Ceres

Perspectives on Fossil Fuel Divestment and Shareholder Action

March 19, 2014

Coal Finance 2014

Ceres

Ceres is a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges, such as climate change.

Company Network

More than 80 members in more than 20 sectors

Investor Network

More than 100 members currently representing $10 trillion

The Ceres Coalition

More than 130 organizations including environmental experts, public interest groups, and investors.

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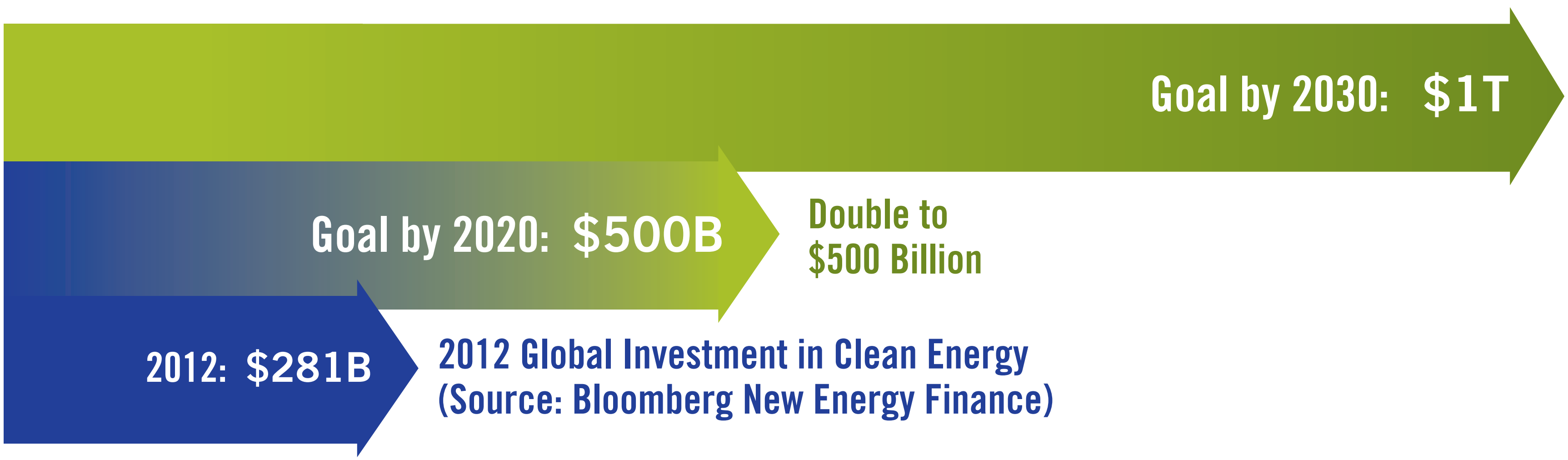
U.S. DEPARTMENT OF ENERGY

"[A] 4 °C warmer world can, and must be, avoided – we need to hold warming below 2 °C."

The World Bank, 2012

Clean Trillion: Closing the Clean Energy Investment Gap

Annual Investments in Clean Energy to Reach 2°C Goal:



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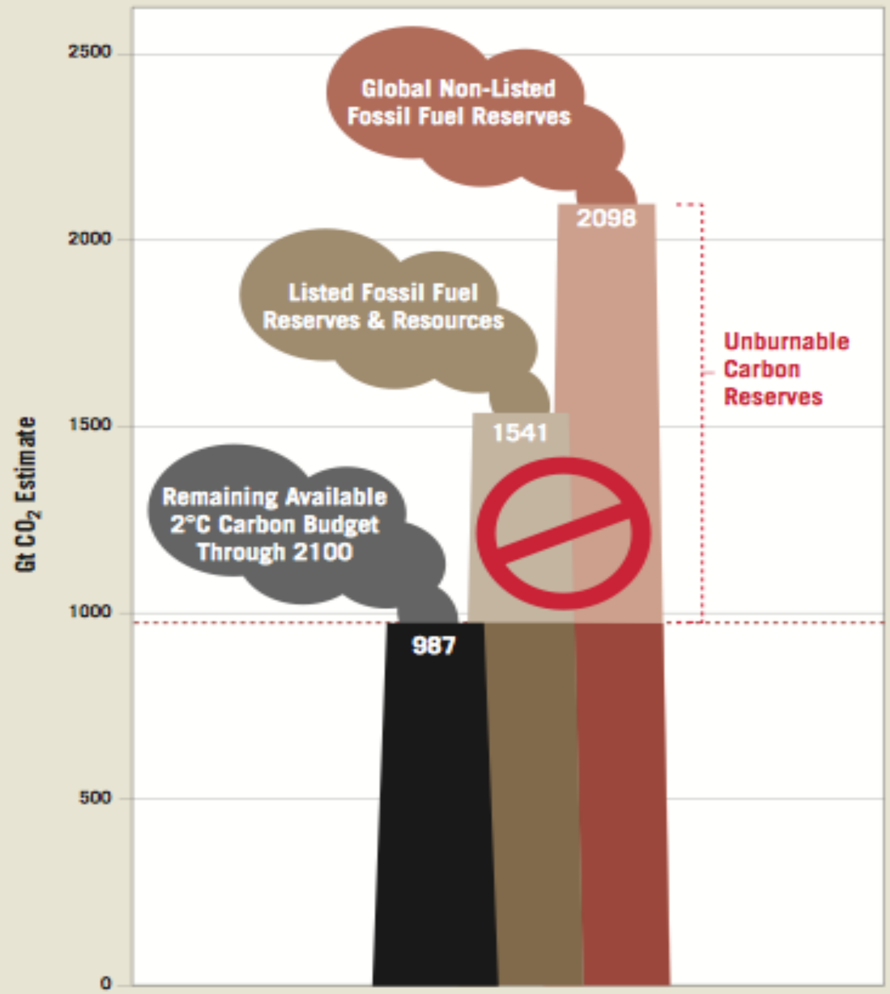
Fossil Fuel Assets at Risk

Unburnable Carbon Reserves



A significant portion of the world's proven global fossil fuel reserves will need to remain in the ground in 2050 if we are to avoid catastrophic levels of climate change. Fossil fuel companies, however, continue to develop reserves that may never be used.

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The Economist

Energy firms and climate change

Unburnable fuel

Even though there are more reserves that we can safely burn, "the CAPEX spent…over the last 12 months by these 200 [fossil fuel] companies totaled US $674 billion."

Carbon Tracker Initiative, 2013

RatingsDirect®

What A Carbon-Constrained Future Could Mean For Oil Companies' Creditworthiness

- Lowering carbon emissions could put future oil and gas developments at risk
- Demand effects may mean lower oil and gas prices, a greater value risk
- Statoil's 'unburnable' reserves amount to 17% of market capitalisation; low costs mean BG has little value at risk

Carbon Asset Risk

- In a world that confronts climate change
  - Any further investment in finding and developing new reserves may be wasted capital
  - Some current reserves are at risk of becoming stranded assets
- Depending on the level of climate change
  - Fossil fuel infrastructure – as well as the economy as a whole – is at risk from the physical impacts of climate change

CAR Investor Letter

- International signatory group of about 70 institutional investors representing $3 trillion
- Sent to 24 oil & gas, 14 coal, and 7 electric power companies globally
- Asks companies to review their business plans under 2˚C and 4˚C scenarios
    - CapEx plans "stress-tested" under different scenarios
    - Risk of stranded assets to unproduced reserves
    - Physical risk of climate change

CAR Investor Letter

- ➡ 28 companies have corresponded with us so far (19 initial responses received, 9 pending)
  - Most outline what companies are currently doing, indicate they are considering our requests, and invite dialogue
  - A few have agreed to our requests
  - A few have basically declined
- ➡ 17 responses are still outstanding

Ceres Shareholder Proposals

- Resolved: Given the growing public concern over climate change, shareowners request THE COMPANY prepare a report by October 2014, omitting proprietary information and prepared at reasonable cost, on the company's goals and plans to address global concerns regarding fossil fuels and their contribution to climate change, including analysis of long and short term financial and operational risks to the company.
- Supporting Statement: We recommend the report include discussion of:
  - Risks and opportunities associated with various low-carbon scenarios, including reducing carbon emissions by 80% by 2050, as well as a scenario in which global coal demand declines due to evolving policy, technology, or consumer responses to address climate change;
  - Assumptions regarding deployment of CCS;
  - How capital allocation strategy accounts for the risks and opportunities in these potential scenarios;
  - Plans to manage these risks, such as reducing the carbon intensity of its assets, diversifying its business by investing in lower-carbon energy sources, or returning capital to shareholders;
  - The Board of Directors' role in overseeing capital allocation and climate risk reduction strategies

Investor Tools

Disclosure and risk assessment - paramount mainstream concerns

- **Carbon Disclosure Project Oil & Gas Module 2014**
  - Scenario analysis based on reducing GHG emissions 80% by 2050 to achieve the 2 degree goal? If not, why not?
  - Implications for capital expenditure plans?
  - Average breakeven cost of current production used to estimate proven reserves?
- **Bloomberg Carbon Risk Valuation Tool**
  - Understand valuation impacts of stranded assets
  - 5 pre-built scenarios layering in price shocks from decarbonization into DCF, XOM -9% ton-40% hit

- https://www.cdp.net/Documents/Guidance/2014/OG-module-reporting-guidance-2014.pdf
- http://about.bnef.com/white-papers/bloomberg-carbon-risk-valuation-tool-2/

Thank You!

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