



# Transition Plans: Energy and Natural Resources

Sector-specific steps for transition planning



Given that power generation is currently the largest source of carbon dioxide (CO<sub>2</sub>) emissions globally<sup>1</sup>, the Energy and Natural Resources (ENR) sector will be critical to our transition to a Net Zero world.

Whilst energy majors are likely to be diversifying portfolios with a greater mix of renewables and other low-carbon technologies, power and utilities businesses are considering transformation on the demand and supply side, and the mining and metals sector is providing minerals and metals essential for a low-carbon economy. Developing a clear and quantifiable transition plan provides a significant opportunity to showcase your business' resilience, competitive advantage and ability to drive value creation in the energy market of the future.

## Key challenges to consider

- 01** Your transition will come amongst complex movements in energy prices created by demand volatility, disruptive technologies, and geopolitical uncertainties. These factors all need to play a role in shaping your strategy and helping create a resilient and future-proof transition towards a Net Zero economy.
- 02** The choices you can make on how you transition are fundamentally tied to your overall business ambitions given the size and longevity of typical assets in the ENR sector. Diversification is a common strategy for the ENR sector, but may not be feasible or desirable for differently placed players in the market.
- 03** Achieving climate ambitions will not just require transformation of your business, but also those of your customers, with large shifts in demand-side technologies for P&U and evolving regional demands for fossil fuels. This highlights the importance of developing strong engagement programmes and staying on top of market movements and signposts for your industry.

## Further considerations for your transition planning steps



### Step 1 Diagnose

- Comparing your progress on decarbonisation to your peers can be challenging, as many ENR companies are diversifying to enter new markets or technologies – you'll need a clear idea on your overall business strategy to best benchmark who you should be looking at for your peers.
- Scope 3 emissions is by far and large the greatest challenge to quantify for upstream ENR, particularly within the oil & gas industry. With incoming regulations requiring data to be disclosed on Scope 3 emissions, you will need to begin considering how you'll collect this data.
- Rigorous scenario analysis, particularly for P&U companies, requires market price modelling to fully understand potential evolution pathways of the electricity market in your jurisdiction. Small changes in policy or retirement of major assets could drive large shifts in overall trajectory of the market and the direction you choose to go.

### Step 2 Strategise

- Given the longevity of ENR assets, your levers outside of divestment or accelerated retirement of high-emitting assets will largely be incremental improvements in efficiency or diversification into new asset classes to dilute your overall emissions intensity.
- New financial products such as Transition Finance bonds and markets are emerging as a means for ENR companies to facilitate accelerated transition and access lower cost finance.
- Industry collaboration and policy advocacy is critical – government policy and market regulations will have a large impact on the transition pathway of ENR companies, and you can leverage your business' technical know-how to engage with actors across your value chain, on low-carbon technologies and help share risk.

### Step 3 Transform

- For an ENR company with any high-emitting assets, internal carbon pricing can have a much larger impact on your overall business, so it is important to understand how you want to apply it in practice to drive meaningful decision-making or strategic decisions.
- Providing the Board with a detailed look into how global decarbonisation scenarios could impact the demand for oil, gas, or other fossil energy sources can be a powerful tool in building the business case to look further abroad at green assets and projects and help educate at the same time.
- For companies looking to diversify into emerging ENR markets, consider how the skills and knowledge from employees who may work on currently operational assets can be transferred and upskilled on to new assets such as renewables or hydrogen projects.

### Step 4 Report

- Given the level of influence and impact on decarbonisation, ENR companies are likely to come under increasing pressure to consider climate impacts in your financial statements and accounts as material uncertainties. Consider how you can prepare to respond to these questions from auditors and what processes you can put in place now to establish the right governance and data around this.
- Operational data from your assets needs to be translated into management level data for decision-making and reporting. Ensure that your asset operators and owners are sufficiently aware of their accountabilities, and you have the right technologies to monitor and report what you need at a group level.
- Measuring and reporting both absolute and intensity metrics and targets for GHG emissions can be key for ENR companies to demonstrate progress while growing energy output to service the global economy.

# Integration with the Transition Plan Taskforce

KPMG’s four-step approach to transition planning, outlined in full in our talkbook *Transition Plans: Moving Beyond Disclosure*, is based off leading guidance from the Transition Plan Taskforce (TPT) and is designed to feed directly into developing a TPT-compliant strategy. This includes the Final Disclosure Framework which was released by the TPT in October 2023.

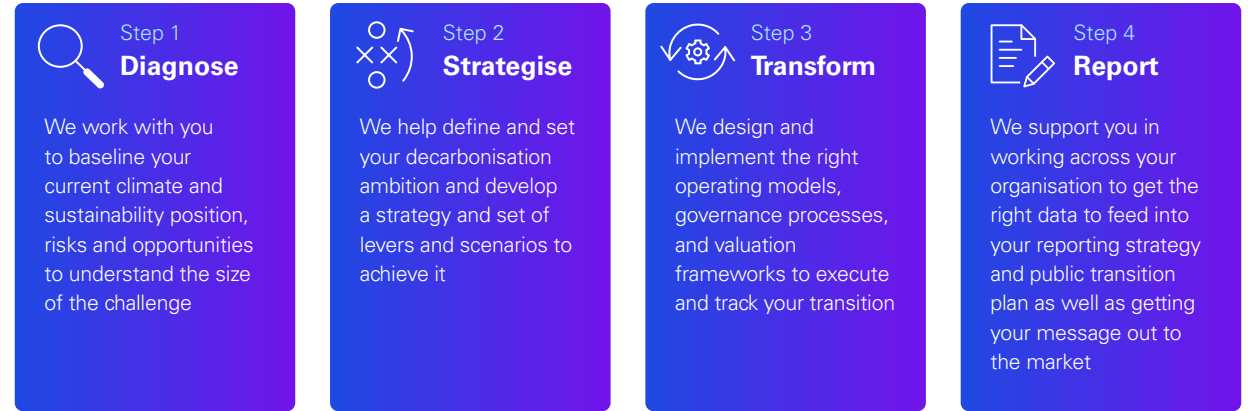
Our approach is designed to provide key insights and lay out actions which companies can take when preparing to disclose in line with the TPT framework, as well as line up with the TPT Transition Planning Cycle. Our sector-specific insights and challenges are also intended to fit alongside the TPT’s Sector Guidance launched in November 2023, providing companies in those sectors with KPMG’s views on particular focus areas as you prepare your transition plan in line with the new guidance.

For more information, get in contact with the team at KPMG and learn more about how we can help you develop a transition plan and prepare your business for success in a changing climate.

## TPT transition planning cycle



## KPMG's approach



## TPT disclosure framework



Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.