

Time right for renewal, report says

Utilities refit

David Pett, Financial Post

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The need to replace aging infrastructure and adopt new technology to reduce greenhouse -gas emissions will force the Canadian power and utilities sector to invest heavily in the coming years, but with competition for capital a growing concern, the industry will also have to spend its money wisely, says a new report from Deloitte Inc.

"There is capital available, but there is so much investment needed and technology is changing so quickly, it is really going to be about where you place your bets," said Jane Allen, leader of Deloitte Canada's power and utilities practice. The report, titled *Empowering Ideas: A look at the top emerging issues in the power and utilities sector*, estimated cumulative infrastructure investment needed globally between 2007 and 2030 is \$26.3-trillion. For Canada alone the required power and utilities investments will exceed \$150-billion by 2030.

It's a staggering sum of investment, particularly in the current economic climate as the power and utilities sectors must compete with all other sectors for access to scarce equity and debt financing.

At the same time, the report notes that due to constantly shifting environmental, regulatory and consumer demands, many traditional capital providers are having trouble finding investments that provide a risk-adjusted rate of return commensurate with all the risks facing the industry.

Power and utilities companies that are successful moving forward will have to identify all potential sources of funding, from ministerial budgets to consumer revenue streams, from sovereign wealth funds to infrastructure investors, from private equity to traditional banks, the report said. They also need to prioritize their investments to ensure their spending aligns with their long-term goals and obligations.

Among the 10 pressing issues identified in the report, Ms. Allen said the rising concern around greenhouse emissions could be the driving force behind the transformation facing the industry. In particular, the race to reduce carbon footprints to mitigate the possibility of climate-change effects is forcing organizations to transition to non-greenhouse gas-emission technologies, which will put a strain on power companies with large fossil-fuel portfolios.

In Canada, the federal government has a goal to reduce greenhouse emissions to 20% below 2006 levels by 2010. In addition, it wants to have 90% of its power from non-emitting sources by 2020.

"If all of a sudden, power companies have a tax placed on their carbon emission or they have to enter into cap-and-trade schemes, it's going to force companies to look at their real costs and their whole portfolio of supply and think there are other ways to earn a living other than by burning coal," she said.

Another crucial issue facing the industry is technological obsolescence. "Now that there is such a possibility for transforming the power system, there is a real opportunity here to get rid of the obsolete infrastructure and replace it with new modern stuff," she said.

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