



Newton-Evans Research Company's

Market Trends Digest

January 2015



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2015 Distribution Automation Study: Preliminary Findings

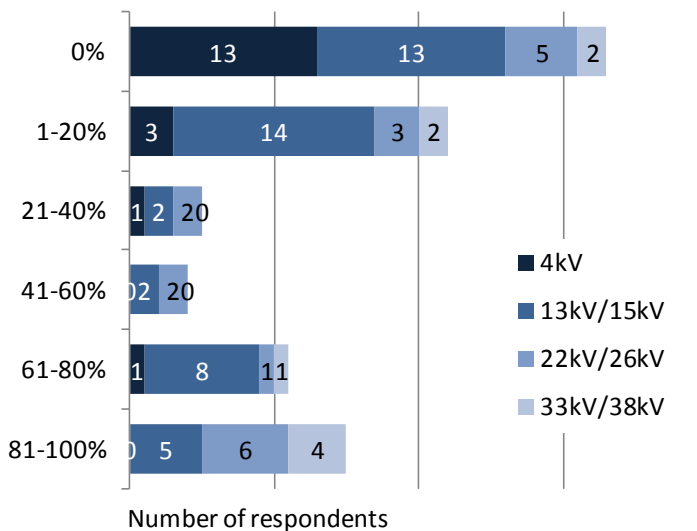
Here are some preliminary results from our survey of the North American market for Distribution Automation equipment and services for 2015 – 2020. The preliminary findings presented in this report are based on the first 47 surveys received from 9 investor-owned utilities, 18 public power utilities, 16 cooperatives, and 4 electric utilities in Canada. This preliminary sample represents electric power service to over 10 million customers in the US and Canada, with 8 respondents from the WECC interconnection region, 12 in the SERC region and 6 in the NPCC.

Distribution System voltages used by respondent utilities

To get an idea of the infrastructures in use by the survey participants, Newton-Evans asked each respondent to “Please indicate the approximate number of feeders on your system that operate at the following voltages” for 4, 13/15, 22/26 and 33/38kV. Forty-four respondents said they use feeders at 13/15kV on their system, and only 9 said they use feeders at higher distribution voltages of 33/38kV.

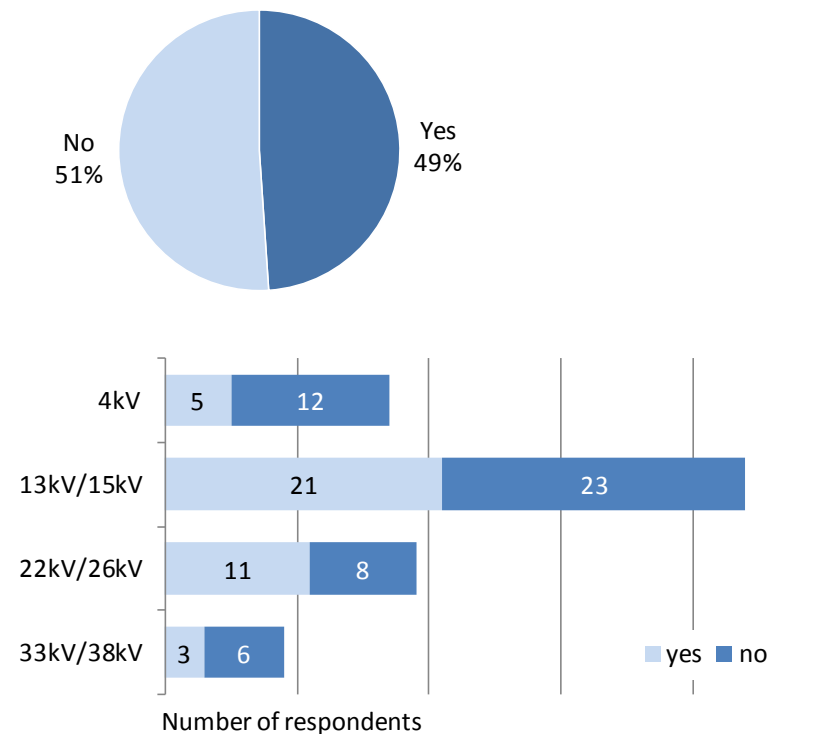
In total, the preliminary sample of 47 utilities operates over 18,000 feeders, the bulk of which are in the 13/15kV voltage class.

Percentage of feeders with fully automatic and SCADA controlled sectionalizing switches/reclosers



Nearly one half of all respondents reported having at least some feeders supporting Integrated Volt/Var Control/Volt/Var Optimization (VVC/VVO) or Conservation Voltage Reduction (CVR). For utilities operating 4kv feeders, nearly one third reported some use of IVVC/VVO or CVR. The percentage jumped to 47% among those operating 13/15kv feeders. Eleven of 19 utilities operating 22/24kv feeders also reported support for IVVC/VVO or CVR.

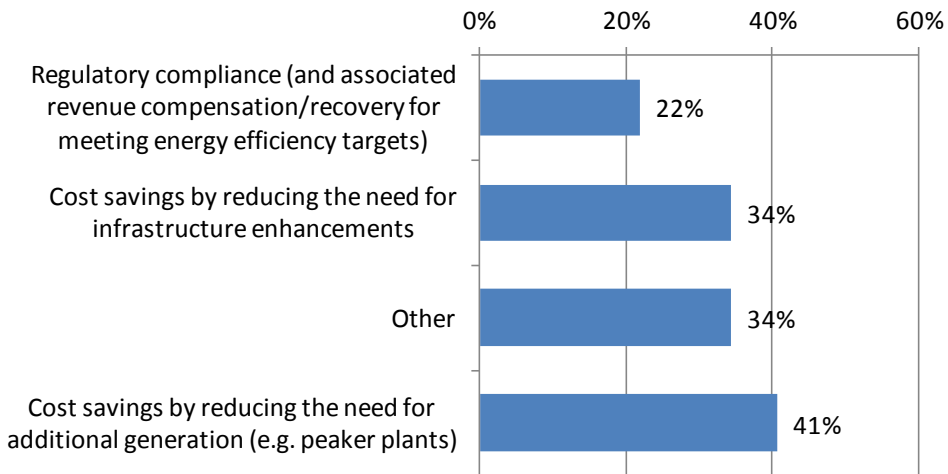
Does the utility have feeders with integrated VVC/VVO?



What is driving the utility’s decision for Volt/Var Optimization (VVO)?

Respondents indicated that cost savings effected by reducing the need for additional generation was the single most-checked driver for volt-Var optimization (VVO) implementation, as cited by 41% of the group of respondents. Additional cost savings brought about by reducing the need for infrastructure enhancements was second in importance. Nearly one quarter also cited regulatory compliance as a significant driver for implementing VVO.

Many of the respondents provided “other” or additional reasons for implementing VVO at their utility. These are listed below the following chart.



The final DA report will be published later in January. Several of North America's largest IOUs are represented in the final report, with more than 70 utilities participating as of December 31, 2014. For more about our forthcoming study of the market for Distribution Automation, visit our website: www.newton-evans.com





Branding and Channel Management In a World Leading Corporation

By Chuck Newton

The Schneider Electric company was formed by the two Schneider brothers, Adolphe and Eugène, who acquired mines and forges in Le Creusot, (a smaller French version of Pittsburgh at the time). Early on and throughout the 19th century the company's markets included steel, heavy industry, railroads and shipbuilding. By the latter half of the 19th century Schneider was also active in the armaments business. After two world wars that brought about destruction of its facilities, political and economic upheaval and then, change to the company's strategies, a new generation of executives pointed to the continuing growth in electricity-related and infrastructure markets. From the 1940's to the 1960's Schneider was a leading French firm, involved in a very significant way, in France's post-war reconstruction.

By the 1980's, a new focus on business strategies for the long-term was needed, and eventually put into place. This provided the basis for Schneider's hugely successful acquisitions of three major international manufacturers of electrical equipment. Schneider Electric began its foray into the North American electrical equipment market with its acquisition of Square D, in 1991. Together with earlier acquisitions of two major French companies (Merlin-Gerin (1986) and Telemecanique (1988), this grouping of electrical equipment manufacturing and related services businesses opened the gates for Schneider's participation in medium voltage business on a global scale.

Effectively, these acquisitions positioned the company to "move up" in capabilities to provide large electrical equipment for power distribution networks. This positioned the company strongly into the medium voltage equipment business globally. These acquisitions helped offset the perceptions previously held by the world's electric utility marketplace which had viewed Schneider primarily as an important manufacturer of low voltage equipment, lighting fixtures and products for end-user facilities. Along with these three key acquisitions came a large grouping of electrical equipment distributors, agents and representatives in nearly every major country around the world.

By the turn of the 21st century, Schneider Electric was becoming an important participant in modernizing the world's electric power grid. The acquisitions of Modicon (automation products, PLCs), Federal Pioneer (circuit breakers, switchgear, transformers), Positec (steppers, servo-motors), Nu-Lec Industries (reclosers and controls), were completed within a few years into the new century. On the building automation front, Schneider acquired TAC, Andover Controls and ABS during the same period.

By 2006 more emphasis was placed on electric power grid modernization, with the acquisitions of CiTect, APC, PELCO, Zicom and SCADA Group. Even larger, more important acquisitions have been made over the last four years. The world-class firms that have recently come under the Schneider umbrella include: Areva Distribution, Telvent, Invensys (with Wonderware) and InStep Software. This is a broad array of top-notch companies now placed into the Schneider Electric basket of goods and services, with each having their own brand recognition, channel strategies, customer bases, and market segment co-leadership positions in medium voltage equipment categories as well as a wide range of smart grid categories. So then, what could possibly be some of the challenges facing Schneider management?

In the Newton-Evans assessment of Schneider Electric, the proliferation of different "brand names" under the Schneider "umbrella" is significant, and due to the acquisition of firms well established in their respective niches. On the one hand, we have the powerful recognition among brands each with hundreds or thousands of installations established over recent decades. Think about the world's major utilities that can identify as customers of one or more of these businesses now in the Schneider family including Telvent, Invensys, Square D, Wonderware, Modicon, CiTect and InStep. Add in a mix of protection equipment firms (Vamp and MiCOM), smart metering (PML and Power Logic), and host of other brands, and it may not be much of a stretch to believe that this basket of goods is on a par with, or even superior to others serving the same markets.

On the other hand, how best can a manager or executive with responsibilities and challenges to provide "one face to the customer" grow the Schneider Electric share of total available business? How best, and when and if, does one cross-train office staffs and field personnel, or is it better to simply keep the units operating independently? How can management motivate one business unit to work together with other business units for their mutual benefit and for the benefit of the overall company? How do managers optimize sales team's field efforts, coordinate customer visits, and develop an understanding of the linkage among all

of these family members? Like any family, there are going to be squabbles and arguments to settle.

Of course, Schneider is not the only company with branding issues, but they have more to deal with than others. For example, ABB has Ventyx, Thomas & Betts, and Tropos Networks among recent acquisitions. Alstom Grid's substation business now has ASAT and Reason as new units. Siemens has the RuggedCom brand and now Dresser-Rand brands to consider.

When a client-exclusive international assessment of channel strategies among major electrical equipment suppliers was completed by Newton-Evans in 2012, Schneider Electric was viewed around the world as a leader in industrial distribution channel management. In countries around the world, distributors, reps and agents all reported enduring and strong relationships with Schneider Electric. These indirect channels-to-market help immensely to position Schneider very well indeed. Specifically, these channel members provide sales and support to mid-tier and smaller utilities, industrial and commercial customers, as well as building owners and property managers. While this capability benefits Schneider's LV business units in particular, it also aids the company's efforts in medium voltage equipment and smart grid businesses.

Other aspects of the Schneider Electric operations that are particularly notable as we enter 2015 are the following:

Revenue Growth: Schneider sales for 2013 stood at the 25 billion euro mark for the first time. R&D investment is at 4-5% of sales. The company now obtains more than 40% of revenues from developing countries.

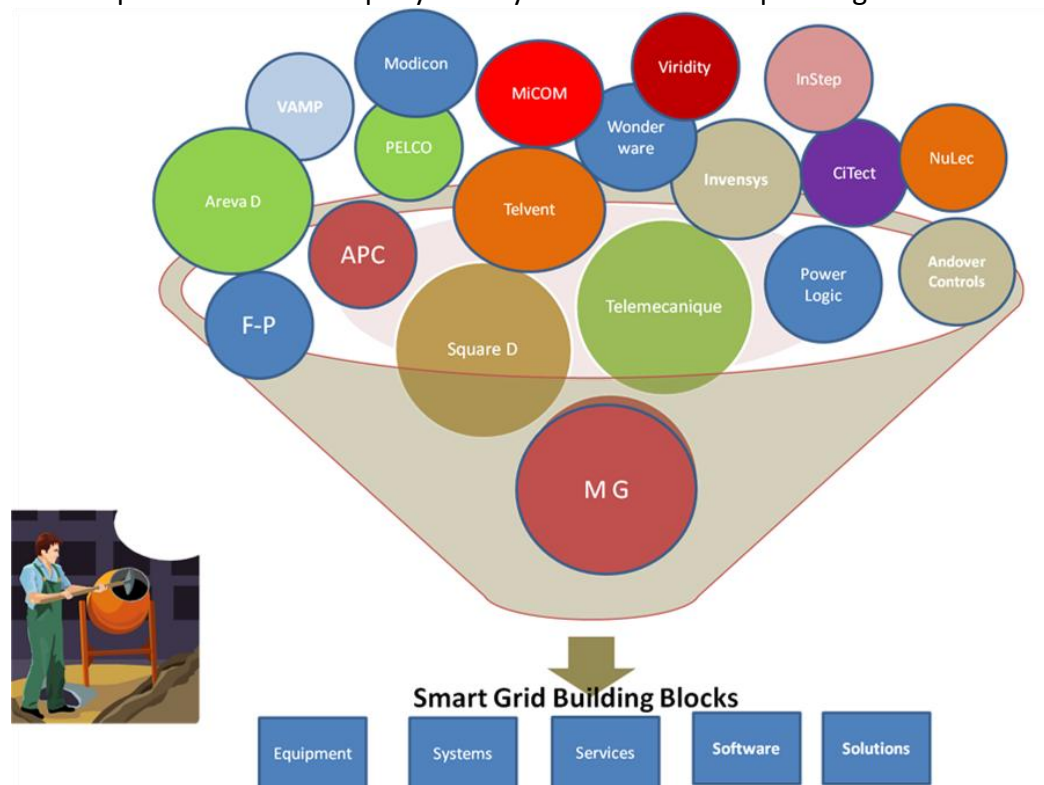
Business Segmentation: Schneider has carved out a strong presence in four "verticals" including utilities and infrastructure (27% of 2013 sales); industrials and machinery (25%), data centers and networks (14%); and building automation and low voltage (34%).

World Regional Breakouts: The company has a well-balanced regional portfolio with strongest growth coming from Asia and South America. Nonetheless, its North American sales have almost tripled to 6.4 billion euros over the 2003-2013 periods. Europe provided 2013 revenues amounting to 7.1 billion euros, while Asia contributed 6.8 billion euros and Latin America accounted for 5 billion euros.

Business Models: Historically, the "product" model (manufacturing, sales, training and support services) was the leading source of revenue, accounting for

85% or more of revenue as recently as 2003. However, by 2013, solutions (software, technical services, control systems, automation services) now account for 40% of company revenues (more than 9.5 billion euros).

Newton-Evans Assessment: Based on our quick study of this company, Newton-Evans believes that Schneider Electric has the product “bricks” or components necessary to build a strong, resilient, technically modernized 21st century power distribution grid. The more relevant question is whether S-E management can develop its growing solutions “mortar” mix that will enable the product bricks to be cemented in place in a workable, seamless, cost-effective manner for its utility and industrial customers. Organic revenue growth will remain a challenge to the company (and to many other global corporations) given the current soft economies in three of four S-E defined world regions. A weaker euro may improve sales in European country markets and help increase export sales. No doubt this will have some effect on 2014 financial reporting. As long as the U.S. dollar does not become strong enough to offset such a currency exchange gain in Europe and elsewhere, that may stabilize both Western European and North American operations. If the dollar becomes too strong, it may have the effect of curtailing some exports from the company’s many North American operating units.



Upcoming Conferences

IEEE Joint Technical Committee Meeting

11-15 January 2015

Anaheim (Garden Grove), CA

<http://pestechnical.org/>

The purpose of the 2015 IEEE PES Joint Technical Committee Meeting is to provide a forum where PES technical committees can meet for up to 5 days to focus on technical matters and standards - the primary work of committees, subcommittees, working groups, and/or task forces - without the distractions of the unrelated elements generally found at other PES meetings or expositions.

DISTRIBUTECH 2015

February 3-5, 2015

San Diego Convention Center

<http://www.distributech.com/index.html>

DistribuTECH is the largest U.S. event that covers the utility industry from end-to-end with 10,000 attendees and more than 480 exhibitors. In past years, San Diego has delivered the event's highest-ever attendance numbers and the 2015 event will be no exception. It's already on track to be the largest ever.

- 10,000 attendees
- 64 countries
- 326 Global Utilities Represented
- 475+ Exhibitors
- 15 Conference Tracks
- 79 Conference Sessions
- 350+ of the Industry's Top Speakers
- 24 Utility University Courses

ARPA-E Energy Innovations Summit

February 9-11, 2015

Washington, D.C.

<http://www.arpae-summit.com/About/About-the-Summit>

The ARPA-E Energy Innovation Summit is an annual conference and technology showcase that brings together experts from different technical disciplines and professional communities to think about America's energy challenges in new and innovative ways. Now in its sixth year, the Summit offers a unique, three-day program aimed at moving disruptive energy technologies out of the lab and into the market.

More upcoming conferences can be found on our website:

<http://www.newton-evans.com/trade-events/>

