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Just Transition engagement report 2021



In partnership with



What is the Just Transition?

The concept of the Just Transition is to ensure that social issues are considered when moving to a low carbon economy. Rapid climate action that limits global warming to below 1.5°C prevents the worst human and economic costs of climate change; a Just Transition ensures that this climate action also supports an inclusive economy and avoids exacerbating existing injustices or creating new ones. In simple terms, a Just Transition takes account for the people affected by the shift to clean energy production.

The Just Transition was part of the Paris Agreement signed in 2015, committing world leaders to consider the social implications of the energy transition. At RLAM, our belief is that the Just Transition concept should not be used as an excuse to avoid or delay climate

action. To prevent the worst social impact globally, stopping climate change is an imperative.

To ensure global warming stays below 1.5°C we must achieve net zero globally by 2050. By doing so, we would protect the most vulnerable from the risks generated by climate change – such as heatwaves, flooding and pests – that disproportionately affect them. We would

also be leaving future generations with more stable environmental conditions in which to prosper. However, the 2050 target requires an acceleration of action now, and this implies additional costs today. A Just Transition is how we achieve net zero with those additional costs distributed in a fair manner.

Why does RLAM care about the Just Transition?

The social risk of climate action could be a significant barrier to achieving net zero, and therefore must be addressed. Financial and social inclusion are also important drivers to RLAM's purpose – we believe that by ensuring a Just Transition we can support in parallel our decarbonisation and social inclusion aims.

We believe we have a significant role to play in engaging with companies to ensure they understand the risks of ignoring or underestimating Just

Transition considerations. Failure to ensure societies' acceptance of their plans presents a risk to the companies, to the sector, to us as investors, and to society as a whole. We share the view that economic and monetary policy, which shapes investment decisions of companies and investors towards net zero, should also consider Just Transition implications to enable a faster transition with better social outcomes. With adequate policy support, the scaling of investments to address climate change can generate jobs, revitalise communities and serve to support social mobility.



The Just Transition and the energy utilities sector

RLAM is a large investor in the energy utilities sector, which brings power into our homes and workplaces. The sector has a critical role in decarbonising the economy by shifting towards green electrification and away from fossil fuels. There are real risks of social backlash to the energy transition, which may deter it from happening, or significantly slow the pace of change. For example, the transition could lead to job losses or displacement from one community to another, and could lead to further increases to electricity costs before they finally begin to fall – average annual bills are expected to rise by over £100 by 2030 for a typical household. The current energy crisis in the UK market, largely driven by increases in natural gas prices, underlines how vulnerable certain consumers are to price fluctuations, and how market design needs to evolve to a rapidly changing sector.

Companies who acknowledge social challenges and plan for a Just Transition will be more successful in delivering on their commitment to low carbon growth. We believe energy utility companies should develop formal Just Transition strategies to manage social risk and ensure they continue to deliver good value for society and their investors. For this reason, we have engaged with the sector with our partner, the Friends Provident Foundation (FPF), since 2018.

Company-specific impact channels

Companies will fail to properly prepare for the Just Transition if they do not adequately manage the level of change its decarbonisation plans bring to workers, customers, communities, or supply chains. Without effective plans in place, they risk losing skills, its licence to operate and build new green infrastructure at scale, or its ability to source materials from suppliers. This makes the company subject to project delivery delays and other issues that

impact its business performance. As investors, the risk to us is that the company loses value, underperforms and does not deliver its expected returns.

Sector-level impact channels

At the sector level, if companies do not factor in the social impact of their decarbonisation plans, and facilitate signalling of vulnerable customers and customers being deprived of access to new energy services such as electric vehicle (EV) infrastructure, public

acceptance of policy could be reduced and decisions designed to advance the transition and protect customers may not take place. Without these policies in place, the transition to net zero will take longer. In the medium term, it means the sector will take longer to deliver its decarbonisation plans, with delays to ambitious renewable infrastructure plans and with the industry failing to deliver the expected level of returns. For investors like RLAM, the climate risks are systemic, and will increase physical climate risk across our portfolios in the long-term.

Our theory of change: Just Transition as an accelerator to net zero

At RLAM, our theory of change is based on the view that if we **ask** companies from our equity or credit portfolios to address key areas of social impact, they then have additional input in voices requesting to **address**

these areas. In doing so, they will **reduce** company-specific and sector-specific risks, increasing value for all stakeholders and public acceptability. This is more likely to make policy changes that meaningfully **address** climate risks, that results in a faster – and most crucially **smoother** – transition to net zero.

Just Transition accelerates net zero



Source: RLAM. For illustrative purposes only.

Our engagement with energy utility companies in partnership with Friends Provident Foundation

In 2020, we continued active discussions with seven utility companies, Centrica, E.ON, EDF, National Grid, RWE, SSE and Scottish Power, about trends transforming the power sector. While most were already working on decarbonisation plans, the majority had

not yet established specific approaches to addressing the Just Transition, or the social implications of their decarbonisation efforts. In response, we requested formal Just Transition strategies. Positive meetings were held, including at CEO level, and we were invited to formally ask the question at SSE's AGM.

In November 2020, we published the key goals of our engagement in the

'Expectations for energy utilities' Just Transition strategies', which asked companies to meet four key requirements relating to workers, communities, supply chains and consumers (listed below). Our aim was to encourage these companies to place social considerations at the forefront of net zero strategies, to measure the social impacts of their net zero plans, and to address issues relating to the four stakeholder groups.

Expectations of a Just Transition strategy

Workers



Early engagement and ongoing dialogue with workers and unions

Workers reskilling and redeployment, considering increased roles for renewable energy, electrification and digitisation, grid flexibility and demand management, heat decarbonisation, and energy efficiency

Provision of good quality new jobs with full adherence to International Labour Organisation (ILO) Core Conventions, e.g. collective bargaining, and improving diversity and inclusion

Community



Early engagement ahead of fossil fuel plant closure and community reinvestment

Fossil fuel site reuse to maximise retention of good quality jobs and utilise legacy grid infrastructure

Partnerships with local authorities and communities, including offering community ownership stakes in new renewable energy generation, and collaborations on local energy markets, demand management, and efficiency

Supply chain



Place-based emphasis on suppliers and services for new infrastructure, and seek to add value to communities where they operate

Supplier standards covering labour, human rights and sustainability. E.g. adherence to the UN Global Compact and ILO Core Conventions throughout the supply chain

Consumers



Energy affordability and fuel poverty alleviation, including energy efficiency and heat decarbonisation, and equitable distribution of system transition costs

Support for consumers, including vulnerable groups, to actively participate in the energy transition, including on-site generation, storage, and demand management

Engagement process and outcomes

Following months of positive engagement and feedback on several drafts, SSE published the world's first formal Just Transition strategy from an energy utility company. SSE's strategy included 20 principles to embed 'fairness' into its decarbonisation plans. A detailed review of each of the plans, and how they meet our expectations in addressing the four stakeholder groups can be seen below.

Our engagement process was collaborative and sought to partner with the companies' sustainability teams. All companies in scope were addressing social impact and many in innovative and effective ways, but they did not disclose their plans on social issues in a forward-looking way, understanding the implications of their net zero plans. The outcomes of the engagement build on the companies' extensive expertise, each Just Transition plan has an emphasis that is driven by their priorities and areas of activity within the energy market. RLAM and FPF provided support with our framing of the key aspects to address and by providing gap analysis, examples of best practice and in most cases giving feedback to the final strategies ahead of publication.

In December 2020, we asked companies to publish a Just Transition plan ahead of COP26, five of the remaining six companies responded in 2021:

- March 2021: E.ON published a section on Just Transition in its climate transition plan.
- August 2021: National Grid committed to addressing the Just Transition in its Responsible Business Charter
- September 2021: Centrica published its Just Transition plan
- October 2021: EDF published its Just Transition plan
- November 2021: Scottish Power published its Just Transition Plan

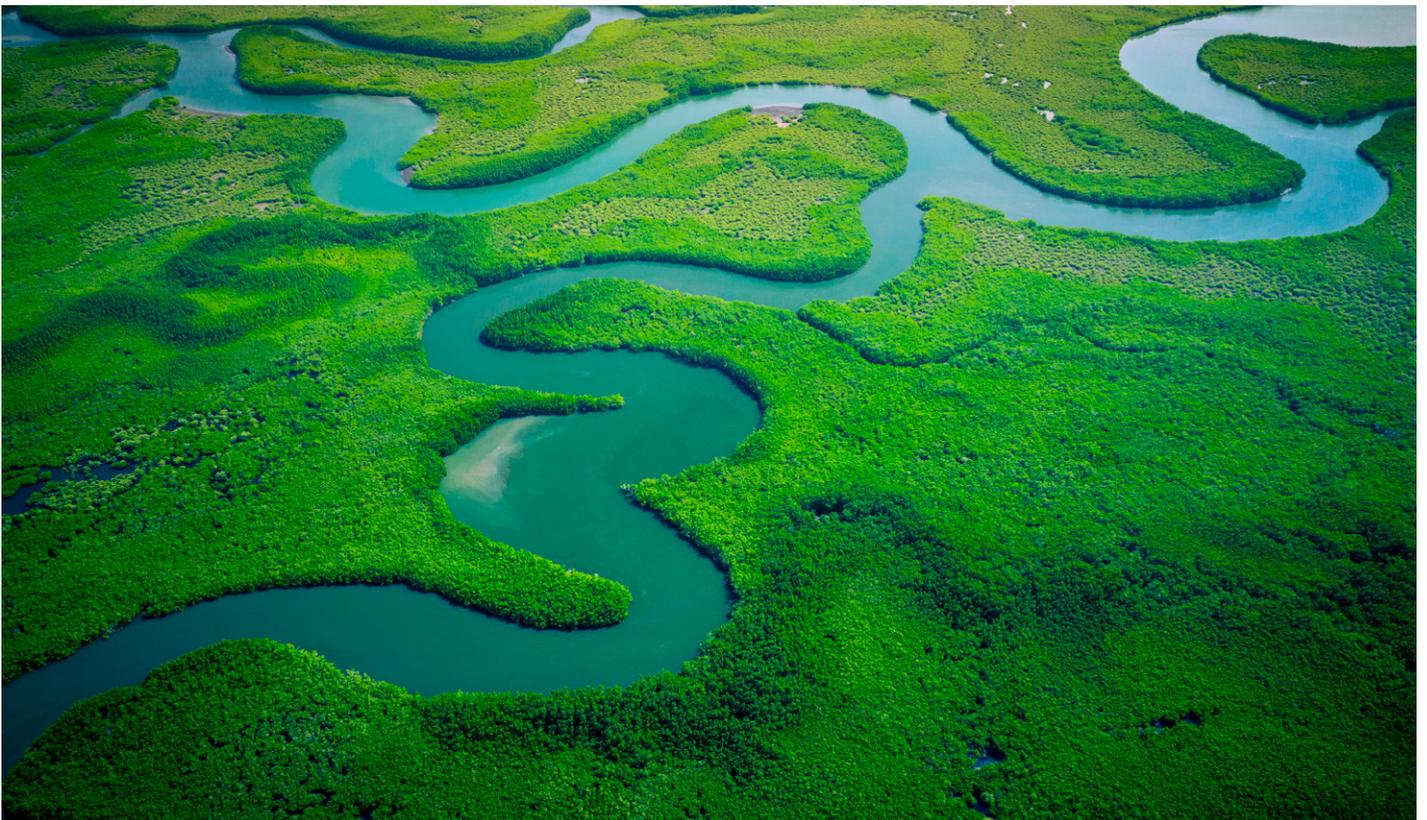
Partnering on Just Transition across the investment industry

In parallel to this engagement programme, which is in partnership with the Friends Provident Foundation, we continued with activities aimed at promoting the Just Transition concept within mainstream investing. We were active partners to the Financing the Just Transition Alliance and contributed to two of their reports in 2021.

- **From the grand to the granular:** translating Just Transition ambitions into investor action, where the utilities we engaged with are showcased as best practice and the investor expectations suggested are aligned and reference our own expectations.
- **Just Zero:** 2021 report of the Financing the Just Transition Alliance, which describes our engagement success and provide a series of useful recommendations for the sector and policy to drive this agenda further.

Alongside other members of the alliance, we wrote to the Prime Minister to ensure Just Transition gained relevance at COP26 and as part of the national policy debate. Furthermore, we provided feedback to a consultation process in the All-Party Parliamentary Group Local Authority Pension Funds report on "Responsible investment in a Just Transition 2021".

Finally, we contributed feedback to various iterations of the World Benchmarking Alliance Just Transition benchmark and the Climate Action 100+ Just Transition indicator.



Our focus on Just Transition in 2022

Our clients have also stated they want us to expand our focus on Just Transition. In an engagement consultation conducted with clients during the summer, Just Transition was voted the second-most important priority for engagement after climate change, or rather directly linked to it as we view it. We will focus on the following sectors:

Energy utilities

We will continue our partnership with FPF, engaging with companies that have delivered their Just Transition policy or strategy, to see implementation in action and attempt to measure outcomes or ideally, the social impact of the strategies. We will work on specific

engagement with US energy utilities in partnership with the Interfaith Centre of Corporate Responsibility (ICCR), which is already leading Just Transition work with eight companies.

Banks

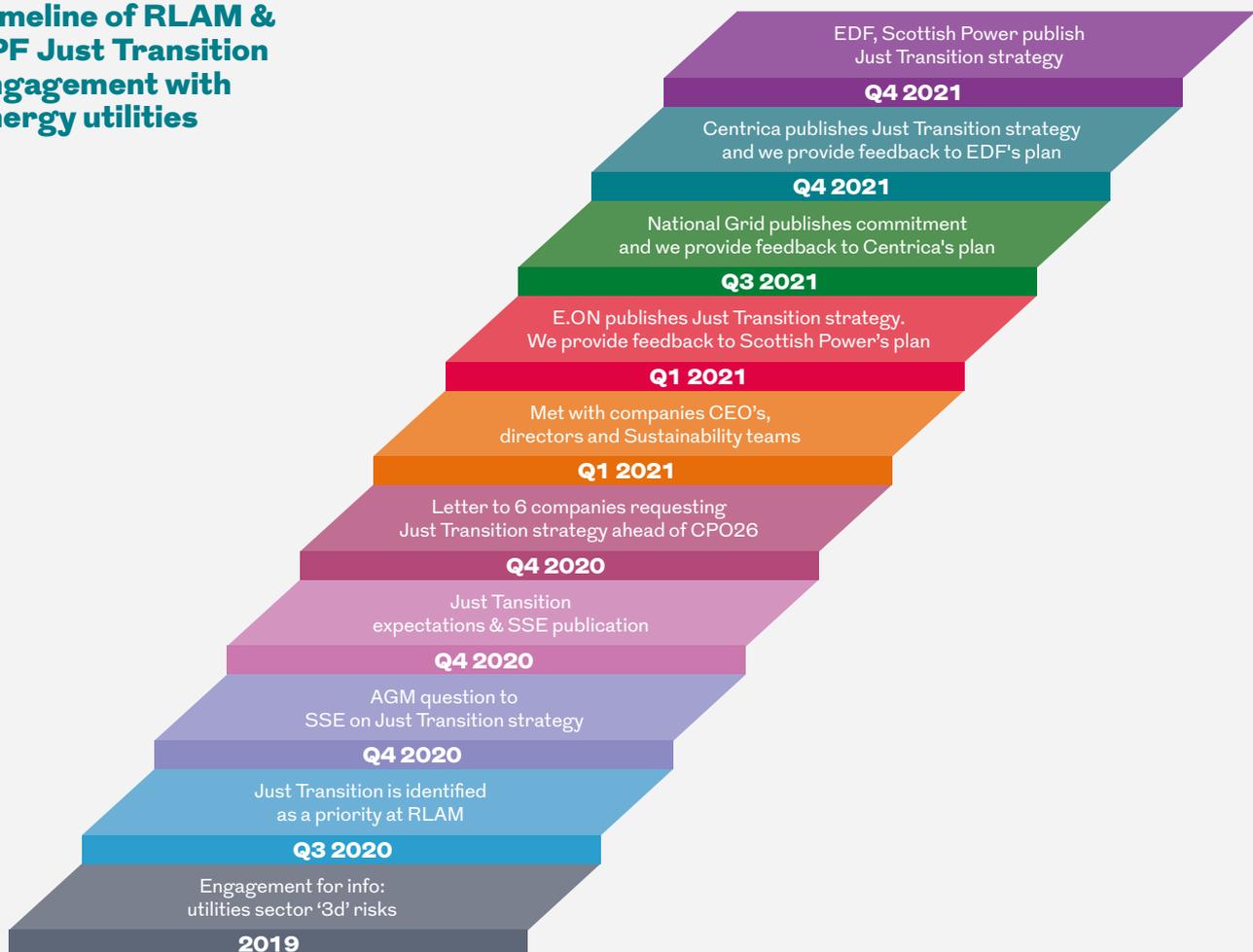
In 2021, through our net zero engagement, we asked five banks to consider Just Transition implications when developing their net zero strategies. We believe reallocating capital to net zero can be done in a way that supports better social outcomes and ensures quality jobs in the UK. Given the positive reception of the idea, and the need for further clarity on how to implement this request, in 2022 we are looking to engage with several targeted UK banks. We will do this in partnership

with FPF and backed by the research and priorities outlined by the London School of Economics in the report **Banking: the just transition in the UK.**

Social housing

We are long-term lenders to the social housing sector, and we are keen to ensure the sector can achieve net zero and is not negatively impacted by rapid decarbonisation requirements, but instead benefits from the transition. The emissions associated with heating homes are hard to abate and will require improved insulation and shifts to technologies that are still expensive or experimental. In 2022, we will work with companies in the sector on ways to preemptively address the challenges of net zero in social housing.

Timeline of RLAM & FPF Just Transition engagement with energy utilities



Source: RLAM

Heatmap of companies Just Transition strategies against RLAM & FPF Just Transition expectations

	 Alignment with company strategy	 Workers	 Community	 Customers	 Supply Chain	 Additionality
SSE	5	5	5	4	4	2
E.ON	3	2	3	2	1	1
Centrica	4	4	4	5	4	2
EDF	5	5	4	3	5	2
Scottish Power	3	3	3	3	2	2
National Grid	2	0	0	0	0	0
RWE	0	0	0	0	0	0

-  Best practice
-  Sufficiently addressed
-  Not addressed
-  Good practice
-  Partially addressed
-  Unavailable

Source: RLAM. As at January 2022



Appendix: summary of Just Transition strategies published under the RLAM & FPF engagement programme

	Just Transition strategies	Workers	Community	Consumers	Supply Chain
<p>SSE</p> <p><u>2020 Just Transition strategy</u></p> <p><u>2021 From principles to action: workforce</u></p>	<p>The Just Transition strategy sets out 20 principles that underpin the company's decisions in 'transitioning out' of a high carbon world and 'transitioning into' a net zero world.</p> <p>The 2021 report looks at how SSE implements the principles specifically for its workforce.</p>	<p>3,400 jobs were created in the UK as a business.</p> <p>SSE promises attractive standards for employees and offers permanent contracts (95% currently). Support for ILO convention principles, employee voice and diversity, retraining, STEM support and skills-based qualifications.</p> <p>One in five SSE employees previously worked in a high-carbon job. SSE suggests repurposing thermal generation with CCS and hydrogen.</p>	<p>Share more value, including shared ownership structures with onshore wind. Community consultation in closing and new infrastructure. Industrial development and cultural heritage.</p>	<p>Advocating for fairness in UK policy. Committing to better impact evaluations and cost-benefit analysis in establishing prices.</p>	<p>SSE commits to supporting competitive domestic supply chains in partnership with governments and enhanced diligence on human rights in new supply chains.</p>
<p>E.ON</p> <p><u>E.ON on course for Net Zero</u></p>	<p>This document is E.ON's position paper on climate. The paper reports E.ON's climate commitments and stance on Just Transition. E.ON describes social acceptability as crucial to the energy transition. Stakeholder dialogue and advocacy with policymakers are the mechanisms chosen by E.ON to contribute.</p>	<p>E.ON's focus is on green jobs as it has sold its fossil-dependent assets. It includes diversity, inclusion, digital and 'future-fit' skills and leadership as priority areas. E.ON includes commitments to ILO conventions and partnership with employees, and support in the process of change.</p>	<p>Partnerships with municipalities and with communities surrounding green infrastructure expansions. Detailed research at a local scale on policy pathways to support heat decarbonisation.</p>	<p>E.ON conducts public perception studies on climate and costs of the energy transition. It has mechanisms to gather customer feedback and link vulnerable customers to government support schemes.</p>	<p>E.ON does not directly address supply chain issues in this document.</p>
<p>Centrica</p> <p><u>Centrica Climate Transition Plan</u></p>	<p>Centrica's climate transition plan has a section specific to Just Transition. It believes the energy transition will increase costs, but these costs are lower than inaction. Centrica commits to minimising harm, maximising benefits for people, and ensuring no groups are 'left behind as we transition'.</p>	<p>Centrica is growing a greener, more inclusive and skilled workforce through British Gas Academies. It commits to ensuring the skilled workforce receives retraining to remain relevant and are consulted in the transition. Centrica has a Joint Council that includes union leaders.</p>	<p>Centrica proposes the repurposing of fossil fuel infrastructure for hydrogen. It has a social impact fund called Energy for Tomorrow, supporting communities and conducting Local Just Transition challenges in communities.</p>	<p>Centrica commits to working with the UK government to establish robust safeguards to energy prices and plan for increased costs. It provides grants and support mechanisms to vulnerable customers. Centrica backs the introduction of deeper 'Warm Home Discount' tariffs. It also aims to get customers more involved and become active participants in the energy transition.</p>	<p>Centrica has a responsible sourcing strategy and its top priority is ensuring human rights and ILO standards of working conditions. It has partnered with others in the challenge of solar panel sourcing. It also provides support to smaller suppliers.</p>

Appendix: summary of Just Transition strategies published under the RLAM & FPF engagement programme

	Just Transition strategies	Workers	Community	Consumers	Supply Chain
EDF EDF Just Transition report	<p>EDF describes the Just Transition as part of its purpose. Its human rights and health and safety commitments are considered pre-requisites. Beyond our four categories of stakeholders, EDF includes the planet's resources as a fifth priority, with biodiversity and water preservation. Union and community dialogue and advocacy are overarching. EDF describes a clear policy stance on EU ETS and Just Transition.</p>	<p>An important focus for EDF is redeployment and job creation, with 30 coal-fired units closed and 2,200 employees redeployed since 2018. Union leaders are represented at various levels of internal governance, and signed onto EDF's 2018 CSR strategy. 87.2% of employees are covered in collective bargaining. EDF also commits to bolstering inclusivity and ensuring quality jobs with competitive wages.</p>	<p>EDF measures indirect jobs and suggests 1.2% of jobs in France are linked to it. EDF also quotes local tax as a means of regional distribution. It has rigorous dialogue and consultation on infrastructure projects. EDF describes the impact and process of projects in India and Laos. It encourages development in vulnerable areas, for example, off-grid electricity generation in rural Africa. EDF is also facilitating energy community trading.</p>	<p>EDF describes the role of regulated tariffs in ensuring affordability. It describes a network of experts supporting vulnerable customers and describes three programmes supporting retrofitting and substituting boilers to heat pumps. It describes social innovation programmes such as apps to reduce consumption.</p>	<p>EDF describes its supplier purchasing policy, human rights, and ILO requirements. It has a social bond framework with proceeds targeting CAPEX on SMEs in areas with unemployment challenges in France. It develops local skills and capacity of companies and conduct audits—currently, 23.4% of annual procurement is with SMEs.</p>
Scottish Power Scottish Power Just Transition strategy	<p>Scottish Power believes inclusivity of climate action can accelerate it. It has four principles: a purposeful business; together with our communities; fair for current and future customers; and sharing expertise and opportunity.</p>	<p>Scottish Power's sharing expertise and opportunity principle focuses on skills and jobs in the UK energy sector, supporting apprenticeships and educational programmes. It is ensuring the green jobs created are catering for diverse backgrounds. Its ED-2 Business plan emphasises fair work and upskilling, including in digitalisation.</p>	<p>Scottish Power commits to working with local communities to have specific net zero plans. Its ED-2 Business plan for networks expanded on vulnerability and community energy. It is repurposing former industrial sites and creating community benefit schemes as part of the renewable infrastructure.</p>	<p>Scottish Power commits to providing support to vulnerable customers and tackling endemic fuel poverty through energy-saving programmes. It will focus on EV to ensure fair access to EV charging points. It partnered with WWF to engage in policy debates and pilot models that tackle the challenges of transitioning to low carbon heating.</p>	<p>Scottish Power doesn't fully address supply chain considerations. But as a retail energy provider, it encourages suppliers to be transparent about how renewable their energy is, avoiding greenwashing.</p>
National Grid	<p>National Grid announced in its Responsible Business Report 2020/2021 (page 30), it would publish a Just Transition strategy by the end of the year. In our conversations with the company, it explained how being a principal partner to COP26 has taken some of its sustainability team resources and caused a delay in the publication of this report. National Grid has verbally committed to publishing a Just Transition strategy by q1 2022. In our conversations, National Grid was keen differentiate the response between the US and the UK, given the different social realities and business units. It already operates good practice in the areas of community engagement, and green and inclusive job creation.</p>				
RWE	<p>RWE responded to our engagement by stating the company had no plans to develop a Just Transition strategy during 2021.</p>				

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