



Junior Isles

Shaking up the world

When the young Cassius Clay, who later changed his name to Muhammad Ali, captured the world heavyweight boxing title in dramatic fashion, he changed the course of both boxing and human rights for African Americans.

The recent passing of “The Greatest” was, as expected, global news of a scale rarely seen. But it was to be just the first of two huge news stories in what turned out to be a tumultuous month. As the world still mourned the loss of the best-known sportsman that ever lived, the British public, less expectedly, voted to leave the EU. And while the legacy of the man who “shook up the world” is clear, it is still too early to assess the full impact of the Brexit vote on both the EU and the UK.

What is certain, however, is that it will add to the disruptive effect that renewables, the transition to a low carbon economy and the move towards digitalisation are already having on Europe’s utilities.

During the Annual Eurelectric Conference in Vilnius, Lithuania, in early June, the shaking up of the electricity sector saw the use of a term that is new to our industry. Antonio Mexia, Chief Executive Officer of

EDP, and President of Eurelectric told delegates that the power industry is being “Uberised”.

Mexia told delegates that the power sector is “undergoing rapid transformation fuelled by innovation, digitalisation as well as by political will and social trends” and stressed that “the electricity sector has to be at the front line” of this revolution.

It is expected that renewables will need to provide 50 per cent of the EU’s electricity needs if it is to reach its 2030 emissions target. The move to an electricity infrastructure capable of handling a high penetration of renewables and balancing supply and consumption from distributed sources in the optimum way, presents both challenges and opportunities.

“Accelerating innovation in the EU power sector will be worth €70 billion by 2030,” said Mexia. “The digital transformation of the sector is already under way. Smart grids are being deployed – at least 80 per cent of electricity customers in the EU should be equipped with smart meters by 2020. This translates into more than 200 million intelligent meters that will transmit user data closer to real-time.”

Indeed distributed resources are

already being managed through intelligent digital platforms. New digital products and services are being created and customer segmentation is now possible. Mexia noted, however, that utilities are not alone in the new energy space.

Competition is coming from all sides – from innovative start-ups, big telecoms and IT companies and utility customers themselves.

“Electricity was once a commodity over which consumers had little choice. Technology allows choice with regards to providers, use and storage of electricity... Utilities once were only asset managers, today the focus is clearly on customers and society,” said Mexia.

“The biggest retailer today, Ali Baba; the biggest hotel chain, Airbnb; the biggest taxicab/vehicle hire company, Uber; none of them have assets. We have seen enormous change in a lot of industries and we need to see what is happening in our sector because, as someone recently told me, everybody will be Uberised.”

The term ‘Uberisation’ comes from the company name Uber, which developed a mobile application that allows customers to submit a trip request, which is then routed to Uber drivers who use their own cars.

Uberisation refers to the use of computing platforms, such as mobile applications, to facilitate peer-to-peer transactions between clients and providers of a service, often bypassing the role of centrally planned corporations. Unlike a traditional business, the model has very low operating costs since the business does not own physical assets.

Serge Colle, EY’s Power & Utilities Leader for Europe, Middle East, India and Africa, believes that Uberisation is coming. “Uberisation, or you could call it dis-intermediation, could happen really fast – probably faster than we expect but maybe slower than some hope for. Some [utilities] will respond successfully but others will not... I am confident there will be a stronger push [by utilities] to embrace the new digital world.”

Dalius Misiunas, CEO of Lietuvos Energija and President of the Lithuanian energy association NLEA, also anticipates increased competition and integration as a result of digitisation. “It will make the integration of new players easier – I’m talking about prosumers, small-scale generators,” he said.

Yet despite the threat, he also sees opportunity. Misiunas told delegates: “The digital change is affecting the entire energy value chain. From generation to customer relationship experience, there are opportunities that can bring additional value into our companies. Experience from other industries show these can be bigger than anticipated... [so] we should not be afraid of it.”

He noted the digital transformation was not just about increased information or more efficient operations. “It will help us as an industry to be the main player in achieving a cleaner and more sustainable economy. It will give renewables a more convenient platform to participate in the wholesale market.”

He stressed, however, that it is urgent to review business models and

operations. “I don’t know how many of you are thinking of the new strategy today but those of you who are looking forward should be doing that.”

There is already evidence of this happening in the industry, and not just because of the changing electricity generation landscape.

Moody’s said in a recently published report that lower commodity and power prices have prompted Centrica to accelerate its strategic shift away from electricity generation and oil and gas production toward “downstream” activities in energy retail, services and technology when commodity prices fell sharply in 2015 and early 2016.

The report said Centrica’s future focus, as set out in its July 2015 strategy review, will be customer-facing supply, services and technology businesses, as well as “distributed generation” – managing or part-owning small-scale flexible generation which is able to profit from peaking prices.

Speaking on the sidelines of the Eurelectric conference, Colle commented on utilities’ response to the disruptive changes in the market. He said: “I can easily imagine that some of the big corporate utilities will not exist in the same form as they are today. Some of them, such as E.ON and RWE, are organising fundamental changes themselves already.”

In the coming years utilities will probably focus on trying to protect, manage and optimise their asset base, while protecting balance sheets as much as possible. There will certainly be more investment in renewables or, as Colle put it, “risk-neutral” assets.

Energy transformation strategies was the topic of a conference organised by the *Financial Times* at the start of June. Viren Doshi, Global/EMEA Energy Consulting Lead, PwC noted: “The example that Uber has set can affect far more than we think.”

Speaking in the same session, Paul Gilding, addressed the question: will the fossil fuel industry transform and what is the evidence to suggest it is likely? Gilding, an independent writer and corporate adviser on sustainability, is the author of several books, one of which is called *The Great Disruption*. He argued that, in the face of climate change “it is pretty clear that if we don’t transform dramatically and radically, we face economic collapse”.

He said: “It’s straightforward. We are going to move to a low carbon economy, the question is timing, technology and who will get us there: is it today’s players or is it tomorrow’s companies?”

Utilities in Europe have finally accepted that things are changing fast and most are open to a new way.

Closing the Eurelectric conference, Mexia said: “Today we are much more open to debate, much more open to controversy and different opinions... because the frontier between the [electricity] sector and other sectors is being blurred. Blurring of frontiers brings new minds and fresh ideas to the table.”

Disruption is not always a bad thing. Ali was in many ways a disruptive force but we have all seen what he was able to achieve. Perhaps we could all learn a thing or two from the man simply known as “The Greatest”.

