



Is Price Enough?

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Agenda

- Changing World
- What do customers want?
- Managing Information
- Options
- Way ahead

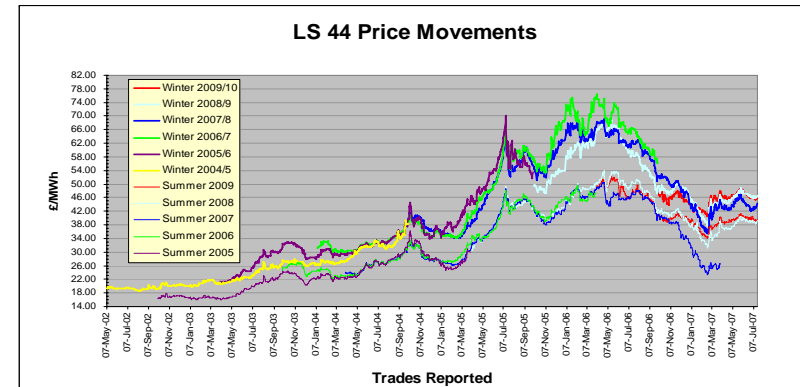


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Changing World

- Risk
 - Price volatility
 - Timing
 - Flexible products
- Environmental
 - Corporate Responsibility
 - Supply Chain Management
- Cost
 - Carbon Reduction Commitment
 - Rising Environmental Costs



Environmental Costs

Carbon, ROC, LEC, TX costs and losses

Circa £20/MWh



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What do customers tell us they want?

- Lowest Cost?
- Market related?
- Free?
- Value for money?
- Flexible?
- Certainty?

Easy life?



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Energy Buyer Role

Aim to:

- Make the right decision at the right time
- Gather information to support the decision
- Defend their decision afterwards

Buying focus:

- Unit Rate Cost last 17 years
- Some consider Supplier Service Quality
- Little else

Is this enough?



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Managing Energy Information – A Game of two halves

- Supply and Demand
 - Total Energy Usage now important
 - Total Cost
 - Carbon foot print
 - Environmental taxes/levies
 - Corporate responsibility
- What is the Role of Suppliers?



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Supplier Services

- Traditional Information
 - Forward curves
 - Electricity, Gas, Coal & Carbon
- What other products are available?
 - Energy surveys
 - Green Products
 - Low Carbon Products
 - Cost usage messages

Translate into action internally



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Internal Marketing

- Having bought at the best price how can the Energy Manager give the right cost signals to their company?
- Clear signals on the time cost structure of energy
 - Stimulate awareness and debate
 - Influence investment decisions
 - Influence behaviour
 - Reduce total costs

Management Incentive Tool



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Disaggregated (Multi-Rate) Tariffs

- Free Option
- No change required
 - Largely overlooked
 - This is the remaining major cost-saving opportunity



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Why so little used?

- Years of low prices removed the driver to “bother”
- Most Brokers resist variety
 - More complex for Brokers to analyse – requires new systems
 - No additional incentive for Broker to promote
- More complex to analyse – but rewards can be significant



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Product - Options

- Two rate Day night – massive amount of information lost in the averaging
- A multi-rate tariff allows finer granularity of the cost message.
- Typical structures
 - Seasonal tariffs,
 - Multi-rate within day
- Bespoke combinations are possible and easy



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What is the cost of a Multi-Rate Product?

- HH customers are priced against a load curve
- The raw cost of energy will be the same regardless of tariff structure
- Two rate day/night tariffs are riskier for the supplier than multi-rate tariffs and therefore may attract a premium

Normally no extra costs



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Process

- Either:
 - Ask for a selection of tariffs
 - Reveals the premium (or discount)!
- or:
 - Agree two rate tariff
 - Then convert quote to multi-rate



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Multi Rate Options

- No limit
 - Popular peak manager
 - Evening/Weekend user
 - Variable night duration
 - increase night period to 10 hours
- Seasonal or monthly structures
- Bespoke structures



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Link with Smart Meters

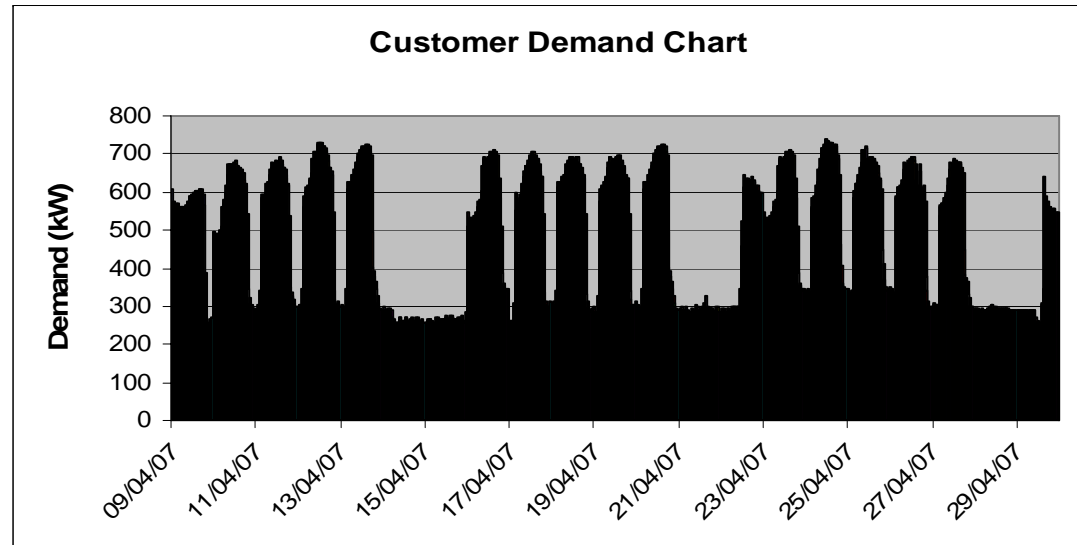
- NHH market is evolving
- Working hard to get effective means of getting data into settlements
- Smart meters will then use interval data
 - Allows full benefit of HH data into the NHH market
- Danger HH market is getting left behind



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Product Example (1)



- Three week typical pattern of usage for a 60% load factor 2MW industrial customer
- This customer is looking at an annual electricity bill of £715k
- If the customer decided to move 20% of demand into the evening or weekend period from the main day period:
 - On a normal day/night structure – no change to overall cost
 - On an evening/weekend tariff this would save the customer 4.4% over a year - £31k

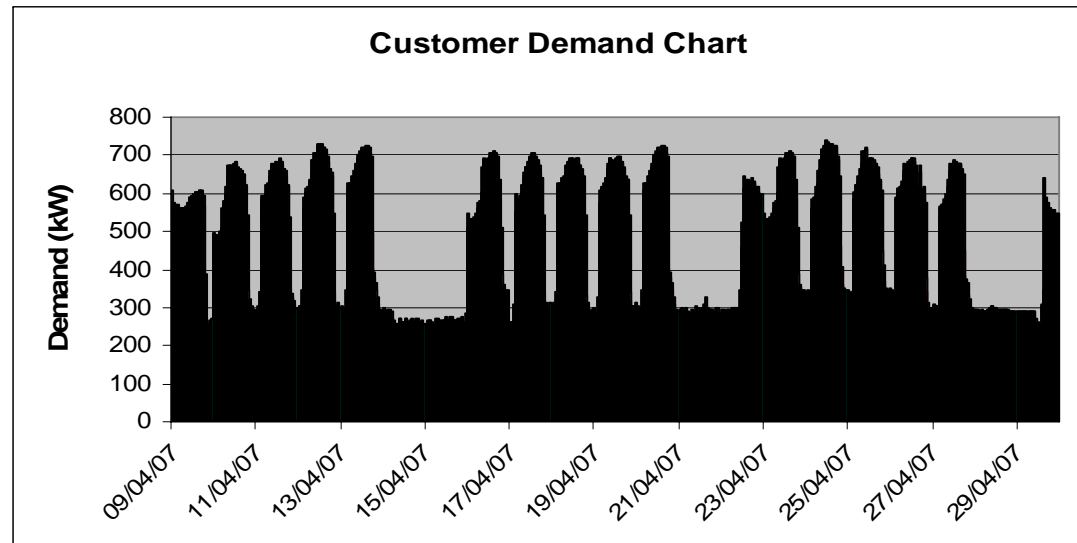
Transmission charging element ignored but may be substantive



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Product Example (2)



- Same customer – different product
- If the customer decided to move 50% of peak demand into the non-peak day period (i.e. out of the period 16:00 to 19:00), and 10% of day units into the night:
 - On a normal day/night structure – save 3.5% - £25k
 - On peak manager tariff this would save the customer 4.5% over a year - £32k
 - *Transmission charging element ignored but could be additional £42k*



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Future

- Buying well is important
- Selling well and influencing the internal behaviour is a major challenge
- Extracting maximum value from data
 - Different tariffs
 - Complex cost messages
- Customisation



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