

Advancing Sustainability for Public Power



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INTRODUCTION

For leaders looking for an opportunity to position their utility for better financial performance and operational success, few initiatives resonate more than sustainability. Companies across a variety of sectors are starting to challenge their staff to incorporate sustainability into the many facets of their organizations. But how can you assess the potential impact of integrating sustainability and any resulting benefits within your company?

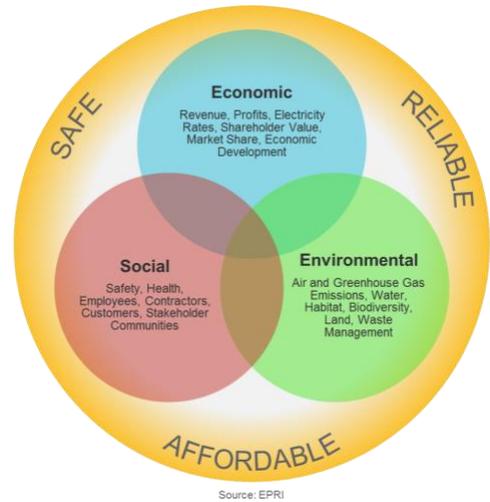
Utility leaders today are faced with a number of priorities, from solving issues with aging infrastructure to dealing with cybersecurity threats. In the face of these challenges, sustainability presents a unique opportunity to get ahead by improving the long-term health of your organization. For many public power utilities, sustainability provides a framework for bringing together the various elements of their mission of environmental stewardship coupled with social and economic development. Realizing this begins with understanding the broad definition of sustainability as it pertains to public power utilities and developing a blueprint for sustainability-driven organizational transformation.

THE ROLE AND IMPACT OF SUSTAINABILITY IN PUBLIC POWER

In the nascent days of the sustainability movement, most electric utilities focused specifically on the impact of their operations on the environment. More traditional topics like air and water pollution, or the efficient utilization of natural resources, were given a renewed focus as companies strived to be more “green.”

However, as the industry continues to examine how sustainability can impact an organization and its customers, the definition has expanded beyond just environmental concerns. Sustainability now encompasses a three-fold mission, which includes focus areas for social and economic impacts alongside the traditional environmental focus. In conjunction with this three-fold sustainability mission, a recent study conducted by the Electric Power Research Institute (EPRI) identified specific sustainability-related areas of concern for utilities within the broader context of their operating mission of providing safe, reliable, and affordable power (shown in Figure 1).¹

Figure 1: Sustainability and the Public Power Mission



The results of the study, which focused on 15 critical topics of interest across all three areas of sustainability, highlight how public power companies are facing many of the same key sustainability

¹ EPRI (2013). Material Sustainability Issues for the North American Electric Power Industry. Results of Research with Electric Power Companies and Stakeholders in the United States and Canada. Online at: <https://www.epri.com/#/pages/product/3002000920/>

issues as the rest of the power industry. In conducting their research, EPRI involved large public power entities such as TVA, NYPA, and NPPD to gather feedback from surveys focused on issues that have the potential to impact the long-term viability of electric utilities and their stakeholders. The study revealed that a number of utilities have created an environmental agenda that emphasizes such topics as greenhouse gas emissions and climate change, the reduction of other air emissions, water quality and availability, waste management (including coal combustion residuals), and habitat protection and biodiversity.

Many concerns raised by these environmental topics are colored by the additional sensitivity of public power entities to the potential economic impacts of new environmental regulations on the rising cost of electricity, as well as the need to balance environmental considerations with their economic development mandate. While these concerns are shared by all electricity providers, the unique connections between public power entities and their local communities heighten the need for carefully balancing the economic and social components of sustainability with the resource requirements posed by furthering environmental commitments.

Importantly, results from the EPRI survey highlighted a number of items beyond more “traditional” environmental concerns. In particular, the social aspect of sustainability was very visible, with utilities focusing on topics such as public safety and health, deficit of skilled workforce, community support, increased stakeholder engagement, and economic development considerations.²

PUBLIC POWER AND THE “SOCIAL LICENSE TO OPERATE”

With the creation and expansion of the societal sustainability agenda, many public power utilities have moved to reduce their carbon footprint, either by integrating new technologies with their existing generation or by developing, procuring, or constructing renewable generation. However, despite measurable progress, utilities can find themselves on the wrong side of public opinion, particularly around the sector’s contribution to climate change.

Due to their widespread environmental and social impacts, utilities are often regarded as entities that require a “social license to operate.” The social license is defined as the level of acceptance or approval granted to an organization by stakeholders in the local community.³ It is a dynamic, intangible measure of the perceptions and opinions of the population that is directly impacted by the existence of the utility. In its simplest form, a social license to operate will consist of a basic acceptance by the local community of the company in question. Most companies, however, will see greater benefits in the long run if they can attain a higher level of social approval, a level associated with having advocates and collaborative community members.

In the electric utility industry, the term “license to operate” has been historically used to describe the rigorous set of approaches used by nuclear fleet operators. For a long time, nuclear operators have recognized their obligations to demonstrate their “license to operate” beyond basic regulatory compliance. Other players across the entire utility industry, including public power entities, are now being held by stakeholder groups to higher standards of corporate responsibility. When applied to sustainability-related issues, social license to operate can require unprecedented levels of legitimacy, credibility, and trust between public power entities and their stakeholders.

² EPRI, 2014. <http://www.epri.com/Our-Work/Documents/Electricity%20and%20Its%20Impacts/099%20-%20Materiality%20Public%20Update%20Webcast.pdf>

³ <http://sociallicense.com/definition.html>

The existing connection between public power utilities and their local communities provides an excellent foundation from which to further conversations around social license. However, striking the right balance around social, economic, and environmental concerns will be the biggest challenge to public power's ability to meet growing stakeholder expectations. The broad spectrum of sustainability issues and the lack of a common definition of what, specifically, "sustainability" means in the context of utilities has further complicated the task of leaders who must develop a strategy that aligns sustainability goals with organizational goals. This reality has evolved as sustainability has transitioned from a fringe initiative to a more mature and accepted approach to conducting business.

SUSTAINABILITY-DRIVEN ORGANIZATIONAL TRANSFORMATION

When sustainability strategies stand apart from core business strategies, gaining support for your vision from your current organization can be difficult. The complexity and multi-departmental nature of sustainability issues requires a new, iterative and more dynamic approach to organizational development. Development, integration, and adoption of a sustainability strategy require significant changes in the organizational mindset and create an opportunity to rethink not only organizational approaches to sustainability but also the company's operating model and long-term objectives.

As shown in Figure 2, key steps in a sustainability-driven organizational transformation include:

- **Conduct Sustainability Assessment:** Conduct an assessment to determine the key sustainability-related priorities for the organization. Develop and analyze business cases to determine the return on investment for specific initiatives
- **Establish Sustainability Vision:** Work with stakeholders to define your organization's sustainability priorities and create a vision for integrating sustainability considerations into its value chain. Key considerations at this stage should involve public power's expanded societal, economic, and community development mission as well as the voice of customer
- **Develop Operating Model and Strategy:** Consider various organizational design factors (i.e., centralization, specialization, formalization, departmentalization, chain of command, span of control, etc.) and select the most appropriate organization structure (e.g., functional, matrix, project, etc.) based on those design factors. Develop a strategy to bridge the gap between the current state and the sustainability vision. Your sustainability strategy should encompass all elements of the organization's sustainability vision in order to enable it to set short- and long-term goals. Overhaul existing programs, processes, and procedures, or establish new ones to enable alignment through all layers in the organization
- **Develop Implementation Roadmap:** Develop a plan for launching your new organization, monitoring progress against goals and expectations, and for any necessary course corrections. At this stage, continuing stakeholder engagement and communication are critical for success

Figure 2: Sustainability-Driven Organizational Transformation



As you begin the implementation of your sustainability-driven organizational transformation, it will be necessary to monitor and track the performance of your strategic objectives. It is critical to establish channels of continuous two-way observation and review to ensure the transition is progressing as expected. Some of the key activities to ensure a successful implementation include:

- Provide transparent **communication** to staff and leadership team
- Conduct effective **training** sessions on new policies and procedures
- Elicit **feedback** on progress of the strategy implementation across levels
- Establish relevant performance **metrics** and report them consistently

Providing visibility to your effort through reporting and communication demonstrates the commitment of the organization to achieving the stated objectives. An appropriate level of oversight and engagement will accelerate the pace of adoption for your new organization while ensuring that the sustainability strategy and execution continue to evolve.

CONCLUSION

Similar to other electric utilities, public power companies are facing heightening societal expectations to go beyond the basic initiatives of the past by fully integrating sustainability into their strategy and operations. To accomplish such integration, sustainability needs to be addressed as an enterprise-wide initiative impacting both CEO agenda and the day-to-day processes, policies, and procedures. Due to their unique mandate of environmental stewardship coupled with social and economic development, public power is uniquely positioned to be an industry leader in sustainability-driven organizational transformation.

ABOUT SCOTTMADDEN'S ENERGY PRACTICE

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ABOUT THE AUTHORS

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