

Environmental, Social, And Governance (ESG) Evaluation

Electric Utility Inc.

Executive Summary

Electric Utility Inc. (EUI) is a multistate operation based in the U.S. The company also operates regulated networks in multiple states and currently relies on over 10,000 megawatts (MW) of aging coal-fired assets, as well as about 2,500 MW of natural gas-fired generation to supply its customers with electricity.

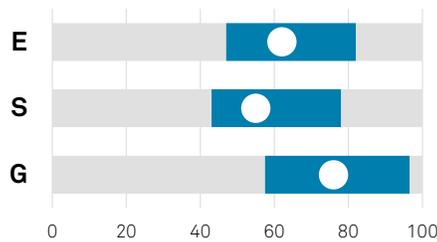
The company’s ESG Evaluation score of 75 reflects many good practices in Preparedness (Strong), evidenced by regular updates to its long-term sustainability plan. In addition to the transition away from carbon fuels, the plan considers potential disruptors to the company's business model such as batteries and distributed generation and related cost pressures. A strong governance framework and relatively low institutional risk exposure supports EUI's governance profile of 76 and ESG Profile of 66.

The ESG Profile is constrained by the high sector-related environmental and social risk. Overall we view the company’s management of environmental and social risk as in line with peers. Given EUI is just beginning to transition away from coal it still has a relatively high carbon intensity compared to peers (bottom quartile). Reducing and reporting on waste management, managing indirect greenhouse gas (GHG) emissions, and an expanded focus on the social impact its suppliers could modestly improve the overall ESG Profile but the successful transition away from fossil fuels is key.. We expect that management’s renewed focus on safety, ongoing policy review, and extensive staff training programs will serve to avoid future fatalities.

Entity	Electric Utility Inc.
Location (HQ)	U.S.
Primary Operation Location(s)	U.S.
Publication Date	April 11, 2019
Primary Contact	
Secondary Contact	

Profile Score

66/100



Company-specific attainable and actual scores

Preparedness Opinion

Strong

Awareness:	Excellent
Assessment:	Good
Action:	Excellent
Culture:	Good
Decision-making:	Excellent

ESG Evaluation



A higher score represents better sustainability

ESG Profile

66/100

Overview

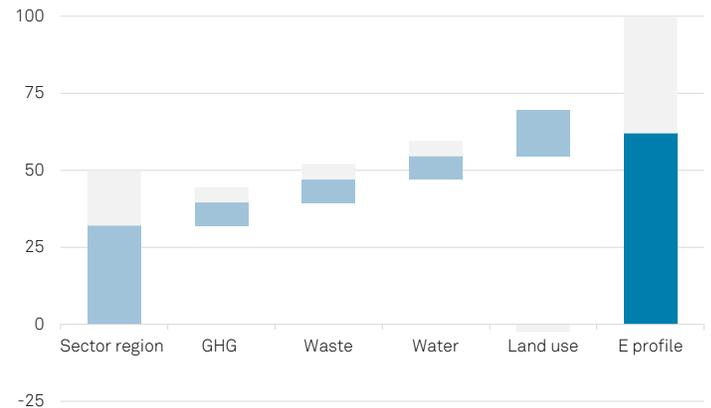
EUI's Environmental Profile successfully ranks as medium risk (62/100) despite the utility sector's high exposure to environmental risk. Plans to continue reducing its absolute GHG emissions by replacing aging coal-fired facilities with more carbon efficient, gas-fired plants and renewables are in place. However, Scope 2 emissions are increasing as the company purchases gas-fuelled power from other suppliers to supplant its own coal-fired generation. Land use and biodiversity policies are absent but management is focused on water conservation and, to our knowledge, there have been no material environmental events in the past decade. It's worth noting that the company does not track (or manage) its suppliers' impact on the environment, which modestly constrains the Environmental Profile.

The social profile of 55 is largely colored by the relatively high sector risk for the sector. A major customer data privacy breach affecting thousands of customers occurred about five years ago. However, internal protocols to reduce the risk of a similar occurrence are now in place. The executive team does not have formal oversight of customer data privacy, nor is it linked to compensation. We expect management's renewed focus on safety, an extensive training program, and ongoing policy review should help avoid future severe accidents. If we see better health and safety statistics in the next year or two (compared with several severe accidents that occurred in the past few years) Safety Management could improve to Good from Lagging. Lastly, although the company does not track diversity in the workforce at the operating level, there is gender diversity in senior ranks and on the board. Management training programs could facilitate further improvement.

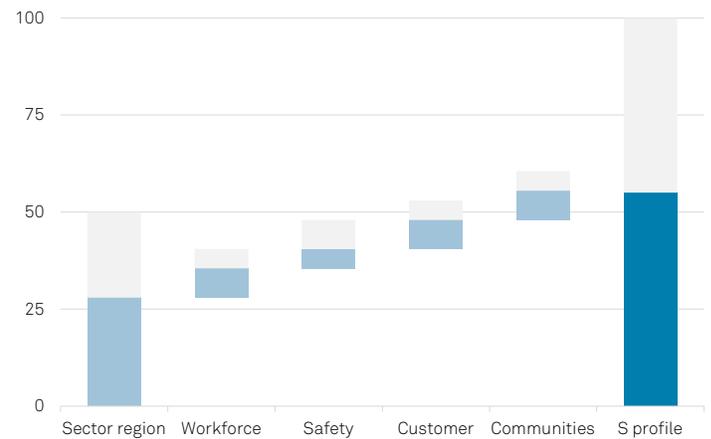
EUI's Governance Profile of 76 is bolstered by its clear purpose and value statement with respect to its environmental values. The board and its committee structure are in line with good global standards. Its strong reporting practices serve to further enhance the overall governance profile. In addition to reporting taxes paid in states where it operates, EUI also publishes an annual corporate social responsibility report and tracks governance-related fines and regulatory penalties (of which there were none in the last reporting period).

■ Component score (incl. weighted adjustments) ■ Potential score ■ Profile score

Environmental Profile (30%)



Social Profile (30%)



Governance Profile (40%)



Events And Adjustments

Although there were significant events in safety and customer data management in the past, we did not make any adjustments to the ESG Profile because we believe the risk has been addressed by management's actions. The company's described response to the unfortunate fatalities this year and last year demonstrate remedial action was taken, and the current policies use externally recognized norms and conventions. We expect management's renewed focus on safety, extensive training program, and ongoing policy review should help avoid future severe accidents. If we see better health and safety statistics in the next year or two, Safety Management could improve to Good from Lagging. A major customer data privacy breach affecting thousands of customers also occurred in the past five years, but internal protocols to reduce the risk of a similar occurrence are now in place.

Preparedness Opinion

We view EUI's Preparedness as Strong. EUI is aware of the impact of both climate change and the transition away from high-carbon fuel on its operations. The company has a clear transition plan over the next decade to a generation business more focused on renewables, supplemented by natural gas and less reliance on coal. At the same time, its network businesses are planning for a future colored by smaller distributed generation sources and the possibility of a growing role for storage in their operations. Although the company is very much aware of the need to reduce its carbon footprint, the longer-term social impact of industry transformation is not a priority for EUI's management.

We do not believe that an ESG culture has been truly embedded throughout the company ranks from the board's policy-setting to the employees on the shop floor. We also believe that the company's ability to take quick action and switch gears as differing futures unfold is inherently hampered by the regulatory process and asset intensity of the industry. More focus on operational solutions where the company may have more near-term leeway could improve its adaptability.

Preparedness Opinion

Strong

ESG Evaluation

ESG Profile

66/100

Preparedness Opinion

Strong (+9)

75/100

Further Adjustment (if any)

None

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