Rethinking controls
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Many power and utility companies view their control processes as cumbersome and of limited value. A smarter approach can improve efficiencies, keep the business safe and offer a real competitive advantage. Tony Martin reports.

When striving for new ways to create value within a tight economic environment, few power and utility (P&U) companies appropriately consider their control processes. Often thought of as a boring must-have, controls are viewed primarily as costly and a hindrance to a company’s ability to be flexible and dynamic. Smart P&U companies think differently. By streamlining their control process, they are reducing duplication, driving down costs and adding value to the business.

Catching up with change

While many large companies have inefficient control processes in place, P&U companies may be at particular risk due to their long history and the industry’s heavy regulation. Common trends include:

- Spending more on controls without quantifying the gains
- Inheriting controls through acquisitions
- Accumulating layers of redundant and ineffective controls as regulations increase
- Adding extra controls that are disconnected from business operations
- Underutilizing enterprise resource planning systems and relying too much on manual controls
- Failing to put in place the transparent controls needed to ensure stakeholders are confident that risks are properly mitigated

As organizations rapidly evolve through increased regulation, privatization and acquisitions, it can be difficult for the control environment to catch up, leading to a misalignment between the control processes and the company’s overall strategy.

The advantages of Smart Control

Many P&U companies fear that streamlining controls would reduce quality and increase exposure to risk. Others may recognize the need to improve their controls, but they take a suboptimal approach that may not realize the full potential benefit. Many deploy monitoring tools on top of existing controls, rather than get to the root of the problem, while others attempt to retrofit, rather than integrate, controls. A common pitfall is not considering the changes needed in organizational design, technical proficiencies and behavior to reduce risk.

Ernst & Young’s Smart Control approach helps companies realize reductions in the cost of controls, enable growth and keep the business safe. Our approach can help companies:

- Reduce spend on controls by considering the key drivers for controlling spending, calculating the costs, and comparing financial outlay to risks and acceptable levels of risk exposure
- Improve accountability for risk by assigning major risk assessment and mitigation activities to key people throughout the organization and empowering employees to manage risk through ongoing communication, training and reporting
- Develop a faster process that eliminates duplicate or unnecessary activities and makes the most of automation
- Align with strategy so that risk management and controls are supporting the business objectives
Smart Control supports utilities to build an integrated, streamlined and dynamic control environment that provides the agility necessary to anticipate or respond to changes. By balancing value, cost and risk in their processes and controls, Smart Control helps companies create a competitive advantage.

Tools for transforming controls

Ernst & Young has developed a technology platform called the Risk and Controls Analysis Platform (RiCAP™), which helps evaluate an organization’s control environment and identify opportunities for Smart Control. This platform evaluates key inputs, such as enterprise objectives, risks, controls, cost drivers and acceptable risk levels. The results provide insight on areas that are over- and under-controlled and helps prioritize areas of improvement and guide future state design.

Another useful Ernst & Young tool to help companies transform their controls is our Power and Utilities Maturity Model and Architecture (PUMMA). PUMMA is a pool of constantly updated data on the best practices of the world’s leading utilities. PUMMA is especially useful to unwind control processes that have been built up over the years and recalibrate these to fit the company’s future vision.

Turning the lights back on

A major Australian electricity provider was experiencing increasing levels of customer dissatisfaction and rising operational costs surrounding its process of resolving network faults. The utility engaged Ernst & Young to help it streamline the control process, with the aim of getting the lights back on faster and more efficiently.

Our team began by assessing how information received via the company’s control center was passed onto network maintenance crews. By identifying how more effective communication processes could help the company get a better overview of fault situations, it was given the tools to prioritize issues and improve the scheduling and efficiency of maintenance crews. Accountability for resolving faults was also transferred from the call centers to the maintenance crews that actually held the skills to fix the problem. These changes led to faster resolution of faults, improved levels of customer satisfaction and reduced costs, as staff overtime was greatly reduced.

Boost cost optimization

As P&U companies focus on cutting costs, many have overlooked the role that control processes can play in cost optimization programs. Our Smart Control approach has helped companies realize 20% to 40% reductions in the cost of controls by creating an integrated, streamlined and dynamic control environment. P&Us that reconsider the value of controls can think beyond keeping the business safe, boost cost-saving programs and derive a competitive advantage in an increasingly tight market.

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Tony is Ernst & Young’s Leader of Risk, Melbourne and a member of Oceania’s Advisory Utilities Industry Group. Tony has over 20 years’ experience in performing assurance and risk management engagements on large, complex and global P&U organizations. He leads teams to develop pragmatic and valued risk approaches that help his clients see measurable improvements. Tony’s insights into trends in internal audit and enterprise risk management are particularly relevant to the P&U sector.
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About Ernst & Young's Global Power & Utilities Center

In a world of uncertainty, changing regulatory frameworks and environmental challenges, utility companies need to maintain a secure and reliable supply, while anticipating change and reacting to it quickly. Ernst & Young's Global Power & Utilities Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Center works to anticipate market trends, identify the implications and develop points of view on relevant sector issues. Ultimately it enables us to help you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

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