

2nd Annual 'Energy Services in Europe' Summit

Highlights and Key Themes

Delta Energy & Environment

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Contact:

Andy Bradley andy.bradley@delta-ee.com, +44 131 476 4259

Cian Reville cian.reville@delta-ee.com, +44 131 625 3332

Or visit www.delta-ee.com



Evolution, not revolution. Yet.

Delta's 2nd annual 'Energy Services in Europe' Summit was held on 8 June 2011 in Copenhagen. The programme was a mix of presentations and panel debate from a range of important industry stakeholders, with representatives from the European Commission and a range of utilities.



This summary document contains selected highlights of key discussion points and themes.

The full Summit programme and presentations are available for download from a secure website – please contact andy.bradley@delta-ee.com, T: +44 131 476 4259 for access information.

What's changed since last year?

Regulation, technology and customers are the three primary dimensions shaping the emerging energy services market – with higher energy prices being a potent catalyst for more rapid market evolution.

The key themes arising from last year's Summit in Amsterdam and remaining central to this year's debate include:

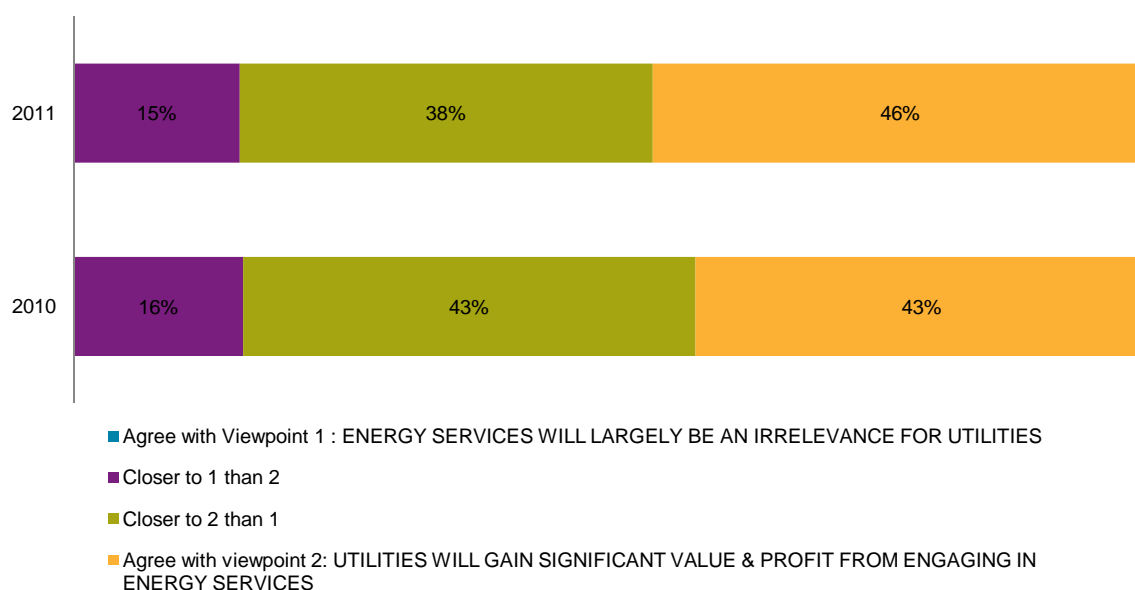
1. Energy services is largely unexplored territory for energy suppliers
2. There is a huge diversity in energy services
3. There is a wide range of current and potential players
4. Success in energy services is linked to:
 - ▶ The quality of customer proposition
 - ▶ The effectiveness of the business model

The 2011 Summit provided evidence that an increasing number of energy suppliers are exploring new energy services offerings. While interest from new entrants remains high, particularly around the arena of home energy management systems (HEMs), there is, as yet, little real evidence of new players being able to break into markets in any meaningful way. So, while there have been some small steps forward since 2010, one cannot describe it as a revolution.

Attendees at the Summit remain very much of the view that utilities stand to gain significant value from engaging in energy services, as shown below.

FIGURE 1: SUMMIT VOTE RESULTS 2010 AND 2011

The chart shows the results of voting by Summit attendees in 2010 and 2011. 43-46% of attendees agree with the viewpoint “utilities will gain significant value and profit from engaging in energy services”, and a further 38-43% are closer to this view than the alternative view “energy services will largely be an irrelevance for utilities”. No-one agrees with the view that “energy services will largely be an irrelevance for utilities”.



Energy services needs to be a standalone business

E.ON presented a utility's strategic perspective on energy services. Some key headlines from this presentation include:

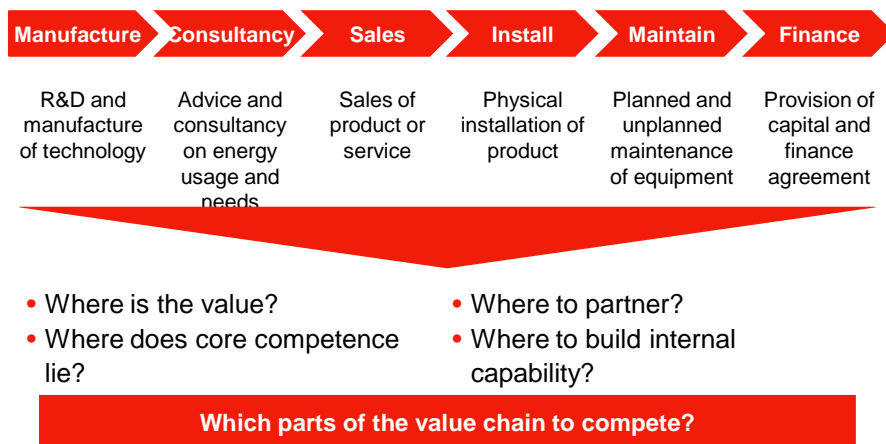
- ▶ To be successful in energy services, utilities need to move from commodity selling to 'real' retailing
- ▶ Government policy and financial incentives have a crucial role to help customers overcome the hurdles to adoption and stimulate the market
- ▶ For energy suppliers, it is not simple to work out where to play – and the answer will be different in different markets

FIGURE 2: A UTILITY'S RESPONSE – NEW BUSINESS MODELS

E.ON set up Ignite on a standalone basis to develop the next generation of products for residential customers. A key objective of this approach is that it gives room to experiment and test what works. It is crucial that this business develops the appropriate risk-taking mindset and that making mistakes must be seen as part of the process. To achieve this within an existing risk-averse culture would be extremely challenging – hence the need to create a standalone business to enable this mindset and 'retail' culture to become established.



A utility's response: new business models



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EU Energy Efficiency Plan – 'Soft Targets' and 'Binding Measures'

The presentation from the European Commission highlighted that the June 2011 Energy Efficiency draft Directive recognises that progress from the original plan has not been good enough to meet the 2020 targets. Hence the need for a revised, stronger Directive.

However, the new Directive still only has 'soft' targets, unlike the 2020 targets for renewables and CO₂ reduction which are binding. The draft Directive has 'binding measures' but not 'binding targets'. It is possible that if the progress to 2020 does not improve, then binding targets may be introduced in 2013.

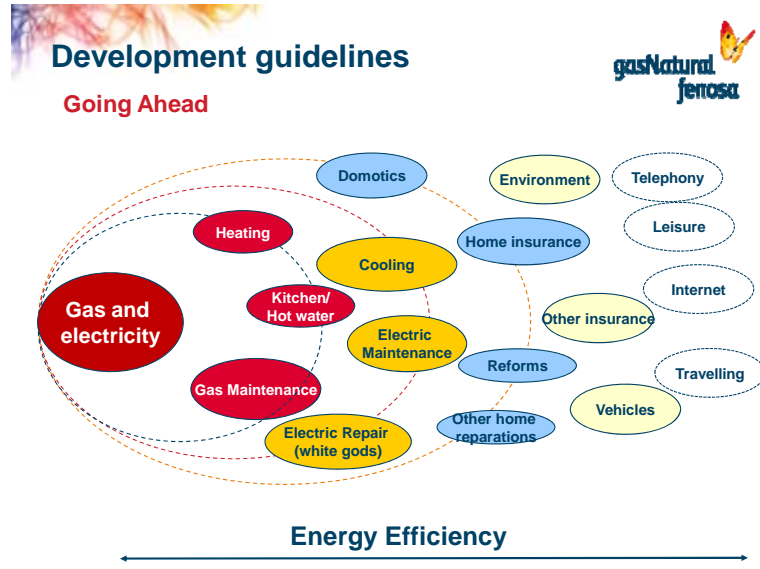
One of the key messages from the discussion during this Summit session was that the EU recognises that it is very important for customers to have clear information on their energy consumption, and that smart metering has a crucial role to play.

Utilities are stretching their offerings

Most of the value in today's markets is found in services related to 'traditional' heating. However, development of low carbon offerings is continuing at what appears to be an increasing pace in a number of markets across Europe.

FIGURE 3: ENERGY EFFICIENCY CAN BE INTEGRATED IN MANY DIFFERENT OFFERINGS

For Gas Natural Fenosa, energy efficiency is not a specific or standalone part of their home services strategy, but is integrated into many different offerings.



A lot of players have launched or are testing Home Energy Management (HEM) offerings as well – but these are at relatively early stages. Delta observes that the focus on HEM offerings appears very strong relative to their potential value creation for energy suppliers, in comparison to more ‘traditional’ heating services, at least in the next few years.

FIGURE 4: BUNDLING OF ENERGY AND NON-ENERGY SERVICES

GDF Suez has taken the innovative approach of bundling together its HEM energy and security offering.



For customers, it's not all about money

In the afternoon panel session “How to get customers excited about energy services” there was a very active debate, with a number of good examples where utilities have tried new approaches to engage with customers to create new relationships. The debate showed that there are many drivers of customer motivation – and it may be that these play across different European countries.

FIGURE 6: THE 11 USER VOICES, FROM ALEXANDRA INSTITUTE RESEARCH

It's not all about saving money for many customers – it's also about comfort, environment, society, selfishness and other factors

PERSONAL LEVEL	SOCIAL LEVEL	SOCIETAL LEVEL
Convenience Safety and security Economy Technology Indoor climate and lighting	Play and social interaction Time Design and aesthetics Consumption as a social identity marker	Doing the right thing Environment

There was some interesting debate regarding decision makers in a typical household. Energy is a traditionally male domain, but as it becomes more transparent (moving from the utility room or cellar into the living room), will female influence on decisions become stronger? And what implications may this have for energy service providers and their engagement with customers?

Just how far can technology go?

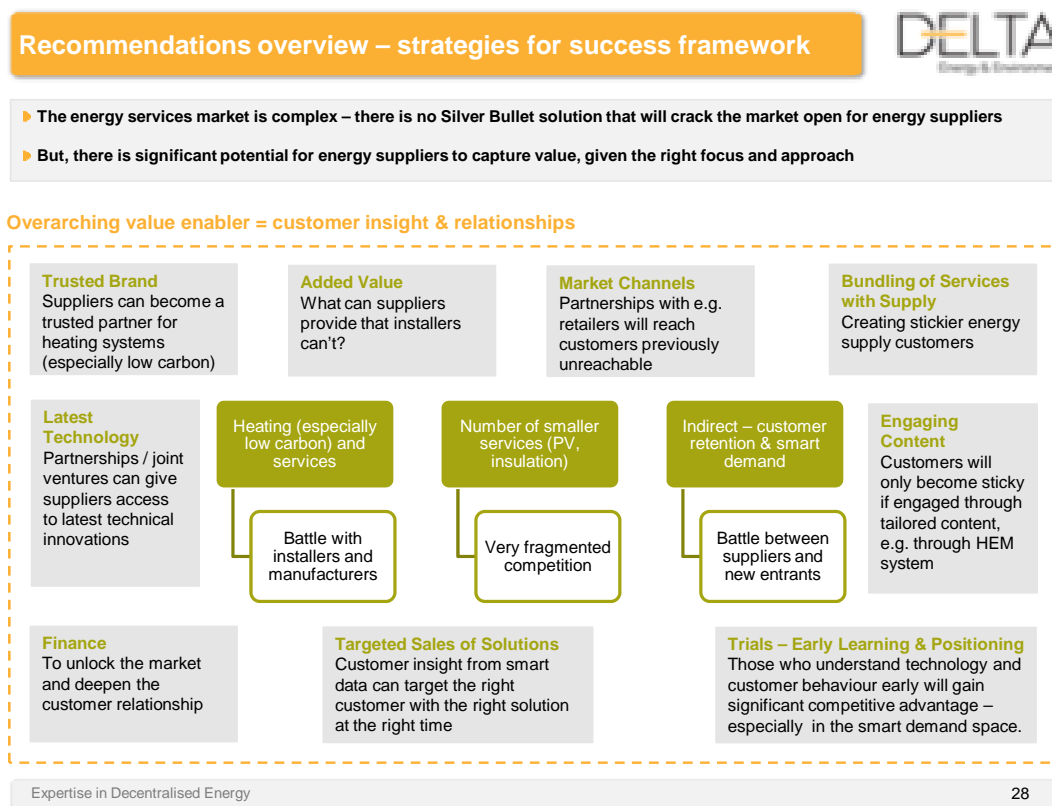
One of the discussion themes regarded the role of technology for the customer. Can the technology not only inform, but also automate and control on behalf of the customer? Can the 'intelligence' be embedded in the kit so the customer does not actually have to make any new decisions if they don't want to? Or should the role of technology be more limited to informing customers and allowing them to make the right decisions themselves. The two approaches will have very different cost implications, but also the customer engagement requirements will be quite distinct.

A big prize – but very market specific

Delta presented some analysis from its Strategies for Success in Energy Services¹ multi-client study, illustrating that significant growth opportunities exist but the rate of growth varies considerably between European countries. Energy suppliers typically have a small role today. Of the countries studied the UK stands out as the country where energy suppliers are most rapidly increasing their share of the energy services market. Delta's analysis shows that smart demand and customer retention / acquisition can be significant value drivers for energy services.

¹ For more information go to http://delta-ee.com/studies_and_services_mass_market.asp

FIGURE 6: KEY TACTICS FOR ENERGY SUPPLIERS TO GROW THEIR ENERGY SERVICES BUSINESS
Delta highlighted 9 tactical recommendations for energy suppliers to succeed in the energy services game.



The ESCO model has real potential – if barriers can be addressed

MPW Tax and Legal gave a very thought provoking paper on the potential for mass market ESCO models. To be successful, it is necessary to create understandable products that are totally transparent. The three critical barriers that must be addressed for the successful design of mass market models are:

- ▶ Complexity
- ▶ Risk allocation
- ▶ Acceptable billing units

The presentation argued that social media tools have a big role to play in launching new mass market models – as could the policymakers if the EU Energy Services Directive were amended to incentivise ESCOs according to the profit realised from energy efficiency improvements.

Could it ever be possible to sell heat like a telecommunications company sells broadband, eg a fixed heat unit price according to the floorspace? It's all about managing risks and many of these are understood, so why not? This would indeed be a revolution.

Summit Conclusions - and Pointers into 2012

Energy services mass markets are developing quickly – the territory cannot be described as fully explored but it is now not uncharted either. Delta expects the next 12 months to see more progress and development, especially by Europe's leading utility companies. The diversity of energy services offerings remains a feature of the market, with the main products being grouped into:

- ▶ Traditional heating / cooling
- ▶ Energy efficiency
- ▶ Low carbon heating/micro-generation
- ▶ Home energy management (including demand response)

In the short-medium term, Delta sees most value in the first three areas. In the longer term, energy management will become a much more important value driver, and this area in particular is already attracting significant interest from potential new entrants. However, it is noticeable that, so far, new entrants are on the whole 'talking rather than doing' in energy services. There has been no major disruptive new entrant activity yet, and some failed/aborted initiatives – such as Kofler Energies and Sky, and more recently the announcements by Google and Microsoft that they are cancelling their PowerMeter and Hohm services due to the current lack of market interest.

Energy services is in many respects still largely a development business and business models are not established or still evolving. As the market evolves and matures Delta expects to see the emergence of more sophisticated "portfolio" approaches that offer the right solution to the right customer at the right time. This will continue to be a theme for future Summits.



About Delta Energy & Environment

Delta is a research and consulting company that has a unique focus on decentralised energy technologies and markets on the 'customer side of the meter'. Delta helps our clients understand and exploit opportunities in rapidly emerging decentralised energy markets – including micro-CHP, larger CHP, heat pumps, PV, small wind, electric vehicles, home energy management (HEM) and energy services.

We deliver bespoke **consultancy, subscription services, and specialist Summits.**

Our clients include electric and gas utilities, equipment manufacturers, technology developers, policy makers and financial investors across Europe and beyond.

For more details and a full client list, please visit www.delta-ee.com

Delta's multi-client study: 'Mass Market Energy Services - Strategies for Success to 2020'

Delta has recently completed its study into European mass market energy services. The study has been developed to help energy suppliers make the best-informed decisions regarding their strategy and tactics, and addresses four core questions:

- ▶ How big will the energy services opportunity be?
- ▶ How much of this value can energy suppliers capture?
- ▶ What strategies will enable energy suppliers to best capture this value?
- ▶ Where should energy suppliers focus their investment?

For the full study prospectus visit: http://www.delta-ee.com/studies_and_services_mass_market.asp

For information on how to access the full Summit programme and presentations, or other questions, please contact Andy Bradley andy.bradley@delta-ee.com, +44 (0)131 476 4259.