Banking on Climate Change: Fossil Fuel Finance Report Card 2019

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 particular spotlight fossil fuel subsectors – tar sands oil, ultra-deepwater oil and gas, Arctic oil and gas, liquefied natural gas (LNG), coal mining, and coal power – and to collect and process 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 (RAN) then applied these segment adjusters to relevant financial transactions. This is in addition to the deals that RAN compiled from the Bloomberg Terminal, using Bloomberg's league table methodology. This note is meant to be a supplement to the methodology section of the full report card, available for download at ran.org/bankingonclimatechange2019.

1 Project finance

Financial databases IJGlobal and TradeFinance Analytics were used to identify project finance provided to selected LNG and coal power companies from 2016 to 2018. Where known, exact amounts lent or underwritten were attributed to participating banks; where unknown, amounts were distributed equally between participants. The total deal amounts attributed to each LNG or coal power company were adjusted based on each company's equity holding in the specific projects.

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 their fossil fuel 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 Subsector adjusters

For each of the 30-40 companies identified in each spotlight fossil fuel (tar sands oil, ultra-deepwater oil and gas, Arctic oil and gas, LNG, coal mining, and coal power), Profundo researched the percentage of a company's operations in the specific subsector, which RAN then used in order to estimate how much financing is directed towards this activity.

Segment adjusters were calculated using the following sources: Rystad Energy, company annual reports and other publications, and IJGlobal. Where no data could be identified for one or multiple years, the segment adjuster from the most recent previous year was applied, using 2016 at the earliest.

2.1 Tar sands oil, Arctic oil & gas, ultra-deepwater oil & gas, and fracked oil & gas

For each of these upstream oil and gas subsectors – tar sands oil, Arctic oil & gas, ultra-deepwater oil & gas, and fracked oil & gas – adjusters are primarily calculated based on the subsector reserves that a selected company owns, as a percentage of the company's total oil and gas reserves. Information about selected companies' reserves in the respective subsectors and their total reserves was collected from Rystad Energy by Oil Change International.

Sector-specific and total reserves were retrieved for each selected company by year between 2016 and 2018. The exception is Arctic and fracked oil and gas, where no historical reserves could be captured from Rystad Energy. In these cases, adjusters based on the selected companies' activities in Arctic and fracked oil and gas in 2018 were applied for all financing identified between 2016 and 2018.

If the company is vertically integrated in oil and gas, the adjuster is solely based on the company's percentage of reserves in the relevant subsector. When the company is involved in other sectors in addition to oil & gas, the proportion of reserves is applied to the company's reported oil & gas business segment(s) capital expenditure, when available, as reported in the company's annual report for the respective year. If the company does not report capital expenditure by business segment, this calculation is made based on the business segment(s) assets. If assets are not reported by business segment, this calculation is made based on the reported segment(s) revenue.

Group-level adjusters are applied to both parent companies and subsidiaries that were found to have activities in the associated oil and gas subsector. When a subsidiary is identified to only have activities in a relevant oil and gas sub-sector, 100% is applied. For subsidiaries for which no link could be found related to the relevant subsector, 0% is applied. For financing or trading subsidiaries, group-level adjusters are applied.

2.2 LNG

Segment adjusters for LNG were calculated based on 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 that are unrelated to LNG. The LNG adjuster calculations were primarily based on segment assets, when a specific LNG segment was reported by the companies themselves. 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. If no activities could be found in LNG for subsidiaries, 0% was applied.

2.3 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 in the case of 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. Where 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 indicator for other activities, 100% was applied. If a subsidiary was found not to be involved in coal mining, 0% was applied. For companies that are involved both in coal mining and coal power and 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.

2.4 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 calculations of a company's 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 electricity generation or power segment of the company as a percentage of total assets. If a subsidiary was found to not be involved in power or not have any coal-fired power capacity, 0% was applied. For subsidiaries that are only involved in electricity transmission but are part of a group that includes coal generation capacity, the parent company 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 no coal power capacity, assets or revenues could be identified, the adjuster was calculated based on thermal capacity or assets, as a percentage of total capacity or assets. For companies that are involved both in coal mining and coal power, the coal capacity percentage was applied to assets or, if unavailable, to annual revenues.

3 All fossil fuels

Profundo also researched select companies' involvement in fossil fuels overall for use in the Expansion and All Fossil Fuels league tables, where an adjuster was not already readily available from the Bloomberg terminal or the Global Coal Exit List. This select list included a range of companies engaged in a variety of operations related to fossil fuels, including: Electric utility companies, oil & gas companies, and commodity traders, among others. For electric utility companies – similar to the coal power adjuster (see section 2.2.4) – first the proportion of a company's activities in the power sector was determined using the company's segment assets or segment revenues as available. This figure was then further adjusted using the company's installed fossil fuel-powered capacity.

For oil & gas companies, the adjuster was determined on the basis of their segment information. All the oil & gas companies in the selection were only engaged in the oil & gas sector and had no other activities.

For the traders, determining the proportion of the trading business that was related to fossil fuels was less precise as they were not publicly listed companies, and no breakdown of financial information could be identified. For these companies, the number of fossil fuel related commodities they traded in was divided by the total number commodities they traded in.