

# Making smart decisions: Utilities ask, ‘What do I do now?’

## At a glance

In late October, US utilities, manufacturers and technology firms received \$3.4 billion to modernize the country’s electric power system.

While many of the grants were awarded to small utilities to deploy smart-grid technology, several large utilities received grants of up to \$200 million each.

Utilities will have to meet complex reporting and compliance requirements to make sure tax dollars are appropriately spent.

The \$3.4 billion in economic stimulus money is divided between 100 utility companies and businesses that in turn have agreed to spend an additional \$4.7 billion in private money on smart grid technology.

*The American Recovery and Reinvestment Act of 2009 (ARRA)* earmarks about \$3.4 billion for smart grid projects to help utilities invest in the modernization of the electrical transmission and distribution grid. Its goals include increasing energy efficiency and reducing congestion, which can result in blackouts. As wind, solar, and geothermal sources of energy evolve, smart grid technology becomes an enabler to making renewable energy sources available to customers with evolving plug-in needs—from new electronic devices to electric cars.

The companies that submitted applications for the grant money in August were informed on Oct. 27, 2009 whether they were successful. Selection for an award is just the beginning of the award lifecycle.

## Preparing to Accept the Award

Those receiving an award must begin to prepare for negotiations with the Department of Energy (DOE), as well as ongoing grant compliance and management of the award. It is important that the successful applicants begin immediately to develop their negotiation strategies, assess their ability to comply with the

applicable rules and regulations and develop the structure and methods for managing these grants from a compliance and performance perspective.

### Negotiations

Those receiving awards should consider that negotiations with the DOE will not only address certain legal requirements, but also financial and accounting compliance requirements. Therefore, those selected should ensure that negotiation teams include not only legal personnel, but also personnel who have significant experience in cost accounting and compliance matters. Negotiations with the government must focus on the financial arrangement, the statement of work (including deliverables), and the extensive terms and conditions typically required by government procurement regulations. As with any negotiation, both the awardee and the government will look to protect their respective interests while providing a fair deal to both parties. However, it is critical that the awardee understand the many terms and conditions that the government will include in the agreement and what strategies and techniques should be used to reduce the associated risks, while

maximizing the benefits. A key factor in mitigating these risks is for the awardee to understand its current position and capabilities associated with compliance and quickly determine the terms and conditions that are acceptable versus those that may need to be revised or eliminated.

### Compliance

Awardees should assess their current controls, processes and methods to determine if compliance gaps exist between the current environment and the applicable rules and regulations. Compliance during the life of an award involves many systems and may require developing additional policies, procedures, and internal controls. The compliance requirements involve the accounting system and related subsystems including, but not limited to:

- Time and expense reporting
- Labor distribution
- Procurement
- Materials management
- Billing
- Government property
- Contract/subcontract administration

Compliance also includes other factors such as the Davis-Bacon Act, Whistleblower Protection and Ethics and Compliance Rule. In addition, ensuring that the awardee has the proper controls and processes in place is critical to meet the reporting requirements of the Recovery Act. The awardee will have to report a significant amount of information including:

- Job creation/retention—both for the awardee and sub awardees

### Managing the award

Awardees should consider the structure it will use to manage the performance and compliance of the grant(s) received. For example, one structure involves developing a Project Management Office to coordinate the compliance associated with the grant including rules and regulations, deliverables and reporting as well as performance. Another structure involves taking a coordinated approach to compliance that relies

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- Total ARRA funds awarded, amount of money received and expended, and funding not yet committed as a project expense
- Details of the project, including a description of the activity and the evaluation of the completion status
- Detailed information on sub-awards, including names and locations of sub awardees, primary place of performance of the work, a description of the sub awards and unique identifiers (i.e., name or code) for the sub awardees and their parents

Making sure the information is accurate is critical as media and tax payer groups will have instant access to the information and, as seen with the first round of reporting, will begin investigating the information.

on key functional areas such as finance, HR, legal, and the business unit. Awardees should begin to assess and develop the structure that will fit the organization's risk profile and culture as well as ensure that all aspects of the grant are appropriately managed.

### Consequences

A utility could face many consequences if it does not develop proper negotiation strategies, identify and remediate compliance gaps, and structure a proper process for managing all aspects of grants. As a result, the utility could end up accepting risks that could have been mitigated through proper negotiations as well as potential fines and penalties, termination of the award and unwanted publicity.

But with adequate planning and the appropriate processes in place, utilities can use smart grid grants to position themselves as leaders in clean energy programs.

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