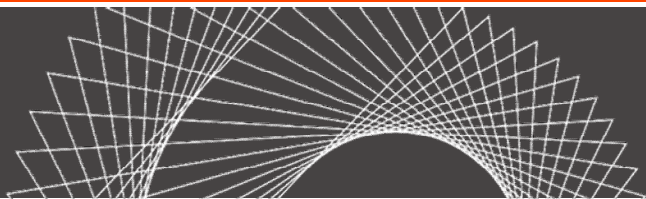


Energy Briefing

Trends in Carbon Capture & Sequestration



Akin Gump
STRAUSS HAUER & FELD LLP

January 28, 2021

Benjamin Heard

Matt Kapinos

Sam Kamyans

Natalie Nowiski

Our Speakers



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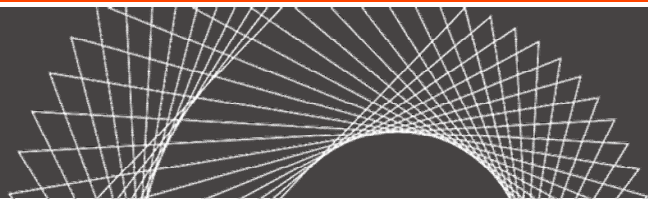
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Energy Briefing

ESG Considerations for the Energy Industry



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Why Are We Here?

“Who Cares Wins.”

Ivo Knoepel, catalyst of modern ESG investing

Agenda

- Overview of Environmental, Social and Governance (ESG)
- What Do Investors (and Other Stakeholders) Want to See?
- Preparing for ESG Programs and Reporting
- The Road Ahead: What to Expect in 2021

Overview

- What is ESG?
- Why Care about ESG?
- How is Corporate America Responding?

Stakeholders

- Reporting Frameworks
- Reporting Mechanisms
- Strategic Considerations and Risks

Getting Started

- Creating and Updating a Policy
- Defining Goals and Setting Targets
- Assessment and Accountability

2021 Outlook

Overview of ESG



What is ESG?

ESG is evolving rapidly into a prominent role in the way companies communicate with customers, employees, shareholders, investors, regulators, and virtually every other stakeholder.

Companies integrate ESG measures into their operations to showcase corporate responsibility, enhance their value proposition, differentiate their brand, commit publicly to measurable targets, and embrace the reality of doing business in the twenty-first century.

*ESG requires real commitments to **material** and **measurable** outcomes.*



The ESG vocabulary is an outgrowth of Corporate Social Responsibility that enables companies to assess their impact across a number of issues and take action. Many companies look for ESG initiatives that align with their environmental and social impact goals in the communities where they do business.

Why Care about ESG?

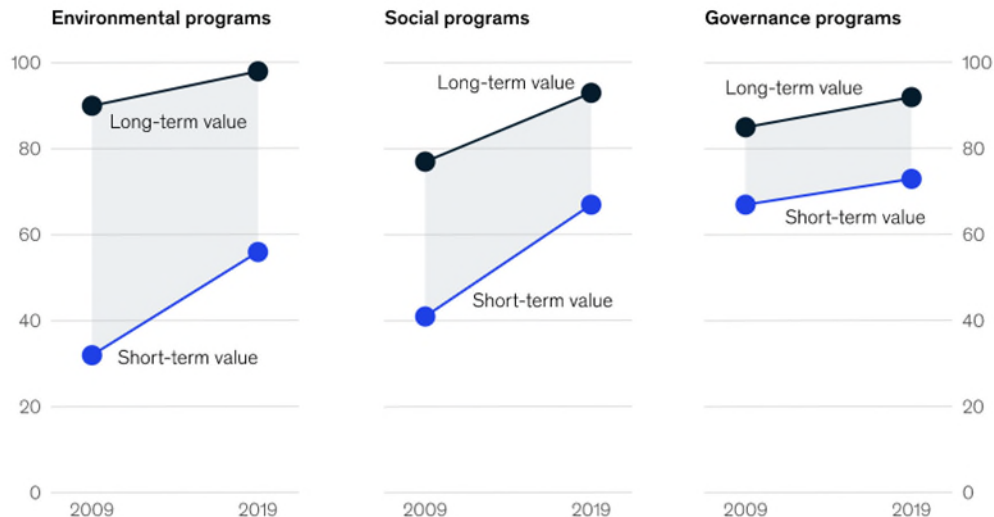


- Value creation
- Investors
- Geopolitical influences
- Public pressure

Value Creation

Among respondents who say ESG programs create value, the share seeing short- and long-term value has grown.

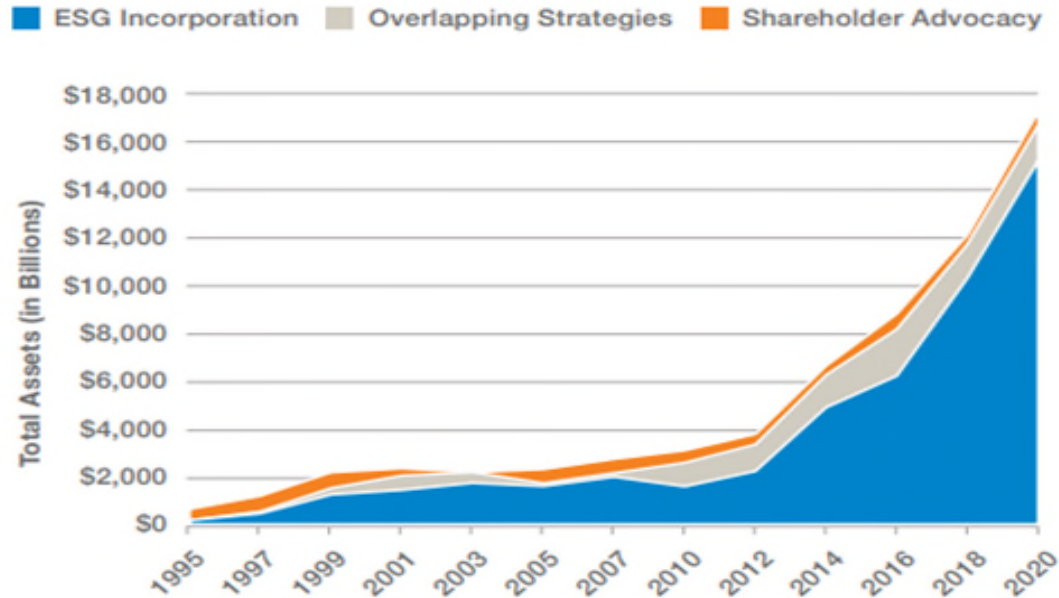
Share of respondents who say given program creates value, %¹



¹Question was asked only of respondents who said environmental, social, and governance programs increase shareholder value. Respondents who said "substantially negative," "negative," or "no effect" are not shown; total n = 136 in 2009 and n = 342 in 2019.

Investors Making an Impact

Sustainable Investing in the United States 1995–2020



SOURCE: US SIF Foundation.

Geopolitical Influences

Political risks and rising global tensions result in less overall stability and predictability, greater economic uncertainty, and new barriers to sustainability efforts that depend on international cooperation.

Political risk is among the largest threats to growth

Social polarization, spreading public discontent, and increasing social unrest threaten stability

Geopolitical tension can contribute to trade wars, restricted borders that inhibit the free exchange of ideas, and heightened national security concerns

Geopolitical Influences (con't)

- Biden Administration has prioritized many ESG initiatives, including climate change and diversity
- Global investment community is subject to additional ESG regulations
 - EU's Sustainable Finance Action Plan and the European Green Deal
 - Sustainable Finance Disclosure Regulation (SFDR)
 - The Taxonomy Regulation
 - UK's Green Finance Strategy
 - Task Force on Climate-related Financial Disclosures (TCFD)
- Global corporations must think beyond U.S. border

Public Pressure



Goldman Sachs Won't Take Companies Public If They Have All-Male Corporate Boards

Nasdaq diversity proposal puts thousands of company boards on notice

Climate change: Pressure on big investors to act on environment

We're Entering the Age of Corporate Social Justice

More CEOs are under pressure to do better by the world. But it's complicated.

Public Pressure: Board Priorities

- Regulations designed to accelerate corporate board diversity
 - List of states mandating some form of board diversity/disclosure is growing: California, Colorado, Hawaii, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania and Washington
 - Proposed Nasdaq listing rule requiring at least one director who self-identifies as a female, and at least one director who self-identifies as an underrepresented minority or as LGBTQ+ -- or disclose why the company does not
- Demand for corporate positions/actions on social justice matters
- Environmental directors, climate-focused board committees, or entire board's consideration of climate impacts from existing operations and lobbying efforts
- Corporate reputation

Business Roundtable: Purpose of a Corporation

Group of top CEOs says maximizing shareholder profits no longer can be the primary goal of corporations

How the Business Roundtable's big green shift creates opportunity

Is the Business Roundtable Statement Just Empty Rhetoric?

Shareholder Value Is No Longer Everything, Top C.E.O.s Say

Chief executives from the Business Roundtable, including the leaders of Apple and JPMorgan Chase, argued that companies must also invest in employees and deliver value to customers.



212 CEOs* have committed to:

- Deliver value to customers
- Invest in employees (*e.g.*, compensation, benefits, training, D&I, respect)
- Deal fairly and ethically with suppliers
- Support communities by respecting locals and protecting the environment across all businesses
- Generate long-term shareholder value with transparent engagement

*As of October 2020

BR / Chamber of Commerce Statements on Climate



*“To combat the worst impacts of climate change, Business Roundtable CEOs are calling on businesses and governments around the world to work together to limit global temperature rise this century to well below 2 degrees Celsius above pre-industrial levels, consistent with the goals of the Paris Agreement. **In the United States, this means reducing net-greenhouse gas emissions by at least 80 percent by 2050 as compared to 2005 levels.**”*

*Addressing Climate Change: Policies and Principles
Business Roundtable, September 16, 2020*

***The Chamber supports a market-based approach to accelerate GHG [greenhouse gas] emissions reductions across the U.S. economy.** We believe that durable climate policy must be made by Congress, and that it should encourage innovation and investment to ensure significant emissions reductions, while avoiding economic harm for businesses, consumers and disadvantaged communities. This policy should include well designed market mechanisms that are transparent and not distorted by overlapping regulations. U.S. climate policy should recognize the urgent need for action, while maintaining the national and international competitiveness of U.S. industry and ensuring consistency with free enterprise and free trade principles.*

*Our Approach to Climate Change
U.S. Chamber of Commerce, January 19, 2021*



What Do Investors (and Other Stakeholders) Want to See?



Stakeholders

- Investors / strategic partners
- Regulators / government
- Public / community
- Employees
- Customers
- Suppliers

Internal ESG Team

- Board
- C-Suite
- Counsel
- Investor relations / treasury
- Internal audit / reporting / ERM
- Human resources
- Operations / supply chain

How to Disclose: Reporting Frameworks

- There are many ESG reporting frameworks, but they have a lot of **overlap**.
- ESG is **broad** – start with **materiality** to focus on what is most important to your company and to your **stakeholders**.
- Starting with a simple, standalone and voluntary ESG report may be **more palatable** than jumping into disclosures in financial filings.
- Companies receive “credit” for **transparency** and **long-term thinking** on ESG.

Three disclosure frameworks are among the most prominent: The [Task Force on Climate-related Financial Disclosure \(TCFD\)](#) and the [Sustainability Accounting Standards Board \(SASB\)](#) share the belief that climate change is one of the biggest economic risks the world faces today. The [Global Reporting Initiative \(GRI\)](#) focuses on impacts including climate change, human rights and corruption.

TCFD	SASB	GRI
<ul style="list-style-type: none"> Climate-based disclosures Governance, strategy, risk management and key metrics and targets Scenario analysis Decision-useful information for investors Chaired by Michael Bloomberg Represents 477 investors with more than \$34 trillion in assets 	<ul style="list-style-type: none"> 77 industry standards with predetermined material topics Focus on the most material sustainability topics Set of quantitative ESG indicators U.S.-originated – being taken up across 200 different countries Increasing adaptation 	<ul style="list-style-type: none"> ESG disclosures with universal standards and topic-specific standards Topic-specific standards are focused on most material topics Alignment to Core or Comprehensive Targets all stakeholders (not just investors)

Reporting Mechanisms

There are a number of ways to report:

Voluntary

- ESG/sustainability report
- Website

Advised

- Industry-specific reporting frameworks
- Stakeholder-specific metrics (e.g., investors)
- Institutional Shareholder Services (ISS) and Glass Lewis
- ESG ranking and rating organizations

Mandatory

- U.S. Securities and Exchange Commission (e.g., proxy statement and Exchange Act filings) and stock exchange requirements
- State law (e.g., board diversity)
- Foreign jurisdictions

Strategic Considerations and Risks

Increasingly, companies are engaging in voluntary reporting related to their ESG commitments.

Reporting increases transparency and fosters a strong reputation, but can expose companies to risks.

Competitive edge: What are my peers doing? How do I measure up to my competitors? What do my investors, business partners, and customers want to see?

Risk management: Has my reporting identified areas where I can better manage operational risk? How can I do better or report better?

Legal risk: Have I made promises I can't keep? Have I made false or inaccurate disclosures that could mislead investors, regulators, or anyone else who could raise a claim against me?

Preparing for ESG Programs and Reporting



The Basics

The following elements are central tenets of the ESG programs implemented by companies with established ESG programs.



Overarching ESG Commitment/Policy

- Published policy or mission statement by senior leadership articulating firm's commitment to ESG.
- e.g., Statement of foundational principles; letter from CEO; online ESG visibility.

Clear Framework of Self-Governance

- Internal infrastructure and initiatives that enable firm to fulfill ESG commitment/policy.
- e.g., Key personnel and business functions; key internal initiatives such as environmental, diversity and inclusion and supply chain.

Established Approach to Management

- Structure for engaging business units (e.g., subsidiaries, portfolio companies) in ESG in their operations.
- Incorporating ESG into business unit decisions.
- e.g., Resources and training; ESG reporting by business units; ESG due diligence.

Reporting and Metrics

- Measuring progress against established standards.
- Communicating impact to investors, portfolio companies, employees and the public.
- e.g., Annual report; metrics for amount of charitable giving; volume of waste recycled.

Getting Started

Getting started with a basic, rudimentary ESG program is **not necessarily expensive** or all that time consuming

With the help of **free**, online resources from standard-setting organizations like SASB, TCFD, or GRI, communicate a **policy** and formulate a **plan** to address those issues **material** to your company

Oftentimes, the best starting point is with what you are **already doing**

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Disclosure Examples: Getting Started

Environmental (E)	Social (S)	Corporate Governance (G)
<ul style="list-style-type: none">• Conservation programs (e.g., waste, recycling, water, energy efficiency)• Recordkeeping and data collection regarding environmental impacts from existing operations and supply chain• Basic reporting	<ul style="list-style-type: none">• Publicly commit to respect human rights of workers• Make diversity and inclusion a priority• Develop a pandemic response	<ul style="list-style-type: none">• Board structure and governance guidelines• Code of ethics• Executive compensation and KPIs• ERM and audit function• Shareholder rights/takeover defenses• Data privacy/security

Improving Your Program: Assessment and Accountability

Always look to measure, evaluate, and improve

Strengths

Identify existing strengths to highlight in marketing efforts and to build upon.

Gaps

Identify gaps and risk areas that may warrant risk assessment and/or ESG advising.

Benchmark

Benchmark ESG engagement across like-companies or industries.

Harmonize

Harmonize company and business-unit data on ESG topics that are otherwise dispersed.

Communicate

Create data points for reports/statements communicating status and progress to investors, employees and the public.

Strive for continuous improvement

- Interface with agencies and standard-setting organizations.
- Facilitate participation in industry groups.
- Advise how ESG standards fit with current law and legislative debate.
- Advocate for federal bills that support meeting your ESG goals.
- Build relationships with the advocacy community on your ESG issue.

Disclosure Examples: Continuous Improvement

Environmental (E)	Social (S)	Corporate Governance (G)
<ul style="list-style-type: none">• In-depth reporting, including Scope 1, 2, and 3 emissions• Integrate renewable energy into processes/facilities• Address supply chain impacts related to deforestation, wild fires, and biodiversity losses	<ul style="list-style-type: none">• Tie one or more board member's remuneration to human rights commitments• Describe how human rights commitments are reflected in contractual agreements and business relationships• Develop a system to evaluate impact of actions taken to advance human rights	<ul style="list-style-type: none">• Integrate/improve ESG reporting function• Update policies and code of ethics• Revisit KPIs for executive compensation• Develop robust IR function and proactively seek investor feedback

Conclusion

- Now that you know what ESG is, why it is important, and how to get started or make improvements, **now is the time to act.**
- Wherever you are in your ESG journey, keep in mind that you can start with a **basic** policy and develop your program **incrementally** over time.
- Although investors tend to receive the most attention, be sure to **consider** employees (at all levels), business partners, your community, regulators, and other stakeholders.
- The key to an effective program is to **demonstrate progress** to stakeholders, which requires goal setting, recordkeeping, data gathering, and reporting.
- Robust ESG programs **reap benefits** (*e.g.*, cost savings, risk mitigation, employee recruitment/retention, reputational benefits, foundation for future compliance).

The Road Ahead: What to Expect in 2021



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