

€8 Billion of Profit Available in European Energy Services Mass Markets

Delta Energy & Environment

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This White Paper, the first in a series of three based upon new Delta research, explores European energy services mass markets. These markets are currently worth €8 billion gross margin - and will grow to €10 billion in 2020. Key highlights of this Paper are:

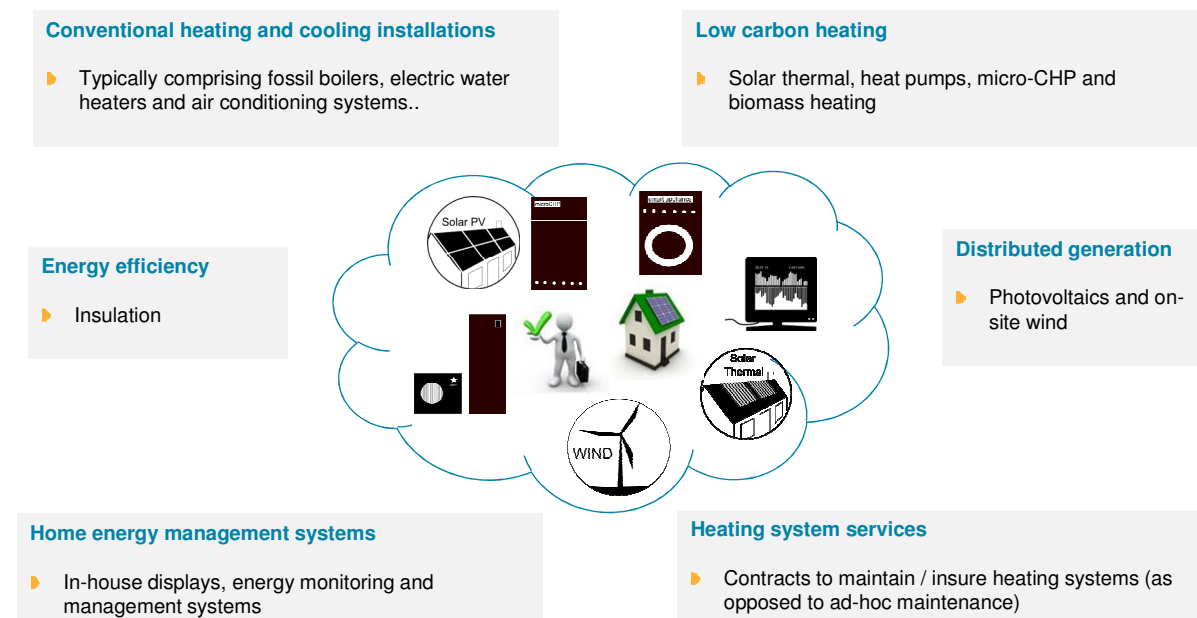
- ▶ Average energy services gross margins per household today are, in some markets, close to energy supply gross margins per household. For individual households taking energy services packages, gross margins can be much higher.
- ▶ Conventional heating (and cooling) dominates today's energy services markets in most countries. By 2020 low carbon heat will be making important contributions – commanding over a third of energy services gross margins in many markets.
- ▶ Energy services market growth to 2020 will vary significantly from market to market – ranging from over 50% to less than 10%.
- ▶ 'Smart demand' and customer retention will also be important sources of value for energy suppliers in 2020 energy services markets.

The next two Delta White Papers will examine energy supplier shares of - and engagement in - these markets; and strategy options for energy suppliers and other players to capture value.

Defining mass market energy services

FIGURE 1: DELTA'S SEGMENTATION OF MASS MARKET ENERGY SERVICES

The focus of Delta's research is on the residential market. Energy services is a widely used term – Delta segments the market into the six areas shown below.



In some markets, energy services gross margins are similar to energy supplier gross margins

For energy suppliers, energy services is often viewed as the icing on the cake, with energy supply representing the cake. In fact, energy services gross margins are, in some markets, of similar order of magnitudes to energy supply gross margins. **In two markets, energy services gross margins exceed €50 per household per year¹.** In the others, they struggle to reach €20 per household per year. Across four national markets included in Delta's multi-client study, energy services gross margins totalled over €3.5 billion. Scaling this up to the **EU** gives **total energy services gross margins of €8 billion.**

Energy supplier's share of these margins is small – and in many cases very small – not exceeding 20% in any market, and in some markets well under 10%. Markets are largely dominated by large numbers of local installers. But those energy suppliers that are successfully playing in the energy services market are securing significant value. A single energy services customer can yield gross margins of hundreds of Euros per year.

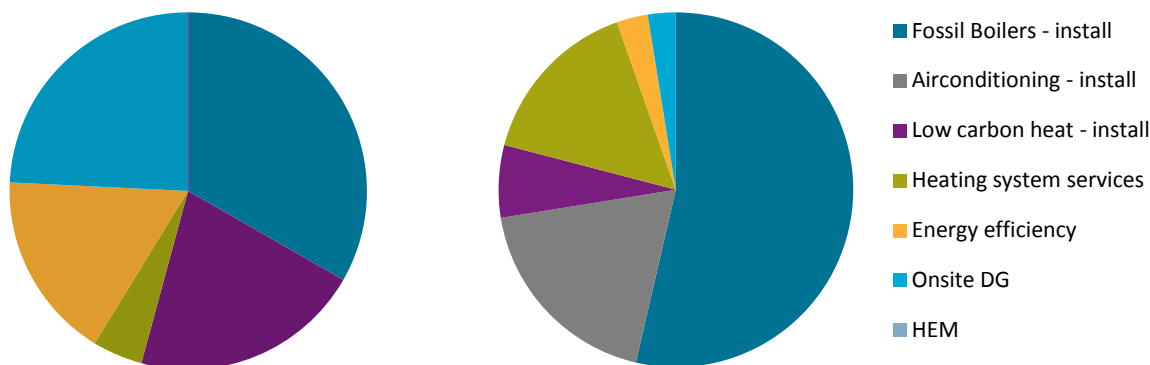
Heating – and in most cases fossil-fuelled heating – dominates today's markets

Segmenting today's energy services markets shows that heating products and services (and in some southern European markets cooling) contributes at least half, and in some markets well over three quarters of available gross margins.

¹ This figure is calculated by dividing the total energy services gross margin across the total number of households.

FIGURE 2: GROSS MARGIN SHARES BY TECHNOLOGY IN GERMANY (LEFT) AND SPAIN (RIGHT)

Heating (and in Spain cooling) installation and services comprise just over half current gross margins in Germany, and over three quarters of current gross margins in Spain. Low carbon heat is an important contributor in Germany, but only makes a small contribution in Spain.



Source: Delta Energy & Environment, 2011

Low carbon heat is the major growth area to 2020

In forecasting how energy services markets would develop through to 2020 – and energy supplier shares of these markets, Delta identified and assessed the following drivers and barriers:

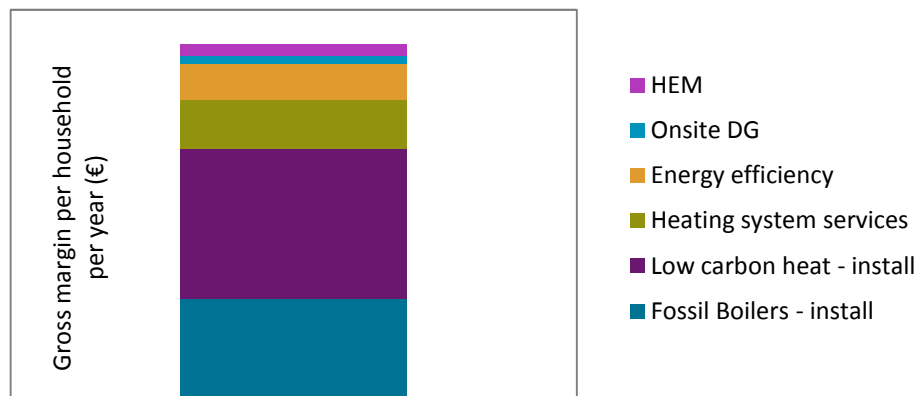
- ▶ Policy and regulation
- ▶ Energy retail competition
- ▶ Balancing electricity supply and demand
- ▶ Customer pull
- ▶ Access to finance
- ▶ Technology and product development.

Based on this assessment, we forecast highly variable growth between different EU markets. The UK market, for example, grows by over 50% while the German market only grows by 10% on the back of expected reduction in the PV market.

Low carbon heat is a major growth area in all markets – a combination of heat pumps, solar thermal, biomass heating and micro-CHP. In the majority of markets studied, this sector will contribute more than one third of available energy services gross margins.

FIGURE 3: ENERGY SERVICES GROSS MARGINS IN 2020

In this national market, heating contributes the vast majority of energy services gross margin – with low carbon heat contributing more value than conventional (fossil fuelled) heating.



Source: Delta Energy & Environment, 2011

‘Smart demand’ and customer retention (and acquisition) will be important sources of energy services value for energy suppliers

By 2020 energy suppliers will be shaping demand – using price signals and controlling or influencing appliances such as heat pumps, micro-CHP and refrigeration. In Germany such offerings are already emerging. The ability to shape demand will depend, in part, on the depth of suppliers’ energy services relationships with their customers.

Energy services customers will also be an important tool to help suppliers attract new customers or retain existing customers – with this clearly more important in the markets with the highest switching rates.

Delta’s forecasts of the 2020 energy services value of these two areas typically adds **an additional €5 – 10 of gross margin per household**.

The next two Delta White Papers on mass market energy services will focus on:

- ▶ Energy supplier engagement in mass market energy services
- ▶ Strategies for success – for energy suppliers and other players

About Delta’s Research

This Delta White Paper is based on research carried out for the **Delta multi-client study, “Energy Services Mass Markets: Strategies for Success to 2020”**. For further details on the research of the study, or any questions about this White Paper, please contact one of:

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Delta’s 2nd Annual ‘Energy Services in Europe’ Summit

8 June 2011, Copenhagen

Following Delta’s highly successful first ‘Energy Services in Europe’ Summit held in June 2010 in Amsterdam, this invitation-only Summit brings together 50 European utilities and other key stakeholders to explore how energy services markets will evolve and utility strategies within these markets.

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