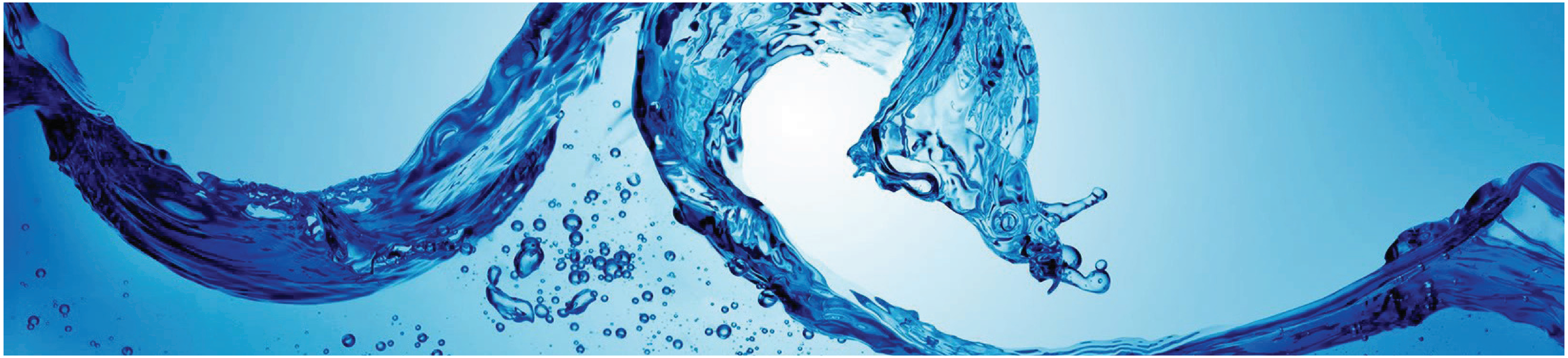

GETTING READY FOR AMP6 OR HAVE WE ALREADY STARTED?

AMP6 challenges and opportunities

MWH Water Sector Director, Richard Ratcliff reviews the impact that AMP6 is already having and the challenges of moving from outputs to outcomes.

The start of AMP6 is still 18 months away, but it doesn't seem like it. PR14 business plans will be submitted in December of this year. Several Water companies have already completed their AMP6 supply chain procurement and are starting to prepare for AMP6, allowing consultants and contractors to look at programme optimisation, efficiency campaigns and even early start programmes.

All water companies will have their AMP6 supply chain in place by the start of year 5 of AMP5, to allow time to prepare for AMP6.This will mean a smooth start to AMP6 as opposed to previous AMPs where we have seen dramatic rush to ramp up during Year 1 of the AMP.

A shift to an outcome focus

OFWAT has driven this change in the regulatory framework for AMP6. It has generated a greater focus on the "Customer" in terms of service, customer contacts and the "willingness to pay". This enhanced customer focus has facilitated a change process across the industry, with water companies and their supply chains recognising that the end customer is everyone's client.

OFWAT has also introduced a new landscape for operating in the water industry and chosen to follow other regulatory industries and adopt Total Expenditure (Totex). This is driving a new thought process within the UK water industry to understand the implications on AMP6 delivery and to create the appropriate balance between capital and operational expenditure.

At present the UK Water industry is trying to come to terms with the change from 25 years of output delivery to the AMP6 outcomes delivery model. The individual water company outcomes have been developed as part of the Customer Challenge Groups consultation process. Water companies have then mapped sub-outcomes and outputs to these outcomes as part of their PR14 business planning process. The challenge for the water industry is for the water companies and their supply chain partners to not just understand this new language but to successfully map the delivery process to the customer outcomes and drive efficiency. Key will be to look for different approaches to meet the same outcomes.

Delivering AMP6 efficiency

To achieve AMP6 efficiency will require the water companies and their supply chains to adopt "Lean delivery" and drive out waste. The delivery process will need to be optimised to maximise resource efficiency, take advantage of asset optimisation, increase productivity and embed innovation.

Delivering AMP6 efficiency will rely on making the right solution decision. This will be based on the appropriate level of accurate data, analysis and collaborative stakeholder engagement.

Developing an optimised delivery programme well in advance of AMP6 start is critical to identifying delivery efficiencies, flattening the supply chain delivery curve and also optimising the Tier 2 production and manufacturing schedules. Producing an optimised AMP programme is perhaps not as straight forward as in previous AMPs, as this time there are less large, "Quality" projects. Capital maintenance will dominate in most Water Company AMP6 programmes, so matching geography batching with water company asset renewal plans will have its challenges. AMP6 will also require us to map the delivery programme to outcomes and to drive Totex and lowest cost of asset ownership through an optimised programme.

Collaborative behaviour is central

The trend in AMP6 procurement is for water companies to contract with the supply chain based on partnership arrangements with shared goals and incentives. Performance in AMP5 delivery models has shown that this is driving the right behaviours, innovation and efficiency outperformance. It is clear that to meet the AMP6 challenges it will be necessary to have an aligned and integrated delivery team focused on driving innovation, collaboration and minimising waste.

We are also seeing water companies reorganising their internal structures to minimise waste, drive integration and collaboration and focus the company on efficiency, customer outcomes and innovation.

AMP6 – The first customer led investment period

AMP6 will be dominated by an ever increasing need to improve customer service, but still meet the aspirations of water industry investors. This is a good thing as having to meet customer outcomes and maintain "affordability" will drive innovation into the UK water industry. The most successful water companies and their supply chains will be those which put Customer at the centre of everything they do and prioritise investment to meet customer outcomes.

AMP6 will see a net reduction in energy usage

AMP6 will see a greater focus on Operational Expenditure (Opex). This will be driven by Totex being adopted in the delivery process to drive the lowest whole life cost of assets and projects. Water companies will strive to maximise existing asset performance and take advantage of operational headroom, as well as reducing operational costs of existing assets and only look to install new assets which drive out long term operational benefits.

Energy price inflation over AMP6 will drive a net energy reduction across the AMP in order to maintain energy operational costs at their present levels. This is a huge challenge as over previous AMPs we have seen an increasing energy demand based on the need to install new infrastructure to meet tightening environmental standards and increasing drinking water quality.

To meet the Opex challenge, capital delivery teams will have to work hand in hand with operations teams, in driving the supply chain to design, construct and procure equipment which matches the requirements and skills of the end user. We will see a greater level of automation and data visualisation to further maximise performance from existing assets and also allow operators to make informed decisions.

AMP6 will be dominated by "Big Data"

The need to improve customer service will focus water companies on asset resilience and the need to prioritise asset investment to areas which achieve the greatest reduction in risk. The prioritisation process will look at the greatest return on investment and will be dependent upon using the latest and best asset data. Companies who can best interpret the masses of asset data and use this to prioritise asset investment will increase asset portfolio resilience, have lower operational risk and therefore manage customer service and contacts more effectively.

AMP6 will drive changing skills sets

Over the last 25 years the water industry has been dominated by programmes of large capital intensive projects, but this will change in AMP6. To meet the challenges of AMP6 the UK Water resource base will need to become customer focused, understand risk and prioritisation, take on productivity concepts from the manufacturing industry, continually innovate and be able to thrive in a changing environment.

AMP6 presents many new challenges. To succeed in AMP6 will require new skills and approaches which in turn will provide companies and individuals with exciting opportunities to grow, innovate and evolve.

Richard Ratcliff, MWH water sector director for Europe and Africa, can be contacted at richard.w.ratcliff@mwhglobal.com

About MWH

MWH is a private, employee-owned firm with approximately 7,000 employees worldwide. The company provides water, wastewater, energy, natural resource, program management, consulting and construction services to industrial, municipal, utility and government clients in Europe, the Americas, Middle East, India, Asia and the Pacific Rim. MWH has worked in the UK for over 160 years and has designed, built and managed many of the largest, most innovative and technologically advanced projects around the world.

For more information please email **mwhuk.info@mwhglobal.com** or visit **www.mwhglobal.com**