



## MARCHMENT HILL

- consulting -

# Helping our client shape its retail strategy

### the challenge

Our client, an energy retailer in Western Australia, sought opportunities for profitable growth in the electricity and gas markets. However, regulatory constraints and a scarcity of available infrastructure limited their available means to do so.

Marchment Hill was engaged to identify, quantify and prioritise growth opportunities and to develop plans to overcome strategic obstacles in Western Australia, as well as nationally.

### what Marchment Hill did

Marchment Hill analysed the feasibility and benefits of a range of investment opportunities in the electricity, gas and carbon sectors including partnership arrangements, local geographic expansion, and product diversification.

Marchment Hill also conducted several feasibility studies on carbon/renewable venture opportunities including combined heat and power, renewable energy, micro-generation, carbon trading and advanced metering. Their respective likelihood of success was assessed via financial modelling of product uptake, use profiles and pricing.

Marchment Hill delivered a high level integrated strategic growth plan, setting out key activities, milestones, capital requirements and likely external impacts over a seven year timeframe.

engagement profile

**Recommended option: financial analysis**

Within the likely range of electricity tariff rates over the planning period, analysis indicates that CHP is unlikely to be feasible for the residential market, but may be for suitable loads of medium SME size and larger.

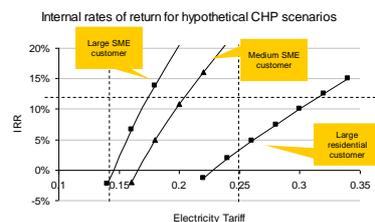
Internal rates of return in excess of 12% should be achievable for selected customers in those segments. These may be improved through:

- Leverage, i.e. financing the initial acquisition of the CHP unit
- Targeting 'new or replacement' applications where the customer would need to incur some capital cost anyway.

Customers may also be prepared to pay for CHP under conditions where it is not strictly economically justified, for example:

- Customers may be prepared to pay for Greenhouse benefits achieved within their direct span of activity
- Customers may be prepared to pay to achieve an energy 'star' certification for their buildings if doing so lifts rents beyond the cost of installation. CHP is one of very few ways available for materially improving the energy efficiency of existing building stock.

*Recommendation: Undertake detailed market analysis for a CHP proposition targeted at SME and Commercial customers.*



*Notes and assumptions*

- Internal rates of return assume a horizon / asset life of 10 years
- Analysis based on a gas tariff of 10c/unit for residential customers and 7.5c/unit for non-residential (built-up costs from the O&E Gas Tariff Review 2008)
- "Large residential customer" assumes 15,000 kWh per annum electricity consumption and a 16kW heat load (say, a pool heater)
- "Medium SME customer" assumes 35,000 kWh per annum and a 16-hour per day 10kW heat load
- "Large SME customer" assumes 70,000 kWh per annum and a 16-hour per day 25kW heat load.
- All cases assume CHP displaces gas as the heat source and are modelled using the characteristics of an Aisen-Seki G60 CHP unit.

**Figure 1: Recommended Option - Combined Heat and Power**

Marchment Hill conducted several feasibility studies on carbon/renewable venture opportunities, including combined heat and power.

the benefit

Our client gained the necessary confidence and clarity to make a number of critical strategic decisions which would position them for long term growth - with enough analytical rigour to be comfortable with the risks that these decisions entailed.

Our client's confirmed customer retention and branding strategies have also better positioned them for eventual full retail contestability in the Western Australian energy market.

engagement profile