

Market Models

Roles and Responsibilities of the Distributor, Retailer and Regulator

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Elecpor Conference
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Agenda

The Changing Energy Marketplace

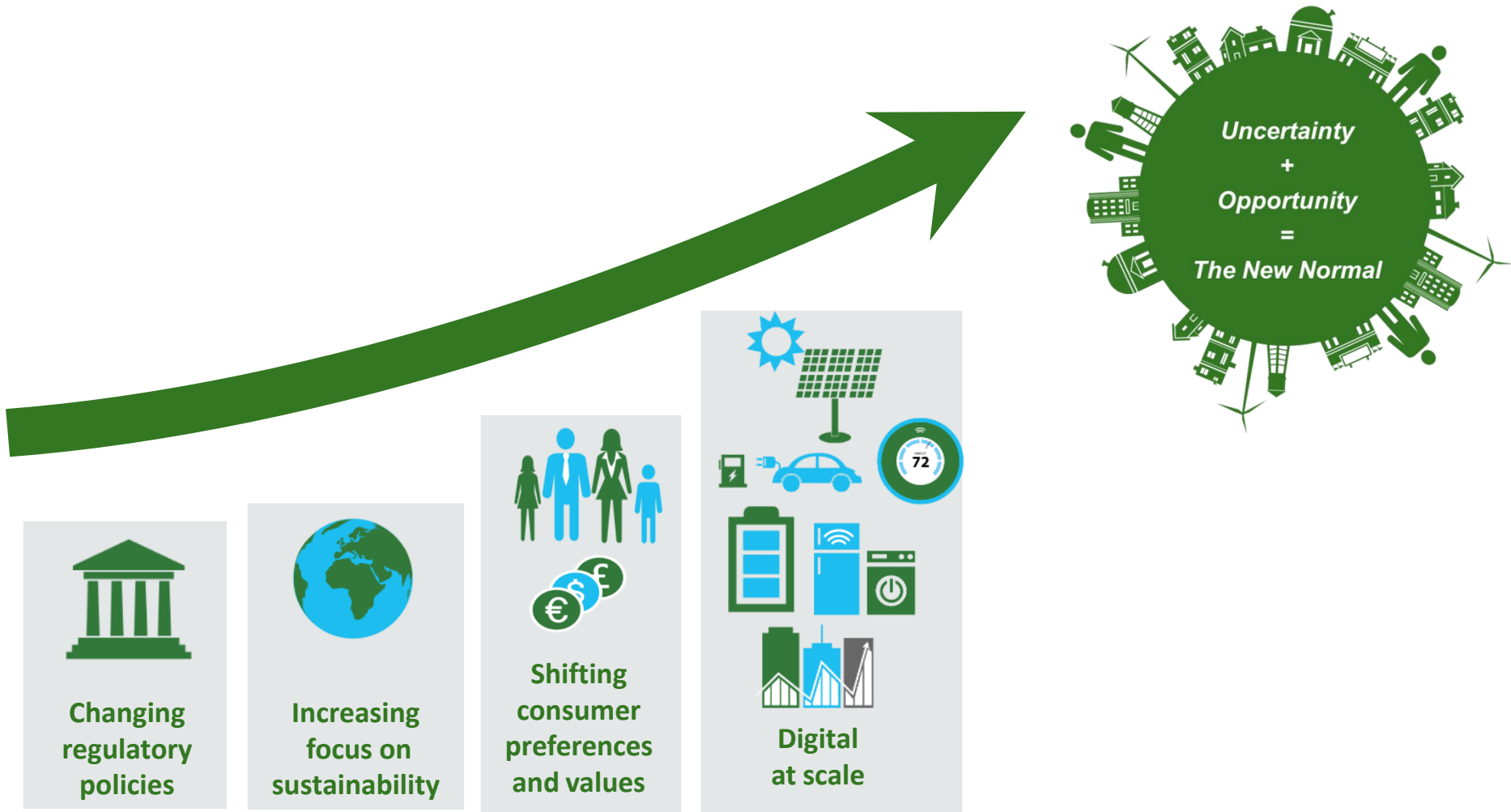
Spotlight and Lessons Learned in:

- Texas, United States
- Australia
- United Kingdom

Strategic Considerations for the Future

The New Normal

The global energy marketplace is a complex world of changing regulatory frameworks, dynamic markets, disruptive technologies and the digital revolution.



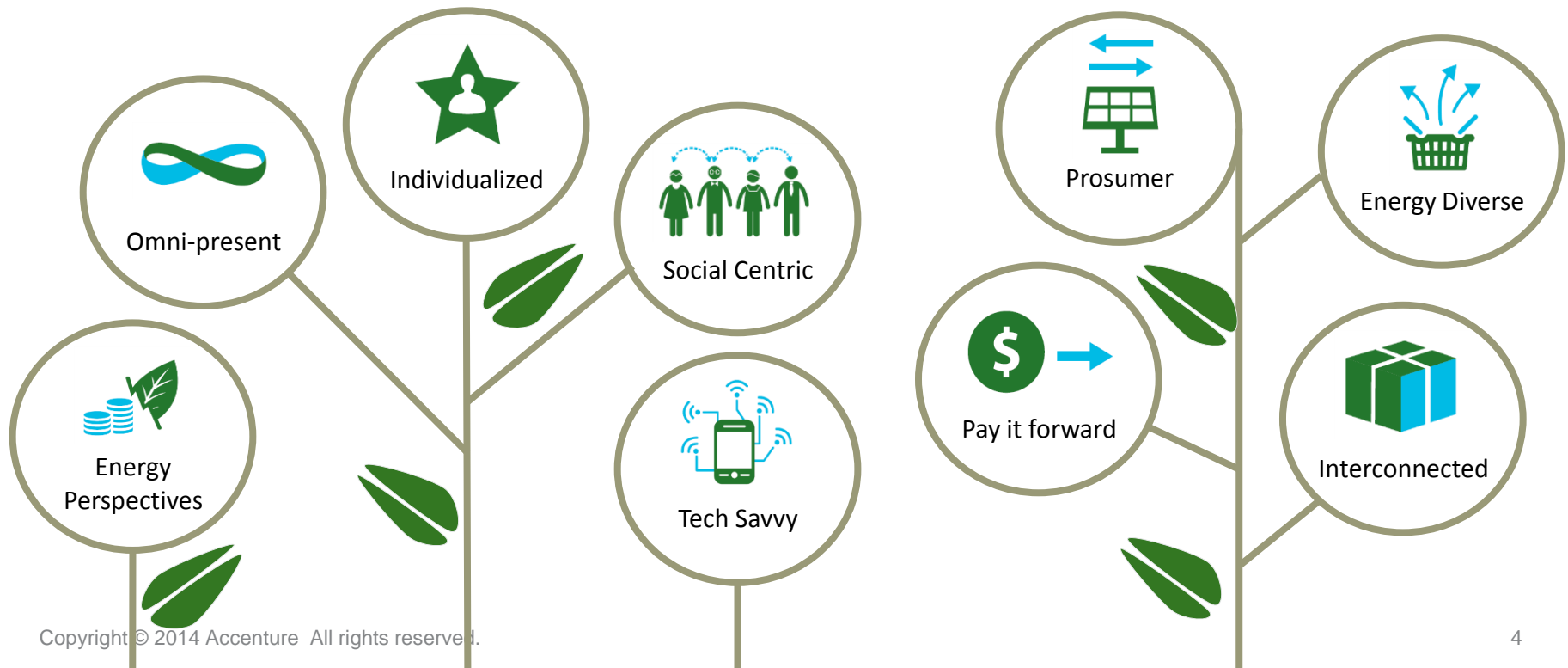
Regardless of the market model consumers are central

Accenture has completed over five years of comprehensive and continuous research focused on energy consumers. Our results offer actionable insights into the preferences and values shaping the energy marketplace.

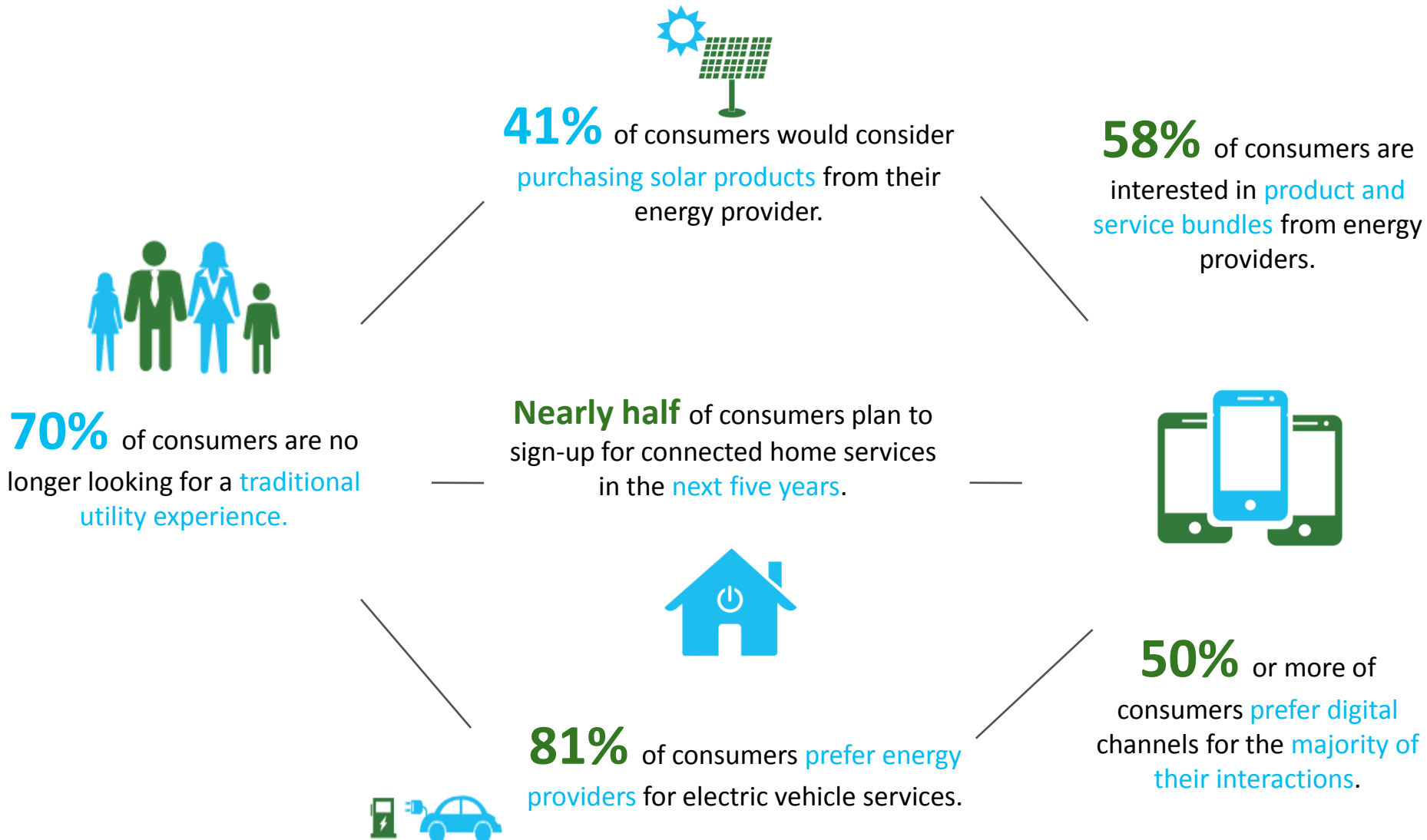


>50,000 consumers surveyed in 26 countries.

Highlights the prevailing characteristics of energy consumers.



Europe's New Energy Consumer



Agenda

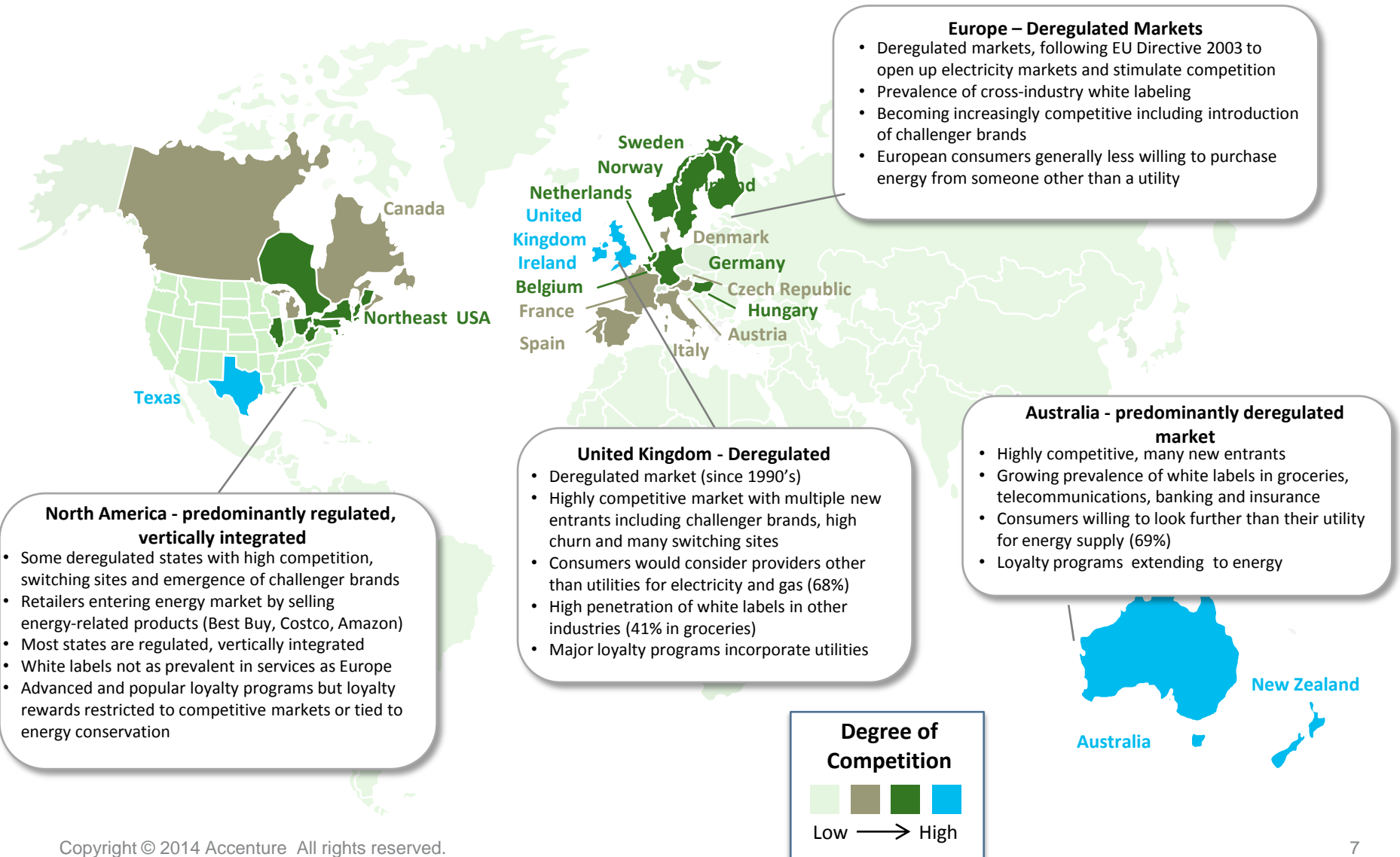
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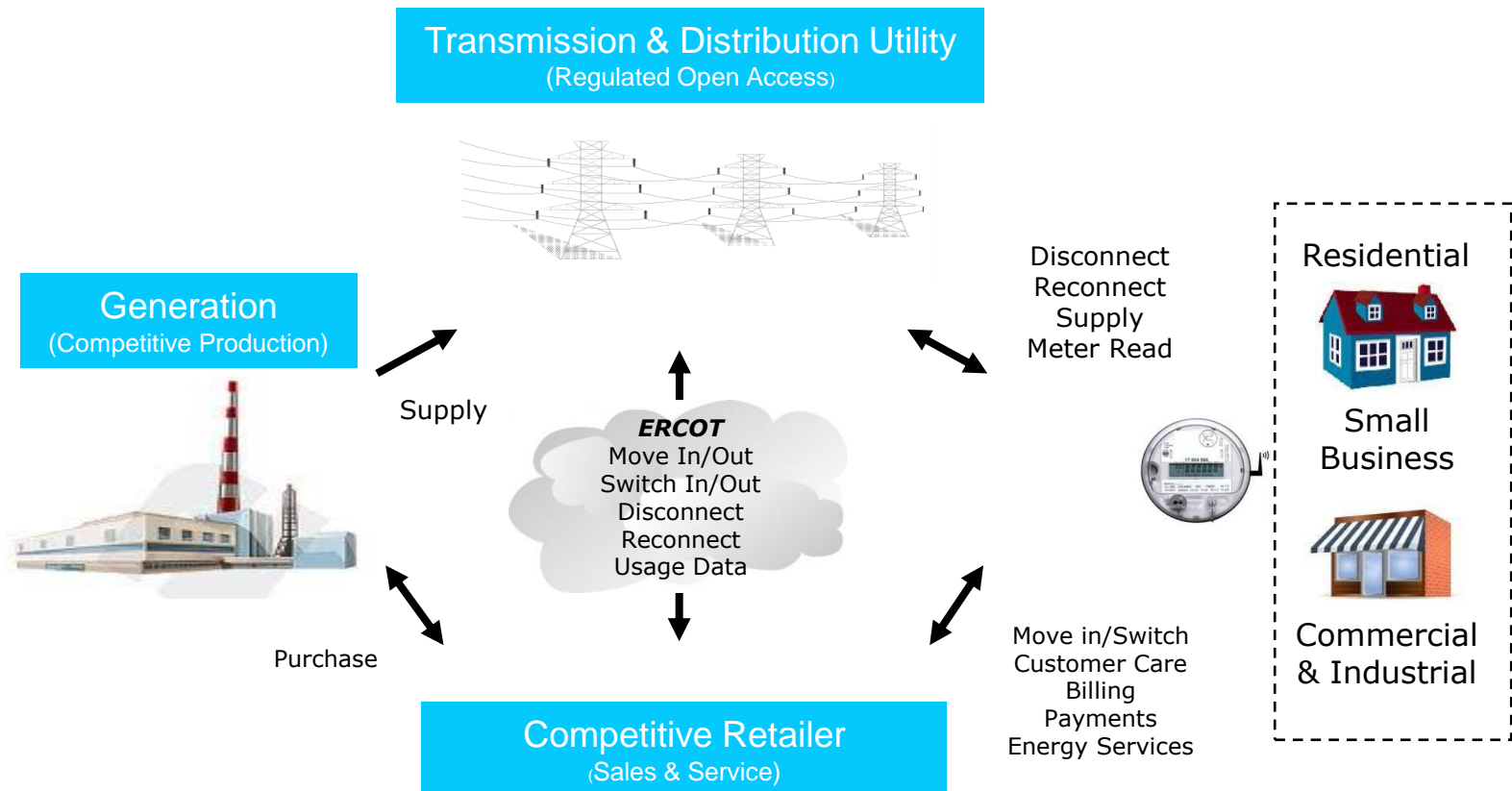
Strategic Considerations for the Future

Global Competition – There is no perfect market model



Spotlight on Texas, United States - Overview

Full retail choice began in 2002 for customers of investor-owned utilities within the Electric Reliability Council of Texas (ERCOT) region of Texas.



Spotlight on Texas, United States

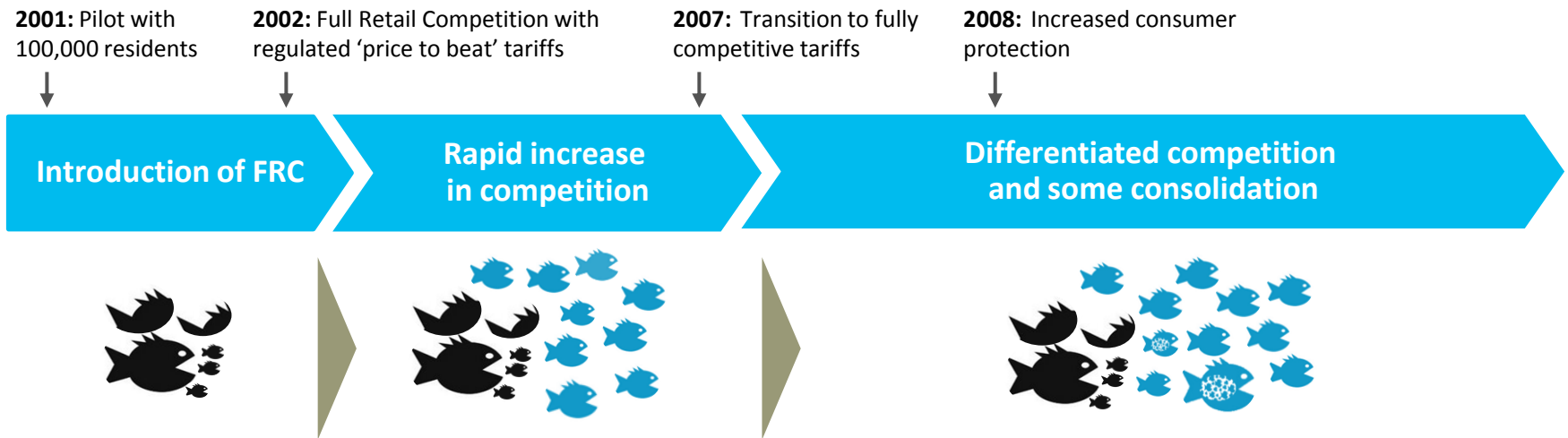
Market overview

- ERCOT manages electricity flow to ~5.8 mn residential consumers and ~0.9 mn small businesses in 5 deregulated grid zones
- Highly competitive with entry of many retailers – over 80 competitors and 400 products and services
- Exceeded 2025 target of 10,000 MW of installed renewable capacity 15 years early
- Installation of advanced metering infrastructure is almost complete
- High consumer churn rate – Almost 60% of residential customers, 70% of commercial and over 70% of industrial customers are now with non-incumbents
- Provider of last resort established as a safety net.

Regulatory overview

- Regulatory separation of retail sales, generation, and T&D business functions in incumbent utilities, but can be under the same holding company
- Significant price deregulation, with only provider of last resort service being price regulated
- Focus on renewable energy development through mandated procurement and federal tax credits for wind energy

Spotlight on Texas, United States



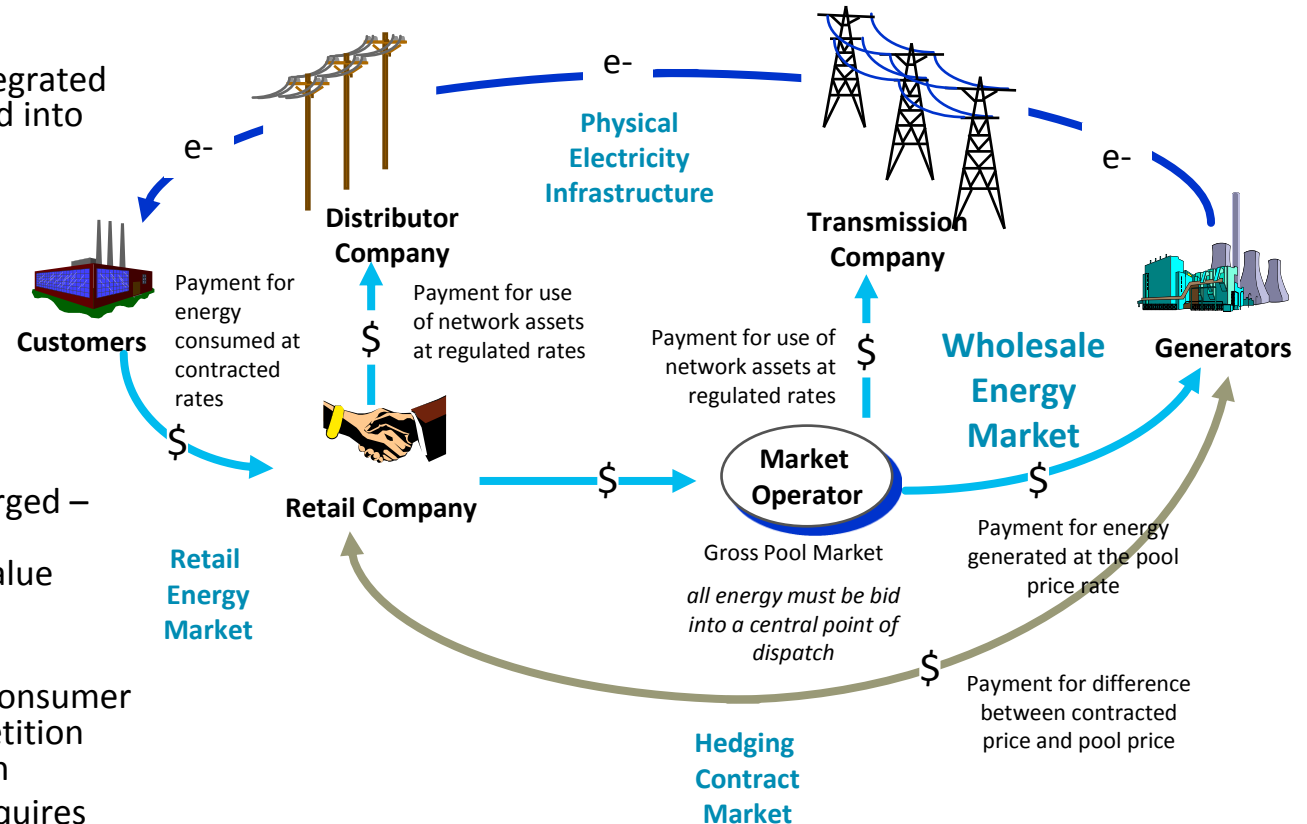
Insights

- 1 Clear segregation of roles of generation, distribution and retail companies spurred increased competition from traditional and non-traditional players
- 2 Competition has led to product innovation in tariffs, bundles and offers (e.g. time-of-use rates), and more energy management services (enabled by smart meter deployments)
- 3 Acquisitions and number of brands have increased as companies seek to establish differentiated offerings targeting various consumer segments
- 4 High consumer awareness and price transparency, supported by price comparison websites and ease of switching through ERCOT, has driven significant consumer churn

Spotlight on Australia - Overview

Deregulation in Australia was introduced state-by-state, opening up by tranches based on customer size.

- Govt. owned, vertically integrated monopolies were separated into
 - Generation
 - Transmission
 - Distribution
 - Retail
- Then sold / privatized post separation.
- New business models emerged – including niche players, re-aggregating along the value chain - ‘Gentailers’
- Healthy tension between consumer satisfaction, market competition and regulatory intervention
 - Lowering barriers requires losing monopoly rents
 - Consumer protections increase costs



Spotlight on Victoria, Australia

Market overview

- Full Retail Competition: In Victoria Australia ~2.4 mn residential consumers, ~0.3 mn small businesses
- Strong presence of 'gentailers' (generation and retail business model)
- Incumbents have been acquiring other retailers to consolidate market share
- Strong demand for energy efficiency and solar products and services
- High energy prices have led to price sensitive consumers
- High consumer churn rate

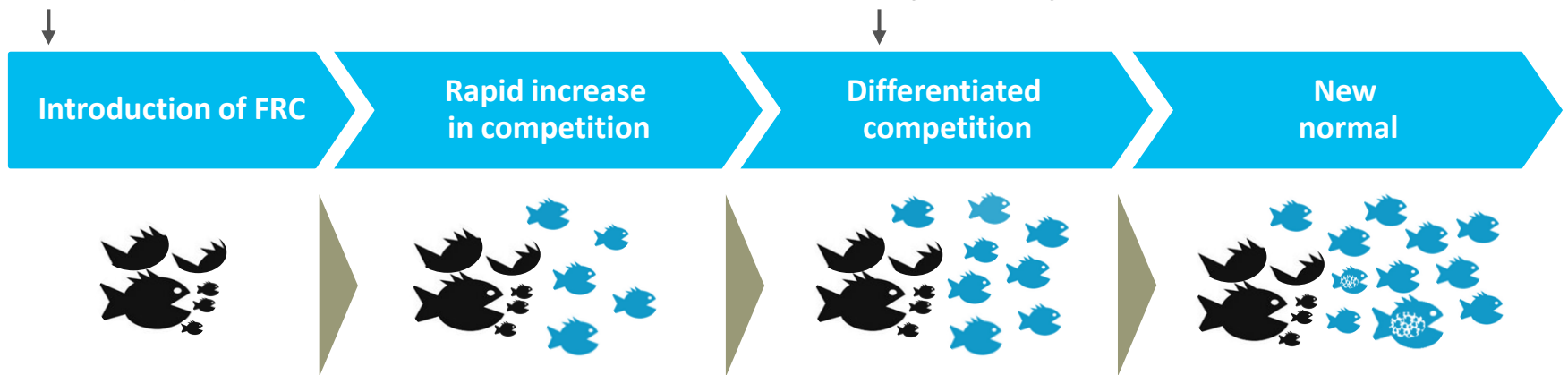
Regulatory overview

- No price caps and price tariffs
- Focus on ensuring market transparency to drive consumer awareness of choice
- Multiple retailers of last resort
- Subsidies of energy efficient products and energy efficiency targets, e.g. through the Victorian Energy Efficiency Target (VEET) scheme

Spotlight - Australia Market

2002: Full Retail Competition
for < 40MWh/year

2009: Deregulated prices, state
managed switching website



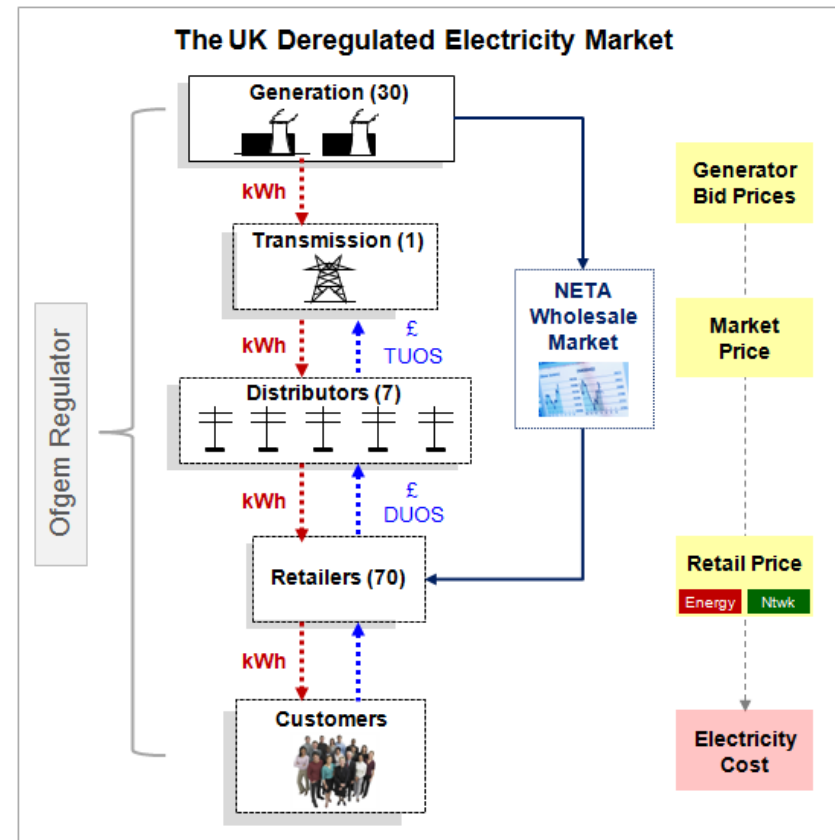
Insights

- 1 Absence of price regulation attracted new entrants into the market and increased price competition
- 2 Price and offering transparency, supported by regulatory efforts, drove consumer switch rates
- 3 A significant rise in Australian energy prices led to high price sensitivity amongst consumers
- 4 A large segment of consumers have stayed with incumbents on standing offer contracts for greater consumer protection

Spotlight on the United Kingdom

The UK's 1989 Electricity Act progressively led to a deregulated electricity market comprised of five operating entities. Each entity acts independently with overall regulatory oversight provided by Ofgem.

- Wholesale trading market to determine market prices
- Large number of competing generators (privatised)
- 1 major transmission network provider (privatised)
- 12 regional distribution areas owned by 7 companies (privatised)
- Full retail competition
- Competing retailers yet a dominance of 6 companies with segmented value propositions (emergence of 'white label energy')
- Networks regulated by Ofgem based on prescribed service levels (with some incentives), "efficient" cost recovery plus an allowable return on investment
- Networks must provide open access to market participants based on prescribed regulations



Spotlight on the United Kingdom

Market overview

- Full Retail Competition: ~27. 8mn residential consumers
- Strong presence of 'gentailers', dominated by the 'Big 6'
- Rising energy prices have made consumers more price sensitive and distrustful of energy providers
- Low uptake of 'smart services'
- Moderate consumer churn rate

Regulatory overview

- Removal of price caps and regulated tariffs
- Increased energy prices have increased political focus and regulatory oversight of electricity providers
- Focus on consumer protection with clearer information and simplified tariffs, e.g. no more than four tariffs for each type of fuel
- 'Energy Companies Obligations' for large providers require them to support vulnerable and low income households, reduce carbon emissions and home heating costs

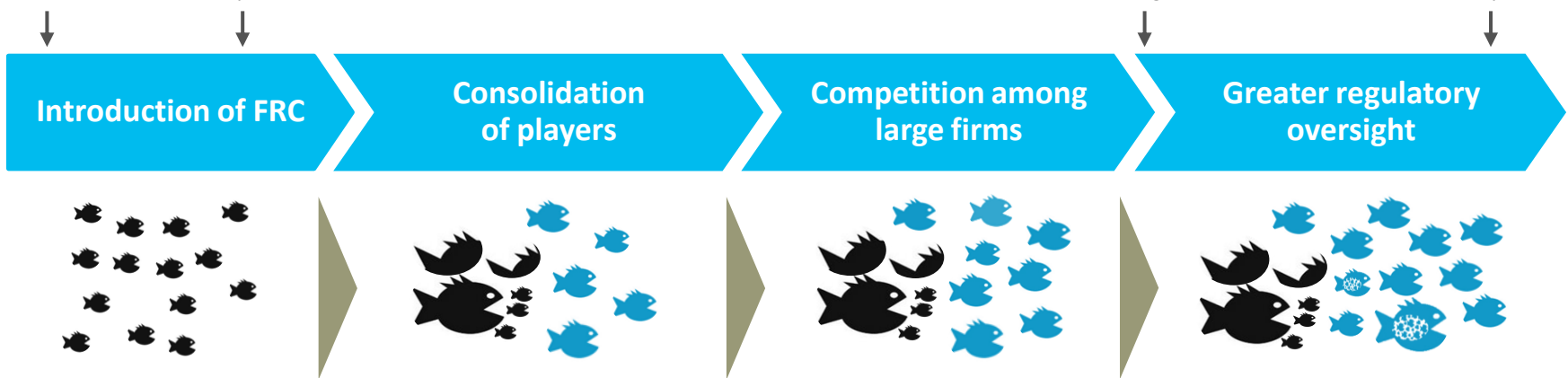
Spotlight on the United Kingdom

1999: Full
Retail competition

2000: Gradual removal of
price controls until 2002

2013: Energy Companies
Obligation Introduced

2014: Tariff
simplification



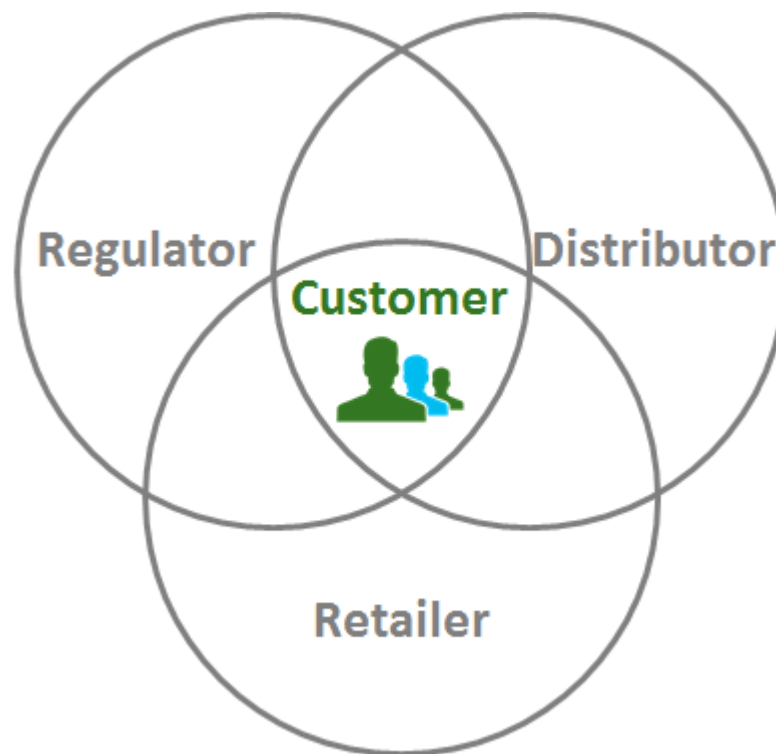
Insights

- 1 Strong 'gentailer' positions have limited liquidity in the long term energy market and increased barriers to entry
- 2 Continued strength of incumbents has led to public calls for greater transparency, fairness, and tighter regulation in the market and a reduction in number of products and services.
- 3 Consumer price sensitivity and rising prices have led to proliferation of price comparison websites and advisory services, driving increased churn

Roles and Responsibilities

Role of the Regulator

Facilitates, develops and monitors market rules, regulation, and incentives.



Role of the Distributor

Ensures security of electricity supply, quality of service, and network efficiency.

Partners with retailers to support their products and services to end consumers and acts as a market facilitator (e.g. meter data, settlements)

Role of the Retailer – Markets and offers products and services to end consumers. Responsible for overall customer experience, contract management, switching and billing.

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Strategic Considerations for the Future

Strategic Considerations

- **Market Design:**

- Ensure regulatory incentives reflect desired commercial outcomes
- Initial regulatory concerns with incumbent advantages can lead to stringent requirements which if not relaxed can stifle competition.

- **Transition:**

- The separation of Retail from Distribution is a significant activity, impacting every process and system.
- In Australia, distributors were slow to establish effective business separation of retail which left retail operations with higher costs and encumbered by older systems and processes.
- Brand early and get cost structure right.

- **Stabilization:**

- Initially there will be a proliferation of new retail entrants, however this will be rationalized as retailers gradually integrate - both vertically and horizontally.
- Regulations mature over a number of years which means effective market arrangements and broader customer benefits take time to evolve.
- It takes time to correctly balance market participant objectives. For example, early buyers of network businesses in Australia were initially seen to have paid too much as cost reductions strategies took longer to achieve and pricing regulations constrained revenues.

Strategic Considerations for the Future

Changing business imperatives – while operational excellence is important, an “intimate customer” strategy is also key.

Smart Meters -can facilitate a new wave of innovation and customer-focused programs (e.g. time of use rates , energy efficiency programs) and enable advanced customer and asset analytics.

Make sure handoffs are integrated and seamless to consumers - consumers do not necessarily understand who the market participants are and what their roles are. The key is to make it as simple and effortless for the customer as possible, and agile enough to respond to changing energy consumer preferences.

