

# *Implementing Best Practices in Capital Allocation for an Electric and Gas Utility*

## *Client Case Study*

Presented by:



*Energy. Knowledge. Results.*

# Challenge

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- Our client had traditionally used the “smoke filled room” approach to capital prioritization and allocation characterized by:
  - Information poor, assumption driven decision making
  - Absence of decision making audit trail
  - Absence of consistent evaluation and performance metrics
- Our client sought to:
  - Understand best practices in capital allocation, particularly in the utility industry
  - Renovate their existing process to include such best practices

# Process

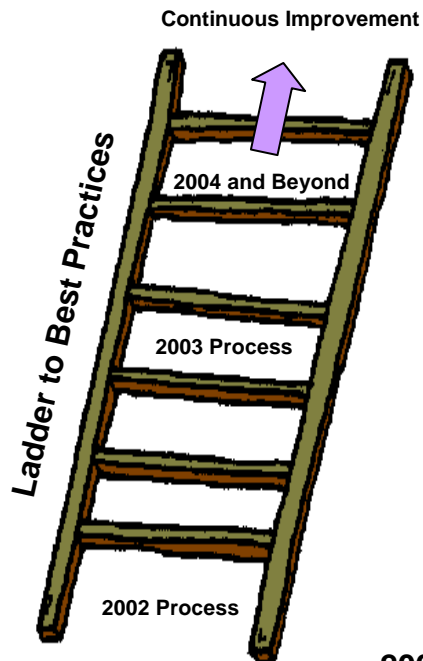
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In addressing this challenge Rich Consulting led the client in the following activities:

- Review client's current process
- Identify best practices approaches and examples
- Interview a wide range of utilities to understand current "state of the art"
- Perform gap analysis between best practices and client's current practices
- Identify key leverage points that add most value
- Strengthen existing processes
  - Build team *esprit-de-corps*
  - Introduce new tools and procedures
  - Leverage existing components of best practice
- Sharpen focus and build forward momentum

# Recommendation

- The project team developed a “Ladder to Best Practices” with pragmatic and actionable steps leading to immediate and tangible benefits



## Long-term Goal: Capital Allocation Best Practices

- Component of a holistic process of strategic planning
- Multi-year timeframe with ongoing, dynamic processes
- Consistent criteria and iterative approach
- Integrated view of Capital and O&M budgets
- Extensive portfolio modeling and simulation with option analysis
- Regular monitoring and score-carding of capital performance against original decisions and projections
- Compensation tied to effective use of capital

## 2003 Quick-fix Capital Allocation Process

- Utilize team approach to prioritization to leverage existing isolated best practices and combat “silo thinking”
- Implement an information rich, consistent and repeatable process
- Introduce a project “tiering” approach to create the project portfolio
- Map existing localized criteria to the corporate Balanced Scorecard
- Integrate contingency planning into the process

## 2002: Inefficient Capital Allocation Process

- “Smoke filled room” with assumption driven capital prioritization and allocation
- Absence of decision making audit trail and consistent evaluation and performance metrics

# Results

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- An analysis of Industry Best Practices which drove subsequent changes
  - High level description of best capital allocation practices at utilities and other leading organizations
  - Gap analysis indicating areas of strength and weakness at our client
  - A set of resources at other utilities for ongoing discussion and collaboration
  
- Implementation of “Quick-Fixes”
  - Modified the existing process to create a transparent, ongoing, consistent and repeatable process
  - Equipped the client team with a portfolio-based framework
  
- Set the direction for future improvement
  - Tangible stretch goal
  - Process to achieve goal through continual improvement
  - Highly motivated internal team to drive future changes



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