B07.1

Collaborative working in the Utility Sector under the emerging Business Models

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1.0 Introduction

This paper is in three discrete sections,

The first section looks at the issues around IT and Information that are fundamental to the proper running of a utility business, whatever the business model.

The second section looks at the emerging business models that Utilities are adopting in a quest for growth, additional competitiveness or merely survival

The third section, which will be the main thrust of the presentation, will be a live demonstration of how some these issues have been solved by Dwyr Cymru, who are becoming recognised as one of the most innovative of the water Utility companies, having been the first to adopt a new and innovative business model

2.0 Section 1 Background IT and Information management

It is an obvious statement that asset data and data relative to the performance of those assets is fundamental to the running of any utility business.

All utilities acknowledge these facts and there have consequentially been huge investments in Asset/Work/Network Management systems and data. There has also been significant investment in GIS solutions as it is universally, and rightly accepted that most utility data has a geo-spatial element and that GIS adds a further level of understanding of performance of the assets. Consequently, GIS or perhaps more appropriately, referred to as Geo-spatial tools are infrastructural to the utility business.

However, it is also acknowledged by the utilities and their regulators (or simply made apparent from the perpetual programme of asset management conferences) that progress has not been as great in this area as the investments thrown at the issues.

For example, in the water industry, 13 years from privatisation, the regulator OFWAT has accepted that in the AMP 4 submissions that the Water Companies will be allowed to use "expert judgements" in areas where there is insufficient data to support robust investment plans. It is true that it can be argued in the companies defence that the investment criteria have moved from quality driven priorities to capital maintenance requiring different data priorities, but it cannot be argued that this change was unforeseen. It was clearly apparent at the time of privatisation.

The issues of asset management are well understood within the industry and it is not for lack of effort by the industry. It is not a hugely complex task nor is technology a limiter in today's environment. So, what are the issues with lack of progress to date?

Well, it is very difficult to gauge a view from the industry itself, I believe it is aware it has a problem but not exactly what, or how it could begin to solve it. However, as one who spent many years within the industry

in roles, which covered feasibility, construction, operations and strategy, the reasons are very clear. It is also easy to see that however dedicated people have been and however clear their visions, it has been very difficult to really achieve real results in the environment in which they have had to operate.

The issues are relatively few and are obvious, and often quoted individually as root causes of the problems. However, it is only when these issues are combined that they suddenly become insurmountable. These issues are covered in the following section

3.0 Principal Factors that have affected progress

Whatever business model is employed, I think there are four key factors for success, or alternatively if not managed properly will result in chaos.

3.1 Rapid Rate of Business Change

Utilities have had to endure an ever-increasing rate of change within their businesses since their privatisation. This change has been driven by a will to expand, a will to be competitive, a will to survive regulatory pressures or simply being acquired by a foreign power because of the regulatory regime that has closed every other door. This rapid and ongoing change has had a major effect on the staffing and stability of those organisations and the robustness of their Information. Although change can rightly be quoted as a contributory factor, the root cause has actually been the ineffective change management, which is less defendable.

3.2 Data Quality and availability

There has been much hype about data quality, or lack of it. Much theory quoted and much understanding of the issues. Again, it is quite easy to map the data requirements of an organisation necessary for it to be successful. It is important to clearly distinguish between the actual asset data and the performance data that is indicative of serviceability of those assets to customers. The first is rightly complex, as assets, especially underground ones, have been created over hundreds of years often with inadequate records. Performance data is actually a different issue – its collection should be simple, its referencing and integration is slightly more complex but still easily achievable. Companies, I believe have historically combined the two issues when making statements on the subject, which has been confusing to all.

In my opinion, there are two fundamental factors affecting data that have limited or frustrated progress. The first is that of continuous change of staffing and organisation as mentioned in 3.1. The second, is that of data locked in inappropriate corporate IT systems that cannot be easily accessed, cleansed or integrated and hence is of limited use to the organisation and worse has little credibility with users of that data

3.3 IT Projects, delivery time, scope, costs

Companies over the past 10 or so years have largely outsourced their IT arrangements and have been encouraged to continue a "monolithic" approach to corporate IT systems. This has meant long and costly projects with the consequential large overhead of project management. The project management skills have ensured that change of scope, price and timescales are managed to ensure delivery of a successful IT project. But what is delivered shows only a feint resemblance to what was originally envisaged, and anyway, the business has moved on so far since the project's conception that it is no longer fully relevant. There are also of course as already mentioned, serious data issues which overlap with those stated in 2.2.

3.4 A Champion at the top

This is perhaps the most important point as, however good the resolve of individual staff, without the resolve of a Board level Champion who has a clear idea of what is required and prepared to steer it through the corporate treacle, it will simply not happen. Most initiatives are departmentally driven although they have corporate connotations – these are destined for early failure!

4.0 Emerging Business Models

Utilities have been subjected to onerous regulatory regimes since their privatisation. This regime has definitely hampered growth options and focussed on delivery of benefits to customer through the reduced risk – a consequence of this is that half the UK utilities are now owned by foreign companies with little evidence of the UK industry taking on the world !!

Most have tried for a growth strategy, either internationally or by diversification with varying degrees of success.

More recently the fashion has been to look at things both organisationally and financially in a more innovative way identifying the key internal business processes as identified below:-

- Asset Owner

- Asset Manager

- Asset Operator

These processes have enabled business to radically change, financially restructure and/or outsource more of the non-key activities. The process however, holds true whether implemented externally by contact – or merely internally managed through SLAs.

Hence we have seen companies such as Welsh Water create Glas Cymru as the not for profit asset owner, with Dwyr Cymru acting as their asset manager where others such as United Utilities, Anglian, 24 Seven are positioning themselves as asset manager/operation. A number of others have still to decide their preferred position.

The new business models/processes have identified some real weaknesses in the previous "monolithic" approach to utility IT and information. Each of the new asset owner, manager, operator processes needs different levels of Information and different IT to deliver the business objectives.

For example the owner needs high level information to plan whole life costing and investment. At the other extreme, the asset operator needs lightweight IT and the information to manage operations and contract risk.

Of course an asset manager or operator may be running areas of network for more than one client so they require solutions which generically fit their "process" not the IT of individual companies

The emphasis is now <u>not</u> a one size fits all IT solution, but Information flows through the process, or, contract interfaces

5.0 So, is there hope ?

To date, this paper has concentrated on the negative, what has gone wrong and why individuals have been unable to do anything about it. It seems when you add the new initiatives on top of current issues it is a recipe for disaster.

Outsourcing your operations without control of your Information – another Railtrack in the making!

I believe however, and the proof is in our demonstration, that is actually an opportunity to put the past issues to bed and move forward into the future with all parties collaboratively working on the same information base. That base will quickly improve over time.

There are companies who have been able to turn things around very quickly despite being hugely disadvantaged a few years ago through the events of change mentioned in 2.0

A few years ago Welsh Water or Hyder as it was known was in severe difficulties for a number of reasons including its acquisition by a foreign company. Now after only three years for creating the not for profit Glas

Cymru and its industry leading model, it is viewed as a highly successful business model, is climbing up the OFWAT league and has installed appropriate, cost effective, quickly enabled, flexible and upgradeable solutions to enable asset management in a collaborative environment involving major outsourcing.

The solutions have been enabled by mapping business processes onto a spatially enabled web environment in a true business to business model.

We are now going to take a live look at how those systems . . .

The second half of the presentation was a demonstration of the solutions in place in Dwyr Cymru