



Sustainable
Fitch

a FitchSolutions Company

Pressure-Testing Corporates' Transition Planning

Westminster Energy Forum

William Attwell, Director, Sustainable Fitch

May 2024

Disclaimer

Credit ratings are assigned by Fitch Ratings and are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments. In the context of its credit ratings, Fitch Ratings do factor in ESG considerations - only as they impact credit worthiness - and disclose their relevance and materiality in its ESG Relevance Scores.

On the other hand, ESG Ratings are assigned by Sustainable Fitch, a Fitch Solutions company, part of the Fitch Group but separate and independent from Fitch Ratings. Sustainable Fitch assigns ESG Ratings, ESG Scores, Second Party Opinions and other Assessments. These Sustainable Fitch products assess the Environmental, Social and/or Governance qualities of an issuer and/or its securities.



Transition Assessment - Overview



**Sustainable
Fitch**
a FitchSolutions Company

Sustainable Fitch Operationalises the SMI Energy Transition Task Force’s Transition Framework

Sustainable Markets Initiative’s Energy Transition Task Force

The taskforce published a transition [framework](#) at COP27 in 2022 to support global progress towards net zero greenhouse gas emissions.

- It recognises that the energy transition needs to engage incumbents in high-emitting sectors – including those who are not ‘green’ today but pursuing net zero in the future – to deploy their resources, capabilities, and capital to help accelerate global progress towards this goal.
- Despite growing momentum for net zero ambitions, there remains a **notable gap in the available tools** to enable investment in transitioning companies delivering progress across the near-, medium-, and long-term.
- The framework and its underlying principles aims to help stakeholders identify, assess, rank, and track companies driving the transition.

Sustainable Fitch Operationalises SMI Energy Transition Task Force’s Framework

SMI selected Sustainable Fitch to utilise the framework to develop a transition assessment to chart the spectrum of companies in the undefined space between carbon intensive and net zero today.



Transition Assessment Methodology: Energy Sector

Scope

This report describes Sustainable Fitch’s Transition Assessment methodology for companies from the energy sector, including oil and gas companies and power generation companies. The assessment builds on the inaugural work of the Sustainable Markets Initiative (SMI) and its Energy Transition Task Force, and benchmarks, differentiates and positions each company’s path towards net zero. The framework recognises the following two potential pathways:

- Decarbonising (emissions reduction by advancing in technology and efficiency gains, complemented by emissions removal).
- Greening (decarbonisation of existing activities as well as the replacement of emission-intensive technologies with greener alternatives).

The analysis output is a colour-coded spectrum ranging from Black to Brown, Light Brown, Olive, Light Green and Green, which is more visual than a numerical or letter scale. Each colour represents an intermediate stage of a company’s transition pathway. Black represents carbon-intensive companies with no or limited decarbonising or greening plans for their activities. At the other end of the scale, Green represents companies that are already far along their decarbonisation journey with a very robust transition plan to achieve net-zero greenhouse gas (GHG) emissions status, or companies that have already transitioned and achieved net-zero GHG emissions status.

The Transition Assessment methodology was updated in April 2024 to include adjustments for power generation companies.

Transition Assessment Stages

Below are the three broad topics assessed for each company:

- **Emissions Ambition (for 2050 and 2030; 30% weight of the assessment):** Targets related to a company’s future emissions. Absolute emissions metrics refer to the volume of emissions generated in the time horizon, while intensity metrics show the volume of emissions per unit of energy generated in the time horizon under consideration (eg MJ, kWh, boe).
- **Emissions Reduction (long term and short term; 40% weight of the assessment):** Actual metrics of a company’s emissions reduction targets achieved in recent and past years, important as they show commitment and achievement.
- **Financial Actions (investments and revenue; 30% weight of the assessment):** Amount apportioned towards transition and transition-enabling investments. Actual revenue generated from transition and transition-enabling investments.

Background

There is scientific evidence that global warming must be halted. The 2015 Paris Agreement is an international, legally binding treaty that seeks to limit global average surface temperature rise to well below 2°C and, with best efforts being pursued, to limit it to 1.5°C above pre-industrial levels. To ensure maximal impact at the quickest pace, efforts need to be focused on those economic activities that contribute the most to global atmospheric GHG concentrations. GHG emissions from the production and use of fossil fuels, mainly CO₂ and methane, are some

Table of Contents

Scope	1
Transition Assessment Stages	1
Background	1
Section 1: Sustainable Fitch’s Transition Assessment	2
Section 2: Key Sector Issues for Performance Indicators, Adjustments and Safeguards	9
Appendix 1: Performance Indicators	14
Appendix 2: Scope of Company Interaction and Methodology Maintenance	16
Appendix 3: Important Facts About the Oil and Gas Sector	17
Appendix 4: Important Facts About the Power Generation Sector	21

Contacts

criteria@sustainablefitch.com

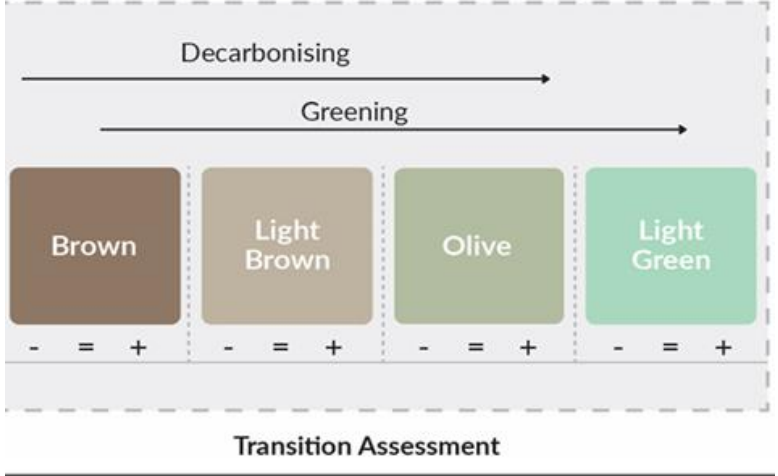
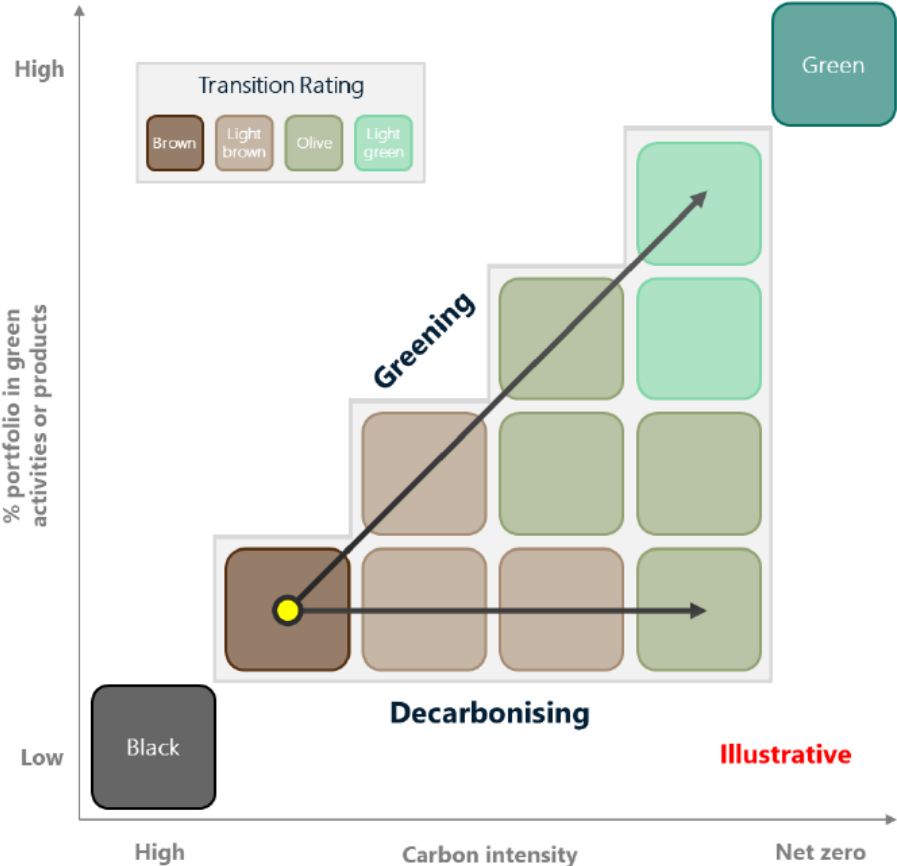
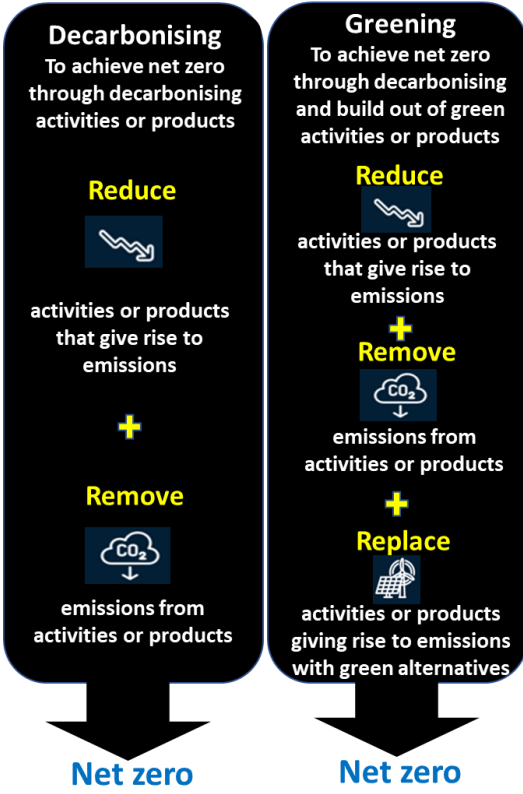
Criteria and Methodology | 26 April 2024

sustainablefitch.com

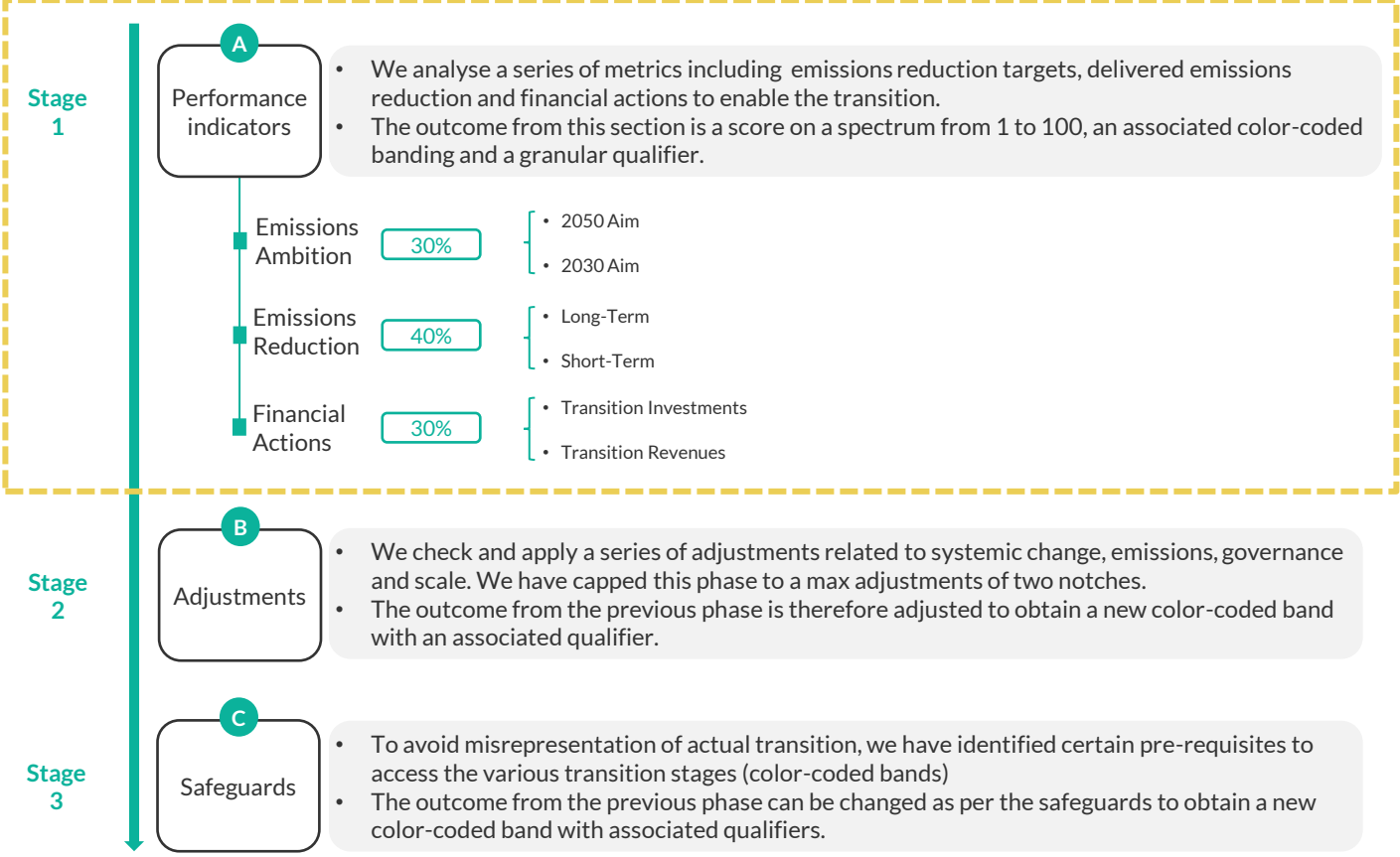
Sustainable Fitch Transition Assessment

Translating performance to a colour

Paths – Approaches to transition



Analytical Process – 3 Stages, Full Transparency on the Methodology



Category		Weight	Metrics	
Emissions Ambition	2050 Aim	2.5%	1.1	Absolute Scope 1 and Scope 2
		2.5%	1.2	Absolute Scope 3
		5%	1.3	Intensity Lifecycle Scope 1, Scope 2 and Scope 3
	2030 Aim	5%	1.4	Absolute Scope 1 and Scope 2
		5%	1.5	Absolute Scope 3
		10%	1.6	Intensity Lifecycle Scope 1, Scope 2 and Scope 3
Emissions Reduction	Long-term reduction	5%	2.1	Reduction in Absolute Scope 1 and Scope 2
		5%	2.2	Reduction in Absolute Scope 3
		10%	2.3	Reduction in Intensity Lifecycle Scope 1, Scope 2 and Scope 3
	Short-term Reduction	5%	2.4	Reduction in Absolute Scope 1 and Scope 2
		5%	2.5	Reduction in Absolute Scope 3
		10%	2.6	Reduction in Intensity Lifecycle Scope 1, Scope 2 and Scope 3
Financial Actions	Transition Investments (Tracked data)	n.a	3.1	Decarbonising % (of total annual investments)
		n.a	3.2	Green % (of total annual investments)
	Transition Investments	15%	3.3	Total Green and Decarbonising % (of total annual investments)
		5%	3.4	Green/Decarbonising Investment ratio
	Transition Revenues	5%	3.5	Green and Decarbonising Annual revenue growth (%)
		5%	3.6	Green and Decarbonising Annual revenue (% of total revenue)

TRANSITION ASSESSMENT – ANALYTICAL PROCESS

Metric	Weight	Thresholds						
		0	1	2	3	4	5	
Emissions Ambition								
2050 Aim								
1.1	Reduction in absolute Scopes 1 and 2 emissions	2.5%	No target/No data	Aiming to reduce but not net-zero target	Net-zero target with only partial coverage	Net-zero target with partial but significant coverage	Net-zero target with full coverage	-
1.2	Reduction in absolute Scope 3 emissions	2.5%	No target/No data	Aiming to reduce but not net-zero target	Net-zero target with only partial coverage	Net-zero target with partial but significant coverage	Net-zero target with full coverage	-
1.3	Reduction in intensity life cycle (Scopes 1, 2 and 3 emissions)	5%	No target/No data	Aiming to reduce but not net-zero target	Net-zero target with only partial coverage	Net-zero target with partial but significant coverage	Net-zero target with full coverage	-
2030 Aim								
1.4	Reduction in absolute Scopes 1 and 2 emissions	5%	No target/No data/0%-5% reduction	5%-15% reduction	15%-25% reduction	25%-40% reduction	40%-55% reduction	55%-net-zero reduction
1.5	Reduction in absolute Scope 3 emissions	5%	No target/No data/0%-5% reduction	5%-15% reduction	15%-25% reduction	25%-40% reduction	40%-55% reduction	55%-net-zero reduction
1.6	Reduction in intensity life cycle (Scopes 1, 2 and 3 emissions)	10%	No target/No data/0%-5% reduction	5%-15% reduction	15%-25% reduction	25%-35% reduction	>= 35% reduction	-
Emissions Reduction								
Long-Term								
2.1	Reduction in absolute Scopes 1 and 2 emissions	5%	No data/0%-5% reduction achieved/increase	5%-15% reduction achieved	15%-25% reduction achieved	25%-40% reduction achieved	40%-55% reduction achieved	55%-net-zero reduction achieved
2.2	Reduction in absolute Scope 3 emissions	5%	No data/0%-5% reduction achieved/increase	5%-15% reduction achieved	15%-25% reduction achieved	25%-40% reduction achieved	40%-55% reduction achieved	55%-net-zero reduction achieved
2.3	Reduction in intensity life cycle (Scopes 1, 2 and 3 emissions)	10%	No data/0%-5% reduction achieved/increase	5%-15% reduction achieved	15%-25% reduction achieved	25%-35% reduction achieved	>= 35% reduction achieved	-
Short-Term								
2.4	Reduction in absolute Scopes 1 and 2 emissions	5%	No data/0%-2.5% reduction achieved/increase	2.5%-7.5% reduction achieved	7.5%-12.5% reduction achieved	12.5%-20% reduction achieved	20%-27.5% reduction achieved	27.5%-net-zero reduction achieved
2.5	Reduction in absolute Scope 3 emissions	5%	No data/0%-2.5% reduction achieved/increase	2.5%-7.5% reduction achieved	7.5%-12.5% reduction achieved	12.5%-20% reduction achieved	20%-27.5% reduction achieved	27.5%-net-zero reduction achieved
2.6	Reduction in intensity life cycle (Scopes 1, 2 and 3 emissions)	10%	No data/0%-2.5% reduction achieved/increase	2.5%-7.5% reduction achieved	7.5%-12.5% reduction achieved	12.5%-17.5% reduction achieved	17.5%-net-zero reduction achieved	-

Financial Actions							
Transition Investments – Tracked Data (No Weighting)							
3.1	Decarbonising percentage (of total annual investments)	-	-	-	-	-	-
3.2	Green percentage (of total annual investments)	-	-	-	-	-	-
Transition Investments							
3.3	Total green and decarbonising percentage (of total annual investments)	15%	No investments	Evidence of green and decarbonising but with insufficient detail, or less than 1%	1%-25%	25%-50%	50%-75% >= 75%
3.4	Green-to-decarbonising investment ratio	5%	No investments	Evidence of green and decarbonising but with insufficient detail to determine ratio	0-0.5	0.5-1	1-5 > 5
Transition Revenue							
3.5	Green and decarbonising annual revenue growth (%)	5%	No investments	Evidence of green and decarbonising but with insufficient detail, or less than 1%	1%-25%	25%-50%	50%-100% above 100%
3.6	Green and decarbonising annual revenue (percentage of total revenue)	5%	No investments	Evidence of green and decarbonising but with insufficient detail, or less than 1%	1%-10%	10%-20%	20%-30% >= 30%

Source: Sustainable Fitch



Transition Assessment – Key Findings

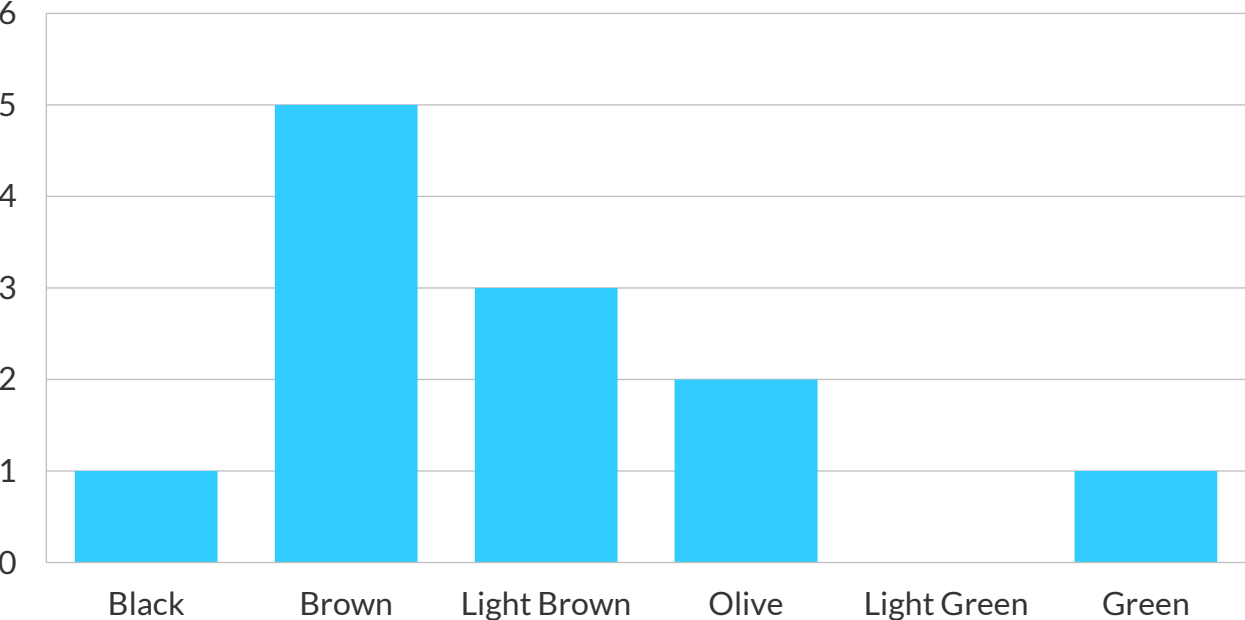


**Sustainable
Fitch**
a FitchSolutions Company

Assessments Flag Limits in Energy Firms Transition Plans

Plurality of Assessed Companies Receive Second-Lowest Grade

Number of companies assessed per TA grade (January 2024)



Note: Individual TA company reports include '+' and '-' sub-grades to provide additional granularity; n = 12 TAs
Source: Sustainable Fitch

Progress on Net Zero Transition is Limited

- Six of the 12 energy companies assessed achieve one of the two lowest grades, which indicate inadequate plans and limited real-world progress on transitioning to net zero through greening and decarbonising.

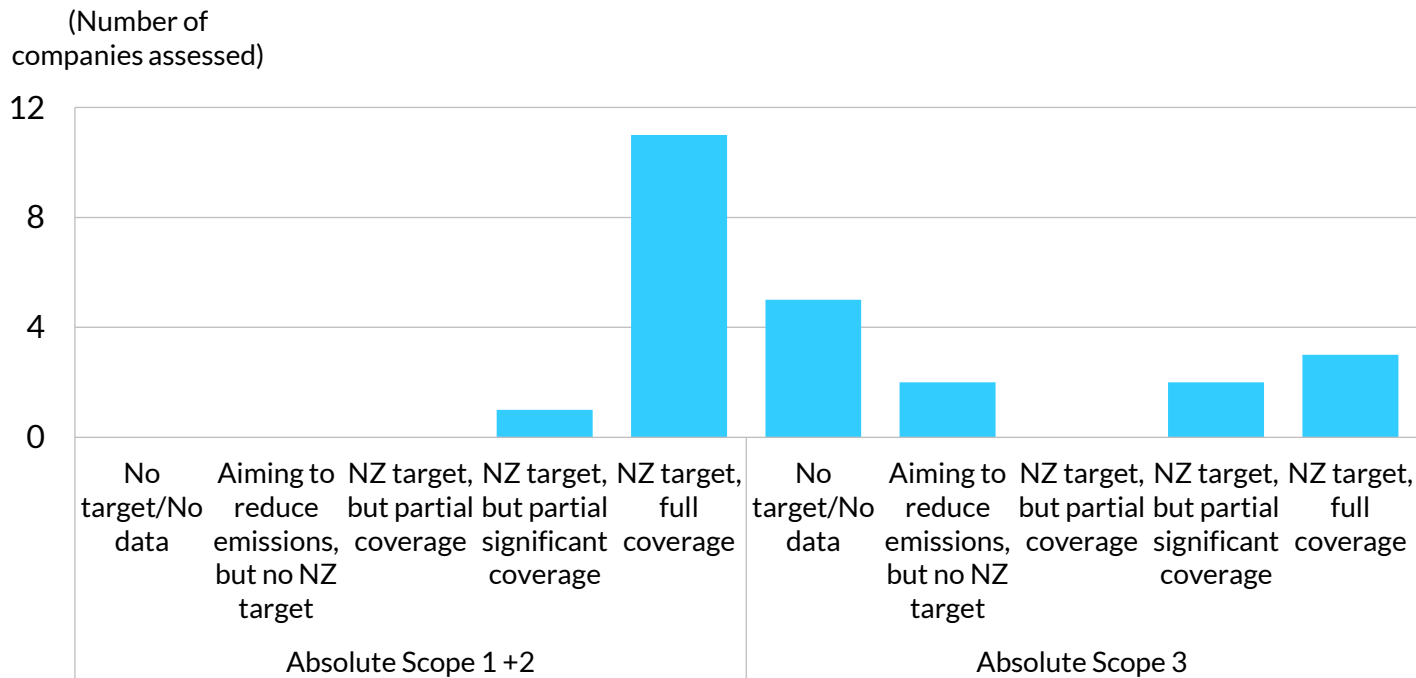
Company Profiles Tend to Correspond with Grades

- International oil companies (IOC) generally indicate higher levels of ambition and more progress in transitioning.
- National oil companies (NOC) and independents mostly score in the brown range.
- Just one TA resulted in a green grade – an energy company with an electricity business with significant renewables capacity.

Emissions Targets Common But Patchy

More Ambition Needed on Absolute Scope 3 2050 Targets

Companies Assessed under TA - 2050 Net Zero (NZ) Targets



Source: Sustainable Fitch Transition Assessment Data (January 2024)

All Firms Assessed Have Scope 1&2 Targets

- These are the ‘low hanging fruit’ – they are small share of energy companies carbon footprints and don’t involve making substantial changes to their business models.
- Minority of companies have Scope 3 targets with full coverage; Scope 3 the largest share of overall footprint for energy companies (Category 11 – use of sold products).

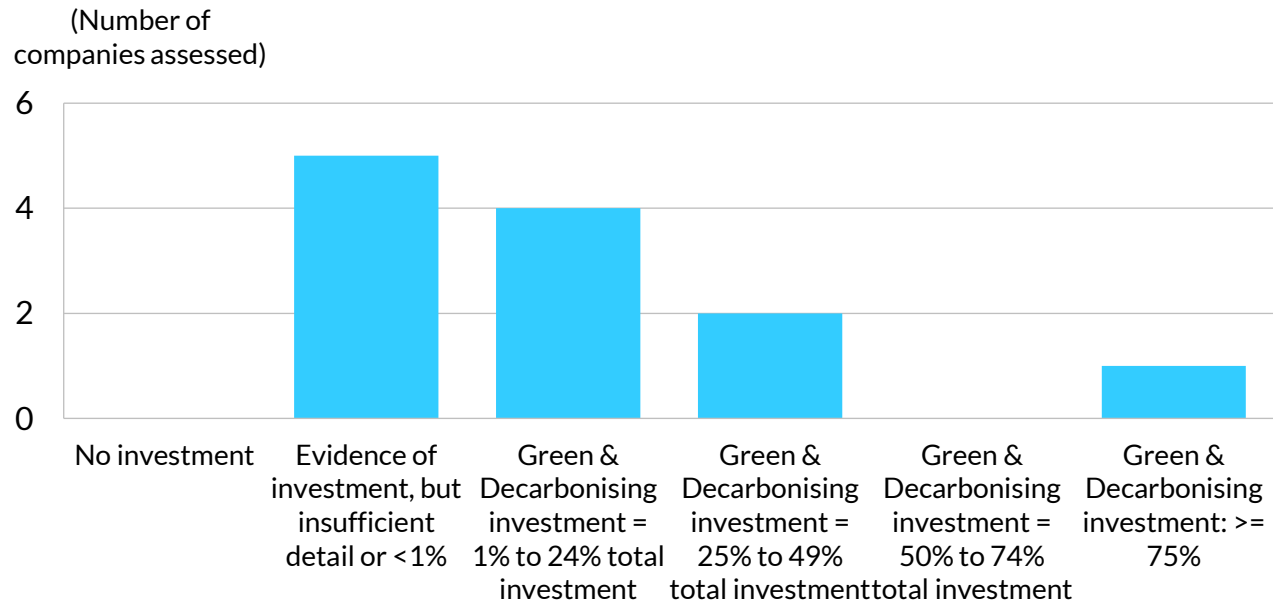
Scope 3 Reporting Remains Challenging

- Scope 3 disclosures usually limited – e.g. doesn’t include all relevant categories; where data reported, roughly even split between firms with rising and falling Scope 3 emissions.
- Reductions more consistent for Scope 1&2, reflecting efficiencies in own operations.

Disconnect Between Targets and Core Strategy

Green Capex Remains Very Low for Most Energy Entities Assessed

TA - Greening and Decarbonising Investment Metrics



Source: Sustainable Fitch Transition Assessment Data (January 2024)

Various Approaches to Greening...

- Strategies for greening/decarbonising companies vary; often involve investing in and building out renewables or low-carbon business areas.

... But Limited Evidence of Concrete Steps

- Overall, companies' climate goals are not adequately reflected in their capex plans.
- Just one O&G company has committed to materially decreasing hydrocarbon production; in most cases, no evidence of structural shift away from fossil fuels.

'Green' Investment Data Sometimes Opaque

- Capex for greening and decarbonizing often not identifiable. Where it is disclosed, the indicators used are sometimes opaque, raising the possibility that non-green technologies are included.

Related Research

[Sustainable Markets Initiative's Transition Framework press release](#), November 2022

[BP Transition Assessment](#), July 2023

Insights into the data - [Transition Assessments Flag Hurdles for Energy Companies](#), February 2024

[Iberdrola Transition Assessment](#), March 2024

Sustainable Fitch's Transition Assessment [Methodology](#), April 2024

A Sustainable Fitch ESG Analytical Product (ESG Product) provides an assessment of the Environmental, Social and/or Governance (“E”, “S” and “G”) qualities of an issuer and/or its securities. ESG Products provided by Sustainable Fitch include an ESG entity rating, an ESG framework rating, an ESG instrument rating, ESG scores and ESG second party opinions, among other ESG analytical products. An ESG Product is not a credit rating. ESG Products are provided by Sustainable Fitch, a Fitch Solutions company, and an affiliate of Fitch Ratings. Sustainable Fitch has established certain policies and procedures intended to avoid creating conflicts of interest and compromising the independence or integrity of Fitch Ratings’ credit rating activities and Sustainable Fitch’s ESG Product generation activities. For a description of the methodology, limitations and disclaimers relating to Sustainable Fitch’s ESG Products, please use this link: www.sustainablefitch.com.

Please note that individuals identified in an ESG Product report are not responsible for the opinions stated therein and are named for contact purposes only. A report regarding an ESG Product is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of financial instruments and securities. ESG Products are not considered investment advice and they are not and should not be considered as a replacement of any person’s own assessment of the ESG factors related to a financial instrument or an entity. Sustainable Fitch does not represent, warrant or guarantee that an ESG Product will fulfil any of your or any other person’s particular purposes or needs. Sustainable Fitch does not recommend the purchase or sale of financial instruments or securities or give investment advice or provide any legal, auditing, accounting, appraisal or actuarial services. ESG Products are not an opinion as to the value of financial instruments or securities. Sustainable Fitch does not audit or verify the accuracy of the information provided to it by any third party for the purpose of issuing an ESG Product, including without limitation issuers, their representatives, accountants and legal advisors and others. Sustainable Fitch does not represent, warrant or guarantee the accuracy, correctness, integrity, completeness or timeliness of any part of the ESG Product. The information in an ESG Product report is provided "as is" without any representation or warranty of any kind, and Sustainable Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report.

Sustainable Fitch receives fees from entities and other market participants who request ESG Products in relation to the analysis conducted to assign an ESG Product to a given financial instrument and/or entity. The assignment, publication, or dissemination of an ESG Product by Sustainable Fitch shall not constitute a consent by Sustainable Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction.

ESG Products offered to clients in Australia. ESG Products in Australia are available to only to wholesale clients (as defined in section 761G of the Corporations Act (Cth) (the “Act”)) in Australia. Information related to ESG Products published by Sustainable Fitch is not intended to be used by persons who are retail clients within the meaning of the Act (“Retail Clients”) in Australia. No one shall distribute, disclose or make references to any information related to ESG Products in a manner which is intended to (or could reasonably be regarded as being intended to) influence a Retail Client in making a decision in relation to a particular financial product (as defined in the Act) or class of financial products, unless required to do so by law to meet continuous disclosure obligations. No one shall make reference to any ESG Product information in any publication, promotional material, disclosure document, correspondence, website, or any other venue that may be accessed by clients and investors who are Retail Clients in Australia (except in the circumstances as permitted by law).

Copyright © 2023 by Sustainable Fitch, Inc., Sustainable Fitch Limited and their subsidiaries. 300 West 57th Street, New York, NY 10019. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

DC-XXXX / PW no.



**Sustainable
Fitch**
a FitchSolutions Company