

# THE BIG UTILITIES CHALLENGE.

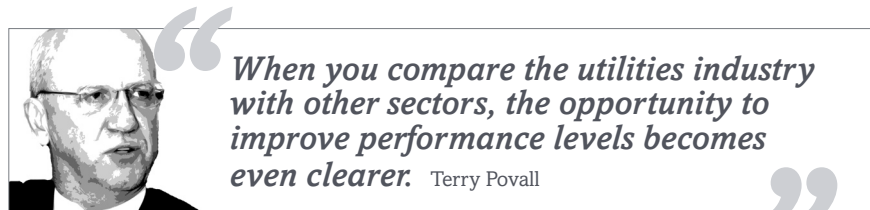
*The UK utility regulators have set out the industry's challenges for the next five years. As well as improving efficiency - something the regulators always demand - utility companies must now focus on three key areas.*

These areas are;

- 1 Capital investment levels
- 2 Operation costs
- 3 Prescribed WACC (Weighted Average Cost of Capital).

It's a huge ask for any utility company - even the frontier performers. Is it possible to live up to the standards the regulators set, while still achieving the efficiency savings demanded?

In recent years the industry has seen new and innovative business arrangements which have helped improve efficiency by between 5 and 15%. But if it's to catch up with other industries, individual utility companies need to adopt new business models and smarter ways of working.



*“When you compare the utilities industry with other sectors, the opportunity to improve performance levels becomes even clearer.”* Terry Povall

## The view from other industries

To see what exceptional performance looks like, many companies are now turning to national benchmarks. Whilst those benchmarks show that some world-class utility companies are working at high levels of efficiency, what's surprising is the huge variation between the upper and lower quartiles.

In fact, based on our estimations, the difference between the capital delivery performance of companies in the upper and lower quartiles could be as much as 30%. This suggests that many companies still have a long way to go and even companies with a good track record need to work harder to catch up with the industry leaders.

When you compare the utilities industry with other sectors like oil and gas and retail, the opportunity to improve performance levels becomes even clearer. Companies in these industries consistently perform much higher than their equivalents in the utilities industry.

## The Middle East; an even bigger opportunity to improve

Looming water shortages, coupled with high levels of water consumption, mean governments in the Middle East have needed to commit huge amounts of money to water projects.

In the United Arab Emirates - which has one of the highest demands for water per capita - governments are poised to invest over \$60 billion in water projects over the next five years in everything from desalination to wastewater treatment. In Abu Dhabi, where population growth is expected to bring water shortages as soon as 2012, the government investment in utility projects is unprecedented.

With such huge projects comes huge responsibility. How can those governments make sure each project runs on time and on budget in the most efficient way possible? Although each country faces its own challenges, most are now realising that they can't afford to let efficiency slip at such an important time.

## The ingredients for success

Wherever utility companies are based, and whatever their specific challenges, they are all working towards one goal: to give people safe and available utilities at a fair price. To do this, in a sustainable and consistent way, companies must use a successful delivery model.

In other sectors, organisations have achieved this by adopting a commercial approach to programme management.

In brief, this means:

- 1 Creating robust programme delivery vehicles that are able to connect up multiple projects whilst being fully aligned to strategic objectives
- 2 Optimising the blend of different delivery partners to ensure they are working towards the same goal
- 3 Securing the right balance between client control and collaboration in the delivery model
- 4 Successfully balancing resource capacity and capability between the client and delivery providers so that 'man marking' and 'cost to serve' are reduced
- 5 Committing time to properly transition clients and delivery providers to new programme models
- 6 Making sure effective programme management is in place, from the start, to afford the visibility and appropriate control of performance from the outset.

## Achieve the performance difference

By adopting a portfolio mindset, utility companies will optimally manage pan-organisational risks and interdependencies through an environment of stronger corporate governance. This is achieved by clearly defined accountability, consistent delivery and stakeholder confidence and maximum efficiency in the supply chain.

# 30%

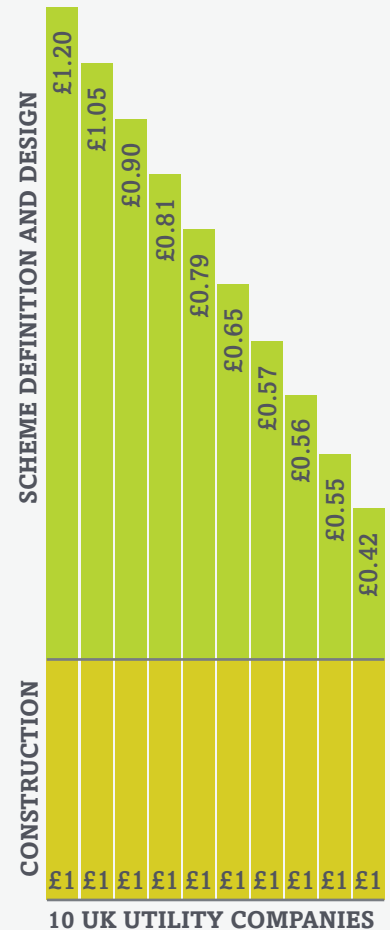
is the difference between the capital delivery performance of companies in the upper and lower quartiles

Delivery of complex programmes of work, in a highly multi-faceted industry, is challenging at the best of times. A high performing commercially focused programme management team can be a catalyst for developing improved business performance. Therefore, getting the strategic programme management approach right - before the start of the investment - is key. Not only will this ensure improved efficiency, certainty, speed and control of the overall programme but there is also potential to generate significant savings.

Achieving these efficiency gains will enable utility organisations to become world-class and aid the delivery of multi-billion dollar expenditure programmes across international boundaries.

At EC Harris we enable 'best in class' delivery of expenditure programmes through performance transformation.

## What is the £ in the ground worth in the Utility sector?



For more information on our work in the Utilities sector, please contact

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