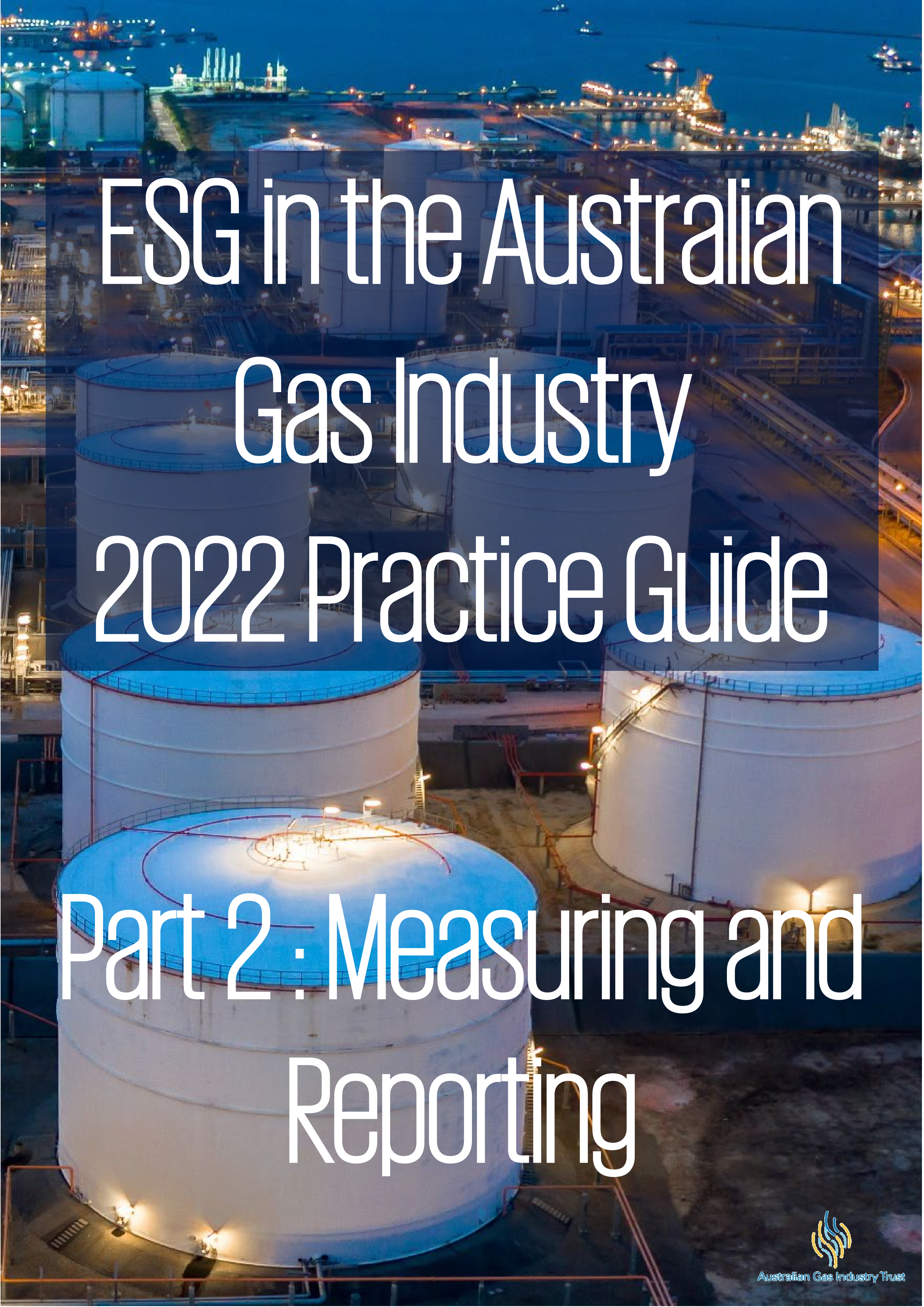


ESG in the Australian Gas Industry 2022 Practice Guide

Part 2 : Measuring and Reporting

Australian Gas Industry Trust

The 12 Pillars of ESG

ESG is a framework for managing the three major categories of corporate responsibility to ensure organisational longevity and sustainability. ESG is not just about reducing carbon emissions, but is also a mechanism for managing governance and social relations in a changing regulatory and geopolitical landscape. Below is a graphical representation of ESG across the three pillars: environmental, social, and governance. While ESG is becoming increasingly important across all industries, the gas industry is currently experiencing significant change in ESG, particularly with developments in the decarbonisation agenda.

A Framework for Comprehensive ESG Coverage

ESG is fast becoming a hugely important factor at every level of O&G organisations.

"Of the major Oil & Gas Operators surveyed, 78% were intending to incorporate ESG metrics into Executive rewards metrics."

- Bob Woods, **CNBC ESG Impact**

ESG Reporting & Standardisation

ESG reporting provides organisations with an opportunity to demonstrate their commitment to society and the environment by reporting on their corporate performance. Thorough, accurate, and transparent ESG reporting provides investors with information and ensures companies are better prepared to manage risks and seize opportunities.

Disclosure requirements on ESG issues has grown significantly in recent years. Investors and stakeholders are looking for consistent reporting on ESG progress.

Standards and legislation provide some guidance on elements of ESG reporting, however voluntary ESG reporting is inconsistent across the Australian Gas Industry. Outside of mandatory legislative reporting requirements, it can be difficult for businesses to decide which ESG standard to adopt.

The existence of multiple ESG reporting frameworks has resulted in varying approaches to ESG reporting across the industry.

To date, most gas industry ESG reporting has been focused on the environmental component, with less focus on reporting social and governance progress.

Whether companies report on their ESG impact or not, external agencies may independently undertake ESG ratings based on publicly available information, regardless of company participation.

Overall it is beneficial for companies to proactively and voluntarily report on their ESG performance.

Drivers of ESG Reporting

Changing stakeholder expectations and increased engagement on ESG issues.

Regulatory developments and shifts to more comprehensive ESG disclosures.

Access to capital increasingly requires corporate ESG credentials and regular reporting.

ESG Reporting & Standardisation (Cont.)

Standardisation Initiatives

The expansion of ESG reporting has led to a push in global demand for ESG metrics. Standardisation of regulatory guidelines, metrics, standards, and indicators will ensure high quality and accurate reporting within any industry. Two key initiatives are outlined below.

ISSB

International Sustainability Standards Board (ISSB)

In November 2021, the International Financial Reporting Standards Foundation (IFRS) announced it was creating a new 'standards setting' board to focus on ESG matters.

The ISSB aims to provide a comprehensive global baseline of ESG related disclosure standards to provide investors and market participants with information about company sustainability-related risks and opportunities.[31] The ISSB is based on existing frameworks and standards, including the Taskforce for Climate Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).

GRI

Global Reporting Initiative (GRI)

GRI is an independent international organisation that aims to provide a common language for businesses to take responsibility for their social, environmental and economic impact.[32]

GRI offers a comprehensive set of ESG reporting standards, alongside services, tools and training for all stages of the reporting process. Launched in October 2016, the GRI Standards are the first global standards for sustainability reporting and are a free public good. The GRI Standards are reviewed every three years by the Global Sustainability Standards Board (GSSB).

Global ESG Reporting

Geographies across the globe are reporting to different ESG metrics and the legislative standards between regions are inconsistent. This creates a challenge to promote a coordinated and effective ESG response across the sector.

New Initiatives for Global Standardisation

- **International Sustainability Standards Board (ISSB)**
- **Global Reporting Initiative (GRI)**

Non-Mandatory Global Standards & Regulations

- Global Reporting Initiative (GRI)
- Value Reporting Foundation
- CDP (formerly Carbon Disclosure Project)
- Task Force on Climate Related Financial Disclosures (TCFD)
- Climate Disclosure Standards Board

Mandatory Regional Standards & Regulations*

*Non-exhaustive list of regional standards and regulations.

UK & Europe

- Sustainable Finance Disclosure Regulation (SDFR)
- Corporate Sustainability Reporting Directive (CSRD)
- EU Green Bond Standard (EU GBS)
- UK Corporate Governance Code 2018
- EU Social Taxonomy

EU & UK have limited ESG specific regulations, but a comprehensive range of individual policies.

North America

- US Securities & Exchange Commission adopted Climate and ESG Task Force in the Division of Enforcement
- Employee Retirement Income Security Act (ERISA) fiduciaries to consider ESG factors

In North America, there is no mandatory federal ESG disclosure. However, public companies must disclose information material to investors, including ESG risks.

South America

- Mexican Stock Exchange (BMV) founded Green Finance Advisory Council
- 2020 Inaugural Sustainable Bond Framework in Chile
- Green Growth Policy (CONPES 3934) in Colombia

South America has limited ESG policies. However, there is now an increased focus on ESG regulatory change.

Oceania

- Australia Environment Protection and Biodiversity Conservation Act 1999 (Cth)
- Australia National Greenhouse and Energy Reporting Act 2007
- Native Title Act 1993 (Cth)
- Australia Fair Work Act 2009

Australia has no overarching source of ESG regulation, but rather a patchwork of regimes for different ESG factors.

Asia

- Asset Management Association of China's (AMAC) Green Investment Guidelines
- Hong Kong Monetary Authority's (HKMA) Green and Sustainable Finance Cross-Agency Steering Group

Each country specifies different ESG reporting regulations and policies. There is limited overlap across jurisdictions.

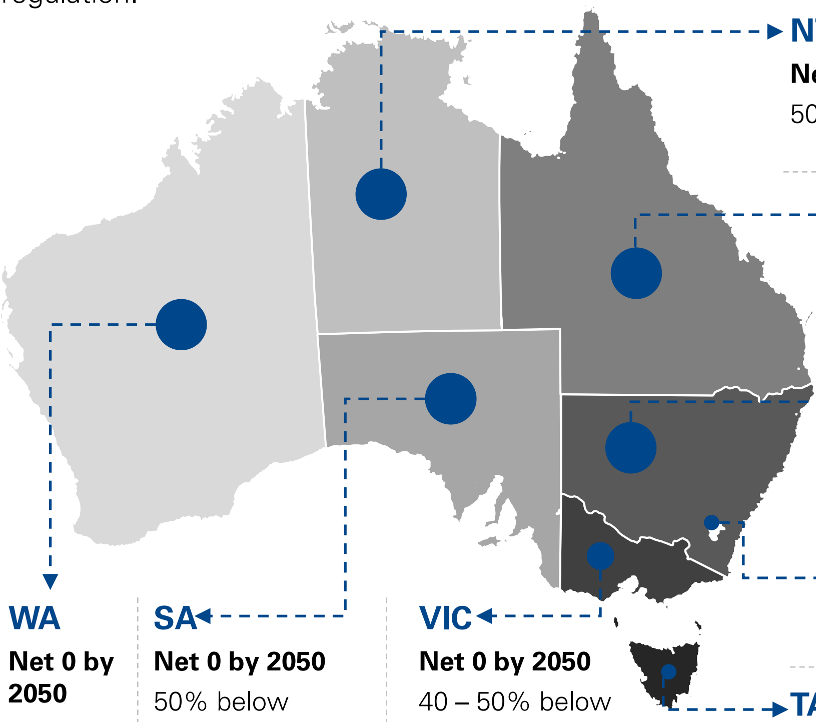
Africa

- Code for Responsible Investing in South Africa (CRISA)
- Central Bank of Nigeria's Sustainability Banking Principles
- South Africa's Climate Bill 2018

There is no explicit duty for ESG reporting. However, Africa is progressing towards implementing standards.

The Australian Regulatory Context

Australia has adopted legislation and standards across all States and Territories. These policies form a mosaic of ESG regulation, including net zero targets. Australia continues to improve upon and adopt policies that support human rights, Indigenous reconciliation, workplace health and safety practices, business transparency, and other social and governance advancements to develop holistic ESG regulation.



NT
Net 0 by 2050
50% renewable energy by 2030

QLD
Net 0 by 2050
50% below 2005 emissions by 2030

NSW
Net 0 by 2050
50% below 2005 emissions by 2030

ACT
Net 0 by 2045

TAS
Net 0 by 2050
200% renewables by 2040

WA
Net 0 by 2050

SA
Net 0 by 2050
50% below 2005 emissions by 2030

VIC
Net 0 by 2050
40 – 50% below 2005 emissions by 2030

E: **QLD** and **WA** are the only state governments within Australia defining **ESG focus areas** in Government reports.

- QLD - Sustainability Report 2021[33]
- WA - Supporting Continuous Improvement in ESG Outcomes for Western Australia 2021[34]

E: Regulated Carbon Offsets: **Australian Carbon Credits Units (ACCUs)** are a regulated financial product under the Carbon Credits Act 2011, administered by the Clean Energy Regulator.[37]

Non-regulated Carbon Offsets: Permitted under the **Climate Active Carbon Neutral Standard.**

E: **NSW, SA, VIC, TAS, the NT, and the ACT** only report against Climate Change and Environmental sustainability.

S: **All states** have an **Organisational Ombudsman** to assist the individual as an independent watchdog.

S: **The Australian Competition and Consumer (ACCC)** stands as a competition regulator, promoting fair trade and offering advice to consumers.[35]

S: Safe Work Australia developed the **Work Health & Safety (WHS) Act 2011** to secure the safety of workers.[48]

G: Federal **Modern Slavery Act 2018 (Cth)** requires companies with an annual consolidated revenue >A$100 million to report on modern slavery risks in their operations and supply chain.[14]

G: **Australian Competition and Consumer Act 2010 (Cth)** sets the standards for relationships between industry participants or their customers.[36]

G: **QLD, VIC** and the **ACT** are the only states and territory with a **Human Rights Act** passed through Parliament.[38]

E: Numerous Federal regulations apply across all Australian States to ensure the responsible management of land, water and air resources to support a sustainable country.

National Water Initiative – Overarching blueprint for water reform to increase efficiency of Australia's water use, leading to greater certainty for investment and productivity in communities.[39]

National Clean Air Agreement – Framework to help Governments identify and prioritise actions to address air quality issues.[40]

Monitoring & Measurement

ESG factors have become fundamental measurements globally for company valuation, risk management, and corporate regulatory compliance. Incorporating ESG into business assessments and public reporting presents a more holistic and transparent view of company practice for all stakeholders. However, further development of ESG reporting is required before a consistent and standardised methodology is established at a global scale.

General ESG Scoring Framework:

This framework generalises the method used to calculate ESG scores across a range of globally recognised ratings agencies.[41, 42, 43, 44, 45]

Research Analysts Collect Global ESG Data

Data undergoes independent audits and management reviews.

ESG Database (1000s of sources)

Rating companies all have different data bases. They are updated constantly with the latest information.

ESG Subset Data Points (1000s of sources)

Subsets based on materiality considerations, data availability, exposure, and industry relevance.

10 Commonly used ESG Categories

The 10 measures are used to filter all metrics to provide individual E, S, & G scores.

Resource Use	Workforce	Management
Emissions	Human Rights	Shareholders
Innovation	Community	'Corporate Social Responsibility' Strategy
	Product Responsibility	

Controversy Scoring

Based on any 'ESG controversies' from recent, relevant negative events.

These events will penalise companies involved and lower their final ESG score.

ESG Score

AAA	AA	A	BBB	BB	B	CCC
LEADING		AVERAGE			LAGGARD	

There are various scoring structures, with the final ESG score public to investors.

Potential ESG Scoring Short-falls

- Lack of consistency in specific methodology across ESG rating companies.
- Differing algorithms to synthesise subset data points of ESG metrics.
- Ambiguous numerical & scoring structure for final ESG scores.

Established ESG Rating Companies

MSCI

RepRisk

SUSTAINALYTICS

REFINITIV

Bloomberg

THOMSON REUTERS

Metrics & Calculations

Measurement of ESG has become a topic of discussion across the global gas industry as the requirements for customers, partners, shareholders, legislation, and financiers become more stringent.

Organisations wishing to comply with the procurement requirements of partners and legislative environments framing their operating context currently have limited support, standards for reference, or methodologies for use in the tracking of their ESG impact. Currently the primary standard is to report on ESG, not how or what to report on within this broad topic. Metrics used largely reflect that firms report on similar and disparate topics differently.

The calculations and metrics used by third parties to judge ESG progress or profile of potential customers, partners, or suppliers can be difficult to interpret and compare.

ESG Scoring Challenges

ESG is measured and reported in a number of different ways. A variety of ESG rating organisations exist to support organisations apply ESG frameworks when measuring their impact. Investors and financiers increasingly require organisations to align with one of the numerous rating agencies which inform the lens through which future valuations and multipliers are applied.

Typically, rating agencies rely on a system of assigning impact and importance values to each "pillar" of ESG (for example communities, governance, etc.) and then assess the performance of an organisation against each of these criteria to develop a final rating. This is then represented in a comparable form such as AAA-CCC.[42]

As noted above, the use of different ESG scoring methodologies globally brings rise to a number of gaps, including:

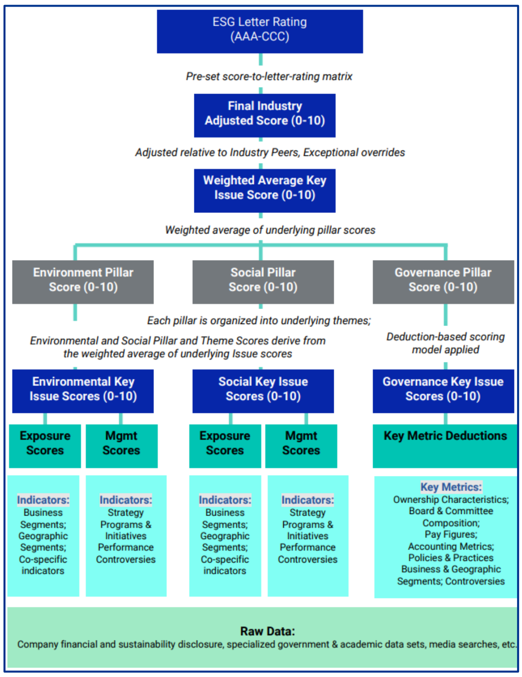
- ESG metrics and frameworks lack standardisation and increased reporting methodologies further erodes comparability of ESG ratings and metrics.
- The use of different ESG rating methodologies may lack transparency due to minimal disclosure requirements, which may facilitate 'greenwashing'.
- The assignment of weight values to each element of ESG may be incomparable between different ratings agencies.
- Some metrics and calculations are not subject to mandatory third party assurance.

Example of ESG Scoring Frameworks

Indicators and weightings for Thomson Reuters' method of ESG Scoring[41]

Pillar	Category	Indicators in Scoring	Weights
Environmental	Resource Use	20	11%
	Emissions	22	12%
	Innovation	19	11%
Social	Workforce	29	16%
	Human Rights	8	4.50%
	Community	14	8%
	Product Responsibility	12	7%
Governance	Management	34	19%
	Shareholders	12	7%
	CSR Strategy	8	4.50%
Total		178	100%

MSCI Hierarchy of ESG Scoring[27]



Challenges and Gaps in Calculation

Measurement and metrics are important for organisations to consider as they fundamentally relate to future ESG action. ESG targets have been largely driven by ad-hoc approaches to meeting the broad requirements of ESG reporting, rather than any rigorous standardisation driven by mandatory ESG impact tracking.

Implementation of a carbon tax, or other ESG related legislative enforcement of ESG behaviour may result in more rigorous scrutiny of organisational ESG metrics and the calculations behind them. For example, carbon offsetting has been scrutinised and it has become apparent that certain calculations and metrics have not been well accounted for or accurate.

Key Messages for the Sector

Summary of ESG Messages for the Gas Sector

The Opportunity for ESG Value

A proactive response to ESG can create long term value for organisations, their shareholders and stakeholders by reducing risk, seizing opportunities and optimising their response to the material impacts of sustainability. The Australian Gas Industry has an opportunity to leverage market leadership in ESG as a supplier of gas to global markets during the energy transition. The industry should be proactive in building businesses which harnesses the future value of ESG, including robust ESG strategies with the agility required to harness new opportunities.

Defining the Future Role of Gas

The gas industry needs to define and communicate the future role of gas and how it aligns with global ESG goals. Decarbonisation commitments such as those made in the Paris Agreement do not align with the current and projected emissions trajectory. Therefore, although current IEA scenario modelling of future gas demand indicates a future for gas towards and beyond 2050, a course correction designed to achieve climate targets may result in significant changes to these forecasts. The industry should define where gas fits into future scenarios to define the materiality of decarbonisation and other ESG trends.

Responding Effectively to ESG

The materiality of climate change and decarbonisation are driving strong ESG responses across the gas industry. However, the social and governance elements are becoming more prominent and are likely to become more material in the future. Decarbonisation is one of the most prominent issues with the most rigorous reporting. The legislative environment and increased activity by activist investors and other actors are increasing the importance of complying with Social and Governance elements of ESG.

Standardising When No One Size Fits All

The gas industry would benefit from a greater alignment on key ESG targets topics and tracking. Noting that organisations across the value chain will have unique ESG priorities based on their operations, location and stakeholders, a unified understanding of ESG would empower small players with limited ESG capacity, and simplify partnerships and compliance down the supply chain. Reporting is currently not standardised and the industry would likely benefit from improved alignment on standards and methodologies to remain ahead of regulation in the future.

The Globalisation of ESG

The Australian Gas Industry is a net exporter of gas and is therefore fundamentally linked to developments in the global market. Australia needs to respond to the global ESG context as well as domestic trends. Therefore, the Australian Gas Industry needs to be alert and responsive to global changes. Potential learnings from global peers in regions such as the EU is a window into how potential future ESG changes in Australia may manifest. Understanding the global market is also vital for navigating the volatility in prices which has significant impact on revenues for gas industry operators.

Emerging Trends in ESG

Companies across the gas industry need to navigate the rapidly changing ESG landscape of the future. Geopolitical considerations, new developments in technology, social media, trends in access to capital, and developments in activism by investors, board members, and customers are changing the way the gas industry does business. As ESG scrutiny impacts access to capital, and geopolitics impacts supply chains, the industry needs to maintain agility and build robust strategies in order to harness emerging opportunities and offset exposure to risks.