

## ICCR Just Transition & Energy Utilities: 2022 Investor Campaign Brief

The energy utilities sector offers a critical foundation for a Paris-aligned economy. The decarbonization of this sector would be a fundamental step towards broader decarbonization of many other sectors, including transport, building heating and cooling, and manufacturing. However, rapid decarbonization has profound implications on workers, ratepayers, and communities.

### **The Importance of a Just Transition:**

Decisions to cut emissions can affect jobs, livelihoods and a community's tax base as well as its economic and social fabric. Failure to address these impacts would not only be unjust and a missed opportunity, but the resistance generated by workers and community groups unfairly burdened by the energy transition would cause dangerous delays in meeting the Paris Agreement's goals. Put simply, if we are to have a successful transition to a low-carbon future, it must be a Just Transition.

A utility's impacts on workers and communities in the transition are often informed by its plans and commitments to phase out fossil fuels and invest in clean energy solutions. Because the energy utility sector largely unionized, and therefore a source of good jobs, it is important that the renewable energy projects taking the place of fossil-fuel generated electricity also be living wage jobs, with benefits. For the most part, jobs in the renewable energy sector are NOT unionized, although investor and societal concern about this issue can change the calculus. This is an important area for investors concerned about ensuring a just transition.

### **The Need for Rapid Decarbonization and Massive Capital Investment:**

According to a recent Sierra Club report, U.S. utilities must phase out coal and reduce greenhouse gas (GHG) emissions by 80% by 2030 to maintain a pathway consistent with a 1.5 degree C future. While emissions from electricity have fallen steadily in recent years, down 33% from 2005 to 2019,<sup>1</sup> electricity generation still accounts for 25% of overall U.S. emissions.<sup>2</sup> As the cost of gas has dropped in the last decade, energy utilities have shifted investments away from coal and towards natural gas, which has helped to lower these emissions, but companies continue to make investments in gas despite the costs of renewables (including some battery storage) having become competitive with gas prices.<sup>3</sup>

Wood Mackenzie has estimated that at least \$50 trillion in investment will be needed globally to reduce GHG emissions by 2050 to meet the Paris goals, and roughly half of that money needs to go to areas such as wind and solar power and battery storage. Another \$18 trillion is needed to

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<sup>1</sup> Sierra Club, [The Dirty Truth Behind Utility Climate Pledges](#), 2021.

<sup>2</sup> EPA, [Sources of Greenhouse Gas Emissions](#), 2021

<sup>3</sup> According to Lazard's latest energy analysis, the cost of discharging a 100-megawatt battery with a two-hour power supply is roughly on par with the cost of generating electricity from peaker plants. And, solar farms paired with batteries are becoming competitive with gas plants, producing power for as little as \$81 a megawatt-hour, while the priciest of gas plants average \$73 a megawatt-hour (Wall Street Journal, "[Natural Gas, America's No. 1 Power Source, Already Has a New Challenger: Batteries](#)," May 16, 2021)



modernize the electric grid, in part to transition to cleaner energies such as solar and wind. The Biden Administration is calling for billions in clean energy infrastructure investment and other climate spending to accelerate this transition in the U.S.,<sup>4</sup> further amplifying market signals that investment in solutions for decarbonization are needed now.

Yet, U.S. utilities are underinvesting in renewables and continue to double down on fossil fuels. According to a study of utilities responsible for 43% of U.S. electricity generation, these companies plan to add 250 MWh of new wind and solar to the grid between 2020 and 2030, which is equivalent to *only 19%* of their current coal and gas generation. This same study found that 32 of the 79 operating companies assessed are planning to build new gas plants totaling 36 GW through 2030, and that these 79 companies have only committed to retire 25 percent of their coal generation by 2030.<sup>5</sup> This discrepancy underscores the inadequate investment in clean energy from utilities that is needed to bring about a swift transition to a decarbonized energy grid. Furthermore, the Rocky Mountain Institute found that utilities and other investors are planning to invest over \$70 billion in new gas plants through 2025, even though 90 percent of those plants would be more costly than building out equivalent clean energy.<sup>6</sup>

This continued reliance on natural gas is, in part, driven by the classic utility business model which incentivizes capital-intensive infrastructure projects. In regulated markets, Public Utility Commissions authorize repayment by ratepayers, with a guaranteed rate of return, for approved capital-intensive infrastructure projects undertaken by utilities. Large infrastructure projects continue to be a source of revenue for utilities. In addition, long duration storage will be increasingly needed to handle the day-to-day and seasonal variability of wind and solar generation and to boost grid resiliency. Technology development as well as cost-decreases are needed for batteries to be a key part of the solution.

### **Concerns about Stranded Assets:**

Investors are increasingly concerned about stranded natural gas assets as the gas infrastructure being built now will last decades. Companies themselves are beginning to acknowledge these stranded asset risks.<sup>7</sup> Additionally, there are growing concerns about investments in potentially false solutions that prop up the fossil fuel industry and/or come with major safety and climate risks, such as a reliance on renewable natural gas, of which there is a limited supply, or hydrogen,<sup>8</sup> rather than a reduction of new gas production and associated emissions. Investors can play an important role in addressing these challenges by collaborating with labor and affected communities and integrating Just Transition concerns in their engagements with utilities.

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<sup>4</sup> Utility Dive, "[Biden proposes more than \\$2B for clean energy infrastructure, \\$14B+ increase in climate spending](#)," June 1, 2021.

<sup>5</sup> Sierra Club, 2021.

<sup>6</sup> Rocky Mountain Institute, [The Growing Market for Clean Energy Portfolios](#), September 2019

<sup>7</sup> "[Natural Gas, America's No. 1 Power Source, Already Has a New Challenger: Batteries](#)," Wall Street Journal, May 16, 2021.

<sup>8</sup> S&P Global, "[Hydrogen, RNG 'not ready for prime time' in gas grid – state policymakers](#)," June 1, 2021.



The future of energy utilities in a decarbonized world will require a significant shift in business model to incentivize investments in a decarbonized and distributed energy system that prioritizes clean energy, customers, communities and workers. Many of the changes in incentives will ultimately be driven by policy and regulation. Recognizing this important lever, investors will need to use their influence to support public policies and industrial strategies that align with Just Transition principles.

## II. Proposed Future Strategies

1. Continue to engage in a multi-stakeholder, place-based consultative process to inform ongoing investor engagements with key energy utilities on adoption and implementation of net zero targets in the pursuit of just transition. Expand this approach to regions where target companies operate.
2. Engage companies on the importance of aligning their climate lobbying with the Paris agreement, including at a local and state level, and the importance of elevating supportive climate lobbying in their list of lobbying priorities.
3. Given the importance of policy in the energy transition, investors will lend an investor voice to strategically important policy opportunities affecting utilities' decarbonization plans. This work would be in coalition with groups resourced to pursue policy work.

## III. Resources

- [Sierra Club Report: The Dirty Truth About Utility Climate Pledges](#)
- [IEA Net Zero by 2050: A Roadmap for the Global Energy Sector](#) - May 2021 report
- [FACT SHEET: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Union Jobs and Securing U.S. Leadership on Clean Energy Technologies](#)

## IV. 2022 Target Utilities List

For the 2022 ICCR Utilities Target list, please email [Christina Herman](#) if you are an ICCR member.