

Executive Insights



KEMA's interview with Bob Wilson, President and CEO, SUEZ Energy Resources, North America

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In January, Bob Wilson was named President and CEO of SUEZ Energy Resources, NA. Mr. Wilson has been with GDF SUEZ for 12 years, serving in a variety of roles including head of strategy risk and portfolio management and chief business developer for GDF SUEZ. He has been an integral part establishing the company's North American commodity trading, marketing, risk management and LNG importation activities. Mr. Wilson has led successful acquisitions representing over \$3 billion of direct capital investment in the U.S.

SUEZ Energy Resources, NA has been a top five non-residential retailer consistently since 2006, serving ~30,000 accounts (a total contracted load of 5,500 MW as of August '08) in 11 markets: Delaware, Texas, Massachusetts, Maine, Maryland, New York, New Jersey, Pennsylvania, Illinois, Connecticut and Washington, D.C.

In this interview, Mr. Wilson offers his insights on the financial and policy challenges facing retailers, and his views on the markets and strategies where the greatest opportunities (and risks) exist going forward.

How does the shifting retailer landscape create opportunities for SUEZ Energy Resources in terms of your focus or strategies?

The confluence of the financial crisis coupled with unprecedented energy price volatility over the last eight months has created a much different playing field. We have witnessed a "flight to quality" in which market participants are placing greater value on dealing with counterparties with strong financial standing. We have responded by offering differentiated pricing based on customer creditworthiness, which rewards the best customers, and over time, will enhance the credit quality of our customer portfolio. At the same time, continued diligence in managing counterparty default will be critical for our business. While some retailers are shifting focus, or seeking ways to exit the retail business, we are staying the course, and remain fully committed to the C&I segment.

What impact has the credit crisis had on the types of deals (terms, length, structure) you have seen recently? What types of customer response have you seen to recent market dynamics?

The exit of some prominent financial players has resulted in less liquidity in wholesale markets, especially for terms beyond two years. Ancillary services have become virtually impossible to hedge, resulting in either a large risk premium or customer pass-through of actual costs. The risk of offering long-term fixed price deals (especially to weaker customers) has been highlighted by the large drop in wholesale markets, which has required retailers to post huge amounts of collateral to their suppliers. Also, some weaker retailers have been unable to offer their customers competitive gas locks to accompany heat rate power purchases. Having witnessed such high prices in 2008, many customers

have shown a high level of interest in transacting in structures that allow them to take advantage of the current market conditions by locking a significant portion of their load for extended terms.

What is the proper way to think about creditworthiness in the retail energy industry? What standards/practices need to be changed and who should be responsible?

Now more than ever, creditworthiness is a major risk facing electricity retailers. We consider creditworthiness in terms of the impacts of customer defaults which depend on the type of deal (i.e. fixed or indexed pricing) and both general economic conditions and power market pricing. If power prices are rising, it is possible that the loss incurred as a result of a fixed price customer's unpaid bills may be offset by the retailer's ability to resell the forward power procured for that customer at a higher price. Of course these risks are additive in today's market, and exposure to forward mark-to-market risk may dwarf the accounts receivable risk from a defaulting customer.

Some defaults hurt more than others. It is inevitable that customers will go bankrupt, but retailers must operate within market rules which facilitate "opportunistic default" (primarily non-payment and early switching) by some customers which adds a cost burden on all other customers. I am aware of cases of habitual non-payers who have exploited market rules and skipped from one retailer to another racking up a trail of millions of dollars in unpaid electricity bills. The Purchase of Receivable's (POR) programs are examples of centralized billing and collection which could prevent this behavior, and hard disconnect rules would at least allow retailers to limit their exposure once a default has occurred. Enrollment procedures could also be better designed to ensure that customers and retailers respect the terms of existing contracts, saving everyone money in the long term.

Can you offer some information about SUEZ Energy Resources' demand response product? How do you view policy, technology, and customer trends around demand response evolving?

We currently offer DR programs in each of the markets we participate in – economic, emergency and ancillary products, and we expect our DR business to grow. Of course, it will be driven by regulation and technology initially. While each of the ISOs and FERC have different views regarding DR, the underlying principles are the same, that we must: address the aging T&D infrastructure; reduce congestion; and look at demand side options as equal to supply. This is especially true in the short term when it's virtually impossible to site a new coal plant, construction costs remain high, and financing merchant generation is nearly impossible. With regulatory uncertainty this "transition" period may last longer and cost more than most people think.

I think it's safe to say that within a few years, when the economy is back on track, we could very well see a regional shortage in capacity because of the time required to build new plants. Given the ability to target specific load centers, an excellent way to effectively attack these shortages is through what we call Smart Energy Management, which includes DR, energy efficiency, conservation, and deployment of smart grid technologies. Anyone who has traveled on an overbooked flight knows that for the right compensation, there's

always someone willing to be bumped to a later flight. It truly is exciting to be in the energy business right now.

Are there states where you expect increased market opportunities in the next 12 to 24 months? Are there states where you have concerns about developments that may hinder the development of competitive retail markets?

Within the next 12 to 24 months many retailers will be pursuing opportunities within the Pennsylvania market as price caps expire. The timing couldn't be better for customers, as they have avoided the high prices of the past year, and will have many appealing options due to very good forward market liquidity in PJM.

I have plenty of concerns about state efforts to hinder the development of competitive markets. Our market model is one in which utilities exit the merchant function and competitive suppliers provide all commodity services, even default service. As prices rose, state lawmakers and regulators faced increasing pressure from their constituents to do something to lower prices. C&I markets have shown extensive switching but rates drop off precipitously as you move down through medium, small and residential classes.

As oil and natural gas and gasoline prices have dropped, so have power prices, and the market has once again showed its ability to self-correct. State lawmakers can use this opportunity to foster competitive markets for DR and reinforce retail competition, and customers will have the opportunity for much greater control over their energy costs than ever before.

What do you expect the impact to be on your business of the rapid escalation of policies/subsidies in energy efficiency/smart energy? Have you seen trends emerge regarding customer requests for renewable or energy efficient products/services?

Most customers are not yet pushing very hard for these products, and energy efficiency/smart energy represents a very small source of our current revenue, but change is coming because of the evolutionary power of combining technology and pricing signals. We know that this new world we're entering is going to be a more sustainable, efficient world. How exactly that will impact our business remains to be seen, but we have picked up some tell-tale signs. For instance, with the interest and money flowing into the Smart Grid efforts, the day where customers will have more control over our energy use is rapidly approaching. But, what will they do with that information? Some say that just allowing access to the meter data will be enough to encourage conservation and efficiency. Others believe businesses and consumers are already overloaded with information they never use. If so, does that lead to utilities, retailers, or some other party controlling loads?

We know from past experience that the traditional utility efficiency and demand side management programs have not delivered promised results. Regulators, and most importantly, governors, have taken a renewed interest in these programs and there is no doubt that many states are putting demand resources on the same level as supply. Further, the stimulus package recently passed included a great deal of money and emphasis on these programs.

Today the Smart Grid is primarily a utility issue, and in particular, a meter issue. What role competitive providers will have in this is unclear and is highly dependent on who has ownership and access to the metered data. What is clear to us is that the pendulum is swinging and we must be ready to develop and offer our customers the products and services they demand.

As far as the second part of the question, we have seen an uptick in the number of requests for both Renewable Energy Certificates (RECs) and EE products and services. Many of our customers and prospective customers are mandated to increase their purchases of renewable energy AND to decrease their energy consumption, so if we do not provide these products and services we're not going to make the sale. But it doesn't stop with customers who are mandated to take these actions. We are seeing more companies ask us about these solutions, either in response to pending or future regulation, peer pressure, or just the desire to be a more sustainable company. We expect this trend to continue, and even pick up as more companies develop sustainability plans.