North Sea Transition Authority

ESG Disclosure

2021–2022 observations

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Contents

Where the NSTA makes any assessment of the ESG disclosure of a Licensee, this is done specifically and exclusively for the NSTA's own purposes. This Report, and the NSTA's observations, is not intended to replace any other ESG disclosure requirements with which each Licensee may have to comply. Third parties should not rely on any statement (or absence of any statement), decision, action or inaction of the NSTA, or rely on the NSTA in any other way, to satisfy themselves as to adequacy of a Licensee's ESG disclosure. They will need to carry out their own due diligence on the ESG disclosure of Licensees.

The document can be found on the NSTA's website.

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Executive summary

Recent world events have highlighted the need to ensure security of supply and the transition to net zero. The North Sea Transition Authority ("NSTA") recognises its role as a regulator and value creator and will work to support the maintenance of secure supplies of domestic energy as cleanly as possible, employment opportunities and revenues for the UK. In doing so, the NSTA will continue to encourage investor confidence, including work to mitigate potential barriers to investment, including driving the importance of clarity and consistency in Environmental, Social and Governance ("ESG") disclosure.

This inaugural report sets out the observations from NSTA analysis and the NSTA's view of industry progress on ESG disclosure. The report builds on previous recommendations of the NSTA and its ESG Taskforce, published in March 2021 ("2021 Recommendations"), and further discussed in the NSTA's open letter to all licensees in March 2022.

It is our intent to update this report annually.

The report is designed to assist industry in navigating the ESG reporting landscape and to highlight the importance of high quality, focused, non-financial reports. Cognisant of the broad UK ESG disclosure regime and the flexibility that is afforded to companies in their reporting, we recognise the improvements in disclosure that have been made across the sector. Nevertheless, we continue to encourage more consistency and clarity, through meaningful metrics and clear and credible commitments to net zero.

The NSTA will continue to encourage licensees to report in a manner that drives trust, and delivers action, authenticity and evidence. This will help safeguard the sector's social licence to operate, embedded in the supporting obligation on governance in the NSTA's Strategy.

The report includes the following key findings:

- Reporting is on a positive trajectory with considerable alignment overall to the 2021 Recommendations;
- Continued focus on the 'E' of ESG, which remains easier to quantify, with less focus on the 'S' and the 'G';
- Data is scattered and often difficult to find across several reports issued by each company, which could be addressed through the use of a standard set of templates held within a centralised 'Data Centre'.

Introduction

With over 600 global ESG reporting frameworks, companies are faced with a significant challenge as to how they harmonise and clarify what is described by many commentators as a "confusing muddle" of conflicting frameworks, metrics, and guidance. Overwhelmed with choice, a roadmap to harmonisation and clarity is needed for the sector: both providers and users of ESG data face significant challenges with uniformity and standardisation.

Investors, lenders and wider society cannot be experts in interpreting potentially hundreds of different definitions of what ESG means. Equally, companies need to be able to easily identify exactly what is expected of them to be able to efficiently allocate resources to the creation of a high-quality reporting process.

This report sets out the NSTA's observations on the evolution of ESG reporting in the UK oil and gas sector and its views on the development of a more standardised approach to ESG reporting. The NSTA reviewed the public ESG reports of 31 licensees to assess and compare their ESG disclosure status against the NSTA's ESG Taskforce recommendations and other commonly used ESG frameworks. We did this with the intent of making it easier for licensees to report, to maintain the sector's attractiveness to investors and to help protect its social licence to operate.

The NSTA follows a lifecycle approach to net zero regulation and in its most recent Corporate Plan – 2022-2027 set out priorities for the next five years, including promoting the importance of, and compliance with, ESG reporting standards.

The NSTA remains committed to supporting the sector in its efforts to provide meaningful ESG disclosure and will continue to work with a variety of stakeholders to improve ESG standards. Since 2018, as outlined in Figure 1, we have been integrating our expertise as an authoritative voice on ESG, to reflect the needs of an investor community and a wider society that are both increasingly focused on ESG related matters.

Our ESG Taskforce was set up in August 2020 to bridge the expectation gap between disclosers and users of ESG information by delivering recommendations to enhance and standardise disclosure. During 2021 it issued recommendations designed to assist in the delivery of manageable, repeatable, and achievable environmental disclosure metrics, being the 'E' of ESG.

The NSTA has also published two Diversity & Inclusion Reports, addressing key considerations under the social aspects of ESG. These highlight the work that we have undertaken, outline progress during 2021 and 2022, and include the NSTA's future commitments to the sector.

In relation to the 'G' of ESG, we published new NSTA Governance Guidance in early 2022, outlining when we may review licensee governance arrangements and the factors that we may consider. The guidance also sets expectations for boards in relation to environmental governance and corporate social responsibility.

Figure 1: Evolution of ESG within the NSTA

2018	2019	2020	2021	2022
NSTA investor engagement identified ESG as a key investment yardstick	ESG top of investors' agenda	ESG Taskforce set up in response to investor demands	ESG Taskforce publishes recommendations to clarify key metrics and short, medium and longer term disclosure	NSTA writes open letter to licensees on the importance of ESG to investors
	No ESG disclosure. No access to capital		NSTA revised Strategy brought ESG within the central obligation and introduced new supporting obligation for good and proper governance	NSTA Governance Guidance published
				NSTA ESG Dashboard refreshed and inaugural ESG Observations report due to be published

Key findings

Environmental disclosure

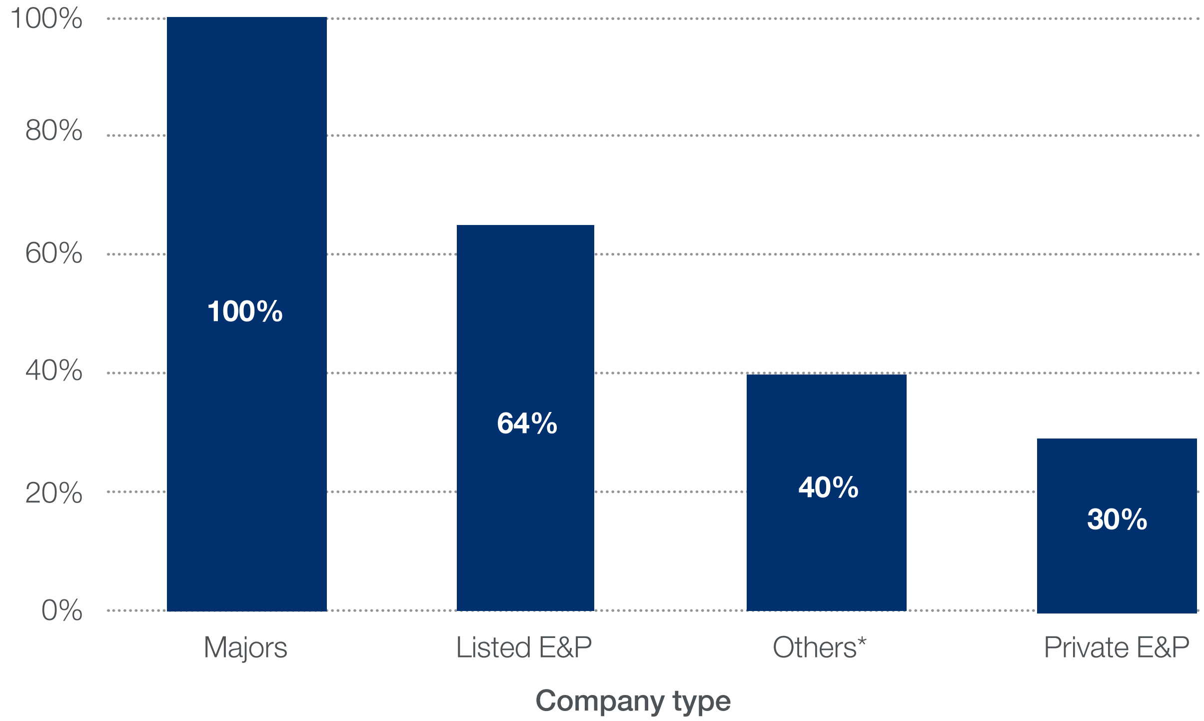
Overall, we are encouraged that the majority of companies continue to make good progress in their disclosures and are on a positive trajectory. The vast majority included in the NSTA's analysis are disclosing in line with most aspects of the 2021 Recommendations.

New regulatory disclosure requirements have improved environmental disclosures on climate related risks and carbon reduction targets for all companies, but particularly for those licensees with producing assets. Mandated regulatory compliance with evermore regulations and requirements ensures that many larger companies must consider their environmental impact. Regimes include Streamline Energy and Carbon Reporting ("SECR") and the Task Force on Climate-related Financial Disclosures ("TCFD") framework, which is reported against by listed companies on the Main Market, and AIM companies with more than 500 employees.

Figure 2 shows the types of companies which are opting to report against the TCFD framework. Apart from those required to report via TCFD, a variety of other frameworks are applied in reports, with the most frequent alternatives coming from the Global Reporting Initiative ("GRI"), the Sustainable Accounting Standards Board ("SASB"), the International Petroleum Industry Environmental Conservation Association ("IPIECA"), and the UN Sustainable Development Goals ("UN SDGs"). Materiality assessments are a practical way to understand stakeholder expectations and to focus reports on what matters and further consideration should be given as to how these are presented to key stakeholders to ensure these remain useful for investors.

Figure 2: Companies reporting against TCFD

Source: NSTA



In completing our analysis, certain companies have emerged as "best in class". These entities are typically using a standardised and central 'ESG Data Centre' which pulls all ESG data into one easy to find location, lends itself to common templates and which the NSTA believes helps to provide additional consistency and clarity. A common data set, which is focused on material and relevant information, will provide more balance between the size of the company and its ESG disclosure requirements: there is no need to provide a large report if it is not value adding. Keep it consistent, relevant and accurate.

By pulling together key disclosures from recognised reporting standards and frameworks into an annual data sheet, a wealth of information can be made easily available. An ESG Data Centre should provide information on performance against materiality issues, using GRI, TCFD, or Carbon Disclosure Project ("CDP"), and a summary of progress to net zero. It can be included as part of the sustainability or annual report.

The following are suggestions for what a 'good' Data Centre and ESG Datasheet might look like.

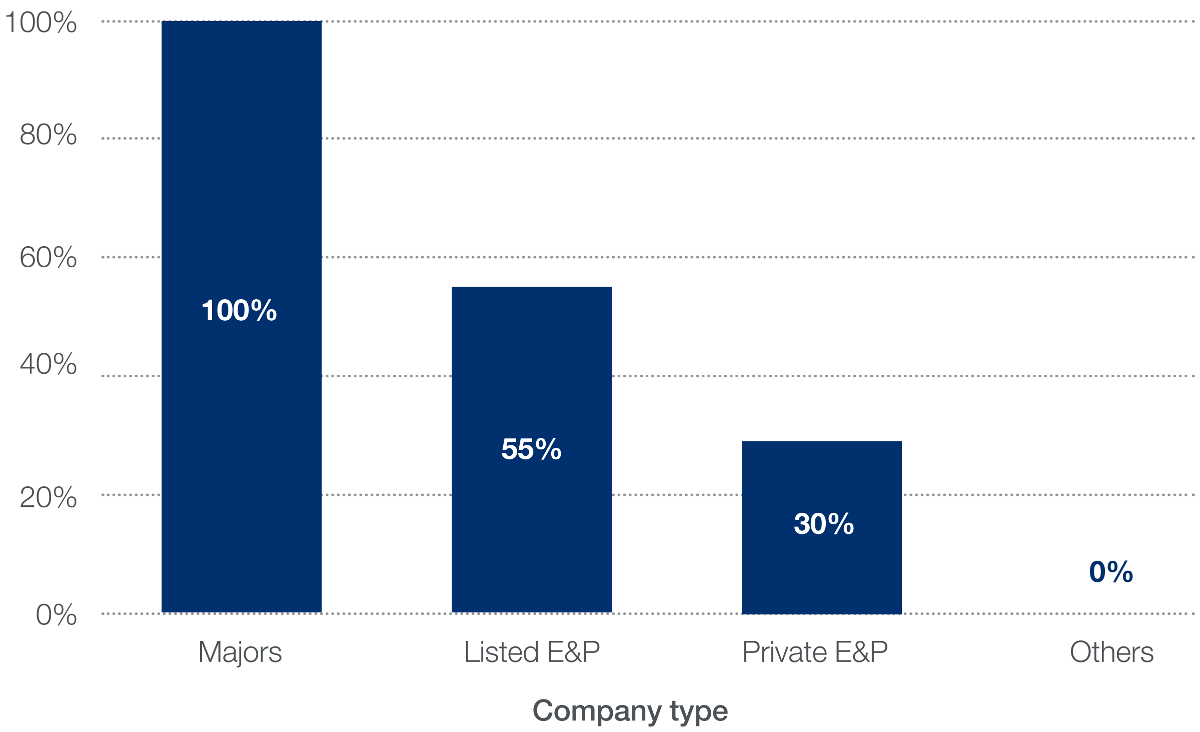
1. One-stop shop for investor and other stakeholders on ESG data
2. Description of ESG Strategy, materiality assessment, goals and KPIs
3. Considerations relating to socioeconomic reporting: increasing disclosure on taxes paid, number of jobs supported directly and indirectly by the organisation, etc
4. Transparent annual set of ESG metrics with accompanying methodology or independent verification report

Figure 3 shows the percentage of companies reviewed that are using a Data Centre approach.

*– Includes subsidiaries of national oil companies and international conglomerates

Figure 3: Percentage of companies using an ESG Data Centre

Source: NSTA



Social disclosure

We have analysed social disclosures by referring to metrics relating to people management, workforce standards, community relations, and gender and ethnic diversity. These metrics are found in recognisable frameworks such as the UN SDGs, SASB framework and GRI.

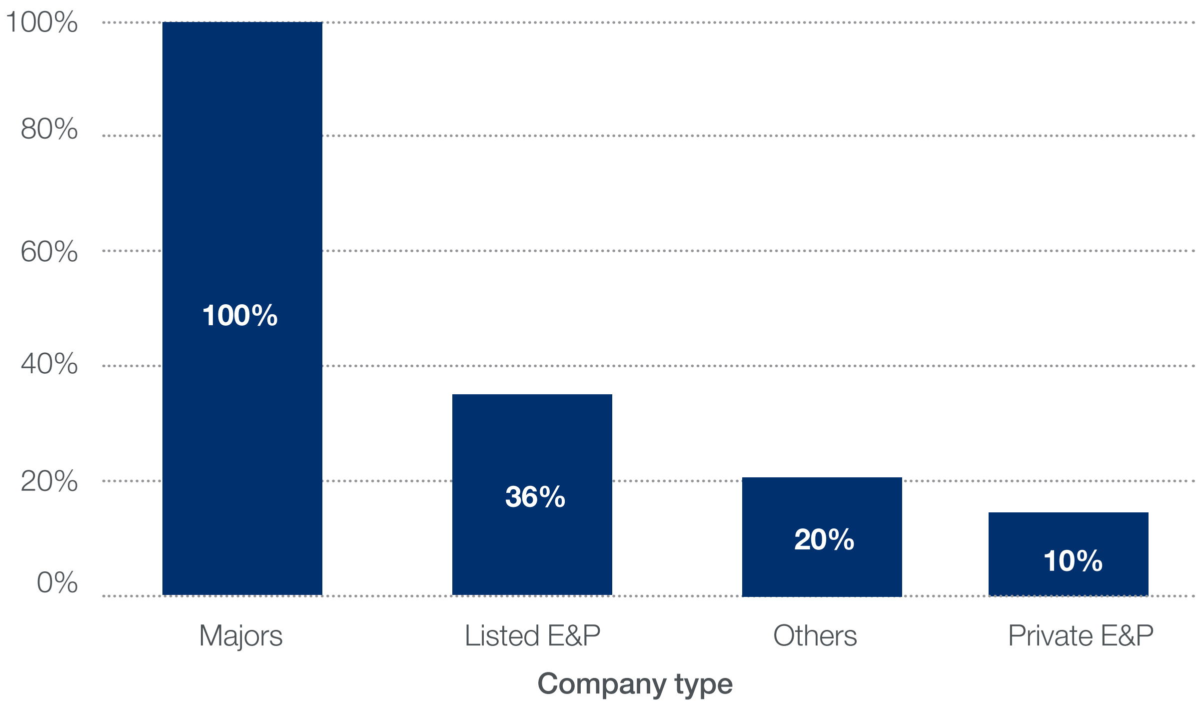
Whilst there is some way to go in the development of uniform and standardised social metrics, the majority of companies are disclosing well. However, reporting of ethnic diversity is lagging, as can be seen in Figure 4. It is apparent that diversity is still viewed primarily through the lens of gender.

In the NSTA's 2021 Inclusion Report, we committed to engage operators and tier one contractors to hear some of best practice examples of diversity and inclusion from around our sector. The lessons learned were included in the 2022 Inclusion Report.

Expectations across all sectors are being raised with regards to social responsibility. This relates to internal staff, contractors and employees of suppliers. Strong performance is pivotal to driving the North Sea Transition Deal, attracting skills and talent, investment and maintaining industry's social licence to operate.

Figure 4: Ethnic diversity disclosure

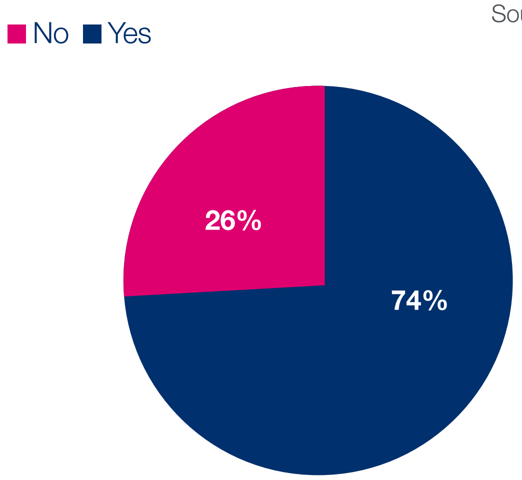
Source: NSTA



As responsible licensees, the sector should continue in its commitment to create great places to live, work and do business. The NSTA encourages transparent and tangible steps to minimise negative impacts such as the cost-of-living crisis and to maximise positive impacts against the three Ps, “Profit, People and the Planet”. Data collected and disclosed as part of the ESG process can be leveraged to improve corporate culture and employee engagement; companies can use the information in their workforce plans, helping them to attract and retain diverse talent and support diversity, equity and inclusion.

Figure 5: Percentage of companies disclosing a recognised Corporate Governance Code

Source: NSTA



Governance disclosure

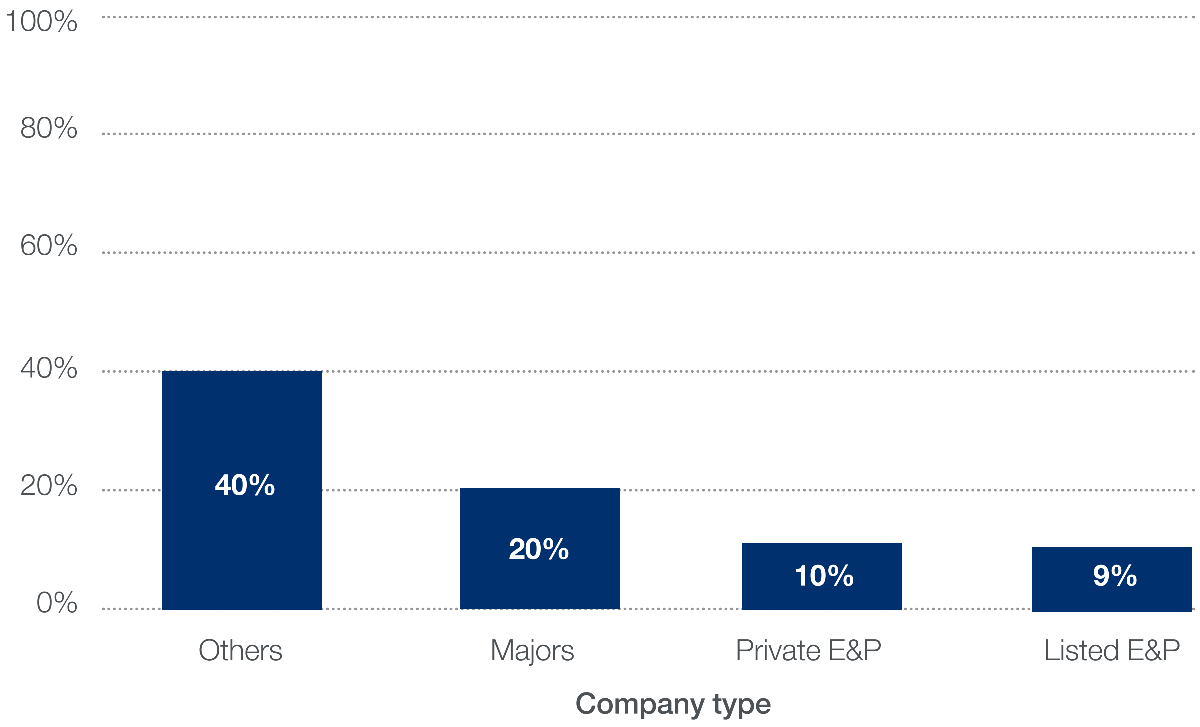
NSTA Governance Guidance was published in January 2022 and all licensees should familiarise themselves with the requirements. The NSTA is undertaking governance reviews where appropriate.

The NSTA Governance Guidance requires the adoption of a recognised Corporate Governance Code such as the UK Code, Wates Principles or the QCA Code.

However, the analysis of governance disclosure as shown in Figure 5 has found that a number of companies do not disclose the recognised corporate governance code they are following. The analysis has also identified gaps in the disclosure of whether a regular cycle of external board evaluation has been undertaken (Figure 6), which the UK Corporate Governance regime highlights as important for continuous improvement. The NSTA encourages all companies to review their disclosure in both these areas.

Figure 6: Disclosure of external evaluation of Board performance

Source: NSTA



Some licensees are using auditors or independent consultants to externally verify ESG Data or sustainability reports. This provides a more robust set of data, which provides a greater degree of comfort and credibility for investors, lenders and wider stakeholders.

Misinformation and potential claims of greenwashing can cause significant reputational damage. Using an external assurance & verification process could support the reliability of data and enhance its credibility.

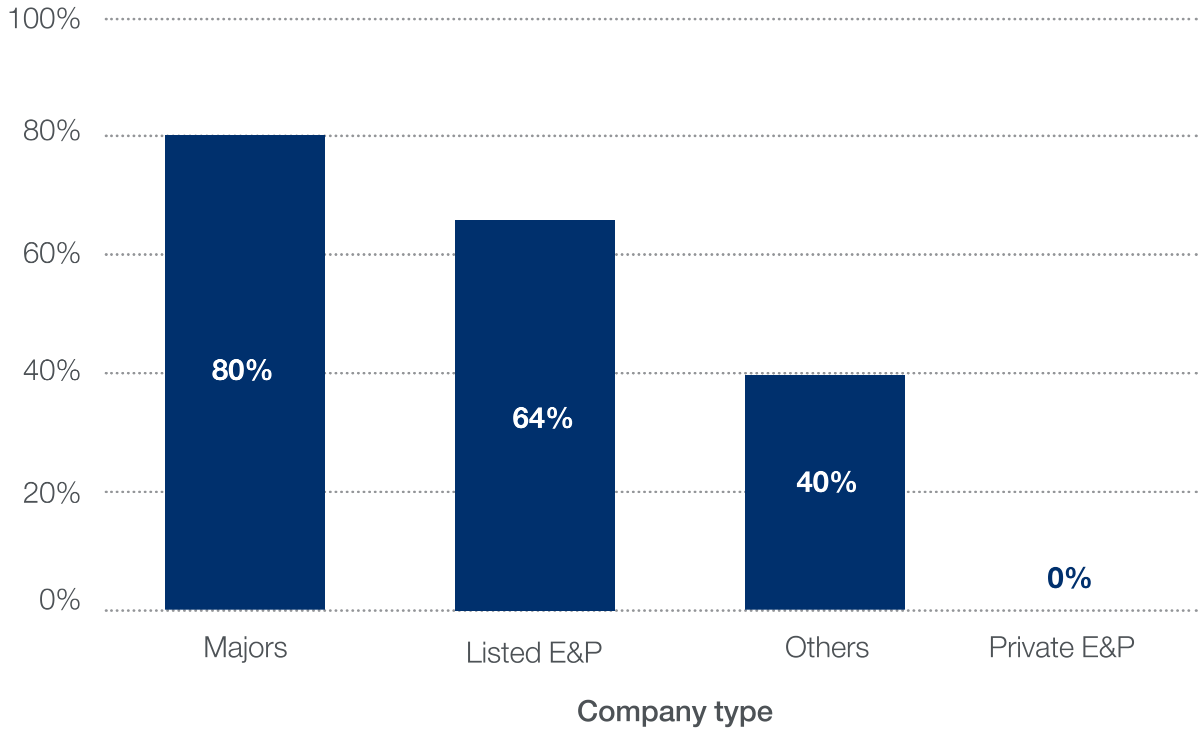
In the best reports, demonstrable knowledge, understanding and training across all levels of the company is key, so that all employees understand the importance of, and reason for, an ESG report.

Senior leadership and the board must have a clear understanding and awareness of ESG requirements facing their companies. An increase in the use of ESG metrics in board or senior leadership remuneration plans can help develop strategies and highlight the importance of ESG reports.

Figure 7 below shows that a significant proportion of licensees are now disclosing that they are aligning ESG performance to remuneration.

Figure 7: Disclosure of ESG KPIs in variable compensation policy

Source: NSTA



Revised NSTA ESG 2022 recommendations

The NSTA believes that clear disclosure of ESG metrics, external verification, common data tools and templates, accompanied by appropriate and responsible training and development from board down, will assist the sector's continued access to finance, long-term corporate success and social license to operate.

The NSTA's 2021 ESG recommendations reflected optimal UKCS ESG disclosure and reporting at that time. A reminder of these recommendations is in Figure 9.

The revised 2022 recommendations, shown in Figure 8, reflect the pace of change in ESG since March 2021 and capture the key emerging best practice. We have removed the tiered approach which at the time was designed to reflect short, medium, and long term expectations. All ESG requirements are now deemed equally important.

The recommendations are not intended to create any new regulatory or additional mandatory burden and are not a substitute for any regulation or law, nor do they represent advice. However, the NSTA continues to expect voluntary buy-in and in particular expects the UKCS licensees to:

- Be a leader when it comes to improved ESG disclosure in the UK;
- Be diligent in reducing data gaps and ensuring better transparency;
- Lead from the top when it comes to improving ESG Disclosure and driving effective data collection to deliver robust reporting.

The recommendations remain designed to assist industry in developing its ESG reporting package. They will be kept under regular review and may be amended as appropriate in the light of further developing best practice and any change to the NSTA's powers and responsibilities.

The 2022 recommendations reflect the ESG disclosures which licensees should be making in their reports.

Figure 8: ESG 2022 Recommendations

ENVIRONMENTAL

- Health and Safety statistics
- Scope 1 & 2 GHG emissions
- Fugitive emissions
- Gas handling solutions
- Air, water and pollution risks
- Waste management and disposal
- Carbon/emissions intensity
- Action plan and investment approach to support decarbonisation
- Clarity on data sets and description of targets/methods used in emission reduction activities
- Align to a recognised ESG reporting framework and include description of compliance

SOCIAL

- Communicate approach to talent, jobs and upskilling
- Disclose diversity (gender and ethnicity), inclusion and equality targets and ambitions
- Undertake community responsibility and engagement initiatives and relationships

GOVERNANCE

- Emissions targets tied to top management KPIs/ remuneration plans
- Board or senior leadership positions dedicated to ESG requirements, e.g. board level ESG Committee
- Board oversight understanding and knowledge of ESG risks and opportunities
- Adhere to NSTA Governance Guidance and Fitness policy

Figure 9: ESG 2021 Recommendations

Tier 1 Quantitative	Tier 1 Qualitative	Tier 2 and 3
Key health and safety stats and metrics Fugitive methane emissions Gas handling – venting and flaring and solutions Scope 1 and 2 emissions Air and water pollution risks Waste management and disposal Carbon intensity	Board oversight of governance and climate change risks and opportunities Action plan to support a low emission economy Description of targets/methods used to drive investment in emissions reduction activities (compliance with regulatory requirements/standards) Stated environmental/HSE policy – adopted by the board and/or senior management	GHG management/emission targets linked to top management KPIs Increased requirement to align reporting with TCFD Relevant Scope 3 emissions Renewables - Strategy (or explanation of key hurdles preventing investment), cost, tons CO_2e saved Ensuring that board or senior leadership positions are dedicated to the company's climate and environmental challenges (robust transparent and consistent audit process)

Conclusion

The sector has made good progress to improve transparency in ESG disclosure and reporting and must sustain efforts and improvements going forward. The NSTA, its Strategy and associated guidance are in place to assist these efforts amid an ever-evolving landscape and corporate squeeze with security of supply and net zero challenges.

ESG remains and will continue to remain at the heart of investment decisions and access to finance will in part depend on being able to communicate that strong E, S and G practices are embedded at the heart of an organisation and integral to the long-term success of the industry's social licence to operate.

It is the NSTA's intent to monitor developments in ESG disclosure practice over the next 12 months. We will be active in our commitment to enhanced collaboration and engagement with investors and the sector.

North Sea Transition Authority

The North Sea Transition Authority is the business name for the Oil & Gas Authority, a limited company registered in England and Wales with registered number 09666504 and VAT registered number 249433979. Our registered office is at Sanctuary Buildings, 20 Great Smith Street, London, SW1P 2BT.

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