

SSE PLC AGM 2021

Live question and answer session

22 July 2021



The following is a transcript of the Q&A session that formed part of SSE's Annual General Meeting on 22 July 2021. Questions were taken by Chair of the SSE plc Board, Sir John Manzoni, and those in attendance were: Sally Fairbairn, Company Secretary; Tony Cocker, Senior Independent Director; Alistair Phillips-Davies, Chief Executive; Gregor Alexander, Finance Director; Martin Pibworth, Group Energy and Commercial Director; and non-Executive Directors Peter Lynas, Helen Mahy, Melanie Smith and Angela Strank. Questions were facilitated by Sam Peacock and Mark Nimmo from SSE's Corporate Affairs team.

QUESTIONS AND ANSWERS

1. QUESTION

This is Andrea Marandino, from Rathbone Brothers Plc. Mr. Chairman, members of the board, fellow shareholders, we, Rathbone, would like to make this a statement as shareholders and signatories to the Climate Action 100 plus an investor initiative with almost 600 members representing over 50 trillion in assets under management. Our aim is to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change and help accelerate the transition to net zero emissions by 2050 or sooner.

We have been engaging with SSE over the years as one of the focus companies of the initiative. In March this year, the Climate Action 100 plus net zero company benchmark was published offering the very first detailed and comprehensive assessment of individual focussed company performance against the initiative's three high level commitment goals. These are reducing greenhouse gas emissions, improving governance and strengthening climate related financial disclosures. We would like to commend the board for the actions already taken to address climate change, in particular, setting a science- based target which covers both absolute and intensity-based metrics and allowing shareholders an annual advisory vote on its climate strategy at the AGM.

However, there are several components for which SSE meets the benchmark criteria, partially or not at all, and it leaves for the Climate Action 100 plus initiative. We would like to continue our engagement with the goal of SSE meeting all the 10 criteria. To that end, we ask the board to consider prioritising work in the following two areas. First, continue to pursue alignment with one point five-degree scenarios, both in terms of target setting and in capital expenditure plans, and second, to continue to examine the feasibility, translating the group's climate commitments into short term targets. We would be very grateful for any update on this point.

- **Andrea Marandino, Rathbone Brothers Plc.**

ANSWER

We recognise that it's in the interests of both company and investors, that there is a quality engagement on SSE's progress towards net zero. I'm also hopeful that shareholders will support our plans for an annual advisory vote on our net zero transition today. To that end, we've welcomed the establishment of the CA 100 plus net zero benchmark. We believe it's a powerful tool to raise the level of climate action and accountability amongst some of the world's largest emitters.

We do believe, however, that there is room for more flexibility in that benchmark to allow for sector nuances and company specific circumstances to be disclosed. Nevertheless, SSE will work toward meeting more of the criteria set and where we believe it is inappropriate to pursue a specific benchmark, we will explain why, specifically in terms of the direct questions asked.

We believe that the setting of short-term carbon targets is inappropriate for electricity generation. The electricity market is highly dynamic, requiring constant balancing of demand and supply, both of which are inherently unpredictable. Short-term targets for carbon emissions from electricity generation SSE's most significant source could have a distortive effect on the efficient functioning of these electricity markets and result in significantly worse outcomes for consumers. The medium term is therefore a much better framework to use, which will allow an orderly decarbonisation of the electricity sector without the potential short-term disruption to electricity supplies.

SSE has been setting medium-term carbon targets since 2009, and we have a track record of delivering them. In that period, carbon emissions from electricity generation have fallen from the peak by 72 percent. Finally, regarding the substantive question, yes, SSE is wholly committed to aligning with a one point five degrees scenario. This year, we expect to revisit our science-based targets so that we can shift from the Paris aligned well below two degrees pathway to the more stretching one point five-degree pathway.

We will also provide an update in November on our capital investment plans, which will factor in the wealth of low carbon investment opportunities we're creating. Shortly after, we will publish a net zero transition plan that will explicitly outline how our investment programme is aligned to net zero. Finally, we look forward to increased shareholder engagement on climate related issues in the run up to COP 26 and beyond.

- **Sir John Manzoni, Chair**

2. QUESTION

The Local Authority Pension Fund Forum is concerned about the future role of carbon capture and storage and is keen to understand the evidence to support this development.

Could you explain the economic rationale of using carbon capture and storage for intermittent dispatchable power, given the short operation time, for which capital of operating of the CCS technology can be recovered, and more specifically, we note the plans to potentially develop carbon capture and storage at Peterhead. We are interested to understand if Peterhead is the right place to give back-up support to the grid. And how long does the CCS extraction plant take to come on stream compared to the timescale for which gas fired stations is brought up and running, i.e., within minutes of the identified demand?

- **Councillor Rob Chapman, Vice Chair, Local Authority Pension Fund Forum**

ANSWER

SSE would like to thank the local authority pension fund forum and the team at PERC for years of constructive engagement with our company.

I understand the concerns the forum has regarding the future of fossil fuel use in the electricity system.

Because SSE's operations have a focus on the UK electricity system, our net zero plan is influenced by the analysis and frameworks established by the Climate Change Committee and the UK government.

Within that context, it is well understood that gas electricity generation with carbon capture and storage has an important role in supporting a renewable led electricity system in the UK. In terms of the specific questions, you raised on economic rationale and cost recovery, we expect gas generation with CCS will operate ahead of unabated power stations. That means we would expect running times to be higher than

that for unabated stations. Given the role they play in securing both electricity supplies and in supporting the integrity of the electricity system.

We expect power stations with carbon capture will access revenue streams through the wholesale market, balancing mechanism and ancillary services, as well as an availability payment through the UK government's proposed dispatchable power agreement. For Peterhead power station specifically, it's provided reliable and flexible power for decades, as well as key system services to support the grid. This is a role we anticipate, a power station with carbon capture also fulfilling. Situated on the coast, Peterhead is ideally located for CCS technology with access to essential transport and storage infrastructure being developed through the ACORN CCS project in the region.

The Goldeneye depleted gas field, which could be used to safely store CO₂, is located about 100 kilometres offshore in the North Sea. And given SSE's long history at the site, we believe the skills and experiences of the workforce are hugely valuable into the future. In terms of start-up times of a carbon capture plant, times vary depending on several factors, including starting temperatures and the type of technology chosen. We're working with industry experts to maximise both speed and capture during start up.

While it is true that the speed of flexibility required by the electricity system will vary, much of the demand variation will be predictable just as it is today. That means the shape and duration of the start-up for the capture plant will be managed within the needs of the market, not dissimilar to the way that unabated gas plants do now. Finally, the team at SSE would be very happy to follow up with you on any further questions you may have about our plans to repurpose our thermal generation assets for a net zero world.

- **Sir John Manzoni, Chair**

3. QUESTION

In previous years, the directors mingled with the crowd in the auditorium, will they be doing the same after the AGM today, please. If not, why not? In Mr. Johnson's dash for electric cars, is the electric transmission system and the electric production system up to it, because reading statistics, I've got a sneaking feeling that neither will be able to cater for all these millions of electric cars, electric vehicles coming out.

And in the carbon capture and storage there has been mentions of this in the past, there was a big scheme proposed for the East Yorkshire and it was dropped because the electricity companies couldn't get the banks, the government to pay for it.

Is that now the case? Are you paying for it yourself?

- **David Brown, small shareholder**

ANSWER

Firstly, let me answer your first one about mingling with the crowd. We would love to but unfortunately, the covid restrictions in place today and the uncertainty around the coronavirus will make that very difficult for us. And we would prefer, therefore, not to put either you or anybody else at risk through that activity. So it is with regret that we won't be able to be following up in close proximity with you after this meeting, for which I apologise.

Let me as to your other two questions, one on whether the transmission system is going to be set for electric vehicles and second, on CCS and whether anything's changed, I'll just make a couple of general comments. Then I'm going to pass to Alistair to fill in some of what we're doing particularly. There is a lot of movement in the UK right now on all aspects of transition to net zero.

As I've described, CCS, carbon capture and storage on the back of gas generation is a critical part of that transition. We are actively involved in discussions with the government. Our view now is that the government is this time deadly serious. It has set itself some targets to get two and then four plants up and running. We have some excellent opportunities to invest in those. We are in discussion with the government because it does need a partnership between industry and government so that the risk can be borne appropriately, and private capital can be taken to those investments.

We're very excited about that opportunity and that possibility. I believe this time, and the board believes this time, those plants will take place over the next period. And we're very excited to be participating in that it's very important. Regarding the transmission system and its capacity and capability to handle the increase in electric vehicles. The electric vehicles are one aspect of a massive increase. Almost whatever scenario we look at it's a massive increase in the electricity demand across the country.

And we are absolutely, and that's why I mentioned the investment plans that we have both in our transmission business and in our distribution business, stepping up our investment so that we can strengthen those systems to be ready for the increased demand. This is an enormously exciting opportunity for this company. And we are hope we are we are very hopeful and very optimistic that we will be taking full advantage of that opportunity. Let me ask Alastair if he's got any anything else that he'd like to add on that.

- **Sir John Manzoni, Chair**

So, I think on the network's point, I think John's dealt with most of the CCS point unless there's anything of more detail, on the network's point we've obviously recently reached agreement with Ofgem and our plans to invest. We'll be investing considerably more over the next five years than we have done over the previous five years, we anticipate that being at least 2.8 billion pounds today. I believe that could well exceed four billion pounds over that five-year period.

I think our transmission network in the North of Scotland will absolutely be ready. I'd also like to note that our transmission network in the North of Scotland was the first network company anywhere in the world to achieve full Paris accreditation for having a science based, science-based plans to reach no more than one point five degrees warming. And so, I think that's very encouraging. We're about two years behind in terms of the process on distribution networks with the regulator.

But at the start of July, we announced ambitious plans where we'll be investing over a billion pounds more over the coming five years compared to what we invested over the last five years. A lot of that is particularly on resilience for net zero and how we can really bring alive for customers, decarbonisation of heat transport and other areas, other areas of the economy. So, we will need to see continued evolution of government policy in and particularly action from the regulator to support what we're doing.

But as a company, SSE absolutely stands ready to make sure that we can provide for our customers the access to power that they will need as we move forward on the decarbonisation journey. And we're very confident that certainly over the balance of this decade, with the plans that we've set out in both our transmission and distribution business recently, we're well set to meet the challenges that we have.

- **Alistair Phillips-Davies, Chief Executive**

3.A QUESTION

Thank you for your elaborate reply, but it's left me bamboozled, but I'm still not totally convinced that Boris's target is achievable. One other little point if you can help me, please. I did see in the paper last week that Shell and Scottish Power are going to do floating windfarms. Can somebody tell me how we are going to get electricity from the windmill into the grid, please?

- **David Brown, small shareholder**

ANSWER

So hopefully we'll be able to illuminate you a little. I'm going to turn to Martin, I think, to see if he can illuminate some of that.

- **Sir John Manzoni, Chair**

I think the story that you're referring to was about the ScotWind process, which is the leasing of new seabed in Scotland for new offshore wind. Up until now there's been fixed offshore wind because offshore wind has been built in kind of relatively low sea depths, as we start as a country producing more offshore wind, not least to achieve some of the mitigations for the demand increases we're expecting then the country is going to have to start building into deeper waters.

And that implies that we're going to be going into floating wind technology, that's effectively an offshore wind turbine mounted on a floating structure that allows the turbine to generate in those water depths where fixed foundations are just basically not feasible. And there's a lot of work being done by various OEMs on this and in terms of what technology to go for, it's very nascent. There's not that much floating wind technology deployed globally. In fact, tiny amounts, but it is going to be a significant technology going forward.

And of course, companies like us and the companies you mentioned are all interested in seeing how they can invest in that going forward.

- **Martin Pibworth, Group Energy and Commercial Director**

3.B QUESTION

Does that mean then mean that the windmill will not be floating that far? It will not be sort of floating free.

- **David Brown, small shareholder**

ANSWER

I mean it's anchored, I think to answer this question best it would need to go to Jim Smith, who runs our Renewables division. Maybe I can introduce you at the end or get a conversation by phone.

- **Martin Pibworth, Group Energy and Commercial Director**

I think Mr. Brown it's not floating free. It is tethered. It isn't just floating around.

- **Sir John Manzoni, Chair**

It'll float, but in a reasonably fixed position because it'll be tethered by wires, cables. It'll be limited float, like a boat with an anchor. And then the electricity will flow down a separate wire separate to the anchors

and then into shore exactly as it does with a fully tethered ones which are often on monopiles or on jacket structures.

4. QUESTION

My question is framed within the Companies Act 2006, Section one seven two one A to F. From 2018, 2019, there has been a one hundred thirty-six point six million decrease in dividends to shareholders. One hundred and thirty-six point six million. A 14 percent decrease. In September 2020, Ofgem fined SSE two million and 60 thousand pounds.

Given the stagnation of dividends to shareholders, why has the Finance Director not resigned and when will the finance director resign?

- **Alexander McClymont, small shareholder**

ANSWER

Let me first say the Finance Director has the board's full support and any of those decisions that have been taken regarding the distribution of funds and the reuse of funds inside the company is a decision by the board with the executive and the board is fully aligned with the executive on those decisions that have been taken. So that's the first answer to your question. At a very general level. And then I will turn to Alistair to answer some of this.

At a very general level we, of course, must balance, this company has been very steady in its delivery of dividends to shareholders. We absolutely understand the importance of dividends as part of total shareholder return. Shareholder return comes in many forms, appreciation of share price and growth and such things. And the board is always and constantly making decisions about the allocation of the available cash between dividend and reinvestment. As you know, we go for partnerships. We sell parts, as I described in Dogger Bank of the business, so that we can get some extra cash to take advantage of new investment opportunities for the long-term success and health of the company.

That is a decision that is all the time being made by the board and has and continues to be, so I have said that the world is changing around us. There are enormous opportunities for investment. We're not short of things to invest in. The question for us is how we can pick the best ones for your company to be successful for the long term. So that is the general answer to your question. I'm not going to turn to Alistair if he wants to add anything more specific.

- **Sir John Manzoni, Chair**

Exactly as John said, we've got a proud record of increasing our dividend year on year since 1998 when the company was formed. You may recall, or to the extent you're studying the annual report and accounts from back in the 2018-19 period. It was back in November 2017, we agreed the disposal of our retail business and at that time that was going to be a separate float off. On the back of that, we reset our dividend policy, so a substantial part of our business was going to go elsewhere, and we reset our dividend policy down from around about ninety-six P back down to eighty P at that time.

So that's the drop in dividend that you refer to. In the end, we did a slightly different transaction which ended up with a complete disposal of that business to OVO rather than a combination with N Power and a separate float. So, the business shrank to some extent and that's what caused the reduction in the dividend. Obviously, since then, we've invested substantial sums of money in infrastructure. I think we've got a very clearly focussed business now that's moving forward strongly despite the pandemic.

We powered our way through that without accepting any government money, any furlough schemes or anything else looking after our staff, no redundancies of any sort. And we continue to invest strongly in the business, and we're absolutely committed to growing the dividend by at least RPI each year from 2018 through to 2023, which is our existing dividend promise. So hopefully that explains why we changed the dividend at that point in time. And I think that was widely accepted by shareholders as a sensible move and why we remain committed to increasing the dividend going forward, at least out until the end of March 2023.

We've announced a dividend in line with that policy this year and we've confirmed that we intend doing so for the year ahead as well.

- **Alistair Phillips-Davies, Chief Executive**

5. QUESTION

We're going to turn to a question from the online platform, which comes from **Helen Wiggs** of Share Action. She asks, we note SSEs commitment to net zero and commend the publication of a just transition strategy, which we regard as sector leading. Our question regards forward looking capex plans. The CA 100 plus benchmark assessment published earlier this year revealed that SSE did not meet any of the criteria to indicate that the company's capex outlook supports decarbonisation or alignment with the one point five degrees outcome.

Please, could the board firstly share the steps that it is taking to align the company's Capex with its stated climate ambitions and one point five degrees more broadly? And secondly, provide a date by when shareholders can expect an update on progress?

- **Sam Peacock, Director of Corporate Affairs and Strategy**

ANSWER

Let me answer this in a general way. I think I dealt with some of this in my remarks. I think the first thing to say, firstly, we welcome the climate 100 plus benchmarks, but they're quite new. And we're only really, just sort of beginning a dialogue with Climate 100, Climate Action 100 plus. We completely support them partly, mostly because it increases the dialogue between the company and stakeholders and shareholders about how we can together create progress toward net zero.

Almost our entire capital programme is designed and focussed on low carbon sources of energy and how we move from where we are to a lower carbon source of energy. But we will as I've said, be updating our capital programme in November so you can look forward to a more detailed assessment of the capital opportunity, the investment opportunities that we have. We will, in addition to that very shortly, thereafter, be working on the net zero transition plan, which I think will link those capital plans to, exactly to the net zero. And I'm hoping will clarify enormously SSE's progress on this benchmark of capital allocation and its link to net zero. I'm hopeful that by the end of this calendar year, I'm looking at Rachael for nodding, by the end of this calendar year I'm very hopeful that we will have very clearly done what that benchmark is intended for us to do.

- **Sir John Manzoni, Chair**

I appreciate the comments on a just transition strategy, so I know a lot of people in the company led by our chief sustainability officer, Rachel [McEwen], who you mentioned John, did a lot of work on that.

So we really appreciate the positive comments. More generally on those benchmarks, essentially, we have a strategy and a set of capex plans that are clearly aligned to a well below two-degree trajectory.

As you'll note from one of my comments earlier, we're also transitioning to having something fully compliant with the one-half degree trajectory and indeed the transmission business represented by the MD, Rob McDonald here today. And they, as I mentioned earlier, were the first network in the world to achieve a science-based target accreditation for that one half degree, one-and-a-half-degree target going through that process with other businesses as well.

We've got distribution, renewables and some of the other businesses represented here today. It's our intention during this year to get all the businesses to produce their plans for that. We'll then be publishing a report later in this financial year. And we're looking forward to having a vote on that report at the next AGM, which will be a step forward from the vote we'll be having in one of the resolutions later. So, we appreciate the fact that this is moving rapidly.

I think the company is moving rapidly to do that. We've demonstrated clearly that we've made progress on that to date, and they'll be far more progress to see later in the year. And we'll be able to report back on that in next year's annual report and accounts and indeed get a chance to vote on that at next year, next year's AGM.

- **Alistair Phillips-Davies, Chief Executive**

6. QUESTION

And I believe we've just got two more questions, unless anything else comes through on the platform from shareholders, they are from **Philip Clarke**. First question is, I'm delighted by the rate at which we are developing renewable energy. However, as per page 86 of the annual report and accounts, total thermal energy generation increased from seventeen thousand seven hundred gigawatt hours to 18,000 gigawatt hours despite cessation of coal fired output. I found this surprising given the rate of growth of our renewables and the pandemic dampening power demand, why was this?

And his second question, Chairman, was around hybrid's. Why do we issue hybrid bonds when these seem to be rather more expensive than conventional bonds?

- **Sam Peacock, Director of Corporate Affairs and Strategy**

ANSWER

So let me make some general comments first, I will turn to both Martin and Gregor in a moment on those two questions. As the country progressively moves toward more and more renewable power, that renewable power becomes more and more intermittent and variable, and therefore that is exactly why the flexible sources of power are needed. And the flexible sources of power today are the thermal power stations. Without that, the lights would start to go off.

It's very important that we keep those on. As you know and as I've outlined, we are very keen to put carbon capture and storage on the back of those thermal stations in order to make them greener, in order to make them aligned with our purpose of a net zero oriented company. So, I think that that's my given Martin time to construct his answer. I think that's my general answer to the question of why thermal is still in use and maybe even growing.

I think it's a very important transition and we are very keen, of course, to put carbon capture and storage on the back of several of our thermal power stations. And then we'll move to the hybrid bond question directly to Gregor. Martin.

- **Sir John Manzoni, Chair**

Okay. Thank you, Chairman. So, absolutely right on that, I would endorse everything you've just said. In the short-term markets, the flexibility that CCGTs offer back up intermittent to renewables. But they also provide other services to markets which are going through quite big changes. So other changes that have occurred on the market is the retirement of coal, not just our coal, but other companies coal power stations have been closing over the last few years in line with government policy.

There have been some announcements about nuclear closures which have just tightened the supply stack a little bit and the demand curve itself during the previous 12 months, not least because of the pandemic has been volatile. And as a result, the flexibility our CCGTs offer the markets against those all those conditions have been required more by the markets, by grid. And therefore, that is why you've seen a slight increase in CCGT running over the last 12 months.

Over to Gregor on hybrid bonds.

- **Martin Pibworth, Group Energy and Commercial Director**

Chairman. Yes, I mean, SSE has been issuing hybrid bonds for the last 10 years or so. The advantage of hybrid bonds vs. conventional bonds is that they qualify for 50 percent equity credit with the rating agencies. And that's important part of our capital structure because of the amount of CapEx that we're investing in. We have around about two billion pounds worth of hybrid bonds, versus about nine billion, just under nine billion of debt. And you will find that most utilities in our sector, because of that intense CapEx programme, will invest, will look for investors to invest in hybrid bonds.

The rates tend to be about one, one and a half percent higher than conventional. But as I say, you get this equity credit, which is very important for supporting our credit rating.

- **Gregor Alexander, Finance Director**

Chairman, I think we don't have any more questions through on the platform, maybe we'll just allow 30 seconds for just anybody and any other shareholders who want to ask a question on the platform. And then I think it's probably onto business unless anything else comes through.

- **Sam Peacock, Head of Corporate Affairs and Strategy**