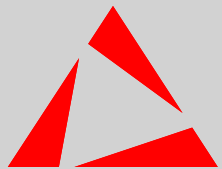


# EMR and the demand side

*Falmouth Energy Week*

23<sup>rd</sup> May 2011  
*Simon Skillings*



Trilemma UK

Why?

Required return

Observation

Theory

Investment risk



# Why?

Required return

Observation

Theory

Good old days

Investment risk



Why?

Required return

Observation

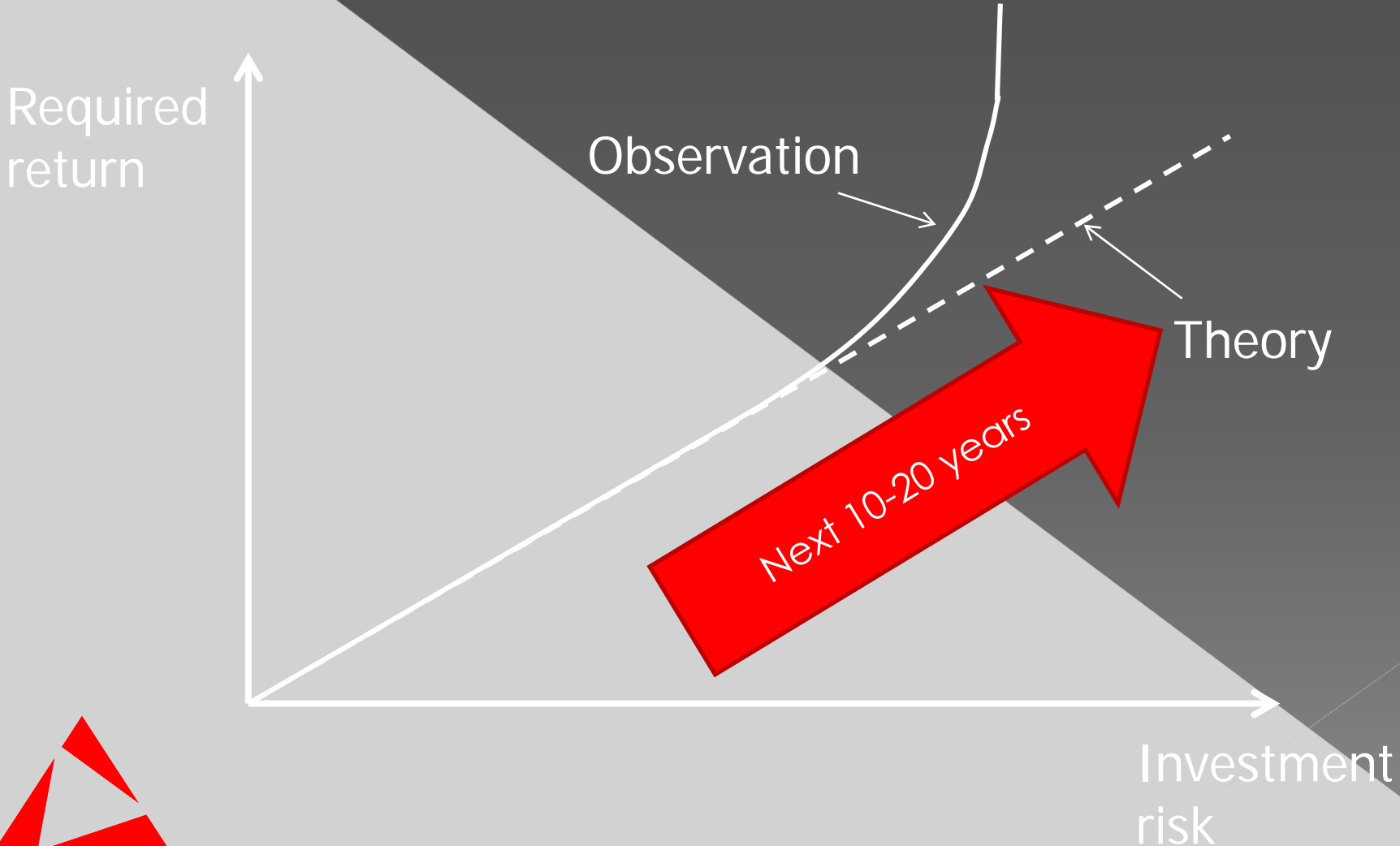
Now

Theory

Investment risk



# Framing EMR



# Crossing the Rubicon.....

The industry needs to be transformed to an extent, and at a rate, that cannot be funded under existing market framework

The Government must therefore intervene to transfer risks directly from investors to consumers/taxpayers to attract the necessary investment

This can be done through underwriting key investment risks (GIB) and signing long term contracts (EMR)



# Role of demand side



- Key supply side options (nuclear, renewables, CCS) have:
- Major deployment challenges
  - Uncertain and potentially high costs



Wide scale deployment of key demand side options (efficiency, response, distributed generation) are likely to:

- Significantly decrease cost of transition
- Increase supply side options

*Demand side is key strategic element of energy policy*

# What is the demand side?



Demand side of the market is diffuse and immature



Will require the emergence of many new companies, operating under different business models and selling new products

# Typical 'asks' from D3 players

Simplicity

Don't change the rules

Ability to model cash flows

Let me own the customer relationship

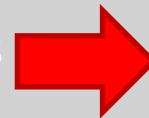
Low risk return

Competition across the value chain

Liquid markets

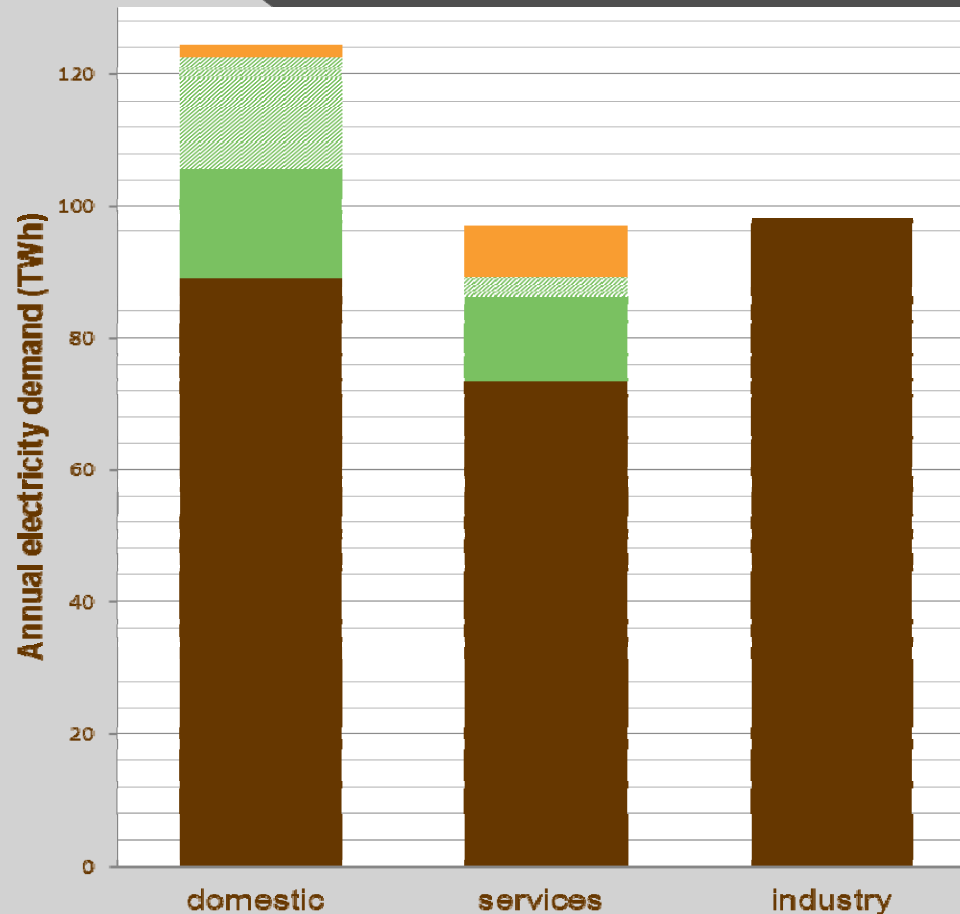


Investors in demand side operate to same basis principles as those on the supply side



EMR shows LTCs that provide earnings stability crucial in attracting new investment and reducing financing costs

# Green Deal electricity coverage



Graph courtesy of Green Alliance

- Extra electricity use for heat pumps in 2020
- ▨ Green deal potentially (water heating)
- Green deal now (space heating)
- Electricity use not covered by Green Deal

*In 2020, Green Deal will only cover small proportion of electricity demand even with electrification of heat*

# Goals and objectives

Technological  
difference



We need a cunning plan  
for which contracts to sign



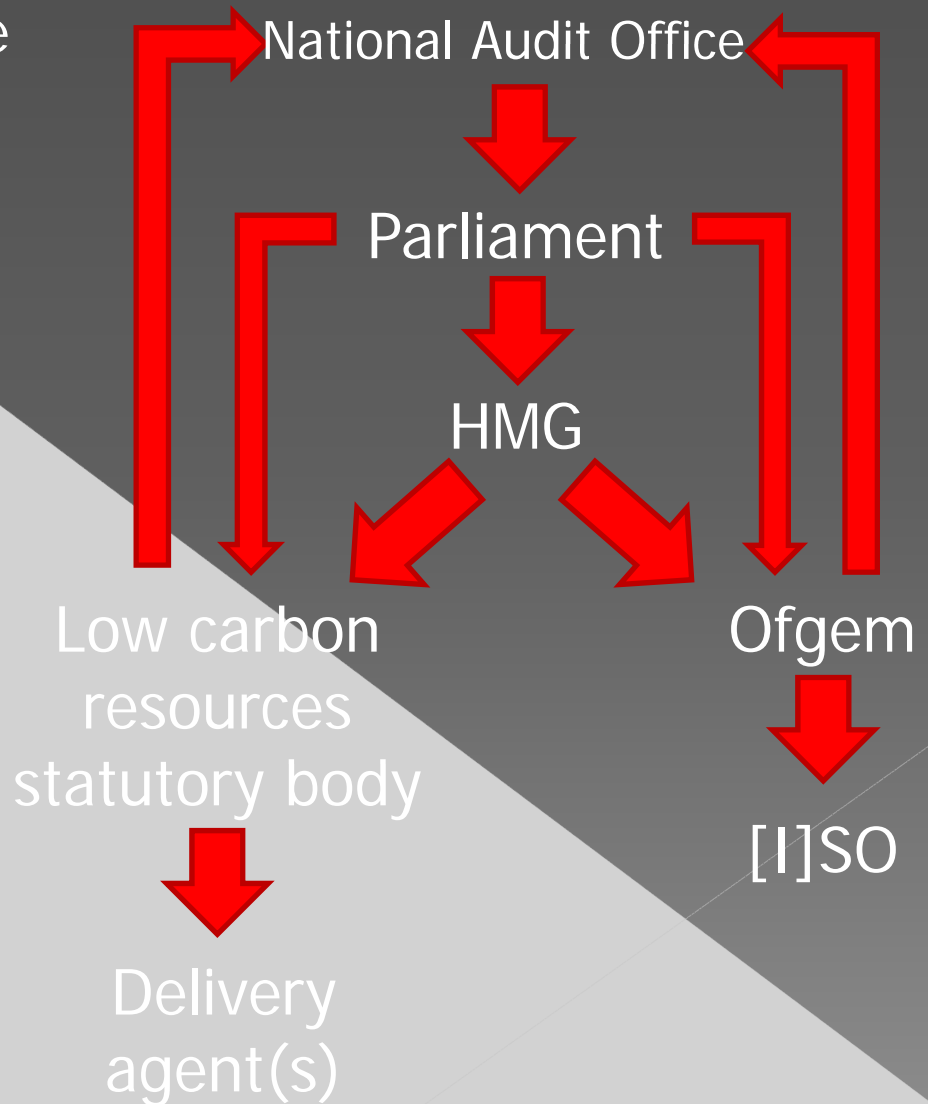
Delivery institution  
required



# Institutions and Governance

Opening up the demand-side requires:

- ◉ Specialist agency(ies)
- ◉ Strong incentive (probably profit sharing) to actively seek out cost-effective demand-side resources
- ◉ Flexibility in nature of LTCs to give optimum sharing of risk between investors and consumers



# Impact on industry structure

## Independent agencies

- Ex-ante regulation and governance
- Encourage new entry
- Creates range of new markets

## Supplier obligations

- Drives consolidation
- Ex-post regulation of conduct
- Nature of new markets depend on supplier procurement strategies

Beware temptation.....

EMR de-  
scope



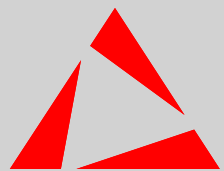


Thank you

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