



CASE STUDY



A Large Integrated Utility Achieves Cost Reduction Through Risk-Informed Budgeting

CHALLENGE

A large integrated utility in the Southwest was challenged by corporate oversight to operate under affordability goals to limit electric rate increases to 2% per year while keeping electric bills in the bottom 50% of all electric utilities in the state. To achieve these goals, the utility needed to explore new ways to manage spending in the most effective and efficient manner possible.

Historically, the utility's business units had developed budgets based on the previous year and adjusted for expected differences in the upcoming year. Expenses were examined without the level of detail necessary for effective risk analysis, limiting management's ability to drive significant, achievable, and lasting benefits. With significant operations and maintenance (O&M) cost reduction as the goal, the chief operating officer approached MCR for help.

SOLUTION

MCR used our proven risk-informed budgeting (RIB) process, originating from our approach to zero-based budgeting (ZBB), to help the client reach its spending goals. ZBB requires budget owners to justify all budget requests from a baseline of zero, whereas the more traditional incremental budgeting process continues past spending without rigorous scrutiny. The risk-informed approach considers the risk of not funding each individual line item.

We worked directly with our client's management team and budget analysts, guiding them through our RIB process steps:

- Develop a framework to categorize budget items according to specific safety, regulatory, and reliability risk factors
- Discuss each budget line item and assign a risk category
- Facilitate a senior manager review process for risk-based ranking of all budget line items to identify line items to be funded

In team meetings, every manager was asked to challenge their assumptions of what spending was truly required to operate and maintain their organization. Nothing was taken for granted, and all spending was challenged. The approach ensured each line manager's budget submission was prepared with detailed documentation substantiating all proposed spending.

RESULTS

MCR and the client management team identified opportunities to save \$15 million in O&M expenses (nearly 10% of the reviewed budgets), allowing the utility to achieve its rate targets and meet the executive leadership's affordability goals. MCR also identified opportunities for operational improvements, including:

INFORMATION TECHNOLOGY (IT)

- Optimize the IT portfolio by eliminating excessive legacy applications and controlling new application requests
- Reduce the number of contractors used as base load employees to operate and maintain key infrastructure

APPLY BETTER SOFTWARE LICENSING CONTROLS TO ELIMINATE VENDOR-IMPOSED PENALTIES

- Establish a cloud/premises strategy to optimize application and data management costs
- Create a cost awareness culture among managers who were previously unaware of their budget impact
- Improve project management to enhance scope control

ELECTRIC SERVICE DELIVERY

- Reduce instances where excessive capital project workloads require overtime to complete regular maintenance
- Restrict overtime in project implementation with distant completion time horizons

POWER PRODUCTION

- Enhance power production management budgeting expertise by promoting efficient operations and risk management skills
- Identify additional budget reduction opportunities not previously considered

“The MCR team was very professional and very driven. I really appreciate their direct approach to engage executives and managers.”

—FINANCE MANAGER

The Bottom Line

The final deliverable identified a total of \$15 million in O&M savings opportunities, enabling the client to meet its customer affordability goals. MCR also provided numerous long-term initiatives to maintain and improve a culture of cost management.

For further information, please contact:

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