# Alliant Energy:

## engagement commentary

Federated Hermes SDG Engagement Equity Fund
Q3 2020

Federated Hermes
International

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# ENGAGEMENT COMMENTARY: Alliant Energy

Alliant Energy is an integrated utility company supplying electricity and natural gas to retail (residential, commercial and industrial) and wholesale customers in the US.

## Investment case

Alliant Energy is a well-managed, diversified utility company that operates in Wisconsin and Iowa and serves an economically diverse region. The firm has a clear plan outlined for capital expenditure and operates in a favourable regulatory environment. The increasing number of different renewable energy sources, coupled with the declining role of coal-producing energy sources over time, offers the company the potential to increase its rate base. We believe that this potential has not been sufficiently recognised and valued by the market.

In the five years to **2023** the firm aims to have increased its renewable capacity by **400%** and reduced its coal capacity by **36%**

**Alliant is on course to transform the energy mix it uses to generate electricity, with the potential to accelerate this transition even further.**

Beyond the environmental (reduced greenhouse-gas emissions) and social (affordable energy and economic development) benefits, an accelerated transition from fossil-fuel to clean-energy generation has the potential to help the company from a financial perspective. Shutting down expensive coal plants and investing in cheaper renewables should create a virtuous cycle and accelerate profit growth. Overall, the transition to using clean energy should help reduce greenhouse-gas emissions, lower customer bills and generate additional profits.

## Engagement summary

Alliant is on course to transform the energy mix it uses to generate electricity, with the potential to accelerate this transition even further. In the five years to 2023, the firm aims to have increased its renewable capacity by 400% and reduced its coal capacity by 36%. Alliant has achieved positive progress so far in delivering cleaner and cheaper energy to its customers.

## Theory of change

By investing to expand its clean-energy capacity, battery technology and infrastructure, the company should be able to transition away from its historically predominantly fossil-fuel (and principally coal) electricity generation. In doing so, it is able to meaningfully contribute towards a goal of providing affordable, reliable and modern energy to its customers in Iowa and Wisconsin.

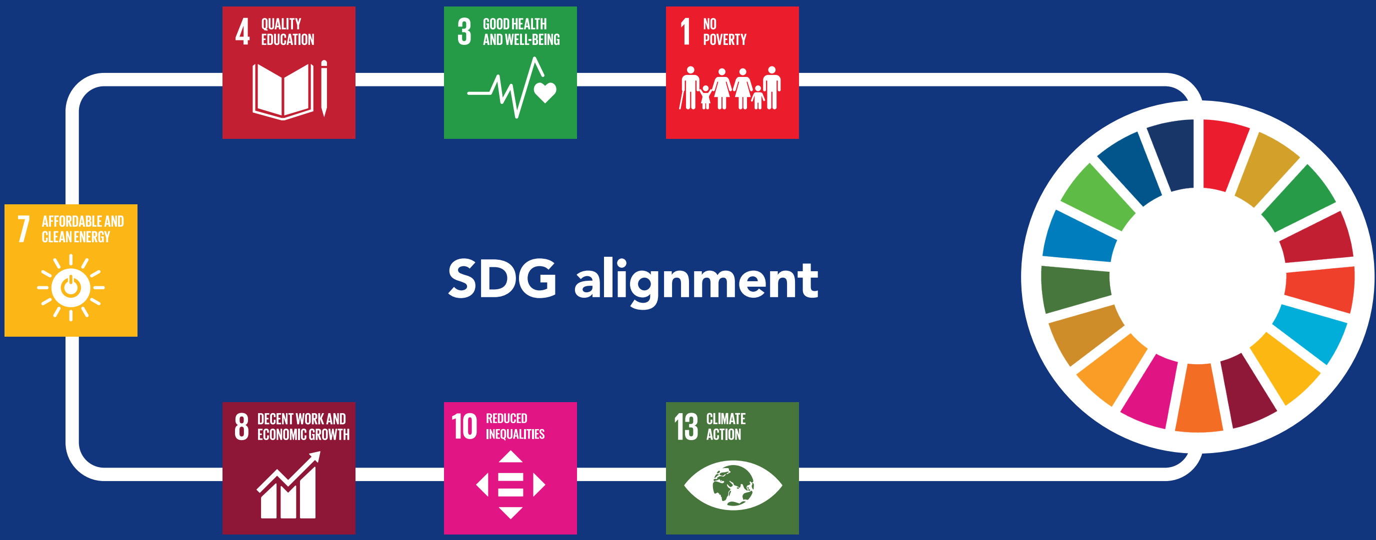
**In 2018, Alliant set its first public sustainability targets for 2030 and 2050.**

## Practice of change

Since we invested in Alliant, we have engaged with multiple individuals in the business, including both the current and former CEO (who was also the President). We are pleased with how receptive the management team has been, as well as – more pertinently – the progress made in a short period of time.

In 2018, Alliant set its first public sustainability targets for 2030 and 2050. This summer, it revised these by bringing forward its goal to eliminate coal from its generating base from 2050 to 2040 and setting a new target to achieve net-zero $CO_2$ emissions from generated electricity by 2050. We applaud this rapid progress.

# SDG alignment




## Engagement timeline

**Energy mix targets:** Our objective is for the company to transition its energy-generation mix away from fossil fuels and towards renewable energy. We wish to see a clear strategy articulated with meaningful short, medium and longer-term targets for capital expenditure, with associated targets for its energy mix.

### Key

| | Completed objective | Open objective |
|---|---|---|
| Energy mix targets | | |
| Customer satisfaction targets | | |

**Customer satisfaction targets:** Customer satisfaction is clearly an important metric for a utility business and has been linked to financial performance, as a highly satisfied customer base can be an early indication of future return on equity. Encouragingly, customer satisfaction has a 15% weighting in the composition of the executive's bonus. Less positively, performance targets have been missed and the company is ranked poorly by external ratings. Our objective is for the company to focus concretely on satisfying the needs of its customers, with a consequent improvement in its performance-satisfaction surveys.

**Milestone 1** Initiate dialogue | **Milestone 2** Issue validated | **Milestone 3** Plan developed | **Milestone 4** Plan implemented

**Apr 2018**

**M1** - We wrote to the chair and subsequently spoke with management about how the company is considering the Paris Agreement and its strategic plan to move towards renewables.

**Aug 2018**

**M2** - The company acknowledged the need to put in place longer-term commitments to changing its energy mix. Within its 2018 corporate social responsibility report, the company responded to our previous discussions and set out commitments to 2030 (renewables to form more than 30% of the mix) and 2050 (no coal generation at all). These commitments move the company's energy-mix projects ahead of the US's Paris Agreement commitments and those established in the Clean Power Plan. However, they still fall short of what is ultimately needed.

**Sept 2019**

**M3** - The company continues to acknowledge that historic billing issues still affect its reputation with some customers and recognises the need to rebuild levels of satisfaction, which is a front-of-mind consideration.

**Nov 2019**

**M1 & M2** - In a call with the company chair and management team, we explored their view of customer satisfaction, ability to meet corporate demand for green energy and initiatives to support lower-income customers.

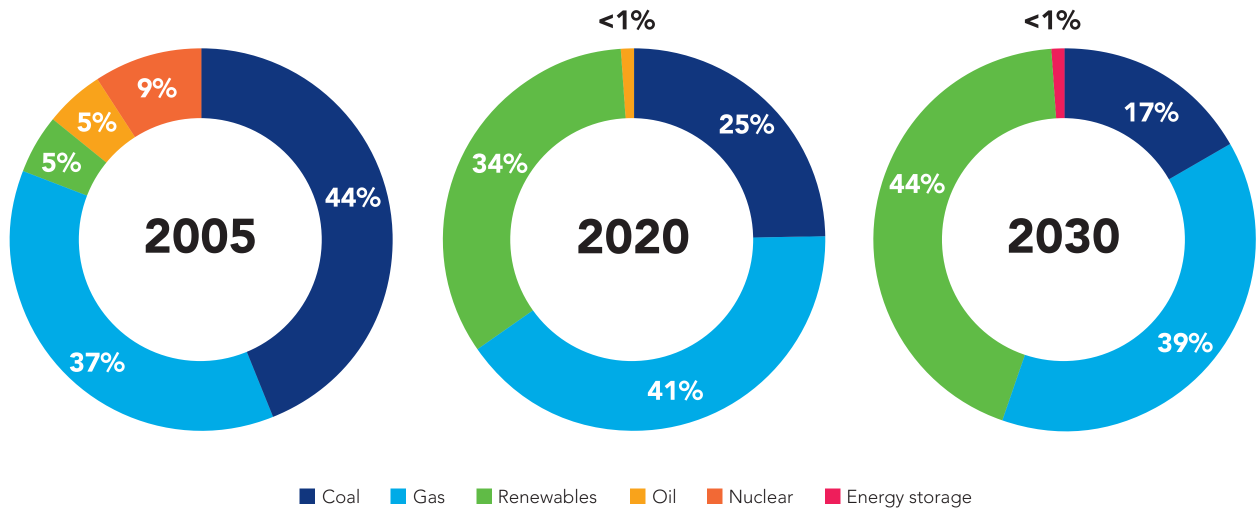
**Nov 2019**

**M3** - During a call with multiple members of management, we again explored at length the company's ongoing review of its existing fossil-fuel generating assets and future capacity-expansion plans. The company's direction of travel is now positive and improving, and we expect revised targets for both 2030 and 2050 to be published in in the second half of 2020 once the review of its Iowa assets is complete.

**Jul 2020**

**M4** - In July 2020, the company published new sustainability targets. These revised the 2018 targets, with a new long-term goal of achieving net-zero $CO_2$ emissions from electricity generation by 2050.

**Figure 1.** Alliant: transitioning energy resources

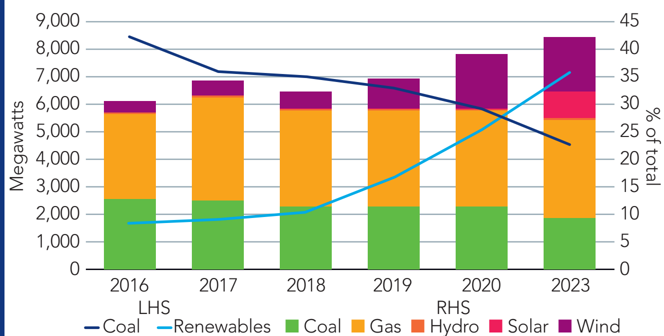



Source: Alliant, as at September 2020.
Based on approximate capacity in megawatts as of July 2020 including owned generation resources and utility purchase power agreements.
Does not include customer-owned distributed energy resources. Actual energy in megawatt-hours to serve customer load will differ from capacity due to participation in regional energy markets. Future projections are subject to change and Alliant Energy undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances.

## The challenge

Alliant has featured on the exclusion lists of several institutional investors in recent years and was added to Norges Bank's list in 2016. This is largely because of the firm's historic exposure to coal-based electricity generation: in 2018, Alliant's net generation (a combination of own-generated and purchased generation) came from 37% coal, 30% gas and 10% renewables.

**Figure 2.** Alliant's total installed generation capacity, with committed additions for 2023




Alliant is not alone: it has been true for some time that very few US utility companies have committed to making the $CO_2$ reductions needed to limit global warming to 1.5°C. This not only exacerbates climate change but creates costs when fossil-fuel plants are retired earlier than anticipated. If goals to limit global warming are to be achieved, the asset values of fossil-fuel-focused generators such as Alliant are at risk over the medium term.

As electricity demand grows modestly, new capacity will primarily be driven by the retirement of older, less-efficient fossil-fuel plants (primarily coal ones), the near-term availability of federal and state-level renewable energy tax credits and the continued decline in the cost of renewable generation.

While the current US President has not been supportive of the climate-change agenda, the dynamics at the state-level are different. For example, Wisconsin's Governor signed an executive order in August 2019 to set the state on a path to reach 100% carbon-free electricity by 2050. Moreover, the political climate could change significantly after the November election: Democratic Presidential nominee Joe Biden wants to achieve carbon-neutral electricity generation by 2035.

In light of this, Alliant's significant historical exposure to coal generation could prove a concern. Its recent shift to natural gas could also be problematic, given the dependence of the energy transition on previous outcomes. Meeting an accelerated transition – for example, the International Energy Agency's target for 95% clean-power generation by 2050 – could require Alliant to retire some of its natural-gas assets early, in addition to its coal plants.

## Progress to date

In August 2018, Alliant stated it would reduce its carbon emissions by 80% below 2005 levels and eliminate coal by 2050. While these commitments and their direction of travel were positive, they still fell short of what is ultimately needed. Discussions with Alliant reassured us that it also believed these targets were conservative and that more could be achieved.

Recognising that more progress was needed and a harder look at the economics of its coal-generating assets was warranted, Alliant announced its Powering What's Next plan at the end of October 2019. This included a Clean Energy Blueprint for its Wisconsin customers, the first milestone of which includes the expansion of its Wisconsin solar-energy generation by up to one gigawatts (GW) by the end of 2023, as well as an evaluation of the next steps for its two coal assets in the state.

This May, it was no surprise when Alliant announced both the first phase of construction for its one GW solar capacity and plans to retire one of its Wisconsin coal-fired generating assets. The Wisconsin Blueprint will be replicated in Iowa later this year and we expect to see timelines for the closure of several of its seven Iowa coal plants. Alliant has also signalled that its future plans include no expectations for a further build-out in natural gas.

The 2018 targets were a good start and the Wisconsin Blueprint is an important development. But more encouraging is the fact that Alliant recognises that its progress has been insufficient. Alliant's revised targets (see the box below) are also promising: these goals accelerate the firm's plans to eliminate coal from its generating asset base, while also moving it along the path to achieving net-zero $CO_2$ emissions.

| 2018 targets | Updated 2020 targets |
|---|---|
| **By 2030:**<br>• Renewables will be more than 30% of the energy mix<br>• $CO_2$ emissions from fossil-fuelled generation will be reduced by 40% compared to 2005 levels | **By 2030:**<br>• Achieve a 50% reduction in $CO_2$ emissions compared to 2005 levels |
| **By 2050:**<br>• Eliminate all existing coal from the energy mix<br>• $CO_2$ emissions from fossil-fuelled generation will be reduced by 80% | **By 2040:**<br>• Eliminate all existing coal from energy mix<br>**By 2050:**<br>• Net zero $CO_2$ emissions from generated electricity |

We continue to engage with the company on these issues, as well as other topics such as employee diversity and customer satisfaction. We are reassured that the company is planning for different energy-transition and carbon-price scenarios and that there is scope to further accelerate the transition that they have signalled – not least if renewable tax credits are extended.

## Other key issues: a just transition

We have spoken at length with the company about the need to quickly address the issue of creating a cleaner energy mix. However, such a transition needs to consider the firm's employees in a sensitive and fair manner.

In recognition of the fact that the transition away from coal towards natural gas and ultimately to renewables will have a significant impact on the total number of employees, the company endeavours to give three-to-four years notice to impacted workers. Presently, about 40% of the workforce are over 51 years old – and therefore approaching retirement – and unemployment rates in the local areas are lower than average. As a result, conditions will help to mitigate the negative impact.

Nonetheless, further reductions in the labour force are unavoidable: about 150 people are required to support a coal plant, compared to 20-25 at a natural-gas facility and just a handful at a wind farm. While this will have a positive impact on the company's costs, it will also impact people's lives.

Alliant endeavours to give a lengthy notice period to impacted workers and support these individuals through retraining or the search for alternative employment, within or outside of the company. After announcing it would retire its coal-fired generating facility in Wisconsin, Alliant confirmed that the employees at the facility will receive career assistance as the company continues to transition toward cleaner energy. This includes one-on-one coaching, tuition reimbursement, help with resume-writing and interview coaching. By September 2020, a meaningful number of people had been redeployed within the company.



## Next steps

**While Alliant has made very positive progress, we continue to believe there is scope for it to accelerate its decommissioning of coal assets, direct additional capital expenditure towards renewables and improve customer satisfaction – all topics that we will continue to explore with company management.**

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