INSIGHTS

STRATEGIC PLANNING FOR ENERGY & UTILITY MARKETS

How Strategic is you Organization's Strategic Planning?

Many of our client executives are concerned that their strategic planning has fallen into a routine annual exercise.

- "Are we really looking far enough ahead?"
- "Are we considering the right things?"
- "The strategic plans look more or less the same year to year, meanwhile we are experiencing an erosion of revenues and an erosion of our influence."
- "We have separate strategies for Technology, Regulation and the Business."

High quality strategic planning requires us to work in the domain of the unknown and to speculate or postulate about potential futures, and to do so in a holistic way. None of this is in a comfortable space for most people, and yet it is essential in charting a successful strategy; one that is dynamic and enables the organization to anticipate the key shifts in the market and lead the organization in advance of the shift.

The Core Outcomes of Strategic Planning

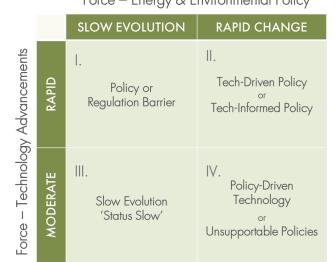
Globally, each region (even regionally within countries) is evolving differently due to changes in both policy and enabling technology. Understanding and anticipating the potential dynamics of these markets is critical to the development of the strategy and region specific business plans. For example, in both California and New York there are policies being proposed and enacted that could result in significant shifts or disruptions to the wholesale markets, energy delivery, and the overall structure of the industry. The calls for aggregation of rooftop solar and other distributed resources - such that they can be bid into the markets - could result in a whole range of new resources competing for position in the spot market or in wholesale capacity and energy contracts. There is a clear trend towards a blurring of the lines between transmission and distribution, which could further complicate "wholesale transactions," "retail transactions," the capacity and energy markets and the jurisdictional boundaries between FERC and the States.

The implications for organizations are significant. In addition to strengthening the focus on their relationships with customers, organizations need to verify that they have the skills and capabilities necessary to anticipate changes in the market and capitalize on market, policy and technology opportunities as they arise. Force – Energy & Environmental Policy

In strategic planning, organizations need to examine the "driving forces" that are shaping, and will shape, their target markets. By examining the drivers and identifying those drivers that are largely independent of one another, scenarios can be developed that describe the future of regional markets. The illustrative example here considers two driving forces: Technology Advancement and Energy and Environmental Policy (typically we see 6-10 independent driving forces evaluated).

Taking the drivers and examining the extremes allows for the characterization of the potential future they could create, thus allowing for the identification of critical parameters and business imperatives for each scenario. Initially the organization needs to identify the pairs of drivers that are most logical or most meaningful to them for each of their regional markets and then characterize each of the resulting scenarios.

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Through this effort a full range of plausible scenarios can be identified, each of which could play-out for the target market. This enables an organization to identify and quantify the risks and opportunities that exist within each scenario as well as the types of skills and capabilities required for success in each. Which in turn allows them to identify potential strengths and gaps within their organization and develop "**no regrets**" or "**low regrets**" strategies for each target market. The results can also identify leading indicators or precursors for each scenario that would provide advance indication that a scenario was emerging. These **mileposts** enable companies to respond in advance of the market impact.

Once strategies are defined, organizations can identify specific initiatives that can underpin them. Using a pragmatic approach, the initiatives can be documented in a manner that facilitates the assembly of a comprehensive business plan that has at its roots the underlying initiatives that support the defined strategies.

Leading for Outcomes

Leaders have a critical role in ensuring that the strategic planning is high quality and expansive in its thinking. Leaders need to be willing to explore the unknown or the uncertain and see the possibilities, as well as the risks. If the strategic planning process has become routine, and not strategic, that is in part because the leaders have allowed it to occur.

If the strategic planning process has not revealed some new insight for the executive team, it likely has not reached far enough.

