Transitions to Low GHG Futures Workshop
Perspectives from Practitioners

Malcolm Fawcett, Director, Climate Change
Chairman, Climate Change Group, ipieca

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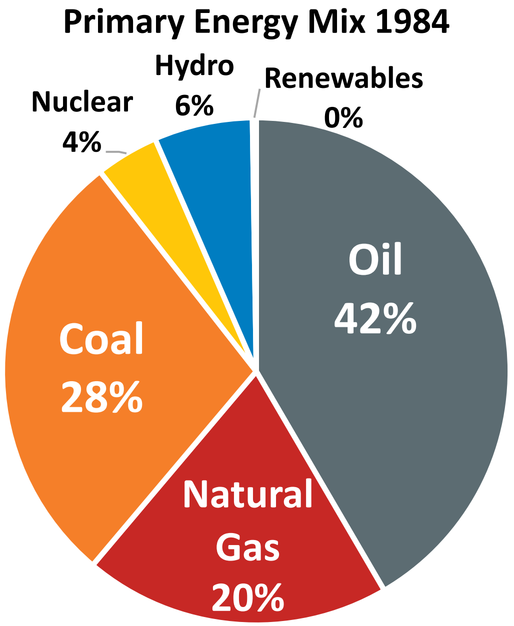
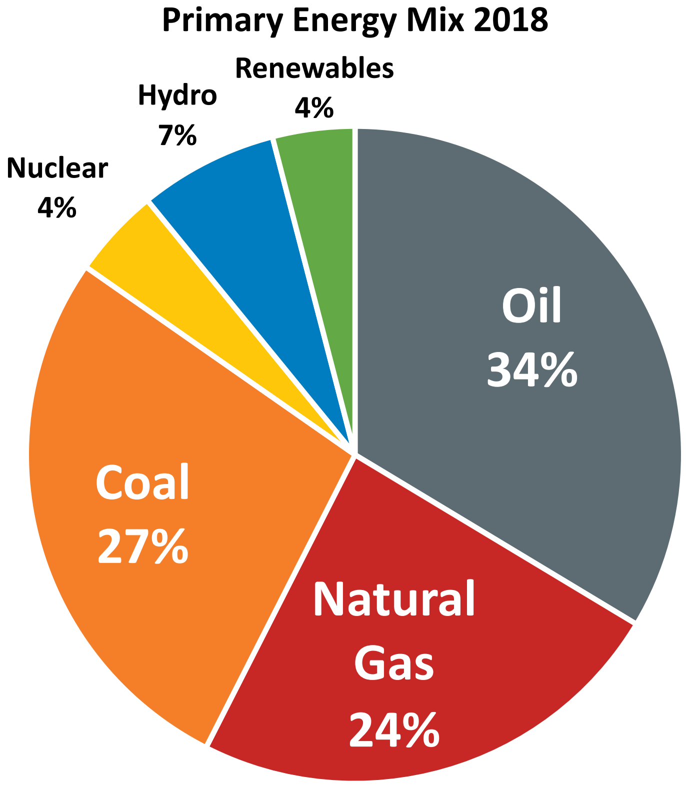
Preface: Rapid Transition to Low GHG Futures



Fossil Fuel Share = 89%

Consumption = 7 MMTOE



Fossil Fuel Share = 85%

Consumption = 14 MMTOE

- Energy Demand increase = 100%
- Non-carbon share of increase = 20%
- CO_2 emissions increase = 80%

Source: [BP Statistical Review of World Energy 2019]

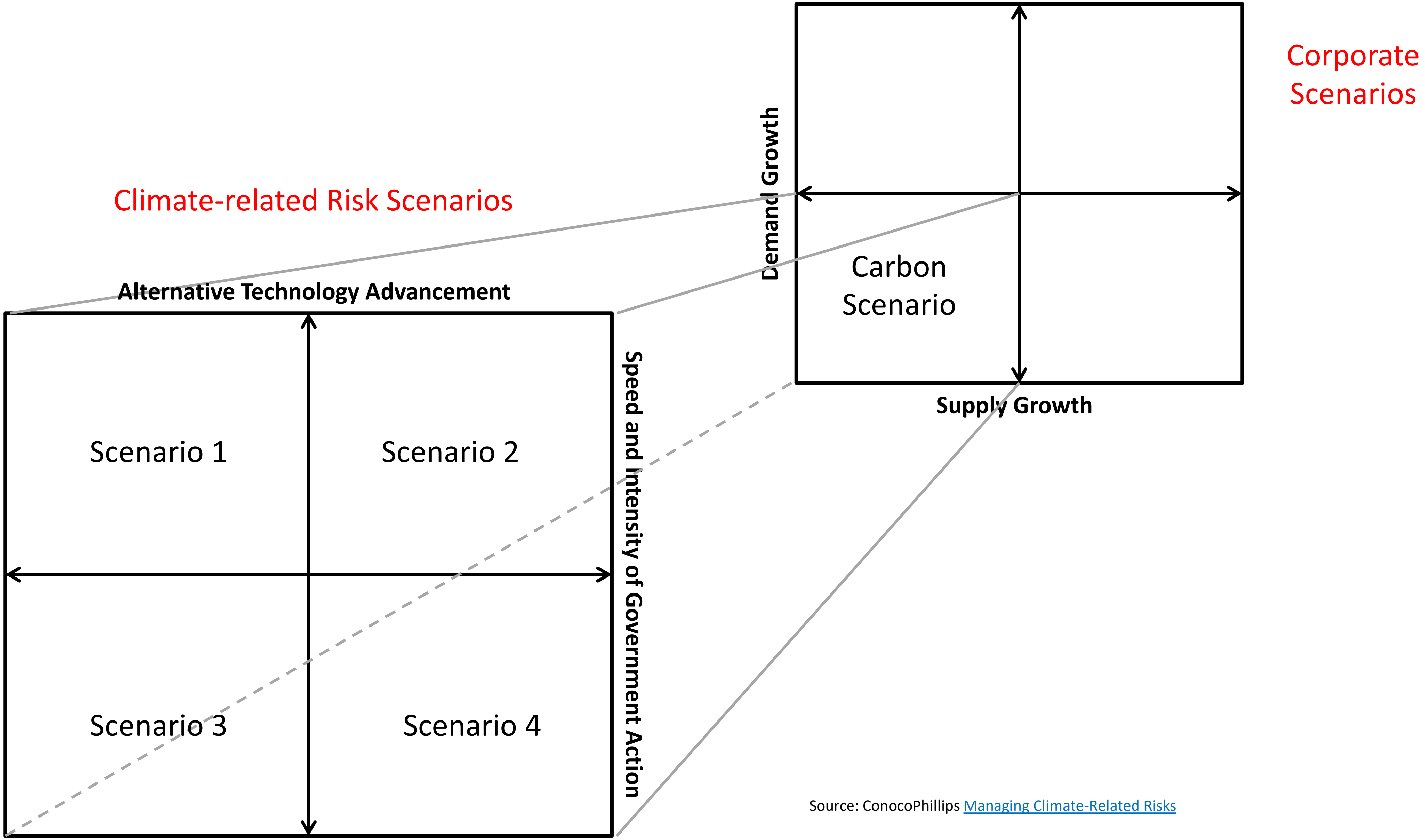
Climate-related Risks

- **Transition Risks**
  - **Policy and Legal Risks**
    - Regulation
    - Legislation
    - Litigation
  - **Technology Risk**
    - Competing: Renewables; batteries;
    - Complementary: Carbon capture and storage; Direct Air Capture
  - **Market Risk**
    - Shifts in supply and demand for oil and gas
  - **Reputation Risk**
    - Changing perceptions – consumers, finance, society

- **Physical Risk**
  - **Acute Risks**
    - Severe weather events
  - **Chronic Risks**
    - Sea level rise, sustained temperature changes

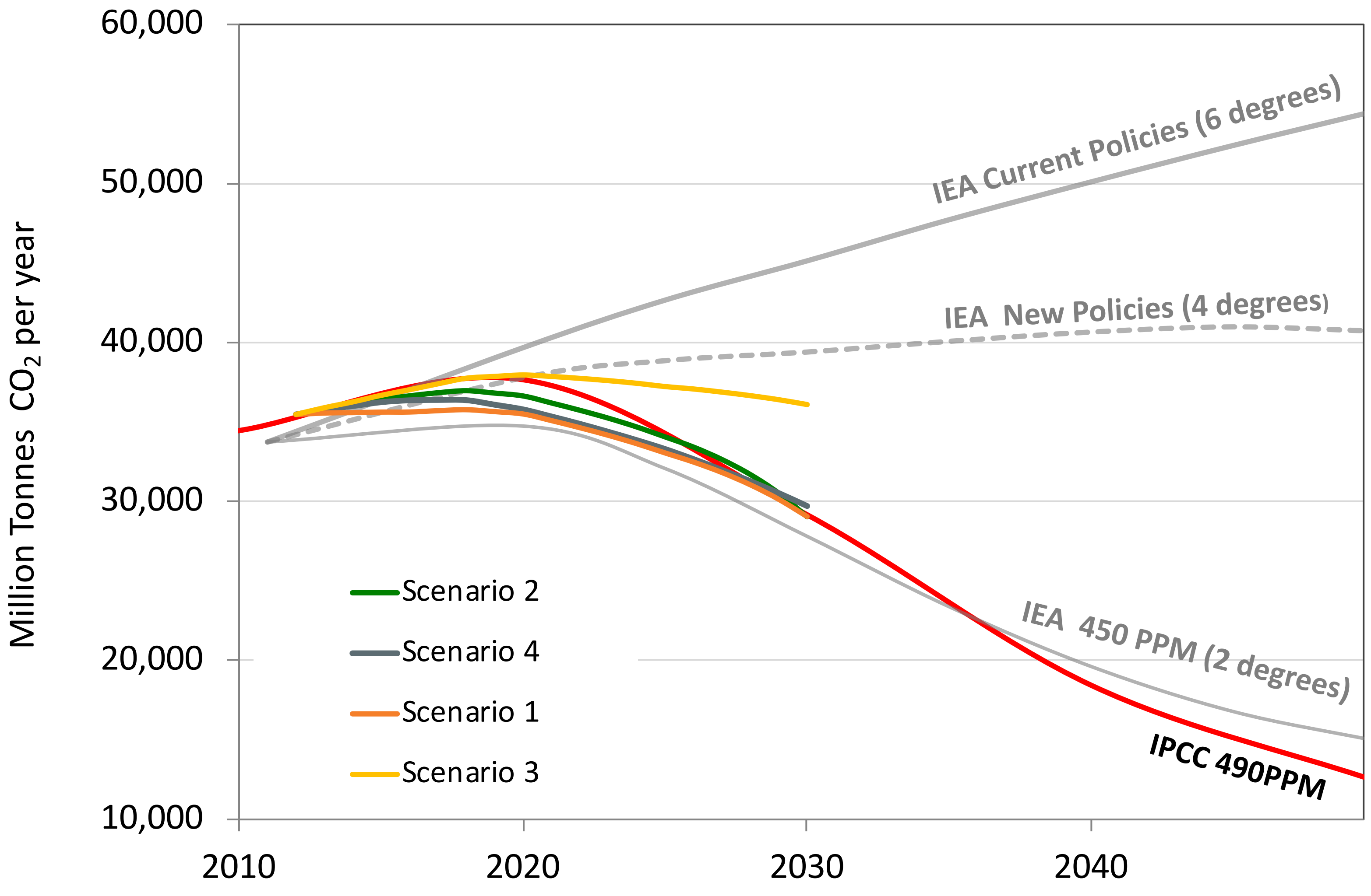
Source: [TCFD Recommendations of the Task Force on Climate-related Financial Disclosures]

From Corporate to Climate Risk Scenarios



Source: ConocoPhillips [Managing Climate-Related Risks]

Technical Needs



- Range of:
  - feasible emission trajectories
  - energy supply/demand
  - energy supply mix
  - GDP growth
  - infrastructure cost
  - carbon 'price'
  - energy prices
- Horizon: to 2040/2050
- Regional view (e.g. North America; Europe; Australia; South East Asia)
- Policy & technology changes
- Speed & scale of risk vector changes

Source: IEA (International Energy Agency), IPCC (Intergovernmental Panel on Climate Change), COP Primary Energy Model

Source: ConocoPhillips [Managing Climate-Related Risks]

Approaches

- Managing Climate-Related Risks – *Building a resilient strategy for the energy transition*

- **Structure:**
  - CEO Letter (General introduction)
  - Introduction (Purpose, structure and scope)
  - Governance Framework
  - Strategy
  - Risk Management
  - Metrics & Targets

Source: ConocoPhillips Managing Climate-Related Risks

Challenges

- Use of a single reference cast to aid comparability of scenarios
  - Infinite pathways v. groupthink
  - Developer bias v. objectivity
  - Analysis & understanding v. acceptance
- Disclosure of commercially sensitive information (assumptions and parameters)
  - Forward-looking information (market share/prices)
  - Discount rate/GDP assumptions
  - Strategic response to future risk
- Capital reallocation timing
  - Turnover of assets
  - Speed of reaction
- Non-optimal use of scenario analysis
  - Quasi-forecast v. strategy stimulus
  - Importance of scenario monitoring

Source: The role of scenario analysis in climate reporting http://www.ipieca.org/resources/

Summary

- A range of climate-related scenarios can be useful in identifying and assessing climate-related risks
- The use of a single climate-related scenario, while aiding comparability across companies, may be misleading
- A range of diverse, plausible scenarios is more helpful in understanding risk
- The power of scenarios is in building them and understanding the strategic insights they offer
- There may be other metrics which give a better indication of risk e.g. Cost of Supply, Sustaining Price and Portfolio Diversity

Note:
Cost of Supply is the oil price necessary to generate a 10% after tax rate of return on a point-forward and fully burdened (including exploration, midstream infrastructure, facilities cost, price-related inflation, FX impact, and regional and corporate overheads.
Sustaining Price is the oil price that generates enough cash flow to maintain flat production and grow the dividend.
Portfolio Diversity refers to the ability to reallocate capital between geographies and hydrocarbon plays.