

Meeting the Sustainability Challenge A Suggested Utility Strategy

October 2009

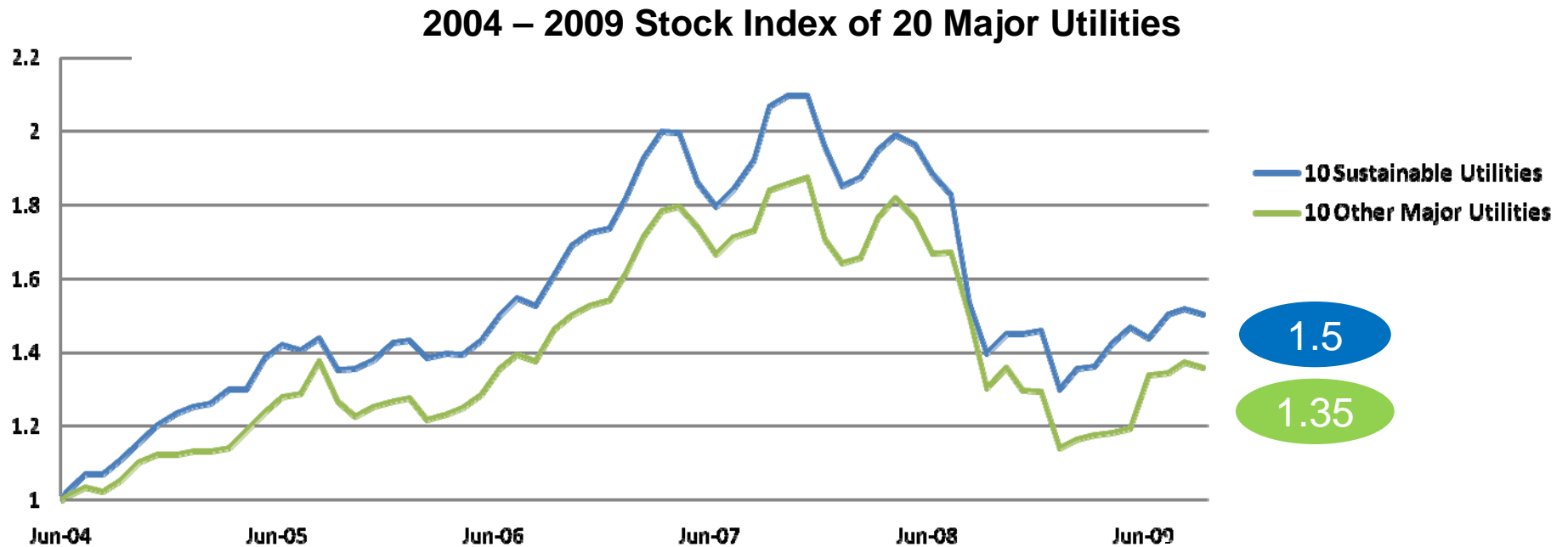
Presented by:



Energy. Knowledge. Results.

Sustainability and Financial Performance

Top 10 Sustainable Utilities Out-Performed Their Peers, Returning 50% Since 2004



- The Sustainable Utility Index Includes:
Constellation, Duke, Entergy, Exelon, FPL, PG&E, Pinnacle West, Progress, PSEG, Xcel
- The Other Major Utility Index Includes:
AEP, CenterPoint, Con Ed, Dominion, Edison, First Energy, PPL, Reliant, Sempra, Southern

Note: Top 10 Sustainable Index is an un-weighted average of DJSI and Global 100 US utilities; stock prices adjusted for dividends and splits; excludes utilities primarily retail or natural gas and utilities formed after 2004

Defining Sustainability

Many Utilities Use the Definition in Dow Jones Sustainability Index:

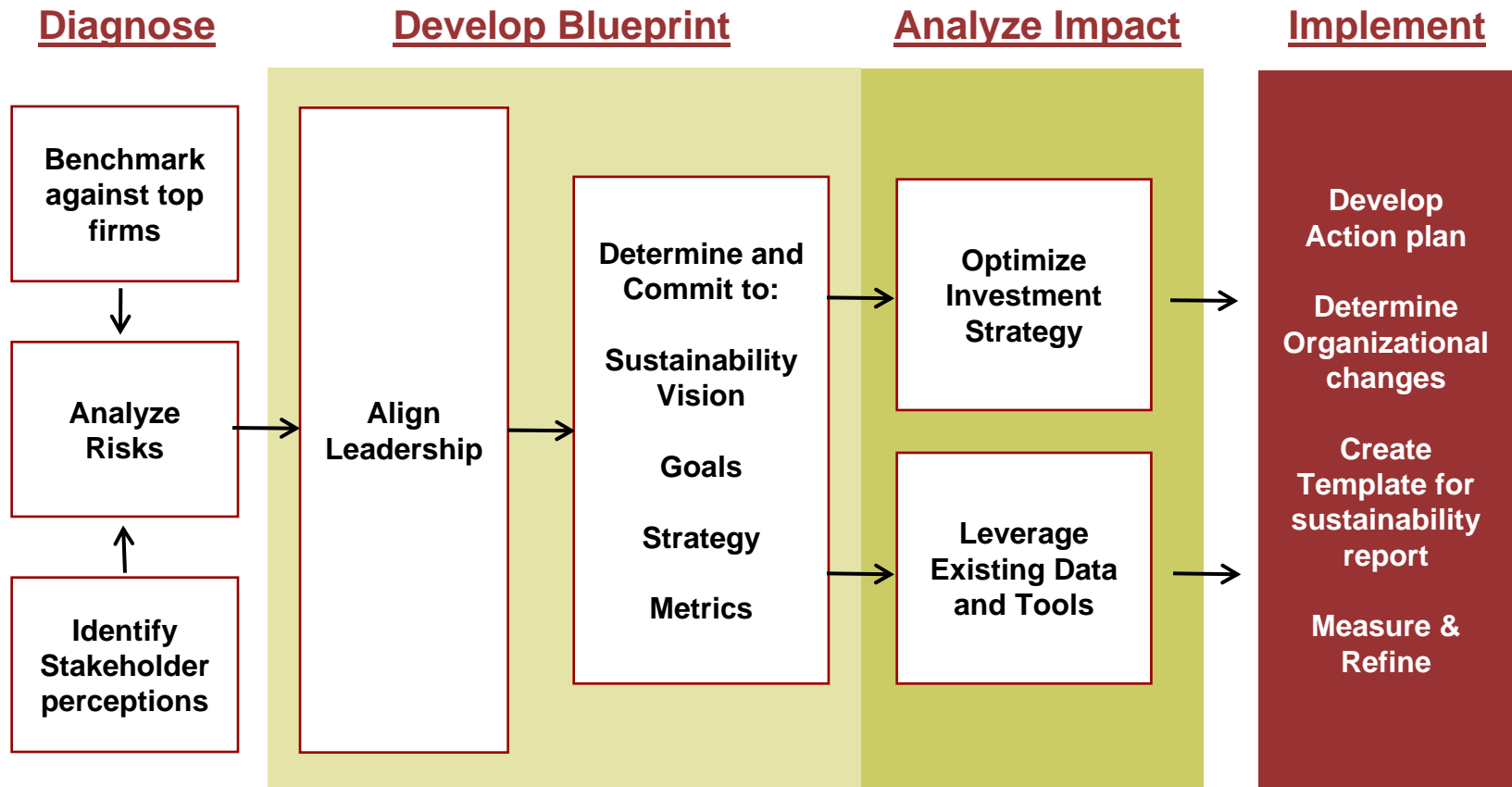
- “A business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.”



A Framework for Sustainability Planning

An Integrated Approach is Required to Maximize Returns

- Sustainability must be integrated with traditional planning functions to maximize social, environmental and economic returns. Our 4-step approach is illustrated below:



Step 2: Develop a Blueprint

Align Leadership Around a Vision, Goals, Strategy and Metrics

- Some examples from leading utilities:

1. Vision & Mission

- Pinnacle West: "Creating a sustainable energy future for Arizona."
- Xcel: "Be a responsible environmental leader, while always focusing on our core business – reliable and safe energy at a reasonable cost."

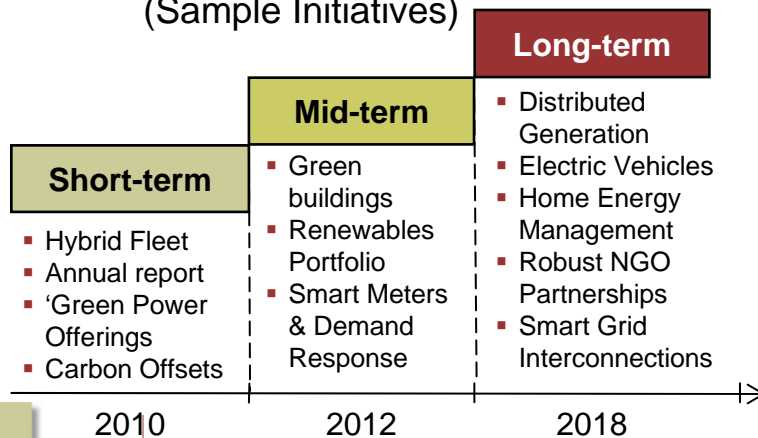
2. Goals

Top Firms Average
10-12 Big Goals

- Exelon: "We will reduce, offset or displace more than 15 million metric tons of greenhouse gas emissions per year by 2020."
- FPL: "Leads by example", through investments that include the world's largest solar array, the top customer energy efficiency program in the U.S., and one of the lowest emissions profiles among U.S. utilities.

3. Strategy

(Sample Initiatives)



4. Metrics



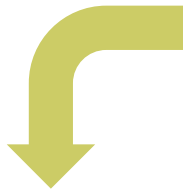
Select subset of 121 GRI metrics in 10 categories to measure performance

- Strategy & Analysis (1.1 – 1.2)
- Organizational Profile (2.1 – 2.10)
- Report Parameters (3.1 – 3.13)
- Governance, Commitments, and Engagement (4.1 – 4.17)
- Environmental (EN1 – EN30)
- Human Rights (HR1 – HR9)
- Labor Practices (LA1 – LA14)
- Society (SO1 – SO8)
- Product Responsibility (PR1 – PR9)
- Economic (EC1 – EC9)

Step 3: Build an Investment Optimization Model

Integrate Sustainability Risks and Benefits into a Comprehensive Analytical Model

Legend	
Highest	
High	
Medium	
Low	
Lowest	
Not Applicable / Unknown	



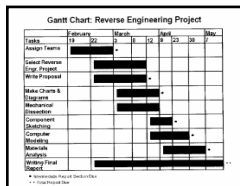
Sustainable Project Description	Economic					Total Econ Score
	Cost	Benefit	Regulatory / Liability Exposure	Asset Utilization	Job Retention / Creation	
Replace 100 old 2005 Ford Escapes with 2010 Ford Escape Hybrid						
LEEDS Building Compliance - 2 District HQ Buildings						
Green Transformer Upgrade - 3 circuits						
Other						
Weighting	50%					

Sustainable Project Description	Economic					Total Econ Score	Environmental					Total Env Score	Social					Total Social Score
	Cost	Benefit	Regulatory / Liability Exposure	Asset Utilization	Job Retention / Creation		GHG Reduction (metric tons)	Waste Reduction	Material Input Savings	Incident Avoidance	Annual Fuel Savings (Gallons)		Safety	Community Relations	Reliability	Security	Public Perception	
Replace 100 old 2005 Ford Escapes with 2010 Ford Escape Hybrid																		
LEEDS Building Compliance - 2 District HQ Buildings																		
Green Transformer Upgrade - 3 circuits																		
Other																		
Weighting	50%						30%						20%					

Step 4: Create Plan, Organization, and Reporting Systems

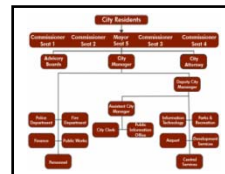
Step 4: Create Implementation Plan, Organization and Reporting Framework

Plan



- Summarize strategic initiatives and sustainability goals
- Develop implementation plan for short-term initiatives, with defined executive sponsorship for each
- Integrate initiatives into broader strategic planning
- Monitor progress and highlight areas of delay

Organization



- Create sustainability planning board with senior executives from across organization
- Select staff responsible for ongoing sustainability work
- Link performance reviews to sustainability goals. Incentivize results
- Conduct training to create a culture of transparency throughout the workplace

Reporting



- Global Reporting Initiative metrics are most widely accepted in the industry
- However, leading utilities report that full set of GRI metrics are too onerous to complete. Identify and track key metrics and reporting requirements

Key Deliverables

Deliverables Will Include the Plan, Organizational Structure and Key Metrics

Segments	Sustainability Metric	Historical Performance	Current Year Performance
Economic	Sustainability Investments (\$ million)	2007: 5,500 2008: 6,300	5,700
Environmental	Internal Energy Use (Million MWh)	2007: 7.1 2008: 6.2	5.9
	Waste Generated (Million Metric Tons)	2007: 1.4 2008: 1.2	1.1
	Water Usage (Million Cubic Meters)	2007: 3.5 2008: 3.8	3.5
	Greenhouse Gas Emissions* (Reduction against baseline)	2007: 13% 2008: 27%	31%
	GHG emission intensity (Metric Tons per \$m of revenue)	2007: 535 2008: 465	453
Social	Community Investment ** (\$ million)	2007: 7.3 2008: 9.1	9.2

* Emission reduction at existing generation facilities through improved efficiency and capacity, SF6 leak reduction, voluntary actions in carbon sequestration/capture/avoidance, addition of non-carbon emitting renewable energy resources, internal energy efficiency measures (LEED buildings), fleet management to reduce transportation fuel consumption, etc.

** Corporate philanthropy, employee volunteer man-hours, fuel assistance donations, engineering college scholarships

Play to Win

Bold, Persistent Action is Required to Meet Growing Stakeholder Expectations

- Sustainability must be an enterprise-wide effort with clearly defined goals and a framework to document progress, milestone events, and bottlenecks
- Corporate policy must be integrated into core business strategies based on a robust knowledge of industry trends, with execution based on clear observations from industry insights
- Executive leadership and sponsorship is integral to long-term success, adoption by employees, and internalization to company culture
- Carbon legislation is increasingly likely. Forward-thinking utilities will align business practices with sustainability initiatives to drive conservation and operational efficiency, improve stakeholder and regulatory relationships, and capitalize on new opportunities.



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