



UMS Group Inc. SOS: Providing Reliable Water Service Amidst Aging Infrastructure & Climate Challenges



COMPANY

An Australian water company supplying water, wastewater, recycled water and some stormwater services to more than five million people.



BACKGROUND & BUSINESS CHALLENGE

The Australian Water and Wastewater industry as a whole faces increased challenges in maintaining and replacing aging infrastructure, providing drinking water during long term drought situations, and protecting the quality of receiving waters; all amidst a tougher regulatory environment for rate increases. The company acknowledged the following particular challenges:

- Its infrastructure was reaching an “End of Life” condition that was driving a fairly significant increase in its capital spend program.
- It had experienced an extended drought that resulted in establishing more costly alternate sources of water.
- More stringent regulations regarding the disposal of wastewaters were established.

Further, the fact that the regulator was unwilling to grant rate increases without first receiving a value and risk evaluation of the company’s capital spend programs further exacerbated the situation.



APPROACH

Prior to implementing the Spend Optimization Suite and process, the company had used a capital prioritization process, particularly during periods where financial constraints significantly precluded the performance of “required” capital projects. A set of weighted evaluation criteria was used to “score” projects which were, in turn, ranked linearly based on this score. Investment classes were established to ensure somewhat of a balanced portfolio, but it was noticeably difficult to compare and select projects across the organization.

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APPROACH (continued)

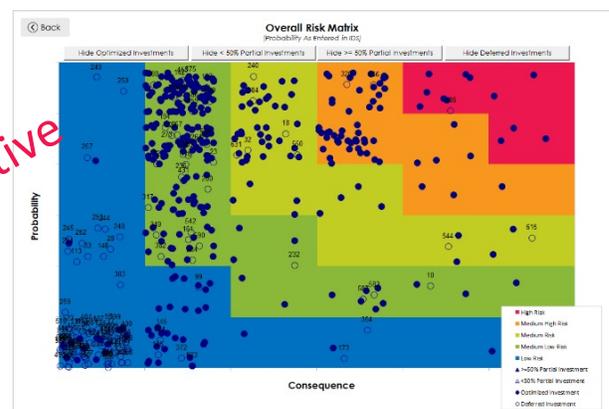
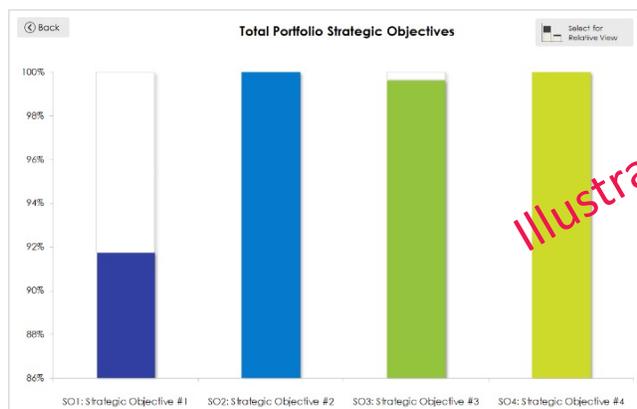
With the implementation of UMS Group's Spend Optimization Suite (SOS) application and process, the company was able to develop an optimum portfolio of investments across the organization given regulatory, environmental, time, risk, and other constraints based on corporate strategic objectives and corporate risk framework. Specifically, they could:

- Assess all investment decisions based on their contribution to corporate strategy. The Investment Optimizer (IO) has provided the ability to assess an individual project's strategic value aligned to the seven corporate objectives, as well as assess the potential risk of deferring the investment. It calculates a project value by measuring factors additional to financial cost across all their strategic objectives.
- Consider multiple scenarios of its capital programs with the ability to view trade-offs of risks and benefits between different scenarios easily and quickly to support investment decisions.
- Establish communication, understanding, and transparency between various investments to achieve clarity around those investments that are included in the next budget cycle's plan, deferred, or mandated; and in most cases of mandated investments, understand the total cost (in terms of lost value).
- Provide defensible capital investment decisions to regulatory agencies, the community and other stakeholders by creating an auditable trail of investment evaluation and selection.
- Work within sustainable and affordable capital budget constraints based on a balance of value and risk within corporate strategy.



RESULTS

The company implemented the SOS and process to develop its current rolling 5-year Capital Investment Program (CIP). The CIP/SOS process starts with each project manager scoring project value and risk of deferral based on corporate strategic objectives and their risk framework. Project profiles are then analyzed by the optimization process along with constraints placed on the process.



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RESULTS (continued)

For the current rolling 5 year CIP, top-down annual capital constraints were set to match the affordable capital budget, where the process considered projects of a value \$230M greater than the total budget constraint. The process developed an optimum portfolio of projects totaling \$9 million less than the maximum constraint by selecting /deferring projects based on agreed constraints, risk profile, strategic value, and consultation with company executives and planners using the tool outputs. The difference between the company's original capital submissions and its final investment selections made through the new value and risk Spend Optimization Suite and process generated a substantial net savings of nearly \$240 million (AUS).

\$Million	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
Capital Submissions	1,120	790	770	780	780	4,240
Affordable Capital Budget	1,103	832	727	697	650	4,009
Optimized Program	1,103	828	727	692	650	4,000

Illustrative
Figures