Climate Pension Quarterly
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The climate emergency is here, but Canada's pension funds aren't acting like it.

Where I'm writing from in southern Ontario, it's been the warmest winter in memory. Some neighbourhood ice rinks didn't open at all, there was enough snow for tobogganing just once or twice, and crocuses started poking up before March. Indeed, data shows that February was the warmest month on record globally, and marked the ninth month in a row of record temperatures. Canada has just experienced its warmest winter on record.

Our world is changing. It shows in softer, easier-to-handle ways sometimes, like on fewer frigid winter days spent shoveling snow. But with ever-increasing frequency, our changing climate is bringing floods, fires, droughts, crop failures and hurricanes so strong that a new category 6 storm category has been proposed.

An article in *Forbes* this month spelled out in plain language why climate devastation matters for your retirement savings, too. Climate change drags down GDP, brings disruption to businesses and industries and increases insurance rates and inflation– all of which pose a threat to retirement portfolios. The climate crisis threatens the retirement that you're working and saving for.

This is why we do the work we do at Shift, and why we see our second annual *Canadian Pension Climate Report Card* as so important for pension plan members and investment managers. The report was covered by *Canadian Press*, *CBC*, *Corporate Knights*, *Yahoo!Finance*, *Canada's National Observer*, *Wealth Professional*, *Pensions and Benefits Monitor* and more. Some of the key findings of the report include:

- While the majority of Canada's largest pension funds have climate plans in place, for the most part the ambition and urgency of these plans falls short.
- Even Canada's leading funds on climate fall behind international climate leaders, particularly when it comes to Canadian funds' unwillingness to exclude new investments in fossil fuels.
- The **Canada Pension Plan Investment Board** in particular is making statements that undermine the scientific imperative to phase out fossil fuels.
- Canadian funds, with very few exceptions, are failing to publicly advocate for the laws and policies that could stave off the worst effects of the climate crisis and keep open a path to climate safety.

You can learn more about the report card and our findings by attending our upcoming webinar on April 4th.

Pension plan members are doing their part. In the last few months, community groups have hosted webinars on pensions and climate, B.C. teachers have rallied to call for fossil fuel phase out, and the University of Toronto Faculty Association has demanded their pension fund divest from oil and gas.

Regulation is catching up too. This month, the United States Securities and Exchange Commission caved to industry pressure and released (watered down) rules requiring scope 1 and 2 emissions disclosure (but not scope 3). Canada's federal financial regulator, the Office of the Superintendent of Financial Institutions (OSFI), also took important first steps by updating its first-ever climate risk management guidelines. OSFI's B-15 Guideline requires Canada's banks, by the end of 2024, to disclose their scope 1, 2 and 3 emissions and their exposure to climate-related risks, including physical and transition risks, in line with international standards. And last year, California passed new climate disclosure laws that will come into effect in 2026, requiring companies to align more closely with stringent European Union standards, including disclosing scope 1, 2 and 3 emissions. Meanwhile, efforts to push state pension funds to divest their fossil fuel holdings are making progress in Oregon, California and New Jersey.

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In this issue of the *Climate Pension Quarterly*, we cover announcements including a new "Climate Approach" from the **Alberta Investment Management Corporation**, **OMERS**' 2023 Annual Report, and updated proxy voting guidelines from the **Ontario Teachers' Pension Plan** and **University Pension Plan**. We also include our now-regular feature tracking the fossil fuel companies owned by the **Canada Pension Plan Investment Board**– companies which continue to expand oil and gas production and infrastructure despite our national pension manager's commitment to net-zero emissions by 2050. Finally, you'll find updates on climate engagement and fossil fuel divestment from pension funds at home and abroad, as well as tracking of Canadian pension fund investments including **Scotia Gas Networks**, **Northvolt**, **Exolum**, **Puget Sound Energy**, **Thames Water**, **Énergir, Open Grid Europe**, and more.

Read on for the full stories in this issue of the *Climate Pension Quarterly*.

-Adam, Executive Director, Shift

Pension Fund Reports, Policies and Climate Announcements

AIMCo's "Climate Approach" fails to commit to net-zero emissions
In February, the Alberta Investment Management Corporation (AIMCo) finally released a *Climate Approach*, but once again failed to commit the investment manager to align its portfolio with a safe climate. AIMCo is the only pension manager examined in Shift's *Canadian Pension Climate Report Card* that has no emissions reduction targets for any part of its portfolio. The *Climate Approach* included an in-house taxonomy for classifying investments (but no plan or goals to move investments toward Paris-alignment). AIMCo also joined pension managers **Ontario Teachers' Pension Plan (OTPP)**, **Caisse de dépôt et placement du Québec (CDPQ)** and **OMERS** in creating an allocation for "energy transition opportunities." AIMCo's $1-billion Energy Transition Opportunities Pool is earmarked for investments in industrial decarbonization; carbon capture and sequestration; "sustainable solutions and renewable fuels"; "low-carbon renewable energy"; and electrification, storage and energy efficiency.

OMERS reports surpassing its 2030 emissions intensity reduction target
OMERS' *2023 Annual Report*, released in February, reported that greenhouse gas emissions data to the end of 2022 showed that OMERS had surpassed its commitment to reduce the emissions intensity of the portfolio by 50% by 2030, a goal that OMERS had announced a mere seven months ago in its *Climate Action Plan*. OMERS said the decrease "can be attributed both to rotating capital from higher to lower emitting assets and to emissions intensity reductions in several carbon-intensive assets," although no examples were provided.

OMERS also reported that the proportion of its portfolio invested in "energy" (fossil fuels) had dropped to 2% as of December 31, 2023, and that the pension fund had updated its *Inclusion and Diversity Statement* to highlight a commitment to advancing the principles of Indigenous Reconciliation as set forth in Call to Action 92 of the Truth and Reconciliation Commission of Canada.

Read Shift's full analysis of OMERS' climate-related updates.

OPTrust recaps its 2023 climate progress
In March, OPTrust released its *2023 Funded Status Report* and *2023 Responsible Investing Report*. The reports recapped OPTrust's 2023 progress on climate change, which included setting a 2030 target to reduce the portfolio's emissions intensity and the build-out and implementation of its climate metrics data. See Shift's analysis on LinkedIn.

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Pension Fund Reports, Policies and Climate Announcements (continued)

UPP and OTPP update proxy voting guidelines
The University Pension Plan (UPP) and OTPP issued updated climate-related proxy voting guidelines; see more in *Engagement and Divestment* below.

Annual reporting
Healthcare of Ontario Pension Plan (HOOPP) and **OTPP** also released annual reports in March, including some climate reporting. Stay tuned for Shift's climate-related analysis.

More Canadian Pension Mentions

Fossil fuel entanglement on OTPP's Board of Directors
On January 1, 2023, a director of four fossil fuel companies was appointed to the OTPP's board. Shift did a deep dive into the actions of those companies over the last year, finding that they are expanding fossil fuels, lobbying to block government climate action, and fighting tooth and nail to prolong the use of oil and gas. Pension funds must grapple with the potential conflicts of interest that arise when directors with legal obligations to advance the short-term profits of fossil fuel companies are also charged with oversight of a pension fund's climate strategy. As found in Shift's *2023 Canadian Pension Climate Report Card*, seven of the 11 pension managers analyzed in the report have at least one director/trustee who is concurrently a director or executive of a fossil fuel company.

AIMCo floats potential purchase of Trans Mountain Expansion pipeline
In January, AIMCo's CEO confirmed that the pension manager has "an active file" on the Trans Mountain Expansion and would consider purchasing the pipeline, which is designed to transport 890,000 of tar sands oil. AIMCo has made no commitments to reduce its portfolio's greenhouse gas emissions.

AIMCo oil and gas company enters insolvency
In February, Alberta's *Progress Report* reported on the saga of AIMCo's investment in junior oil and gas company Razor Energy, which has now entered an insolvency process. AIMCo loaned Razor Energy $45 million between 2017 and 2018. In 2023, with Razor unable to make interest payments, AIMCo turned the debt into a 70% ownership in Razor subsidiary FutEra Power Corp. and sank another $4 million into Razor, all while AIMCo representatives continued to sit on Razor's board. The company has since been frozen on the Toronto Venture Exchange, has had its licence eligibility status restricted and owes tens of millions to creditors.

CFO of TC Energy to join AIMCo's board
In March, the Alberta government appointed the Chief Financial Officer of TC Energy to AIMCo's Board of Directors. AIMCo is the co-owner of TC Energy's controversial Coastal GasLink fracked gas pipeline, raising troubling climate-related concerns about conflict of interest and fiduciary duty. "The appointment of a TC energy executive further entangles AIMCo's governance with the oil & gas industry at a dangerous moment in the global energy transition," Shift's Adam Scott told Alberta's *Progress Report*.

CPPIB's third quarter results highlight renewable investments
The Canada Pension Plan Investment Board's (CPPIB) third quarter fiscal 2024 results recapped hundreds of millions of dollars invested in climate solutions by Canada's national pension manager, including renewable energy, electricity transmission, electric vehicle charging infrastructure, heat pumps and batteries.

More Canadian Pension Mentions (continued)

Renewable energy assets buoy CDPQ's returns
CDPQ's 2023 annual results highlighted the Quebec pension manager's renewable energy assets as performance drivers both in 2023 and over the last five years. CDPQ reported it had increased its stake in Boralex, a renewable energy company specialized in wind, solar, hydroelectricity and storage, to 15%.

CDPQ returns would have been higher without the last decade of fossil fuel investment
An analysis from Montreal's Institut de recherche et d'informations socioéconomique found that CDPQ's public equity investments in the fossil fuel sector between 2011 and 2021 resulted in returns that were $10-$20 billion lower than would have been generated with a fossil-free portfolio. CDPQ said it could not verify the analysis, but a spokesperson concurred that, "In terms of the returns on our overall portfolio, over five years, our investments in renewable energy generated more than 18% while the oil producers in the index made around 8%." CDPQ announced in 2023 that it had "essentially completed" its investment from oil producers, but remains invested in gas.

B.C. teachers demand that their union push their pension to divest from fossil fuels
British Columbia teachers and their allies protested outside the British Columbia Teachers' Federation (BCTF) office, demanding that the union's president call for the **BC Teachers' Pension Plan** and its investment manager, the **British Columbia Investment Management Corporation (BCI)**, to stop investing their retirement savings in fossil fuels. The BCTF has passed a resolution two years in a row asking union leadership to lobby the BC Teachers' Pension Plan to stop investing in fossil fuels. "What we're asking for is a fossil-free and weapons-free portfolio, so teachers can sleep at night," said Vancouver teacher Jill Maguire.

University of Toronto Faculty Association calls on UPP to divest from oil and gas
The University of Toronto Faculty Association adopted a motion calling on UPP to immediately stop investing in new fossil fuels and commit to a rapid timeline to completely divest from the oil and gas industry.

HOOPP waiting on the sidelines
In February, a senior managing director of HOOPP flagged that investors "are waiting on the sidelines" for policies, regulations and subsidies "to create demand for green investments with returns that meet our requirements." Canadian pension funds have smart and sophisticated public affairs and government relations specialists who need to stop sitting on the sidelines and help create investor certainty and climate stability by advocating for, bolstering and supporting Paris-aligned government policy. The alternative is Canada and the world failing to achieve the goals of the Paris Agreement, leading to ecological, economic and financial consequences that could make it impossible for pension managers to fulfill their mandates.

CPPIB's Fossil Fuel Companies

Canada's national pension manager, CPPIB, claims it is committed to net zero emissions by 2050. Yet as documented in Shift's 2023 *Canadian Pension Climate Report Card*, the CPPIB has tens of billions invested in fossil fuel companies. The actions of these companies do not appear to align with the CPPIB's climate commitments. Here's what some of the CPPIB's fossil fuel assets have been up to in the last quarter:

- Encino Energy is planning to frack under a protected wildlife area and explore for oil and gas on school property in Ohio;
- Private equity fund Kimmeridge Fund VI invested in fracked gas assets and a proposed LNG terminal, but is now running up against U.S. President Biden's LNG pause;
- Aera Energy, California's second largest oil and gas producer, is set to merge with California Resources Corporation and become the state's largest producer;
- Civitas Resources' drilling plans are being thwarted and facing opposition in Colorado;
- Calpine is building new gas plants in Texas and California;
- Nephin Energy and Nedgia are undertaking "renewable natural gas" initiatives in Ireland and Spain, respectively; and
- VoltaGrid, which plays a prominent role in the fossil fuel supply chain, is misleadingly classified as part of CPPIB's "Sustainable Energies" portfolio.

Read the full details from Shift here.

Investments and Commitments

CDPQ acquires stake in solar farm
In February, CDPQ announced it would acquire an 80% stake in a solar plant in Japan. The solar farm is in partnership with Shizen Energy, in which CDPQ invested $460 million last year.

OTPP partners to sponsor renewable energy sector in India
In January, OTPP announced it would partner with Indian conglomerate Mahindra Group to sponsor the Sustainable Energy Infra Trust, India's largest infrastructure investment trust, which has raised US$165 million to invest in and grow the country's renewable energy sector.

OPTrust and CPPIB contribute to climate-focused ArcTern Ventures Fund III
Institutional investors, including OPTrust and CPPIB, contributed to a US$355-million funding round for ArcTern Ventures Fund III, a climate-focused fund that invests in early-stage climate technology companies.

OTPP leads funding round for portable battery systems developer
OTPP announced in January that it would lead a US$95 million funding round for Instagrid GmbH, a German developer of portable battery systems designed to decarbonize off-grid power and replace gas-fired generators, such as those commonly used by construction sites, film sets, events and emergency services.

PSP completes acquisition of renewable energy developer
Renewable energy developer FirstLight, which is wholly owned by **PSP Investments**, completed its acquisition of Hydromega, a Montreal-based clean energy company that develops and operates wind, solar, storage and hydro projects. FirstLight will acquire Hydromega's ownership interest in five hydropower generating stations in Quebec and five in northeastern Ontario, which include ownership participation by four First Nations. FirstLight's acquisition also includes Hydromega's development pipeline of over 2 gigawatts of wind, solar, storage and hydro projects.

Engagement and Divestment

STRENGTHENED EXPECTATIONS AND SHAREHOLDER RESOLUTIONS

OTPP's 2024 Proxy Voting Guidelines call for more climate scrutiny from Audit Committees
In January, OTPP released updated proxy voting guidelines, joining **BCI** in setting an expectation for companies' Audit Committees to enhance their scrutiny of climate-related risks and opportunities. OTPP now expects Audit Committees to enhance their climate literacy; evaluate the impact of climate change when reviewing budgets, performance and mergers and acquisitions activity; and better account for climate considerations in their responsibilities for risk management, internal controls and assurance.

UPP's Proxy Voting Guidelines strengthened on climate, commit to UNDRIP
UPP also released updated proxy voting guidelines in January, following through on its commitment to annual strengthening of its guidelines on climate. The guidelines set clear expectations for companies in high-emitting sectors to align with the goals of the Paris Agreement and for corporate boards to strengthen their oversight of climate change. The policy also formally commits UPP to support shareholder proposals calling for corporate policies or disclosures related to Indigenous rights and reconciliation.

Report highlights disparity in investors' support for climate-related proposals
In February, Investors for Paris Compliance (I4PC) released its second annual assessment of the proxy voting records of select Canadian investors. Canadian pension funds often cite their memberships in Climate Action 100+ and Climate Engagement Canada as pillars of their climate strategies. However, I4PC's report demonstrates that membership in these bodies did not necessarily translate to consistent support for climate-related shareholder proposals in 2023. The **Canada Post Pension Plan**, **CDPQ**, **UPP**, **BCI** and **Investment Management Corporation of Ontario (IMCO)** demonstrated strong voting records; **OMERS**, **OTPP** and **PSP** voted for only around half of the proposals; and **AIMCo** supported just one-third.

Banks pressured to disclose clean energy financing ratio
The pension manager for **New York City's public workers, school board employees and teachers** (included this year as an international leader in Shift's *Canadian Pension Climate Report Card*) is filing shareholder resolutions asking several big banks, including Royal Bank of Canada, to disclose their "Clean Energy Supply Financing Ratio" and report on how their clean energy financing compares to their fossil fuel financing. In March, the NYC pension manager withdrew its proposals at JPMorgan Chase and CitiBank after the banks committed to publicly disclose their clean energy supply financing ratios.

FUTILE ENGAGEMENT OF FOSSIL FUEL COMPANIES

Climate engagement is an essential part of the investor toolkit, but cannot generate Paris-aligned outcomes in the case of fossil fuel companies, whose business model cannot align with climate safety without the phase-out of production and early retirement of assets.

Can Shell align its emissions with the Paris Agreement? (Spoiler: no)
It was reported in January that a coalition of 27 investors with a combined €4 trillion in assets would back a shareholder resolution calling for Shell to align its medium-term emissions reduction targets with the Paris climate agreement. Unfazed, in March Shell further weakened its climate targets.

Engagement and Divestment (continued)

ExxonMobil fights shareholders in court over climate
ExxonMobil, which **BCI** frequently cites in its examples of climate engagement, went so far as to file a legal complaint to prevent a climate-related proposal from going to a vote at the company's shareholder meeting. The proposal called for ExxonMobil to set more stringent climate targets to align with the Paris Agreement. In the face of Exxon's legal complaint, the proposal was withdrawn, with investors raising concerns about shareholder rights and predicting that Exxon's approach would "[silence] investors that voice climate-risk concerns… amount[ing] to tactics of intimidation and bullying."

Australian super fund pushing for climate expertise on Woodside's Board
One of Australia's largest superannuation funds, HESTA, has unsuccessfully urged the country's largest oil and gas company, Woodside Energy, to consider appointing new directors who are equipped to manage climate-related risks and opportunities. HESTA shared with Woodside a list of potential director candidates that have "new energy and business transformation skills (it) believe(s) would add to the board's current capabilities," and pushed Woodside's board to elect them in order to strengthen the company's climate transition plan.

DIVESTMENT IS INEVITABLE BECAUSE ENGAGING FOSSIL FUEL COMPANIES ON CLIMATE WON'T WORK

Funds divest from oil and gas companies after deeming engagement unsuccessful

- **PFZW**, the €238-billion Dutch pension fund leading Climate Action 100+ climate talks with Shell, has divested its holdings in Europe's top oil and gas companies, saying they are not moving fast enough to reduce emissions following two years of targeted engagement. Joanne Kellerman, PFZW board chair, said that most fossil fuel companies have demonstrated that they "are not prepared to adapt their business models" to the Paris climate goals.
- The US$260-billion **New York State Common Retirement Fund (NYSCRF)** (included as an international example in Shift's inaugural *Canadian Pension Climate Report Card*) announced it will restrict its investments in eight oil and gas producers, including Exxon Mobil, following a review that determined that the companies are not ready to transition to a low-carbon economy. New York's state pension fund also announced it has met its initial goal of committing US$20 billion to Sustainable Investments and Climate Solutions, and set a new goal of US$40 billion by 2035. NYSCRF will increase its climate index investments by 50% to over US$10 billion over the next two years, with a goal of doubling them by 2035.
- **Danske Bank Asset Management** and its pensions arm, **Danica Pension**, announced they will divest holdings in over 1,700 fossil fuel companies. The move comes after the asset manager introduced a policy requiring oil and gas companies to have science-based, Paris-aligned climate plans and transition strategies.
- The Netherlands' **ABP** (included this year as an international leader in Shift's *Canadian Pension Climate Report Card*) is imposing stricter screening on holdings for climate and biodiversity risk. "Companies that are inextricably linked to climate change and cannot or do not want to change are no longer suitable for us," the fund said. ABP has committed by 2030 to invest €30 billion in impact investments that take climate and biodiversity risk into account.

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Asset Tracker

Thames Water
***OMERS** has a 32% ownership stake in the UK's largest water utility, and **BCI** has a 9% stake*

The Thames Water ESG debacle, which Shift has covered previously in an online analysis and in *Quarterly* Issues #9 and #10, continues to be a dangerous and embarrassing failure for the Canadian pension owners who claim they exercise due diligence and stewardship on ESG matters at owned companies.

- Thames Water dumped nearly five times more sewage into London's rivers in the last eight months of 2023 compared to the same period in 2022 and faced £14.7 billion in debt in the first half of its financial year. Auditors warned the company could run out of cash by April.
- London's Mayor called for the UK government to step in to get Thames Water on track, and called for tougher legislation to end sewage discharges, including holding water company executives personally responsible for illegally dumping raw sewage.
- In February, it was reported that British authorities were drawing up a multi-billion-pound plan to rescue the company with taxpayer money.
- The UK's water regulator began investigating why the company paid a £37.5 million dividend to its parent company, Kemble, in October, despite rules that ban investors (such as parent company owners OMERS and BCI) from extracting wealth out of heavily indebted companies if they are performing poorly.
- If Thames Water is unable to pay its debt, it could face a "special administration process" similar to nationalization that could see investors wiped out, bondholders swallowing losses, and the government brought in to manage the company.
- Thames Water is lobbying the government and the regulator to allow it to increase customers' water bills by 40% and pay lower fines, thus avoiding being placed under special administration.

Canadians want to believe their pensions are responsibly invested, but it may be hard to do so when they see a privately-held company managed so recklessly in the face of problems that threaten both pension returns and the environment.

Thames Water and Scotia Gas Networks (SGN)
***OMERS** has a 32% ownership stake in Thames Water, and **BCI** has a 9% stake.*
***OTPP** owns 37.5% of SGN, the UK's second largest gas distribution network.*

In a collaboration between two UK utilities co-owned by Canadian pension funds, Thames Water is using sewage sludge from a waste treatment facility in West London and upgrading it to biomethane to be used for electricity and home heating. Gas distribution utility SGN will manage the gas-to-grid plant, which will filter, scrub and compress the gas so it can be used for cooking and heating. The sewage sludge project will marginally reduce methane emissions from Thames Water's waste treatment facility, but will do nothing to reduce emissions when the biomethane is burned, making it an incremental short-term climate solution at best.

Asset Tracker (continued)

Northvolt
***OMERS** has contributed to multiple rounds of financing for the Swedish lithium-ion battery maker; **IMCO**, **CPPIB** and **CDPQ** also contributed to financing rounds in 2023.*

Northvolt's plan to build a $7-billion electric vehicle battery plant near Montreal was a welcome decision that helps to accelerate the transition away from fossil fuels and bring new economic opportunities and clean jobs to Canada. But the company has been caught up in controversy and allegations of government corruption. Environmental groups are concerned about potential damage to the wetlands and woodlands where the plant will be located. Accusations swirl that the Quebec government made a bespoke change to provincial environmental regulations so that the project did not trigger an independent environmental review. And the Mohawk Council of Kahnawà:ke says that the provincial and federal governments did not meet their obligation to consult. In January, work was suspended at the Northvolt site. As a work stoppage injunction was considered, an anonymous group planted nails and iron bars in trees to prevent their felling, and the Mohawk Council of Kahnawà:ke filed with the Superior Court to require provincial and federal governments to consult the community. In February and March, community and environmental groups marched and protested against the project. The government insisted it did not adjust the regulations on Northvolt's behalf, yet the province's environment minister conceded that the plant would not have begun construction if a provincial environmental assessment) had been required.

Accelerating the clean energy transition must not mean that Northvolt and its investors can bypass critical regulatory processes, ignore the concerns of local communities, disregard Indigenous rights, and destroy wetlands and forests. Mishandling these crucial considerations will potentially result in regulatory delays, cost overruns, continuing legal challenges and public protests, thereby undermining essential public support for the clean energy transition and putting pensions at risk.

Puget Sound Energy
***AIMCo**, **BCI**, **OMERS** and **OTPP** are co-owners of Puget Sound Energy, a gas and electric utility in Washington State.*

Cancellation of LNG expansion
Puget Sound Energy (PSE) has canceled the controversial expansion of its Tacoma LNG terminal in Washington state, deciding not to move forward with the project due to opposition from the Puyallup Native American tribe and local environmental and health groups. An attorney representing the coalition of groups in opposition to the expansion said, "Washington State is committed to phasing out the use of fossil fuels; that is state law, that is who we are and what we have decided to do. PSE has been going in the opposite direction, seeking to market LNG to new customers and for new uses. The idea that we would have barges filled with LNG going back and forth in a busy port and Commencement Bay and throughout Puget Sound was never a good idea."

Extension of power agreement with the Confederated Tribes of Colville Reservation
PSE extended to 2029 its agreement that gives the community a 5.5% share of PSE's Wells Hydroelectric Project. According to the Chairman of the Confederated Tribes, "Through this partnership Puget Sound Energy provides value to the mitigation we receive for the impacts of Wells dam. That revenue helps support our tribal government and services we provide to our membership."

Hollow Hydrogen Hopes

Experts from the Hydrogen Science Coalition observe that hydrogen proponents continue to vastly underestimate the challenges of cost, transport and scalability, while government and industry overestimates the potential uses of hydrogen in the accelerating energy transition. The experts note that hydrogen does not have a credible path to compete with the electrification of heating and transportation due to numerous technical and financial constraints. Scientists and energy experts are also warning that the rush to scale hydrogen has not adequately considered the fuel's climate risks, including the potential of leaked hydrogen to prolong the heat-trapping impact of methane and act as a greenhouse gas itself when it creates water vapour in the upper atmosphere.

Despite the above, Shift tracked a number of instances this quarter of companies owned by Canadian pension funds telling questionable stories counting on hydrogen to meet climate goals. This signals the need for investors to gain better literacy around the opportunities and significant limitations for hydrogen in the energy transition to avoid stranded asset risks and delayed transitions.

Exolum
***OMERS** holds a 25% stake in the multinational oil storage and transportation company.*

It was reported in *Reuters* in December 2022 that OMERS floated the sale of Exolum but was unable to get high enough bids due to skepticism about the company's ability to decarbonize. Since then, Exolum has announced a net-zero commitment, and Shift is keeping watch to see if this commitment seems credible. In March, Exolum announced it would undertake a "world-first" project to test the ability to transport and store hydrogen through repurposed oil pipeline and storage infrastructure. The tiny scale of this as-yet unbuilt project (expected to produce enough hydrogen to power just one hydrogen car for 2 million kilometres) serves to demonstrate the challenges facing scaled, commercially-viable hydrogen transportation and storage technology that can be deployed quickly enough to have a meaningful emissions reduction impact. This speculative project will have no impact on Exolum's current business model, which is dependent on growth in storage, transportation and distribution of oil products - a business model facing structural decline as the energy transition accelerates.

Scotia Gas Networks (SGN)
***OTPP** owns 37.5% of SGN, the UK's second largest gas distribution network*

SGN is lobbying the UK government to subsidize its risky, expensive plans to blend hydrogen into its fossil gas pipeline network and is running a pilot to "demonstrate the potential for the wider gas network to safely deliver hydrogen gas." While there is likely to be a role for green hydrogen in decarbonizing heavy industry, SGN's CEO admits that using hydrogen for home heating is "unproven," and the Scottish Government's Zero Carbon Buildings Minister says that hydrogen "is not expected to play a central role in heating buildings."

Nevertheless, SGN is making a risky £32-million bet on hydrogen for home heating in Scotland. The gas utility is offering 300 customers £1,000 and installing free hydrogen boilers and appliances in their homes to participate in the pilot. But the project is raising concerns about the viability, safety and cost of re-purposing a gas pipeline network to transport hydrogen. One expert says, "As an engineer I'm used to looking at the safety of hydrocarbons, but figures presented by the UK government definitely don't demonstrate to me that this is safe. If you just compare natural gas and hydrogen, it's four times more likely you could be killed by hydrogen in your house."

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Hollow Hydrogen Hopes (continued)

Open Grid Europe
***BCI** holds a 32% stake in the 12,000-km German fossil gas transmission system.*

The president of Germany's federal regulator said that "Gas networks can be partly switched to transporting green hydrogen while other parts will need to be closed at some stage," publicly acknowledging that at least parts of the country's fossil gas pipeline network will face phase-out. BCI has not disclosed how it is planning for the potential stranded asset risks of its stake in Open Grid Europe.

Eastward Energy
*Eastward Energy is a subsidiary of TriSummit Utilities, which is co-owned by **PSP** and **AIMCo**.*

Nova Scotia's Eastward Energy is partnering with Dalhousie University and donating $200,000 to launch a new research lab that will investigate "low-carbon solutions" for Eastward's gas pipeline system, including the distribution of "hydrogen-enriched natural gas". The lab will test the limits of blending green hydrogen into Eastward Energy's fossil gas system, as well as the utilization of hydrogen-enriched natural gas in household appliances. Experts have long warned that hydrogen blending is not technically feasible beyond 20%, and would lead to negligible emissions reductions.

Eastward Energy also signed an MoU with EverWind Fuels, a developer of green hydrogen and ammonia production in Atlantic Canada, to collaborate on "opportunities to develop and scale up the hydrogen value chain in Nova Scotia including building demand by blending with natural gas to reduce emissions" and "explore opportunities for the storage, transportation, and distribution of green hydrogen." In spite of evidence to the contrary, Eastward's CEO claims the company's gas distribution system is "hydrogen-ready" and "looking forward to partnering with EverWind to deliver green hydrogen to decarbonize sectors that will be difficult to electrify such as heavy transportation, industrial facilities, and some large commercial, residential and institutional buildings". Yet Hydrogen Science Coalition experts warned in the *Globe and Mail* that plans to develop a hydrogen industry on Canada's east coast "are destined to flounder, then sink – dragging Canadian climate ambitions and the economy with it."

Énergir
*Énergir is 80.9% owned by **CDPQ***

Quebec gas utility Énergir released its *2023 Climate Resiliency Report*, which outlines a questionable plan to reach net-zero emissions by 2050 by increasing energy efficiency and electrification to cut back fossil gas use by 50%, replacing two-thirds of its fossil gas supply with renewable natural gas (RNG), and decarbonizing its remaining fossil gas use with a mix of hydrogen fuel and carbon capture and storage. Energy experts warn that Énergir's reliance on RNG is incompatible with net-zero, and pointed out numerous practical challenges to using CCS and hydrogen industrial processes to heat buildings. The case of Énergir exemplifies the increasing transition risk faced by Canadian pension funds, which are heavily invested in gas utilities all over the world.

What We're Reading

Report: Private Eyes Wide Shut: Private Equity Investments in Oil and Gas at Risk from Energy Transition - *Carbon Tracker*, January 2024.

"The energy transition is accelerating and will erode demand for oil and gas, with severe repercussions for the financial health of many oil and gas companies. Private equity firms investing in such companies at this stage of the transition are taking a serious gamble. Firms could be left holding companies whose value has cratered, with no buyers willing to take them off their hands. Even under a transition progressing at a moderate pace, the value of these oil and gas investments could be significantly lower than anticipated."

Report: Passive investing in a warming world - *Institute for Energy Economics & Financial Analysis*, February 2024.

"Over the last decade, shedding oil, gas, and coal has proven a winning financial strategy — even taking the recent energy crisis into account. As the sector's historic value thesis erodes, a few high-profit quarters have been unable to reverse a decade of underperformance."

Report: Canada's Big Five Banks: Heading to Net Zero? - *InfluenceMap*, March 2024.

The financing flows of the large Canadian banks between 2020 and 2022 was 3.9 : 1 in favour of fossil fuel financing, roughly opposite to where the ratio needs to be to avoid catastrophic climate change. The top five European banks had a ratio of 2.0 : 1 in favour of fossil fuels, while the largest U.S. banks had a ratio of 2.8 : 1. See more key findings in the report.

About Shift

Shift Action for Pension Wealth and Planet Health provides tools and resources for pension beneficiaries who want to engage with their pension managers on the climate crisis.

Canada's largest pension funds manage over $2 trillion: their investment decisions can influence whether businesses in Canada and around the world build electric cars and solar panels, or expand oil production and fossil gas pipelines.

Email us at info@shiftaction.ca to learn more about how your pension fund is handling climate-related risk, and to get involved.

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