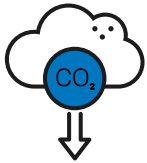


Net-zero: Multi-utilities

This sector covers companies involved in electricity generation, the treatment and distribution of water and/or the sale and distribution of natural gas.

What does the **multi-utilities sector** need to do to reach net-zero?

LGIM will vote and implement investment sanctions against companies falling short of our climate expectations. LGIM expects companies' boards to oversee and publicly disclose answers to the following:



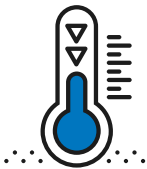
Net-zero commitment

- Does the company have a comprehensive target for net-zero by 2050 or earlier, covering scopes 1, 2 and material scope 3 emissions?¹
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?²



Strategy

- What are the actions and investments embedded in the company's plan to reach net-zero, and what is the contribution of each action towards meeting its targets?³
- Is executive remuneration aligned with the company's short- and/or medium-term emissions targets, as set out in the net-zero transition plan?
- Does any use of offsetting consider the potential impacts and dependencies on biodiversity – for example, in relation to land use?
- Does the company's decarbonisation strategy address and incorporate the impact of the Just Transition?



Resilience

- Has the company analysed its business model resilience to climate-related risks and opportunities using scenario analysis (including the IEA's net-zero by 2050 scenario and a 'Business as usual' scenario) and disclosed how the output has influenced its strategy?
- Has the company analysed the physical climate risks to its assets and operations, including potential financial impacts, and evidenced measures to mitigate or adapt to them?



Targets

- Does the company have a target to reduce leakage (e.g. methane, water)?
- Does the company have targets related to the use and roll out of low/zero-carbon fuels/technologies?
- For a company involved in the generation of electricity, has it committed to produce carbon-free electricity by 2035 in advanced economies, and by 2040 globally?



Collaboration

- How is the company working collaboratively across its value chain to reduce emissions (e.g., demand management; engaging with property developers; strategic R&D partnerships, sector initiatives, etc)?⁴
- Is the company advocating meaningful policy action, including from regulators, to meet global net-zero targets (e.g., carbon pricing)?



Red lines

- Does the company have a net-zero operational emissions target?
- Does the company disclose its material scope 3 emissions?
- Does the company disclose its climate-related lobbying activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

* The applicability of the expectations varies depending on companies' business models

1. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance.

2. Short-term refers to 2022 - 2025, medium-term 2026-2035 and long-term 2036-2050.

3. E.g., Demand reduction techniques; energy efficiency measures; use of heat pumps, hydrogen, biofuels and/or heat networks; leakage reduction, etc.

4. E.g., The Oil & Gas Methane Partnership 2.0.

Further areas for company consideration

Biodiversity expectations

Why? The climate and nature crises are inextricably linked.⁶ Net-zero requires both emission avoidance and sequestration. Functioning natural systems are essential to this, but increasingly vulnerable due to climate change.

LGIM’s expectations: An assessment of the impacts and dependencies on nature and biodiversity, and appropriate mitigation actions.

Sector-specific considerations: Direct impacts could result from the poor management of water resources and unsustainable abstraction, utility infrastructure and pollution. Indirect impacts could result from upstream gas extraction and the financing of poor offsetting practices.

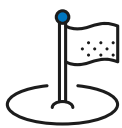


Company levers

- Actions to prevent leakage from infrastructure
- Demand reduction through more efficient water use
- Energy efficiency in homes
- Low/zero carbon fuels/technologies
- Improvements/retrofitting of pipe infrastructure to accommodate hydrogen

Government policies

- Carbon pricing and taxation (and border adjustments)
- Grants to increase the uptake of energy efficiency measures and the use of heat pumps in homes
- Incentives for hydrogen infrastructure
- Increased recycling and support for circular design for water use
- Regulation on monitoring and managing gas leakages



Challenges



Opportunities



What is needed?

Much existing gas infrastructure is not adaptable to hydrogen

High costs of new technologies (e.g. heat pumps)

Incentivising public to make changes to their homes

Regional nuances in decarbonisation solutions

Long-run cost savings on energy and water bills

High recycling potential

New market development for heat pumps and green hydrogen production and distribution

New market development for distribution of CO2 to CCUS sites

Company leadership

Eliminating leakages and deploying low/zero carbon alternative fuels/technologies immediately

Research and innovation

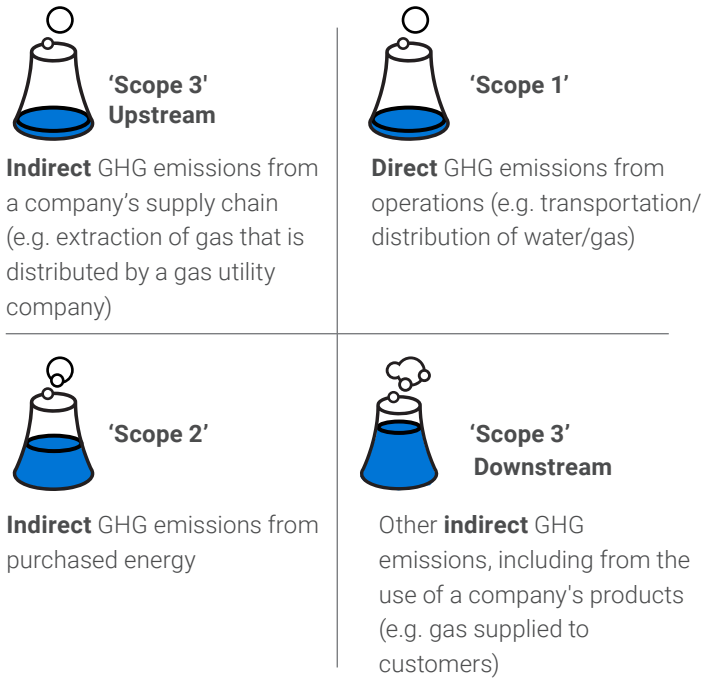
Low-cost heat pumps
Efficiency measures for gas and water
Potential use of hydrogen and/or heat networks

Consumer behaviour

Willingness to insulate homes, reduce demand for water and switch heating source to low/zero carbon alternatives

6. UN IPCC-IPEBS, [Biodiversity and Climate Change workshop report \(2021\)](#)

Sources of emissions



'Just Transition' considerations

Potential implications for employees, supply chain, customers, and communities from the transition to a lower-carbon business model

Physical risk impacts

Grid damage from extreme weather

Spikes in energy demand from cooling and heating as a result of extreme weather

Water scarcity/availability

Source: Victor, Geels & Sharpe (2019); Water UK (2021)



For more information and to see how companies are rated

[LGIM Climate Impact Pledge score](#)

[LGIM Climate Impact Pledge](#)

Important information

Source: LGIM as at September 2023. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. The above information does not constitute a recommendation to buy or sell any security.

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