

Power utility model ripe for disruption

Many industry players predict the prevailing power utility business model will transform drastically between now and 2030, to a point that it may even be unrecognisable.



Dr Christoph Frei, secretary general and CEO of the World Energy Council

Distributed power generation, technological advances and changing customer perspectives are among some of the major influencers responsible for this transformative change.

Technology

Energy efficiency, declining solar prices, demand-side management and decentralised smart grids are the technological changes predicted to have the most significant impact on the power sector. The precipitous advances in technology, coupled with the decline in associated prices, means that utilities could be adversely affected as demand from sectors carrying cross subsidies are reduced.

Restructuring of technology and electricity policies will be significant determining factors of potential business models. Interestingly, deregulation in South Africa could result in a considerable rise in the number of IPPs in the sector. As already seen in developed nations, decentralised utilities have cut into the revenues of traditional power utilities, thereby relegating conventional power generation. Injudicious power utilities could therefore stand the chance of being reduced to the role of back-up infrastructure operators where savings and performance improvements will only take them so far.

Customer relationship

Customers will have a major bearing on future power utilities as businesses will be significantly influenced by the digitalisation of the customer relationship. This ultimately means that the demands of customers will need to be addressed more efficiently and speedily.

Demand-side management will become increasingly utilised and the integration of renewables and increased decentralised generation will govern future business models. In nations with emergent energy systems, decentralised generation could be even more significant.

Competition between companies will peak as utilities attempt to become distributed generation service providers to customers, thereby harnessing the situation as an opportunity rather than a threat, to survive in this ever-increasing decentralised power model. In addition, companies will be required to develop innovative strategies to maintain a competitive position for customers in the market.

Policy and framework

However, although the business models of utilities are expected to change, they will remain an important component of the energy landscape. “The functions of utilities will remain critical but complementary solutions will be provided by a more diverse set of actors. Thus, we will not get rid of traditional utilities but a lot of the system pieces, be that supply, storage or rural energy systems, will be brought by new players and new entities.” explained Dr Christoph Frei, secretary general and CEO of the World Energy Council.

A seamless transition entails that policies and frameworks be established to cautiously manage social and employment impacts as to prevent social and economic complications. People tend to maintain the status quo when their jobs are on the line, thereby hindering potential progress. Open communication, frugal planning for change and social protection policies are elements to ensure a just transition process. In addition, policy-makers have the task of facing issues of supply availability, affordability and environmental impact. These factors, if perceived innovatively, could lead to massive opportunities for those vested in the power market and the economy in its entirety.

Existing market players must capitalise on these changes, so they prevent being surpassed by other entrants. It’s imperative that companies respond appropriately to these transformations to convert them into opportunities or they stand a good chance of being overshadowed by technological and market change. They will need to be discerning with regards to exploiting revenue opportunities, reducing costs, improving customer service as well as attracting a modified, more informed and empowered customer profile.

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