

**Press contacts:**

*Christel Lerouge*

*Tel.: +33 (0)1 47 54 50 76*

*E-mail: [christel.lerouge@capgemini.com](mailto:christel.lerouge@capgemini.com)*

*Elena Frigeri*

*+44 (0)870 195 1055*

*E-mail: [elena.frigeri@capgemini.com](mailto:elena.frigeri@capgemini.com)*

## **Capgemini European Energy Markets Observatory (EEMO) Report highlights turning point for Utilities**

*Eleventh edition of report reveals full impact of economic crisis on Utilities sector  
and sheds light on challenges around continuing investments and meeting legislative targets*

**Paris, November 16, 2009** – Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, supported by Société Générale Global Research & Strategy, CMS Bureau Francis Lefebvre and VaasaETT, today announced the results of the eleventh edition of the European Energy Markets Observatory (EEMO)<sup>1</sup> report. The report outlines how the global recession has put Utilities under pressure with expectations of a historical drop in global electricity consumption (-3.5%)<sup>2</sup> and global gas demand (-3%), forcing them to take short-term and longer term measures:

- in the short-term, Utilities are deferring or cancelling investments in much needed infrastructure and also divesting assets;
- in the longer term, a deeper change in their business models is needed.

**In addition, the report indicates that there is still action needed on climate-change issues in order to meet the 2020 objectives laid out by the EU Climate and Energy Package, although the European Union is ahead of other regions in this area.**

According to the European Energy Markets Observatory report, these trends are necessitating a new approach for the Utility sector. Having in past years invested heavily in cross border acquisitions, their previously large 'war chests' have dwindled. In addition, the price decrease and the consumption drop (about 5% in electricity and 8% in gas in H1 2009 for the main European countries) also have reduced revenues, creating a current perception of financial risk and a drop of rating ratios. Société Générale Global Research & Strategy (who contributed to the chapter on the Finance and Valuation of Utilities companies) identified that Utility company

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<sup>1</sup> Capgemini's European Energy Markets Observatory (EEMO) is an annual report that tracks the progress in establishing an open and competitive electricity and gas market in EU-27 (+ Norway and Switzerland) as well as the progress on the EU Climate-Energy package objectives. This 11<sup>th</sup> edition – built on a majority of public data sources combined with Capgemini methodology and knowledge – is based on 2008 and winter 2008/09 data sets.

<sup>2</sup> "The impact of the financial and economic crisis on global energy investment" - IEA background paper for the G8 Energy Ministers' Meeting, May 24-25, 2009

debt continued to deteriorate in 2008, with the combined debt of the 10 largest European companies rising by 113% between 2006 and 2008, to reach €213 billion.

To recover their footing, Utilities now need to put in place a number of measures:

- *In the short-term*, they need to restore investors' confidence. Many European Utilities have postponed their investments and announced large divestment plans, particularly around network infrastructure. These assets, with their recurrent and predictable revenues, can attract new types of investors. In addition, as shown by two Capgemini benchmark studies<sup>3</sup>, many incumbent Utilities have room to improve their operational efficiency, and many have launched savings plans.
- *In the mid-term*, Utilities have to adapt to the new EU legislation including the Climate and Energy Package. They need to strive for more CO<sub>2</sub>-free generation through renewables and nuclear energy, as well as act on the demand-side management by implementing new technologies such as Smart Metering and Smart Grids. Smart Metering deployment in the tertiary and residential sectors will help curb power consumption, reduce peak electricity demand and improve the grid management as well as the client relationships. Utilities also need to establish their vision and plan for implementing Smart Grids; the latter are enabling mainly the distribution grid to manage both centralized and decentralized generation, intermittent renewables, multi-directional flows linked to customers becoming occasional producers, demand side management programs and grid operation in real time.
- *In the longer term*, Utilities actually could become advisors on energy and CO<sub>2</sub> savings to their clients. However, their incentive to do so is unclear today.

### **Deferred or cancelled infrastructure investments**

The crisis precipitated a fall in consumption and pricing, leading many Utilities to defer or cancel investments and impacting the significant growth of renewable energies in past years. Already in 2008, investments in sustainable energy (renewables and energy efficiency) increased at a much slower pace (2%) than during the previous five years when the Compound Annual Growth Rate (CAGR) reached 56%. This trend was emphasized by the crisis when European investments in renewable energies fell by 14% in the second half of 2008 (compared to H2 2007) to \$21.2 billion.

However, many stimulus plans do contain incentives for investment. For example, the EU Member States Presidents and the European Parliament voted a €4 billion energy infrastructure investment plan in May 2009; the effect of these plans on physical investments will not be tangible before 2010. However, in Q2 2009 these plans have spurred increasing financial investments in cleantech, with mergers and acquisitions in the sector amounting to €8.8 billion compared to a low €1.1 billion in the previous quarter.

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<sup>3</sup> European multi-client retail benchmark, a study on Cost to Serve (CtS) and Cost to Acquire (CtA) focusing on the households, September 2009 and Distribution Networks Comparative Performance Benchmarking, March 2008

Post-crisis, one could predict a smaller increase in demand for electricity and gas than in years past, due notably to energy savings regulation and citizen's behaviors' change. Given these trends, the Union for the Co-ordination of Transmission of Electricity (UCTE) has revised down its estimates of the additional electricity generation investment needed to maintain security of supply by 2020 from 50,000 Megawatts to 20,000 Megawatts and foresees that these investments will be made. This study assumes two things: that currently planned investments are not cancelled, and that after the crisis, investment will pick up again – neither assumption can be validated at this stage.

Colette Lewiner, Global Leader of Energy, Utilities & Chemicals, Capgemini, said: *“Utilities is a heavy industry with a need for long term planning and construction. An example of this is gas infrastructure, where investment in re-gas terminals, gas storage, pipeline networks and in exploration and production in North Sea and Arctic regions gas field, as well as in unconventional gas is essential to secure the gas supply. Continuing to address these needs during the crisis is essential; if not the post-crisis ‘wake up’ will be difficult.”*

### **Meeting the EU Climate and Energy Package objectives**

At the Copenhagen United Nations Climate Change Conference in December 2009, it is more than likely that the EU will be the only region among developed countries able to show clear CO<sub>2</sub> emissions decrease objectives, as well as an existing Cap and Trade system. However, the Observatory highlights that even if CO<sub>2</sub> emissions decreased in 2008 and 2009, this is mainly linked to the economic crisis and not to actual structural changes. For example, it is worrying to observe that still three-quarters of the power stations under construction will be supplied by fossil fuels and therefore emit CO<sub>2</sub>. It is clear therefore that there is still more action to be taken, notably around energy efficiency, transforming the electricity-generation mix by building more CO<sub>2</sub>-free plants and developing an affordable Carbon Capture and Storage technology.

For a copy of the abstract report, please visit: [www.capgemini.com/eemo](http://www.capgemini.com/eemo)

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