

# Workshop on Water Industry Restructuring and Competition

The Practicalities of Vertical Separation: Lessons from the Unbundling of the Electricity Industry

*10 February 2011*

# Workshop on Water Industry Restructuring and Competition

The Pr  
from :

**What is it like to be  
on the receiving end ?**

Lessons  
Industry

*10 February 2011*

# Electricity was easy . . .

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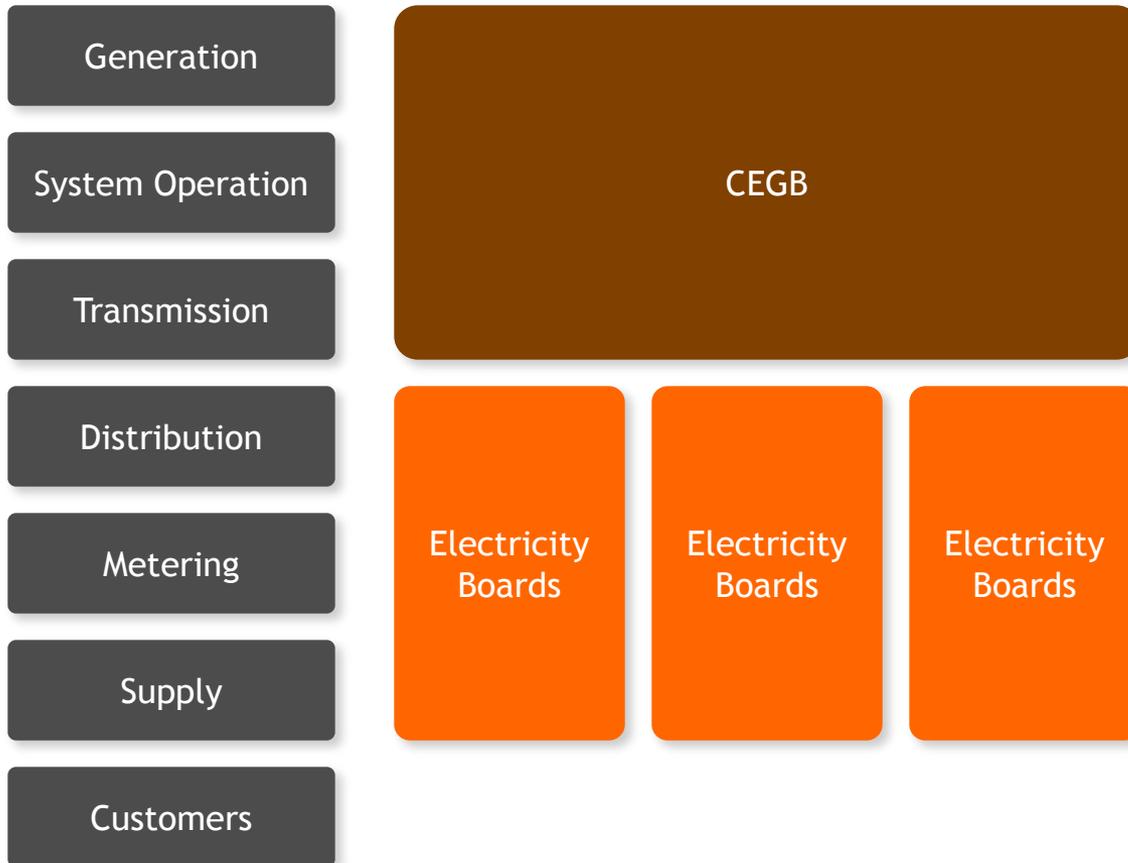
- Homogeneous product
- Relatively easy to control quality
- Integrated delivery infrastructure
- Fully metered infrastructure

# Electricity was easy . . .

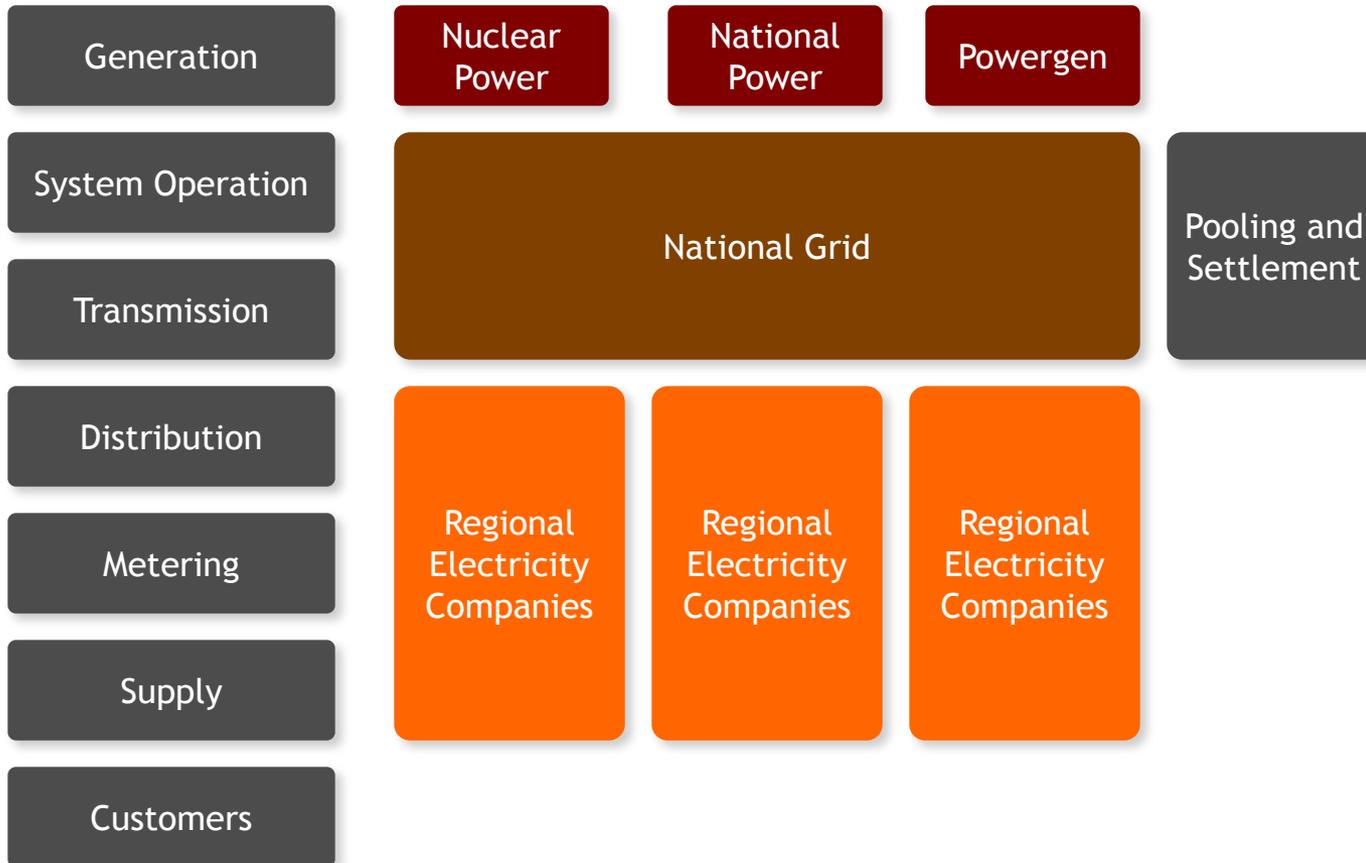
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- Homogeneous product
  - Relatively easy to control quality
  - Integrated delivery infrastructure
  - Fully metered infrastructure
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- Real time management
  - Instantaneous delivery
  - No facility for storage
  - No substitute product

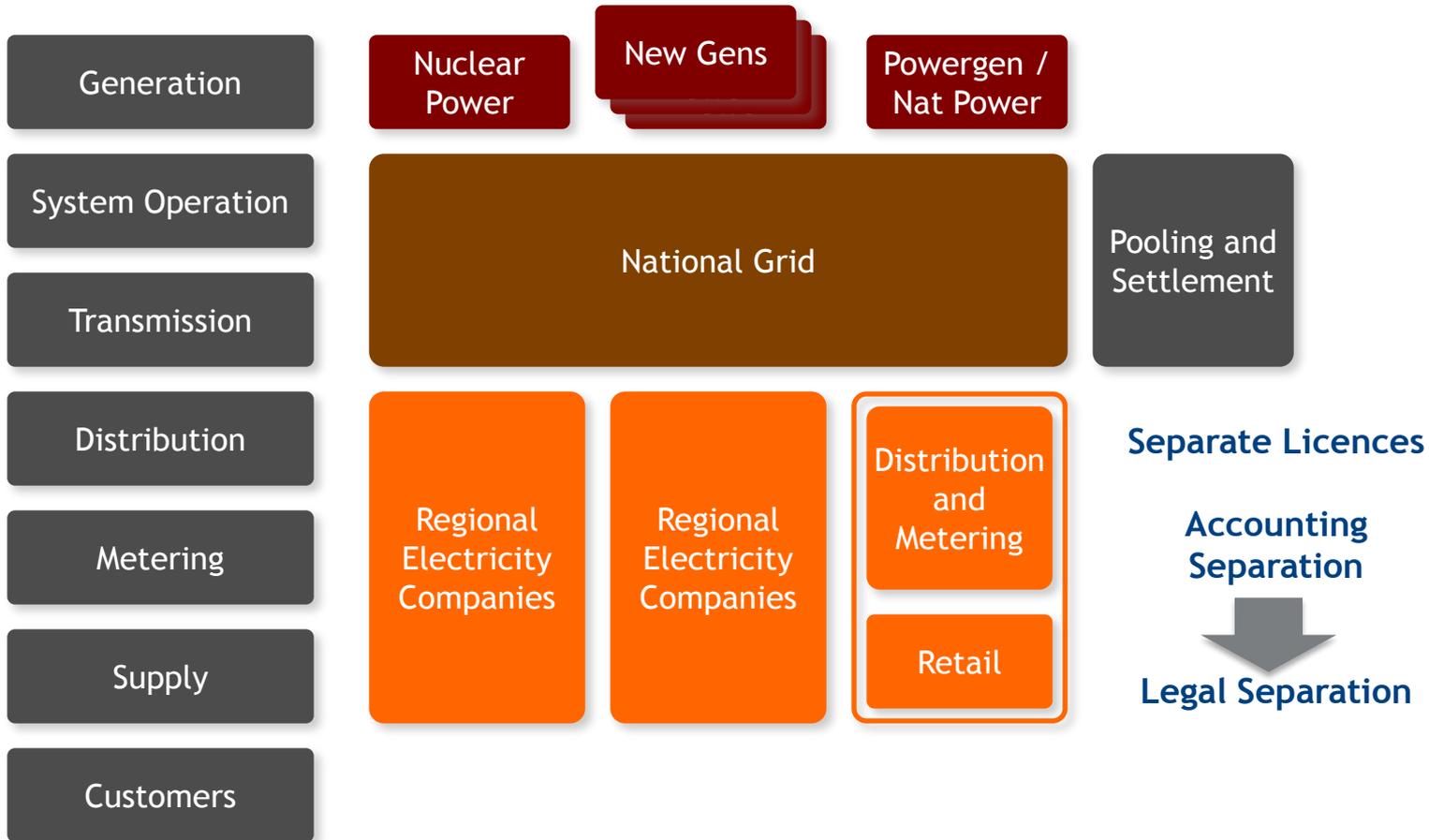
# Industry Overview - Pre-privatisation



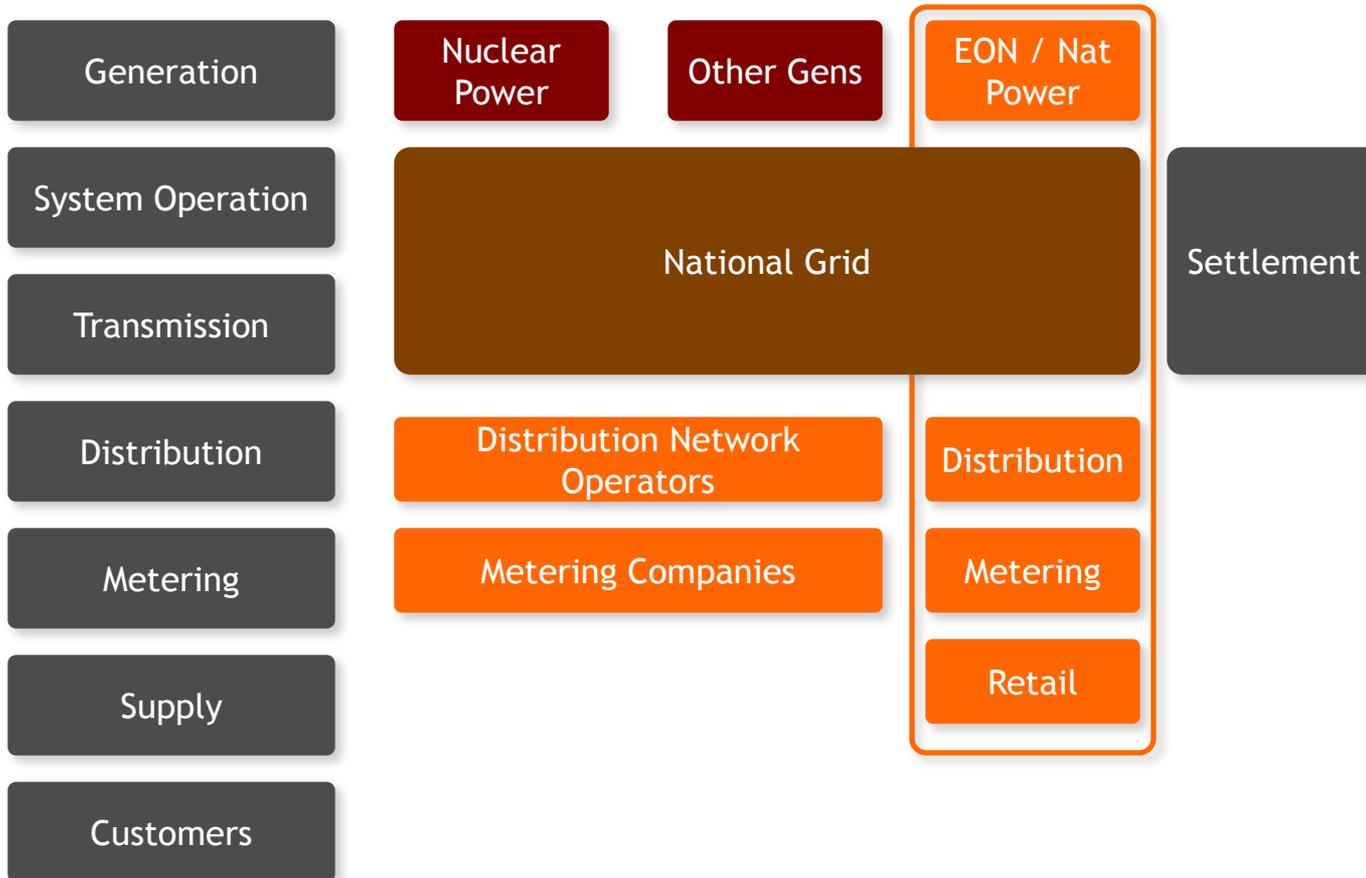
# Industry Overview - On privatisation



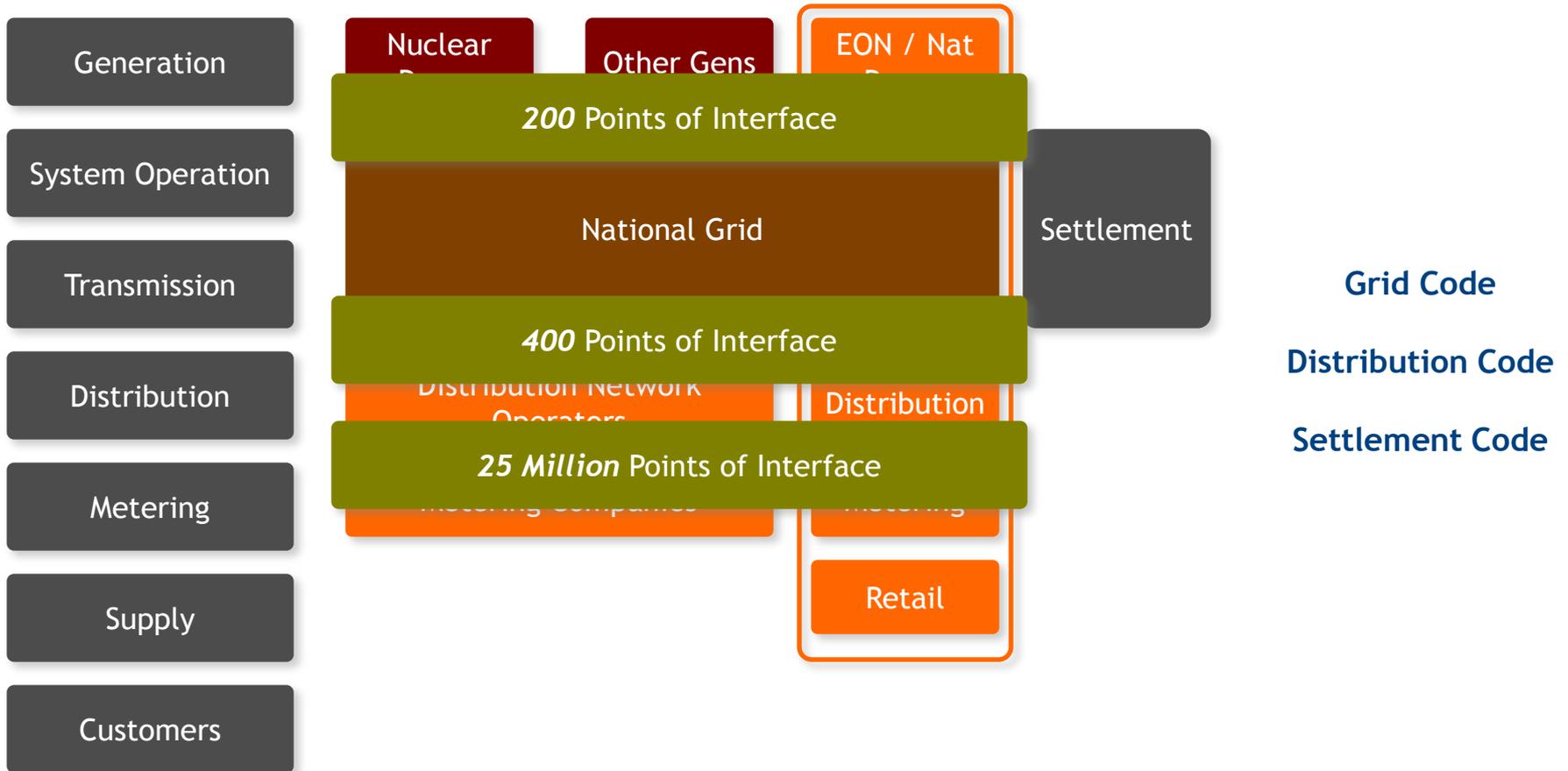
# Industry Overview - though the 1990's



# Industry Overview - now - re-integration



# Industry Overview - Operational Interfaces





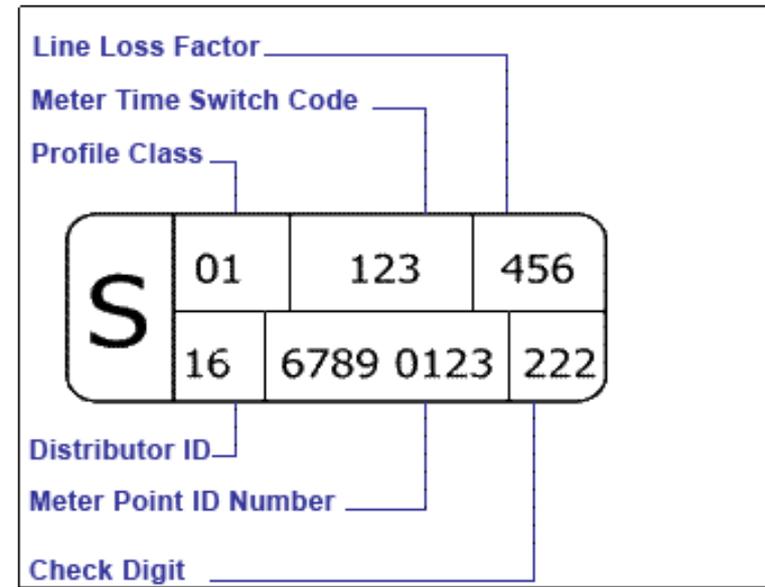
## You will spend the money . . .

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- The commercial arrangements will be generally complex
- Large numbers of parties will need to be integrated
- Processes and systems need to be production ready
- Complexity and integration is expensive
  - Electricity Trading and Settlement
    - ½ hourly settlement across all generators and suppliers
    - 3 changes of the settlement approach and systems
    - NETA systems cost approx £1.5bn
  - Electricity Retail Competition
    - All customers could select their suppliers from 1998 onwards
    - Systems costs approx £1bn

# The 'devil' (and more cost) is in the data . . .

- Data requirements can be complex and large
- In the face of uncertainty data ownership needs to be clear
  - Who owns the customer ?
  - Who owns the meter ?
- New obligations - MPAS
  - Distribution Company
  - Meter Operator
  - Supply Company
  - Customer
  - Tariff
  - Consumption



# Everybody wants to be Richard Branson . . .

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- The ‘magpie effect’
  - It’s shiny, it’s new and it’s exciting
  - It’s also very distracting
- Desire for diversification
  - Generation
  - Asset management and delivery services
  - International business
- Your assets need some love too !
  - Good people
  - Management focus

In summary at the industry and company level . . .

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- ***Understand - what and why !***
- Influence
- Clarify
- **Decide**
- **Align**
- Plan, plan and plan again
- Communicate

You don't always end up where you thought you would be . .

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- 3 out of 3 senior politicians surveyed in 2005 stated that structurally the electricity industry has not ended up where they thought it would be :
    - Need for regulatory comparators initially prevented consolidation
    - Foreign ownership
    - No national champions
  - It took 50% longer to implement than planned

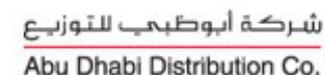
**The electricity industry is leaner and more focussed . . .**

**. . . has the customer seen the most benefit they could have ?**

**. . . Is it the best structure for the industry ?**

# ICS Consulting is a company formed by experienced people

- We are a small consultancy providing niche services to asset intensive industries predominantly in the UK, Europe & Middle East
- We all have extensive experience within the utility industry and utilities consultancy, with some of the most respected names in the industry
- Our philosophy is to provide a high quality service to clients with the ambition to succeed



# We provide a range of products and services across the Asset Management and Regulatory spectrum

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## **:diagnostics/**

business evaluation  
capability assessment

## **:transformation/**

transformation roadmap  
business processes  
organisation design  
inter-trading framework

## **:investment planning/**

investment planning framework  
whole life costing  
deterioration modelling  
service modelling  
investment governance

## **:regulation and economics/**

benchmarking and efficiency  
competition policy  
tariffs and affordability  
metering  
cost benefit analysis

## **:portfolio optimisation/**

portfolio optimisation  
investment manager  
programme manager  
scenario planning

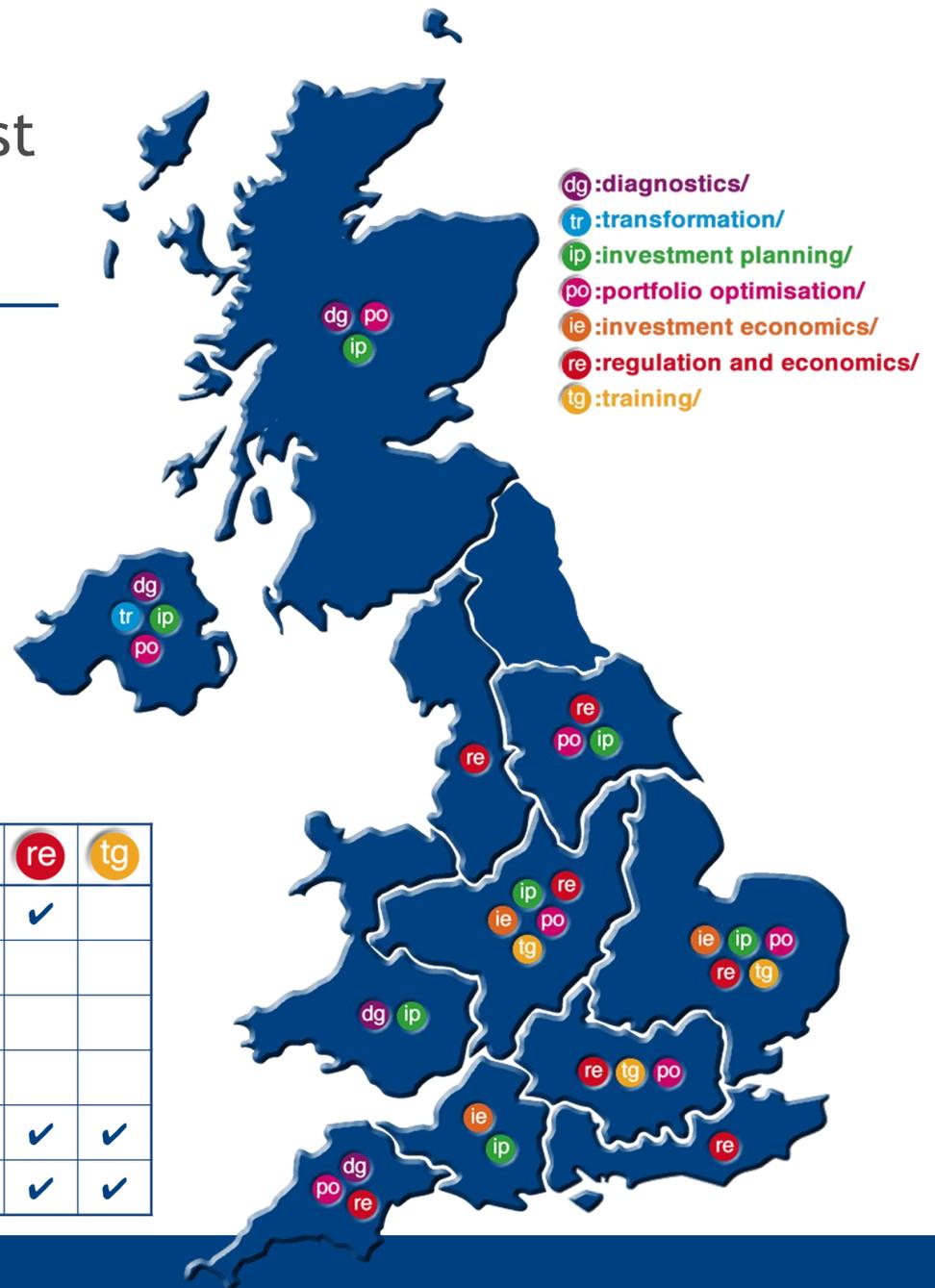
## **:training/**

regulation  
statistics  
asset management  
cost benefit analysis



# We have worked with most of the UK Water industry

- Over the past few years we have changed the face of asset and investment planning in the UK water industry



	dg	tr	ip	po	ie	re	tg
Veolia Central			✓	✓	✓	✓	
Veolia East			✓				
Veolia South East			✓	✓			
Bournemouth			✓	✓			
South Staffordshire		✓	✓	✓		✓	✓
Bristol						✓	✓

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