

WEPCO CASE (B)

RESPONSE TO A.T. KEARNEY REPORT

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, is focused on working with managers and academics to make companies more competitive by approaching social and environmental challenges as unmet market needs that provide business growth opportunities through entrepreneurship, innovation, and organizational change.

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Ted Blocker and Bruce Rosen met with Chairman McAlister and President Austin to discuss the consultant's findings a few days later. Chairman McAlister and President Austin were not particularly surprised by the findings and were very supportive of the recommended Action Plan that Ted brought to them. The recommendations fell into five categories: (1) Environmental Department, (2) Risk Management, (3) Performance measurement and reporting, (4) Committees, and (5) Planning.

Environmental Department

An overall goal was to strengthen the Environmental Department's leadership role. Two objectives included: (1) increased emphasis on environmental stewardship, issue management and regulatory-legislative matters, and (2) increased planning and operations coordination to improve Environmental Department responsiveness to new business realities.

To accomplish these objectives, five new positions were authorized for the Environmental Department (see Exhibit 1 for new Department organizational chart.) A new management position, Manager of Environmental Affairs, was added. Its responsibilities included issues management, legislative and regulatory relations, and environmental stewardship functions. This individual would serve as Chair of the Environmental Working Group. The previous "Manager of Environmental Affairs" became Manager of Environmental Operations, with more day-to-day operations interface, and focused responsibility on environmental compliance, permitting and licensing, auditing and a new risk management program. Two positions were added to the Department for the risk management program. One position was added for water quality and solid waste responsibilities and finally, there was one additional clerical

Along with these positions, a renewed commitment was made to involve top Environmental Department managers in day-to-day operations decisions. The goal was to improve the communications links between the Environmental and key operations departments.

Risk Management

A comprehensive Risk Management Program was planned. The goal was comprehensive assessment of all properties, practices, and operations. The purpose was threefold: (1) to identify and aggressively manage environmental risks of present and past operations, (2) to provide input to the corporate strategic plan, and (3) to strengthen the ongoing environmental auditing and property evaluation program. As stated above, two positions were added in the Environmental Department to implement this new program.

Performance Measurement and Reporting

A new annual performance report which articulated the company's environmental activities for the year was developed. A new quarterly report was designed to provide a shorter, but more frequent, reporting mechanism for environmental programs. Both of these were qualitative reports. The design of a more quantitative report was planned for the future, with the recognition that more research was needed before such a report could be produced.

Committees

The role and membership of the Environmental Working Group was enhanced. Since its inception it had primarily focused on external and community outreach goals. New representation was added, including representation from the Nuclear Power and Systems Operations Departments.

The Environmental Department planned to utilize ad-hoc department heads group to implement environmental initiatives. The goal was to further improve interdepartmental coordination at the managerial and executive levels.

Planning

A final recommendation was that a new environmental "game plan" be articulated. It was acknowledged that the environmental component of the strategic plan was "mushy" and needed more "meat." A more explicit link was needed between the *Environmental Commitment Statement*, a strategy to implement the *Commitment*, and how people could get actively involved.

ACTION PLAN PROGRESS

As of November 1992, most of the new positions in the Environmental Department were filled. Ted was directed by Chairman McAlister and President Austin to obtain funding from colleague departments for these position increases (this is consistent with annual budgeting procedures for staff departments) and did so. The other departments were very supportive of the findings and recommendations. An outside consultant was hired to begin developing a risk-assessment protocol.

Ted Blocker held meetings every four to six weeks with department heads to proactively discuss key issues. The meetings seemed to be producing results; Ted gave one example:

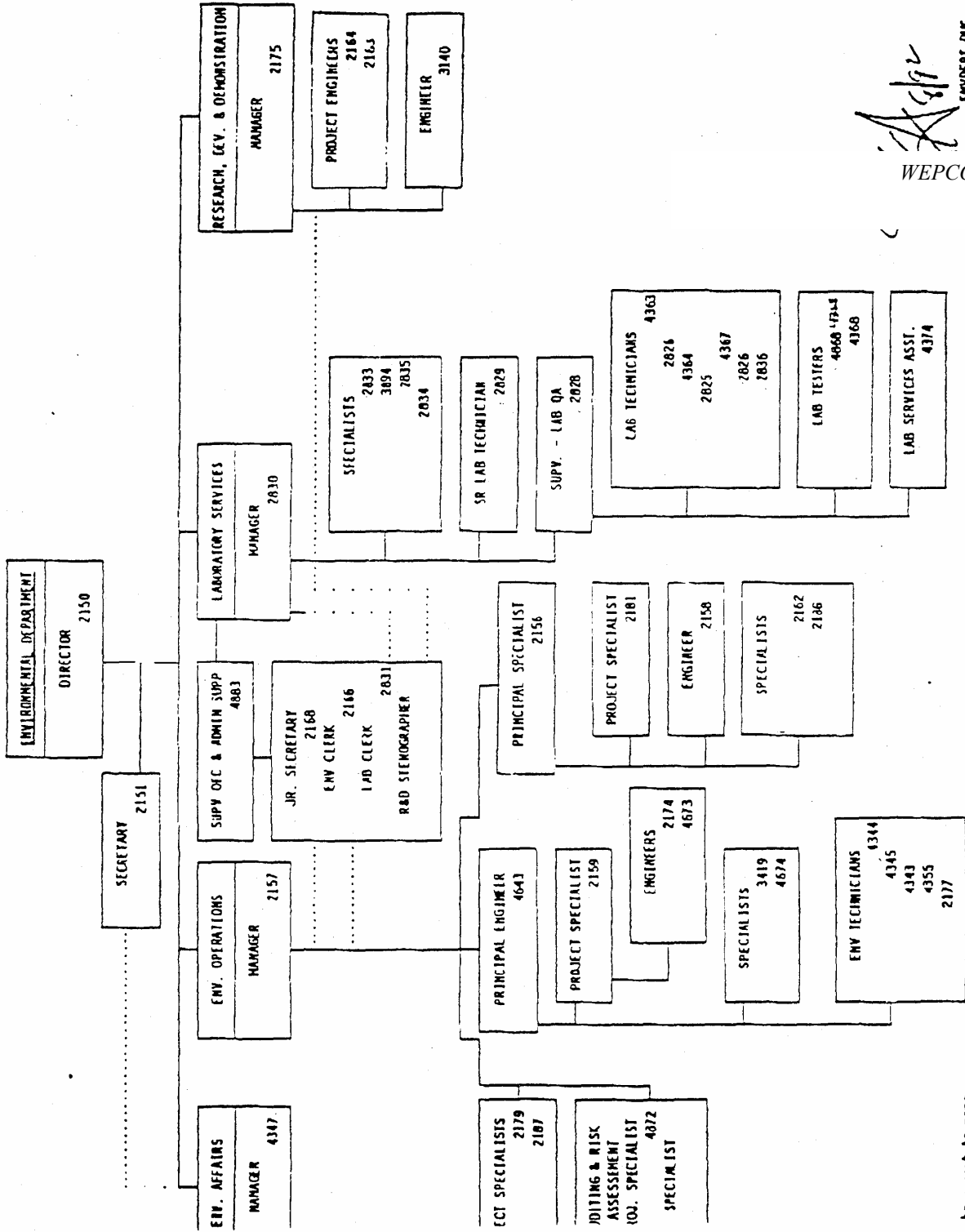
“Our Engineering and Construction Department does a lot of developing, planning and design work for our facilities. They have a business plan and asked me my perceptions of how they are doing in the environmental area. Frankly, I gave them hell. I suggested that they really ought to take advantage of a rather unique role they have, they must factor into their design concepts way up front opportunities to demonstrate our environmental stewardship and leadership. I cited a number of examples for them. They took that and they incorporated it in their business plan and we now see evidence of them interacting with myself and my people when they design a new facility. For example, on a new power plant we talk about, we evaluate the possibilities of doing things like fish rearing, using the warm water coming out of the plant to raise fish on site. The key is that I’ve seen, even in a short period of time, four or five months, a clear response and acceptance on the part of our Engineering and Construction people to put into practice the commitment they made in their business plan as a result of their interaction with us.”

On performance measurement, the Environmental Affairs Manager was investigating how such measurements was done in other organizations and had taken several benchmarking trips. The new qualitative report, the “Annual Environmental Performance Review” was made available in the Summer of 1992 (see exhibit 2 for cover letter.)

At a recent Executive Retreat, five areas were identified for formulation of a new and improved Strategic Plan; “Environmental” was defined to be one of the key areas. Ted credited the Kearney report with heightening top executives’ recognition that environmental issues should be at the top of the strategic issues list.

Ted Blocker believed WEPCO was well on the way to achieving the balance needed between their external and internal environmental programs and moving further to implement change company-wide. He readily acknowledged, as did other WEPCO staff, that change does not happen overnight, yet they were making real progress.

EXHIBIT 1



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EXHIBIT 2

August 1, 1992

Wisconsin Electric's strategic plan calls for improving the compatibility of our operations with the environment and promoting environmental awareness through community leadership and employee communication. Our Corporate Environmental Commitment pledges that we will conduct periodic reviews of our performance to ensure that our operations, programs and practices are consistent with the commitment's principles. This report reviews Wisconsin Electric's 1991 environmental performance documenting progress in our pursuit of environmental excellence. Simply put, while we have much to be proud of and rank among utility leaders, we face substantial challenges in the areas of new generation licensing, environmental risk assessment, global climate change and water toxic regulatory developments.

Issue Management

Good progress was made on the development of preliminary compliance plans for meeting the acid rain control provisions of the Clean Air Act Amendments. While the Environmental Protection Agency's (EPA) rules have not yet been issued, current capital cost estimates for meeting all of the Act's acid rain control requirements are estimated to be \$84 million in current year costs.

Taking a more proactive approach to managing the electric and magnetic fields (EMF) issue, an issue coordinator was appointed to direct day-to-day activities. Employee training sessions were held to develop a broader base of people qualified to respond to EMF questions and nearly 150 sets of magnetic field measurements were made, mostly in response to customer requests. The Public Service Commission of Wisconsin (PSCW) concurred with utility staff in Advance Plan 6 hearings that neither magnetic field limits nor a transmission line construction moratorium were warranted by the research results currently available.

Wisconsin Electric has indicated its support for voluntary carbon dioxide control programs which could be credited toward any reductions mandated by future global climate change legislation. In the Advance Plan 6 hearings, we supported the emission reduction-related benefits of demand-side management programs but stopped short of recommending carbon dioxide reduction targets in light of the global nature and scientific uncertainties associated with the issue. The company has initiated discussions with several parties regarding the possibility of a jointly sponsored carbon dioxide policy options study.

Regulatory Agency Relations

The company continued to enjoy good working relations with the Wisconsin Department of Natural Resources. Progress was made towards developing working relationships with Michigan DNR's Northern Region. Considerable progress was made in strengthening our relationships with EPA through our involvement on the Acid Rain Advisory Committee, and sponsorship of the Green Lights program and an annual EPA Region Five-Midwest Utilities Environmental Conference.

Research and Development

Wisconsin Electric continued its active environmental research and development efforts. Involvement in EPRI activities included representation on the Research Advisory Council, the Environment Division Committee, and the Health Studies and Radiation Studies Task Forces. Internal programs included our support for and application of clean coal technology, ash utilization, EMF, fish protection, and zebra mussel research.

Environmental Compliance

A total of six non-compliance citations were issued against the company, making 1991 very atypical. These actions resulted from isolated and generally short-term non-compliance incidents. No fines were levied against the company. In general, our auditing program found the company in substantial compliance with regulatory requirements.

Recent groundwater monitoring data at our Presque Isle Power Plant ash landfill has revealed migration of ash contaminants. Our compliance plan calls for installation of a synthetic liner over the



EXHIBIT 2 (cont.)

existing landfill cells, reshaping cell slopes to assure secure cover placement and collection of surface water runoff. These design features are expected to cost about \$3 million over the next two years.

Considerable effort is needed to reduce the frequency of excess opacity emissions during startup and shutdown of Presque Isle generating units. Plant staff have formed a task force to identify changes to operating procedures and equipment in an attempt to further improve performance.

Beyond Compliance

The environmental benefits from the company's demand-side management efforts continued in 1991. Since 1987, these award-winning efforts have reduced the need for new power plant capacity by more than 230 mw. A total of 244,000 old, inefficient appliances have been turned in by our customers with the CFCs recycled, the PCBs drained and collected for disposal, and the appliance shells shredded for metal recovery and recycling. Cumulative environmental benefits from our Smart Money Energy Program through 1991 include 450,000 tons of coal conserved and about 1.8 million tons of CO₂ emissions avoided.

The company reused more than 50 percent of its ash byproducts in 1991. New uses were developed for flowable fill slurry applications and agricultural landspreading to improve soil fertility and workability. The total program benefits to the company, including avoided disposal costs, topped \$2 million in 1991.

The company's Second Nature Recycling Program continued to expand with nearly 250 tons of office paper and 1,570 pounds of aluminum cans recycled. Total savings (including avoided disposal costs) realized from these efforts were about \$25,000.

Wisconsin Electric became one of two Midwest utilities to join EPA's Green Lights energy-efficient lighting program, pledging to upgrade lighting efficiency in our own facilities and to promote the program's benefits to our commercial and industrial customers.

Our 1991 Vision 2000 Forum featured a presentation by Jim Wolfe, executive director of the Alliance to Save Energy, on consumer expectations and implications of corporate environmental stewardship. More than 100 public, civic, governmental, and educational sector representatives attended.

A total of 71 Speaker's Bureau presentations were made on environmental topics, reaching more than 3,300 people. The company also participated in many other "beyond compliance" efforts in 1991.

Corporate Environmental Management Assessment Study

An environmental management assessment study sharpened our focus on achieving continuous progress toward environmental excellence. We found that Wisconsin Electric has a proactive environmental culture and a well-conceived environmental commitment. However, several recommendations were developed to help strengthen our environmental leadership, including the establishment of a comprehensive environmental risk assessment program and improved communication to employees of the company's environmental commitment.

Important progress already has been made in addressing these recommendations. A manager of Environmental Affairs has been appointed to increase emphasis on environmental stewardship activities, issue management and regulatory/legislative relations. Additional staff are being hired to implement a comprehensive risk assessment program.

The year 1992 finds us substantially better positioned to demonstrate environmental leadership and deal effectively with the many and varied issues facing us.

Director
Environmental Department

Manager
Environmental Operations

