Assessing Climate Impact of Investments – How and Why Should Energy Companies Act?

Sustainability and carbon disclosure have become increasingly common as a result of regulations and pressure from internal and external stakeholders. Since many Swedish energy companies are dedicated to being a driving factor in the development towards a sustainable energy industry, it is increasingly important for them to work with CO_2-reducing measures, especially when it comes to their investments. One way of doing so is through the implementation of carbon assessment tools.

There are many uncertainties as to how to best measure climate impact, and influence one's investments to become less carbon-intensive. There are a number of different climate assessment methods presented in research, such as internal carbon pricing methods and carbon intensity calculations. However, uncertainties still exist as to how these tools should be designed in order to be most effectively implemented in a company's decision or investment process.

Therefore, this study focused on closing the gap between theoretical frameworks and methods and their practical application. By examining a large Swedish energy company, four factors were identified as critical when evaluating the suitability of a carbon assessment tool. These are: user-friendliness, quantifiability, steering potential and feasibility.

Based on an analysis of these factors, the study shows that the combination of a quantitative and a qualitative climate assessment tool, such as a carbon emissions ratio scale and a checklist, would enable energy companies to effectively evaluate investments, projects or an entire portfolio based on its climate impact. Furthermore, it would also contribute to building awareness of climate impact within the organization and increase transparency by making carbon emissions more tangible and understandable.

The study also showed that in order to effectively integrate climate impact into the investment process, it is vital to begin by progressively visualizing, communicating and teaching the organization about investments' climate impact. Therefore, it is preferred to begin with implementing simple methods that can be developed as the organization matures. Consequently, more complex carbon assessment methods, such as internal carbon pricing, might not be suitable for companies that are still early in their journey towards climate neutrality.

Authors: Carl Johan Flisberg & Henrik Shadman