



CASE STUDY:

Unit Cost Management from RIIO stand point for UK Transmission & Distribution Sector

UK Electricity Distribution Utility, UK Transmission

Overview

Under RIIO (Revenue = Incentives + Innovation + Outputs), Utility T&D organisations will be regulated on Unit Costs and incentivised on outputs, moving from a Capex/Opex split to Totex view of unit cost. Hence the scheme whole life cycle unit cost management must be developed as a core competence to out-perform regulatory allowances set by Ofgem and protect future value across the business portfolio.

Highlights

- Analyse existing process and governance controls to reduce historic variance
- Develop positive assurance around management of assets and work delivery control environment
- Robust data models, data validation & data inconsistencies that could present key pinch-points for RIIO
- Deliver benefits to customers and demonstrate Value for Money (VfM), including cost estimation methods
- Deliver a 'knowledge transfer' process back to customer to ensure sustained long term deliverability

The RIIO Challenge

“RIIO (Revenue = Incentives + Innovation + Outputs) is intended to encourage the efficient investment and innovation required for Britain’s gas and electricity transmission and distribution networks.”

Under RIIO, Utility Organisations in Gas and Electricity will be regulated and incentivised over an 8 year period. The mechanisms under RIIO have been developed to:

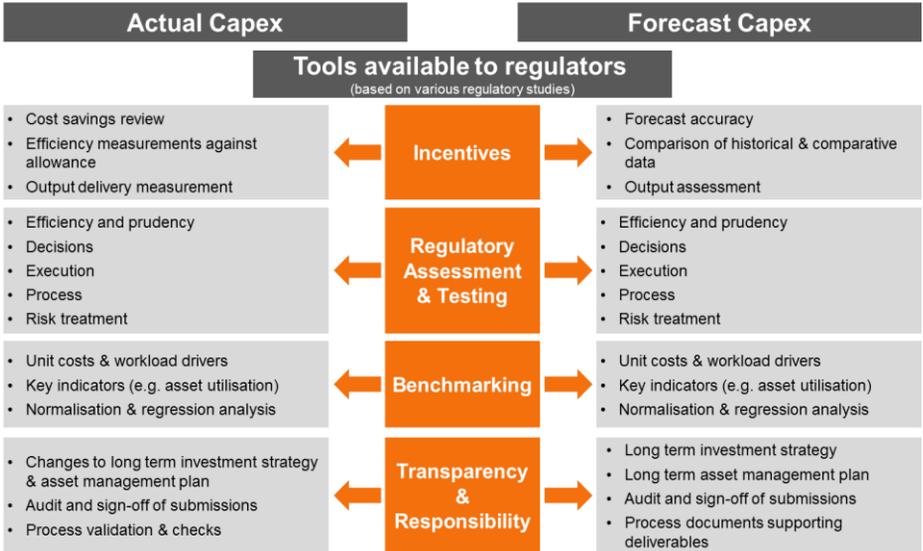
- Mimic the benefits of a Competitive Market
- Encourage companies to seek out long term least cost delivery solution
- Create transparency and trust on data and quality of information (IQI)
- Encourage innovation
- Deliver the Government’s environment commitment
- Lead Companies to choices that are consistent with maximising welfare

Scheme whole life cycle unit cost management (UCM) is a core competency to help outperform the Unit Cost (UC) based incentives set by Ofgem and is the single most credible measure of efficiency.

Through Enzen’s current engagement, significant working knowledge of the current UCM processes has been gained with our proactive engagement on the critical cost justification work, underway to meet the deadline for RIIO submission and associated tables to Ofgem.

The introduction of **Enzen’s Decision Support Analytics Tool** has additionally enabled strengthening of the RIIO submission with the production of UC reporting, whilst providing the ability to stabilise critical data in a ‘single and consolidated source of truth’.

Speed of delivering progressive & prioritised outcomes has been vital as every day lost was increasing manual effort. At the same time, the outcomes needed to be sustaining and aligned to the enduring landscape.



Key Benefits

- A robust Unit Cost Management process fully implemented and embedded including automated refresh of data and cost book refresh cycle which uses the most recent cost experience
- Track planned and actual unit cost performance
- Measurement of commercial efficiencies and delivery partner participation
- Understand and map critical data points that support unit cost reporting across asset plan to asset delivery
- Provide regulatory data and benchmarking information to support the annual regulatory submission and analysis
- Develop controls to mitigate the identified risk
- Efficiency gains identified and being delivered

Approach to RIIO Compliance

Enzen has worked closely with Price Control, Asset Management, Finance and Work Delivery teams through a clearly defined governance process and has;

- Identified key issues regarding the way the organisation captures, reconciles and reviews data
- Identified, mapped and measured the quality of key financial processes supporting work creation and delivery
- Supported management of unit cost data, including assuring quality and application of the current unit cost book
- Developed decision support tools which for the first time provides the organisation with an integrated view of the unit costs that underpin the Plan
- Supported the build and measurement of efficiencies on the RIIO plan baseline
- Supported data cleanse activities to assure critical data across the end to end process and identified missing and/or inconsistent information
- Managed and stabilised critical data used to develop the plan and unit cost analysis

Enzen reaffirmed the need to co-ordinate a series of delivery initiatives under a disciplined business management umbrella with a key principle that until RIIO period starts, Enzen's delivery approach is 'evolution', 'not revolution', prioritising 'no regrets' practical improvements whilst enduring strategic solutions are under planning and development.

Our work entails delivery of key Fit for RIIO inter-dependent initiatives (with discrete delivery stages in each and key targeted deliverables). Outcomes and associated benefits have been defined to ensure the customer organisation;

- Moves towards scheme whole life cycle unit costing as an integral part of end to end asset and work management
- Migrates critical data into a single control environment that will protect baseline data, ensure all changes are auditable and will enhance transparency around subjective actions and data amendments
- Can proactively measure and monitor unit cost performance against the regulatory commitment
- Drive critical data transparency across the end to end process that enables them to plan their incentive strategies against the plan delivery on a proactive basis
- Embeds improvements in normal business as usual processes with well trained and competent people.

In addition, each initiative should ensure existing unit costing processes will be enhanced to provide highly disciplined capture and use of unit cost and non-unit cost critical data at each stage of the scheme life cycle and further develop decision support tools to track and report performance to key stakeholders.

Enzen's delivery capability and focus has already been demonstrated with senior customer recognition of our achievements. A key strength in Enzen is that we are grounded in best practice principles and analytical capabilities to rapidly deliver solutions to complex business challenges.

