

The Utility CIO and Uncertainty

The impact of uncertainty on the utility CIO's agenda

November 2017

In a time of economic, regulatory and political uncertainty, the power and utilities industry is finding ways to apply innovation and digital strategy to reduce operating costs and meet escalating consumer and employee expectations for a superior digital experience.



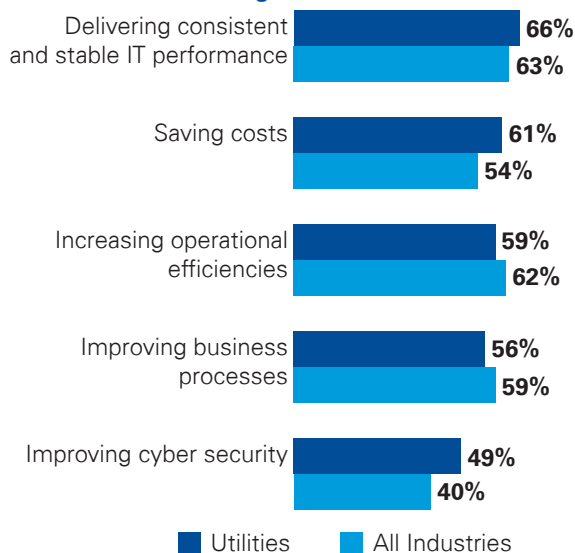
In this edition of KPMG Global Energy Institute's Plugged In, we asked Paul Fritz about the recent 2017 Harvey Nash CIO survey results and what they indicate about the utility CIO's agenda.

With slow load growth, mild weather, low natural gas prices, and political, economic and regulatory uncertainty, what are the top priorities for utility leadership? How does it align with CIO priorities?

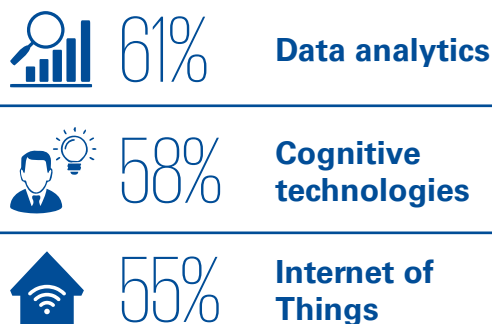
The CIO survey asked CIOs what they believed their management board's top issues were. Three of the top five issues were related to cost savings, with 61 percent of CIOs indicating cost savings itself as a priority, 7 percent higher than cross-industry responses. It seems utility CIOs believe that cost savings, improving business processes and operational efficiency, all of which drive lower operating cost, are three of the top five business issues. Rounding out the top five were delivering consistent IT performance and cyber security. Interestingly, KPMG's U.S. CEO Outlook survey indicated a bullish outlook by CEOs, with 60 percent of those surveyed indicating they see disruption as an opportunity. Correspondingly, these CEOs are expecting their top three technology investments to be in data & analytics, cognitive technologies, and the Internet of Things. Of the CEOs' concerns for the future, they worried that their organizations were not leveraging digital to connect with their customers effectively, and that they lacked sensory capabilities and innovation processes to react to disruptive forces. Comparing these two perspectives would suggest that cost savings and continuous improvement is certainly an imperative in a tough economy, but perhaps embracing innovation and leveraging digital strategies should be higher on the CIO's agenda. In fact, leveraging innovation in cognitive technologies like robotic process automation (RPA), and gaining insights through data and analytics may go a long way to solving the cost savings and operational efficiencies challenges. The CIO survey also suggested that in times of uncertainty, utility CIOs tend to restrict investment in innovation, exceeding the cross-industry

response by 8 percent. Comparing the CEO survey to the KPMG Harvey Nash survey results may suggest that the CIOs' perspective of what is the top priority with management boards may not be aligned. *This creates an opportunity for utility CIOs to validate expectations with their management board, and potentially revise their agenda to raise the priority on innovation, digital strategy and disruptive technologies to solve operating issues while creating new capabilities.*

CIOs Indication of Management Priorities



CEO's Area of Greatest Investment (next 3 years)



In this challenging economic climate, what are utilities doing to maintain or increase their earnings per share (EPS), and what role is technology playing in that effort?

The limited opportunity for utilities to increase revenues ensures cost savings as a priority in delivering the ability to maintain or increase EPS. The high rate of survey respondents indicating cost savings as a top-five priority for management is not surprising and is consistent with what we have been finding in the industry. The challenge is driving sustainable cost savings while balancing the need to maintain consistent and highly reliable delivery of IT services, ensure defenses against ever-increasing cyber threats, and leverage new disruptive technologies to achieve a superior digital customer and employee experience and improved operational excellence.

We are seeing an emerging technique employed to reduce IT costs: RPA. These capabilities are production viable and allow CIOs to automate manual processes and free up capacity or reduce staff. Other techniques include strategic sourcing of functions in both operations and application maintenance to help reduce labor costs as well as software asset management (SAM) and application rationalization and consolidation as a key to lowering software licensing costs. Another emerging opportunity may come on the accounting front. The FASB Emerging Issues Task Force (ETIF) reached a tentative conclusion in October 2017 that software licensing and cloud computing agreements (CCAs) are economically similar and should be accounted for consistently. If the ETIFs' conclusions are finalized as consensus, it would result in companies capitalizing significant implementation costs that here to date are expensed as incurred under current U.S. GAAP accounting rules. This shift in accounting treatment, recognizing these expenses over time, could have a significant impact on how IT shops strategize and execute their plans to lowering operating costs.

What insights do the 2017 CIO survey results and the 2017 CEO Outlook survey suggest for the utility CIO's agenda?

When looking at the results from both of these surveys, a picture emerges: reducing costs, saving-to-invest, and increasing operational efficiency are top themes for CIOs and for utilities leadership as a whole. We also see that CEOs may be more bullish than CIOs realize on innovation and their willingness to embrace disruption and disruptive technologies. There seems to remain a gap in alignment with IT and the business (as compared to other industries)

CIOs are already challenged with the difficult balance of embracing digital strategies, becoming agile and innovating, while having to restrict budgets and ensure that IT continues to deliver with consistency, quality and reliability.

Perhaps the approach to consider could include leveraging advanced enterprise-wide service management practices and tools to better enable consistent and cost-effective quality-of-service delivery.

The opportunity to reinvest in innovation to solve challenging operational efficiency and cost take-out issues could also be embraced. Innovation doesn't need to be focused only on leading, or bleeding, edge technology ideas. Rather, it can be about fostering a culture where it's "ok" to fail, but fail small and fail fast, and where those who take risks are rewarded and healthy competition is encouraged to find better ways to operate, manage and remove costs. This certainly should include consideration of cognitive technology like RPA, insights from data & analytics, virtual reality and the advantages of cloud. CIOs will need to strive to exceed savings targets to enable reinvestment in the tools and capabilities to drive future operational excellence.

The survey clearly demonstrated that utilities are managing in a time of uncertainty. Uncertainty requires an organization to be agile and quickly change direction to meet fluid business needs. Perhaps the CIO should consider creating a new engagement model and demand management paradigm with the business. Numerous utilities across the industry are rethinking their target operating model (TOMs) and transforming from a model of "Design, Build, Run" to a "Broker, Integrator, Orchestrator" strategy. With technology advancement and customer expectations rising at an unprecedented rate of speed, it is hard to keep up if everything is built and customized internally. Building skills and capabilities to assemble and integrate third-party technologies into high-impact solutions should better equip the IT organization to deliver the agility needed to navigate uncertainty while staying close to technology trends, lowering costs, and turning disruptive technologies into opportunities.

The utility industry is facing transformation, disruption and uncertainty. There will be winners and losers. History would suggest that those who are adaptable, able to transform, and can embrace disruptive change will be the winners while those who remain focused on traditional ways of turning the screws tighter on current operations will be consumed. The most significant take-away from the CIO survey is actually a question. How well does your current IT strategy enable the business to navigate uncertainty?

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