



Metering & Billing/CRM Australia-New Zealand 2007

Unbundling the Product Bundle

October 2007

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National Electricity Market metering data relationships are complex

❶ Mass Market CIS have been modified to manage the NEM data flows and files

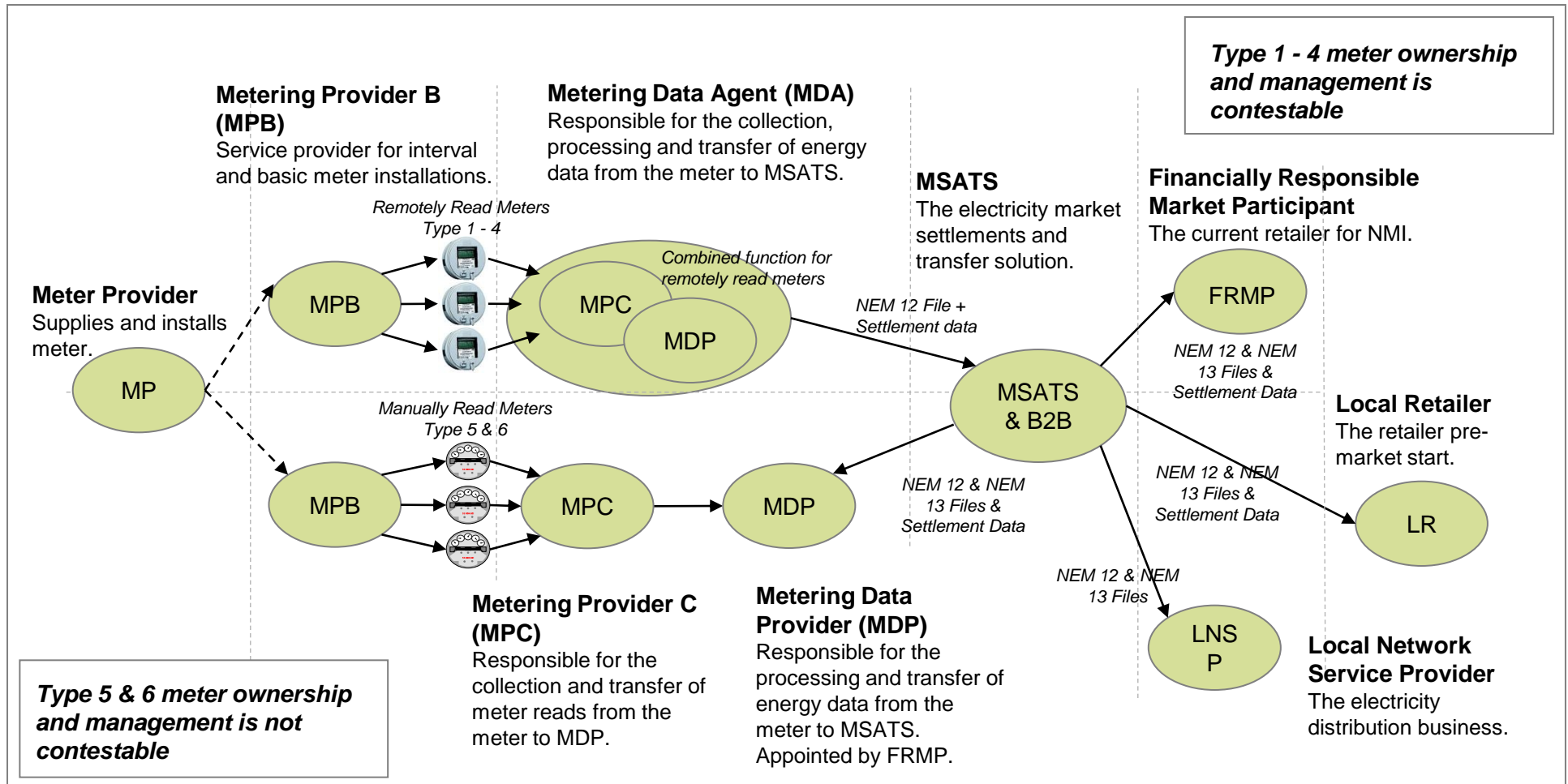


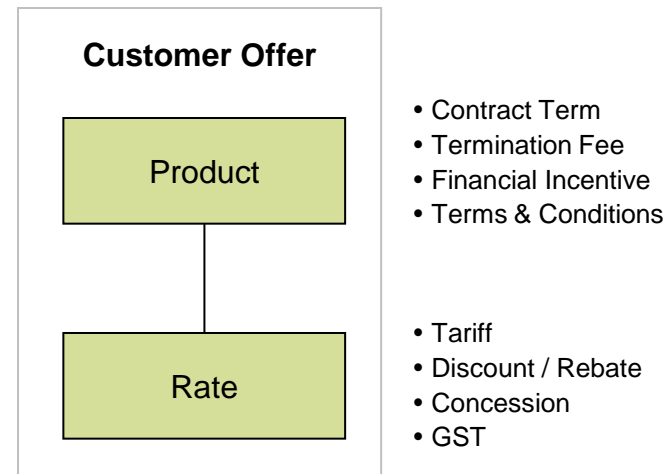
Diagram developed through MHC analysis with thanks to David Lipshut & David Purcell

An energy retail product is made up of multiple data elements

Within a CIS a Product is an offering to a customer which is described by:

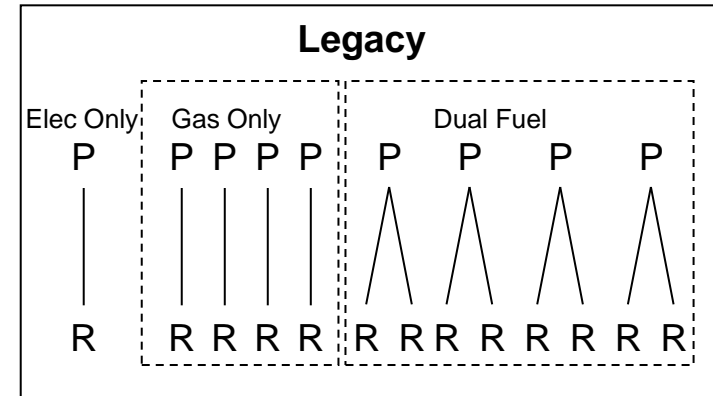
- Fuel type (gas or electricity)
- Contract term (XX months)
- Financial incentive (% discount or \$ off)
- Termination fee (\$XX)
- Contract terms & conditions

Each Product is associated with Rates that hold the variables from which the customer's invoice is calculated.

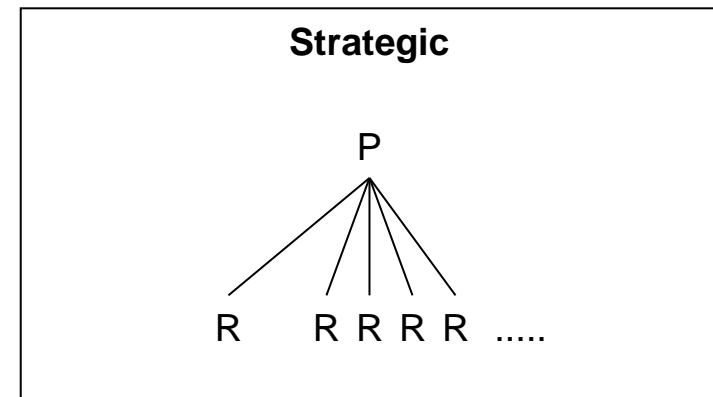


Until recently typical energy retailer products reflected their CIS integrated markets origin

- ② Legacy product management typically added product and rate IDs in a one-to-one manner



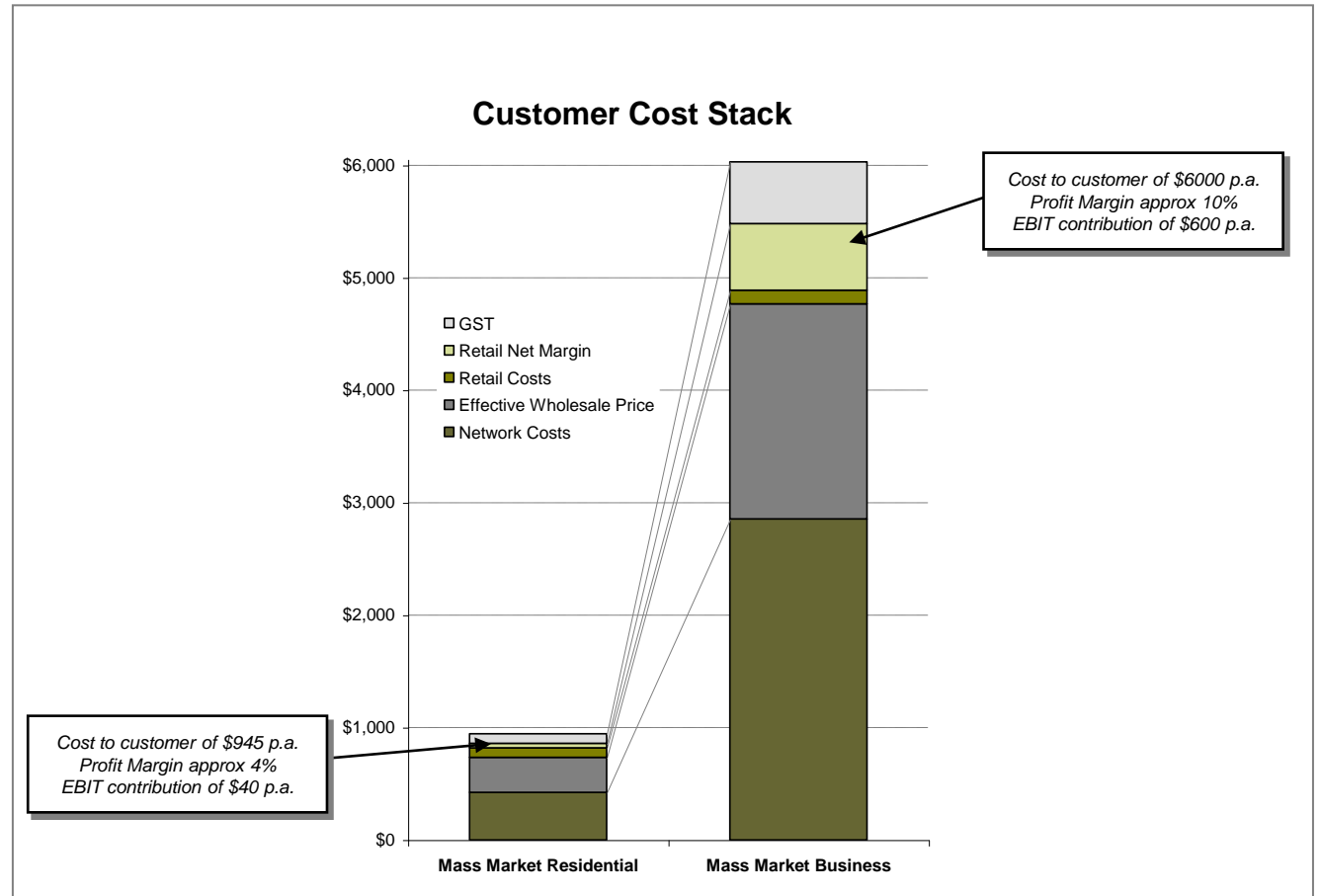
Consolidating these IDs requires EBIT impact and customer contact decisions to be made but does allow strategic product management



While Small-Medium Enterprises are recognised as the most profitable mass market segment. Current marketing to them reflects retailer legacy capability and processes.

Typical marketing efforts to SME segment is based on customised offers or discounts of between 6% - 10% of regulated tariff

- ③ Retailer preference is to not offer SME's a product that alters codified data flows or product offerings



Unbundling the customer offering in terms of meter installation and product enables effective SME marketing

- An unbundled product is one where the cost of the inputs are published for the customer to see. Mass Market customers receive a bundled bill, as much a reflection of the complexity previously discussed as regulatory obligations.
- Offering an unbundled product in the NEM requires an interval meter to be installed at a customer's site. There is significant upfront cost in doing this, and to be an attractive option for customers ongoing energy costs have to fall.
- Customers are rational. When they consume sufficient energy that there is an economic proposition they will chose an unbundled product. By offering an unbundled product based on an interval meter, retailers can have high margin customers self select.

In summary:

- ❶ Mass Market CIS have been modified to manage the NEM data flows and files...
...changes to CIS and B2B/ B2M integration is expensive and difficult.

- ❷ Legacy product management typically added product and rate IDs in a one-to-one manner...
...resulting in a large number of 'products' and a complex data environment.

- ❸ Retailer preference is to not offer SMEs a product that alters codified data flows or product offerings.

- ❹ Unbundling the customer offering in terms of meter installation and product enables effective SME marketing...
...by offering an unbundled product based on an interval meter, retailers can have high margin customers self select.

Questions:

Marchment Hill's experience and capabilities span the breadth of the energy industry, including business strategy, performance assessment & improvement, organisation design, performance management, supply strategy, electricity market design and development, and the management of major utility reform programs.

Marchment Hill is committed to driving outcomes for its clients in the creation and delivery of strategy, organisational excellence and enhanced performance.
