White Paper

ESG: Changing Views On Thoughtful Leadership

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Project Canary®

Background: What is ESG?

Environmental, social and governance (ESG) criteria are standards that socially conscious investors use to screen and rate companies with regards towards potential investments.

Environmental. Environmental factors are focused on how a company's operational practices impact the environment, including air, water and land. Environmental criteria can extend to emissions, pollution, disposal of hazardous waste, mitigation measures and compliance with government regulations.

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BlackRock Global Executive Committee

Social. Social criteria are focused on how an organization manages relationships with employees, suppliers, customers, communities and other stakeholders. These criteria can include employment policies, working conditions, compensation practices, hours of business, benefits, contractor agreements and other factors.

Governance. Governance is focused on management, board composition, board member selection practices, executive compensation practices, shareholder rights, policies for handling conflicts of interest, audit policy and internal controls.

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ESG Goes Mainstream

Until recently, ESG criteria were most often used by the niche of socially conscious institutional investors seeking to offer their clients investment products that do not profit from specific types of businesses, typically tobacco, alcohol, fossil fuels and other industries.

Rising ESG concerns have discouraged investments in fossil fuels and given rise to Cleantech and Greentech sectors focused more on renewable energy and technologies that help mitigate the environmental impact of oilfield development and production processes.

The ESG concept, however, has been more widely adopted by generalist funds seeking to be responsive to changing cultural priorities among both individual and institutional investors. BlackRock, one of the world's largest institutional money managers with over $2.5 trillion of assets under management, published its commitment to using ESG criteria in its active investment process. In that letter, BlackRock's Global Executive Committee wrote, "By the end of 2020, all active portfolios and advisory strategies will be fully ESG integrated – meaning that, at the portfolio level, our portfolio managers will be accountable for appropriately managing exposure to ESG risks and documenting how those considerations have affected investment decisions."

Additionally, BlackRock emphasized that it will be providing investors with guidance on how the companies in their mutual fund portfolios impact climate change when it wrote, "By the end of 2020, we intend to provide transparent, publicly available data on sustainability characteristics – including data on controversial holdings and carbon footprint – for BlackRock mutual funds."

The impact of changing investor preferences towards the upstream sector cannot be minimized. Investors who previously ignored non-financial factors have now elevated ESG to the same level as traditional quantitative metrics, such as free cash flow, return on invested capital, commodity hedging positions and balance sheet strength.

Practically every earnings call in the first quarter of 2020 featured management covering ESG topics, demonstrating its newfound importance among institutional investors. This is a significant change in how management had previously responded to ESG. Management teams and boards of directors, however, have come to the conclusion that having patient capital on your side can be an important competitive advantage in volatile markets with implications for the cost of capital and access to it.

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The Oil & Gas Industry Response

Recently, several leading upstream oil and gas operators announced dramatic plans to improve ESG performance with an emphasis on Environmental factors.

Shell. This supermajor is a signatory to the World Bank's "Zero Routine Flaring by 2030" initiative. In the company's 2018 Sustainability Report, Shell reported that it is company policy to minimize all types of flaring, managed through annually updated greenhouse gas and energy management plans.

ExxonMobil. The largest U.S. oil company called for tighter regulations on methane emissions in March 2020. ExxonMobil's efforts to reduce methane intensity began in 2017, focused on its shale resources and claims to have reduced emissions by 20%. CEO Darren Woods said his company is rolling out the methane guidelines to the rest of the company to "demonstrate what's practicable and achievable."

Chevron. In February 2020, this supermajor reported it plans to overhaul its compensation practices and tie both executive pay and rank-and-file bonuses to achieving greenhouse gas emissions targets.

Cimarex Energy. The board of this Denver-based E&P set quantitative targets to reduce company emissions and the incidence of flaring, then tied executive compensation to achieving the objectives.

Pioneer Natural Resources. Scott Sheffield, CEO of this Permian Basin bellwether, called on top U.S. shale operators to reduce the practice of routine flaring and substantially reduce methane intensity by monitoring for methane leaks. Sheffield encouraged producers to reduce flaring and venting rates to 2% or less and not drill wells before pipelines are complete.

Occidental Petroleum. In February 2020, Houston-based Oxy joined 39 companies, including BP and Shell, in endorsing the World Bank's Zero Flaring by 2030 initiative. Oxy CEO Vicki Hollub said, "It's an honor to be the first U.S. oil and gas company to endorse the World Bank's initiative to reduce routine flaring globally, as we amplify our commitment to eliminate routine flaring in our operations by 2030."

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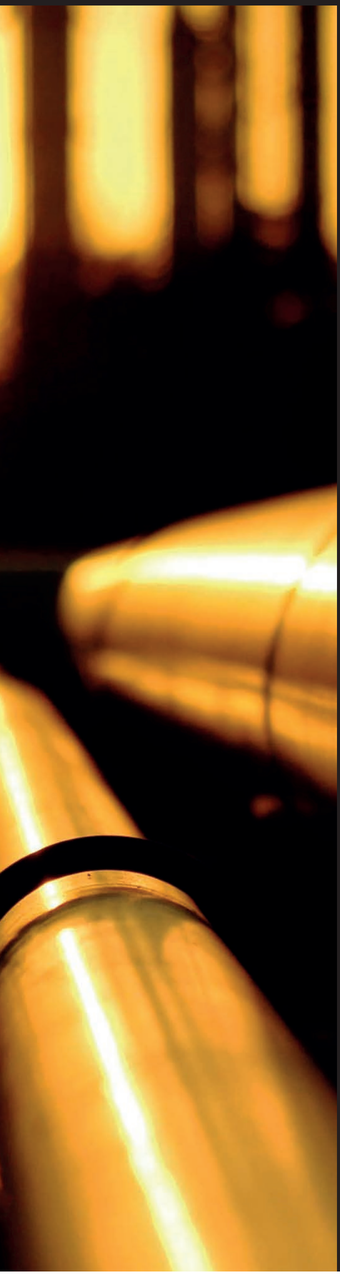
Improving and Evidencing ESG Performance



Investors are pressuring portfolio companies to be more transparent on ESG performance and quantify it. As one example of how to evidence ESG performance, BlackRock is asking companies in their mutual fund portfolios to increase disclosure of environmental data. Specifically, BlackRock is asking portfolio companies to implement reporting practices outlined in the TCFD Good Practice Handbook developed by the Climate Disclosure Standards Board (CDSB) and Sustainability Accounting Standards Board (SASB). The handbook emphasizes the disclosure of hard data and metrics covering greenhouse gas emissions, methane emissions, flaring and more.

Fortunately, technologies exist today that can help oil and gas producers achieve their ESG goals in ways that are both technically and economically feasible. In fact, continuous monitoring of methane and Volatile Organic Compounds at the well site, has emerged as the gold standard for reducing methane intensity and collecting verifiable data for evidencing ESG performance on emissions.

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Benefits of Continuous Monitoring

Real-Time Alerts. The Project Canary continuous monitoring solution provides real-time alerts of an emission event or leak, allowing operators to fix issues faster which helps ESG ratings. Operators can immediately dispatch a Leak Detection and Repair (LDAR) team to the exact location where the event is occurring to identify and repair the leak within hours instead of waiting days, weeks, or in some cases, months, before a leak is detected.

Service Partner Oversight. Continuous monitoring and improved maintenance allows you to improve your ESG rating by using data to make evidence based operational changes

Improved Equipment Maintenance. Data collected from the Project Canary solution can inform preventative maintenance schedules for combustors and identify equipment failures.

Differentiate Using Verifiable Data. Continuous monitoring also helps operators by collecting independent data that can be used to measure achievement of emissions benchmarks and potentially serve as verification of meeting ESG goals. Just this year, Bayswater Exploration & Production and Crestone Peak Resources have recently taken the lead by joining the Continuous Monitoring Program, a consortium of E&P operators, Project Canary and the Payne Institute for Public Policy at the Colorado School of Mines. Data collected securely and independently from the Continuous Monitoring Program will provide participating companies with verifiable, hard data it can use to evidence ESG performance and demonstrate that ESG initiatives are working.

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Get In Touch With Us

Project Canary, based in Denver, Colorado, is a mission-driven B-Corporation accountable to a double bottom line of profit and the social good. We believe it is possible to create a financially successful, self-sustaining business that "does well and does good."

Our goal is to mitigate climate change by helping the oil and gas industry operate on a cleaner, more efficient, more sustainable basis. Our proven technology monitors emissions of methane and VOC on a near-real-time basis, enabling energy producers to rapidly and effectively identify and remediate fugitive emissions.

The Project Canary solution is continuous, rugged, simple and affordable.

Chris Romer
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Schedule a meeting or call Project Canary today to learn how we can help you reach your ESG goals.