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Colorado oil and gas ahead of the curve on reporting social and environmental impacts

By Dan Larson | February 21, 2021

7-8 minutes

Summary: Investors are demanding insight into more than just financials from oil and gas companies. They also seek comparisons of a company's risk in a low-carbon future, its environmental impact, exposure to potential hazards and support for communities. Colorado companies have a head start on meeting and measuring these standards as other energy producers struggle to adjust to the new normal

Oil and gas companies in Colorado and elsewhere can be unfairly rated for environmental or social performance based on data that is not standardized that can raise risk flags and cost them investments, say two Denver data analytics firms.

As energy producers in Colorado and elsewhere work to emerge from the third downturn in less than 15 years, they are transforming their operations under stricter regulations, reducing their impacts and filling investor demand for greater transparency.

With the rise of stock trading apps such as Robinhood, a new breed of investors is demanding insight into more than just financials. They also seek comparisons of a company's risk in a low-carbon future, its environmental impact, exposure to potential hazards and support for communities.

> **What does ESG mean?**
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> **Analytics-based ratings and indexes of corporate performance for Environmental, Social or Governance issues**

Those insights are increasingly driven by analytics-based ratings and indexes of corporate performance for environmental, social and governance (ESG) issues. However, a lack of comparable data or even generally accepted standards for how performance is measured from one company or industry to another can translate into skewed ratings and biased indexes.

"For some oil companies, their ESG datasets are immature and need attention," said Bernadette Johnson, senior vice president for power and renewables at Enverus in Denver. "The bigger issue is that when you compare the data from one company to another, it is like apples to oranges to grapes to bananas."

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Colorado oil and gas companies recognize the trend toward ESG-driven investing and are shifting their asset-base and operations to lower net carbon emissions and investing in renewables, Johnson said. Those with in-state operations also recognize the utility of the data they already gather and maintain in compliance with Colorado's strict regulatory regime.

However, for some oil and gas companies, gathering, analyzing and reporting information on diversity and community impact are new requirements. Others are finding their existing datasets may define freshwater consumption, for example, differently than others, making useful comparisons difficult, she said.

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Bernadette Johnson

The results are often seen in ESG scores favoring one company over another when their performances actually are comparable.

Although global standards for many ESG metrics are available, the growth of ESG ratings as an investor tool in the United States, despite a lack of uniformity, already has drawn the attention of the Biden administration. In December, the Securities and Exchange Commission announced formation of an ESG Subcommittee to recommend ways "to improve the data and disclosure used for ESG investing." More recently, SEC named Satyam Khanna, a former Biden transition team member, to a newly created post as senior policy advisor for climate and ESG.

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The commission noted that addressing the ESG issue requires some urgency given the rapid growth of ESG-based investment products. Availability of such products tripled from the end of 2017 to June 2020, with assets under management growing from $254 billion to $1.682 trillion, the SEC reported.

Setting Standards

Performance data once seen as feel-good filler for the annual report is now part of a complex equation of datasets and modeling that can boost one company over its sector peers or even across the wider market. The issue, Johnson said, is that ESG data is based on standards that have yet to coalesce while they are still expected to be comparable and can withstand the rigor of an independent audit.

"We are seeing Colorado oil and gas companies providing ESG reports that are more formulaic and well-considered but still cannot be completely trusted," said Rob Bruant, director of product at B3 Insight, a Denver-based resource data services firm. "It is not that they are bad actors or are doing the wrong thing. It is because there are no set definitions or metrics that everyone has agreed to."


Rob Bruant

And although the digital information is available, without standards for collecting, aggregating and presenting the data, there is no way to independently validate or audit the result, Bruant added. That can undermine the confidence an investor needs when choosing an equity or investing in one of the new ESG funds.

Colorado Advantage

Domestic oil and gas companies are accustomed to reporting data about their prospects, production and operational performance. Those standards for reporting are well-established, Bruant said. However, with ESG ratings becoming as ubiquitous as credit scores, energy companies are challenged to produce timely reports that describe their environmental and social performance.

The good news for oil and gas companies operating in Colorado is that many environmental and societal metrics measured by the financial services industry are already in hand, he noted.

From her perspective, Johnson said she sees many Colorado oil and gas companies better positioned to report on many environmental categories than those operating elsewhere.

“We have the most stringent environmental and community regulations in the country,” Johnson said. With those regulations come a duty to collect and report performance data on water use and disposal, surface land footprint and air emissions, among the many categories not tracked elsewhere, she added.

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“Even the smaller operators here are better positioned to report environmental impacts than some of the larger companies in states like Texas and North Dakota,” Johnson said. “Industry trade groups support normalizing standards for things like gas flaring when they have a seat at the table”