A&M ESG SERVICES

Practical Considerations for Mid-Sized Oil and Gas Companies Starting an ESG Program

Mark Twain once said, “The rumors of my demise have been greatly exaggerated,” and the same can be said about the fossil fuel energy industry. Despite renewable energy installations being constructed at a record pace, companies pledging carbon neutrality and high-profile rulings against major oil companies, the fact is that fossil fuels make up more than 80 percent of the world’s primary energy sources[1] and will remain an essential part of the world economy for likely decades to come.

That’s not to say that companies involved in the extraction, production, refining, transportation or retailing of oil or natural gas can, or should, ignore the headwinds of change around alternative sources of energy. The demands on all companies to report on environmental, social and governance (ESG) issues are louder and more persistent than ever before. Over 90 percent of the Standard and Poor’s (S&P) 500 and nearly every major oil company reports on ESG,[2] including greenhouse gas (GHG) emissions. This trend has had a cascade effect on every oil and gas company, large or small, public or private — even private equity-owned. It is now an expectation that every company reports at least basic information about its most important ESG issues and report them in a clear and transparent way.

Major oil companies, facing increasing investor demands, have adopted an ESG reporting posture that accepts that the transition to a low-carbon economy will impact their business. Major institutional investors have issued demands around open and transparent ESG reporting and have tried to help companies navigate the confusing reporting landscape by pointing to a few standards, namely, the Sustainability Accounting Standards Board (SASB) and the Task Force for Climate-related Financial Disclosures (TCFD) as the preferred format for reporting on climate-related risks as well as opportunities.

What information are investors after?

It is important to note that the major institutional investors have not suddenly become climate activists. Instead, they are seeing real financial impact to their investments due to climate-related events and are simply asking companies to take a few simple steps:

1. Appoint a person with enough authority to effect change to review the company’s climate-related risks and opportunities.
2. Investigate whether those risks and opportunities materially impact the business. In other words, would a potential investor consider this information necessary in making a decision on whether to invest in that company?
3. If those issues are indeed material, commit to managing them and establish metrics and targets against them to chart the progress over time.
4. Report on this process clearly and transparently.

It is also important to note that many investors still invest and will continue to invest in well-managed, profitable energy companies. Indeed, the call to action from many investors to energy companies is this: Differentiate, so we don’t divest! This is especially important for smaller and even privately held energy companies that may be seeking venture or private equity funding.

---

[1] Source: U.S. Energy Information Administration (www.eia.gov); September 14, 2020.

[2] Governance & Accountability Institute 2020 Research Report; July 16, 2020.

Where do I start?

While the majors likely have dedicated, full-time ESG support staff, it is unlikely that small to mid-sized companies have or even need a dedicated ESG person. In a recent Alvarez & Marsal survey of mid-stream energy companies, 86 percent report calculating their greenhouse gas emissions but only 29 percent actually report them publicly. Rather, they typically rely on a committee approach to managing ESG activities and disclosures. But where to start? What follows is a pragmatic guide to getting started when it comes to ESG disclosures.

1 Get credit for what you are already doing – Very often, companies are already doing many of the things that investors and others are interested in seeing when it comes to ESG reporting. Things like diversity and inclusion statistics, health and safety metrics, and policies around protecting personal information are all examples of items that, if pulled together and published on a company's website, act as a good first step when it comes to ESG reporting.

2 Understand what's important to stakeholders – It's important to not only look inside but outside the company to understand what key stakeholders like customers, investors, regulators, and current and prospective employees are most interested in hearing about. This process, often called a materiality assessment, is a key element to helping to shape your new ESG program. There are hundreds of potential ESG issues that can impact a company; understanding which ones are most important to you and your key stakeholders helps you narrow that list to a handful of issues. This process makes ESG reporting much less daunting and helps keep costs associated with data collection and reporting much more reasonable.

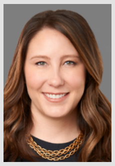
3 Set your ESG platform – Once you understand which ESG issues are most important to you and your key stakeholders you can craft your ESG strategy. Your ESG strategy should be designed to enable achievement of your overall business objectives and be one that is consistent with your culture, vision and mission. In short, it should be authentic to who you are as a company.

4 Start data collection – In some ways, this is the easiest and hardest thing to do. Undertaking a materiality assessment helps identify the most important areas to gather data to support your reporting. Some of this data will be very straightforward to collect, such as the ratio of male to female employees, or the overall diversity of board members. Other areas like waste, water and GHG emissions may not be so straightforward. The important thing to remember is to start where you are and improve over time. Perfection is not expected with your first ESG report.

5 Tell your story, your way – There are numerous ESG reporting frameworks out there, and it can be confusing to know which one to follow. Our survey of mid-stream energy companies shows nearly two-thirds of companies do not report to any established ESG framework. While SASB and TCFD are currently the preferred reporting frameworks, they shouldn't dictate how you tell your story. Many of the frameworks feature common metrics that are considered essential to an ESG report, but the narrative must feel authentic.

Energy companies are one of the most essential components of our economy and will be around for a long time. However, companies that continue to ignore investor or even large customer demands will have difficulty in attracting long-term capital investments. Investors are looking for best of breed energy companies to invest for the long term. The simple steps outlined above are a great first step toward telling your company's unique story around value creation and ease some of the pressure around calls for ESG reporting.

Contact Us



Ashley McNamee
Director
A&M ESG Services
303-349-0629
amcnamee@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

To learn more, visit: **AlvarezandMarsal.com**

Follow A&M on:

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠