ESG and the Canadian Energy Sector

CANADA WEST FOUNDATION 50

THE CANADIAN ENERGY AND CLIMATE NEXUS

LE LIEN CANADIEN DE L'ÉNERGIE ET DU CLIMAT

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Over the past five years, the rise of Environmental, Social and Governance (ESG) reporting has been meteoric. But whether ESG is more than a fad, whether it is needed to secure investment—and even whether it is particularly useful given that international ESG frameworks and standards do not align well with sector-specific and uniquely Canadian conditions—are some of the questions that require a hard look.

In the Canadian energy sector—among oil and gas companies, pipelines, renewable energy companies and electric utilities—ESG reporting has kicked into high gear. But not across the board, and by no means equally among companies.

All of Canada's largest oil and gas and electric utility companies provide ESG reports, but the number drops off substantially among smaller oil and gas producers, renewable energy companies, smaller utilities and pipeline companies. All of the international majors produce a public ESG report, but fewer than half provide any detailed ESG information about their Canadian operations.

TABLE ES-1: ESG reporting among Canadian energy subsectors

	# of companies in our sample	Percent with public ESG reports or metrics	Factors influencing likelihood to report
Oil and gas Top producers Smaller producers	 36 30	 100% 20%	Size of company
Wind and solar (commercial-scale)	43	33%	Public vs. private ownership
Electric utilities (100K+ customers)	17	76%	Size, public vs. private ownership, provincial vs. municipal ownership
Pipeline operators (CER Group 1 and Group 2)	23	39%	Public vs. private ownership

Companies also take very different approaches to reporting on specific environmental, social and governance topics. Many topics that are key elements of a company's sustainability performance (and are included in every major ESG framework) are not consistently reported on by any Canadian energy subsector—including GHG emissions, land use, biodiversity, water use, waste, gender equity, diversity and inclusion and supply chain management. Although Canada's energy sector is increasingly taking up ESG reporting, confusion clearly remains about how best to approach it.

The hype around potential benefits of ESG reporting is intensifying. In some circles, so is the skepticism of what it can actually accomplish. As is often the case, the reality is somewhere in the middle.

There is a strong business case for Canadian energy companies to embrace ESG reporting. It may increase access to lower-cost capital, improve the company's operational and managerial performance, lower material risks and impacts, map a path forward, and enhance brand and reputation. But ESG is a means to an end—not an end itself. The companies that see gains are the ones that do more than tick off boxes in a report, and instead integrate sustainability principles companywide. And legitimate criticisms remain. While more and more capital is being directed by sustainability performance—a whopping $40.5 trillion globally in 2020 alone—a sizeable amount of investment is still made using only financial criteria, absent ESG. Additionally, there is doubt about whether ESG can create a meaningful difference in climate, environmental or social outcomes, or whether ESG reporting focuses on relatively trivial issues and misses the larger picture.

The hype around potential benefits of ESG reporting is intensifying. In some circles, so is the skepticism of what it can actually accomplish. As is often the case, the reality is somewhere in the middle.

Rapid changes are taking place, some of which may help "connect the dots" and resolve some of the confusion—including international efforts to consolidate ESG frameworks, increasing use of third-party assurance of sustainability reporting, guidance being provided by regulatory bodies and stock exchanges, and companies' own increasing familiarity as to what works and what does not for the audiences they are trying to reach. Governments also have a role in supporting strong ESG performance, through creating policy frameworks such as strong net-zero plans that provide credibility for companies' own net zero targets, and assembling and publishing objective data that support ESG performance claims.

For industry, there are benefits to embracing ESG, flaws and all. An emphasis on ESG reporting is an opportunity for Canadian energy companies to demonstrate how they intend to build successful businesses in a more sustainable world.

Introduction

Over the past five years, the rise of Environmental, Social and Governance (ESG) reporting has been meteoric. In the Canadian energy sector—oil and gas companies, pipelines, renewable energy companies and electric utilities—sustainability performance reporting has simultaneously kicked into high gear. But not across the board, and by no means equally among companies.

ESG reporting includes no hard and fast rules about what needs to be disclosed, which topics should be addressed and which indicators should be used to measure performance. Whether ESG is more than a fad, whether it is needed to secure investment—and even whether it is particularly useful given that international ESG frameworks and standards do not align well with sector-specific and uniquely Canadian conditions—are some of the questions that, along with the potential benefits of focusing on doing good alongside doing well, require a hard look.

A 2020 KPMG survey of the top 100 companies in each of 52 countries found that 80% report on their sustainability performance—and this figure rose to 96% among the world's 250 largest companies.[1] In Canada, close to 90% of companies included in the S&P/TSX Composite published a dedicated ESG or sustainability report in 2019, or provided ESG metrics on their website.[2]

Clearly, ESG reporting is increasingly widespread. What are the implications for the Canadian energy sector?

This report attempts to answer that question in three parts:

- WHY should Canadian energy companies care about ESG reporting—how strong is the evidence that ESG is relevant to them?
- WHAT are Canadian energy companies doing now in terms of ESG reporting?
- HOW can energy companies and governments move forward in a way that both responds to evolving international trends and is specific to the Canadian context?

The report focuses on environmental, social and governance (ESG) metrics and reporting. Appendix 1 provides a short primer on what ESG means and the different types of organizations involved in developing ESG reporting and rating frameworks.

Moving from shareholder value to sustainability

The corporation has become one of society's most influential institutions: the world's 500 largest companies alone generated $33.3 trillion in revenues and $2.1 trillion in profits in 2019.[3] But companies are facing calls for changes to how they operate, strategize and govern themselves. Prompted by demands for social, environmental and climate justice, pressure is increasing on companies to act more sustainably (**Figure 1**).

About 60 years ago, under the influence of economist Milton Friedman, the idea arose that the sole purpose of a corporation was to maximize profit for its shareholders—a view that prevailed for decades.[4] But that definition has been expanding—and with good reason. As stated by the World Economic Forum, "There is emerging consensus among governments, civil society, investors and corporations themselves that long-term value is most effectively created by serving the interests of all stakeholders."[5] Growing evidence also suggests that this attitude leads to financial success: in recent years, a number of studies have demonstrated a clear association between a company's sustainability performance and its bottom line.[6,7]

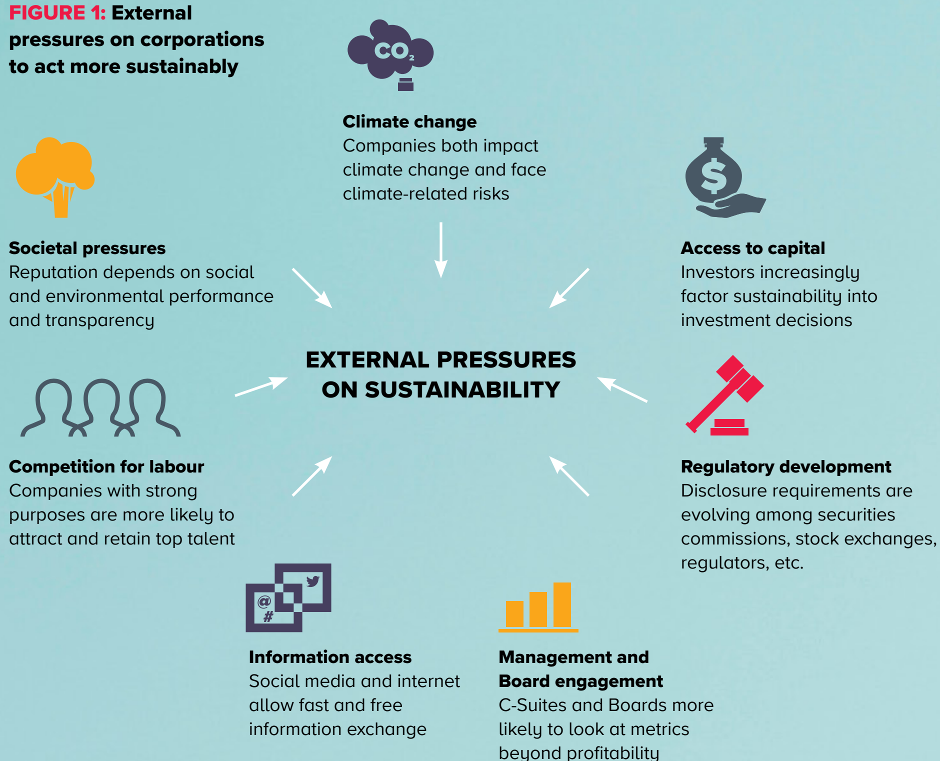
In recognition of both the financial and social justifications, the U.S. Business Roundtable recently overturned its 30-year stance that corporations exist primarily for the benefit of shareholders. One hundred and eighty-one Roundtable CEOs signed a pledge to lead their companies for the benefit of all stakeholders: customers, employees, suppliers, communities, and shareholders. This pledge set "a modern standard for corporate responsibility" and sent a strong signal around the shift from shareholder- to stakeholder-oriented markets.[8,9]

The financial sector has also taken note. The rapid rise of impact investing, sustainability investing and ESG investing—all types of investments that consider social and environmental performance alongside financial return—have captured the attention of companies across all sectors and jurisdictions.[10]

Globally, assets applying ESG/sustainability criteria to investment decisions have almost doubled over four years, and more than tripled over eight years, reaching a value of $40.5 trillion in 2020.[11,12]

There is no denying how important it is for companies to create economic benefits for governments and people they employ. But it is increasingly vital for companies to expand the role they play in a larger societal context—and nowhere more so than in the Canadian energy sector, which is at the centre of lightning-rod issues such as climate change, environment, Indigenous rights and reconciliation, economic prosperity and sustainable energy production and consumption.

FIGURE 1: External pressures on corporations to act more sustainably



Examining the reasons for ESG

A hard look at the evidence

This section takes a close look at several arguments that have been put forward about why ESG disclosure is important, and why companies should do it (or at least pay close attention). Specifically, this section examines evidence for—and gaps in the arguments on—four propositions:

- ESG considerations increasingly drive financial investment
- A sustainability approach creates value within the company
- Regulatory pressure is increasing
- ESG can meaningfully influence environmental and social outcomes

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The Proposition
ESG increasingly drives financial investment

The primary reason given for companies to engage in ESG reporting is investor attraction, in which ESG is seen as a key to unlocking financial investment.

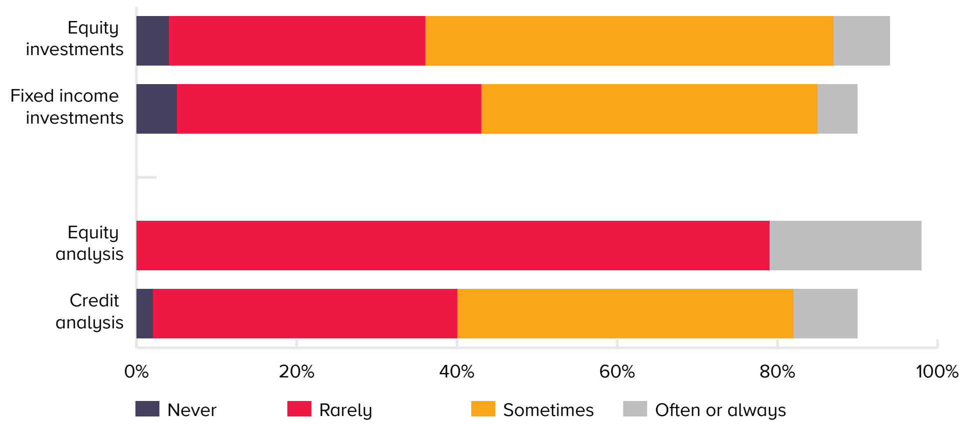
It is certainly true that an increasing share of capital is being directed with a lens on sustainability performance. Globally, asset funds applying sustainability criteria to investment decisions have almost doubled over four years, and more than tripled over eight years, reaching a value of $40.5 trillion in 2020.[13] In the U.S., sustainable fund flows (net in and out) comprised nearly one-quarter of overall net flows into stock and bond mutual funds and ETFs; about one-third of overall assets under management in the U.S. have some sustainable investment strategy.[14] In Canada, such funds grew to $3.2 trillion in 2019, up from $2.1 trillion in 2017, representing 61.8% of Canada's investment industry.[15]

There remains a sizeable amount of investment that is still being made using only financial criteria and not ESG factors. This is likely to remain the case.

What this means is that those companies that demonstrate strong ESG performance can increase their chances of obtaining funding from sustainability-driven sources, and this may lower their cost of capital. However, there remains a sizeable amount of investment that is still being made using only financial criteria and not ESG factors. This is likely to remain the case, especially in light of studies—such as a 2020 OECD analysis—showing that funds that invest using ESG criteria do not necessarily perform better than funds that do not consider ESG.[16]

Additionally, not all investors who use ESG/sustainability as a criterion do so in the same way. Some asset managers may only consider one or two of the three dimensions, rather than all three of them.[17] Others use ESG criteria some of the time, but not all of the time. **Figure 2** shows that relatively few Canadian investment portfolio managers evaluate ESG criteria "often or always" in their analysis or to adjust valuation models—but most do at least some of the time. And how ESG is used also varies, with most Canadian investment managers reporting that they use it primarily as a screen to eliminate ESG non-compliant companies, followed by as a tool to differentiate among companies.[18]

FIGURE 2: How frequently do industry portfolio managers and financial analysts in Canada include material ESG issues or adjust their valuations as a result?



Source: CFA institute[33]

This leads to an important information gap for Canadian energy companies. Research into how ESG considerations are used by investors in Canada and other countries have focused on cross-sectoral—rather than sector-specific—trends. Do the trends apply to Canadian energy sector companies specifically? Has ESG performance made a difference in portfolio managers' decisions about which energy companies to invest in (other than the decision by some investors to divest from fossil fuels entirely)? Has good ESG performance and reporting given any Canadian energy companies an advantage over their competitors? Has it driven investment into the sector as a whole, compared with other Canadian sectors? This is information that would be valuable for Canadian energy companies to have—but it does not seem to be available publicly at this point.

Sustainability-Linked Loans

A new kind of credit facility

A new type of credit facility—the sustainability-linked loan or SLL—ties the cost of borrowing to a company's ESG performance. Unlike green bonds, the proceeds from a SLL can be used as part of the company's general funding plans.[19] Although SLLs are a relatively new type of asset class—first emerging from an Italian utility company in 2019—Canadian energy companies are increasingly taking them on. As of March 2021, eight Canadian energy companies—including both Gibson Energy and Enerplus—had issued SLLs, for a total of C$8.44 billion.[20]

In July 2021, Enbridge became the latest North American mid-stream company to join the group, with a $1 billion note that integrates ESG targets into its loan terms.[21] While most of Enbridge's SLL is held by Canadian and U.S. investors, around 10% was taken up by European buyers, and a small portion from Asia and Australia.

The Proposition
ESG creates value within the company

Another reason commonly cited for companies to include ESG in their business strategy is that it creates value for the company: stronger financial returns driven by operational efficiencies, cost reductions, productivity uplifts, asset optimization and other positives.[22]

The link between a company's ESG performance and its financial value has been the subject of thousands of studies. Most of these studies—almost two-thirds of 2,200 studies examined in a meta-analysis in 2015—found a statistically significant positive relationship, meaning that companies with better ESG performance also had stronger financial performance.[7]

But is the link between ESG and a company's financial performance one of causation or correlation? It may be that ESG practices reflect good management (which is what creates good financial performance and an investable company) rather than itself being the driver of financial performance. Kenneth Pucker—former COO of Timberland—notes that "while some researchers have found a relationship between ESG performance and financial returns, thus far they've merely established correlation. We don't actually know if strong ESG performance *causes* better returns, or if both are a function of good management."[23]

What is demonstrable is that strong ESG performance among some Canadian energy companies has resulted in a suite of operational benefits that have meaningful impact for those companies. These include attracting and retaining top-quality employees, enhancing worker motivation and productivity, improving the company's operational performance by reducing water, waste and energy use, and maintaining or enhancing brand and reputation.

In an interview, Matt Kennedy, Vice President—Environment for Innergex, a renewable energy company headquartered in Quebec, described Innergex's ESG results as "something people at all levels of the company are proud of." Their sustainability reporting has resulted in improved employee recruitment and retention: "Our employees like to see that the company is aligned with their own values and that helps to make it a great place to work."

A similar theme was echoed in an interview with Todd Van Vliet, CEO of Frac Shack, a private energy services company. Van Vliet highlighted that the company integrated ESG into the corporate culture of embracing change—"We love change, we love continuous improvement." Employees are motivated by this mindset, as evidenced by Frac Shack's low turnover rates.

Simply producing an ESG report may not be enough to kick-start these operational benefits. Instead, the companies that have seen gains are those that did the work to enable ESG principles to permeate all aspects of their operations.

Kennedy also identified a second benefit: the feedback loop from ESG metrics to improved daily operations. Innergex found that measuring sustainability outcomes improved operational efficiencies—particularly once Innergex implemented systems that allow it to track progress continuously instead of trying to calculate metrics at the end of the year.

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The Proposition
Regulatory pressure is increasing

Regulatory pressure is increasing in three ways that are relevant to the ESG reporting practices of Canadian energy companies.

The first is increasing regulatory oversight of financial instruments. This is being done to ensure that investment institutions' claims they use ESG as a basis for investing are, in fact, true. In the European Union (EU), the first phase of the Sustainable Finance Disclosure Regulations (SFDR), which has been described as a set of "anti-greenwashing rules," came into effect on March 10, 2021. The SFRD requires asset managers in the EU to disclose how ESG factors are taken into consideration by the financial instrument, and the extent to which the consideration of those factors is a binding investment criterion. Other markets outside the EU are considering parallel regulations.[24] Closer to home, the Canadian Securities Administrators (CSA) earlier this year ordered two regulators—the Ontario Securities Commission and the B.C. Securities Commission—to conduct reviews or "sweeps" of the ESG investment claims of fund managers, portfolio managers and exempt market dealers.[25]

The second source of pressure is stock exchanges. As of mid-2020, 54% (or 55 of 102 tracked stock exchanges) had published ESG reporting guides (for voluntary disclosure) for their listed companies.[26] The level of involvement by stock exchanges in ESG disclosure varies. NASDAQ has created a matrix that describes what would constitute low, medium or high levels of involvement—and, as shown in **Figure 3**—the number of stock exchanges that they assign to each category.[27] (NASDAQ did not list which stock exchanges fall into each category.)

FIGURE 3: Level of stock exchange involvement with ESG for listed companies

LOW	MEDIUM	HIGH
35 EXCHANGES	**40 EXCHANGES**	**12 EXCHANGES**
No action Promote ESG best practices Participate in exchange/ investor dialogues Join working groups Publicly support ESG frameworks Offer awards	Create stakeholder and company dialogue Create indexes, financial products (green bonds) Create voluntary ESG guidance Tiered disclosure recommendations Report or explain	ESG-related listing rules ESG-tiered listing fees Delisting for ESG noncompliance Publication of ESG reporting data Audit enforcement Requiring more sophisticated reporting standards (IIRC)

Source: NASDAQ 2019

And the third type of regulatory pressure is an increase in Canadian regulations intended to induce changes—especially in corporate governance—that are in line with the type of disclosure that is (supposed to be) found in ESG reports. For example, 2019 amendments to the Canadian Business Corporation Act (CBCA) require corporations to disclose information to their shareholders related to board and C-suite management diversity, as well as the well-being of employees, retirees and pensioners. These amendments are additional indications of the evolution of the traditional shareholder value-focused business model.

In summary, the growth of regulation of domestic and international investment markets and corporations will put pressure on Canadian energy companies—not on sustainability performance *per se*, but certainly on their ESG disclosure practices.

The Proposition
ESG can meaningfully influence environmental and social outcomes

ESG is used by investors as a tool to evaluate risk. But ESG investing is also promoted by some investors as a way make to a meaningful difference in climate, environmental or social outcomes.[28,29]

There is surprisingly little evidence about whether a company's focus on ESG actually improves social or environmental performance.

Although there is a wealth of scholarly literature on the effect of ESG on a company's financial performance (as described above), there is surprisingly little evidence about whether a company's focus on ESG actually improves social or environmental performance. It is reasonable to assume that the transparency and accountability that comes with a public ESG or sustainability report may spur the company to reflect and improve, particularly on easily measurable and fixable indicators such as gender diversity on the Board. But there are also strong arguments that ESG does not have the capacity to make a difference on many of the environmental and social issues that most matter.

Tariq Fancy, formerly BlackRock's chief investment officer for sustainable investing, has called ESG an inadequate response (or, as he termed it, a "deadly distraction") from climate change.[30] "Going through the investment process is a bizarre place to try to create social impact in the first place… systemic problems—such as a global pandemic or climate change—require systemic solutions." Fancy argues that these systemic solutions can only be delivered by governments, with their wide-ranging powers, system-level resources and responsibilities. The "slow, plodding and highly uncertain" responses of individual companies are inadequate to make a difference.

In addition, ESG may mask how a company most directly contributes to social impact. As noted by authors from the Harvard Business School, "In many cases, ESG factors are not material to the performance of a particular business, nor do they highlight areas where the business has the greatest impact on society. The carbon footprint of a bank, for example, is not material to a bank's economic performance, nor would reducing its footprint materially affect global carbon emissions. In contrast, banks' issuance of subprime loans that customers were unable to repay had devastating social and financial consequences. Yet ESG reporting gave banks credit for the former and missed the latter altogether…it distracts from incentivizing and enabling companies to deliver greater social impact on the issues most central to their businesses".[31]

The baby should not be thrown out with the bathwater: a focus by companies—and by investors—on sustainability performance is useful. But expectations of how much social and environmental good can be achieved through ESG reporting should be tempered.

This misalignment also applies to the Canadian energy sector—especially as many ESG rating agencies appear to have difficulties in understanding how the sector operates. A hydro company interviewed for this report stated that it could score better ESG ratings by having low-flow toilets for employees than by managing its core business responsibly.

The baby should not be thrown out with the bathwater: a focus by companies—and by investors—on sustainability performance is useful. But expectations of how much social and environmental good can be achieved through ESG reporting should be tempered.

A snapshot of ESG reporting in the Canadian energy sector

This section presents the results of a semi-quantitative investigation into ESG/sustainability reporting practices across the Canadian energy industry, based on public information gathered from 149 companies across four sub-sectors: oil and gas companies, wind and/or solar providers, electric utilities and pipeline companies. (See Appendix 2 for details on how the companies were selected.) The section investigates three key questions:

- To what extent do Canadian energy companies publicly report on ESG metrics?
- What ESG issues are addressed and how?
- What external standards do Canadian energy companies use?

Question 1
To what extent do Canadian energy companies report on ESG?

Among Canada's top producers of oil and gas, 100% publish ESG information. This drops to 20% among smaller producers.

OIL AND GAS

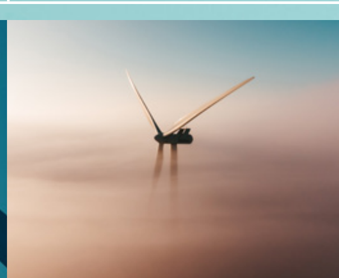
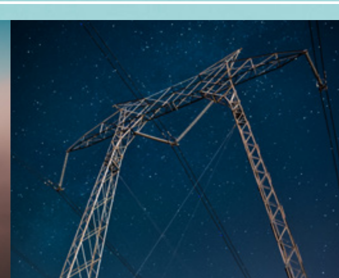
Canada's oil and gas industry has existed for over 100 years; and for much of that time, operators have had to manage their impacts under the watchful eye of stakeholders and regulators. As a result, the oil and gas industry as a whole is relatively well-versed in how to identify and mitigate environmental, social and economic impacts. How does this translate to sustainability/ESG reporting?

Canada's top producers of oil and gas[ii] account for the majority of oil and gas production in Canada. As shown in **Table 1**, 100% of these companies publish ESG information—most in the form of a downloadable ESG or sustainability report, although a few only provide metrics on their website.

[ii] Oil and gas top producers were identified from the "Top Operators 2020" report published by the *Daily Oil Bulletin* and JWN. The report lists the top 25 producers in oil and liquids and in natural gas. Both lists are based on average per-day production from Canadian assets in Q1 2020. The companies from the two lists were combined, and duplicates, as well as companies that were acquired in 2020, were removed. The final list consisted of 36 companies.

ESG
reporting by the numbers

		# of companies in our sample	% with public ESG reports or metrics
OIL & GAS	Top producers	36	100%
	Smaller producers	30	20%
WIND & SOLAR	Commercial-scale	43	33%
ELECTRIC UTILITIES	100K+ customers	17	76%
PIPELINE OPERATORS	CER Group 1 & Group 2	23	39%


79%
OF PUBLICLY HELD COMPANIES PROVIDE ESG INFO

24%
OF PRIVATELY HELD COMPANIES PROVIDE ESG INFO

FACTORS THAT MAY INFLUENCE ESG REPORTING

- Company size
- Publicly owned vs. privately held company
- Concern over reputational risk
- Influence of industry organizations
- Regulatory requirements for monitoring data

REPORT SIZES

Ranged from 12-266 pages

Median of 50 pages

TABLE 1: ESG reporting among "top 25" oil or gas producers

Company Name	Any ESG reporting?	Report	Only metrics on website	Headquarters	Publicly Traded?	Production* Oil & liquids production, bbl/d	Natural gas, mmcf/d
Advantage Oil & Gas Ltd.	Yes	✓		Alberta	Yes	3,714	257
ARC Resources Ltd.	Yes	✓		Alberta	Yes	36,411	692
Athabasca Oil Corporation	Yes		✓	Alberta	Yes	33,213	20.1
Baytex Energy Corp.	Yes	✓		Alberta	Yes	54,412	47.1
Birchcliff Energy Ltd.	Yes	✓		Alberta	Yes	16,440	343
Bonavista Energy Corporation	Yes		✓	Alberta	No	22,329	267
BP Plc.	Yes	✓		U.K.	Yes	24,000	2
Canadian Natural Resources Limited	Yes	✓		Alberta	Yes	894,978	1,407
Cenovus Energy Inc.	Yes	✓		Alberta	Yes	416,802	395
Chevron Corporation	Yes	✓		USA	Yes	119,000	95
ConocoPhillips	Yes	✓		USA	Yes	69,000	20
Crescent Point Energy Corp	Yes	✓		Alberta	Yes	129,421	72
ExxonMobil	Yes	✓		USA	Yes	558,000	317
Husky Energy Inc.	Yes	✓		Alberta	Yes	208,100	278
Imperial Oil Limited	Yes	✓		Alberta	Yes	390,000	176
MEG Energy Corp.	Yes	✓		Alberta	Yes	91,557	0
Murphy Oil Corporation	Yes	✓		USA	Yes	13,372	267
NuVista Energy Ltd.	Yes	✓		Alberta	Yes	20,613	189
Ovintiv Inc.	Yes	✓		USA	Yes	59,600	1,001
Paramount Resources Ltd.	Yes	✓		Alberta	Yes	26,437	262
Petronas	Yes	✓		Malaysia	Yes	1,471	395
Peyto Exploration & Development Corp.	Yes	✓		Alberta	Yes	11,585	4012
Pieridae Energy Limited	Yes			Alberta	Yes	8,006	199
Repsol	Yes	✓		Spain	Yes	21,918	203
Royal Dutch Shell	Yes	✓		Netherlands	Yes	83,786	603
Seven Generations Energy Ltd.	Yes	✓		Alberta	Yes	112,000	489
Sinopec	Yes	✓		China	Yes	3,614	141
Storm Resources Ltd.	Yes		✓	Alberta	Yes	4,621	116
Suncor Energy Inc.	Yes	✓		Alberta	Yes	692,300	0
TAQA	Yes		✓	U.A.E.	Yes	24,500	323
Teck Resources Limited	Yes	✓		B.C.	Yes	31,706	0
TORC Oil & Gas Ltd.	Yes	✓		Alberta	Yes	25,254	20
Total	Yes	✓		France	Yes	98,000	0
Tourmaline Oil Corp.	Yes	✓		Alberta	Yes	62,569	1,475
Vermilion Energy Inc.	Yes	✓		Alberta	Yes	34,344	151
Whitecap Resources Inc.	Yes	✓		Alberta	Yes	61,708	71

Note: Syncrude does not appear in this table because its production is assigned by JWN to its owners: Suncor, Imperial, Sinopec and CNOOC. Syncrude does publish ESG data.

* From *Daily Oil Bulletin's Top Operators 2020* report

This figure of 100% exceeds even the high rates of ESG reporting among the world's top 250 companies described on page 3. There may be several reasons for this. First, for large oil and gas companies, ESG performance is strongly tied to reputational risk. Plenty of major oil companies have faced the wrath of the public and shareholders following major environmental or human rights mistakes. A second reason may be the influence of industry organizations such as IPIECA—the "global oil and gas industry association for advancing environmental and social performance"—that publish sector-specific guidance on sustainability reporting. Third, the scale of many projects run by these companies is sufficiently large that the projects would require an impact assessment—a process that compels the company to consider impacts on social and environmental media, and that often results in requirements for collecting monitoring data on environmental media.

The existence of an ESG report does not necessarily mean that the report itself is of high quality. Although most of these reports are large (they ranged from 18 to 208 pages with a median of 68 pages), they vary widely in terms of fulsomeness of disclosure, materiality of what they report on, alignment with external standards for reporting and other markers of quality.

While top Canadian oil and gas producers have clearly embraced the practice of ESG reporting in some form, among smaller producers that percentage drops off dramatically.

Of these smaller producers, only six of 30—or 20%—produced an ESG report.

Table 2 shows the extent of ESG reporting among a group of 30 smaller Canadian oil and gas producers.[iii] Of these smaller producers, only six of 30—or 20%—produced an ESG report. There are a few key differences between top producers and smaller producers that may help to explain this stark contrast.

The first is ownership structure. All but one of the companies on the top producers list are publicly traded, whereas the smaller producers list also includes many that are private. Private companies may not experience the same pressure to produce a public ESG report. As an example, Aspenleaf Energy—a private company on this list—produces ESG metrics for its internal use and for its main shareholder (Arc Financial), but does not release the metrics publicly.

The difference between private and public does not entirely explain the variance, however, as only four of the 15 publicly traded smaller companies (27%) produced an ESG report; while two of 15 privately held companies (13%) produced a public ESG report.

A second difference is size of company. On the whole, the top producers tend to be larger, with greater resourcing to produce ESG reports, as well as greater investment needs. And finally, the issues raised earlier on reputation and project-level impact assessment may have less application for these smaller operators.

While none of these factors explains all the discrepancy, each may contribute to why smaller oil and gas companies are less likely to report on ESG.

All of the international majors produce a public ESG report, but fewer than half provide any detailed ESG information about their Canadian operations.

The final group of oil and gas companies examined in this analysis are the international majors that operate in Canada such as BP, Shell and Total. In all sectors, ESG reporting is usually done at a company level, rather than being specific to a country or project. However, the operations of these international majors span many different countries. As shown in **Table 3**, all of the international majors produce a public ESG report, but fewer than half provide any detailed ESG information about their Canadian operations.

[iii] The list of smaller producers was developed from oil and gas industry association member lists. We included a random sampling of oil and gas producing companies that were headquartered in Canada and not on the Top Producers list.

TABLE 2: ESG reporting among smaller oil and gas producers

Company Name	Any ESG reporting?	Report	Only metrics on website	Headquarters	Publicly traded or private?	What they produce	
						Oil	Gas
Bonterra Energy	No			Alberta	Public	•	•
Calima Energy	No			Alberta	Public	•	•
Cardinal Energy	Yes			Alberta	Public	•	
Enerplus	Yes			Alberta	Public	•	•
Gear Energy	No			Alberta	Public	•	
Hemisphere Energy	No			British Columbia	Public	•	
InPlay Oil	No			Alberta	Public	•	
Obsidian Energy	No			Alberta	Public	•	•
Perpetual Energy	No			Alberta	Public	•	•
Petrus Resources	No			Alberta	Public	•	•
Pine Cliff Energy	Yes			Alberta	Public	•	•
Questerre Energy	No			Alberta	Public	•	•
Spartan Delta	No			Alberta	Public	•	•
Tamarack Valley Energy	Yes			Alberta	Public	•	•
Yangarra Resources	No			Alberta	Public	•	•
Aduro Resources	No			Alberta	Private	•	•
Aspenleaf Energy	No			Alberta	Private	•	•
Forsis Oil And Gas	No			Alberta	Private	•	•
Headwater Exploration	No			Alberta	Private	•	•
Longshore Resources	No			Alberta	Private	•	
Mancal Energy	Yes			Alberta	Private	•	•
Pacific Canbriam Energy	No			Alberta	Private		•
Prosper Petroleum	No			Alberta	Private	•	
Rising Star Resources	No			Alberta	Private	•	•
Rustum Petroleums	No			Alberta	Private	•	•
Sphere Energy	No			Alberta	Private	•	•
Spoke Resources	No			Alberta	Private	•	•
Teine Energy	No			Alberta	Private	•	
Vesta Energy	No			Alberta	Private	•	•
Westbrick Energy Ltd.	Yes			Alberta	Private	•	•

TABLE 3: Canada-level ESG reporting among the international oil and gas majors that operate in Canada

Company	Public ESG report?	Dedicated section or metrics specific to Canadian operations?
BP	Yes	No
Chevron	Yes	No
ConocoPhillips	Yes	Yes – several narrative sections on Canada and some Canada-specific environmental metrics
ExxonMobil	Yes	No
Royal Dutch Shell	Yes	Yes – GHG and water metrics only; had oil sands report up to 2017
Repsol	Yes	Yes – Canada-specific sustainability plan and some Canada-specific metrics in global report
Total	Yes	No

WIND AND SOLAR

Of the 43 wind and solar companies in our sample, 14—or 32.5%—published an ESG report or provided ESG metrics on its website.

Of the 43 wind and solar companies[iv] in our sample, 14—or 32.5%—published an ESG report or provided ESG metrics on its website (**Table 4**).

The main differentiator within the group was whether the company was public or private. While 10 of 14 publicly traded companies (71%) produced an ESG report, only 4 of 29 private companies (14%) did. It is not clear whether geography made a difference, but companies headquartered in Quebec—whether public or private—had much higher rates of reporting than any other geography.

There are several factors that may have contributed to the low uptake overall. One may be company size: even the largest dedicated wind and solar producers are quite small compared to the largest oil and gas companies, and the rate of reporting was much more similar to that among smaller oil and gas operators. Another factor may be a lack of guidance from industry organizations. While renewable energy industry organizations do exist—such as CanREA—there are no requirements for members to report on ESG, nor any frameworks or guidance provided.

A sustainability reporting strategy that rests on simply being a renewable energy producer is unlikely to be sufficient in the future.

Finally, wind and solar companies may be counting on their relatively low operational GHG emissions to exempt them from the kind of scrutiny faced by other energy subsectors, and to minimize reputational risk among stakeholders and financial risk among investors. However, beyond GHG emissions there are numerous other ESG issues that remain relevant for the industry and that impact host communities and interest potential investors. A sustainability reporting strategy that rests on simply being a renewable energy producer is unlikely to be sufficient in the future.

[iv]Our selection of wind and solar companies was drawn from the CanREA membership database. Only companies that were based in Canada and fell under the Asset Owner or Developer categories of the database were included. We removed any companies where solar or wind projects were not the primary business (e.g., Suncor or Manitoba Hydro) or where the company did not operate commercial-scale projects. After applying all criteria, 43 companies made up the final list.

TABLE 4: ESG reporting among commercial-scale wind and solar operators

Name	Any ESG reporting?	Report	Only metrics on website	Location	Publicly traded or private?
Acestes Power	No			Alberta	Private
Aeolis Wind Power Corp.	No			British Columbia	Private
Amp	Yes	✓		Ontario	Private
BluEarth Renewables	Yes		✓	Alberta	Private
CanPower Renewables Corp.	No			Ontario	Private
CarbonFree Technology Inc.	No			Ontario	Private
Chinodin Wind Power	No			Ontario	Private
Cordelio Power	No			Ontario	Private
DP Energy Canada Limited	No			Nova Scotia	Private
Enerfin Energy Company Of Canada Inc.	No			British Columbia	Private
German Solar Corporation	No			Ontario	Private
Greengate Power Corporation	No			Alberta	Private
hep Energy Canada Ltd.	No			Alberta	Private
Invenergy Solar Canada ULC	Yes	✓		Ontario	Private
Joss Wind Power Inc.	No			Alberta	Private
Kruger Energy Inc.	No			Québec	Private
Lh Solar Inc.	No			Ontario	Private
Longyuan Canada Renewables Ltd.	No			Ontario	Private
Natural Forces	No			Nova Scotia	Private
NaturEner Energy Canada Inc.	No			Alberta	Private
North Shore Power Group Inc.	No			Ontario	Private
Perimeter Solar	No			Ontario	Private
Prowind Inc.	No			Ontario	Private
Renewable Energy Systems (RES) Canada Inc	Yes	✓		Québec	Private
Saturn Power Inc	No			Alberta	Private
Skyline Clean Energy	No			Ontario	Private
Solera Sustainable Energies Company Limited	No			Ontario	Private
SWEB Development Inc.	No			Nova Scotia	Private
WPD Canada	No			Ontario	Private
ABO Wind Canada Ltd	No			Alberta	Public
Acciona Wind Energy Canada	Yes	✓		British Columbia	Public
Boralex Inc.	Yes	✓		Québec	Public
Canadian Solar Solutions Inc.	Yes	✓		Ontario	Public
Capstone Infrastructure Corporation	No			Ontario	Public
EDF Renewables Development Inc.	No			Ontario	Public
ENGIE Development Canada LP	Yes	✓		Ontario	Public
Evolugen	Yes	✓		Québec	Public
Innergex Renewable Energy Inc.	Yes	✓		Québec	Public
Liberty Power/Algonquin Power	Yes	✓		Ontario	Public
NextEra Canada Development, LP	Yes	✓		Ontario	Public
Northland Power	Yes	✓		Ontario	Public
Potentia Renewables Inc.	No			Ontario	Public
RWE Renewables Canada Ltd.	Yes	✓		Saskatchewan	Public

TABLE 5: ESG reporting among electric utilities with at least 100,000 customers

Name	Any ESG reporting?	Report	Only metrics on website	Location	Customers	Publicly traded?	Government owned?	Generation	Transmission	Distribution
Hydro-Québec	Yes	✓		Québec	4,316,900	No	Provincial	•	•	•
BC Hydro	Yes		✓	British Columbia	2,049,300	No	Provincial	•	•	•
Hydro One Networks Inc.	Yes	✓		Ontario	1,333,600	Yes	Partially*		•	•
Fortis inc	Yes	✓		Newfoundland and Labrador	1,007,900	Yes	No	•	•	•
Alectra Utilities Corporation	Yes	✓		Ontario	991,100	No	Municipal			•
Toronto Hydro-Electric System Ltd.	Yes	✓		Ontario	772,600	No	Municipal			•
ENMAX Power Corp.	Yes	✓		Alberta	674,800	No	Municipal	(**)	•	•
Manitoba Hydro	Yes	✓		Manitoba	586,800	No	Provincial	•	•	•
SaskPower	Yes	✓		Saskatchewan	537,700	No	Provincial	•	•	•
Nova Scotia Power Incorporated/Emera	Yes	✓		Nova Scotia	520,000	Yes	No	•	•	•
NB Power	Yes		✓	New Brunswick	405,500	No	Provincial	•	•	•
EPCOR Distribution Inc.	No			Alberta	369,000	No	Municipal		•	•
Hydro Ottawa Limited	Yes		✓	Ontario	335,300	No	Municipal			•
ATCO Electric Ltd.	Yes	✓		Alberta	227,000	Yes	No	•	•	•
London Hydro Inc.	No			Ontario	159,000	No	Municipal			•
Veridian Connections Inc./Elexicon	No			Ontario	121,800	No	Municipal			•
Saskatoon Light & Power	No			Saskatchewan	117,200	No	Municipal			•

* Public company, with Ontario government as majority shareholder
** Power generation is done by Enmax Energy which is technically a separate organization under the Enmax group of companies

ELECTRIC UTILITIES

Among Canada's 17 largest electric utilities (those with at least 100,000 customers), 76% publish ESG metrics.

Among Canada's 17 largest electric utilities[v] (those with at least 100,000 customers), 76% publish ESG information (**Table 5**). A clear delineation can be seen based on size, with the smaller companies much less likely to provide ESG information.

All the utility companies involved in power generation produced ESG reports. This makes sense, as it is generation that has the highest potential for negative environmental impacts. However, the same potential exists for oil and gas, wind and solar and—as shown above—this exposure did not result in consistent production of ESG reports for those sub-sectors.

Ownership made a difference: all four of the publicly traded utilities produced ESG reports, as did all provincially owned utilities, while only half of those owned by municipalities did so.

ESG reporting is more common among those utilities that are larger, owned by provinces, are publicly traded or are involved in power generation.

In the case of electric utilities, it is difficult to disentangle size, ownership and type of services; but it is fair to say that at this point, ESG reporting is more common among those utilities that are larger, owned by provinces, are publicly traded or are involved in power generation.

PIPELINES

Table 6 shows the extent of ESG reporting among pipeline companies currently regulated by the Canada Energy Regulator (CER).[vi] Nine of 23 companies (39%) produced an ESG or sustainability report.

The size of the company did not appear to matter. The Canada Energy Regulator identifies Group 1 as those pipeline companies with extensive systems and several third-party shippers, and Group 2 as pipeline companies that operate smaller, less complex pipelines with few or no third-party shippers. Among Group 1 companies, 37% produced ESG reports, and among Group 2 companies, 40% did so.

However, ownership structure was a clear differentiating factor. Eight of nine (89%) publicly traded companies produced an ESG report, whereas only one of 14 privately held companies (7%) did so.

[v] Utility companies were identified from a complete list of 151 electric utilities operating in Canada.[32] Only companies with over 100,000 customers were chosen for analysis in this report. Several companies operating under the parent company Fortis Inc. were combined and treated as a single entity: FortisAlberta Inc., Newfoundland Power, and FortisBC Inc. The final list contained 17 Canadian electrical utilities.

[vi] Companies identified from the website of the CER. We combined entries where multiple pipelines were listed with the same owner (like Enbridge or TC Energy). We also deleted those companies that are not primarily pipeline operators (such as CNRL and Atco) or that were purely distribution to customers (such as County of Vermilion River Gas Utility). This left 23 companies on the list.

TABLE 6: ESG reporting among CER-regulated pipeline companies

	Any ESG reporting?	Report	Only metrics on website	Headquarters	Publicly traded?
GROUP 1					
Alliance Pipeline	No			Alberta	No
Enbridge	**Yes**	✓		Alberta	Yes
Maritimes & Northeast Pipeline Management Ltd.*	No			Nova Scotia	No
Pembina	**Yes**	✓		Alberta	Yes
TC Energy	**Yes**	✓		Alberta	Yes
Trans Mountain	No			Alberta	No
Trans-Northern Pipelines Inc.	No			Ontario	No
Trans Québec and Maritimes Pipeline Inc.	No			Alberta	No
GROUP 2					
AltaGas	**Yes**	✓		Alberta	Yes
Campus Energy	No			Alberta	No
Canlin Energy Corporation	No			Alberta	No
Centra Pipelines	No			Ontario	No
Emera New Brunswick	No			New Brunswick	Yes**
Energy Transfer	**Yes**	✓		USA	Yes
Kinder Morgan	**Yes**	✓		USA	Yes
Kingston Midstream	No			Alberta	No
NorthRiver Midstream	No			Alberta	No
Plains Midstream	**Yes**	✓		Alberta	Yes**
Portland Montreal Pipe Line	No			USA	No
Steel Reef	No			Alberta	No
Tidewater Midstream	**Yes**		✓	Alberta	Yes
Vector Pipeline*	No			USA	No
Veresen Midstream	**Yes**	✓		Alberta	No

* Majority share owned by Enbridge

** Publicly traded through a parent company

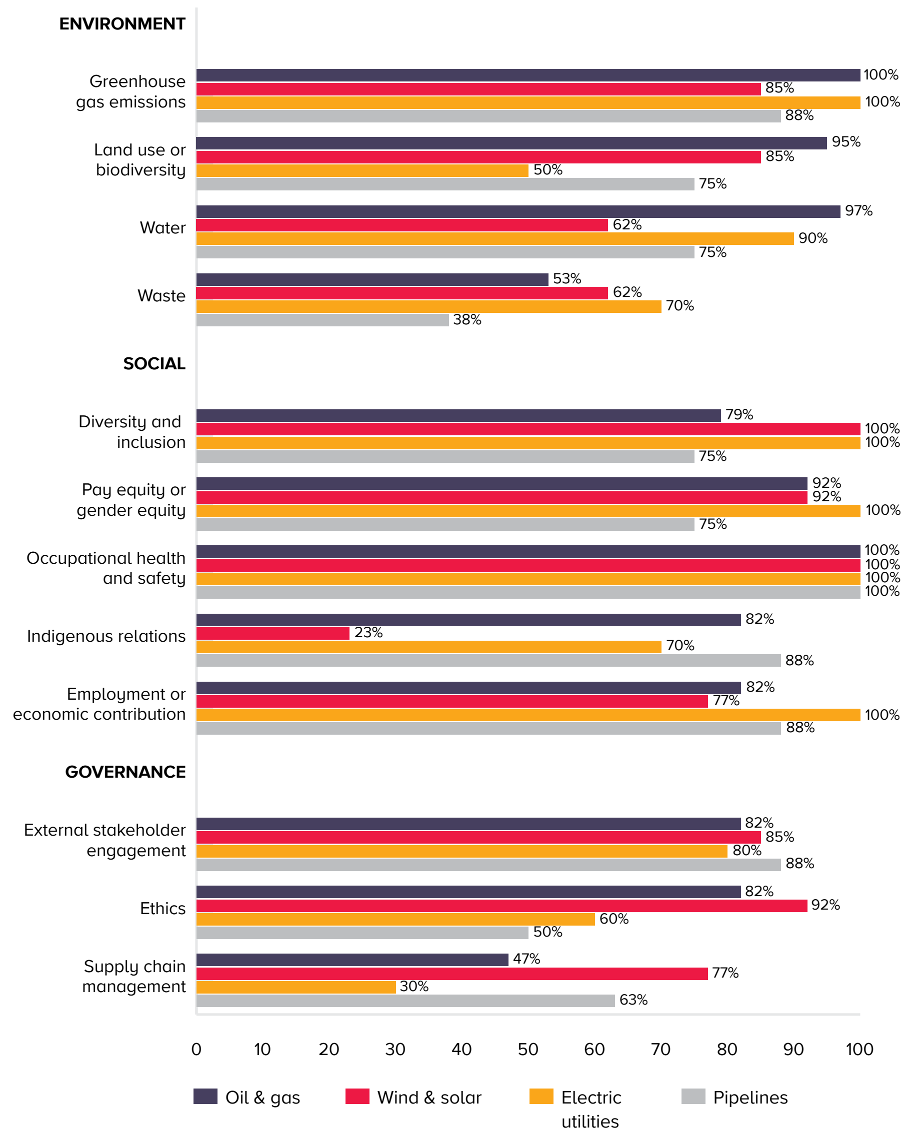
Question 2

What ESG issues are addressed and how?

The number of possible topics that an energy company *could* report on is enormous. There are numerous effects that are linked to a company's operations; many topics that stakeholders, host communities or potential investors may be interested in; and many competing reporting frameworks to align with. This represents a challenge for *materiality*—the idea of focusing on those indicators that are most relevant and important to investors or stakeholders.

Figure 4 shows the relative frequency of selected environmental, social and governance topics among energy companies that produced ESG reports.[vii] Overall, the extent of disclosure among Canadian energy companies—that is, the extent to which they consider specific E, S and G topics within their sustainability reports—is on par with other Canadian sectors.[33]

FIGURE 4: Reporting frequency for common ESG topics



[vii] A company was recorded as disclosing for a specific topic (e.g., GHG emissions or gender equity) if it provided any information at all in the ESG report; the quality of the reporting was not considered for this research question.

Topics such as land use, biodiversity, water use, and waste production and management are key elements of a company's environmental performance, a fact that is reflected in their inclusion in every major ESG framework.

Many wind and solar organizations do not currently view environmental disclosures as a material topic in their ESG reports—when they report at all.

ENVIRONMENTAL TOPICS

Critically, ESG—and even just the E in ESG—is about more than just GHG emissions. Topics such as land use, biodiversity, water use, and waste production and management are key elements of a company's environmental performance, a fact that is reflected in their inclusion in every major ESG framework.

Nonetheless, these topics are not consistently reported on by any Canadian energy subsector. Oil and gas comes closest, with 100% of companies that provide ESG data reporting on GHG emissions, 95% on land use or biodiversity, and 97% on water use. This figure drops substantially—down to 53%—for waste, a difference that may reflect the environmental parameters oil and gas companies are used to reporting on for regulatory purposes.

Wind and solar companies were the least likely to report on environmental topics among the subsectors examined. This may be influenced by the (mis)perception that renewables have a negligible environmental impact, particularly when it comes to GHG emissions; or it may reflect less maturity in ESG reporting in this subsector. Whatever the driver, many wind and solar organizations do not currently view environmental disclosures as a material topic in their ESG reports—when they report at all.

There is no doubt that GHG emissions draws the most attention among environmental topics, and the companies in our sample have responded by presenting a great deal of information—perhaps too much. **Table 7** compiles the indicators used to report on GHG emissions among just the top oil and gas producers. Over 90 distinct indicators were used—many of them used uniquely by only one or two companies. This is not a problem that is likely to be resolved by referring to standards such as those produced by the Task Force on Climate-Related Financial Disclosures (TCFD); while their guidelines show a concern for comparability, they do not suggest or require specific metrics that should be used.

TABLE 7: GHG emissions indicators used by oil and gas top producers

Total GHG emissions
Total CO_2 emissions (tonnes CO_2), (Mt CO_2)
Total GHG Emissions (tonnes CO_2e), (kilotonnes CO_2e), (tonnes CO_2e/year), (Mt CO_2e)
Total scope 1 and scope 2 GHG emissions (Mt CO_2e), (kilotonnes CO_2e)
GHG emissions by region (Mt CO_2e)
GHG emissions by division (Mt CO_2e)
Scope 1/direct emissions
Gross global scope 1 emissions (tonnes CO_2e)
Direct GHG emissions (tonnes CO_2e), (kilotonnes CO_2e), (Mt CO_2e), (tonnes CO_2e/year)
Direct GHG emissions – operational basis (Mt CO_2e)
Direct GHG emissions – equity basis (Mt CO_2e)
Direct GHG emissions by source
Combustion emissions (tonnes CO_2e), (tonnes CO_2e/year)
Flare emissions (tonnes CO_2e), (tonnes CO_2e/year)
Fugitive emissions (tonnes CO_2e)
Venting emissions (tonnes CO_2e)
Upstream emissions – operational basis (Mt CO_2e)
Refining emissions – operational basis (Mt CO_2e)
Downstream and chemical emissions (Mt CO_2e)
Operated oilsands emissions (Mt CO_2e)
Field pneumatics emissions (tonnes CO_2e/year)
Field fugitive emissions (tonnes CO_2e/year)
Field other emissions (tonnes CO_2e/year)
Plant fugitive emissions (tonnes CO_2e/year)
Plant pneumatics emissions (tonnes CO_2e/year)
Plant other emissions (tonnes CO_2e/year)
Wellsite emissions (tonnes CO_2e/year)
Drilling and completions emissions (tonnes CO_2e/year)
Exploration and production emissions (Mt CO_2e), (kilotonnes CO_2e)
Marketing segment emissions (Mt CO_2e)
Oilsands mining and extraction emissions (Mt CO_2e), (kilotonnes CO_2e)
Oilsands upgrading emissions (Mt CO_2e), (kilotonnes CO_2e)
Oilsands in situ emissions (Mt CO_2e), (kilotonnes CO_2e)
Biofuels emissions (kilotonnes CO_2e)
Fuel consumption emissions (Mt CO_2e)
Integrated gas, renewables, and power emissions (Mt CO_2e)
Direct methane emissions (Mt), (Mt CO_2e), (kilotonnes), (tonnes), (tonnes CO_2e), (tonnes CO_2e/year)
Percentage of direct emissions from methane (%)
Methane emissions – operating basis (Mt CO_2e)
Methane emitted as percent of natural gas production (%)
Methane emitted as percent of total hydrocarbon production (%)
Flaring volume (million cubic feet), (million cubic metre/day), (Thousand cubic metres)
Vented volume (thousand cubic metres), (million cubic metres)
Continuously vented hydrocarbon emissions (thousand cubic metres/day)
Direct emissions from gases other than CO_2 and methane (Mt CO_2e)
Direct CO_2 emissions (Mt), (tonnes)
Direct nitrous oxide emissions (Mt CO2e), (tonnes CO_2e), (tonnes)
Direct hydrofluorocarbons emissions (tonnes)
Direct emissions covered under regulatory program (%)

Scope 2/indirect emissions
Total indirect GHG emissions (Mt CO_2e), (tonnes CO_2e), (tonnes CO_2e/year)
Imported electricity and associated indirect emissions – equity basis (Mt CO_2e)
Imported electricity and associated indirect emissions – operated basis (Mt CO_2e)
Imported electricity and associated indirect emissions – total (Mt CO_2e)
Upstream – associated indirect emissions (Mt CO_2e)
Operated oilsands – associated indirect emissions (Mt CO_2e), (tonnes CO_2e)
Indirect CO_2 emissions (tonnes CO_2e/year)
Indirect emissions from energy consumption (Mt CO_2e)
Scope 3 emissions
Total Scope 3 emissions (Mt CO_2e), (tonnes CO_2e/year)
Exported electricity and steam – equity basis (Mt CO_2e)
Exported electricity and steam – operational basis (Mt CO_2e)
Scope 3 CO_2 (tonnes CO_2/year)
Scope 3 emissions from coal products sold (kilotonnes CO_2e)
Biogenic CO_2 emissions (tonnes CO_2e)
Use of products – base sales (Mt CO_2e)
Use of products – base primary energy (Mt CO_2e)
Raw materials – hydrogen (Mt CO_2e)
Raw materials – crude oil (Mt CO_2e)
Emissions intensity
Emissions intensity (tonnes CO_2e as % of output), (tonnes CO_2e/boe), (g CO_2e/MJ), (kilotonnes CO_2e/cubic meter oil equivalent), (kg CO_2e/bbl of saleable product), (kg CO_2e/boe), (tonnes CO_2e/Mboe), (tonnes CO_2e/cubic meter of oil equivalent)
Net carbon footprint (g CO_2e/MJ)
GHG emissions normalized (tonnes CO_2e/100 tonnes of throughput)
Scope 1 and scope 2 intensity (tonnes CO_2e/boe), (tonnes CO_2e/cubic meter of oil equivalent)
Scope 1 oil and gas production intensity (tonnes CO_2e/boe)
Total scope 1 intensity (tonnes CO_2e/boe), (tonnes CO_2e/cubic meter of oil equivalent)
Total scope 2 intensity (tonnes CO_2e/boe), (tonnes CO_2e/cubic meter of oil equivalent)
Methane intensity (tonnes CH4/Mboe)
Upstream GHG intensity – equity basis (tonnes CO_2e/boe)
CO_2e emissions per dollar of revenue (tonnes CO_2e/revenue)
Total gas flared emission intensity (10^3m^3/Boe)
Total gas vented emission intensity (10^3m^3/Boe)
Oil sands base plant – mining and extraction emission intensity (tonne CO_2e/bbl bitumen)
Oil sands base plant – upgrading emission intensity (tonne CO_2e/bbl synthetic crude oil)
Exploration and production emission intensity (tonnes CO_2e/boe)
Refining and logistics emission intensity (tonnes CO_2e/bbl saleable yield)
Biofuels emission intensity (tonnes CO_2e/boe)
Carbon intensity of energy products used by customers (gCO_2e/kBtu)
Total GHG intensity included sequestration (tonnes CO_2e/boe)
Emissions Reduction
Solution gas conservation rate (%)
Reduction of GHG emissions (tonnes CO_2e/year)
GHG emissions offset by customers (Mt CO_2e)
CO_2 Capture (kilotonnes)
Methane recovery (Million cubic meters)
Other
Potential CO_2e from proved reserves (Mt CO_2e)
Power credits (kilotonnes CO_2e)

SOCIAL TOPICS

Presenting only a single or a very limited number of indicators can create problems. First, it can make cross-company comparisons difficult. Second, it leaves companies open to charges of cherry-picking or greenwashing—reporting only those indicators that show them in the best light rather than providing fulsome disclosure of the company's practices and impacts.

Occupational health and safety is an area (in fact, the only area) where all subsectors score 100% for reporting frequency—not surprisingly, as gathering and reporting these metrics is a regulatory requirement.

For other social topics, there is extensive variance in both the frequency and the reporting approaches taken by different companies.

To highlight the difference, consider gender equity. **Table 8** shows what metrics are included in the ESG reports of Teck Resources and "Company X" (based on a particular company but representing the typical approach of oil and gas producers in our sample). Company X provides information on the percent of its workforce that is female. Teck's approach is more comprehensive, providing data not only on employment percentages, but also on pay equity, training opportunities, parental leave and retention. Teck also publishes strategic goals with equity targets and describes progress made towards reaching those goals.

These differences are typical of the reports we reviewed—and not only for gender equity. There was enormous variance as to what indicators were used to represent topics, how many indicators were used, and whether the indicators were tied back to strategic goals, policies or plans.

The selection of appropriate indicators is tricky, and presenting only a single or a very limited number of indicators can create problems. First, it can make cross-company comparisons difficult. Second, it leaves companies open to charges of cherry-picking or greenwashing—reporting only those indicators that show them in the best light rather than providing fulsome disclosure of the company's practices and impacts. Finally, it means that a company may be more likely to be ranked poorly by ESG rating agencies, if the metric the rating agency uses is not the same one that the company has provided.

TABLE 8: Gender equity reporting: Teck vs. "Company X"

	TECK RESOURCES	COMPANY X
Dedicated section in report	Yes	No
Strategic goals and progress tracking	Yes	No
Performance indicators	% women – total workforce % women – Board of Directors % women – senior management % women – management % women – operational or technical positions M/F ratio – by country M/F ratio – by age group M/F ratio – hours of training M/F ratio – parental leave M/F ratio – return/retention post parental leave M/F ratio – salary/remuneration by level & location	% women – total workforce

The social topics typically reported by Canadian energy companies in their ESG reports are ones that are considered "inside the fence" issues, meaning they relate directly to the well-being of the company's workers—such as occupational health and safety, and hiring and employment practices. This is in direct contrast to the social effects that energy companies are asked to describe during the regulatory approval process, which are primarily "outside the fence" issues, or the impacts that the company will have on local communities and the region as a whole—for example, on community health and well-being, municipal services and infrastructure, housing conditions and pricing, cultural and heritage sites and other community amenities. Community social impacts are generally barely raised in ESG reports, except through occasional narrative stories that showcase a company's financial support or local relationships. This difference between the social topics considered in regulatory approval documents and in ESG reports is likely a function of both the information needs of the respective audiences and the difficulty of representing highly localized and contextual impacts through generic metrics.

The one community social topic that is commonly addressed in energy sector ESG reports is relationships with Indigenous communities and peoples.

Because Canadian energy projects almost always take place near Indigenous communities or on traditional territories, the way in which energy proponents engage with—listen to, partner with, address the concerns of and respect the rights of—Indigenous groups is of key importance. However, as noted by Podlasly et al., "the vast majority of existing ESG standards do not include the rights and interests of Indigenous peoples, and have been developed in the absence of Indigenous input and buy-in. This exclusion has significant negative ramifications for Indigenous peoples and Canadian investors alike."[34]

Figure 4 clearly shows that there are many Canadian energy companies that have not even begun to address this gap in their ESG reports (and many more, considering those that do not produce ESG reports). The approach to reporting also varies enormously, with most reports making only passing reference to relationships with Indigenous groups. Some—but not all—describe how their activities are located with respect to traditional lands. Some—but not all—describe employment, procurement or partnership opportunities for Indigenous groups. A few reference benefit agreements and community investments. Very few appear to have consulted Indigenous groups as to what topics or indicators they would like to see described. The gap described by Podlasly et al. has clearly not yet been bridged.

GOVERNANCE TOPICS

Ethics is a governance issue that a number of global frameworks and ESG rating agencies expect companies to address. It is also a broad topic, with little external guidance on what should be included. As shown in **Figure 4**, the majority of companies in our sample include some mention of ethics in their ESG report, although the reporting approach—once again—varied widely. Most companies took a high-level approach, citing the company's commitment to adhere to laws and regulations, referring to the company's Code of Business Conduct & Ethics or providing a list of pertinent corporate policies, such as whistleblower policies, disclosure and trading confidentiality, anti-corruption and bribery, or political/lobbying activities. Where companies provided metrics, these included percentage of employees trained, value of political donations, numbers of calls to helplines and/or violations reported. In addition, several oil and gas organizations provided information on the Sustainability Accounting Standards Board's (SASB) recommended disclosure of "Proved and probable reserves in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index".

The high-level and inconsistent reporting on ethics found in the ESG reports belies the fact that many of these same companies actually provide extensive ethics information—just not in the ESG report itself.

However, the high-level and inconsistent reporting on ethics found in the ESG reports belies the fact that many of these same companies actually provide extensive ethics information—just not in the ESG report itself. For example, all extractive industry companies in Canada are required under the *Extractive Sector Transparency Measures Act* (ESTMA) to annually disclose certain types of payments made to governments in Canada and abroad, in order to deter corruption. These ESTMA reports are generally made available on energy industry company websites, even for those companies that have no public ESG report. In addition, many companies present extensive detail in a Code of Business Conduct or other documents.

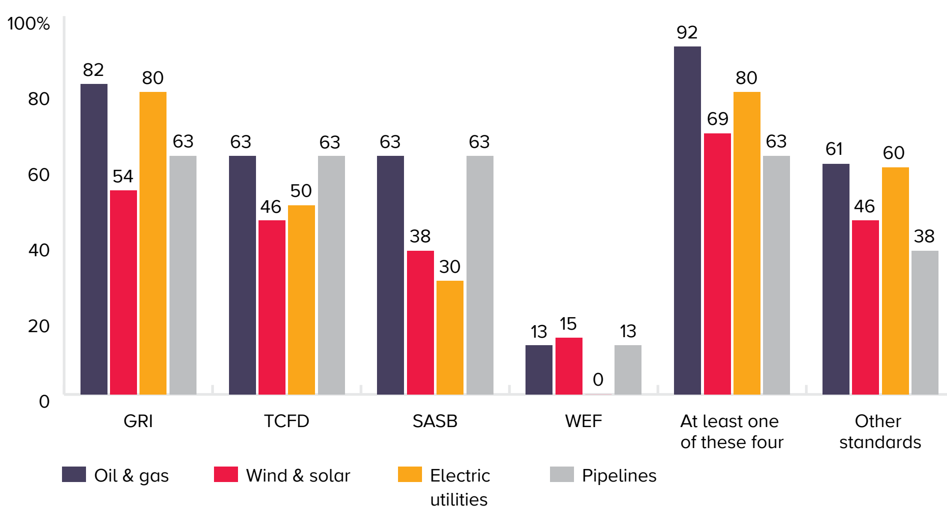
This same pattern can also be found for other governance topics. Often these are described in greater detail in documents other than the ESG report, such as the company's annual report. Does this hurt the companies that report this way, rather than housing all information under one umbrella? If ESG raters are doing their due diligence, it should not.

Question 3
What external standards do companies use?

Among companies publishing ESG reports, most (92% of oil and gas companies, 69% of wind and solar, 80% of electric utilities and 63% of pipeline companies) referenced at least one globally recognized standard (**Figure 5**), with some referencing more than one.[viii] The Global Reporting Initiative (GRI) standard was the most commonly referenced, followed by the Task Force on Climate-Related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB). Relatively few reports referenced the World Economic Forum (WEF) standard; however, this may be because it was introduced relatively recently (in 2020, compared with 1997 for GRI, 2011 for SASB and 2015 for TCFD).

In addition to these global frameworks, a number of industry-specific sustainability initiatives or standards were commonly referenced. Many oil and gas companies referred to industry organizations such as IPIECA, which provides a sustainability roadmap to oil and gas based specifically on the UN SDGs. Among electric utilities, commonly cited frameworks included the Canadian Electricity Association's (CEA) *Sustainable Electricity Company* designation, and the Edison Electric Institute (EEI) *ESG/Sustainability Framework*.

FIGURE 5: Reference to global ESG standards/frameworks



[viii] See the Appendix for a brief overview of the different global standards and frameworks.

Much of Canada's energy industry has embraced ESG reporting, particularly among the sector's largest producers.

In addition to referencing global standards, third-party auditing of sustainability reporting is another way that quality assurance can be addressed. Over 70% of the 250 largest companies globally use independent sustainability audits, according a recent KPMG study.[1] Among the Canadian energy companies in our sample, 34% of oil and gas company ESG reports, 23% of wind and solar reports, 20% of electric utility reports and 25% of pipeline company reports included external auditing and verification.

What can we conclude?

Much of Canada's energy industry has embraced ESG reporting, particularly among the sector's largest producers. But the sheer volume of reports does not necessarily speak to its quality. Individual companies are at extremely different levels of maturity in their ESG reporting, and this is reflected in the disparate quality of what they produce. However, quality is likely to increase in the future, driven by the convergence and consolidation of standards, increasing use of third-party assurance of sustainability reporting, and increasing familiarity by companies as to what works and what does not for the audiences they are trying to reach.

Thinking about the ‘how’

Considerations for Canadian energy companies

There has been ample guidance published by the ESG community (framework setters, sustainability-led investors, regulators and business councils) for how companies should measure and report on their ESG performance. This report will not attempt to add to that growing pile.

Instead, this section focuses on five key considerations that are specifically relevant to energy companies operating in Canada:

1. **How to start**
2. **How to decide which frameworks to pay attention to**
3. **How to address Indigenous reconciliation**
4. **How to incorporate an independent sustainability audit**
5. **How to keep ESG in perspective**

Some of these questions are primarily relevant to companies that are just beginning to consider producing a sustainability report, while others provide information for companies that are more experienced.

The recommendations in this section come from three separate research processes: a review of best practices from the literature, data generated by our review of 149 companies, and a series of interviews we conducted with Canadian energy companies that take different approaches to ESG disclosure.

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1 How to start

Implementing an ESG reporting program for the first time can be a daunting task. Fortunately, the Canadian energy companies we interviewed for this report had advice for companies just starting their ESG journey.

First, our interviews revealed that for companies that have successfully integrated ESG reporting, there is, more often than not, a high-level champion within the organization—such as a President/CEO or a Board Director. Having a high-placed champion helps in several key ways. First, it sets a tone that the company is serious about its sustainability reporting, and that all parts of the company need to get on board (progress will be monitored, and repercussions may ensue). And second, it means that it is more likely that the effort will receive the resources it needs.

A Champion at the Top

For Innergex, having buy-in from the top made all the difference. When its sustainability reporting first started in 2014, the company did not understand the importance of telling its story, instead feeling that it was enough to act sustainably by producing renewable energy exclusively.

But by 2016, as the importance of sustainability was growing globally, Innergex realized the extra value that could be generated by improving its reporting approach. The company's ESG performance gained prominence in the executive agendas, and Innergex's reports grew annually in size, scope and sophistication. Now the message from the CEO to all employees is unambiguous: when the ESG reporting team calls, help them gather the information they need.

In case of the Pieridae Energy, the company's CEO, Alfred Sorensen, had a strong belief in the efficacy of ESG which came from his previous experience working with the Kitimat community and Haisla Nation in the development of an LNG project in B.C. This background also gave him the experience and expertise to pull it off. Sorensen was supported in his vision by the rest of the company's C-suite management and the Board of Directors. In June 2021, Pieridae published its first ever ESG report—a big success both for the company and its CEO.

Another piece of advice for companies just starting with ESG is to "start slow and tread lightly." As Matthew Wright, Senior Advisor at Innergex, explained in an interview, jumping into ESG reporting can be a shock to the system. The process can become overwhelming. Choose a few meaningful metrics to start with and find what the best fit best for the organization. Develop a five-year plan to build on over time. Rhonda Rudnitski, Vice President of Health, Safety, Environment & Regulatory at Tervita, an energy services company, echoed this sentiment, also recommending companies "don't bite off more than they can chew" at the outset.

Finally, these companies emphasized that the time to begin is before there is urgency. Pieridae's ESG Committee noted that sustainability reporting has a steep learning curve—and this has to be built into timelines. Sarah Favel, Stakeholder Relations Specialist with Gibson Energy, said essentially the same thing: do not wait until the last moment to integrate ESG, or you risk being left behind.

2 How to decide which ESG Frameworks to pay attention to

As noted earlier in this report (and more fully described in the Appendix 1), there are a number of major frameworks or standards for ESG reporting that have gained international traction. These include (but are not limited to):

- UN Sustainable Development Goals (SDGs)
- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosures (TCFD)
- International Integrated Reporting Council (IIRC)
- Climate Disclosure Standards Board (CDSB)

This can make it extremely difficult for an energy company to decide which set of standards to follow or to reference in its ESG report. Should a company choose the framework that is most widely referenced by the international—or the Canadian—investment community? The one that has the broadest sustainability goals? The one that has indicators specific to the company's subsector? The one that has been around the longest, or is most recent? There is no single right answer—and as shown in **Figure 5** in the previous section, Canadian energy companies have taken different approaches and quite a few reference more than one set of standards.

Suncor's reports, for example, reference the GRI, SASB and TCFD standards as well as IPIECA's sector-specific sustainability reporting guidance, the United Nations Global Compact and the United Nations Sustainable Development Goals.

Suncor's reports, for example, reference the GRI, SASB and TCFD standards as well as IPIECA's sector-specific sustainability reporting guidance, the United Nations Global Compact and the United Nations Sustainable Development Goals. The different frameworks play a complementary role; in a recent report, Suncor explained that it continually monitors and assesses different standards and frameworks as they appear. The company's decision on which standards to use or how to approach them is based on a thorough a review of the different stakeholder audiences who are looking for information and identification of what each type of stakeholder needs.[35] For example, the GRI standards provide a broader, global scope while SASB enables a deeper dive on sector-specific information.

Within Canada, there appears to be growing endorsement of the TCFD framework (for climate-related reporting) and SASB standards (for everything else) among large institutional investors—including the Canadian Coalition for Good Governance (CCGG), the Canada Pension Plan Investment Board (Canada's largest pension fund with over $450 billion of assets), Ontario's Capital Markets Modernization Taskforce, and eight CEOs of major Canadian investment management firms representing $1.6 trillion in assets.[36] Additionally, the Canada Energy Regulator has indirectly indicated its interest in the SASB and TCFD standards specifically, when it issued a Request for Proposals in June 2021 asking for analysis of how the SASB and TCFD standards intersect with the CER's reporting requirements and the extent to which Canadian energy companies currently reference or use these standards.

However, there is also some movement towards consolidation that may help resolve the "confusion of profusion" in the future. In late 2020, five of the international framework and standard-setting institutions (GRI, CDP, CDSB, IIRC and SASB[ix]) came together to develop a single, comprehensive corporate reporting system. They claim that "the resulting standards would enable companies to collect information about performance on a given sustainability topic once, but provide relevant information to different users through appropriate communication channels (e.g., sustainability reports, annual integrated reports, websites)… The result would be reduced confusion and cost for both producers and users of sustainability information."[37] While these different organizations agree that "the time is now" and "the window of opportunity is short," no information is available on when the work is likely to be completed.

3 How to address Indigenous reconciliation in an ESG report

The authors of this report are not the ones to be able to answer this question—affected Indigenous groups are. However, the question itself is critical, and it would be remiss not to at least raise it here.

As noted earlier in this report, most resource development projects in Canada take place in areas that are either on or adjacent to lands for which Indigenous people are rights holders. This means that the relationship between energy companies and Indigenous peoples and communities is one of the most important to develop, grow and build trust around.

[ix] SASB and IIRC are in the process of merging to form the Value Reporting Foundation.

Many—or perhaps most—energy companies recognize this. But the relationship is often poorly described in ESG reports. This may be because companies are not sure how to translate complex, bilateral relationships into a series of ESG metrics for consumption by financial audiences.

The major international frameworks are not helpful here. As stated by Podlasly et al., "the vast majority of existing ESG standards do not include the rights and interests of Indigenous peoples, and have been developed in the absence of Indigenous input and buy-in." They further note that "In the case of GRI, Indigenous issues are only considered of importance when Indigenous people have initiated court action against a company. Ironically, the GRI framework actually works against the achievement of better ESG outcomes by forcing Indigenous people to take legal action against a company in order to be addressed by the ESG framework." [34]

There is some momentum where companies and Indigenous communities are working together, but many gaps remain.

Clearly, Canadian energy companies should robustly and transparently describe their engagement and relationships with Indigenous groups; and better still would be the involvement of affected groups in determining what measures and are important to include. There is some momentum where companies and Indigenous communities are working together, but many gaps remain.

As a starting point for identifying what attributes of the relationship could be described in an ESG report, the following topics are ones that have been pulled from energy company ESG reports reviewed in the previous section. No company described all of these features; but each has relevance, is complementary to the others, and is worth considering when a company plans its ESG disclosure approach.

- Describe what Indigenous groups have lands, traditional territories or rights in the area of the company's operations
- Describe the company activities and operations that take place on Indigenous lands
- Describe the framework that the company uses for engaging Indigenous groups (How? When? How often?)
- Describe the company's principles for engagement
- Identify what metrics Indigenous groups have asked to be shared
- Identify the company's legal duties to consult
- Identify the company's role in reconciliation
- Describe any commitment to respecting rights and culture (e.g., employee cultural training)
- Describe any specific partnerships, beneficial activities or benefit sharing agreements with Indigenous groups
- Provide hard metrics substantiating any of the above
- Describe the extent of employment of Indigenous peoples
- Identify the amount of procurement spending with Indigenous-owned companies
- Describe any significant disputes with local communities and indigenous peoples
- Describe any incidents of violations involving rights of Indigenous peoples

4 How to incorporate an independent sustainability audit

Currently, ESG disclosures are not subject to the same legal standard for accuracy as a company's financial reports. While audited financial statements are required for all public and most private companies, ESG data verification is not currently required under any framework or regulation. However, this optionality leaves investors and other stakeholders to question the accuracy of the company's ESG disclosures.

This is where third-party assurance or verification of ESG disclosure may be useful. As with financial audits, it ensures or verifies that a company's ESG data are accurate and trustworthy. As noted on page 26, third-party assurance of sustainability reporting is becoming a common practice worldwide.

Right now, there is no standard as to how this should be done—and there are three different "levels" of review that correspond to increasing levels of stringency: verification, assurance and alignment (see box below). At this point, a company can choose the level of third-party review that best suits its purposes.

But as with the consolidation of frameworks described above, there is global movement towards standardization in this area. The International Financial Reporting Standards Foundation (IFRSF) has proposed to establish a Sustainability Standards Board (SSB) alongside the International Accounting Standards Board and under the governance and oversight of the IFRSF. And the International Auditing and Assurance Standards Board (IAASB) issued recent guidance for certain ESG-related areas, including climate-related risk.[38]

An example of independent verification especially relevant to the Canadian energy sector is site-specific certification by Equitable Origin (EO), based on their *EO100 Standard for Responsible Energy Development*. The verification process evaluates company performance across a suite of environmental and social issues relevant to energy projects. In early 2020, Seven Generations became the first Canadian energy company to be "certified" under the EO standard. This certification enabled it to sell gas—at a premium price—to Énergir, Quebec's natural gas distributor. (Note: Seven Generations merged with ARC Resources in February 2021.)

Verification, Assurance Alignment
What's the difference?

Verification
A data-checking process only for non-financial data; does not have to be done by an accredited professional.

Assurance
A data-checking process that assures ESG disclosures are held to the same rigour as financial data. Must be conducted by an accredited third-party auditor.

Alignment
The most stringent of three. It involves a specific methodology for the reports, an explanation on why key decisions were made, and ensures all information provided is accurate.

5 How to keep ESG in perspective

ESG is a means to an end—not an end in itself.

ESG is a means to an end—not an end in itself. Just as audited financial statements are not an end in themselves, but a description of financial performance driven by operational strategy, ESG reporting is a description of ESG performance driven by ESG-related operational strategy. It can also be used to design and implement strategies to improve operational effectiveness.

For some Canadian energy companies—especially ones that are not publicly traded—this has meant not producing a public ESG report at all. In the case of Aspenleaf Energy, a private oil and gas exploration and production company, the Board has repeatedly chosen to have the company spend its time working on "actually improving environmental and social performance" rather than publishing a report talking about what they have done. But even without a public ESG report, the company tracks its performance and uses that information internally, as well as providing it to their main shareholder, ARC Financial. For Aspenleaf, the driver to improve its sustainability performance goes beyond reporting (see box below).

For other companies, producing the ESG report is a way for the company to undertake the introspection needed to evolve a prosperous business. Todd Van Vliet, CEO of Frac Shack, emphasizes that his end goal with ESG is not a report, but an improved company, and that ESG reporting helps give Frac Shack a better understanding of how to do business in a changing environment, and how to fit into the larger ecosystem. Suncor also uses the sustainability reporting process to inform its communication strategy. As explained by Kris Frederickson, Suncor's former Manager of Sustainability Disclosure & Engagement, "The engagement is arguably the more important thing to have. Through engagement, we get to share our story, and get to hear the input and identify blind spots from other groups that we just don't get visibility to."[35]

What drives sustainability performance for Aspenleaf Energy, a company with no public ESG report?

The first is the personal values of the company's executives, and their strong belief that a "good company" behaves in a way that minimizes impact on the environment, that has positive relationship with communities and neighbours, that results in everyone going home safe at the end of the day, and that leaves a better world for their children. A second driver is that poor environmental performance is expensive. But the primary driver is that, as a private company, they hope eventually to be bought, and a company that has really good environmental and social performance is attractive to a buyer.

How governments can support strong ESG performance in the Canadian energy sector

There are several actions that governments (provincial and federal) can take to help Canadian companies produce strong and credible ESG reporting, while also supporting strong environmental and social outcomes. There are also a few areas in which government should not be involved.

Where should government NOT get involved?

There are several actions that governments may be asked to consider, but that may actually muddy the waters and increase complexity for Canadian energy companies.

First, it is not useful for governments to develop a jurisdictional standard for ESG reporting. A government may think a jurisdictional standard is helpful because it will provide a context-specific set of material issues. However, in practice, it would create an additional framework that companies would have to take into account—and would only add to, and not supplant, reference to the international standards that are expected by the international financial community. It is also unlikely to help the performance of Canadian energy companies with respect to ESG rating agencies, which are unlikely to care about the existence of a provincial ESG framework as they evaluate different companies. Governments considering this approach should revisit the question of what objective they are trying to achieve, and evaluate whether some of the suggestions below may better help reach that objective.

It is also not useful for a government to mandate ESG reporting by companies in its jurisdiction. Energy of all forms is already a regulated sector, with associated compliance reporting. As described on page 8, regulatory pressure for ESG reporting by companies is coming from stock exchanges, financial disclosure regulations and corporate governance regulations. This will likely be sufficient to keep boosting the already-high proportion of companies that produce ESG reports; additional government requirements are not necessary and also may not produce improved outcomes.

Get your net-zero ship in order

The credibility of a company's net zero aspirations/actions is inextricably linked to the jurisdiction in which the company operates. It helps the credibility of a company if the jurisdiction can demonstrate a coherent, credible, transparent and harmonized suite of policies to reduce GHG emissions. Conversely, without regulatory clarity and certainty, it is much harder for a company to have regulatory certainty to plan future investments, to achieve sustainability goals or develop new projects.

Specific actions that a provincial government could take include:

- Set clear and unambiguous sustainability and climate change targets, backed up by a public climate change strategy.
- Develop a coordinated response that spans all relevant Ministries/Departments, with Cabinet-level oversight.
- Identify how government decision-making processes will be informed by climate change considerations.
- Align with both national and international standards and protocols on emissions and offsets.

Make it easier for companies to report

The government can support companies by providing credible and objective data that support ESG performance claims. Statistics Canada, the Canada Energy Regulator, and provincial regulators such as the Alberta Energy Regulator, the Canada-Newfoundland and Labrador Offshore Petroleum Board and the B.C. Oil and Gas Commission hold relevant data resulting from compliance enforcement and monitoring. Requesting data in a way that is compatible with ESG reporting standards would both enhance the credibility of the performance metrics and decrease reporting burden on individual companies. The data can be assembled in sector-wide reports by public regulators; and data can be made available to individual companies who want to use it in their reports.

Take the lead on cumulative effects management, regional land use planning and stakeholder engagement

The provincial government is the appropriate entity to direct efforts where issues lie beyond the scope of individual projects and companies. In particular, regional land (and resource) use planning and cumulative impact management lie within the government's purview. Without effective government action on regional land use planning and cumulative effects, there will be a large gap that cannot be filled by industry alone.

Similarly, the province is the appropriate entity to lead a broad program of stakeholder engagement that can be used to monitor and address deeper and evolving concerns about company or sector performance—concerns that if not managed well could turn into reputational problems that negatively impact ESG performance.

Conclusion

This report has taken a close look at how Canadian energy sector companies are affected by ESG pressures, and how they are responding to them.

Our analysis found a strong business case for Canadian energy companies to embrace ESG reporting. Research indicates that it may increase access to lower-cost capital, improve the company's operational and managerial performance, lower material risks and impacts, map a path forward, and enhance brand and reputation. However, these benefits are not driven by the simple existence of an ESG report—the companies that have seen gains are those that enabled ESG processes to permeate all aspects of operations and to drive continuous improvement across the company.

It is also critical for the public—including investors, governments, NGOs and others—to temper their expectations of the extent to which ESG can be the driving force for significant positive social and environmental change.

Within Canada, the energy sector is increasingly moving towards ESG disclosure—although not uniformly. Our research found that sustainability reporting is extremely high among the largest oil and gas and electric utility companies, but drops off substantially among smaller oil and gas producers, renewable energy companies, smaller utilities and pipeline companies. The approach to reporting among those that do provide public ESG information also varies substantially in terms of the extent of reporting, the issues that are considered material, the indicators or metrics that are selected, and external standards or frameworks that are referenced. Although Canada's energy sector is increasingly taking up ESG reporting, confusion clearly remains about how best to do so.

The ESG field is complex and both attention and hype are at high levels. It can be difficult not only for companies, but also for investors, governments, regulators and other stakeholders to know how to respond. Rapid changes are taking place—some of which may help "connect the dots" and resolve some of the confusion—including efforts to consolidate ESG frameworks, and increasing guidance being provided by regulatory bodies and stock exchanges.

The Canadian energy sector is already at the centre of lightning-rod issues such as climate change, environment, Indigenous rights and reconciliation, economic prosperity and sustainable energy production and consumption. ESG is likely to increasingly be the banner under which performance is measured, communicated and evaluated—and embracing it, flaws and all, is an opportunity for companies to get better at doing good.

APPENDIX 1 | A QUICK PRIMER ON ESG

Environmental, social and governance (ESG) metrics describe specific aspects of company's sustainability performance that are of interest to audiences such as potential investors, governments, employees, shareholders and the general public.

- Environment (E) refers to a company's environmental impact and captures issues such as greenhouse gas (GHG) emissions and carbon footprint, biodiversity impacts, water use, waste management, air pollution, land use and deforestation.
- Social (S) describes the company's relationship with people, including its employees, customers, suppliers, host communities and host governments. Social metrics may include human rights, health and safety, gender equity, diversity, relationships with Indigenous groups, supply chain management, and labour practices.
- Governance (G) describes features such as executive pay, Board diversity, political lobbying, and oversight and compliance policies.

There are—at least for now—no hard and fast rules about what needs to be either disclosed (by companies) or evaluated (by investors or others) under the umbrella of ESG —neither what topics should be addressed, nor what indicators should be used to measure the company's impact.

Instead, there is a dizzying variety of frameworks, definitions and methods offered by a complex network of international organizations, frameworks, non-governmental organizations (NGOs) and commercial data vendors. The number of competing frameworks exceeds 600.[39]

There are three main types of ESG reporting frameworks that are worth noting: a) those developed and promoted by private ESG rating agencies, b) those developed by investment institutions for their own use; and c) global ESG disclosure frameworks developed by major international organizations.

a) Private rating agencies (a.k.a. third-party aggregators)

ESG rating agencies, like credit rating agencies, are independent companies that assign scores to corporations based on their ESG performance, and then sell this information to potential investors.

These rating agencies develop their scores based on an analysis of publicly available written materials (such as a company's sustainability report and news articles). All rating agencies have their own proprietary "mix" of elements to include in their scope, and their own way of scoring. This has led to considerable variation in how individual corporations are rated by the different agencies.

A 2019 study from the Massachusetts Institute of Technology (MIT) Sloan School of Management compared how five major rating agencies (KLD, Sustainalytics, Vigeo-Eiris, Asset4 and RobecoSAM) rated the same set of 823 companies.[40] The study found that the ESG ratings from the different providers disagreed "dramatically." The average correlation across the rating agencies was only 0.61 (1.0 would represent perfect agreement, whereas 0.0 would represent no agreement whatsoever). Social and governance ratings had the worst correlations, at only .49 and .38 respectively. This compares poorly to the correlation of credit ratings from Moody's and Standard & Poor's of .99.

The disagreement was driven primarily by two factors: differences in what topics were selected to represent E, S or G; and different measurement indicators to represent a particular topic (for example, whether "gender equity" was evaluated using gender pay gaps vs. per cent of women on the board or in the workforce).

Other studies have confirmed these findings—with 2021 research finding that greater ESG disclosure actually leads to greater ESG rating disagreement.[41]

b) Institutional investors

Major institutional investors such as banks, pension funds and other professionally managed assets commonly develop their own internal systems for collecting and evaluating ESG information. Although many of the performance elements rated may be the same as those used in other frameworks, building their own system enables these large investors to develop a risk assessment approach that fits the profile of their investment strategy.

c) Global ESG disclosure frameworks

A smaller number of ESG reporting standards or sustainability benchmarking frameworks have been developed by major, multinational organizations. These are:

United Nations Sustainable Development Goals (UN SDGs)

In 2015, the UN member states adopted 17 goals to form the 2030 Agenda for Sustainable Development. The SDGs address global challenges and aim at creating a better future for people and the planet. These goals are directed at eliminating world hunger and poverty; strengthening environmental protection; achieving peace; widening access to education; and encouraging responsible consumption.[42]

While the UN SDGs are accepted worldwide as a framework that brings ESG reporting to a more inclusive level, its broad nature doesn't provide any guidance on indicators that could be used to measure company-specific performance.

Global Reporting Initiative (GRI)

Created in 1997, the GRI was the first sustainability framework and is still the most widely used. Its objective was to provide companies with accountability standards metrics so that they could report and measure their environmental practices. The GRI standards have since been updated to include human rights, governance, and social well-being.

The GRI has grown to be the one of the most dominant sustainability reporting frameworks used in ESG investment. In 2020, 67% of the largest 100 companies, and 73% of the Global Fortune 250 (G250), referred to the GRI framework in their reporting.[43]

Sustainability Accounting Standards Board (SASB)

SASB standards are sustainability-based accounting standards for lenders, investors, insurance companies and other providers of financial capital. This ESG framework is designed for companies and investors attempting to analyze how ESG issues may impact company's financial performance. SASB standards are tailored to specific industries (77 different industries are covered), and identify the most financially material topics and associated metrics for each.[44]

Task Force on Climate-Related Financial Disclosures (TCFD)

The TCFD was established in 2015 by G20 Finance Ministers and Central Bank Governors. The TCFD is designed such that organizations can disclose their climate-related financial risks and integrate those risks within governance and strategic planning processes.

The TCFD's recommendations are supported by eight of the world's 10 largest asset managers. As of 2020, nearly 60% of the world's 100 largest public companies either support the TCFD, or report in line with the TCFD recommendations, or both.[45]

Climate Disclosure Standards Board (CDSB)

The CDSB is an international group of international businesses and environmental NGOs, whose goal is to advance and align the global mainstream corporate reporting model to balance natural capital with financial capital. They have created an environmental reporting framework that is similar to corporate financial reporting. The CDSB is designed to work alongside other frameworks such as SASB and GRI.

International Integrated Reporting Council (IIRC)

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The IIRC "embodies the shared, common interest of a global coalition of parties in the adoption of Integrated Reporting on an international basis as a means to improve communication about value creation, advance the evolution of corporate reporting, and make a contribution to financial stability and sustainable development."

There is some movement towards consolidation across a number of these global frameworks. In late 2020, five of the institutions (GRI, CDP, CDSB, IIRC and SASB) came together to resolve the "confusion of profusion," and to develop a single, comprehensive corporate reporting system. They claim that "the resulting standards would enable companies to collect information about performance on a given sustainability topic once, but provide relevant information to different users through appropriate communication channels (e.g., sustainability reports, annual integrated reports, websites)... The result would be reduced confusion and cost for both producers and users of sustainability information."[37]

While these different organizations agree that "the time is now" and "the window of opportunity is short," no information is available on when the work is likely to be completed.

APPENDIX 2 | METHODS

How we selected companies and recorded information

This report presents the results of a semi-quantitative investigation into ESG/sustainability reporting practices across the Canadian energy industry, based on public information gathered from 149 companies across four sub-sectors: oil and gas companies, wind and/or solar providers, electric utilities and pipeline companies. This Appendix describes how the companies were selected and data was recorded.

Company Selection

OIL AND GAS COMPANIES

Oil and gas top producers were identified from the "Top Operators 2020" report published by the *Daily Oil Bulletin* and JWN. The report lists the top 25 producers in oil and liquids and in natural gas. Both lists are based on average per-day production from Canadian assets in Q1 2020. The companies from the two lists were combined, and duplicates, as well as companies that were acquired in 2020, were removed. The final list consisted of 36 companies.

The list of smaller producers was developed from oil and gas industry association member lists. We included a random sampling of 30 oil and gas producing companies (15 publicly traded, 15 privately held) that were headquartered in Canada and not on the Top Producers list.

WIND AND SOLAR PRODUCERS

Our selection of wind and solar companies was drawn from the membership database of the Canadian Renewable Energy Association (CanREA). Only companies that were based in Canada and fell under the Asset Owner or Developer categories of the database were included. We removed any companies where solar or wind projects were not the primary business (e.g., Suncor or Manitoba Hydro) or where the company did not operate commercial-scale projects. After applying all criteria, 43 companies made up the final list.

ELECTRIC UTILITIES

Utility companies were identified from a complete list of 151 electric utilities operating in Canada (Marcoux, 2021). Only companies with over 100,000 customers were chosen for analysis in this report. Several companies operating under the parent company Fortis Inc. were combined and treated as a single entity; FortisAlberta Inc., Newfoundland Power, and FortisBC Inc. The final list contained 17 Canadian electrical utilities.

PIPELINE OPERATORS

Pipeline companies identified from the website of the Canada Energy Regulator (CER). We combined entries where multiple pipelines were listed with the same owner (like Enbridge or TC Energy). We also deleted those companies that are not primarily pipeline operators (such as CNRL and Atco) or that were purely distribution to customers (such as County of Vermilion River Gas Utility). This left 23 companies on the list.

Data Collection and Analysis

All reporting data was gathered from publicly available sources, including ESG/sustainability reports, annual reports, annual information forms, and corporate webpages.

All companies were assessed based on whether or not they reported on ESG metrics, either through an ESG/sustainability report, an integrated annual report, or some other form of dedicated reporting. Companies that did not publish a report were further evaluated on whether or not they made any ESG metrics available on their webpage. Answers were recorded as simple yes/no data points.

A company was recorded as including a specific indicator type (e.g., GHG emissions or gender equity) if they provided any information at all; the quality of the reporting was not assessed on a company basis.

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CANADAWEST FOUNDATION 50

THE CANADIAN ENERGY AND CLIMATE NEXUS

LE LIEN CANADIEN DE L'ÉNERGIE ET DU CLIMAT