C2ES CENTER FOR CLIMATE AND ENERGY SOLUTIONS

Perspectives on a Just Transition in the Electric Utilities Sector

Ensuring a Just Transition

Addressing the worst effects of the climate crisis will require a swift and orderly transition to a resilient low-carbon economy. However, the transition to a clean and renewable energy system presents inherent risks like the exacerbation of inequality, geographic and sectoral asymmetry in the reallocation of workers from high-carbon jobs to low-carbon jobs, and the marginalization of vulnerable communities. For there to be a truly just transition, companies, unions, governments, and investors must center several elements in the pursuit of net zero ambition. These elements include intentional bottom-up stakeholder engagement, workforce empowerment and transformation, community resilience and a steadfast dedication to advancing social, economic and environmental justice.

Ensuring a just transition is central to the success of the energy transition. Just transition concerns are reflected in the Paris Climate Agreement[i] which references a "just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities". Just transition plans should align and reflect the ambition of the company's low-carbon transition plan and be updated regularly to reflect evolving dynamics. Just transition principals must be integrated into all aspects of transition planning and include board level oversight and accountability. Multiple guidance frameworks and disclosure recommendations have been developed to evaluate a just transition from entities such as the International Labor Organization[ii], Glasgow Financial Alliance for Net Zero, and World Benchmarking Alliance. However, these recommendations converge on a common set of themes that incentivize the shift from an extractive economic model to a more just, resilient, and regenerative one. [iii], Glasgow Financial Alliance for Net Zero[iv], United Nations Global Compact[v] and World Benchmarking Alliance[vi]. However, these recommendations converge on a common set of themes that incentivize the shift from an extractive economic model to a more just, resilient, and regenerative one.

Just Transition Plans Should Include:

- A public commitment to decarbonize within the principles of a just transition, including plans to retain, retrain, and upskill workers impacted by low carbon transition activities
- Stakeholder participation in the development, implementation, and evaluation of the transition plan
- Specifics on stakeholder engagement activities with unions, workers, community groups, and customers
- Strategies to include free, prior, and informed consent where the low carbon transition plan impacts Indigenous communities
- Information on capital allocation alignment for all just transition strategies
- Information on board and executive level oversight of the just transition plan
- Articulation and regular disclosure of metrics and KPIs used to evaluate just transition progress
- Aligned advocacy to incentivize and enable a just transition, along with actions to address areas of misalignment

- Articulation of human rights and environmental justice policies, and an explanation of how these policies are applied to the company's low carbon transition
- Human rights and environmental justice impact assessments for low carbon transition plans and emissions reduction strategies

Just Transition in the Electric Utility Sector

The utility sector is the second highest[vii] emitting sector in the US and plays a crucial role in decarbonizing large sectors of the economy. Any plan to decarbonize the US economy must address the sector. This will require significant resources given the state and capacity of the grid and the fact that generation has largely depended on fossil fuels. When thinking about a just transition within the sector, utility companies must evaluate both internal and external social impacts. Failure to properly account for these impacts in transition planning can create preventable delays, reputational harm, and costs for companies and have far-reaching implications for workforces, communities, and customers.

Transitioning the utility sector will disrupt and destabilize regional economies that have relied on the fossil fuel industry to provide community benefits. As we look to replace coal-fired assets with renewables, issues of equity, justice, and access emerge. In many cases, low-income and BIPOC communities are left to shoulder the social and economic burdens associated with the energy transition. In addition to job loss, many of these communities are left with the dirtiest and most expensive energy.

Currently, utility rates are determined based on usage, not household income. It is imperative to develop new rate models that employ means testing to assess household affordability. Last year, PG&E, Southern California Edison, and San Diego Gas & Electric proposed an income-based[viii] pricing system to the California Public Utilities Commission. Such mechanisms are crucial for ensuring equal access and affordability.

Engagement early and often with key stakeholders is essential to a smooth phase-out of high-emitting legacy assets. Multi-year phased retirements should be co-developed with the participation of communities, be informed by an articulated just transition approach and employ environmental justice analysis. Retirements should be paired with plans for alternative low-emitting economic development opportunities that seek to repurpose decommissioned facilities whenever possible and address any residual health and safety impacts. Throughout this process, companies should collaborate with investors to identify ways to improve project risk returns, address barriers to scale, and create mechanisms to more efficiently quantify benefits.

Utilities employ large workforces within energy production, transmission and maintenance. These workforces tend to have higher union affiliation in comparison to other occupations, making them better arranged for engagement and widespread workforce development efforts. This arrangement can be leveraged to enable the accelerated re-training, upskilling, and redeployment of affected labor forces, which is essential to fully realize the benefits of the utility transition. Currently, there are not enough skilled workers to fill vacancies within the solar and wind industries. Companies that position themselves as first movers and actively engage with workers and unions can efficiently retrain employees in areas like solar installation and wind turbine maintenance and reap significant benefits. Conversely, companies that drag their feet are in jeopardy of exacerbating hardships on workforces and becoming laggards in the sector.

Investor Perspectives on Just Transition in the Electric Utilities

Investors are increasingly seeking information from electric utility companies on their just transition plans and policies to better understand how they intend to manage the risks and opportunities associated with the transition. Due to the vital role the sector plays in decarbonizing the economy, it is essential that robust multi-dimensional strategies are developed and implemented. Misguided actions to address climate goals have the potential to create negative externalities for customers, investors, workers, communities, and ecosystems. Utility companies looking to align with a low carbon future must take steps to ensure they approach transition utilizing an equity lens that seeks the consent and participation of key stakeholders when shaping plans, policies, and activities.

It is part of investors' fiduciary duty to mitigate long-term risk, which includes risks caused by the low carbon transition. A recent paper[ix] by the Initiative for Responsible Investment outlines several risks associated with the transitioning of the utility sector. These risks include political, reputational, systemic, and stakeholder risks. To address these risks and decarbonize at the rate necessary to meet the goals set out by the Paris Agreement, utility companies need to develop just transition policies and procedures. Policies must ensure proper oversight of plans and commitments, access to decent sustainable jobs for frontline communities, support for negatively affected stakeholders, and a commitment to continuous engagement. Taking these actions is pivotal to both creating resilient communities and long-term value for shareholders.

Examples from the Electric Utility Sector

Southern Company

Southern Company's transition plan demonstrates several leading practices. The company publishes a standalone just transition report that is updated yearly. The report is guided by a just transition commitment and informed by the company's just transition approach and principles. Southern has developed an employee transition support program in consultation with labor unions and the Center for Energy and Workforce Development. The program includes provisions to reskill, upskill, and redefine training to enable workforce deployment after carbon intensive asset retirements.

Sothern's plan also integrates a robust governance structure. Southern's board and the boards of their operating companies are tasked with overseeing climate-related risks including fleet transition and related issues that impact employees, communities, and customers. Southern Company's executive vice president of operations and the CEOs of each of their operating companies have primary executive oversight of transition activities and regularly report to the board. In addition, senior production officers for each electric utility have direct responsibility for upholding the company's Just Transition Principles. This includes working closely within their operating companies to guide integration within economic development, finance, human resources and labor relations.

Entergy

Entergy's just transition approach exhibits leading practice through its economic development and stakeholder engagement efforts[x]. A dedicated business and economic development team helps to offer partners local workforce recruitment opportunities, new project management support, and site selection tools to promote the rehabilitation of decommissioned or underused facilities in place of new construction in transitioning communities. Within communities where new projects are being considered, Entergy holds regular roundtables, community meetings, listening sessions and participatory planning events with local government, grassroots community groups, customers, local schools, and civic society organizations.

Dominion Energy

Dominion employs leading practices within its approach to workforce training and low-carbon project analysis. Dominion's just transition approach seeks to balance the operational need for reliability, affordability, and sustainability with career security. Dominion's just transition program developed an energy career center with union participation that offers tuition reimbursement for both full-time, part-time, union, and non-union workers. Dominion Energy demonstrates another leading practice by using an articulated environmental justice policy and third-party economic analysis in all low-carbon project analysis and evaluation[xi].

Additional Resources

1. ILO Guidelines for a Just Transition
   https://www.ilo.org/publications/guidelines-just-transition-towards-environmentally-sustainable-economies

2. World Benchmarking Alliance – Just Transition Assessment
   https://www.worldbenchmarkingalliance.org/justtransition/#:~:text=In%20light%20of%20the%20crucial,social%20challenges%20of%20a%20lo

3. Climate Justice Alliance – Just Transition Principals
   https://climatejusticealliance.org/wpcontent/uploads/2018/06/CJA_JustTransition_Principles_final_hi-rez.pdf

4. CA100+ Net Zero Company Benchmark: Disclosure Indicator 9 Just Transition
   https://www.climateaction100.org/wp-content/uploads/2023/10/2023-Key-Findings.pdf

5. UNPRI: Statement of Investor Commitment to Support a Just Transition on Climate Change
   https://www.unpri.org/download?ac=10382

6. ICCR: Just Transition Roundtable Report

https://www.iccr.org/wpcontent/uploads/2023/08/iccr_just_transition_roundtable_report_2023_final.pdf

7. Movement Generation: From Banks to Tanks to Cooperation and Caring: A Strategic Framework for a Just Transition
https://movementgeneration.org/wpcontent/uploads/2016/11/JT_booklet_English_SPREADs_web.pdf

8. London School of Economics
https://www.lse.ac.uk/granthaminstitute/financing-a-just-transition/

[i] United Nations Framework Convention on Climate Change. (2015). *Paris Climate Agreement*. https://unfccc.int/sites/default/files/english_paris_agreement.pdf
[ii] International Labor Organization. (2018). *ILO Just Transition Framework*. Retrieved July 18, 2024, from https://unece.org/sites/default/files/2023-06/13.%20Martinez%20-%20ILC%20111%20Resolution%20Just%20transition_UNECE%20workshop%20mining%2020%20June%202023.pdf
[iii] Climate Action 100+. (2023). *Climate Action 100+ Net Zero Company Benchmark Framework 2.0*. https://www.climateaction100.org/wp-content/uploads/2023/03/Climate-Action-100-Net-Zero-Company-Benchmark-Framework-2.0..pdf
[iv] Glasgow Financial Alliance for Net Zero. *GFANZ: Expectations for Real Economy Transition Plans*. (2022, September). https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf
[v] United Nations. *Just Transition | UN Global Compact.* Retrieved July 18, 2024, from https://unglobalcompact.org/take-action/think-labs/just-transition
[vi] World Benchmarking Alliance. (2021). *Just transition | World Benchmarking Alliance*. https://www.worldbenchmarkingalliance.org/just-transition/
[vii] US EPA. (2015, December 29). *Sources of Greenhouse Gas Emissions* [Overviews and Factsheets]. https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions
[viii] Canary Media. (May 2023). *Income-based electric bills: The newest utility fight*. Retrieved July 18, 2024, from https://www.canarymedia.com/articles/energy-equity/income-based-electric-bills-the-newest-utility-fight-in-california

[ix] Initiative for Responsible Investment. (2020). *Investor Expectations on the Just Transition: Publicly Traded Energy*. https://iri.hks.harvard.edu/files/iri/files/iri_utilities_investor_expectations_final.pdf?m=1603132197

[x] Entergy. (n.d.). *Stakeholder engagement principles*. Retrieved July 18, 2024, from https://www.entergy.com/stakeholder-engagement/

[xi] Dominion Energy. (2022). *Dominion Energy Climate Report 2022*.