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Plugged In: Forecasting FP&A impacts of COVID-19 on utility companies

Leading utility organizations pinpoint immediate financial planning issues

In this edition of Plugged In, Brad Stansberry and Kyle McNamara summarize KPMG's recent discussions with U.S. utilities about how COVID-19 and related mitigation efforts have changed their financial planning and analysis to date, and what they are focused on over the next few months.

In early April, KPMG hosted a virtual share forum with several of our utility clients to explore the most prominent issues facing their financial planning and analysis (FP&A) functions.

While their responses to prepare for and mitigate the effects of COVID-19 on operations clearly vary depending on jurisdiction, customer base, and other factors, most participants said they are treating this challenge like they would a storm, with close monitoring and scenario planning for recovery ranging from May all the way to the third or fourth quarter.

Utilities also told us that the early impact on their financials was minor, with most adding that they expect to see the larger impacts in Q2. On a positive note, utility leaders have so far been pleased with the ability of their employees to accomplish work remotely, a development with likely long-term implications.

In the coming weeks, we anticipate sharing in greater detail what we've learned and continue to discuss with power and utility organizations. Until then, below is a brief summary of what leading utilities identified as key points and issues.

Load pattern fluctuations and revenues

Some utilities said they saw overall load reductions of 15–20 percent as commercial and industrial (C&I) customers curtail operations and residential customer load increases.

While utilities are monitoring this shift, there is little concern about their ability to serve demand in the coming quarters, especially for utilities with decoupled revenues. However, all utilities will need to account for changes in 2020 volumes and revenues in future rate cases, and some are already making these preparations.

Capital and operations and maintenance (O&M) spending

Several utilities indicated that their capital spending plans have been disrupted as the impacts from COVID-19 widen. Travel restrictions and the need to shift employees to working from home have put projects on hold. Resuming those projects hinges on three key factors:

1. The timing around the lifting of travel and work-from-home restrictions, which will likely vary from one jurisdiction to the next
2. The availability of materials through supply chains, many of which are massively disrupted
3. The availability of cash as utilities pause shutoffs and collection activity, with little clarity on when economic activity and employment will improve.

Renewable energy projects in particular have been reduced due to prioritization of resources and to supply chain delays, particularly in solar. Although these delays free up cash flow in the short term, utilities may need to work with their regulators in the near future to assess any changes in how they are meeting renewable requirements.

On the O&M side, customer-facing work has shifted to emergency response only, reducing revenues. At the same time, safety measures such as maintaining single occupancy in vehicles and sourcing additional personal protective equipment (PPE) are increasing O&M expenses. The combination of these factors will likely create O&M pressures for the next few quarters.

Bad debts and uncollectable accounts

Regulators in many jurisdictions have placed moratoriums on disconnecting utility service for nonpayment, and some have required late fees to be waived as well. Utilities said they need a few more billing cycles to fully understand the impact of these policies, but most are concerned about their ability to collect those revenues.

Many regulators have asked utilities to track these deferred revenues and costs associated with this request. Some of our utility clients have begun using data analytics to review their customer bases, identify and track those at the greatest risk of delinquency, and work with them to develop mitigation strategies.

Utilities are also looking for additional leading indicators and setting up teams to review the valuation of reserves, better positioning themselves to later collect or recover those revenues.

Cash flow, working capital, and liquidity

Load shifts, delayed projects, and deferred collections are all creating uncertainty around liquidity. The utility panel indicated that they have begun monitoring collections and liquidity on a daily basis, helping to identify trends and patterns early to give them a chance to adjust quickly. Several have also begun performing cash flow scenario forecasting with their valuation activities.

Pension funding

Thanks to healthy financial markets leading into 2020, the utilities we spoke with indicated that their pension valuations and funding levels were high prior to the spread of COVID-19. As a result, there is little short-term concern around funding pensions. Rather, this will become more of a consideration in early 2021.

Preparing for recovery

While governments explore when and how to reopen segments of the economy, and uncertainty remains, leading utilities have already begun conducting scenario planning, examining revenue and cost detail on a regular (sometimes daily) basis, and applying new signals and analytics models to their planning process.

We continue to work with power and utilities organizations as they deal with the challenges of COVID-19, and we look forward to sharing observations and leading practices as the industry adapts to the new reality.

KPMG Global Energy Institute

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