



News release

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PwC and Strategy& map the road ahead for power sector transformation

- *Megatrends and disruptions are having profound implications for the strategies and future role of companies all along the power utility value chain*
- *Time is running out for companies to make the right moves to ensure they are a successful part of energy transformation*
- *Companies need to ask themselves if they have a clear vision of likely new market models and the new business models that will deliver future success*

Predictions of a 'death spiral' for companies in the power & utilities sector are overdone. But a new report from PwC and Strategy& warns that the sector is transforming fast and companies that don't stay ahead of change are in danger. New market models and new business models will become established as a result of energy transformation and could quickly eclipse current company strategies.

The report, *The Road Ahead: gaining momentum from energy transformation*, finds global megatrends such as technological breakthroughs, rapid urbanisation and resource shifts are creating new opportunities and challenges in customer behaviour, new forms of competition, renewable and distributed energy and regulation. Among the issues:

- Existing generation assets could be left stranded as local energy systems and self-generation by customers eat away at the traditional centralised grid and large-scale generation model.
- Sector transformation could shrink the role of some power utility companies to providers of back-up power.
- Power utility companies risk losing out to new entrants from the world of online data and digital technology.
- Developing countries may 'leapfrog' conventional centralised system models in favour of local energy systems.
- Existing grid and network systems may be unable to rapidly evolve to meet the needs of decentralised assets delaying the adoption of advanced technologies.

Norbert Schwieters, global power and utilities leader, PwC, said:

"The disruption taking hold in the power sector is just the start of an energy transformation. It's not a question of whether the business models pursued in the sector will change but rather what new forms they will take and how rapidly companies will have to alter course. But we're optimistic about the future for companies that stay ahead of change."



The report identifies transformational new market models that could emerge such as:

- *Green command and control* – markets in which governments own and operate the energy sector and mandate the adoption of renewable generation and digital technology.
- *Ultra-distributed generation* – markets in which generators have invested in distributed renewable generation, with investment decisions based on policy incentives and/or economic business cases.
- *Local energy systems* – markets in which there is significant fragmentation of existing transmission and distribution grids and local communities demand greater control over their energy supply, or markets in which a local approach is adopted for serving remote communities.
- *Regional supergrid* – markets which are pan-national and designed to transmit renewable energy over long distances, requiring large-scale renewable generation, interconnectors, large-scale storage and significant levels of transmission capacity.

Tom Flaherty, senior vice-president, Strategy&, said:

“We don’t believe there will be a single winning business model. We see a range of business models that build on existing models or fill new service or product needs. Incumbent companies may not be as nimble or focused as some new entrants. But they have a number of potential advantages with regards to data, policy, relationships, pricing, partnering and regulatory decisions.”

Alongside the evolution of current asset-based business models, the report also identifies eight new and emerging business model strategies and what capabilities companies should be building now to stay competitive in the future. Examples include:

- *Product innovator model* – we anticipate that many product innovators will seek to be active players in electric vehicle charging, the provision of premises-based infrastructure and the management of roof-top solar and fuel cell markets.
- *Partner of partners model* - a ‘partner of partners’ utility will be a company that offers not only standard power and gas products and associated services, but also a range of other energy-related services.
- *Virtual utility model* – aggregating the generation from various distributed systems and acting as the intermediary between, and with, energy markets.

Note to editors

The Road Ahead: gaining momentum from energy transformation is available for download at www.pwc.com/utilities

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