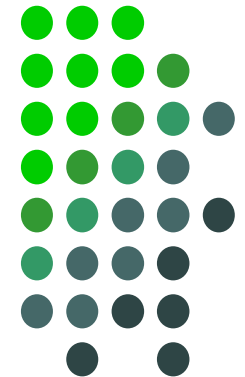




# Wales & West Utilities (WWU) People & Engagement Business Planning



**10<sup>th</sup> December 2018**

**V5.0**

# Agenda



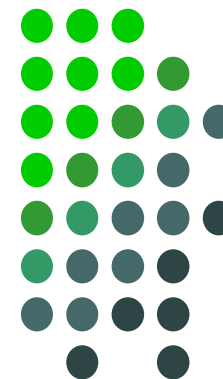
- Executive Summary
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  - Alchemmy's Analysis Methodology
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  - OFGEM RIIIO-2 Rationale and Key Criteria
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## Executive Summary

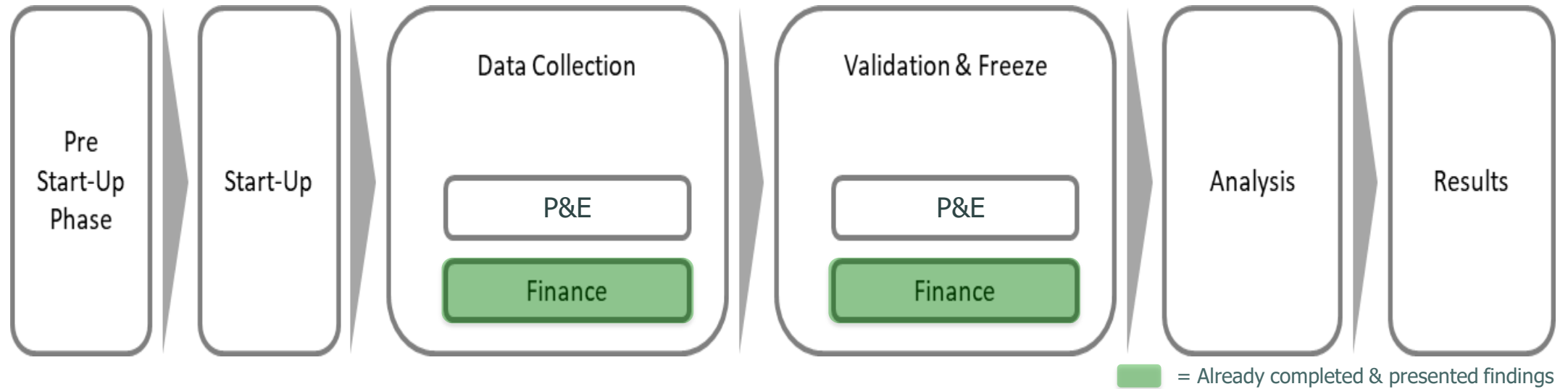


# Project Background



- This report covers People & Engagement spending and staffing. The Finance and IT reports have been presented at an earlier date.
- Ahead of Ofgem introducing the new controls for gas transmission & distribution (RIIO-2), WWU solicited ImprovIT and Alchemmy to conduct a 'Value for Money' (VfM) assessment of its back-office services in the areas of IT, People & Engagement and Finance.
- ImprovIT and Alchemmy were tasked with reviewing the existing constitution of the Totex expenditure, at the level of detail of sub-categories, confirming where WWU back-office services deliver "Value for Money", and identifying any opportunities of potential cost savings and/or overspend.
  - Having completed this analysis, we will create an independent short-form report suitable for remittance to Ofgem alongside the WWU corporate submission.
- This review focuses analysis on the Totex for the respective People & Engagement service categories and compares the cost & productivity against the market by means of comparative analysis.

# Our Approach and Process Followed



- In the Data Collection phase, WWU schedules and journals were combined into a number of summary Excel documents by workstream leads, which contained a breakdown of People & Engagement spend, staffing, and other line items into constituent service categories. Alchemmy identified a range of KPIs that seemed most appropriate in assessing these spend and service categories.
- Having confirmed these KPIs with WWU, Alchemmy conducted calls and discussions to ensure the data intended for analysis was fully accurate, was split out in a manner enabling comparison with Alchemmy market data, and provided a true representation of the WWU People & Engagement organisation.
- Alchemmy then conducted a full analysis of WWU's data against the market, and reviewed spend across the entire People & Engagement Department via a comparative analysis.
- Alchemmy compared these findings to our industry benchmarks, consisting of a range of comparable organisations including gas & electricity transmission and other regulated industries.

# Alchemymy's Analysis Methodology



## Process to develop analysis:



Identified relevant market data points (e.g. (G,E)DNOs, utilities & other HR & People departments)



Filtered database to ensure comparing like with like, at an enterprise or HR & People level



Benchmarked against a market range of similar data points



Visually represented findings

## Data comparison:

Peer group comparison against organisations of similar scale and complexity from the following sectors:

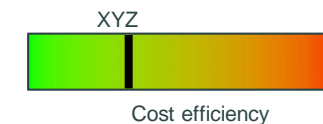
- Utilities Sector
- Public Sector
- Manufacturing Sector

When focusing on a smaller sample of peers, analysis centred on other utilities distributors in the UK which have similar regulatory and business requirements to support.

A minimum of 4 peers was used for each service area.

Following the initial analysis, we generated a scale to provide a visual representation of comparative performance:

### Example scale:



# Summary Observations



- The size of the People & Engagement function is commensurate to an organisation of the size and scale of WWU.
- The breakdown in spend between the service categories looks fair and detail provided enabled an accurate like-for-like comparison to Alchemmy's market data, with a high degree of confidence in the comparisons.
- WWU spent almost double the average amount on training in 2017-18 compared with its peer organisations. We understand that WWU has historically placed a number of senior resources into this function, which demonstrates a strong commitment to ensuring ongoing resilience in the WWU workforce in the face of a high number of ageing employees retiring in the near future. This is aligned to Ofgem's expectations of driving innovation and embedding best practices.
- Since March 2018, the end of the period covered by this report, there has been a change in the staff mix, with a high cost employee leaving the business and being replaced with a more junior and lower cost role, which has reduced the overall cost to the business.
- Other metrics show a fair balance of cost and staffing levels, at a justifiable cost to the consumer.

# Upcoming expectations for utilities providers



Due to industry trends and a range of initiatives that are currently ongoing within the gas industry, suppliers will be expected to work towards:

- Achieving a low-carbon future
- Maintaining a flexible network that can adapt to new sources of gas, new entry & exit connections and new uses of network
- Successfully managing demand due to significant fluctuations in gas stock 'swings'
- Providing a more efficient supply to manage the increase in demand and changing use of networks
- Implementing a smarter infrastructure



# OfGEM RIIO-2 Rationale and Key Criteria



## Fair Returns and Financeability

- Maintaining a fair level of staffing and cost against the price paid by the consumer

## Giving consumers a stronger voice

- Ensuring that investments made have a positive effect on the consumer
- Providing facilities for WWU to engage its customers in the most efficient manner

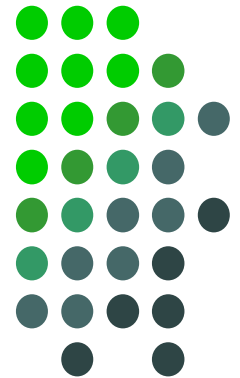
## Driving innovation and efficiency

- Ensuring innovation forms part of the strategic investment profile
- Engaging external third parties in an agile manner which drives a positive effect on consumers' experience
- Wherever possible eliminating wastage and technical debt

Alchemmy has linked WWU People & Engagement spend and staffing metrics against these criteria to ensure alignment with the Ofgem desired outputs. Alchemmy and ImprovIT will aim to replicate this analysis in the Ofgem-facing report to be produced early in 2019, which was a successful methodology during GD1 submissions.

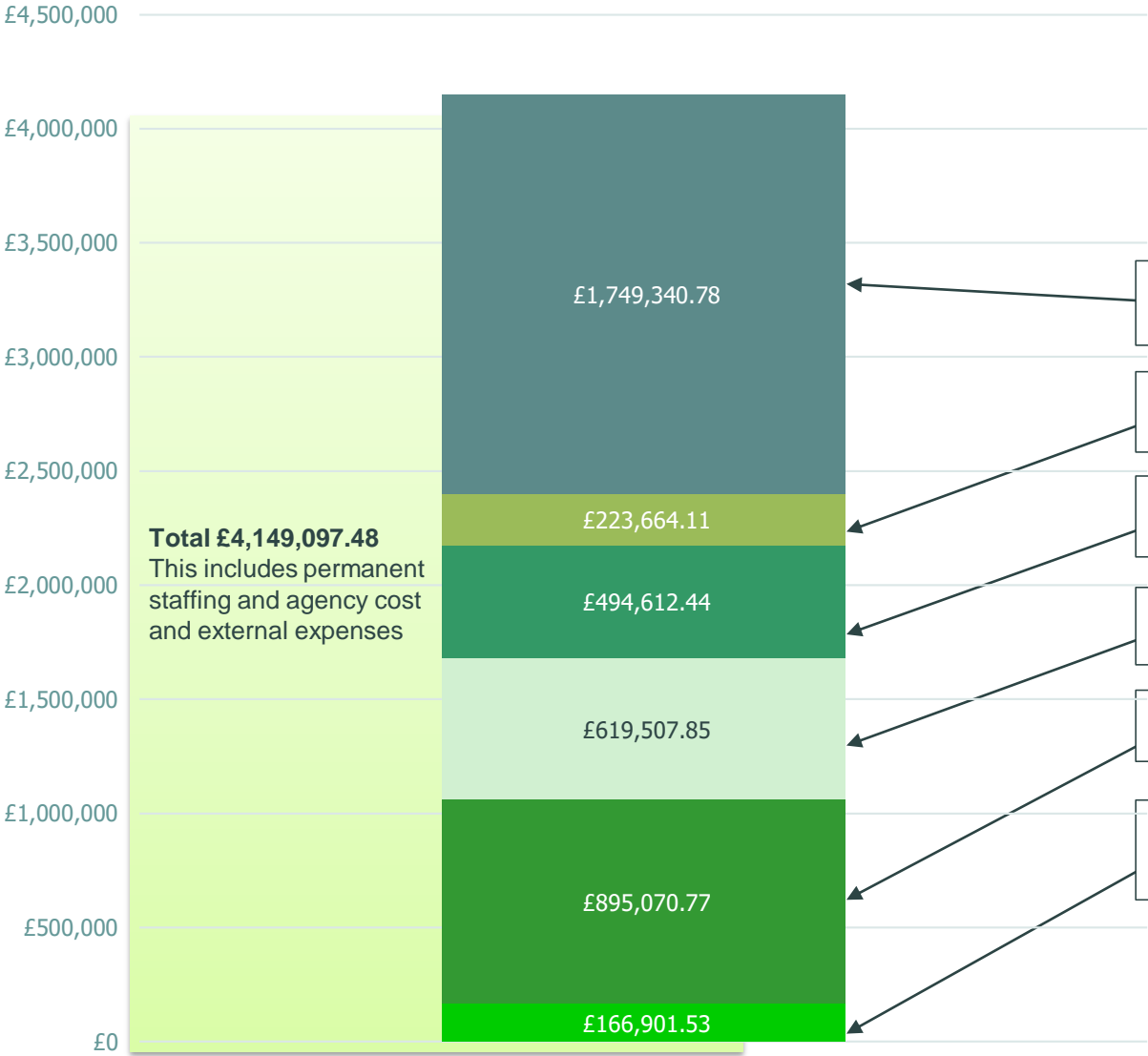


## Findings

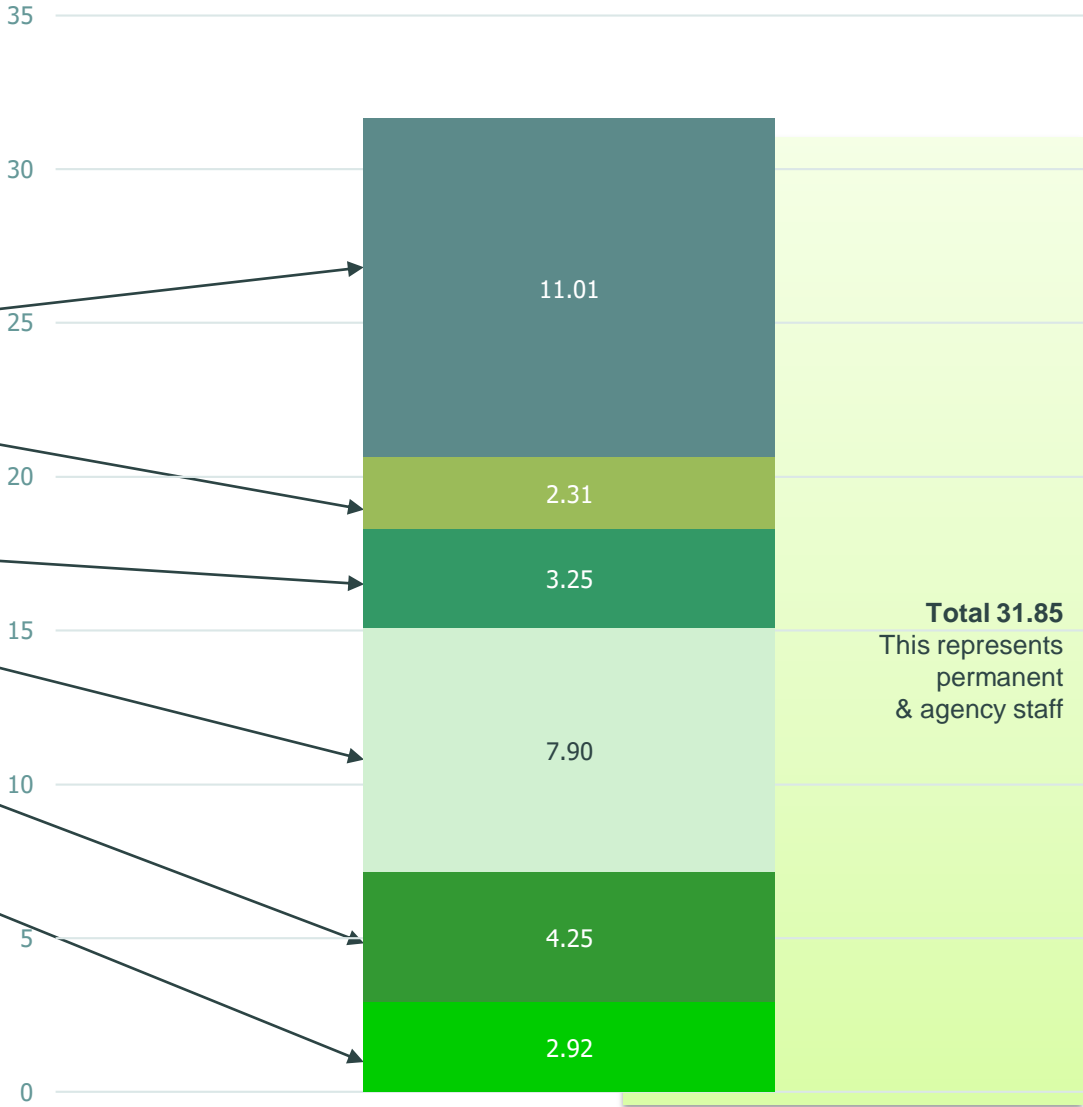




People & Engagement Spend Breakdown



Breakdown of our analysis of employees



Training

Payroll

Stakeholder Engagement

Human Resources

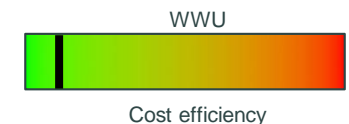
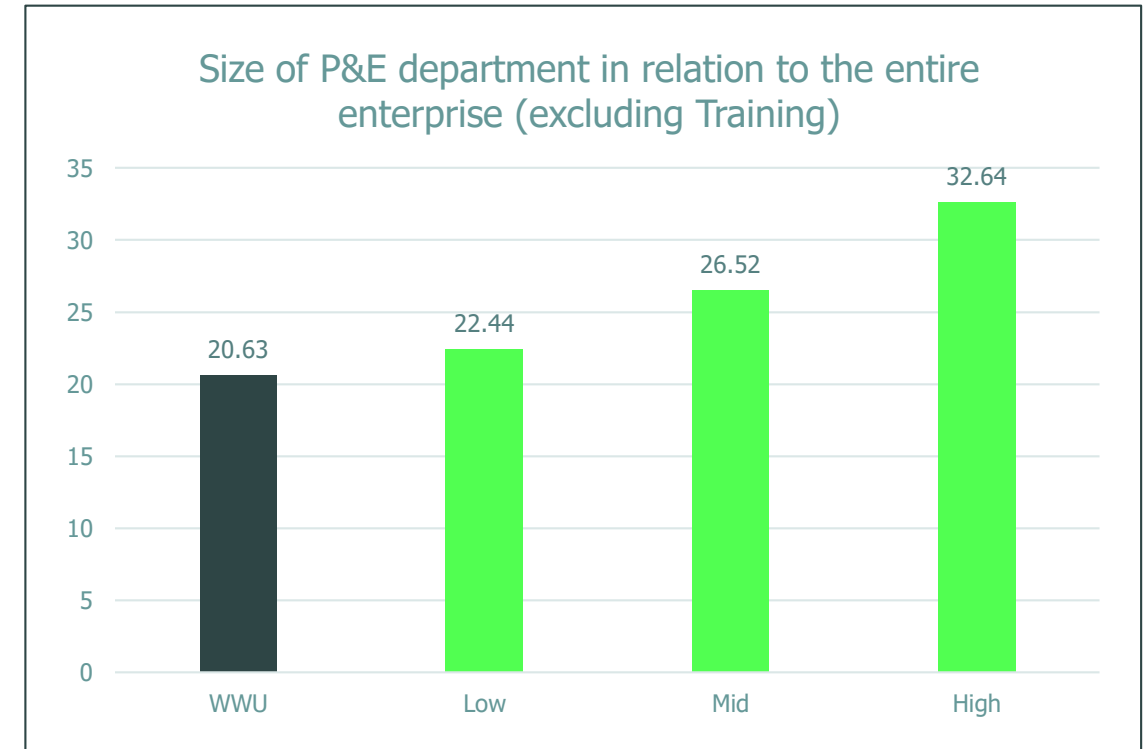
Corporate Affairs

Occupational Health



- Having normalised our benchmarks to line up with the size of WWU's People & Engagement Department, it is clear that WWU P&E staff size is lean, at the lower end of the peer range.
- The services in scope account for 1.1-1.6 employees per 100 employees in comparative enterprises and in other regulated industries.
- We have taken this ratio (1.1-1.6 per 100) and applied it against the WWU enterprise staff headcount of 2,040 to arrive at a comparable staffing size.
- The WWU staff includes all core HR functions, plus payroll, stakeholder engagement and corporate affairs, excluding training staff, which is reviewed separately.

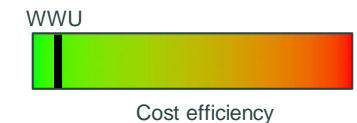
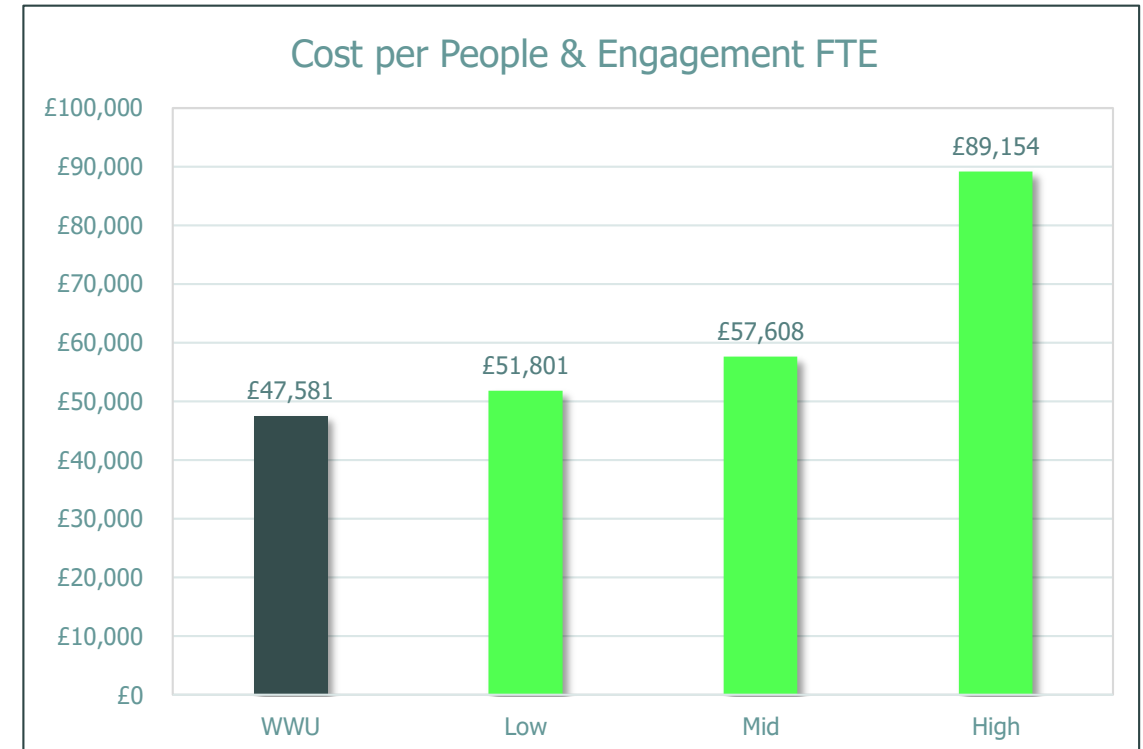
Driving innovation and efficiency





- WWU average spend per People & Engagement FTE falls below the 25<sup>th</sup> percentile. The gross fully burdened salaries for People & Engagement employees was calculated by dividing the salary & costs for People & Engagement employees by the number of employees that work in People & Engagement.
- This finding reflects staffing costs for Wales and the South West against the peer of organisations based in metropolitan location elsewhere.
- Reviewing the difference between burdened staffing costs for Wales and South West, against large metropolitan centres elsewhere in the UK, we typically see higher costs by a factor of 1.3 to 1.5, which would move WWU's £47,581 per capita to between £61,855 and £71,372. This would equate to just above average per capita cost in the market as a whole.

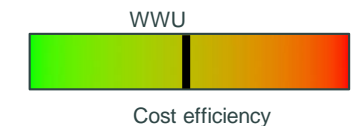
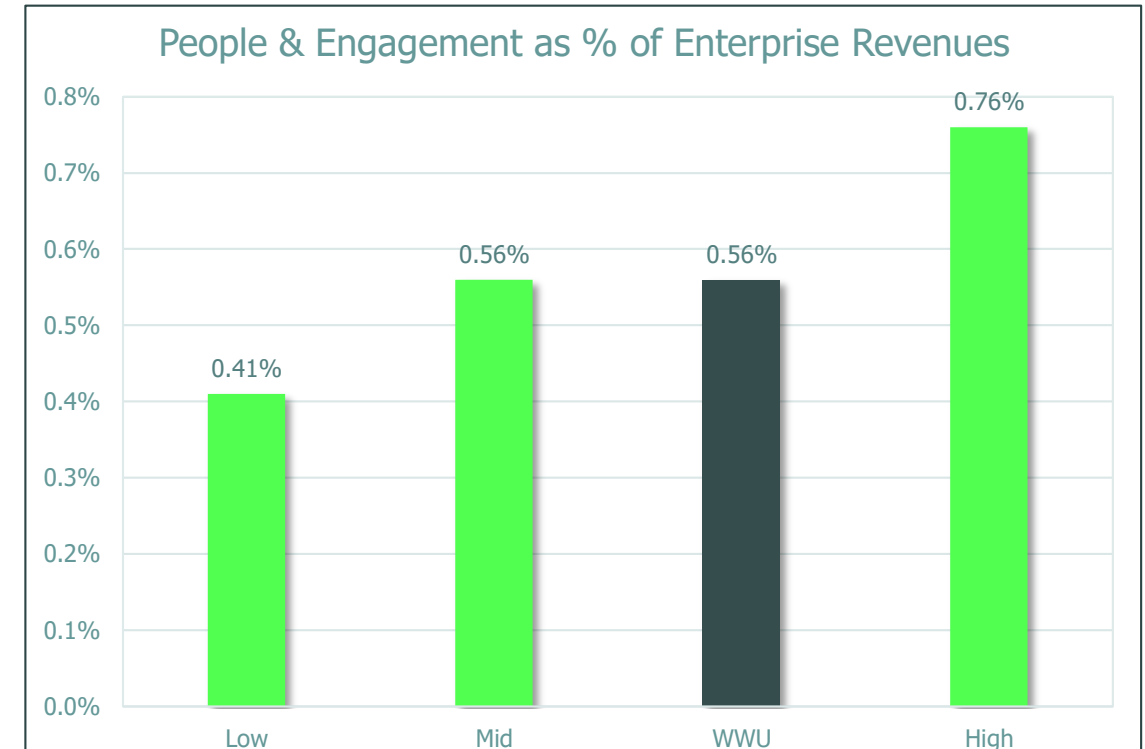
## Fair Returns and Financeability





- One key measure of value is the People & Engagement spend amount compared with the corporate revenues for the organisation as a whole.
- WWU spend of 0.56% is equal to the median of the peer group, which is comprised of HR & People organisations in comparative enterprises working in utilities and other regulated industries.
- A spend on People & Engagement of 0.56% of revenues represents a fair rate of expenditure for WWU.

## Fair Returns and Financeability

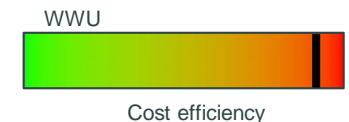


- By ensuring that training provided is of a high standard and applied to all employees (both permanent and contractors) WWU is committed to providing a high standard of service to its customers. Investing in training is crucial to WWU in avoiding potential skills gaps through retirements of an ageing workforce, WWU has many long-standing employees.
- Looking at the peer group, WWU's spend is almost double the average level, at around £850 per head.
- There are a number of senior, and therefore more expensive, staff within the training team. Having such senior employees leading training ensures that best practices can be shared with the entire organisation and that employees can implement a core approach with spend being in line with forecasts.
- Since the year of study, one of the high cost staff members has left the business and been backfilled by a lower cost member of staff, which has improved the per capita spend. Based on the organisational size of circa 2,000 staff, and a spend of circa £1.75m annually, against WWU operating costs of £271.8m, these costs are therefore justified.

Driving innovation and efficiency



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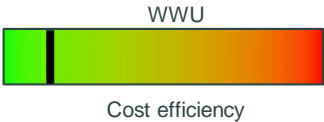


# Summary of Findings

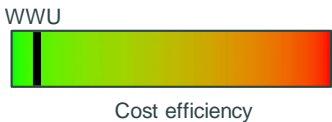


## Scale of each metric analysis:

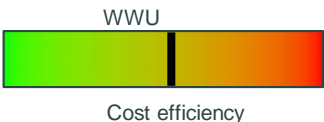
Sizing of People & Engagement Department vs. Enterprise



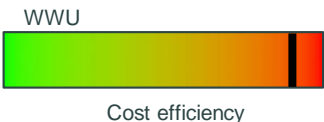
Average Cost per People & Engagement FTE



People & Engagement as a percentage of Revenues



Training Spend per Employee

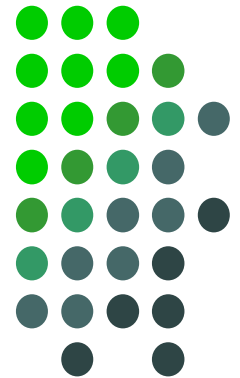






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## Future expectations for utilities providers





## Challenge

By 2050, the EU aims to cut greenhouse gas emissions **80%** below 1990 levels. To achieve this challenge, UK needs an approach focused on the decarbonisation of heat, transport and energy.

## Implications

- To achieve this ambitious target, the gas industry will need to identify new sources of gas to deliver greener, low-carbon gases into the network (i.e. hydrogen & biogases).
- This may also lead to growing demand for gas in transport, seeing an increase in the use of Natural Gas Vehicles using Compressed Natural Gas (CNG) and in the building of new infrastructure to support this.
- Electrification of heat and transport will lead to an increased load on the electricity network. The gas network will play a crucial role in helping to manage demand and reduce the cost implications of electrification.

## Impact for WWU

- As a provider, WWU must continue to focus on innovation and identifying green solutions to meeting the customers' needs. Innovation will continue to remain at the forefront of expectations across upcoming regulatory periods.

## Challenge

The entire gas network must evolve to effectively manage the different sources of gas being introduced to the network and the higher demand and *strain* on infrastructure.

## Implications

- There will be more significant fluctuations in gas stock 'swings'. This will require an adapted infrastructure to better manage the flux in demand. The infrastructure may need to be adapted to introduce greater storage capacity and to effectively implement compressors.
- As consumer demand change, the transport of gas will require the low-cost provision of simplified access to the gas network. This may also lead to requirement of new entry & exit points.

## Impact for WWU

- By continuing to focus on innovation & efficiency, WWU will be expected to avail itself of better asset management and maintenance. This will ensure the reliability and integrity of the network and will be essential to manage the increase in demand and the changing use of networks.

## Challenge

The entire gas network will be expected to adopt new innovative technology to address regulatory challenges, to control & reduce costs while maintaining asset integrity and to operate safely.

## Implications

- Adopting and implementing new technology will require significant investment from GDNs.
- Providers are already innovating by using Smart Metering to measure energy usage data to enable new services (i.e. new future billing methodologies and the provision of tools to optimise the gas networks operation performance).
- By further developing digital technologies, predictive maintenance can be further implemented to ensure assets operate more efficiently and safely.
- Use of UAVs, drones & autonomous vehicles can enable the survey of pipelines, the prediction of corrosion and the improvement of accessibility of asset records.

## Impact for WWU

- WWU will need to continue placing emphasis on driving innovation and efficiency. By further analysing customers' usage patterns and implementing digital technologies that provide insights into the networks functionality, WWU will be able to continue meeting customers' changing needs.

## Challenge

Providers will come to face increased volatility in the operation of the energy systems following decarbonisation, decentralisation and global markets changing sources and locations of where energy comes from.

## Implications

- As volatility increase, providers must respond swiftly to fully integrate a more effective energy system.
- Gas networks will come to act as an energy store that can respond quickly, flexibly and efficiently to peaks in consumer demand. This will require significant investment from GDNs to build on current infrastructure and fully integrate energy networks.

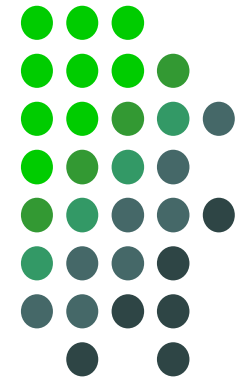
## Impact for WWU

- WWU will be expected to be more agile in responding to changing needs of customers and the changing nature of gas usage. This will be achievable through further upgrading the network, identifying innovative means of measuring usage and swiftly responding to the changed manner of usage.



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**Thank you for your time**



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