

Establishing Meaningful Performance Levels through Effective Benchmarking

Industry & Client Situation

The regulated Generation business, part of an integrated electric utility which serves half a million customers, needed to quickly establish meaningful performance levels, despite lack of a sound fact base, in order to improve profitability of the business.

- The company's vision lacked specificity around what should be measured and how
- The Board of Directors had set aggressive financial goals, to which the Generation business was expected to contribute significantly
- No sound fact base existed to accurately compare the Generation business's performance against other peer or top-tier performers
- Each plant was essentially operated and managed independently, rather than together as a fleet

Approach

Translated the vision into actionable terms. The broadly-defined utility vision was directionally correct, but lacked specificity around the strategy itself for Generation. We worked with management to quickly yet soundly translate the vision into a set of Generation-specific strategic themes and a relevant set of high-level financial objectives.

Cascaded overall company financial goals into specific Generation Business contributions. Given likely demand forecasts, historical contributions, and projected expense and investment scenarios across the businesses, we identified a high-level range of earnings and cash flow contributions required from Generation.

Utilized comparative financial and operational data to put performance into context. The key was relevant and comprehensive Benchmarking, leveraging primary and secondary data sources. Key questions:

1. What is a relevant competitive set for this fleet?
2. What metrics make sense to benchmark?
3. Where does the fleet currently stand? What does Top Tier performance look like?

Developed a more comprehensive fact base of fleet performance to identify how financial contributions could be improved. Using historical internal performance data and discussions with internal subject matter experts, we identified what strategies and tactics could be employed to outperform target companies. The feasibility and fit of these tactics within the broader utility's strategy determined the priority focus areas.

Results

Performance targets were set for the priority areas, and the client uses these targets as the basis for management's incentive compensation. In addition to compensation, the priority areas are also used to drive which major initiatives get funded for the coming year and help refine the overall business unit budget.

The nature of performance management has changed dramatically to a series of frequent management discussions, at the fleet-level, around those decisions and practices that most drive results. The client has seen tangible benefits from this intense focus – especially in terms of increased fleet availability and reductions in non-fuel O&M expenses.