



CASE STUDY: ASSET MANAGEMENT

PROLOGUE

The term “Asset Management” is used by Link to describe the full spectrum of management capabilities that Link can provide at a facility. This goes beyond the traditional “operations and maintenance” to include developing markets for the energy as well as byproducts, daily interface with power markets including bidding, optimization of production to maximize the value of the energy products, financial management including refinance alternatives, and so forth.

CASE PRESENTATION

Background

Link was contacted by a major US utility (Company A) to assist in an evaluation of an Independent Power Project within its service territory. The power generation facility was in severe and prolonged financial distress as the result of inability to respond to the requirements of the power purchase agreement, and was neither price competitive nor responsive in the merchant electricity markets. Company A was interested in evaluating various alternatives and determining the best course of action. Its options included canceling the power purchase agreement and facility acquisition. If acquired, decisions needed to be made regarding the potential for subsequent re-sale, operating as part of its regulated fleet, or operating within an independent fleet.

Assessment

Link’s assistance in the due diligence effort focused on the structural, organizational, people, and process aspects, mapping both risks and opportunities in each area. The bottom-line question was whether the production costs and other performance criteria could be improved to the level of competitiveness comparable to other facilities within Company A. Link’s conclusion was that there were considerable inefficiencies at virtually all levels of the plant, and that production costs per unit output could potentially be reduced by as much as 30%.

Transition Planning

Link began to develop its Transition Plan for the client, outlining the specific agendas to be followed in each area, including compensation, incentives, culture, administrative process, training, capital upgrade, maintenance, conduct of operations, and so forth. Company A was impressed with Link’s plan, and their initial reaction was that their unionized workforce was not sufficiently flexible to execute such a plan. Company A therefore decided to send out requests for proposals for third-party operators to execute a performance improvement plan and operate the facility. Link was requested by the Company to be one of the bidders for this contract.

Link’s Selection

Link submitted a proposal along with six other major bidders, and after a thorough evaluation including oral presentations, was selected by Company A based on the quality of our proposal, the detail within the plan to improve performance, and the credibility of our performance objectives.

After discussions with Company A, and based on Link's recommendations, it was decided that the facility would be operated as a separate business unit/profit center within the regulated environment. This decision impacted, of course, the design of the business model, the regulatory processes, the culture, and the need for operational processes to be consistent with the overall guidelines established for other facilities. For example, air emissions tracking and reporting formats needed to fit Company A's formats. General long-term performance improvement reporting formats had to be compatible with Company A's 5-year "Vision 2000" plan. This decision also defined the level of autonomy, authority, degree of centralization, and the design of the financial reporting requirements.

Transition Plan Execution

Link's Transition/Rejuvenation Plan was based on the findings of its detailed assessment of the potential risks and opportunities associated with people, plant, and processes. Sample risk and opportunity maps are included in Exhibit A.

The first order of business was to create a new facility culture focused on efficiency, safety, and individual performance objectives - - getting away from the entitlement culture that had existed. Since site labor was represented by a labor union, it was necessary for Link to negotiate a new labor contract that provided the flexibility necessary to implement positive change.

The creation of this new culture required changes across the spectrum of processes, and included, for instance, the elimination of paid overtime to managers combined with an increase in base salary. It also included implementation of a new computerized maintenance management system that projected labor hours and material costs associated with each maintenance task, allowing managers to hold employees accountable for expenditures of labor as well as costs. Link established a single-purpose corporate identity for the facility that employed all site personnel, provided all payroll and benefits, and issued all purchase orders. All employees were advised that the instability and insecurity that they had experienced during the previous 18 months were behind them, and that there would be no layoffs for at least twelve months. [Link's strategy was to improve labor productivity while having labor begin to perform tasks previously performed by contractors - - thereby reducing overall costs without the need for layoffs.]

The staff were also told that even if Link eventually was displaced as the operator, the employing organization would continue to exist and would simply be passed on the next operating company - - ensuring continuity of paychecks, benefits, and contracts. Link communicated to all staff that we would be operating under a "time is of the essence" philosophy. We needed to meet high short-term expectations, without jeopardizing the long term objectives.

Process Improvements

Link initiated a thorough maintenance review & upgrade program, including maintenance process reengineering and extensive conduct of maintenance training. Safety training, monitoring, and awareness were particularly stressed. Since a high rate of expenditure on contractors had been a tradition, Link initiated a contractor reduction program. Some services being provided by contractors were unnecessary, and other services could be assumed by on-site staff as individual productivity improved. New skill training aided the productivity improvement while also improving morale. Other rejuvenation programs included aggressive operator training, short-notice outage preparation, fuel diversification, and capital improvement of deficient equipment.



Results

Link successfully transitioned the facility while maintaining continuity of operations, and reduced production costs (dollars/megawatt-hour) by 40% within a year. Link demonstrated a capacity factor of 89.4% and an equivalent availability of 94.2% at this solid-fuel facility. Preventive maintenance backlog reduced from over 300 to 30. Open blanket purchase orders were reduced from 47 to 6, with the number of competitive bids for materials and services increasing from 0 in the three months prior to Link's assumption of O&M to an average of 30 per month. The number of hours of employee training per month increased from 0 in the three months prior to Link's assumption of O&M to approximately 330 hours/month. Average percentage of overtime was reduced from 31% to 11%.

Link also successfully passed numerous audits and inspections such as: Hartford In-Service Loss Prevention Inspection, client Inventory Audit and Process Review, client Air Quality Inspection, client Accounting and Contract Audit, client and OSHA Safety Inspections, and numerous site unannounced inspections by the Mine Safety and Health Administration.

Overall, Link exceeded all expectations of Company A, and achieved levels of production costs in the top 10% of their facilities.

Application

Link's overall approaches, processes, tools, and skill sets that are discussed in this case study have been applied to a variety of scenarios across a range of client circumstances - - in diverse industries. Applications have included small and large industrial firms, as well as general technology and commercial enterprises. If you are interested in discussing possible application to your situation, please contact us.

