

The logo for ACT, consisting of the letters 'ACT' in a bold, white, sans-serif font, positioned within a white-outlined hexagonal shape. This hexagon is part of a larger pattern of overlapping hexagons in the background.

ACT

ACT Electric Utilities update Public consultation

Monday 20th to Friday 31st March 2023

Formally launched in 2015, ACT (Assessing low-Carbon Transition) is an initiative that pioneered the concept of corporate climate transition plans, which analyses companies' climate governance, implementation and engagement strategies, metrics and GHG emissions reduction targets. Positioned as the accountability layer of climate action, the ACT initiative builds on measuring standards, supports reporting practices and aligns with relevant commitment initiatives. It includes sector-specific, free and publicly available methodologies, developed according to a standardised, multi-stakeholder process, and tested by companies. This assessment provides companies with the understanding of where they need to improve to contribute to limiting global emissions and demonstrates their readiness to transition to the low-carbon economy.

For more information, visit www.actinitiative.org

ACT | **ASSESSING LOW CARBON TRANSITION** [®]

- Please **read this document** and **complete the online consultation survey** in response to the proposed updates. Questions listed in this document (in red boxes) correspond to the questions in the online survey.
- The current ACT Electric Utilities methodology, published in 2019, is referred to as "**ACT EU v1.1**"
- The **updated methodology** that will be published after this consultation, as "**ACT EU v2.0**"

Statements related to current methodology ACT EU v1.1

Explanation about why there is a proposal for update

Proposed updates

Changes proposed to be made in ACT EU v2.0

Question to readers

Expected feedback from readers during the online consultation.

Question number corresponds to the online survey.



This symbol indicates supporting elements/ documents to refer to

The online consultation survey can be found here:

www.surveymonkey.co.uk/r/ACT-EU

Part 1	<u>Updates to scope of activities & low-carbon pathways</u>	
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Part 1 Updates to scope of activities & low-carbon pathways

1.1. Scope of activities (1/2)

The ACT EU assessment and performance indicators are currently fully dedicated to power generation.

As stated in ACT EU v1.1:

“The EU sector... is divided into 4 activity segments: generation, transmission, distribution, retail/marketing. Companies in the sector can operate within one or more of these segments”

*“The main focus under the ACT project will be on the **power generation** segment, e.g. the production of electricity from primary energy sources.”*

*“The transition strategy of the **electricity generation** is the main focus, but the final rating will be impacted if the company also has significant presence in other aspects of the fossil fuel value chain and does not show clear intention to divest from those sectors.”*

35 - Electricity, gas, steam and air conditioning supply

Groups 35 (Electricity, gas, steam and air conditioning supply)

- 35.1 - Electric power generation, transmission and distribution
 - 35.11 - Production of electricity
 - 35.12 - Transmission of electricity
 - 35.13 - Distribution of electricity
 - 35.14 - Trade of electricity

NACE Codes related to Power sector



See [ACT EU v1.1](#) (pp.6-8)

1.1. Scope of activities (2/2)

Update proposal – ACT EU v2.0: Extend the scope of activities to also include electricity retail (defined as “Trade of electricity” in the NACE Codes)

Question 1: Do you agree with the proposal to extend the scope of activities?

Rationale

Retailers can highly influence the power production modes of their suppliers and therefore the electricity mix of the country/region they operate in.

Three companies' profile can be defined:

- Pure power generators
- Pure power retailers
- Mixed profile



See [ACT EU v1.1](#) (pp.50-53)

Since the levers at companies' disposal for their low-carbon strategy depend on which activities they engage in, the weighting scheme used for the ACT performance score will be adapted accordingly.

Pure Transmission and Distribution (T&D) players are excluded from the methodology, since electricity generation causes over 90% of the emissions, meaning T&D players are limited in their levers to decarbonise the sector. Moreover, grid extension and renovation are often highly influenced by local policies.

1.2. Low-carbon pathways (1/3)

Context

The emissions intensity pathway used to assess companies is calculated by translating a sectoral decarbonization pathway to the company level.

The allocation mechanism, as defined by the Sectoral Decarbonization Approach (SDA)*, is the convergence mechanism. This allocation takes the company's emissions intensity in the initial year and converges it to the sector's emissions intensity in 2050.

Sectoral pathways related to power sector translate the evolution of the electricity emissions factor, either expressed in gCO₂/kWh or gCO_{2e}/kWh (depending on boundaries of emissions and so greenhouse gases that are taken into account)

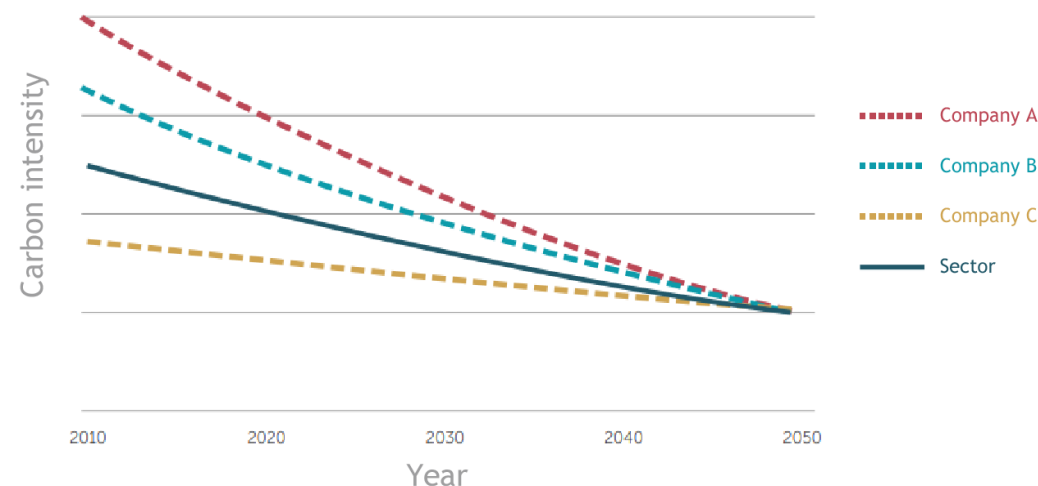


Illustration of the emissions convergence mechanism

(*): The SDA allocation method has been developed by the Science-Based Targets initiative

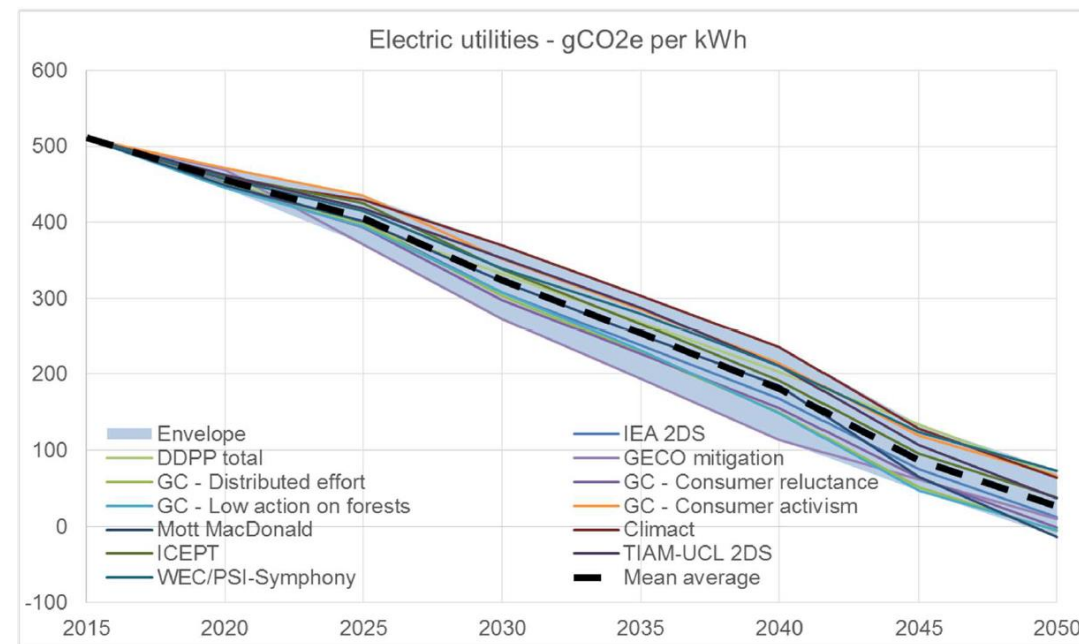
1.2. Low-carbon pathways (2/3)

Because no more ambitious scenario was available at this time, ACT EU v1.1 refers to the 2DS scenario from the International Energy Agency (IEA), which is 2°C-aligned

ACT assessment methodologies indicate how well companies' low-carbon strategies align with the **Paris Agreement temperature goal**.*

“Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.”

(*): See the [Glasgow Climate Pact](#) which reaffirms the Paris Agreement temperature goal – COP26, Glasgow, 2021



2°C-aligned scenario considered in ACT EU v1.1



See ACT [EU v1.1](#) (pp.48-49)

Update proposal – ACT EU v2.0: List all the low-carbon sectoral scenarios that are ambitious enough to be used

Questions 2 & 3: Should we allow for both "well-below 2°C" and "1.5°C" levels of ambition? Are there any other relevant low-carbon scenarios we should consider?

Rationale

To remain scenario-agnostic, all sufficiently ambitious low-carbon scenarios identified at the time of writing will be listed in the methodology. If new relevant, sufficiently ambitious scenarios become available, these can be used instead of the listed scenarios.

Well-below 2°C level of ambition

- B2DS Scenario – Energy Technology Perspectives 2017 – IEA
- SDS Scenario – Energy Technology Perspectives 2020 – IEA
- Well-below 2°C SDA pathway for the power sector - SBTi

1.5°C level of ambition

- NZE Scenario – Net Zero by 2050 – IEA
- 1.5°C SDA pathway for the power sector – SBTi
- Global OEMC 1.5 °C Pathway – Institute for sustainable futures, University of Technology Sydney
- GCAM (Global Change Analysis Model) - Joint Global Change Research Institute (JGCRI)

Part 2

Updates to ACT performance modules & indicators

2.1. Overview of performance indicators (1/2)

Update proposal – ACT EU v2.0: List of performance modules and indicators

'Mixed profile' is not presented here since it will be based on the two other profiles

ACT Modules		Performance indicators	'Pure generation activities' profile	'Pure retail activities' profile
1	Targets	Alignment of direct emission reduction targets	x	
		Alignment of indirect upstream emission reduction targets		?
		Time horizons of targets	x	x
		Historic target ambition and company performance	x	x
2	Material investments	Past performance of assets intensity	x	
		Locked-in emissions	x	
		Future performance of assets intensity	x	
		Share of low-carbon CAPEX investments	?	?
3	Intangible investments	R&D in Climate Change mitigation technologies related to energy generation, transmission or distribution	x	?
		Company low-carbon patenting activity	?	?
4	Sold product performance	Past performance of electricity sold		?
		Future performance of electricity sold		?
		Contribution to low-carbon electricity generation		?
		Energy efficiency services share		?
		Purchased product interventions	?	

2.1. Overview of performance indicators (2/2)

Update proposal – ACT EU v2.0: List of performance modules and indicators

'Mixed profile' is not presented here since it will be based on the two other profiles

ACT Modules		Performance indicators	'Pure generation activities' profile	'Pure retail activities' profile
5	Management	Oversight of climate change issues	x	x
		Climate change oversight capability	x	x
		Low carbon transition plan	x	x
		Climate change management incentives	x	x
		Climate change scenario testing	x	x
		Fossil fuel power incentives	x	x
6	Supplier engagement	Strategy to influence suppliers to reduce their GHG emissions	?	?
		Activities to influence suppliers to reduce their GHG emissions	?	?
7	Client engagement	Strategy to influence clients to reduce their GHG emissions	?	?
		Activities to influence clients to reduce their GHG emissions	?	?
8	Policy engagement	Company policy on engagement with trade associations	x	x
		Trade associations supported do not have climate-negative activities or positions	x	x
		Position on significant climate policies	x	x
		Collaboration with local public authorities	?	?
9	Business model	Integration of the low-carbon economy in current and future business model	x	x

Currently, ACT EU v1.1 includes one indicator relating to targets ambition, entitled: “Alignment of scope 1+2 emissions reduction targets”

Question 4: Do you agree with the proposal to consider direct or indirect emissions when assessing targets linked to electricity generation and retail, respectively?

Update proposal – ACT EU v2.0: Add an indicator “Alignment of indirect emissions reduction targets” that is dedicated to retail activities

Rationale

Emissions resulting from electricity generation are by far the main source of emissions from the sector. Module 1 thus assesses companies’ targets related to the decarbonisation of electricity generation. These emissions will be direct or indirect depending on the company profile:

- Direct emissions for companies with generation activities
- Indirect (upstream) emissions for companies with retail activities
- A combination of direct and indirect emissions for mixed profile companies

CAPEX investments are not currently taken into account in Module 2 of ACT EU v1.1

Rationale

CAPEX investments dedicated to low-carbon technologies is a relevant indicator to assess since it demonstrates financial commitment from companies to low-emitting assets.

From literature review, low-carbon technologies for the sector include:

- Low-carbon electricity* generation and storage
- Carbon capture and storage (CCS) technologies
- Carbon capture and use (CCU) technologies (use in products with long lifespan)
- Extension/renovation of the grid, rewarded in proportion to the ratio of low-carbon electricity produced/sold by the assessed company
- Any other solution that contribute to climate mitigation, as defined by the European Green Taxonomy

(*): Based on European Green Taxonomy criterion 100 gCO₂e/kWh

Update proposal – ACT EU v2.0: Add an indicator assessing companies' low-carbon CAPEX investments

Questions 5, 6 & 7: Do you agree with the proposal to add an indicator assessing companies' low-carbon CAPEX investments?

Is it feasible to assess pure retailers on such CAPEX investments? If so, please give examples of low-carbon CAPEX investments retailers can make. Are there any other sources from literature we could rely on?

Rationale

The proposed ACT indicator aims at assessing the share of CAPEX investments in low-carbon technologies, compared to the total CAPEX investments.

In accordance with the IEA 'Net Zero by 2050' report, low-carbon investments represent **a share of 95%** for the 2021-2030 period. **All companies** will be assessed against this **sectoral value**, meaning we expect them to achieve this rate of low-carbon CAPEX investment.



See '[Net Zero by 2050](#)' report - IEA (p.155)

Currently, ACT EU v1.1 includes one indicator relating to low-carbon R&D expenditure, entitled: “R&D in low-carbon technologies”

Question 8: Do you agree with the proposal to include pure retailers in the indicator assessing R&D in low-carbon technologies?

Update proposal – ACT EU v2.0: Make indicator 3.1 “R&D in low-carbon technologies” relevant to all companies with in-scope activities (i.e., including pure retailers)



See [ACT EU v1.1](#) (pp.30-33)

Rationale

We propose to extend the scope of the indicator since it is not only companies with generation activities that can and should be engaging in R&D to reduce emissions. Electricity retailers should invest in low-carbon R&D to help them develop innovative ways to market and sell electricity and enhance energy efficiency. For example, they can invest in developing new software or systems to help customers manage their energy consumption, or explore new business models that incentivize the use of renewable energy sources.

Currently, ACT EU v1.1 does not include the complementary indicator relating to low-carbon patenting activity (which is included in more recent ACT methodologies), entitled: “Company low-carbon patenting activity”

Update proposal – ACT EU v2.0: Add the indicator “Company low-carbon patenting activity” into the Electric Utilities methodology

Questions 9 & 10: Do you agree with the proposal to add the indicator related to patenting activity into the Electric Utilities methodology?
Should this indicator apply to all company profiles?

Rationale

We propose to include the indicator “Company low-carbon patenting activity” into the Electric Utilities methodology, since we consider companies’ low-carbon patenting activity to be complementary to their expenditure on R&D in low-carbon technologies. Assessing patenting activity monitors technology diffusion, whereas R&D expenditures monitors technology development.

Patenting is certainly important for the sector: renewable energy generation, energy storage, and demand-side management are some examples where patents have been used by Electric Utilities in the past and can still be used. Pure retailers should also engage in patenting activity. While retailers historically have not been known for patenting activity, there has been an increase in recent years as they expand their roles and invest in research and development (R&D) of new technologies.

2.5. Module 4 – Sold product performance (1/3)

Currently, ACT EU v1.1 does not include Module 4 “Sold product performance”, since it is not relevant to electricity generation

Update proposal – ACT EU v2.0: Include Module 4 “Sold product performance”, with indicators dedicated both to generation and retail activities

ACT Module 4 “Sold product performance”, assesses action to reduce emissions from companies’ value chains, contributing to the overall decarbonisation of their products and/or services.

The proposed indicators linked to **retail activities** are:

- Past performance of electricity sold
- Future performance of electricity sold
- Contribution to low-carbon electricity generation
- Energy efficiency services share



See [ACT Oil & Gas methodology](#) as an example (pp. 70-82)

Rationale – past and future performance of electricity sold

Past and future performance indicators are found in some ACT methodologies (when relevant). They measure the alignment of a company's past and future (projected) emissions intensity respectively, with its low-carbon benchmark pathway.

Rationale – Contribution to low-carbon electricity generation

This indicator was originally designed for assessment of heavy industrial sectors, which consume large quantities of electricity. It assesses how companies are sourcing their electricity and how they commit to contribute to low-carbon electricity generation thanks to specific certificates and agreements.

Companies with electricity retail activities can highly influence the transition to low-carbon modes of production, meaning this indicator is relevant for the Electric Utilities methodology.

Rationale – Energy efficiency services share

This indicator is currently included in the ACT Oil and Gas methodology. It assesses the company's growth in sales of energy efficiency services as compared with a benchmark. To ensure its low-carbon transition, the electricity sector must not only consider electricity production, but also make sure that it is used in the most efficient way to reduce overall demand.

Questions 11 & 12: Do you agree with the proposal to include the listed indicators in Module 4 for retail activities?
Are companies able to disclose the expected emissions intensity of their sold electricity up to five years after reporting year? (This will determine whether the future emissions performance indicator is possible to include.)

The proposed indicator linked to **generation activities** is:

- Purchased product interventions



See [ACT Iron & Steel methodology](#) as an example (pp. 84-88)

This indicator aims at assessing mature interventions to reduce GHG emissions for purchased products determined as having a high GHG impact. The size (supplier coverage), level of ambition, and maturity of the intervention are analysed, as well as how the emissions intensity of purchased products is expected to reduce as a result.

Rationale

Quantitative assessment of upstream emissions, such as those linked to purchased products (for instance, materials needed to build a wind turbine, solar panel, etc.) is currently difficult since they are not included in sectoral low-carbon pathways. Therefore, this indicator proposes a qualitative assessment.

Question 13: Do you agree with the proposal to include the indicator “Purchased product interventions” in Module 4 for generation activities?

2.6. Modules 6 & 7 – Supplier & Client engagement

Currently, ACT EU v1.1 does not include ACT Modules 6 and 7, which relate to supplier and client engagement.

Question 14: Should the supplier and client engagement modules apply to all company profiles?

Update proposal – ACT EU v2.0: Due to the increase of scope to include retail activities, supplier and client engagement become more relevant to the methodology, so Modules 6 and 7 should be included.



See [*New qualitative indicators – actiniative.org*](#) as an example of the supplier and client engagement modules (pp. 13-25)

Rationale

We propose to add Module 6 “Supplier engagement”, and Module 7 “Client engagement”, to the Electric Utilities methodology. These modules assess companies’ strategies and activities to engage their suppliers and clients to reduce supply chain emissions. For companies with retail activities, engagement with suppliers (power generators) to ensure the power they purchase is low-carbon is key to achieving their decarbonisation targets. Companies with generation activities should also engage with suppliers to reduce their upstream supply chain emissions. All companies must also engage with their clients to reduce power consumption and improve efficiency.

Currently, ACT EU v1.1 does not include ACT indicator 8.4 “Collaboration with local public authorities”, which is included as an indicator in many newer methodologies.

Questions 15 & 16: Do you agree with the proposal to add the indicator “Collaboration with local public authorities”?
Should the indicator apply to all company profiles?

Update proposal – ACT EU v2.0: Since engagement with local authorities is particularly relevant for the Electric Utilities sector, include Indicator 8.4 “Collaboration with local public authorities” in the updated Electric Utilities methodology.



See [*New qualitative indicators – actinitiative.org*](#) as an example of the indicator 8.4 “Collaboration with local public authorities” (pp. 31-33)

Rationale

We propose to add indicator 8.4 “Collaboration with local public authorities” into the updated Electric Utilities methodology. This indicator evaluates the extent to which the company collaborates with local public authorities and local actors to achieve local emissions reductions. We consider it relevant to include in the Electric Utilities methodology, since collaboration with local authorities can provide opportunities for electric utilities to effectively implement local energy efficiency, demand response, electric vehicle charging and other types of programme to achieve overall emissions reductions. As a highly regulated sector electric utilities have significant engagement with local and state level regulators.

Currently, ACT EU v1.1 rewards five categories of business models in the indicator entitled: "Integration of the low-carbon economy in current and future business model"

Update proposal – ACT EU v2.0: Complete the list of business models

In ACT EU v1.1, the Module 9 "*Business model*" lists the following:

- Energy as a service-provider
- Local low-carbon energy access provider
- Large scale low-carbon electricity generator
- Flexibility optimizer
- Carbon capture and use operator



See [ACT EU v1.1](#) (pp.45-47)

Question 17: Are there any other low-carbon business models relevant to include in this indicator for all company profiles?

Slide 8:

- SBTi. 2015 “SDA: A method for setting corporate emission reduction targets in line with climate science”. <https://sciencebasedtargets.org/resources/?tab=background#resource>

Slide 9:

- UNFCCC. 2022 “Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its third session, held in Glasgow from 31 October to 13 November 2021”. <https://unfccc.int/documents/460952>

Slide 14:

- UNECE. 2021 "Life Cycle Assessment of Electricity Generation Options". <https://unece.org/sed/documents/2021/10/reports/life-cycle-assessment-electricity-generation-options>

Slide 15:

- PSF. 2021 “PART B – Annex: Full list of Technical Screening Criteria”. https://joint-research-centre.ec.europa.eu/scientific-activities-z/sustainable-finance/eu-taxonomy_en
- IEA. 2021 “Net Zero by 2050: A Roadmap for the Global Energy Sector”. <https://www.iea.org/reports/net-zero-by-2050>
- ADEME. 2021 “La valorisation du CO2 (CCU)”. <https://librairie.ademe.fr/changement-climatique-et-energie/4974-la-valorisation-du-co2-ccu.html>

Thank you for your feedback!

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