What is ESG?

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DOMESTIC ENERGY PRODUCERS ALLIANCE

Environmental, Social and Governance criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.

Environmental

The information in the environmental portion of a company's ESG document explains how that company performs as a steward of nature. It documents the company's energy use, water, pollution, natural resources, conservation, animal treatment and benefits to the environment.

Social

The information in the social portion of a company's ESG document looks at a company's business relationships with employees, suppliers, customers and communities where it operates.

Governance

Governance information in an ESG document looks at a company's leadership, executive pay, audits, internal controls and shareholder rights.

Why ESG Matters to Your Company?

Today financial results are not the only measure by which firms are valued on the market. Social and environmental outcomes of a company are critical to the sustainability of company growth.

Investors are requesting information on the commitment to the three ESG pillars. In coming years their request could be a requirement. Historically, the industry has done a poor job showcasing its community benevolence. An ESG minded company attracts more investment and channels a positive message to shareholders. **The environmental, social and governance standards have become the leading indictors of measuring management competence, risk management, and financial performance.**

A Sustainable, Responsible, Impact (SRI) investment strategy is based on the belief that a commitment to the principals of Corporate Social Responsibility (CSR) generated long-term competitive financial returns as well as positively impacts society. **For investors and lenders, reducing the risk associated with sustainability of performance is immensely important.**

Corporate Social Responsibility (CSR) goes beyond the law. It is about self-regulation and reveals itself in a company's guiding principles, operating philosophy and behaviors toward all stakeholders. The goal is to ensure a company's actions positively impact all stakeholders. CSR includes programs, policies and practices related to employees, suppliers, customers and society.

The return on investment for CSR is the positive impact a focus on stakeholders can have on the retention, loyalty and recruitment of employees and customers, due to reducing the costs associated with employees and customer turnover on bottom line performance.

Sustainable, Responsible and Impact Investing is an actual investment strategy where ESG and CSR come into play.

Sustainable, Responsible and Impact (SRI) criteria are used to make investment decisions. SRI refers to evaluating the long-term sustainability of a company's performance due to the evolving importance of good corporate citizenship on business drivers such as reputation, employment, purchasing decisions and more.

In our ever changing society, transparency on the issues of environment, social responsibility and corporate leadership are becoming more important. Investors are turning their backs on companies that don't offer information on these areas. There is a need to "tell our story" to compete in the investment world.

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Frequently Asked Questions

Is an Environmental, Social and Governance document a new operational requirement?

No. ESG reporting is voluntary. However, the oil and gas industry is changing and a clear indication is the performance of oil and gas companies on the S&P 500. Most brokerage firms and mutual funds invest in companies that follow ESG criteria.

How is this different than regulatory reporting or an annual report, which we already do?

While ESG reporting has no specific requirements or format, there are rating companies who look for specific components to be addressed. An ESG is very similar to a melding of regulatory reporting and an annual report in one document.

What constitutes an acceptable set of ESG criteria?

It's subjective. Investors must do the research to find companies that match their own values.

What is generally included in an ESG?

To be effective an ESG report should generally include a company's impact on climate change and carbon emissions, water use, conservation efforts, anti-corruption policies, board compilation including how directors are elected, the audit committee structure and diversity in gender. However, it is important to also highlight diversity in industry backgrounds inside the board of directors. Of course, safety measures, data protection, employee engagement including efforts for positive team dynamics and transparency from management to teams are all important metrics. Don't forget to give information about community development, local corporate engagement and giving. **These are just a few of the topics to consider, NOT an exhaustive list.**

Is there a template ESG or a sample to follow?

Visit the DEPA website for more information about how to get started creating an ESG report, and to find links to sample ESG reports as well as the Tudor, Pickering, Holt & Co "Data Disclosure Wish List" for Domestic US E&P.

Who is this document written for?

Companies should communicate their ESG analysis and plans to shareholders and the community at large. It should be posted on their website and easily available to the public.

How do I gather all of this information?

Much of what is typically included in an ESG document is already gathered for regulatory reporting, stakeholder meetings, and internal documentation. Assembling this information into one document for the financial sector will, eventually, be crucial for publicly traded companies and those private companies looking to raise capital.

How Do I Start?

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ESG

Keep in Mind

ESG should be addressed in every oil and gas company's mission statement going forward.

Companies should communicate their ESG analysis and plans to shareholders and the community at large. It should be posted on their website and easily available to the public.

An ESG minded company attracts more investments and channels a positive message to shareholders.

Today financial result is not the only measure by which firms are valued on the market. Social and environmental outcomes of a company are critical to the sustainability of company growth.

The importance of non-financial factors is gaining momentum.

Socially conscious investors using the ESG self analysis to screen potential investments and create a new measurement to assess a company's value are no longer the exception to the investment community.

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