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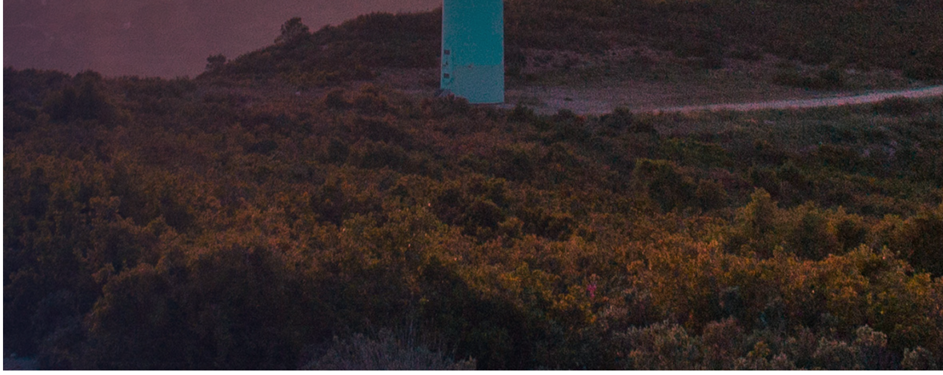
PiP Brief

Accelerating the right decarbonisation projects

- With aggressive plans to deliver Net Zero as quickly as possible, companies are targeting substantial emissions reductions
- Yet, although Environmental, Social and Governance (ESG) is high on most company agendas, progress on Energy Transition is often slower than planned
- The silver lining is that there is huge opportunity to accelerate decarbonisation – delivering to plan, with full capture of value



Introduction

Companies are announcing bold plans for decarbonisation.

Their 10-year reduction plans have been developed into abatement curves and waterfall charts, with aspirations transformed into high-level roadmaps and communicated with stakeholders – giving everyone a sense of comfort that there is a clear pathway to action and decarbonisation.

But the unfortunate reality is that decarbonisation could be happening much faster.

We frequently hear that annual capital allocation processes favour highly attractive growth projects, which seem to squeeze out and defer decarbonisation projects to next year. At the same time, projects that are approved often become mired in slow-moving approval processes, resulting in limited to no progress on the decarbonisation scorecard.

Our roadmaps are more comprehensive than typical emissions roadmaps

Standard roadmaps Typically only look at unabated and abated emissions forecasts

We assess the economic viability and the management processes required to deliver net-zero commitments ahead of schedule

Develop unabated and abated emission forecast	Quantify the underlying economics and value creation	Detail the governance processes to succeed
We follow an exhaustive process, spanning all emission sources and assets	We conduct a systematic economic assessment for all opportunities	We develop an emission operating model and map the changes in governance to deliver

The good news is that there is vast opportunity to accelerate decarbonisation to capture value. In our experience, five elements are critical to ensure the pathway to decarbonisation is delivered as planned.

1

Break the 2030 plan into aggressive annual targets

Abatement curves and waterfalls show the picture in a decade. This needs to be translated into realistic, year-by-year improvements, ensuring annual targets collectively deliver more than marketplace commitments. As not all projects will deliver their anticipated benefits, and with market expectations likely to increase, organisations should aim for more significant reductions in order to meet global climate change objectives.

2

Bake annual targets into executive compensation

Incentivising management only for achieving their operating targets will not drive the required organisational response to decarbonisation objectives.

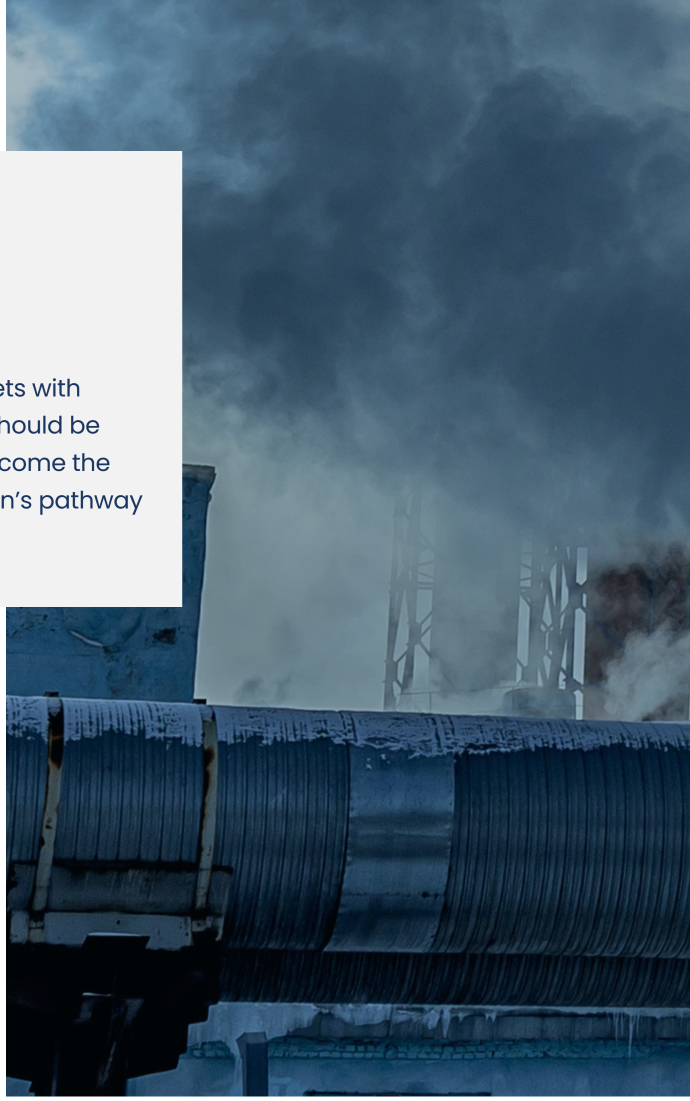
Embedding targets into short-term executive compensation is needed to gain organisational attention, and management will be forced to pursue decarbonisation with a vigour that compares to their focus on immediate objectives and short-term profitability.

Of course, this also means that management processes must be established to ensure managers have full visibility into their monthly progress towards corporate decarbonisation targets.

3

Identify NPV-positive projects that are critical to delivering decarbonisation targets

Organisations can fully expect to meet their 2030 targets with NPV-positive projects. Once identified, these projects should be prioritised within the capital allocation process and become the first projects to get access to capital. Every organisation's pathway will be different, reflecting their specific priorities.



Create a ring-fenced capital pool to fund high-priority projects

For example, if the equivalent of 20% of your sustaining capex budget is allocated to decarbonisation projects, there will be a natural bias towards ensuring these projects are completed. Managers are true wizards at ensuring their asset gets all the capital it can, and if this is viewed as being an 'extra pool' then they will be fighting for it.

Ensure aggressive financial metrics

Some organisations will discount their decarbonisation projects using a 'green funding rate', often around 6-8% rather than the 15% required from growth projects, improving the comparative NPV of decarbonisation projects.

Build in a shadow price of carbon

In many jurisdictions, there is a tangible price of carbon. Others are using a shadow cost with the expectation they will soon face a real price of carbon in their products (and we anticipate this will increase with continuing focus on emissions reduction).

4

Adapt capital processes to accelerate delivery

It is critical to deploy appropriate processes for individual capital projects. Some will be high risk with high technological uncertainty (e.g. hydrogen is showing promise if appropriately targeted, but it is not yet fully tested technology) and should move through traditional project development processes. While others, like solar farms, are based on mature technologies which can be implemented with speed.

Make sure the right processes are being used at the right time.

5

Manage decarbonisation projects aggressively

Make sure progress on project implementation is fully visible and collectively reviewed by the senior executive team. When they have full transparency into what is happening with critical projects, they can ensure the full support of the organisation to accelerate implementation.

Conclusion

Pre-established management processes and cultures in organisations typically bias their primary objectives over all other considerations. However, stakeholder expectations have risen to the point where delivery against decarbonisation targets is now considered table stakes for market support.

By changing existing business systems, organisations can align their processes and systems to deliver real progress towards decarbonisation goals (usually without any adverse impacts on operations).

Driving this change should be a priority for every executive leadership team.

About the authors

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