



Five utility
trends to watch
in 2022 as
energy transition
accelerates



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To keep pace, the utilities industry need to invest in their operations and develop new business models and new technologies.

In brief

- ▶ Pressured by the climate crisis, policymakers and investors, ESG goals and disclosures will continue to be a top focus for the utilities industry.
- ▶ Utilities are making room on their balance sheets for investments in renewables through divestitures.
- ▶ As climate change continues to manifest, utilities will need to harden infrastructures, attempt to offset costs and maintain the faith of customers.



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Environmental, social and governance (ESG) goals and disclosures continue to move up boardroom agendas across the business world, accelerated by the need to address the climate crisis and increased influence from policymakers, customers and investors for sustainable and equitable action. For the power and utilities sector, such pressures [are supercharging decarbonization efforts and upending business as usual](#) – and the complexity of meeting expectations from various stakeholders is set to grow.

Though it will be incredibly challenging, an energy system that produces net-zero greenhouse gas emissions is increasingly within reach over the coming decades. The Biden Administration aims to slash the utilities sector's carbon emissions 80% by 2030, with aspirations for full decarbonization by 2035, and it's prioritizing initiatives to boost uptake of renewables and electric vehicles (EVs), among other green initiatives. How the industry has historically maintained relationships with consumers will fundamentally change as they increasingly adopt a broader range of new energy products and services, such as tools to accommodate home EV charging and better balance their demand. And some may even choose to produce their own renewable electricity.

As energy transition accelerates, utilities will need to invest in every aspect of their operations – from generation to transmission and distribution assets, all the way to the back office – and demonstrate urgency in developing new business models and new technologies. Moving into 2022, watch these five trends next year and beyond.

1 Power and utilities divestitures will continue to support investments in renewables

Through spin-offs, stake sales and asset swaps, power and utilities companies continue to redraw their strategies in search of value pools that offer sustained growth in a time of decarbonization and decentralization. In previous years, utilities focused on selling non-core assets, including merchant generation portfolios and midstream assets. But in 2021, many key utilities even announced plans to sell part of their transmission and distribution assets to create room in their balance sheet for investments in renewables and prevent

incremental issuances of equity. In the Americas, the year's M&A activity reached [record levels, according to our latest utilities industry transactions and trends report](#).

M&A data also shows that foreign investments will continue into the US market, as allowed returns on equity on transmission and distribution assets continue to be relatively attractive. US utilities could execute some strategic tuck-in acquisitions to expand their portfolio of products and services, potentially driving higher revenues from their current existing customer base (including energy services, home solutions and smart products, distributed generation plus storage technologies, and data analytics).

With end-to-end solutions across multiple energy partners increasingly in demand, these investments aim to align to customers' interest in self-generation (86%), automated heating and cooling (22%), e-mobility (19%), and storage (17%), according to a recent EY survey. The opportunity is ripe as 92% of the average US population has adopted at least one new energy product or service.

2 Despite near-term supply chain challenges, the US renewables market will be strong

Renewables growth will remain strong in the US thanks to the continued availability of federal tax credits, a push to decarbonize and expanded renewable requirements at the state level, such as renewable portfolio standards. Moreover, rapidly increasing corporate demand for renewable energy will drive utilities to continue to expand their procurement and investment in renewable technologies and expand green tariffs. The US tops the [EY Renewable Energy Country Attractiveness Index](#) because of growing interest in renewables. Traditional oil and gas companies are also increasingly entering the renewables space.

While the sector is currently witnessing strong supply chain challenges around renewable technologies, developers have maintained margins for now through higher power purchase agreement prices, which the current demand is able to sustain. Expect 2022 to be a breakout year for offshore wind in the US, enough to generate a decade or more of major investment and development of capital projects, and a backlog of renewable projects awaiting interconnection reviews and approvals will likely advance after [expected regulatory changes](#).

3 Decarbonization of the US economy will require massive investments

Truly meeting power and utilities industry decarbonization demands will require billions of dollars in investment and years of focused effort to execute the planning, cost allocation and construction to optimize renewables. The bipartisan \$1.2 trillion infrastructure bill passed in November provides an infusion of public funds to support development of new renewable technologies, including hydrogen production, as well as to ease the permitting of high-voltage transmission lines.

Additionally, the Federal Energy Regulatory Commission is examining ways to overhaul the current transmission process and is seeking public comment on recommendations for improving planning, cost allocation and the interconnection process. However, this effort is in early stages and the outcome is unclear.

The utility industry will need to evolve its transmission capabilities across the grid or risk losing the support of regulators, investors and customers. Many will look to upsize their transmission and distribution spending programs to accommodate the expansion of EVs, distributed energy resources (such as solar and battery storage), smart home devices, and other key technologies – not just for residential customers but also those in the commercial and industrial domains.

Utilities companies should also expect greater electrification of transportation, buildings and industry, along with other technological advancements, as more businesses set net-zero goals. Battery storage, hydrogen and AI are all critical enablers in stabilizing grids as renewables grow more prominent. Together, these activities will elevate capital spending by utilities above long-term historical averages.

4 The climate crisis exposes fault lines in the future of grid reliability

As climate change continues to manifest across the country – evidenced by record-high summer temperatures, wildfires and unprecedented weather events – utilities will be forced to deal with both short- and long-term challenges: the need to harden their infrastructure and navigate a landscape full of political and social pitfalls while they attempt to offset costs and maintain the faith of customers amid strains on electric grids.

EY research shows that reliability and affordability are critical to consumers. And with 86% of consumers (and nearly 100% of millennials) interested in generating their own electricity, utilities must find a way to mitigate climate impacts without significantly increasing costs – or a significant number of consumers could take energy generation into their own hands.

5 Advancing social equity and environmental justice should be top of mind

In this energy transition, utilities will be under increasing pressure to balance affordability and resiliency, and to deliver equitable outcomes for all communities, including those that have been traditionally underserved. Among other tasks, this includes enhancing energy efficiency, building out EV infrastructure, and expanding access to renewable and distributed energy in nontraditional areas.

Energy equity is not just on the minds of utilities and regulators: EY research has shown that 78% of US consumers expect their energy providers to treat all customers in a fair and impartial way. How utilities address issues in the “S” category of ESG will become critical.

Rising energy costs and increased price volatility are on the horizon, and lower-income consumers will be disproportionately impacted. This is a year of opportunity to build trust and engagement as a partner through the energy transition ahead – or potentially to lose it. With corporate America as a whole grappling with questions around diversity, equality and social justice, utilities must examine their own track record on everything from construction of assets in traditionally minority neighborhoods to diversifying their workforce and management teams to better reflect the communities they serve.

Summary

Moving into 2022 and beyond, utilities face increasing challenges due to the energy transition. Investing in their operations and developing new business models and technologies will help utilities keep pace.



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