April 16 | Overview

The April 16 NACD Texas TriCities Chapter webinar yielded some great conversation with our expert panel. Due to our time limit, we were unfortunately unable to address many questions that attendees submitted via WebEx chat. Our panelists were kind enough to respond to quite a few of these via email to provide a deeper understanding of issues facing the energy sector regarding our topic.

Attendee Q&A

From an ESG perspective, could an argument be made that the larger firms are a bigger part of the energy solution? They have incredibly smart workforces and scale/scope to real innovate in these areas and apply new technologies.

(John Hoeppner) There is some relationship between size and energy solution potential (e.g. R&D budgets / partner relations / scale of infrastructure knowledge). There is also inherent momentum making breakthrough technologies more challenging for big firms. From an ESG perspective – transparency, culture, constructive engagement, environmental ambition – are much better signals than size.

What do you consider the three main drivers for renewable energy growing from 5% to 20+% in the next 20 years?

(John Hoeppner) The response will vary by country, etc. 1) Regulatory changes 2) Technological improvements 3) Infrastructure

Lastly, this past Wednesday Legal & General releases its annual Active Ownership report which details our ESG activities, with details on our proxy voting and engagement priorities. This may be a good resource for the group.

With the need to meet near-term earnings expectations, there are many challenges of capital investment and operational risks in modernizing infrastructure. Is there any way to accelerate investments knowing that there can be significant downstream efficiencies?

(Lynn Elsenhans) The conversations are very dependent on how the current crisis is impacting the company. The one constant perhaps is that all companies are shoring up liquidity, it is just more expensive and more difficult to accomplish for some. In a strange way, there is actually less pressure from investors for short term performance right now. They expect the performance to be bad (unless the business is benefitting from the crisis) and their sights are more to the future. They value transparency. Bad news seems to be taken better than no news.
Investments may be delayed but they are delayed for everyone so there is no competitive disadvantage. The real concern is whether companies will make the investments (expense and capital) that maintain reliability and base underlying capability. The impact of under investing in maintenance will not show up immediately. More likely to become apparent when the market is in recovery.

What behaviors are you seeing that make you feel directors are not over-confident about pre-pandemic success of the company? How does a board address another Black Swan event?

(Lynn Elsenhans) One could argue that that Covid-19 was not a Black Swan event. There have been many warnings about the possibility of pandemics and the need for companies to have business continuity plans to deal with them. And in the main, it would appear that companies are dealing with this crisis much better than governments, except for those companies that entered into this event over levered.

I agree with Jeff Holman’s April 25th WSJ opinion piece that the Black Swan event was the response of governments in democracies to the pandemic. Before now, I would not have predicted complete lock down leading to a massive slowdown in the economy in a matter of weeks. It leads to a broader question of what else will trigger such a response? Just how far will executive powers overreach? This crisis has also shown that the US is beyond the point of no return as it relates to the electorate’s expectation to be taken care of by the federal government. This almost universal expectation is likely to have very significant implications for private enterprise going forward. So, I am hearing a lot from board members about the likelihood of significant structural changes going forward that will alter almost every aspect of doing business. Dealing with uncertainty is more the conversation and I don’t hear any talk of things “getting back to normal”. I actually think we run the risk of swinging too much risk aversion vs the assumption that this is just a massive pause button before we go back to business as we knew it. The potential downside of that behavior is reduced innovation.

Do you think current leadership initiatives that we are seeing during this pandemic will continue post COVID-19? What are some practices/areas of focus that will might be different in the post-pandemic future?

(Lorenzo Simonelli) The current state of the world will not relax overnight, so I do believe leadership initiatives we've seen in the last few months will continue, certainly for the next few quarters if not longer. Longer-term, leaders will need to maintain a closer level of communication with their employees and use more virtual and remote technologies to stay connected. COVID-19 has taught us how speed and flexibility are now needed even more than before, and we also will need to apply the same techniques to our customer and stakeholder relationships. Our “new normal” will be more connected but also more remote and more creative in how we deliver our products and services.

(Susan Dio) As the global COVID-19 crisis worsened, some wondered if the pandemic would delay or change the ambitions BP’s new CEO Bernard Looney announced in February: to become a net zero company by 2050 or sooner and help the world do the same. The current crisis has reinforced our belief in reimagining energy and reinventing BP. Climate change and the need for net zero have not gone away. We made clear we would cut the carbon intensity of our products, commit more capital to non-oil and gas activities and advocate for policies that support net zero, including carbon pricing. We also launched a new team to help cities decarbonize with integrated clean energy and mobility solutions.

As our CEO Bernard Looney said April 28, “We remain as committed... and even more committed to the energy transition.” No one can solve the pandemic alone. And no one person, company, or country can solve climate change alone. Responses will be needed around the world to combat both. The world’s response to COVID shows the incredible power of people coming together for the greater good. At BP we hope that will inspire people everywhere in a similar way to come together to tackle climate change and get the world to net zero.
With the need to meet near-term earnings expectations, there are many challenges of capital investment and operational risks in modernizing infrastructure. Is there any way to accelerate investments knowing that there can be significant downstream efficiencies?

(Lorenzo Simonelli) The energy industry remains vital, and millions of people still need access to electricity. However, we need to look more closely at how we provide energy while continuing to change our methods and work within a new reality in 2020. As I mentioned in the NACD webinar, I believe the usage of data and the ability to unlock the power of data will bring the next wave of productivity for the energy industry, spurring new investment and driving efficiencies we couldn’t achieve before. Digital transformation is key to many of our customers’ priorities in both the short and long-term, and we have the right technologies today to make a meaningful impact.

What type of workforce transition will have to take place as the energy industry evolves to lower carbon, and how long will it take?

(Susan Dio) One thing that may well change is the nature of work, with many of our teams remote working. Hurricane Harvey made us think differently about how we get work done. We telecommuted and we adapted from a digital standpoint. I think our industry could see a lot more of that in the future. That experience led us to ask, “Is work what you do or where you do it?”

Given the number of people on unemployment as well as those unable to work from home, when do you feel companies will have to push for “opening the economy”?

(Lorenzo Simonelli) The health and safety of our employees remains my top priority, so my focus is on our path forward within Baker Hughes. We continue to operate in many countries as an essential business for energy infrastructure, and we are constantly reviewing our approach for remote working and, eventually, a return-to-work program. By using virtual technologies like Microsoft Teams, we are able to keep many of our colleagues remotely connected as long as needed to ensure we maintain proper social distancing where possible.

(Susan Dio) I can only speak to how BP is working to respond, and safety is our priority: we are following local guidelines. We’ve approached this through a lens of people, communities, and financial health. Health and safety of our employees is priority one. Everywhere we can, employees are working from home, including our trading operations. We put this guidance out even before civil guidelines came into effect. We took this very seriously very early. In the US, we waived all out-of-pocket costs relating to testing for COVID-19 for employees enrolled in the BP Medical Plan. We also waived all telemedicine copays until at least June 4.

We had actually been working on making our company more digital and more agile prior to COVID-19. We’re seeing the fruits of those efforts now. We will be thoughtful, strategic and flexible for our US businesses, recognizing they all have different needs.

Headwinds like land utilization, supply chain frictions, low prices and demand for 24/7 power makes 100% renewable transition a real long put. Isn’t carbon capture really more important to aspirations and ESG funding?

(John Hoeppner) I don’t think it is an either or. At present, capturing carbon – economically and at scale – is hard.