



## Winter Planning 2006/07

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## Introducing E.ON

**E.ON formed in June 2000 and became the world's largest investor-owned utility**

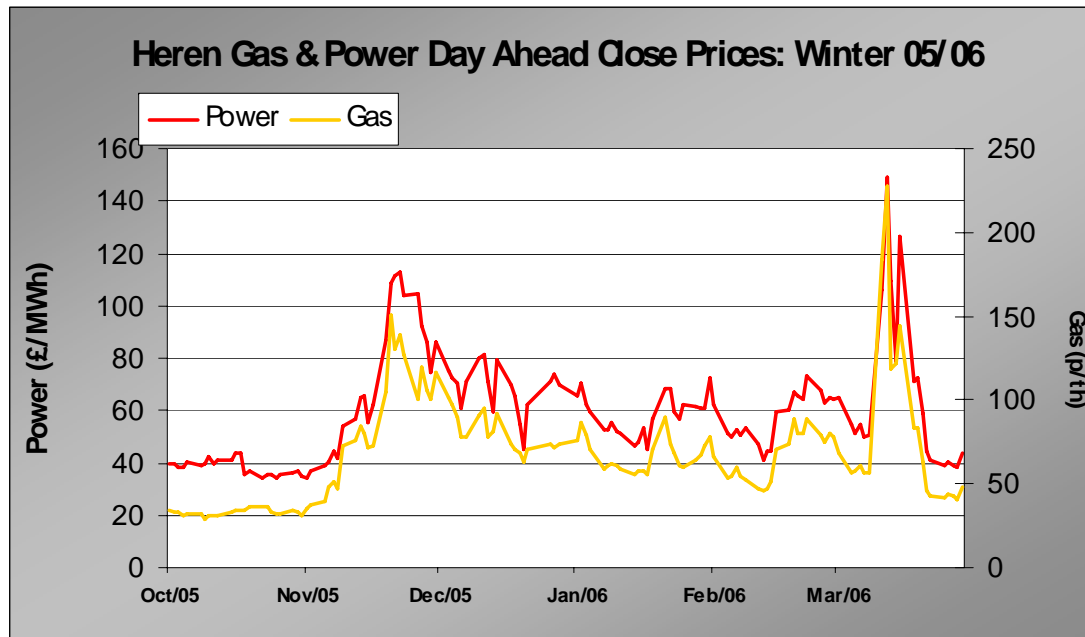
- E.ON's focus is energy and E.ON Energy is the leading retailer to industry and commerce in the UK
- E.ON has around 67,000 employees in 17 European countries plus the United States
- E.ON is Number 2 in power and gas domestic retail supply with around 8.5m customer accounts
- E.ON is committed to investing in the UK energy market

## Winter 05/06 – A Brief Look Back (1/3)

- Winter 05/06 prompt gas and power prices were extremely volatile and were the result of a steadily rising market over the last few years
- Volatility was prompted by several factors such as low Interconnector flows, unplanned outages at Rough and numerous cold weather snaps (although on average National Grid (NG) stated it was only slightly colder than normal)
- Nervous sentiment characterised the traded markets which heightened when gas was withdrawn from storage in November 05
- The majority of DSR came from the CCGTs. There was some DM response and also response from NDM sites – *“Non-Daily Metered demand was typically 3-4% lower than had been forecast” NGT*

## Winter 05/06 – A Brief Look Back (2/3)

- After NGT issued the Gas Balancing Alert on Monday 13<sup>th</sup> March, Heren day-ahead gas prices were at 227p/th and within-day prices were at 198p/th. Prices remained at extreme levels for the duration of this week



## Winter 05/06 – A Brief Look Back (3/3)

### What happened to E.ON's customers?

- Customers responded to market volatility in various ways depending on whether they had fixed out their contract price, had the ability to fuel switch, plant/ business flexibility, etc.
- It was integral to keep very close contact with supplier's 24hour Operations Team. Re-forecasts were crucial with clear communication lines
- Weather driven demand swings were seen from NDM business and domestic customers

### E.ON introduced two gas sell back propositions to the market:

- **Emergency Sell Back:** E.ON endeavours to send customer advanced notice of a potential Gas Supply Emergency and sell back customer's gas to the market
- **Commercial Sell Back:** purely price driven agreement with the same structure as the above product but sell back triggered by the market price level

### What happened to E.ON?

- Switching generation from gas to oil and distillate

## Winter 05/06 – Anecdotal Customer Feedback

- The first priority of our customers is to run their businesses, not to sell their gas supply
- Even very large users do not see the value of interruptible contracts
- Customers have been dissatisfied in the past by legacy sell back contracts
- Customers do not understand the industry regulations and find interruption contracts very complex
- Up-front payments or benefit share agreements for the optionality they provide were desirable

## Winter 05/06 – Key Learnings

- **Plan Early**

Although Winter 05/06 issues were anticipated early, E.ON starting taking practical steps with its customers at a later stage. Our gas sell back propositions entered the market in December. We should have better anticipated the complexity of the market context and allowed more time to prepare.

- **Keep Propositions Simple**

For some customers, sell back contracts were new and could be complicated, particularly as industry rules were changing at the time. A key learning has been to take our customers through the contract construction and keep the structure as simple as possible. Additionally, we need to deliver incentives to sign up.

- **Maintain Robust Internal Operations**

It is critical to have up to date customer contract details and ensure that all information flows between ourselves and our customers is held up by systematic processes.

- **Focus on Customers**

E.ON planned minimal customer communications last year in the way of either emergency communications or winter readiness communications.



## Winter 06/07 – Early Planning

- Winter 06/07 readiness planning started before Winter 05/06 had even finished with review sessions
- Critical work streams have been established with clear deliverables
- E.ON hit the ground running

### What does this mean for our customers?

- Clear structure in business to support new DSR contracts
- Proactive sales colleagues supported by relevant business “experts”
- Aligned wholesale and retail position in terms of value and risks
- Optimised existing product set: clearer guidance on how they work and what the benefits could possibly be
- Greater range of DSR products in order to allow our customers to respond more flexibly to emergency situations

## Winter 06/07 – Keep Propositions Simple

- Improving existing DSR products to respond to the criticism of “unnecessary complexity”
- Creating new products and agreements with customer input at an early stage and throughout the development process
- Look at gas as well as power

### What does this mean for our customers?

- Customers taken through the development process will have a better understanding of business fit and work with supplier to optimise the product
- DSR propositions that provide customers incentives to respond to price volatility and emergency situations
- DSR propositions that are as simple and effective as possible
- Taking a “pick ‘n mix” approach e.g. we have a range of online management services which can play a major part in helping customers to manage their energy
- Do not exclude power customers

## Winter 06/07 – Maintain Robust Internal Operations

- Understanding our own risks and reviewing T&Cs – our flexible products present a certain amount of risk for us as a supplier, and we need to be able to manage these risks
- Ensuring that forecasting obligations exist
- Test and Learn of emergency situation
- Co-ordinating and utilising different parts of the E.ON business – Trading, Legal, Regulation, Operations, Proposition Development, Account Managers etc. Joined-up working practices ensure the best approach and solutions to Winter operational challenges

### **What does this mean for our customers?**

- Enhance our relationship with customers through understanding exactly which risks should be managed by which party
- Encourage early communication of volume change

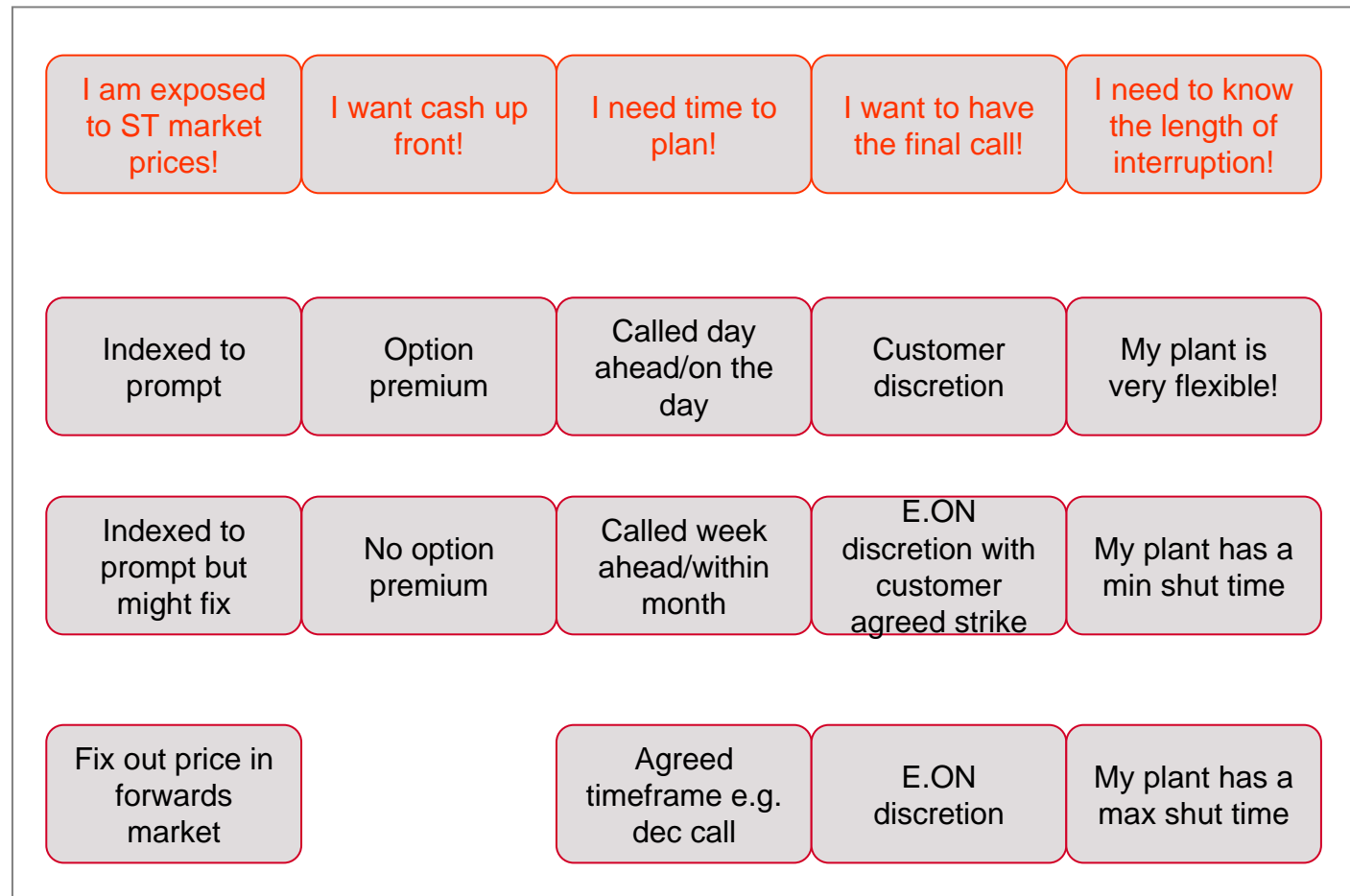
## Winter 06/07 – Focus on Customers (1/2)

- E.ON's Winter Readiness Communications – ensure regular contact with customers and engagement on key current and future issues
- Emergency Response Communications – improve data capture channels, e.g. web login
- Business experts assigned to assist Account Managers
- Colleague and customer education on DSR issues (driven by risk awareness)

### What does this mean for our customers?

- Propositions derived from customer needs
- Support provided at the right level
- E.ON W06/07 customer events (North and South) planned
- Greater range of DSR products developed with customers to meet different requirements
- A less complex DSR product range allowing customers, making demand side response activities more accessible to all customers

## Winter 06/07 – Focus on Customers (2/2)



## Winter 06/07 – Potential Proposition Solutions

### GAS

- Emergency Sell Back (existing)
- Commercial Sell Back (existing)
- Within-day and day-ahead call options, whereby E.ON pays customers for having the option to reduce/stop a customer's demand at short notice
- Month-ahead call options, whereby extended gas outages are planned at customers sites during Winter period.
- Gas Unfixing, both single and multiple unfixes
- Fuel oil indexed call offs

### POWER

- Triad Warning service (existing)
- Customer calls into 24 hour operations service to offer demand turn down/sell.
- Commercial Interruption for power.
- Within-day and day-ahead call options, whereby E.ON pays customers for having the option to reduce/stop a customer's demand at very short notice
- Month-ahead call options, whereby extended power outages are planned at customers sites during Winter period
- Base load power unfixing, both single and multiple unfixes

## Winter 06/07 – Outlook

**Besides building up the DSR capability, E.ON is undertaking a number of actions to prevent a Gas Emergency, these include but are not limited to:**

- Participating in Ofgem seminars and working groups
- Developed I.T. systems to better handle customer interruption and potentially aggregate customer demand side response
- Ongoing involvement in discussions with Environment Agency to ensure that environmental constraints on CCGTs, do not constrain response to an emergency
- E.ON UK has the largest fleet of fully flexible CCGTs in the U.K., equivalent to over 10% of the entire U.K. CCGT fleet. This means that we can provide the greatest amount of CCGT demand side response by a generator
- Also exploring the technical, commercial and consenting issues surrounding installation of distillate at potential new sites, Grain and Drakelow – no decision taken, as yet
- E.ON is investing significantly into gas storage in the UK