



ELEXON firms up relationships with transparency and trust

ABOUT ELEXON

ELEXON is at the heart of the UK's electricity supply and distribution industry.

They administer the Balancing and Settlement Code, which governs the wholesale electricity balancing and settlement arrangements for the UK. This touches some 27 million customers and every company in the electricity energy market.

Like most commodities, electricity is produced, sold into a wholesale market and then resold to consumers. Contracts are made for each half hour between generators who produce the electricity and suppliers who sell it on to commercial and domestic consumers. These contracts are reported into central systems. Any difference between the amount of electricity contracted for and delivered by generators, or sold by suppliers, must be settled through the systems managed by ELEXON. It's their job to make sure debts and credits are cleared each day.

WHAT ELEXON NEEDED

In 1999, Logica won a contract to design, build and operate the central services supporting the New Electricity Trading Arrangements (NETA) in England and Wales. As part of the deal we funded the £50 million needed to set up the new systems, on the understanding that we would get the money back during the life of the contract. The systems went live in 2001 and were so successful that these were extended to cover the whole of Britain four years later.

In 2007, ELEXON saw a natural split in business process systems hosting and operations, and applications management and development. They decided, therefore, to draw up two new contracts, one for each area.

"Setting up the original systems had been a massive undertaking," says Peter Davies, ELEXON's Head of Service Delivery, "but while the systems had proved to be robust in a very demanding, real-time environment, we

were increasingly looking for changes in the relationship between us and our service providers. The market has become far more dynamic and making changes to underlying systems had become too time consuming and costly."

ELEXON revisited their relationships with suppliers. Until then, these focused on suppliers having to deliver to the terms of a contract, backed-up by some very demanding SLAs. "Looking ahead," says Hayley Weir, Head of

Commercial and Procurement, ELEXON "we concluded it would be impossible for us to meet our customers' needs for continuous improvement without changing the nature of our relationship with our service provider. The original contract gave rise to a supplier silo mentality focused purely on defined transactions. Moving forward we needed a more partnering culture, founded on the premise of working together to deliver greater value."

OUR ANSWER

In 2007, ELEXON sent out a competitive tender for hosting and operations. While our work with them had proven our technical know-how, we explained to ELEXON that we were keen to get closer to them and to work with them more as part of the team than as a supplier.

In 2008, we were awarded a five-year contract worth £39 million for the business process

outsourcing, hosting and communications aspects of the British Electricity Balancing and Settlement Systems. Business processing areas include financial funds administration of £1 billion per year, and reading over 2,000 meters that measure specific energy flows across the national grid.

To help move into the new contract smoothly, Logica ran a transformation programme

for ELEXON. Its objective was to create the IT infrastructure that would help ELEXON cater to changing customer needs in the future. A new Multiprotocol Label Switching (MPLS) network, giving greater flexibility and bandwidth at lower cost, has replaced around 100 Frame Relay circuits for ELEXON's customers. Moving the hosting service to Logica's Tier 4 data centre and disaster recovery centre has boosted

business resilience and flexibility. Oracle 9i applications have been upgraded to Oracle 10g. We have modelled and documented all business processes making it easier to improve things in the future. Twelve months later, the new programme went live, with services moved on time and within budget.

“Transparency is a fantastic way of building trust.”

Peter Davies,
Head of Service Delivery, ELEXON

A SUCCESS STORY

With the new contract, we've been able to slash 40 per cent of operational costs. It also drives and rewards innovation for ELEXON and Logica in several ways.

A monthly Innovation Forum has been set up where joint ELEXON and Logica teams present their ideas for service improvement and cost reduction. "It's a chance for people to step away from their day jobs and to come together to look at things differently," explains Peter. "It's encouraging people to think laterally and is delivering the sort of ideas that we hope will translate into bottom-line savings." This Innovation Forum has produced a pipeline of great ideas for improving things – from providing operational information online to creating the best possible business processes.

While the contract still means we have to cut overall operational costs (by 5%, year on year), things like the forum show that there is a real desire to search together for ways to improve things. "People no longer blindly follow a process,"

says Hayley. "The target has helped people to question the ways things are done and to look for efficiencies." We have developed a shared account plan, together, over and above any SLA. One of the things it looks at is the actual time we spend with people at ELEXON because getting together, face-to-face, is important for better team working.

'Gainshare' is another way of driving a deeper relationship between our teams. Traditional SLA-based contracts tend to maintain status quo whereas gainshare rewards innovation by sharing the benefits of change. For example, we could increase our margins by cutting costs, which in turn is good for ELEXON. "We are looking for investment that will enable changes in the way we work; this will free up our people to deliver value-added services to our customers," says Hayley.

Profit share and open book accounting reinforce this growing trust. If our margins go above an agreed level, a percentage of that additional money will be shared with ELEXON. Open book

accounting is also helping us to better match our resources to ELEXON's needs. SLAs are one example, as Peter explains, "Transparency is a fantastic way of building trust. Visibility of the actual costs incurred in supporting an SLA at a certain level means that we can have a more informed dialogue about what our requirements are. It enables us to consider the potential benefits of relaxing targets in one area to free up resources in another."

As trust builds, so does the opportunity for us to provide more value. For example, ELEXON transferred to us day-to-day management of three different service desks that talked directly to customers. Not only have we taken that off their shoulders, we've made things more efficient by merging the desks into one. We're also better placed to share what we've learned from working with other leading companies in the power industry, in areas such as smart metering. "People from both teams respect each other and bring different knowledge to the table. We contract with Logica for their

industry-wide expertise," says Hayley.

ELEXON believes that the new relationship is good for them and for us. "SLAs are a good mechanism for protecting the day-to-day service," says Hayley, "but at times you need to step beyond them in order to unlock greater value from outsourcing. We're confident we've got the mechanisms in place to achieve this."



WHY WORK WITH LOGICA?

We've a lot of experience in setting up and managing business processes for some of the largest and most complex businesses in the world. But what really makes a difference is our desire to work with you, every day; to really understand your needs and come up with great ideas to help you meet your objectives. In that way we can be brilliant, together.

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