



**CAP GEMINI
ERNST & YOUNG**



CGE&Y: THE FINANCIAL VIABILITY OF UTILITIES

World Energy interviews Colette Lewiner, Global Leader, Energy, Utilities & Chemicals, Cap Gemini Ernst & Young.

Based in Paris, Colette Lewiner is a PhD in physics from Ecole Normale Supérieure in Paris, and previously served as an EVP of development and commercial strategy for Electricite de France for 13 years. She was also a member of the board of COGEMA Group while serving as the CEO of Eurisys, an engineering and industrial services firm with 9,000 employees, for six years before joining Cap Gemini in 1998.

World Energy: The third edition of the Utilities Project from Montgomery Research, titled "Leadership in a Shifting Market," notes that for utilities worldwide, "The old way of doing business is gone and unlikely to return. From now on, leaders in this industry must be masters of risk management and cost control." Do you agree that these are the two key issues facing the industry?

Lewiner: Of course, financial viability has always been essential for any on-going enterprise in a free market. More specifically, there is also a strong need to control the risks related to the utilities' positions on the wholesale and exchanges markets as gas and especially electricity prices are very volatile since electricity cannot be stored.

Considering that a healthy power industry is a key building block for all developed countries, any threat to its viability is indeed serious.

World Energy: That's a chilling thought. Is this cause for alarm?

Lewiner: For certain utilities, regions, even countries, alarm is probably warranted. Consider Italy. Just as in California a few years back, Italy has a shortage of generation capacity. And, like the northeastern U.S. and Canada, its transmission system faces various problems. Those are recipes for power failures, as we've seen.

World Energy: Do you anticipate more blackouts worldwide?

Lewiner: Service interruptions are not always predictable, but we understand the conditions in which they're most likely to occur. As we discussed, areas with insufficient generating or transmission capacity, or both, are at greatest risk.

World Energy: Since the industry still faces a very transitional stage regarding deregulation, how does this situation relate to the list of key issues for utilities?

Lewiner: For the value chain parts of the business that will remain regulated as transmission and distribution, the regulators need to adapt their cost reduction rules in order to allow for the needed investment to happen. The competing parts of the business generation, wholesale and retail, must do their best to operate as cost-efficiently as possible. Some will do better than others.

World Energy: That brings us to the issue of being competitive, which seems these days to require the efforts of consultants. Why is that?

Lewiner: I wouldn't say that outside consulting is an essential for success in every case. But for utilities, consultants can frequently offer an advantage in two basic resources: experience and expertise. A consulting firm that has already faced and solved some issue for one utility, or agency, will likely be a step ahead on solving a similar problem somewhere else.





World Energy: In CGE&Y's worldwide utilities practice, where do you find the most need for your services: power generators, transmission companies, or perhaps with governments and regulating authorities?

Lewiner: We provide consulting and IT services to more than 70 percent of the top 50 global utilities, whether they are private or public. We work with all the business units, and more specifically on the customer relationship questions. As with the market new rules, these companies have to adapt their marketing strategies, change their internal culture to become more client focused and build new systems. We also help the new transmission and distribution companies to establish themselves.

World Energy: Could you give me an example?

Lewiner: As the global utilities industry deregulates, there will be many major undertakings worldwide. That's where our extensive resources can make a difference. Here's an example. Italy's Snam Rete Gas (SRG) is the country's largest pipeline operator, with 90 percent of all gas volumes. The Italian Ministry of Industry ordered SRG to design and publish access conditions and tariffs to allow third parties to transport gas through its pipelines. SRG chose Cap Gemini Ernst & Young as business advisors to the wide-ranging business issues that it faced.

The insight and experience we've gained through working with various market participants and regulators around the world were important factors in SRG's decision. One of the key tenets of CGE&Y's proposition on market restructuring of the utility sector is that the solution should be tailored to meet the requirements of the specific market and geography. For Italy, this included helping SRG develop a model to support transportation tariffs based on an "entry/exit" model. We also helped structure SRG's services and its position in relation to the regulator. Our deep insight into deregulating energy markets allowed SRG to develop a coherent position in discussions with the regulator on key business issues, with recommendations on how these issues should be addressed.

World Energy: How do you assign resources to a specific task?

Lewiner: Our company, comprised of 50,000 employees last year, is structured by geographic business units, focusing on five global industry sectors and practicing three distinct

disciplines. For the SRG project, our Consulting Services took the lead. But we deploy also Technology Services and Outsourcing Services disciplines, if a client should need those. Of course, the Energy, Utilities & Chemical Sector was the appropriate choice for SRG, through our European business units.

World Energy: Let's turn to North America for a moment. We've been hearing from various quarters that the U.S. power system needs new national legislation to be truly healthy. Are any fixes possible at the regional or local levels?

Lewiner: Absolutely. We've been involved in the formation of GridAmerica LLC, an independent transmission company (ITC) developed to assist Ameren, FirstEnergy, NIPSCO and potential future companies as they function within the Midwest ISO. By the end of 2003, it will be providing transmission scheduling, short- and long-term transmission planning studies, outage coordination and various consulting functions. We believe this ITC is well-equipped and structured to face and overcome the challenges involved in maintaining energy continuity to its service area.

In a November 2003 Platts/CGE&Y survey of 175 utility executives in North America, 41 percent said federal governments should be the primary catalyst to encourage open and competitive power markets, while another 37 percent felt regional organizations were better suited to provide this leadership, so the jury is still out.

World Energy: Are you optimistic about the state of the global power industry for the next 10 years?

Lewiner: Yes, I believe the utilities sector has a vast resource of smart, enterprising and hard-working people who are committed to getting the job done. There will be bumps in the road, but the industry will continue to grow and prosper in its role of underpinning our modern way of life. At CGE&Y, we certainly plan to do our part.

Further information about Cap Gemini Ernst & Young can be obtained from:

**John Patterson, Americas Public Relations
Cap Gemini Ernst & Young
5 Times Square, New York, NY 10036
917-934-8735
www.us.cgey.com/energy**