



Open and honest Markets

BizzEnergy,
Wednesday, 18th June 2008



Agenda

- BizzEnergy
- Are Customers getting a fair deal
 - How can we know without wholesale market transparency
- Retention Strategies
- Metering
- Governance
- New Entry



BizzEnergy

- Founded May 2000.
- Venture Capital backed
- 45,000 SME customers, Domestic Licence
- £180m turnover, £1m profit
- 150 staff based in Worcester
- All business critical activities carried out in house

- Innovation is the key
 - Pricing Engine
 - Green Product 2001
 - Smart meters 2003
 - Flexible products
 - Self serve web site

- Very risk adverse. Oldest new entrant.



Market Structure Issues

Are Consumers getting a fair deal?

- UK most competitive and open market in Europe?
- What evidence to support this?
 - High Customer Prices compared to Europe
 - Limited Visibility of Big 6 Financial Accounts
 - Misleading Accounts
 - Wholesale Market liquidity poor beyond first season

We do not know and cannot judge

Wholesale Liquidity SME Relevant

Count of Annual Product Trades Reported by year

| Count of trades | 2004 | 2005 | 2006 | 2007 |
|-----------------------|------|------|------|------|
| Baseload 1 Yr | 1369 | 513 | 1279 | 1691 |
| Baseload 2 Yr | 199 | 26 | 321 | 326 |
| Baseload 3 Yr | 16 | 0 | 31 | 0 |
| Peak load 1 Yr | 77 | 20 | 48 | 31 |
| Peak load 2 Yr | 2 | 0 | 1 | 0 |
| Peak load 3 Yr | 0 | 0 | 0 | 0 |
| LS44 1 Yr | 62 | 15 | 44 | 30 |
| LS44 2 Yr | 2 | 0 | 1 | 0 |
| LS44 3 Yr | 0 | 0 | 0 | 0 |

Notes: LS44 is Load shape 44 which is equal capacities of baseload and peak. Peak is 7am to 7pm weekdays, Baseload is constant power
As per Argus Daily Reports

Result

- Lack of Visibility of Commercial Opportunity to new investors
- Limited new entry – generation and supply
 - Increased concentration of markets
 - Increased concentration of opportunities (BE)
- Loss of consumer confidence
 - Loss of customer choice

Concerns over the robustness of the market

Bizz Proposal

- Vertically Integrated players with more than 5% market share:
 - trades between Generation and Supply must be through an “Open Market” in an accessible form to other market participants
 - Ideally all trades but a minimum requirement is 80%
 - Produce Regulated Accounts for each Licence
 - Cross subsidy between licences prohibited (conforms with unbundling provision ED 2003/54/EC 23E)
 - Regulated Accounts to be based on open market transactions.

Level playing field
Competition on Innovation,
cost to serve and customer service

Imbalance – Cash Out - Issues

- The electricity industry has a complicated system balancing process, called Cash out, that:
 - Is imperfect and polluted by constraints and system dynamics
 - Fails to focus on energy HH balancing actions only
 - Offers a major financial hedge for integrated players
 - ...and discriminates against one sided players
 - it confuses system operation and HH energy balancing

Very few people fully understand the interrelated dynamics of the mechanisms. Leading to exploitation.

Cashout (II)

- Proposed mods P217 and P211 both add significantly to the complexity and confusion.
- The imbalance mechanism is a mechanism not a market and market rules do NOT apply:
 - Real physical plant parameters determine bids
 - Monopoly providers at delivery
 - Intra half hour imbalances distort the market
 - Commercial decisions will be on total impact of Imbalance mechanism income, cashout costs, RCRC and BSUoS.

Simple approach based on the forward market

Retention Strategies

Barriers to Customer Switching

- Complicated and disingenuous terms and conditions in customer contracts
- Deemed acceptance of contract offers when customers do not respond
- Objection practices.....
- Use of penal out-of-contract prices that are waived if contracts are renewed

Major review required of whether these practices are in the customers interests

Metering

Metering & Data Services

- Increasing withdrawal of incumbent providers and necessity to find alternative providers, but ...
- Appropriate providers are few and do not benefit from scale economies – therefore costs to small suppliers increases whilst choice is increasingly limited
- Essential to ensure fitness of market design ahead of smart metering roll-out

Governance

Issues

- Devil is in the detail
- Democratic change management process dominated by Big 6
- Big issues worth more to Big 6 than to Regulator
- Limited or frequently no representation of customer interests
 - Interesting divergence of view between energywatch and Ofgem

New Capacity

New Capacity

- We are concerned we will become over dependant upon Gas plant.
- Carbon trading is still too volatile to underwrite new CCS and Nuclear plant investments.
- Transition support is necessary to kick start new non gas plant.
- Bizzenergy proposes capacity tickets for say 4*800mw of CCS and 2*1600mw of Nuclear

Summary

- Customer interests need protecting through encouragement of diverse competition.
- Minor changes to the wholesale market structure
- Cashout too complicated and open to abuse.
- Formal review of Contracting practices required
- Formal review of Metering Competition required
- Governance – review underway
- New Entry - kick start for fuel diversity

More focussed targeted regulation required now to avoid full blown Regulation in the future