provide regular feedback on progress against targets/commitments

Early 2007 - Balanced Scorecards were developed to monitor progress and identify variances to wholesale plans

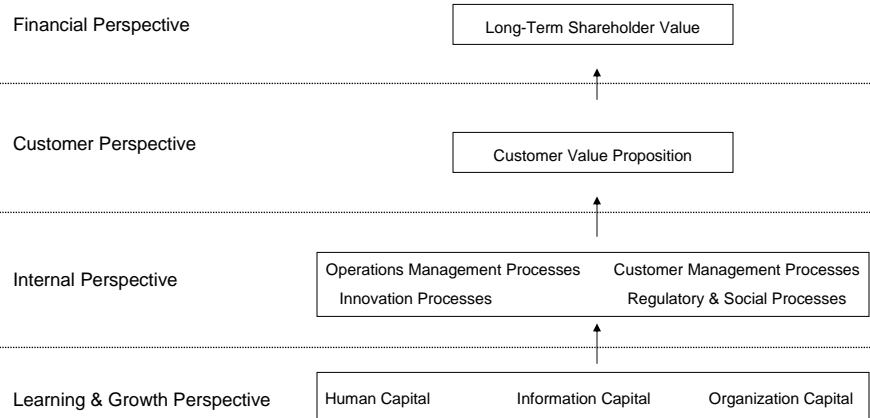
Late 2007 - Based on the success of this project Reliant began using Balanced Scorecards throughout the company

2008 – Balanced Scorecards employed to manage each unit's progress against strategic priorities



Strategy Mapping

The Strategy Map is built around Strategic Themes



Link Strategy to Balanced Scorecards



- ❖ Develop Strategic Initiatives (Short-Term & Long-Term)
- ❖ Develop Strategy Maps
- ❖ Align Goals and Objectives with the Strategies
- ❖ Communicate the Strategy throughout the Organization
- ❖ Develop Balanced Scorecards for objectives with commitments (What, by Who, by When)
- ❖ Track Balanced Scorecards weekly & monthly to manage strategy and operations
- ❖ Identify Breakthroughs & Breakdowns

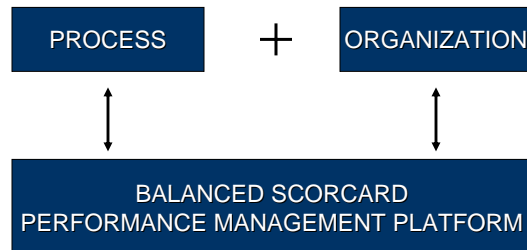
9

10/7/2008 11:37:19 AM

Link Strategy to Operations



Strategy Operations Management System



10

10/7/2008 11:37:19 AM

Key Components of a Balanced Scorecard



<p>Objective / Desired Outcome</p> <ul style="list-style-type: none"> Achieve XX% improvement in ZZ by MM/DD/YYYY Increase Contribution Margin by \$X Create Capability to... <p>Due Dates</p> <ul style="list-style-type: none"> Specific Target Dates; MM/DD/YYYY Include Original and Revised Due Dates <p>Owner</p> <ul style="list-style-type: none"> Who is leading <p>Value</p> <ul style="list-style-type: none"> Specific \$ Value Target Original and Revised Value Targets 	<p>Sponsor</p> <ul style="list-style-type: none"> Sr. Leadership Representative <p>Percent Complete</p> <ul style="list-style-type: none"> Monitor Progress <p>Status</p> <ul style="list-style-type: none"> On Track Off Track Breakdown Complete <p>Major Milestones</p> <ul style="list-style-type: none"> Analyze Develop Test Implement
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Plant Operations



Team Status

x	On Track
x	Impending Breakdown
x	Breakdown

Date: Monthly/Weekly
Team Leads: Who is Leading
Team: Who is Participating
RMT Sponsor: Sr. Leadership Involved

Activity Status

- Impending Breakdown: Threat to objective/Complete late
- Breakdown: Objective has not /will not be achieved

Key Deliverables and Outcomes

Committed Outcomes – NPV \$	Due Date	Revised Due Date	Committed Uplift - \$	Captured \$	Current Line of Sight \$	Current Gap \$	% Complete	Status	Corrective Measures (if gap) / Comments
• Increase in plant portfolio value by \$XX	MM/DD/YY		\$XX	\$XX	\$XX	(\$XX)	YY%	On Track	

Headlines (since last RMT meeting)

Achievements	Issues
<ul style="list-style-type: none"> Completed successful burns at Plant xyz Heat Rate – Confirmed remaining Heat Rate projects are in work plans 	<ul style="list-style-type: none"> none

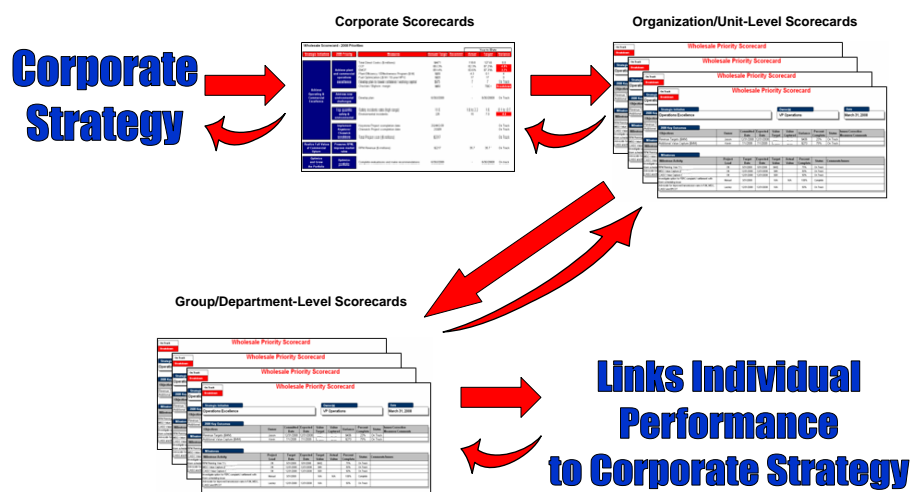
Workplan/Activities

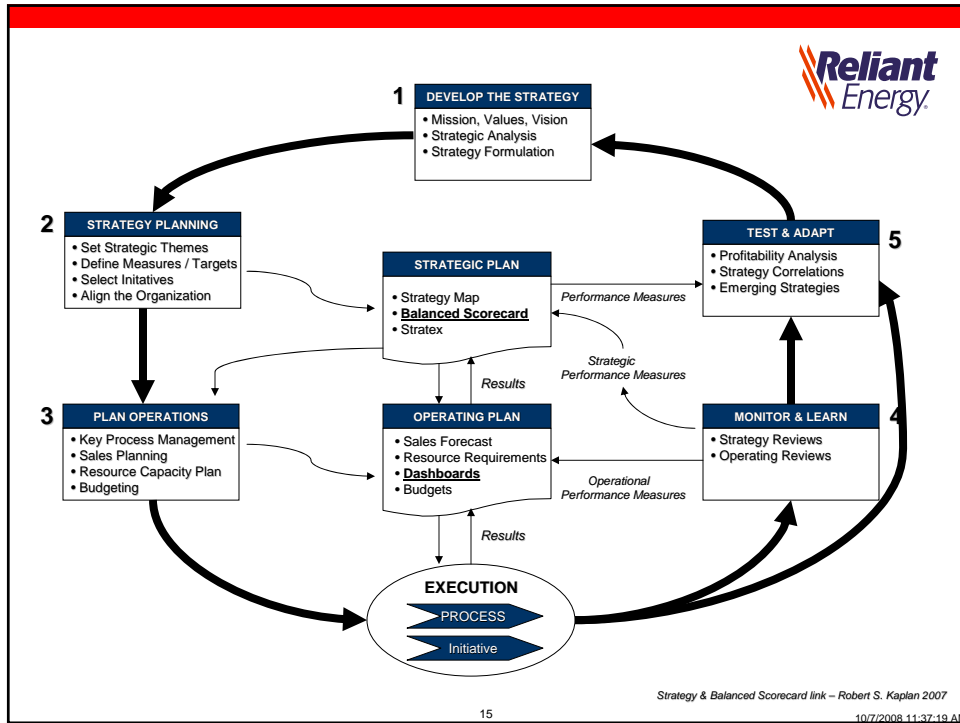
Activities	Com. Date	Exp. Date	Act. Date	Status	% Complete	Comments/Issues
•Plant Flexibility: Plant 1 testing and recommendations	MM/DD/YY	MM/DD/YY		On-Track	30%	
•Plant Flexibility: Complete sign-off process for Plant 2	MM/DD/YY	MM/DD/YY		On-Track	50%	
•Plant Flexibility: Complete sign-off process for Plant 3	MM/DD/YY	MM/DD/YY		On-Track	50%	
•Plant Flexibility: Plant 4 testing and recommendations	MM/DD/YY	MM/DD/YY		Breakdown	25%	•Re-commit
•Fuels: Plant 5 Fuel mix test burns	MM/DD/YY	MM/DD/YY	MM/DD/YY	Complete	100%	
•Aux Power: analyze study results	MM/DD/YY	MM/DD/YY		Off-Track	90%	Opportunity to be transferred to Plant Ops as re-evaluated
•Heat Rate: Develop boiler recommendations for Unit x. Potential value is \$x million.	MM/DD/YY	MM/DD/YY	MM/DD/YY	Complete	100%	
•Transfer Heat Rate and Plant Flexibility to zz dept for implementation of proven capabilities	MM/DD/YY	MM/DD/YY		On-Track	0%	•Developing heat rate tracking system and structure for monitoring and sustaining improvements
•Transfer Fuel Flexibility to the Fuels Department for implementation of proven capabilities	MM/DD/YY	MM/DD/YY	MM/DD/YY	Complete	100%	

The Leadership Team uses the Balanced Scorecard to:

- Review Performance
- Test Strategic Hypotheses
- Make Informed Decisions

Cascading Scorecards at Reliant





Balanced Scorecards & Dashboards

Reliant Energy logo

Balanced Scorecards → **Manage the Strategic Plan**

- » Utilized in Strategic and Operational Review Meeting (Monthly)
- » Management Level
- » Strategic Impacts
- » Operational Impacts
- » Manage profitability

Dashboards → **Manage the Operational Plan**

- » Utilized frequently (daily, weekly...)
- » Functional / Departmental level
- » Identify and solve issues
- » Continuous Improvement

16 10/7/2008 11:37:19 AM

Dashboards



Dashboards provide:

- » Capability to pull multiple data sources together
- » Insight / Visibility to monitor business performance
- » Understanding of key performance indicators
- » Ability to respond quickly to variances to planned outcomes

17

10/7/2008 11:37:19 AM

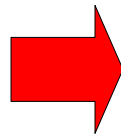
Implementing Dashboards



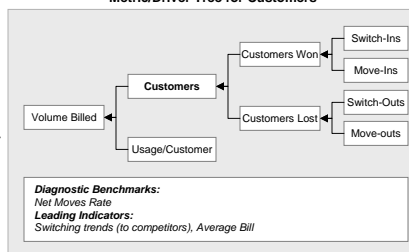
Business Blueprint

Retail Blueprint

Average Customer Count
 x Usage per Customer
 = **Billed Volumes**
 x Energy Unit Margin
 = **Energy Gross Margin**
 - Bad Debt & Taxes
 = **Economic Energy Margin**
 + Other Margin
 - Market Usage Adjustments
 = **Total Economic Margin**
 - Operating Costs
 = **Retail Contribution Margin**



Metric/Driver Tree for Customers



Dashboard



Data is illustrative only

18

10/7/2008 11:37:19 AM

Dashboards communicate the link between strategy management and operations management

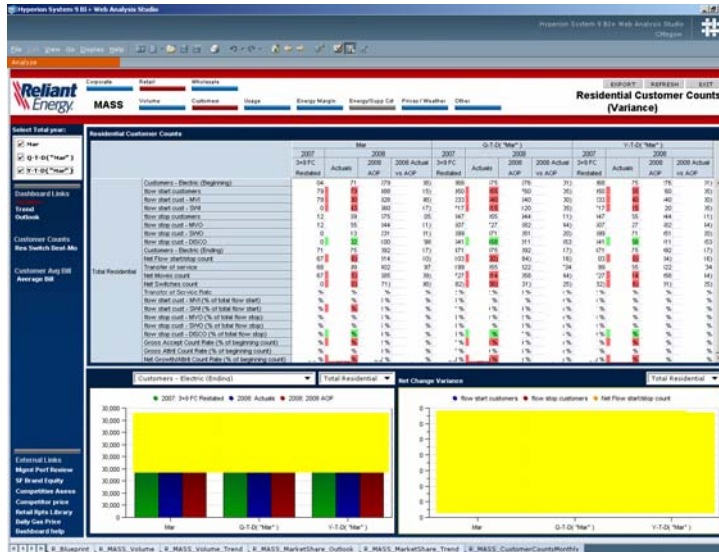


The Dashboard includes tools/features to simplify the analytical process:

- Key Performance Indicators
- Different "views" of data
 - actual vs. plan
 - monthly trends
 - forward outlooks
- Data charts and visual graphs
- Drill-down feature which allows user to look at sub-sections of business or sub-sections of a particular metric
- Links to related reports in PowerPoint, Excel, Word
- Download to excel

Most importantly, the dashboard becomes the "one version of the truth" and the "one-stop-shop" for high-level data.

Dashboard View



Critical Success Factors



- Senior Management leadership and engagement
- Dedicated resources to drive and facilitate
- Enrollment of Stakeholders
- Gaining consensus on appropriate Key Performance Indicators
- Setting timeline for development of online Dashboards
- Scorecard Structure

21

10/7/2008 11:37:19 AM

Results



- Better communication from the Top-Down and Bottoms-Up
 - Define and communicate corporate strategy to the relevant stakeholders
- Improved decision-making through more efficient planning, forecasting, reporting and analysis processes
- Enhanced transparency into key performance indicators
- Accountability throughout the organization
- More effective strategy management by linking to operations
- More impact on the business

22

10/7/2008 11:37:19 AM