

Making the Utility's Case for Stimulus Funds

Unprecedented One-Time Opportunity

The American Recovery and Reinvestment Act of 2009 signed by the President on February 17, 2009 (the Stimulus) offers utilities an unprecedented one-time opportunity of enormous scale. The funds available for utilities to use, indeed that utilities are best-suited to use, to achieve the public policy goals of the Stimulus, can have an extraordinary impact supplementing ratepayer funds already authorized by state regulators.

Utilities that are investing substantial ratepayer funds in energy efficiency and smart grid programs are able through the Stimulus to double or more their rates of investment, to significantly ramp up and accelerate these programs. Utilities with nascent programs and limited state ratepayer funds are able to make a steep climb to high performance levels almost overnight because of the Stimulus.

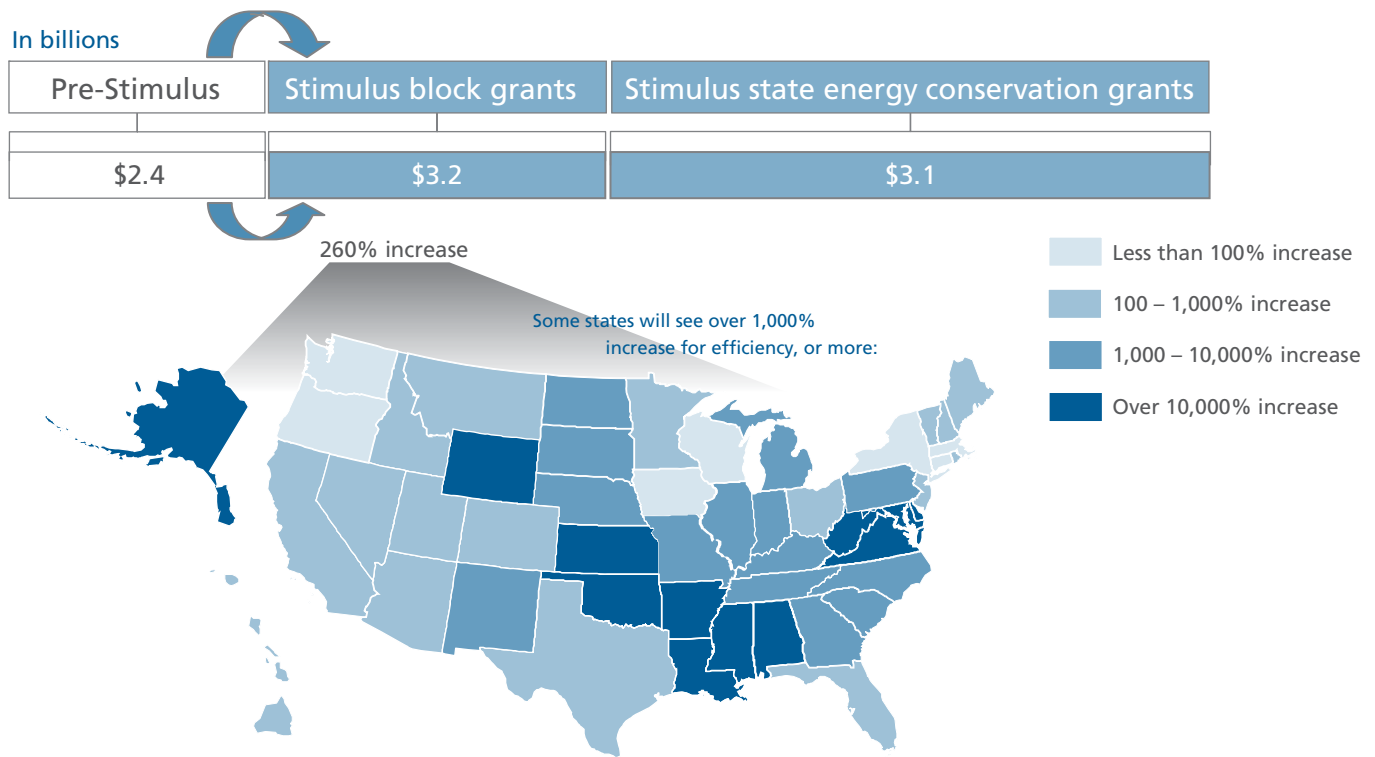
The scale of the opportunity is almost impossible to exaggerate, counting the law's various energy efficiency and related grant provisions. We estimate the Stimulus funds represent a stunning increase, even without the weatherization monies, relative to pre-Stimulus ratepayer funds for energy efficiency, of 1,000 percent or greater in 26 states (see Exhibit 1). That is, Stimulus funds in each of these 26 states are ten times or more than what has been available heretofore from ratepayers.

In the remaining 24 states, the increase still exceeds 100 percent generally. To appreciate the magnitude of this dramatic development, Stimulus funds in 17 states are double to ten times what has been available heretofore from ratepayers.

The increase from the Stimulus will be less than a doubling in just seven states. What these states have in common is their pre-Stimulus energy efficiency funding per capita has been historically well above average. But even in Connecticut, Iowa, Massachusetts, New York, Oregon, Washington, and Wisconsin, the Stimulus affords a unique opportunity to hugely expand existing efficiency programs and their performance.



Exhibit 1 **Stimulus funds swamp pre-Stimulus amounts (energy efficiency excluding weatherization and smart grid)**



Opportunity on a Utility-by-Utility Basis

Or perhaps the magnitude of the opportunity takes on more meaning if expressed on a utility-by-utility basis. Towards this end, the Global Utilities Practice of Oliver Wyman developed the Stimulus Funds Model (SFM). SFM was then used to estimate how much individual utilities could access for their own energy efficiency, weatherization, and smart grid programs.

We estimate that there are a few investor-owned electric utilities that can possibly access over \$750 million, and a large number of utilities that can possibly access over \$250 million. Even the smallest utilities have the potential to access over \$100 million generally.

An individual utility’s potential for Stimulus funds is a function of:

- How many states in which it has electric service distribution territories
- How populous the states are in which it has service territories
- How large its service territories are, particularly in the more populous states
- How many other electric and/or gas investor-owned utilities and public power/rural cooperative utilities have large service territories in those same states (who could compete vigorously for Stimulus funds)
- How many other utilities have moderate-sized service territories in these states
- Whether there are non-utility entities likely to compete vigorously for the funds (e.g., state/county/municipal agencies, statewide energy efficiency consortiums, community action organizations, energy service companies, research and development institutions)
- How well the utility makes the case for its existing and new programs and competes vigorously for the funds relative to other utilities and non-utility entities

Stimulus Funds Competition

One can expect that utilities and non-utility entities will compete vigorously for the Stimulus funds for energy efficiency, weatherization, and smart grid programs, but with widely varying degrees of sophistication and success. We are persuaded that those investor-owned utilities who best recognize their distinctive fundamental strengths to meet the public policy goals of the Stimulus and who make the most compelling case for disproportionate funding levels will receive disproportionate funds.

Just one month after the President's signing of the law, the Stimulus funds "competition" is already underway and becoming increasingly heated.

"To jump-start job creation and weatherization work, the Department of Energy is releasing the first installment of the funding—about \$780 million—in the next few days. The Department will release additional funding over time as states demonstrate that they are using the funding effectively and responsibly to create jobs and cut energy use."

—U.S. Department of Energy press release
March 12, 2009

The investor-owned utilities that succeed in the Stimulus funds competition will be the ones best-positioned to deliver significant recognizable benefit to their states and ratepayer communities. Not inconsequentially, it will be these utilities that shall, through fulfilling the extremely popular public policy goals of the Stimulus, best advance their political and regulatory standing and brands, adding considerable shareholder value.

Stimulus Winners and Losers

Will every investor-owned utility compete vigorously for these Stimulus funds? Remarkably, the answer may be no. In our extensive travels across the country, during the first month of the law, we have heard a surprising mix of apprehensions and misconceptions.

We have heard the following sentiments expressed by officers of investor-owned utilities:

- We have traditionally not applied for government grants. Our funds are provided by ratepayers.

- We are concerned that government restrictions will be placed on the utility's executive compensation as they have been on financial institutions and automobile manufacturers that have received government funds.
- We are unsure about our utility's ability to spend the funds wisely and avoid government and media criticism.
- We are worried about offending state regulators, who after all continue to have control over our utility's funding in the main and profitability.

Such sentiments may lead a number of utilities to enter the Stimulus funds competition all too slowly and/or with uninspired campaigns on behalf of their energy efficiency, weatherization, and smart grid programs. Because the funds per state for efficiency and weatherization are fixed by law, the inaction of these utilities magnifies the opportunity for their proactive peers. A proactive utility can claim all these funds for a state if, for example, in a state with two major utilities, the other utility fails to compete or competes weakly.

Similarly, the grid modernization funds are fixed nationally. Much of this \$4.4 billion will go to investor-owned utilities to accelerate and expand their smart grid programs. Utilities that apply to the U.S. Department of Energy too slowly, too modestly, or too ordinarily (without distinctiveness) stand to win no support from the Energy Department for the smart grid in their ratepayer communities. This is a lost opportunity for such utilities, but one that enlarges the pie for those utilities that do compete vigorously as well as for those utilities' ratepayers.

So there will be, in a sense, winners and losers in the Stimulus funds competition. Who the winning utilities are (and winning ratepayer communities), and who the losing utilities are (and losing ratepayer communities) will be quite transparent to political and regulatory leaders and the media. This dynamic alone should stir every investor-owned utility to carefully consider its Stimulus strategy.

Winning ratepayer communities will enjoy immense

increases in energy efficiency and weatherization services, delivered by their utilities. With these increases, thousands of businesses and tens of thousands of families will be empowered to take action to modernize their buildings and electrical devices and control energy costs.

In the process, the winning utilities will direct abundant cash streams to local contractors. The utilities themselves and local contractors will create hundreds of the so-called green jobs. Add to this the positive effects (energy savings, economic stimulus, and job creation) of accelerated or expanded smart grid programs, and these utilities and their ratepayer communities will truly be perceived as winners by key utility constituencies.

How Utilities Will Succeed, for Their States, Communities, and Shareholders

What will it take for a utility to be a strong competitor in the Stimulus funds competition? Fortunately, investor-owned utilities start off with three fundamental strengths:

- Investor-owned utilities generally can expend Stimulus funds expeditiously on “shovel-ready” programs, fulfilling a top public policy goal of the law. And they are able to quickly start up new programs leveraging their operational resources and customer knowledge.

- Investor-owned utilities generally can expend Stimulus funds effectively to meet the other top public policy goals of the law and of state governments (e.g., save energy, stimulate the economy, create jobs, and help politically sensitive and at-risk communities).

- Investor-owned utilities are uniquely transparent and already subject to vigilant and detailed regulatory oversight to avoid waste, fraud, and abuse.

Any case by an investor-owned utility must make these points, highlighting the fundamental strengths of investor-owned utilities. This is imperative since, simply put, many entities competing for the same Stimulus funds with investor-owned utilities do not have these inherent qualities (e.g., state/county/municipal agencies, community action organizations, energy service companies).

Also, a successful campaign for Stimulus funds must make the case for why a given utility deserves disproportionate fund levels relative to competitors. Some competitors will be fellow investor-owned utilities.

In preparing a utility’s case for state and federal officials, the company should carefully assess its fully operational energy efficiency and smart grid programs, as well as projects that are newly emerging (see Exhibit 2). The aim is to objectively and soberly

Exhibit 2 Assessing a utility’s programs for Stimulus funding

Energy efficiency and weatherization

Criteria	Diagnostic
Efficiency for efficiency	Energy savings, carbon reduction, and jobs created per dollar?
Customer focus	Helps important consumer segments?
Shovel-readiness	Ready to go?
Job creation	Creates good number of green jobs?
Innovation	Demonstrates novel programs?
Sustainability	Puts programs on long-term path?

Smart grid

Criteria	Diagnostic
Bang for buck	Advanced meters installed and jobs created per dollar?
Technology	Cutting-edge equipment and information systems?
Shovel-readiness	Ready to go?
Job creation	Creates good number of green jobs?
Logistical practicality	Overcomes supplier and labor barriers to implementation?
Visionary	Accommodates long-term vision for smart grid?

understand a utility's abilities to accelerate and expand selected programs and projects.

This diagnostic entails addressing a few key questions:

- What are most promising programs and projects in terms of effectiveness?
- What is their potential to rapidly scale up, given ample funds?
- What is the utility's organizational ability to make this happen and excel in its performance?

Note that utilities have not heretofore been involved in federal government weatherization initiatives generally. However, the new law is silent as to the role of utilities and, considering this massive increase in weatherization funds, it's difficult to imagine a scenario in which utilities would not play a major role.

Of course, utilities should specify ongoing and new energy efficiency, weatherization, and smart grid projects that, with the application of ample funds from the Stimulus, could greatly benefit their states and ratepayer communities, along with a complete rationale for the level of funds that are required. But utilities should additionally seize any opportunity to specify projects that will demonstrate innovative sustainable models of national interest and their funding requirements:

"And so the intent is to figure out how you get that portfolio of projects that actually could move the needle, if successful, and do enough of them that you actually have a real high probability of success."

—Matt Rogers

Senior Advisor to the U.S. Secretary of Energy

Wall Street Journal interview "Here Comes the Cash: Two Top Administration Advisers on Where—and How Quickly—the Stimulus Money Will Be Spent"

March 9, 2009

Conclusions: Making the Winning Utility Case

The public policy goals of the Stimulus overall, not

only its energy provisions, are to create economic activity and jobs as expeditiously as possible while the current deep recession is still at its trough. This effect is to be achieved with transparency and without waste, fraud, and abuse. The energy provisions which are the subject of this article, funds for energy efficiency, weatherization and smart grid programs, are additionally to reduce energy and electricity demand and consumption in the short term and demonstrate innovative sustainable models to reduce electricity demand and consumption growth over the long term.

Investor-owned utilities are exquisitely well-suited to this task. They have distinctive fundamental strengths that suggest that unless the investor-owned utilities play a major role in the energy efficiency, weatherization and smart grid funding provisions of the Stimulus, this part of the law is doomed to failure.

Those investor-owned utilities that step up and make the case for a major role will not only help make the law successful, for the national good, they will also become the vehicle for delivering extraordinary recognizable benefit to their states and ratepayer communities. Clearly, this is a rare opportunity to add substantial shareholder value through enhanced political and regulatory standing and a stronger brand.

In preparing their case for state and federal officials, these utilities will carefully assess themselves. They will identify ongoing and new energy efficiency, weatherization, and smart grid projects that, with the application of ample funds from the Stimulus, could greatly benefit their states and ratepayer communities and/or demonstrate innovative sustainable models of national interest.

These winners of the Stimulus funds "competition" will succeed with proposals that distinguish themselves from the many competing proposals, whether from other investor-owned utilities, public power/rural cooperative utilities, government agencies, non-profits, energy service companies, etc. And winning investor-owned utilities will be empowered to deliver disproportionate benefit to their key constituencies. ❖

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Oliver Wyman Perspectives build on our recent research and client casework. The series explores how utilities can reinvent the basics in energy delivery to better serve customers, raise performance, and create shareholder value. Please contact us for copies of Oliver Wyman Perspectives or to discuss how we could assist your company. For additional information, visit our website.

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