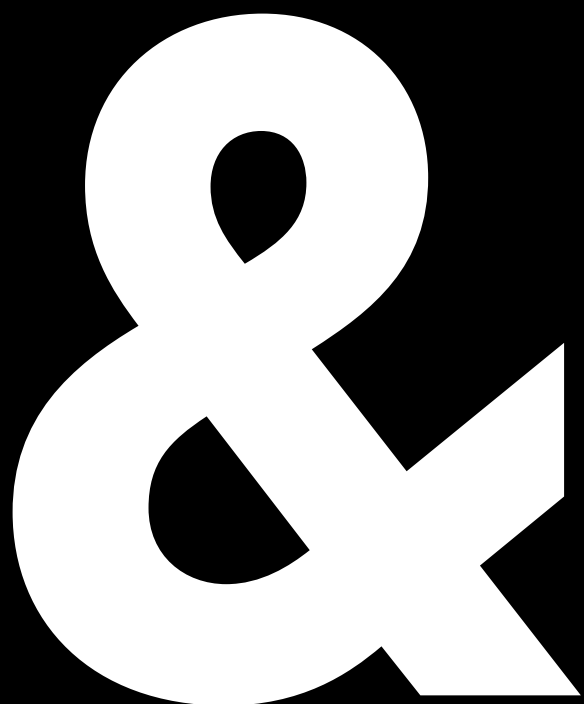


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Getting it right: 8 steps to successful IT integrations in the power sector

An aerial night photograph of a city, showing a dense network of roads and buildings illuminated by streetlights and city lights. The lights create a complex, glowing pattern against the dark background of the night sky.

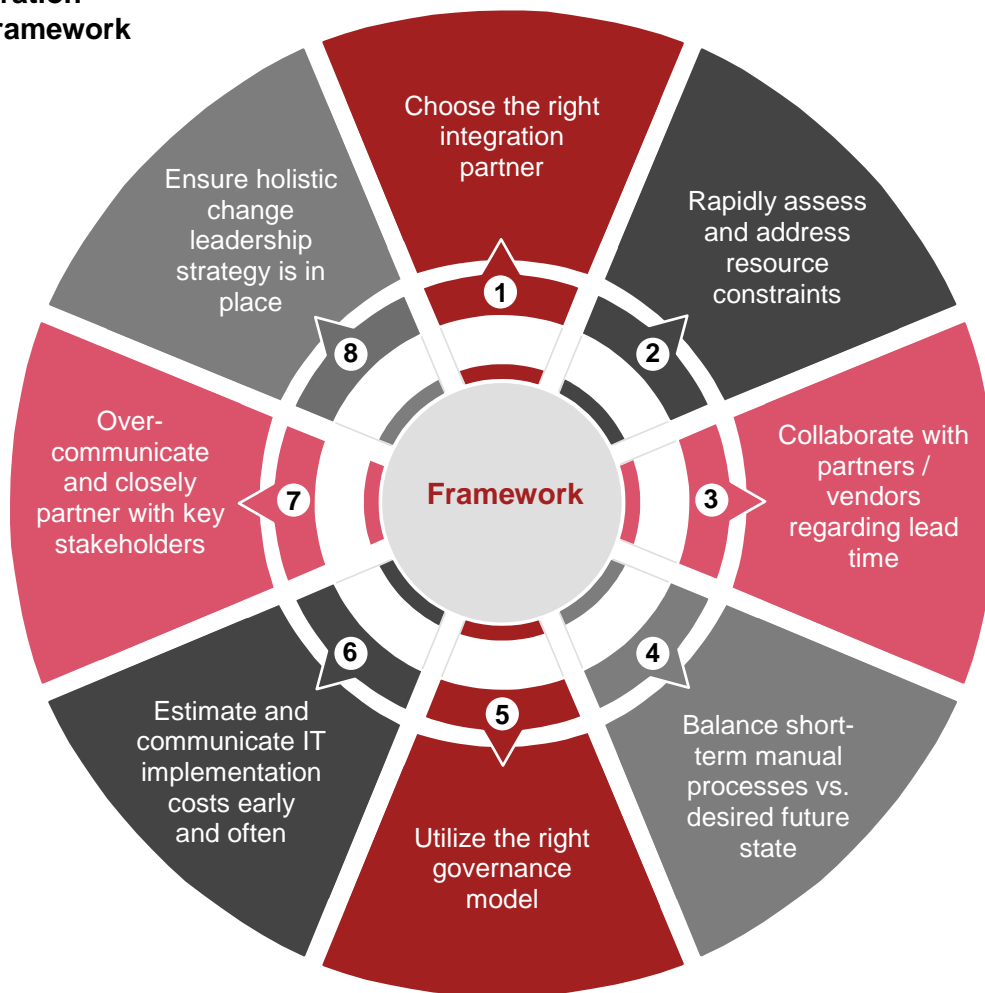
Overview

As consolidation continues to occur in the power and utilities industry, careful consideration must be taken in order to execute successful acquisitions. Too many times, deals can fail – not because of a bad deal strategy – but because of poor planning and execution. As we explored in *A New M&A Strategy for Utilities*, whether two companies merge or a utility acquires new assets, there are opportunities that require careful integration planning and focused implementation execution to fully realize long-term revenue and cost benefits.

Tackling deals can be complex and require robust governance structures that include organizational change management, communication teams, and defined cross-functional escalation processes to tackle larger programs such as an acquisition. Furthermore, not all organizations have an available pool of resources or employees with the right skills to draw on, nor do they have significant integration experience or applicable program / project management capabilities. This is especially impactful in Information Technology, where resources need to support every business area with their functional integration while also simultaneously supporting the definition and integration of internal IT organization and processes (“the business of IT”). For many utilities, this can prove to be a daunting task and may potentially limit the upside to the deal if there are significant planning and implementation resource constraints.

While there may be challenges, this does not mean that utilities cannot successfully complete an acquisition. As we explore on the pages ahead, there are several steps, lessons learned, and planning activities that can be followed to ensure success. The framework in **Figure 1** provides a guide to some best practices to conduct IT integration.

**Figure 1: IT Integration
Best Practices Framework**



Choose the right integration partner

An acquisition can be the single costliest undertaking that a utility will face. It is necessary that the utility chooses a partner that fully understands this and can guide them throughout the process and help them avoid common pitfalls during the integration process. The right partner needs to have a wealth of experience including industry, regulatory, M&A and functional knowledge. Optimally, this partner can help guide the integration across all functional teams, navigate the regulatory process, define the integration process, ensure a successful Day-1 close, and define a future-state organization, operating model, and technology roadmap. At a minimum, IT needs support to ensure a seamless Day-1 user experience, cross-company controls, and a defined long-term application roadmap.

Assess and address resources

The acquiring utility must quickly identify where the resource constraints are. The overall IT integration must be broken up into multiple projects which need to be scoped and resourced over a defined timeline. Both IT resources (e.g. project managers, business analysts, application testers, etc.) and business resources (e.g. Finance or Supply Chain resources) must be identified up front and balanced against the ongoing operational needs of the business. If resources need to be hired or sourced, these conversations must be started as soon as possible, so ample time can be spent hiring and onboarding the resources. It takes time to find, interview, hire, and onboard people who have the right skills, experiences and capabilities for the project. When there are opportunities to leverage existing company resources, their availability must

be assessed as well. Several questions should be answered, including the amount of time the resource will be able to dedicate to integration vs. day-to-day responsibilities, backfilling needs for the resource, opportunity costs, among others. The sooner this is assessed, the less likely they will be a constraint.

Collaborate with partners / vendors regarding lead time

For optimal success, connect with partners or vendors as soon as project requirements are known to ensure higher levels of engagement and a possibly smoother contracting process. This is especially important for long-lead time activities. IT infrastructure, such as network connectivity or data center hardware, serves as the backbone for the entire IT integration and therefore should be prioritized.

Vendors must share the same urgency as the utility that may be embarking on one of its largest undertakings. If vendors cannot provide strict lead times or do not display the right amount of commitment, the utility should rapidly execute other options as failure at Day-1 will set the tone for the rest of the integration.

Balance short-term manual process vs. desired future state

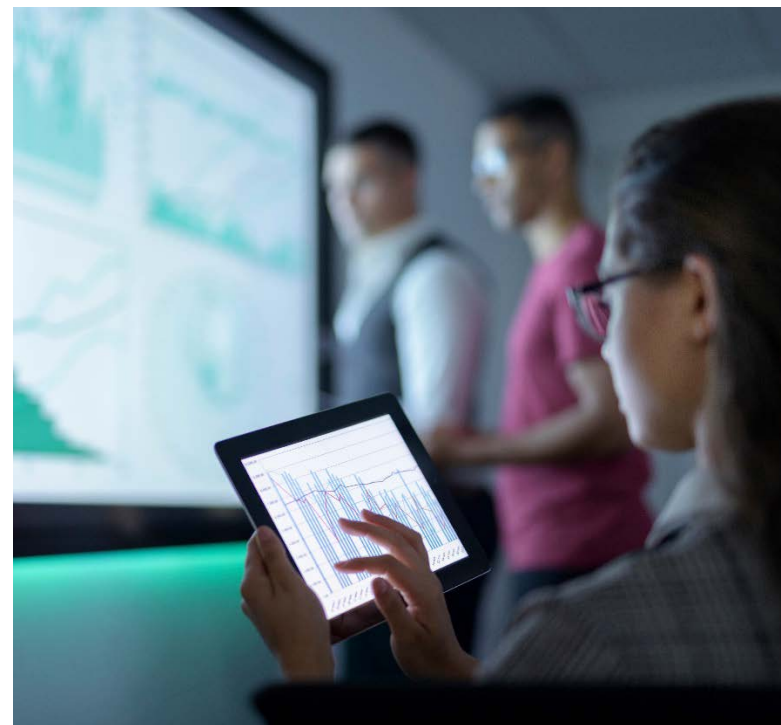
Clarity in near-term objectives (and cost) with long-term objectives (and cost) are important for companies to consider. What the combined utility will be on Day-1+100 vs. what the desired state will be in 3-5 years may be two very different things. In some cases, utilities do not have the luxury of resources or funding to allow the combined company to jump immediately to the future state architecture (even if there is plenty of lead time and integration planning). In that case, the IT function must be able to balance out what's absolutely needed on Day-1 versus what is an optimal future state IT architecture (the difference between the "must haves" and the "nice to haves."). The right integration partner can develop a framework to approach the trade offs and determine the optimal balance of manual processes on Day-1 and fully built and automated systems.

Utilize the right governance model

For a utility to be fully prepared for a large-scale integration, the right governance model must be in place. A broad view of governance is required to successfully manage the integration process. This includes:

- Program reporting structure
- Decision rights
- Change management
- Issue management
- Progress reporting
- Risk management

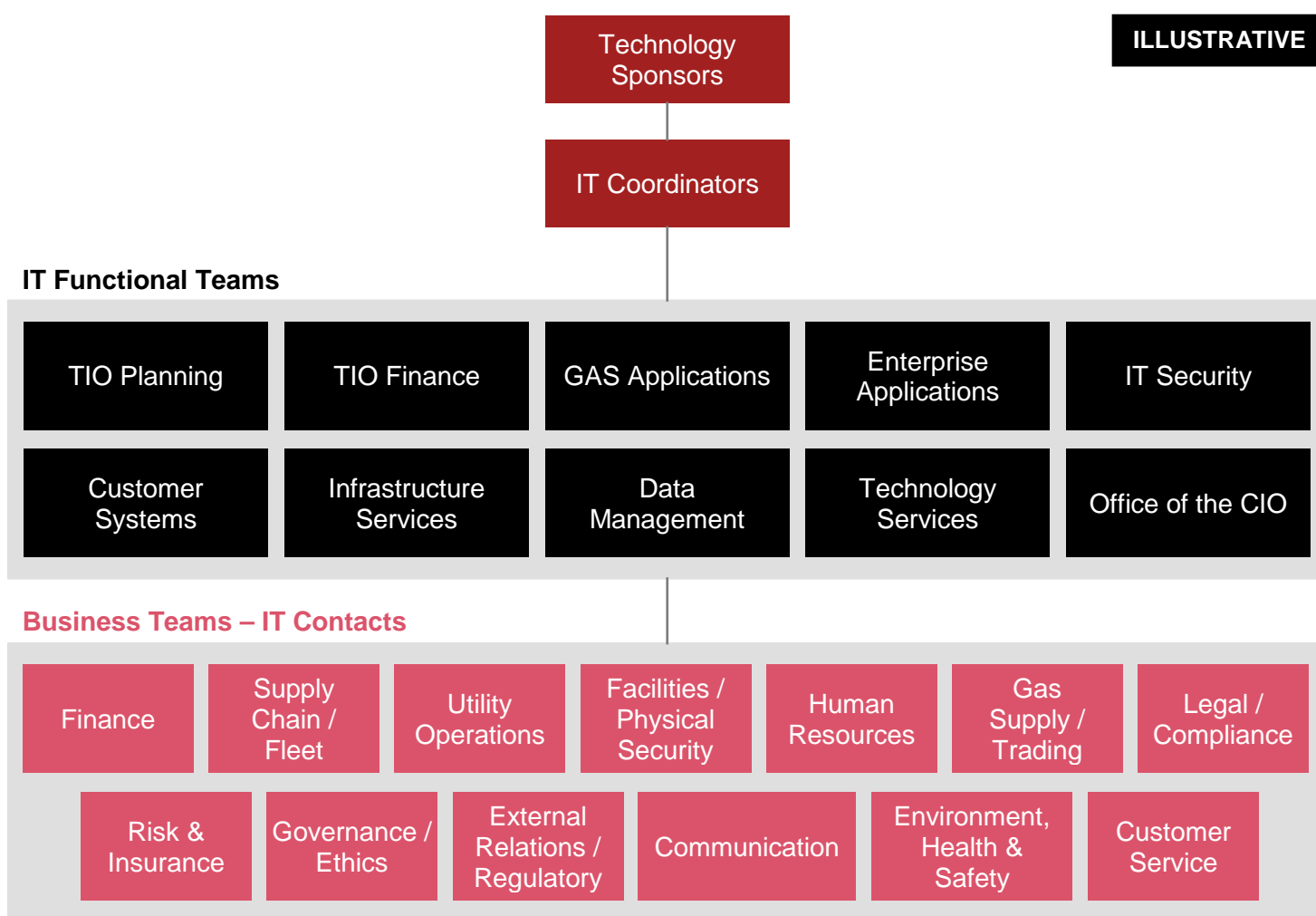
There are many moving parts and pieces in an integration and having the right people to oversee the process with the right meeting cadence and participants to ensure communication is vital to integration success.



The challenge is that some utilities have not used or needed to develop a broad governance model. The right experienced partner can guide the utility by using existing frameworks from previous integrations that are tailored – fit for purpose – based on the company’s culture and the nature of the transaction. The team structure to support the IT integration needs to tie into the

overall integration management framework and ensure business integration leads have clear line of sight into technology-specific activities required during the integration and the associated employee impacts (resource requirements and time commitments).

Figure 2: Sample Integration Team Structure



Estimate and communicate IT implementation costs early and often

While there are several IT integration considerations such as requirements gathering, scoping, and designing projects; the one thing that cannot be overlooked is IT costs-to-achieve. It's very difficult to predict IT costs, since implementation costs don't necessarily scale linearly based on the size of a utility. Therefore, if not done as part of a pre-deal due diligence or synergies estimation process, utilities must quickly estimate costs, and communicate them to the rest of the business, so the economics of the deal are understood. Early identification of IT costs-to-achieve eliminate financial surprises and help align executive leadership, business leadership, integration executives, and the integration teams around the implementation roadmap and plan. As we've seen, technology integration costs can become the largest portion of integration-related costs-to-achieve (excluding investment banker and legal fees). If IT costs-to-achieve are identified early, the CIO should be consulted to ensure costs are properly included and estimated as the deal economics are evaluated.

Over-communicate and closely partner with key stakeholders

Some have heard the expression that IT works in an isolated black box. Chief Information or Technology Officers often battle this perception and must balance the needs of the business, the financial needs of the corporation, and the need to stay current from a technology perspective. Having the business and IT work together is an important integration success factor. IT touches all functions. As a result, any technology decisions that are made impact a significant number of people and process within other business functions. While having a good governance structure will help disseminate information and facilitate decision-making, IT should develop the habit of over-communicating with everyone that may be impacted by key technology decisions.

Ensure holistic change leadership strategy is in place

Change is the obvious, but often under-emphasized element of merger integrations. Given the scope of integration activities, an integration brings more change than any single project in the past. Furthermore, the nature of a transaction (asset acquisition vs. business integration) may necessitate different tactics in the change leadership approach. From an IT standpoint, there are nuances as well. Changes to processes and the overall systems architecture must be carefully tracked by the IT team to understand the impacts on work execution and the supporting technology enablement. A specialized change management team responsible for taking these changes and developing a strategic plan to communicate them to the right stakeholders will support the overall technology transition and roadmap. It is important for change to be considered at the front-end of the process, and not something that is a "bolt-on" activity late in the process before systems go live. Allowing enough time for stakeholder alignment and buy-in (not to mention training) is an important element of a successfully implemented technology transition / roadmap.



Where to go from here

Some utilities may feel like they are behind as soon as a deal is announced, and that is not a unique experience. Carefully managing all elements of a successful integration will help ensure the IT function is set up to successfully migrate the technology platform and support the newly

combined business at, and after, Day-1. Leveraging the advantages of a structured framework that includes communication, governance and decision making are constants for all deals that will help enable the integration process in general, and within the IT environment.

We can help



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Thank you

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