UTILITIES

Although the utilities sector is often seen as conservative in its approach to outsourcing, **Andrew Cooper** reports on an industry on the verge of a significant cultural shift.

Energising outsourcing

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In the past utilities has traditionally have been among the most conservative of industries when it comes to outsourcing so it has been no surprise that the market for large outsourcing deals has remained largely underdeveloped over recent years. However, what has started as a slowly developing trend (to outsource) looks like increasing significantly as 2012 begins.

In the past, many companies aiming for operational efficiencies have preferred a shared services model but this is changing, as companies face up to improving current operational performance while leveraging information technologies for the new needs of their business units. More crucially, as unprecedented pressure to drive down costs intensifies, many utilities are now realising that they can no longer afford to ignore outsourcing.

Demand for IT solutions and state-of-the-art services is on the rise as well, as a host of service providers worldwide offer a complete suite of solutions. With solid technology investment occurring in the sector, there also is an acute need for infrastructure, data support and maintenance support.

A small but significant number of IT outsourcing contracts have been awarded in recent months and it's widely predicted that the number will steadily increase over the next year and beyond.

The common consensus is that utility firms are being driven to outsourcing by the need for new infrastructure investments, on-going industry consolidation, and increasing interest in smart energy initiatives.

Unspoilt for choice
According to analysts Ovum organisations are recognising they have no choice but to consider the service delivery model because of the potential cost savings. The firm forecast that the recent rise in the number of IT outsourcing contracts awarded by utilities in Europe and North America is set to grow steadily over the next 12 months, with infrastructure and application projects, plus back-office activities, most likely to be also outsourced over the coming months and years.

Stuart Ravens, Principal Analyst at Ovum believes that the utilities sector has little choice to break away from its "particularly conservative" approach to outsourcing:

"We have already seen a weakening of this conservatism, with a small but significant number of IT outsourcing contracts awarded in recent months… which are being driven down this path by a number of market forces, including the need for new infrastructure investments, ongoing industry consolidation, and increasing interest in smart energy initiatives."

Partners says there is more activity in the utilities sector due to heavy regulations which put utility firms under pressure and they need to show they are going some way to be seen to be cutting costs. Energy prices are rising and regulators want to know that companies are doing everything they can to lower their costs.

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>
> **Robert Morgan, director at sourcing broker Burntoak**

Earlier this year, analyst firm Forrester Research also predicted that the value of global IT spending would exceed £1 trillion during 2011.

The urgent need to incorporate "smart grid" technologies and the rising pressure to go green are other issues faced by a wide range of energy companies. These issues have directly impacted the level of outsourcing in this area as service providers are targeting these companies with industry-specific business process outsourcing solutions and time-tested horizontal services like human resources, training and procurement support.

Smart moves
Key examples of outsourcing contracts being won include the recent deal signed by E.ON with two suppliers worth £897m over five years to provide datacentre and desktop services to over 80,000 workers. Centrica also signed an £8m deal to take advantage of onshore and offshore software testing skills with Software Quality Systems to test business critical systems such as those being used in their smart metering programme. Finally, EDF's £99m contract with Capgemini in March of this year to provide service desk, procurement and managed desktop services to 15,000 IT users was another significant move towards outsourcing being the norm in utilities.

Centrica also announced a data centre outsourcing deal with Hewlett Packard that will include a "private cloud and utility-based computing environment". The contract runs seven years and is valued at $400m. The new deal is part of a change programme at Centrica intended to lower costs, make it more reactive to market changes and lower its carbon footprint.

The possibility of future consolidation in the utilities sector may result in further outsourcing deals, so the market for the short term for outsourcing remains extremely positive.

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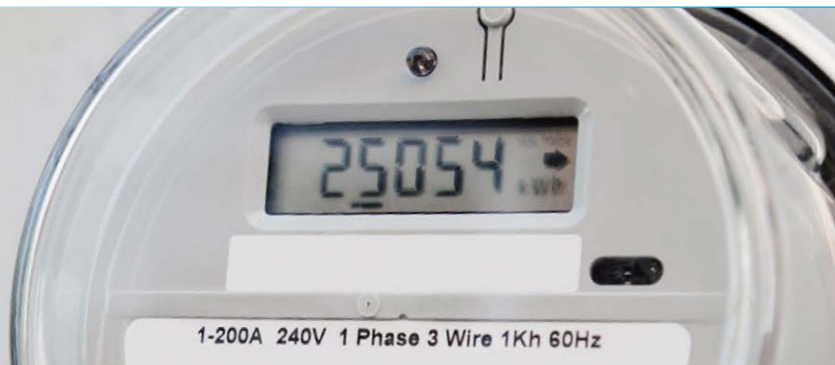
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FOCUS ON: THE SMART METER EXPLOSION

Rahoul Bhansali, Head of Government & Utilities at ICT consultancy Hudson & Yorke discusses how the roll out of the smart grid in the UK will impact the outsourcing industry, and why utilities companies need to start considering their future operating model.

"The smart grid and smart meters have become a fundamental part of the UK Government's long-term environmental strategy, forming part of the Low Carbon Transition Plan which has the overarching aim to cut emissions by 80% for the 2050 reduction target. The UK's coalition government has confirmed its joint commitment to both the establishment of a smart grid and the roll-out of smart meters, having declared that they wish to see the completion of the GB-wide mass roll-out of smart meters by 2019.

The Government will award a licence for a central body to procure and manage the £3bn worth of data and communications services needed to support the operation of smart meters in 30m UK households. In advance of this central body being established, the UK Government has commenced the procurement of the data and communications services with a view to handing over the contracts.

The commitment of the UK government to pave the way for the building of the smart grid signals a call for change in the way that utilities have traditionally viewed telecommunications. The roll out of the smart grid will require utilities to manage an unprecedented number of machine-to-machine transactions resulting in a significant increase in the complexity and volume of data. There will also be a need for real-time information, to enable utility companies to manage the entire electrical grid as a single integrated system, actively sensing and responding to changes in power demand, supply, costs, and emissions from rooftop solar panels on homes to remote, unmanned wind farms, energy-intensive factories and other energy sources.

> "Utilities companies have typically been insourcers and would rather build and manage their own networks – the Smart grid is forcing them to think in a different, unified way

Utilities companies have typically been insourcers and would rather build and manage their own networks – the smart grid is forcing them to think in a different, unified way.

The smart grid will require utilities to integrate and align their operational (OT) and information technology (IT) functions, which have previously managed in silos. It is not a simple case of 'plug and play'; utilities will need to begin considering their future operating model to ensure they are ready to effectively implement and manage the smart grid, to truly benefit from all it is promised to offer.

To allow for a successful and effective Smart grid rollout, utilities will need to consider their future operating model. A single, fit-for-purpose technology operating model is required for successful implementation and management of the Smart Grid. However, it is much more fundamental than simply sourcing the right technology service provider.

While there is no quick fix, utilities should consider partnering with best-of-breed IT and telecoms suppliers to shape the technical and operational makeup of the future smart grid. There is also the opportunity for utilities to benefit from substantial cost savings by consolidating and stream-lining the technology function. Utilities companies who choose to ignore these opportunities, run the risk of losing out and become 'price-takers' fighting for margins in a new market ruled by their more proactive competitors.