The State of Transition in the Coal Mining, Electricity and Oil and Gas Sectors: TPI’s Latest Assessment

Professor Simon Dietz, London School of Economics
About the Transition Pathway Initiative
What is TPI and what is it for?

A global initiative led by Asset Owners, supported by Asset Managers

Established in January 2017, investors supporting TPI have over £7/$9.3 trillion AUM

An open access online tool, now with data on 183 companies in 7 sectors with a high impact on climate change

TPI assesses companies’ carbon management and performance, in line with the recommendations of TCFD

Enabling investors to understand how the transition to a low-carbon economy could affect their portfolios
TPI Partners

LSE

The London School of Economics and Political Science

Grantham Research Institute on Climate Change and the Environment

FTSE Russell

PRI Principles for Responsible Investment

Transition Pathway Initiative
An overview of the TPI Methodology and Tool
Overview of the TPI Tool

TPI assesses companies on:

1. Management Quality
2. Carbon Performance

Largest public companies by market cap and highest emitters in 7 sectors:

- 64 fossil fuel producers (coal mining and oil and gas)
- 41 electricity utilities
- 58 carbon-intensive manufacturers (cement, paper and steel)
- 20 auto manufacturers
TPI Design Principles

Company assessments based only on publicly available information

Outputs useful to Asset Owners and Asset Managers

Builds on existing initiatives and disclosure frameworks, such as TCFD

Pitched at a high level of aggregation; applies to firm as a whole
Management Quality

Level 0
Unaware

Level 1
Awareness

Level 2
Building capacity

Level 3
Integrating into operational decision making

Level 4
Strategic assessment

- Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions
- Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy
- Company has incorporated climate change in executive remuneration
- Company has incorporated ESG issues into executive remuneration
- Company has had its operational GHG emissions data verified
- Company discloses an internal carbon price
- Company explicitly recognises climate change as a relevant risk/opportunity for the business
- Company has set GHG emission reduction targets
- Company has published information on its operational GHG emissions
- Company has set quantitative targets for reducing its GHG emissions
- Company supports domestic & international efforts to mitigate climate change
- Company has a process to manage climate-related risks
- Company supports domestic & international efforts to mitigate climate change
- Company discloses materially important Scope 3 GHG emissions (coal, oil and gas)

Data provided by FTSE Russell
Carbon Performance
Tests alignment of company targets with Paris goals: science-based targets

Benchmarks:
- National pledges (NDCs) to the Paris Agreement; the 'Paris Pledges'
- 2°C target
- *New* Below 2°C target
Latest results: coal mining, electricity, and oil and gas
Management Quality level

Level 0: Unaware
Level 1: Awareness
Level 2: Building capacity
Level 3: Integrating into operational decision making
Level 4: Strategic assessment

- 1 company
  - 1 coal mining company
  - 4 electricity utilities
  - 6 O&G producers

- 18 companies
  - 8 coal mining companies
  - 10 electricity utilities
  - 21 O&G producers

- 33 companies
  - 2 coal mining companies
  - 12 electricity utilities
  - 10 O&G producers

- 24 companies
  - 2 coal mining companies
  - 12 electricity utilities
  - 8 O&G producers

- 29 companies
  - 6 coal mining companies
  - 15 electricity utilities
  - 8 O&G producers

Transition Pathway Initiative
Average company is going from “Building capacity” (Level 2) to “Integrating into operational decision making” (Level 3), i.e. it:

- Explicitly recognises climate change as a business risk/opportunity
- Has made a policy commitment to action

And is at the point of:
- Setting an emissions reduction target
- Disclosing operational emissions
4* companies

Some companies satisfy all Management Quality criteria

These companies do all the basics, and:

- Have quantitative, long-term targets
- Incorporate ESG into executive remuneration
- Incorporate climate change risks/opportunities in company strategy
- Undertake climate scenario planning
- Disclose an internal carbon price

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<tr>
<th>4* Company</th>
<th>Sector</th>
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<tr>
<td>AGL Energy</td>
<td>Electricity</td>
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<td>Anglo American</td>
<td>Coal mining (general mining)</td>
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<td>BHP Billiton</td>
<td>Coal mining (general mining)</td>
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<td>Equinor (formerly Statoil)</td>
<td>Oil and gas</td>
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<td>Repsol</td>
<td>Oil and gas</td>
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**Trends in Management Quality**

We see progress from 2017

17 out of 54 companies have moved up; 3 have moved down

8 companies move up by explicitly recognising climate change as a business risk/opportunity

Another 6 companies move up by setting emissions reduction targets

There is more progress at lower levels
Management Quality: indicator by indicator

Most companies do basics; few take the more advanced steps

Almost all have policy and explicitly recognise climate change as business risk/opportunity

Most disclose emissions, manage climate change risks, and incorporate ESG into executive remuneration

Few incorporate climate change risks/opportunities into strategy, undertake climate scenario planning, or disclose internal carbon price
Carbon Performance of electricity utilities

We assess 37 electricity utilities with a significant electricity generation business.

Quantitative emissions targets are relatively common in electricity, but still many are missing.

In 2020, >50% of targets are aligned with Paris Agreement in some form.

But failing to keep pace by 2030.

Little difference between Below 2°C and 2°C.
Carbon performance in coal mining, and oil and gas

No targets in coal mining, or oil and gas, which include downstream emissions from use of sold products

TPI proposal for how to assess Carbon Performance in oil and gas, based on Shell’s recently stated ambitions

Performance measure: carbon intensity of primary energy supply

Long-term goal: diversify out of oil and gas

Similar approach possible in mining, perhaps looking at carbon intensity of revenue
Summary of results

Measurable progress over the past 18 months, particularly in carbon management

More electricity utilities are making the transition to renewable energy

However, most companies still not taking a strategic approach to climate change (are not on Level 4)

Most electricity utilities either do not have quantitative, long-term emissions targets, or their targets do not keep pace with what the Paris Agreement requires
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