INSIGHTS FROM BDO'S NATURAL RESOURCES PRACTICE

WANT TO SUCCEED IN RENEWABLE ENERGY? FOLLOW THESE 7 STEPS

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Renewable energy is taking off. Governments, regulators, investors and consumers worldwide are shifting their focus toward renewable energy in an effort to fight climate change and increase sustainability. As a result, there are many new entrants to the scene—AngelList has over 4,000 clean energy startups in its database, and that number is increasing rapidly. At the same time, traditional oil and gas players are increasing their investments in renewables—our **recent CFO survey** found that while COVID-19 created some interruptions, 82% of oil and gas companies plan to invest in new renewables projects this year. Many power and utilities companies that have dominated the space for years are creating bold plans to increase production. It's clear there's ample opportunity in the space, and companies are jockeying to seize it.

But success in the renewables space is easier said than done, especially given growing competition across the energy industry.

Whether you're an emerging renewables startup seeking investors, or an oil and gas company or a power player looking to build or buy renewables capabilities, there are key factors you'll need to keep in mind to succeed in this increasingly crowded space.

1 / Have an agile business strategy.

2021 will likely see an increase in alternative energy related deal making as established players consolidate positions to build scale, and special purpose acquisition companies (SPACs) flush with capital identify companies with high projected growth to sponsor into the public markets. Before the end of 2020, 11 alternative energy and ESG-focused SPACs went public, raising **over $3 billion in total**, and we expect this trend will continue.

At the same time, there are continued new entrants and technologies in the industry developing new capabilities to meet fast growing customer needs and expectations. Like investors, consumers are increasingly considering the impact their energy use has on environmental concerns. They also see renewable energy related products and services as a means to improve their lives (e.g. electric vehicles) in an environmentally sensitive way, or simply seeking solutions to life's challenges (e.g. battery storage). Their evolving expectations call for direct-to-consumer service offerings, integrated products, usability, real-time data insights, behavioral forecasts and diversified energy offerings.

For energy companies, agility will be key to surviving in the near term. Companies need to be acutely attuned to the everchanging business environment, and unafraid to pivot their strategies to take advantage of external shifts. Companies with agility built into their DNA share some common characteristics: open communication between stakeholders to gauge when adjustments are required, and constant—and more importantly, objective—self-assessment.

2 / Establish high standards.

Thorough and transparent accounting procedures and controls along with clear financial reporting are critical to provide companies the information required to make informed decisions. Companies should make a priority to invest in the people and fit-for-purpose technology solutions to enable these processes.

Adhering to environmental, social, governance (ESG) standards are fundamental to renewable energy companies. ESG policies and procedures should be established and monitored not just within the company, but throughout their value-chains. This includes the executive team, employees, contractors, business partners, vendors and suppliers, and customers.

To enhance their competitive advantage, energy companies should communicate adherence to ESG programs with internal and external stakeholders, as it will instill their ongoing support and confidence in the organization.

3 / Innovate continuously.

As a result of COVID-19 and its related regional lockdowns, 2020 introduced a new era of heightened digital dependency across industries. For energy companies, this meant that consumer demand largely shifted to residential power use and consumers raised their expectations into service transparency. Consequently, energy companies prioritized technological investments in their business strategies to respond to the change. However, the lifespan to exploit any new technology is short. Disrupters are everywhere, and organizations shouldn't get comfortable once a capability is adopted.

Instead, they should develop multiple avenues to help anticipate and drive technology advancements–including internal investments, targeted acquisitions, strategic partnerships, sponsored academia research and membership in professional organizations. This will also allow for strengthened competitive differentiators through the speed and efficiency advantages that technology supports.

4 / Know your geography.

Opportunities exist at the local level to tailor solutions to the conditions and needs of the unique marketplace and infrastructure. For example, California **state law** required 33% of retail electricity sales to be powered by renewable portfolio standard (RPS) eligible sources by 2020. These include investor-owned utilities (IOUs), electric service providers (ESPs) and community choice aggregators (CCAs), excluding production by hydroelectric energy. Surpassing that goal two years early, the state ranked as the nation's **top electricity producer** of renewables including solar, geothermal and biomass energy. To realize new goals of becoming 100% carbon-free by 2050, the state has passed energy efficiency and renewable energy source mandates on commercial, and even residential, construction.

Understanding local regulatory agencies, their requirements and permits, and the nuances in how to navigate them supports operational due diligence in diversified service offerings. Companies are also better positioned to introduce new areas of growth for renewable investments, while building a positive reputation with the community and local government.

5 / Capitalize on a specialty area.

It may be challenging for smaller players to compete in terms of scale advantage with the "renewable supermajors" such as NextEra Energy, which credits itself as one of the nation's "largest capital investors in infrastructure." But focusing on a specialty area—rather than competing at the supermajor level—can provide an opportunity to compete in other aspects, including product capabilities, quality and customer customization.

Because of the broad nature of the alternative energy spectrum, numerous opportunities exist for niche plays, and when leveraged effectively, smaller energy companies are better positioned to expand and own market share of target service offerings and grow customer retention. Niche players also can be asked by larger established players to partner with them.

6 / Consider being a pure-play.

Investors want to see a focus on the alternative energy space. While diversifying energy portfolios is an effective strategy for entering new markets, centering your business strategy and service offerings around renewables can have significantly greater returns. As demand for renewables grows and regulatory policies support them, new jobs and opportunities to capitalize on the shift and innovation in technology will rise.

Overall, most investors are looking for companies that are "all-in" on the future alternative energy transition and can ensure that their financial resources aren't directed towards assets that are experiencing decreased demand or into a sector they wish not to sponsor. This allows stockholders to feel more secure in their assets and have stronger predictability on their returns in the near- and long-term.

7 / Leverage information technology.

Cost-effective, middle-market focused information technology (IT) solutions are more available, and can allow energy companies to better manage a growing business and automate processes. Through the use of technology, companies can make informed decisions and improve workplace efficiencies such as eliminating repetitive actions through automation, or using artificial intelligence (AI) to identify concepts to apply to decision making around energy production and consumer forecasts. Technology is providing increased capabilities for virtual collaboration, bespoke operational and financial metrics, and integrated real-time information.

However, with more digital enablers comes a magnified need to ensure proper cyber security. Digital threats and bad actors have always been at play, but since the increased digital dependence COVID-19 spurred, these threats have increased in both frequency and severity. This risk underlines the importance of having proper protections and procedures in place to guard your intellectual property and stop hackers before a breach occurs.

With investor interest focusing on renewable energy companies, the opportunities for financial growth are widespread. Whether you're a start-up energy company or a traditional oil and gas or power gen player, it's important to leverage competitive differentiators, increase your resiliency and enable market expansion to stand out from the crowd. Done effectively, energy companies can ensure continued investor interest, and harvest both financial and environmental gains of the energy transition.

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