

EOS CASE STUDY

CENTRICA

EOS ENGAGEMENT IMPACT

February 2020



Engagement objective: **Environment**
Climate change

Reflecting our engagement requests, Centrica has set ambitious targets for the reduction of the emissions of its customers, which comprise over 90% of the emissions associated with its business, together with a commitment to set a pathway to net-zero emissions by 2050, in line with the goals of the Paris Agreement.

Key events



Engaged the chair, CEO and senior executives



Spoke at annual shareholder meetings over four successive years



Encouraged the ambitious targets set for the reduction in the emissions of its customers and its commitment to set a pathway to net-zero emissions by 2050

Sustainable Development Goals



Background

Centrica is a major provider of energy and related services and solutions, to over 26 million residential and business customer accounts mainly in the UK, Ireland, the US and Canada. It also owns a 20% stake in EDF Energy's existing nuclear power generation fleet in the UK and 69% interest in the oil and gas exploration and production business Spirit Energy.

Since 2015 the company has been refocusing on the customer, and services and solutions to enable the transition to a lower-carbon future. It intends to dispose of its interest in nuclear power and Spirit Energy by the end of 2020. The company's business model is shifting to take advantage of the trends of decentralisation, digitalisation, consumer power and decarbonisation driven by regulators, consumers and new disruptive technologies, but as a major provider of energy and particularly natural gas, it is still exposed to climate-related pressures.



Our engagement

EOS has engaged with Centrica since 2010 on its response to climate change, which has grown as a focus of our engagement since 2015. The company made good progress on reducing its own global emissions, which fell by more than 20% in 2015, with the carbon intensity of its power generation falling by 24%. It reduced its internal carbon emissions by 26% in the eight years to 2015, surpassing its 20% target and in 2019 set a new 10-year target for a further 35% reduction.

However, as a major supplier of gas, over 90% of the company's emissions are associated with its customers' use of energy, rather than its own operations. We broadly welcomed the shift in strategy towards more consumer-focused energy solutions and its reporting of carbon emissions reductions by its customers attributable to its energy services. However, we were concerned at the lack of targets or ambition for the reduction of the emissions of its customers. We were also concerned that the company had not clearly demonstrated that it had stress-tested the resilience of its business model to low-carbon scenarios consistent with limiting climate change to below 2°C.

We requested that the company set ambitious carbon reduction targets for customer emissions and seek to regain its coveted 'A' grade under the CDP rating system.

We therefore stepped up our engagement with the company in 2016, speaking at its annual shareholder meeting (the annual general meeting, or AGM). We requested that the company set ambitious carbon reduction targets for customer emissions and seek to regain its coveted 'A' grade under the CDP rating system. We continued to welcome progress whilst requesting further action and disclosure on climate change at each of the company's AGMs in 2017, 2018 and 2019.

Soon after the 2016 AGM, we met with the company's group head of environment, head of corporate affairs and company secretary to discuss how it might advance development of a published target for the reduction of emissions associated with its customers, as well as improved reporting. The company explained that it was seeking to improve its measurement of customer carbon emissions reduction before it could set a target. In 2017, among a series of further meetings, we met with the chair and were assured that progress would be made.

EOS was appointed lead coordinator of investors at Centrica as part of the Climate Action 100+ collaborative engagement initiative.

In 2018, EOS was appointed lead coordinator of investors at Centrica as part of the Climate Action 100+ collaborative engagement initiative, focused on achieving greater action on climate change at the top 100 most systemically important carbon emitters. We coordinated a meeting between investor representatives and the company's CEO and other executives in Q3 2018, at which we requested that the company raise its ambition to set a pathway to decarbonise its business in line with the goals of the Paris Agreement and also report on the resilience of the company to low-carbon scenarios in line with the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).

We later wrote to the CEO to reiterate our concerns, explaining that we believed it was now imperative to set out Centrica's long-term ambition for decarbonisation of the heat and power it provides, in line with the societal goals of the Paris Agreement. This letter was then positively referenced by the company in its 2018 Annual Report. We also co-authored an open letter to the utilities industry, setting out investor expectations on climate change which was published in the Financial Times in December 2018.

In 2019 we again spoke at the AGM welcoming the company's ongoing commitment to outlining the role it can play in the transition to a low-carbon economy but also asking that it: state its vision for achieving net-zero emissions from heat and power, and the role the company can play; review its corporate purpose in support of this vision; and explain how this aligns with its wider climate ambitions. We also reiterated these concerns to the newly appointed chair of the board.

“We have enjoyed constructive engagement with EOS and members of the Climate Action 100+ initiative. This has helped us to better understand and meet long-term investor expectations, as we develop strategic ambitions that are in line with the Paris Agreement and that will position us to play a key role in enabling the transition to a lower carbon future.”

– Iain Conn, group chief executive, Centrica Plc



Changes at the company

In 2017, the company gained third party assurance on its reported carbon reductions from its customers. In January 2019 the company gained an A grade in the CDP ranking, a Level 4 rating under Transition Pathway Initiative and in April 2019 the company published its 2030 Responsible Business Ambitions.

This included a target to enable the reduction of its customers' emissions by 25% below 2015 levels for the first time, to demonstrate that it is on track with the Paris goals, and to develop a pathway to achieving net-zero emissions by 2050 (building on an 80% reduction in its own emissions during the last decade).

In addition, in its 2018 Annual Report, the company confirmed its commitment to report in increasing alignment with the TCFD guidelines. It also stated that its board had already assessed its strategy against the risks and opportunities of decarbonisation scenarios in the UK and believes it is well placed to succeed in the energy transition. In July 2019 the company explicitly integrated the low-carbon transition into its corporate purpose: “Satisfying the changing needs of our customers, enabling the transition to a lower carbon future”.

Next steps

We welcome the progress made by the company in setting targets for its customers' emissions and the ambition to set a pathway to net-zero emissions. We continue to engage with the request to set out a vision for achieving net-zero emissions from each of heat and power, in line with the goals of the Paris Agreement, the role the company can play in the transition and the required actions of other stakeholders, including the wider policy landscape.

We also believe that with the recent change in chair and pending change in CEO, now is a good time for the company to further embed its new corporate purpose into strategy, planning and decision making to be more explicitly supportive of this vision, including setting the necessary corporate goals required to deliver them. We also continue to request publication of the results of the financial resilience to low-carbon scenarios together with the assumptions it has used, consistent with limiting climate change to below two degrees.



Andy Jones
Engagement, EOS

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