

Under Pressure –E&P Companies and ESG

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The ESG Evolution

Environmental, social and governance criteria (or ESG) has emerged as a significant, mainstream governance topic covering a wide range of issues

- **General Trends:**

- Significant capital is being invested in funds with an ESG focus
- ESG-focused activism continues to gain momentum in the oil and gas industry
- Companies looking to raise equity or debt capital are finding that investors expect to see some ESG disclosure
- More companies are including voluntary ESG disclosures on their websites and in SEC filings in response to the demand

- **Challenges:**

- Lack of uniform disclosure framework
- Balancing varying ESG demands from different investors
- Various forms of disclosure creates potential risk
- Uncertainty about when ESG disclosures will become mandatory and under what framework
- Balancing demands for disclosure with potential liability resulting from such disclosure

ESG is More Than Climate Change

■ Environmental

- Energy efficiencies
- Carbon footprints
- Greenhouse gas emissions
- Water recycling
- Deforestation
- Climate change
- Pollution mitigation

■ Social

- Employee safety and health
- Human capital
- Diversity
- Political issues
- Pay equity

■ Governance

- Board composition
- Proxy access
- Independent chairperson
- Ability to act by written consent
- Board declassification
- Sustainability oversight and compliance
- Executive compensation
- Political contributions
- Lobbying
- Bribery and corruption

ESG Developments Continue to Accelerate

- *March 2021:* SEC Chair says the SEC wants to implement a global framework for climate disclosures
- *February 24, 2021:* SEC Chair directed Division of Corporation Finance "to enhance its focus on climate-related disclosure in public company filings"
- *February 8, 2021:* ISS ESG Updates
- *February 1, 2021:* SEC appoints Satyam Khanna as Senior Policy Advisor for Climate and ESG
- *January 30, 2021:* BlackRock Letter
- *January 2021:* President Biden's platform focuses on climate change and ESG initiatives, including expanding disclosures and eliminating carbon emissions from natural gas and coal power plants by 2035
- *December 1, 2020:* Recommendation of ESG Subcommittee of SEC Asset Management Advisory Committee
- *September 2020:* White Paper for consistent framework for ESG reporting
- *September 2020:* Business Roundtable Public Statement on Greenhouse Gas Emissions
- *Fall 2020:* SEC adopts rule requiring human capital disclosure in Form 10-K
- *May 2020:* SEC Investor Advisory Committee Recommendation

What are the Risks of Ignoring ESG?

- Risk of Difficulties Raising Equity or Debt Capital
- Stockholder litigation
- Risk of Increased Stockholder Activism with an ESG Agenda
- Risk of Investors Voting Against Directors as a Result of Proxy Advisory Recommendations or Institutional Investor Voting Guidelines

Tip: You want to control the narrative on your company's ESG Story

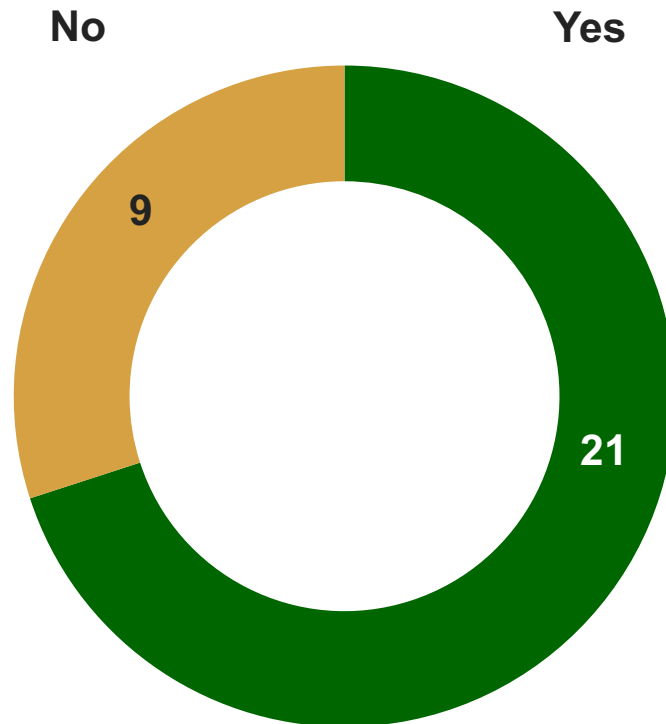
What Can You Do Now?

- **Establish ESG Governance to Implement Strategy**—Board committee/senior management; ensure Board has ESG experience
- **Stakeholder Engagement**—Identify the key sustainability and ESG concerns of company stakeholders and investors
- **Develop ESG Strategy**—Identify what information should be disclosed. Goal is to incorporate feasible commitments into the long-term business strategy
- **Remain Engaged**—Communicate strategy and progress while maintaining transparency
- **Recognize Risks**—Avoid making false or misleading statements and overpromising

TRENDS IN ESG DISCLOSURES ON COMPANY WEBSITES

The Majority of Oil and Gas Producers Analyzed Have ESG Policies

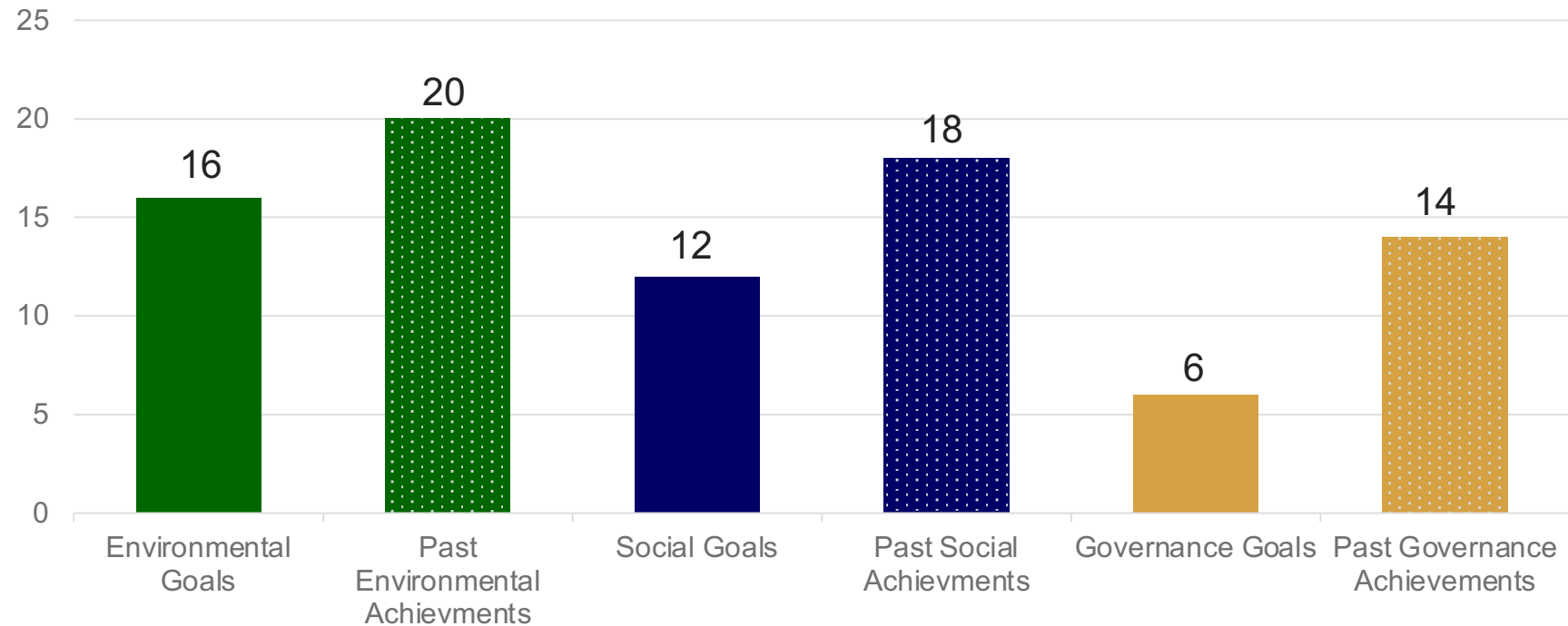
70% of sample producers tracked have publicly disclosed ESG policies.



- The scope of such policies, and the extent of the disclosures, varies widely between sample producers.
- ESG disclosures are found in SEC filings, on company websites, in investor presentations and in letters to shareholders.
- Of the 30% that have not disclosed ESG policies, some have signaled public disclosures in 2021.

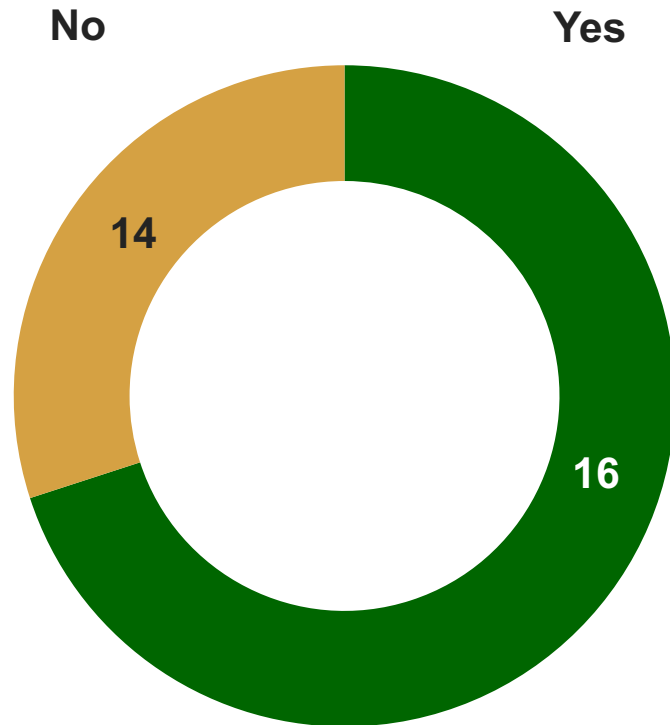
Summary of Findings from Disclosures

Does the sample producer report ESG strategies, goals or previous achievements?



Monitoring and Disclosing Greenhouse Gas Emissions

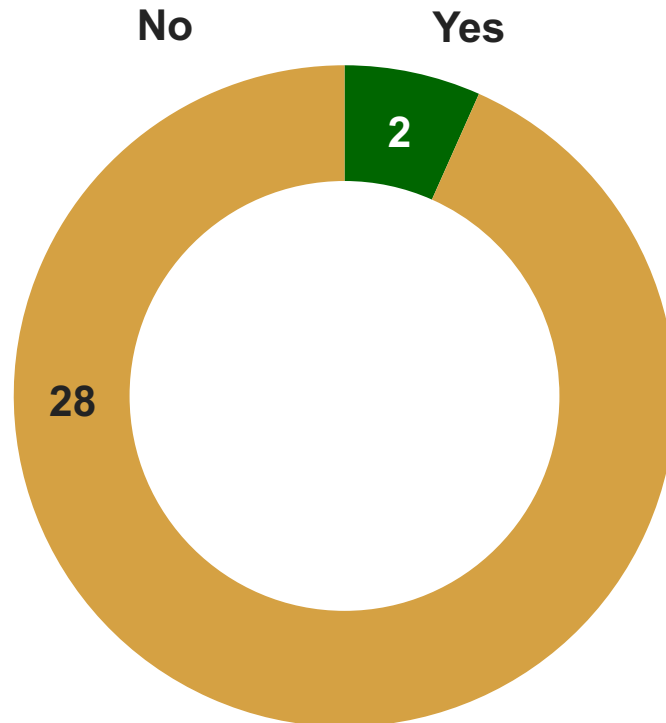
Are GHG emissions disclosed publicly?



- Many sample producers monitor and, in particular circumstances, annually report GHG emissions to the EPA from certain operations.
- Of the 53% that publicly disclose ESG emissions, most emphasize efforts to reduce emissions, including:
 - implementation of LiDAR technologies to monitor and measure emissions;
 - installation of new field equipment;
 - electrification of operations; and
 - use of renewable energy in the field.

Goal of “Net Zero” Greenhouse Gas Emissions

Does the sample producer have a goal of “Net Zero” emissions?



- Achieving “Net Zero” emissions is not a goal for most mid-sized E&P companies, including most sample producers.
- Those that have a “Net Zero” goal of direct GHG emissions intend to accomplish by 2025 through carbon offsets (e.g., reforestation) and improvements in operations.
- The goal does not account for indirect emissions.

TRENDS IN ESG DISCLOSURES IN SEC FILINGS

ESG Disclosures

Investors see the proxy statement as a “gateway” for ESG disclosure—a place to start for an overview with more detailed ESG information typically found in a sustainability report or on the company’s website.

- **Most ESG disclosures are voluntary. However, the SEC and state legislation may mandate specific ESG disclosures by rule.**
- **Trend towards increased disclosure in proxy statements as well as the Annual Report on Form 10-K.**

ESG Disclosures in Proxy Statements

- **CEO Letter/Proxy Statement Summary**
- **Shareholder Engagement**
- **ESG Governance**
- **Performance Compensation**
- **Quantitative Metrics**
- **Diversity**
- **Director Skills Matrix**

ESG Disclosures in the Annual Report on Form 10-K

- **Risk Factors**
- **Business Strategy**
- **Regulatory Environment**
- **Human Capital**

Balance Demand for Disclosure with Potential Risks

- **Potential risks associated with voluntary disclosures:**
 - Company liability for false or misleading statements
 - CEO/CFO liability in Form 10-Ks and Form 10-Qs due to liability through SOX certifications
 - Director liability for failure to exercise oversight responsibilities if the board's practices are inconsistent with disclosures
- **How to approach disclosures:**
 - Subject ESG disclosures to the same internal vetting as financial-related disclosures
 - Track the right information to substantiate the disclosures
 - Use aspirational language
 - Assign accountability for the creation and review of ESG disclosures
 - Including forward-looking statements disclaimer where appropriate

Remember, ESG is a journey!

Thank you!