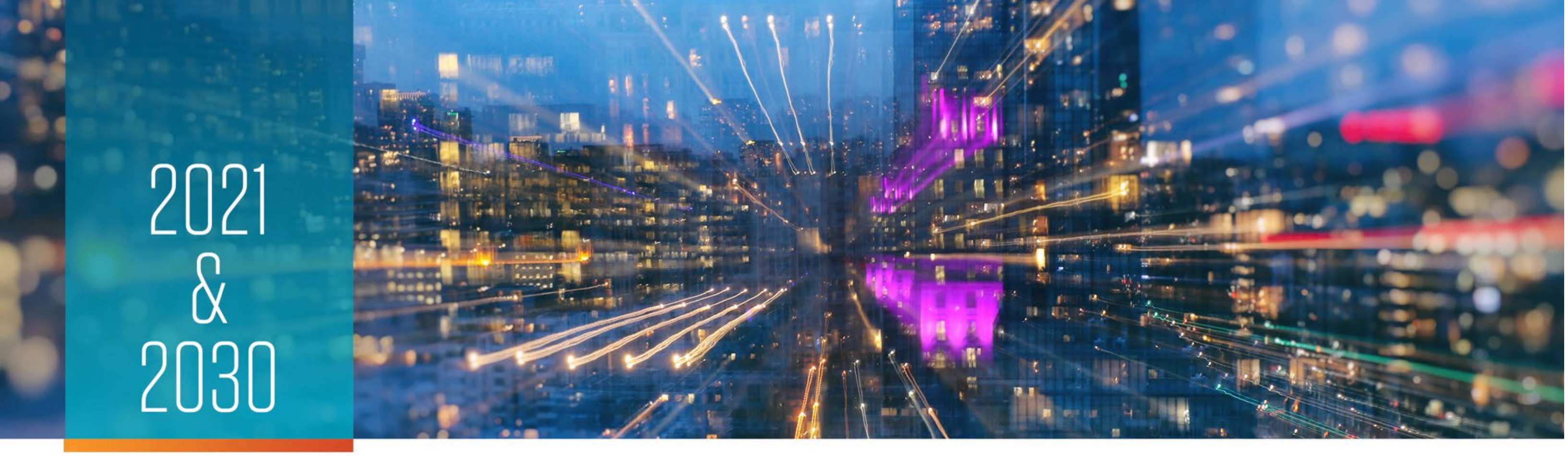


EXECUTIVE PERSPECTIVES ON TOP RISKS

Pandemic-related policies and regulation, economic conditions are top concerns in energy and utilities industry

The continuing global challenges and potential existential threat posed by the ongoing COVID-19 pandemic. Political divisiveness and polarization. Social and economic unrest. Gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. Rapid shift to virtual, remote work environments. Changes in the geopolitical landscape. Shifting customer preferences and demographics. Fragile supply chains. Wildfires and hurricanes. Volatile unemployment levels and record low interest rates. Escalating competition for specialized talent. Immigration challenges. Cyber breaches on a massive scale. Terrorism. Big data analytics. Future of work.

These and a host of other notable risk drivers are all contributing to significant levels of uncertainties, making it extremely difficult to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. No one is immune to the significant levels of uncertainty, and C-suites and boards need to be vigilant in scanning the horizon for emerging issues. Because no one can possibly anticipate everything that lies in the future, organizations must focus on building trust-based, resilient cultures, led by authentic leaders, that can pivot at the speed of change.

In this ninth annual survey, Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2021 and, in a new dimension to this study, over the next 10 years, into 2030. Our respondent group, which includes 1,081 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:[1]

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy

[1] Each respondent was asked to rate 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – Energy and Utilities Industry Group

The COVID-19 pandemic has had a dramatic impact on businesses in the Energy and Utilities industry group, and it appears these organizations are more worried than ever about future growth. That concern is underscored by the fact that all top five risks for 2021 for the industry group are either macroeconomic or strategic. By comparison, four of the five top risks in our 2020 study were operational.

Respondents see navigating pandemic-related policies, regulations and protocols and the potential impact of those requirements on business performance as the top risk for their organizations in 2021. Concerns about economic conditions in markets currently served, and how they might impact growth opportunities, ranked second. Note that this risk was not among the top five risks for the industry group last year.

While concern about economic conditions rose up the ranks in importance from last year, the impact score shifted down from “Significant Impact” to “Potential Impact.” That could be a reflection of ongoing uncertainty due to the pandemic and its impact on the rate of unemployment, whether future government stimulus packages are likely to be proposed and passed, and how quickly and effectively vaccines can be produced, distributed and administered.

However, even when the pandemic eases and economic conditions improve, there will be no “return to normal” for the oil and gas industry. Oil executives saw unprecedented destruction of demand in 2020 amid the sweeping lockdowns and travel restrictions, which rattled the industry’s confidence and led to oil futures dipping into negative territory for the first time in history. Long-term uncertainty on travel and work from home leads to an unpredictable future that is certainly impacting the overall results of this survey.

Power and utilities organizations, meanwhile, saw energy consumption by businesses — their largest consumers — decline significantly due to pandemic-related shutdowns. However, they also watched household energy use surge as the pandemic forced millions of people to stay at home. There is a downside to this silver lining: Many people remain out of work or underemployed due to the pandemic. While power and utilities companies have offered financial assistance programs to consumers, many residential customers may struggle to pay their bills on time in the months ahead.

Power and utilities businesses must prepare for this reality, as well as the need to handle a backlog of payments from customers when outstanding balances are resolved. Companies that have not prioritized modernizing their finance function and other back-office operations before the pandemic may face difficulty with the continued changes in consumer priorities or expectations. This could undermine profitability and growth for organizations that are also looking at long-term strategic shifts in their business due to renewables.

The regulatory environment remains a top concern. That is understandable given how highly regulated the industry is and will continue to be with the new Biden administration’s focus on climate change and with consumers and investors increasingly focused on ESG criteria. Mandates related to data privacy, cybersecurity and other emerging areas are also top of mind for many of these companies. This year, the risk dropped to third as opposed to first in 2020; however, respondents cite this risk as the top concern for their organizations over the next decade. This is likely due to the continued focus on climate change and the role that the Energy and Utilities industry group’s activities can play in helping countries reach climate-related goals, such as reducing greenhouse gas emissions and other activities that will continue to evolve the regulatory frameworks under which organizations must operate.

“In most industries, there is room for the future-ready organizations and the laggards. Not so for energy and utilities, as the future is on the doorstep. In our survey, this is the only industry group reporting shifts in ESG preferences and expectations of key stakeholders about climate change and other sustainability issues as a risk for the next decade. As important as financial reporting is, the ESG scorecard may prove more important to this industry group long term. Underscoring this importance, Energy and Utilities is the only industry group ranking access to sufficient capital/liquidity as a top five risk and it did so not only for 2030 but also for 2021.”

Tyler Chase, Managing Director, Energy and Utilities Industry Leader, Protiviti

The fifth-ranked risk for 2021 — shifts in consumer behavior may continue to impact demand for core products and services — has a correlation to the fifth risk in 2020 that pertains to innovation, digital readiness and “born digital” competition. Energy and utilities organizations have been dealing with these shifts for some time and are expecting to face an increased pace of change as a result of the pandemic, technology advancements and changes in political leadership. As an example, we have seen major oil and gas companies’ innovation in the field to capture renewable energy and investments in low-carbon renewable energy to diversify their offerings.

Many power and utilities companies have been focused on shifting away from fossil fuel-based energy production, and that shift is expected to intensify in 2021. On top of the heavy investments in renewables, these organizations are investing in smart grids, smart metering and other technologies to help balance overall consumption and achieve higher levels of sustainability. The potential long-term shift of the real estate footprint due to the pandemic and consumers’ widening embrace of green energy is also prompting power and utilities companies to develop alternative distributed power systems, leveraging the advancements in solar and battery technology, to support businesses and communities.

The market is rewarding those energy and utilities organizations focused on these changes. Also, these investments are necessary amid the growing number of new entrants that are innovating in renewable technology and power systems and disrupting traditional business operations and consumer demand.

Businesses that don’t respond to these expectations from investors, and the public at large, risk being unable to tap into the capital pipeline they need to grow. Respondents to our 2021 survey ranked the inability to access sufficient capital and liquidity among the top five risks for the industry this year and for the next decade as well. Note that in our 2020 survey, this risk was a concern for few businesses in the Energy and Utilities industry group: It held the 19th spot. Now it is top of mind.

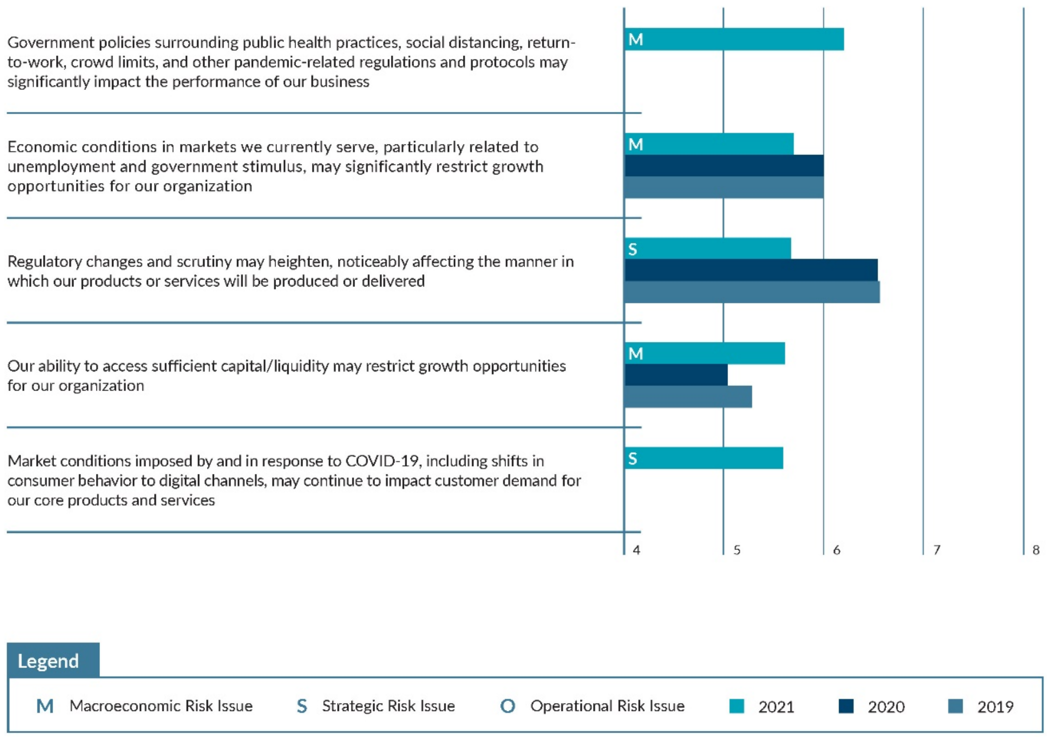
Overview of Top Risk Issues in 2030

Looking ahead, businesses in this group are also wondering how the adoption of digital technologies by their organizations in the coming years will impact their workforce. More specifically, they are concerned about their ability to recruit new talent or upskill or reskill their existing employees to work with advanced technologies such as AI, automation in all of its forms and natural language processing.

These are the types of technologies that energy and utilities companies will need in order to meet the challenge of the second-ranked risk on our forward-looking list: Substitute products and services may arise that affect the viability of our current business model and planned strategic initiatives. Of course, top of mind in the energy space for substitutes is the topic of renewables as technological advancements continue to drive costs down. The message is that without the right technology — and workers with the right skills — industry players may struggle to adapt and stay relevant.

The adoption of digital technologies risk ranks fourth among top risks for the next decade; however, it does not appear on the 2021 list. No doubt this is due to workforce contraction related to COVID-19 disruption. For the moment, hiring is not a priority for many energy and utilities companies, particularly oil and gas businesses. However, these organizations may want to consider using this pre-recovery time to invest in building a workforce that will help them compete effectively in the future. As we've seen throughout the pandemic, companies further along with digital transformation efforts and supported by a digitally savvy workforce have generally been resilient throughout the crisis — and it's likely they will have an edge going into and emerging from the recovery as well.

• • • Energy and Utilities – 2021



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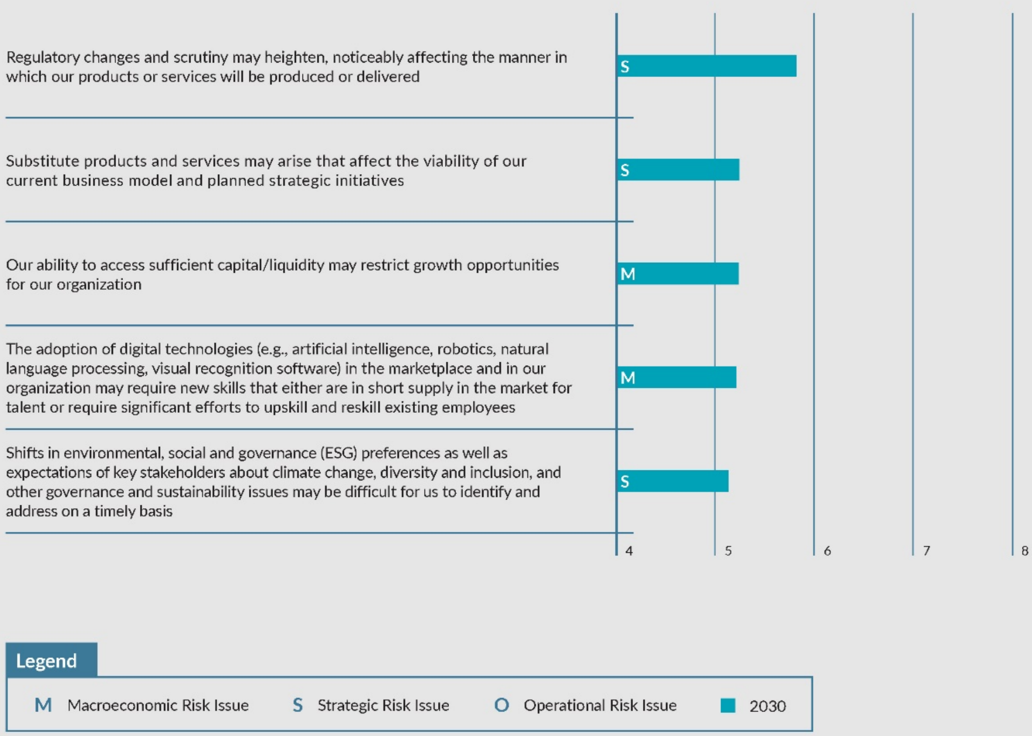

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