

Insights on Utilities for August 2008

Energy Wholesale Strategies
Energy Executive Council
Intelligent Grid Strategies
Customer Operations Strategies
Worldwide Utility Industry IT Spending Guide

UPDATE	#
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IN THIS UPDATE

In *Insights on Utilities* for August 2008, we give our prognosis on the acceptance of broadband over power line. Energy Insights also takes a look at the recent acquisition of customer care outsourcer Alliance Data by Vertex Outsourcing.

THE CURSE OF BPL AND ZOMBIES: BOTH ARE DEAD, BUT NEITHER GO AWAY

By H. Christine Richards and Rick Nicholson

To better understand the state of the broadband over power line (BPL) industry, think back to the last zombie movie you saw. The last surviving humans try to destroy the zombies again and again. Yet, no matter what the humans do to the zombies, the zombies manage to keep going. Like zombies, the embattled BPL industry keeps experiencing major blows—from groups such as Duke Energy, Oncor and the Federal Communications Commission (FCC)—but will not give up. Given recent events, Energy Insights believes that BPL for consumer broadband is dead, but BPL still manages to loosely hang on with intelligent grid applications—for now.

Recent Utility Company Announcements

Recent company announcements demonstrate a noticeable de-commitment to BPL, particularly for consumer broadband applications. In April 2008, Oncor announced that it would buy the BPL network that Current Communications Group built on top of its electrical network for \$90 million. Before this agreement, DirecTV and Current provided consumer broadband over the BPL network. Now Oncor says it will not offer broadband to its utility customers. At this point, with other failed consumer projects—such as at Cinergy

(now Duke Energy)—no major deployments in the pipeline and just under 5,000 BPL subscribers in 2006 according to the FCC, Energy Insights believes that BPL for consumer broadband in North America is dead.

However, even with the death of BPL for consumer broadband, BPL is still lurking in the intelligent grid communications space. Oncor will continue to use the network for intelligent grid monitoring applications. Another long-standing BPL deployment for the intelligent grid is with CenterPoint Energy, which still plans on reaching about 45,000 electric and gas customers. A more recent announcement was Xcel Energy's SmartGridCity, which will connect 90% of Boulder, Colorado with BPL for intelligent grid applications.

So that means BPL is still viable for intelligent grid applications, right? Maybe not. Duke Energy, which proudly showcased its BPL networks a couple of years ago, is now abandoning BPL not just for consumer broadband, but for intelligent grid deployments as well. The company will still use existing BPL networks for intelligent grid monitoring, but it will now also test and deploy wireless technologies. Even Xcel Energy will test wireless communications technologies alongside BPL for its SmartGridCity.

The Nagging ARRL and FCC Problem

Aside from major failures in BPL deployments, the American Radio Relay League (ARRL) continues to battle against BPL. Even though the FCC approved some BPL technologies a couple of years ago, in April 2008, a federal court found that the FCC violated the Administrative Procedure Act (APA) in its BPL decision and may have underestimated the impact of on other types of communications. This court ruling doesn't mean the end of BPL. It does, however, mean that the debate about BPL and its effects on other types of communications is still not over.

Our view

BPL proponents say BPL is important because the intelligent grid can help improve the grid's efficiency and reliability and reduce carbon emissions. But many communication technologies can help the intelligent grid tackle reliability and carbon emissions issues. Unless there is some clear benefit to going with BPL over other communications technologies, BPL will probably play a minor role in the intelligent grid.

When assessing their situation, utility companies must remember that their communication network need not be just one technology, but rather can blend different technologies across the grid — including phone lines, cable, fiber optics, WiFi, WiMAX, various cellular

options, licensed RF, mesh networks, microwave, PLC, and BPL—as certain communication technologies may be better adapted to different parts of a company's service territory.

IN THE NEWS

Vertex Acquires Alliance Data: A Move that Makes Sense

When Alliance Data announced four months ago it would be spinning off its Utility Division to a new home, no one panicked. Alliance Data has been a long-term outsource partner in utility customer care and associated meter-to-cash subprocesses for a number of North American utilities. This past month Alliance Data Utility Services Division was acquired by Vertex Outsourcing, a UK company with similar offerings primarily based in the UK and India, but also in North America as well. The merger allows Vertex Outsourcing an opportunity to increase its foothold in North America with a built-in client base of over fifty utilities.

Beyond customer care outsourcing, Vertex Outsourcing's offerings include IT hosting and management services, along with systems integration services and experience in smart metering solutions. This gives Vertex a broader experience base than that of Alliance Data. Vertex has twice the number of utility-aligned staff than Alliance Data, making it capable of broad footprint deals. Alliance Data has won some deals based on its culture of long-term partnerships, short implementation timeframes and careful match-up of customer care objectives. Vertex Outsourcing certainly has to use customer care in its collections business and full business process outsourcing.

Our View

The utility market continues to evolve customer care, as additional emphasis is placed on energy efficiency and self service. Whether Vertex Outsourcing can assimilate some of Alliance Data's cultural strengths and offer its own technological strengths to appeal to more utilities remains to be seen. In the meantime, there are plenty of case studies of utilities who are Vertex clients. This means any utility contemplating customer care relationships with an outsourcer has ample information to lay the foundation for their decision to outsource.

LEARN MORE

Related Research

- TXU Puts BPL in Spotlight, Possibly for BPL's Swan Song (Energy Insights #EI204180, November 2006)
- Moving Beyond the Hype: The Future of the Intelligent Grid (Energy Insights #EI202543, July 2006)
- Broadband over Power Line: Impact for Utility Companies (Energy Insights #EI10050, July 2005)
- The Utility Meter-to-Cash Process: BPO Forecast and New Outsourcing Models (Energy Insights #EI208022, August 2007)
- Market Overview: Offshoring in the Utilities Industry Focuses on Projects (Energy Insights #EI203426, September 2006)

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