



Industry insights with KPMG Economics – Energy transition



Hello. Welcome to Industry Insights with KPMG Economics – the Energy transition.

Industry Insights with KPMG Economics is a series featuring chief economist Diane Swonk exchanging ideas with the national sector leaders here at KPMG.

In this edition, Diane discusses the energy transition with Angie Gildea, National Sector Leader for Energy, Natural Resources and Chemicals. In this episode they discuss the challenge of the energy transition and availability of talent. So let's get started....

Angie Gildea: Well, Diane, if you think about it, there is no other industry out there that's better prepared to lead us to an energy evolution or transition than the energy sector. I mean, these companies are used to working in very adverse environments all over the world. They deal with complex infrastructure major projects that the energy transition is going to require, and they provide us reliable, affordable, safe energy for decades. So, I think they're just well positioned to help be leaders in in this space, and what we really need is for folks to bring these energy companies to the table. They've got the necessary skill sets, and desire really to help transition us to a cleaner environment.

Diane Swonk: Well, they want to be part of the solution, and they want it to be part of their future revenues as well. And so, the incentives are aligning in the right direction, and I agree with that. I think it's also important to understand that we need to start thinking much more holistically. I mean every time we have an energy transition, and we've talked a lot about this, Angie is any kind time you have a major technological innovation. The first thing you have is the frenzy and we have a frenzy of activity going on. We have so many electric vehicle companies. I can't even count them all now. Now, not all of them are going to survive, and we need to have the clean energy grid to charge those vehicles to be able to adopt them. But all of those things need to be in place, and there's going to be a bubble, we always see it.

And climate change, and in the effort to get to a cleaner, renewable climate, and the more that we can see coordinated efforts and decisions about what's going to be the standards, what's the best way going forward, the less we waste in terms of time, which the clock is already turned against us in terms of time and extreme weather events, but also in terms of what are the solutions and money, because people are going to lose their shirt, betting in the wrong places, just betting the sector, and saying, Well, climate change is here.

So, I'm going to bet on climate change. We saw it in the dot-com bubble anything they had a .com, put behind it got people to put their money towards it. Whether or not they were generating revenues, or they were ever going to be part of our future. What we need to be able to do is identify where we need to go and how we need to get there. And in that process anything that helps accelerate it and streamline it is where we need to be.

Angie Gildea: You know it's interesting, Diane. When we moved from firewood to coal, being the dominant energy source. That was a period of about 200 years from a transition when you move from coal to oil, being the dominant energy source oil overtaking coal that was about 100 years in terms of that transition.

What we're trying to do is within 25 years and we're changing the entire infrastructure behind it. So, it is a monumental task. One of the things that I think

is really interesting is in 2022. About 1.1 trillion was spent on the energy transition for the first time ever, that was a one-to-one ratio between what was spent in fossil fuels versus alternative energies. To get to our climate goals of net zero we need a 4-to-one alternative energies to a traditional fossil fuel spend. So, there's a lot of investment that's gonna be required. There's a lot of capital out there I think that's ready to put to use on these energy transition solutions. It's just gonna take all of us across multiple sectors for us to get there.

Diane Swonk: Angie you know that that's a really important, you know, from one-to-one to 4-to-one. That's a big leap. What are you hearing right now from your clients in terms of how they think the best way to get there? Because you're dealing both in the renewable space you're dealing in the more traditional fossil fuel space and the marriage between the two and the bridge between the two, and the efforts of many large companies to deal on both sides of that equation, and try to move towards a future that is a cleaner future. What are you hearing from your clients right now?

Angie Gildea: Yeah, I think that's a really interesting question. I think the key theme is, they're a ...so just because one company chooses solar, [wind] over certain type of renewables doesn't mean that's the right answer for another company. In fact, if you take some of the largest oil and gas companies today, they all have very different strategies, so I don't know that there's one right way to get there. The answer is probably going to be in a multitude of ways frankly.

What we're seeing, or what I'm seeing on the ground is companies are making investments. They're standing up traditional energy, fossil fuel businesses alongside clean energy businesses and providing significant capital to commercializing some of these alternative energies.

The other thing I'm seeing is a large number of partnerships out there between traditional energy companies, but also some of the new or clean tech companies out there, and I think that's gonna be really

interesting to see how that how that shakes out. And then, finally, many of our clients are looking at the IRA, the Inflation Reduction Act where I think really key incentives to help spur some of the development around some of the investments that are needed. So they're looking at ways to take advantage of some of the incentives and investments out there too.

Diane Swonk: Well, it's going to be an enormous transition, and it's one that I can't think of has any more greater importance on it. And the industry that you're representing is right in the center of it, and I think sometimes people lose sight of that, and they sort of get on the sides of this, and don't realize what a massive effort this really is, and the good news is, there is some people paying attention to it, and there's companies, and the incentives have shifted in the right direction.

I think that incentive shift from everything, from employees, and who they work for going forward to where the money is being spent, are all going to help us to get and accelerate this process. And luckily, we're in a time when technology can also help us excel it. Make that acceleration occur.

Angie Gildea: I've been in the industry for 25 years now, and I have never seen such optimism and enthusiasm and willingness to help drive this conversation forward. So, I'm really looking forward to it. I know our clients are excited about the opportunities. For certain there are risks to manage, you've got to keep the lights on in some of your other businesses, so we can continue to provide energy existingly, that's reliable and affordable and safe. But it's just a really exciting time for us in the energy sector.

Diane Swonk: It's terrific catching up with you Angie.

Angie Gildea: Thank you, Diane. It's been a pleasure.

Outro: That was KPMG's chief economist Diane Swonk and National Sector leader for energy, natural resources and chemicals, Angie Gildea. Subscribe to hear Diane's conversation with our other sector leaders from Consumer and Retail, Technology and Healthcare and Lifesciences.

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