

INVESTOR ENGAGEMENT GUIDANCE ON METHANE



ACKNOWLEDGEMENTS

Photo Credit: Pexel

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About the Interfaith Center on Corporate Responsibility (ICCR)

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INTRODUCTION

Methane, the primary component of natural gas, is a climate pollutant 86 times more powerful than carbon dioxide, and Oil & Gas operations comprise the largest industrial source of methane emissions globally. The International Energy Agency (IEA) points to reduction of such emissions as one of the five key measures for effectively addressing Climate Change. Consequently, appropriately addressing the environmental and economic risks associated with climate change requires implementing stringent methane controls. This reputational or product risk is compounded in the current energy transition by the fact that many operators have staked their futures in a carbon-constrained world on natural gas as a potentially cleaner energy source or “bridge” fuel.

Due to their climate and health impacts, methane emissions have drawn increasing scrutiny from the public, environmental and health groups, and global policymakers. Such scrutiny endangers the industry’s social license to operate and increases regulatory risks. Unfortunately, a dearth of accurate emissions disclosure, conflicting policy stances and variable operational quality of methane management by the industry interfere with investors’ efforts to gain clarity on climate risks within their portfolios. Without better reporting, investors are unable to discern which operators are prepared for a shifting energy future and which are not, creating an uncertain investment landscape.

Understanding the performance of companies on these complex issues can be difficult given the interrelated nature of asks. Additionally, the lack of a goal framework hinders the investor’s ability to assess a company’s progress on methane management and conduct a comparison with other companies. This document aims to tackle these problems by providing guidance to investors in structuring engagements with companies through a framework that tracks cumulative goalposts towards better methane management in three areas – “Targets and Emissions Data”, “Policy” and “Operations, Technology and Innovation”. This document is structured such that under each area lies a series of cumulative goals towards better practices. For example, under “Targets and Emissions Data”, the goal of “Extend target and emissions reporting to non-operated assets and joint ventures” should be asked after the goal of “Set a methane specific reduction target” is achieved. These goals are further elaborated with specific examples of compatible criteria and questions to ask companies.

We hope this guidance will enable investors to engage oil & gas companies in a more systematic and hence effective manner. Additionally, this guidance can inform companies to the goals of investors in their methane engagements, lending rigor and clarity to the engagement process for both parties.



TARGETS AND EMISSIONS DATA

A:

Set a methane specific reduction target

B:

Extend target and emissions reporting to non-operated assets and joint ventures

C:

Report quantitative methane metrics

D:

Implement enhanced methane reporting and target verification practices

E:

Publish summary findings from the third-party audit of the company's methane emissions data



POLICY

A:

Advocate for effective policy and regulations on methane emissions

B:

Advance agenda setting discussions (e.g. through trade associations or lobbying alignment)

C:

Provide implementation guidance for successful implementation of current regulations



OPERATIONS, TECHNOLOGY AND INNOVATION

A:

Disclose information such as coverage of direct measurement, frequency, scope and methodology for leak detection and repair

B:

Disclose insights and actions from LDAR data, progress on technology pilots

C:

Extend technology leadership sharing best practices with joint venture partners

D:

Include mobile monitoring, continuous and high-frequency monitoring and digital methane

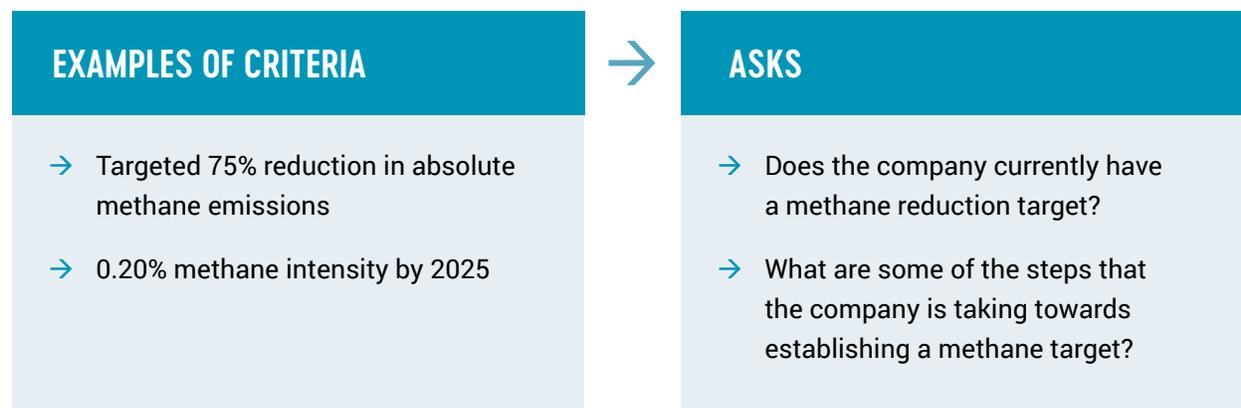


A. Set a Methane Specific Reduction Target

Implement absolute targets of 75% reduction by 2025 and/or a 0.20% or lower methane intensity target.

IEA analysis and demonstrated industry experience suggest that corporate commitments to reduce methane emissions 75% by 2025 are a feasible milestone on the pathway toward virtually eliminating all methane leakage. Reported experience of industry leaders (including [OGCI](#)) further suggests that it is feasible to achieve a 0.20% or lower methane intensity rate.

Emissions from oil production – not just gas value chain – must be targeted. IEA estimates more than half of upstream methane emissions come from oil production. Targets encompassing upstream must include all emissions from oil and gas production, including both stranded and marketed associated gas.



Further reading: [Page 7 of Taking Aim](#)



B. Extend target to include production from all assets

Extend their targets to include production from non-operated assets. Non-operated assets – which are owned by one entity but operated by another – can comprise, on average, 50% of a company’s portfolio. This means, in some cases, half of a company’s production is exempt from its methane management program. A credible methane management strategy must address both operated and non-operated assets in order to mitigate a significant portion of methane emissions.

EXAMPLES OF CRITERIA

- Inclusion of non-operated assets and joint ventures in methane emissions reporting and target setting



ASKS

- How does the company oversee the coordination of non-operated assets within the group corporate structure?
- What is the company’s standard protocol for communication and reporting of environmental, health and safety (EH&S) data from non-operated assets?
- What percentage of production volumes come from non-operated assets?
- Does the company’s existing methane target cover both operated and non-operated assets?

Further reading: See [The Next Frontier](#)



C. Report basic methane emissions data

Report methane emissions data as a standalone metric (either absolute and/or as an intensity figure).

A standardized set of quantitative methane metrics better enables investors to assess and compare company performance over time and manage risk. Two basic disclosure figures are the methane emissions as an absolute figure and the methane emissions as an emissions rate, calculated as total methane emissions from oil and gas production divided by total natural gas production. Intensity is useful for standardization across companies, while total emissions rates are useful for demonstrating that companies are achieving absolute reductions. As a starting point, companies can disclose emissions based on bottom-up emissions factors.

EXAMPLES OF CRITERIA

- Reporting of methane emissions rate (% of either production or throughput, depending on which segment of the supply-chain a company is operating in) and absolute emissions (Metric tons)



ASKS

- Does the company provide basic disclosures of methane emissions such as the methane emissions rate and methane emissions as an absolute metric?
- How are these broken down (e.g. by geography, basin, region)?
- What are some of the timelines the company has implemented in order to establish these numbers?

Further reading: Pages 19 - 22 of [Rising Risk](#)



D. Report enhanced methane emissions data

Report enhanced methane emissions data for greater credibility and insights. Investors benefit from continuous improvement in data integrity, with companies making available accurate numbers that credibly report on target progress essential to pursuing data driven ESG investment decisions. However current standards for estimating and disclosing methane levels provide limited insights to stakeholders. These traditional “bottom-up emissions factor” approaches rely on desktop equations for estimating methane emissions, rather than actual measurement in the field. While these emissions factor estimates can help companies understand the general distribution of emissions, they have been found to underestimate emissions by 60% on average, threatening to undermine any reported progress against targets. For companies to ensure the credibility of their methane data, they must increase top down, site-level methane emissions measurements taken from a statistically representative sample of facilities to lower measurement uncertainty to acceptable levels.

EXAMPLES OF CRITERIA

- Reporting of direct measurement methane techniques and methane emissions inventory methodology



ASKS

- How does the company currently calculate methane emissions?
- How does the company incorporate direct measurements into its methane emissions estimates?
- How is the company integrating site-level emissions measurements into its overall emissions inventories?
- What plans does the company have to move from a bottom-up emissions factor-based approach to a direct measurement-based approach for calculating methane emissions?

Further reading: Page 7 of [Hitting the Mark](#)



E. Publish summary findings from the third-party audit of the company's methane emissions data

External, independent auditing enhances confidence in methane data. External auditing by an established, independent firm can add value and improve confidence in methane emissions disclosure. Third-party auditors will need the technical expertise to rigorously assess both the accuracy of the data as well as the quality of the methods. There are existing standards that govern financial auditing that have not yet extended to sustainability audits. To ensure trust, companies should publish the results of the audit and disclose the auditing methodology.

EXAMPLES OF CRITERIA

- Reporting of third-party audit findings along with audit methodology and audit summary



ASKS

- Has the company hired an external auditor to verify its emissions estimates? If yes, who is the auditor?
- What criteria were used, or is the company considering using, to select an auditor?
- How is the company working with other oil and gas operators, academics and nongovernmental organizations to define standards for methane data auditing?
- Are these broken down by geography?
- What are some of the timelines the company has implemented in order to establish these numbers?

Further reading: Page 30 of [Hitting the Mark](#)

A. Advocate for effective policy and regulations on methane emissions

Effective internal methane policy predicates effective methane management. Prior to advancing policy and/or agenda-setting discussions, a rational, science-based approach to methane policy should be advocated internally by companies. “Although natural gas is a cleaner-burning fuel than coal, the high potency of methane as a greenhouse gas (GHG) can reduce or eliminate the environmental benefit of natural gas when emitted to the atmosphere directly. Such reputational or product risk is particularly salient given that many operators have staked their futures in a carbon-constrained world on natural gas as a potentially cleaner energy source. As noted by the IEA, ‘the potential for natural gas to play a credible role in the transition to a decarbonised energy system fundamentally depends on minimizing these emissions.’” (Taken from the [Investor Guide to Methane](#))

EXAMPLES OF CRITERIA

- Reporting of policy stances on methane management techniques and rulemaking



ASKS

- How does the company define its policy stance?
- How does the company incorporate its policy stances into its methane emissions management?
- Does the company engage with federal rulemaking processes?
- What plans does the company have to move towards policy stances that are in line with shareholder expectations?
- Do the policy stances apply to the company’s operations globally?

B. Agenda-setting discussions in industry wide spaces

Agenda setting discussions provide industry wide level setting and methane leadership. Companies should advocate for effective policy in agenda setting discussions in industry wide spaces (e.g., trade associations, conferences, regulatory comments). Agenda-setting discussions can take on a number of forms (Roundtables, dialogues, seminars) and tackle a variety of issues but should be used to bring priority issues to the attention of the wider group of stakeholders and flag any areas for improvement. This can provide an important space for companies to ensure there is policy alignment between trade associations and the company's own stated position. An example of this mismatch would be the API's support of regulatory rollbacks while companies that are signatories to the API's Environmental Partnership such as Equinor, BP and Exxon Mobil submitted comment letters in opposition.

EXAMPLES OF CRITERIA

- Participation in industry wide sessions with policy stances in line with Paris agreement goals



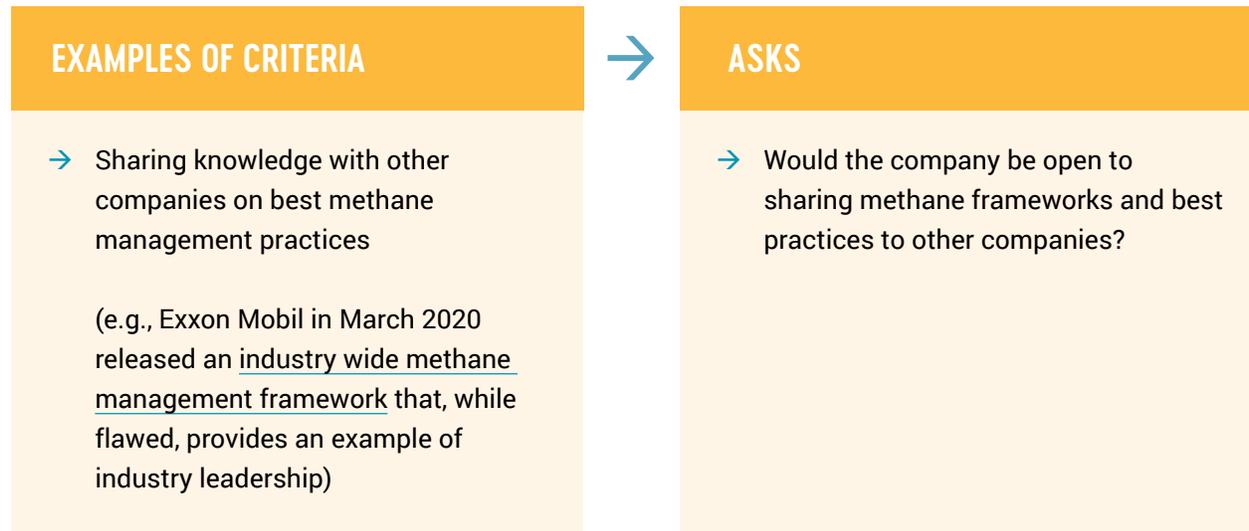
ASKS

- Does the company periodically review its membership with trade associations?
- Does the company plan to move towards trade association alignments that are level with shareholder expectations?



C. Provide implementation guidance for successful implementation of current regulations

Implementation of current methane regulations provides a roadmap for other companies with weaker methane management, while bringing the industry to parity. Beyond agenda-setting issues, inter-company dialogues on implementation of successful methane policy will bring greater parity to industry level processes and allow for easier industry-wide evaluation of progress. Success or failure of implementation can bring constructive dialogue to difficult issue areas that can inform the next cycle of policy setting.





A. Disclose information such as coverage of direct measurement, frequency, scope and methodology for leak detection and repair (LDAR)

Disclosure of LDAR protocols provides a metric of company progress. Information on companies LDAR is paramount in understanding a company's progress on methane management at an operational level. LDAR is the process of locating and repairing methane leaks, otherwise known as fugitive emissions, which may occur throughout the oil and gas value chain and arise from operator errors and equipment failures. Frequency refers to how often a company observes its assets for leaks (e.g. monthly, quarterly, annually). Methodology is the process (e.g. optimal gas imaging (OGI) cameras, handheld sniffers, etc.) that the company uses to detect methane leaks, while scope is the percentage of the company's assets that are inspected under an LDAR program. According to the EPA, an LDAR program using OGI cameras quarterly can reduce methane and VOC emissions by 80%, compared to 60% semi-annually and 40% annually.

EXAMPLES OF CRITERIA

- Reporting of LDAR protocols including frequency, methodology, scope.



ASKS

- On what proportion of wells does the company carry out LDAR?
- How does the company incorporate its policy stances into its methane emissions management?
- Does the company go beyond federal rules for LDAR in terms of scope and frequency?

Further reading: Page 21 of [Rising Risk](#)



B. Disclose insights and actions from LDAR data, progress on technology pilots, and beyond

Disclosure of LDAR progress builds confidence in company processes. Disclosure of insights and actions from LDAR data allows for greater transparency within methane management disclosures which can provide investors, stakeholders and governing bodies stronger evaluation metrics. A forum through which methane disclosures can be reported includes the CDP Climate Change disclosure.

EXAMPLES OF CRITERIA

- Disclosure of LDAR review processes and workplans to improve LDAR



ASKS

- What are some of the future processes for methane management that the company is looking towards?
- What plans does the company have to move towards more robust LDAR protocols?
- How often does the company review LDAR outcomes to pinpoint challenges and areas for improvement?



C. Extending technology leadership in industry-wide spaces

Agenda setting demonstrates company leadership on best practices for LDAR. Similar to 2b. above, extending technology leadership in industry-wide spaces (e.g., trade associations, conferences, regulatory comments) can spur adoption of best practices by the industry as a whole. As the sector is only as strong as its weakest link, demonstrating technology leadership and advocating for adoption of best practices at an industry level provides benefits to all operators by improving the collective social license to operate.

EXAMPLES OF CRITERIA

- Dissemination and participation in LDAR specific sessions during industry wide events (e.g., OGCI annual meeting)



ASKS

- How does the company extend technological partnership with other companies?
- Does the company engage joint venture partners in knowledge sharing sessions?



D. Include mobile monitoring, continuous and high-frequency monitoring and digital methane

Digital methane is the next frontier. Given the scale and complexity of oil and gas infrastructure, finding and fixing methane leaks can be resource intensive. While conventional solutions exist to address this challenge, digital technologies have the potential to expand the scope and accelerate the scale of methane emissions reduction. Digital technologies enable oil and gas companies to run advanced diagnostics that enable improved guidance for actions and faster decisions. In the area of methane emissions, these abilities can underpin a system that can detect – either ahead of time or just in time – a potential or actual leak event, present remedies, and enable rapid action. Examples of this technology include mobile monitoring, continuous and high-frequency monitoring and cloud-based analytics.

EXAMPLES OF CRITERIA

- Implementation of digital methane management processes such as mobile monitoring, continuous and high-frequency monitoring and cloud-based analytics.

(e.g., Shell is aiming for improved operating performance with [C3 IoT](#) as its artificial intelligence platform.)



ASKS

- Has the company diagnosed itself along the maturity continuum (Figure 3 of [Fueling a Digital Methane Future](#))? What steps has the company taken in order to move along the maturity continuum?
- What analyses have the company run on historical methane data to derive emission trends?

Further reading: [Fueling a Digital Methane Future](#)