

2024 utilities sector outlook brings three key opportunities

An aerial photograph of a massive renewable energy complex. In the foreground, a white wind turbine stands prominently on the left. To its right, a long, narrow canal or waterway cuts through the facility. The waterway is lined with small blue buildings and several solar panels floating on the surface. The background is filled with a dense grid of solar panels stretching into the distance, with more wind turbines visible on the horizon under a bright, slightly cloudy sky.

The better the question. The better the answer.
The better the world works.

EY

Shape the future
with confidence

**Trey Thornton**

Power & Utilities
Coordinating Partner

Despite an established landscape of challenges, several developments have enabled confidence in utility decision-making moving forward.

In brief

- ▶ Delivering affordable, reliable and sustainable energy continues to be paramount.
- ▶ New developments across the operating landscape will challenge those three goals.
- ▶ To overcome, utilities need to capitalize on three opportunities in the coming year.

Despite an ever-evolving energy landscape, three core priorities remain for US utilities: providing reliable, affordable and sustainable energy. The utilities sector outlook for 2024 requires balancing traditional and **novel funding approaches** to progress these priorities. In fact, utility executives are better positioned than ever before to **confidently make the transformational decisions needed for the future**. To start, utilities should focus on three key opportunities:

1. Strengthen the balance sheet to support **investment strategies** that will create lasting value for stakeholders.
2. Maximize newly available capital – such as funding through grants and tax credits – to accelerate the energy transition for power and utility companies.
3. Modernize technology to progress the business.

While there is a clear route for success, the operating environment continues to produce hurdles. For example, reliability is threatened by severe weather, aging infrastructure, the **risks of cyber attacks** in an increasingly geopolitically fraught environment and even trends in energy transition, such as increasing electrification and deployment of distributed energy resources. Meanwhile, rising capital costs and continued high inflation threaten the

affordability of energy. And simultaneously, though the demand for renewables and electrification continues to grow, infrastructure and technology delays, along with competing priorities, threaten the progress toward sustainability.

These challenges will continue to test the focus of utility leadership, making long-term strategic planning more difficult but more important. Ultimately, the pathway to overcoming these hurdles in order to enable affordable, reliable and sustainable energy will require transformation in multiple areas

1

Strengthen the balance sheet to support investment strategies that will create lasting value for stakeholders.

In a challenging economic environment, utilities will continue divesting non-core assets and even portions of their transmission and distribution portfolios, strengthening the balance sheet for future investments.

As utility industry trends reshape around new **business models and strategies**, these types of asset shifts can play a major role in helping companies build capital, streamline their operations, reduce overhead, create new partnerships and sharply refocus their efforts on more value-added areas of the marketplace where they choose to participate.

It's also a time to be creative about operations and maintenance costs. While many utilities have launched broad cost-reduction efforts, one approach increasingly being considered is the adoption of [managed services structures](#), in which support functions are utilized in a flexible, on-demand way. Managed services, especially in back-office functions like finance, procurement, tax and cyber, can help utilities drive innovation and reshape spending to better manage through the energy transition.

As companies streamline, they are investing with a more forward-looking lens, evidenced by several hundred alternative and renewable energy projects announced and at least 170,000 new clean energy jobs created in the US since the Inflation Reduction Act (IRA) of 2022

How EY can help

[Customer Experience Transformation solution](#)

Discover how EY's customer experience transformation team can help energy providers...

[Read more](#)

[Energy and resources strategy consulting](#)

EY-Parthenon energy strategy consulting teams help C-suites drive future value-creation. [Learn more](#).

[Read more](#)

“

There is not a one-size-fits-all approach to navigating success in a decarbonized world

Jeffrey W. Miller

EY Americas Power & Utilities Strategy Lead

"Since utilities sit in various stages of the energy lifecycle, we are seeing them focus on a range of solutions and assets as well as investing in the infrastructure needed to truly embrace the energy transition".

2

Maximize newly available capital – such as funding through grants and tax credits – to accelerate the energy transition for power and utility companies

Utilities are consistently in the position of prioritizing capital investments, given the need for resiliency-related infrastructure investments and the implication for customer affordability. However, groundbreaking legislative changes during 2021-22 at both the federal and state levels are unlocking funding and financing for the sector.

For example, the 2021 Infrastructure Investment and Jobs Act (IIJA) and the IRA of 2022 will eventually deliver \$97 billion in funding to companies researching, developing and deploying clean energy projects and technologies. As 2023 came to an end, the first grants were awarded from the Department of Energy – including \$3.5 billion earmarked for 58 projects designed to expand capacity for wind and solar, harden power lines against extreme weather and [develop microgrids](#). Another \$7 billion in grants was announced for the creation of hydrogen hubs across the country. The opportunity is far from over; clean energy grants will continue for at least five years, and the tax benefits will likely extend further.

“

The utility industry overall is looking at the need for massive infrastructure improvements, from grid hardening to large-scale buildouts to removal of capacity constraints and support for increasing electrification

Omar Al-Juburi

EY Americas Power & Utilities Technology Consulting Leader

"These legislative moves provide funding streams that will unleash a wave of investment across the US. It's really a once-in-a-lifetime opportunity for utilities to make much-needed enhancements".

The availability of federally funded capital for these types of groundbreaking investments should give utility executives the confidence and ability to make capex decisions today that will deliver significant value for years to come – especially considering that rising interest rates have made many forms of private financing more expensive.

Utilities can turn to other sources of capital, too. The last few years have seen record-setting rate case requests, but state regulators are generally willing to allow utilities to raise revenues for needed and prudent grid investment. Cost takeout can also help free up cash for investment and can actually lead to transformational outcomes, especially when utilities implement [creative models that deliver meaningful benefits](#) to customers around affordability and service levels. And utilities that receive grants and tax subsidies to help with grid buildouts or hardening can redeploy the capital originally planned for those activities into different projects.

Additionally, the strategy driving capital allocations should not be overlooked. Rather than seeking IIJA grants or IRA tax benefits piecemeal, utilities should first determine which opportunities align with their long-term strategy.

“

This is a unique opportunity that can drive lasting change, so it's vital that utilities first develop a specific vision of what they want to look like in 10–20 years and what areas of the energy transition they want to specialize in

Jeffrey W. Miller

EY Americas Power & Utilities Strategy Lead

“Determine what makes the most sense from a competitive or skill set standpoint, whether it entails participating in renewables, energy storage, hydrogen, electric vehicles – or perhaps just focus solely on traditional transmission or distribution. Make those decisions now and tailor your capital strategy to that vision”.

The availability of federally funded capital for these types of groundbreaking investments should give utility executives the confidence and ability to make capex decisions today that will deliver significant value for years to come – especially considering that rising interest rates have made many forms of private financing more expensive.

Utilities can turn to other sources of capital, too. The last few years have seen record-setting rate case requests, but state regulators are generally willing to allow utilities to raise revenues for needed and prudent grid investment. Cost takeout can also help free up cash for investment and can actually lead to transformational outcomes, especially

when utilities implement [creative models that deliver meaningful benefits](#) to customers around affordability and service levels. And utilities that receive grants and tax subsidies to help with grid buildouts or hardening can redeploy the capital originally planned for those activities into different projects.

Additionally, the strategy driving capital allocations should not be overlooked. Rather than seeking IIJA grants or IRA tax benefits piecemeal, utilities should first determine which opportunities align with their long-term strategy.

3

Modernize technology to progress the business

Newly available funding and financing can be leveraged to improve field and customer operations, optimize the back office, and protect the enterprise holistically, which will in turn optimize utility service. The IIJA grants announced in late 2023 included millions of dollars for utilities to integrate distributed energy resource management systems and advanced distribution management systems that are needed for grid modernization (e.g., supporting interconnections of rooftop solar panels and electric vehicles) and will provide data-driven insights needed to forecast, aggregate and dispatch customer-generated electricity.

Those needs aren't the only areas ripe for technology modernization. As utilities receive funds to enable distribution improvements, they should also evaluate how to shift funds previously earmarked for grid modernization toward other priorities across their organizations

For example, utilities lag their peers in other industries in implementing state-of-the-art enterprise resource planning platforms and customer information systems. For years, product vendors have pushed utilities to upgrade their systems and move to cloud and managed services to increase efficiency, improve resiliency, and provide much-needed security of data and grid reliability. But adoption has been slow, primarily due to cost issues and regulatory resistance.

Those delays in modernization mean that utilities today often find themselves overwhelmed with choices and the sheer magnitude of potential investments. Trying to do too much too soon can have negative impacts on both finances and performance and make developing a workable roadmap trickier.

“

Utilities often need assistance in determining not just what technology to invest in but also how to structure the implementation for maximum benefit and minimum risk

Omar Al-Juburi

EY Americas Power & Utilities Technology
Consulting Leader

“The right service provider can be invaluable in helping manage technology change. The key is to begin with the end in mind and understand what steps you need to take to get there. It can be a challenge in today's world, with emerging technology constantly changing the landscape”.

One major opportunity is the introduction of tools that utilize artificial intelligence (AI) to enhance the operating environment. These emerging tools are particularly relevant for customer-facing technologies that make it easier and more beneficial for consumers to understand, predict and adjust their usage.

“

There is a disconnect between where the industry is headed with supply and the choices customers make — or don't make — on a daily basis

Jeffrey W. Miller

EY Americas Power & Utilities Strategy Lead

“The right tools can help customers become savvier about their usage, but it must be done in a way that protects actual data. It's one of the areas where smart utilities are investing resources today, knowing that the payoff can be significant down the line”.

The rapid growth and acceptance of AI is an opportunity – and a risk – that every utility should be exploring today. It can help utilities improve their efficiency, accuracy and ability to process and analyze huge amounts of data seamlessly.

“

We're seeing companies utilize AI in amazing ways to better understand their own performance, tap consumer insights, and make decisions faster and better

Omar Al-Juburi

EY Americas Power & Utilities Technology
Consulting Leader

“That should be of interest to anyone in a [utility C-suite](#)”.

A shorter version of this article was originally published by Public Utilities Fortnightly on January 3, 2024.

Summary

Utilities can find and implement lasting solutions to address the energy trilemma of reliability, affordability and sustainability. At the center of utility strategies is an investment in foundational capabilities – both infrastructure and systems – that will underpin the broader industry transformation. These capabilities include managing a complex portfolio of suppliers and partners, leading with digital, adopting renewables and emerging technology at scale, building flexibility into the energy system, and putting customers and employees first.



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2024 Ernst & Young LLP.
All Rights Reserved.

2412-10842-CS
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com

