IIGCC

Member Memo - Update

Member Memo update: 14 March 2024

(For original please see here)

Re: NATURGY ENERGY GROUP S.A.

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Summary

This section provides members with relevant details of the forthcoming transition plan vote and summarises the Company's scoring against NZIF criteria and sector specific metrics. Please note that this Member Memo ('Memo') is based on publicly available information *at the time of publication*, further relevant information may be published by the company post publication of this Memo.

Name: Naturgy Energy Group S.A. ('Naturgy' or 'the Company')

Headquarters: Spain, Europe

Sector: Oil & Gas Distribution

AGM date: 2 April 2024 (confirmed)

Reason for update: Vote on report consolidating non-financial information including climate.

Vote details: AGM agenda item 3: Review and approval, as the case may be, of the Sustainability Report and Non-Financial Information Statement 2023 of the Company which also includes climate.

Relevant materials: Sustainability Report and Non-Financial Information Statement 2023, Annual Report 2023, Sustainability Report and Non-Financial Information Statement 2022, Annual Report 2022, ClimateAction100+ Disclosure framework assessments 2023

Publication of updated transition plan materials: March 2024 (see above)

Summary of transition plan scores	
Overall score against NZIF alignment criteria[1]	7 / 11
Overall score against sector related criteria[2]	1 / 4
CBD[3] **score CA100+ sector rank**	Not available[4]
Relevant context	The Company has set GHG reduction targets and committed to Net Zero by 2050. Since the original memo the company has released new annual disclosure, modifying both its 2030 electricity generation and Scope 3 targets, however these changes did not impact the scores against the metrics. The Company has not made a commitment to decarbonise its electricity generation at a pace which appears consistent with the relevant regional benchmark. The Company's Scope 3 targets suggest the reduction in emissions from distributed gas is aligned with a 1.5°C scenario in 2030. The Company has not set a medium-term Scope 3 target.

1 For more details on these NZIF criteria see Section 1, page 3
2 For more details on the sector related criteria see Section 2
3 Cumulative Benchmark Divergence Metric methodology here
4 TPI does not assess the carbon performance of Naturgy's electricity generation activities. However, by creating a company emissions pathway that accepts its 2030 and 2050 targets at face value (-52% and -100% respectively) it is possible to calculate a score. Reflecting that Naturgy's generation is concentrated in OECD countries (we estimate Spain, Chile, Costa Rica, Mexico and Australia accounted for c. 98% of 2022 generation) we use TPI's OECD 1.5°C pathway. Using this pathway Naturgy's CBD score is 85%.

Section 1: Net Zero Investment Framework (NZIF) scores

IIGCC members helped develop the Net Zero Investment Framework (NZIF) with the aim of assisting them in measuring the alignment of their individual assets, overall portfolio trajectory, and increasing investment in climate solutions consistent with the Paris Agreement[5]. NZIF provides six criteria to assess listed equity and corporate fixed income alignment and recognises the CA100+ disclosure framework (CA100+ DF) as a relevant data source for this scoring. The box below summarises the Company's alignment with those six criteria based on information that is publicly available at the date of publication of this Member Memo.

NZIF alignment criteria

	CA100+ DF metric / sub-indicator / indicator summary	Score	Description
1. Ambition	**1: A Net Zero Ambition for 2050 or sooner covering all relevant emissions**	**2/2**	The Company has committed to net zero emissions by 2050. The target includes all the emissions across Scopes 1, 2, 3, allowing the company to meet both sub-indicators. *Source: CA100+, Naturgy (p. 151)*
	1.1.a Qualitative net zero GHG emissions ambition statement that includes at least 95% of Scope 1 and 2 emissions.	✔	
	1.1.b Net zero GHG emissions ambition that covers the most relevant Scope 3 GHG emissions categories for the company's sector	✔	
2. Targets	**2.2, 3.2 and 4.2: The company has set Long-, Medium- and Short-term emissions targets that covers at least 95% of its Scope 1 and 2 emissions and the most relevant Scope 3 emissions (where applicable)**	**2/3**	The Company has set Short- and Long-term targets covering Scope 1, 2, and 3 therefore scoring on indicators for both long- and short-term. The Medium-term 2030 target only covers Scope 1 and 2. Therefore, the company does not score on the medium-term indicator. *Source: CA100+, Naturgy (p. 152, 153)*
	2.2.a and b. Long-term target that covers at least 95% of its total Scope 1 and 2 and at least the most relevant Scope 3 emissions	✔	
	3.2.a and b. Medium-term target that covers at least 95% of its total Scope 1 and 2 and at least the most relevant Scope 3 emissions	✘	
	4.2.a and b. Short-term target that covers at least 95% of its total Scope 1 and 2 and at least the most relevant Scope 3 emissions	✔	
3. Emissions performance	**11.1: Emissions intensity is reducing at a faster rate than that of the relevant 1.5°C pathway**	NA	Indicator 11 was in beta mode last year and therefore CA100+ results are not publicly available.
4. Disclosure	**10.1 and 10.2: The company is implementing TCFD and discloses scenario planning consistent 1.5°C**	**2/2**	The Company has adopted the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) and it explicitly signposts its TCFD disclosure in Section 6.3 of its annual report. The company has conducted climate scenario analysis including quantitative elements and has explicitly included 1.5°C and other scenarios (recently added NZE, APS, and STEPS Scenarios) and reported on the key risks and opportunities it identified. *Source: CA100+, Naturgy (p. 134-144)*
	10.1.a and b: Commitment to align disclosures with the TCFD recommendations OR it is listed as a supporter on the TCFD website AND explicitly signposts the disclosure in its annual reporting or publishes them in a TCFD report.	✔	
	10.2a and b: The company has conducted a climate-related scenario analysis including quantitative elements and disclosed its results AND the scenario analysis explicitly includes a 1.5°C scenario which covers the entire company, discloses key assumptions and variables used, and reports on the key risks and opportunities identified	✔	
5. Decarbon-isation strategy	**5.1: The company has set out and quantified the actions it intends to take to decarbonise**	**0/2**	The Company does not score on the decarbonisation strategy metrics because it does not clearly identify (5.1.a) or quantify (5.1.b) the set of actions it will implement to achieve its long-term or its medium-term decarbonisation target. No additional detail/ assessor feedback was provided by CA100+ on 5.1.b. *Source: CA100+*
	5.1.a The company identifies the set of actions it intends to take to achieve its GHG reduction targets over the targeted timeframes. These actions clearly refer to the main sources of the company's GHG emissions, including Scope 3 emissions (where applicable).	✘	
	5.1.b The company quantifies the contribution of individual decarbonisation levers to achieving its medium- and long-term GHG reduction targets; including Scope 3 GHG reduction targets where applicable (e.g., changing technology or product mix, supply chain measures).	✘	
6. Capital allocation	**6.1: The company discloses unabated carbon intensive capex and is phasing out new spending**	**1/2**	The Company discloses the stated value of its capital expenditure going towards unabated carbon-intensive assets. The Company does not explicitly state its intention to phase out capex in new unabated carbon-intensive assets. Therefore, it does not score on indicator 6.1.a. *Source: CA100+, Naturgy (p. 39)*
	6.1.a The company explicitly states that it has phased out or is planning to phase out capital expenditure in new unabated carbon-intensive assets or products by a specified year.	✘	
	6.1.b The company discloses the stated value of its capital expenditure that is going towards unabated carbon-intensive assets or products.	✔	
Total score		**7/11**	

5 See Net Zero Investment Framework: Implementation Guide. The six alignment criteria for Listed Equity and Corporate Fixed Income for companies in higher impact sectors are set out on page 16.

Section 2: Sector specific metrics

IIGCC and its members, through their contribution to Net Zero Standards or their sector working groups, have contributed to the development of sector-specific criteria to aid the assessment of transition plans in certain sectors. The box below summarises the Company's alignment with those criteria based on information that is publicly available at the date of publication of this Memo.

Criteria for helping to analyse the transition plans of Electric Utilities

Engagement Topic	Specific metric	Score	Relevant supplemental information and public data source used
Net Zero electricity generation ambition aligned with the relevant regional benchmark	Does the company's emissions target expressly reference reaching net zero emissions by 2035 for electricity generation in advanced markets (consistent with the IEA's NZE scenario)?	✘	The Company commits to achieving climate neutrality, i.e. zero net GHG emissions, by 2050 in its Strategic Plan 2021-2025. The Company does not have a specific net-zero emissions target for electricity generation by 2035. *Source: Naturgy (p. 152)*
	Does the company's emissions target for electricity generation imply intensity at or below the appropriate regional benchmark in 2030? TPI's 1.5°C pathways for electricity generation in 2030: • 0.046 tCO_2/MWh in the EU • 0.068 tCO_2/MWh in the US • 0.064 tCO_2/MWh in OECD • 0.179 tCO_2/MWh in non-OECD	✘	The Company's 2030 carbon intensity target for electricity generation was recently updated from a 59% to a 52% cut from a 2012 base year. It now implies an intensity of 0.199 tCO_2/MWh (vs 0.171 tCO_2/MWh previously). We estimate that 98% of the company's generation activities (Spain, Mexico Chile, Costa Rica, and Australia) is in OECD countries. Given this, the most appropriate regional benchmark could be the 1.5°C OECD pathway from TPI which implies intensity of 0.064 tCO_2/MWh by 2030. As the Company's target is higher than this, it does not meet this criteria. *Source: Naturgy (p. 24, 25, 154)*
Understanding the transition risk posed by sale or distribution of natural gas	Has the company set a medium-term (2027-2035) absolute emissions target for sold or distributed gas (Scope 3, category 11)?	✘	The Company's natural gas distribution activities are substantial in emissions terms accounting for 76 $MtCO_2e$ in 2023, 66% of its total emissions (Scope 1, 2 and 3). The Company updated its target to reduce Scope 3 emissions by 23% by 2025 from 2017 base year (vs 20% previously). Its Scope 3 net-zero target by 2050 remains unchanged. Although this Scope 3 target covers a broader boundary than just sold natural gas, since sold gas accounts for c. 75% of total Scope 3 and the residual scope 3 emissions predominantly relate to upstream natural gas activities, we consider this boundary assessable for this metric. However, as the Company does not have a medium-term target it does not score on this metric. *Source: Naturgy (p. 146, 153)*
	Does the company's pathway imply a reduction of 26% or greater in absolute emissions by 2030 for sold or distributed gas from a 2019 base year?	✔	The Company's targets for Scope 3 imply Scope 3 emissions from sold gas reach 83 $MtCO_2e$ in 2025 and zero by 2050. Assuming the Company decreases its sold gas emissions linearly between 2025 and 2050 and that sold gas emissions fall consistently with its broader Scope 3 reductions, they will reach 66 $MtCO_2e$ by 2030, a 34% reduction from 2019 levels. This is compared to an absolute benchmark for global gas consumption derived from the IEA NZE scenario which implies a reduction of 26% from 2019. As the decline in the company emissions is greater than that required by the benchmark, the Company scores on this metric. *Source: Naturgy (p. 146, 153)*
Total score		1/4	