CASE STUDY

DUKE ENERGY

EOS ENGAGEMENT IMPACT

February 2020

Engagement objective: **Environmental**

Governance and disclosure of political and lobbying activity and donations

Engagement objective: **Governance**

Increased ambition for 2030 carbon reduction targets

Engagement objective: **Strategy, risk and communication**

Improved climate change reporting
Improved carbon risk management

Top three successes

- Commitment to net-zero carbon emissions by 2050
- Improved ambition of 2030 emission reduction targets
- Commitment to TCFD-aligned climate reporting and an inaugural climate report in 2018

Background

In 2010, Duke Energy adopted its first carbon dioxide emissions reduction target – it planned to reduce emissions 17% below the 2005 levels by 2020. The Clean Power Plan (CPP) was finalised in 2015 by the US Environmental Protection Agency, targeting power generation emissions reductions of 32% by 2030 relative to 2005. The Supreme Court stayed the CPP's requirements in early 2016 and it was never implemented.

At the end of 2015, although climate change had already been on the minds of investors, we felt that the international commitment to keep global warming to below 2°C would further increase pressure on carbon-exposed utilities, such as Duke Energy, raising serious risks, but also opportunities, from the energy transition. In 2019, the current US administration replaced CPP with the Affordable Clean Energy rule, with more modest requirements. However, the validity of this action will face a key legal challenge later in 2020.

Company overview

Duke Energy is one of the largest electricity, gas and renewables utilities in the US, providing electricity to 7.7 million customers and natural gas to 1.6 million customers across five states[1].

Sustainable Development Goals

[1] Duke Energy, 2019

Our engagement

Although Duke Energy had carbon reduction goals and plans in place to comply with the requirements of the CPP, EOS wanted it to demonstrate a broader corporate commitment to facing climate-related challenges, including setting emissions reduction targets beyond 2020. We also wanted to see clearer disclosure of the risks and opportunities to the business, related to climate change.

We first raised the implications of the CPP with the chief sustainability officer in 2014. The company indicated it was preparing for incoming policies, and in November 2014, we reiterated that faster progress was likely to be required, in light of advancing climate policies in the US and internationally. We met the chief sustainability officer again in 2015, who confirmed the company would double its renewables portfolio by 2020 and grow generating capacity whilst keeping emissions flat, through an expanding renewables portfolio and longer-term transition from coal to gas-fired power. However, while the company was confident of meeting its CPP requirements, it had not finalised longer-term targets for improving its performance on emissions, something we had sought since 2014.

We encouraged thinking about how the company could disclose aspirations for emissions reduction to 2050, given this would show greater clarity on an eventual coal exit.

We met again in 2017 to discuss support for shareholder resolutions which called on the company to publish a climate report aligned with the Task Force on Climate-related Financial Disclosures (TCFD), demonstrating how meeting a 2°C scenario would impact the business. We viewed such disclosures as critical to reassuring investors on the company's 2030 goals to reduce carbon emissions by 40% from 2005 levels, given indications that the incoming US executive administration might roll back some policies. We provided detailed feedback on practices the company could consider implementing.

We met with the chief financial officer ahead of the 2018 annual shareholder meeting, where he explained the company's plans for transitioning out of coal. We encouraged thinking about how the company could disclose aspirations for emissions reduction to 2050, given this would show greater clarity on an eventual coal exit. We also explained our support for a shareholder resolution at the company's annual shareholder meeting seeking greater disclosure of the company's political lobbying activity. In early 2019, we discussed in detail ideas for improved disclosure with key executives at the company's Charlotte headquarters, as well as greater ambitions for 2030 carbon emissions reduction targets. The company acknowledged our view that greater ambition was possible, given the rate of progress in its transition to lower-carbon generation over the previous four years.

Changes at the company

In 2010, Duke Energy adopted its first carbon dioxide emissions reduction target – it planned to reduce emissions 17% below 2005 levels by 2020. In 2015, the company committed to double the capacity of its renewable energy portfolio by 2020. In 2017, it set long-term targets for reducing emissions by 40% and the carbon intensity of its generating assets by 45% by 2030 (from 2005). In September 2019, it increased its 2030 reduction target to 50% and further advanced its ambition by indicating an aspiration of achieving net-zero emissions by 2050. These changes occurred in response to an evolving policy environment, rapidly changing economics of competing energy generation technologies, and broadening investor and stakeholder concerns around climate-related challenges.

In 2017, the company committed to publish TCFD-aligned disclosure on its climate-related risks and opportunities and, in 2018 it published its first TCFD-aligned climate report. In 2019, the company improved the clarity of its disclosures on lobbying, trade association and political expenditure, following the climate-focused shareholder measures, ahead of the annual shareholder meeting.

Next steps

Although the company has set ambitious greenhouse gas emissions reduction targets, we believe there may be room for faster retirement of coal power, as well as further opportunities to optimise the balance of gas and renewables with energy storage and distribution. We therefore want to see the company's targets externally validated as in line with a science-based targets framework. Importantly, we believe that Duke Energy and its peers must continue to align strategy with below 2°C pathways, despite uncertainty introduced by litigation on the weaker Affordable Clean Energy rule introduced in 2019. However, we recognise that the company must work with its regulators to balance clean energy goals with a legally required mandate to provide reliable and affordable energy, and we continue to engage the company to understand this dynamic and the evolution of regulator expectations in detail.

We continue to encourage the company to ensure climate reporting emulates emergent best practices in utilities and provides an illustration of progress on decarbonisation below 2°C pathways, which could also improve its CDP climate score. This includes increasing the transparency of its lobbying and political activity in the US beyond legal requirements, such as voluntary disclosure of all payments to trade associations and grassroots organisations.

Finally, we want to see the company set out its strategy for managing the impact that decarbonisation could have on jobs in power generation, given the differing nature of labour for renewable energy technologies. This will require thoughtful engagement on just transition strategies at the company, and across the entire sector, given the potential for significant workforce disruption.

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Engagement

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