

SOS: Managing Capital Spend to Target

UMS Group Inc.



COMPANY

A southern US Distribution & Transmission utility serving over 10 million customers.



BACKGROUND & BUSINESS CHALLENGE

In an attempt to support their strong Asset Management focus, the company was utilizing a basic investment planning tool. They quickly discovered that this tool did not provide the rigor they were seeking in regards to risk assessment and did not offer the flexibility to support frequent changes to the plan. The company engaged UMS Group to replace this tool with its Spend Optimization solution. They recognized that the rigorous investment value and risk of deferral scoring frameworks and highly flexible analysis structure of the SOS application would guarantee that spending would drive company priorities.

This company has been continually utilizing and updating SOS to meet its business needs and take advantage of the latest platform and enhancements.

They are one of the longest running SOS users at 18 consecutive years.



APPROACH

UMS Group worked with company electric transmission and distribution asset managers to develop the thorough value and risk of deferral scoring approaches for each defined success criteria supporting overall company strategy. UMS Group implemented the Spend Optimization Suite including the company's specific scoring approaches, as well as some customized constraints within the Investment Optimizer to support their specific cost constraints. In this initial phase, the company worked to strongly incorporate the SOS into their investment planning process, whereby they were able to engage smaller teams to analyze the optimization scenario results, easily respond to challenges from engineers, planners, and senior leadership, and finalize the investment plan.

UMS
group

www.umsgroup.com

info@umsgroup.com

Americas +1.973.335.3555

Europe +31.20.561.7033

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RESULTS

The company fully leveraged the flexibility of UMS Group's Spend Optimization Suite to support an investment planning process of continuous monthly reconciliation of any new priorities with the actuals and projections of all released funding. Monthly updates of actuals, frequent scoring modifications as new information became available, and monthly re-optimization of the plan ensured that they could react quickly and "course correct" to changes in projections or approved targets. This end-to-end process enables the company to manage overall capital spending within an average 0.5% variance to plan.



HIGHLIGHT: UTILIZING SOS TO VERY CLOSELY MEET CAPITAL TARGET

- Once they settle on a portfolio of projects (the plan for the year), they release a number of projects that are less than plan.
- Within the optimized portfolio, projects are prioritized and only the most critical projects are initially released, as costs often vary by up to 30%.
- They report on actuals at the end of each month, look at a re-projection going forward, and compare the net of everything to target. If they've been underspending, they'll release more; if they've been overspending, they'll initiate a "gap closure" process – identifying opportunities to spend dollars just in-time or spend them late in the year, or defer projects if necessary.
- They re-run the Investment Optimizer throughout the year as priorities and budgets change (i.e. after summer peak, take out any projects geared for that purpose and put in more for winter peak). The optimized portfolio is updated monthly.
- Once they run out of levers to pull, especially later in the year, the gap closure process may include stopping in-process projects, if necessary.

The company has a rigorous investment strategy process to ensure spending occurs according to company priorities, with a monthly reconciliation of any new priorities with the actuals and projections of all released funding.



The end-to-end process enables the company to manage overall capital spending within an average 0.5% variance to plan

The company subsequently expanded the process and application to include their IT and Facilities business units. With all business units evaluating their projects in a common framework (with some business-unit specific scoring criteria), their goal is to achieve corporate-wide optimization.