Transition Pathway Initiative (TPI) Global Climate Transition Centre Launch

Tuesday 18th October 2022

Speakers:

Susana Mourato, LSE

Adam Matthews, TPI and Church of England Pensions Board

Simon Dietz, LSE

Faith Ward, Brunel Pension Partnership and Institutional Investors Group on Climate Change

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Transition Pathway Initiative

Energy companies and the low-carbon transition: where do we stand?

Professor Simon Dietz

TPI Global Climate Transition Centre @ Grantham Research Institute, & Dept. of Geography and Environment, LSE

TPI's mission and design principles

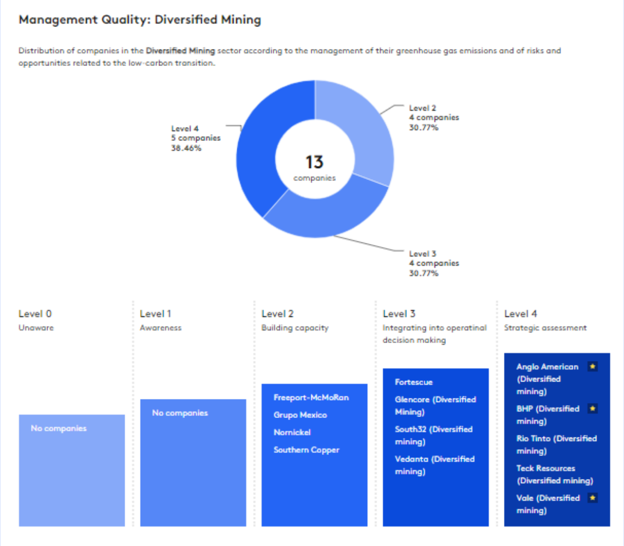
We provide open data on the progress companies are making on the low-carbon transition, based on these principles:

1. **Disclosure-based:** Company assessments are based only on publicly available information
2. **Accessible and easy to use:** Outputs are designed to be useful to Asset Owners and Asset Managers, especially with limited resources to assess climate change
3. **Not seeking to add unnecessarily to the reporting burden**: Aligned with existing initiatives and disclosure frameworks, such as CDP and TCFD
4. **Corporate level**: Pitched at a high level of aggregation

How TPI assesses companies

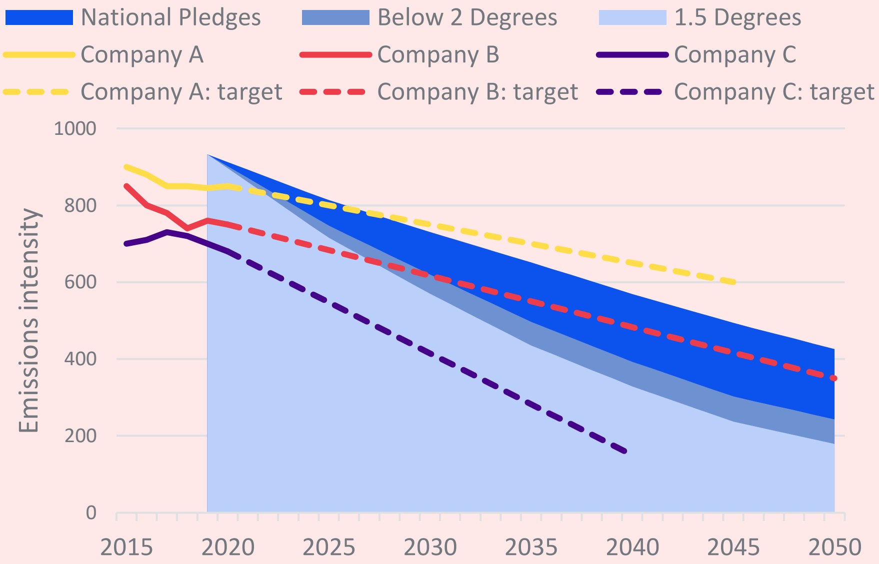
Input: "Management Quality"

What steps have companies taken to manage/govern their emissions and low-carbon business risks/opportunities?



Output: "Carbon Performance"

How much do companies emit and do their emissions pathways align with international climate goals?



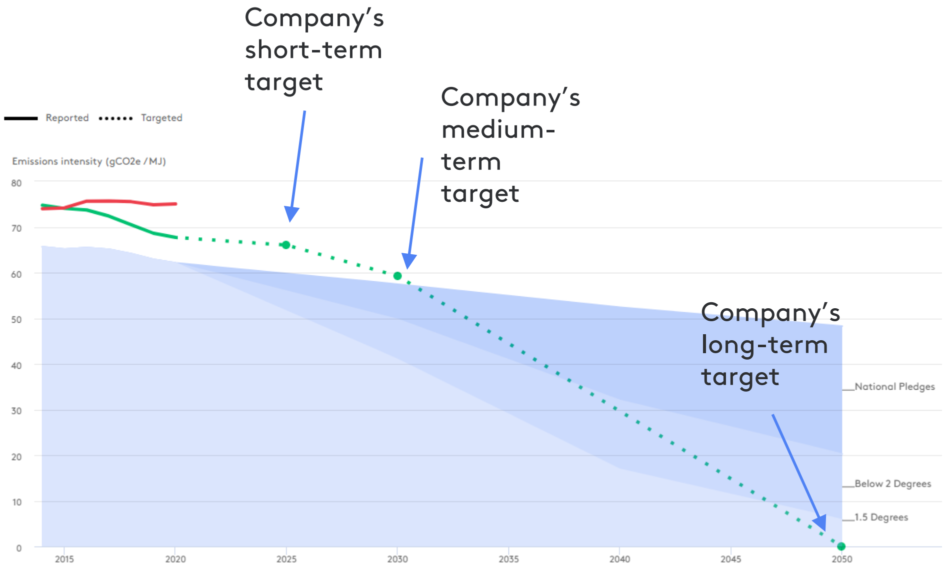
Management Quality is scored 0-4 based on a set of 19 indicators, each of which can be understood as a management practice

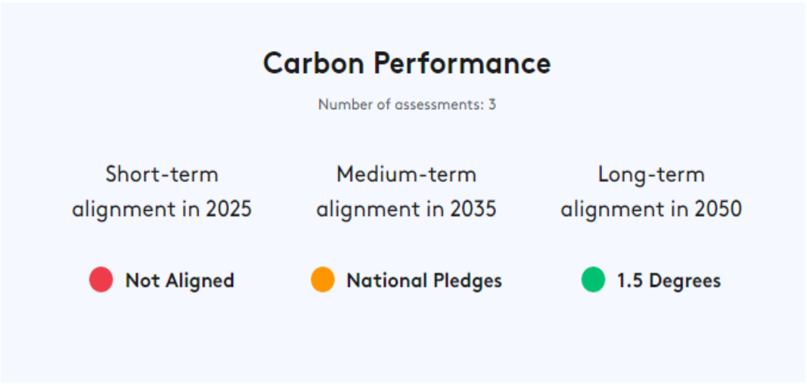
Level 0	Level 1	Level 2	Level 3	Level 4
Unaware	Awareness	Building capacity	Integrating into operational decision making	Strategic assessment
				Company discloses membership and involvement in organisations or coalitions dedicated specifically to climate issues
			Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy	Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions
			Company has set quantitative targets for reducing its GHG emissions	Company has incorporated climate change performance into executive remuneration
		Company has set GHG emission reduction targets	Company reports on its Scope 3 GHG emissions	Company has incorporated climate change risks and opportunities in its strategy
	Company recognises climate change as a relevant risk/opportunity for the business	Company has published info. on its operational GHG emissions	Company has had its operational GHG emissions data verified	Company undertakes climate scenario planning
Company does not recognise climate change as a significant issue for the business	Company has a policy (or equivalent) commitment to action on climate change		Company supports domestic & international efforts to mitigate climate change	Company discloses an internal carbon price
			Company has a process to manage climate-related risks	Company ensures consistency between its climate change policy and position of trade associations of which it is a member
			Company discloses Scope 3 GHG emissions from use of sold products (selected sectors only)	

Carbon Performance

Based on the Sectoral Decarbonization Approach (SDA):

1. Start with a global carbon budget consistent with an international climate goal (e.g., 1.5°C)
2. Allocate the budget between sectors (e.g., electricity, oil and gas) using an integrated model (e.g., IEA)
3. Divide emissions by sectoral activity from the same scenario to generate intensity ‘benchmark’ (e.g., tonnes of CO2 per MWh electricity)
4. Calculate companies’ emissions intensity using their public disclosures
5. Project their future emissions intensity based on any emissions targets they have set
6. Compare the company with the benchmarks





Management Quality of energy companies in 2022

191 energy companies
3.0

76 electricity utilities
3.0

52 oil & gas producers
3.4

19 oil & gas distributors
2.8

46 coal miners
2.3

Level 0
Unaware

2 companies: **1%**

0 Electricity Utilities
0 Oil & Gas Producers
0 Oil & Gas Distributors
2 Coal miners

Level 1
Awareness

17 companies: **9%**

1 Electricity Utilities
2 Oil & Gas Companies
0 Oil & Gas Distributors
14 Coal Miners

Level 2
Building capacity

27 companies: **14%**

8 Electricity Utilities
3 Oil & Gas Companies
7 Oil & Gas Distributors
9 Coal Miners

Level 3
Integrating into operational decision making

78 companies: **41%**

36 Electricity Utilities
22 Oil & Gas Companies
8 Oil & Gas Distributors
13 Coal Miners

Level 4
Strategic assessment

67 companies: **35%**

31 Electricity Utilities
25 Oil & Gas Companies
4 Oil & Gas Distributors
8 Coal Miners

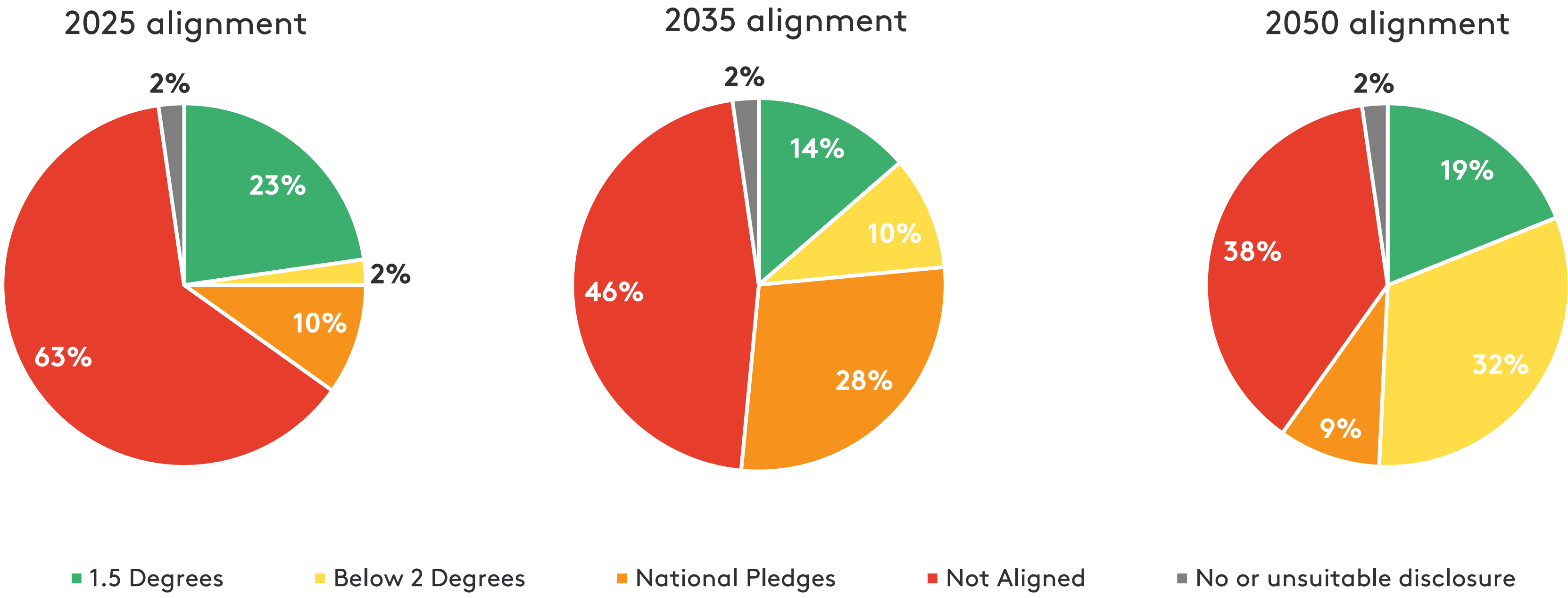
Note that the totals (e.g., at each Level) do not always correspond to the sum of each sector because there are some companies that operate in multiple sectors.

Carbon Performance of energy companies in 2022

74 ELECTRICITY UTILITIES

52 OIL & GAS

6 DIVERSIFIED MINERS WITH COAL

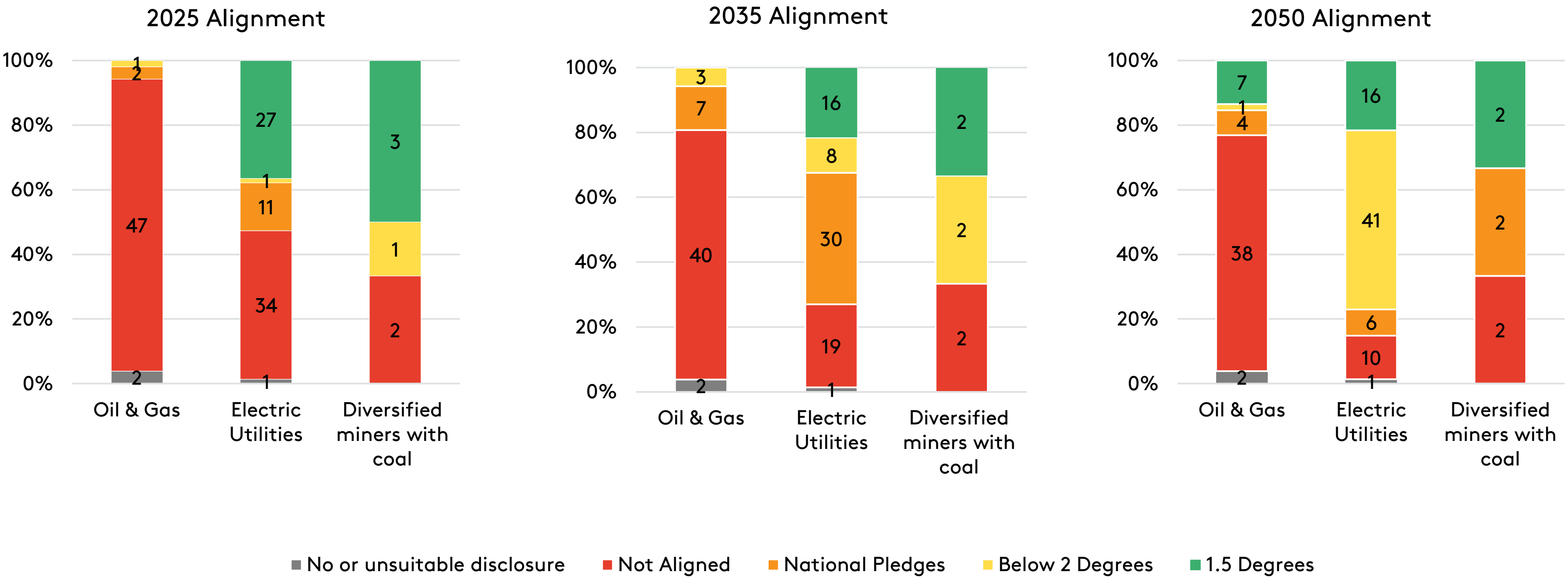


Carbon Performance of energy companies in 2022 by sector

74 ELECTRICITY UTILITIES

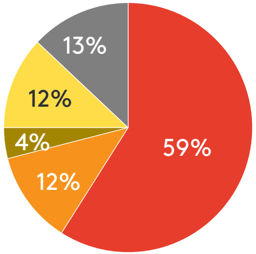
52 OIL & GAS

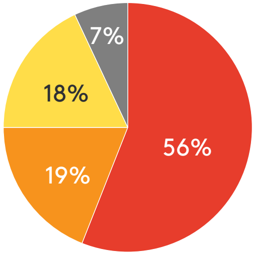
6 DIVERSIFIED MINERS WITH COAL

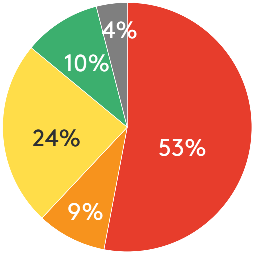


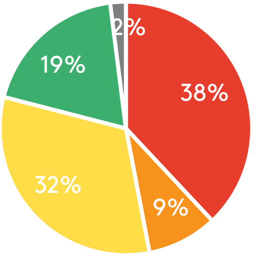
Four years of TPI data: progress, but slow

	2019	2020	2021	2022
Management Quality	**135** companies **2.6** average score	**163** companies **2.7** average score	**190** companies **2.8** average score	**184** companies **3.0** average score
Carbon Performance	**109** companies **2030**	**125** companies **2050**	**140** companies **2050**	**132** companies **2050**









■ Not aligned ■ Paris Pledges or National Pledges ■ 2 Degrees ■ Below 2 Degrees ■ 1.5 Degrees ■ No or usuitable disclosure

Interpreting the data

- Most companies have reached Level 3 on Management Quality. This is good news but a fairly low bar. Reaching Level 3 means a company: (i) recognises climate change as a business risk/opportunity; (ii) has a policy commitment to act on climate change; (iii) has set some kind of emissions target; (iv) discloses its operational (Scope 1 & 2) emissions.
- 'Net zero' targets are proliferating. This is also good news but our analysis of Carbon Performance indicates that many big energy corporations, particularly in the oil & gas sector, still don't have a 'genuine' net zero target.
- Cynics might say it's easy to set a target, especially a long-term target. How can we measure the <u>credibility</u> of long-term targets, in the sense that companies are serious about meeting them?

Short- and medium-term targets

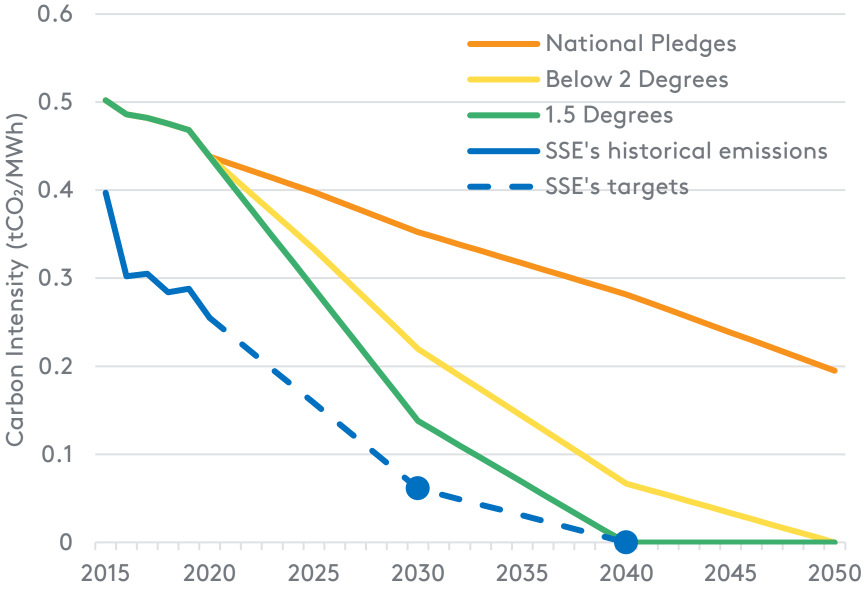
One theory of change is that long-term targets establish a bridgehead, with implications for companies' trajectories in the more immediate future.

Since temperature depends on cumulative CO_2 emissions, short- and medium-term targets also matter for the climate.

Together these explain why short- and medium-term targets are back in fashion.

In the energy sector as a whole, more companies are aligned with below 2°C in 2050 than in 2035.

Only 14% of electricity utilities are aligned with 1.5°C in 2025, 2035 and 2050. No O&G company is.



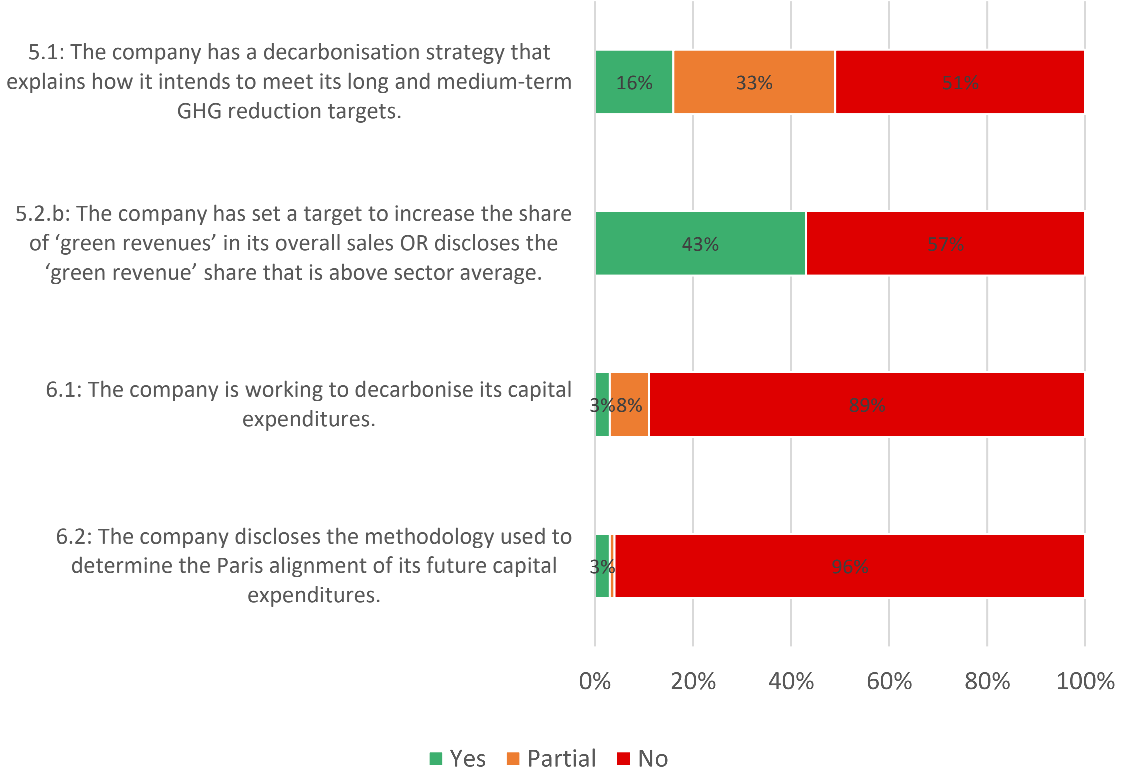
Decarbonisation strategy and capital alignment

Companies need to back up their targets with decarbonisation strategies and by decarbonising their capital spending.

We have started to analyse these issues through our work for Climate Action 100+, which covers 73 large energy companies*.

49% of companies disclose some detail about their decarbonisation strategy but only 16% quantify the key measures they plan to take.

Companies are providing little evidence on what decarbonisation means for their capex.



* Indicator 5.2 only covers 21 companies as the indicator is specific to those headquartered in the EEA or UK.

The road ahead for TPI

Goals

- Place transparency and independent analysis at the heart of investor decision-making
- Support global investor engagement initiatives such as CA100+
- Support investors aligning their portfolios with net zero targets
- Support the low-carbon transition beyond listed equity, e.g., in banking, corporate debt and sovereign debt markets

New research

- Capacity to respond to new company disclosure rapidly for key companies
- Further development of the TPI banking framework
- New indicators to bridge the gap between governance/management and emissions
- Carbon Performance methodologies for new sectors (e.g., chemicals, food producers)
- New frameworks to assess other asset classes (e.g., sovereign bonds)

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