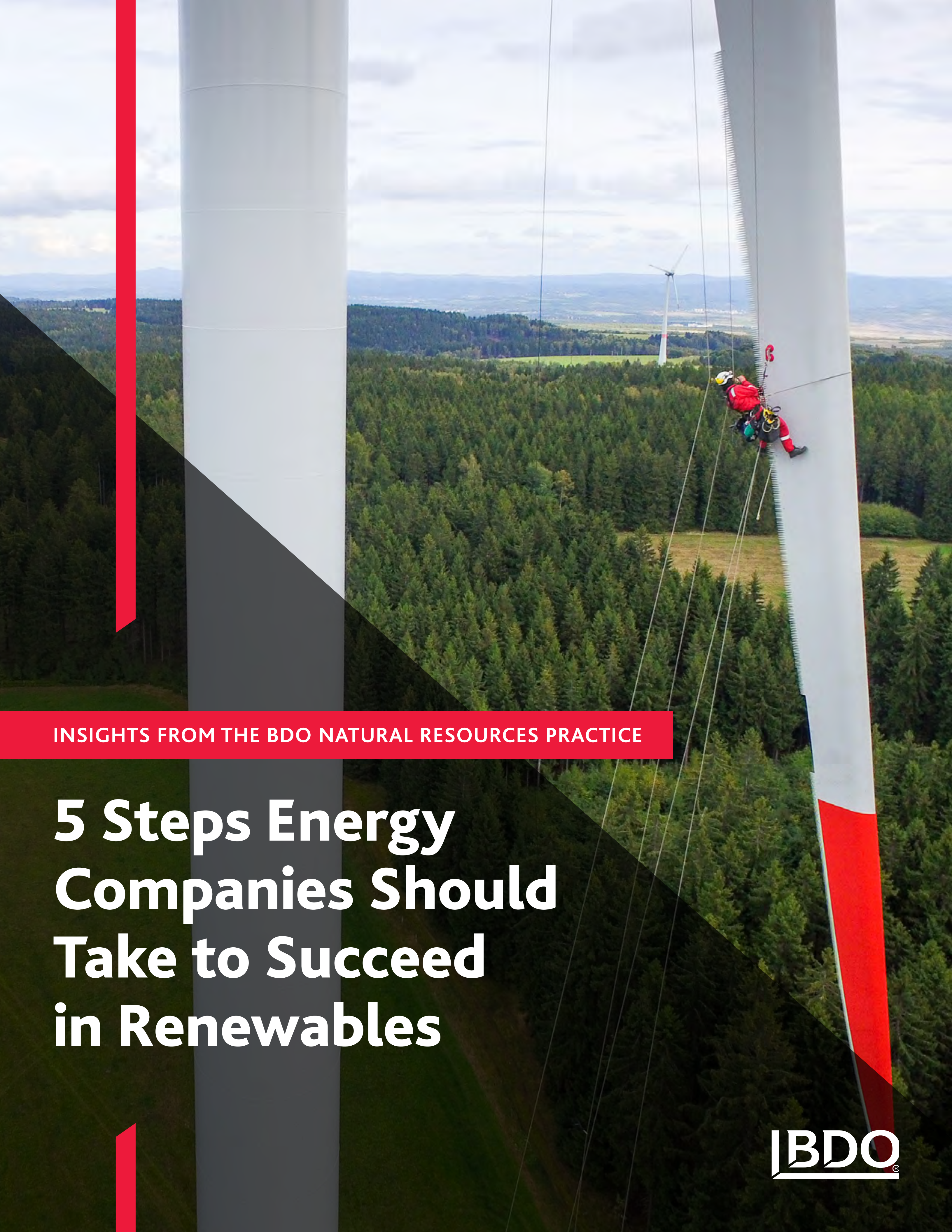

INSIGHTS FROM THE BDO NATURAL RESOURCES PRACTICE

5 Steps Energy Companies Should Take to Succeed in Renewables

With the energy transition already underway, businesses have a range of opportunities to help scale renewables and alternatives — and benefit a broad range of stakeholders. With nearly $370 billion of funding for clean energy investments introduced by the [Inflation Reduction Act (IRA)] of 2022, all organizations, but especially energy companies, have reason to incorporate renewables into their operations.

Under the IRA, companies also face more stringent regulations. Both energy companies and their investors have been under pressure to reduce climate impact, so it's no surprise that the transition to renewables is accelerating. As of February 2023, **Crunchbase** lists more than 5,800 renewable energy startups worth $125.3 billion in the United States alone, and that number continues to rise.

Traditional oil and gas companies also continue to increase their investments in renewables. Because the changeover can't happen overnight, oil and gas organizations must continue to meet the needs of their fossil fuel-based customers, which also supports their ability to invest in low-carbon alternatives and infrastructure. At the same time, **oil and gas companies are crucial** for driving economic growth, safeguarding energy security and supporting the broader energy transition.

As a result, energy organizations should be aligning tax and business planning. Appropriately planning for the **tax benefits available for renewable energy projects** can drastically improve project economics and provide additional options for capital requirements.

Whether you're an emerging renewables startup seeking investors, an oil and gas company, or a power player looking to build or buy renewables capabilities, succeeding in the renewables space has challenges amid growing competition across the industry. Read on for five crucial steps to take now for future growth.

1. Be agile.

While energy companies report they're doing well financially in the **2023 BDO Energy CFO Outlook Survey**, it's important to be nimble. Renewable energy is still in its infancy. What may appear as a promising emerging capability or investment today can quickly become obsolete tomorrow. Focusing on a "Five-year strategic plan" may be unrealistic. Rather, companies must position themselves to be able to quickly adjust strategically as needed.

During this process, it's important to keep an open mind and be ready to pivot to meet new opportunities. Enterprise agility — either by creating entirely new procedures or adapting existing ones — is especially crucial for traditional oil and gas businesses with legacy processes.

Resilience, organizational flexibility and teamwork are crucial to supporting enterprise agility. Leaders should practice good financial discipline and be prepared for potential talent shortages and supply chain disruption. Companies should also reassess their operating models, capital allocation, organizational culture and reporting strategies. This process may include establishing cross-functional teams that can work autonomously. These teams should have clear priorities and measurable, outcome-based goals that align with the company's strategic business objectives and vision and values.

No matter where a business is in its lifecycle, agility is key for both maintaining and thriving. Strategies should also include open communication with all stakeholders to gauge when adjustments are required, as well as ongoing objective and measurable self-assessments.

2. Establish high standards.

Organizations should ensure they have implemented thorough and transparent accounting procedures and controls, along with clear financial reporting. Whenever possible, energy companies should modernize the finance function to provide access to financial information from across the enterprise and enable data-driven decision-making.

As SEC reporting standards for public companies have become more stringent, the requirements for environmental, social and governance (ESG) disclosures are also expected to tighten **following recently proposed changes.** Energy companies shouldn't wait for proposed changes to take effect — ESG strategies are now an imperative and should be part of overall business strategy. Companies should evaluate how ESG principles can be established, monitored and measured throughout the organization. This includes how ESG can create value, help attract and retain talent and elevate brand awareness or reputation. Companies with ESG strategies already in place should continually reevaluate how they can be improved.

Energy companies should also communicate their adherence to ESG programs to internal and external stakeholders. Executive teams, employees, contractors, business partners, vendors, suppliers and customers should have visibility into ESG principles and how an organization is meeting them. Transparency will help instill ongoing support and confidence in the company.

3. Reevaluate technological investments and innovate continuously.

The energy landscape has evolved over the last few years and as a result, the industry is more dependent on technology than ever before. Customers also have heightened expectations for service and pricing transparency. Amid inflation and economic uncertainty, energy companies should prepare for even more pressure from consumers. The public expects a stronger, more reliable power grid as prices continue to rise for delivery of services on the bills they receive. At the same time, there is heavy competition among energy companies for supplies, such as rare minerals, needed for renewables manufacturing.

As a result, energy companies should evaluate all current and planned technological investments and then prioritize investments that create the most value for the company and its customers in both the near- and long-term. During this assessment, companies should also reexamine investments and forecasted projects to see if there are new tax benefits available to them under the IRA. Some of the factors companies should consider include technology that enables the automation of repetitive processes, creates workplace efficiencies and enhances collaboration, or uses artificial intelligence (AI) to help inform decision-making around energy production and consumption forecasts or financials. Some projects may need to be postponed or canceled altogether and organizations should be prepared to continually adapt as technology needs or gaps in capabilities arise.

During the reprioritization phase, companies should conduct scenario planning to help anticipate and drive technological advancements — as well as mitigate any potential cyber risks — as part of overall business strategy to increase resilience. It's also important to ensure the workforce can support adoption and enablement with technology investments, which may include re-skilling or up-skilling initiatives and a change management program. Companies that leverage technology and continue to innovate during the energy transition can may be more attractive to potential investors and could see increased opportunities for financial growth.

4. Tailor strategies to your geographic footprint.

Throughout the U.S., states and municipalities are rapidly enacting new regulations and requirements to meet climate change initiatives. Energy organizations operating in these localities have opportunities to tailor solutions for specific regions and existing infrastructure. Companies need to understand local regulatory agencies, their requirements, necessary permits and the nuances of how to navigate them. Not only does this support energy companies' operational due diligence in diversifying service offerings, but it can also enhance their standing as environmental stewards in these communities.

5. Find your focus.

It can be tempting for established companies, especially those in oil and gas, to want to invest in all the latest renewables or alternatives available to diversify their energy portfolios. It can be similarly tempting for smaller renewables companies to stretch their financial resources and invest in major capital projects or infrastructure to compete with larger organizations that have deeper resources. In both cases, these companies should seize the opportunity to identify a specialty instead.

Energy companies exploring renewables and alternatives, as well as smaller renewables companies, should find opportunities to create their own competitive advantages based on their unique circumstances and existing capabilities. Because the industry is growing and continuously finding new alternatives and technologies to leverage, these organizations can specialize in product capabilities, quality and customization. Niche markets in renewables can provide opportunities for companies to smartly grow and scale, own market share of targeted service offerings and increase customer retention in focus areas.

Specialization is also attractive to a variety of investors. Smaller companies that own their niche may have opportunities to partner with larger, established companies, or they could be targets for acquisition or for investors looking to add distinctive alternatives or renewables to their portfolios. Organizations that center business strategy and service offerings around a specific focus within renewables can be positioned for greater returns.

SUCCESS IN TRANSITION

As the landscape has shifted, so has investor interest in energy companies. Oil and gas organizations have started to become recognized as a vital part of the energy transition. Investors see value not only in those that are investing in renewables or finding ways to make them part of their operations, but also in those that can ensure sustained business resilience and financial growth. While interest in new renewables companies has continued to grow in recent years, taking these steps now can show potential investors what sets your organization apart from others.

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