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In search of new sales, defense contractors embrace energy market

By Marjorie Censer March 2, 2014

As an executive at Bethesda-based contracting giant Lockheed Martin, Dan Heller gets asked plenty: “Is Lockheed Martin now getting into energy?”

It’s not a surprising question, given the new work the company has announced in recent months. In February, for instance, the contractor said it had signed a deal with Victorian Wave Partners to develop the largest wave energy project to date. The \$205 million project will use special buoys that pull energy from the motion of ocean waves.

But Heller is adamant that the energy market is nothing new for Lockheed. During his 27-year career at the company, “we’ve been in the energy business the whole time,” Heller said.

Still, the contractor is devoting significant attention to building up this work as U.S. defense spending shrinks. It’s one of many new ventures that contractors are pursuing to offset the declines in more traditional sources of sales.

In another major deal, Lockheed last year announced it [was partnering with a Chinese firm](#) to build a plant off the coast of southern China to convert the ocean’s thermal energy to electricity. The technology uses the temperature difference between the warm surface water of the ocean and the cold water much lower to create a generating cycle.

Both of these projects are in Lockheed’s new ventures group, suggesting that the contractor sees potential in this kind of work.

The new deals reflect the significant “global attention in the energy space right now, for a lot of pretty obvious reasons,” Heller said.

Lockheed is not alone; Reston-based Leidos also has been pursuing projects in this area in recent years. Since 2011, the contractor has been selling its “Smart Grid as a Service” hardware and software product to utility companies.

One North Carolina city selected Leidos this year to manage its smart-grid infrastructure for electricity, water and gas.

Work related to energy can be a natural fit for government contractors. The scale and processes of building a renewable energy project, for instance, are similar to those of putting together a large federal IT system, said William R. Loomis, an analyst with financial services firm Stifel Nicolaus.

“Whether you’re building an IT system or a weapons system, the mechanics are generally the same,” he said.

And contractors such as Leidos, said Jim Moos, president of the firm’s engineering solutions group, are well-positioned because of their experience working with large customers to integrate many different systems.

In energy, he said, “there’s a real convergence . . . of the physical and digital worlds.”

Projects such as the kind Lockheed has signed onto also have a significant technology component. Heller said this type of work makes for a natural fit

with Lockheed's technical staff. "It's clearly the kind of work that our engineers and scientists should be doing," he said.

There can be challenges with energy ventures. Leidos, for instance, late last year reported disappointing profits, partly related to two projects to design and build energy projects.

Moos said those projects were "unique" for Leidos and the company doesn't have any similar ones planned.

As defense spending shrinks, interest in commercial energy work is unlikely to wane. But Loomis noted that contractors' track record in moving into new areas is mixed.

"They're trying to capitalize on strengths around their technology portfolio, which makes sense," he said. "The question is: Can this be marketed in a commercial fashion?"

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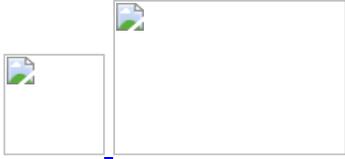
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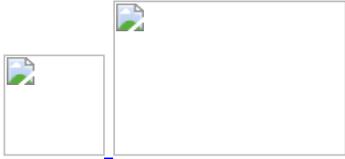
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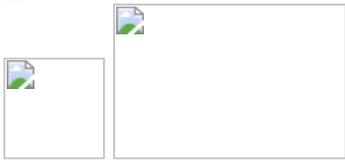
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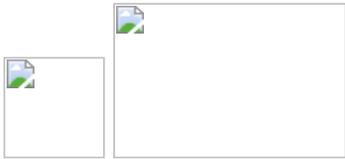
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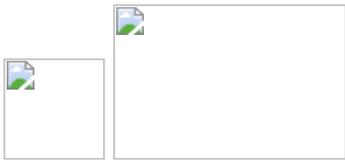
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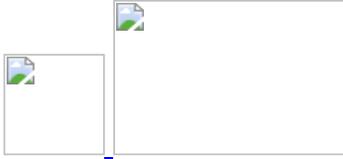


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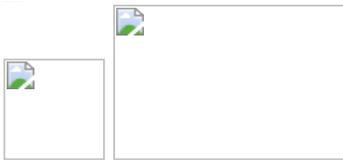
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