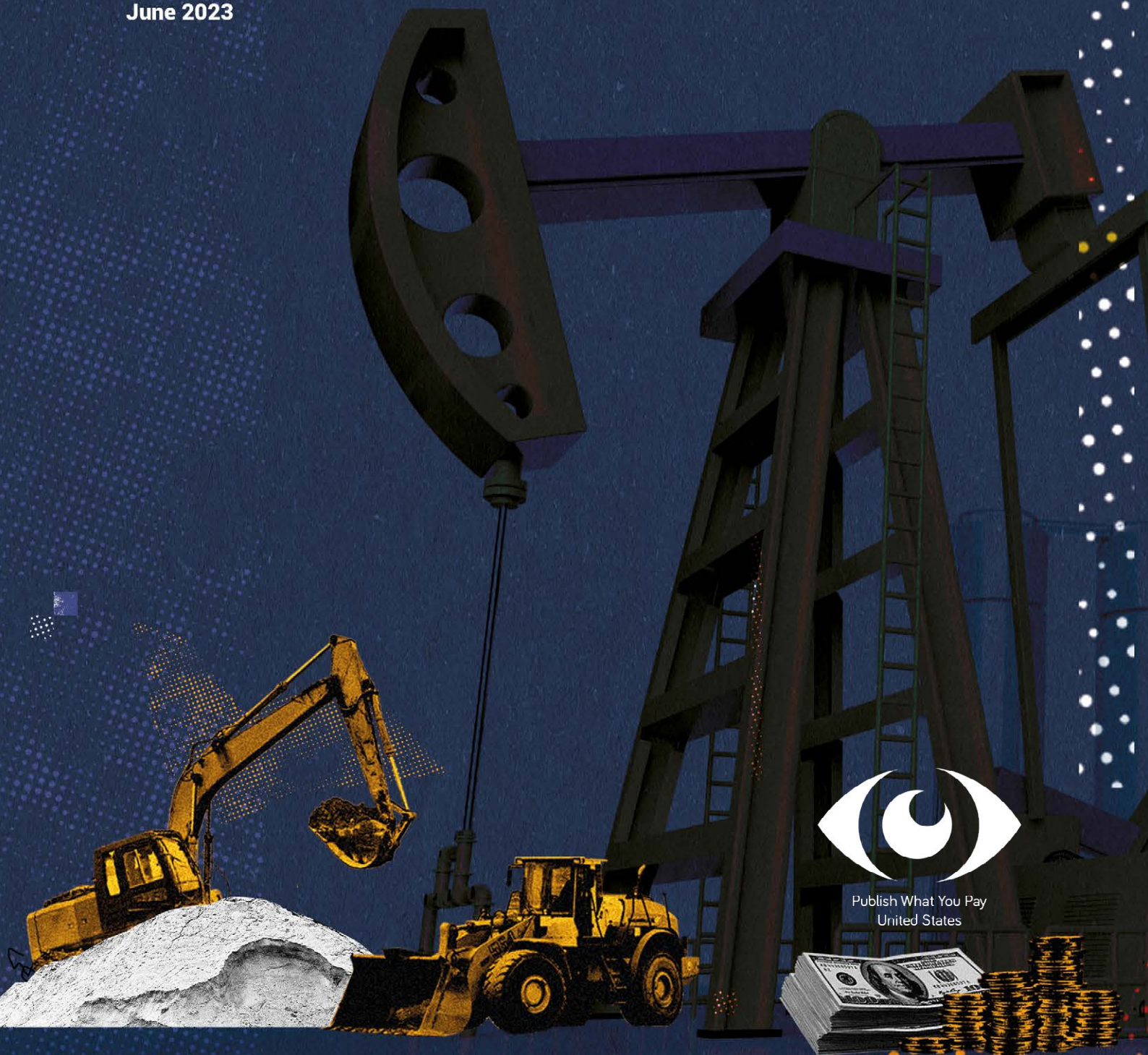


PUBLISH YOUR PLANS:

- The Disclosures Needed to
- Support a Managed Decline of Oil and Gas Production and an Informed Energy Transition

Publish What You Pay – United States

June 2023



Publish What You Pay
United States



EXECUTIVE SUMMARY

There is a global consensus among policymakers, scientists, financial institutions, and market regulators that the physical manifestations of climate change will devastate communities, ecosystems, and economies. As the global temperature increases, droughts, storms, heat waves, and other extreme weather phenomena will become more frequent and severe, causing the associated costs – both environmentally and financially – to continue to rise and compound.

Fossil fuel production is the leading contributor of greenhouse gas (GHG) emissions, which is speeding up global warming. Countries around the world must prioritize phasing out fossil fuel production as we navigate the path towards limiting global warming. The transition to a low-carbon economy has begun and will have sweeping impacts on nearly every corner of the global economy as future regulations and changes in consumer demand impact how energy is sourced and used. It is essential that action be taken now to steward an orderly and well-managed energy transition.

Meaningful reporting by companies is not happening on the scale or the pace the current crisis requires.

Despite the urgent need to decarbonize, critical information about how oil and gas companies are planning for the energy transition and making decisions about which projects to develop is limited. This means stakeholders like policymakers, citizens in petroleum-rich countries, advocates and investors are navigating the energy transition without the necessary disclosures needed to prepare effectively for a well-managed energy transition that benefits everyone. This handbook addresses this information gap and identifies key categories of information oil and gas companies must disclose that are essential for understanding, assessing, and managing climate risk specific to the oil and gas sector.



What is climate risk?

Climate-related financial risk, or climate risk, refers to the potential negative impacts of climate change on businesses, investments, and financial markets. These include physical risks, such as damage to assets from extreme weather events; transition risks, such as policy changes and shifts in market demand towards low-carbon alternatives; and liability risks, such as lawsuits and legal action related to environmental damage. These risks can lead to

reduced profitability, stranded assets (described in Box 4), and reputational damage, among other consequences. Climate risk impacts every sector of the economy and demands a coordinated and widespread response.

Effective climate-related financial risk management involves identifying and assessing climate risks, integrating them into business strategies and decision-making processes, and disclosing relevant information to stakeholders about the anticipated financial impacts and how the company plans to mitigate them. By proactively managing climate risks, businesses and investors can reduce their exposure to potential financial losses and contribute to a more sustainable and resilient global economy. Climate risk is shared globally, leaving the vast majority of companies across all sectors vulnerable to varying degrees of risk. These risks may manifest as physical disruptions such as rising sea levels and severe weather that damages infrastructure, increased operating costs, and heightened compliance liabilities as regulatory ecosystems evolve.

The transition to a low-carbon economy is already underway in energy markets and will result in lower demand for fossil fuels as renewable energy sources become cheaper and more readily accessible; however, this transition is not happening quickly enough to lessen or prevent significant climate-related damage.

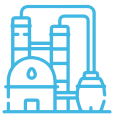
¹ Based on the latest forecasting about the impacts of global warming and the necessity of decarbonizing, all companies, especially those in the oil and gas sector, must prepare for major market disruptions. This poses enormous risks to all those financially entwined with oil and gas companies, including shareholders, communities impacted by extraction, and governments heavily dependent on fossil fuel revenues.



Climate risk is shared globally, leaving the vast majority of companies across all sectors vulnerable to varying degrees of risk.



The disclosures recommended by this handbook will enable a broad spectrum of stakeholders to examine how current practices – even those marketed as environmental initiatives – delay meaningful progress and distract from ongoing reckless behavior. Importantly, this handbook also opens the door for dialogue on important new policy decisions.



Why focus on the oil and gas industry?

The fossil fuel industry's response to the climate crisis has so far been characterized by intransigence and deception.² Despite the urgency of the climate crisis, and the need to phase out heavily polluting oil and gas production, the industry plans to expand production over the next decades. These plans are fundamentally incompatible with the energy transition and greater disclosure is necessary to allow stakeholders to scrutinize companies' decision-making.

In response, regulators around the world have started working on new laws and regulations to require companies to disclose more information relating to climate-related financial risk. In the absence of such rules, global standard-setting bodies, like the Task Force on Climate-Related Financial Disclosures (TCFD), have developed new guidance for companies on the types of information they should voluntarily disclose. But while these efforts are evidence of some movement in the right direction, detailed, meaningful reporting by companies is not happening on the scale or pace the current crisis requires. Further, regulators are not looking at oil and gas climate-related risks specifically, yet the oil and gas sector presents particular challenges with respect to climate risk, so sector-specific disclosure rules are needed to address these challenges.

This fundamental information gap must be addressed. Without meaningful, comprehensive, and standardized reporting available to scrutinize oil and gas companies' planning and decision-making, a wide variety of stakeholders face significant challenges in being able to play their role in supporting a well-managed energy transition. Beyond the need for greater disclosure, the information that is disclosed must be appropriately disaggregated to enable citizens and policymakers to better assess risk at a national or local level, and to better understand the potential impacts and benefits of new projects that are being developed. At the moment, climate-related risk information is typically disclosed on a globally aggregated level, or at a company-wide level, which is not useful to all stakeholders.

Citizens in resource-rich areas, civil society, policymakers, and shareholders are currently unable to determine the risks they face from the information that oil and gas companies currently publish, and more detail is needed to adequately prepare for an energy future that does not repeat the same governance mistakes that have plagued extractive industry operations for decades.



The industry's response has largely focused on aspirational marketing rather than good-faith efforts to prepare for a managed decline of fossil fuel production.



The industry's response has largely focused on aspirational marketing rather than good-faith efforts to prepare for a managed decline of fossil fuel production.³ Though net zero pledges and other climate-related commitments are on the rise, "most companies still do not appear to be including the financial impacts of such commitments, or indeed climate change risks, in their financial statements," according to an analysis by Carbon Tracker.⁴

Given the role of emissions from the oil and gas sector in driving global warming, there is no question that the energy transition will mean a wholesale transformation of the sector. For oil and gas companies, the reality is that "their business model fundamentally depends on [future] emissions being released."⁵ The ability of market participants, regulators, and the public to effectively measure and manage these unprecedented risks, however, is hindered by the lack of information from corporations about climate-related financial risk and their plans to address these risks.





CRITICAL INFORMATION THE OIL AND GAS SECTOR MUST BE REQUIRED TO DISCLOSE

To address this information asymmetry, the Publish Your Plans handbook describes specific disclosures that the oil and gas sector⁶ should be required to disclose about its climate-related financial risks⁷ to adequately inform a well-managed energy transition. Our analysis concludes that the following are the disclosures that provide the most meaningful transparency and should therefore be the biggest priorities for disclosure requirements.

Publish What You Pay-United States (PWYP-US) and its allies urge oil and gas companies to disclose this information and urge investors and other stakeholders to demand greater transparency from them. We also encourage regulators and standard-setters around the world to integrate these sector-specific disclosures into their requirements and to facilitate the emergence of harmonized and comprehensive oil and gas climate risk disclosures.

These recommendations represent the kinds of information that are essential for oil and gas companies to disclose to publicly demonstrate – and to generate public confidence in – their ability to effectively assess and manage climate-related financial risk.

Oil and gas reserves information provides important insight into a company's future production plans and a country's potential oil and gas supply.

RECOMMENDATION 1 TRANSITION PLANS

An effective transition plan should describe how a company is planning to update its business model and operations in the context of the energy transition and “[is] of particular interest to a wide-range of users, especially when they are seeking to verify the credibility of organizations’ commitments related to climate change.”⁸ The TCFD recommends that transition plans “articulate specific initiatives and actions the organization will undertake to effectively execute the transition plan, including regular milestones.”⁹ Effective transition plans should also explain the governance structures in place to oversee the plans, which should also be regularly reviewed and updated. Lastly, transition plans should be aligned with the company’s overall business strategy to ensure integration with other elements of the company’s operations. Ultimately, effective transition plans should be sufficiently detailed to “enable users to assess its credibility.”¹⁰



Effective transition plans should also explain the governance structures in place to oversee the plans, which should also be regularly reviewed and updated.



RECOMMENDATION 2 OIL AND GAS RESERVES INFORMATION

Oil and gas reserves are known resources that may be extracted in the future if found to be economically viable. Broadly, information about oil and gas reserves allows stakeholders to assess the value of production decisions in the context of the carbon budget and related climate policies. Information about oil and gas reserves, including emissions embedded in reserves (see Recommendation 3) can also be used to discern the carbon emissions footprint of planned or future projects.

Oil and gas reserves information provides important insight into a company’s future production plans and a country’s potential oil and gas supply. In particular, companies should be disclosing information about probable and possible reserves as well as the methodology and underlying reasoning used to value reserves. This helps stakeholders to more effectively compare reserve assets and estimate the cost of exploring, developing, and extracting specific volumes of oil or gas. Reserve reports should also provide information about the anticipated pre-tax net cash flows that could be produced from different types of reserves. To provide the necessary information for stakeholders to assess the profitability of specific projects, companies should also be disclosing information about project break-even prices (see Recommendation 6) and price sensitivity analyses (see Recommendation 7), which are described below.

RECOMMENDATION 3 EMISSIONS EMBEDDED IN RESERVES

Emissions embedded in reserves refers to the amount of GHG emissions that would result from production and combustion of a particular reserve. This information represents a subset of information about oil and gas reserves and can be calculated simply by multiplying reserve quantities with their corresponding IPCC Effective CO₂ Emissions Factor.¹¹ This recommendation aligns with the TCFD’s Energy Group guidance which recommends that relevant firms in the oil and gas, coal, and electrical utilities sectors disclose a “breakdown of reserves by type and an indication of associated emissions factors to provide insight into potential future emissions.”¹²

Emissions embedded in reserves data also provides a straightforward shorthand for the oil and gas sector’s Scope 3 GHG emissions data, which represents between 80 percent and 95 percent of total GHG emissions.¹³ Importantly, emissions embedded in reserves data also allows stakeholders to estimate the entire future emissions potential from an oil and gas company’s portfolio of reserves, whereas Scope 3 emissions data represents emissions in a finite time-frame.

RECOMMENDATION 4 GHG EMISSIONS ON A PROJECT-LEVEL BASIS

Companies’ GHG emissions are categorized into three scopes, as discussed in Box 7. Scope 1, 2 and 3 GHG emissions intensity varies markedly across oil and gas production projects, therefore GHG emissions disclosures on a project-level basis would allow stakeholders to evaluate the specific emissions intensity of individual projects, as defined in Box 5. Oil and gas companies should be reporting annually on Scope 1, 2 and 3 GHG emissions on a project-level basis, both in terms of emissions intensity and emissions in absolute terms.

Data at this level of granularity is so useful that companies such as ExxonMobil are already sharing it with company decision-makers.¹⁴ By requiring companies to disclose emissions data at the project level, stakeholders would be better equipped to identify high-risk projects that are more likely to become stranded assets as the world transitions to a low-carbon economy.

Reporting on project-level GHG emissions differs from reporting on emissions embedded in reserves because the former captures actual emissions data, whereas the latter relates to the future emissions potential of specific oil and gas reserves.



Comprehensive disclosures are needed from the oil and gas industry in particular to inform decision making, protect investors, and facilitate transparent communication between governments, industry stakeholders, and fossil fuel-dependent communities.



RECOMMENDATION 5 CRITICAL FINANCIAL ASSUMPTIONS AND ESTIMATES

There are a number of different variables – referred to as critical financial assumptions and estimates – that are used in calculating key financial indicators that make up a company’s financial outlook. According to Carbon Tracker, “climate-related matters such as declining demand for oil and gas, the switch to renewable energy for power, regulations to limit emissions, and the phase out of internal combustion engines can directly and significantly affect financial statement results.”¹⁵ These variables can greatly impact current financial reporting because many of the figures in the financial statements inherently include estimates and assumptions about the future.

Key assumptions and estimates that are critical for fossil-fuel companies to disclose include the commodity prices used in financial accounting, information about anticipated supply and demand, estimates about the remaining useful lives of assets used in forecasting revenue, variables used in impairment testing and the estimated costs used to calculate asset retirement obligations (AROs). Without this information, it is extremely difficult for stakeholders to interpret and compare reporting made by competitors or properly vet companies’ assumptions and estimates to ensure they are in line with external indications.

RECOMMENDATION 6 PROJECT BREAK-EVEN PRICES

The disclosure of project break-even prices – the price point at which a project is no longer profitable – is critical to enable stakeholders to fully and meaningfully evaluate project profitability (including the risk of stranded assets in a company’s asset portfolio) and determine project compatibility with Paris-aligned transition pathways and other scenarios.

RECOMMENDATION 7 PRICE SENSITIVITY ANALYSIS

Price sensitivity is the degree to which the price of a product affects consumers’ purchasing behaviors. Generally speaking, this is how demand changes with the change in the cost of products. To show how a company’s reserve valuation would perform under different price scenarios, companies should be required to disclose a price sensitivity analysis. Assuming the company also discloses price information and the assumptions on which the reserve estimates are based, a price sensitivity analysis would help all stakeholders assess the feasibility of developing specific reserves and would also provide stakeholders with a better view of the company’s analysis of future prices.



A majority of fossil fuel companies did not disclose the basic quantitative estimates and assumptions that were used to prepare their financial statements.



Endnotes

- 1 IPCC, "Climate Change 2023," Synthesis Report of the IPCC Sixth Assessment Report (AR6), Summary for Policymakers, 2023, pp. 8-9, <https://www.ipcc.ch/report/ar6/syr/>
- 2 In 2022 major news outlets including the New York Times reported on leaked emails from ongoing congressional investigations into the oil and gas industry. The reporting reveals that internal communications undermined purported climate action within major oil and gas firms, including Exxon, Shell and Chevron. See for example Gabbatiss, Josh, "Oil Majors 'Not Walking the Talk' on Climate Action, Study Confirms," Carbon Brief. February 16, 2022, <https://www.carbonbrief.org/oil-majors-not-walking-the-talk-on-climate-action-study-confirms/>; see also Tabuchi, Hiroko, "Oil Executives Privately Contradicted Public Statements on Climate, Files Show," The New York Times, September 14, 2022, <https://www.nytimes.com/2022/09/14/climate/oil-industry-documents-disinformation.html>; see also Hernandez, Joe. "Accusations of 'greenwashing' by Big Oil Companies Are Well-Founded, a New Study Finds." NPR, February 16, 2022, <https://www.npr.org/2022/02/16/1081119920/greenwashing-oil-companies>
- 3 Gabbatiss, Josh, "Oil Majors 'Not Walking the Talk' on Climate Action, Study Confirms," Carbon Brief. February 16, 2022, <https://www.carbonbrief.org/oil-majors-not-walking-the-talk-on-climate-action-study-confirms/>
- 4 Carbon Tracker, "Still Flying Blind: The Absence of Climate Risk in Financial Reporting," October 6, 2022, pg. 9, <https://carbontracker.org/reports/still-flying-blind-the-absence-of-climate-risk-in-financial-reporting/>
- 5 Carbon Tracker, "Absolute Impact 2022: Why Oil and Gas Companies need Credible Plans to meet Climate Targets," Analyst Note, May 2022, pg. 12, <https://carbontracker.org/reports/absolute-impact-2022/>
- 6 Throughout this handbook, any references to the oil and gas sector, unless otherwise specified, is specific to upstream oil and gas company operations, as oil and gas production is most closely linked to increasing global heating.
- 7 In the context of this handbook, climate risk refers to the financial risks associated with climate change, unless otherwise specified. These risks include the financial costs associated with the physical impacts of climate change, asset stranding, and misleading investors, policymakers and civil society.
- 8 TCFD, "Guidance on Metrics, Targets, and Transition Plans, October 2021, pp. 39-40, https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf
- 9 Id. at pg. 41
- 10 Id.
- 11 This methodology is recommended by the US Environmental Protection Agency and the oil industry sustainability association IPIECA and forms the basis for Exxon's Scope 3 emissions disclosures. See US EPA, "Emission Factors for Greenhouse Gas Inventories," <https://www.epa.gov/sites/production/files/2020-04/documents/ghg-emission-factors-hub.pdf>; see also IPIECA, "Estimating petroleum industry value chain (Scope 3) greenhouse gas emissions," Overview of methodologies, <https://www.ipieca.org/resources/good-practice/estimating-petroleum-industry-value-chain-scope-3-greenhouse-gas-emissions-overview-of-methodologies/>; see also ExxonMobil, "Advancing Climate Solutions Progress Report 2023," 2023, pg. 92, <https://corporate.exxonmobil.com/-/media/global/files/advancing-climate-solutions-progress-report/2023/2023-advancing-climate-solutions-progress-report.pdf>
- 12 TCFD, "Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures, June 2017, pg. 55, <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf>
- 13 Wood Mackenzie, "Few oil and gas companies commit to Scope 3 net zero emissions as significant challenges remain," October 28, 2022, <https://www.woodmac.com/press-releases/few-oil-and-gas-companies-commit-to-scope-3-net-zero-emissions-as-significant-challenges-remain/>
- 14 Matthews, Christopher M. and Emily Glazer, "Exxon Debates Abandoning Some of Its Biggest Oil and Gas Projects," Wall Street Journal, October 20, 2021, <https://www.wsj.com/articles/exxon-debates-abandoning-some-of-its-biggest-oil-and-gas-projects-11634739779>
- 15 Carbon Tracker and PRI, "Flying Blind: The glaring absence of climate risks in financial reporting," September 16, 2021, pg. 2, <https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/>



Publish What You Pay
United States

Website: www.pwypusa.org

Email: info@pwypusa.org

Twitter: [@pwypusa](https://twitter.com/pwypusa)

June 2023

Publish What You Pay – United States is a project of the Fund for Constitutional Government