

Energy suppliers can treble their share of the energy services mass market

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This White Paper, the second in a series of three based upon new Delta research, explores energy suppliers' shares of, and engagement in, the European energy services mass market to 2020. The first Delta White Paper in this series examined the size of the European energy services market, which we forecast will grow to around €10bn gross margin by 2020.

The key findings of this Paper are:

- ▶ Energy suppliers currently have a very small share of the energy services mass market – typically 10% or under. This equates to an average of a few Euros per household of gross margin per year that most energy suppliers are earning from this market.
- ▶ Delta forecasts that energy suppliers could substantially grow their share of the European market, doubling or even tripling market shares to over 30% in some countries. Including the value from flexible demand and customer retention can push the total gross margin for energy suppliers to €20-40 per household per year by 2020.
- ▶ Many energy suppliers are currently sitting on the sidelines – some are focusing on low value energy services offerings for customer retention & acquisition – but a few are already generating significant earnings, aggressively growing their energy services businesses.

The third Paper in this series will discuss strategy options for energy suppliers and other players to capture this multi-billion Euro prize.

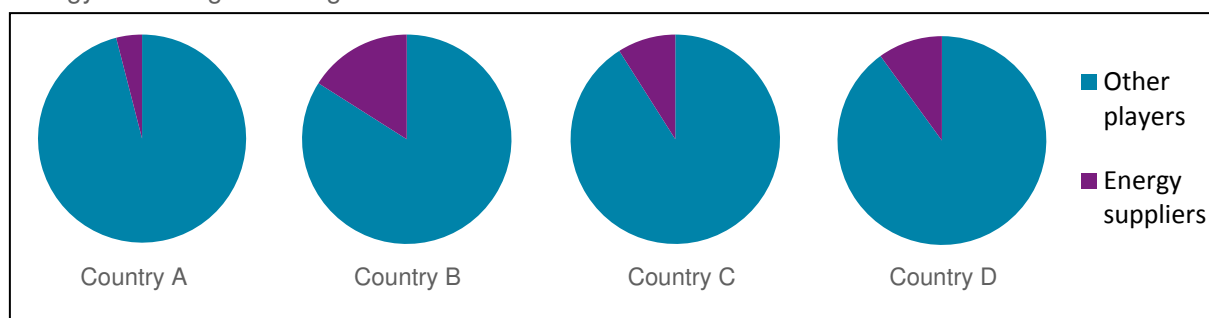
Energy suppliers have a very small share of today's energy services mass market

Energy suppliers have, on average across the countries that we have studied in detail, less than 10% of energy services gross margin today. Scaled up across the EU, this gives <€1bn gross margin that energy suppliers are currently securing from the energy services market.

In some countries, as shown in Figure 1 below, market shares are much lower – just a few percent. Here, energy suppliers are largely absent, focusing on selling commodity up to the meter and not securing meaningful revenue from beyond-the-meter services.

FIGURE 1: ENERGY SUPPLIER SHARES OF 2011 ENERGY SERVICES MARKETS

This figure shows, for four different EU countries, the share that energy suppliers currently have of energy services gross margin.



In most countries, energy suppliers currently secure just a few Euros of gross margin per household from energy services – exceptions include the UK and the Netherlands

In three of the four countries studied in detail, energy suppliers – on average - secure just a few Euros gross margin per household, insignificant compared to energy supply margins. But a number of energy suppliers – for example in Italy, the Netherlands and the UK - are taking the lead with already sizeable energy services businesses. For example in the UK, energy suppliers on average earn around €10 gross margin per household per year already. And for leaders in this country (such as Centrica), the numbers are significantly higher.

An increasing number of energy suppliers are dipping their toes in the energy services water – but with some quite different motivations

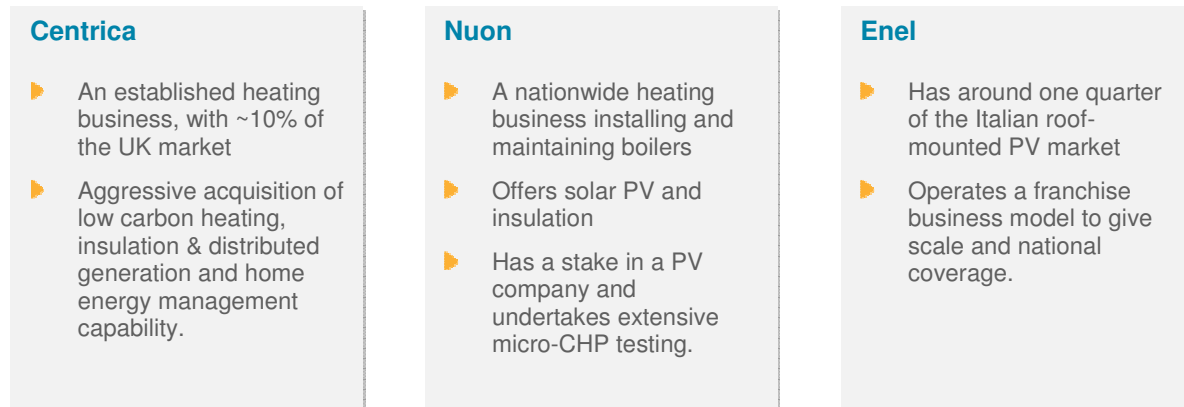
“We don’t expect energy services to do any more than pay for itself”, as one energy supplier told us, sums up the energy services motivations of many energy suppliers. For these companies, the main aim of energy services is to retain and acquire new energy supply customers – and also to build brand reputation amongst the general public. Examples include:

- ▶ Boiler maintenance offerings
- ▶ Heat contracting
- ▶ ‘Me too’ microgeneration offerings
- ▶ HEM (home energy management system) offerings

There are a small number of exceptions – energy suppliers that have developed successful energy services businesses which are adding meaningful gross margin to their bottom line. These companies have taken the conscious decision to access a greater share of the energy services gross margin currently on offer. Figure 2 below highlights some examples.

FIGURE 2: EXAMPLES OF ENERGY SUPPLIERS GENERATING SIGNIFICANT ENERGY SERVICES REVENUES

Centrica (UK), Nuon (Netherlands) and Enel (Italy) all offer and generate significant revenue from energy services.

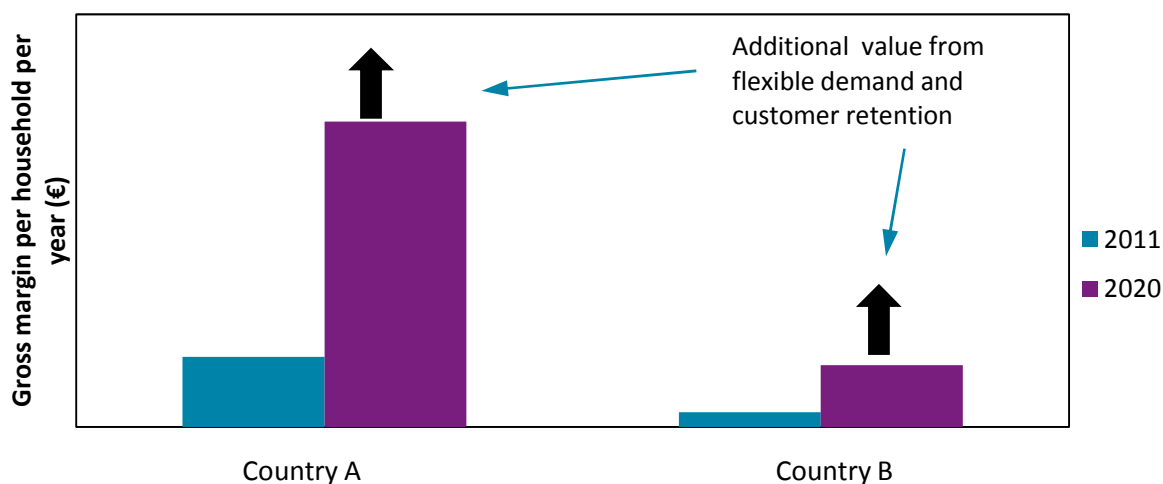


Energy suppliers could have a much larger share of the energy services mass market in 2020

Delta’s research indicates that energy suppliers have the opportunity to double or triple their current share of the energy services mass market. However, growth will be highly variable from one country to another, with shares reaching 40% in some but remaining close to 10% in others. Our research also shows that flexible (‘smart’) demand and customer retention (‘stickier customers’) will be a significant value driver for energy services in some countries (see Figure 3 below). In overall terms, total gross margins for energy suppliers are expected to reach €20-40 per household per year by 2020.

FIGURE 3: ENERGY SUPPLIER GROSS MARGIN PER HOUSEHOLD FROM ENERGY SERVICES IN 2011 AND 2020

This figure shows, for two countries, Delta’s forecast of how energy supplier earnings from energy services could grow.



The third and final Delta White Paper in this series on mass market energy services will explore strategies for energy services 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 and utility strategies will evolve within these markets.

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Companies attending the first Summit included Centrica, Endesa, Fortum, E.ON UK, EDF, Nuon, Essent, E.ON Ruhrgas, Iberdrola, EDP, Enamo, ScottishPower, ESB, Electrabel, EDF Energy, Alert.me, European Commission, Kofler Energies and others.