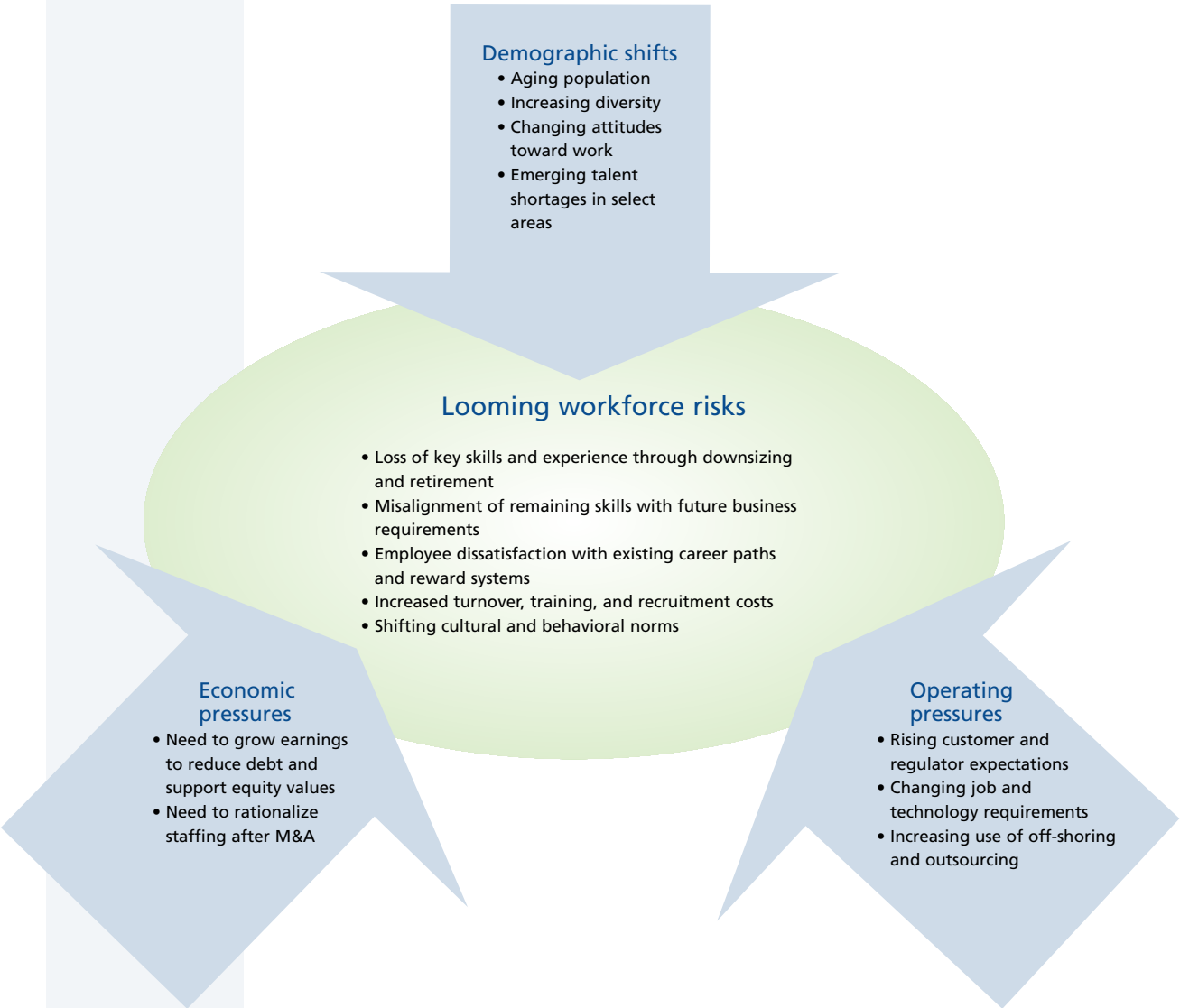


Anticipating the challenges of an aging workforce

Shifts in workforce demographics and business requirements are creating real risks for utilities. To mitigate these risks and lay a foundation for an effective future workforce, senior managers must

understand the dynamics of their current employee base, the drivers of turnover, the knowledge and skills that must be shared before they are lost, and the best ways to tap into the future talent pool.

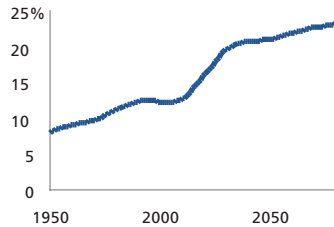


The emerging labor gap

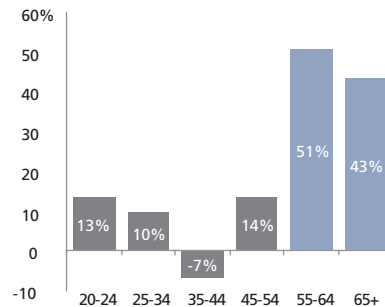
At many firms, especially those in mature industries such as utilities, upstream oil and gas, chemicals, aerospace/defense, and aviation, the workforce is rapidly growing older on average.

Most U.S. utilities, for example, will see between 40% and 50% of their workforce become eligible for retirement over the next five to ten years. Consider the trends depicted below:

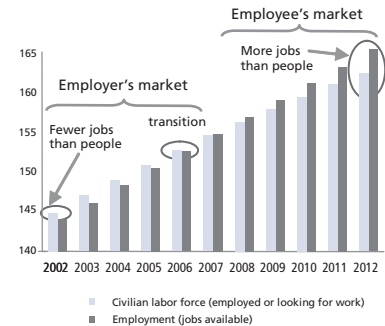
U.S. population age 65 and over as % of total population



Projected growth in U.S. workforce by age group, 2002-2012



External labor market data forecasts, jobs vs. employees (in millions)



Sources: Projections based on the intermediate assumptions of the 2005 Trustees' Reports, IAEA, NEI, Office of the Chief Actuary, Social Security Administration, Oliver Wyman HR, AARP, Oliver Wyman analysis

Despite this inevitable demographic trend, there is scant evidence of successful strategies and activities by employers to date. A recent MetLife study noted that more than one-third of all employers, and nearly half of those with 25,000 or more employees, agreed that the aging workforce will have a significant impact on their operations, yet more than three-quarters of them have not taken any steps to accommodate older workers.

Oliver Wyman's research and client experience suggest that there is no single solution to address the challenges of an aging workforce. Instead, each

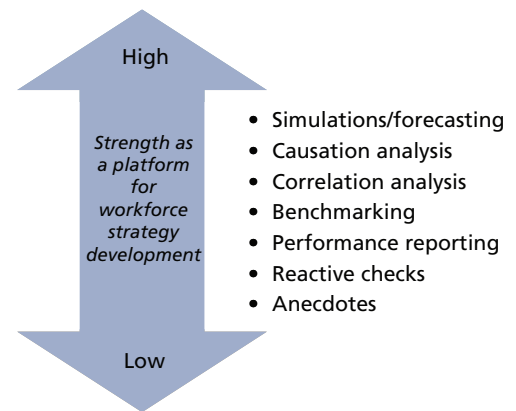
utility will need to develop an approach that's tailored to its own business requirements and operating environment and includes a mix of tactics addressing turnover, recruiting, training, rewards, and knowledge transfer.

As just one example, utilities that run nuclear plants face a shortage of young engineers and other staff who are trained and certified to operate and repair the plants. University programs for such positions have also waned. Aging nuclear workforces thus pose a major challenge for utilities, especially those that may be gearing up for a wave of nuclear plant construction.

Powerful analytics needed to address the key risks

Historically, most utilities have relied on high-level benchmarks, existing performance reports, and anecdotes to identify and evaluate workforce issues. These traditional approaches, however, cannot provide information that is sufficiently specific and forward-looking to be useful in answering detailed questions such as:

- Which skills and capabilities are most at risk?
- In what functions, levels, and geographies will these be located?
- What new skills and capabilities are required by business objectives? Where will these be located?
- What is the trajectory—the promotion path, training needs, and timing—for internal candidates to fill key roles?
- What external talent pools will be needed? What is the outlook for candidates in these areas?
- Which career paths and reward systems must be redesigned to respond to new employee needs?



A more rigorous analytic approach will help managers to define, prioritize, and mitigate their workforce risks. We have found that an effective first step is a workforce gap analysis that brings together business strategy requirements with detailed workforce data to highlight any gaps between the current trajectory and the targeted future state. Gap analysis can target the workforce broadly or specific subsets of employees. Identifying the gaps then helps shape an action plan to address the most important risks.

Workforce gap analysis

Desired state: business requirements

Inputs include:

- Market and customer data
- Strategic and operating plans
- Performance targets
- Productivity data

Current state: workforce dynamics, and external labor market

Inputs include:

- Labor market data
- HRIS and payroll data
- Employee perspectives and feedback
- Recruiting data (quantitative and qualitative)
- Other internal data (training programs, etc.)

Gap analysis, plan design, and implementation

Outputs include:

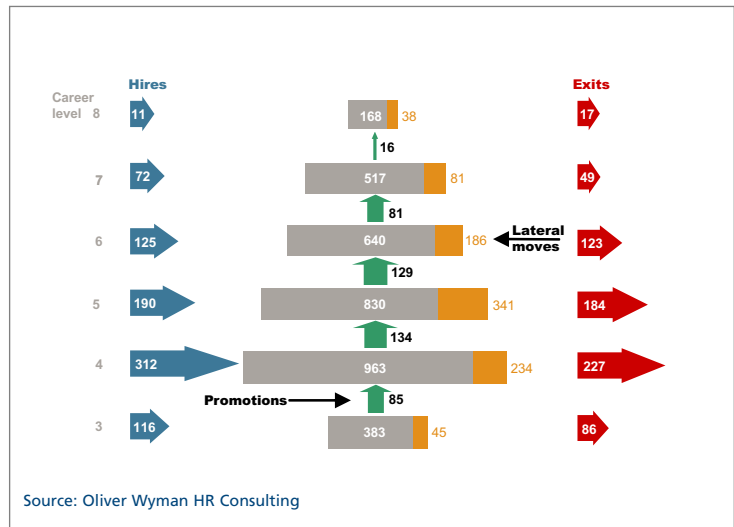
- Perspective on:
 - Workforce required by business objectives
 - Expected evolution of current workforce
- Assessment of priority gaps
- Targeted initiatives, timing and responsibilities
- Milestones and metrics for tracking progress

Examples of Oliver Wyman analysis

Workforce planning

Analysis of workforce future requirements helps:

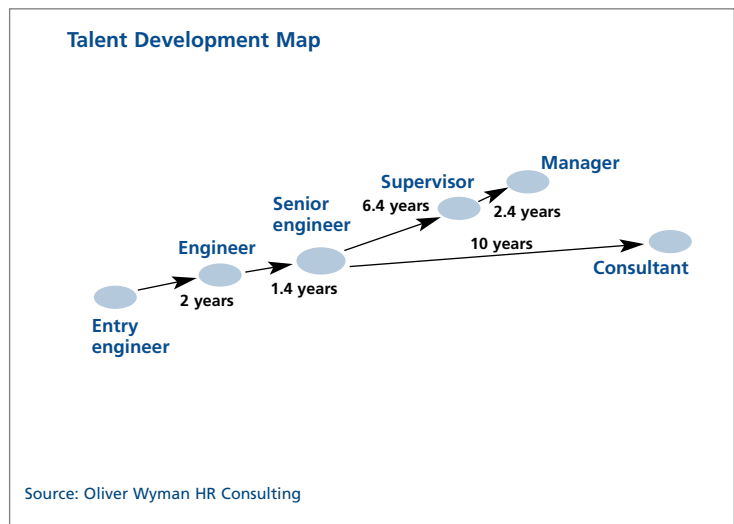
- Identify areas at risk by level, pay bands, job classification, occupational groups, departments, and sites
- Establish retirement patterns, and eligibility including promotions and lateral movements
 - Not just numbers, but also the skills to enable gap analysis
- Identify succession management needs, focusing on selected problems instead of generic responses



Talent development

Mapping how employees develop in targeted functions helps:

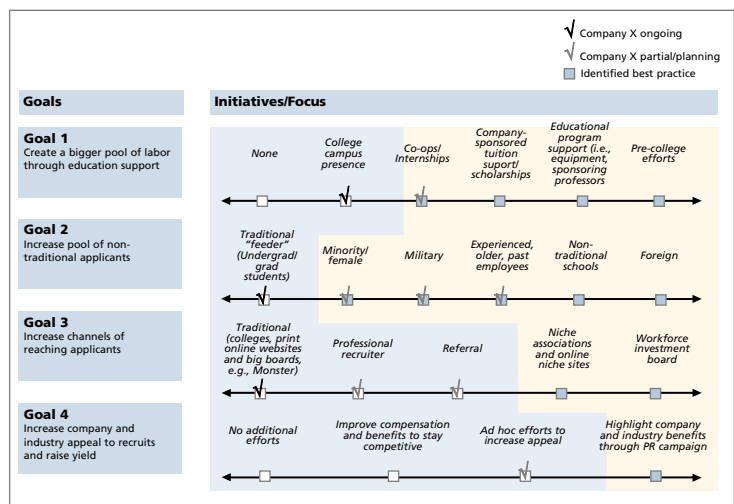
- Identify future gaps between the current trajectory and desired future state
- Identify actions to be taken, such as:
 - When and where external hiring should be considered
 - What types of training programs should be introduced and when
 - What other steps might be helpful, e.g., phased retirement



Best practices

Analysis of initiatives against a set of utility and other industry best practices helps:

- Determine new initiatives that might have been overlooked
- Understand potential success of current initiatives in development
- Prioritize initiatives against identified gaps



Questions for managers

Workforce gap analysis

Desired state: business requirements

- How are your company's business requirements going to change over the next five years? Ten years?
 - New skills?
 - Replacement skills?
 - Changing employee preferences and needs?
 - Other?

Gap analysis, plan design, and implementation

Current state: workforce dynamics and external labor market

- What is your current workforce situation?
 - Demographics?
 - Available skills?
 - Job mix and career path options?
 - Systems (reward, recruitment, knowledge transfer, workforce planning)?
 - Other?
 - What is the outlook for the external labor market?
 - How well do you understand these issues across your full workforce?
 - Management?
 - Technical staff (engineers, certified staff, etc.)?
 - Support and shared functions?
 - Other?
- What key issues and gaps exist?
 - Known?
 - Possible?
 - What degree of confidence do you have that the most important gaps are:
 - Identified?
 - Defined and prioritized?
 - Targeted by action plans?
 - Being addressed with appropriate effort and speed?
 - Have you sufficiently explored potential action areas in:
 - Job and career redesign?
 - Creative hiring practices?
 - Knowledge management and transfer practices?
 - Pay and benefit alignment?
 - Culture and communication practices?

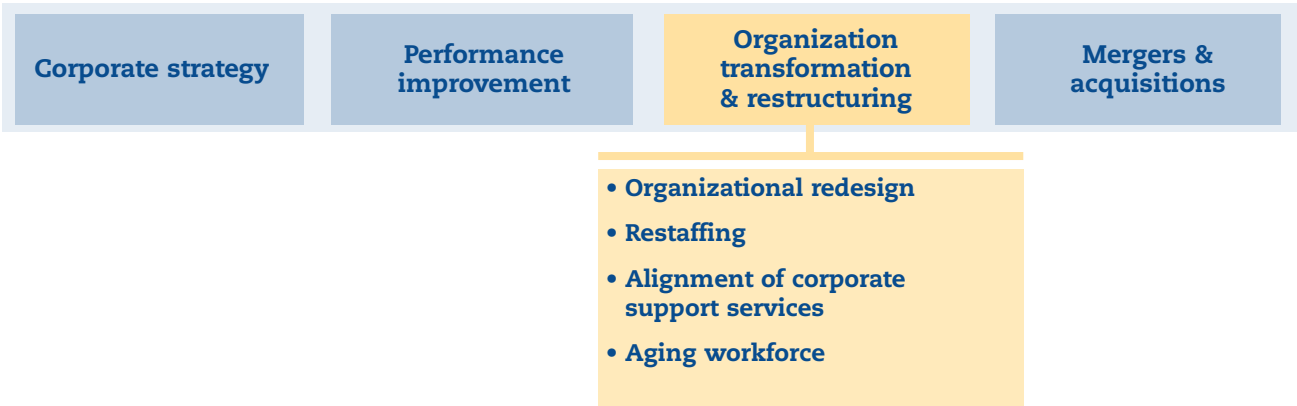
Oliver Wyman

Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm works with clients across a range of industries to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

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Our dedicated consultants have significant experience in the energy and utilities sector. Previous clients include more than 75 electric and natural gas utilities in North America and Europe, as well as a range of unregulated service providers to energy companies and utilities.

Practice areas:



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