PPL Corporation

USA, Electric Utilities

Accounting		Climate Assumptions		Audit		Date of analysis: 26th April 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in CAMs	Consistency check	Year end: 31st December 2020 Report date: 18th February 2021 AGM: 18th May 2021
						CA 100+ company, so seen by investors as key to driving global net zero emissions
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Some concerns	

Summary view:

- As an electric utility with distribution and generation assets in the US and distribution assets in the UK, PPL is exposed to both transition and physical climate risks across its business. The continuing use of coal-fired generation in Kentucky stands out in terms of carbon footprint and the particular risks this presents for the company.
- Notwithstanding this, the coverage of climate risks in the narrative reporting is limited, while the audited financial statements and notes do not appear to consider these risks at all. The separate Sustainability Report has somewhat greater coverage of climate risks and carbon emissions reduction targets, although the bulk of the reduction in emissions will occur inevitably over time as coal-fired generation assets are retired and replaced with other fuel sources.

Background

The Business

- PPL Corporation is an electric utility holding company, headquartered in Pennsylvania and listed on the New York Stock Exchange. It operates across three segments: **UK Regulated** - Western Power Distribution, a regional electricity distribution company serving 8 million customers. (c.43% of net income in 2020); **Kentucky Regulated** - generation assets (with 7561MW of capacity) and distribution, with a total of 1.3 million customers (c.26% of net income); and **Pennsylvania Regulated** - distribution assets with a total of 1.4 million customers (c.31% of net income). In August 2020, PPL announced that it had initiated a formal process to sell its UK utility business.
- The generation business in Kentucky uses coal as its predominant fuel source. For 2020, the overall breakdown of fuel source for the 59,588 GWh of electricity generated was: Coal 81%; Gas 18%; Hydro 1%; and Solar 0.06%.
- Since 2010, the company has withdrawn 1200MW and sold 4000MW of coal-fired generation plants. However, coal and gas are expected to remain its predominant fuel sources for the foreseeable future.

Approach to climate change

- Despite the obvious climate risks to PPL – especially, but not only, the generation business in Kentucky – the narrative reporting gives only brief consideration of climate issues, while the audited financial statements and their notes are silent. The narrative reporting briefly describes the potential for additional policies, rules and other legislation to tackle climate change following the change of US federal government. PPL also notes ongoing efforts by state and local governments concerning GHG emissions. Coal-fired generation in Kentucky is specifically mentioned as being at risk of changes to law and policies in connection with climate change. However, the company concludes that it “cannot predict the outcome of ongoing developments” and does not explore these risks or potential scenarios.
- The 2020 Sustainability Report highlights the “more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050” (and 70% by 2040). However, by 2020, PPL had already achieved a 60% reduction thanks to retirement or divestment of coal-fired generation assets. Furthermore, the Climate Assessment Report from 2017 outlined that existing coal-fired generation assets will be reaching their normal useful lives by 2050 in any case, so the bulk of carbon emissions reductions will be delivered without any additional measures.
- A 2017 Climate Assessment Report aimed to assess the long-term impact of climate policies on PPL. It considered the impact of three scenarios: a Current Policies scenario, which

assumed no additional policy interventions; a “Paris Agreement/Clean Power Plan” scenario, which assumed that federal regulations would require PPL’s CO_2 emissions to be reduced by 25% below 2005 levels by 2030; and a “2º Celsius” scenario, which assumed that PPL’s emissions would need to be on a trajectory to be 50% below 2005 levels by 2050. Given that coal-fired generation will be steadily retired in the medium- to long-term and considerable assets have already been divested or retired in recent years, it is perhaps not surprising that the conclusion was that “PPL will have minimal financial risk associated with continuing to operate its existing coal units so long as those operations are consistent with approved regulatory frameworks and are economically justifiable to Kentucky regulators”.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns

- PPL Corporation reports using US GAAP for the financial statements.
- There is no reference in the notes to the financial statements that accounting judgements have been impacted by climate-related considerations.

Consistency with other reporting		Significant concerns

- The narrative reporting lists certain risks related to climate change, but does not explore these in any detail, while the financial statements are essentially silent on these risks.
- In contrast, the Sustainability Report (published each year under the GRI framework, but not simultaneously with the annual report and 10-K) covers climate risks, carbon emissions and climate strategy in more detail.
- The Climate Assessment Report was last published in 2017, although PPL is planning to publish another such report in late 2021. Although the 2017 Report described three possible climate change policy scenarios, it concluded that the company’s financial position was not at risk in any of them.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.
- There is also no reference to any climate assumptions or sensitivity analysis in the narrative reporting in the Annual Report.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.
- The 2017 Climate Assessment Report – but not the annual report – did outline a scenario that purported to be aligned with the Paris Agreement, but concluded the natural retirement of coal-fired generation assets would mean there would be little or no impact on PPL.

Audit: visibility in CAMs and consistency check

Audit firm: Deloitte & Touche	Responsible partner: Christine Plaatsman LaCroix
Audit standards: PCAOB standards	

Visibility in Critical Audit Matters		Significant concerns

- There is no reference to climate change in the auditor’s report.
- There are 4 CAMs identified: (i) impact of rate-regulation on regulatory assets and liabilities; (ii) recoverability of long-lived assets of the UK utility business following the announcement of a sale process; (iii) goodwill, especially relating to the UK segment; and (iv) deferred tax.

Stripes image credit: Prof. Ed Hawkins www.showyourstripes.info

- None of these CAMs is directly related to climate-related considerations, but each could be impacted in certain climate risk scenarios as they depend on estimated future expected cash flows and profitability.

Consistency check		Some concerns

- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies that no material inconsistency was identified in the other information within the 10-K.
- The apparent absence of climate considerations in the audited financial statements is at least consistent, in a minimal sense, with the limited discussion of climate issues in the narrative reporting in the annual report.
- The Sustainability Report is not subject to any external audit and the company specifically states that it does not form part of the 10-K.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

Terms, conditions and disclaimer

The information contained in this document is for general information and educational purposes only. Nothing in this document constitutes investment, legal, accounting, tax or other professional advice, or any recommendation to buy, sell or hold any security or other financial instrument, nor to exercise voting rights in any particular way. The information contained in this document is not intended to form the basis of any investment or voting decision, it does not constitute any form of investment recommendation or investment research and has not been prepared in accordance with any legal requirements designed to promote independence or objectivity. The authors of this report are not regulated by the Financial Conduct Authority or any other financial regulatory authority. You should make your own independent assessment and seek your own professional advice.

No representation or warranty is made that any of the information contained in this document is accurate or complete and no responsibility or duty of care of any kind is assumed by any person for errors or omissions in the contents or for the fairness of the opinions given. The authors do not accept any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, in connection with the use for any purpose of the information contained in this document.

You expressly agree that you use the information in this document at your own risk.

All information in this document is believed to be current as of the date of publication. Information may have been updated subsequently. The authors may make additions, deletions, or modifications to the contents at any time without prior notice.

This document reflects the authors' own interpretation and opinion of accounting and auditing standards and how companies and their auditors have applied those standards. No representation or warranty is made that any interpretation or opinion of International Financial Reporting Standards, International Standards for Auditing, other financial reporting and regulatory requirements or the application of these standards or requirements by individual companies or their auditors is correct, complete or fair, nor that they are incorrect, incomplete or unfair, or that the same views would or would not be arrived at by others. You should seek your own professional advice if making decisions that depend on the interpretation of any standards related to financial reporting or auditing, or other regulatory requirements.

The views expressed in this document reflect the personal opinions of the authors and not those of any other companies, organisations, committees or persons with which they may be associated.

Stripes image credit: Prof. Ed Hawkins www.showyourstripes.info