ConocoPhillips Plan for the Net-Zero Energy Transition

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THE ENERGY TRANSITION CHALLENGE

Meeting the central aim of the Paris Agreement to strengthen the response to climate change is a worldwide imperative for which governments and companies alike have adopted net-zero ambitions. The resulting energy transition will be complex, with many possible pathways and uncertainties—more likely an evolution than a near-term step-change. We acknowledge the importance of limiting global average temperature increases and achieving a climate-neutral world by midcentury. ConocoPhillips is applying its strategic capabilities and resources to meet this challenge in an economically viable, accountable and actionable way that balances the interests of our stakeholders. Our goal is to support an orderly transition that matches supply to demand and focuses on returns on and of capital while safely and responsibly delivering affordable energy.

Executive Summary

Our Plan for the Net-Zero Energy Transition (the “Plan”) is built upon ConocoPhillips’ “Triple Mandate,” which is focused on three objectives that are integral to our strategic goals: meet energy transition pathway demand, deliver competitive returns and achieve our net-zero emissions ambitions.

Our Plan is summarized below, with updates to our prior objectives in response to investor feedback and internal analyses noted. Our Plan describes how we will:

• BUILD A RESILIENT ASSET PORTFOLIO: Focus on low cost of supply and low greenhouse gas (GHG) intensity resources that meet transition pathway energy demand.

• COMMIT TO NEAR-, MEDIUM-, AND LONG-TERM TARGETS: Reducing operational (Scope 1 and 2) emissions over which we have ownership and control, with an ambition to become a net-zero company for Scope 1 and 2 emissions by 2050. These targets include:
  • Strengthening our previously announced operational GHG emissions intensity reduction target to 40-50% by 2030 and expanding it to apply to both a gross operated and net equity basis to ensure active engagement in our non-operated investments.
  • Meeting a further 10% reduction target for methane emissions intensity by 2025 from our 2019 baseline, building upon the 65% reduction we have made since 2015.
  • Aiming to achieve zero routine flaring by 2025, five years sooner than the World Bank initiative’s goal of 2030.

• ADDRESS END-USE EMISSIONS: Advocate for a well-designed, economy-wide price on carbon that would help shift consumer demand from high-carbon to low-carbon energy sources.

• PURSUE TRANSITION OPPORTUNITIES: Evaluate potential investments in emerging energy transition and low-carbon technologies. During 2021 our efforts included:
  • Establishing a multi-disciplinary Low-Carbon Technologies organization to identify and evaluate business opportunities that address end-use emissions and early-stage low-carbon technology opportunities that would leverage our existing expertise and adjacencies.
  • Allocating $200 million in the 2022 capital budget to advance energy transition activities, the majority of which will address Scope 1 and 2 emissions reduction projects across our global operations, with the rest allocated for early-stage low-carbon technology opportunities.

• TRACK THE ENERGY TRANSITION: Utilize a comprehensive scenario planning process to calibrate and understand alternative energy transition pathways and test the resilience of our corporate strategy to climate risk.

• MAINTAIN CAPITAL DISCIPLINE: Use scenario analyses and a fully burdened cost of supply, including cost of carbon, as the primary basis for capital allocation.
Our Plan does not include a Scope 3 (end-use) emissions target. A Scope 3 target for an exploration and production (E&P) company represents a prescribed curtailment of production and a shift of capital away from existing transition demand, whereas our responsibility to stockholders is to strongly compete for that demand. We do so by striving for the lowest cost of supply, lowest GHG intensity production. We are taking separate responsibility for encouraging a shift to low-carbon sources of energy by providing tangible support for carbon pricing, which would encourage changes in the choices made by end users.

The Plan has been endorsed by the full Board of Directors and is published on the ConocoPhillips website. It is designed to help investors and other stakeholders gain an understanding of the valued role ConocoPhillips intends to play in an orderly energy transition and supports our aim to be a best-in-class E&P company. Through our ongoing consideration of transition scenarios, the strategic planning process and stakeholder engagement, we expect the Plan to continue evolving as the energy transition progresses over time.

Our Triple Mandate

ConocoPhillips intends to play a valued role in the energy transition by executing three objectives: meeting energy transition pathway demand, delivering competitive returns on and of capital, and achieving our net-zero emissions ambition. We call this the Triple Mandate, and it represents our commitment to create long-term value for our stakeholders.

First, meeting energy transition pathway demand requires a focus on delivering production that will best compete in any transition scenario. We will deliver this production from resources with a competitive cost of supply and low GHG intensity, as well as diversity by market and asset type.

Next, in delivering competitive returns, ConocoPhillips has been a leader in shifting the E&P sector’s value proposition away from one focused on production growth toward one focused on returns. We are committed to delivering competitive returns on and of capital for our stockholders.

Finally, to drive accountability for the emissions that are within our control, we are progressing toward achieving our net-zero Scope 1 and 2 emissions ambition through a continuous pipeline of projects with short-, medium-, and long-term emissions reduction targets.

1) Scope 1 and 2 emissions on a net equity and gross operated basis.
Reliable and Resilient Returns

Our resilience is based on our ability to deliver competitive returns on and of capital. Our solution to prior sector-wide underperformance has been continually improving the underlying cost of supply of our portfolio, committing to return >30% of cash from operations to stockholders, maintaining balance sheet strength, and moderating growth by holding to disciplined reinvestment rates. As Figure 1 shows, rates of return for our E&P projects are well above our weighted average cost of capital (WACC), and also well above current returns for some common types of renewable energy investments. We have communicated to stakeholders a credible 10-year strategic plan intended to generate double-digit returns on capital employed that are competitive with overall market returns.

Appreciating that oil and natural gas are projected to remain essential parts of the energy supply mix in coming decades across a broad range of scenarios, ConocoPhillips intends to maintain its key market role through resilience to transition-related risks. We focus on remaining resilient and competitive in any transition scenario by providing low-cost, low GHG, best-in-class ESG production.

On any possible energy transition pathway, the company, our stakeholders and the financial sector must contend with the questions of transition direction and pace, their trade-offs and how best to manage climate-related risks and opportunities. This emphasizes the importance of maintaining strategic capability to contribute to an orderly transition through scenario-based planning, portfolio resilience, sound financial standing, qualified people and well-developed processes.

ConocoPhillips evaluates multiple potential scenarios in order to gain a thorough understanding of alternative energy transition pathways and to test the resilience of our corporate strategy. Our strategy uses a fully burdened cost of supply, including cost of carbon, as the primary basis for capital allocation. We have continued to grow our resource base with what we believe to be low cost of supply resources, including through our acquisition of Concho and Shell’s Permian assets. Our focus on low cost of supply should help facilitate competitive returns on future investment while maintaining resilience to the transition’s impacts on energy demand and commodity price.

Reducing Scope 1 & 2 Emissions

Our Plan for the Net-Zero Energy Transition focuses on actionable goals and targets that will drive emissions reduction. Our efforts to strengthen our targets and increase investment in emissions reduction, demonstrate a commitment from our Executive Leadership Team and Board to meet the challenges of the energy transition. We have established near-, medium- and long-term targets for Scope 1 and 2 emissions reduction, as described below.

Near-Term Emissions Reduction (by 2025)

Reflecting progress to date on emissions reduction efforts, we have accelerated and improved our Scope 1 and 2 emissions targets. These targets incorporate an immediate focus on flaring and methane emissions, which provide the best opportunities to reduce near-term GHG impacts.
We have therefore set our 2025 targets as follows:

- Meet an additional 10% methane emissions intensity reduction target by 2025 from a 2019 baseline, adding to the 65% reduction we have achieved since 2015. We are also working with stakeholders on development of sector-wide methane targets that set a comparable standard.
- Maintain our commitment to achieve zero routine flaring as part of the World Bank initiative. We aim to reach this goal by 2025, five years earlier than the World Bank’s 2030 goal.

GHG emissions management is an expected core competency for ConocoPhillips Business Units (BU’s). Each BU is required to continuously review its GHG emissions profile and identify opportunities to make design and operating improvements that can reduce emissions. Potential GHG emissions reduction projects are reviewed within our annual budget planning process and assessed against pre-determined selection criteria, including cost per tonne of CO2e abated. We call this annual exercise our Marginal Abatement Cost Curve program. We sanction projects that provide the greatest efficiency in reducing GHG emissions, or that anticipate forthcoming regulatory changes. We have allocated $200 million in the 2022 capital budget to energy transition activities, a majority of which will address Scope 1 and 2 emissions reduction projects across our global operations selected through this program. The projects sanctioned for 2022, some of which are multi-year projects, could represent a recurring annualized reduction of approximately one million tonnes of CO2e upon completion. These include production efficiency measures, methane and flaring intensity-reduction initiatives and asset electrification projects, specifically:

- **Flaring:** Incorporate vapor recovery units at facilities; recover waste gas for sales.
- **Methane:** Switch instrumentation from gas-driven to air-driven pneumatics; modify facilities to reduce gas venting.
- **Electrification and combustion:** Reduce combustion needs on drilling and completions; electrify operations and pursue renewable energy sources; conduct basin-wide electrification study in the Permian; evaluate a project to electrify central facilities in a portion of our Eagle Ford operations.
- **Operational efficiency:** Streamline facilities, tanks and equipment; improve waste heat utilization, insulation and power distribution.

**Measurement, Reporting and Verification**

Measurement, reporting and verification of our climate efforts and GHG data is critical for establishing credibility and accountability around our targets. We have traditionally engaged third-party verification for external, independent, limited assurance of our GHG metrics. For the 2021 reporting year, we have engaged a third-party independent consultant to expand our assurance scope beyond quantitative metrics to include governance and climate-related disclosures.

To continuously improve processes and controls for our ESG disclosures, we are conducting an internal audit in 2022 under the direction of our Audit and Finance Committee. With the assistance of independent consultants, we are further reviewing our internal processes and controls, and evaluating methods to continuously improve the quality, consistency and transparency of our GHG data. In 2022, we have commenced internal corporate audits and assessments against our Environmental Performance Metrics Reporting Practice, and we are improving our overall assurance for GHG data across our assets. We are also closely engaged with the Human Resources and Compensation Committee to ensure our emissions reduction and climate-related goals are reflected in our employee and executive compensation programs.
Medium-Term Emissions Reduction (by 2030)

We recently strengthened our medium-term GHG emissions intensity reduction target to 40-50% by 2030 from a 2016 baseline, and also expanded the target to apply to both a gross operated and net equity basis. Figure 2 illustrates how we expect to achieve that target.

We have already progressed toward meeting this target over the past several years. Between 2016 and 2019, we achieved an 8% intensity reduction on a gross operated basis through a combination of specific emissions reduction projects and asset changes. Continued capital allocation actions are expected to have a combined impact of lowering GHG emissions intensity by roughly 30% as we increase production from assets with low intensity, such as those in the Permian Basin. We expect to achieve a further 10% reduction from near-term emissions reduction projects.

Long-Term Emissions Reduction (by 2050)

Figure 3 summarizes the range of our emissions reduction ambitions over time, highlighting current, updated and new goals and targets. The long-term pathway to achieving our net-zero emissions ambition by 2050 starts with proven, well-defined actions for Scope 1 and 2 emissions, while also advancing less mature but potentially economically and technically viable low-carbon opportunities. The aggregated near- and medium-term efforts described in previous sections set the foundation for our roadmap to net-zero emissions by highlighting operational Scope 1 and 2 emissions reduction projects and our focus on assets with low cost of supply and low GHG intensity. Subsequent sections will cover low-carbon opportunities that comprise the final components of our net-zero roadmap. These include carbon capture and hydrogen opportunities, as well as voluntary offsets, all of which are overseen by our newly formed multidisciplinary Low-Carbon Technologies organization.

**FIGURE 2. GROSS OPERATED PATHWAY TO 40–50% INTENSITY REDUCTION TARGET**

Achieving a target of 40–50% emissions intensity reduction by 2030 requires continued portfolio and capital allocation actions and investment in emissions reduction projects.

**FIGURE 3. GOALS FOR NET-ZERO AMBITION**

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<tr>
<th>Near-Term Goals to 2025</th>
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<tbody>
<tr>
<td>• Reduce methane intensity by 10%</td>
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<td>• Zero routine flaring by 2030 with ambition for 2025</td>
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<table>
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<tr>
<th>Medium-Term Goals to 2030</th>
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<tr>
<td>• Reduce GHG intensity 40-50% (from 35-45%)</td>
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<tr>
<td>• Target expanded to include net equity production</td>
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<table>
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<tr>
<th>Long-Term Goals to 2050</th>
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<tr>
<td>• Net-zero emissions</td>
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(1) Scope 1 and 2 emissions on a net equity and gross operated basis, relative to a 2016 baseline.

(2) In line with the World Bank Zero Routine Flaring Initiative.

(3) 2030 target relative to a 2016 baseline.
Addressing Scope 3 End-Use Emissions

While we recognize that end-use emissions must be reduced to meet global climate objectives, we believe that setting a Scope 3 target for an E&P company misplaces the focus on emissions reduction that can only occur in subsequent parts of the value chain and instead represents a prescribed curtailment of production. While a sector-wide reduction in demand for oil and natural gas products is foreseen as the transition progresses, our responsibility to stockholders is to strongly compete to continue to supply that demand. We do that by striving for the lowest cost of supply, lowest GHG intensity production.

Although projections from a broad range of energy demand scenarios show a likely decline in oil and natural gas demand over the coming decades, they also estimate that trillions of dollars of oil and natural gas investment will still be needed to ensure sufficient production capacity exists to meet even conservative demand projections. Placing a requirement on efficient, ESG-focused, upstream companies like ConocoPhillips to meet a Scope 3 emissions reduction target could have the effect of shifting capital away from responsible operators, toward less-accountable producers and jurisdictions. Therefore, ConocoPhillips setting a Scope 3 target would not reduce global emissions.

Other key considerations have also reinforced our decision at ConocoPhillips not to set a Scope 3 target:

- Pure play E&P companies do not have the opportunities to influence end-use emissions that integrated oil and gas companies have through their ownership and control over the production and sale of end-use energy products. As an upstream producer, ConocoPhillips does not control how the commodities we sell are converted into different products or ultimately used, providing limited scope for viable actions by an E&P company like ConocoPhillips beyond Scope 1 and 2 emissions reduction.
- Enactment of a Scope 3 emissions target would inevitably result in duplication of end-use emissions accounting along the oil and natural gas value chain, making accurate accounting and credible target-setting extremely problematic.

We accept that in the absence of full carbon capture and sequestration, demand for energy must shift toward low-carbon and non-carbon sources, so we take responsibility for encouraging that shift by the most practical and effective means available – our visible support for carbon pricing that would cause a change in the choices made by end users.

In addition to advocating for a price on carbon, other practical steps we are taking that could reduce end-use emissions that are detailed in the following sections are:

- Engaging with our supply chain.
- Making seed-level investments in long lead time opportunities in emerging technologies with adjacencies that leverage our existing expertise and experience.

Advocacy

Supply-side constraints alone would be ineffective in reducing global emissions. Demand-side efforts are required for climate goals to be achieved. The most credible way for ConocoPhillips to contribute to reducing near-term Scope 3 emissions is our visible advocacy for carbon pricing. A well-designed, economywide carbon price would allow each sector to focus on the Scope 1 and 2 emissions from the sources it owns and controls. A price on carbon would also provide a stable and predictable market signal that would impact investment flows and end-user choices in a manner that minimizes adverse local economic and social impacts of an energy transition. We advocate for this directly through engagement with government legislators and regulators in all jurisdictions in which we operate, and indirectly via collaboration with trade associations that are aligned with our strategy.

Among our efforts, ConocoPhillips is a founding member of the Climate Leadership Council (CLC), and a member of Americans for Carbon Dividends, which focuses on progressing the bi-partisan Baker-Shultz carbon dividends plan. Our Executive Leadership Team consistently engages with members of Congress and the Administration to express support for that plan. To complement our work with the CLC, in 2021 we joined the Carbon Pricing Leadership Coalition. We have also demonstrated strong engagement with major trade associations to advance climate policy positions that include support for a market-based approach to reduce GHG emissions. To this end, we have shown successful leadership that has yielded positive results and progress within the American Petroleum Institute, the Business Roundtable, the U.S. Chamber of Commerce and others. Our advocacy further addresses methane and flaring regulation, clean fuel or power standards, and sector-specific regulations based on carbon-intensity benchmarks. Publicly communicating our governance processes and the depth of our advocacy efforts is a crucial component of our outreach in addressing stakeholder concerns.
Supply Chain

We also recognize the importance of Scope 3 emissions in the upstream value chain generated by our suppliers. We therefore continually work with suppliers to find opportunities for GHG reductions in our operations and engage with them for alignment with our plans for the energy transition. We incorporate a sustainability questionnaire in our bidding process that includes questions on supplier GHG emissions and their own Scope 1 and 2 emissions reduction targets and we consider their answers in ultimately selecting our suppliers.

Participating in the Energy Transition—
New Low-Carbon Opportunities

In early 2021 we established, and continue to expand, a multi-disciplinary Low-Carbon Technologies organization. Its remit is to develop the corporate net-zero roadmap for Scope 1 and 2 emissions, understand the new energies landscape, and prioritize opportunities for future competitive investment. We are approaching this effort with the same discipline that we approach exploration in our traditional business, keeping seed costs low, leveraging competencies, identifying viable economic opportunities with materiality and flexibility, and only increasing investment once risks are managed and returns are assured.

The Low-Carbon Technologies organization works across the company’s BUs to develop and implement region-specific net-zero roadmaps with detailed, time-bound actions, identify technology solutions for hard-to-abate emissions, pilot new methods to reduce and accelerate emissions reduction, and evaluate newly emerging competitive opportunities. This organization also supported pre-development work in 2021 to evaluate largescale wind energy opportunities to provide power for our operations in the Permian Basin, North Sea and Bohai Bay.

ConocoPhillips recognizes the important role that carbon capture and storage (CCS) and hydrogen could play in decarbonizing the global economy. We intend to apply our disciplined growth approach to development of these new opportunities through clear investment criteria and a focused strategy. We have prioritized opportunities in these technologies as they offer potential for competitive returns and align closely with our technical competencies and global reach. As demonstrated in Figure 4, we have recently taken actions to advance our positions in both technologies, including offering support to drive innovation.

Carbon Capture and Storage

In 2021, we evaluated potential CO2 storage sites along the Texas and Louisiana Gulf Coast to determine the feasibility of supplying CCS services to industrial emitters, beginning sometime during the 2020s. We are also evaluating opportunities to deploy CCS in our own operations. For example, we recently joined the Oil Sands Pathways to Net Zero Initiative, an alliance of Canada’s top oil sands operators that is working toward achieving net-zero GHG emissions by 2050.

Hydrogen

Over the last year we have also made early investments in enabling hydrogen technologies and continued our support of academic and industry research conducted to advance decarbonization efforts. Leveraging our global reach, we are evaluating and high-grading hydrogen and ammonia production and marketing opportunities, both domestic and international.

As our portfolio of CCS and hydrogen projects continues to mature, we look forward to sharing more details and updates with our stakeholders.
Offsets

While achieving our net-zero emissions ambition will primarily be driven by emissions reduction, we recognize that offsets may be required to mitigate some residual hard-to-abate emissions. Given the many entities setting net-zero emissions targets, the market for offsets will likely grow by 2050. After evaluating options and alternatives, we have designed a flexible, fit-for-purpose strategy to develop and invest in voluntary offsets beginning in 2022, helping secure credible low-cost market entry in anticipation of growing long-term demand. We also plan to develop and support our own offset projects and make diversified investments in offset projects or funds. Our focus will be on countries in which we operate, and we will seek partnerships with Non-Governmental Organizations (NGOs) when possible. While at present we do not anticipate the need to utilize offsets to meet our medium-term targets, we plan to begin investing now to secure a low-cost position for the future.

A Best-in-Class Plan for Energy Transition in the E&P Sector

Our Triple Mandate will drive continued focus and accountability for both returns and resilience, allowing us to play a valued, meaningful role in a managed and orderly energy transition. By meeting future energy transition pathway demand, delivering competitive returns, and achieving our net-zero emissions ambition, we are well positioned to execute this Plan and participate in an emerging low-carbon economy. We believe our Plan is adaptable, economically viable, accountable and actionable in any energy transition pathway.

We intend to report on implementation of our Plan and provide periodic updates on our performance on our website, www.conocophillips.com under “Sustainability.”