PUBLIC VERSION

BUILDING THE WORLD'S FIRST CONSUMER OWNED, SOLAR FOCUSSED, ENERGY RETAIL AND SERVICES COMPANY

KNOWLEDGE SHARING REPORT 2

Prepared by Marchment Hill Consulting

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Executive summary

In April 2018, having conducted the most successful crowd sourced funding (CSF) campaign of its kind in the world, DC Power Co embarked on a path to capitalise on investor interest and the momentum of its campaign to immediately commence building and marketing an innovative new energy retail business. DC Power Co has matched the CSF equity with several major independent investors, secured office space, recruited a full team, and launched an initial beta product offering. DC Power Co is now focusing on how to make itself the energy retailer of the future. In this regard, customer insights, both in relation to converting investors to customers, distributed energy resource (DER) uptake, and energy services more broadly, are emerging.

In this knowledge sharing report, DC Power Co considers these and several other important learnings from its journey since the completion of the CSF campaign, so that all stakeholders can benefit from this experience.

Project overview and progress

DC Power Co is a disruptive business that has launched the world's first solar focused, customer-owned energy retail and services company. DC Power Co launched it solar focused electricity offer for households across the NEM (SE Qld, NSW and Victoria) in late 2018 along with digital solar and battery sales.

Taking account of the 2m+ Australian homes with rooftop solar that are ripe for disruption in the current energy retail market, the DC Power Co model proposes to deliver:

- A disruptive electricity retail solution focused on solar prosumers
- Customer engagement through ownership
- Enhanced customer savings by aligning customer interests with DC Power Co's business model which results in stronger trust

During the first half of 2018, DC Power Co took advantage of recent legislative and administrative changes to use crowd source funding (CSF) as a means of achieving both brand and business model awareness among prospective customers. DC Power Co's strategy was to build mass market communities as the basis for a solar-focused energy retail and services company.

In January 2018, DC Power Co obtained $750k in grant funding from ARENA and this amount was matched 1:1 by private investors to build a CSF campaign. DC Power Co converted from a proprietary company to an unlisted public company, as was a requirement for it to pursue equity CSF. Pre-campaign awareness raising commenced on 28 February 2018. Starting on 15 March 2018, DC Power Co's equity CSF campaign concluded on 15 April 2018, having received bids totalling $2.5m from more than 17,000 investor bids, which ultimately yielded 12,500 investors. At the time, this was the largest equity CSF (by number of investors) in the world to launch a business.

DC Power Co planned to leverage its equity CSF campaign to launch an energy retail business with options to undertake further equity CSF capital raising in future. While it has ultimately been able to build an energy retail business, there were several months delay between the conclusion of the CSF campaign and the commencement of marketing activities, and the full business team has only recently been assembled. Notwithstanding this loss of momentum, the CSF campaign has benefited DC Power Co insofar as investors have become customers and the investor-customers have proved to be more willing to engage in surveys and provide feedback to help improve DC Power Co's product offering.

From CSF to building a retailer

The process by which DC Power Co has built its energy retail business following the conclusion of its initial CSF round is described below, ideally this would have been faster.

Timing	Achievements	Challenges
Mid-April 2018	Close of CSF process	Of the 17,000 bids received, 12,500 were converted into investors
April-August 2018	Consideration of three strategic options for establishing retailer (white-labelling, merger with established retailer, retail licencing in relevant states and territories) Decision to proceed down white-labelling path and process to select white-label retailer Selection of white-label partner providing access to electricity licenses Initial staff appointments in August	Inability to access CSF funds due to restrictions within the ARENA Funding Agreement Frequent office moves due to inability to commit to lease a permanent space No spend on marketing activities or communications Promised investor energy insights were unable to be delivered Delay in recruiting key hires due to lack of access of funds
September 2018	Office established Started the process of recruiting the full team Board appointment process – CSF representative	Board appointment process – 70-80 high calibre nominations, shortlisted to five candidates from which one was selected
October 2018	Beta launch on 31 October: DC Power Co offer for solar households with white label partner	Tight timeframe to lock in retail offer with our partner that was white labelling for the first time
November 2018	Beta investors sign up	
December 2018	Full team assembled Special General Meeting on 5 December 2018 to change Board structure and preserve equity value for CSF investors Fully funded including $5m of matched funding from large investors	Complex process to revalue company and bring on new investors completed by end of the year

Lessons learned

Lesson 1: Price is still king for solar customers, though there is evidence this may change

While the concept of renewable energy and optimising the value of a household's solar system is growing in importance, price continues to be the dominant driver for most customers, including customers with solar PV. This presented a challenge for DC Power Co, as it was unlikely to be able to offer lowest retail prices from the outset, while its customer portfolio was small and solar focussed resulting in a relatively expensive hedged electricity price input versus incumbent retailers. This is a common problem for new retailers as they enter the market. DC Power Co was further hampered in this regard by the timing of its market entry, which was at the high point of the annual retail price curve, and effectively made DC Power Co out of sync with the market. These factors meant that DC Power Co's initial price offering would necessarily exceed the sharpest market prices, as provided by the large gentailers.

DC Power Co's approach was to set a single feed-in-tariff of 15c/kWh, with no discounts, to provide simple, fair, and transparent pricing for its investor-customers. DC Power Co's fixed charge of $10/month is a key aspect of DC Power Co's pricing, by setting a fixed service charge including its retail margin, separated from usage charges, it is agnostic to solar PV use behind the meter and exports onto the grid. This is a key differentiator from DC Power Co's perspective, in contrast to some electricity retailers' business models that effectively disincentivise prosumer behaviour. However, limitations in the billing and customer sign-up system have meant that this pricing distinction was less clear for the beta product.

As DC Power Co's customer portfolio grows, and it learns more about its customers' behaviour and can tailor risk management arrangements accordingly, it expects to be able to offer more competitive prices, but these will be provided consistently and transparently to all customers and will not disincentivise customers' use of their solar PV.

DC Power Co's prospective and recently signed customers are also its investors and, as such, are more willing to supply the newly formed business with price comparisons and extensive feedback – a benefit of the history of engagement, built up from the CSF campaign.

Despite the price challenge, there are suggestions that solar PV customers are responsive to other products and service offerings, particularly as they relate to the functionality of their solar PV systems. The challenge for DC Power Co will be harnessing the non-price offerings that will draw in solar PV customers. Among the key issues facing small-scale solar PV customer, DC Power Co has observed that these customers:

- Lack support from energy service providers: once their solar PV system is installed, the installer disappears, and retailers are generally not supportive
- Don't have access to information: to extract the most value from their solar PV system, these customers need to understand how their system works and reliable information ongoing can be hard to come by

Lesson 2: Broader market changes can impact the product offerings of a new entrant retailer

A significant factor impacting the success of DC Power Co's initial retail offering was changing market conditions in the months leading up to its launch. In August 2017, Alinta entered into a joint venture with CS Energy to enter the South East Queensland retail electricity market, and then in January 2018 Alinta acquired Loy Yang B in Victoria. The gentailer positions Alinta assumed in Queensland and Victoria were accompanied by very low retail price offerings in those states. The presence of such low prices, particularly in Victoria, made the price competitiveness of DC Power Co's initial retail offering more challenging.

In addition to downward price pressure, there were other regulatory and policy changes that impacted the prospects of a new entrant retailer. In September 2018, the AEMC made a rule change obliging retailers to warn customers prior to energy price changes, while the Victorian government offered consumers $50 simply to visit a price comparator website and indicated that it would implement a basic service offering. Such market changes will tend to impact the viability of any new retail offering, particularly in circumstances where customers are so price sensitive. DC Power Co found that the challenge of enticing

investors to switch retailers based on service, rather than price, was more onerous amidst market changes and a policy focus on electricity prices.

Lesson 3: White-labelling can be an attractive option for an innovative new entrant retailer but the process should be carefully planned

DC Power Co assessed three alternative paths to becoming an energy retailer:

1. Obtaining retail licences for the states and territories where it elected to operate
2. Merging with an existing retailer
3. White-labelling via and existing retailer

DC Power Co decided to pursue the white-labelling path. The other options also had additional drawbacks. Merging with an existing retailer was highly dependent upon a suitable partner which was not immediately evident, while obtaining a retail licence, particularly in Victoria via the Essential Services Commission, would have entailed a protracted and highly uncertain process that DC Power Co could not have borne.

Given that the resources required to establish a retailer business are lumpy and not dependent on customer numbers in the early stages, white labelling can be an effective entry strategy for an innovative new retailer. And this strategy is equally attractive from the perspective of existing retailers looking to offer white-labelling services to grow their customer base and corresponding generation assets.

Lesson 4: It's important to maintain value of CSF investors' shares

Given that it intends to conduct further CSF campaigns in the future, DC Power Co has taken note of financial services innovator Xinja, which is in the process of conducting multiple CSF campaigns. An important marketing factor for Xinja is its ability to demonstrate rising value of CSF shares, and therefore the value of early investment in the growing company.

While CSF investors are unable to realise the value of their holdings for the first 12 months, DC Power Co considers that the preservation of investor value stands it in good stead for future CSF campaigns. DC Power Co has taken further encouragement in this regard from the degree of engagement of their current CSF investor base; they've received many queries from investors regarding the value of their shares, and a recent voluntary survey was completed by 8,000 investors (64% response rate), despite these investors having no direct incentive to do so.

Lesson 5: Drivers of DER uptake are varied and increasing as innovative new energy retail business models evolve

The research that DC Power Co has been able to conduct on its investor base and beta program customer base to date suggests that the drivers for DER uptake are varied and likely to become increasingly so as innovative energy retail business models market new product offerings to customers.

In terms of the key drivers impacting solar PV and other DERs that are beneficial for the system, DC Power Co considers these drivers to be:

- Saving money through competitive energy services arrangements
- Environmental impact by generating and using clean energy
- Availability of government rebates to reduce the cost barrier to new assets

Storage is an increasingly attractive proposition for solar PV customers, and is likely to become more so in jurisdictions where regulatory changes impact feed-in-tariffs. Electric vehicles present a possible game changer for both DER uptake and electricity retailer business models insofar as customer motivations for acquiring the large storage unit that EVs represent may be entirely separate from motivations around energy services. For this reason, DC Power Co will be considering product offerings incorporating mobility and charging products to both attract customers and incentivise DER uptake within its customer base.

Next steps for DC Power Co

DC Power Co's medium-term priorities are to:

- Build the new energy retail business and continue exploring the best means of reaching prospective customers and influencing their behaviour in relation to DERs
- Be willing to learn from unsuccessful customer acquisition strategies and move on to determine exponential growth channels that can achieve the targeted customer acquisitions within two years
- Prepare for future CSF rounds by demonstrating increased value in CSF shares, as well as a viable energy retail business model and opportunity for CSF investors to shape an innovative company
- Develop strategies to incentivise load shifting within customer base to reduce business risk and therefore be able to offer more competitive prices to customers
- Consider application of time of use feed-in-tariff in Victoria

DC Power Co will also consider additional DERs, related products, and services as the company evolves.