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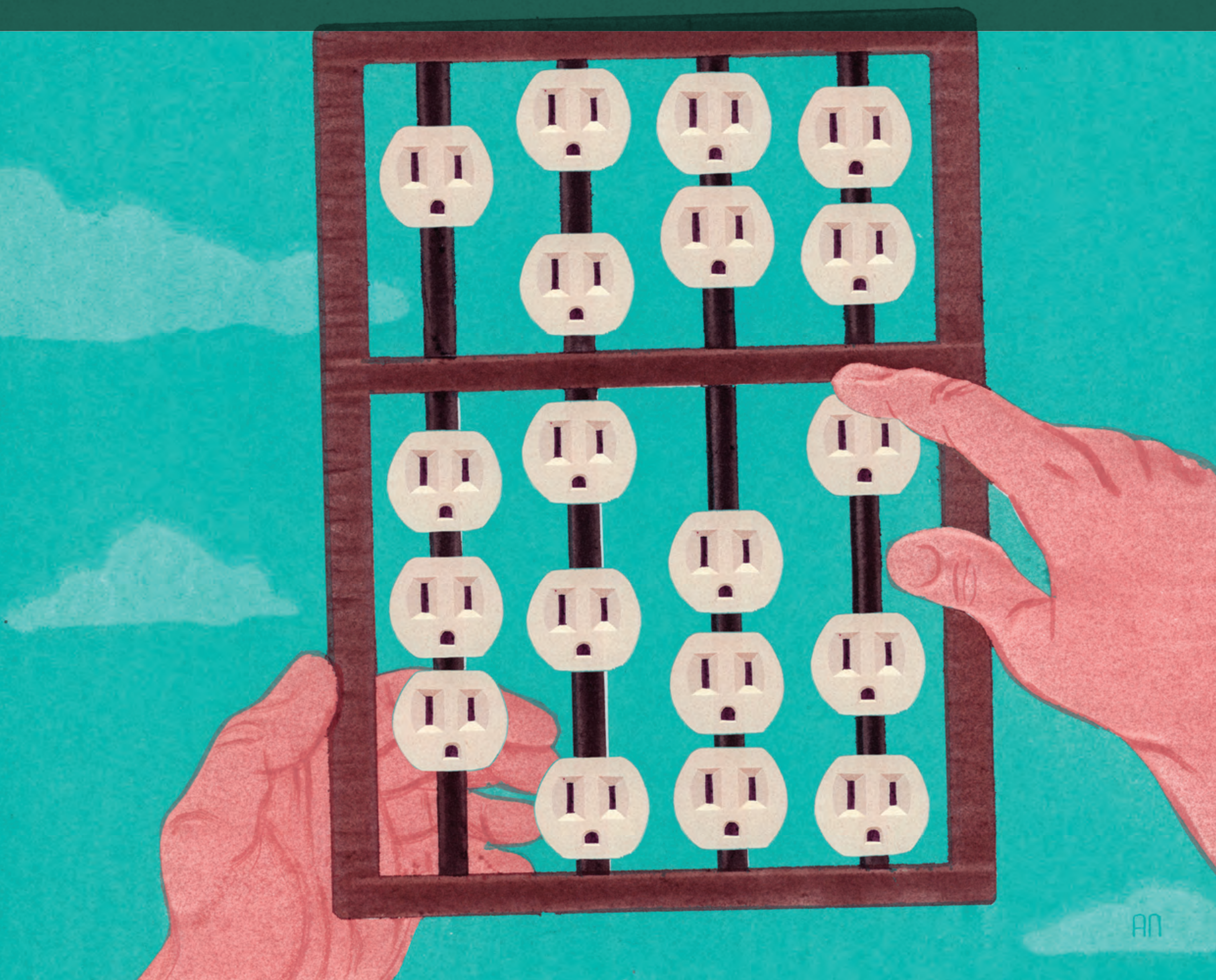
Value Creation in Power and Gas

Cash Is King in Tumultuous Times



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Cash Is King in Tumultuous Times

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AT A GLANCE

Power and gas companies are confronting an increasingly difficult business environment that has weighed heavily on their TSRs. To surmount the challenges and generate solid returns for their investors, these businesses will need to rethink their business models and take bold action.

A Challenging Backdrop, but Winners Emerge

Deteriorating market fundamentals, rising customer expectations that have spawned competition from nontraditional players, and increasing government intervention took a steep toll on the industry's TSRs for the five years that ended December 31, 2014. But there were relatively strong performers within each segment.

Critical Sources of Returns

Returning cash to shareholders was the most common and critical driver of performance, accounting for approximately one- to two-thirds of company results.

Enhancing TSR

These companies need to carefully think through their business and TSR strategies if they hope to generate strong returns for shareholders. They need to consider changes in market conditions and define their role in tomorrow's energy landscape.

Historically, investors have regarded investments in power and gas utilities as relatively safe, characterized by stable returns and low risk. In recent years, however, shareholders in these businesses have seen precisely the opposite, a reflection of the increasingly challenging business environment that confronts the industry. The magnitude and urgency of the challenges facing these companies vary by segment: conventional generation activities have already been hit hard, for example, while network activities have, so far, been relatively unscathed. Still, the industry confronts general risk and uncertainty that will likely intensify for virtually all of these businesses, with significant implications for their shareholders.

Over the past several years, notwithstanding these harsh conditions, a select few companies have managed to produce solid returns for their investors. We examine what these companies have done to achieve this—and what companies in the industry will need to do to maximize their TSR performance.

A Challenging Backdrop, but Winners Emerge

A combination of three significant forces has been battering power and gas companies in recent years. The first is deteriorating fundamentals in the generation market. Demand for power across the developed world is plateauing and even falling in some regions, the result of generally weak economic growth, increasing adoption of energy efficiency measures, and, in some years and locations, relatively tame winters. Power producers have also been hurt by the growth of distributed generation and utility-scale renewable generation, as well as related technological advances, such as energy storage solutions. Together, these developments pose fundamental challenges to merchant players with stakes in conventional production. These include lower wholesale power prices, fewer running hours for conventional plants, and a growing need to provide flexible dispatch of power. (In a number of U.S. states, these developments also threaten traditional regulated hybrids that are forced to determine how they can negotiate these changes while safeguarding returns on their traditional investments.) Gas companies, meanwhile, have been negatively affected by having much of their supply tied up in long-term commitments that limit their ability to react to changes in demand.

The industry confronts general risk and uncertainty that will likely intensify.

The second major challenge facing power and gas companies is rising customer expectations, sparked in part by other industries' launch of innovative products and services, such as mobile banking. This rise in expectations has continued to push value in the power and gas industry downstream and has spawned growing competition from sophisticated, nontraditional players, including pure retailers and equipment providers, as well as technology, media, and telecommunications companies. These newcomers continue to make inroads into established power and gas company territory through the deployment of new business models, effective customer management, and the launch of innovative services related to distributed generation, energy monitoring, and even electric mobility. Customers' elevated expectations have also affected regulated U.S. hybrids, which—despite the fact that their core business is shielded from competition—are being forced to become more customer-centric.

Amid the industry's relatively poor five-year TSR performance, there were standouts.

Finally, power and gas companies have been subject to increasing government intervention in energy markets. Government interventions include such abrupt, high-impact policy decisions as Germany's determination to accelerate its phase-out of nuclear energy following the Fukushima nuclear disaster of 2011 and New York's launch, in 2014, of its Reforming the Energy Vision initiative, a plan for overhauling the state's business model for electric utilities.

The confluence of these three factors has weighed heavily on power and gas companies' TSRs. Indeed, for the five years that ended December 31, 2014, power and gas utilities ranked twenty-first among the 27 industries that we track, with a median average annual TSR of 13 percent.

Amid the industry's relatively poor five-year TSR performance, however, there were standouts in each of the four categories of businesses we defined: regulated hybrids, merchant hybrids, networks, and independent power producers (IPPs). (See the sidebar "Companies in Our Sample.") These were companies that managed, despite the headwinds they faced, to generate solid returns for their shareholders. (See Exhibit 1.) The single best performance was achieved by NiSource, a regulated U.S. hybrid, which had an average annual TSR of 28 percent. Among merchant hybrids, top performers included U.S.-based NextEra Energy, which had an average annual TSR of 19 percent, and European players SSE and Gas Natural Fenosa (GNF), which had average annual TSRs of 13 percent and 12 percent, respectively. Among networks, the strongest performers were Eversource Energy in the U.S. and Spain's Red Eléctrica de España, which had average annual TSRs of 20 percent and 18 percent, respectively. Success is relative, however, as none of these companies posted returns that rivaled those of the top performers in other industry groups, virtually all of which had average annual TSRs exceeding 30 percent.

It's worth noting—in addition to the presence of relatively strong performers in each of the four categories—that regulated businesses significantly outperformed nonregulated businesses: regulated businesses (that is, regulated hybrids and networks) had a median annual TSR of 16 percent for the five years, compared with 4 percent for merchant, or nonregulated, companies (that is, merchant hybrids and IPPs). Regulated players also performed more consistently: none of the companies posted a negative TSR for the period.

This outperformance of regulated businesses relative to nonregulated ones—driven in large measure by the collapse of the merchant market in many countries during the period—was a fundamental shift for the industry, compared with the previous

COMPANIES IN OUR SAMPLE

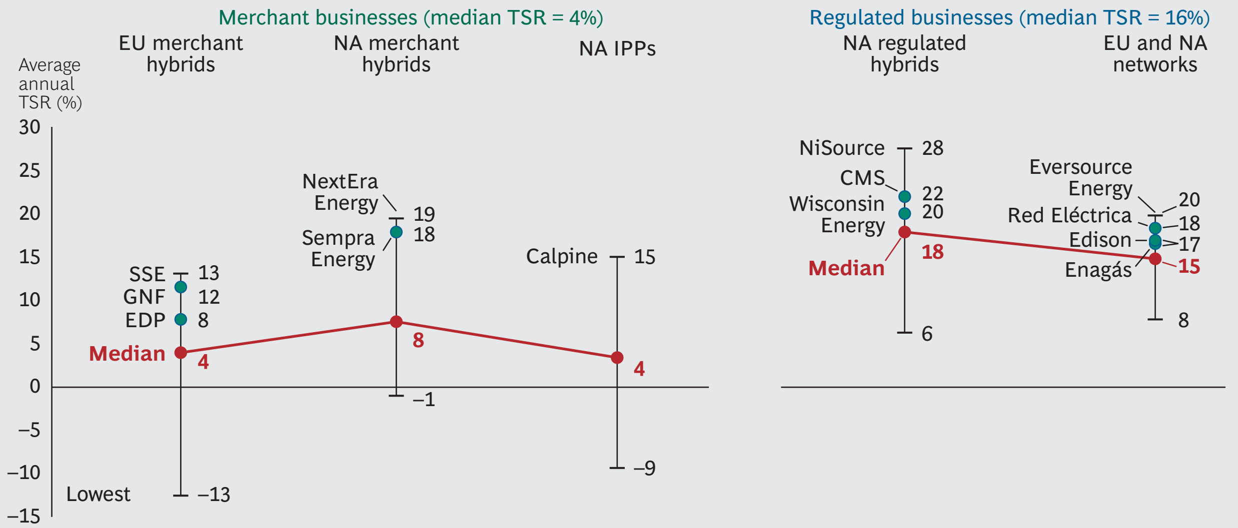
We divided our sample of 48 power and gas companies from Australia, Canada, the European Union (EU), New Zealand, and the U.S. into two broad categories: merchant businesses and regulated businesses.

The merchant players are independent power producers (IPPs) and merchant hybrids. We define IPPs as producers whose generation is largely distributed—meaning 80 percent or more of it is distributed—by parties other than the IPPs' own downstream retail operations. Merchant hybrids are companies that are engaged in more than one activity (for example, generation, network management, and retail sales) across the energy value chain and whose generation or retail business is primarily in merchant energy markets.

The regulated businesses are networks and regulated hybrids. Our definition of networks varies depending on where they operate. We define EU networks as regulated unbundled power and gas networks, U.S. networks as power and gas companies that distribute power equivalent to 400 percent or more of the power that they generate themselves, and Canadian networks as companies that derive more than 50 percent of their earnings from transmission and distribution. We define regulated hybrids as companies that are engaged in generation, as well as at least one other activity along the energy value chain, and whose generation capacity is largely (that is, more than 60 percent) regulated.

EXHIBIT 1 | Across Categories, Some Businesses Generated Solid TSRs

Range of TSRs, with top-quartile performers highlighted, 2010–2014



Source: BCG analysis.
Note: EU = European Union; NA = North America; IPP = independent power producer; GNF = Gas Natural Fenosa; EDP = Energias de Portugal; CMS = CMS Energy; Red Eléctrica = Red Eléctrica de España; Edison = Edison International.

five-year period. For the five years that ended December 31, 2009, 14 of the 20 top-performing companies were merchant hybrids and IPPs; for the five years that ended December 31, 2014, 16 of the top 20 were regulated hybrids and networks. (See Exhibit 2.)

Exhibit 2 | Regulated Businesses Had a Resurgence in Recent Years

Top 20 performers, 2010–2014

Company	Country or region	Category	Market capitalization ($billion)	Average annual TSR (%)
NiSource	NA	Regulated hybrid	13	28
CMS Energy	NA	Regulated hybrid	10	22
Wisconsin Energy	NA	Regulated hybrid	12	20
Eversource Energy	NA	Regulated network	17	20
DTE Energy	NA	Regulated hybrid	15	20
Dominion Resources	NA	Regulated hybrid	45	19
NextEra Energy	NA	Nonregulated hybrid	46	19
Sempra Energy	NA	Nonregulated hybrid	27	18
Red Eléctrica de España	EU	Regulated network	12	18
Edison International	NA	Regulated network	21	17
AEP Energy	NA	Regulated hybrid	30	17
Enagás	EU	Regulated network	8	17
Ameren	NA	Regulated network	11	16
Xcel Energy	NA	Regulated hybrid	18	16
Duke Energy	NA	Regulated hybrid	59	16
National Grid	EU	Regulated network	54	15
Calpine	NA	IPP (nonregulated)	9	15
CenterPoint Energy	NA	Regulated network	10	15
SSE	EU	Nonregulated hybrid	25	13
Southern Company	NA	Regulated hybrid	44	13

Of the 20 top performers, 16 were *regulated* players

Top 20 performers, 2005–2009

Company	Country or region	Category	Market capitalization ($billion)	Average annual TSR (%)
ČEZ Group	EU	Nonregulated hybrid	29	33
Origin Energy	AU	Nonregulated hybrid	13	26
Fortum	EU	Nonregulated hybrid	23	22
Red Eléctrica de España	EU	Regulated network	7	22
NRG Energy	NA	IPP (nonregulated)	8	16
RWE	EU	Nonregulated hybrid	49	16
NextEra Energy	NA	Nonregulated hybrid	23	14
SSE	EU	Nonregulated hybrid	17	13
Terna	EU	Regulated network	8	13
E.ON	EU	Nonregulated hybrid	81	13
Iberdrola	EU	Nonregulated hybrid	51	13
Public Service Enterprise Group	NA	Nonregulated hybrid	16	12
Snam	EU	Regulated network	17	11
Enagás	EU	Regulated network	5	11
EDP	EU	Nonregulated hybrid	16	11
TransAlta	NA	IPP (nonregulated)	5	10
Wisconsin Energy	NA	Regulated hybrid	5	10
Exelon	NA	Nonregulated hybrid	33	10
Pacific Gas and Electric	NA	Regulated network	15	10
Sempra Energy	NA	Nonregulated hybrid	12	9

Of the 20 top performers, 14 were *nonregulated* players

Sources: S&P Capital IQ; company disclosures; BCG analysis.
Note: NA = North America; EU = European Union; AU = Australia; IPP = independent power producer.

Critical Sources of Returns

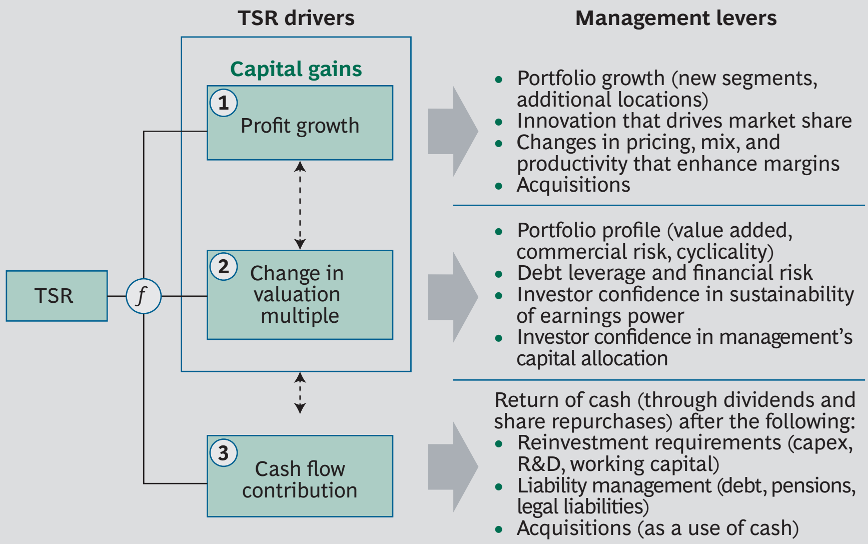
TSR can be driven by a variety of factors and levers, including revenue growth, portfolio structure, performance consistency, dividend payments, and share repurchases. (See the sidebar "The Components of TSR.") Our analysis of power and gas companies' TSR performance for the five years that ended December 31, 2014, and the factors that drove that performance, revealed four distinct practices, leveraged in isolation or combination, that distinguished the top performers.

Returning Cash to Shareholders. The common denominator among all top-performing categories and individual companies was a heavy emphasis on returning cash to shareholders through dividends or share repurchases.

THE COMPONENTS OF TSR

Total shareholder return is measured as the return from a stock investment, assuming all dividends are reinvested in the stock. TSR is a product of multiple factors. (See the exhibit below.) Our model uses a combination of revenue growth and margin change to assess changes in fundamental value. The model then factors in the change in a company's valuation multiple to determine the impact of investor expectations. Together, these two factors determine the change in a company's market capitalization and the capital gain (or loss) for investors. Finally, the model tracks the distribution of free cash flow to investors and debt holders in the form of dividends, share repurchases, and repayments of debt to determine the contribution of free-cash-flow payouts to a company's TSR.

TSR Is the Product of Multiple Factors



Source: BCG analysis.

For top-performing European merchant hybrids, such as SSE and GNF, this strategic use of cash was critical, as it mitigated the effects of harsh market conditions (which took a heavy toll on margins) and future market uncertainty (which resulted in a relatively low valuation multiple) on the companies' TSRs.

Effective use of cash flow was also a critical lever for top-performing North American merchant hybrids. Top performers there boosted their TSRs through effective capital discipline, returning cash to shareholders rather than continuing to invest in deteriorating merchant markets. These companies further boosted their TSRs by realizing margin gains, largely driven by their shift away from pure merchant assets in favor of regulated and semiregulated ones, such as renewables and networks. Sempra Energy, for example, which had an annual TSR of 18 percent from 2010 through 2014, invested heavily in gas assets (notably transmission, distribution, and liquefaction) and substantially expanded its renewables portfolio.

Top-performing North American IPPs relied even more heavily on capital discipline and cash to drive their TSR numbers. Houston-based Calpine, which had an average annual TSR of 15 percent, is a case in point. The company has returned a substantial amount of cash to shareholders. For example, it spent more than $2 billion on share repurchases from 2011 through 2014. (Its current market capitalization is $8.6 billion.)

Calpine has complemented this by focusing its capital investments in selected core markets, including the Electric Reliability Council of Texas market, the California Independent System Operator market, and the Northeast U.S. market, and divesting itself of noncore assets elsewhere, including Colorado and South Carolina. Investors have rewarded Calpine for this strong capital discipline—as well as its efforts to achieve operational excellence in order to drive down operating costs—by pushing its multiple higher.

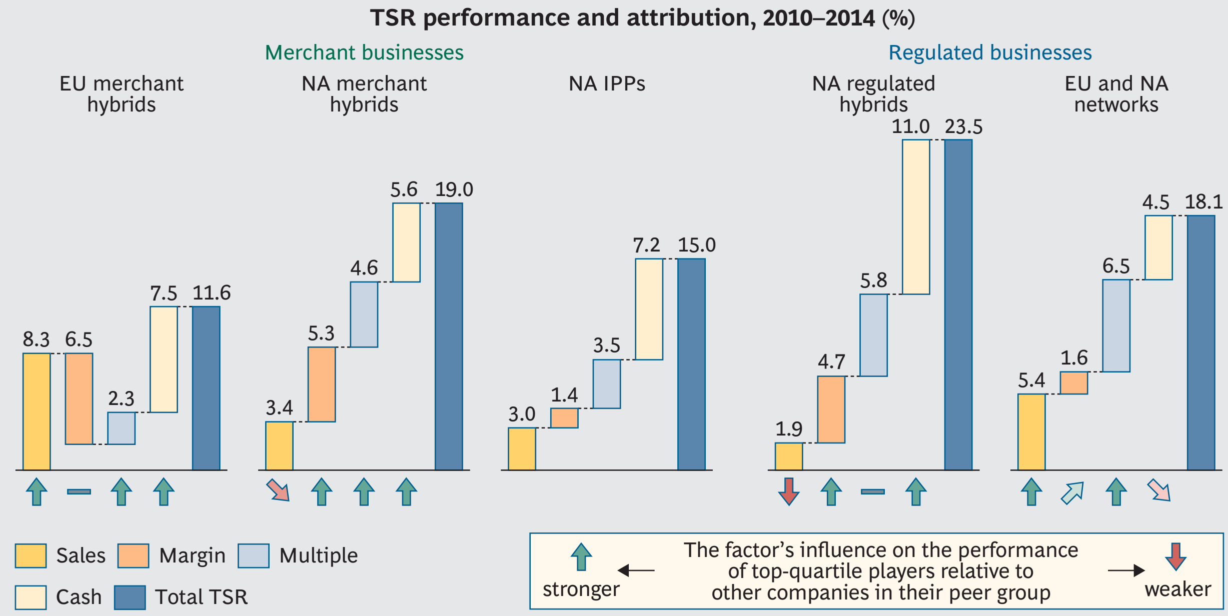
For regulated players, also, the return of cash to shareholders was a major driver of TSR for the five years that ended December 31, 2014. This was especially true for regulated hybrids. Cash accounted for roughly 50 percent of their performance. The return of cash was less critical to the performance of top-performing networks: top-line growth (driven by the companies' continued investments in network assets) and the relatively high multiple awarded the companies by investors (who were attracted by the relatively stable character of these businesses in tumultuous times) proved more important components.

Effective use of cash flow was a critical lever for top-performing North American merchant hybrids.

With regard to the TSRs of North American power and gas companies, it is worth highlighting that strong top-line growth was not a prerequisite for success. In fact, the top performers among hybrids, both merchant and regulated, generally had lower revenue growth than their peers. (The more significant driver of TSR performance for these businesses was margin improvement.) For European hybrid players, in contrast, demonstrating strong top-line growth was essential to notching a top TSR performance. (See Exhibit 3.)

An emphasis on returning cash to shareholders was a common denominator among top performers across categories. But top performers also made use of three other

Exhibit 3 | Cash Was a Critical Driver of Top Performers' TSRs



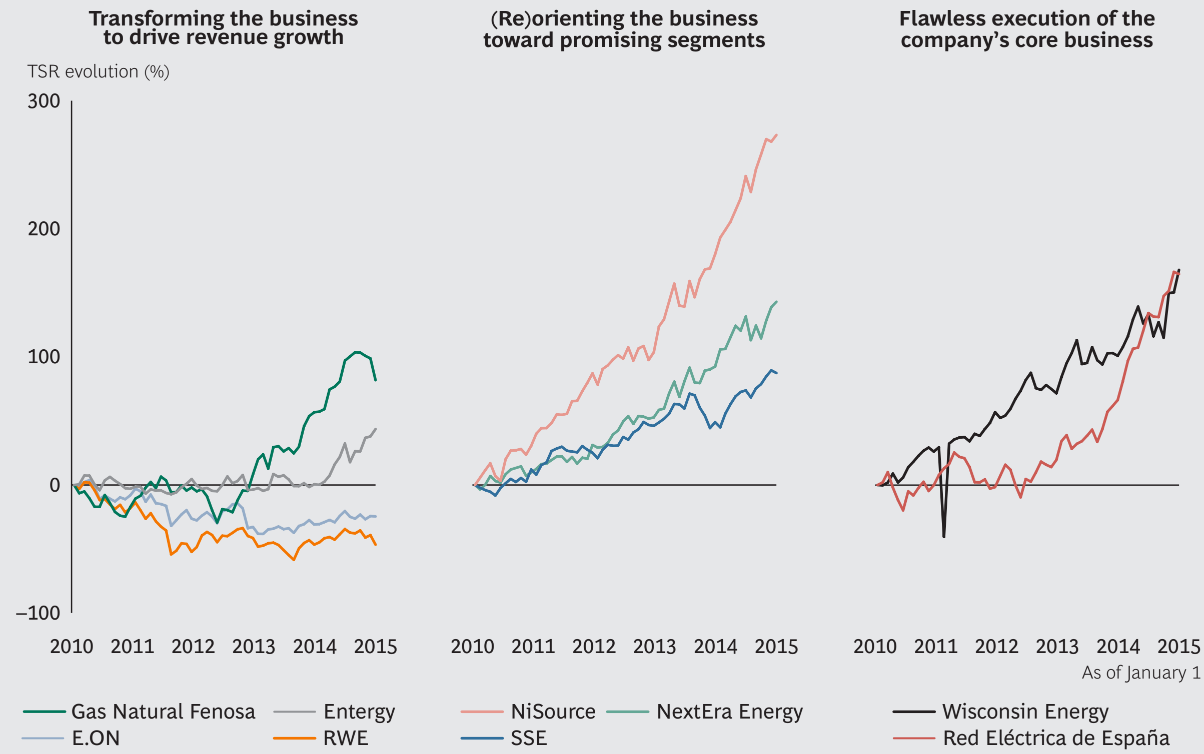
Source: BCG analysis.
Note: EU = European Union; NA = North America; IPP = independent power producer. Any apparent discrepancies in totals are the result of rounding. Because there was only a small number of companies in the NA IPP sample, arrows would not have contributed meaningful information.

levers to enhance their TSRs, namely, transforming the business to drive revenue growth, (re)orienting the business toward promising segments, and flawless execution of the company's core business. (See Exhibit 4.)

Transforming the Business to Drive Revenue Growth. In the face of challenging market conditions, several European merchant hybrids have managed to significantly outperform their peers, propelled by an emphasis on distribution of cash to shareholders and, critically, a concerted effort to boost top-line growth and margins. An exemplar is Spain's GNF, which had an average annual TSR of 12 percent for the five years, compared with a median of 4 percent for European merchant hybrids.

Critical to GNF's successful value creation for shareholders was a fundamental transformation of the company's operations. The transformation, in the words of a company spokesperson, was geared toward making GNF a "leading-edge power and gas integrated utility." A major thrust here was the establishment of a substantial global footprint consisting of more than 20 million customers and operations in more than 30 countries—the result of the merger of Gas Natural and Union Fenosa, which was completed in 2009. This was followed by a relentless focus on extracting maximum value from the organization's assets through value-based approaches to customer management, operational excellence in asset operations, and end-to-end optimization of wholesale margins. GNF complemented this transformation with targeted divestments of noncore assets and the realization of major cost efficiencies, including cost synergies of €750 million and further savings of €300 million realized after the merger.

EXHIBIT 4 | Top Performers Used Three Main Levers, Beyond Cash, to Enhance Their TSRs



Source: BCG analysis.

At the other end of the European merchant-hybrid performance spectrum were German utilities, which had negative TSRs for the five-year period. These companies have been battered recently by a combination of forces, most notably Germany's massive shift from conventional generation to renewables, the government's accelerated retreat from nuclear energy, and the rise of aggressive competition in the utilities' traditional retail business. And the path ahead for these players remains uneven. They will have to find ways to successfully negotiate the growing challenges posed by the new two-speed world, in which decentralized renewables and new business models drive future industry growth, and the role of traditional generation is essentially reduced to the provision of backup power. Finding new streams of revenue growth will be essential to accomplishing that task.

It is encouraging that a number of these companies are doing precisely that. Consider Germany's two largest utilities, E.ON and RWE. Both of them are moving ahead, but they are using different strategic approaches. E.ON has split the company into two separate entities: one devoted to salvaging the company's conventional generation business and the other to pursuing new revenue-growth opportunities in renewable energy and new business models. The company's simplified organization structure, focused management agenda, and clear investment priorities should help it pursue these ends in an effective manner and support E.ON's goal of becoming the market leader in both realms.

RWE, in contrast, is embracing the opportunities of the two-speed world from the perspective of a holistic energy manager: following E.ON's announcement of its planned split, RWE stated, through a spokesperson, that its business would "remain deployed along the entire value chain. We are convinced that, through the optimization of the energy business, we can generate value along the entire value chain." RWE will continue to rely on an integrated business model that emphasizes trading as a central hub, increasingly innovative and customer-centric sales practices, and power distribution as a means of delivering stable income. It remains to be seen how E.ON's and RWE's respective strategies will deliver—and which strategies, in general, will allow German utilities collectively not just to survive but also to thrive in the new reality.

The example of Entergy—a U.S. regulated hybrid that had an average annual TSR of 6 percent for the five years that ended December 31, 2014, compared with a median of 18 percent for its peer group—shows that investors can react skeptically or negatively during the early stages of a company's efforts to transform itself in order to increase its top-line growth. Entergy's TSR stood in negative territory for much of the period 2009 through 2013, reflecting the combination of challenges that included declining margins due to rising operations and maintenance costs and falling power and gas prices. In 2014, however, Entergy announced an aggressive revenue-growth plan centered around rate base investments and new sales activities related to, for example, smart-meter-based solutions, combined heat and power systems, and the replacement of diesel-driven pumps with electric ones in microinstallations, such as irrigation pumps. This sparked significant investor interest, which was reflected in the company's 45 percent TSR for the year.

(Re)orienting the Business Toward Promising Segments. A number of power and gas companies across categories have driven their TSRs materially higher by successfully shifting or expanding their organization's focus toward new, promising business segments. North American merchant hybrid NextEra Energy is a clear success story on this front. NextEra made an early move toward renewable energy sources (namely, wind and solar power) and gas generation while continuing to invest in the company's regulated transmission and distribution activities. This pursuit of opportunities in both the merchant and regulated parts of the market has been a boon for the company's shareholders: NextEra had an average annual TSR of 19 percent for the five years that ended December 31, 2014, compared with a median of 8 percent for North American merchant hybrids.

It remains to be seen which strategies, in general, will allow German utilities collectively not just to survive but also to thrive in the new reality.

A number of North American regulated hybrids have also successfully (re)oriented themselves opportunistically. Indiana-based NiSource, for example, has an extensive gas network that happens to sit atop many of the most active shale-gas basins in the U.S. The company took advantage of this and aggressively expanded its investments in gas storage, transmission, and distribution in order to be better positioned to benefit from the shale gas boom. This was a significant source of the company's superior average annual TSR—28 percent, compared with a median of 18 percent for its peer group. Virginia-based Dominion Resources similarly benefited by investing in and capitalizing on the close proximity of its gas network to the Marcellus Shale: the company had an average annual TSR of 19 percent.

Scotland-based merchant hybrid SSE has also leveraged this strategy with success: the company had an average annual TSR of 13 percent for the five-year period, compared with a median of 4 percent for European merchant hybrids. Aiming at its targets for cash distribution to shareholders (the company seeks to provide annual dividend increases equal to or greater than UK retail-price inflation), SSE successfully applies an adaptive strategy toward investments in cash-generating activities, with a focus on the UK and the Republic of Ireland. Prior to 2010, the company capitalized on its simple, lean operations and low-price position to become the UK's second-largest retailer, with a customer base of about 9 million. In recent years, however, as retail market conditions in the UK became more challenging, the company reoriented its investment focus toward network activities that have provided more stable cash flows. Such activities now represent about half of SSE's operating profit.

Regulated hybrids and networks operate in a relatively stable regulatory environment that allows them to adhere to a long-term vision.

SSE also maintains a longstanding emphasis on investment in renewable energy: the company is the UK's leading generator of electricity from renewables. But as was evidenced by its reorientation toward other activities when the UK government began to review its subsidy scheme for renewables in 2013, SSE remains flexible on this front.

Flawless Execution of the Company's Core Business. This lever for driving shareholder value is typically well suited to regulated hybrids and networks. These players operate in a relatively stable regulatory environment that allows them to adhere to a long-term vision focused on the individual company's core business.

Wisconsin Energy, a U.S. regulated hybrid that had a 20 percent average annual TSR for the five years that ended December 31, 2014, is a good example of this approach. The company, which has been among power and gas utilities' top 20 performers for the past ten years, has succeeded on the basis of its gradual execution of a long-term plan centered on the company's generation, distribution, and renewable energy businesses as well as the divestment of noncore assets, such as real estate holdings. This strategy is reflected clearly in the breakdown of the company's TSR for the five years: cash was responsible for approximately half of the return, but both sales and margin growth accounted for about 20 percent. The valuation multiple's limited contribution to the company's TSR reflects the stable, robust character of Wisconsin's business and how it is run: investors are not expecting surprises. Eversource Energy, a U.S.-based network player offering gas and electricity services, was also able to deliver a good performance (an average annual TSR of 20 percent). It followed a similar script: an overriding focus on strong execution of the company's core business, coupled with a long-term perspective.

Collectively, European networks have also delivered consistently strong TSR performance through the skillful, ongoing execution of their core business. This execution has centered on three distinct thrusts: building the company's asset base, decreasing its cost of capital, and forging strong relationships with regulators. Spain's Red Eléctrica de España, the monopoly operator of the country's power-transmission system since 2010, is a good example. The company has continually grown its asset base, investing approximately €800 million annually from 2010 through 2012, and about €550 million to €600 million in 2013 and 2014 (the lower amounts reflect new limitations imposed by the government), to support expansion of utility-scale renewables in Spain.

By employing a highly proactive and collaborative approach, Red Eléctrica has also secured itself a favorable regulatory environment, as is evidenced by the company's avoidance of significant direct fallout when the Spanish government announced in 2012 that it would seek to close the roughly €30 billion deficit that was mainly the result of the country's aggressive expansion of renewable capacity. Through these efforts, Red Eléctrica has delivered a strong TSR to its shareholders: the company's average annual TSR of 18 percent for the five years that ended December 31, 2014—compared with a median of 13 percent for its peer group of European networks—was propelled by strong top-line growth and significant distribution of cash to shareholders.

Enhancing TSR in the Next Five Years

Given the likelihood that the business backdrop will remain challenging, most power and gas companies will need to think through their business and TSR strategies carefully if they hope to generate strong returns for shareholders over the next five years. We believe that these businesses would be well served by embracing the merchant or regulated company strategies described below.

Merchant Players. First, it is important that both merchant hybrids and IPPs face reality: the market environment has changed and will continue to change. Driving the change is a confluence of forces that include emerging technologies, competition from nontraditional players, and substantive shifts in value pools away from large-scale centralized generation and trading in favor of downstream activities, most notably, distributed generation, storage, and behind-the-meter services.

It is important that both merchant hybrids and IPPs face reality: the market environment has changed and will continue to change.

We believe that this environment calls for a holistic approach that should combine excellence in market operations with ruthless capital discipline and selective efforts to develop new business models in response to opportunities that emerge as the market shifts toward distributed energy. Realizing excellence in operations in order to weather increasingly challenging merchant-market conditions might entail the launch of continuous-improvement initiatives and the establishment of a supportive culture in the company's conventional generation business. It could also spur a move toward customer-centric retail operations that are focused on maximizing customer value and excelling at "moments of truth" in customer contact.

Strict capital discipline will allow merchant hybrids and IPPs to strike an optimal balance between returning cash to shareholders and, critically, investing selectively in areas that have healthier growth prospects than merchant generation markets. We believe, in particular, that these businesses must explore the launch of new, customer-facing products and services, such as distributed-generation and storage solutions for private homes and service offerings beyond the supply of energy. In an energy landscape that will continue to evolve, being able to serve customers in this manner will be essential for businesses that hope to avoid becoming obsolete.

Simultaneously, merchant hybrids, in particular, will need to make sure that they have both the right capabilities and sufficient flexibility to adjust priorities so that they can respond effectively to changing markets. Given the lack of clarity regarding the shape of the future energy landscape and the business models that will emerge as winners—as well as the ongoing entry of nontraditional competitors into the energy space—merchant hybrids will need to be able to adapt by, for example, testing new offerings in the market and scaling up or rebalancing their business as needed.

Regulated Players. For networks and regulated hybrids, flawless execution of the core business will remain crucial. This will entail ongoing investment aimed at growing the company's asset base in accordance with priorities established jointly with regulators, maintaining good relations with regulators in order to help ensure attractive returns on these investments, becoming as efficient as possible at maximizing resources that can be invested or returned to shareholders, and, in managing cash flow, striking an optimal balance between necessary investment and dividend policy.

In addition, regulated businesses will need to keep an eye on the future and define the degree to which they want to embrace, enable, or simply coexist with emerging market trends. They should establish a framework for making business choices related to new opportunities that extend beyond the current scope of their regulated activities. As these companies claim their role in a more decentralized energy landscape, evolving toward more customer-facing service offerings will become increasingly important. In the process of that evolution, these businesses might even need to rethink what constitutes their optimal shareholder structure: their future risk-return profile will be fundamentally different from what it has been historically.

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