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The resources required and approach to implementing the new market

Hopefully it will be clear from all that we have discussed that any temptation to think of the retail market as a single project could end badly. Implementing the framework successfully is a series of linked and overlapping tasks that must all be completed for the right outcome to be achieved. As a quick example, setting wholesale charges in Scotland required work on retail/wholesale activity separation, cost allocation between the wholesale and retail businesses, revenue caps for the wholesale business, business plan guidance for the retail subsidiary. That was before we actually got down to the work of creating the necessary tariff baskets and the tariffs themselves.

Because of the complex nature of the project it is vital that any implementation team, be that a team based in a either a company or the regulator, have the breadth of skills and flexibility necessary to achieve the desired outcome. I'm going to talk about what we see as the main issues to be tackled with any implementation team, but focussed on the team we used at the Commission:

Attributes:

Expertise is vital but practicality is key – this is not a theoretical exercise. Team members therefore need to be able to draft, negotiate, organise and plan their own work. Ideas will be needed but they must then be implemented – separating one from the other is likely to lead to poor outputs.

The team members must be senior enough to make decisions as they go along and flexible enough to change tack – there was almost constant negotiation with Scottish Water and Business Stream and the project would have ground to a halt if each decision had to be escalated first. The key is not the quantity of resource available but the quality of the resource and ensuring that the resource is appropriately empowered.

The project would also never have worked with a 'command and control' structure – it had to be a collaborative process. It was also true collaboration i.e. not just arranging meetings and reading papers etc. but genuinely understanding the positions of Scottish Water, Business Stream and potential new entrants and working jointly to try to find solutions that could actually be implemented given the time and resources constraints etc.

Close proximity helped. I am not sure we would have completed the project if the team had been divided over different locations – quick access to the other members of the team was important, particularly if things started to go wrong!

Scale:

We found the adage, 'small is beautiful' to be apt for the Commission's team. Over the 5 years of the retail market project there was a maximum of 9 people working full-time on implementation; even then no more than 7 were ever working together at the same time – even when we were at the point where the price review process and the introduction of the retail competition framework were most linked.

The advantage of a small team is linked to what I mentioned earlier regarding the overlapping nature of the individual workstreams. If your team is too large then it is difficult to ensure that everyone is aware of progress on other workstreams that may impact on theirs. Example of the Charges Scheme and the CMA Systems being run by different people but the first dictating the speed of work on the second.

Given the length of the project, a smaller team also means that the loss of any one (or two!) individuals is not disastrous – if others are aware and contributing to the work then taking it over is not such a stretch. As an example, Jeremy Atkinson left the Commission to join the CMA with a year to go but the work continued.

Outside help:

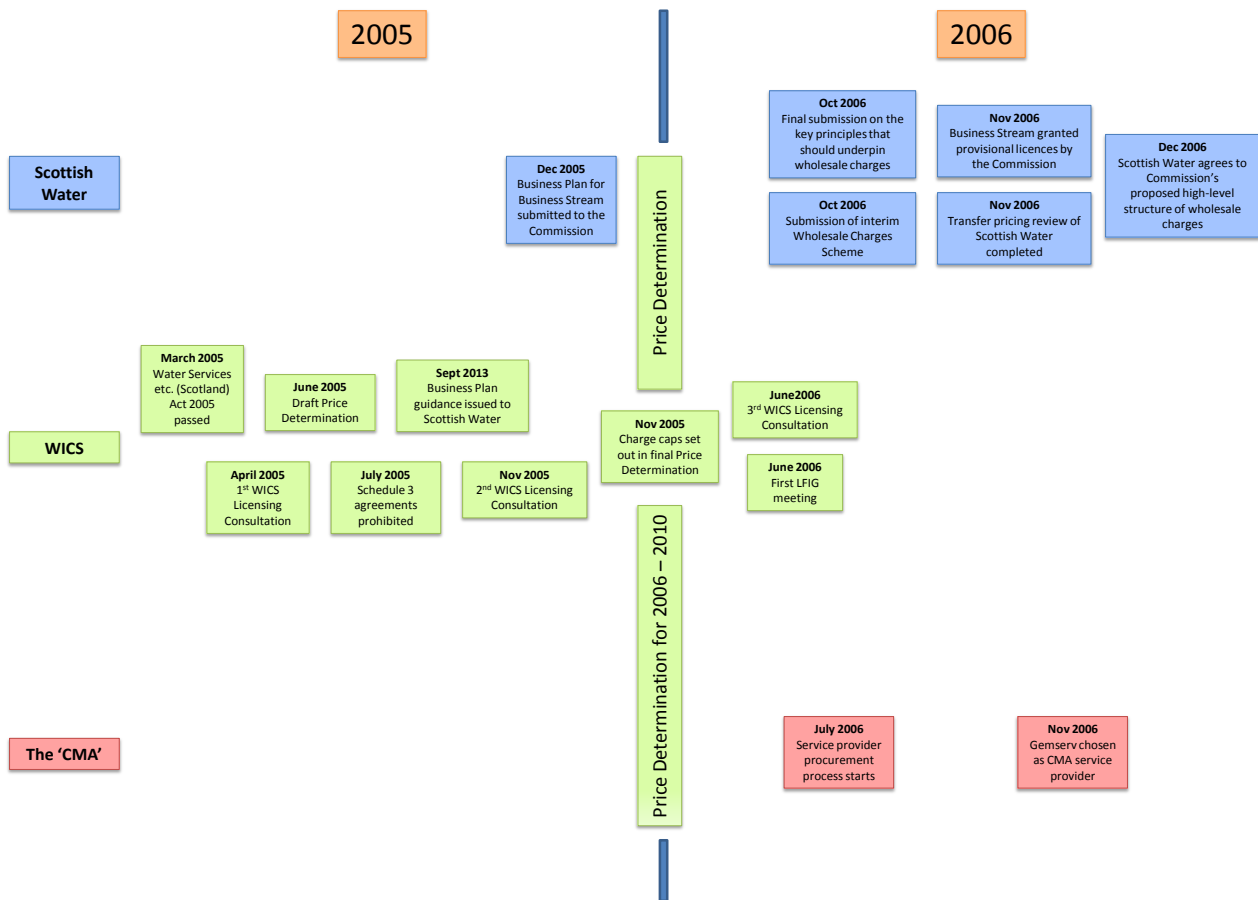
This is probably the most difficult aspect to manage. During the project we had input from economic consultants (Frontier and LECG), engineering consultants (SMC), accountants (E&Y), lawyers (S+W and Tom Sharpe QC) and IT consultants (Gemserv).

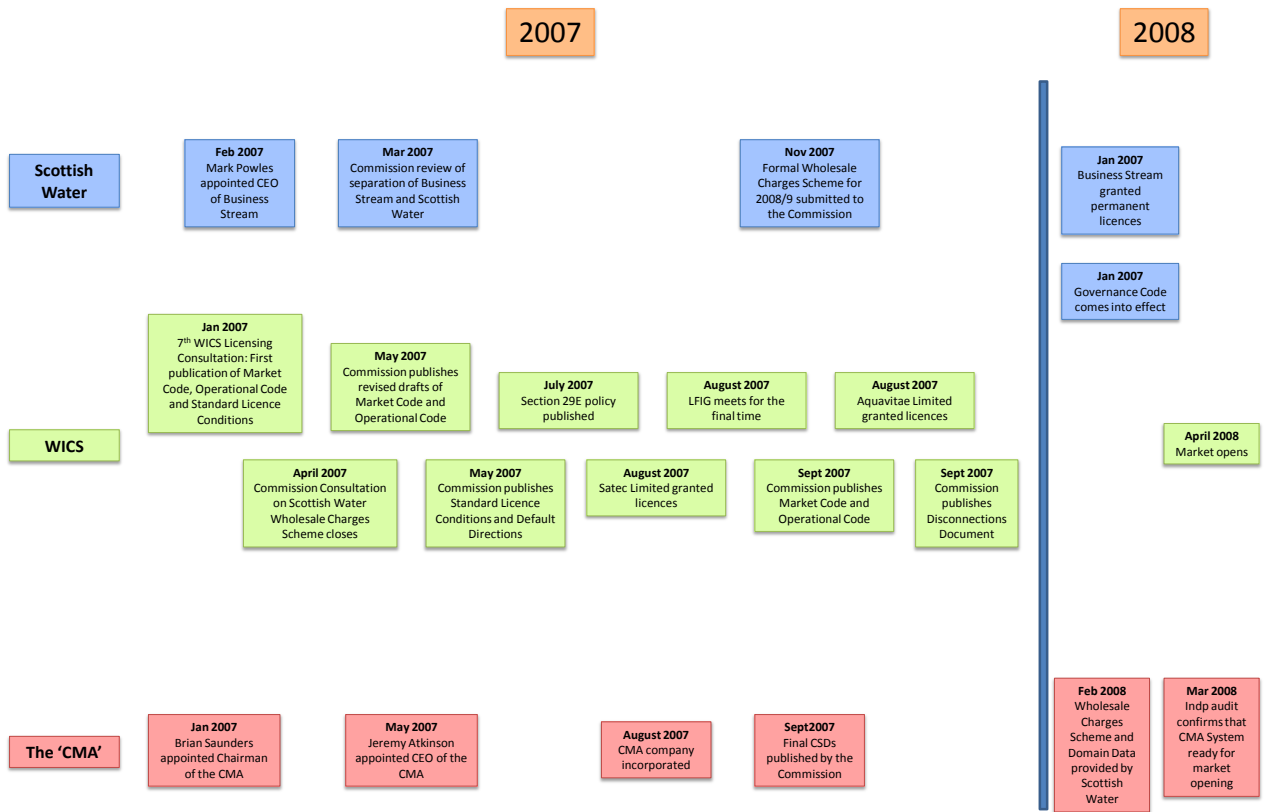
We had to use outside resources due to the size of our office but even with more people on the inside, we would likely still have used just as many outside resources. Consultants provided us with objective views of our own work and that of Business Stream and Scottish Water. They also provided more hands when required – we benefitted from a close relationship with Shepherd and Wedderburn (having worked with them previously for five years) and were able to give them a leading role in thinking about the market framework documentation. Likewise, Gemserv managed the creation of the CMA Central System- an area that was always going to be outside of our comfort zone.

Managing our external consultants was the most effective way too of controlling our costs. They were, by far, the most costly part of the project, particularly the IT. We also took time and care over our tendering documentation; it was vital that we had confidence in both the intellectual and delivery capabilities of our consultants, rather than just the knowledge that they were the cheapest we could get.

The critical path:

As a final thought every party involved in the Scottish project had to identify the critical path to their aspect of implementation – in Scotland, the two most important actions for WICS was the setting of a wholesale charge cap in the Commission's 2005 Determination and approving the design of wholesale charges. For Business Stream it was meeting the Commission's tests to obtain permanent licences, for the CMA it was a functioning Central System ready to calculate wholesale charges and switch customers. Once that critical path was identified it was a matter of planning and leaving ourselves enough time to achieve the necessary outcome.





Total number of documents circa. 360