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# Ørsted: 5 key things we learned from TCFD implementation and scenario analysis

By: Ørsted



## Issues Tackled

- Ørsted has undergone a decade-long transformation from a fossil-fuel based energy company to the world's largest offshore wind developer, with a portfolio of offshore and onshore wind farms, solar PV and energy storage in Europe, Asia Pacific and the US. In 2018, Ørsted conducted a TCFD gap analysis which showed they were largely aligned with the TCFD recommendations and they decided to endorse the recommendations in Fall 2018.
- This case study highlights the initial approach used to implement the TCFD recommendations, and includes 5 key insights from Ørsted's experience.

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## What was the initial approach used?

Ørsted has undergone a decade-long transformation from a fossil-fuel based energy company to the world's largest offshore wind developer, with a portfolio of offshore and onshore wind farms, solar PV and energy storage in Europe, Asia Pacific and the US. We will be carbon neutral in 2025, generating nearly 100% of our energy from renewable sources, and have a target of net-zero emissions across the company's entire carbon footprint by 2040. Ørsted is ranked first in Corporate Knights' 2020 index of the Global 100 most sustainable corporations in the world, and recognised on CDP's Climate Change A List as a global leader on climate action.

With science-based decarbonisation targets and a USD 30bn green energy investment pipeline towards 2025, Ørsted is committed to tackling the climate emergency and halting global warming at 1.5°C. We are committed to tracking and responding to the actual and potential impacts of climate change on the resilience of our business.

In 2018, we conducted a TCFD gap analysis which showed we were largely aligned with the TCFD recommendations and decided to endorse the recommendations in Fall 2018. A TCFD working group comprising six departments was set up to implement low-hanging fruits that could improve TCFD-alignment in the Ørsted Annual Report 2018 (p.16-17). We implemented quick-win outcomes, such as better reporting on existing climate-related risk processes and improving climate-related key performance indicators in CEO and CFO incentive schemes.

A climate scenario analysis followed in 2019 to identify and assess the potential impact of the following scenarios on the company's business and address the company's most significant and complex TCFD-related reporting gaps:

- 5-2°C temperature rise by 2100, anticipating a world that succeeds in meeting global climate targets, with efficient transition to a low-carbon future
- 3-4°C temperature rise by 2100, anticipating a world that wants to take climate action but struggles to implement.

Physical and transitional aspects were both addressed, with outcomes documented in the Ørsted Annual Report 2019 (p. 63).

## What were the barriers, and how were they overcome?

Ørsted can highlight five key learnings from our TCFD implementation journey, and specifically the scenario analysis conducted in 2019. These are:

**1) Use TCFD to provoke internal thinking and improve external reporting.** Ørsted was among the first 500 companies globally to endorse the TCFD recommendations. The TCFD implementation process has helped improve internal understanding of climate-related risks and opportunities and provide additional decision-useful climate-related information to investors in the Annual Report. Early in the process, it emerged that Ørsted was largely TCFD-aligned but needed to get better at, for example, reporting on the process for

defining climate-related risks, disclosing scope 3 emissions and conducting scenario analysis. In the first example, the annual reporting team had to bridge gaps between existing practices on financial reporting with what investors are looking for in terms of climate disclosure. Secondly, the ESG Accounting team executed a project with Sustainability to map Ørsted's scope 3 greenhouse gas emissions, which made it possible to begin reporting on, and set the company's first ever target for, value chain emissions. Thirdly, conducting a climate scenario analysis heightened internal understanding of climate risks and the value reporting on these risks can bring to investors.

**2) Realistic scoping is key provoke internal thinking and improve external reporting.** Climate scenario analysis provides information that could help investors take climate-related risks into account when they invest and avoid stranded assets. Therefore, the scenario analysis must focus on the most material risks to the business and on those TCFD recommendations that have most relevance for the business. For Ørsted, that meant focusing especially on the physical impacts of climate change for the company's offshore wind business, which accounted for 87% of EBITDA in 2019. We qualitatively assessed physical impacts of a warming climate, such as changing wind patterns, sea-level rise and extreme waves and weather, as well as climate-related transitional impacts on markets, regulation, technology and reputation. The supply chain and other business units were not assessed. We concluded that our offshore wind business is well-positioned to manage potential climate-related risks under both scenarios, for primarily two reasons:

- Due to engineering safety factors integrated into the design, offshore wind farms are resilient to physical climate change impacts, such as sea level rise and more extreme weather.
- Rapid technological advances in the offshore wind industry allows for climate-related risks to be factored into the design of offshore wind farms.

**3) Bring experts together from across your business.** Implementing scenario analysis requires bringing together people from parts of the organisation that normally may not have many reasons to collaborate. Six teams were brought together for the initial TCFD implementation: the sustainability team, the risk team, ESG Accounting, strategy, investor relations and the annual reporting team. The subsequent scenario analysis was conducted through research, interviews and an internal workshop with relevant subject matter experts from the Offshore business unit. Cross-cutting collaboration helped build a nuanced picture of the gaps in assessing potential climate-related risks and how to close them systematically, in reporting and in practice.

**4) Work constructively with the best available science.** Climate science is a complex and growing field of knowledge. Employees in specialised roles, such as construction engineers or environmental data specialists, might find it difficult to work with the lack of precision in different climate change models. Since existing scientific research on climate change is still evolving, we found that the most useful approach is to simply work as constructively as possible with the best available science from trusted sources.

**5) Don't wait for perfection, get started.** It is better to begin the work of TCFD alignment rather than waiting for methodological perfection. At Ørsted, we took the leap into the then largely unknown TCFD landscape and were subsequently named a best practice case in the TCFD Status Report 2019 (p.80-83), which highlighted our disclosure on strategy and metrics & targets. We recommend taking the leap!

## Further insights

Ørsted has recently embarked on the next frontier of our decarbonisation journey by tackling scope 3 carbon emissions in our supply chain. These emissions will increasingly come into focus as Ørsted accelerates the build out of green energy generation infrastructure in coming years. Therefore, we have launched a programme (<https://orsted.com/en/Media/Newsroom/News/2020/02/152187899190237>) to engage suppliers and achieve a carbon neutral supply chain, in line with our target for net-zero emissions across the company's entire carbon footprint by 2040.

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