



Plugged In

Issues impacting the power and utilities industry



Part 2: Management challenges facing network integrators

In this edition of KPMG LLP's (KPMG) Global Energy Institute's *Plugged In*, we asked Todd Durocher, Kelly Stephenson, and Michael Piotrowski about recent disruptive technology within the power and utilities industry. This three-part issue explores the journey from a national distribution utility to a network integrator. In this second part, we discuss management challenges facing the network integrator.

1. In your previous document, you mentioned some fundamental capabilities that utilities as network integrators need to have. How does the network integrator model differ from the traditional distribution utility model?

The traditional distribution utility is committed to providing a safe, reliable, and economic power supply. The management focus is broadly upon managing the "four walls" of the utility, the immediate touch points with the markets, and the full customer life cycle. Network integrators broaden that focus to serve as the "hub" through which energy services are provided to customers. This role includes setting interconnection standards, managing relationships with energy providers, providing analytics from grid activities and security threats, and creating a richer customer experience. Network integrators are able to monetize the investments they have made in the grid and produce new, connection-based revenue streams.

2. This seems like a major shift. What are some the challenges and ways to overcome them?

That is correct. Rate structures, competition for capital, stakeholder education, and customer engagement are some of the challenges utilities must address through this transition. Ways to overcome these challenges include:

- **Increasing regulatory commitment** – Regulatory and legislative investment in education and new dynamic rate and tariff structures will be key to fairly distribute benefits to all stakeholders.

Welcome to KPMG Global Energy Institute's *Plugged In*. Specialists address key issues in the power and utilities sector. *Plugged In* offers insight from KPMG thought leaders on the trends that are driving and shaping power and utility companies today.



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About the GEI

The KPMG Global Energy Institute (GEI) is a worldwide knowledge-sharing forum on current and emerging industry issues. Launched in 2007, the GEI interacts with its over 30,000 members through multiple media channels, including audio and video Webcasts, publications and white papers, podcasts, events, and quarterly newsletters. To become a member, visit www.kpmgglobalenergyinstitute.com.

- **Developing robust economic cases** – Institute capital control programs and processes that provide meaningful management information regarding capital trade-offs and relative benefits. Economic cases are the primary communication vehicle to provide understandable, realistic, and driver-based benefits to customers and other stakeholders.
- **Increasing customer commitment** – Most technologies deployed have been engineering-driven and with the belief that “if you build it, they will come” without adequate consideration of the investment and commitment required on the customer side. Network Integrators need to focus efforts on the integration of customers and retail service providers.
- **Increasing communications commitment** – Communicate and educate early and often with all stakeholders in your individual journey. The role of the network integrator demands attention to these factors.

3. Are there other risks we need to be cognizant of?

Yes, the industry evolution has also altered the risk landscape, and utilities must reevaluate their risk profiles as part of the enterprise planning process. Some of the risks that need to be considered and quantified in the business case development include:

- **Market risk** – Inclusion of utility-scale renewable resources and the potential impacts on system supply costs and recovery of capacity
- **Operating and safety risk** – Crew dispatch time impacts on outage metrics given new information from grid modernization devices
- **Customer and product/service alignment risk** – Customer adoption rates for new programs
- **Image/Brand risk** – Community outreach and potential regulatory impacts, particularly associated with perceived partnerships with other service providers.

- **Regulatory and political risk** – Timing and recovery of valid potential investment and the impact on rates
- **Environmental risk** – Potential costs or delays for not meeting federal or state guidelines
- **Financial and earnings risk** – Investment cash returns to satisfy debt and equity stakeholders
- **Capital market risk** – Debt/Equity and coverage ratio maintenance.

4. How does this transition impact existing business and financial planning frameworks?

Utilities will need to migrate toward a value-based, enterprise model planning and implementation approach to support the journey toward becoming a network integrator. Under such an approach, energy infrastructure planning and operational investment decision making would need to demonstrate value across multiple aspects of the enterprise operations and business instead of from a single project residing in a functional area.

There are three main benefits from this expanded planning and execution capability:

1. It would build on and enhance existing infrastructure and operations.
2. It would incorporate advanced energy technologies with existing system assets, such as smart grid, distributed energy resources, renewables, and communications/data.
3. It would focus on core value expansion and risk reduction for all segments within the value chain.

In our next *Plugged In* newsletter, we will provide more detail around a suggested planning framework.



Expand on Part 2: Management challenges facing network integrators by viewing this video.



Dive in deeper to Part 2: Management challenges facing network integrators by viewing this brochure.

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