CASE STUDY

A Top 10 Integrated Utility Achieves Cost Reduction Through Risk-Informed Budgeting

CHALLENGE

To inject more rigor into the development of its operations and maintenance (O&M) budget, a top 10 integrated utility in the Southwest sought to engage a firm with extensive experience in zero-based budgeting (ZBB) for utilities. The utility's desire was to implement a sustainable methodology to provide visibility into cost drivers, incorporate risk valuation, maximize each budget dollar, and help management ensure credible budget targets for the future.

Previously, new budgets were created based on the previous year's budget, plus or minus any major events. This approach left the utility unsure of just how much was spent by necessity versus precedent. With installed information systems, detailed analyses of budgeted and actual spending were difficult if not impossible to conduct.

SOLUTION

MCR used our proven risk-informed budgeting (RIB) process, originating from our approach to 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.

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

- Develop a budget item categorization framework relating spending levels 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

MCR facilitated sessions with budget owners and their finance representatives to challenge every line item in terms of risk and controllability. In these discussions, hearsay was not admissible. Documented facts with clear references were often necessary to break the paradigms of exactly what influence our client had on spending.

RESULTS

MCR and the client management team identified opportunities to save $80 million (25%) from the O&M request and $19 million (7%) from the previous year's budget, enabling the utility to meet its cost targets. In addition to the expense reductions identified in the RIB process, MCR also identified opportunities for improvements, including:

> "The ZBB process brought to light budget items driving our business which were previously not understood."
>
> —FINANCE MANAGER

OPERATIONS

- For power generation, strategic decision-making is required to balance reliability with asset longevity for issues with scheduling restrictions.
- Various industry-standard metrics all indicate room for improvement.

FINANCIAL & TREASURY

- Current financial systems and processes will benefit from significant upgrades.
- Changes to analyses and reporting will reduce significant labor constraints.
- Knowledge sharing would alleviate the concern of considerable expertise residing in a few senior employees.

SECURITY, SAFETY & FLEET

- Security tech outsourcing for maintenance of aging equipment needs to be balanced with asset management.
- Enterprise fleet key performance indicators need to include more cost-based measures.
- Steps should be taken to lower spending on training requests per employee to better align with wider company and peer averages.

INFORMATION TECHNOLOGY (IT)

- The core ERP system is overdue for an upgrade.
- Technology is owned by many organizations outside of IT, leading to conflict with the IT strategy; technology ownership should be brought under the IT umbrella.

The Bottom Line
The final deliverable identified a total of $99 million in O&M savings opportunities, enabling the client to meet its cost targets. In addition, MCR provided several follow-up initiatives the utility can undertake to build a rigorous cost discipline culture.

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