# ON THE ROAD TO A JUST TRANSITION:

## REPORT FROM A MULTI-STAKEHOLDER INVESTOR ROUNDTABLE WITH THE ENERGY SECTOR

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INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

INITIATIVE FOR RESPONSIBLE INVESTMENT

**Acknowledgements**

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On December 10, 2019, the Interfaith Center for Corporate Responsibility [ICCR] and the Initiative for Responsible Investment at Harvard Kennedy School [IRI] hosted a convening that brought together faith- and values-based investors, investor-owned utilities, labor unions, issue area experts and civil society advocates to discuss engagement with the energy utility sector on the Just Transition, understood as the incorporation of the needs and priorities of workers and communities into the transition to a low-carbon economy.

*"We can't get to where we need to be without bringing business, investors, labor and the community along the journey."*

The meeting grew out of work that ICCR and IRI have been doing to examine investors' role in supporting the Just Transition. ICCR has led a coalition of faith-based shareholders engaging utilities that, in conjunction with other responsible investors, has called for utilities to publish decarbonization plans that meet Science-Based Targets (SBT)[1] for constraining global warming to 1.5 degrees celsius. Over the past year, ICCR's work has increasingly focused on the Just Transition, exploring how shareholders can support decent work and equitable distribution of the costs and benefits across stakeholder groups in the context of this necessary transition.[2]

IRI, in collaboration with the Grantham Research Institute for Climate Change and the Environment at the London School of Economics, has worked on a project entitled Investing in a Just Transition, exploring the roles that investors can play in the transition via strategy development, shareholder engagement, capital allocation, and policy dialogue.[3] Together, the work of ICCR and IRI has revealed a significant group of investors who wish to engage on the topic of the Just Transition, but most have yet to develop plans to put into action.

Research and interviews with responsible investors and related actors as part of this work have highlighted two key points that helped lead to the organization of this meeting:

- Investors believe that a key to moving from interest to action will be clear guidance regarding investor expectations that can inform engagements with specific industry sectors, their conventional frame for engaging corporations on climate change; and
- Because the Just Transition requires a focus on the political-economic system as a whole, social dialogue across key stakeholder groups is fundamental to addressing the coordination of environmental, social, and economic goals.

Our meeting on December 10th was meant to workshop a sector-specific social dialogue to better understand how investors can engage energy utilities on the social concerns implicated in a low-carbon transition aligned with the Paris Agreement. The Roundtable was designed to begin an ongoing multi-stakeholder conversation, essential to which is relationship-building, and to prove how rich the conversation can be when multiple perspectives are in the mix. In this paper, we draw lessons learned from that meeting and research that anticipated it, to frame practices that engender productive engagement with the utility sector, as well as draw more general lessons for investing in a Just Transition.

## THE ROLE OF INVESTORS IN THE JUST TRANSITION


*"There are a lot of different perspectives on this issue and we need to break down the silos that we are operating in…and I see some of this happening in this room."*

The idea of a Just Transition emerged from organized labor in the 1970s and became established over the next two decades, its origins typically traced to the work of Tony Mazzocchi of the Oil, Chemical, and Atomic Workers' Union. This work argued for explicit support for workers and communities that might suffer because of the costs of pollution, environmental remediation, and loss of jobs as environmental policies came into effect. More recently, the language of the Just Transition has become part of global public discourse via the International Trade Union Confederation, which led the integration of "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs" into the text of the Paris Agreement. A related emphasis on the Just Transition has emerged from social justice and community advocacy organizations. For instance, the U.S.-based Climate Justice Alliance has adopted the language of Just Transition to call for "principles, processes, and practices that build economic and political power to shift from an extractive economy to a regenerative economy".[4]

These variations on the theme are unified by a shared set of beliefs about the importance of the topic:

- The challenge of the transition is systemic, and cannot be alleviated by technical fixes to energy use or carbon capture or by carbon pricing alone;
- The transition raises important ethical issues about the distribution of costs and benefits involved in a structural transformation of political economic systems; and,
- There are key instrumental reasons to focus on a Just Transition, as social cohesion is a precondition for work necessary to rapid decarbonization in line with the Paris Agreement.

Investors have increasingly adopted the language of Just Transition as an integrated component of their climate engagement and investment strategies, as witnessed by the inclusion of concerns for "stranded workers" and "stranded communities" into climate strategies addressing "stranded assets" by the growing group of signatories to the Principles for Responsible Investment's Investor Statement on a Just Transition. But the topic is still new, and specific, widely-adopted investor practices have yet to be developed.

One challenge for responsible investors is that their work around climate change has tended to focus narrowly on the reduction of carbon emissions or resilience to climate change, at the expense of the broader social mandate of the Just Transition. Carbon "foot-printing" and climate-related disclosure are often portrayed as easier to integrate into conventional shareholder engagement and capital allocation practices than social issues involving labor and communities. Most institutional investors do not have the relationships needed, or do not have the time to develop these, to engage in social dialogue with affected stakeholders, particularly labor and community organizations. Further, the systemic nature of the Just Transition involves multiple stakeholders and political consideration of costs and benefits that do not fit as easily into narratives about long-term corporate performance on a company-by-company basis. Finally, investors are one of many important actors in the Just Transition, conditioned by and ideally supporting the public policy and economic frameworks that will make the necessary transition possible.

For investors, this means both identifying the appropriate roles they can play to support a Just Transition and embedding their work in the broader exchange among policymakers, corporations, labor, community advocates, and investors that will generate the details of the Just Transition.


*"How can companies invest in natural gas pipeline replacement for safe operation without knowing the runway to decarbonization?"*

## INVESTOR-OWNED UTILITIES AND THE JUST TRANSITION

There are a number of reasons for investors to concentrate on the utility sector in their climate and Just Transition investment strategies. Perhaps most obviously, the utility sector is broadly responsible for 31% of GHG emissions in the United States through the production of electricity from fossil fuels, and the supply of fossil fuels to businesses and homes for heating and other uses. In addition, the energy utility sector will be an essential factor in decarbonizing other key sectors of the economy, primarily transportation and building heating and cooling. Any plan for decarbonizing the U.S. economy will have to prioritize the utility sector, and significant resources will be necessary for utilities to switch to clean energy production and provision.

Further, the utility sector is tangibly embedded in a broad array of stakeholder networks that make considerations of the social consequences of decarbonization especially clear. Utilities are highly regulated, and the role that public policy plays in framing choices about future production is relatively transparent, depending on the region. Utilities often employ large skilled workforces in energy production, transmission, and maintenance, with relatively high union density in comparison to other occupations, providing avenues for worker engagement. Communities comprise the utility's ratepayers, who see the costs, effects and fairness of service delivery in their homes and on their bills; and community activists are regularly engaged in identifying the costs and benefits to different groups experiencing the externalized environmental and social costs of energy production and distribution. These externalized costs are felt directly, often most often by minority communities, in the form of air and water pollution, coal ash particulates and toxic emissions from natural gas pipelines and compressor stations. Energy provision is widely understood to be a fundamental social good on which these various groups of stakeholders – policymakers, workers, and community members – have an important say.

Utilities are structured in many different forms, including public, cooperative, and investor-owned. Responsible investors have used their status as shareholders to engage investor-owned utilities on key sector-wide issues related to scenario planning and science-based targets for decarbonization according to the Paris Agreement. A key target of these engagements is the utilities' disclosure of enterprise-level decarbonization plans that align with Paris commitments, and business plans to make these commitments meaningful. Investors argue that, without these plans, they do not have the necessary information to evaluate corporate strategy and long-term prospects in the face of the massive transition made necessary by the climate crisis. These investors have met with some success, with a number of investor-owned utilities releasing plans that can then form the basis of ongoing dialogue over the scale and pace of decarbonization plans.

In sum, responsible investors have led successful climate engagements with investor-owned utilities; and because of clarity of the ties that workers, communities, and the public sector have to utilities, it is a sector ripe for broad social dialogue around the Just Transition. For these reasons, IRI and ICCR chose to focus on the utility sector as part of our work on investing in a Just Transition.

## ENGAGING WITH UTILITIES ON THE JUST TRANSITION: WHAT WE LEARNED FROM THE MEETING ON DEC. 10

The meeting on December 10 was the result of months of preparation and engagement with the utilities, labor unions, environmental groups, community advocates and organizers, and related stakeholders who attended. This preparation was necessary in part because the practice of social dialogue among these groups, especially as it relates to shareholder engagement on the Just Transition, has yet to emerge as common practice. The various groups in the room that day have different goals and organizing principles, past relationships that may have been collaborative or adversarial, and there are distinct power differentials in terms of access to resources and influence. Participants recognized the meeting as a first step in creating ongoing fora for social dialogue, rather than an effort to solve a problem through a meeting.

The scope of the Just Transition challenge emerges from the scale and speed of the decarbonization plans implemented by utilities in light of the climate emergency. The day began with the participating utility representatives walking attendees though their public decarbonization plans to ground the discussion. While the plans vary in ambition, with discussion centering especially on the rates at which utilities move away from fossil fuel energy from coal and natural gas on the path to zero emissions by 2050, they all involve major changes in the utilities' business activities. For the purposes of this meeting on the Just Transition, the plans revealed inevitably significant effects on ratepayers, communities, and workers that will come even from plans that have not met Science Based Targets for decarbonization. At the same time, it is clear that the utilities' plans focused on decarbonization primarily as a technical and economical challenge, rather than the broader political and social context in which that process takes place. The plans did not yet have clear policies and commitments to those stakeholders framed around the Just Transition.

The decarbonization plans formed the backdrop of subsequent discussion among different stakeholder groups about both the social issues implicated in a low-carbon transition – i.e., the loss of well-paid jobs with benefits, outright job losses, utility rate increases, and the loss of tax revenues for municipalities suffering plant closures – and the processes through which these social issues can be addressed.

*"We need to ensure that low income consumers don't bear the brunt of this transition."*

*"Bring labor in early – make a commitment to good jobs – and the transition will go much smoother."*

*"I haven't heard anything on the negative externalities – impacts on air, water and the land that cause harm to the communities' health."*

Community groups focused on the differential impacts of the transition on the most vulnerable communities, who already disproportionately bear the cost of pollution and other effects of the carbon economy and are the least able to afford as ratepayers the costs of transition. These groups highlighted place-based work bringing together community and ratepayer advocates in cross-sector alliances with workers and others to address needs too often left out of political decision-making around energy production. They made clear the intersection of racial and environmental justice integral to a Just Transition.

Labor union representatives spoke to the challenge of transitioning workforces from carbon-intensive to decarbonized energy production, especially around the risks of losing jobs, and in terms of the quality of jobs currently provided in unionized work vs. the lower-paid and often precarious work in emerging clean energy sectors. They emphasized the need for labor issues to be integrated into transition plans from the outset, with clear policies for new jobs in energy production, plant closings, and environmental remediation. They spoke to the importance of integrating labor protections into RFPs and supplier contracts, and the need for significant investment in worker training with sufficient advance notice as part of the transition.

Environmental groups covered a broad set of issues related to the technical challenges of decarbonization, and policies useful in moving that forward. They emphasized the need to move quickly out of gas as well as coal, given the fact that natural gas still emits at least 50% of the $CO_2$ of coal, with significant methane leakage across the value chain.  A variety of policy and business model issues were also raised: the importance of understanding in detail the mechanics of rate-setting, the need to decouple utility revenues from the sales volume of energy, the potential for creative financing models including tax, on-bill financing, and securitization in the cause of decommissioning carbon-intensive production, and the special importance of the policy environment that governs utilities' business practices. Also of note, fossil fuel-based energy generation and use results in other, non-climate emissions that negatively impact fence-line community health.

Investors highlighted transparency and reporting on corporate governance, policies, plans, and activities related to the workers and communities in the transition. Responsible investors engaging on the Just Transition may find themselves engaging as plans are already being implemented. Transparency and engagement before utilities take significant steps in decarbonization are necessary for investors to assess utilities' preparedness for the transition and its broader social effects. Investors further asked for information related to community and labor voice in corporate decision-making, about the process of engagement, and about transition plans.

Each stakeholder group, from utilities on, emphasized the need for trust and ongoing communication as the basis for effective relationships. The question of utility decarbonization naturally forces the question "who pays?", and a great deal of trust and effective process is necessary for constituent groups – from communities and ratepayers, to labor and investors, to environmental groups, to the corporations themselves – to be convinced that their interests are fairly represented. Parallel discussions elsewhere – such as the work of the Coal Commission in Germany – provide useful reference points for relationship-building that lead to practical action.[5]

Some key places of overlap emerged from the discussions of stakeholder positions. For instance, there are common areas of concern that build bridges across stakeholder groups. Safety of energy production and gas distribution, the latter, an issue of particular concern in Massachusetts at the time of the meeting, has helped bring together labor, environmental, and community activists. Many participants emphasized the possibilities of including Just Transition in corporate governance structures, suggesting Just Transition functions at the board level and annual board meetings that feature the various stakeholders represented in this paper. Finally, participants universally agreed that the key role of policy – legislation and regulation both – fundamentally shapes Just Transition outcomes and needs to be a central focus of social dialogue on the topic.

# INVESTOR EXPECTATIONS FOR UTILITIES: SHARPENING SHAREHOLDER ENGAGEMENT STRATEGIES

*"Investors sometimes come with a broad brush – general questions, then move to the next general question. They miss the opportunity to dig deeper into a specific area to promote change."*

The first half of the meeting focused on modeling social dialogue on the Just Transition. The second half was devoted to the task of generating – across the stakeholder groups present – a framework for specific investor expectation of utilities that could be adopted in shareholder engagements, such as those led by ICCR and its members.

During the past year, IRI has led a series of workshops and interviews with signatories of the Principles for Responsible Investments' "Investor Statement of Commitment to Support a Just Transition on Climate Change", along with other interested investors, to better determine the strategies and actions that might follow from this commitment.[6] The feedback from these interchanges highlighted the need for engagement protocols that would allow for the broader Just Transition agenda to be incorporated into existing shareholder action on the climate crisis. In particular, investors highlighted the need for set of investor expectations for corporations that are:

- Tailored to industry sectors to ensure enough specificity to be meaningful in shareholder dialogue;
- Short and clear enough to be merged into existing climate investment protocols already in use collectively by groups such as ICCR or the Climate Action 100+;
- Draw on existing norms and principles such as the *UN Guiding Principles on Business and Human Rights* or the ILO's "Guidelines for a just transition towards environmentally sustainable economies and societies for all"[7]
- Incorporate guidelines and metrics that make transparent the specific goals for supporting workers and communities and whether they are delivered.

The goal of these investor expectations is not to reinvent the wheel, or add a wholly new engagement practice, but rather to make climate engagement reflect the broader implications of the low-carbon transition through the integration of Just Transition Principles.

The group conducted an initial brainstorming of investor expectations that reflected the early stage of social dialogue and the unusual confluence of stakeholders in the room. From this, a set of issues around which stakeholder engagement could take place emerged from the discussion and can form the basis for a set of investor expectations that can be put into practice.

These include [note that these presume a policy of decarbonization in light of science-based targets]:

- **Governance:** What board level functions address the effects of the low-carbon transition on communities and workers? What mechanisms are in place for communities and workers to engage in planning for the transition? How are risks identified and allocated across key stakeholders?
- **Workers:** What policies are in place for responsible contracting, worker retention, and targeted hiring across the range of labor needed for plant closure, remediation, and clean energy development? What commitments has the utility made and resources provided to ensure equitable treatment of workers negatively affected by the transition?
- **Communities:** How are distributional effects of the transition across communities measured and managed? What specific policies and resources are in place to support communities negatively affected by the transition?
- **Ratepayers:** How does the utility define affordability? What policies are in place to manage affordability across a transition, especially for those most in need?
- **Policy:** what kinds of public policies and regulatory oversight are necessary to achieve a Just Transition? How have utilities supported (or opposed) such policies as part of the policy engagement and through trade association memberships?

The challenge is to take these key issues and attach key metrics and clear, standardized processes to them, for purposes of guidance and accountability. Participants are at work developing these to be brought back to the larger group for evaluation.

# CONCLUSION AND NEXT STEPS

*"We need to be both urgent and just."*

The meeting concluded with a general affirmation for the need for regular contact across the various stakeholder groups represented in the room, as well as specific places and events where Just Transition can be especially relevant, whether they be plant closures, new regional climate plans, or new climate investment products. As noted, there is clear follow-up work to do on the specific goals and metrics to build into investor expectations of utilities. Progress was made on both the meeting's goals of social dialogue around Just Transition and concrete, sector-specific mechanisms for translating investor concern into practice.

*"We need to build trust; be clear on whose interests you are advocating for."*

The concluding discussion focused on a key element notable for its absence in the room: public policymakers and regulatory bodies are central to any conceivable Just Transition. The political, ethical, and technical challenges of utility rate-setting govern what is possible. Participants across sectors emphasized that social dialogue on the utility sector can only be effective to the extent that it points to and builds political power for enacting a set of policies that fairly shares the costs and benefits that will come from a low-carbon transition. Transparency on policies, processes, and resource allocation will not solve the fundamental of "who pays?" And without political power attentive to the interconnected fields of racial, social, labor, and environmental justice, that question will not be answered fairly.

To that end, social dialogue that informs shareholder engagement can play an important role in workshopping methods to balance competing stakeholder interests and informing the private sector allocation of resources that supports the development of comprehensive public policy, for an integrated approach to the systemic challenge of the Just Transition.

*The views and opinions expressed in this report are those of the authors and do not necessarily reflect the official policy or position of any of the participants.*

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[1] https://sciencebasedtargets.org/

[2] For an overview of ICCR's work on the Just Transition, see: https://www.iccr.org/program-areas/climate-change/just-transition-clean-energy-economy

[3] For an overview of the project's approach, see Climate Change and the Just Transition: A Guide for Investor Action, Nick Robins, Vonda Brunsting and David Wood 2018, found at: https://iri.hks.harvard.edu/files/iri/files/ijt_guidance_for_investors_web_singles.pdf

[4] For useful background see Mapping Just Transition(s) to a Low Carbon World, Just Transition Collaborative 2018, found at: http://www.unrisd.org/80256B3C005BCCF9/(httpPublications)/9B3F4F10301092C7C12583530035C2A5

[5] For background on the Coal Commission see: https://www.cleanenergywire.org/factsheets/german-commission-proposes-coal-exit-2038

[6] The "PRI Investor Statement Supporting a Just Transition on Climate Change" is found at: https://www.tfaforms.com/4694571

[7] The Guiding Principles can be found here: https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf and the ILO's "Guidelines for a just transition towards environmentally sustainable economies and societies for all" can be found here: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf

# ADDENDUM ICCR-IRI JUST TRANSITION ROUNDTABLE PARTICIPANTS

## ROUNDTABLE ORGANIZERS:

**ICCR (Interfaith Center on Corporate Responsibility)**

- Christina Herman, Program Director, Climate Change & Environmental Justice
- Josh Zinner, Chief Executive Officer
- Samir Jagdish, Research Assistant, Climate & Environment

**Harvard Initiative for Responsible Investment (IRI)**

- Vonda Brunsting, Program Manager, Just Transition Project, IRI
- David Wood, PhD, Director, Initiative for Responsible Investment (IRI) at the Hauser Institute for Civil Society, Kennedy School of Government, Harvard University
- Waide Warner, Research Fellow, IRI
- Andre Almeida Santos, Research Fellow, IRI
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**Energy Utilities:**

- AEP – Scott Weaver, Director Air Quality Services
- AES – Adriana Roccaro, Senior Manager of Sustainability
- CMS – Lynn Wilson, Public Affairs & Stakeholder Engagement Manager
- Duke – Victoria Sullivan, Director, Climate Policy
- NRG – Laurel Peacock, Director of Sustainability
- PSEG - Carlotta Chan, Senior Director, Investor Relations
- Southern Company - Jeff Burleson, SVP, Environmental & System Planning
- WEC - Peggy Kelsey EVP, General Counsel & Corporate Secretary

**Asset Owners/Asset Managers:**

- Seventh Generation Interfaith Coalition for Responsible Investment - Frank Sherman, Executive Director
- As You Sow – Lila Holzman, Energy Program Manager
- Bâtirente - François Meloche, Head of Corporate Engagement (Æquo)
- Calvert Research and Management – Stu Dalheim, Vice President, Shareholder Advocacy Manager
- Climate Majority Project – Eli Kasargod-Staub, Executive Director, Majority Action and the Climate Majority Project
- Friends Fiduciary – Kate Monahan, Shareholder Engagement Manager

- Investor Advocates for Social Justice (formerly, Tri-CRI) – Mary Beth Gallagher, Executive Director
- Mercy Investment Services – Mary Minette, Director of Shareholder Advocacy
- Nathan Cummings Foundation – Valerie Boucard, Program Associate
- Shareholder Association for Research & Education (SHARE) – Kevin Thomas, Chief Executive Officer
- The Evangelical Lutheran Church of America (ELCA) – Ruth Ivory Moore, Program Director, Environment and Corporate Social Responsibility
- Unitarian Universalist Common Endowment Fund– Tim Brennan, Special Advisor on Responsible Investing

**Labor:**

- Blue/Green Alliance – Jessica Eckdish, Federal Affairs Director
- LiUNA - Erin Hutson, Director, Corporate Affairs
- LiUNA - Scott Gustafson, Director of Organizing
- LIUNA - Adam Lupino, Regional Policy Coordinator
- Utility Workers Union of America, AFL-CIO - Phillip Trombly, Regional Director of Offshore Wind

**Ratepayer Organizations:**

- Nat'l Assoc of State Utility Consumer Advocates (NASUCA) - David Springe, Executive Director
- Wisconsin Citizens Utility Board – Tom Content, Executive Director

**Community-based Groups:**

- ALIGN – Daisy Chung, Deputy Director
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- HEET - Audrey Schulman, Executive Director
- LAANE - Agustin Cabrera, Senior Community Organizer for Climate Initiatives
- Mothers Out Front - Joanie Parker
- NYC Environmental Justice Alliance - Eddie Bautista, Executive Director

**NGOs/Policy and Regulatory Experts:**

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- National Consumer Law Center, Jennifer Bosco, Staff Attorney
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- Rocky Mountain Institute - Uday Varadarajan, Principal
- Sierra Club – Deb Pasternak, State Director, Massachusetts
- Union of Concerned Scientists - Dr. Jeremy Richardson
- World Resources Institute - Michelle Manion, Lead Senior Economist in WRI's Economics Center

**Foundations:**

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**University:**

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