

Section 4. Conclusions

There is a proliferation of initiatives and reporting efforts to assess companies' alignment to the global development objectives of the SDGs and PCA. However, there is no commonly accepted definition, standard, rating or reporting methodology being used. Even when only looking at a single dimension such as climate change, which is key for the utilities sector given its role in the decarbonization of the world economy, the sustainability initiatives diverge in their sustainability assessment.

There are a few reasons for this:

- A serious assessment cannot limit itself to headline reporting (eg: existence of a carbon price or use of climate change scenario) and not enter the details (eg: what is the carbon price? what assumptions are being made to inform the climate change scenario?); it cannot spare an analysis of the track record, or of the future plans;
- A serious deep assessment is tedious and not undertaken by all outfits;
- In many cases self-reporting is too vague to draw conclusions;
- Initiatives comparing company performance to standards use different targets (eg: some initiatives use the 2°C target while others the 1.5°C target);
- Too many initiatives focus on comparative sustainability performance among companies rather than comparing company performance to the necessary actions to achieve the SDGs and the PCA, which proves to be meaningless when the sectorial leader is underperforming as compared to the standards that we need.

These reasons make it difficult for third parties to compare utilities and distinguish between those that are 'green washing' and those that are embarking on structural change to be aligned with the PCA and SDGs.

By taking a step back from existing reporting and rating initiatives, we have developed a conceptual four-pillar framework highlighting that a comprehensive and holistic review of companies to assess whether they are SDG and PCA aligned should include (1) the product that the company produces; (2) the process of how this product is produced; (3) the responsibility the company takes for its value chain; and (4) whether the company is a good corporate citizen. By applying the framework to the 10 largest utilities, we have found that:

1. All utilities analyzed for this report are making some effort to decrease the carbon intensity of their energy portfolios (Pillar 1) but only half of them seems to be in line with the PCA according to one initiative. Judging from the coal retirement pace, only two utilities are aligned with the PCA according to another initiative. Internal organizational efforts at the utility-level to structure and support the transition are underway, but internal carbon prices remain too low and climate scenario planning remains generally opaque. Finally, green finance is a growing tool for the utilities sector to earmark investments for their low carbon transition and attract new types of investors and capital into those projects; however, utilities do not always report what was financed by the green bonds.
2. While utilities' processes encompass several dimensions of social and environmental sustainability (Pillar 2), often these are only partially implemented and some dimensions are left out altogether. Particularly, significant gaps have been identified when it comes to processes related to consultations, human rights, land acquisition processes and anticipating closures. This is problematic for

renewable power projects, which tend to be more land-intensive than traditional energy sources, as it may lead to conflicts with communities blocking renewable energy project development.

3. While all utilities are involved in developing smart city models and smart grids, installing EV infrastructure, developing battery technologies, and reaching out to consumers for demand-side management and energy efficiency, only a couple of utilities pursue electrification programs that affect all their final end user industries rather than a subset of those. And no utility is proactively involved in the development of international interconnected grids. Moreover, only a few utilities have robust monitoring systems in place to hold suppliers accountable, and Scope 3 emissions in most cases are not comprehensively published or audited by third parties.

4. Three important observations can be made in regard to the corporate citizenship of the companies analyzed for this study (Pillar 4). First, there remains a disconnect between the corporate lobbying efforts of large utilities and their efforts in promoting the importance of sustainable development. We believe that corporate lobbying should be minimized and made transparent in order for investors and civil society to know what the topics discussed and lobbied for were. We note significant lobbying efforts, that could happen indirectly on the part of a non-climate focused trade association they are members of, even among utilities that have made major efforts in climate change mitigation and technology investments to facilitate the energy transition. Finally, we highlight that corporate behavior itself within the utilities sector must significantly improve, especially within corporate tax practice, which remains highly opaque.

In sum, the assessed utilities have sustainability strategies in place and are reporting about the implementation of these across the four pillars of sustainability. This goes to show that the business sector has embraced the SDGs and PCA, which is a great achievement for sustainability and confirms the impact that these international agreements have had. However, the analysis also shows that the pace and degree at which utilities are changing their business

practices vary significantly. This can partly be traced back to the regulations in the jurisdictions where they are operating and the stock exchange where they are listed on. It can also be traced back to the fact that today's initiatives and standards are insufficient and sometimes conflict with each other on the definition of adequate sustainability metrics. As a result, third parties cannot distinguish leaders from laggards.

We therefore believe that consolidation and standardization need to occur on what sustainability means for business. This needs to be agreed upon on a sector-by-sector basis and should encompass the four-pillar categories outlined in this report. Clear-cut reporting metrics and indicators are needed to enable the comparison of company performance against each other *and* against the SDGs and PCA. There should be a clear distinction between 'leader in the sector' and 'SDG-aligned'. These two are not synonymous as our analysis has shown.

A third-party assessment or auditing system is necessary to achieve this goal. This consolidated sustainability standard needs to go beyond GHG emissions for utilities. While climate change is clearly a priority for the sector given its key role in the decarbonization of the world economy, the rapid roll-out of renewable energies will, for example, exert land-use pressure. Not holistically addressing sustainability challenges associated with new energy systems will result in risks and conflicts in the future that can jeopardize the speed of the energy transition.