

THE PERFECT COMMERCIAL MODEL FOR CAPITAL INVESTMENT WILL TAKE UTILITIES TO A NEW FRONTIER



“The utilities’ multi-billion pound five year capital programmes need to demonstrate excellent stewardship. That obviously includes programme preparation, regulatory review, delivery strategy, programme implementation, commissioning and successful operation. Although utility companies have come a long way to achieve capital investment excellence, none have yet linked all of the elements together to produce the ultimate capital investment business model.” Terry Povall - Head of Utilities

The best starting point to the winning formula is a model that loops and links the capital business strategy. This ties the overall capital strategy to the latest price review.

Many companies now have reasonable processes to collect ‘as constructed’ costs and feed all the regulatory review requirements for a good unit cost database. Many companies very sensibly then use their current capital delivery providers to more specifically price the majority of the next five-year investment programme bid into the final business plan. But then it often ends.

True, regulators’ draft determinations challenge capex efficiency and modify scope. Yes they always push the boundary on a company’s ability to deliver finally agreed outputs at less spend than the company’s Board has signed off in the final business plan.

The big steps that can take a company to a new frontier for leading utilities are:

- Re-optimising each sub-programme after draft determinations, to ensure it gives the outputs for the lowest or nil cost
- Creating an ‘only one pot’ shared risk rule for programme and project contingency. Furthermore that this can only be approached for call-off when all other swings and roundabouts on capex tensions at the sub-programme level are totally exhausted by both the delivery provider and the client programme manager. Use director led challenge sessions to create peer group pressure that drives out the use of contingency as a soft option
- Stripping out any commodity or complex elements at either end of the capex delivery spectrum - put them out to the market. After all, efficient standard product production lines are not best for these extreme delivery needs. Please recall that Mr Ford proved this nearly a hundred years ago with his step change to Model T. Utilities don’t need new sexy one-off approaches

“The result is an ultimate capex strategy that does what is says on the tin. But critically it gives a virtual wrap to secure leading utility capital investment.”

- Offering sub-programme bundles of delivery contracts, ensuring no impediment to the delivery provider’s capability to out-perform. They will have won the right for repeat business in the next regulatory period through excellent past performance. Otherwise they should be dropped
- If they really are long term business partners they will accept each sub-programme on a GMP basis (Guaranteed Maximum Price). After all they helped to price it
- Give them a fair share of any CIS (Capital Incentive Scheme) out performance bonus. Good clients drive behaviours in an equitable way. You get the contractors you deserve.

The result is an ultimate capex strategy that does what is says on the tin. But critically it gives a virtual wrap to secure leading utility capital investment. Just what your owners want. No wastage and ready to go again when the next five-year cycle planning starts, in less than four years time.

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