Oil and Gas sector [draft] ESRS

(Upstream and services + Midstream to downstream)

Cover note on challenges, open questions and relevant decisions during the drafting of the working papers on

Background:

1. The Oil and Gas sector standards were developed from September 2022 onwards and Annex A presents you with a summary view of the steps taken.
2. The Oil and Gas – Upstream and Services and Oil and Gas – Midstream to Downstream sector definitions used as a starting point the classification of sectors adopted by and outlined in [draft] SEC 1 Sector classification standard. SEC 1 is based on the NACE classification system together with reference to additional economic activities as described in the EU-Taxonomy.
3. The rest of the paper presents you with technical challenges, open questions and relevant decisions that were made in the drafting of this standards. They are presented by topic, to present them in a more coherent form.
4. We propose the presentation of this paper, but we only have time to address a limited set of questions. The other questions we will get written responses form TEG members.

Please note that several of the disclosures for oil and gas are similar or look alike coal and mining disclosures. Due to time constraints it has not been possible to fully harmonise approaches between the standards, but that will be done in next steps.

Generic and architecture issues

Stakeholder engagement

Four workshops were held on the 18th of October and 25th of November, with 2 sessions one for the sector community and another for the public. Overall, the workshops were well participated (Annex B). More information can be found in the list of comments “Feedback Log – Oil and Gas.xls” file.

During the workshops, it was noted that not all stakeholders have equal knowledge of the sector; hence, in developing sector standards we should likely engage more deeply with some stakeholders. In particular, we’d like to gather the views of the TEG members on potential one-to-one engagement with knowledgeable stakeholders representing the wider views (ie preparers, NGOs, trade unions, assurance provide and what conditions should be observed to respect the necessary transparency of such engagement. Below are the Oil and Gas team suggestions on both issues.

Conditions for one-to-one dialogues on development of specific sector standards

1. The secretariat may request of get requests for one-to-one feedback meetings on the development of sector-standards;
2. There shall be a public register of the discussion content of such meetings, written by the secretariat staff and with the approval of the other part, or a register of the dissent views on the meeting minutes;
3. There shall be, in the note on process development a log of such meetings;
4. All comments shall be tracked also in the log file and track what the decisions were on issues raised or discussed.

Some of the stakeholders we should engage on a bilateral basis include: Carbon Tracker Initiative; Climate Accountability Institute; GFANZ; IGCC; undertakings

Does the SR TEG approve one-to-one engagements on this basis?

Drafting two standards for Oil and Gas and scoping the sector boundary

The sector is constituted either by very large companies, usually integrated across the value chain, that encompass Upstream, Midstream and Downstream activities (but not services), or by smaller companies operating in niche markets like upstream services, transportation or parts of segments of the value chain (refining, distribution, etc).

Most of the sustainability matters are the same, but there are also specific issues to some activities. To this extent, we note that at the time of writing this paper, the SRT had not concluded on the materiality approach for sector-standards and therefore, such conclusion may have a significant impact and lead to further changes to the current version of this working paper.

In addition, for some sustainability matters, some of the standards used as reference, like the GRI standard, have a wider scope, encompassing the full oil and gas value chain. As per our assessment, such approach presents a strong bias towards integrated companies and upstream activities.

Other standards, like SASB, are crafted on a much more granular basis: SASB presents four standards, one for each segment of the value chain (Upstream, Midstream and Downstream) and another one for Oil and Gas Services.

Also, we received many comments regarding the sector boundary definition, being that many questioned the existence of an oil and gas sector in detriment of a wider definition of an “Energy sector”, which would encompass Oil, Gas and all other energy forms into one single sector. The logic of this proposal is that oil and gas companies are in (an accelerated) transition and as such, this would better reflect their reality not just now, but also in future. Further, we acknowledge difficulties with the definition of some NACE codes, for example, “19.20 Manufacture of refined petroleum products” includes almost all activities you would expect from a refinery but it also adds the “manufacture of peat briquettes” and “manufacture of hard-coal and lignite fuel briquettes”, which have nothing to do with the traditional oil and gas sector. On the other hand, it fails to acknowledge hydrogen production (see below for further details).

We still hold the question of an enlarged energy sector scope as a relevant one, although we decided not to enlarge the scope of the sector, we think this question should be highlighted and potentially discussed: should there be one single “energy sector” sector-

standard, encompassing all primary energy production, midstream components as well as final energy delivery and sales to clients, irrespective of energy types?

Our decision was to follow the definitions we were given by SEC 1 and clarify and slightly adapt to them as needed, but fundamentally stick to the proposals in SEC1.

We ask the TEG members advice on the question if wider energy sector boundary should be further analysed for potential reconsideration or not?

Would the TEG benefit from a paper detailing some of the challenges using NACE codes definition in this sector?

Hydrogen production

Hydrogen production occurs at refinery crackers and can be a significant product within the sector, with increasing demand due to the energy transition. Within the community sector sessions, the issue of hydrogen production was flagged, namely if the NACE code for hydrogen production was included (which it is not, it is in Chemical industry). Some comments expressed the view that hydrogen production should be a recognised activity and oil and gas companies should report on its production considering categories of carbon intensity.

Similar issues occur for ethylene and propylene production, which can also be produced at refinery crackers, but are generally considered the starting point and building blocks of the petrochemical industry.

Should the Oil and Gas – Midstream to Downstream sector standard mention hydrogen, or should it be included only in the Chemical sector with oil and gas companies only disclosing on it if their petrochemical activity consider sufficiently material? Should the standard provide explicit guidance on this topic?

Activity metrics

It has been a real challenge the consideration of where to put and how to put activity metrics. Activity metrics are important contextual metrics that play an essential role in framing, among other things, the environmental impacts of companies and their performance. Activity metrics and activity performance metrics (e.g. tCO2/TJ) play an essential role not only in EU regulation (e.g. think of EU ETS benchmarking), but also in science-based target setting (intensity targets), benchmarking performance (e.g. Solomons benchmarks), sustainability ratings (relative performance, efficiency (etc), investors decision making (SFDR and Pillar 3), etc. However, they are absent of the ESRS framework.

Several of the SFDR disclosure requirement respect to activity metrics; several of the SASB relevant disclosure also.

We have included activity metrics either as completely new DRs or incorporated into some topics where it can make sense to have them, flagging in a paragraph where they link to SFDR/EBA requirements.

Does this approach to activity metrics make sense to TEG members?

Asset-level data and geo-tagged information

Several disclosures require, on a tentative basis for discussion, disclosures at a granularity that goes up to the asset-level. For this reason, an initial disclosure has been proposed where companies would disclose their list of assets and this could then be referenced and used for other purposes, like biodiversity, indigenous peoples rights, conflict areas, or other disclosure purposes.

In the Mining standard this issue was discussed and it was felt that requiring disclosure at asset-level was not contentious. For oil and gas, this issue was not discussed and it is felt that it is a potentially contentious issue. Disclosures for oil and gas, even when using asset-level data like their geo-location for computation purposes, usually implies some level of aggregation at the reporting side – an example, SASB requires both "Percentage of (1) proved and (2) probable reserves in or near areas of conflict " and "Percentage of (1) proved and (2) probable reserve s in or near indigenous land". GRI, on the other hand has an additional sector disclosures requiring a "List [of] the locations of operations where indigenous peoples are present or affected by activities of the organization."
Geo-located asset level data could be used to determine instances of materiality to many more sustainability disclosures. Asset-level data can be used as inputs, for example, to calculate exposure to physical climate risks, climate transition risks (e.g. locked emissions), aspects of transition planning, material water risks and water impacts, impacts of pollution, etc.

However, at this time, we have no clear methodology or process to determine when asset-level data and geo-tagged information is needed or if such determination should be made on an *ad hoc* basis on a sector-by-sector approach. For these reasons we propose to develop a position paper on asset-level data proposing a methodology and criteria for its incorporation in the sector-standards and discuss at later stage with the TEG.

Does the TEG agree on need to develop a methodology/decision tree to determine when asset-level data and geo-tagged information is needed?

E1: Climate

Boundary challenges for oil and gas

There are a couple of circumstances where we consider it will be good to further investigate some issues related with consolidation boundary in next phase of development of the standard, for example:

1. On GHG accounting, a boundary expansion to consider also joint ventures non-consolidated into the financial statements as is considered under E1-6 paragraph 44 should be used and explicitly referred to;
2. On GHG accounting, service companies will typically have operational control over assets but do not own them or financially control them; this may lead to under reporting under current rules, which will require some investigation;
3. On health and safety issues and industrial risk management, operational control is the typical approach. When there are joint ventures and associates, which can represent a significant portion of income and asset valuation, but where there is not direct responsibility on operations, it may be challenging for companies to

Does the TEG agree that these example boundary questions deserve further investigation in next development phase?

report on operational safety or to consider it as part of its own workforce. In these cases companies should probably report aspects of these material topics as part of due diligence, this is an issue that will require further investigation.

Indirect emission categories

Please note that on Scope 3, the focus has been given exclusively to Scope 3, Use of sold products (S3, USP or Cat. 11 of GHGP) and that some guidance is given in relation to the measurement of Scope 3, emissions, by stating that only physical trade and not financial trade should be used, but guidance is minimalist.

Please, also note that for integrated companies, the point at which you define "your product" is potentially contentious. Because we break down the value chain, the intention is to require 3 different and separate Scope 3 figures one at each step of the value chain (Upstream, Midstream and Downstream), which can be done given that we have 2 standards. Please also note that these are areas that are currently not reported homogeneously across the sector and that EFRAG should develop efforts to uniformize this methodology. Efforts were being done between CDP & SBTi and currently also between Shell and BP. It would be preferable if EFRAG would take a leadership role on this, even if the process would take one or two years, but in the end there would be a quasi or fully regulatory guidance applicable to two oil majors (BP, Shell) plus several smaller but reference companies worldwide (Equinor, Total, Repsol, Galp) and good harmonization of Scope 3 reported figures.

On Scope 2, there are no specific requirements as the category is less than a rounding error of the total footprint and so, ESRS E1 requirements sufficiently address it.

Other Scope 3 up and down the value chain can be significant in absolute value but tend to be smaller compared to S3, USP category. We may require a Well-to-wheel (full life-cycle) GHG emission figure for intensity metrics which would cover other potentially relevant Scope 3 categories.

Does the TEG agree on the predominant relevance of the Scope 3, USP category across the oil and gas value chain?

Emission intensity of energy produced

A requirement to disclose the emission intensity of energy produced has been included, as considered important as a metric to monitor transition plans, as well as science-based target achievement. However, there are several important caveats to this indicator:

1. In order to fulfil its purpose, the indicator has to be produced not only for the oil and gas production, but for the full energy spectrum of the company, this is, an integrated company needs also to consider, for example, the electricity it has produced, even if it is reported under a different standard. So, we need to acknowledge this type of company configuration within the indicator, which should probably be replicated also in the PPEU sector;
2. Second, methodologically, we can differentiate between primary energy production (which is what the oil and gas sector is) and final energy delivery (to final consumers). In the Oil and Gas – Upstream, we should adopt this indicator on a primary energy basis; for Mid-stream to Downstream companies, we should consider delivered energy. This means integrated companies will have to report two separate indicators. Once again, this should also be considered in the PPEU sector.

3. Third, both calculations have intricate technicalities, related to GHG and energy accounting (detail can be provided on request). It is very likely that, just like with Scope 3, USP, we will need a detailed methodology to guide companies on how to calculate this in a homogeneous way.

An additional question as arised as to if this indicator would be a new disclosure requirement, or if it could just be considered an additional requirement to existing E1 standard DRs, for example, E1-4[32a] or E1-6.

Does the TEG agree on the relevance of physical emissions intensities and that further efforts should be developed to define a methodology for their quantification?

Does the TEG have a view on if such indicator should be a new sector-specific indicator an addition to E1-4 or E1-6 DRs?

Locked emissions

Locked emissions for oil and gas are an essential indicator for transition plans and should also be relevant for financed emissions in investors' portfolios. For upstream companies this equals quantification of embedded emissions in reserves. Just as Scope 3 the potential for variations in calculations of locked emissions is large. Fortunately there is already a methodology for their calculation. We propose it to be explicitly mentioned as an application requirement for the Oil and Gas – Upstream and Services standard (AR to E1-1).

Does the TEG agree on explicitly mentioning WRIs methodology on emissions from reserves?

GHG removals and CO2 abatement

We would like to highlight an important distinction: while E1 standard (and GRI) mentions GHG (CO2) removals, it seems silent on issues related to CO_2 abatement. CO_2 abatement is a potentially relevant topic for the industry as, if CCS is to be viable, oil and gas industry is likely to play a role in it, besides the strategic implications it has for a potential extension of its business model. CO2 abatement is already done by the industry at a certain scale through Enhanced Oil Recovery, particularly in North America. A new DR was added particularly on CO2 abatement and we want to call particular attention to this point. Please note that this aspect is absent from all other disclosure standards, with exception of IPIECA which includes a requirement to "Report on amounts of CO2 sold as product, used for enhanced oil recovery, or captured and sequestered from CCS technologies".

This DR seems fitter for Upstream and Services, however, we have included it in both standard (US and MD) because CO2 abatement can also potentially be done at refinery level and CO2 transportation by pipeline can also play a significant role.

Does the TEG agree with an inclusion of a DR on CO2 abatement?

What are the TEG views on current content of the DR on CO2 abatement DR?

Other environmental issues

Ocean economy and impacts

Issues related with Ocean impact may be insufficiently captured, at least in an explicit way, and not just implicitly through areas like climate, biodiversity, pollution and critical hazards prevention. The fact is, that despite the prominent role of oil and gas companies in the ocean economy[1], representing almost 45% of the top ocean industries revenues, the topic of oceans and oceans impacts does not appear explicitly in current reporting standards. This is an area where further research should be done.

Is the TEG aware of any work related with specific ocean issues related to the Oil and Gas industry which should be incorporated? Is this an area that the TEG would like to see further research from the secretariat to inform its views?

Greenwashing disclosure

Within the writing team, after some maturing of the issues, it was considered that the issue of greenwashing – misleading information to the public and consumers - is potentially material for the sector. It is not present within GRI or SASB standards disclosures. We would like to understand if TEG would consider this as a relevant issue to be developed by the team or not.

Does the TEG recommend that the writing team spends time developing a proposal DR on "greenwashing"?

Social issues

Cyber-security and data privacy

This is a topic that is absent of the GRI and SASB standards, but is present in the IPIECA sustainability reporting guidance and is an increasingly important topic. Cyber-security and data privacy related to consumers is a matter that appeared only in one company sustainability report of the ten sustainability reports/sustainability matrix we had a look at.

We decided for its inclusion within Oil and Gas considering only for the parts of the sector that are strongly exposed to consumers, so Midstream to Downstream. This means we consider the potential impacts of cyber-security related to personal information data breaches, but did not consider material aspects related with cyber-security and operational integrity of Upstream and Services operations.

Does the TEG agree with this approach and the inclusion of cyber security in Midstream and Downstream sector-standard?

[1] See "The Ocean 100: Transnational corporations in the ocean economy" by Virdin *et al.*(2021).

Annex A – Oil and Gas sector standards development process

Definition of sustainability matters

The methodology for the identification of sustainability matters had two main steps:

1. Defining a generic taxonomy of sustainability matters;
2. Mapping disclosures of existing standards, company materiality assessments or other sources, to the taxonomy.

Please note that initially the sustainability matters taxonomy (SMT) used was not the one in the final ESRS 1 22 Nov version. Meanwhile, our initial designation of sustainabitliy matters was adapted to this ESRS 1 list, but this may still require further iterations and there are some open question in relation to it.

In relation to the mapping, the sources listed below have been mapped to the SMT.

Standards

- GRI
- SASB (4 standards)
- EITI
- IPIECA
- IIGCC

Other

- Feedback from June workshops
- Original list of sustainability matters (set1)
- Expert industry knowledge within the group

Companies

- Repsol
- Exxon
- HESS
- PTTEP
- bp
- ThaiOil
- MolGroup
- NextEra
- TCEnergy

Literature

- S&P Materiality assessment
- Hydrocarbons BREF
- Refining of Mineral Oil and Gas BREF
- EU policies & regulations
- Academic and industry peer-reviewed papers

The sustainability disclosures or topics listed in these sources were mapped to a level 4 sustainability matter, as illustrated below.

Sustainability Matters						GRI 11: Oil and Gas sector 2021		
Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Topic	Disclosures	Nr. Disc.
2	11	44	113	143	81	25		
				Other		11.2 Climate adaptation, resilience, and tran	Disclosure 201-2 Financial implications and other risks and opportunities due to climate change (Additional sector recommendations):	1
				Locked-in emissions			Disclosure 201-2 Financial implications and other risks and opportunities due to climate change (Additional sector recommendations):	4
				Impact on operations			Report the internal carbon-pricing and oil and gas	
				Impact on revenues			Disclosure 201-2 Financial implications and other risks and opportunities due to climate change (Additional sector recommendations):	
			Financial implications of transition	Stranded assets	Valuation of reserves		Report the internal carbon-pricing and oil and gas pricing assumptions that have informed the identification of risks and opportunities due to climate change;	5
				CAPEX plans			Describe how climate change-related risks and	

Then the number of disclosures related to each SM mapped at level 4 was counted. We have then considered each level 3 sustainability matter with a count =>1 as a relevant Sustainability Matter(SM) and compiled the Level 3 SM list.

Each sustainability matter is then described in a word document and assessed qualitatively, namely in terms of need for sector disclosures (work in progress). We also

considered if there is any relevant SM that might be missing, e.g. for E the case of Marine resources.

Next steps, we would like to strengthen the SMT, double check the attribution of disclosures to each Level 4 SM[2] and provide, where possible, a tentative definition of threshold and criteria for impact and/or financial materiality, which is currently absent of these discussions.

Drafting disclosures

To draft disclosures a "flat file" with all the DRs from GRI, SASB and other standards (, which we call "known standards") was created. We then developed disclosures in a word template that would address each of the known standards disclosures considering ESRS architecture and standards. A difficulty int his process was the release of the new standards in 22nd of Nov, with some considerable changes. Other difficulty was, in the middle of this process, to coordinate among sector teams.

[2] Sometimes there can be doubts where to allocate a disclosure, as issues are interlinked. Different people can classify the same disclosure in a different SM and this work was carried by different people. Furthermore, you could take the option of just count it once, or count it multiple times (due to the linkages).

Annex B – Stakeholder engagement and feedback

First Oil and Gas workshop with sector community had the following registered participants (participation was effectively higher, closer to 50). The public session had a similar amount of participants.

The second round of workshops had higher participation rates.

Registered participants for 1st community workshop by 10th of October	
Type	**Nr. participants**
Unknown	3
Academia	2
Finance	5
Industry	17
NGO	8
Services	1
Grand Total	36