CFO Taskforce for the SDGs

Blueprint for CFO Principles implementation

Industry Case Studies Electric Utility
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Introduction

Enel is an integrated electric utility that operates in more than 30 countries, on five continents, with around 67 thousand employees at the end of 2020. The Group has a strong presence in Italy, in Spain through the subsidiary Endesa and in Latin America (mainly in Brazil, Chile, Colombia, Peru and Argentina) through the subsidiaries Enel Americas and Enel Chile.

Enel is the first electricity distributor in the world, with more than 74 million end users, the leading private operator in the renewable energy sector, with approximately 49 GW of total renewable capacity, and has the largest retail customer base worldwide, with approximately 70 million customers.

Enel’s vision for the next decade focuses on the opportunities emerging from the energy transition and digital platforms. The Group plans to mobilize investments for roughly 190 billion euros in the period 2021-2030, promoting decarbonisation, electrification of final uses and platforms deployment to create shared and sustainable value for all stakeholders over the medium and long-term.

Enel Group strategy has evolved over the years and is now based on two main business models: the traditional one, known as "Ownership", where digital platforms are a business enhancer supporting investment profitability and effectiveness, and the “Stewardship” model, which catalyzes third-party investments in partnership with Enel or where platforms are a business generator.

The Group expects to directly invest around 160 billion euros up to 2030, of which over 150 billion euros through the Ownership business model (of which around 45% are dedicated to renewables) and around 10 billion euros through the Stewardship business model, while mobilizing an additional 30 billion euros from third parties.

The Group will further accelerate the decarbonisation process by increasing renewable sources deploy, expanding renewable capacity by approximately three times by 2030 (~ 145 GW), while reducing coal-fired capacity until a complete exit from coal by 2027 and consequently reducing Green House Gases emissions (a reduction of 80% is targeted by 2030 compared to 2017 values).
Enel as Italy’s national entity for electricity was founded in 1962 with the merger of more than a thousand electricity producers. With a solid bedrock of hydroelectric power as its starting point, Enel’s task was to power the country’s rapid growth, modernized and extend the national grid and later connect it to the European network.

The energy crisis of the following decade spurred the company to explore alternative sources of power and Enel pioneered a number of renewable energy plants. The company installed one of the largest hydroelectric plants of its kind, the first grid-connected solar installation, the first photovoltaic power station and Italy’s first wind farm. Then in 1999 the Italian electricity sector was liberalized, part of the assets were sold to private players in open competition and Enel became a private company.

In 2001 Enel designed and installed the world’s first smart meters. In 2004 the Group became the first private company in the renewable power sector to be listed on the Dow Jones Sustainability Index and three years later Enel joined the UN Global Compact and accelerated its efforts to open up to collaboration with all kinds of different sectors. Becoming progressively more international, Enel acquired Endesa in Spain thus entering Latin American markets and establishing a major presence in the region, and bought North America’s first renewable energy plant.

In 2008 Enel Green Power (EGP) was created, the Group’s company dedicated to the development of renewables. At the time, such an undertaking seemed risky; many thought that clean forms of energy, which were then often referred to as “alternative”, were destined to remain marginal. Today, with approximately 49 GW of installed capacity, the Group is the world’s number one private operator in the renewables sector and it is active in the main renewable energy sources.

Then, 2014 was marked as the year Enel embraced the open innovation and sustainability concepts in a manner never seen before. The successful integration made the company the subject of case studies for three business schools — London Business School, INSEAD and the Berkeley Haas School.

Enel’s approach includes embedding innovation and sustainability into every business unit, harvesting ideas externally from an ecosystem of startups, researchers, suppliers and employees, and developing KPIs for sustainability and innovation tied to specific strategy goals.

In 2017 Enel X was created: the division of the Group that aims to offer everyone everywhere the opportunity to create new value through the innovative use of energy. It represented further efforts to lead the transformation of the energy sector with an open strategy that focuses on sustainability and innovation.

2019 was another year of milestones: (1) for the first time Enel’s installed capacity from renewables exceeded that of fossil fuels, (2) the Group established itself as pioneer in sustainable finance with the creation of the first sustainability-linked bond (SLB).

In 2020, Enel went further and outlined a 10 year plan to state clearly the goals to be reached in the next decade in order to speed up energy transition and accomplish the path aligned to the main SDGs. Enel revised its GHG direct emission reduction targets to be more ambitious and in line with Paris Agreement and committed to a 80% reduction in Scope 1 GHG emissions per kWh by 2030 (vs. 2017). Such target has been certified by the Science Based Target initiative as compliant with the 1.5 degree-scenario, which is the most ambitious in terms of GHG emission reduction. The Group has brought forward its exit from coal-based generation to 2027, three years earlier than its previous target, and has committed to reaching net-zero emissions along the value chain by 2050, including both direct (Scope 1) and indirect emissions (Scope 2 and 3).
In the past few years a growing body of research has demonstrated that there is a **strong correlation between ESG performance and the financial performance of companies over time**, especially for the ones that pursue shared-value strategies. ESG funds have exploded in popularity in recent years and sustainable funds are delivering higher returns than equivalent conventional funds over the past decade. The concept that long-term stability and sustainable investment rest on how well companies are governed as well as their impact on society and the environment is proving its point.

**Businesses are engaging more than ever with efforts to achieve the SDGs.** There has been a clear increase in the number of entities disclosing climate-related issues according to the TCFD as well as investors embracing the Principles for Responsible Investments (PRI), for example. Leading companies are increasingly including sustainability into their strategic processes not only to reduce their environmental footprint and bolster their reputations but also because of the value it creates by improving their operations and financial performance.

**Every stakeholder represents an engine for action** and when effectively motivated by the achievement of sustainable economic returns, corporations and financial markets can mobilize significant resources, accelerating economic growth, bridging the financing gap and creating superior value generation.

Enel, as an electric utility company belonging to the power generation sector, has a major role in reporting on specific financially material issues, which are considered by the Sustainability Accounting Standards Board (SASB) as reasonably likely to impact the financial condition or operating performance of a company, thus having a great relevance for investors. These issues, which find appropriate disclosure in Enel’s Sustainability Report, are, for the Environment dimension: GHG Emissions, Air Quality, Water & Wastewater Management, Waste & Hazardous Materials Management; regarding Leadership & Governance: Critical Incident Risk Management, Systemic Risk Management; as to Business Model & Innovation dimension: Business Model Resilience; for the Social Capital dimension: Access & Affordability; concerning Human Capital: Employee Health & Safety.
At Enel, there is the conviction that corporations play a fundamental role in developing sustainable business models that support societal development and low carbon solutions. The Sustainability is Value framework is the way to prove that the logic of separating sustainability from value is over and if you do plan and act for sustainability you generate value by a mean of a superior performance.

Enel’s model of value creation is based on a long-term vision that aims to support the achievement of the Sustainable Development Goals (SDGs) by leading the energy transition in three main areas: (i) the decarbonization of company’s generation capacity, supporting the achievement of SDG 7; (ii) infrastructure development and electrification solutions in line with SDG 9; and (iii) promoting the digital and platform development journey in line with SDG 11.

Enel discloses its contribution to sustainable development in relation to all 17 SDGs but given the importance of the identification of which are the core goals that a business might contribute, Enel’s framework focuses mainly on the three SDGs mentioned above, withal of which contribute to SDG 13, towards a climate-resilient world. For Enel climate change is therefore the most relevant driver because the company will be affected by it across multiple dimensions, in multiple geographies and over long periods of time. Consequently, SDG 13 is the backbone of our strategy and guides the company’s value creation throughout the entire value chain.

The Group’s integrated business model, that places sustainability at the core of our strategy, has allowed it to become the world’s leading private operator of renewables and networks, boasting the largest retail customer base and positioning the company as an early leader of the energy transition.

For Enel it is essential that its investors, and its stakeholder in general, understand that through sustainability the Group is able to achieve better and more predictable financial results while minimizing risks. The company entered in a revolution that will affect all sectors and since at Enel sustainability is “value”, it will continue to pursue the opportunities offered by the expanding value pool associated with the acceleration of this transition.
In 2019 Enel identified the need to strengthen the link between sustainability and value when communicating with investors, in particular highlighting that sustainability leads to a higher Enterprise Value through: higher free cash flows; lower cost of capital and lower overall risk. In line with this paradigm Enel identified the most relevant business trends for utilities, decarbonization and electrification, and the two most relevant enablers as being Infrastructure & Networks and Platforms.

The next step was to identify the most relevant SDG associated with these drivers and create a clear and transparent way to share corporate investment plans in line with them. For two years now, more than 90% of Enel’s consolidated investments of the 3-years ahead Strategic and Industrial Plan are disclosed in line with the core SDGs the Group identified as “core”.

Enel contributes to all other SDGs by promoting a sustainable business model, pursuing sustainable behaviors and leveraging, thorough its Stewardship Model, on SDG 17 to foster global partnerships in order to tackle the world’s multiple challenges.

The internal evaluation process to define and manage such commitments is run on a yearly base and is part of the strategic planning process itself. A detailed analysis of business lines is performed and the possible capex assigned to them. Since most of Enel’s current businesses are sustainable, by investing on them the company directly contributes to the achievement of the SDGs that have been identified as material and consistent with its strategic goals.

For the 2021-23 period, more than 40 billion euros will be invested in SDG-aligned solutions. Enel’s renewables business line will receive around 43% of consolidated CAPEX with the objective to continue to expand the company’s renewable capacity and support coal phase out commitments, therefore contributing to the substantial increase in the share of renewable energy in the global energy mix, aligned with SDG 7. The Infrastructure and Networks business line and its ambitions to make grids more reliable, resilient and digitalized impacts directly SDG 9 and 11 which for Enel will represent around 42% of consolidated CAPEX in the three-year period.
Assessing Sustainability Outcomes and Financial Results

Since Enel’s SDG impact thesis is the core of its Strategic Plan it must be approved by governance bodies and then presented by the CEO and CFO at the Capital Markets Day. It is then disclosed in the Annual Integrated Report and Sustainability Report, particularly in the section related to the Sustainability Plan highlighting the link with all 17 SDGs.

The main KPIs for performance analysis, available also for public consultation in Enel’s Annual and Sustainability Reports, Investor Relation annual presentations and Capital Markets Day presentation are:

- Renewable capacity (GW)
- Renewable capacity share (%) 
- Regulated Asset Base (€bn)
- SAIDI (min/y)
- Smart meters (n. + coverage)
- Customer Value (€/Cl/y)
- Storage (GW)
- Demand Response (GW)
- EV charging points (k)
- Reduction of Scope 1 GHG specific emissions (gCO2eq/kWh)

In addition, Enel has:

- Two certified SBTi targets (i) to limit Scope 1 direct greenhouse gas (GHG) emissions to 148 gCO2eq/kWh by 2023, entailing a reduction of 64% vs 2017, and to 82 gCO2eq/kWh by 2030, which will represent a 80% reduction in its Scope 1 GHG emissions vs. 2017, as mentioned above and aligned to Paris Agreement climate 1.5°C path, and (ii) to reduce indirect emissions associated with the consumption of gas by end-user customers (indirect emissions from the use of products sold), which represent a significant source of indirect Scope 3 emissions, by 16% by 2030.

- An innovative financial framework on sustainable finance issued in 2020 and updated in 2021 to be clear on targets linked to sustainability performance available here: https://www.enel.com/investors/investing/sustainable-finance/sustainability-linked-finance

- And moreover, the Company is engaging with academic reference centers to deepen the analysis and promote further research on some of our strategic drivers. This was the case for the study, conducted in partnership with Professor Mark Kramer, to support the development of ESG hybrid metrics as a more functional way to disclosure the value inherent on sustainable business models. This type of metrics could help fill out the emerging architecture of social and environmental impact reporting, increasing the accuracy of earnings forecasts and rewarding companies that perform best in both social and financial dimensions. Hybrid metrics could enable comparisons and the development of common standards across companies within an industry. They have the potential to reduce, rather than expand, the volume of relevant data for both companies and investors and could help investors make better-informed decisions. Circularity in all its forms and potentials constitutes also a lever to improve operations for the Company and for all key stakeholders that work and interact with Enel: more is going to be delivered both in terms of innovation, operations, relations with suppliers and customers.