Sustainability Trends in the Electric Power Industry

RESEARCH QUESTION

What evolving trends are making sustainability a priority for the electric power industry?

KEY POINTS

- Corporate strategies are advancing sustainability beyond a focus on regulatory compliance to a more comprehensive focus on environmental, social, and economic impacts.

- Some corporate customers are driving change for the electric power industry through their emissions-related sustainability goals, expecting their electric utilities to be responsive to and supportive of these goals. Increasingly, retail customers are also driving change as a growing demographic of “sustainable consumers” become more engaged in their energy choices.

- As employee values around environmentally and socially responsible companies grow, a commitment to sustainability may be a critical component of recruiting, engaging, and retaining the next generation of skilled employees. Furthermore, sustainability performance rankings and ratings may also impact corporate reputation and brand value.

- An increased focus from investors, financial regulators, and stock exchanges, as well as advancing research on the business case for sustainability, indicate the investment community’s interest in understanding sustainability performance as an indicator of corporate risk and value.

- Developing a shared understanding of what sustainability means across electric power companies and industry stakeholders by researching the linkages and trade-offs among sustainability priority issues could provide the foundation with stakeholders to facilitate an ongoing sustainability dialogue.

INTRODUCTION

Many industries, including electric power companies are seeing increasing interest in their sustainability efforts from customers, employees, and other industry stakeholders. Once associated with environmental, or “green” activities, sustainability now involves a recognition of the three “pillars” of sustainability – environmental, social, and economic. While some electric power companies...
have embraced sustainable practices for decades, even if not called “sustainability” at the time, the possibility of a federal cap and trade program called for in the American Clean Energy and Security Act (the “Waxman-Markey Bill”) drove some electric power companies to more carefully consider greenhouse gas emissions management strategies, often calling them “sustainability” strategies. While the Waxman-Markey Bill died in the Senate years ago and today the Clean Power Plan remains stayed pending judicial review, the focus on sustainability has only accelerated and encompasses more than just greenhouse gas emissions considerations.

CORPORATE CUSTOMER COMMITMENTS

EPRI’s 2015 literature review, The Electric Power Industry Business Case for Sustainability: Literature Review and Executive Rationale (3002005759), found that of the 18 studies evaluated, 75% identified a statistically significant correlation between sustainability and financial performance. As corporations better understand the tie between sustainability and the bottom line, their strategies and commitments – especially energy-related goals to reduce greenhouse gas footprints – are driving change within the electric power industry itself as they expect electric utilities to be responsive to and supportive of these goals. Examples include Unilever’s 2030 carbon “positive” target as well as 100% renewable commitments from companies like Walmart and Google. Google has taken this commitment a step further, not only focusing on the use of renewable energy for its own operations, but adjusting the business model with nearly $2.5 billion of investments in 22 renewable energy projects.

While not every company has the ability to directly invest in renewable energy development projects, they may seek alternative ways to purchase renewable energy, at times moving away from traditional electric power suppliers to purchase directly from renewables developers. In just one year, from 2014 to 2015, the amount of solar PV capacity contracted by corporations with developers quadrupled to 1,000 MW, a growing trend that is forecasted to continue. Continuation of this trend could highlight how corporations with GHG-related sustainability commitments may drive change within the electric power industry.

RETAIL CUSTOMER EXPECTATIONS

Corporate customers are not the only customers with expectations around sustainability. Nielsen’s 2015 Global Survey found 66% of respondents were willing to pay more for sustainable goods, up from 55% in 2014 and 50% in 2013. Consumers don’t appear to just be making “sustainable” choices in retail or food, but also when it comes to electricity. According to the National Renewable Energy Laboratory (NREL), increases in sales occurred for utility green pricing (7% increase), unbundled renewable energy credits (18% increase), voluntary power purchase agreements (4% increase), and community solar activities (>20% increase) between 2014 and 2015. In 2015, Portland General Electric had the top green power program with a 14.65% participation rate and 1,356,388 MWh/year in sales. These changes in consumer uptake of cleaner electricity choices are indicative of the broader sustainable consumer trend, which could continue to impact electric power companies for years to come.

EMPLOYEE VALUES

A critical component of any corporate sustainability strategy is to not only attract new employees, but also engage and retain current employees. Sixty-seven percent of respondents to Nielsen’s 2014 corporate social responsibility survey indicated that they preferred to work for socially responsible companies. In 2015, Millennials became the largest segment of the U.S. workforce, representing one in three employees. Those employees are making sustainability a part of the way they do business, with 60% of Millennials reporting a “sense of purpose” as part of the reason they select employers.

Employee engagement can tie directly to the bottom line as well. Research has shown that companies with engaged employees perform better financially and engaged employees provide increased business value through higher productivity and lower turnover rates.

At Duke Energy, a commitment to engaging employees on sustainability has led to new business ideas, innovative solutions to business challenges, and a growing sense of pride among its employees. Their “S Corps” grassroots network has grown
to more than 400 employees with the mission of making Duke Energy a best-in-class, sustainable company. An S Corps workshop gives employees the opportunity to better understand their role in Duke's sustainability efforts, with each employee committing to adopt a personal sustainability practice, and lead a project to integrate sustainability into their area of work. As Michelle Abbott wrote in Sustainable Electricity, “80% of those who joined the S Corps in 2014 indicated their pride in Duke Energy had increased as a result of the workshop... Sustainability was also identified as a top-ten driver of employee engagement in the annual employee engagement survey that was sent to all Duke Energy employees in 2014.”

As the current workforce matures and retires, a commitment to sustainability could be a critical component of recruiting, engaging, and retaining a new generation of skilled employees.

CORPORATE REPUTATION

In 1975, the value of the S&P 500 was comprised primarily (83%) of tangible assets. Just 40 years later, that statistic has flipped with 84% of the S&P 500 value found in intangible assets – things like intellectual property, human capital, goodwill, and brand recognition. This suggests that even tangible asset intensive companies might gain from close attention and investment in their intangible assets.

Beyond employee engagement benefits from sustainability commitments, a concerted focus on external stakeholder engagement, like American Electric Power’s series of 2016 Clean Power Plan stakeholder meetings or Madison Gas and Electric’s Community Energy Workshop, can enhance corporate goodwill with a variety of industry stakeholders.

Sustainability ratings and rankings may also impact brand value. Nearly 30 reporting and rating organizations identified in EPRI research use sustainability performance data to rank companies on lists like the Newsweek Green Ranking, CDP Climate A list, and the Dow Jones Sustainability Index. However, these rankings often require disclosure on hundreds of metrics, some of which are not even applicable to electric power companies. Proactively disclosing useful, comparable, and cost-efficient metrics will be critical for educating stakeholders on performance and protecting corporate brand, particularly as reporting organizations continue to expand their rankings and rating activities.

INVESTOR INTEREST

Stakeholders from throughout the investment industry are addressing sustainability more than ever before. As Black Rock CEO Larry Fink stated in a 2016 open letter, “At companies where ESG [Environment, Social, and Governance] issues are handled well, they are often a signal of operational excellence. BlackRock has been undertaking a multi-year effort to integrate ESG considerations into our investment processes, and we expect companies to have strategies to manage these issues.”

Others are considering sustainability in their investment decisions as well. Assets under management that incorporate sustainability investment strategies have increased 61% in just two years, reaching $21.1 trillion globally at the start of 2014. Nearly half of all stock exchanges (38 of 82) now offer sustainability indices. On the debt side, the Green Bond market is forecasted to reach $100 billion in 2016, the majority (46%) of those investments financing renewable energy projects. In addition to sustainable investment, divestment is trending as well. An estimated 200 investors – particularly in Europe and most notably Norway’s pension fund in 2015 – have committed to divesting from companies with coal and other fossil fuel investments.

Some investors have taken on an activist role through the use of shareholder resolutions to drive sustainability within corporations. In 2016, overall ESG resolutions remained flat, but ESG resolutions filed with electric power companies increased, representative of a growing trend underway since 2014.

Other investor-related organizations continue to enhance the focus on sustainability as well. In April 2016, the Securities and Exchange Commission requested public comments to its Concept Release, receiving 276 non-form letters, two-thirds of which addressed sustainability-related concerns. In 2015, the World Federation of Exchanges Sustainability Working Group published guidance for exchanges interested in requesting voluntary sustainability disclosure from listed companies; 15 stock exchanges now use ESG disclosure guidance and another 23 are committed to issuing guidance moving forward.
Bloomberg launched its ESG screen in 2009 and has seen such an increase in use that it recently revised its methodology for counting unique users, only counting clients using the ESG data set to analyze 40 company tickers or more. Finally, the Sustainability Accounting Standards Board, a non-profit organization that has presented its mission to set sustainability standards for disclosure of material, non-financial data in 10-K filings, published its Electric Power Provisional Standard in 2016. This interest in sustainability disclosure in financial reporting potentially emphasizes the connection between sustainability and financial performance.

As noted in EPRI research, sustainability can lead to cost savings, increased risk management, and offer other benefits as well – three factors that might explain why the investment industry has seen a growing trend in sustainability interest and consideration.

A SHARED UNDERSTANDING

Since 2008, EPRI has conducted sustainability research in collaboration with members of the Energy Sustainability Interest Group to develop the tools and resources that electric power companies need to embed and ultimately achieve sustainability. In light of the evolving social trends around sustainability, it is becoming clearer that a better understanding of sustainability and what sustainable electricity means for the electric power industry and its stakeholders is needed. As stated in Sustainable Electricity,

> Usually, priorities need to be determined, trade-offs assessed, and compromises made between the community, customers, employees, investors, and the environment… While environmental and social benefits can be co-benefits of financial outcomes in the electric power industry, we need to know the ‘right’ decisions when win-win-win outcomes are not clear – this is the gap in sustainability science that needs to be addressed.

Customers, employees, communities, investors, and other stakeholder groups are each increasingly incorporating sustainability in their decision making processes, and this can have lasting impacts on the electric power industry. A commitment to sustainability appears to link to improved financial performance, reduced risk exposure, improved workforce capacity, and enhanced brand value. As electric power companies consider the future of the industry and how best to engage stakeholders, making sustainability a corporate priority could be an option that can deliver profound results.

CONTACT INFORMATION

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