

North Sea Transition Authority

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To all Licensees

31 March 2022

Dear Licensee,

RE: Importance of ESG reporting

I am writing to all licensees today to remind licensees of the importance of Environmental, Social & Governance (“ESG”) reporting and the resources that are available to support licensees in doing this.

Consistent and high-quality, authentic, ESG reporting, backed up by a strong evidence base and superior quality supporting narrative, is important to the ongoing health of the industry because of the important and growing role it plays in attracting debt and equity investment and because of the role it plays supporting the industry’s social licence to operate. The importance of investor confidence and the industry’s social licence to operate are emphasised in the OGA Strategy (the “Strategy”) [found here](#). Recognising the importance of ESG reporting, but also recognising the extra burden high-quality reporting places on licensees, the North Sea Transition Authority (the NSTA, formally the OGA), has worked with licensees, through the NSTA ESG Taskforce, to monitor the evolution of key ESG requirements, and to recommend a standardised approach to ESG reporting. We expect this to make it easier for licensees to report, to maintain the industry’s attractiveness to both debt and equity investors and to help protect the industry’s social licence to operate.

2021 saw a significant number of new financial reporting policy initiatives announced, which industry will be considering, including the UK Government’s Net Zero Strategy and Greening Finance Roadmap and the new International Sustainability Standards Board (“ISSB”). These are expected to be followed with the Taskforce on Nature-related Financial Disclosures, and a new Social Taxonomy which intends to set out a global standard for what “good” looks like on social issues and provide more clarity on social standards.

The then OGA ESG Taskforce, which is now the NSTA ESG Taskforce (“the Taskforce”), was established in September 2020 to support licensees as they interpret, harmonise and enhance ESG reporting, including the use of standardised metrics to simplify and promote enhanced ESG disclosure. The Taskforce’s key objective remains to act as a bridge between industry, the NSTA, and the investment community and thereby assist in maintaining continued investor confidence and access to capital. It works with other regulators and relevant trade bodies, including Offshore Energies UK, to promote the importance of ESG disclosure and improve the clarity and consistency of the data reported.

The Taskforce initially focused on the 'E' of ESG and in March 2021 outlined recommended optimal ESG environmental reporting alongside several key indicators and metrics that were of key importance to investors and lenders and could easily be reported by all companies. In light of the significant number of new policy initiatives since its launch, the Taskforce remit has been extended and it will look to consider whether additional recommendations are needed, given regulatory developments and investor requirements, as well as promoting key ESG social and governance considerations. This will ensure that industry remains focussed in its efforts.

Full details of the Taskforce can be found on the NSTA website [here](#). A summary of the 2021 recommendations can be found in Annex 1 and, as general background, in Annex 2, there are several links to external sources of information and ESG guides which may be of use.

The Taskforce expects that a variety of new standard setters, such as the ISSB, will work to drive enhanced consistency and harmonisation across reporting over the coming months. In response, the Taskforce will seek to assist, and challenge industry to provide ESG reporting that drives trust, and delivers action, authenticity, and evidence and I encourage all companies to familiarise themselves with the Taskforce's recommendations about disclosure.

The NSTA and its ESG Taskforce will keep under review how it deals with ESG in the light of further developing guidance, expectations, suggested best practice and mandatory requirements and will provide updates to support and assist industry as appropriate. Please feel free to provide the NSTA with any comments on the above via the email address: joanne.edgeler@nstaauthority.co.uk

Separately, the NSTA published its Governance Guidance ("the Guidance") in January 2022 [found here](#). The Guidance is in support of Paragraph 3 of the Strategy, and outlines when the NSTA will normally consider a company's governance arrangements and the factors that the NSTA will usually take into account. The Guidance includes Strategy specific expectations for the Relevant Board in relation to Environmental Governance and Corporate Social Responsibility. I recommend all companies fully acquaint themselves with this new Guidance. I would also like to offer licensees the option of a 1:1 conversation, to ensure that we continue to support licensees in their ESG practice and disclosure development. Should you wish to arrange a meeting, please contact joanne.edgeler@nstaauthority.co.uk.

This letter will also be published on the NSTA's website and via social media.

Yours sincerely,

Joanne Edgeler
Senior Investment Manager, NSTA
Chair, NSTA ESG Taskforce

Annex 1

Recommendations of NSTA ESG Taskforce

The Taskforce recommends operators and licensees align to a common minimum standard of reporting, using the key metrics identified in Table 1 below. It concluded (March 2021) that operators and licensees should take the 12 months following, to debate and discuss best practices of how to report against the metrics and should be ready to report in Q1 2022 alongside the publication of their 2021 full year audited financial reports.

The Taskforce believes these recommendations provide a signal and signpost to which operators and licensees should respond. These metrics should be viewed as a starting point but by no means an end point.

The taskforce agreed the following general, overarching expectations:

- Operators and licensees to disclose climate related data in their financial reports, and/or websites,
- Industry to be mindful of investor expectations and we will encourage and ensure better disclosure & transparency,
- Disclosure should be quantitative and qualitative with signalled improvements over time,
- Senior leadership to set the tone with strategy and narrative.
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The Taskforce agreed seven quantitative and four qualitative metrics, grouped under a short term “Tier 1” bucket, which should focus on 2021/22.

Short term quantitative metrics (“Tier 1”)

- Scope 1 & 2 emissions in MTC02e
- Fugitive emissions as a % of marketed gas (Methane and methane intensity)
- Carbon intensity in MTC02e/kgC02 per boe
- Air & Water pollution risks in million M3
- Waste management & disposal in tonnes
- Gas handling (flaring & venting in MTC02e/TC02e per boe)
- Key H&S stats & metrics (in numbers - incidence of fines, numbers & rates of injuries/fatalities, types of injury sustained at work)

An additional five metrics were agreed as medium – longer term metrics (“Tier 2” and “Tier 3”), which it was expected to rise in importance over the medium to long term¹.

These are all outlined in Table 1 below:

¹ Note that the Taskforce agreed January 2022 that Tiers 1-3 are now assumed priorities for investors/lenders *now* and encourages industry to be mindful of that expectation.

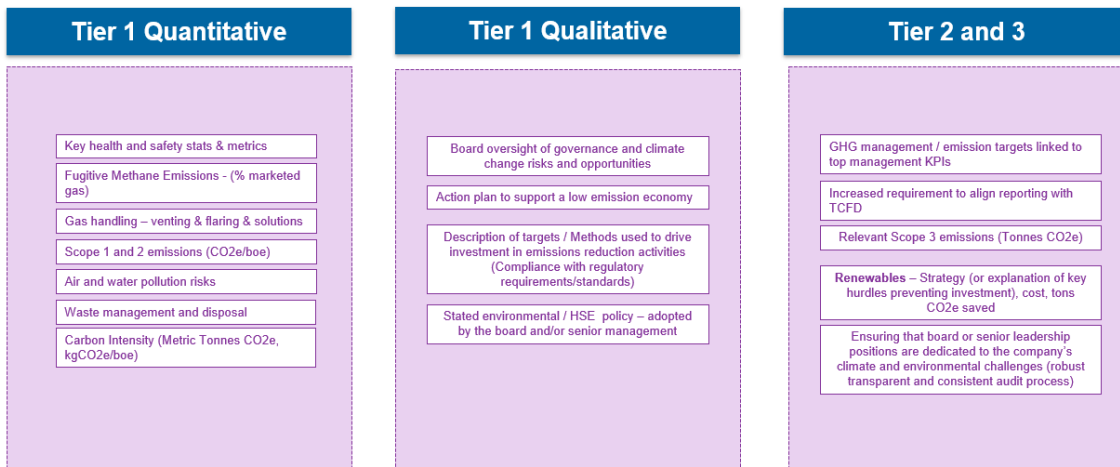


Table 1

Annex 2

The following links provide details of some external sources of information on climate-related reporting which may be of support to companies (note this is by no means an exhaustive list):

[News | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/news)

[FRCLab TCFD Report, October 2021](#)

[FRC Climate Scenario Analysis in Corporate Reporting, October 2021](#)

[Ipieca_oil-and-gas-sector_sdg-roadmap_final.pdf](#)

[From Now to Net Zero: A Practical Guide for SMEs | Lloyds Bank](#)

[IFRS - International Sustainability Standards Board](#)

<https://www.globalreporting.org/standards/standards-development/sector-standard-project-for-oil-and-gas/>