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### ScottMadden's Energy Industry Update – Take It to the Limit

Webinar

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# TAKE IT TO THE LIMIT



### **Cristin Lyons**

Partner and Energy Practice Leader

Cristin Lyons is a partner with ScottMadden and leads the firm's energy practice. Since joining the firm in 1999, Cristin has consulted with myriad clients on issues ranging from process and organizational redesign to merger integration to project and program management. Cristin led the firm's grid transformation practice for three years before becoming the energy practice lead. She is a frequent speaker and panelist at conferences across the country. Cristin earned a B.A. in political science and Spanish from Gettysburg College and an M.B.A. from the Cox School of Business at Southern Methodist University. She is also a member of Phi Beta Kappa.



#### Introduction

### **Energy Is Who We Are**

ScottMadden is a management consulting firm with more than 35 years of deep, hands-on experience. We deliver a broad array of consulting services—from strategic planning through implementation—across the energy utility ecosystem.

Our energy practice covers the following areas:





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## **100% Clean Energy Commitments**

#### THE ULTIMATE LONG-TERM GOAL





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#### **Theo Tran**

#### Manager

Theo Tran is a manager with ScottMadden. Her experience includes work in corporate sustainability, energy efficiency, and clean energy. She is also ScottMadden's sustainability lead and a member of the firm's ESG Committee. Prior to joining ScottMadden, Theo worked with the Rocky Mountain Institute where she was responsible for developing a tool to help North American universities identify hotspots for carbon-emissions reductions. She was also a TEFL Peace Corps Volunteer in Ukraine, and during her service, she led a national water-testing initiative. Theo earned a Master of Environmental Management from Duke University, a Master of Business Administration from UNC Chapel Hill, and holds a B.S. in biology from UCLA.



#### 100% Clean Energy Commitments

### **Electric Sector Drives CO<sub>2</sub> Emissions Decline in the United States**





### **100% Clean Energy Commitments Become More Common**

States and Electric Utility Service Territories with **RPS** Requirements **100% Clean Energy Commitments** (as % of 2018 Retail Electricity Sales) 100% State **Commitments** Remaining 18.5% **Retail Sales** 56.8% 100% Utility 18.1% **Commitments** States and D.C. Utilities 6.7% **Additional RPS** Requirements

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**100% Clean Energy Commitments and** 

100% Clean Energy Commitments

### **A Common Objective, But a Variety of Approaches**



**100% Net Carbon Neutral** 

Cottmadden MANAGEMENT CONSULTANTS Sources: CAISO, ScottMadden

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#### 100% Clean Energy Commitments

### **Clean Energy Headwinds – COVID-19 and Executive Orders**

#### S&P Global

Energy transition to be shaped by world response to COVID-19

Energy transition to be shaped by world response to COVID-19 ... clean energy solutions and the impacts of climate change, found that when it ... 2 weeks ago

#### POWER magazine

Trump Ban on Foreign Bulk Power Equipment Triggers New ...



Declaring a national emergency over threats to the U.S. bulk power system (BPS), President Trump in an executive order (EO) on May 1 issued ... 2 weeks ago

#### 🔇 Utility Dive

#### Trump's security order could have 'chilling effect,' slow smart ...

President Donald Trump's executive order limiting the installation of bulk power system (BPS) equipment sourced from adversaries of the ... 2 weeks ago



States Standing Strong on Clean Enegy Commitments Amid COVID-19 Pandemic

As consumers and businesses grapple with the impacts of COVID-19, ... "It is incumbent on us as state leaders to ensure that clean energy ... 3 weeks ago



#### 🐭 Solar Power World

COVID-19 caused estimated 38% drop in US solar jobs SEIA's analysis shows that vast majority of renewable energy job losses come from the solar energy industry. The 37% decrease in new ... 14 hours ago



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#### Transmission & Distribution World

#### Executive Order Establishes New Challenges for Utilities

Executive order injects major new risks into the sale and procurement of bulk power equipment. Joe TironeBelton Zeigler. May 12, 2020. On May 1, 2020, the ...

1 week ago





### **COVID-19 Potential Impacts on Renewables**

### **Decline in CO<sub>2</sub> Emissions**

Significant decreases in carbon emissions will be short-lived without structural changes.



### **Potential Loss of Momentum**

As governments direct recovery spending, efforts to expand clean energy may stall.

### **Financing Challenges**

Impacts are minimal in these early stages, however unclear the outlook on long-term availability of tax equity financing.



### Rate Case Scrutiny

The scale and timing of grid-edge investments may receive closer scrutiny as PUCs consider mitigating economic impacts.

### **Delays in Construction**

Social-distancing requirements, permitting delays, and potential supply chain disruptions may trigger construction delays.



#### **Decline in Consumer Demand**

Consumers may be less willing or able to make large investments in residential solar, storage, or electric vehicles.



#### 100% Clean Energy Commitments

### Key Takeaways

#### 100% Clean Energy Commitments: The Ultimate Long-Term Goal

The renewable energy industry must scale rapidly to meet the growing list of 100% clean energy commitments. Implementation and generation portfolios vary, depending on the type of commitment.



The near-term impacts of the COVID-19 pandemic are marked by declines and delays, and the transition to clean energy will largely be shaped by how governments respond.



Although clean energy commitments are facing other headwinds like the recent executive order, renewable technologies remain well-positioned for continued long-term growth.









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### **Jim Stephens**

#### Partner

Jim Stephens is a partner with ScottMadden. He has nearly 30 years of experience in the energy industry, and he has held senior management positions at economic consulting firms, energy marketers, and local distribution companies prior to joining ScottMadden. Jim has assisted numerous clients in the United States and Canada with natural gas supply analysis, portfolio assessment and optimization, demand forecasting and risk management, energy infrastructure evaluation, and regulatory strategy development and implementation. He has also provided expert testimony in numerous proceedings at various jurisdictions, including federal, state, and provincial regulatory agencies.



### **Natural Gas Tailwinds**



Henry Hub Annual Average Spot Price

More Gas Supply

Lower, Stable Gas Prices



Sources: EIA; Canada Energy Regulator; U.S. Energy Information Administration

### **Natural Gas Tailwinds (Cont'd)**

#### U.S. Residential, Commercial, and Industrial Natural Gas Customers (Millions) (2010–2018)



### U.S. Natural Gas Deliveries to Electric Power Customers



#### **More Gas for Power Generation**

Compound Annual Growth Rate (2010-2018) (%)				
	Total Residential	0.77		
	Total Commercial	0.50		
	Total Industrial	-0.51		
	Total	0.75		

#### **More Gas Customers**



### **Natural Gas Headwinds**



MANAGEMENT CONSULTANT

### **Regional Markets – Wholesale Natural Gas Prices**



Day-Ahead Natural Gas Prices at Selected Regional Hubs (\$/MMBtu)

### **Regional Markets – Residential Prices**

U.S. Average Annual Residential Natural Gas Prices by State (2018) (\$/Mcf)



- Demand segments, growth, weather
- Supply production access, pipeline availability, other resources
- Regulatory programs, cost recovery, rate design



### **A Call to Action for Natural Gas Utilities**

	Customers	Gas Supply
Expand and/or engage in activities to manage tailwinds and headwinds	<ul> <li>Leverage data to identify and quantify localized demand trends</li> <li>Use existing EE/DSM service framework to expand budget and scope</li> <li>Rate design or price-responsive signals to customers for load management</li> <li>New services <ul> <li>Customer side – green tariff</li> <li>Project developer – interconnection tariff</li> </ul> </li> </ul>	<ul> <li>Planning standards – normal, design, cold snap</li> <li>Portfolio performance – reliability, responsiveness to short- and long-term changes, cost-effective</li> <li>Stress testing – low-probability but high-impact events</li> <li>Resource options to match localized demand – pipeline and non-pipeline alternatives, on-system (LNG), load management</li> </ul>



### A Call to Action for Natural Gas Utilities (Cont'd)

	Emissions	Renewable Natural Gas Projects
Expand and/or engage in activities to manage tail and headwinds	<ul> <li>Continue/increase pipeline replacement programs</li> <li>Scorecard – measure, quantify, track</li> <li>Benchmark performance and practices</li> <li>Leverage trade groups</li> <li>Long-term options</li> </ul>	<ul> <li>Reduce carbon content of the gas stream</li> <li>Local projects = local investment</li> <li>Non-pipeline alternative</li> <li>Diversify the portfolio</li> <li>Regulatory approaches <ul> <li>Volume targets</li> <li>Cost-of-gas budgets</li> </ul> </li> </ul>



### Key Takeaways

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LDCs remain at the forefront of managing and responding to price and demand tailwinds as well as evolving expectations regarding carbon content of the natural gas stream.

2 Regional context—including demand trends, gas supply options, and the regulatory environment—matters in evaluating options and opportunities to address both headwinds and tailwinds for gas utilities.



A wide array of both tactics and strategies may be considered by LDCs in anticipating and responding to evolving customer and policy preferences, including benchmarking, innovative rate design, resource options, and carbon reduction approaches.





#### **DURING A PANDEMIC**

## **Regulatory Strategy**





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### **Greg Waller**

#### Director

Greg Waller is a director with ScottMadden with more than 25 years of combined experience in the energy utility industry and management consulting. Greg's experience includes rate and regulatory strategy and support, testimony preparation, settlement negotiation, and alternative ratemaking mechanisms. Prior to joining ScottMadden, Greg spent 16 years in senior positions at Atmos Energy Corporation as vice president of finance for a multi-state operating division and as manager of Rates and Regulatory Affairs. Greg has sponsored testimony before five state regulatory commissions and authored alternative ratemaking mechanisms in five states. Greg holds a B.A. in Economics from Dartmouth College and an M.B.A. from the University of Texas at Austin.



### Where Are We Now and How Did We Get Here?



### **Support from Regulators**

#### Initial actions were predictably customer-focused

- Initiated by regulators AND utilities
  - Disconnect and late fee moratoriums
  - Broadening of payment arrangement programs
  - Maximizing sources of energy assistance funds
  - Temporary suspension of rate increases

#### Followed by actions to lessen financial strain on utilities

- Accounting orders have accelerated as predicted
  - While most narrowly define eligible expenses as those related to customers' inability to pay, others include, but are not limited to, language for incremental expenses and may consider lost revenues
- Reassurance that bills are not permanently forgiven
- Recognize that deferrals do little to support cash flow

#### **COVID-19 Accounting Deferral Orders**



### Things to (Continue to) Focus on Now



Take Care of Business: *People*  Take Care of Business: *Operations* 

Track Items for Recovery<sup>1</sup>

Develop Recovery Strategy

Prepare for the Next Disruption

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<sup>1</sup>Establishment of and deferral entries to regulatory assets should be consistent with regulators' orders and the result of collaboration with regulatory and accounting staff, accounting officers, and auditors.

### The "Next Filing": Key Considerations

	Current Regulatory Construct	Key Considerations
	Existing Annual Mechanism or Infrastructure Rider	<ul> <li>If practical, stay the course and file as required by tariff</li> <li>Be sensitive to regulators' preferences</li> <li>Develop strategy to recover costs not covered by riders</li> </ul>
1. When to File	Pending General Case	<ul><li>Follow existing procedural schedule but be flexible</li><li>Incorporate COVID-19 costs if possible</li></ul>
	No Pending Case	<ul> <li>Decision to file driven by risk and financial position</li> </ul>
	Basics	<ul> <li>Billing determinants/class cost of service study</li> <li>ROE update</li> <li>Recover COVID-19 Reg Asset (if applicable)</li> </ul>
2. What to File	Regulatory Features for the Future	<ul> <li>Develop advocacy for mechanisms that prepare the utility and its customers for the next disruption</li> </ul>



Keeping filings on track—even if actual rate changes are delayed—will help utilities and regulators avoid workload capacity constraints later.

### **Preparing for the Next Disruption**

Emphasize key aspects of the regulatory construct that can be put in place during this recovery that will lessen the negative impacts of the next disruption.





### **Key Takeaways**

Take care of business by prioritizing the safety of customers and employees, providing uninterrupted safe and reliable utility service and exceptional customer service.



Develop a regulatory recovery strategy that focuses on the current or next filing, so you are prepared to execute when the opportunity presents itself.



Prepare for the next disruption by emphasizing regulatory features that reduce lag, stabilize revenues, and support cash flow.





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### **Greg Litra**

#### Partner and Director of Research

Greg Litra is a partner with ScottMadden, with principal expertise in financial, economic and regulatory analysis, strategic planning, corporate governance, risk management, and transaction support. He specializes in the energy and utilities business sectors. He also leads the firm's energy, clean tech, and sustainability research activities and spearheads publication of ScottMadden's Energy Industry Update and other occasional publications. He is a member of the New York, Connecticut, and District of Columbia bar associations, as well as the Energy Bar Association and the American Bar Association's Public Utilities and Environment, Energy & Resources sections. Prior to joining the firm in 1995, Greg was a corporate lawyer and business litigator on Wall Street and in Atlanta. As a lawyer, Greg worked with utilities, investment banks, and other companies in equity and debt offerings, project and secured financings, corporate litigation, and transaction due diligence. He also clerked for the Federal Court of Appeals for the Fourth Circuit. Greg earned a J.D. from the University of South Carolina School of Law, where he was editor-in-chief of the South Carolina Law Review. He also earned an M.S. in industrial administration (MBA-equivalent) from Carnegie Mellon University, where his academic concentrations were in the areas of finance, accounting, and entrepreneurship. Greg is a Phi Beta Kappa graduate of Wofford College, where he earned a B.A. in economics and philosophy.



## YOUR WEBINAR PRESENTERS



Cristin Lyons Partner and Energy Practice Leader Theo Tran Manager Jim Stephens Partner Greg Waller Director Greg Litra Partner and Director of Research

See the link below for the latest Energy Industry Update <a href="https://www.scottmadden.com/energy-industry-update/">https://www.scottmadden.com/energy-industry-update/</a>



### ScottMadden's Energy Industry Update – Take It to the Limit



See the link below to access COVID-19 resources <a href="https://www.scottmadden.com/insight/covid-19-resources/">https://www.scottmadden.com/insight/covid-19-resources/</a>

