

“Defining the ‘E’ of ESG” reporting

The Oil & Gas Authority (“OGA”), through its tripartite approach, works closely with industry, government and the investor community, including on matters relating to the UK’s net zero target.

The revised OGA Strategy (submitted for laying before the UK Parliament on December 16 2020 and approved in February 2021) which reflects the ongoing global energy transition, includes a requirement for operators and licensees to Maximise the value of Economically Recoverable oil and gas from UK resources (“MER UK”) and in doing so take appropriate steps to assist the Secretary of State in meeting the UK’s Net Zero target. The Strategy is clear that operators and licensees should develop and maintain good and proper Environmental, Social and Governance (“ESG”) practices in their plans and daily operations. In doing so, they will also meet investor requirements.

Over the last few years through its investor engagement, the OGA has seen first-hand the increase in importance of ESG to the investor community. Providers of finance in its various forms are increasingly focused on the non-financial performance of organisations, requiring a more comprehensive view of a company’s performance and development. As the demand for socially responsible investing and lending grows, sustainability matters and ESG performance will be a key element in the decision to continue support for the oil & gas industry. Therefore, it is in the interest of the UKCS and firms operating within the basin to be transparent in their reporting of non-financial performance and development.

The OGA’s investor finance team has further discussed ESG matters with industry operators, spoken to many investor stakeholders (including over 20 banks and 10 law firms) and has engaged with bodies such as the: PRA, FRC, FCA, ICAS, IFRS and IASBⁱ.

Against this backdrop, the UK Government further announced (November 2020) that the UK expects to mandate ESG disclosures (aligned to the TCFD framework) across non-financial and financial sectors of the UK economy by 2025, with a significant portion of mandatory requirements in place by 2023.

The OGA fully intends to support and assist industry as it wades through the complex array of ESG standards, principles and guidance, and to work with OGUK and Brindex to ensure appropriate compliance with, or application of, the appropriate ESG framework in relation to UK operations.

After repeated calls from the investor community to define a set of common standards, the OGA convened and led a taskforce looking at ESG during the latter half of 2020, (the “Taskforce”). The purpose was to canvass the views of industry and the investment community to better understand the investor and industry viewpoint with regards to climate related reporting, in the short, medium and longer term, in order to collate views as to what constitutes a fair and achievable minimum framework of set of climate metrics and disclosures that are manageable, repeatable, comparable and work for both UKCS licensees and investors. It should be noted that the ‘S’ and ‘G’ aspects of ESG are discussed as part of the OGA’s Governance Guidance, due to be published [summer 2021].

The objectives of the Taskforce were to create a highly agile cross-industry discussion group drawing on experience and expertise, to explore and identify out of guidance such as TCFD, a small set of ESG metrics that are of key importance to lenders and investors and which can easily be reported on by all operators in the UKCS.

The Taskforce was represented by four providers of capital; including debt, equity and private capital providers, three users of capital inclusive of the chair of BRINDEX, two law firms and one trade association for the UK oil and gas sector (details of representatives below).

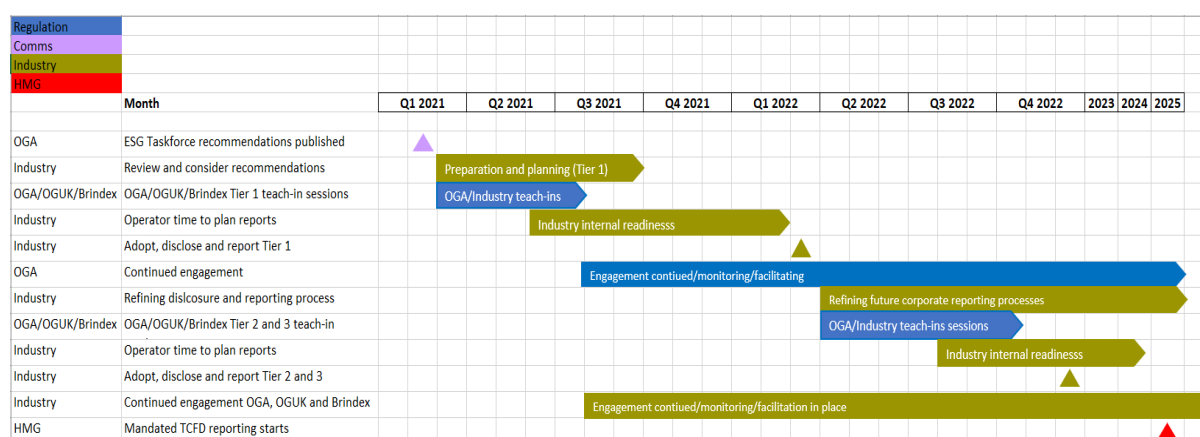
The cross industry taskforce concluded in January 2021 and is now publishing its recommendations on what constitutes optimal UKCS ESG disclosure and reporting. The OGA is now working with the sector to ensure that key climate-related information will be included, alongside other key metrics, in oil and gas operators and licensees’ UK financial reports.

The recommendations outlined below are not intended to create any regulatory or mandatory burden and are not a substitute for any regulation or law, nor do they represent advice. The OGA expects voluntary buy-in, mindful of investor expectations around attracting capital in the future and mandatory TCFD compliance by 2025.

These recommendations will be kept under regular review and may be amended as appropriate in the light of further developing best practice and mandatory requirements, and any change to the OGA’s powers and responsibilities.

Next steps and timeline to enhanced disclosure

Look out for OGA - OGUK and OGA - Brindex workshops and teach-in sessions to be set up over the course of Q1 21.



Taskforce representatives

Name	Organisation
Brindex	Robin Allan (Chairman of Brindex)
Premier Oil	Toby Garwood (ESG Coordinator)
Chrysaor	Paul Hatton (Government & Environment Initiatives)
Ithaca Energy	Rhona Macinnes (Corporate Affairs Director)
Kerogen Capital	Tushar Kumar (MD Kerogen Capital UK)
DNB Bank	Wendy Keenan (First Vice President Energy)
	Mark Munro (Senior Vice President Ocean Industries & Energy)
Deutsche Bank	Federica Calvetti (Head of ESG, DCM EMEA)
OGUK	Francesca Bell (Business Advisor)
	Will Webster (Energy Policy Manager)
CMS	Judith Aldersey- Williams (Partner)
Pinsent Masons	Elizabeth Budd (Partner)
Investec	Alex Smith (Equity Analyst, Oil & Gas)

Recommendations of OGA ESG Taskforce

The OGA recognise that many global operators already have such measures in place and fully intends the outputs of the taskforce to support and assist wider adoption and integration of ESG reporting by the industry. This will be done through continued work with trade associations and other groups such as OGUK and BRINDEX to ensure appropriate compliance with, or application of, the appropriate ESG framework in relation to UK operations. The taskforce will maintain momentum through working groups and teaching sessions where needed to help industry adapt to the growing ESG reporting landscape.

The Taskforce recommends operators and licensees align to a common minimum standard of reporting, using the key metrics identified by the Taskforce and detailed in Table 1 below. It has concluded that operators and licensees should take the next 12 months to debate and discuss best practices of how to report against these metrics, rather than expecting imminent compliance, and should work to be ready to report in Q1 2022 alongside the publication of their 2021 full year audited financial reports. The Taskforce believes these recommendations provide a signal and signpost to which operators and licensees should respond.

The taskforce has agreed upon seven quantitative (see Table 1 and 2 below) and four qualitative metrics, grouped as Tier 1, short term metrics which should be the focus for 2021. An additional five metrics were agreed as Tier 2 and Tier 3 metrics, which we expect to rise in importance over the medium to long term. These metrics should be viewed as a starting point but by no means an end point. (Tiers 1-3 described in Table 2 below).

The taskforce agreed the following general, overarching expectations:

- We expect operators and licensees to disclose climate-related data in their financial reports, and/or on their websites;
- We expect industry to work towards being leaders not laggards – reduce risk/go first;
- We expect industry to be mindful of the data gap and we will encourage and ensure better transparency;
- We expect that disclosure should both be quantitative and qualitative with signalled improvements over time;
- We expect senior leadership teams to adopt these metrics, drive their businesses to gather accurate data to deliver robust reporting against these metrics;
- Companies may choose to set science-based targets to understand the alignment of oil, gas and integrated energy company emissions reduction targets with the level of transformation required to meet the goals of the Paris Agreement

Tier 1 Quantitative	Tier 1 Qualitative	Tier 2 and 3
<p>Key health and safety stats & metrics</p> <p>Fugitive Methane Emissions - (Tonne CO2)</p> <p>Gas handling – venting & flaring & solutions</p> <p>Scope 1 and 2 emissions (CO2e/boe)</p> <p>Air and water pollution risks</p> <p>Waste management and disposal</p> <p>Carbon Intensity (Metric Tonnes CO2e, kgCO2e/boe)</p>	<p>Board oversight of governance and climate change risks and opportunities</p> <p>Action plan to support a low emission economy</p> <p>Description of targets / Methods used to drive investment in emissions reduction activities (Compliance with regulatory requirements/standards)</p> <p>Stated environmental / HSE policy – adopted by the board and/or senior management</p>	<p>GHG management / emission targets linked to top management KPIs</p> <p>Increased requirement to align reporting with TCFD</p> <p>Relevant Scope 3 emissions (Tonnes CO2e)</p> <p>Renewables – Strategy (or explanation of key hurdles preventing investment), cost, tons CO2e saved</p> <p>Ensuring that board or senior leadership positions are dedicated to the company's climate and environmental challenges (robust transparent and consistent audit process)</p>

Table 1

Table 2 Quantitative disclosures

Tier	Tiers description	Reporting timeframe	Metric	Metric description	Unit to report
1	Easy/low cost/not time consuming to prepare Essential to make investment or lending decision; unable to invest without	Early 2022	1. Key health and safety stats & metrics 2. Scope 1 and 2 emissions	Incidence of H&S fines Number of fatalities due to work related injury Number of work-related injuries ex fatalities Number of recordable work-related injuries Main type of work-related injury Number of hours worked Scope 1 defined as direct emissions from sources that are owned or controlled by the organisation. Emissions sources include: UKCS oil and gas installations, UK onshore terminals processing UKCS oil and gas, offshore shipping supporting UKCS oil and gas production (logistics and drilling rigs) and aviation transportation (helicopter journeys). Emission activities include: mobile and stationary combustion (e.g. engines, turbines, heaters), chemical processes (e.g. hydrogen production, acid gas removal, sulphur recovery), flaring, venting, fugitive emissions (e.g. pipeline leak). It should be noted that the OGA will adopt the widest interpretation of "control" and expects the industry to influence emissions reductions as far as reasonably possible on purchases or services that are procured for the purposes of upstream oil and gas activities. Scope 2 emissions are indirect emissions from the generation of purchased energy. This includes purchased electricity, heat, steam or cooling.	A A A A A MTCO2e MTCO2e
			3. Fugitive emissions: Methane intensity 4. Carbon intensity 5. Air & Water pollution risks (e.g. fresh water consumed) 6. Waste management & disposal: Hazardous Waste Non-Hazardous Waste Spills and discharges Number of spills Total waste 7. Gas Handling: Flaring Venting	Defined as losses, leaks and other releases of methane into the atmosphere that are associated with industries producing gas and oil. As a percentage of CO2 Defined as aggregate quantity of greenhouse gases emitted. Report where material megalitres of water withdrawn, megalitres of water consumed and the percentage of each in regions with high or extremely high baseline water stress. Defined a volume of gas flared in offshore upstream production	MTCO2e % MTCO2e kgCO2e/boe million M3 Tonnes Tonnes Tonnes A Tonnes MTCO2e TCO2e/boe
2	Reasonable to expect to be asked to provide and possible without high expense and time commitment	Late 2022	Selected Scope 3 emissions	All indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions.	MTCO2e
	Like to have or expect to see in "Tier 1" requirement within 12-24 months				
3	Difficult/expensive/very time consuming to provide Nice to have Potential investment or lending differentiator	2023	Selected additional Scope 3 emissions	All indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions	MTCO2e

ⁱ PRA – Prudential Regulation Authority (of the Bank of England)

FRC – Financial Reporting Council

FCA – Financial Conduct Authority

ICAS – Institute of Chartered Accountants Scotland

IFRS - International Financial Reporting Standards Foundation

IASB - International Accounting Standards Board