Implications of Australian oil and gas demand and investment in a carbon constrained world

APPEA - November 2017

Frederic Papon
Fiona Hancock

Building a better working world

Climate Policy developments

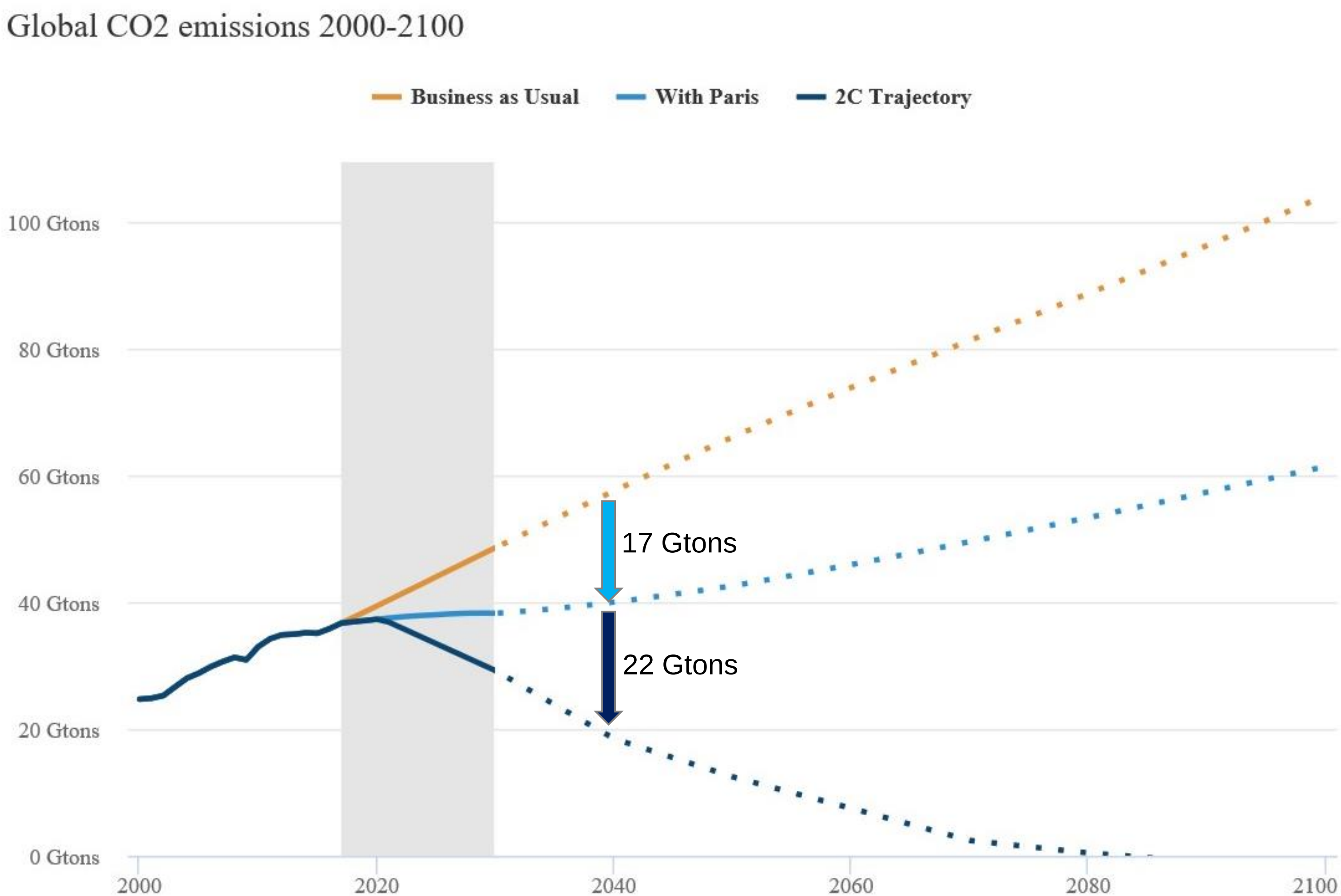
COP21 • CMP11
PARIS 2015
UN CLIMATE CHANGE CONFERENCE

COP23 | FIJI
UN CLIMATE CHANGE CONFERENCE
BONN 2017

WE ARE STILL IN

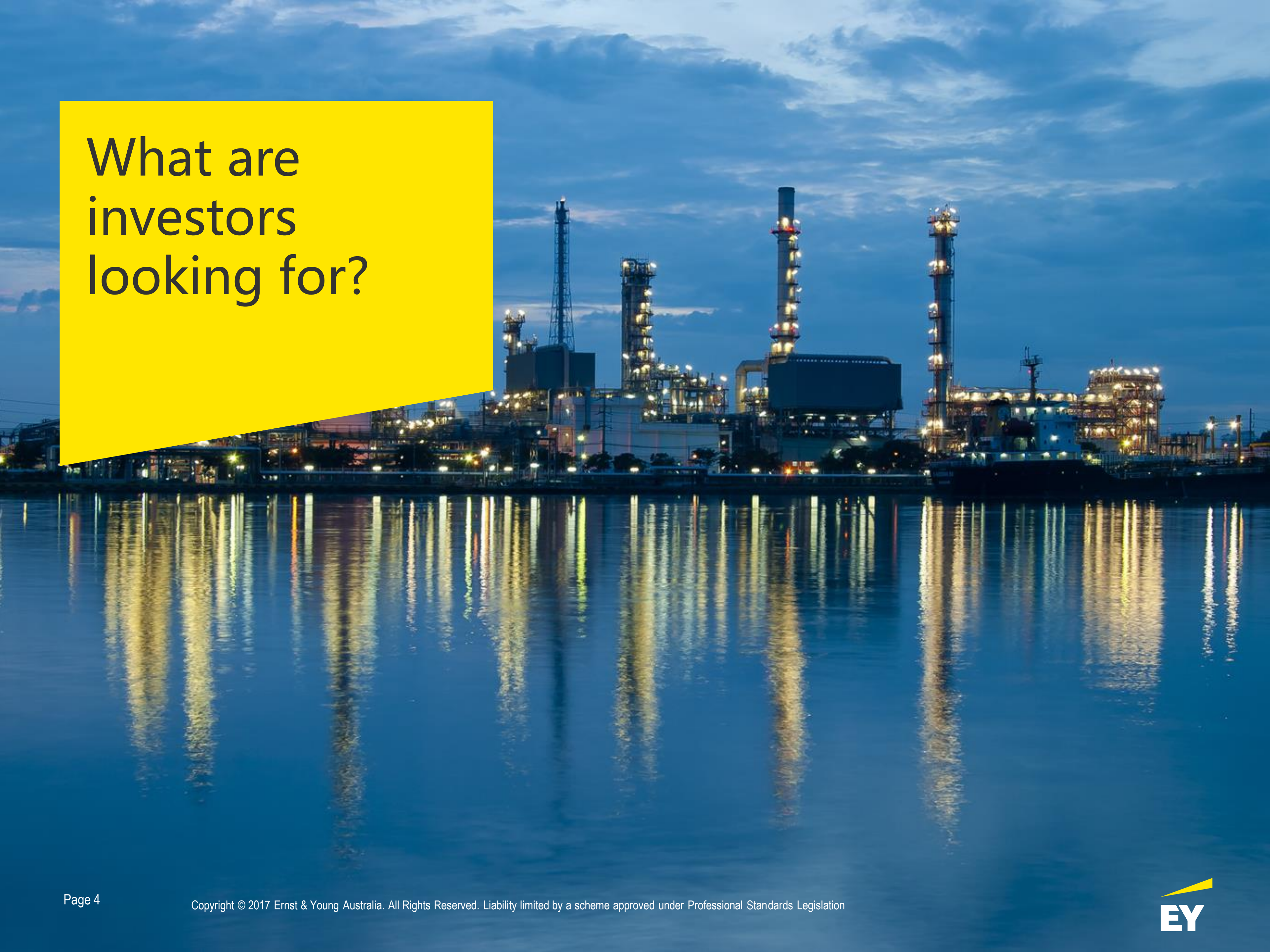
TCFD
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Paris Agreement is significant, 2ºC is immense



Carbon Brief, 2017

What are investors looking for?



Directors duty and climate risks

"While climate risks have been broadly recognised, they have often been seen as a future problem or a non-financial problem. […] This is no longer the case. Some climate risks are distinctly 'financial' in nature. Many of these risks are foreseeable, material and actionable now."

"we would expect to see more sophisticated scenario-based analysis of climate risks at the firm level, we look at these risks as part of our system-wide stress testing*."*

APRA Executive Board Member Geoff Summerhayes

"it is conceivable that directors who fail to consider the impacts of climate change risk for their business, now, ***could be found liable for breaching their statutory duty of due care and diligence*** *going forwards."*

Climate Change and Director Duties Legal opinion – Noel Hutley QC

"…the expectation will be for the ***whole board to have demonstrable fluency in how climate risk affects the business and management's approach to adapting and mitigating the risk****."*

Legal implications and investor expectations

Legal implications

- In Europe, France has implemented regulation requiring the financial sector to report on financed emissions and climate change risks
- In the US, companies such as Exxon Mobil have faced legal action relating to climate-related disclosures
- In Australia, CBA currently faces a legal action for not disclosing a true and fair view of its financial statement by not including climate change risk disclosures in its annual report

Shareholder resolutions

- Activist shareholder groups and some large institutional investors are initiating or voting for shareholder resolution aimed at improving climate-related disclosures aligned to the TCFD Recommendations

US	Europe	Australia
2017 - AES (42% vote in 2016)	Passed - Statoil (99% vote in 2015)	AGL (5% vote 2015 but reported in 2016)
2017 - Chevron (41% vote in 2016)	Passed - BP (98% vote in 2015)	Passed - Rio (99% vote in 2016)
Passed - Exxon Mobil (63% vote in 2017)	Passed - Shell (99% vote in 2015)	2017 – Origin (contingent resolution, not passed)

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Legal implications and investor expectations (cont.)

Resolution 17 - Special resolution – strategic resilience for 2035 and beyond

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2017 includes further information about:

1) Ongoing operational emissions management;
2) Asset portfolio resilience to the International Energy Agency's (IEA's) scenarios;
3) Low-carbon energy research and development (R&D) and investment strategies;
4) Relevant strategic key performance indicators (KPIs) and executive incentives; and
5) Public policy positions relating to climate change.

This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company's Annual Report and Sustainable Development Report.

Climate Disclosures under the Task Force on Climate-related Financial Disclosures (TCFD)

Disclosures objectives

- True and fair view of financial position and prospects
- Annual report should contains all material information reasonably required by investors to make an informed assessment of relevant risks and opportunities
- TCFD Recommendations seek to provide a benchmark of the kind of information that must be analysed and disclosed in order to truly and fairly assess the impact of climate-related financial risks

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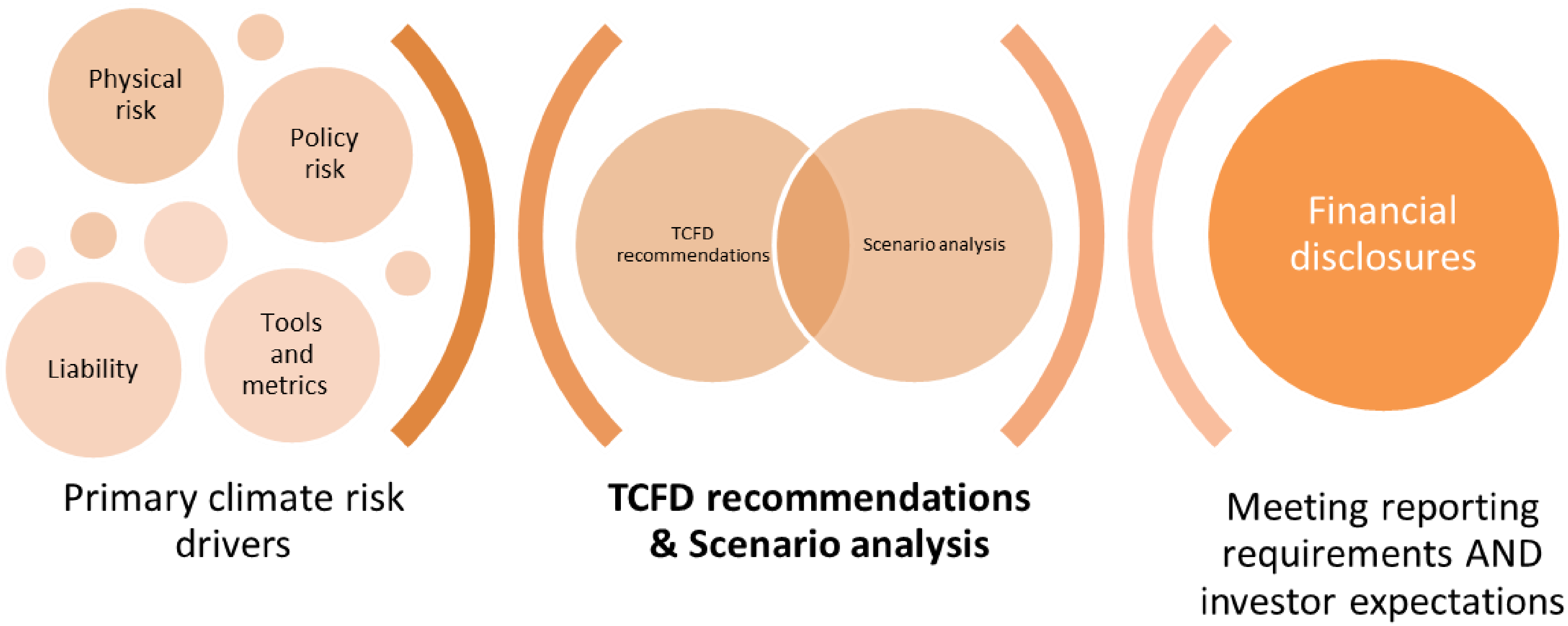
Linking climate risks and reporting requirements – via the TCFD



Climate-related risks, opportunities and financial impact

Source: *Financial Stability Board, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures*, FSB, 2017.

Financial sector disclosures under the TCFD

Financial sector metrics

- Carbon footprinting
- Green/brown
- Engagement/voting
- Ratings/scores
- Scenarios/transition
- Adaptation risks

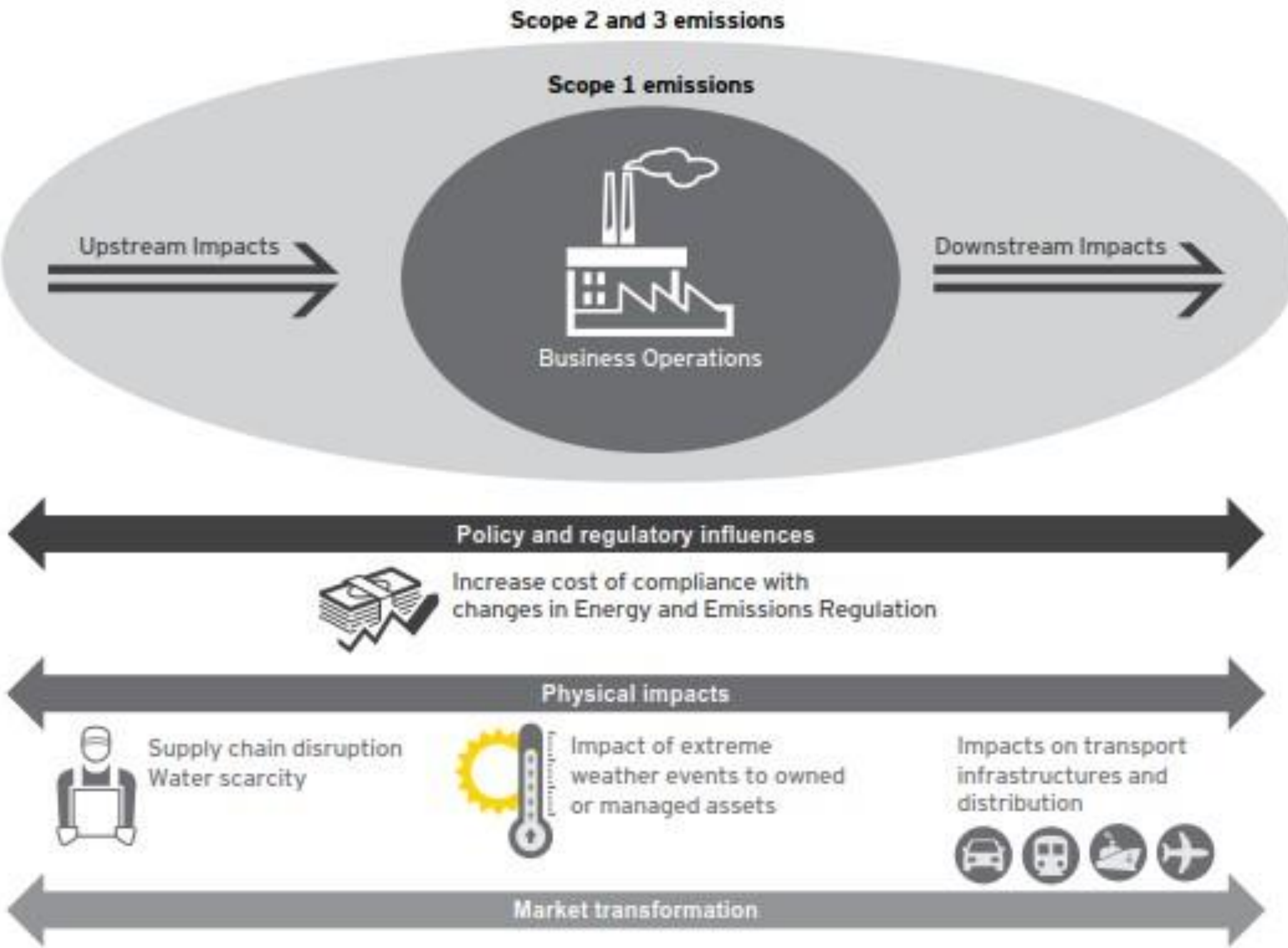
Investors are disclosing their own portfolio intensities using a range of metrics

- Absolute level of emissions
- CO_2 equivalent emissions of the portfolio per $m of market capitalisation, or relative to revenue, EBITDA or other measures
- Generally Scope 1 and 2 emissions
- Scope 3 emissions still largely unreported

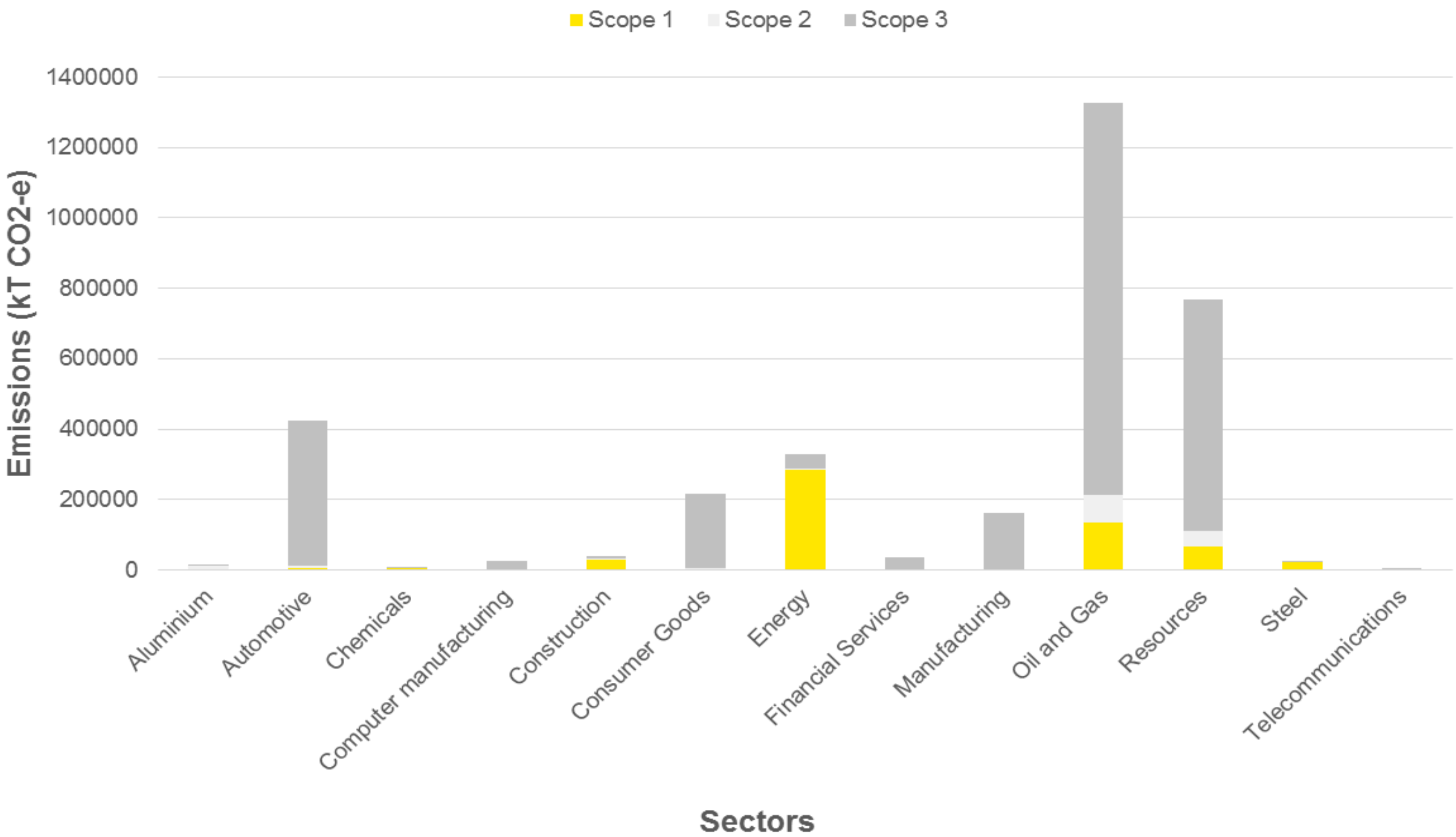
TCFD portfolio emissions intensity metric recommendations

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i}\right)$$

Pervasive nature of climate risks for an organisation



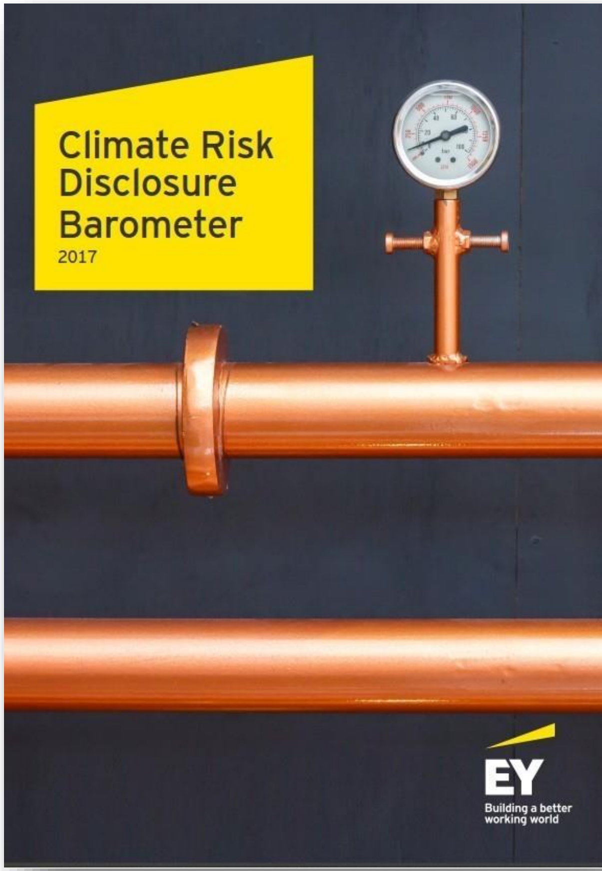
Scope 3 emissions are significantly greater than scope 1 and 2 for the oil and gas, resources, goods and services and automotive industries



Source: EY analysis

How are oil and gas companies responding?

EY's Climate Risk Barometer
A sectoral benchmarking analysis against FSB draft Recommendations



	Sectors identified by TCFD most exposed to risk	Climate Disclosure Barometer sectors	Number of companies reviewed
Financial	Banks	Banks	8
	Insurance companies	Insurance companies	6
	Asset owners*	Asset owners and asset managers*	32
	Asset managers*		
Non-Financial	Energy	Energy	14
	Transportation	Transport	10
	Materials and buildings*	Materials, chemicals and construction	19
		Buildings	23
		Mining and metals	22
	Agriculture, food, and forest products	Agriculture, food, and forest products	16

** For the purposes of this report, these sectors were re-grouped where distinctions between categories could not be determined or where further sub-sector analysis was useful.*

Energy sector performance (Australia)

31% Energy Sector performance against Recommendations

- 33% Governance
- 30% Strategy
- 27% Risk management
- 30% Targets and metrics

17%

average performance of oil and gas companies

O&G companies scored lower than the broader energy sector across all areas

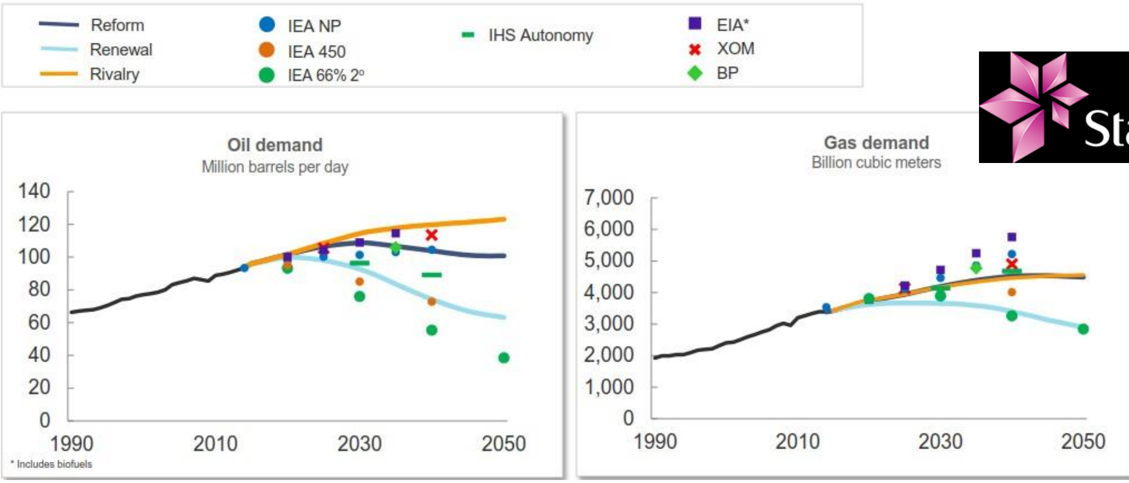
A number of company's have committed to pursuing the TCFD recommendations in 2018, including conducting and disclosing analysis of performance in a 2° scenario

International - Institutional investor engagement driving change

Most large oil and gas companies have committed to disclosing financial impacts in line with TCFD recommendations on portfolio resilience and 2°C transition planning

	Disclose 2˚C/ 450ppm scenario analysis	Quantify financial impacts of 450ppm scenario	Set emission reduction targets
Statoil	✓	✓	✓
Total	✓	✓	✓
Eni	✓	✘	✓
Shell	✓	✘	✘
BP	✓	✘	✘
ConocoPhillips	✓	✘	✓
Chevron	✓	✘	✓
ExxonMobil	✘	✘	✘

Best practice examples



Statoil

*"We have set an **internal carbon price of at least USD50** per tonne of CO2 for all projects."*

Scenario analysis

"In 2016, the result of the IEA stress test was a **positive impact of 6%** on the net value of the total portfolio, compared to using our own planning assumptions."*

**IEA 450*

eni

Metrics &Targets

-43%

E&P GHG Emission intensity rate[a] by 2025 vs 2014

[a] E&P GHG emissions on gross operated production of hydrocarbons

50%

Over 50% of natural gas

equity production on total hydrocarbons

463 MW

Installed power

from renewables by 2020
Investments of €0.55 billion

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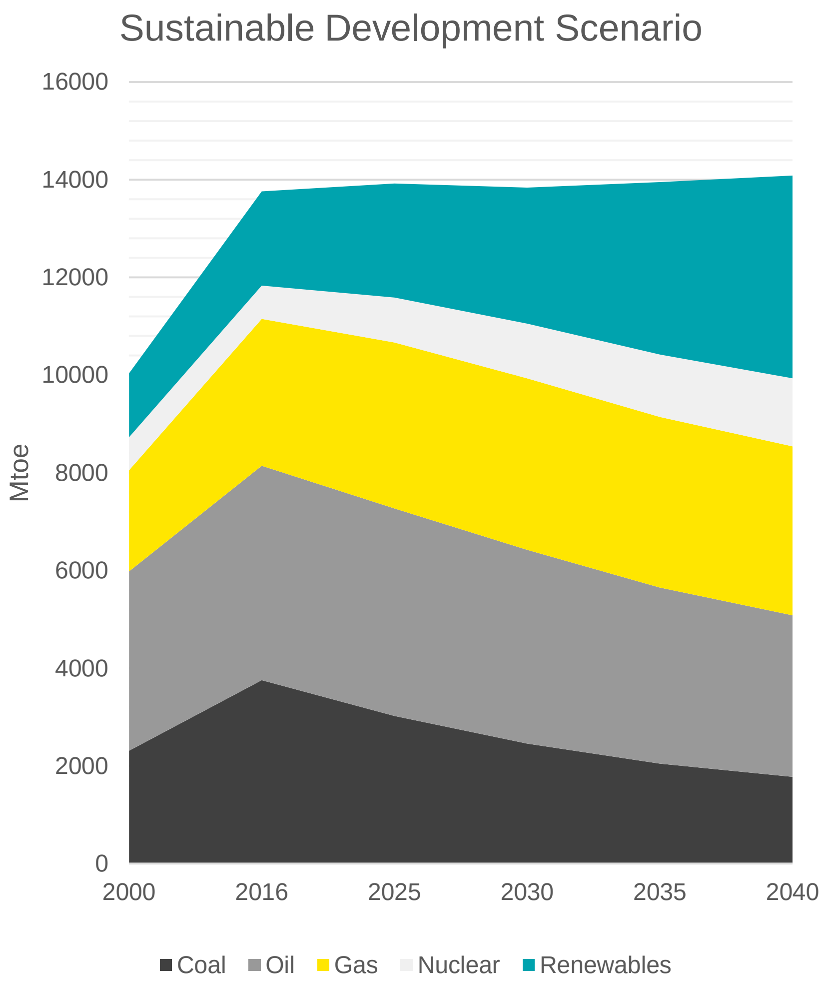
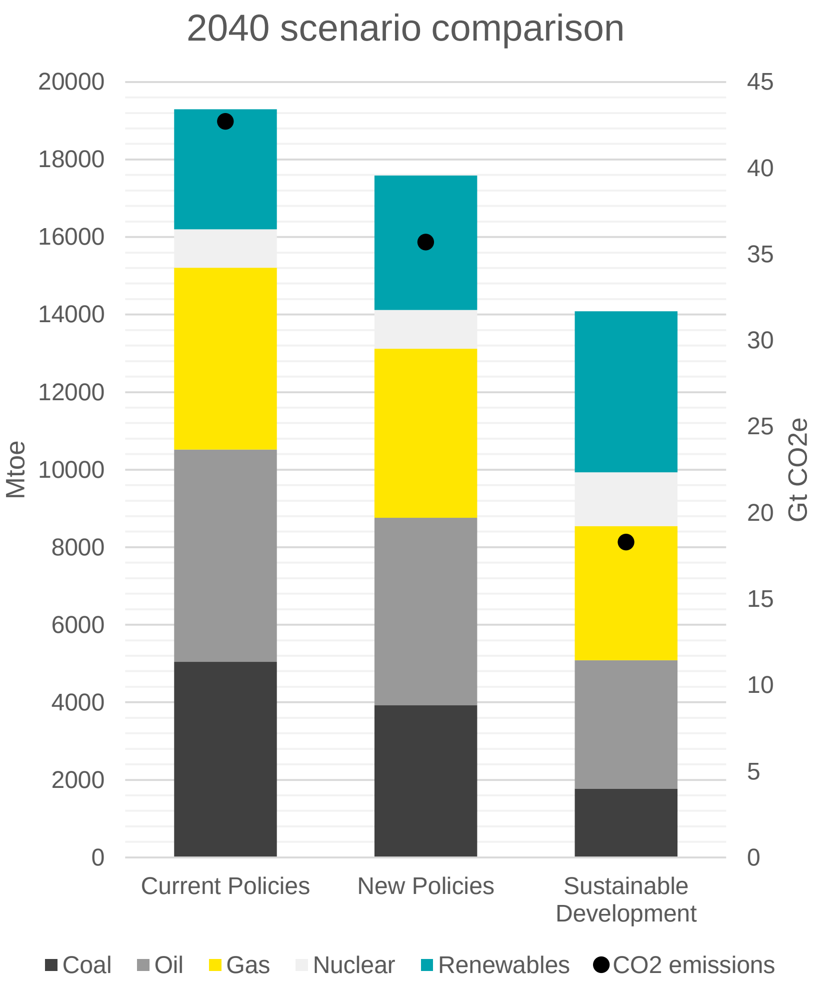
Responding to the challenge

IEA World Energy Outlook 2017





Source: IEA,EY Analysis.

Getting started - Questions CEOs and CFOs should ask

? ? ? ? ? ? ? ?

1

What are our governance and risk management processes for assessing the financial implications of climate change risk?

2

In what ways will climate change risk impact the organization?

3

Under a business-as-usual and “two degree” scenario what are the magnitude of these financial impacts?

4

Are these financial impacts material and if so how are they disclosed in financial filings?

5

If no, are governance and risk management processes disclosed to show these risks have been assessed?

Potential steps to implement the TCFD recommendations

Year 1

Gap analysis and review

- Gap analysis against TCFD recommendations
- Review internal decision making criteria – internal carbon price
- Review scenario analysis, alignment of corporate demand/pricing assumptions with 2^{o}C scenario

Year 2

Implementation and scenario analysis

- Governance and risk management
- Scenario analysis implemented as part of portfolio optimisation process
- Financial impact of physical risk of climate change considered

Year 3

Integration and disclosure

- Climate risk integrated into corporate strategy
- Financial disclosures in financial reports

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