

Impacts of Policy Uncertainties on Commercial Risk

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RESOURCE MANAGEMENT WEEK 2021

ENABLING SUSTAINABILITY PRINCIPLES IN RESOURCE MANAGEMENT



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Impact of Policy Uncertainty on Commercial Risk

The SDG energy challenge



- SDGs require providing energy to a growing global population coming out of poverty.
- SDGs require reducing and then eliminating about 100 million tons a day of greenhouse gas emissions (GHG), affecting the 70-80% of today's energy production that comes from fossil fuels.
- SDGs require reducing/eliminating local particulate and other emissions.
- SDGs require a new social contract.
- Meeting the SDGs will require significant and possibly recurrent changes in policies that impact industries and capital allocations.

Impact of Policy Uncertainty on Commercial Risk

The impact of policies on valuation



- Decisions regarding the development and operation of energy producing assets hinge on commercial valuation.
- Commercial value is generally defined as the net present value of free cash flows.
- Policies regarding environmental and social effects have a direct bearing on valuation.
- The form, sequence and timing of these policy changes is uncertain, with many possible pathways.

Impact of Policy Uncertainty on Commercial Risk

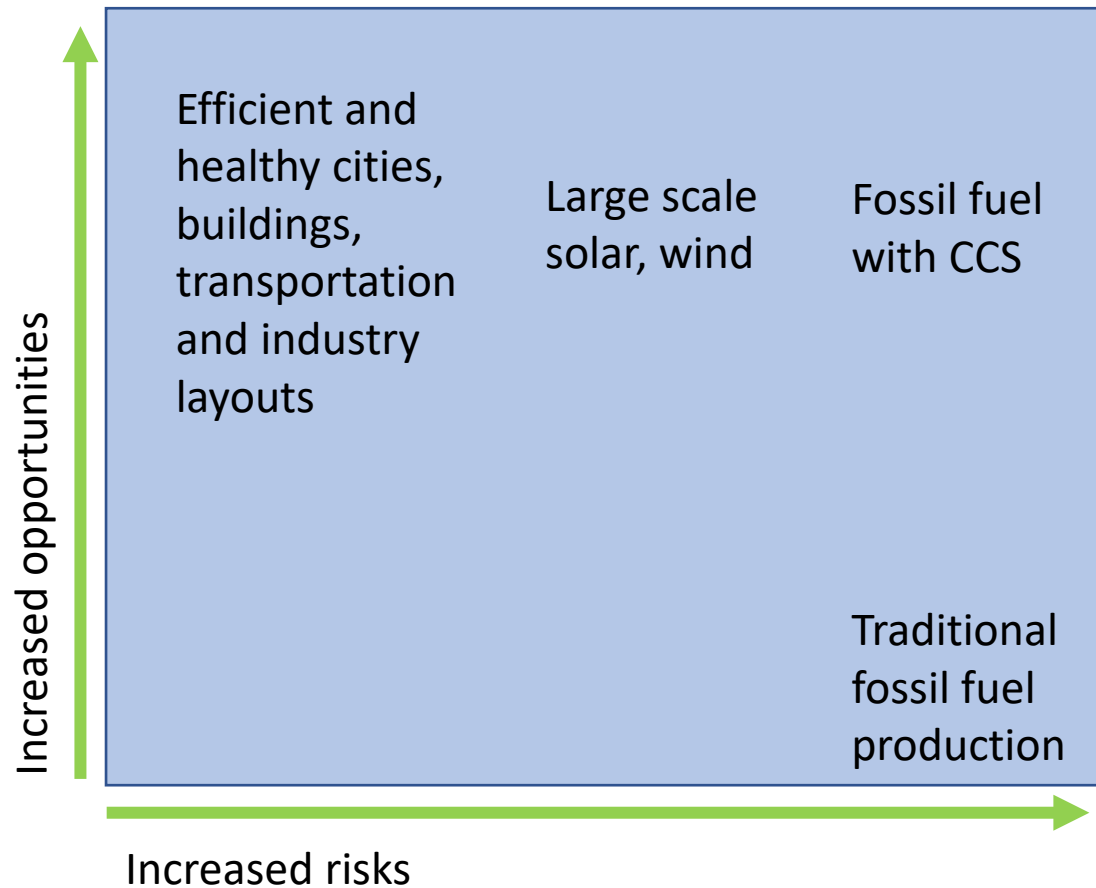
Risk and opportunity effects commercial valuation in four ways



- Elimination or creation of projects.
- Impact on (probability weighted) expected cash flows.
- The cost and value of options to mitigate risk and capture opportunity.
- Impact on discount rate.

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SDGs will create risks and opportunities



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Policy scenarios



- Any valuation requires a scenario/forecast of what the relevant policies will be over the lifetime of the project
- Three sets of standards/regulations may be foreseen:
 - Local regulations/standards currently in place
 - Most stringent standards applied in major region
 - A selected SDG-compliant global standard.

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Classifying SDG Impacts

Policy changes cause projects to be cancelled, maintained or advanced



		Confirmed Feasibility	Feasibility under evaluation	No evaluation due to lack of data	No project identified
		F1	F2	F3	F4
ESE Viability confirmed	E1				
ESE Viability under consideration	E2				
Production of unused material, too poorly defined or ESE considered unfavourable	E3				

E1,F1

UNFC class 11

Category	Definition
E1	Development and operation are confirmed to be environmentally-socially-economically viable.

Category	Definition
F1	Technical feasibility of a development project has been confirmed.

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Classifying SDG Impacts- In addition, their commercial values are affected



Black

- Major impairment of commercial value

Grey

- Sustained commercial value

White

- Enhanced commercial value

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Values must be computed at multiple levels



- Project
- Asset
- Portfolio
- Enterprise within jurisdiction
- Jurisdiction
- Transnational enterprise

- UNFC will focus on project level, where the primary valuations and go/no go decisions are made, and which can be aggregated upward to other levels.

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Capital market reactions



- The capital market is becoming increasingly concerned about the value at risk in their investment portfolios and see merit in contributing to reaching the SDG.
- UNFC with its project focus informs and complements these efforts.

Thank you!

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