



Proxy Season Turns Up the Heat on Oil and Gas Companies

An Adamantine White Paper

by Tisha Schuller & Jens Hybertson

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DISRUPTORS IN ACTION:

What Proxy Season Tells Us and Why You Should Care



Each year public companies hold their annual shareholder meetings in the spring, known as “proxy season,” and game-changing leaders watch to uncover what there is to learn. For oil and gas companies, 2021 was a proxy season like no other. Average proposal voting percentages reached record highs as investors voiced increasing support on several key environmental, social, and governance (ESG) issues, including demonstrating robust commitments and progress on decarbonization, aligning stated ambitions with corporate advocacy, and demonstrating astute awareness and internalization of the transitional challenges ahead.

We at Adamantine have taken a careful look at the 2021 proxy season — and it tells us that oil and gas companies will need to accelerate and deepen their ESG strategy in several predictable ways. In our analysis, companies will increasingly need to:

- Examine their greenhouse gas (GHG) emissions inventories in detail and consider establishing credible and benchmarked strategies for achieving meaningful reductions across all emissions categories.
- Prepare to speak to how their strategies align with the goals of mitigating global climate change, and what specific operational changes, policies, and investments are being implemented to support this progress.
- Establish an understanding of and oversight over their lobbying activities to identify any risks presented by misalignment between stated climate ambitions and positions taken within lobbying efforts.
- Articulate how their business models, decision-making processes, and investment rationale may be impacted by climate-related risks and speak to the oversight processes in place for mitigating these risks and adapting to the energy transition.

Game-changing leaders will fold the season’s signals into their risk planning and strategy development.

This briefing outlines the season’s key results, analyzes voting trends, and considers how investor expectations will shape the industry moving forward. Game-changing leaders will fold the season’s signals into their risk planning and strategy development; we offer a number of directions for that work at the end of this white paper.

2021 Hot Topics

Thirty-three ESG-related proposals were filed among 16 major oil and gas companies. A substantial number of proposals resulted in meaningful change for companies (through passing votes or negotiated withdrawals), and voting support on several proposals reached all-time highs. The most impactful proposal topics this year included:¹

Expanded GHG reporting & targets

- There were ten proposals focused on adopting GHG targets or reporting on emissions. Proposals increasingly require companies to adopt targets in line with the Paris Climate Agreement as well as include Scope 3 emissions – or the emissions associated with produced products.
- ConocoPhillips’s shareholders passed (59.3%) the first ever majority vote for an emissions reduction climate proposal, which directed the adoption of Scope 1, 2, and 3 emission reduction targets.² Scope 2 are indirect emissions associated with the purchase of energy for operations. While ConocoPhillips has set an aim to become net-zero in Scope 1 and 2 emissions by 2050,³ the proposal will expand the company’s emissions targets to include the reduction of Scope 3 emissions.
- Phillips 66 received a robust passing vote (80.3%) for the adoption of GHG emission reduction targets covering Scope 1, 2, and 3 emissions. While Phillips 66 currently discloses Scope 1 and 2 emissions, the company does not currently have targets set for emissions reductions.⁴ This proposal will pressure the company to set and adopt targets for all emissions scopes.
- Chevron received a passing vote (60.7%) on a proposal requesting the reduction of Scope 3 emissions.⁵ While Chevron has set upstream emissions intensity targets for 2028 and has outlined support for the net-zero ambitions of the Paris Agreement, the company does not currently have targets set for reducing Scope 3 emissions.⁶ The proposal does not explicitly require the company to set targets or a timeline, but signals investor support for heightened action on Scope 3 emissions reductions.

TABLE 1 Proposals on GHG Targets

Company	Outcome
Phillips 66	80.3%
Chevron	60.7%
ConocoPhillips	59.3%
Occidental	Withdrawn
Duke	Withdrawn
Southern Company	Withdrawn
Shell	30.5%
BP	20.7%
Chevron	Omitted
Chevron	Omitted

- Occidental negotiated the withdrawal of a proposal requesting the inclusion of medium-term Scope 3 emissions targets as part of its net-zero-by-2050 strategy. Oxy has set net-zero targets (in addition to interim targets) for Scope 1 and 2 emissions by 2040, as well as a net-zero ambition for Scope 3 emissions by 2050.⁷ The proposal was withdrawn after the company agreed to set medium-term net emission reduction targets for Scope 3 emissions ahead of next year’s annual meeting.⁸
- Both BP and Shell saw increasing shareholder support (at 20.7% and 30.5% respectively) over prior years for a proposal requesting the adoption of more stringent short-, medium-, and long-term Scope 1 to 3 emission reduction targets consistent with the goals of the Paris Agreement. These would have supplemented their existing 2050 targets.
- Duke and Southern Company each received proposals requesting the provision of annual public reporting on indirect upstream supply chain emissions. As noted in the proposals, both companies currently disclose downstream emissions from customer use of natural gas, yet neither currently calculate or disclose

indirect upstream emissions from natural gas exploration, production, and transportation. Both proposals resulted in negotiated withdrawal.

Lobbying in line with Paris

- There were nine proposals pressuring companies to ensure that both their direct and indirect lobbying activities are in line with the goals of the Paris Agreement.
- Proposals for Dominion, Chevron, and ExxonMobil requested the expansion of lobbying disclosure details through annually updated reports. Neither the Dominion nor Chevron proposals passed, receiving 15.6% and 47.9%. The proposal to ExxonMobil passed (55.6%).
- Five companies received proposals for the Board to issue a report discussing if and how the company’s lobbying activities align with the Paris Agreement. The proposals to ExxonMobil and Phillips 66 both passed at 63.9% and 62.5%. The proposal to Sempra was unsuccessful at 37.5%. Duke, FirstEnergy, and Valero negotiated the withdrawal of similar proposals after agreeing to evaluate and publish relevant details.^{9, 10}

Reporting on climate-related financial risks and opportunities

- Four proposals focused on how future fossil fuel demand scenarios could impact climate-related financial risks including financial strength and potential for stranded assets. Two other proposals centered on how gas utilities could reduce their GHG emissions while mitigating stranded asset risk through encouraging building electrification within their service areas.
- Chevron and ExxonMobil shareholders requested their Boards issue audited reports detailing how a reduction in fossil fuel demand as envisioned in the International Energy Agency’s (IEA) Net Zero 2050 scenario would affect financial positioning and underlying assumptions that inform strategic planning. Both proposals were unsuccessful with 47.8% and 48.9% supporting votes.
- Dominion and DTE each received proposals requesting that as part of the transition to

TABLE 2 Proposals on Lobbying

Company	Outcome
ExxonMobil	63.9%
Phillips 66	62.5%
ExxonMobil	55.6%
Duke	Withdrawn
FirstEnergy	Withdrawn
Valero	Withdrawn
Chevron	47.9%
Sempra	37.5%
Dominion	15.6%

TABLE 3 Proposals on Climate Risk

Company	Outcome
Dominion	Withdrawn
Duke	Withdrawn
ExxonMobil	48.9%
Chevron	47.8%
ExxonMobil	Omitted
Cheniere	Omitted

enterprise-wide alignment with the Paris Agreement, their Boards prepare reports evaluating options for reducing total climate change contributions by encouraging building electrification within their service areas. Proponents cited investor concern regarding over-investment in gas distribution and the relevant potential for stranded assets and missed opportunities. Both proposals were withdrawn after the two companies agreed to increase disclosures on electrification risks and opportunities.¹¹

- Although ultimately deemed unsuitable by the Securities Exchange Commission (SEC), proposals to Cheniere and ExxonMobil requested reports on climate-related risks to business strategy. The Cheniere proposal focused on carbon pricing impacts on liquified natural gas (LNG) markets and the ExxonMobil proposal on stranded asset risk related to the environmental impacts of fossil fuel investments and the potential for related public, market, and governmental responses.

Other Topics

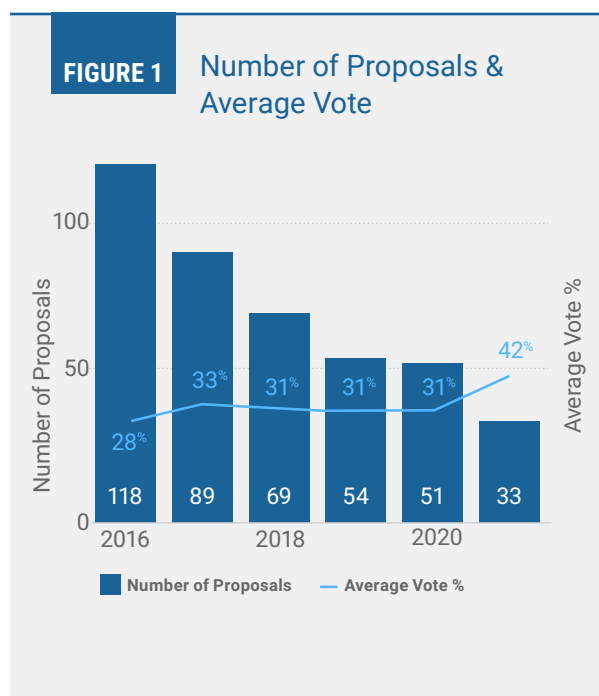
Proponents brought other relevant proposal topics, including:

- **Becoming a benefit corporation** – There were two proposals filed with ExxonMobil (withdrawn) and Chevron (3.0%).
- **Adopting goals for flaring reduction** – PDC Energy received a proposal and negotiated withdrawal.
- **Reporting on progress on Climate Action 100+ (CA100+) benchmark indicators, specifically whether executive compensation is linked to climate change performance** – This proposal was filed with Valero Energy and was withdrawn after the company introduced a new “Energy Transition performance measure” into its executive compensation program.¹²
- **Separating chair from CEO** – There were four proposals filed this year with Dominion (43.2%), Duke (35.1%), Chevron (29.5%), and ExxonMobil (22.1%). Collectively, these proposals cited the need for strong and effective governance structures as companies face the challenges of the energy transition, voiced concern over inadequate approaches to addressing risks such as climate change, and pointed to the improved risk management and transitional oversight that would come with an independent chair.

Trends

Looking at the changing landscape of proxy season over time sheds light on the increasing efficacy of ESG-related proposals for oil and gas companies.

Notably, while the total number of oil and gas-related proposals filed by year has decreased substantially over the past six years, average voting success has in fact trended up (Figure 1). This may indicate that (1) proponents are becoming more targeted in their approach, and (2) investors have increased appetite to vote favorably as ESG pressures intensify.



How Proxy Season Should Impact Your Risk Strategy

These topics and trends from the 2021 proxy voting season can inform the future-proofing strategy of every oil and gas company. The first strategic action for game-changing leaders is to assess your risk with shareholders. Depending on (1) where your company is in the value chain, (2) geographic location, (3) company size, and (4) investor makeup – these pressures may be imminent or three years out. What we can say with certainty: The pressures are on their way. Your first order of business is to assess what time horizon you are solving for.

Next, companies can empower their management team to assess company preparedness to meet

anticipated investor pressures. As a starting point, evaluate the following considerations:

- **GHG targets and emissions reduction strategy** – Has your company identified a transparent, credible baseline for GHG emission? Are you able to articulate a compelling emissions reduction strategy? If your company were to set aspirational targets, how would you go about identifying them? Once aspirational targets were set, what interim strategies, investments, projects, and collaborations would demonstrate credible engagement in meeting your targets?
- **Climate-aligned lobbying** – Are your company's policy positions and lobbying activities tracked for potential disclosure? Are your lobbying activities and voting with trade associations aligned with your stated policy positions and climate goals? What steps can you take to better understand how your lobby activities are initiated and policy positions are formed?
- **Addressing climate risk** – Has your company discussed climate risk at the board level? Are you able to identify your company's unique transitional, physical, and oil and gas specific climate risks using a credible framework? Have your risk or reserves teams run a range of pricing and demand scenarios to account for increasing climate action and a reduction in fossil fuels? What steps can you take to

socialize discussing, disclosing, and mitigating climate-related risk within your company?

This proxy season provided a stark view into how public concern over climate is translating into investor expectations of companies. The three hot topics from the 2021 season will undoubtedly impact investors throughout the oil and gas value chain and into the smaller, privately-held, niche company spaces.

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The heat is on for your board and executive team to anticipate and proactively mitigate your risk with shareholders. Our team at Adamantine guides companies such as yours in analyzing and monitoring their unique risks, likely time horizon, baseline readiness, and opportunities for action. We can help you prioritize the right actions at the appropriate pace. Reach out when your team needs support.

Tisha Schuller is the Founding Principal at Adamantine Energy where her work is focused on helping oil and gas companies future-proof their businesses against rising social risk.

Jens Hybertson is the Research & Engagement Coordinator at Adamantine where he supports the firm's trend monitoring and analysis activities, strategy development, and project execution.

Endnotes

¹ Note: Unless cited otherwise, all information has been retrieved from the Ceres Climate and Sustainability Shareholder Resolutions Database, available at <https://www.ceres.org/resources/tools/climate-and-sustainability-shareholder-resolutions-database>

² <https://www.follow-this.org/58-of-conocophillips-shareholders-vote-for-follow-this-climate-proposal>

³ <https://www.conocophillips.com/sustainability/managing-climate-related-risks/metrics-targets/ghg-target>

⁴ <https://phillips66.widen.net/s/kltpqkhsf/20-0019-sustainability-report.print>

⁵ <https://www.chevron.com/-/media/shared-media/documents/chevron-proxy-statement-2021.pdf>

⁶ <https://www.chevron.com/-/media/chevron/sustainability/documents/climate-change-resilience-report.pdf>

⁷ <https://www.oxy.com/Sustainability/overview/Documents/ClimateReport2020.pdf>

⁸ <https://www.follow-this.org/sec-grants-shareholders-the-right-to-vote-on-emission-reductions-at-chevron>

⁹ <https://www.mercyinvestmentservices.org/shareholder-resolutions.aspx>

¹⁰ <https://seekingalpha.com/news/3669140-valero-to-disclose-climate-lobbying-after-criticism>

¹¹ <https://www.asyousow.org/press-releases/2021/3/18/utelectrification-shareholders-proposals-dominion-dte-energy>

¹² <https://www.asyousow.org/press-releases/2021/3/9/valero-aligns-executive-compensation-climate-targets>

