Can climate change transform how you do business?
Considerations for Canadian energy companies and their board of directors
Market forces like technological development, competition, policy shifts and changing customer needs are shaking up all industries. The energy market is not immune to these disruptors, which are also the impetus for innovation. As the momentum to transition to a low-carbon, climate-resilient economy rapidly accelerates, it is creating both long-term risks and opportunities requiring careful attention.

From a board governance perspective, prudent oversight of climate change risk, as well as compliance and disclosure requirements, is increasingly more complex and important. Boards will also have to ensure the organization is taking a long-term view on innovating business models through disruption and managing shareholder expectations about how these may affect investment holdings. Balancing near-term results with long-term growth in enterprise value has never been more challenging.

US policy changes and impact on the Canadian energy market

The US direction on climate change policy is likely to substantially change under the new administration. In the near-term, the Trump administration’s policies to support US fossil fuels will create real and potentially significant competitive challenges for the Canadian oil and gas industry. However, in the long-term, global policy is leaning heavily toward pricing carbon as a means to reduce reliance on hydrocarbons and supporting innovative technologies that increase energy efficiency and/or sources of renewable energy.

Understanding sensitivity to carbon pricing shifts, especially for companies that operate across multiple jurisdictions with differing carbon pricing mechanisms, should be integrated into both operational and strategic planning. Capital investment decisions will require thoughtful analysis of short-term opportunities vs. long-term value creation and the risks related to uncertainty of future policy changes.

Even with policymakers focused on fossil fuels, decarbonization will be gradual. Oil and gas companies with low cost of production and access to markets will remain an integral part of the global energy infrastructure for decades to come. However, it is also very apparent that the enthusiasm and magnitude of capital being invested into energy-related innovative technologies is significant and growing rapidly.

Boards are encouraged not to sit idle as global policymakers roll out climate change frameworks. It is important policymakers understand the impact carbon pricing will have on the production and consumption of fossil fuels. Risks and opportunities created by the frameworks must be quantified and shared to enable governments to make and adjust policy.

Finally, there is an increased risk that the move to a low-carbon economy may greatly disrupt your organization while you’re debating the policy itself. Boards must strive to find a way to balance the conversations between risks they can control, such as investments in technology, vs. those they cannot control, such as government policymaking.
Climate finance and risk disclosure

In the slow but steady transition to a carbon-constrained landscape, the world is moving into a new era of carbon disclosure, characterized by rapidly growing concerns among investors on the existence and enormous potential financial impacts of carbon reduction policies and resulting stranded assets.

The transition will present an investment opportunity. Bank of England Governor Mark Carney is leading efforts to understand the potential impact of climate change on companies and financial institutions. In his view, the use of more systemic and comparable reporting systems for climate risk “will give financial markets the information they need to manage risks, and seize opportunities, stemming from climate change.”1 As more consistent, complete information is reported, investor confidence will rise and capital investment will move toward strong returns.

Taking a measured yet proactive stance on addressing climate change strategically can be expected to lead to competitive advantage over the long-term. New reporting systems will likely place additional responsibilities on the board and senior management for accuracy, completeness and disclosure.

Finally, investors are increasingly using non-financial performance to draw conclusions on value and better inform and underpin their decisions. Investors and securities regulators continue to indicate that existing climate-related information provided by companies in securities filings, particularly in Canada and the US, is incomplete and fails to link with the organization’s business strategy, performance and future prospects. Climate change disclosures can be used as a tool to demonstrate how an organization is managing uncertainty and a changing risk profile associated with climate change.

EY can help

Although there are clear risks to many organizations, the movement to a low-carbon economy also presents opportunities that should be explored and capitalized on. From technological developments to sustainability initiatives, companies in the energy sector can position themselves for success in a changing regulatory environment. Our EY climate change professionals can help you navigate these changes and prepare for the future.

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New directions in US energy and climate policy under the Trump administration

The new administration’s energy priorities differ substantially from the previous administration’s policies, favoring development of additional conventional energy resources and attempting to put the brakes on new environmental initiatives. These priorities include:

- Renewed emphasis on development of oil and gas and coal resources for domestic consumption and exports
- Support for expanded use of oil and gas shale fracking technology
- Enhanced industry access to develop oil and gas and coal resources on US public lands and waters
- Opposition to wind energy projects
- Deregulation of environmentally oriented restrictions on oil and gas and coal industry operations
- Approval of energy infrastructure projects

The new administration’s climate policies are also in stark contrast with former President Obama’s initiatives, which sought to lower carbon emissions. President Trump opposes implementation of the Environmental Protection Agency’s (EPA’s) Clean Power Plan and has nominated Oklahoma Attorney General Scott Pruitt, who is engaged in 14 lawsuits against the EPA, to head the agency. In his first days in office, he has issued presidential memos to revive the approval process for the Keystone XL and Dakota Access crude oil pipeline projects. Lastly, there’s also ambivalence toward US participation in and compliance with the 2015 Paris Climate Agreement.

While the new US administration’s agenda is broadly supported by Republicans in Congress, there are potential moderating influences on US policies. States such as California and New York and local governments will continue to promote clean energy and low-carbon emissions. And, it’s expected that major US corporations will pursue sustainability initiatives. With Senate Democrats holding filibuster powers, revoking established environmental regulations will be procedurally difficult and subject to litigation.

Source: Washington Council EY’s Post-Election Insights

Contact us

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