Where does the money go?
Getting a grip of totex

Introduction

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To continue making efficiency savings, water companies need to take an integrated, holistic view of their businesses that allows them to get a grip of total expenditure (totex).

Looking at the recent submissions for the current price review, PR14, it is clear that water companies are following a similar path as they strive for operational excellence. The best performers will be those companies that can execute the change to unlock benefits faster and more effectively. Opportunities to do this can come from improvements in any of a number of areas, from failure incidents in the field to paying too much for power because equipment is run at less than optimal times.

Before any organisation can consider significantly changing its operational model, there must be a senior leader determined to make change happen. The main barrier to change is that people have been doing the same thing for so long that they may struggle to view things differently and can become resistant to change. However, there are increasing external influences coming into play over the near to medium term that start to force the hand of change.
PR14 into AMP6

At a macro level, climate and population change are still relative unknowns in terms of timing and the shape of solutions required, and this will continue to play a major part in the risk profile of operational decisions.

At an industry level, PR14 into AMP6 is about defining service ‘outcomes’, and allowing greater options for water companies to meet those outcomes, as opposed to the historic approach of defining inputs. Also, retail markets will be changing in 2017 in terms of competition in the UK water sector for non-domestic customers.

At a customer service level, the service incentive mechanism provides greater roles for customers to influence the outcomes they want from suppliers – thereby influencing operational strategy. This is coupled with the imperative for customers, government and conservation-driven requirements to use less water in order to alleviate water shortages and reduce power and chemical use.

These factors create a key operational challenge, and spur change such as: the allocation of risk at the capital and operational strategy level; the returns on investment from innovation in ways of working; the long-term (up to 25 year) sustainability of the operational strategy and approach; and what the ‘right’ price for activities is, as opposed to what the ‘historic’ cost profile dictates it is likely to be.

The above drivers manifested themselves as three themes that featured in nearly every recently submitted PR14 plan:

► A shift to being customer or service oriented
► More extensive collection and use of real-time asset data to drive operational control and decision-making to prevent problems occurring
► Recovering of energy from sludge
Shift to totex

With the shift to totex (total expenditure), the industry’s thinking must shift to making risk-based interventions beyond capital replacement, such as extending the life of an asset. In addition, thinking must move further into examining whether required outcomes can be achieved in different ways, such as innovative low capital solutions that also require less electricity, chemicals, and so on. In order to mitigate this risk, utility companies need to possess the right systems and policies as well as an asset management team working to the correct asset management ethos as part of their day-to-day routine.

Other sectors, such as retail, are already advanced in the way they make whole-life investment through their asset management processes and systems. One reason for this is that they have invested in collecting the information and have carried out the necessary modelling for accurate investment decision-making. In order to run their assets most efficiently, water companies need to understand asset running rates, costs and condition to allow planned maintenance to be carried out in lieu of more expensive and disruptive reactive maintenance.

Improving management decisions

The effectiveness of management decisions is directly linked to the currency and accuracy of the information upon which it is based. Maintaining and improving the operational information upon which totex decisions are based can give water companies a competitive advantage. Understanding where to prioritise asset investment to gain the greatest totex return, and being able to demonstrate to regulators that investment is clearly justified in best serving the public interest, is of paramount importance.

An excellent example of this is by reducing asset failures through a better understanding of asset performance and condition. Perhaps as important is the ability to demonstrate the rationale behind capital investment decisions to regulators, shareholders, and ultimately the public. A further example is the change to viewing sludge as a product that can generate a saleable resource — energy, which requires new levels of information (such as quantity and quality of sludge in the system).

The industry is approaching the point where most of the efficiencies have been achieved in each individual area or function. The next wave of improvements will come from taking a more integrated view of operations: changing what is done in one part of the business to create improved efficiency and effectiveness in another. Work scheduling is an example. Get this right and it makes work execution in the field more effective.

One more example is viewing the water and wastewater assets as being integrated from an end-to-end perspective. This involves using data, analytics, visualisation, and decision support tools to help staff make more holistic, risk-based decisions about the system to deliver better outcomes such as quality or cost of delivered water. Key drivers here will be optimising inputs such as electricity, chemicals and labour – all of which can be big drivers of unnecessary opex.

As we move into AMP6 and beyond, there are numerous challenges facing the UK water sector when it comes to efficiencies. The main is the move to a totex environment.
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What to find out more?

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