An interview with Regina Mayor, Global and U.S. Head of Energy with KPMG and Jim Torgerson, CEO of Avangrid, Inc.

Announcer:
Welcome to the Energy Exchange podcast, brought to you by KPMG’s Global Energy Institute. Energy Exchange is a podcast series featuring in-depth conversations with the nation’s top energy executives and luminaries to explore today’s most pressing issues and emerging challenges affecting our industry.

Despite a collapse in oil prices, aging infrastructure, and a global pandemic, the promise of sustainable energy remains. Regina Mayor, KPMG’s Global and U.S. Head of Energy, connected with Jim Torgerson, CEO of Avangrid, on April 3, 2020, to discuss renewable energy and the expected lasting impacts of COVID-19, how climate change conversations are being reshaped, and why there remains optimism for the future.

Regina:
Jim, you’re currently the CEO of Avangrid, which is a sustainable energy company that operates in 24 states, and you have both electric and gas networks and renewables. Tell us more about the company and your overall ambition.

Jim:
Yeah, the company right now is about 75% is utilities. We have utilities, and eight utilities in four States. We have New York State Electric and Gas, Rochester Gas and Electric in New York, and then United Illuminating and two gas companies in Connecticut, small gas company [inaudible 00:00:35] and Central Maine Power and Maine Natural Gas in Maine. Then the other 25% is made up of our renewable business, which mostly is the onshore wind, and then a little bit of solar, which we’re expanding the solar piece. Right now, we have a pipeline of a little over close to 17 gigawatts of renewables, about five and a half is a solar, five is... Let’s see, about six in solar, five and a half wind onshore, and another five megawatts of offshore wind pipeline.

Jim:
We see the offshore wind as being going to be a big driver for the future. We actually won contracts for 1600 megawatts in our partnership with Copenhagen Infrastructure Partners. So, we see the offshore wind is being a big growth factor. But also the utilities with the opportunity to make investments in the grid, and replacing aging infrastructure because they’re all in the Northeast and New York, and so these utilities have been around a long time. Most of them been around for 100 years plus. A lot of the infrastructure was put in place from the ’50s, ’60s, and ’70s, so it’s getting old. We see opportunities to grow there.

So really, when you talk about where we’re going and our ambition is to grow the renewable business. We had a target to grow, add 2000 megawatts by 2022. We already have contracts and PPAs for 2200 megawatts, so we’ve already met that goal. Then we have the opportunities in the utilities to keep growing those with rate base. Previously we had said the rate base growth is going to be about 9% and a year through 2022. We see opportunities to keep growing the business, and that’s what we’re focused on. Really is what we want are businesses, utilities, and contracted renewable business. So, those are the areas we’re focused on that can be more reliable and more sustainable for that matter.

Regina:
That’s terrific. I do want to come back to the offshore wind and explore that a little bit more, but we can’t have a conversation today without talking about the unprecedented conditions we’re operating in. You know, a global viral pandemic and economic shock.
It’s collapsing oil prices. How has all this directly affected your business and your operations?

Jim:

Well, the way we’re operating right now, on the phone. People are working from home. We have quite a few people working from home. But as a utility, you can’t do that with everybody. I mean, we have to be out in the field so. But what we’ve done are things to make sure that we’re having social distancing. I mean, just simple things like we don’t have two people in a bucket truck now. We have one and we rented a bunch of pickup trucks so the other person could follow along so we keep people separate. So yeah, it’s having an impact on how we actually operate.

Collapse in oil prices, the impact there is more on the Merck’s pricing for electricity right now, and natural gas, obviously, prices are extremely low. So it’s having an impact there on some of our business. Those prices go up and down, and right now, it’s very low with the collapse in the oil prices and gas prices. I think they’re down around what a dollar 60 or so right now, a dollar 70 a million. So, that’s having an impact on electricity prices.

But really how we operate is changing. I mean, we have a lot of people, and more than half of our people are working from home, and so it’s changing the way we’re doing things. I think we were talking before about spending all day on the phone right now because that’s the only way you can communicate with the people. So we’re doing that.

As far as the business goes, we haven’t seen much of a change. Now the good thing for us, for our utilities, every one of them has the coupling, which just means we get the revenue requirement that the commission’s decided upon. So, then if the sales, the volume of sales, is less, which I would expect it will be. So far, residential, I expect, is going to go up because more people are at home using everything they have at home and all the electricity and gas. But the commercial and industrial, we would expect we’ll see a downturn in that. So, that’s going to impact our business.

With the renewables, we haven’t seen anything with our construction activities so far. I would expect that later this year we’ll start seeing a supply chain slowing down so that we don’t get everything as timely as we’d like. Contractors could, we could see an issue there with just people not being able to work because they’re sick, or having to isolate, or sequester as a result of getting the virus. It’s going to have an impact. It’s starting to now, but so they’re things we’re just going to have to look for. The biggest thing we’re trying to keep our people safe, and make sure that they can be effective. Because, as you know, with utilities, we have to provide the service. I mean, we’re basically like first responders, so we have to be there, so we’re doing everything we can to protect them.

Regina:

I tell you everything in my home would fall apart if we lost access to Wi-Fi, so please keep the lights on.

Jim:

Well, we’re trying.

Regina:

Well, how about the, in terms of the effect on the grid, are you seeing any stresses and strains? Or, is it overall easier to manage because we’re seeing load factor decreases, spikes in residential use, but lower C&I use. How’s the grid operating in this environment?

Jim:

As near as I can tell, I haven’t heard too much otherwise that it’s fine. And I would have, because I’m on calls twice a week with the Electric Subsector Coordinating Council, which I’m on. Then EEI has the call, AGA has a call. I’m not hearing anything that says the grid is having any negative impacts on this right now. And as you say, with the C&I being down, it has less power flows going through the system. So, we should be able to manage this pretty well.

The residential is where you could start seeing some issues, but it would be more on the distribution system. Haven’t seen any yet. But I got to believe that if this goes into the summer, where we start getting really hot days, and everybody’s running air conditioning, and using all everything in their house with more people there, that could start having a little bit of an impact. But I think most utilities are in pretty good shape with that regard, so I wouldn’t get overly concerned. But it’s something we just got to be aware of. Right now, the grid’s doing fine.

Regina:

That’s very comforting. It’s already hot down here in Texas, and my air conditioning is going, but so far everything’s been terrific. When you pivoted to-
Jim:

Well, I can’t say the same for Connecticut though. It’s still cool up here.

Regina:

Right, right. It’s already hot down here. But when you talked about pivoting to a remote workforce, were your IT systems enabled you to flip the switch pretty quickly? Like your call center resources, or your traders, or how did you manage that IT side of things as you shifted everyone into working from home?

Jim:

Oh, that one’s a little... It worked pretty smoothly and I have to give our IT group a big plus. I mean, they did a great job. But one of the things that we did immediately was double our capacity or bandwidth, because knowing that we’d have all these people working from home, we knew we’d need more capacity. So, we doubled that. We initially thought, “Wow, this is going to be a couple of weeks, so people who can work from home should take their laptops.” Then as we got in that we thought, “You know, this is going to be a lot longer.” So now, we had people wanting to take their desktop home, their screen so they could actually do work better. Because a lot of people like our engineers need the bigger screens, and the accounting people so that they could actually do more work on their computers at home. So, we relaxed and said, “Yeah, go in the office, get what you need, and just make sure people know what you’re taking, so it does come back at some point.”

Traders and stuff, we basically, the first thing we did with those is we have a trading operation for our renewable business out in Portland, Oregon. We isolated that area so nobody else can go in there to make sure that they were doing okay. With our control centers for the electricity and the gas, and actually for our national control center for renewables, national control center, we split the group and sent half of them down to our alternate control center in Arizona, and so that we have them in two places now. Our trading group, as I said, we isolated the area so no one else could go in there, so they wouldn’t be impacted. With our control centers in the electric and gas business, we again isolated the control centers so no one else could get in there.

Now we haven’t gone to this point where they’ve been just living there full time. We’re prepared to do that, but we decided it wasn’t ready because if this goes into let’s say another six weeks, which it kind of looks like, or two months, do we want the people away from their families that long when we’re not seeing in our areas... And this is Connecticut, and in Maine. And in New York, we’re not in New York City, so that’s different. We’re keeping the people available and we split them into teams. We have hotel space ready in nearby hotels. Even if the hotels are shut down, we have an agreement where we have rooms available so that they could stay there if need be. But we haven’t gone to where we just isolated them into the control rooms yet. That may come. I hope it doesn’t, but it may. Those are the things we’ve been doing so that we can continue operating.

Regina:

That’s terrific. I’m glad that it’s a little bit more family friendly because I know some of the other gas pipeline infrastructure managers that had to sequester the employees, which I know is going to be really hard the longer this goes on. Let’s talk about offshore wind. I’ll be frank, I’m a bit of a skeptic about it. How do you see that playing out in the U.S.? Is it real, or is it a fad, and how do the economics compare onshore wind versus offshore wind?

Jim:

Well, the economics, talk about the return, we would target a little higher return on the offshore wind just because of the risks are a little higher. Really, it comes down to the return. We look at the spread over the weighted average cost of capital is going to be the same. The weighted average cost of capital is higher is the way we look at it. So, in effect, you’re looking for a higher internal rate of return. I didn’t know much about offshore wind until we got into the business. What I find is that it’s not just a fad. There is over 25 gigawatts that the states in the Northeast want and are planning on RFPs for, for offshore wind.

The reason behind this is mainly because you can’t site too much renewables in these states. Like in the Northeast, it’s really difficult to site anything. Then even if you can, which we’ve done some, then you’re talking about running new transmission lines, and those are tough to site. So, that’s proves to be a real challenge. The offshore wind, think about it, our one lease is like 16-17 miles offshore Martha’s Vineyard. So site lines is such that people on Martha’s Vineyard not really going to see the wind turbines, and they see the tips occasionally on a very clear day. The costs are higher, obviously, but the capacity factors are so much better.

What we’re looking at now are machines that... Well, originally we were looking at machines for our...
higher when you have much bigger machines, so the summer, it’s 20 to 30. The capacity factors are much 48 to 50%. In the winter, it’s like 70 to 80%. In the average is in the low 30s. Offshore wind is closer to ones would be in the 40% range. I think our system offshore wind is much stronger. Onshore, really good maybe even 15 megawatts. The capacity factors for economics are pretty attractive.

You also got to look at what the competition is. There are only a handful of companies that are going to be involved in offshore wind for a while, and we’re one of them, so we can be competitive. As I said, the states want offshore wind, so they’re doing RFPs. You might put in your bid, and you bid it so that you can get a return that you’re comfortable with. Now, it is competitive, but you’re competing against maybe three other parties, or maybe three or four. You’re not competing against 20 or 30. There’s a limited number of offshore leases right now, so we’re fortunate to have several. We have three, two with our partnership, and one by ourselves off of North Carolina. So, I think this is going to be a growth opportunity.

**Regina:**

Very fascinating. Thanks for that. But do you think it continues to be more of a phenomenon that’s confined to the Northeast, or would you envision a world where it goes up and down the Atlantic, or even into the Gulf of Mexico? How do you see it potentially evolving?

**Jim:**

I see it the best places for wind, and we have charts of where the wind resource is the best, and the best is the Northeast. Then down the coast until you get to basically the Carolinas. Then it gets to the point where it’s not as attractive. Then the other spots would be offshore California, which is very good, and Hawaii. The problem with like even Maine, California, Hawaii, is the water, it gets deep very fast. Then you’re talking about putting in floating platforms versus the monopiles or jacketed structures that you would use for the offshore wind. The floating ones, they’re just being tested now, is some more experimental stuff with that. I’m sure it’ll come around in the longer term, but for now, I would see it in the Northeast is the area where it’s going to get the most attention because the water is shallower, its bottoms are sandy, or you’re not talking about going through a lot of rock or stuff, so it’s easier to deal with.

**Regina:**

Okay, interesting. Let me pivot for a minute and talk about energy transition and climate change since we are talking about renewables. There are two schools of thought about what’s happening today. One school of thought is it accelerates the need to focus on climate change because it shows how a global pandemic or global crisis could just crater the economy and then our way of life so quickly. Another school of thought says we’ve already reduced carbon. Where in our homes demand’s not going to snap back immediately. Conventional power sources are so cheap given the oil price war. It’s going to put climate change on the back burner. Where do you think the whole energy transition climate change topic will be a year from now as we come out of this crisis?

**Jim:**

You know, that’s an interesting question because you’re right, the fossil fuel, the costs, oil, natural gas are pretty cheap. I would just keep in mind... I chaired the American Gas Association last year, so I’m a big fan of natural gas, and I think we’re going to see the use of natural gas for quite a while. Renewables, I like, and I think they’re going to continue, and they’re going to grow. There’s going to be a lot of it. The climate change, I don’t see that changing. Right now, it’s not on the forefront, obviously. The pandemic certainly is, and people are more concerned about that than they are about climate change obviously. But I think it’ll probably turn around at some point, and people will get back to, “Well, we need to be thinking about what is happening with the earth and the climate.” So, I think that’s going to come back.

You look at a lot of the states themselves, and they have put in mandates to have renewable energy being the biggest part of the portfolio. Now, some of those timeframes are out to 2040-2050, where you’re looking at 100% renewable or 100% net carbon free. It does say that the renewable business is going to be there longer term because I don’t see those changing right now, particularly in the areas along the East Coast and West Coast of the U.S. and some other states. I think the climate change discussion is going to continue, and I think that’s going to be ongoing for a while. I think it’s going to take a back burner for a bit. But like I said, I still see
that natural gas is going to be prevalent for quite a long time now.

We can’t run everything on renewables today. We just can’t because if we had 100% capacity factor, sure, but you don’t. Solar, if you’re at 30%, you’re doing really well. Wind, like I said, 30-40% for onshore, maybe 48-50% offshore. That still leaves a lot of time when you don’t have wind or solar. So, you need something, and natural gas is cheap, it’s reliable, and it’s currently, it’s very available. So, I see that continuing.

Regina:

Right. Well, I get to ask you these big macro questions. I know they’re a little hard, but I’m fascinated by your perspective. So staying with that, demand has for global fossil fuels is down this quarter, potentially 20 to 25 million barrels per day. There’s a school of thought that says we’ve all really gotten accustomed to working from home, working remotely. How quickly are we going to be ready to jump on an airplane and crisscross the country like we used to? How quickly are we going to be willing to go to the office every single day, and make that commute, versus two or three days a week from home? What’s your view on what happens to demand for energy when we are out of the social distancing virus sort of control, flatten the curves type of scenario? What are your thoughts?

Jim:

Well, I think people are going to start working differently. I don’t think we’re going to go back to the way it was six weeks ago, where you hopped on a plane and went everywhere. You drove to the office every day. I think you’re going to look at alternative ways of working because I think we’re starting to see, and someone made the comments the other day to me, they said, "None of us really had the guts to do what we’re doing now," which was to have everybody work from home because they didn’t know how it was going to play out. Now we’re seeing in how it can work and we’re doing things creatively to make it work. So, I think you’re going to see a change in the way people do work and maybe they’re not hopping on planes all the time.

I think the interaction we’re going to have is going to change. Because really with this global pandemic, I think the social distancing is going to be around for a while. Because keep in mind we’re not going to have a vaccine for a while. They’re talking maybe 12 months at the best, maybe 18. But then you think about, okay they got a vaccine, how long is it going to take to produce it, how long is it going to take to distribute it? Then make sure everybody has it? I have a feeling that’s going to take quite a while. It’s not like in 12 months everybody’s going to have the vaccine and given to them. So, I think the social distancing is going to be around for a little bit.

So, where people jump on planes, I’m not so sure they will, and which may not be good for the airplane industry, but I think people are still going to want to travel. They’re going to want to go meet people. But I think they’re going to be more conscientious about how they do it. So, I could see that demand for energy could stay at a lower level. It may not be down 25 million barrels a day, but it could be down a little bit somewhat. I think the energy usage could be a little lower, so at least for the next few years and even after that. Who’s to say that we go back to the way it was? I mean, I think people are going to figure out ways to work from home and do things differently.

Regina:

Right. There is the school of thought building now, Jim, that says 2019 was the peak demand year for fossil fuels. So, I’m with you.

Jim:

It could be.

Regina:

I think people are really fundamentally changing how they work and that could have long term repercussions. Well, hey, Jim, thanks for your time. We’ve covered a wide range of topics. I want to leave you with the final word. What words of wisdom or positive message would you like to leave with our listeners today?

Jim:

Well, the first thing, this pandemic, we’re going to get through this. So, I think be positive because I think we’re going to figure out ways to work differently. Unfortunately, we’re going to have some tragedies. People are going to get sick, some people are going to die, but we will get through it as a country. I know that. And I think our energy industry, whether it’s electricity, gas, the renewables, they’re going to continue, and they’re going to be stronger for this in the end.
I think our company is going to do well. I’m very optimistic about Avangrid. I think we’re in a great position with the business mix we have, and I see this company doing extremely well in the future because we’re well positioned today. But I want to leave our energy people with the knowledge and the view that let’s look at things positively as a country. We’ll get through this, and we’re going to do well in the future. So, I really want to thank you Regina. Thanks a lot.

Regina:

That’s terrific, Jim. I’m inspired, and I look forward to seeing you in person sooner rather than later. But thanks again for your time.

Jim:

Okay, thanks. Bye.

Announcer:

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