

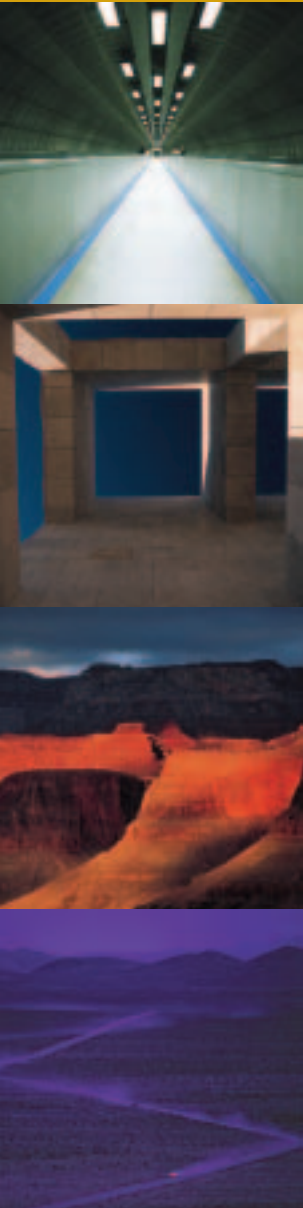
# Movers and Shapers 2003

## Utilities – US



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# Introduction



Welcome to *Movers and Shapers 2003 – Utilities US*. This first ever US survey in the *Movers and Shapers* series provides a cutting-edge insight into the heart of utilities' boardroom thinking. Over 100 leaders within the major US electric and gas utility companies were surveyed, and respondent companies ranged from vertically integrated traditional utilities to nonregulated generators and traders. Together with a companion survey of European utility companies, this report gives unique insight into the strategies and moves that are setting the pace in shaping the sector's future.

We gain an inside view of the strategic imperatives that are top of the agenda in the minds of utility leaders. Which companies will be the leading players of the future? What will set them apart? Are market dynamics set to change? What about key issues such as energy trading and environmental strategy?

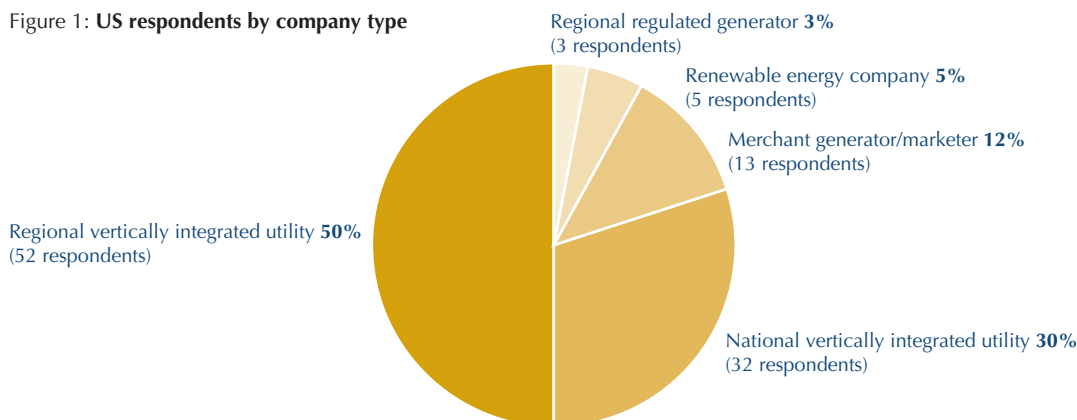
Unprecedented volatility and uncertainty look set to continue for some time within the market, yet opportunity does exist for those companies who set "best in class" standards to deliver value to today's demanding capital market.

## Methodology

The *Movers and Shapers* US study was conducted throughout November and December 2002, covering 105 key executives from over 60 US utility companies. The majority of participants were Board members, Directors, and Heads of Departments. Several were CEOs, Presidents, or Vice-Presidents. A maximum of two responses per company was obtained.

The following table shows the distribution of US respondents among different types of companies.

Figure 1: US respondents by company type



Throughout this report we will compare and contrast the findings from US utility leaders with those from their European counterparts in our companion survey, *Movers and Shapers 2003 – Utilities Europe*. The European study was conducted throughout December 2002, surveying 107 senior executives in major utilities across 19 European countries. The survey obtained a maximum of two responses per company and a minimum of two responses per country.

## Acknowledgments

PricewaterhouseCoopers thanks all the individuals who took time to contribute to this study by completing the survey.

# Key findings

## Bigger is better

“Scale counts for everything” is the message from US utility leaders as they come to grips with a very changed global energy utility landscape. Size is the key factor behind utility leaders’ assessment of the leading global players and it is European companies which are behind most of the strongest positions. Two of the top three global players and five of the top seven are now European companies, according to America’s utility chiefs.

## Competition from within

US utility leaders don’t extend their global analysis to the competitive threat in their home markets. Duke and Southern were rated as the most admired companies within the US and, despite the current state of weakness within the market, respondents expect the greatest competitive threat to continue to come from their US peers rather than European majors. Uncertain market and regulatory conditions may delay significant European entry, although planned changes to the Public Utility Holding Company Act (PUHCA) may give encouragement to the one in five leading European utility companies in our survey who are eyeing North America as a target for global expansion.

## Rebuilding confidence is paramount

The new economy era of the asset-lite model has passed into history as most US utilities seek to build out their future strategies from a core “back to basics” model of asset-based revenue. But utility leaders are not underestimating the challenge of rebuilding confidence. Over two-thirds of US utility leaders are investing in improved Enterprise Risk Management (ERM) systems to keep pace with capability shifts in risk management.



## An uncertain regulatory and market ride expected

As political debates intensify around market reform, US electricity and gas chiefs point to both the regulators and capital markets as the main obstacles to growth.

But as our separate *Competing for capital*

(Source: PricewaterhouseCoopers: *Competing for capital – Recognising utilities' worth*, 2002) survey shows, utility companies could profit by looking again at the indicators they provide for external stakeholders, to manage better the relationship with both investors and regulators. Earnings stability, world-class risk-management and corporate governance, and well-articulated capital structures and growth strategies will continue to be value drivers that need to be well understood by stakeholders.

## Standing up to trading scrutiny

As companies emerge from the turmoil of the energy trading crisis, counterparty risk dominates the minds of US utility leaders. Companies are engaging in a range of internal changes and reporting reforms, but will this be enough to rebuild investor and regulatory confidence? Independent third-party reviews of a company's risk exposure may need to become the gold standard.

## The environmental picture remains cloudy

Regulatory pressure rather than business strategy continues to be the main spur to environmental strategy and performance. Half of US companies either have no strategy or say that it is still under consideration. The business gains of environmentalism remain unclear to most companies. While over half see a shift to renewables as offering competitive advantage, only 38 percent see it enhancing shareholder value. The "push" of regulatory pressures rather than the "pull" of strategic business gain remains the dominant imperative.

# Market shape

The global energy utilities landscape has experienced a seismic transformation. Expansionist moves by many US companies into Europe have ended in swift retreats. Liquidity and credit crises combined with weak markets and regulatory uncertainty have raised fundamental questions about overall market direction. The roll call of leading players has radically changed in the space of just eighteen months.

## A new landscape

The transformation is brought into sharp focus by US utility leaders' assessment of which companies will be the leading global players. European players now dominate a roll call that previously would have US companies featuring strongly. Duke heads the list, but E.ON and Electricité de France (EDF) are hard on its heels in the minds of US utility chiefs (see Figure 2). Indeed, five out of the top seven companies identified by US utility leaders are European. European respondents, asked the same question, single out three companies – E.ON, EDF, and in particular RWE.

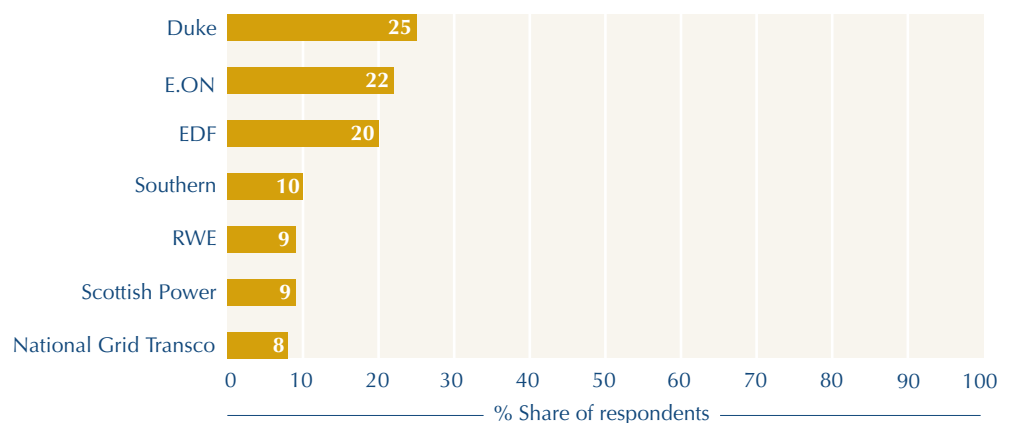
Companies exiting bruised from the European markets cite regulatory factors as an exacerbating condition explaining why they failed to build an optimal market footprint, and this perception finds an echo in the reasons cited for the European ascendancy. An uneven playing field is a dominant factor associated with EDF's growth and one in five respondents also cite it in connection with E.ON. However, it remains that the model for global strength is still far from final. Many companies that made big-risk bets have lost, but the dye is not yet cast for which companies will be the truly global players of the future.

## Striving for scale

Scale counts for everything in a sector that is infrastructure-heavy and capital-intensive. Respondents selected Duke, E.ON, and EDF as top global leaders because they have the size today to build efficiencies and maintain a lead tomorrow. Duke tops the list because it is perceived as combining size with a strategy that is admired and a strong capital base. Yet even this most blue chip of energy companies has not been immune to profit and stock downgrades. In the future, if PUHCA reform moves forward and new entry becomes easier, oil majors may take the view that the market is ripe for them to enter, with the advantage of size and a strong brand identity.

Certainly, the drive toward even bigger size is the key factor motivating future merger and acquisition activity (M&A), with scale and a wider customer base top of the M&A agenda of both US and European utility companies (see Figure 3). Domestic expansion is the key priority for US companies. European companies also place some emphasis on geographic expansion beyond their home territory.

Figure 2: Which companies do you see as the leading global energy player(s)?

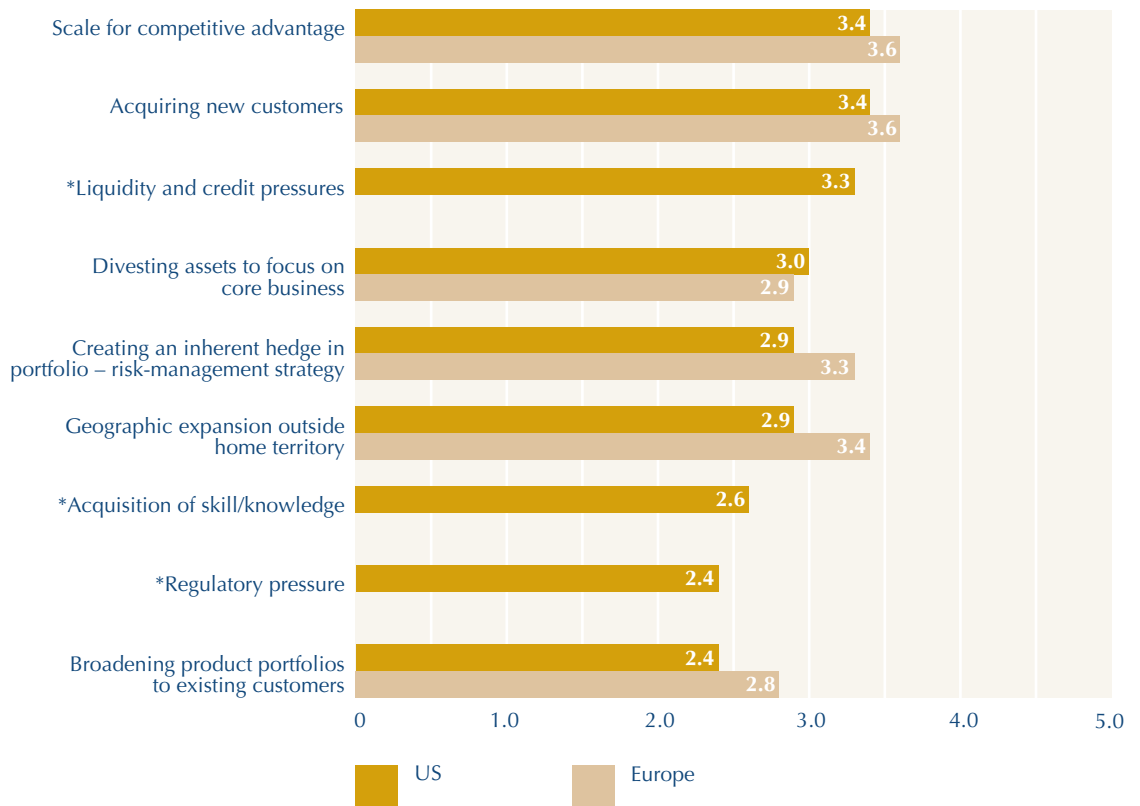


Note: % Share of respondents; more than one response possible  
Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



This, together with the liquidity and credit pressures that also loom large for US companies, confirms that it will be European companies that are the principal international M&A movers and shapers over the coming years. But credit issues will severely limit acquisitions, and companies will not want to jeopardize their already stretched credit ratings even with a merger of equals. There will be many opportunities, but it is uncertain who will take the risk to buy.

Figure 3: What is driving your merger and acquisition activity?



\*No comparable data for European respondents

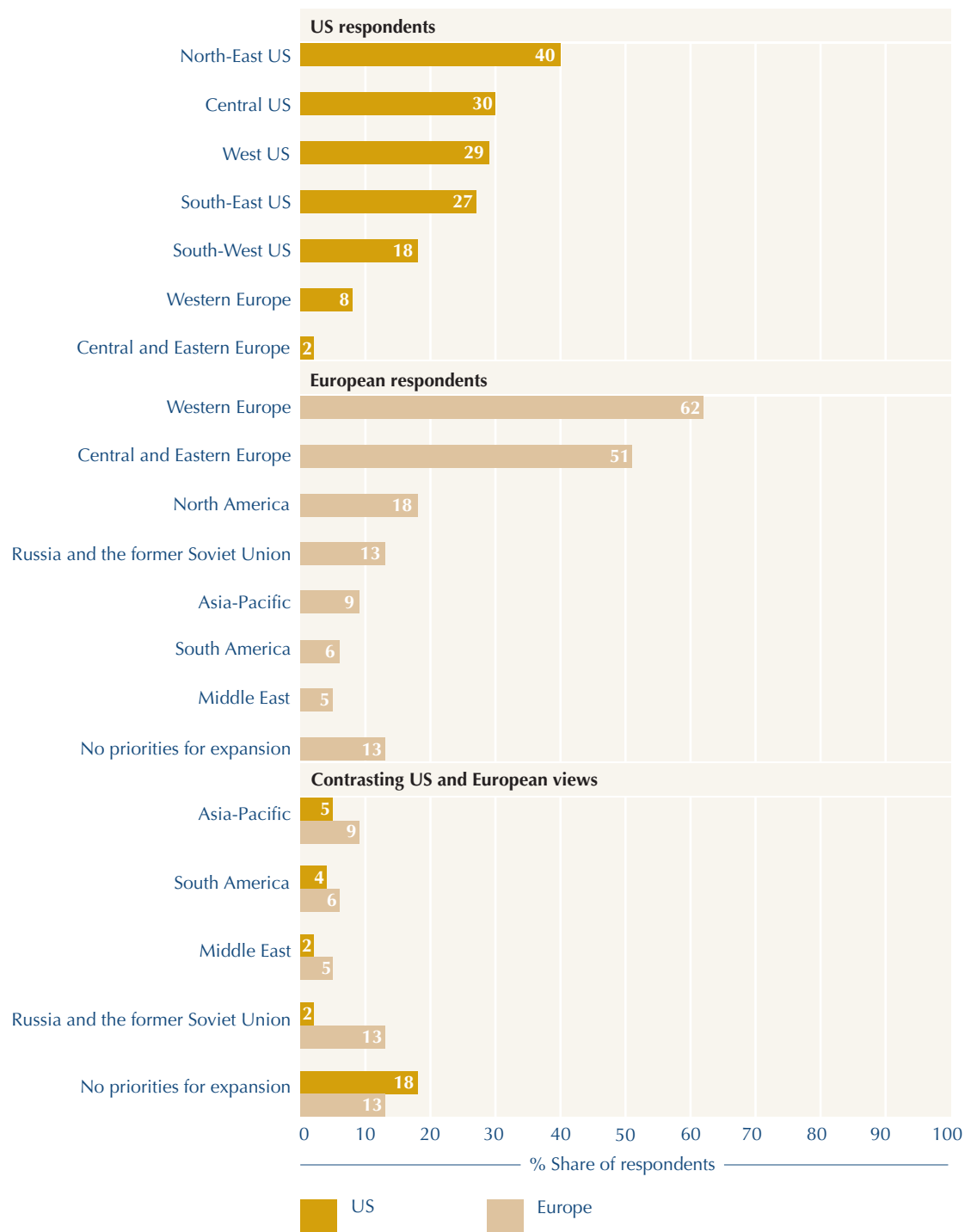
Note: Average response: Rate where: 5 = major driver; 1 = not a driver

Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

For those seeking to expand, however, North America remains key, and a significant proportion of European respondents eye American acquisitions (see Figure 4). Nearly a fifth cite North America and, while this proportion is down on last year's 28 percent, the weakness of US utilities and low stock values point to

the potential for some significant moves by European companies. Ambition in the opposite direction is, unsurprisingly, more subdued, with only 8 percent of US firms identifying Western Europe as a target for expansion.

Figure 4: Which geographical markets are your priorities for expansion in the next five years?



Note: Total % responses; select all those that apply  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



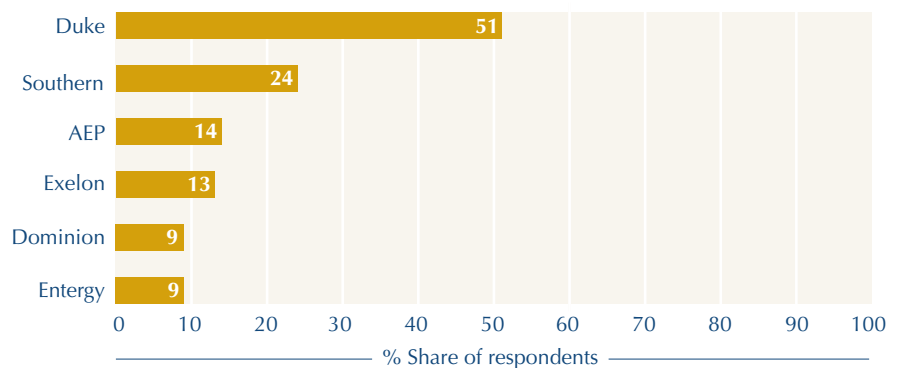
The combination of depressed energy markets and macroeconomic crises mean that few companies from either continent will be prioritizing South American markets. There is, though, an increase in interest from European companies in Asia-Pacific markets, where potentially more stability exists.

### Competitive threats

The visibility of the European mega-utilities disappears when US utility leaders assess their domestic marketplaces. The competitive threat is certainly seen as coming from companies closer to home, and Duke is singled out as the clear lead player. Respondents mention a number of other companies, but only Southern, which appears to be consolidating its business through recent disposals, emerges with a distinctly greater share of mentions to begin to come close to Duke's position (see Figure 5).

*The greatest competitive threat is seen from companies close to home.*

Figure 5: Which companies do you see as the leading global energy player(s) in your home market?



Note: % Share of respondents; more than one response possible  
Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

Size is again the lead factor in respondents' choice of Duke and Southern, but some clear contrasts emerge on other important attributes (see Figure 6). Duke is admired for its strength in generation, and for its strategy, while Southern is seen to have a strong capital base.

Figure 6: Why do you believe that it is/they will be the leading players?

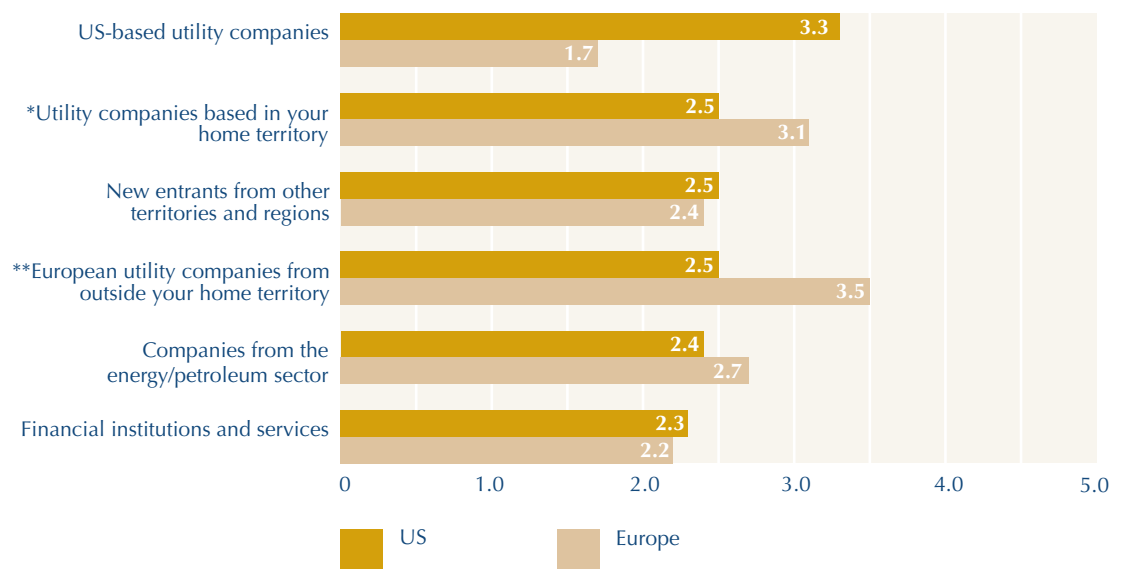
Threat	Duke	Southern
Size	80%	78%
Capital base	56%	65%
Assets (e.g. generation capacity/networks)	54%	35%
Strategy	52%	39%
Market presence in own territory	50%	57%
Market presence in markets outside own territory	40%	30%
Customer base	32%	39%
Innovation	32%	22%
Energy trading strategy	26%	13%
Protected by an uneven playing field	16%	17%

Note: Total % responses; select those that apply  
Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

The belief that the main competitive threat in domestic markets will come from US rather than European players is reinforced by the findings in Figure 7. US utility leaders see the European threat but, for the time being, don't rate it significantly above other utility, energy, or financial players. The expectation appears to be that any upsurge in European activity in the US market will not fundamentally challenge US utility ownership. While it is the case that the European mega-utilities may need to pause and consolidate their expansionist activity, US utility leaders may be being too complacent in their assessment of the cross-Atlantic threat. The traditional barrier to foreign entry posed by PUHCA is set to come down as long-awaited reform moves forward.

European utility leaders similarly see the main threat to their domestic markets coming from within their peers. In the light of the weakness of US firms, they have significantly downgraded the competitive threat in the European market of US firms. They are taking the view that the US invasion has been successfully fought off. The question in the future is to what extent the battleground will move across the Atlantic? Certainly, both US and European companies see the competitive threat as coming predominantly from within the utilities industry. Interestingly, US respondents rate the threat from financial players as not far below that from European utility companies. This is likely to be influenced by recent activity from investors such as Warren Buffet's Berkshire Hathaway group in the US power utility sector.

Figure 7: Looking ahead over the next 10 years, how would you rate the competitive threat posed to your company by the following?



Note: Average response: Rank where: 5 = greatest threat; 1 = no threat

\*Companies within own territory, state, FERC region, wholesale market

\*\*National or smaller regional companies outside home territory

Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



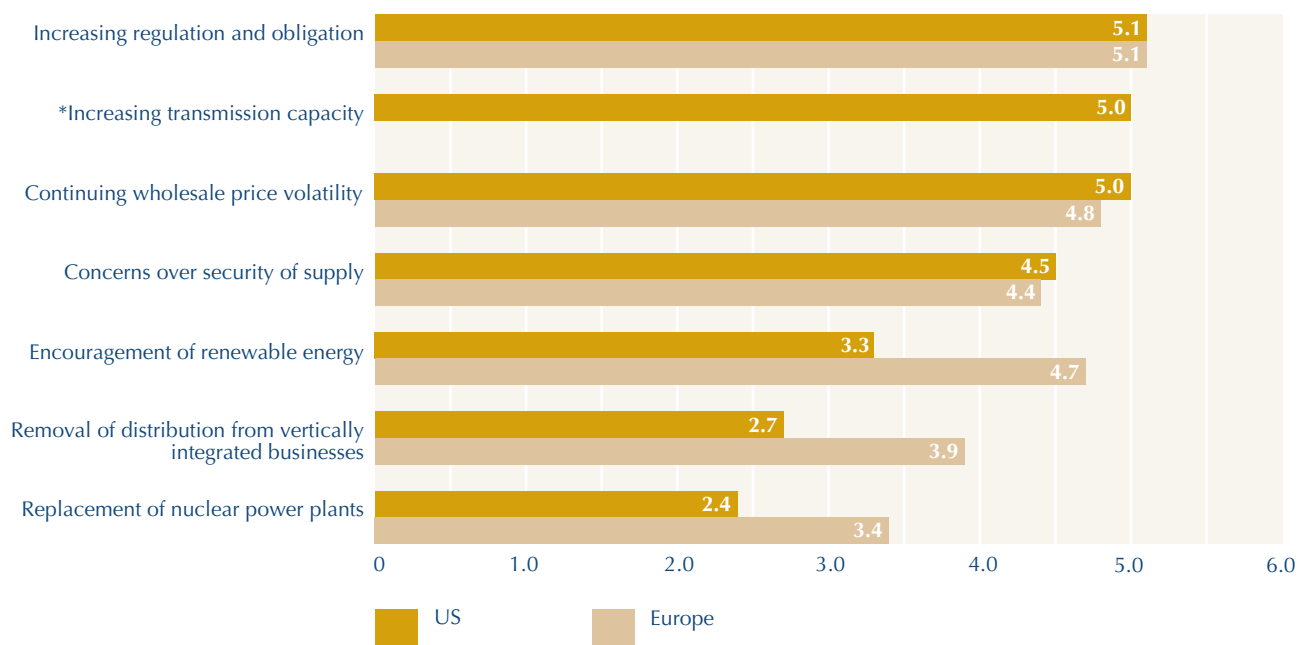
## Looking ahead

Regulation, overhaul of transmission arrangements, and continued price uncertainty. These are the three principal issues that US utility leaders see characterizing the US market in the coming years (see Figure 8). Regulation will be a significant influence and driving force on the structure of the market, more so as a result of the turbulence of the last three years. The Federal Energy Regulatory Commission (FERC) is still ruling on the fall out between state authorities and energy companies during the California power crisis. The vision of deregulation remains, but the FERC continues to face a challenge in redefining the market and achieving the right balance between price signals and regulatory concerns. Battlelines are being drawn between state and federal authorities on a whole range of issues concerning the move toward a “standard market design” (SMD) for the electricity market. Public confidence in an effectively functioning energy market has been severely dented by price manipulation. Conversely, companies will need confidence that genuine increases in their cost base can be passed on to consumers. Where retail and wholesale competition is weak, solutions will be difficult to achieve, and many US players are now less certain than before over which direction regulators will take.

The challenges for utility leaders are all the greater, given the negative signals being sent by ratings agencies and the general dilemmas faced by the capital markets in defining investment-grade power and utility entities. Regulatory uncertainty remains a key factor clouding market attitudes. This increases the importance of a clear and compelling articulation of strategy by utility leaders and an approach to risk that can satisfy all stakeholders.

US utility leaders’ expectation of increased transmission capacity presupposes that the right incentives will be developed for investment. However, it remains unclear just how the market design currently being developed by the FERC will compensate companies for additional network development. The prospects of a major market move by a network specialist or a financial investor may – as evidenced by the purchase from DTE of International Transmission Company by affiliates of Kohlberg Kravis Roberts & Co. and Trimaran Capital Partners, LLC – be being assumed by the industry. The question remains as to what the industry’s response will be to these factors.

Figure 8: What are the major likely features of the power market over the next five years?



\*No comparable data for European respondents

Note: Average response: Rank where: 7 = most impact; 1 = least impact

Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

# Strategic shape

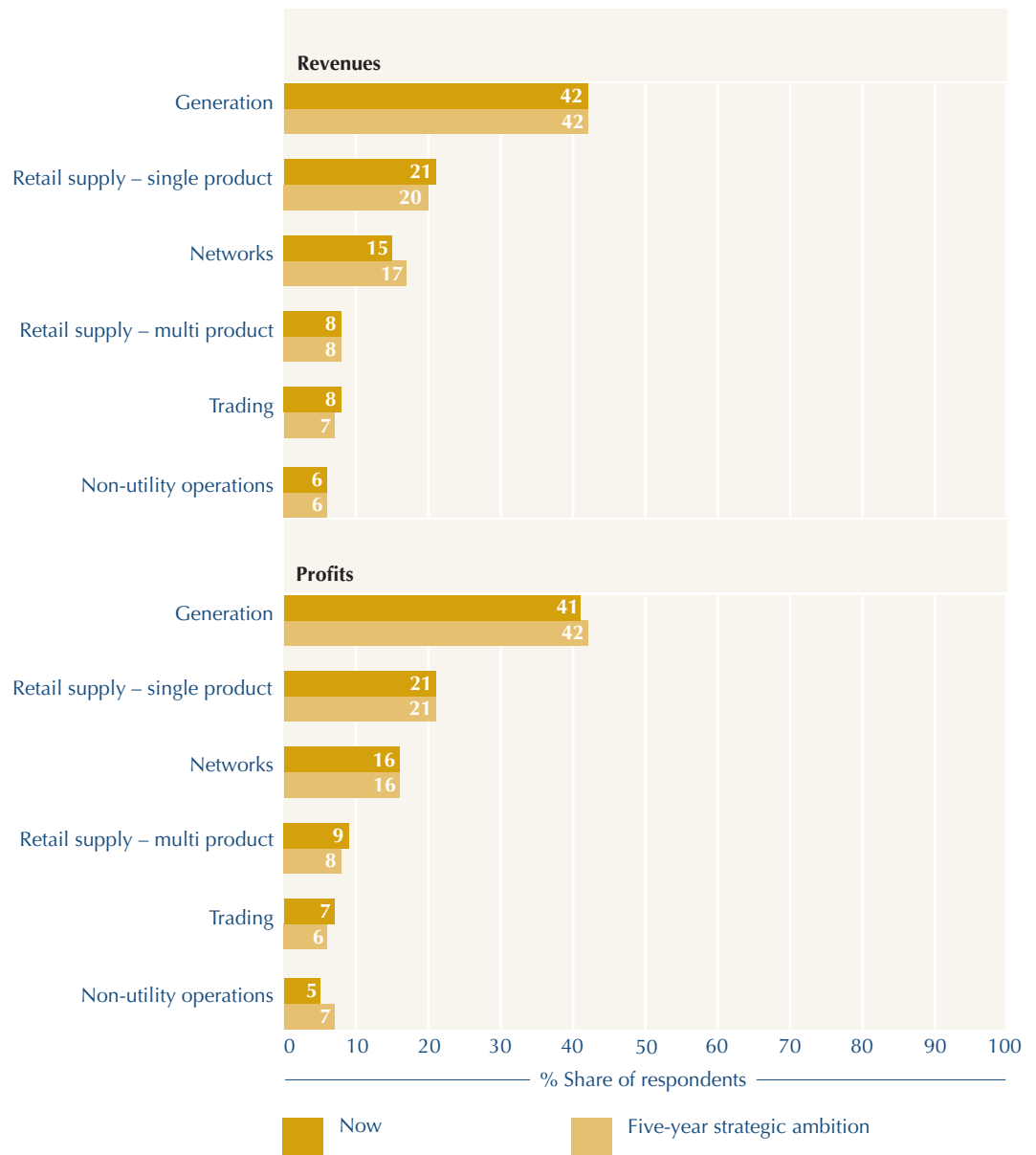
The clarion call for US utility leaders is consolidation and confidence building, after a series of crises in the sector. Building scale around an asset-based revenue model and a vertically integrated structure is the main goal.

## Vertical hold

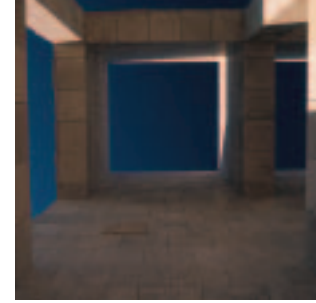
US utility leaders do not foresee any major shifts in revenue sources. The consensus is for a consolidation of current revenue shares, although, not surprisingly, less revenue is expected to flow from trading activities (down 1 percent) and a greater share, given the need for transmission development, to come from networks (up 2 percent), (see Figure 9).

In light of the extent of volume and liquidity collapse in the US wholesale trading markets, this relatively modest downgrade of trading revenues is perhaps slightly surprising. Utility leaders appear to be of the view that the worst effect on revenues is over.

Figure 9: Where do you currently earn most of your revenues/profits in percentage terms, and what is your strategic ambition over the next five years?



Note: Average response: selecting % now and in five years  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



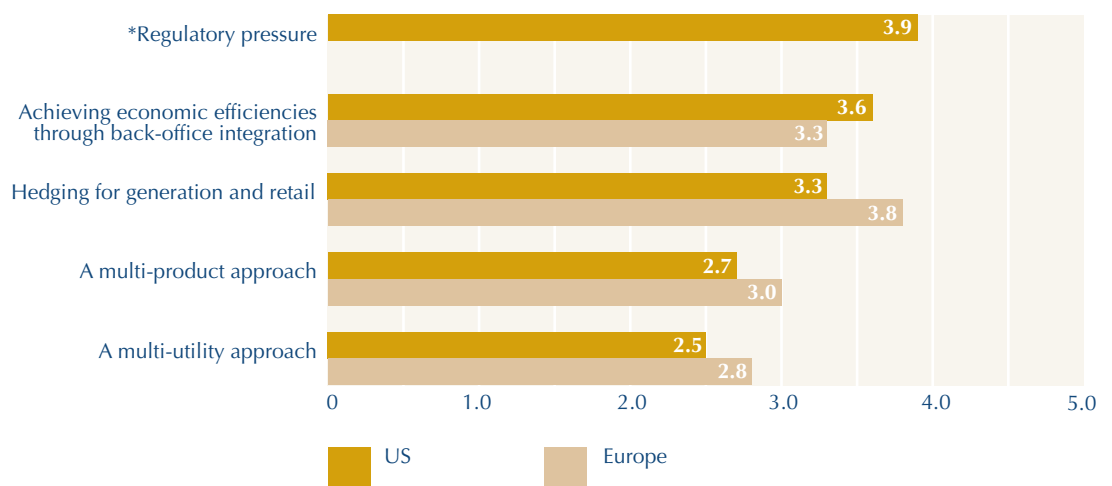
Companies have sought to gain an optimal degree of vertical integration in their structures, between retailing at one end, and generation and production at the other end. Regulatory pressures have swung back toward favoring vertical integration, but there are also clear strategic reasons why utilities have chosen this approach. Both European and US companies emphasize the ability it gives them to hedge between generation and retail, as well as the opportunity for back-office synergies as companies handle a huge and sophisticated data challenge (see Figure 10). The critical issue, though, is how well companies can optimize generation assets against the wholesale power markets, while ensuring margins from, and reliability for, end customers, as it requires a unique blend of long-term forecasting and real-time management. The winners will be those who can achieve the right “ahead of time” decisions on executing the hedge between generation and retail.

### Risk and capital adequacy

Given the recent widespread turmoil in the US utility marketplace, companies are seeking to maintain a strong balance sheet. Efficiencies are more important than ever. US utility leaders, in common with their European counterparts, are looking to the rationalization of functions and enhanced risk management as the top areas where significant efficiency gains can be achieved. Achieving economies of scale through sharing services and outsourcing is also identified as a high priority.

The need to enhance ERM was also identified by US utility leaders as the area in which their companies had experienced the biggest capability shift. Of course, this is not surprising in light of the trading crises and uncertainty that has engulfed energy markets. Two-thirds of utility leaders say they are investing to improve ERM skills and capabilities. Companies need better ways to aggregate data, identify and manage risk, set performance objectives, and measure actual performance against benchmarks. ERM systems can provide an answer, but companies must be able successfully to identify the drivers of value and align risk-management processes around them. The other two lead priorities for investment in the face of a changed environment were Information Technology (IT)/e-business and Customer Relationship Management (CRM).

Figure 10: What are the major drivers behind the recent re-emergence of vertical integration?



\*No comparable data for European respondents

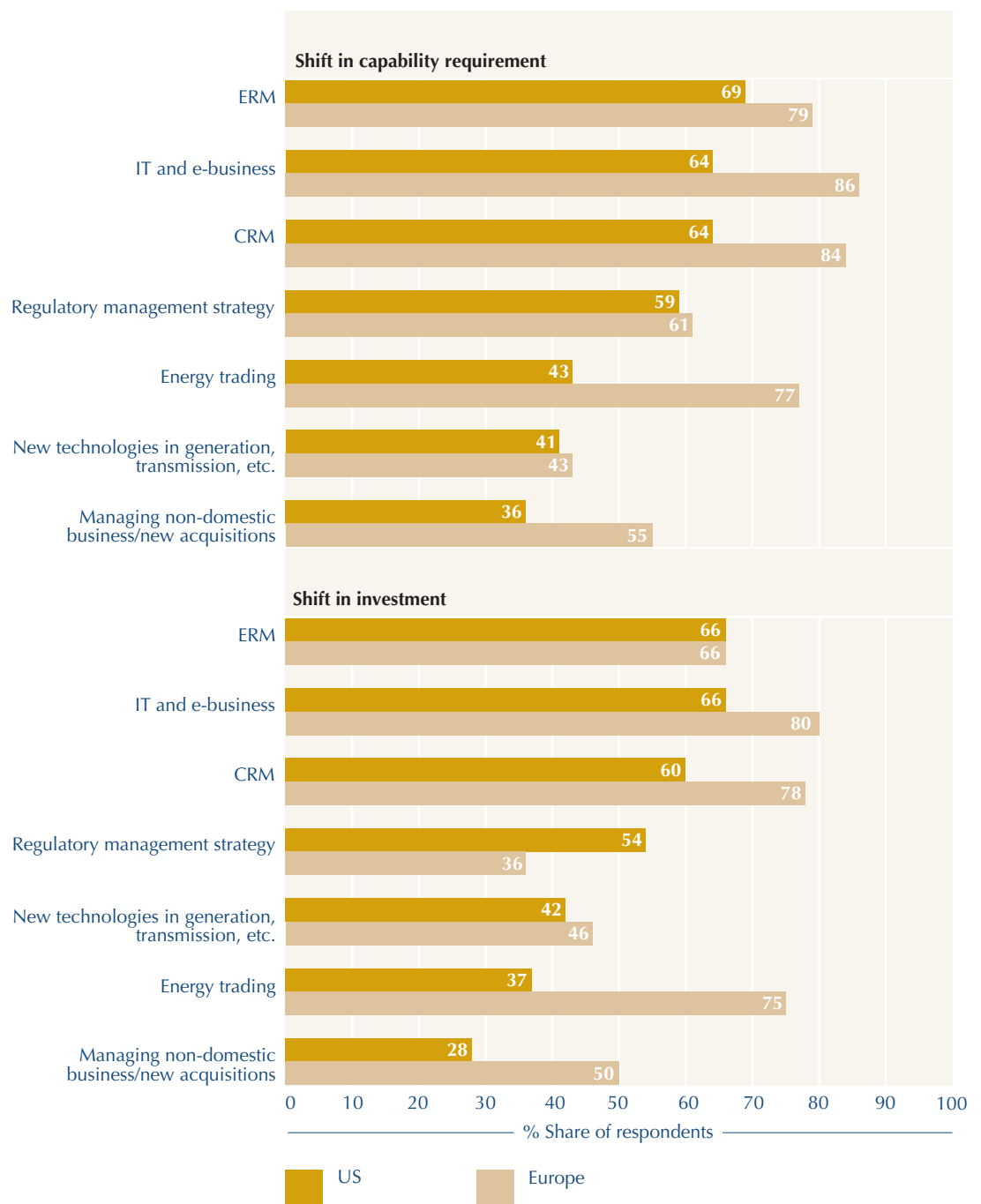
Note: Average response: Rate where: 5 = highly significant; 1 = insignificant

Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

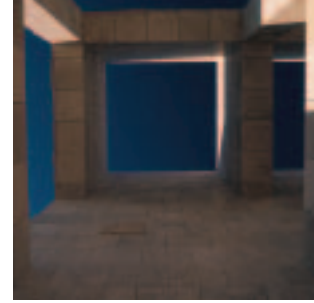
The responses from European utility leaders make an interesting comparison. Priorities are not dissimilar, but a consistently higher proportion – up to 86 percent as opposed to the US maximum of 69 percent – say that they are experiencing the need for capability shifts and making investments. ERM, together with investment in IT/e-business, tops the list of priorities reflecting heightened market risk, as well as the importance of managing data and delivering better service.

The differences reflect contrasts between the two continents. A greater proportion of European companies is experiencing change as a result of a move toward EU-wide liberalization. Stronger balance sheets combined with a longer investment horizon also play a part in the differences shown in Figure 11.

Figure 11: In which areas of your business is there a shift in capability requirements, and where have you invested?



Note: Total % responses; select all those that apply  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

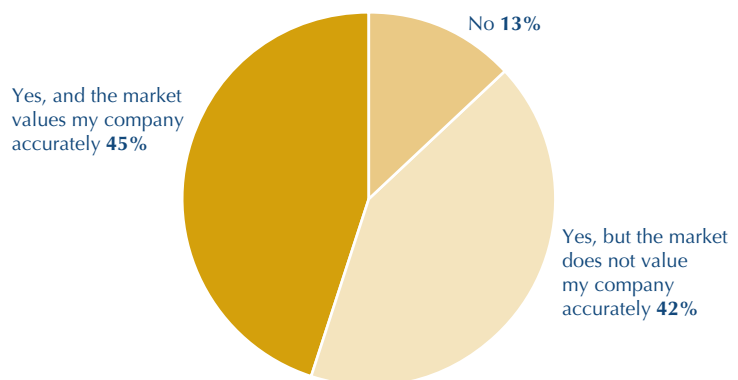


## Communicating value

Utility companies are competing in a global capital marketplace. Optimal values are fundamental to winning the commitment of long-term investors and getting the right flow of capital to align with their strategic needs. Our survey indicates that a significant proportion of companies believes they face problems of under-valuation. Fifty-five percent of US utility leaders felt that either the markets were not getting the right information on which to value their company or, if they were, they were delivering inaccurate valuations (see Figure 12). In Europe, this concern was expressed by 44 percent of respondents. If anything, these responses underestimate the extent of the problem. When asked more directly if their company's share price reflects their market value, 70 percent of utility leaders worldwide reported that they believed the market undervalued them (Source: PricewaterhouseCoopers; *Competing for capital – Recognising utilities' worth*, 2002). The problem has been compounded by market uncertainty about whether utility companies can deliver value in the form of predictable cash flow to investors. Companies moved away from this value model in the 1990s, but now need to demonstrate that this type of solid value base remains in place. Reestablishing confidence will take time, and will be dependent on better communication of strategy and convincing investors that potential risks are being properly identified and managed.

*A significant proportion of companies believes they face problems of under-valuation.*

Figure 12: Do you believe that you are providing the market with the information required to value your company accurately?

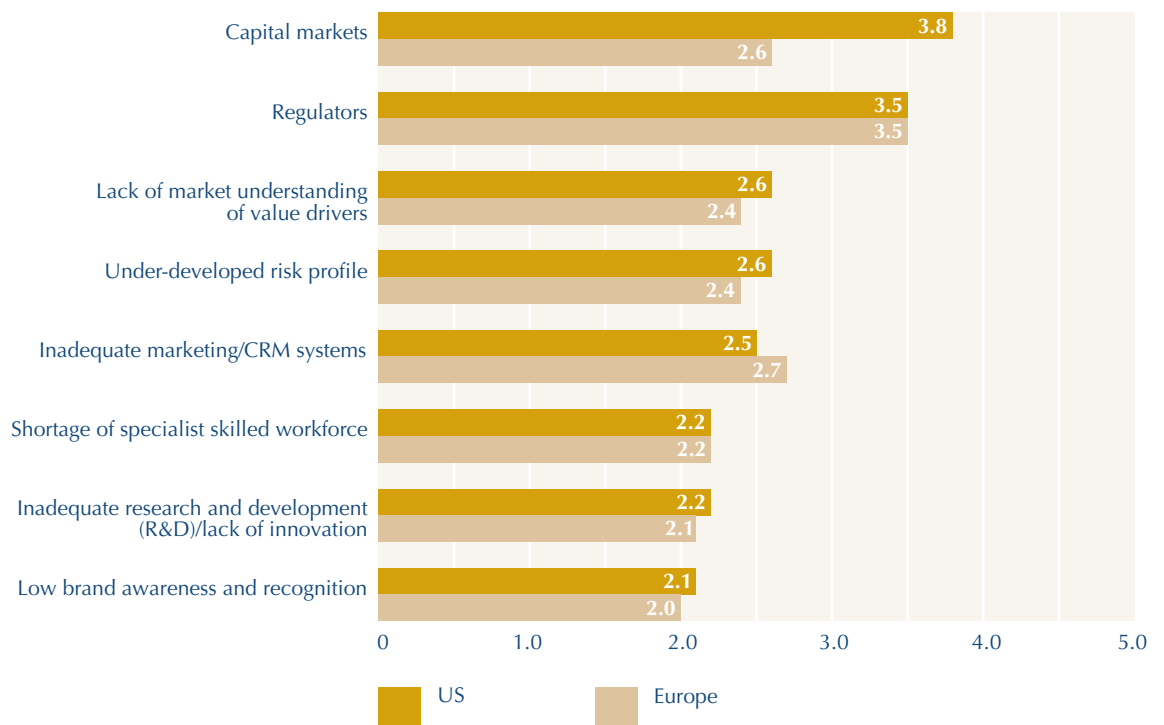


Note: Select one response only

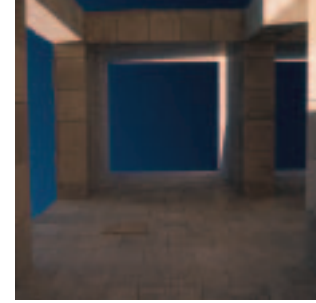
Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

Turning to the barriers in the way of maximizing shareholder value, utility companies on both sides of the Atlantic look most readily to external obstacles – regulators according to European utility leaders and the capital markets themselves as well as regulators in the case of US respondents (see Figure 13). Regulation, and the wider political landscape, is playing an especially prominent part in US utility leaders' calculations. The effect of the California energy crisis and the Enron saga has been to intensify the debate around PUHCA restructuring, and utility companies have to rebuild their political stock. Underlying the overall debate is the challenge of managing regulatory relationships at the individual state level and, internationally, across different national jurisdictions. Frustration with regulation is particularly understandable for companies which are expanding cross-border and operating in a range of territories. For these companies, regulatory management is an important potential barrier to achieving synergies across territories. Not only does the relationship with the regulator need to be conducted on a territory-by-territory basis, but also inconsistencies in regulatory rulings may hinder the achievement of operational synergies.

Figure 13: What's holding your company back from achieving maximum shareholder value?



Note: Average response: Rate where: 5 = most importance; 1 = least importance  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



In a period of market pressure and low valuations, the identification of the capital markets by US utilities' leaders as the main barrier to maximizing shareholder value is understandable. However, there is an element of circularity in this point of view, and both US and European companies alike may gain from being more ready to look inward as well as outward. Although they see the capital markets as an obstacle, they do not equate this with lack of market understanding of value drivers. Our separate *Competing for capital* (ibid) survey, however, showed a substantial gap between the information that investors value as important and the actual flow of information from utility companies. The extent of the gap in the utilities sector was wider than in any other industry or business sector out of nine surveyed. Thus the view of 90 percent of US utility leaders and 88 percent of European leaders that they are delivering the right information to the capital markets appears too complacent.

### Standing out

Customer service stands out as the main way in which utility leaders on both sides of the Atlantic hope that they can differentiate themselves. As indicated in Figure 14, US respondents also cite price as a key differentiator but, interestingly, European utilities appear to be seeking to move away from price playing such a key role in customers' minds. Brand positioning and product strategies are occupying a clear back seat in the minds of utility leaders, compared to issues such as reliability and responsiveness that underpin good customer service.

Figure 14: Electricity and gas are commodities – how do you plan to differentiate your business from your competitors?

	US	Europe
Customer service	82%	83%
Price	73%	56%
Communicating brand values and awareness with stakeholders	54%	57%
Differentiation of services – products and services outside utilities	33%	28%
Multi-utility offering	27%	38%

Note: Average response: Rated in order of preference

Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

# Trading shape

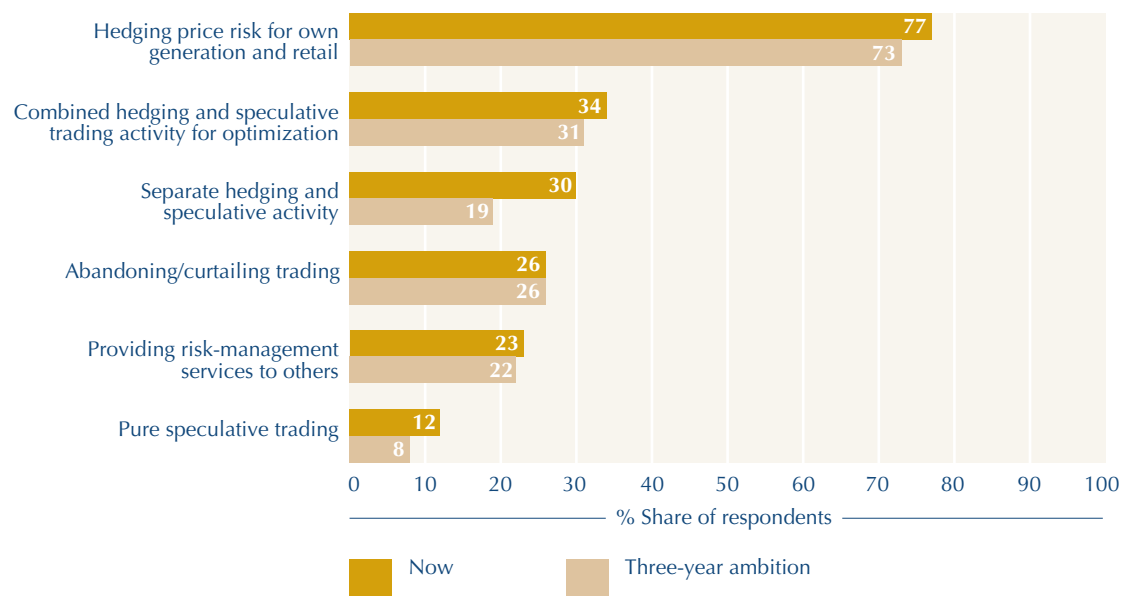
Shockwaves after the Enron collapse have created energy trading turmoil. Liquidity has been lost from the markets. Companies have exited and those that remain are battenning down the hatches.

## Emerging from the turmoil

Enron's collapse and its repercussions did not stem from problems intrinsic to energy trading. Markets will continue to develop. Energy trading is not just here to stay, but will continue to be a vital strategic value driver for energy companies. The market makers will return. A number of financial and energy players, including Bank of America, RWE, Deutsche Bank, and Goldman Sachs, have all announced their intention to either expand their present operations or launch new trading desks. The key challenge for US utility companies will be to emerge from the crisis with the skills, strategies, and capabilities to harness the potential of energy trading, and to be able to convince outside stakeholders, both investors and regulators, that they have the right systems and safeguards.

Our survey highlights contrasts between US and European companies. Twenty-six percent of US utility leaders say they are severely curtailing or abandoning their energy trading operations altogether. The reigning back of trading ambition in the US is set to run for a few years longer, with negative predictions for the growth of each of the different possible trading strategies open to electricity and gas companies (see Figure 15).

Figure 15: US utility leaders: which of the following reflects your trading operations now, and your three-year ambition?



Note: Total % responses; select all those that apply now and in three years  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

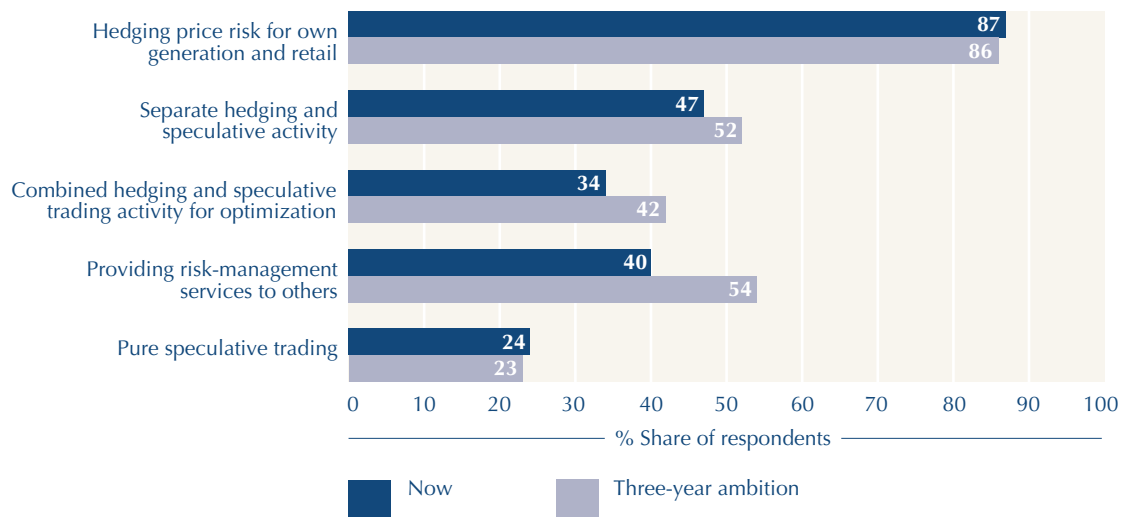


## A different trading mood

The responses of European utility leaders reflect a more upbeat sentiment on trading. Eighty-seven percent of European utility leaders, up from 66 percent in our survey last year, see trading as intrinsic to hedging retail and generation price risk (see Figure 16). A year ago, a quarter of European companies reported that they sought to conduct both hedging and speculative activity, with a similar share combining such activity. This year, nearly half (47 percent), and around a third (34 percent) put their current trading operations in these categories. These are big changes in just 12 months and, not surprisingly, the ambition for three years' time is to consolidate rather than to further change trading strategy.

*US utility leaders are trimming back their trading strategies. The European response reflects a more optimistic view.*

Figure 16: European utility leaders: which of the following reflects your trading operations now, and your three-year ambition?

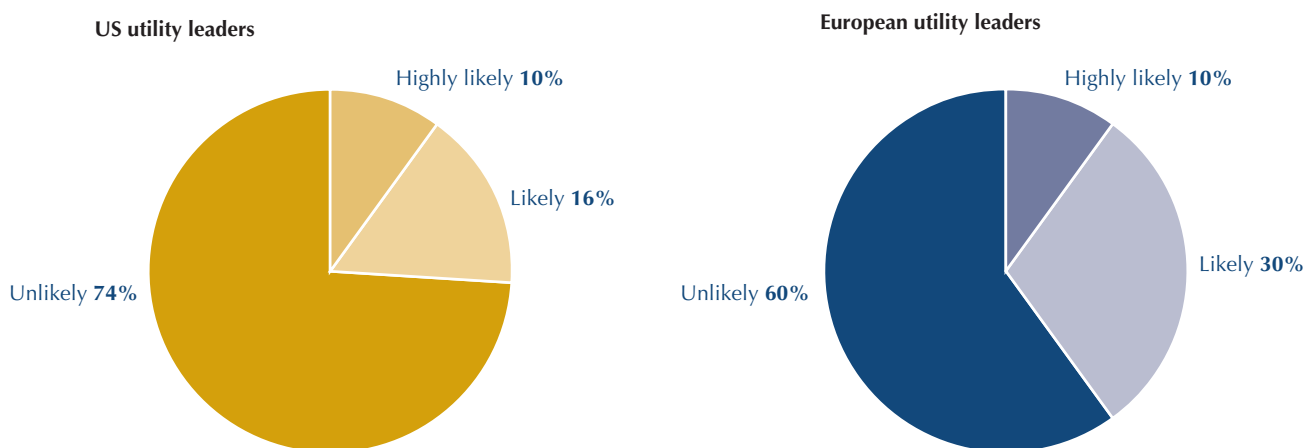


Note: Total % responses; select all those that apply now and in three years  
Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

The different energy trading moods on either side of the Atlantic are not just a reflection of the varying impact of the crisis on US and European companies. They also reflect the different stages of trading market evolution. The US wholesale energy market historically has been more developed than in Europe, but there are limits to how far it can now evolve, given the regulatory influence of individual state authorities and transmission constraints. In Europe, on the other hand, companies have been playing “catch-up”, but the effect of recent events, allied with the potential for a more pan-territorial approach in Europe, might signal a geographical shift in the center of gravity of the energy trading market evolution.

The contrast in moods between US and European players is also reflected in their views of the outlook for pure traders. While overall sentiment has swung heavily against the prospects of trading without asset backing, 40 percent of European utility leaders still view this as a likely trend, compared to 26 percent of US respondents (see Figure 17).

Figure 17: **How likely will be the emergence of significant pure traders without asset backing in the next five years?**



Note: Total % responses  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

### Under scrutiny

US electricity and gas companies have been energetic in their response to the crisis that has hit trading markets. Understandably, counterparty risk tops the list of challenges identified by survey respondents (see Figure 18), and, given the greater intensity of the crisis in the US, American utility leaders have focused greater attention on a review of counterparty limits than their European peers (see Figure 19).

Figure 18: **Where do the greatest challenges lie with regard to your trading?**

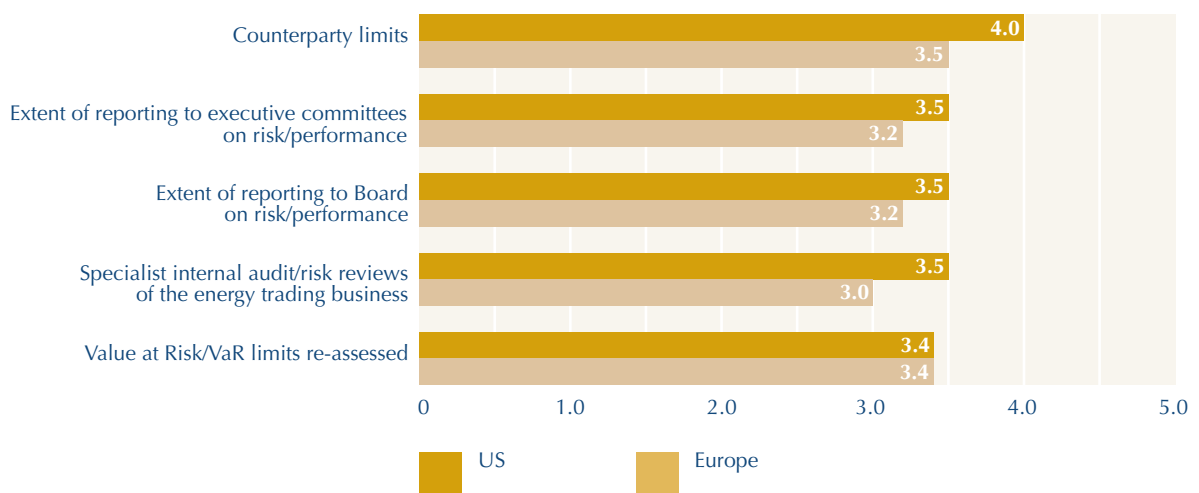
	Average
The increase of counterparty risk	4.0
Reassessment of appropriate allocation of capital between risk and physical assets	3.2
Building risk-management framework or systems suitable for the new trading environment	2.9
Communication of the energy trading strategy to shareholders	2.8
Organizational restructuring to incorporate new energy trading activity	2.5
Preparing and implementing a strategy for emissions trading	2.5
Availability of real-time front-office trading platforms	2.2
Availability or retention of energy trading professionals	2.1

Average response: Rate where: 5 = greatest challenge; 1 = least challenge  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



Such risk has hit at the heart of the viability of trading markets, and prompted the introduction of a standard agreement by the Committee of Chief Risk Officers that will help trading partners to net out overlapping credit obligations. The industry in the US is similarly focused on achieving consensus and good practice on mark-to-market and SFAS 133 issues, capital adequacy ratios, and wider disclosure practices. In our survey, utility leaders on both sides of the Atlantic gave upper-range scores to all the measures listed in Figure 19. US companies are more likely to have commissioned specialist audits or risk reviews of their trading operations and also reviewed reporting procedures to their executive committees and main boards. The key issue for companies is, will this be enough? Given the extent of turbulence, and the importance of regaining investor confidence, outside stakeholders may be more convinced by the reassurance of an independent third-party review of a company's revised strategies and procedures.

Figure 19: Which of the following has received the most focus as a result of recent energy trading market turbulence?



Note: Average response: Rate where 5 = greatest challenge; 1 = least challenge  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

# Environmental shape

Environmentalism presents both an opportunity and a challenge to energy utility companies. A sustainable environmental footprint can deliver business advantage, with enhancements to efficiency, competitiveness, and brand. The wrong environmental shape could leave utility companies with stranded assets, as regulatory pressure increasingly demands cleaner sources of energy and higher overall environmental performance.

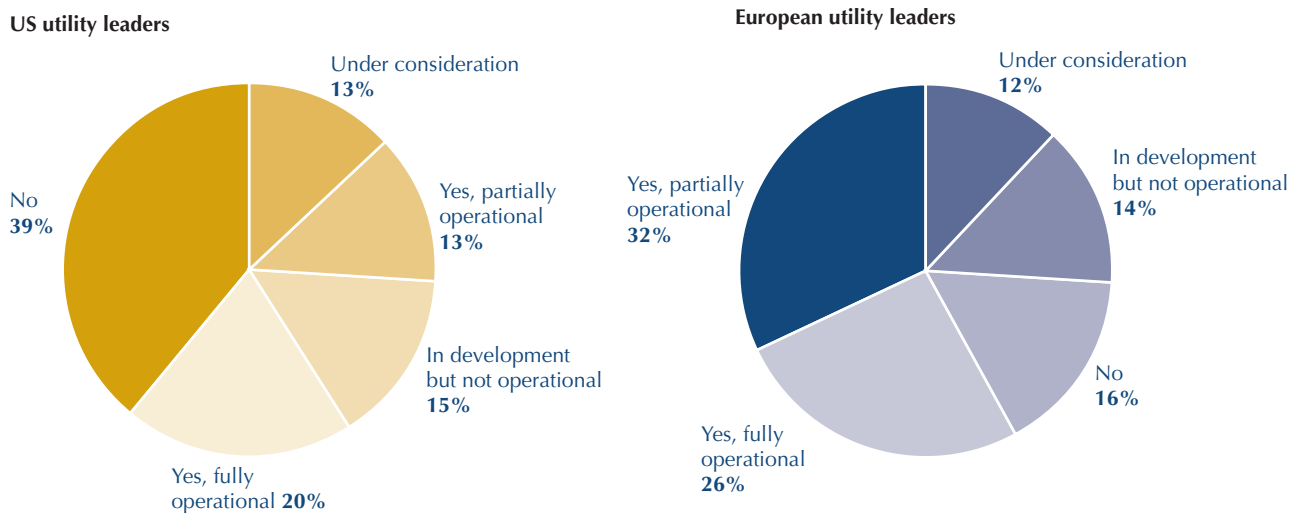
## Searching for strategy

Utility companies have been slow to get on the front foot in developing environmental strategies. They have been more ready to see the “risk value” rather than the “performance value” of environmentalism. Climate change forms a key part of environmental strategy. Thirty-three percent of US utility leaders report that they have a strategy for climate change. Even so, only 20 percent claim that their strategy is fully operational. European companies have been faster to embrace such strategies but, even so, only one in four of the European respondents report that they have a fully operational strategy. Indeed, 52 percent of US and 28 percent of European utility leaders either have no strategy or say that it is still under consideration (see Figure 20).

Regulatory pressure, rather than business strategy, is the main spur to environmental action. As seen in Figure 21, regulation and government incentives are the single most important motivations for both overall greening of business models and, more specifically, developing renewable energy sources.

*Regulatory pressure is the main driver of change.*

Figure 20: Do you have a strategy for climate change?



Note: Total % responses  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

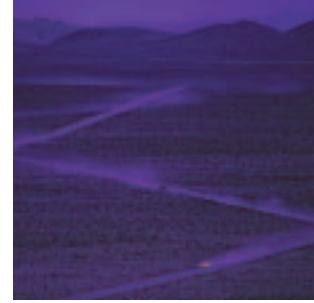


Figure 21: What do you predict will be the greatest driver of environmental greening of your business models?

	Average
Regulatory pressure	6.1
Governmental economic incentives	5.0
Social responsibility pressures (e.g. FTSE 4 Good, DJ Sustainability Index)	4.3
Technological advances (fuel cell technology, wind, solar, etc.)	4.1
Consumer market pressures	3.6
Competitor activity from within the utilities industry	2.8
Potential encroachment of green technology from players in other industries	2.1

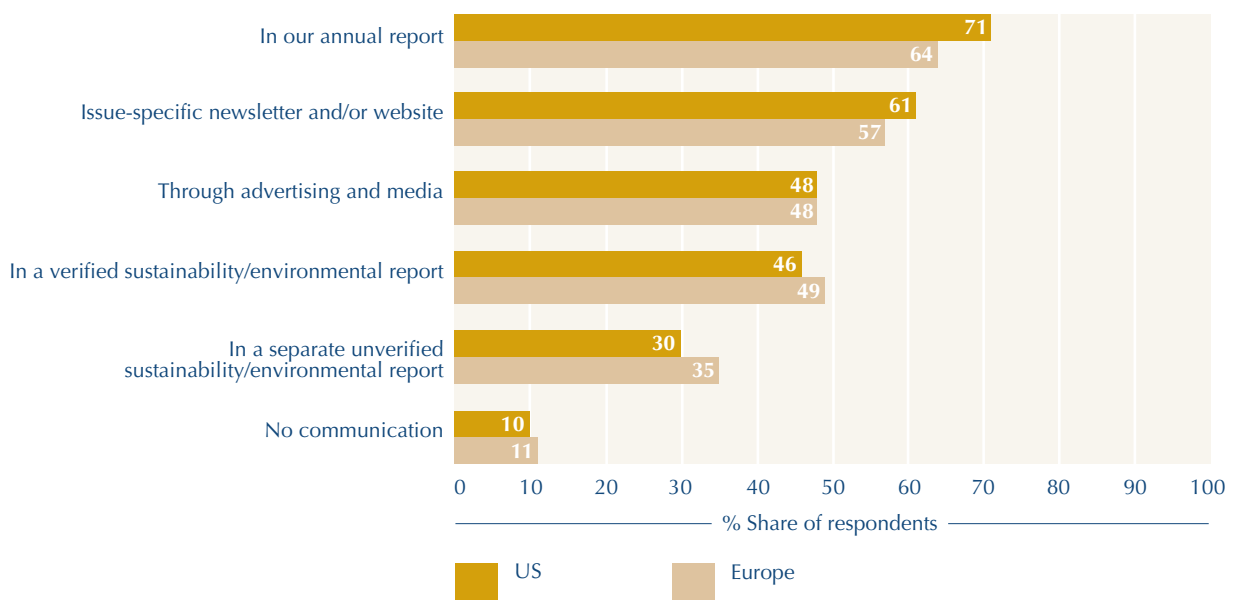
Note: Average response: Rank where: 7 = greatest driver; 1 = not a driver  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

### Communicating environmental performance

Although there is a mismatch between the US and Europe in the extent to which utility companies have developed climate change strategies, US utilities appear to be much more in sync with their European counterparts in their views of how sustainability initiatives and environmental performance is best communicated. Just under half of utility leaders in both continents say they currently produce, or plan to produce, a verified sustainability or environmental report (see Figure 22).

Rather more US utility leaders than European respondents see such issues as being included in the company annual report, and in specific newsletters or website content. Nearly half of companies on both sides of the Atlantic also see marketing potential through the use of advertising and media relations. But these responses from companies reflect future intent as well as current practice, and it is clear from the responses on actual implementation of strategy that companies are yet to do the walking as well as the talking.

Figure 22: How do you plan on/are you communicating on sustainability/environmental performance?

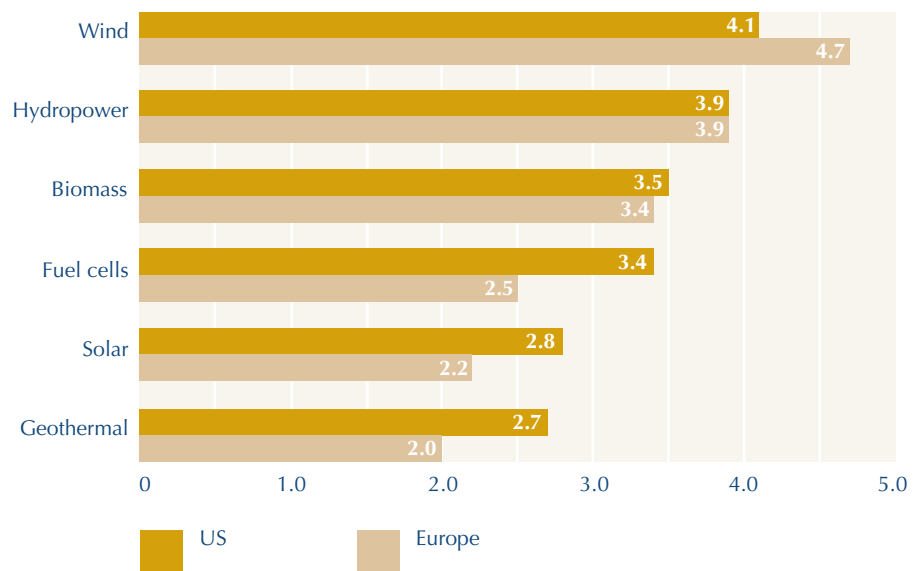


Note: Total % responses; select all those that apply  
 Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

## Investing in renewables

The development of renewable energy sources is one of the clearest environmental pressure points by regulators on utility companies. The proportion of companies highlighting specific renewable sources in the United States looks, at first sight, rather less than in Europe (see Figure 23). No single source dominates to the extent that wind does in Europe. However, a significantly greater proportion of US utility leaders report that their companies are looking or would look to biomass, fuel cells, and solar and geothermal energy. Indeed, twice as many US utility leaders as European report interest in fuel cells, a potential breakthrough technology that is not geographically dependent. Aggregate interest in the development of specific sources of renewable energy appears broadly comparable on both sides of the Atlantic, although it should be emphasized that these figures include companies which might invest as well as those with actual current investments in renewables.

Figure 23: **Which source of renewable energy would you invest/are you most heavily investing in?**

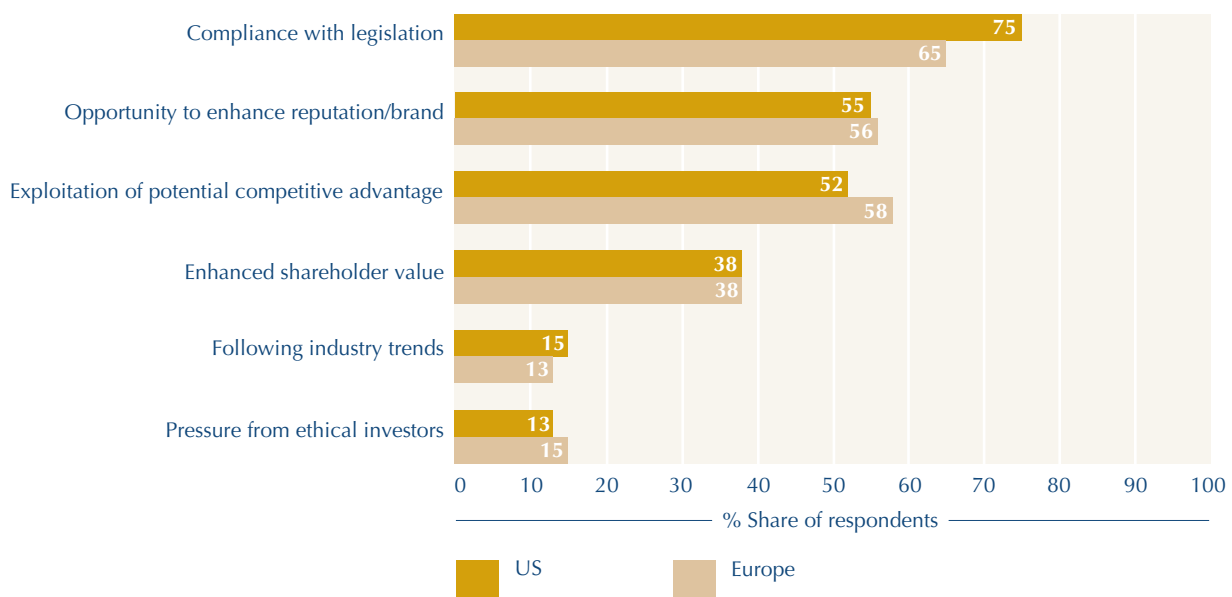


Note: Average response: Rank where: 6 = greatest investment; 1 = least investment  
Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*



When asked about the reasons for developing renewable energy sources, regulatory obligations still dominate, but their predominance over more business-driven influences diminishes compared to when the same utility leaders were asked about their motivations for a general move toward a greener strategy. Interestingly, more than half of utility leaders in the US see an opportunity to gain competitive advantage through investment in renewables. However, only 38 percent believe that such investment will increase shareholder value (see Figure 24).

Figure 24: For what reasons would you move/are you moving toward increased renewable energy?



Note: Average response: Rated in order of preference

Source: PricewaterhouseCoopers, *Movers and Shapers 2003 – US*

The business benefits of environmental moves are not yet compelling in the minds of US utility leaders. Clearly, the “push factor” of tougher regulation is set to remain the most significant influence in achieving forward momentum toward cleaner energy.

# Contacts

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