Overview of the EFRAG Working Paper

Draft ESRS – Oil and Gas V2

EFRAG Secretariat

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Anna Grochowska, Pedro Faria

DISCLAIMER

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SRB. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SR Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

OBJECTIVES

1. **Inform EFRAG TEG about the status of the standard:**
    a) Content and main changes (focus on the DRs which do not overlap with ESRS Mining, Quarrying and Coal standard)
    b) Feedback received from stakeholders
2. **Request feedback of EFRAG TEG about the technical approaches and challenges:**
    a) Approach towards the DRs excluded in the finalization of ESRS Set 1
    b) Chages to Scope 3 emissions in DR related to E1-6
    c) GHG emission intensity requirement in OG 3-E1
    d) Modification of disclosures related to E5
3. **Request approval of EFRAG TEG on:**
    a) New disclosures added to the standard following earlier EFRAG TEG meetings

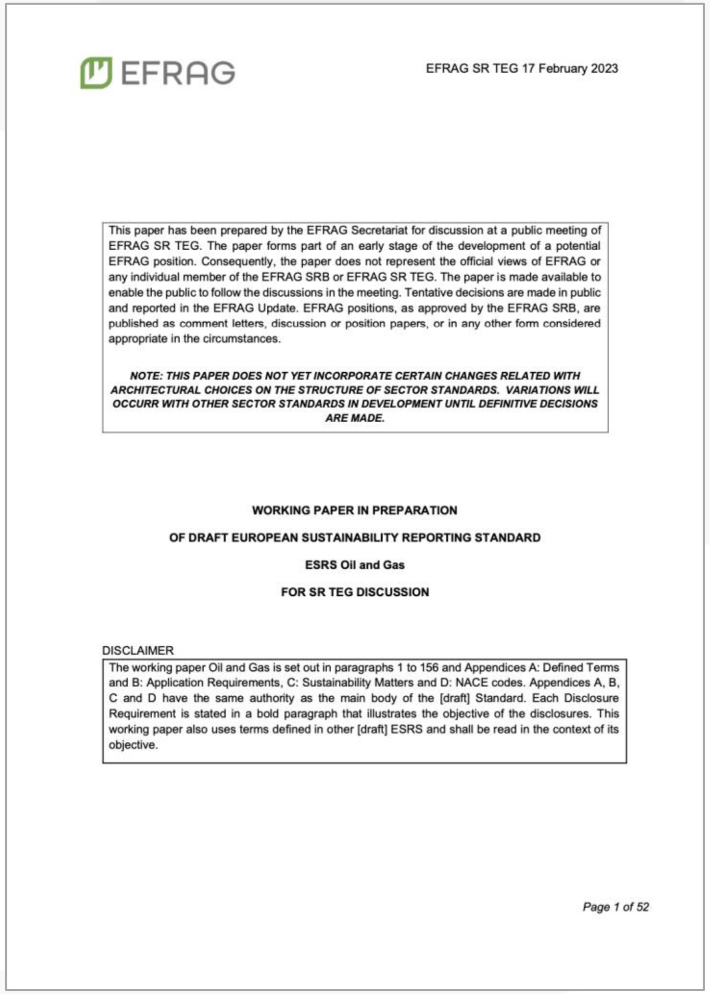
STATUS OF THE STANDARD

The WP Oil and Gas V.2 includes:

Cover, objective, description of sector and sustainability matters	7 pages
New Disclosure Requirements native to the Oil and Gas [draft] ESRS and Disclosure Requirements related to existing Set 1 Disclosure Requirements	22 pages
Appendix A: Defined terms	4 pages
Appendix B: Application Requirements, corresponding to both the new Disclosure Requirements of the standard, as well as Disclosure Requirements of Set 1	11 pages
Appendix C: Sustainability matters description	7 pages
Appendix D: NACE codes	1 page

Highlights of main changes:

- Merging the two sub-sectors into a common standard
- Interim architectural changes
- Disclosure changes across general, environmental and social pillars: **for full details, please see the explanations in the Cover Note**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EFRAG SR TEG 17 February 2023

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NOTE: THIS PAPER DOES NOT YET INCORPORATE CERTAIN CHANGES RELATED WITH ARCHITECTURAL CHOICES ON THE STRUCTURE OF SECTOR STANDARDS. VARIATIONS WILL OCCURR WITH OTHER SECTOR STANDARDS IN DEVELOPMENT UNTIL DEFINITIVE DECISIONS ARE MADE.

WORKING PAPER IN PREPARATION

OF DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD

ESRS Oil and Gas

FOR SR TEG DISCUSSION

DISCLAIMER

The working paper Oil and Gas is set out in paragraphs 1 to 156 and Appendices A: Defined Terms and B: Application Requirements, C: Sustainability Matters and D: NACE codes. Appendices A, B, C and D have the same authority as the main body of the [draft] Standard. Each Disclosure Requirement is stated in a bold paragraph that illustrates the objective of the disclosures. This working paper also uses terms defined in other [draft] ESRS and shall be read in the context of its objective.

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OIL AND GAS ESRS SPECIFIC DISCLOSURES* (1/2)

** Disclosures with content that is not included in ESRS Mining, Quarrying and Coal standard*

General disclosures

DR OG 1 - List of operational sites and infrastructure

DR to ESRS 2-SBM1-1 - Market position, strategy, business model(s) and value chain

DR to ESRS 2-SBM1-2 - Market position, strategy, business model(s) and value chain

Climate change

DR to E1-1 Transition plan for climate change mitigation

DR to E1-2 Policies related to climate change mitigation and adaptation

DR to E1-3 Actions and resources in relation to climate change policies

DR to E1-4 Targets related to climate change mitigation and adaptation

DR to E1-6 Gross scope 1,2,3 and Total GHG emissions

DR to E1-9 Potential financial effects from material physical and transition risks and potential climate-related opportunities

DR OG 2-E1 CO_2 abatement technologies

DR OG 3-E1 GHG emission intensity of energy

Pollution

DR to E2-1 – Policies related to pollution

DR to E2-2 – Pollution action plans and resources

DR to E2-3 – Targets related to pollution

DR to E2-4 – Pollution of air, water and soil

DR OG 4-E2 - Industrial risk management

DR OG 5-E2 – Hydraulic fracturing

OIL AND GAS ESRS SPECIFIC DISCLOSURES* (2/2)

** Disclosures with content that is not included in ESRS Mining, Quarrying and Coal standard*

Water

DR to E3-1 Policies related to water and marine resources

DR OG 6-E3 – Water withdrawal

DR OG 7-E3 – Water discharge

DR OG 8-E3 – Marine resources

Biodiversity

DR to ESRS E4-2 Policies related to biodiversity and ecosystems

DR to ESRS E4-3 Actions and resources related to biodiversity and ecosystems

DR to ESRS E4-4 Targets related to biodiversity and ecosystems

DR to ESRS E4-5 Impact metrics related to biodiversity and ecosystems change

Resource use and circular economy

DR to ESRS E5-1 Policies related to resource use and circular economy

DR to ESRS E5-2 Action plans and resources in relation to resource use and circular economy

DR to ESRS E5-3 Targets related to resource use and circular economy

DR to ESRS E5-4 Resource inflows

DR to ESRS E5-5 – Resource outflows

FEEDBACK OF STAKEHOLDERS

- Challenges and different opinions around EITI disclosures
- Challenges and different opinions around granularity

ESRS 2-SBM1-1 - Market position, strategy, business model(s) and value chain

24. The undertaking with upstream activities shall disclose the breakdown of its production and its ~~probable~~ **proved reserves**, over the following categories of countries, according to their compliance with the EITI standard quality assurance scale:

(a) Countries with a very high progress in complying;

(b) Countries with a high to satisfactory progress in complying;

(c) Countries with a moderate to meaningful progress in complying;

(d) Countries with a fairly low to inadequate progress in complying;

(e) Countries with low to no progress in complying;

(f) Countries that the 20 lowest rankings in Transparency International's Corruption Perception Index;

(g) Other countries.

Companies supporting the initiative:

https://eiti.org/oil-and-gas-companies

APPROACH TO DELETED SET 1 DR

REQUEST FOR EFRAG TEG FEEDBACK

ESRS E1 Climate change ED: energy and GHG-intensive sectors: E1-1 Transition plan	Considered and included
E1-5 Energy consumption and mix: breakdown of non-renewable energy	Considered, not included
E1-14 Avoided GHG emissions	Considered, not included
DR E3-6 Marine resources related performance	Under consideration
DR 4-8 Biodiversity-friendly consumption and production metrics	Considered, not included
ESRS S1 Own workforce ED: DR S1-12 – Working hours (moved to sector specific).	Considered and included

ESRS G2 Business conduct ED: G2-4 – Anti-competitive behaviour prevention and detection	Considered and included
ESRS E5 Circular economy ED, the DRs E5-7 – Resource use optimisation and E5-8 – Circularity support	Under consideration
ESRS S2 Workers in the value chain, ESRS S3 Affected communities and ESRS S4 Consumers and end-users inclusion of DRs related to metrics	Considered and included
Decision tree for inclusion of data points	Under consideration
SASB and GRI mappings	Considered and included

Consideration given with reference to the points discussed in TEG meeting of 14th of December 2022 (pagagraph 24 to 28) related to DRs of ESRS EDs that have been deleted in the finalization of the sector-agnostic ESRS and that may be more relevant to specific sectors. Please see Appendix 2 to the Cover Note for full details

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Changes to the Scope 3 emissions (DR to E1-6)

REQUEST FOR EFRAG TEG FEEDBACK

Disclosure Requirement related to ESRS E1-6 – Gross scope 1,2,3 and Total GHG emissions

37. When disclosing according to the sector agnostic E1-6 – Gross scope 1,2,3 and Total GHG emissions, the undertaking shall provide a breakdown of its GHG emissions including the following:

(a) Breakdown total scope 1 GHG emissions into total CO_2 and CH_4 emissions and do it in accordance to sector agnostic disclosure requirement E1-6 Application Guidance AG39 to AG50.

(b) Report the breakdown of total scope 1 GHG emissions by type of source, namely i) stationary combustion; ii) flaring; iii) venting, and iv) fugitive.

38. The undertaking shall disclose its Scope 3, Use of sold products emissions, according to the following:

(a) integrated undertakings shall separately report Scope 3, Use of sold products emissions for each segment of the value-chain in which they operate in and in accordance to Application Requirement 13;

(b) service undertakings shall report the emissions associated with the use of the products they have sold to undertakings in the oil and gas value chain;

39. The undertaking operating in the Services segment shall disclose Scope 3, Leased assets.

40. When disclosing its Scope 3, Leased assets, according to the paragraph 39 of this Disclosure Requirement, service undertakings shall report the emissions associated with the use of the products they have leased or rented to undertakings in the oil and gas value chain.

Application Requirement to ESRS E1-6 – Gross scope 1,2,3 and Total GHG emissions

AR 13. When disclosing its Scope 3, Use of sold products emissions, in accordance to this sector Disclosure Requirement to ESRS E1-6 – Gross scope 1,2,3 and Total GHG emissions, paragraph 38:

(a) upstream undertakings shall consider only the physical trading of crude oil and gas products and exclude financial trading volumes. Physical trading is all trading of crude oil and gas that actually involved the physical delivery of the product. An Upstream undertaking may report on financial trading of crude oil and gas but in this case it shall note it separately;

(b) midstream undertakings shall consider the CO_2 emissions of the throughput through their owned or operated facilities during the reporting period, even if the oil and gas products are not owned by the undertaking;

(c) downstream undertakings shall consider the physical sales of finished products. In case they integrate both (refining NACE) and (marketing NACE) activities, the volume to consider shall be the largest throughput of the two activities;

AR 14. Service undertakings may report facilitated emissions, this is, the emissions associated with the oil and gas their products have facilitated the production of.

GHG emission intensity requirement in OG 3-E1

REQUEST FOR EFRAG TEG FEEDBACK

Disclosure Requirement OG 3-E1 - GHG emission intensity of energy

48. **The undertaking shall disclose its GHG emission intensity per unit of energy produced.**

49. The objective of this disclosure is to provide a benchmark metric of full life-cycle GHG impacts of the company activity on a physical intensity basis and how it compares with expected values for the global economy under 1.5ºC compatible GHG mitigation scenarios and how it is likely to change under current investment and/or transition plans.

50. An undertaking operating upstream shall:

(a) disclose the GHG intensity of its energy production (CO2e/unit of energy);

(b) demonstrate how the GHG intensity of its energy production as well as its trajectory are aligned with the objectives of limiting global warming to 1.5°C;

(c) by reference to its transition plan for climate change mitigation (DR E1-1) and to its climate change mitigation action plan (DR E1-4), provide an explanation of how its CAPEX and financial resource allocation decision will influence the direction of the GHG intensity of its produced energy.

51. Undertakings operating refineries shall disclose their CO2/CWT (Complexity Weighted Tonne).

52. Undertakings operating within the oil and gas sector and producing hydrogen shall disclose the GHG intensity of its overall hydrogen production.

53. Undertakings with marketing activities shall:

(a) disclose GHG intensity of the final energy it sells (CO2e/unit of energy);

(b) demonstrate how the GHG intensity of its energy sales as well as its trajectory are aligned with the objectives of limiting global warming to 1.5°C;

(c) by reference to its transition plan for climate change mitigation (DR E1-1) and to its climate change mitigation action plan (DR E1-4), provide an explanation of how its CAPEX and financial resource allocation decision will influence the direction of the GHG intensity of its energy sales.

54. The undertaking shall explain the accounting for GHG emissions from its associates, joint ventures, unconsolidated subsidiaries and joint arrangements that are not structured through an entity (i.e., these entities and arrangements can be part of the undertaking's value chain), namely considering AR44 to DR E1-6 – Gross scope 1,2,3 and Total GHG emissions.

- Specification of some of the differences in measurement per segment of the value chain was added;
- Addition of CO2/CWT for refineries as an operational intensity metric was added;
- Carbon intensity of hydrogen production was added (following the feedback received from several stakeholders early in the process and the discussions held in EFRAG TEG).

Next steps will be: 1) discuss the stringency of the CO2/CWT DR (currently as a "shall"); 2) level of granularity of CO2/CWT, if it requires disclosure by facility or if it can be consolidated at company level, when multiple refining assets exist within the portfolio of a company. CO2/CWT is well develop facility benchmarking metric used as basis for the free allocation of EUAs (European Unit Allowances, this is CO2 unit allowances under the EU ETS) to European refineries.

Proposed by CONCAWE and developed by Ecofys, it can be found at https://www.concawe.eu/wp-content/uploads/2017/01/rpt_12-9-2012-05440-01-e.pdf

Resource use and circular economy disclosures

REQUEST FOR EFRAG TEG FEEDBACK

Disclosure Requirement related to ESRS E5-5 – Resource outflows

98. When reporting on the resource outflows according to the E5-5 sector agnostic disclosure, the undertaking shall include the sector-specific outflows specified in paragraphs 99 to 101, on the reporting period.

99. The undertaking shall disclose the volume (in cubic meters) and percent of crude oil and gas that is traded for the following activities:

(a) petrochemicals;

(b) petroleum products;

(c) unknown

100. The undertaking shall also include the following sector-specific outflows, on the reporting period:

(a) tonnes oil recovered from oil spills;

(b) tonnes of drilling waste (muds and cuttings);

(c) tonnes of scale and sludges;

(d) tonnes of tailings;

(e) tonnes of decommissioned materials;

101. The information provided under the paragraph 100 should be reflecting the total weight of the outflow material in its original state, without data modification, such as reporting on a "dry weight" basis.

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Capturing the plastics production sources by disclosure in paragraph 99

?

Extending the life of property, equipment and machinery assets

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Other disclosures related to plastics for midstream and downstream

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New disclosures added

REQUEST FOR EFRAG TEG FEEDBACK

Disclosure Requirement OG 8-E3 – Marine resources

79. **The undertaking which are active in the upstream and services subsectors shall provide information on marine resources-related activity indicators.**

80. The purpose of this Disclosure Requirement is to provide an understanding of the extent in which undertaking is involved in exploration of oil and gas deposits in the ocean areas.

81. The undertaking active in the activity segments listed in paragraphs 79 shall disclose its ocean footprint by providing information on the (i) total number and (ii) total area of the exploitation sites located at the oceans.

Following EFRAG TEG discussions, a new Disclosure Requirement OG 8-E3 – Marine resources was added to the draft. The objective of disclosure is to provide an understanding of the extent in which undertaking is involved in exploration of oil and gas deposits in the ocean areas. The approach followed in drafting this disclosure has been a risk approach: undertakings shall disclose their dependency on off-shore resources by disclosing total number of sites and total area of the sites located in the ocean.

Thank you

Follow us online

EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 207 93 00
www.efrag.org

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