



Plugged In: Perspectives from U.S. utilities on potential COVID-19 impacts

Utilities cite the possibility of lasting change to the industry postrecovery

The power and utilities industry, like every other industry, is greatly affected by COVID-19 and the efforts to contain the virus's spread. The duration and extent of this impact remains uncertain. As a result, the response to prepare for and mitigate the effects of this pandemic on operations is expected to vary from one utility to the next.

To better understand this dynamic, KPMG's U.S. power and utilities professionals reached out to several electric, gas, and water utilities all across the country to capture their actions and perspectives on COVID-19 preparations and consequences and to understand how the industry is managing the challenges overall.

Outreach observations

Our short questionnaire to both investor-owned and public utilities focused on the following topics in relation to COVID-19 impacts: business continuity planning, workforce management, mitigation strategies, and areas of opportunity. In the sections below we detail the results.

The scale of the pandemic exceeds typical utility business continuity planning.

Most utilities' noted their business continuity plans contained provisions for some level of a pandemic outbreak. However, we can now see that the extent of the impact of a pandemic scenario far exceeded the assumptions of these plans.

Utilities typically plan in weeks for severe weather events; a pandemic could last months. Also, social-distancing as a mitigation action was a first-of-a-kind response not anticipated by the utilities we spoke to. The magnitude of potential lack of employee resources to perform certain activities, combined with certain technology restrictions (i.e., employee access) to permit offsite working, was not factored into business continuity plans. This is now affecting how certain corporate functions can be performed.

Utilities believe that customer service and a few administrative functions are likely to be the hardest hit segments of their business. These employees have limited capacity to perform work remotely and yet they have enhanced work responsibilities given increased customer service and compliance requirements.

Utilities had not considered extreme conflated risks as part of their enterprise risk management (ERM) plans.

Over the past several years, many of our utility clients have enhanced their ERM planning for low-probability, high-consequence (extreme) risks such as seismic events, wildfires, climate change, cybersecurity, etc. However, this pandemic has highlighted a gap in ERM and business continuity planning: what happens if utilities experience two or more extreme risks at the same time?

This concern has been mentioned recently in headlines as utilities have noticed phishing attempts are on the rise in conjunction with the pandemic. We expect that utilities will begin to incorporate conflated risk scenarios in their business planning in the near future for understanding how risks interact and how controls and mitigations for certain risks can leave companies exposed in other places.

Working remotely is a delicate balance for utilities.

Utilities noted that employees across all functions are facing some form of challenge in the transition to working remotely. For example, several employees have noted remote connectivity issues (virtual private network access) and print capability restrictions, compromising productivity.

Although respondents noted the need for employees to work remotely, utilities acknowledged that not all employees are able to perform their functions off-site. According to the utilities who answered our questionnaire,

more than 50 percent of corporate-level and enterprise-level functions could be performed remotely, in contrast to only 10–25 percent of transmission and distribution functions being performed remotely.

Even under the shelter-in-place orders instituted in some cities, utility employees are often exempt given that they are necessary to the operation and maintenance of essential infrastructure, including gas and electrical systems. However, these employees still have to comply with social distancing requirements, again, a first for most people. Planned outage work, such as certain capital upgrades, is being postponed at this time.

For those employees reporting to work, utilities noted that they are not performing thermoscanning, but they are asking employees who may not feel well or who are in contact with someone who does not feel well to stay home.

Employee wellness is a near-term focus that may result in long-term changes.

To support employees impacted by COVID-19, utilities are launching enhanced human resources and communications measures. Such actions have been allowing for additional paid time off to support employees with children at home due to school closures or for providing care for the elderly. Some companies are hosting virtual town halls and live streaming updates to keep employees informed and connected.

This wellness mindset is also having an impact on the safety culture of the respondents. Utilities noted that they are emphasizing increased hygiene and personal care procedures before, during, and after work and that these policies will likely remain in effect going forward. Some utilities are taking it a step further, handing out personal hygiene kits, wipes, and masks.

The expected shift in demand and workforce planning will likely result in regulatory changes.

With increased safety precautions as well as a potentially reduced workforce, some utilities noted that they are in contact with their respective regulators on the effect to their operations and their ability to meet certain deadlines associated with regulatory decisions, including rate cases and compliance activities such as asset inspections. While there have not been any announced changes to regulatory milestones and associated dates, we anticipate that COVID-19 will have some effect on regulatory decisions this year due to impacts to regulatory, intervenor, and expert personnel availability.

Additionally, with more of the population forced to work remotely, the need for reliable residential service has increased. Respondents said that they anticipate a spike in residential power consumption and a steep reduction in power consumption with their commercial and industrial

(C&I) customers over the next 60 days and potentially into the summer.

A recent *Wall Street Journal* article highlighted that power consumption fell 18 percent in Italy over the past month as a result of COVID-19, and so an increase in residential consumption¹ may not offset C&I consumption. As a result, we expect some deviation from revenue forecasts for utilities that will likely affect their financial plans for future regulatory decisions, especially those utilities that do not have revenue decoupling policies in place.

Looking ahead

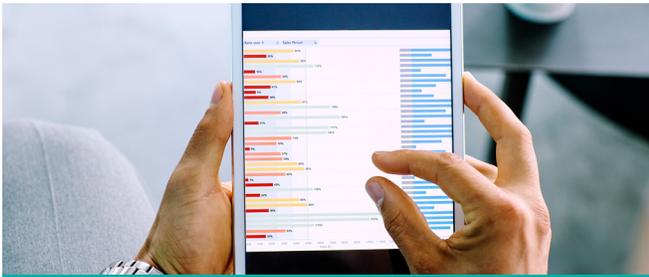
Based on our outreach, we expect that COVID-19 will have certain long-term impacts on the utility industry. Pandemic scenarios will likely come to the forefront of business continuity planning. Utilities also will have enhanced safety regulations based on the increased awareness of personal hygiene and wellness. Additionally, supply chains, especially for those companies in the middle of large construction projects, will come under greater scrutiny to ensure that impact to costs and schedule will be limited.

A key lesson learned from the current situation is that the need for employees to work remotely, at utilities and broadly throughout the entire economy, will be sustained well after the pandemic situation settles. As larger segments of the population shift to working remotely, we expect that utility business and operating models may also need to adjust. Even after the COVID-19 threat recedes, several questions need to be considered in order to make those adjustments:

- What happens if companies, including vendors serving a utility, continue to push larger segments of employees to work remotely?
- How will operations need to change to meet increased reliability expectations from customers?
- Will utilities see a decline in commercial customers and increased load from residential customers? How will demand response and system loading be handled in a world with reduced commercial load?
- How will rate design need to change?
- Will this need to be able to work remotely accelerate battery storage, microgrid, and/or distributed energy resource adoption for residential customers?

The situation around COVID-19 remains fluid, and utilities are managing the challenges day by day while continuing to protect employees and provide customers with reliable and often life-preserving services. We continue to stay in touch with our power and utilities clients, and we look forward to sharing more observations and leading practices as we anticipate and prepare for what may become long-term changes to the industry.

¹ Source: Gold, Russell. "U.S. Power Use Weakening After Plunging in Italy Amid Coronavirus." *The Wall Street Journal*. March 18, 2020.



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