CDP Technical Note: Guidance for companies with coal reserves responding to CDP

CDP Climate Change Questionnaire 2019
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Introduction to guidance for companies with coal reserves

This guidance has been prepared to assist companies with coal reserves to provide investors with information on climate change-related coal demand and stranded asset risk, within their 2019 CDP climate change questionnaire response. The implication of the Paris agreement as well as other lower-carbon scenarios such as the IPCC’s Representative Concentration Pathways 2.6 and 4.5, is that a carbon budget constrains future anthropogenic GHG emissions and places a limit on the amount of fossil fuels that can be extracted for combustion purposes. References on the issue of carbon budgets and the implications to the human use of fossil fuel reserves and resources include, among others:

- Carbon Tracker Initiative (2011): Unburnable Carbon – Are the world’s financial markets carrying a carbon bubble?
- HSBC Global Research (2013): Oil and Carbon revisited: Value at risk from ‘unburnable’ reserves
- International Energy Agency (2013): Redrawing the energy-climate map

Investors are therefore interested to understand the risks that changes in coal demand and prices pose to companies with coal reserves; changes that could for example result from policies to address climate change, increase fuel efficiency, encourage fuel switching, address air pollution, and more. Investors want to understand if companies with coal reserves are considering future scenarios where coal demand and prices are lower than companies currently forecast, and want those companies to make their views and actions on these issues clear. For investor interest in this matter, see for example the investor-led Ceres Carbon Asset Risk initiative.
Disclosing demand and stranded asset risk

General guidance

Two sections of the 2019 CDP climate change questionnaire are appropriate for the disclosure of information on the issue of climate change-related coal demand and stranded asset risk:

1. Module C2. ‘Risks and opportunities’ which asks companies to provide details of risks identified with the potential to have a substantive financial or strategic impact on your business.

2. Module C3. ‘Business strategy’, which is focused on how climate-related issues are integrated into your business objectives and strategy.

Specific guidance

Questions C2.2a-e request information how your organization's processes for identifying, assessing, and managing climate-related issues are integrated into your overall risk management. In relation to future coal demand and stranded asset risk, please discuss:

- Whether coal demand and price risks resulting from climate change are considered material to your business or not;
- Whether and how your organization determines project level risks associated with continued capital expenditure in finding and developing new coal reserves and resources;
- Whether your organization has guidelines on these particular areas of risk; and

Questions C3.1a-g and C11.3a request a description of the processes and outcomes of how climate change is integrated into your business strategy, and whether your company uses an internal price of carbon. In relation to future demand risks and the issue of stranded assets, please discuss:

- Whether diminishing carbon budgets have influenced your business strategy or not;
- If and how your business strategy has been influenced by the issue of stranded assets. If relevant, discuss your revised strategic position and how your value creation model addresses the issue of stranded assets, namely what overall policies and guidelines your organization has implemented for developing projects to explore and develop new coal reserves;
- What strategic short-term goals are directly related with the issue of stranded assets and if there has been any impact on capital expenditure allocation or project evaluation and capital expenditure alternatives;
- Whether your organization undertakes specific future scenario analysis in assessing the economic viability of proved and undeveloped coal reserves and resources, describing any details of relevant analysis and underlying assumptions where possible.
- Please discuss aspects related with the long-term positioning of your company to transition to a low carbon economy and reducing investors' exposure to the risk of stranded assets; and
- If relevant, discuss why your company is particularly well positioned to either fully capitalize on its reserves, or safely transition its business model without stranding its current main assets and future value.
Question C2.3a enable you to discuss the risk posed to your business model by various risk drivers and what they could potentially mean to your company, namely in terms of your reserves and company valuation.

Examples of risks that companies with coal reserves could consider in their disclosures include:

- The impact of national and international emissions targets and how those could affect demand for coal products;
- How extreme weather events affect operations including specific information on changing insurance costs;
- How water shortages affect operations in areas of water scarcity;
- How changing consumer behavior impacts markets as awareness increases about the effect of coal on the climate and the relative carbon intensities of different fuels; and
- The effect of increased competition from renewable energy and lower-carbon fossil fuels such as natural gas.