Smart Grid Investment Grants: navigating the challenges

How can power and utility companies increase compliance and effectively deliver against governmental requirements?

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At a glance

Public and investor-owned utilities have received $3.4 billion from the US Department of Energy and the Treasury through initiatives including the Smart Grid Investment Grant program.

Companies faced unexpected challenges in developing, refining, and implementing internal controls and compliance processes in response to the regulations and requirements associated with these grants.

For those that continue to receive grant funding, the benefits can be valuable, but there will be evolving challenges associated with compliance leading to comprehensive audits by multiple parties.

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Introduction

The DOE's Smart Grid grants have funded a variety of innovative projects that have well served utilities and customers alike, as well as paying benefits in job creation and environmental protection. Power and utility companies, however, have faced significant challenges in navigating the extensive compliance requirements associated with the grants. By revisiting Year One challenges, companies can be better prepared to address the next round of grant audits and pursue future grant activities.

Compliance challenges

Over the years, universities and other organizations that regularly receive federal awards have developed, refined, and implemented internal control and compliance processes so that they are readily able to meet federal agency expectations for accountability and transparency associated with how grant monies are spent.

Like other recipients of federal funds, power and utility companies receiving monies through the DOE's Smart Grid Investment Grant program are required to adhere to a variety of regulatory requirements and to submit to grant audits. Many utilities, however, didn't have a complete understanding of the program's policies and procedures, and therefore weren't prepared to fully comply with the smart grid grants.. Consequently, a larger than expected portion of grant monies was spent on compliance efforts, rather than to fund the activities the grants were designed for. Going forward, utilities companies who accept grants may face even greater scrutiny by the DOE.

Why pursue smart grid grants

Smart grid projects offer a range of technological innovations that can enable a step change in grid efficiency, facilitate automation to reduce cost and improve quality, enable the integrated and optimal use of distributed and renewable generation, and promote interaction between supply and demand technologies and between the customer and the utility, providing benefits for both.

By accepting federal grants, companies can institute long-term technology improvements to develop the next generation of energy solutions without incurring all of the enormous costs that otherwise would have been passed on to their customers or may have prohibited them from pursuing these technologies.

Perhaps most importantly, the Smart Grid Investment Grant program has given power and utility companies the opportunity to embark on these projects and accelerate their technological advancements more rapidly than they previously had expected. Smart meters, for example, can be installed more quickly and more efficiently because grant funding enables them to be deployed on a much larger basis than otherwise might have been possible.

Smart grid grants additionally have helped companies enhance their reputation by demonstrating that they are innovative and forward thinking; heavily engaging in research and development on alternative energies; and proactively adopting cleaner, greener technologies, an approach that has come to be expected and even demanded by the general public. The upside is that these projects have also created or saved jobs during an unstable economic recovery.

Year One costs and challenges

Utilities won Smart Grid Grant awards in late 2009 and by June 2010 began to spend grant monies. However, audit guidelines were not published until February 2011, causing many companies to be surprised by the extent of compliance costs and requirements.

Many grant recipients reported high costs of compliance with the grant requirements. The costs were driven by several factors. Many utilities were forced to re-scope projects in order to accommodate compliance requirements. Some utilities, for example, decreased the number of meters they planned to deploy in order to offset the costs of compliance requirements. In addition, companies had to foot the bill for unplanned, but necessary, travel to multiple locations to complete some audit steps.

Universities and other organizations accustomed to complying with federal laws and regulations associated with governmental grants have processes in place and offices established to ensure grant compliance. Compliance is second nature, and training is routinely provided for all those involved in applying for and using grant funds.

Many utilities, in contrast, were first-time recipients of government funding and thereby unfamiliar with the compliance rules and audit requirements attendant to the grants. Utilities have historically had controls in place to meet other compliance standards, such as the Sarbanes-Oxley Act (SOX) audit requirements. But they typically don't have the degree of deep institutional knowledge or experience that would enable them to immediately offer the same level of accountability and transparency to the DOE as is provided by educational institutions, hospitals, and not-for-profit entities.

Utilities had to decide: Would they initiate additional procedures and processes strictly in response to grant requirements, or would they embed those behaviors in the company's culture in order to ensure that they would continue to be in compliance with these grants and other grants in future years? Organizations as large and established as utility companies found it difficult to effect that type of change across the enterprise.

Compliance during the life of the award, which usually ranges from two to four years but may run as long as five years, involves multiple business processes and may require developing additional policies, procedures, and internal controls. The compliance requirements involved the accounting process and related sub-processes, including, but not limited to, time and expense reporting, labor distribution, procurement, materials management, billing, government funded property, and contract/subcontract administration.

Power and utility companies varied significantly in how prepared they were initially to comply with requirements associated with the grants. And the compliance complexities created many challenges and costs for the utility companies, including:

- Labor reporting rules were detailed, strict and widely viewed as being an area of high risk. Employees assigned to work on grant-funded projects were required to record their time on a daily basis and submit their hours within a strict time frame.
- Vendors and subcontractors had to be thoroughly vetted to ensure they were not on any governmental debarment or suspension lists.
- Creating and implementing policies and procedures in response to grant requirements entailed a considerable expenditure of resources, including hours allocated to the task.
- Specialized training was required for the appropriate personnel in order to enable the processes and procedures required for compliance.
- Governance was necessary in areas such as procurement, billing, labor distribution, materials management, and government funded property in order to meet grant requirements. Additional full-time employees, for example, were often needed to monitor time reporting.
- Some companies needed greater clarification on what costs were and were not allowed for recovery, particularly regarding time reporting and recording. Inconsistent directives complicated compliance and fueled frustrations.
- Multiple awards could be distributed among various divisions and subsidiaries of the same company. As a result, an organization was required to have a complete understanding of the total received from the DOE, and to decide whether to issue a single consolidated audit report or several separate reports. In some cases, there could have been greater communication regarding multiple grants and a greater emphasis on tracking grants, which would have reduced inconsistencies in levels of compliance.
- Some companies had too few controls in place across the board, while leadership was not adequately informed about the applicable compliance requirements. Some companies also faced challenges meeting compliance requirements due to insufficient resources.

Going forward

While a company may have received a limited number of findings or even a clean audit in the first year of grant funding, that doesn't guarantee the same in subsequent years. Some requirements, which may not have been applicable in Year One, may become applicable in subsequent years, due to new types of activities being pursued by grant recipients. Additionally, as grant-related activities scale up, additional personnel may be engaged in grant activities.

The DOE has posted draft audit guidance that indicates plans to issue revisions to the audit guide in the Federal Register. Although the changes will not be dramatic, the audit requirements over required compliance procedures will be scaled back. Grant recipients have been told to hold off on completing 2011 audits until a final announcement has been made.

When considering compliance requirements, companies will either address the changes required for the immediate future or internalize and embed the standards in order to avail themselves of future grant opportunities.

There have been limited penalties in Year One: the government is aware of the complexity of the new compliance requirements and sympathetic to the challenges, and is requiring companies to remediate identified issues. However, expectations are that there may be increased enforcement in Year Two and going forward.

In the meantime, companies can absorb lessons learned, including those regarding time management, validation of vendors, and monitoring of sub-recipients, so that they can protect their reputations and ensure continued funding of the projects. To effectively tackle the next round of audits, companies must:

- Demonstrate improvements in compliance through implementation of corrective action plans found necessary for 2010—showing a positive trend toward full compliance with federal rules is important.
- Consider developing a governance committee tasked with providing oversight for all grants received throughout the organization.
- Educate the organization to accept and adopt compliance requirements, as opposed to viewing grant compliance as a one-time, one-off endeavor.
- Stay attuned to evolving DOE requirements, as audit requirements for smart grid grants are going to continue to evolve, with multiple changes and annual revisions.
- Focus on properly closing out grants, as some projects will continue beyond the life of the grant. Companies will have to decide whether the projects are worth the additional investment and, if so, whether they will continue the same level of compliance or move to a more cost-effective model. Projects that do continue forward, and shift from being grant-subsidized to being fully funded by utilities now seeking to recover 100% of costs from their customers, may receive closer attention from regulatory commissions.

The DOE's Smart Grid grants program is expected to continue providing opportunities for power and utility companies to fund innovations that will serve to make their operations more efficient and better respond to the needs of customers, in addition to driving job creation and provide greater environmental protection. Organizations can best position themselves to benefit from the program—through ongoing grants and new ones—by reviewing and analyzing the compliance issues that arose during Year One. Additionally, organizations can put into place robust controls, educational programs, communications initiatives, and governing committees that will help them meet those challenges.

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