

Sustainability Benchmarking Collaborative

Peer-to-Peer Learning

Webinar #2
February 5, 2019



CORPORATE
SUSTAINABILITY
SCORECARD™

BY HEDSTROM ASSOCIATES

Housekeeping

- **Tech overview:**
 - **Look at your live image – check the name – if it is not correct, type your name into Chat**
 - **Other:**
 - **Raise hands**
 - **Gallery view and speaker view**
 - **Ask questions via Chat box**
 - **Mute and unmute yourself**
- **Provide (email) feedback after the webinar**

We have a great mix of participants signed up for today...

- Active 2019 Participants (11)
- Completed 2018 Scorecard – Catching up (4 – *Arconic, Duke, Lockheed, Solvay*)
- New to the game but catching up fast (5 – *AEP, Dow, FCA, Honeywell, Momentive*)

Company	Participant	Company	Participant
• AEP	Sandra Nessing	• Fluor	Nancy Kralik
• Altria	Kimberlee Peppel	• Honeywell	Cathy Gallagher
• Arconic	Marcel van der Velden	• IBM	Edan Dionne
• Ashland	Donna Seid	• Kaiser Permanente	Joe Bialowitz
• Danaher	Farsad Fotouhi	• Kohler	Brigitte Dillman-Cruce
• Dow Chemical	Mark Weick	• Lockheed Martin	Ali Bickelmann
• Duke Energy	Pete Sherrard	• Momentive	Amy Pressly
• Eaton	Jon Newton	• PPG	Mike Corcoran
• Eversource	Joy Wooley	• Sempra Energy	Molly Cartmill
• FCA	Mary Gauthier	• Solvay	Michel Washer

Agenda

- **Updates (10 minutes)**
- **Analysis & Insight (10 minutes)**
 - PG&E Bankruptcy Filing
 - Larry Fink's 2019 Letter
- **Workshop: PG&E (20 minutes)**
 - Breakout Groups
 - Full Group Discussion
- **What's Next (10 minutes)**

Positive feedback from January Webinar

Upcoming Webinars:

- Tuesday March 5
- Tuesday April 9
- Tuesday May 7
- Tuesday June 4

Q1-2019 Theme: Update, Prioritize, Take Action

Webinar #1

January 15
11:00 am EST

Webinar #2

February 5
11:00 am EST

Webinar #3

March 5
11:00 am EST

Updates:

- Website
- 1:1 Conversations

- 1:1 Feedback
- Participants
- Scorecard Updates
- Analyze Results
- TCFD, etc.

- Sample Analytics
- User Report

- TBD

Analysis & Insight

- Topic of the Month

- Comparison to TCFD, DJSI, MSCI, etc.
- Degree of Overlap

- PG&E Case Study [Highly Relevant KSIs]
- Larry Fink letter

- TBD

Workshop

- Topic of the Month
- Website Next Steps

- Comparison to External Ratings
- TCFD Discussion

- PG&E Case Study
- Draft User Report

- TBD

Website Updates

- **Sample Analytics**
 - Example ABC Company
- **2019 Revisions to KSIs (Welcome Page)**
- **Rainbow Chart (Analyze page)**
 - Added “Highly Relevant” KSIs
- **Downloadable PDF Report**
- **Best Practices**
 - Adding from September 2018 – January 2019
 - Sources (e.g., Corporate EcoForum Weekly Briefing)
- **Coming Next**
 - User Report – Downloadable Graphics
 - Excel Sheet Uploading

“Front-end” of Website – available to all

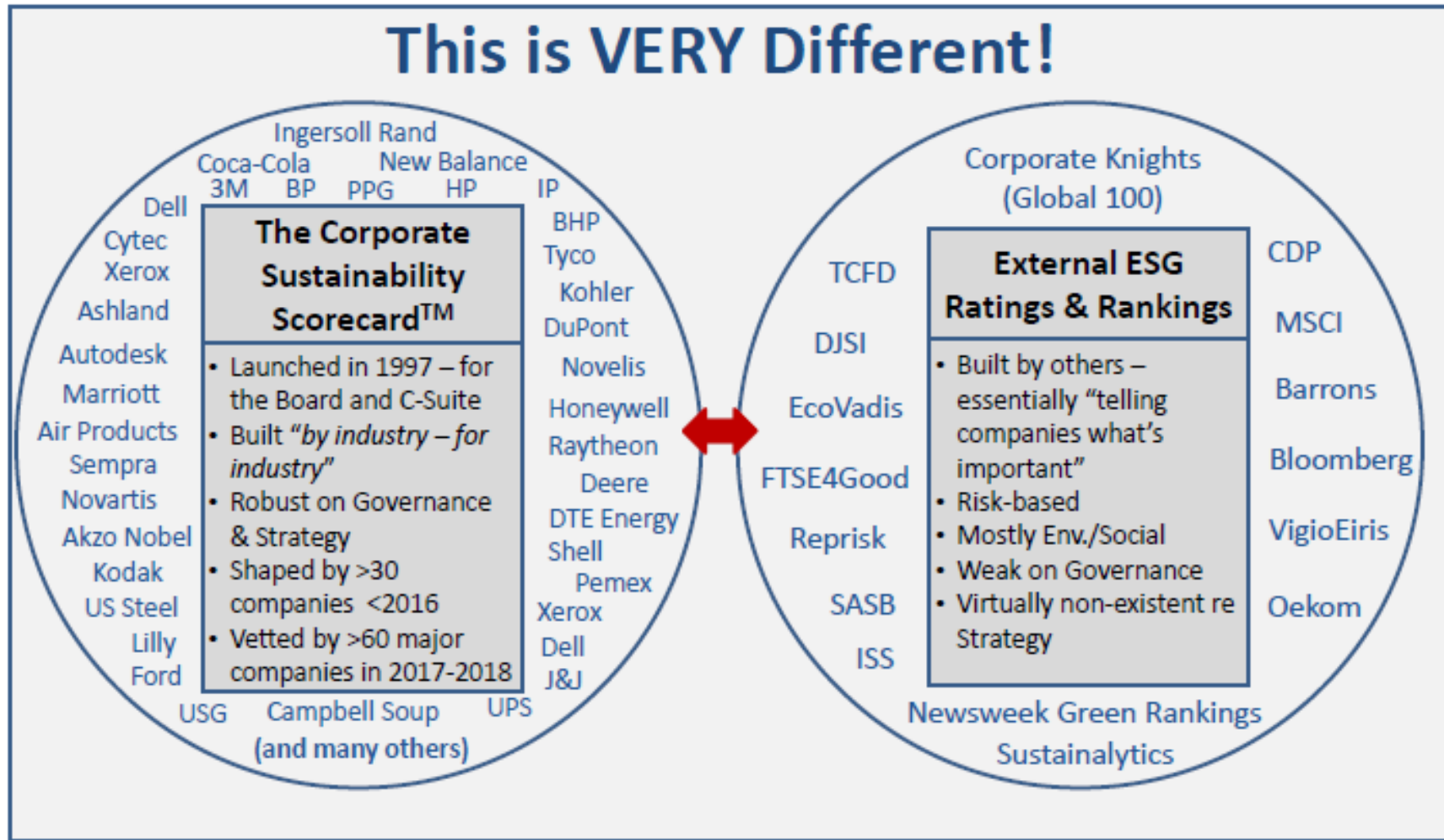
“Back-end” of Website – after logging in with Username and Password

Gib walked through the updates sharing his screen on <https://thesustainabilityscorecard.com/>

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A Reminder: Why This Scorecard?



PG&E Bankruptcy Filing

- **Monday January 14, 2019: Warning about bankruptcy:**
 - **Wildfire liabilities estimated at \$30 billion**
 - **Market value of ~\$9 billion**
- **Friday January 18, 2019: Wall Street Journal: “*first major corporate casualty of climate change*”**
- **January 25, 2019: Cleared of cause from the major 2018 (Tubbs Fire)**
- **Bump in stock price**
- **Did not change PG&E’s estimate of \$30B tab**
- **January 29, 2019: Filed for bankruptcy**

PG&E: External ESG Ratings

- **Sustainalytics** (providing data to Yahoo! Finance) rated PG&E as an “outperformer”
 - 88th percentile on Environment
 - 82nd percentile on Governance
- **Corporate Responsibility Magazine’s 100 Best Corporate Citizens:**
 - #1 among utilities
 - #22 overall
- **Newsweek Green Rankings** listed the company
 - #1 among electric and gas utilities
 - #4 overall
- **Dow Jones Sustainability North America Index:** PG&E named for the 8th time.

Ratings Using the Scorecard: How did eight utilities rate themselves?

We selected 12 (of the ~150) Key Sustainability Indicators (KSIs) that apply directly to the PG&E situation – namely *internal* processes for:

- **Materiality Assessment:** processes for identifying material ESG risks and linking that process to enterprise risk management
- **Risk Management:** internal processes for identifying, communicating, and managing material ESG risks
- **C-Suite Review:** internal processes (and culture) around C-suite review and decision making regarding material ESG risks
- **Board Review:** board processes involving review and decision making regarding material ESG risks
- **Disclosure:** communication and disclosure of material ESG risks

How 8 utilities rated themselves using Scorecard

	KSI #	<u>Key Sustainability Indicator</u>	Average
Materiality	7.1	Company Posture Regarding ESG Materiality	1.6
	4.1	Materiality Assessment of Sustainability Impacts/Risks	1.8
	4.8	Accounting for Most Material Externalities (e.g., Cost of Carbon)	1.6
Risk Management	8.3	Strategy Regarding ESG Risk Reduction	1.6
	8.6	Process for Issues Analysis and Enterprise Risk Management	1.6
	8.7	Use of Scenario Planning	1.8
C-Suite Review	3.7	Assurance Letter/Annual Risk Review Signed by Business Leaders	1.3
	5.5	“Unwritten Rules of the Game” Regarding Sustainability	2.4
Board Review	2.6	Board Agendas Regarding Sustainability	1.4
	3.6	Reporting to Board of Most Material ESG Issues	1.1
	3.5	Board ESG Review of Key Business Decisions (KBDs)	1.6
Disclosure	7.2	Communication and Disclosure of Material ESG Impacts	1.8

Example Scorecard (Stage 2-3) Descriptors

Selected Key Sustainability Indicators (KSIs)		(8) Utilities Avg.	Stage (2-3) Descriptors
KSI #	Key Sustainability Indicator	Avg.	
7.1	Company Posture Regarding ESG Materiality	1.6	Sharp focus on critical few truly material issues; taking bold steps to cut impacts (Stage 3)
4.1	Materiality Assessment of Sustainability Impacts/Risks	1.8	Formal 'S' materiality assessment (full value chain*) with NGO input (Stage 2)
4.8	Accounting for Most Material Externalities (e.g., Cost of Carbon)	1.6	Factored into key business decisions* (Stage 2)
8.3	Strategy Regarding ESG Risk Reduction	1.6	C-suite reviews key 'S' risks - part of enterprise risk assessment (Stage 2)
8.6	Process for Issues Analysis and Enterprise Risk Management	1.6	A C-suite member personally manages each material 'S' issue (Stage 3)
8.7	Use of Scenario Planning	1.8	Use best-in-class 'S' scenarios, including a 2 degree C (or lower) scenario (TCFD) (Stage 3)
3.7	Assurance Letter/Annual Risk Review Signed by Business Leaders	1.3	Assurance letter seen as a critical and highly valued process by Board, CEO, and C-suite (Stage 3)
5.5	"Unwritten Rules of the Game" Regarding Sustainability	2.4	CEO is serious about 'S' - but incentives are not fully aligned (Stage 2)
2.6	Board Agendas Regarding Sustainability	1.4	Material ESG risks / opportunities are a main agenda item at least 2x/year; includes benchmark data and trends (Stage 2)
3.6	Reporting to Board of Most Material ESG Issues	1.1	Report full supply chain 'S' risks and performance vs. robust ESG goals and metrics across supply chain (Stage 3)
3.5	Board ESG Review of Key Business Decisions (KBDs)	1.6	'S'/ESG are key factors in M&A; otherwise situational (Stage 2)
7.2	Communication and Disclosure of Material ESG Impacts	1.8	Annual progress review; follow commonly accepted framework; impose basic 'S' requirements on suppliers (Stage 2)

How do external ESG raters address these KSI topics?

Topic	Selected Key Sustainability Indicators (KSIs)		(8)	High	Medium	Little or None
	KSI #	Key Sustainability Indicator	Utiliti Avg.			
Materiality	7.1	Company Posture Regarding ESG Materiality	1.6	TCFD, DJSI, CDP, ISS,	SASB, Stly.	(none)
	4.1	Materiality Assessment of Sustainability Impacts/Risks	1.8	TCFD, DJSI, CDP, ISS,	MSCI, Stly.	(none)
	4.8	Accounting for Most Material Externalities (e.g., Cost of Carbon)	1.6	TCFD, DJSI, CDP, MSCI	SASB	ISS, Stly.
Risk Management	8.3	Strategy Regarding ESG Risk Reduction	1.6	TCFD, DJSI, CDP, MSCI,	ISS	(none)
	8.6	Process for Issues Analysis and Enterprise Risk Management	1.6	TCFD, DJSI, CDP, SASB	ISS, MSCI	Stly.
	8.7	Use of Scenario Planning	1.8	TCFD, CDP	DJSI, ISS	MSCI, SASB, Stly.
C-Suite Review	3.7	Assurance Letter/Annual Risk Review Signed by Business Leaders	1.3	(none)	TCFD	DJSI, CDP, ISS, MSCI,
	5.5	"Unwritten Rules of the Game" Regarding Sustainability	2.4	(none)	DJSI	TCFD, CDP, ISS, MSCI,
Board Review	2.6	Board Agendas Regarding Sustainability	1.4	TCFD	ISS	DJSI, CDP, MSCI,
	3.6	Reporting to Board of Most Material ESG Issues	1.1	TCFD, DJSI, CDP, ISS	MSCI	SASB, Stly.
	3.5	Board ESG Review of Key Business Decisions (KBDs)	1.6	TCFD, MSCI	DJSI, CDP	ISS, SASB, Stly.
Disclosure	7.2	Communication and Disclosure of Material ESG Impacts	1.8	TCFD, DJSI, CDP, ISS,	SASB, Stly.	(none)

Our take-away...

External ratings address material risks and a bit of governance (as best they can from the outside).

External ratings currently do not (*cannot*) assess:

- *the rigor and effectiveness of internal company processes*
- *to define, discuss, and appropriately consider material ESG risks*
- *at the C-suite and Board levels*
- *and incorporate those issues into key business decisions* (defined as the major decisions typically involving board sign-off).

Larry Fink's 2019 Letter to CEOs

From the National Association of Corporate Directors

“Fink’s 2019 appeal to chief executives echoes his message from last year in which he articulated that companies need to contribute to a larger social good in order to achieve enduring success. That letter has been hailed as an inflection point, signaling that social and environmental responsibility are now mainstream investor concerns, but his message also created heated debate in the corporate community.”

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- **Workshop: PG&E (20 minutes)**
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- **What's Next (10 minutes)**

- 1. Has the PG&E bankruptcy filing (and its high external ESG ratings) triggered discussion in your company?**
- 2. What's the right balance between:**
 - Supporting external ESG ratings (that focus on “the hard stuff”) and
 - Highlighting the importance of (and addressing gaps in) building robust governance and strategy business processes (“the soft stuff”)

How breakout groups will work:

- Assigned to groups of 3-5 people
 - Say quick hello – name, company, location
 - Capture notes on the side as desired
- Have an open discussion for 15 minutes:
 1. **Has the PG&E bankruptcy filing triggered discussion?**
 2. **What's the right balance re external ESG ratings?**
- Listen for common themes
- At 1 minute – a warning – don't click “return to main room”
 - use the full minute
- Request technical assistance at bottom right of Zoom

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What's Next?

■ User Report

- Early discussions re downloadable graphics
- Need your input!

■ Excel Sheet Upload

- Team discussions
- Coming soon

■ Revisions to KSIs

- See downloadable PDF on Welcome Page
- Propose to eliminate 7-8 KSIs (combine; eliminate redundancy)
- Continue to sharpen Stage 1-4 descriptors
- Maintain the integrity of comparable ratings

The Question Many of you Asked

How can we create downloadable graphics that users can copy and use to create tailored executive briefings and presentations?

Your Actions Please

- **Update Your Company Self-Assessment**
 - Update or new
 - On-line or Excel
- **Flag “Highly Relevant” KSIs**
- **User Report – Can you help design it?**
- **KSIs: Q2-2019 Revisions**
 - See Draft KSI Changes
 - Provide comments (as/after you update your company self-assessment)

Upcoming Webinars

Mark Your Calendars:

- **Tuesday March 5**
- **Tuesday April 9**
- **Tuesday May 7**
- **Tuesday June 4**

All for one hour, starting at 11:00 AM EST

On behalf of our
Corporate Sustainability Scorecard team:

Thank You!

Please take 3 minutes and send Gib an
email with any comments or suggestions.

Gib Hedstrom

Ben Roberts (Webinar Mechanics and Facilitation)

Scott Sousa (Website Design)

Kelsa Summer and Ruth Shafer (Best Practices Research)