

## Regulatory Support

Driving efficiency into the utilities value chain

Regulatory Support



pwc

## Key questions from our clients

- Are my end customers receiving the committed service levels from the licensees?
- How effective is the capital project appraisal & procurement methods being used in the sector ?
- Are the capital project delivery practices of the licensees meeting their objectives ?
- Can I benchmark the asset management practices followed within the sector ?
- Are my licensees incurring optimal operational expenditure levels or can they be more efficient ?
- Can I get an independent advice or support on investigating incidents/ disputes in the sector ?
- How can I streamline reporting of financial and operational data from the licensee?
- What options do I have to re-engineer my licensee agreements and what are the impacts ?
- How confident am I if the licensees are complying with the technical codes/ standards ?
- How can my organisation better deliver the responsibilities of a utility sector regulator ?

### Examples of our recent experience:

**Regulator in the Middle East:** We provided institutional support during the set-up phase of the authority. This involved advising on institutional planning and organisation design, and identifying the role and the skills and staffing required to carry out those roles within the regulator.

**Regulator in the UK :** We undertook an assessment of each licensee's strategic business plans which included detailed review of historic operating cost and forecast operating costs to determine areas of efficiency.

**Licensee in the UK:** We were the advisors for each of the four price control reviews since privatisation and annual reporting of the regulatory accounts, accounting separation information of this licensee company.

## Our team

Our multidisciplinary Capital Projects & Infrastructure team (CP&I) in the Middle East includes engineers, management consultants, economists, finance/ accounting specialists, forensics/ legal experts and utility sector practitioners. We have extensive experience in advising leading power, water, wastewater, telecommunications and transport sector regulators in the region and elsewhere.



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**The expanding utility sectors in the Middle East is transforming through increased privatisation under rapidly evolving regulatory environment.**



Following the strong economic growth experienced over the past few decades, the Middle East region is witnessing a gap in supply of world-class services from the utility sector.

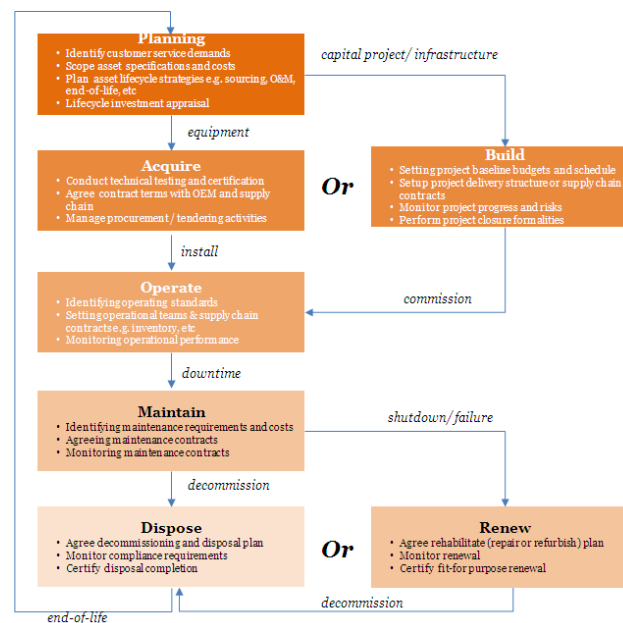
Awakening to the needs of the consumers, the sector across most countries in the region is undergoing a tremendous restructuring from age-old government backed monopolistic regimes to new models with extensive private sector participation. The utility value chain is also unbundling to provide for scalable and competitive market structure for the future.

This shift therefore requires a strong regulatory support and oversight function to lead this transition successfully. The role of the regulator is a broad one to include not just prescribing standards for the licensees to adopt but also ensuring that the standards are enabling a positive sustainable outcome in these organisations.

It is therefore not surprising that the following key operational priorities are fast emerging amongst various regulators within the region.

- **Strengthening roles:** As the sector transforms, the regulators are trying to assume responsibility by setting new technical standards, licensing procedures and practices followed by the sector across the infrastructure lifecycle from project appraisal and procurement to asset management.
- **Streamlining reporting:** Regulators are fast identifying ways to have access to relevant operational and financial data from the licensees and other entities in the sector to ensure accurate reporting and early detection of any possible variation to planned performance levels.
- **Optimising lifecycle costs:** Regulators are prescribing increasingly stringent efficiency measures by continuously reviewing the way money is being budgeted, approved and spent in the sector. These reviews support the existing price control framework.

Figure: PwC utility infrastructure lifecycle



**How can PwC help ?**

PwC have developed a comprehensive service offering in the area of regulatory assurance focussed on the utility sector based on the issues we hear from our clients and our capabilities in delivering a relevant and sustainable outcome

Our typical mandates include:

**Strategy, framework and guidelines:**

- Develop regulator vision, strategy & operating model
- Review price control framework & tariff structure
- Design regulatory accounting process and guidelines
- Re-engineer asset lifecycle processes for the sector
- Develop and test alternative energy strategies

**Value, testing and benchmarking:**

- Review and forecast consumer demand
- Measure baseline costs and performance of sector
- Verify adoption of VfM principles by licensees
- Test new policies, guidelines and codes for the sector
- Review of regulatory returns or plans from licensees

**Opportunities to optimise costs:**

- Selection of contracting strategy
- Capex requirements review and efficiency studies
- Historical Opex and forecast review of licensees
- Due-diligence and negotiation with licensees
- Price control or regulatory compliance audits

**Implementing changes:**

- Identify and manage risks, issues and stakeholders
- Advise on PPP/PFI procurement process practices
- Ensure effective engagement with the sector
- Support communication program for consumers
- Monitor organisation transformation support