

ESG Strategy Series

Renewable Energy Assets and ESG

By their nature, clean energy businesses could be presumed to be inherently ‘good’ when it comes to environmental, social and governance (ESG) issues. Even so, there is a growing trend for renewable energy asset managers to track ESG performance, and some clear-cut reasons why they are doing so:

1. *Investors are Demanding ESG*

Research suggests that 88% of investors say ESG forms part of their evaluation process, up from 81% last year¹. This trend matches with statements from large institutional investors like Japan’s Government Pension Investment Fund making case for long term integration of ESG metrics over short term, temporary, market gains².

This results in increasing demand for clear demonstration of ESG performance, often in a standardised format, regardless of the investment type. For renewable energy businesses, if they want to attract this investment, they need to be able to provide clear information to demonstrate their credentials against the competition, rather than rely on the inherent characteristics of their business. This is where ESG reporting and benchmarking can make them stand out.

The pandemic is also being recognized as a catalyst for increasing the focus on ESG³. Investors are prioritizing ESG performance as an indicator of higher risk adjusted returns and stock-price resilience during the COVID-19 crisis.

2. *Mainstream ESG to Mandatory ESG*

Governments and citizens are demanding commitments from businesses in environmental protection and social responsibility. These trends, driven by consumers and investors, increase the likelihood that many of the aspects of ESG performance that companies are starting to report on will eventually become mandatory and legislated for.

A clear example of this is the announcement by the Chancellor, Rishi Sunak, that disclosing climate related financial information as recommended by the Task-Force on Climate Related Disclosures (TCFD) will become mandatory for all large companies and assets owners in the UK before 2025, with the vast majority expected to report before 2023⁴. This will include owners of green energy investments, not just polluters.



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Although TCFD and ESG strategies are by no means one and the same thing, businesses that already have a strong ESG strategy are likely to have a head-start in TCFD reporting. ESG-ready companies will have the governance structure in place to develop and measure key metrics and may have integrated many of the environmental impacts of climate as part of the ESG strategy.

3. ESG execution brings benefits

Although the demand is clear, motivation to act on ESG should not be driven solely by external stakeholders. Renewable energy businesses have a head start when it comes to demonstrating progress on ESG, but execution brings tangible key benefits:

- The ability to attract, and continue to attract a growing pool of impact investors;
- Stronger health & safety credentials;
- Regulatory compliance;
- The potential to lower the cost of capital; and
- The potential for growth.

Renewables companies can additionally benefit from operational well-being of implementing the social and governance aspects of ESG thinking; such as ensuring they are part of sustainable and fair supply chains, and to improve health and safety conditions of operation and maintenance staff. Environmental impacts, including carbon but going even further, such as waste reduction or improving habitats for wildlife can be monitored and managed as part of a broader ESG strategy.

Even for businesses like renewables companies who are already performing well, establishing a systematic and fully integrated approach to managing ESG factors will deliver investor alignment resulting in improved outcomes across the board.

4. Next steps for ESG in your business

At ITP Energised we are working across the energy spectrum to develop and support ESG strategies to meet investor demands, prepare for upcoming legislative changes, and realise tangible benefits both now and in the future. If you are interested in how ESG performance can help your renewables business, and to help plan and execute your ESG roadmap, please do not hesitate to get in touch with us at esg@itpenergised.com.





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¹ LPs challenge GPs on ESG, Private Equity International, 1 December 2020: <https://www.privateequityinternational.com/lps-challenge-gps-on-esg/>

² Pension fund giants team up in attack on 'short-termism', Financial Times, 4 March 2020: <https://www.ft.com/content/2a58008a-5dae-11ea-8033-fa40a0d65a98>

³ Carbon reporting surges as Covid increases ESG focus, Funds Europe, 8 February 2021: <https://www.funds-europe.com/news/carbon-reporting-surges-as-covid-increases-esg-focus>

⁴ Chancellor sets out ambition for future of UK financial services, UK Government Press Release, 9 November 2020: <https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services>



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