

Business Case Development

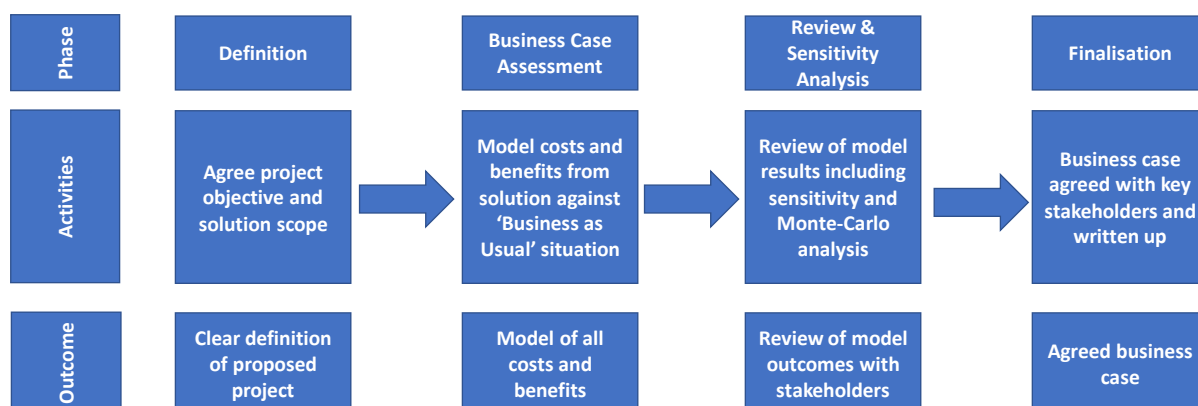
Background

Business case development is a key service that DGA's Consultants have been providing to the utility sector for many years. This includes several high-profile business case assessments which have been externally reviewed and utilised in regulatory submissions and public domain reports. The approach can be applied for:

- Assessment of business cases for specific projects
- Comparison of Net Present Value (NPV) or Internal Rates of Return (IRR) between projects
- Lifecycle cost comparisons between vendor solutions
- Due diligence valuations of different components of a business
- Benefit realisation tool applied throughout the lifecycle of the model

Approach to Business Case Development

DGA Consulting conduct a collaborative approach to business case development producing a unique business case to reflect the individual operating circumstances of each client. This typically requires regular stakeholder interaction to assess how any new solution will impact the business and to get 'buy in' from the user community of the expected benefits from the new solution. An overview of the process is shown in the diagram below.



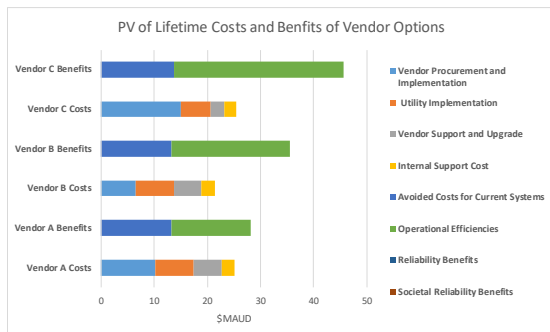
Model Set Up and Scenarios



Include Internal Resources	Yes
Include Benefits	Yes
Include Reliability	No
Include Social Benefits	No
Probability of efficiency benefits being delivered	100%

The initial phase of the project involves defining the business case being assessed and creating the model. This definition may include additional options, or restricting benefits to a specific set of users. DGA Consulting's model allow these options to be rapidly assessed through creation of a number of scenarios. These operate through drop down boxes that allows the user to instantly compare the outcomes under different scenarios. An example scenario box is shown in the opposite diagram

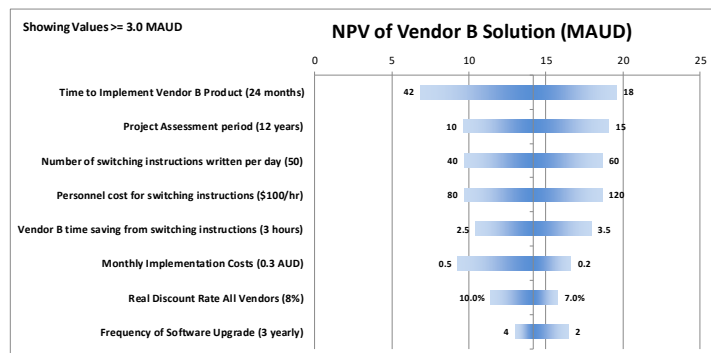
Example Outcomes of the Assessment



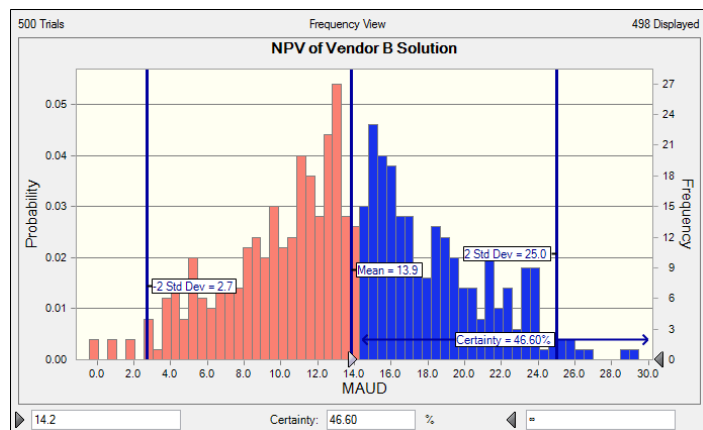
The model is set up to automatically produce a series of charts and graphs dependent on the project requirements. This includes summary cost and benefit calculations, cash flow calculation and calculations such as the NPV or IRR for the project. An example for a vendor assessment tool is provided opposite.

Sensitivity Analysis

An important part of the modelling is recognising uncertainty, which is assessed with 2 forms of sensitivity analysis. The first approach assesses the impact on the modelling results from changing a single key parameter from its most likely to a high/low extreme. This identifies the most critical parameters in any business case, which may justify more assessment.



The second analysis is a Monte-Carlo simulation that randomly varies all of the key parameters within their defined probability distribution to predict a range of potential outcomes and the probability of a specific outcome. This can be important when comparing options as some projects may have far smaller ranges of potential outcomes.



Benefits of DGA Consulting's Approach

DGA Consulting have a proven business case methodology combined with extensive utilities experience that delivers several client benefits including:

- Traceability of costs and benefit calculations from a transparent bottom up process
- Collaborative approach developing an assessment that the clients can own with inputs reflecting user specific assumptions
- The ability to compare different scenarios and provision of a comprehensive quantitative and qualitative guide to decision making
- Sensitivity analysis to enable a graphical view of the most important benefits and the probability of achieving the expected business benefits