KPMG CFO power and utilities roundtable: 1st edition

Trends and insights from industry leaders

April 2021

Current challenges

The power & utilities industry is under increasing pressure to address challenges and opportunities, perhaps most notably those associated with environmental, social and governance (ESG) issues. Some of these pressures are not new, but they are taking on a higher level of priority. For many years, state regulators have sought to advance environmental goals with initiatives and mandates to reduce greenhouse gas emissions and ultimately "decarbonize" the energy grid.

Customers are becoming advocates, making it clear that they expect their utilities to make the transition to renewable energy and increase their focus on sustainability. Many customers have even shown a willingness to pay more for it. At the same time, customers want to know their utilities are socially responsible corporate citizens, responsive to the needs of their communities and being champions for diversity, equity and inclusion (DEI).

In the last two years, the investment community has issued its own set of challenges. Money managers are now factoring in a company's ESG strategy and metrics when making investment decisions. In this way, ESG performance has become a significant part of a company's market value.

For CFOs, these dynamics add a new set of challenges, priorities and, in many ways, opportunities. Many are now taking the lead on ESG reporting, adapting to an approach that is far less rules-based than what they commonly use. In doing so, they must navigate the numerous reporting frameworks and standards now in use and help coordinate the data gathering and validation across the organization.

As leaders, CFOs must accept the risks that come with heightened expectations. But the rewards—the chance to help lead ESG strategy, drive enterprise performance and change the industry for the better—are enormous.

Industry trends

The utility industry is part of a value chain that generates a significant amount of the carbon emissions in the U.S. These entities are also subject to stringent regulation, both at the federal and state level. These regulators are a strong force for driving policy outcome through these utilities. Over the last few years, the pace and volume of these policy directives have accelerated with a heightened focus on renewable and resiliency outcomes. In other words, federal and state politicians are championing green outcomes through regulation.

At the same time, market forces are accelerating this trend. Shareholders and consumers are insisting that utilities move aggressively to adopt renewable energy sources and ESG outcomes.

The investment community is sending its own message—that utilities will be rewarded for using renewable energies. The renewable energy company NextEra offers a powerful example. The company has a fraction of the revenues of oil-industry giant ExxonMobil, but in 2020 its valuation exceeded it.[1]

Recent changes impacting leaders

ESG is beginning to redefine the role of the CFO. Currently, the CFO does not decide how to tell the company's ESG story to its stakeholders. But once the messaging has been developed, it is the CFO's responsibility to quantify, validate and report the details. This responsibility shift is making its way into how organizations define targets and budgets, set accountabilities, and allocate resources.

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[1]Source: Bloomberg https://www.bloomberg.com/news/articles/2020-10-07/nextera-now-more-valuable-than-exxon-as-clean-energy-unseats-oil

CFOs are also actively participating in the dialogue about what data is being reported, what reporting standards the organization will follow, and how to drive improvements in the metrics that are reported.

Today, those numbers do not have to be audited, but there is an expectation that they eventually will be. Therefore, CFOs are building a SOX-level infrastructure and controls around that reporting. This is a challenge because they are not working exclusively with financial information.

In some ways, the CFO is in uncharted territory, often collaborating with nonfinance people internally and working without reporting standards and guidelines. But this also elevates the role of the CFO to that of strategic adviser for one of the organization's most forward-thinking initiatives.

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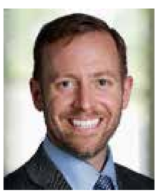

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Key takeaways

The CFO has an enormous opportunity to help lead the ESG effort, as the finance function is uniquely positioned to play a key role in reporting, setting accountabilities, driving performance, and ultimately implementing ESG strategy.

CFOs involved in ESG reporting must also recognize that the metrics that they report today are going to shape strategy moving forward. That means if they commit to reporting on an issue, they need to help ensure that their organization is getting good outcomes on that metric. In other words, they need to align their reporting with their business operations.

The CFO, therefore, has an opportunity to take an even larger leadership role in the organization—linking reporting with organizational outcomes. They can take cues from the market—identifying and understanding what the market is asking for as well as helping to define and implement the organization's ESG strategy accordingly.

Beyond that, the CFO will be essential in aligning investment with ESG goals. In that way, they can help instill guidelines and consistency in how the organization drives toward those goals.

Related Services

ESG reporting infrastructure: we can help you build the capabilities necessary to efficiently and consistently report on ESG metrics.

ESG Performance Management: we can help incorporate your ESG reporting into your Enterprise Performance Management approach. This includes integrating ESG into your long-range planning, budgeting, forecasting, reporting and resource allocation.