

DSR: Follow the money: where's it going, how can you access best value?

Energyst DSR Event, 13 September 2018

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Overview of Baringa Partners



Baringa Partners is a market-leading consulting company with a focus on the challenges of tomorrow, operating in the Utilities, Energy & Resources, Financial Services, Telco and Consumer Retail sectors.

We bring deep industry experience to client projects

We all roll up our sleeves to deliver

Collaboration runs through everything we do

Our independence means we provide impartial advice

Our award-winning culture attracts the brightest people

We help clients using our deep industry insight to:

- ▲ Run more effective businesses
- ▲ Launch new businesses and reach new markets
- ▲ Understand and navigate industry change.

Baringa was founded in 2000 and now has:

600 Employees

60 Partners

6 Offices worldwide



UK, Germany, Ireland, Australia, UAE and USA

We have worked with energy companies & utilities across:

- ▲ Strategy and regulation
- ▲ Energy market analysis
- ▲ Customer Values Analysis
- ▲ Commercial Strategies
- ▲ Operating model design
- ▲ Operational excellence
- ▲ Back office transformation
- ▲ Technical and Digital architecture and Solutions



Energy, utilities & environment

| Company | Stars |
|-----------------------------------|-------|
| Baringa Partners | ★★★★★ |
| McKinsey & Company | ★★★★★ |
| Accenture | ★★★★★ |
| Atkins | ★★★★★ |
| BCG - The Boston Consulting Group | ★★★★★ |

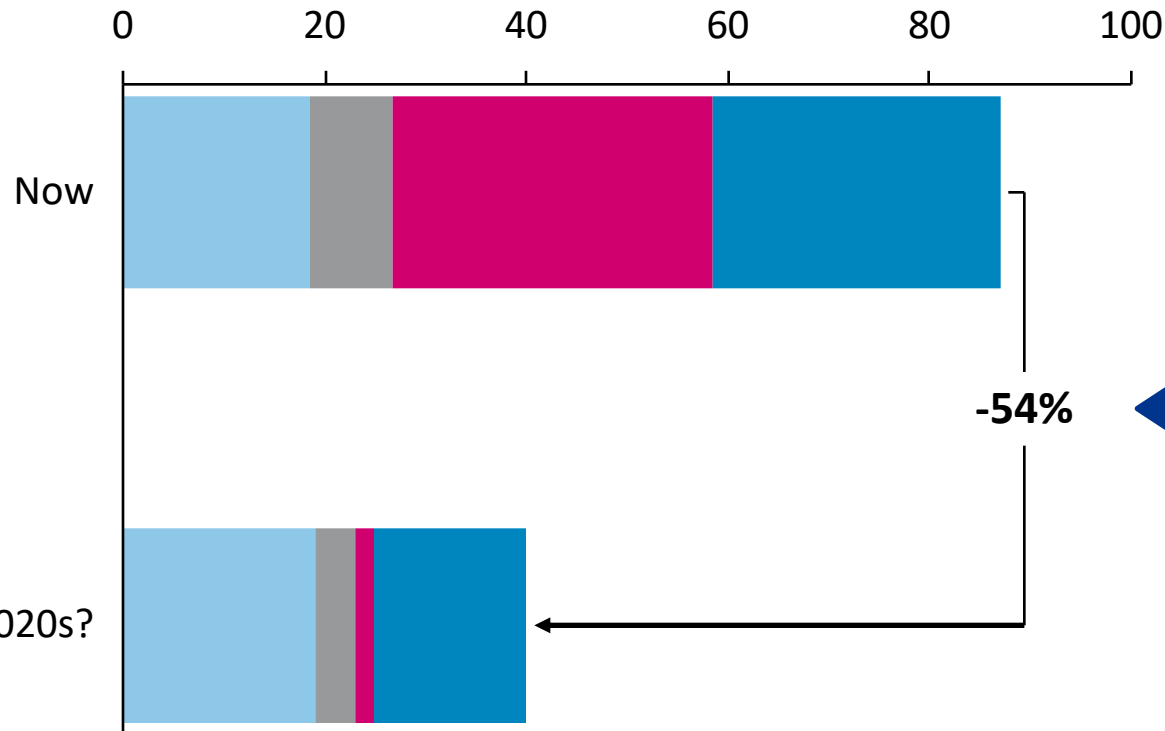
Our reputation is hard won and we're determined to keep it growing.



Context – current DSR contracting strategies are at risk of significant reductions in gross margin



Gross margin contribution, £000s/MW real 2018



A bad case, for illustration:

- ▲ Overnight FFR PSH from £10 to £5/MW/hr
- ▲ Assume avoidable demand TNUoS tariff equal to embedded gen.
- ▲ DUoS at 50% current levels

Note:

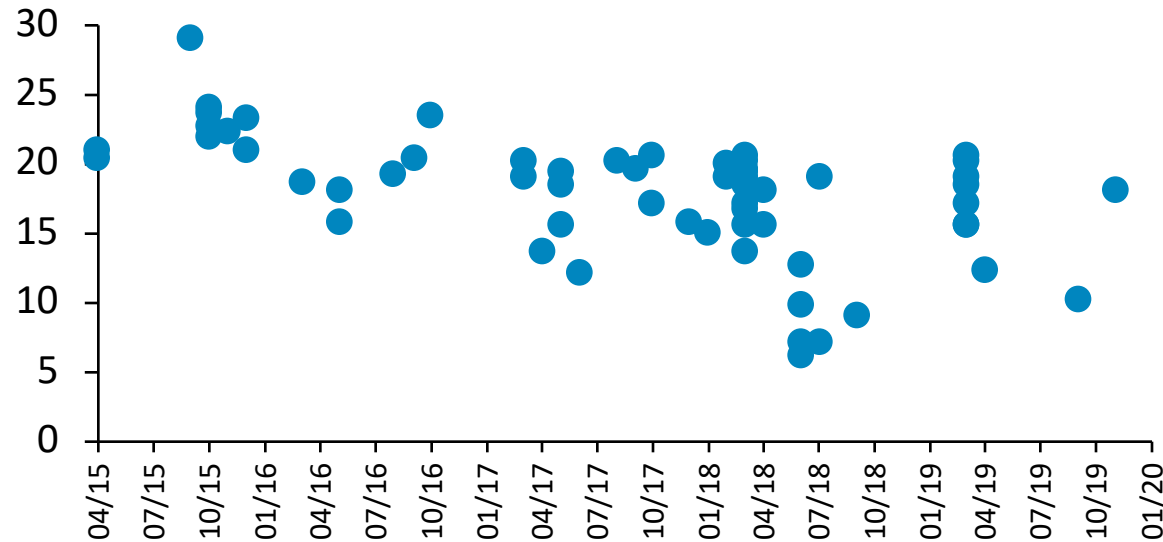
- ▲ Pre-aggregator discounts
- ▲ East midlands, HV connected
- ▲ FFR PSH pricing 8hrs/day assumed

Capacity market
 Avoided DUoS
 Avoided TNUoS
 FFR

Source: National Grid; Western Power Distribution; EMR Delivery Body

Why? Market risk and regulatory reform

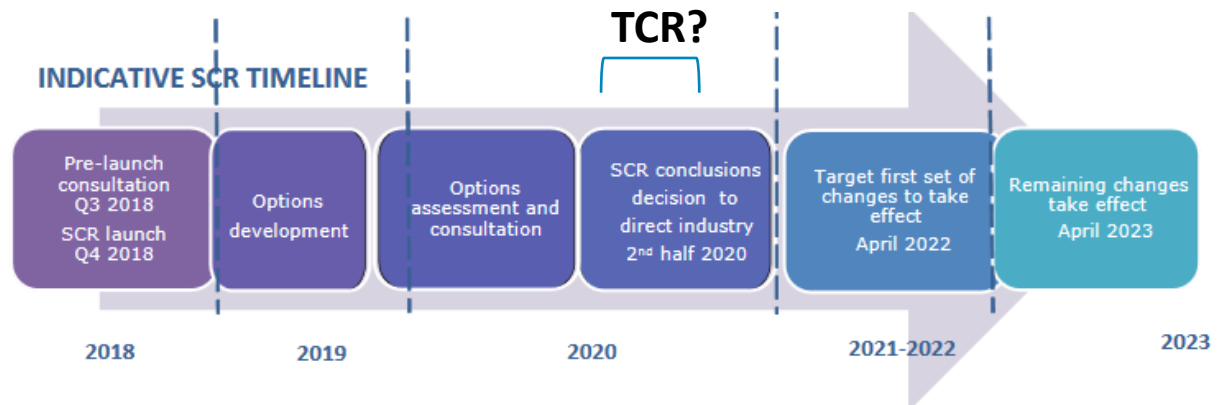
FFR PSH price, (£/MW/hr, nominal)



▲ Price compression in FFR caused by low cost new entrants and increased participation rates

Timeline for Ofgem SCR

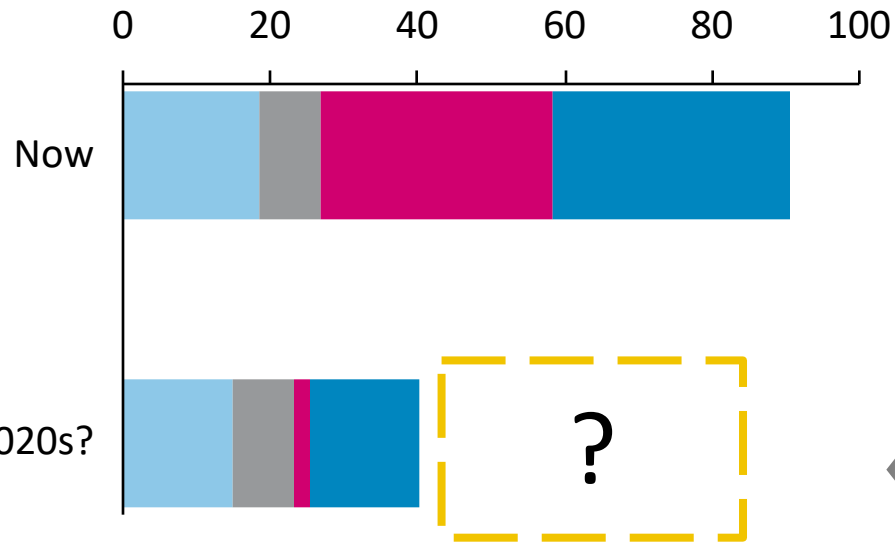
▲ Regulatory reform – changes to the form of DUoS and avoidable component of demand TNUoS (ref: TCR)?



Source: National Grid ESO; Ofgem Network Access and Forward looking charges

Emerging alternative revenue streams may go some Baringa way to plugging the gap

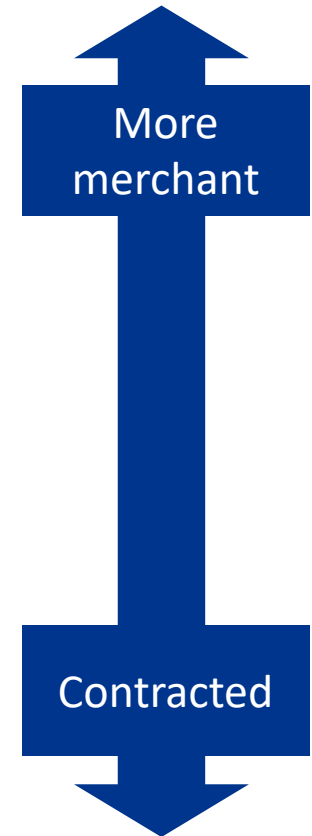
Gross margin contribution, £000s/MW real 2018



Balancing mechanism participation?

Wholesale flex?

Other services (e.g. DSO)?



New commercial agreements will need to protect both parties against change in law, and reflect the need for dynamic contracting



Change in law

- ▲ Named savings/revenues vs all value created
- ▲ Provisions for new revenues
- ▲ Provisions for reset of sharing to ensure balance of value is maintained

Accessing merchant revenues





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