SSE ANNUAL GENERAL MEETING

WRITTEN RESPONSES TO INSTITUTIONAL SHAREHOLDER GROUPS

12 August 2020

The following document contains detailed responses from SSE to the following:

- Climate Action on science-based targets and Carbon Capture and Storage (CCS)
- Local Authority Pension Fund Forum on the investment case for CCS
- ShareAction on the SSE Energy Services transaction
- Royal London Asset Managers and Friends Provident Foundation on a just transition to net zero

Question from
Matt Crossman, Climate Action 100

This question has been submitted by members of the Climate Action 100+ initiative – with whom the Company has enjoyed a long and fruitful dialogue. CA100+ comprises 450 investors with more than US$40 trillion in assets under management, many of whom are long-term shareholders in the Company. Mr Chairman, we wish to congratulate the management of the Company for its committed approach to leadership on the energy transition agenda. We welcome the Company's recent announcement of the adoption of an approved science-based target. It is of vital importance to the achievement of the Paris goals that companies like SSE play their part – and a cut of total emissions by 40% by 2030 on a 2018 baseline is an example of a company serious about leading the sector.

Mr Chairman, we have two questions related to the above target and the associated transition plan. First, we note that the methodology currently speaks to a 'well below' 2 degree temperature limit – will the company look to engage with the Science Based Target initiative on its newly adopted 1.5 temperature scenario?

And secondly, we welcome the Company's production of the "Transition to net zero" report in October 2019. We note that the Company believes there to be a continued role for gas within the UK energy mix and within the Company more generally. However, we note that on this framework, the continued use of gas in the energy mix is dependent on the mass scale role out of CCUS. In what ways will SSE act through R&D and through its trade bodies to ensure that CCS is available at the scale required to protect gas assets in the Company and still achieve the Paris goals?

Answer

SSE appreciates the constructive engagement from Climate Action 100+ over many years. In June, we announced a series of carbon targets covering both direct and indirect climate change emissions that are aligned to a well-below 2 degree pathway. Following six months of engagement and technical work, the targets were verified by the Science Based Targets initiative (SBTi) as being aligned to the Paris Agreement.

At SSE we understand that tackling climate change is an ongoing journey and carbon reduction methodologies are developing as much as the corporate responses to them are. In that context, and as part of the SBTi verification process, SSE has committed to review the targets in line with climate science within five years. With respect to the recently published methodology from the Science Based Target initiative for a 1.5 degree pathway; this is very welcome. We will continue to work with the SBTi in the months and years to come and will revisit the targets at an appropriate moment within the five-year horizon set out.

With regards to the future of gas-fired generation, we believe the case for CCS is strong. The Committee on Climate Change has stated that CCS is "a necessity, not an option" to achieve net-zero by 2050. This is because, in addition to decarbonising our thermal generation assets, CCS has a key role to play in capturing the emissions from heavy industry, as well as enabling the development of a hydrogen economy. In terms of R&D, we have a long history of exploring and developing these technologies across our portfolio, and we are actively engaged with technology providers on the infrastructure, timelines and costs for projects such as Keadby 3.

It's clear a collaborative approach is required, and we are already working with partners in 'low-carbon cluster' projects in the Humber, Isle of Grain and in Scotland to secure support for CCS. This includes securing funding for shared transport and storage infrastructure through the Government's Industrial Decarbonisation Challenge Fund. Through these partnerships, and our trade associations like Energy UK and the Carbon Capture and Storage Association (CCSA), we are engaging with government, regulators and other stakeholders to ensure the legal, regulatory and commercial framework to deliver this infrastructure is fit for purpose.

Question from
Local Authority Pension Fund Forum (LAPFF)

In the wake of the news that the "Petra Nova" Carbon Capture and Storage facility – attached to a coal-fired power plant in Texas and one of the only two in existence – has been mothballed due to oil prices being too low, does SSE agree that CCS is an 'un-investible' and unreliable technology and a distraction from moving power and the wider energy system to renewables earlier, particularly given that renewables are cheaper. Isn't CCS putting new stranded assets on top of older ones?

Answer

SSE would like to thank the LAPFF for its ongoing constructive engagement with the Company and for its timely and relevant question. There are several SSE stakeholders that share similar concerns about the future of gas generation in a net-zero world and the Company is keen to seek to allay those concerns.

SSE believes there is a time-limited role for unabated gas-fired electricity generation. This transitionary period through the 2020s and into the 2030s will be defined by a changing role for gas generation in the electricity system. As the electricity system in GB increasingly becomes dominated by renewable energy output the role of gas is shifting from one providing baseload power, to one providing flexible supply in times of low wind output. It also has an important role providing system services to ensure the electricity system is performing smoothly. That means that gas generation output will decline over this transitionary period and is exactly what SSE expects to happen with its own gas generation assets. So much so, SSE has set an absolute carbon reduction target between 2018 and 2030, where carbon emissions are down by 40%, in line with climate science and a well-below 2-degree outcome as set out in the Paris Agreement. This target is verified by the Science Based Target initiative.

It is also true that if the electricity sector is considered in isolation from the rest of the energy system, there are alternative routes to decarbonise power completely. But if a whole energy system perspective is taken, then it is also clear that the options for decarbonising energy- intensive industry is much more limited with CCUS and/or hydrogen combustion providing the only potential solutions.

Finally, in terms of the economics of Carbon Capture, Usage and Storage (CCUS), early projects such as Petra Nova which were based on Enhanced Oil Recovery (using CO2 to improve oil production), will be adversely impacted by reducing oil prices. The business case for future CCUS in the electricity market is instead built on supporting the achievement of the overall net-zero ambition. SSE agrees with the Committee on Climate Change that CCUS technology will be a necessity in reaching this goal. SSE continues to believe that a high carbon price, reflecting the true external costs of carbon on society, is the most important policy instrument to achieve this. It is likely that further market mechanisms will be required to deliver CCUS projects at scale, in order to decarbonise heavy industry. The role of the electricity sector developing anchor projects and providing enabling infrastructure to support the wider social and economic case for industrial CCUS is also becoming apparent.

SSE is therefore, involved within large scale decarbonisation clusters, alongside many partners, seeking to find the most economic and cost-effective way to decarbonise the energy system as a whole.

In summary, SSE has a clear strategic focus on its core, low-carbon renewables and regulated electricity networks business, but it doesn't regard investment in CCS as an either/or decision. Flexible thermal generation has an important transitional role to play in the achievement of net-zero emissions.

Question from **ShareAction**

The Covid-19 pandemic has presented many challenges for businesses. However, now more than ever, it is fundamental that workers are provided with decent jobs and security. In this light, I was pleased to read in your Sustainability Report 2020 about the Company's commitment to providing decent work – in particular that SSE continues to be a Living Wage employer, as well as committing to be one of the first companies to accredit as a Living Hours employer. However, we have seen that OVO has announced plans for 2,600 redundancies, after buying SSE's retail division earlier this year. It is predicted that 80% of these redundancies will come from the part of the business that was previously SSE. We would like to ask the Board for their reflections on this and what they would do differently in the future to try and ensure the security of their previous employees, if SSE was to make a similar sale?

Answer

SSE would like to thank Shareaction for this question, for its support for both the Living Wage movement and the new Living Hours initiative and for its constructive engagement on workforce issues since 2012. SSE fully appreciates the need for decent jobs and security, where possible, in the current situation, and has avoided furloughing or making any staff redundant during this period. One reason we managed this was that we were able to work closely with our trade union partners to agree flexibility arrangements for staff who were initially directly impacted by lockdown. This positive employee engagement and flexibility have been a key feature throughout the pandemic.

SSE announced its strategic intention to demerge its Energy Services business in 2018. The decision to reshape the SSE Group was taken with the best interests of both customers and employees in mind, with Energy Services requiring a new model to secure its long-term future in highly competitive market conditions. The Group has since focused its attention solely on achieving net-zero emissions and is investing significantly in the assets and infrastructure that will deliver this in the UK and Ireland. The execution of this strategy led to the sale of Energy Services on 15 January 2020 to OVO.

As is SSE's consistent position in such circumstances the rights of its employees were protected throughout. All employees transferred on existing terms and conditions and those who transferred were spending all or the majority of their time working on the Energy Services business. Those from the SSE Group undertaking time-limited transitional services were not transferred. All transferred employees maintained continuity of service with employee benefit structures retained and existing pension arrangements replicated.

Furthermore, SSE supported detailed trade union consultation through the transfer and also facilitated the adoption of the existing consultation machinery and ongoing trade union recognition with OVO. SSE also ensured a pay deal (effective April 2020) was agreed for Energy Services employees before the final transfer took place on 15 January.

In terms of the decision subsequently taken by OVO to reduce the size of its workforce, this is not unexpected, given the wider market environment and given similar actions taken by other companies operating in this area. The competitive nature of the sector, and the price cap set on energy prices, means it is inevitable that costs across the energy retail sector would be reduced. The scale and timing of the redundancies would also have been impacted by the coronavirus pandemic which has had the impact of accelerating the adoption of digital practices across the energy retail sector.

Although not party to the detail, SSE is aware that ahead of changes being announced there were detailed consultations and discussions with the trades unions and OVO on the approach to be taken to a restructuring and the terms that were to be offered to those that agreed to leave the business. This arrangement remains in place as a means to ensure that employees and their representatives are engaged in a timely and constructive manner, on necessary changes.

Question from **Royal London Asset Managers and Friends Provident Foundation**

Would you consider the adoption of a formal "just transition strategy" that addresses the socio-economic implications of your company's net-zero ambition and decarbonisation strategy on workers, communities, supply chain and consumers in a way that mitigates negative impact and enhances the opportunities of the energy transition? For example, covering the expected closure of unabated gas power stations in the 2030s and the community ownership stakes in new onshore renewable energy projects.

Answer

SSE believes that there will be many social implications of the transition to net zero and the Sustainability Report 2020 (page 80) recognises there is a direct role for SSE to support a fair and just transition, particularly for employees, but also for consumers and communities too.

Ensuring net zero is delivered in a just way, thereby avoiding future inequalities, will be increasingly important for SSE looking forward into the 2020s. SSE believes that it is in everyone's interests that the transition to net zero should be just, and believes a just transition is one in which:

- The necessary investment in decarbonisation is secured.
- Current and future employees in energy are regarded with respect and given decent work.
- Communities in which energy assets are located or planned are regarded as key stakeholders with comprehensive engagement on all key issues.
- Consumers are provided with affordable energy and accessible energy services.

The Company understands that change of the scale that is required to achieve net zero will impact on different people in different ways. The principle must be to support the sharing of the benefits of climate action as widely as possible. From a Company perspective, that will include the creation of new low carbon economic activity in a way that maximises the opportunity to a diverse range of people in local areas that can benefit. Sharing value generated from renewable developments is a principle SSE has long promoted, primarily through community benefit, and potentially through a model of shared ownership too.

It is also understood that there are potential costs of climate action: for working people, consumers and communities. The challenge is to support employees through any transition that takes place, work with regulators and policymakers on charging methodologies to share costs fairly and undertake meaningful engagement with local communities when change is being proposed.

The objective for SSE, where it has the influence to do so, is to support a fair transition from a high-carbon economy to a net zero one and thereby command support from stakeholders so that the worst effects of climate change can be prevented. In support of that objective, SSE will publish a statement by November 2021 of its principles and plans to support a Just Transition.