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Shifting Perspectives: E&P Companies Talking Climate and the Energy Transition *Trends in Disclosure and Climate Strategy*

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Right now, the power we use to get around, cook our food, run our economy, and go about our daily lives remains heavily dependent on fossil fuels. Experts estimate this will remain so through at least 2030 and maybe 2040, with renewables and lower carbon energy making increasing inroads over that timeframe. But anyone who cares about the future of our world beyond 2040 cares about how to move to a sustainable energy system that will lessen the potential impacts of dramatic climate shifts.

Until recently these concerns went largely unaddressed by companies producing the fuels that run our economy. Instead, they focused on the ever-growing demand for energy (demand that is expected to increase significantly over the next few decades as millions of people get access to electricity for the first time), perhaps were afraid of speaking of a future that may not include them, and expressed beliefs that such concern is more appropriately addressed by government than the private sector. Oil and gas exploration and production companies at best ignored discussions of climate change and often actively pushed back against the growing need to address the problem.

Close watchers of the industry understand the tectonic shift that directly and publicly acknowledging such climate realities represents. For these analysts, our current moment appears somewhat remarkable. Sustained civil society and, more recently, mainstream investor efforts have significantly influenced oil and gas industry approaches to climate. Sitting in a boardroom in Houston no longer automatically means complete denial of scientific consensus around climate change or abdication of any responsibility to address it. Regardless of the motivations for this shift, it is a moment worth noting, celebrating, and capitalizing on.

Sarah Light, Assistant Professor at Wharton, proposes instilling an "[environmental priority principle](#)" into areas of law that influence corporate decision making in order to further incentivize (or at the least not disincentivize) corporate actions that properly consider environmental and climate outcomes. Global consensus has grown around the understanding that business has responsibilities that go beyond shareholder profit. The [UN Global Compact's Ten Principles](#) establishes such responsibilities, including Principles 7-9: Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies. The [UN's Guiding Principles on Business and Human](#)



[Rights](#) built on these principles to outline a specific role for businesses in their interactions with society, imposing an affirmative duty to respect human rights.

Topics covered and statements made at this month's global energy conference CERAWeek, as well as recent oil and gas company climate reports, open a window into the shifting baseline of action on climate in the energy sector.

Climate at CERAWeek

This year's [CERAWeek](#), the annual global energy conference held in Houston in mid-March, had a different tone than years past. Speakers have addressed responsible operations and sustainability from CERAWeek stages before, but this year leading oil companies made news by directly urging their peers to take urgent action on climate change, arguing for the need to prepare for an impending energy transition, and announcing support for climate regulations. The international youth climate strike sparked by a Swedish teenager's climate activism even made the stage, with BP CEO Bob Dudley [noting](#) "These are young people on the cusp of being able to vote. . . . They're tomorrow's legislators, regulators, jurists, and consumers, of course." A quick review of the CERAWeek [agenda](#) this year shows over two dozen segments included topics such as climate, energy transition, low carbon fuels, and electric transportation in their descriptions (and many of the news-making statements did not occur during these specific segments).

[Shell](#), [BP](#), and [Exxon](#) all [announced support](#) for the Obama-era EPA methane regulations, calling on the Trump administration to leave them in place (Shell even advocated tightening them). This was [the first time Shell had publicly called](#) for the EPA to directly regulate methane from existing and new sources. BP also faces criticism for lobbying against BLM's methane waste regulation (already [reversed by the Trump administration](#)) but the company says it [supports nation-wide regulation by EPA](#) and has teamed up with EDF in a 3-year effort to "[advance technologies and practices to reduce methane emissions from the global oil and gas supply chain](#)." BP's Bob Dudley has also called for carbon pricing or taxes, stating the world "[is not on a sustainable path](#)."

Environmental advocates have met these announcements with [understandable skepticism](#); and, as I discuss below, such announcements may have little to no impact on the changes this administration seeks to the EPA methane rule given the timing. But, as EDF's Ben Ratner notes, "[without nationwide methane regulation, industry is only as strong as its weakest link](#)." Even if the administration does not respond to such industry statements in finalizing its current methane rule change, they are important signposts in shifting attitudes and approaches from the oil and gas industry.



Trends in Disclosure: describing the actions behind the statements

Beyond the CERAWeek stage, we are witnessing a shift in disclosure practices. As investors demand more information from oil and gas companies on climate-related risks and in the wake of the [2017 recommendations](#) of the [Task Force on Climate-Related Disclosures](#) (TCFD), companies are releasing more information in more ways.

Top oil and gas companies have released separate climate reports over the last year in addition to their Annual and Sustainability Reports. These specifically address corporate strategies and actions regarding climate change and the energy transition:

- **ConocoPhillips:** [Managing Climate-Related Risks: Building a resilient strategy for the energy transition](#) (February 2019) (See also their [climate change website](#) and February 2016 [Climate Change Position](#))
- **Chevron:** [update to climate change resilience: a framework for decision making](#) (February 2019) (this report is an update to the March 2017 [Managing Climate Change Risks: A Perspective for Investors](#) and March 2018 [Climate Change Resilience: A Framework for Decision Making](#); see also Chevron's [climate change website](#))
- **Exxon:** [2018 Outlook for Energy: A View to 2040](#) (Feb. 2, 2018) and a [2019 Energy & Carbon Summary](#) (Feb. 4, 2019) as well as [Innovating energy solutions: Research and development highlights](#) (see also Exxon's [climate change website](#))
- **Total:** [Integrating Climate Into Our Strategy](#) (September 2018) (see also Total's [climate change website](#))
- **Shell:** [Energy Transition Report](#) (2018) (the 2018 report is an update to a 2016 report titled "Shell: Energy Transitions and Portfolio Resilience." See also Shell's [climate change webpage](#) and [Climate Change Policy Position](#))
- **BP:** [Advancing the Energy Transition](#) (April 2018) (see also [How will BP respond to global change?](#), its 2017 Sustainability Report, and the company's [climate change website](#))
- **Equinor:** "2018 Climate Roadmap: Creating a low carbon advantage" ([March 2019](#)) available for download on Equinor's [climate website](#). This report builds on its [2017 climate roadmap](#).
- **Occidental:** [Climate-Related Risks and Opportunities: Positioning for a Lower-Carbon Economy](#) (March 2018)

These should be viewed in concert with Annual Reports and Sustainability Reports for a complete picture of a company's strategy and priorities. Some are designed as additional brochures to supplement primary reports while others are relatively complete, stand-alone reports. Not all companies have released a new report for this year, and some of the observations below may shift as new reports are released.



While not every company writes about each of these, certain themes emerge when reviewing climate reporting over the last year:^{*}

1. Talk of “values”

Companies directly acknowledging climate change, their product’s relationship to it, and a need to move towards a lower carbon economy.

- **Statoil** changed its name to Equinor in May 2018 as part of a larger refocusing of the company. Its new strategy motto (described in its climate report) is “always safe, high value, low carbon” and their reports talk about “developing from an oil and gas company to a broad energy company” with a lower carbon footprint.
- **BP** speaks of “reducing, improving, and creating” (reducing emissions in operations, improving products to help customers lower emissions, and creating low carbon businesses). (Energy Transition Report at 1)
- Some companies have also highlighted the importance of attracting and retaining talent in an era in which a company’s efforts on climate affect recruits’ decisions about who to work for.

2. Emissions Commitments

Companies have begun to set emissions goals. The dominant approach thus far has been to set intensity targets (meaning the energy intensity/net carbon footprint of their product will decrease, rather than their total GHG emissions). Carbon intensity goals allow them to make significant improvements in GHG output and achieve their stated goals while still increasing production.

The choice to set intensity goals spotlights these companies’ hope to win a larger portion of demand over time. Demand is currently growing and even though it is expected to eventually decrease as we shift energy sources, companies do not want their GHG targets to preclude them from capturing a larger portion of the production necessary to meet that demand. Intensity goals may not satisfy all environmental advocates, but they do provide companies an internal incentive to encourage GHG emissions reductions. (For a critical view on the sufficiency of this approach, see [Carbon Tracker’s January 2019 Analyst Note](#).) They also establish a baseline expectation of what an extractive industry company can do, potentially leading to more specific GHG emissions reduction goals. **Current emissions goals include:**

- **Shell** set an intensity goal to reduce the net carbon footprint of its product by 20% by 2035 and 50% by 2050. (Shell 2018 Annual Report at 9) Shell [announced these goals](#) at the start of the COP24 talks in a joint statement with [Climate Action 100+](#).

^{*} I do not attempt to include a review of how or whether every theme appears in each company’s reports. Rather, I include a handful of examples that should not be considered comprehensive.



- **ConocoPhillips** set a target to reduce GHG emissions intensity from 5 to 15% by 2030 from a Jan. 1, 2017 baseline. (ConocoPhillips Climate Report at 34)
- **Chevron** set an upstream intensity reduction metric of 25 to 30 percent for flaring and 20 to 25 percent for methane emissions for 2016-2023. (Chevron Update on Climate-Change Resilience at 5)
- **Equinor** set a goal to reduce carbon intensity of its upstream oil and gas portfolio to 8 kg CO₂/barrel of oil equivalent by 2030 (down from 10kg CO₂/boe now). (Equinor Climate Roadmap at 18) Equinor also aims to reduce CO₂ emissions by 3 million tonnes per year below what they would have been "had no reduction measures been implemented between 2017 and 2030." (Equinor Climate Roadmap at 16)
- **BP** set a [sustainable emissions reductions target](#) of 3.5 million tonnes by 2025 and has promised to offset any increase in emissions above 2015 levels not covered by the sustainable reductions activity. (Advancing the Energy Transition at 8)
- **Total** aims to reduce the carbon intensity of its products by 15% between 2015 and 2030 and 25-30% by 2040. (Integrating Climate Into Our Strategy at 6)
- **ExxonMobil** has more limited emissions commitments including a 10% GHG emissions intensity reduction at Imperial operated oil sands by 2023 as compared with 2016 and a 15% reduction in methane emissions by 2020 and 25% reduction in flaring by 2020 as compared with 2016. (2019 Energy and Carbon Summary at 25)
- **Occidental** is in the process of developing CO₂ and methane emission-intensity metrics, according to their first climate report and its CEO has announced it [intends to go carbon neutral](#). (Climate Related Risks and Opportunities at 8)
- **Eni** set a goal of net zero emissions by 2030 which it plans to achieve by planting forests and operational efficiency / waste minimization (\$1.1 billion investment over 4 years). It's also converting 2 refineries from crude oil to vegetable oil.

Reducing methane releases from operations is a significant portion of the initial push for emissions reductions. Many of these companies joined in a commitment to [zero routine flaring by 2030 under the Oil and Gas Climate Initiative](#) (which includes interim reductions). Techniques to capture gas that would otherwise be flared or vented, equipment upgrades such as pneumatic controllers to reduce leakage, and using higher tech leak detection equipment are all mentioned in various company reports.

Many of these operational changes would have been required in the U.S. by Obama-era EPA and BLM methane regulations, which likely instigated their uptake by industry leaders. With the [BLM rule](#) already undone by the current administration and the [EPA rule](#) in the process of being rolled back, the larger companies who were already positioned to comply with the expected regulatory requirements will now compete against smaller operators who did not invest in



compliance. Marketing these changes as a long-term competitive advantage may help retain more value in those investments.

Shareholder groups are planning to keep the heat on for harder commitments in the 2019 proxy season, with a number of [climate-related proxy resolutions expected](#). As [Bloomberg](#) notes, "Shell successfully fought a shareholder resolution this year that it set even more ambitious emissions targets, after an activist investor warned its business plan may not be in line with the Paris agreement. ... BP's CEO Bob Dudley has also fought off calls to set more specific targets, arguing they are material for class-action lawyers."

3. Integrated climate risk assessment and management

Responding to the TCFD's call for more detailed descriptions of an organization's governance of climate risks and opportunities as well as processes used to assess and manage them, companies have provided information about how climate concerns are integrated into decision making, planning, and governance structures throughout the company. ConocoPhillips provides perhaps the most detailed explanation of how climate and emissions goals are integrated into the governance structure of the company and its risk management and operational processes. It explains in detail the oversight role of Board committees, how different components of management interact with such oversight, and how environmental and climate risks are evaluated and considered as well as how goals are set and tracked at all levels of the business. (Managing Climate-Related Risks, particularly the Governance Framework and Risk Management sections) But they are not alone in including such discussions.

4. Compensation incentives tied to climate goals

Some companies have also tied climate goals to performance metrics for compensation incentives. For example,

- **Chevron** has incorporated upstream intensity reduction metrics into the scorecard for its variable pay program which covers approximately 45,000 employees. (Chevron Update on Climate-Change Resilience at 5)
- 10% of **Shell's** bonus scorecard is dependent on GHG management as of 2017. (Energy Transition Report at 61) Shell plans a [2020 shareholder vote](#) on linking "long-term remuneration" to energy transition efforts.
- **BP** bases 20% of "longer-term share awards on progress against our strategic priorities. This includes measures on our performance in gas, renewables, venturing and renewables trading." (Advancing the energy transition at 5)
- **ConocoPhillips** indicates that sustainability performance is integrated into performance-based compensation and that annual incentive programs promote achievement of milestones, but does not provide the detail on compensation provided for example by Shell's report. (Managing Climate-Related Risks at 6, 9)



- In 2018, **Occidental** added a climate-related element related to the advancement of CCUS to its executive compensation program but provides little detail on this in its climate report. (Climate-Related Risks and Opportunities at 14)

5. Support for specific regulatory actions

As mentioned above, **Shell**, **BP**, and **Exxon** recently called upon the Trump administration to halt its efforts to roll back EPA's methane regulations. Support for a carbon tax or price have also become popular, for example:

- **BP's** 2017 Sustainability Report has a section on advocacy for a carbon price (Sustainability Report at 29) and its more recent "Advancing the energy transition" report also advocates for a carbon price.
- **Total** supports carbon pricing and "carbon dividends." (Total Climate Report at 29) The environmental community views this support with healthy skepticism as support for pricing has sometimes also come with corresponding support for elimination of liability or EPA regulatory authority.

The industry must walk a careful line to maintain credibility by not derailing potentially beneficial climate legislation in favor of their preferred approaches. BLM has already finalized its roll back of the methane waste prevention rule and the comment period has closed on EPA's efforts. Whether vocal opposition to an EPA roll back can have any substantive impact on the drafting of the final rule at this point is debatable.

6. Investment in new tech

Each company is taking a different approach to what it deems most relevant for investment. Generally, they are looking for ways to connect to their core business while eyeing the future energy shift. Technologies that appear in a number of reports include:

- Renewable Natural Gas (biogas)
- Direct air capture
- Hydrogen fuel cells and closed loop systems or systems with carbon as a product
- Renewables (wind/solar)
- EVs and EV charging
- Enhanced automation

Some companies have made specific commitments on how much they will invest or through the creation of venture efforts:

- **Equinor** states 25% of its R&D will be in low carbon and energy efficiency by 2020 and 15-20% of capital expenditures will be in "new energy" by 2030. (Climate Roadmap at 32)
- **Shell** created a [New Energies](#) business to pursue low carbon technologies. (Energy Transition Report at 43) Shell plans to invest \$1-2 billion/year through 2020 in its New Energies business (compare to \$15.6 billion distributed in dividends in 2017, \$30 billion



invested in its divestment program from 2016-2018, and \$24 billion in capital investments in 2017). Shell's choice of technologies reflects its interest in keeping natural gas relevant through such efforts as hydrogen fuel cells that use natural gas as feedstock and CCUS, but its project reach includes electric vehicle charging infrastructure and renewable projects.

- **Occidental**'s report focuses heavily on carbon capture, utilization, and sequestration (CCUS) via CO₂ Enhanced Oil Recovery (EOR). (Climate-Related Risks and Opportunities at 9-13) Occidental also recently created [Oxy Low Carbon Ventures](#), a subsidiary created to finance, develop, and promote CCUS and technologies that use captured CO₂.
- **BP** has committed to investing \$500 million in low carbon activities each year, including \$200 million a year in low-carbon ventures and start-ups and \$300 in its existing renewables business which covers biofuels, biogas, solar, and wind. (Advancing the Energy Transition at 16-21)
- **ConocoPhillips** sponsors the [XPRIZE](#) in Canada, a competition focused on developing innovative ways to reuse carbon associated with steam generation in the oil sands. (Managing Climate-Related Risks at 19)

7. Discussion of scenarios

Companies are still getting their arms around the best way to handle investor interest in disclosure of scenarios. The trend so far for those that are responding to this investor interest appears to be a narrative discussion of how the company considers scenarios in their strategy planning process and the range of types of scenarios they consider, with some general description of various scenarios considered and what they represent. Some companies are working with externally created scenarios (mostly IEA) and others describe scenarios they have created internally, or some combination thereof. The reports don't include detailed information on the assumptions incorporated into the scenarios and the exact modelling used. Company use of scenarios deserves its own more detailed review and analysis and we plan to continue to track and review this process over time.

8. Auditing

Most companies note some level of independent auditing of their emissions data. We expect this to be an increasingly important aspect of reporting as investors get more sophisticated in evaluating the information in these reports. For example, **BP** describes an accreditation program developed by Deloitte to assess its program and provide assurance on activities' GHG emissions savings or offsets. (Advancing the Energy Transition at 20) **ConocoPhillips** Scope 1, 2, and 3 emissions are subject to an independent limited assurance by ERM annually and energy use, flaring, criteria air pollutants, waste, liquid hydrocarbon spills, water and safety metrics are included every three years. (Managing Climate-Related Risks at 37) **Shell**'s direct and indirect GHG data is subject to limited assurance by an independent auditor. (Sustainability Report at 67)



Accountability Not at Expense of Future Progress

It's certainly fair to criticize companies' late support for methane regulations (and indeed [EELP Executive Director Joe Goffman](#), who sat across the table from industry representatives arguing against those very regulations when he led EPA's drafting of them, [has done just that](#)). Neither demands for accountability nor criticism of companies' recent positions should come at the expense of future progress. We ignore at our peril changes companies are making in their approach and their new recognition of shared interest.

We should encourage, capitalize on, and ensure the shift happening in the energy industry continues. We must help companies continue down this path while holding them accountable to their commitments. We will need the expertise and reach of global E&P companies and oilfield services companies to achieve the shifts in our energy system that must happen over the next few decades. If they are not part of this process, it will be much harder to get there. Not all of them are likely to survive and evolve into something that will thrive after an energy transition but helping them see a potential path forward capitalizes on their competitive spirit and could accelerate some of the work that needs to be done. Supporting, applauding, and nurturing these newfound commitments to climate also provides a platform from which to hold companies accountable and apply pressure when they don't live up to their stated ideals.

None of this requires being naive about the competing demands and interests within the corporate world, or the potential for recent momentum to falter and for companies to backslide. Much depends on individuals taking these messages to heart and integrating them deep inside the operations of an organization so that their existence does not rely on one committed leader or small group of leaders. A nascent shift from perverse incentives born of a shareholder-only approach to business, as well as a shift within the investor community to recognize the importance of considering climate risks in decision making, is encouraging. While competitive forces right now are assisting such shifts, more intense price competition in the long run as the market tightens may create different incentives. [As Ed Crooks wrote in a recent column:](#)

"it is clear that if the world market does shrink to 70m b/d, then being at the lower end of the cost curve will be the way to ensure there is still a market for your oil. In the energy business, as in the Super Bowl, there are always winners and losers. In a world of falling oil demand, the contest will be like playing the game on the edge of a volcano."

Integrating climate considerations deep into corporate decision making and fostering advantages or rewards for doing so will be important to holding on to gains made. Joe Goffman and the [Houston Chronicle's Editorial Board](#) expressed a common view last week that credibility is key to oil & gas company efforts on climate change and that their and our future depends on their doing more than talking a good game. The new trends in disclosure are a move in the right direction to ensure that happens and "[forward motion is essential](#)."