WHERE FROM HERE?

NAVIGATING THE NEW MARKET

A resource for insights, information, benchmarking and conversation

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Panelists

Carolyn Frantz
Co-Head, Public Companies & ESG Practice

J.T. Ho
Co-Head, Public Companies & ESG Practice

Teresa Hill
Partner, Energy & Infrastructure sector

Giji John
Partner, Energy & Infrastructure sector

WHAT DO THE PROPOSED SEC CLIMATE CHANGE DISCLOSURE RULES MEAN FOR YOU?

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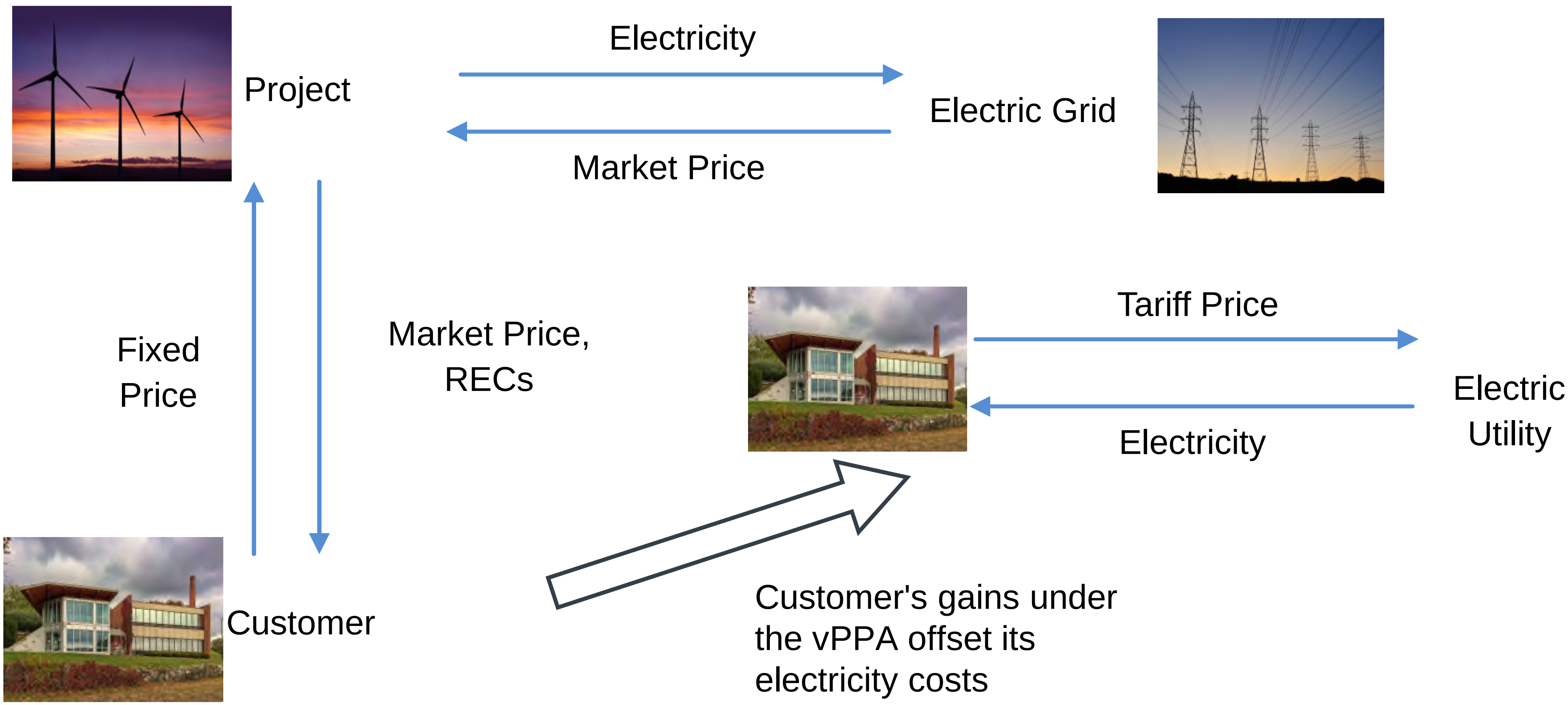
CURRENT METHODS TO MEET CARBON GOALS

vPPAs

- "Work-around" solution
- Comprise two inter-related transactions:
  - Financial swap based on electricity
  - Transfer of renewable energy credits (RECs)
- Technologies: Wind; solar
- Units: MWh
- Address Scope 2 Emissions

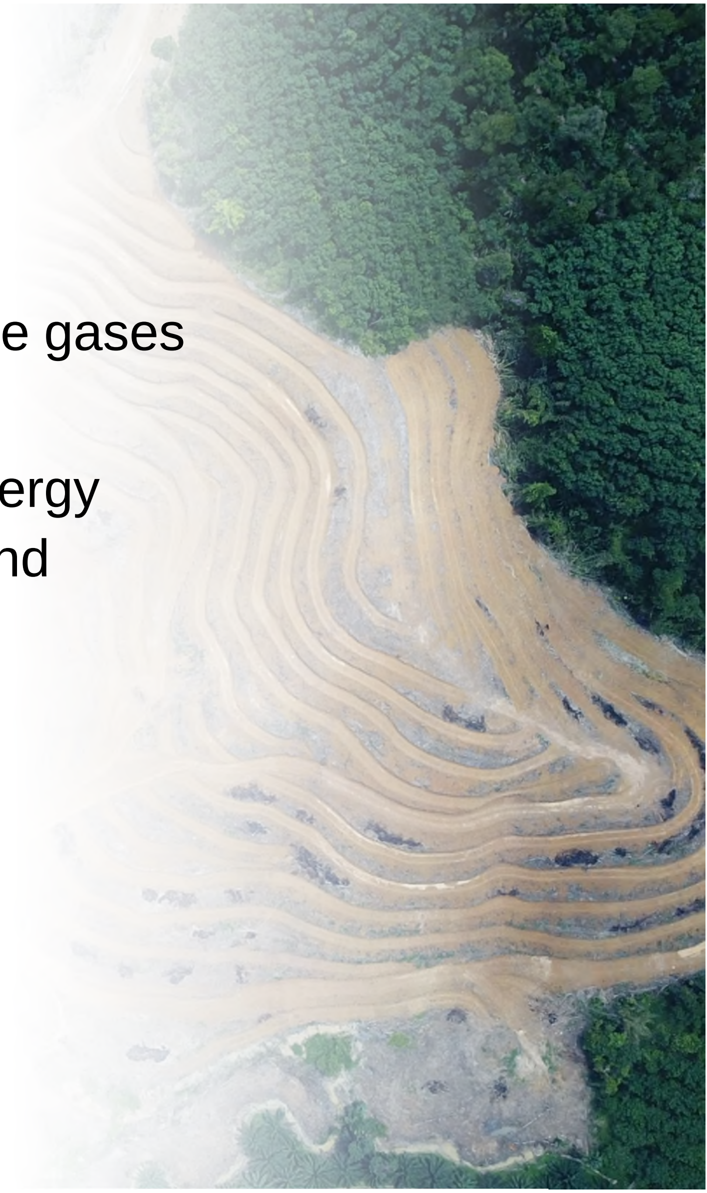
* While the vPPA is the predominant contracting structure, notable alternative structures exist: Green tariffs, behind-the-meter/ on-site (particularly solar); unbundled REC transactions

Virtual Power Purchase Agreement (vPPA)



Carbon Offset Agreements

- Primary transaction is reduction/capture of greenhouse gases (GHGs), and transfer of related offsets.
- Technologies/Platforms: Reforestation; renewable energy (outside of US); methane reduction; carbon capture and sequestration
- Units: metric tonnes CO2e
- Address Scope 1 and Scope 3 Emissions



OVERVIEW OF SEC PROPOSED REQUIREMENTS

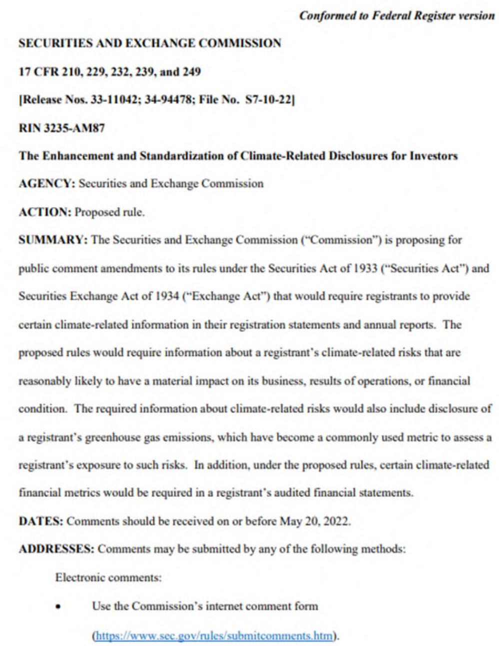
What are the major parts of a 10-K currently?

- **Description of business:** Where the company explains what it does; includes description of matters that have material effects on capital expenditures, earnings and competitive position of a company.
- **Risk Factors:** Describes factors that may materially adversely impact the company's business and financial results, e.g., by increasing costs, imposing liability, or decreasing demand for products.
- **Management Discussion and Analysis:** Operations and financial results, including information about any known trends or uncertainties that could materially affect the company's results, and how the company is addressing key risks.
- **Financial Statements and Supplementary Data**: The company's income statement, balance sheets, statement of cash flows and statement of stockholders' equity, accompanied by explanatory notes.

2022 Proposed Climate Change Rules: Key Provisions

The proposed rules would require disclosure of:

- Scopes 1 & 2 GHG emissions and carbon intensity
  - Scope 3 if material, or if a company has set a Scope 3 goal.
- The impact of climate risk on a company's business and consolidated financial statements, business strategy, business model, and outlook, including time horizon of impact, and if, as part of a disclosed net emissions reduction strategy, details about carbon offsets or RECs.
- Information regarding public climate-related goals, if they exist, along with the time horizon for achievement, how the company intends to achieve them, progress towards them, details about carbon offsets or RECs, if used.
- Disclose in a note to the financial statements certain disaggregated climate-related financial statement metrics (financial impact, expenditures, estimates and assumptions)
- Companies may also *voluntarily* disclose information about "climate-related opportunities," though if they do, their disclosure must meet the SEC's disclosure framework.



Conformed to Federal Register version

SECURITIES AND EXCHANGE COMMISSION

17 CFR 210, 229, 232, 239, and 249

[Release Nos. 33-11042; 34-94478; File No. S7-10-22]

RIN 3235-AM87

The Enhancement and Standardization of Climate-Related Disclosures for Investors

AGENCY: Securities and Exchange Commission

ACTION: Proposed rule.

SUMMARY: The Securities and Exchange Commission ("Commission") is proposing for public comment amendments to its rules under the Securities Act of 1933 ("Securities Act") and Securities Exchange Act of 1934 ("Exchange Act") that would require registrants to provide certain climate-related information in their registration statements and annual reports. The proposed rules would require information about a registrant's climate-related risks that are reasonably likely to have a material impact on its business, results of operations, or financial condition. The required information about climate-related risks would also include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks. In addition, under the proposed rules, certain climate-related financial metrics would be required in a registrant's audited financial statements.

DATES: Comments should be received on or before May 20, 2022.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's internet comment form (https://www.sec.gov/rules/submitcomments.htm).

Climate Impact Disclosure: An Example

We announced in October 2020 the adoption of a Paris-aligned climate risk framework with the objective of implementing a coherent set of choices designed to facilitate the success of our existing exploration and

The strategy is comprised of four pillars:

- Targets: Our target framework consists of a hierarchy of targets, from a long-term ambition that sets the direction and aim of the strategy, to a medium-term performance target for GHG emissions intensity, to shorter-term targets for flaring and methane intensity reductions. These performance targets are supported by lower-level internal business unit goals to enable the company to achieve the company-wide targets. In September 2021, we increased our interim operational target and have set it to reduce our gross operated and net equity (scope 1 and 2) emissions intensity by 40 to 50 percent from 2016 levels by 2030, an improvement from the previously announced target of 35 to 45 percent on only a gross operated basis, with an ambition to achieve net-zero operated emissions by 2050. We have joined the World Bank Flaring Initiative to work towards zero routine flaring of associated gas by 2030, with an ambition to meet that goal by 2025.
- Technology choices: We expanded our Marginal Abatement Cost Curve process to provide a broader range of opportunities for emission reduction technology.

regulatory requirements are considered in our decision-making. The company does not use an estimated market cost of GHG emissions when assessing reserves in jurisdictions without existing GHG regulations. This is in contrast to changes to the cost of existing GHG emission regulations which can impact our reserves calculations.

- External engagement: Our external engagement aims to differentiate ConocoPhillips within the oil and gas sector with our approach to managing climate-related risk. We are a Founding Member of the Climate Leadership Council (CLC), an international policy institute founded in collaboration with business and environmental interests to develop a carbon dividend plan. Participation in the CLC provides another opportunity for ongoing dialogue about carbon pricing and framing the issues in alignment with our public policy principles. We also belong to and fund Americans For Carbon Dividends, the education and advocacy branch of the CLC.

Climate Risk Disclosure: An Example

Existing and future laws, regulations and internal initiatives relating to global climate change, such as limitations on GHG emissions may impact or limit our business plans, result in significant expenditures, promote alternative uses of energy or reduce demand for our products.

Continuing political and social attention to the issue of global climate change has resulted in both existing and pending international agreements and national, regional or local legislation and regulatory measures to limit GHG

Increasing attention to global climate change has also resulted in pressure from and upon stockholders, financial institutions and/or financial markets to modify their relationships with oil and gas companies and to limit investments and/or funding to such companies. For example, Harvard University announced in September 2021 that it will stop investing its $42 billion endowment in fossil fuels and will let its current investments expire without renewal. As public pressure continues to mount, our access to capital on terms we find favorable (if it is available at all) may be limited and our costs may increase, our reputation could be damaged or our business and results of

In September 2021, we announced an improvement to our Paris-aligned climate risk framework, whereby we committed to an improvement to our targets for reducing our scope 1 and 2 emissions intensity on both a gross operated and net equity basis and reaffirmed our commitment to advocate for the reduction of scope 3 emissions through our support for a U.S. carbon price. Compliance with, and achievement of, climate change-related internal initiatives such as the foregoing may increase costs, require us to purchase emission credits, or limit or impact our business plans. If we are not successful in select internal initiatives, we may be adversely affected and potentially need to reduce economic end-of-field life of certain assets and impair associated net book value.

committing to revisiting and strengthening their current emissions targets to 2030 in 2022 and finalizing the outstanding elements of the Paris Agreement. In addition, our operations continue in countries around the world which are party to the Paris Agreement. The implementation of current agreements and regulatory measures, as well as any future agreements or measures addressing climate change and GHG emissions, may adversely impact the demand for our products, impose taxes on our products or operations or require us to purchase emission credits or reduce emission of GHGs from our operations. As a result, we may experience declines in commodity

In addition, although we design and operate our business operations to accommodate expected climatic conditions, to the extent there are significant changes in the earth's climate, such as more severe or frequent weather conditions in the markets where we operate or the areas where our assets reside, we could incur increased expenses, our operations and supply chain could be adversely impacted, and demand for our products could fall.

Furthermore, increasing attention to global climate change has resulted in an increased likelihood of governmental investigations and private litigation, which could increase our costs or otherwise adversely affect our business.

operated and net equity basis and reaffirmed our commitment to advocate for the reduction of scope 3 emissions through our support for a U.S. carbon price. Compliance with, and achievement of, climate change-related internal initiatives such as the foregoing may increase costs, require us to purchase emission credits, or limit or impact our business plans. If we are not successful in select internal initiatives, we may be adversely affected and potentially need to reduce economic end-of-field life of certain assets and impair associated net book value.

Climate Financial Statement Disclosure: An SEC Example

- Cost of revenue was impacted negatively by Events A and B by $300,000, driven by increased input costs impacted by severe weather events that strained the company's main supplier
- Cost of revenue was impacted positively by Event C by $70,000, driven by technology that improved the company's ability to manage the impact of severe heat on certain raw materials, which resulted in more efficient production
- Cost of revenue was impacted positively by Transition Activity D, which reduced production costs for certain products by $90,000 through advanced technology that improved energy efficiency during the production process.

F/S line-item	F/S balance (from consolidated financial statements)	Impact of Events A and B	Impact of Event C	Impact of Transition Activity D	Absolute value of impacts	Percentage impact
Cost of revenue	$10,000,000	-$300,000	+$70,000	+$90,000	$460,000	4.6%

- The absolute value of the aggregated impacts from the events and transition activities on the line item in the above example is $460,000 and thus exceeds one percent of the corresponding line-item threshold; therefore, disclosure for that specific line item would be required.

BRINGING IT ALL TOGETHER

General Risks

- vPPAs are separated from direct operations, but may have an impact on:
  - Reputation/brand: customers, business partners, investors and others
  - Cost of RECs
  - Cost of developing alternatives
- Factors that can cause challenges:
  - Supply chain issues (*e.g.*, solar panels), including traceability issues
  - Natural disasters
  - Development risk (*e.g.*, permitting, interconnection, land access)
  - Changes in pricing/additional competition for RECs
  - Changes in market design of electricity markets
  - Regulatory/legislative changes, including restrictions on use of RECs and availability of tax and other incentives

General Costs

Example – Tornado destroys wind farm that is part of virtual PPA project.

Impacts include:

- Relative cost of substitute renewable energy credits
  - Because virtual PPAs operate as swaps, could be *less* expensive
- Reputation/brand
  - Loss of "additionality" benefit
- Interesting accounting questions arise given settlement only occurs when virtual PPAs produce RECs

Special Reporting About Public Climate Goals

- Required "if" the registrant has publicly set climate-related targets or goals.
  - Will these disclosures have a chilling effect on the setting, announcement, or nature/specificity of these targets or goals?
  - Impact to already announced goals?
- Progress may be impacted by market forces beyond your control.
- Specificity regarding projects protects against potential double-counting issues and analyzing impact of projects.
- Costs of offsets/RECs may not be easily determined given complexity of transactions.

- The scope of activities and emissions included in the target, the defined time horizon by which the target is intended to be achieved, and any interim targets;
- How the registrant intends to meet its climate-related targets or goals;
- Relevant data to indicate whether the registrant is making progress toward meeting the target or goal and how such progress has been achieved, with updates each fiscal year; and
- If carbon offsets or renewable energy certificates ("RECs") have been used …, certain information about the carbon offsets or RECs.

Costs and Risks Associated with Use of RECs/Offsets

In responding to this guidance, be mindful of the true availability of alternative ways of achieving climate goals.

You may wish to note issues with alternative methods of achieving goals in your disclosures.

"A registrant that relies on carbon offsets or RECs to meet its goals might incur lower expenses in the short term but could expect to continue to incur the expense of purchasing offsets or RECs over the long term. It also could bear the risk of increased costs of offsets or RECs if increased demand for offsets or RECs creates scarcity and higher costs to acquire them over time In other cases, increased demand for, or scarcity of, offsets and RECs may benefit a registrant that produces or generates offsets or RECs to the extent their prices increase. Accordingly, under the proposed rules, a registrant that purchases offsets or RECs to meet its goals as it makes the transition to lower carbon products would need to reflect this additional set of short and long-term costs and risks …, including the risk that the availability or value of offsets or RECs might be curtailed by regulation or changes in the market."

Opportunities?

"Efforts to mitigate or adapt to the effects of climate-related conditions and events can produce opportunities, such as cost savings associated with the increased use of renewable energy, increased resource efficiency, the development of new products, services, and methods, access to new markets caused by the transition to a lower carbon economy, and increased resilience along a registrant's supply or distribution network related to potential climate-related regulatory or market constraints. A registrant, at its option, may disclose information about any climate-related opportunities it may be pursuing when responding to the proposed disclosure requirements concerning governance, strategy, and risk management in connection with climate-related risks."

- Should you think of these projects as creating opportunities?
- Be cautious in disclosing every project as associated with short-term benefit:

  Compare green tariff purchase from your utility

  With vPPA exposing you to uncertain market opportunity

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