DEVELOPING A NET ZERO TRANSITION PLAN – SETTING, TRACKING AND REPORTING TARGETS

Practical example: SSE
WHAT

SSE is a UK-listed energy company operating mainly across the UK and Ireland. We are a leading generator of renewable electricity and one of the largest electricity network companies in the UK. We have set a commitment to achieve net zero across scope 1 and 2 greenhouse gas (GHG) emissions by 2040 at the latest (subject to security of supply requirements) and for remaining scope 3 GHG emissions by 2050 at the latest.

To map out our route to net zero clearly, we developed a transition plan. We first published this in March 2022, in advance of any mandatory requirements and prior to the publication of any transition plan recommendations and guidance. There are three main elements to the plan: targets, actions and integrity.

- **Targets**: We have set a number of short- (to 2025), medium- (2025–2035) and long-term (2035–2050) interim emissions targets. Four of these have been validated by the Science Based Targets initiative (SBTi).

- **Actions**: A good plan not only outlines targets, but it also outlines the actions that will be taken to achieve them. Our Net Zero Transition Plan clearly outlines 17 key actions we will take to deliver on our commitments.

- **Integrity**: We know that we do not yet have all the answers to deliver net zero, and transition plans can do a useful job of outlining the challenges of achieving net zero. Being open and honest about these issues is key.

“Our belief is that transition plans should be judged on their honesty, not just the enormity of their ambition.”

Martin Pibworth, Energy and Commercial Director, SSE

Alongside our transition plan, we have developed our Just Transition Strategy, helping to guide our decision making, influence greater fairness for those impacted by the decline of high-carbon economic activity and promote the opportunities of climate action.

We do not have a separate sustainability finance team. Instead, sustainability knowledge is embedded within the finance teams and decentralized across the business, supported by the group sustainability function. Finance has played a critical role in developing some of our net zero targets and leads on developing the investment plan that allows us to achieve our carbon targets and wider net zero ambitions, as well as reporting on progress against this investment plan.
The below graphic shows SSE’s short-, medium- and long-term carbon targets, alongside key action it will take to achieve them.

**Short term (to 2025)**
- Engage with 50% of suppliers by spend to set an SBT by 2024.

**Medium term (2025 - 2035)**
- Reduce the carbon intensity of scope 1 GHG emissions by 80% by 2030, from 2017/18 baseline.
- Reduce absolute scope 1 and 2 GHG emissions by 72.5% by 2030 from a 2017/18 base year.

**Long term (2035 - 2050)**
- Net zero for SSE’s scope 1 and 2 emissions by 2040.
- Net zero for all SSE’s remaining scope 3 emissions by 2050.

**Scope 1**
- Reduce emissions from unabated gas generation
- Develop new low-carbon flexible generation
- Transparent advocacy in favour of enhanced policy
- Build a renewable energy portfolio of 13GW of capacity by 2031
- Reduce SSE’s leakage and reliance on SF6
- Switch vehicle fleet to EV in line with EV100 commitment
- Reduce reliance on SSE’s Scottish Island back-up diesel generation
- Explore options for neutralising residual emissions

**Scope 2**
- Support customers to fuel switch and consume less gas
- Align unabated gas power generation owned through joint ventures with a net zero pathway
- Advocate for a pathway for decarbonised heat
- Establish a framework for supplier collaboration on net zero action
- Partner with the CDP supply chain engagement programme

**Scope 3**
- Reduce electrical losses from SSEN Distribution
- Deliver a net zero property estate

**Climate adaptation and resilience**
- Continuous review of adaptation plans at business unit level, whilst participating fully in national adaptation frameworks

**Just Transition actions**
- Publish annually, progress against the 20 Principles for a Just Transition, outlined in SSE’s Just Transition Strategy

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Source: SSE Net Zero Transition Plan 2022
WHY

The energy sector contributes 76% to global GHG emissions.¹ As a significant generator of electricity, we recognize that we must play our role in decarbonizing the energy sector by putting in place a coherent plan to reach net zero.

The UK government has also stated its intention to make publishing net zero transition plans mandatory. By getting started on our transition plan sooner rather than later, we wanted to stay ahead of upcoming regulatory requirements.

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Our group-wide business strategy is focused on net zero, and this flows down to each business unit. By developing, publishing and implementing a credible transition plan with defined targets, actions and interim milestones, we are setting out a clear roadmap to enable us to achieve our net zero ambition.

“These targets are very important because they define the destination we are aiming for. However, targets are only action in theory, they are not yet action in practice. That’s why a Net Zero Transition Plan is so important. A good plan not only outlines targets, it also explains how we intend to achieve them.”

Alistair Phillips-Davies, Chief Executive, SSE

Shareholders are demanding a transparent transition plan, too. At our July 2021 annual general meeting, 99.96% of shareholders voted in favour of our proposed resolution on committing to net zero and publishing an annual Net Zero Transition Report. Shareholders requested a plan with clear timelines and actions that covers all three scopes of GHG emissions.

¹. Climate Watch, ‘Historical GHG Emissions’ (data set)
Reviewing transition plan guidance

To guide our work on the transition plan, we reviewed the Task Force on Climate-related Financial Disclosures (TCFD) guidance and what our peers were doing. We also participated in the UK Sustainability Disclosure Requirements consultation on transition plans and have been involved in the Transition Plan Taskforce (TPT) sandbox exercise, led by the Financial Reporting Council (FRC) and CDP. The sandbox exercise allows organizations that are preparing transition plans to test the disclosure framework and guidance to understand practical application and improvements. We have also more recently been invited to join the TPT delivery group.

We published our transition plan before the TPT released its draft guidance on transition plans for consultation in November 2022. Our transition plan compares to the TPT recommendations in the following ways:

- The structure of our plan encompasses the ‘ambition’, ‘action’ and ‘accountability’ principles set out in the TPT recommendations.

- Our plan includes many of the disclosure sub-elements recommended by TPT, such as products and services, engagement with the value chain, GHG emissions metrics and targets, and incentives and renumeration.

- Our plan includes details not covered in the current TPT recommendations, such as climate adaptation and resilience and information on the just transition.

We will continually review our transition plan and update where relevant if guidance or our business model changes, to ensure that it meets best practice.
HOW

Finance teams across the business unit and group level provided input – coordinated by the group sustainability team – to develop appropriate net zero targets and prepare action plans to achieve them. The teams track performance against climate targets and the supporting investment plans and report progress to the board and external stakeholders.

SETTING THE TARGETS

The first stage, which started in 2019, was to understand the publicly available information on net zero scenarios, targets and UK forecasts. The group sustainability team reviewed climate change frameworks and initiatives – including the Paris Agreement, the UK Climate Change Committee and SBTi – to identify the factors needed to attain net zero.

We selected 2017/18 as the appropriate base year for our targets, as this was the most recent year for which we had the most comprehensive data.

The group sustainability team, together with group finance, worked with the business unit finance teams to make sure that group-level ambitions took into account practical feasibility in the business units. These conversations helped us understand the level of emissions we were currently forecasting and the scale and pace of emissions reduction that could be achieved based on asset plans.

Following these discussions, the information was consolidated and used to develop a number of potential scenarios for net zero pathways and targets. Feedback was sought from business unit finance teams on which scenarios would work best at business unit level. Finally, we chose a suitable pathway to achieve net zero and targets that supported it.

Our targets align to a 1.5°C pathway, in line with the latest scientific understanding on emissions reduction. Four targets were validated by the SBTi in November 2021. These SBTi-validated targets are broken down into different scopes of emissions and timescales and we have 17 underlying qualitative actions, which are outlined in our Net Zero Transition Plan (see page 3).

DEVELOPING ACTION PLANS

The net zero targets and accompanying transition plan were decided at group level, but open and ongoing dialogue with the business units enabled us to get buy-in throughout the organization as we started putting action plans in place. Each business unit finance team was responsible for developing a strategy and asset plan to achieve our emissions targets and wider net zero ambitions through business operations.

Business units’ asset plans formed the basis of our Net Zero Acceleration Programme, a five-year £12.5 billion capital investment plan to achieve our net zero targets. In this capital investment plan, we have identified assets that need to be developed, including new and innovative options such as hydrogen generation.
The group finance team reviewed the capital investments to make sure they met our investment criteria and were accurately costed. The team also planned how we would fund the investments and considered how the associated investment decisions could impact our earnings before interest and taxes and our dividends.

**TRACKING AND REPORTING ON PROGRESS**

In the baseline year of 2017/18, scope 1 and 2 emissions represented 74% of SSE's emissions. We collate and report scope 1 and 2 emissions data on a semi-annual basis. Quantifying scope 3 emissions remains a challenge for SSE, and we are continually seeking to improve our data collection and reporting for scope 3 emissions.

In the past, we reported performance against our four science-based targets to the board annually. In November 2022, we published our first half-year Sustainability Statement alongside our financial results, and we intend to continue reporting semi-annually. Our [Sustainability Statements](#) provide clear details on our emissions performance and the factors that may have influenced it. We get independent limited assurance on our full-year scope 1, 2 and 3 emissions and carbon intensity data.

Our overall net zero goals and the progress we have made against them are also included in our [Net Zero Transition Report](#), which discloses annual progress against our Net Zero Transition Plan.
Sustainability Statement

Measuring performance against science-based carbon targets

For the first time, SSE is disclosing enhanced half-year performance data on its science-based targets. In future publications, SSE will present further information on its target progress and trends at a six-month interval. As SSE’s carbon intensity metric is a core goal and has been linked to executive incentives since 2019, SSE has previously disclosed half-year performance on this particular target.

Note: These tables provide performance data as of 30 September 2022. Full year performance data will be subject to limited external assurance and will provide a description of target progress.

Reduce scope 1 GHG emissions intensity of generated electricity by 80% by 2030, from a 2017/18 baseline, to 61gCO₂e/kWh

Performance at 30 Sep 2022 (comparisons)

Performance at 30 Sep 2022 (comparisons)

Influencing factors
SSE’s intensity performance is calculated based on two elements – total scope 1 GHG emissions (99% of which is from thermal generation) and total generation output, comprising thermal and renewables generation sources. SSE’s absolute scope 1 GHG emissions remained stable in the first half of 2022/23 compared to the same period last year. Renewables generation represented a larger portion of total generation output in the first half of 2022/23 compared to the same period last year, having experienced exceptionally still and dry weather in the prior year. These factors combined contributed to a decrease in the scope 1 GHG intensity of generated electricity.

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Engage with 50% of suppliers by spend to set a science-based target by 2024

Performance at 30 Sep 2022 (comparisons)

Influencing factors
34% of SSE’s suppliers by spend have set a science-based target with a further 21% committed to setting one. SSE continues to work closely with its supply chain to increase the absolute number of suppliers establishing science-based pathways to net zero.

Reduce absolute scope 1 and 2 greenhouse gas (GHG) emissions by 72.5% by 2030 from a 2017/18 baseline, to 3.04 MtCO₂e

Performance at 30 Sep 2022 (comparisons)

Influencing factors
Absolute GHG emissions from thermal generation output contribute around 93% of SSE’s total scope 1 and 2 emissions. Output from SSE’s thermal generation assets remained stable in the first half of 2022/23 compared to the same period last year, as did the corresponding GHG emissions.

Influencing factors
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Reduce absolute GHG emissions from use of products sold by 50% by 2034, from a 2017/18 baseline, to 1.27 MtCO₂e

Performance at 30 Sep 2022 (comparisons)

Influencing factors
Overall gas sold by SSE’s customer businesses reduced between the first half of 2022/23 and 2021/22. This is likely to be driven, in part, by demand destruction in the business energy sector, in particular, as a result of higher gas prices. The long-term strategy to reduce gas consumption is by working with customers to become more energy efficient and switch to low carbon sources of heat.

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Source: SSE, Sustainability Statement for the six months to 30 September 2022
NEXT STEPS

ENHANCING OUR TRANSITION PLAN

The regulatory landscape around net zero is still evolving, so we see our transition plan as a dynamic document. We will continue to review external requirements, guidance and disclosure recommendations and update the plan as these change – and to reflect any changes in our business strategy. We will also continue to take an active role in helping to shape future guidance and frameworks around transition plans through our involvement in the TPT sandbox exercise and delivery group.

We have already done some work on the just transition and published our Just Transition Strategy in 2020. We now intend to build on this existing work and ensure that it is fully integrated into our transition plan. It is important to us that we achieve net zero without injustice for customers, employees, suppliers, communities and other stakeholders.

We will also expand our transition plan to include more detail on climate resilience and adaptation and how the plan aligns to the UN Sustainable Development Goals that form a key part of our business strategy.

DEVELOPING A DATA PLATFORM AND WORKING WITH OUR SUPPLY CHAIN

Our approach to data gathering, tracking and reporting on scope 1 and 2 data is well-established and has been embedded in the organization for many years. However, we would like to automate the process by putting in place a platform for data collection. This would enable us to store all the data for our scope 1 and 2 emissions targets in one central place.

We have been gathering scope 3 data for many years and have improved the quality and scope of the data over the years. However, it is still a challenge to gather reliable supply chain emissions data. We have been working with CDP on its supply chain initiative so we can better engage our suppliers on environmental action. We are also testing a supplier tool in one of our business areas, which will capture emissions associated with suppliers’ assets. If successful, we will roll out the tool to other areas of the business.
TOP TIPS

REVIEW TRANSITION PLAN GUIDANCE AND EXPECTATIONS
To help you decide what to include in your transition plan, read the relevant guidance and look at what your peers are doing. Also consider the expectations of your stakeholders. Stay aware of changes to requirements and expectations as you develop your plan, and keep this under periodic review.

THINK ABOUT IMPLEMENTATION
Align your net zero ambitions and transition plan with your operational plans. We recommend developing an asset plan that is both fundable and compatible with your wider strategy to support your net zero transition plan.

DEVELOP YOUR TRANSITION PLAN AND TARGETS COLLABORATIVELY
Work collaboratively and iteratively across various levels of your organization to make sure you develop a realistic net zero pathway with interim targets and action plans. Senior leaders should direct the target-setting and make sure that there is clear and consistent communication across the business.

TRACK PROGRESS AGAINST YOUR TARGETS
Identify and understand the sources of data that will enable you to track progress against your targets. Make sure you have processes in place to gather this information and ensure data quality. Get assurance over your data.

BE TRANSPARENT
In your transition plan, clearly document your ambition and your progress but also the challenges that you are facing. Report against your progress regularly, both internally and externally.
More from A4S

To find out more about transition plans, read A4S’s blog.

To discover more about guidance available on transition plans, read the A4S interviews with:

- Transition Plan Taskforce (TPT)
- Glasgow Financial Alliance for Net Zero (GFANZ)
- TCFD

An A4S case study on SSE’s just transition plan can be found on page 13 of our Essential Guide to Enhancing Investor Engagement.