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Funding strategy for utilities in response to the IIJA and IRA

Considerations for utilities as they decide how to compete for IIJA and IRA funding

By most accounts, the Infrastructure Investment and Jobs Act (IIJA – also referred to as the Bipartisan Infrastructure Law) and the Inflation Reduction Act (IRA) should lead to a significant increase in electric utility investments in advanced generation, transmission, and distribution technologies. The grants, subsidies, and incentives of the IIJA and IRA are massive, historic, and cover an expansive set of technologies. The IRA, for instance, will provide tax incentives for stand-alone storage and advanced nuclear and extends credits for wind and solar. Yet, in our work with investor-owned and publicly owned utilities we have observed that, while the size of the opportunity may be clear, the best approach to pursuing the funding may not be. Funding opportunities in the IIJA and IRA must be considered in the context of a utility's long-term vision and near-term strategic priorities. Moreover, risks associated with implementation of some of these specific programs will be significant, and we can expect much more government oversight and review than in previous government programs. This point has been emphasized by the DOE Inspector General, who has recently called for additional program controls.[1]

Alongside the strategic questions, utilities must determine the most effective structure for teams to effectively analyze, prioritize, and pursue IIJA and IRA opportunities. Many utilities today operate lean and cannot easily scale up activity levels with internal resources. The breadth of opportunity, the potential scale of investment, and the federal and state processes that must be followed to receive IIJA and certain IRA funds demand that utilities devote significant resources and senior-level focus to the effort. As a result, utilities must be deliberate in how they frame out and resource the program and carefully consider linkages with other company processes (e.g., strategy, capital planning, regulatory, etc.).

Strategic planning considerations

The IIJA and IRA are likely to accelerate utility investments in the generation fleet and grid in the near term. While some of these investments may be well-aligned with plans the utility already has in mind

[1] Office of Inspector General. "Special Report: DOE-OIG-22-39." Energy.gov, Office of Inspector General, 12 Aug. 2022, https://www.energy.gov/ig/articles/special-report-doe-oig-22-39.

(e.g., renewables, grid strengthening), some may not. For instance, the IIJA may cause utilities to consider their prioritization of transmission, which is heavily incentivized. Likewise, the IRA may cause utilities to rethink where they should position themselves, near term, in the electric vehicle (EV) value chain, as EV purchases and charging station infrastructure investments are well funded.

The typical utility strategic planning process runs on an annual cycle. Through a series of meetings, often scattered through the back half of the calendar year and culminating in board presentations, utilities consider their long-term vision of the organization, re-establish objectives, and develop their strategic priorities for the coming year. While a highly structured and relatively long planning cycle can be effective for utilities generally, sometimes it can lead to delays in responding to major external events.

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In our view, every utility needs to consider whether its strategy and near-term priorities should be modified as a result of the IIJA or IRA. These programs could significantly impact the cost and net benefit to the utility of pursuing numerous investments. For instance, with incentives from the IRA, utilities might benefit from accelerating storage development on a generation site, on the distribution grid, or even behind the meter. Likewise, IIJA funding opportunities and IRA incentives around hydrogen might present a utility with a compelling set of investment options to evolve their grid and strategically engage a new set of customers.

Strategic Impact Assessment

A Strategic Impact Assessment (SIA) can be a helpful approach for utilities that need a relatively quick and straightforward means to consider the implications of the IIJA and IRA opportunities on their strategy. The SIA begins with defining the key conditions or assumptions upon which the current strategy is based. These might include views on changes in technology costs, market conditions, competitor activity, etc. Every strategy should be built on some view on the future state of the world.

The next step is to map out the potential impacts of the legislation on key uncertainties that underlie these market views. This requires an understanding of each potential opportunity and a view on potential impacts. Prior internal or external work dissecting these programs can usually be leveraged in this stage. At this point, the utility should be positioned to evaluate which key conditions or assumptions of the current strategy are potentially undermined by the legislation and whether action is required.

If key conditions or assumptions of the strategy are compromised, the utility should consider a strategy reset, at least with respect to the affected areas. A strategy reset involves re-establishing the baseline accounting for current day commitments and forward thinking, then considering the utility's range of strategic options. For example, if the utility has mostly ignored storage in its current strategy, the company might consider alternatives at the transmission and distribution level in light of the IRA's favorable incentives for the technology. Of course, placing a greater priority on storage could require placing less emphasis on another investment area, a decision that needs to be considered in the broader strategic context.

Competing for funds

As load growth has slowed over the last decade in most parts of the United States, utilities have been forced to closely control operating budgets to meet earnings growth targets. To this end, many of our utility clients have conducted organizational assessments, redesigned processes for greater efficiency, brought on new technology and automation, and broadly scaled back staffing levels. Today, utility staffing levels are optimized for core functions but can struggle when a new and significant business process is introduced.

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The IIJA, and now the IRA, will require utilities to devote significant resources to prioritize, request, and ultimately administer funding. We have identified at least 75 IIJA, and 18 IRA funding categories where utilities may be eligible, or that could impact investment decisions indirectly (e.g., funding for port electrification, manufacturing that could be sited locally, etc.), and dozens of grant requests could conceivably be developed. Some of the opportunities will be easy decisions and well aligned with the strategy, but others will be more marginal and require careful consideration of the costs and benefits. A further complication is that each individual opportunity should be considered in the context of the overall utility portfolio. Pursuing too many funding opportunities in one area, even if attractive at the individual level, could lead to an overweighting and imbalance at the portfolio level.

In our experience supporting utilities with IIJA funding and federal funding programs of the past (e.g., American Recovery and Reinvestment Act), we believe utilities should be taking the following steps to ensure they are efficient and successful in securing IIJA and IRA funds:

Rapid opportunity review and ranking (RORR)

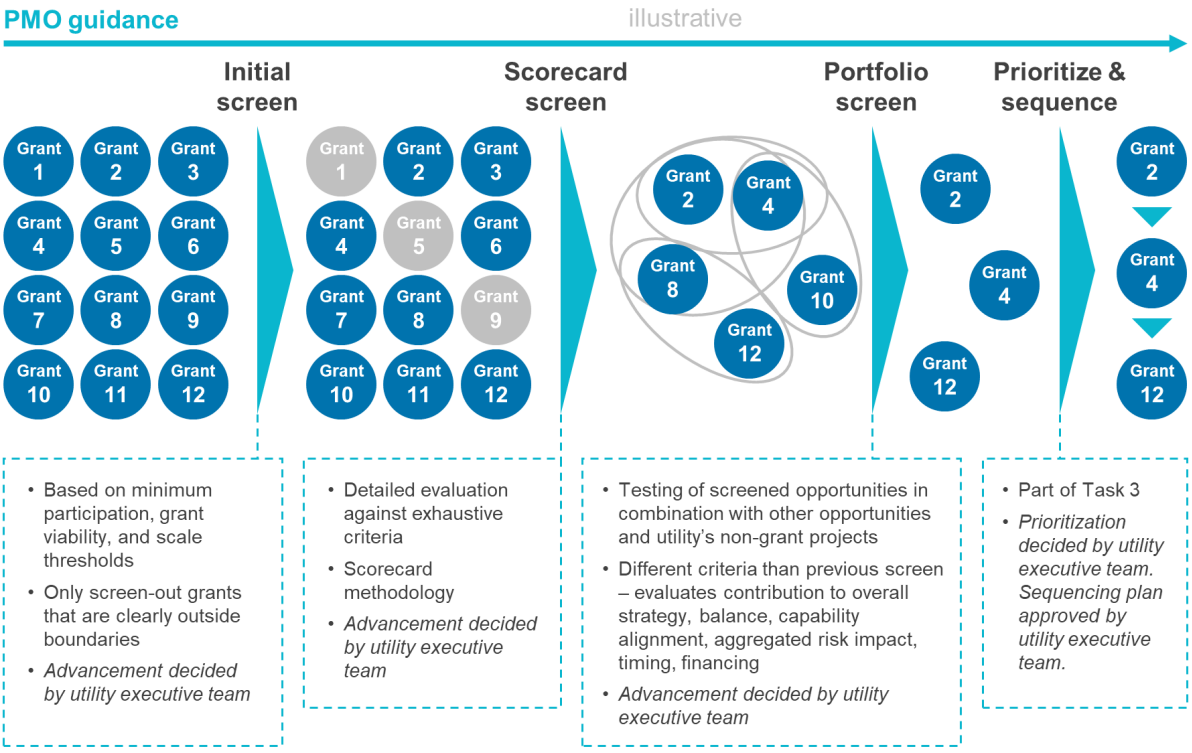
As described above, utilities may be eligible for funds from over 95 different programs. Some of these programs may closely align with the utility's strategy and plans, while others may not. Done well, developing a funding request for any one program is time consuming and requires the support of numerous cross-functional resources in an organization. Thus, it is essential to identify the highest-value programs to pursue upfront.

We recommend establishing a Project Management Office (PMO) that will provide a central strategy for facilitating the process, coordinating resources, managing schedules, tracking, and compliance. We also recommend developing a governance structure to coordinate decision making, establish leadership structures, steer committees, and provide assistance with managing key stakeholders and partners that should be involved. This structure can be streamlined for smaller pursuits, or scaled up for larger, more complex opportunities.

A coordinated approach should be based on the grant strategy that was developed upfront. Grant strategy is how the organization will craft its message around an individual opportunity. The grant strategy will need to link to the overall utility (and potentially corporate) strategy. Utilities typically have their own in-house strategy teams but may benefit from a third-party perspective on different models and approaches.

We recommend developing an initial screen, that will include high-level knockout criteria using an agreed-on basis for eliminating options that are not aligned with the strategy. This will result in a shorter list of higher-value opportunities for more detailed evaluation. For the next screen, one useful approach is to develop a scorecard that will include key parameters for ranking opportunities. Criteria might include such items as: size, scalability, fit with capital plan, alignment with longer-term business goals, and some financial elements, such as capital investment size, margin thresholds, and other parameters. Using this screening approach, as illustrated below, will result in a portfolio of opportunities that should be the focus going forward, and help with prioritization for managing resources more efficiently.

Grant selection/Screening process



Resourcing assessment

Once the priority programs have been identified, the utility should assess how its organization is positioned to stand up and run a program that will likely need to remain in place for years into the future. Many utilities will be faced with the question of whether to outsource certain functions, given their lean operating practices. In our experience, the areas that most utilities consider outsourcing are elements of grant strategy, grant writing, program management, and expert regulatory support.

Grant writing can be highly technical and usually makes sense to outsource to firms that write grants as part of their normal course of business. These firms can ensure that the utility's narrative around the opportunity is clear in the application and that each of the administrative boxes is checked.

Often it can be difficult for the company to take a collective step back to assess the value of different programs to the organization. Grant strategy can benefit from an independent voice that can position the opportunities relative to the utility's current business strategy.

Finally, a third party can be useful, if not required, for regulatory support. That includes a testifying expert who can opine on the reasonableness of the utility's investment plan as to any funding grants.

Conclusion

There has never been a combination of programs as ambitious as those being driven by the IIJA and IRA. Investor-owned and publicly owned utilities in the US are well positioned to take advantage of funding across numerous categories, which could lead to significant utility and customer benefits. Utilities will need to carefully consider funding opportunities and their impact on strategy, then develop a decisive and efficient process for securing funds and managing their administration.

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