

SECTOR COMMENT

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Electric & Gas – US

US electric utilities will benefit from cybersecurity measures in executive order

On 1 May, US President Donald Trump [signed](#) an executive order titled Securing the United States Bulk-Power System, a credit positive for US electric utilities because it addresses some of the cybersecurity risks that relate to the supply chain. The executive order also raises corporate governance priorities around cybersecurity defenses and promotes needed investments in cybersecurity preparedness.

The executive order calls for the development of procurement policies that prioritize the security of the US energy grid, as opposed to current rules that give preference to the lowest-cost bids. It also tasks the secretary of energy with determining if equipment is insecure or harmful to national security, and with blocking its use in US power plants and their transmission systems. Critical equipment suppliers are thereby incentivized to invest in developing and maintaining strong cybersecurity practices or they risk exclusion from the US market. The order applies to future procurement activities, as well as equipment that is already in use, and allows the government to provide guidance to asset owners on identifying, isolating, monitoring, and replacing critical equipment where necessary.

In addressing these supply chain risks, the executive order helps to remediate the cybersecurity risks that third-party vendors pose to utilities. In a November 2019 [report](#), we highlighted the wide variance in cybersecurity practices between suppliers, which exposes utility operations and networks to indirect threats that utilities cannot accurately monitor or prevent.

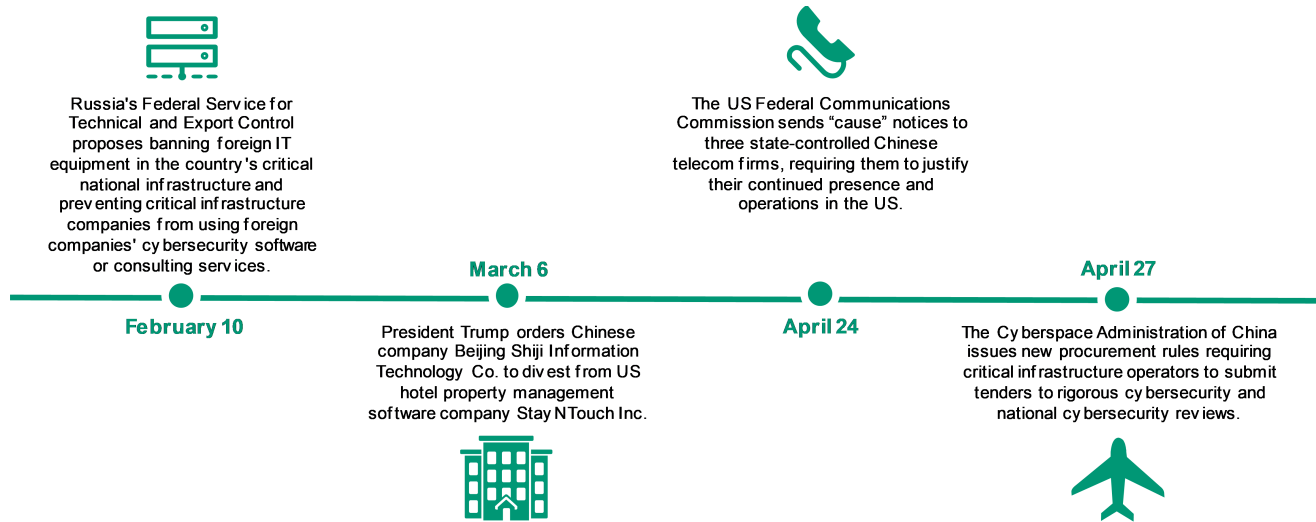
In that report, we also discussed the widespread presence of critical infrastructure components, including software applications and telecommunications equipment, from equipment manufacturers in China and Russia. These countries are known for active cyber espionage and tampering with the physical operations of utility facilities. However, the new executive order neither mentions specific countries nor bans specific companies. Instead, it entrusts the energy secretary with identifying particular individuals, companies and countries as “foreign adversaries exclusively for the purposes of this order.”

In our January 2020 report highlighting [cyber risks](#) for the upcoming year, we said some governments will increasingly cite national security concerns in banning companies with ties to foreign adversaries. The recent executive order is the latest in a string of bans that countries have imposed this year on foreign companies' participation in sensitive industries and critical infrastructure.

Exhibit 1

Governments are increasingly banning companies with ties to foreign governments to protect supply chains in sensitive industries

Notable government actions in 2020



Sources: The Wall Street Journal and Reuters

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- » [Infrastructure & Project Finance – Global: Cyberattack on Indian nuclear plant shows vulnerabilities of critical infrastructure](#), November 2019
- » [Regulated utilities and power companies - North America: Grid modernization heightens vulnerability of utilities to cyberattacks](#), November 2019
- » [Infrastructure & Project Finance – North America: Cyberattack on undisclosed pipeline is credit negative for pipelines and utilities](#), February 2020
- » [Electricity Transmission Networks – Europe: Cyber breach of representative body will increase scrutiny of network operators](#), March 2020
- » [Regulated Electric and Gas Utilities – North America: Supply chains, interdependencies key to evaluating cyber risks](#), April 2020

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