



Benchmarking: *Efficiency and Productivity Analysis for the Energy Industry*



“Those who always go it alone are doomed to perennially reinvent the wheel, for they do not learn and benefit from others’ progress. By systematically studying the best business practices, operating tactics and winning strategies of others, an organization can accelerate its own progress and improvement.”

Benchmarking for Best Practices: Winning through Innovative Adaptation by Christopher Bogan and Mike English

Overview

Benchmarking—the process of measuring the performance of an organization against an industry standard—enables organizations to identify and quantify potential efficiency and cost improvements. Benchmarking studies are used widely by companies and regulators in all industries to assess efficiency relative to a set of performance measures. ICF International helps organizations identify and assess relevant performance indicators.

ICF International’s Approach

Our approach to efficiency and productivity analysis addresses both regulatory and strategic applications. We provide an integrated approach that encourages knowledge through understanding and a cutting-edge analysis.

Regulatory Benchmarking

From a regulatory perspective, benchmarking plays a significant role in performance-based tariff setting. Relative efficiency analysis enables regulators and utilities to quantify potential cost savings that can be converted into efficiency saving targets or price caps. In this context, ICF provides regulators and companies with support during price control reviews. Such support consists of full-scale benchmarking studies for the whole industry or expert advice and counter analyses for regulated companies.

Strategic Benchmarking

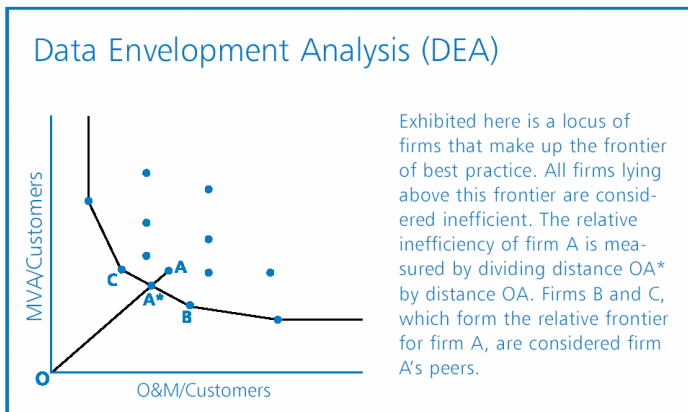
Our strategic approach uses benchmarking techniques to determine competitive advantages and identifies areas for improvement. Benchmarking and efficiency analyses can be used to identify target companies for takeovers or mergers within a competitive market. The relative efficiency scores can be used to calculate possible efficiency gains that can feed, via discounted cash flow analysis, into company valuations. Further, combining data enables a potential buyer to assess the relative position of a hypothetically merged/acquired entity. Such analysis helps answer questions as the following:

- To which firms should you be compared?
- What type of company should you target?
- What company or companies should you defend against?
- What are the potential cost savings, if any, of a combined entity?
- Will a merger or acquisition enhance your strategic position within the industry?
- Will the new combined entity be a best practice firm?

ICF International's Capabilities

We apply state-of-the-art benchmarking techniques that range from straightforward ratio analysis to sophisticated statistical techniques such as Corrected Ordinary Least Squares (COLS) and Stochastic Frontier Analysis (SFA). We also apply non-parametric techniques such as Data Envelopment Analysis (DEA). DEA has the advantage of identifying comparable firms within the sample. These techniques can be applied within both regulatory and strategic frameworks and allow an assessment of potential cost savings and strategic positioning.

ICF has substantial experience in the field of benchmarking. Our recent work focused on The Netherlands, where we have worked with distribution companies such as ENECO NetBeheer, REMU, NUON Group, ONS Groep, the national transmission and system operator TenneT, and EnergieNed, and the energy industry federation. Our advice has ranged from regulatory benchmarking to determining the cost savings from merging companies.



Selected Experience

For a European energy distribution company, ICF applied comparative efficiency analyses using benchmarking techniques in the electricity market. Our assistance included providing regulatory and benchmarking expertise and the preparation of documents for submission to the regulator. We have delivered seminars on the techniques and application of efficiency and productivity analysis, and strategic advice on behavior under price-cap regulation. We also assisted a company with the optimal balancing of their tariff structure and the strategic positioning within the market.

For a European national electricity grid operator, ICF assessed and appraised the benchmarking study undertaken by that country's regulator. The major conclusions from our report were accepted by the regulator and incorporated into this subsequent analysis. The benchmarking analysis included data from the US and European transmission and system operators.

Selected Staff

Kim Keats, Managing Consultant, UK, has worked on projects in many markets including the UK, Spain, Poland, South Korea and Singapore on a variety of issues ranging from pool modeling, gaming, market power assessment, regulatory price reviews, benchmarking analysis, and risk management. He led the team advising a number of Dutch electricity distribution companies on the implementation of the CPI-X price cap regulation, including providing verbal testimony at arbitration hearings, and has published articles on the use of benchmarking for regulatory and M&A purposes.

About ICF International

ICF International (Nasdaq: ICFI) partners with government and commercial clients to deliver consulting services and technology solutions in the energy, environment, transportation, social programs, defense, and homeland security markets. The firm combines passion for its work with industry expertise and innovative analytics to produce compelling results throughout the entire program life cycle, from analysis and design through implementation and improvement. Since 1969, ICF has been serving government at all levels, major corporations, and multilateral institutions. More than 1,800 employees serve these clients worldwide. ICF's Web site is <http://www.icfi.com>.

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