

## CAPGEMINI ENERGY

### World Energy interviews Mark Fronmuller Capgemini Energy program management officer



*"The fast pace of the 1990s is over," says Mark Fronmuller. In the wake of deregulation, the utility industry has had to reexamine its business processes. A new focus on operational excellence is a first step in a new direction. With reorganization, however, comes some difficult management decisions. Fronmuller, program management officer for Capgemini Energy, discusses how the industry is adjusting and forecasts some trends for 2005.*

*World Energy: Deregulation has certainly had a hand in the way utility companies now manage their balance sheets.*

*Fronmuller: The change has been, in a word, unprecedented. The last two years have seen investor-owned utilities [IOUs] respond to lower industrial demand, relatively mild weather conditions and the hue and cry of investors eager to return to the days of steady dividend increases. Responding to these conditions, management agrees that it is time to return to the basics, which means that growth at any cost is out and operational excellence is in.*

*For instance, how will utilities adjust their fixed costs to wildly fluctuating market conditions? In a no- or low-growth environment, how will they continue to gain traction with investors, especially after their near-death experiences of 2001 and 2002? How will they readjust their employment models to come to grips with indecision and uncertainty over electric deregulation?*

*World Energy: Sounds like the utilities have some belt-tightening to do.*

*Fronmuller: Well, to their credit, utility management made the hard decisions over the last two years to trim their asset base and attempt to refocus on their core business. Investor-owned utilities like AEP [American Electric Power] and TXU divested generating and other assets in the United Kingdom. TXU divested in Australia and even in its home state of Texas. AES sold facilities in Africa, the Middle East, Asia, Europe and the United States. On the operational excellence front, CEOs at Entergy, Exelon, TXU, XCel and Southern Company – to name but a few – asked their management teams to extract savings from their operations while improving efficiency and excellence. Nearly all the IOUs rededicated their staffs to improving their customer service operations, both for the customers and investors.*

*And nearly all have focused on finding new cash flows that can return some semblance of their former luster as solid, steady investments. They're looking internally for cost savings they can use to reinvest in their existing generating assets. They are turning again to achieving long-term earnings per share growth. They are promising dividend increases – and delivering them – through a renewed focus on operational excellence. Combined, in 2004 these management moves were high-profile statements acknowledging one core truth: The fast pace of the 1990s is over and retrenchments are needed.*

*World Energy: So is it a "nowhere to go but up" situation?*

*Fronmuller: Make no mistake, great progress has been made. Most utilities have improved their balance sheets. One key indicator, the Dow Jones Utility Index, recently surpassed levels not seen since 2002. Looking forward to 2005, investors seem to like what they see. The index is poised to continue its uptrend – that is, if the balance sheet improvements begun in 2003 continue in 2005. Put another way, despite the success, there is more to do. And the next wave of these improvements may be more difficult because they involve a fundamental shift in the way utilities do business.*





*Indeed, few would assert that utilities were among the first industries to optimize their technologies for business process services, especially when you compare the utility industry to the financial services, retail and manufacturing sectors. The competitive threats of 1990s deregulation forced the utility industry to take steps more consistent with other industries. Because utilities now seem more intent on leveraging technology processes to shave costs – even without the deregulation driver – there may be another significant impact in 2005.*

*World Energy: What impact is that?*

*Fronmuller: Using the other industries as a guide, the utility industry in 2005 may begin to realize their technology-driven productivity gains and find that fewer employees are needed to manage formerly inefficient work processes. Companies in other industries reduced their headcounts in large-scale announcements, particularly with the strains of the 2001-2002 recession. Of course, some headcount reductions did occur in the utility industry in 2002. Those reductions grabbed headlines because they were caught in the merchant generators' meltdown and the demise of deregulation in markets like California.*

*But it's entirely possible that the headcounts at those companies were probably already inflated, since utilities had geared up to capitalize on deregulation. Besides, the relative numbers of those 2002 reductions in the utility industry paled in comparison to other industries.*

*World Energy: In other words, downsizing seems an inevitability.*

*Fronmuller: The question for 2005 is whether the downsizing of the utility industry in 2002 adequately addressed the utilities' changing market conditions, including the inherent and significant productivity gains from technology. While downsizing always has a negative connotation, there is no promise of deregulation's competitive markets to forgo further headcount reductions. Once they get technology advancements into gear and automate many manual processes, more reductions may be in store. Given the push by CEOs to*

*wring more from their operations, especially in the areas of customer service, billing and supply chain, it appears as though more workforce reductions are likely in 2005.*

*Because utilities were late to the game in their technology investments, deregulation didn't push those investments on them until the late '90s. So there will be plenty of productivity gains still available to utilities in 2005. As a result, utilities might find themselves needing to explain why they are laying off people during an economic recovery.*

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