Alliant Energy:

engagement commentary

Federated Hermes SDG Engagement Equity Fund
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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.

In a nutshell

Alliant's rapid progress has been impressive, but there is scope to further accelerate the company's clean energy transition. We believe this can be achieved while treating employees negatively impacted by coal plant closures sensitively and fairly.

> **Alliant Energy is a well-managed, diversified utility company that operates in Wisconsin and Iowa and serves an economically diverse region.**

In the six years to **2023** the company will have expanded its renewable capacity more than **500%**

They are now the **3rd** largest utility-owned operator of regulated wind 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.

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.

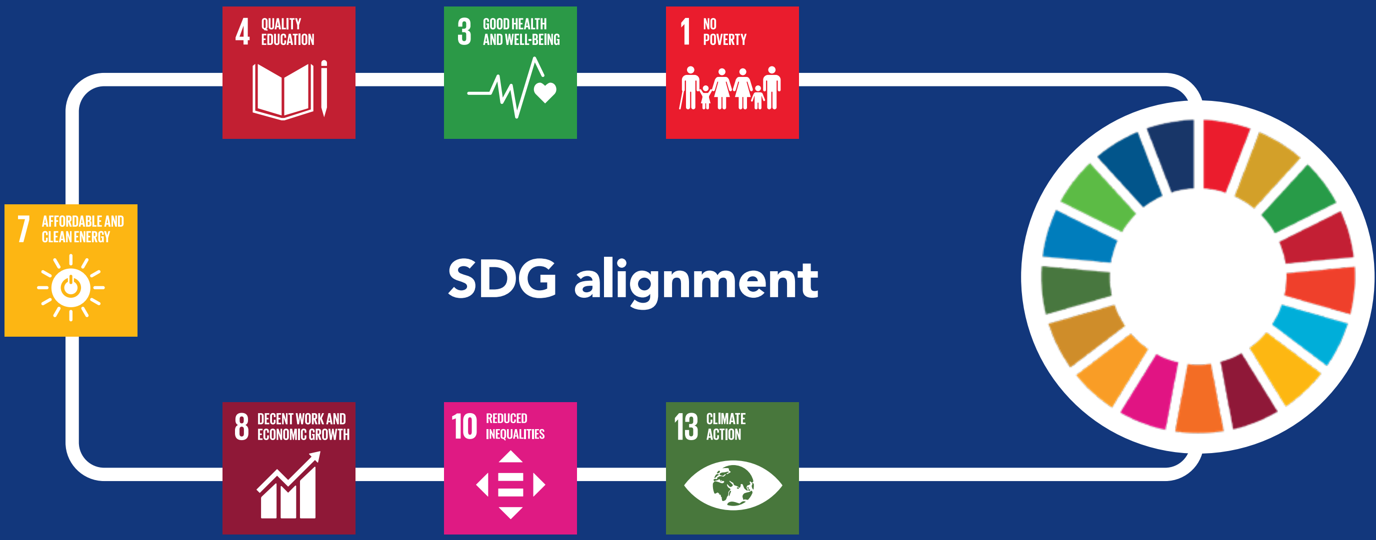
Beyond the environmental (reduced greenhouse-gas emissions) and social (affordable energy and economic development) benefits, an accelerated transition from fossil-fuel to clean-energy generation has the potential to help the company from a financial perspective. Shutting down expensive coal plants and 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.

> **In 2018, Alliant set its first public sustainability targets for 2030 and 2050 These targets were enhanced within two years.**

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. With subsequent commitments, we believe these new targets may also be revised further.



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.

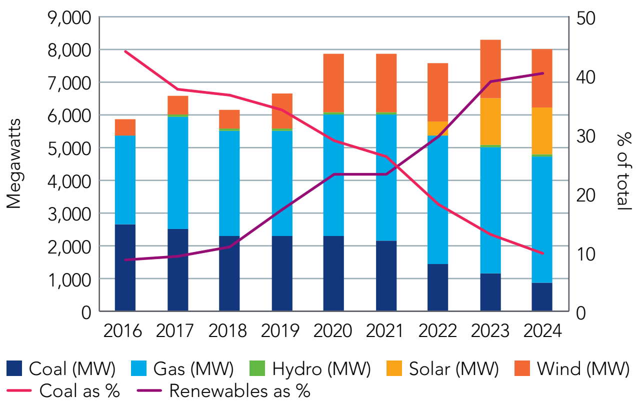
Nov 2019

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, improving and set to improve further during 2021.

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. Total Alliant nameplate generation capacity (with committed additions)



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.

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.

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 former US president was hostile to the climate change agenda, the dynamics at the state-level differed. And with the election of President Biden, the political climate has also changed dramatically. The new president kicked off his tenure with a raft of executive orders and formally resubmitted the United Stated to re-join the Paris Agreement.

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.

A further announcement in early 2021 confirmed the company's last remaining coal plants in Wisconsin will be decommissioned. The Wisconsin blueprint was replicated in Iowa later in 2020, with commitments made towards a further 400 megawatts (MW) of renewables by 2023, alongside coal plant closures.

Equally pleasing are the commitments made to work sensitively with workers affected by plant closures over the coming years. For example, in May 2020, Alliant announced its plan to retire a coal-fired generation facility in Sheboygan, Wisconsin. Employees at the facility are to receive career assistance, including one-on-one coaching, tuition reimbursement, help with resume-writing and interview coaching. As of September 2020, a considerable number of employees had found redeployment opportunities within Alliant. These same commitments towards employees have been replicated with respect to other decommissioning coal plants.

While the above is very positive progress, President Biden committing to a goal of zero carbon emissions from the electricity sector by 2035 means more aggressive action may be needed. Legislation is likely on the cards to boost wind and solar power, energy storage and transmission grid investments. Similarly, the Environment Protection Agency (EPA) could likely regulate greenhouse gas emissions under the Clean Air Act, starting with the power sector.

Figure 2. Wisconsin capacity with announced additions

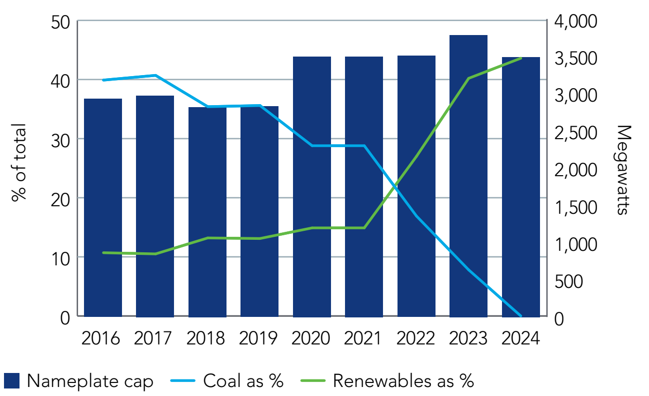
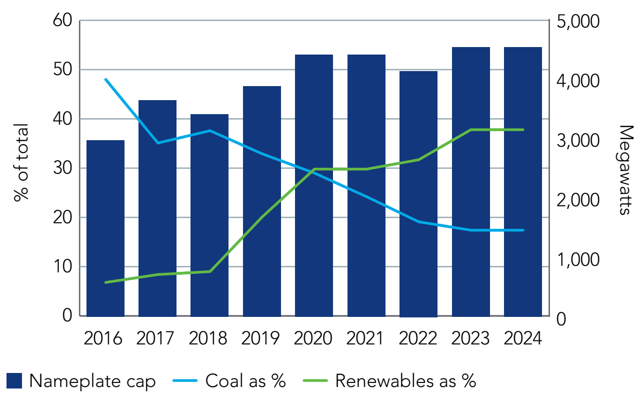


Figure 3. Iowa capacity with announced additions



In this context, it is important and welcome that Alliant have already 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. To that end, the announcement of revised targets in July 2020 was pleasing, as it showed the company's willingness to continually raise its game.

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.

Alliant, as of Q1 2021:

- **Has retired over 1,100 MWs of coal since 2005 and announced plans to retire another 1,300 MW of coal by the end of 2024. Combined, these represent a reduction of nearly 70% since 2005.**
- **Has 1,800 MW of regulated wind in service.**
- **Committed to have over 1,400 MW of solar in service by end of 2023.**
- **42% less CO_2 emissions at the end of 2020 than 2005 levels, well on the way to their goal of a 50% reduction by 2030.**

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

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.

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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