

ENVIRONMENT

incentivizing change

National Grid has a bold target to reduce its greenhouse gas emissions by 80 per cent over the next 40 years. It hopes to meet that aim by giving incentives to its individual departments, staff and customers, as well as making radical alterations to its own habits

National Grid's vision statement leaves little room for ambiguity. The UK-based power company has set its sights on no lesser challenge than 'safeguarding our global environment for future generations'.

Big, bold statements are all well and good. But elaborate pledges will not keep the world's resources from depleting nor the earth's atmosphere from overheating. National Grid understands that, which is why, up front, it has put a figure on its commitment: to reduce greenhouse gas emissions by 80 per cent by 'at least' 2050. To make the target more concrete, it has set itself an interim aim as well: a 45 per cent reduction by 2020. Both benchmarks are set against a 1990 baseline.

Determining how the company would deliver on these commitments initially fell to a small team in corporate headquarters. That process of strategy development took the best part of a two-year period that ended in 2009. Then the ball was handed over to National Grid's individual business lines, which concentrate primarily on the fields of gas and electricity transmission and distribution in the UK and US.

'There's no point being in an ivory tower and having our approach owned by the corporate centre,' says Ian Gearing, National Grid's head of corporate responsibility. 'Responsibility [for climate change] needs to lie with our businesses, where the real action is happening'.

The company's target-focused approach did not get

lost in the process. Each business unit was required to develop a detailed assessment of its anticipated greenhouse gas emissions over the next five years. These bottom-up 'carbon budgets', as National Grid terms them, take account of the reduction programmes that each unit currently has in place, as well as those it plans to introduce.

'The budgets enable us to better understand our emissions trajectory at both a corporate and business line level,' says Gearing. 'That way, we can see how we are progressing over time and how we are going to meet our final target.'

To engage management minds further, the company has linked performance against these annual budgets to executive remuneration. Hanging on that evaluation is five per cent of bonus for National Grid executive directors. This year the company has extended the incentive scheme to executive directors' direct reports. Over time, it intends to roll out the approach across lower management levels as well.

The thinking behind the incentive scheme is twofold, according to Gearing. First, it shows the company's audience that it is 'serious' about climate change. Second, it 'focuses the mind' internally.

The evidence to date suggests the devolved, target-driven approach is working. Last year the company achieved an impressive 55 per cent reduction in its greenhouse gas emissions – ten per cent in excess of its 2020 interim target.

■ National Grid has launched a campaign to help consumers reduce energy use by three per cent year-on-year for the next decade



It is not uncorking the champagne yet, however. Arguably, 2009/2010 marked an 'exceptional' year. The global recession had a severe impact on economic activity, which, in turn, saw energy use drop. Cooler than average summer temperatures in the US also caused power demand to slip.

Even so, National Grid has clearly been able to make significant progress on this front. Underpinning the external conditions of the market lie some hard-hitting steps. The ongoing replacement of leaking underground gas pipes marks one such long-term reduction measure. Other 'in the pocket' reductions include efficiency measures at its US power generation facilities. But the biggest single win came at its liquefied natural gas plant on the Isle of Grain in Kent, England. Instead of burning natural gas to heat water in the re-gasification process, the company's engineers struck on sourcing waste hot water from a nearby power station. The move is expected to save up to 350,000 tonnes of carbon emissions per year.

Not every action promises such dramatic changes, admits Steve Wallace, head of climate change and environment at National Grid. Indeed, many steps are much smaller in scale, such as moves to curb electricity use in the company's offices. 'Because we've broken down the numbers into individual areas of the business', he argues, 'it stops anyone saying, "why should we look at energy efficiency in a building when we ship gas for a living?"'

'Our consumer energy use campaign is aggressive, bold, but also an enormous challenge'

To remain true to its goal of safeguarding the environment for future generations, however, the company must look beyond its immediate impacts. Its focus must also turn to its indirect or so-called 'Scope 3' emissions. One traditional way of doing so is to curb emissions of consumers. For National Grid, that essentially means the customers of its US gas and electricity distribution business. To that end, it has launched a campaign to reduce customer energy use by three per cent year-on-year for the next decade. Measures include free energy audits and the replacement of inefficient equipment.

'The campaign is aggressive, it's bold . . . but it's also an enormous challenge', argues Dan Bakal, director of the electric power programme at US non-profit organization Ceres. By National Grid's own admission, engaging customers on reducing their emissions is still a 'relatively new area'. The company plans to announce some Scope 3 targets in the next financial year. As a preliminary step, however, it is helping test out a new Scope 3 reporting system developed by the US-based World Resources Institute – the only electricity/gas utility to be doing so. It is also participating in the Carbon Disclosure Project's Product and Supply Chain Initiative.

A heavily regulated company such as National Grid

the company

National Grid is an international electricity and gas company and one of the largest investor-owned energy businesses in the world. It delivers gas and electricity to millions across the UK and northeastern US. It:

- launched its revised Standards of Ethical Business Conduct – called Doing the Right Thing – in November 2010 as part of a three-year cycle of updating its standards
- has a partnership with Special Olympics Great Britain as part of the company's community investment programme. The alliance supports nearly 8000 athletes in 135 groups
- cut its lost time injury frequency rate by 40 per cent in 2009/10 compared with 2008/09.

also believes it can have a big impact on influencing future energy policy. 'Both in Europe and the US, the company is advocating for good public policies that are trying to transition our whole economy to a low carbon one,' says Bakal. Last year, the company threw its weight behind a Congressional bill in the US to set up a national cap-and-trade scheme. The measure failed to clear the Senate, but the intent was there.

Likewise, in the UK, National Grid is in regular discussions with various government agencies. It has been piloting a reporting mechanism for climate change adaptation, for example, as a joint initiative with the Department for Environment, Food and Rural Affairs. The company has also led the way on introducing renewable gas into the national energy mix. Thanks in large part to its lobbying, grid injection of renewable gas now forms part of the UK Renewable Heat Incentive legislation.

The whole strategy is circular, Gearing concludes: 'We need to have credibility as a company if we are to talk credibly with regulators and others about the future of the energy market.' Such credibility derives from having robust systems in place and targets by which to measure them, he maintains. By that reckoning, National Grid earns a place at the table.

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Many companies use aspirational language when talking about climate change, but National Grid is leading the utilities sector with ambitious targets that have already seen real savings in carbon emissions. Rather than waiting for legislation to force a change in behaviour, the company is already helping others to make changes, as well as lobbying for governments to do more.

Points of interest include:

- the 'ownership' by individual businesses of their own carbon budgets
- incentivising managers to achieve these budgets via links to their bonuses
- looking at both big and small changes that can be made by all units
- not being afraid to pilot new schemes, or campaign for changes to future energy policy.