# PRESS RELEASE

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# Global investors launch guide to drive engagement on climate risk with the electric utilities sector

A week after more than 170 countries signed the Paris Agreement and investors voted on a shareholder climate risk resolution at the AGM of US utility AES Corporation, a global network of more than 270 institutional investors (representing assets worth over €20 trillion) has published a guide setting out the threats facing the utilities sector and investor expectations for how these companies must act to adapt their business strategies to a 2°C climate change pathway.

Launching *Investor Expectations of Electric Utilities Companies - Looking down the line at carbon asset risk* Stephanie Pfeifer, CEO at the Institutional Investors Group on Climate Change said today: "With so many countries now clearly committed to implementing the Paris Agreement, institutional investors are concerned that some electric utility companies are not sufficiently prepared for the transition to a lower carbon economy necessary to limit global warming to well below 2°C. Today the global investor community is setting out as clearly as possible their expectations for utility companies on actions required to address climate change risks."

Matthias Narr, Engagement Specialist at asset manager Robeco and lead author of the guide added: "This guidance is designed to shape constructive engagement between investors and electric utilities through dialogue on the long-term risks and opportunities these companies face from climate change. Investors need to understand whether utility companies are prepared for the changing market dynamics that are likely to arise from the policies and actions put in place to limit global warming. Business strategy and capital allocation decisions made now and over the coming years will determine the future sustainability and profitability of electric utilities for decades ahead. Investors therefore have a clear need to establish that capital allocation decisions made by the boards of these utilities give due weight to the low carbon transition in ways that will protect both future sustainability and corporate profitability of the sector."

Dan Bakal, Director of the Electric Power Program at Ceres said, "During the 2016 proxy season investors are showing unequivocally through shareholder resolutions to companies such as AES that they expect electric power companies to address carbon asset risk by assessing the impact of a 2°C scenario on their future resilience.  Going forward, asset owners and fund managers will need to know how power companies - and particularly the boards accountable for overseeing them - see the future impact of climate change on energy demand and pricing, as well as how they plan to align their business model with the GHG reductions required to deliver binding international agreements."

In addition to questions about policy, technology and demand changes the guide also encourages investors to ask utility companies about the management of legacy assets, including power generation plants that are no longer economical to use either due to a shift away from fossil fuels or as a consequence of increased water scarcity.

Commenting further Emma Herd, CEO at IGCC Australia and New Zealand added: "These risks are not theoretical, they are today's reality for utility companies and their investors across all markets. Climate change is already driving structural transformation in the energy sector. The risks and opportunities created by the transition to a net zero carbon global economy will continue to grow and the pace of change accelerate. It is vital that utility companies undertake comprehensive <2°C stress testing of their business activities and disclose to investors how their business model will fare in the face of climate change."

**About the guide**

*Investor Expectations of Electric Utilities Companies - Looking down the line at carbon asset* risk was developed by the Institutional Investors Group on Climate Change (IIGCC) with support from investor networks in North America (Ceres' INCR) and Australasia (IGCC). It is the third in a series of sector focused guides (joining others addressing engagement in the oil & gas and mining sectors) that aim to set a common agenda for investor engagement on climate change. It is also intended to be used in tandem with *Institutional Investors' Expectations of Corporate Climate Risk Management* and sets out investor expectations grouped into five areas of concern:

- *Governance* - clearly define board and executive management responsibilities, capabilities and systems for managing the transition to a low-carbon, resource efficient power system and senior accountability for managing climate-related risks and opportunities and for setting a viable long term strategy.
- *Decarbonisation Strategy & 2 degree stress testing* - clear long term strategy for decreasing carbon intensity, including plans for how to deal with future carbon pricing and a published assessment setting out how company policies and technology planning aligns with a scenario of no more than 2 degrees of global warming.
- *Consumer-facing strategy* - to adjust the business model to address the rise of distributed generation and diversify revenue streams (e.g. via energy services, smart home tools and investment grid efficiency/flexibility.
- *Operational efficiency and natural resource management* – targets to upgrade and/or optimise use of thermal generation assets, efforts to mitigate supply volatility from greater use of renewables (or regulatory uncertainty) and (where relevant) growing water insecurity.
- *Public policy* - positions that support cost-effective measures to mitigate climate risks and support low carbon investments; complete transparency about all domestic or international lobbying activity; oversight to ensure that company does not lobby against these positions individually or via trade associations.

- *Transparency & disclosure* – the company's view of and response to the substantial changes in their industry, what kind of scenarios and assumptions are being used, how the risks are addressed and how the company plans to profit from arising opportunities in response to investor concerns.

ENDS

Notes for Editors

***Investor Expectations of Electric Utilities Companies - Looking down the line at carbon asset risk*** has been prepared by IIGCC in collaboration with Ceres, INCR and IGCC (see below). It joins several guides produced previously for other sectors (oil, gas, mining) and can be used in conjunction with *Institutional Investors' Expectations of Corporate Climate Risk Management*.

Investors consider lack of transparency about carbon emissions, water use and long-term strategy a serious issue in the utilities sector, impacting their ability to calculate their portfolio's carbon intensity, assess carbon asset risk and evaluate dependence upon (reliable) water resources. In 2015, by market capitalization, 85% of European electric utilities reported carbon emissions to investors via CDP. The figures in other regions are significantly lower: only 45% of US electric utilities and 25% of electric utilities outside of the US or Europe.

**NETWORKS**

The **Institutional Investors Group on Climate Change** (IIGCC) is a forum for collaboration on climate change for investors. IIGCC's network includes over 122 members, with some of the largest pension funds and asset managers in Europe, representing €13 trillion in assets. IIGCC's mission is to provide investors a common voice to encourage public policies, investment practices and corporate behavior which address long-term risks and opportunities associated with climate change. See www.iigcc.org and @IIGCCnews

The **Investor Network on Climate Risk** (INCR) is a North America focused group of institutional investors dedicated to addressing the financial risks and investment opportunities posed by climate change and other sustainability challenges. INCR currently has more than 100 members representing over $13 trillion in assets. INCR is a project of Ceres, a non-profit advocate for sustainability leadership that mobilizes investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy. See www.ceres.org and @INCRnews

The **Investor Group on Climate Change** (IGCC) is a collaboration of Australian and New Zealand institutional investors and advisors, managing over $1 trillion and focusing on the impact that climate change has on the financial value of investments. IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuates and unit holders. See www.igcc.org.au and @IGCC_Update

The **Asia Investor Group on Climate Change** (AIGCC) is an initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. AIGCC represents the Asian voice in the evolving global discussions on climate change and the transition to a greener economy. See www.aigcc.net and @AIGCC_update