

Banking on Climate Change: Fossil Fuel Finance Report Card 2018

Methodology Note

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Introduction

This research note describes the methodology used to assess the segment adjusters for selected companies with regards to their operations in extreme oil (tar sands, ultra-deepwater oil, and/or Arctic oil), LNG export, coal mining and coal power, and to collect project finance deals for selected companies in these sectors. The segment adjusters and project finance data were compiled and calculated by research consultancy Profundo. Rainforest Action Network then applied these segment adjusters to relevant financial transactions. This is in addition to the deals that Rainforest Action Network analyzed on the Bloomberg Terminal, using Bloomberg's league table methodology. The Bloomberg process is described in the methodology section of the report card, available for download at www.ran.org/bankingonclimatechange2018.

1 Project finance

Financial databases IJGlobal and TradeFinance Analytics were used to identify project finance provided to selected fossil fuel companies from 2015 to 2017. Where known, exact amounts lent or underwritten were attributed to participating banks; where unknown, the total amount was distributed equally between participants. The total deal amounts attributed to each fossil fuel company were adjusted based on the company's equity holding in the specific project.

The data and assessments presented in this report have not been directly provided or authorized by any of the financial institutions or clients concerned. While every attempt has been made to research and present data and assessments accurately and objectively, it is difficult to guarantee complete accuracy. This is not least because of the lack of consistency and transparency in how financial institutions and coal sector clients record key financial and company information. Where there was ambiguity in source information of financial services, the authors of this report have acted cautiously, resulting in a likely underestimation of the true amounts of finance involved. The authors are committed to correcting any identified errors at the earliest opportunity.

2 Segment adjusters

Segment adjusters were calculated using the following sources: Rystad Energy (via Oil Change International), company annual reports and other publications, and IJGlobal. Where no data could be identified for one or multiple years, the segment adjuster from the previous year was applied, using 2015 at the earliest.

2.1 Extreme oil

Segment adjusters for tar sands, ultra-deepwater oil, and/or Arctic oil were calculated based on total reserves that the company owns in each of the oil categories, as a percentage of the group's total reserves, as reported by Rystad Energy. The group level adjuster was applied to both parent companies and subsidiaries that were found to have activities in the associated extreme oil category. An adjuster of 0% was applied for subsidiaries for which no connection could be found to the extreme oil categories. For companies involved in sectors beyond oil and gas, the reserves data percentage was applied to the group's oil and gas segment percentage of total assets.

2.2 LNG export

Segment adjusters for LNG export were calculated based on the notion that LNG activities are midstream activities primarily related to export, including LNG processing. For this reason, adjusters for LNG export companies include all LNG-related activities at the midstream level. This excludes natural gas production and regasification, which form part of LNG supply chains, but includes other parts of the natural gas sector. LNG adjusters were primarily calculated based on segment assets, when specific LNG or LNG export segments were reported by the companies. Where total LNG assets could be estimated from subsidiaries whose assets in LNG could be identified, these were calculated as a percentage of the group company's total assets. If this could not be identified, the adjuster was calculated based on LNG production capacity as a proportion of the group's total oil and gas production capacity. If production capacity could not be identified, the adjuster was calculated based on LNG sales as a proportion of total revenue. For subsidiaries where no LNG activities could be found, 0% was applied.

3 Coal mining

Segment adjusters for coal mining were primarily calculated based on a company's total coal assets as a percentage of the company's total assets, especially for companies that are only involved in mining or have a segment dedicated to coal mining and production. Where coal assets could not be determined, the adjuster was calculated based on the company's coal revenues as a percentage of total revenues. When no specific assets or revenues could be determined, an estimation was made based on the total number of various operations. For example, if the company has eight different subsidiaries in different sectors, of which five or six are coal mining subsidiaries, a percentage of 62.5% or 75% was applied. In the same context where no assets or revenues could be found, but the company seemed clearly only or primarily involved in coal mining with no specific indication of other activities, 100% was applied. If a subsidiary was found not to be involved in coal mining, 0% was applied. For companies involved both in coal mining and coal power where assets could not be identified, the adjuster for coal mining was based on the percentage of revenue from coal. However, these revenues only account for coal that is sold to third parties, whereas these companies likely use the coal that is mined primarily for their own coal-fired power assets. Therefore, in these cases, coal mining segments are likely much larger than represented by the adjusters here calculated.

4 Coal power

Segment adjusters for coal power were calculated as coal-fired power capacity as a percentage of the company's total power capacity, based on the concept that generation capacity is most parallel to the calculation of an adjuster by assets as was done in other subsectors. Where a company was involved in activities other than energy generation and distribution, the coal-fired capacity percentage was applied to the electricity generation or power segment of the company as a percentage of total assets. For subsidiaries not involved in power or without capacity in coal-fired power, 0% was applied. For subsidiaries that are only involved in electricity transmission but are part of a group that owns coal generation capacity, the parent company level adjuster was applied. If no information could be found for coal capacity or coal power assets, the adjuster was calculated as revenue from coal-power generation as a percentage of total revenue. When coal power capacity, assets, and revenues were all unknown, the adjuster was calculated based on thermal capacity or assets as a percentage of total capacity or assets. For companies involved both in coal mining and coal power, the coal capacity percentage was applied to assets or, if unavailable, to annual revenues.