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Énergir Advances Responsible Procurement of Natural Gas

In February 2020, Énergir, the largest gas distributor in Québec, announced an agreement with Seven Generations Energy Ltd. (7G) as part of Énergir's Initiative for Responsible Procurement of Natural Gas (the Initiative). The transaction is the first to be governed by the Equitable Origin EO100™ Standard for Responsible Energy Development (EO100™ Standard) and include the disclosure of key indicators. The key indicators align with existing environmental, social, and governance (ESG) performance indicator frameworks, such as the Natural Gas Supply Collaborative (NGSC) Environmental and Social Performance Indicators. Énergir's announcement demonstrates the increasing role supplier ESG performance and disclosure is playing in natural gas purchaser decisions.

Énergir's launch of the Initiative reflects its successful coordination of a broad stakeholder process which engaged communities, non-governmental organizations, natural gas producers, and regulators to demonstrate how natural gas can be produced and procured more transparently, with a goal of minimizing environmental and social impacts. Through this process, Énergir recognized and employed industry best practices and advanced ESG performance in the natural gas value chain. Énergir has indicated that for the 2019-2020 rate-year it will purchase approximately 20 percent of its natural gas through this Initiative, and at a premium. For 2020–2021 onwards, Énergir will evaluate how it can increase the percentage of natural gas purchased through the Initiative when preparing future rate cases as part of its gas procurement plan.

Key Takeaways

- Énergir's agreement with 7G is the first natural gas supply agreement to include the EO100™ Standard third-party certification and public disclosure of key indicators as criteria.
- The Initiative demonstrates how natural gas distribution companies are working to increase the visibility into the natural gas supply chain and minimize the environmental and social impacts of natural gas.
- The Initiative is an example of how collaboration with key stakeholders is helping identify criteria for responsible gas.
- The Initiative exemplifies the importance of third-party certifications and disclosure of performance indicators in advancing ESG topics in the natural gas supply chain.

Background

Énergir provides a range of energy services in both Canada and, through subsidiaries, the United States.¹ In response to stakeholder interest, particularly from their customers and local stakeholders, Énergir began

¹ Énergir's subsidiary Vermont Gas Systems (<https://www.vermontgas.com/>) is the sole gas distributor in Vermont.

increasing disclosures in its public sustainability reporting. In doing so, Énergir found that natural gas supply was not well understood by its stakeholders due primarily to a lack of publicly disclosed information. The lack of information effectively limited visibility into natural gas producer operations and practices and was a reason for increasing stakeholder questions and concern about associated environmental and social impacts. To help stakeholders better understand the natural gas supply chain Énergir undertook an engagement process beginning in 2017 with key stakeholders, including the Pembina Institute, Equitable Origin, 7G, and regulators. A product of this process is the Initiative for the Responsible Procurement of Natural Gas.

The Pembina Institute is a Canadian non-profit think tank focused on the impacts of energy development. As part of this Initiative, Pembina evaluated environmental and social impacts of unconventional natural gas production and evaluated existing standards and methodologies to address these impacts. Pembina recommended that Énergir use a third-party certification framework (EO100™ Standard) to be a part of the criteria for the Initiative, and supported a pilot project to verify the Initiative’s proposed methodology and criteria.

Equitable Origin is a non-profit organization that supports communities and Indigenous Peoples to help ensure responsible natural resource development. The EO100™ Standard is a third-party certification of metrics and performance targets that incorporate a variety of related environmental and social initiatives, standards, conventions, and declarations.²

Seven Generations Energy is the first company to obtain the EO100™ Standard and the first natural gas producer to join Énergir’s Initiative. 7G’s Kakwa River Project in Alberta, Canada was issued a PT1 level certification of the EO100™ Standard in November 2019.³

Recognizing the enabling role of regulators in establishing an agreement for the responsible procurement of natural gas, Énergir also engaged Régie de l’énergie for their perspective and needs as a regulator, which resulted in successful application for funding in Énergir’s 2019-2020 rate case.

Importance of Environmental and Social Performance Disclosure Highlighted by the Natural Gas Supply Collaborative

Énergir has been a participant in the Natural Gas Supply Collaborative since 2017, which helped shape key elements of this successful initiative. NGSC is a voluntary collaborative of natural gas purchasers promoting safe and responsible practices for natural gas supply.

Since its inception, NGSC has advanced the national discussion related to voluntary reporting on the environmental and social performance of natural gas production. It grew over the past year to include 14 companies that purchase gas equivalent to more than 15 percent of U.S. marketed natural gas. This is enough natural gas to meet the needs of more than 46 million households and, as a part of portfolio of resources, generate enough electricity from natural gas to power almost 20 million households.

NGSC has developed 14 performance indicators addressing methane and air emissions, water, chemical use, and community impacts and workforce safety.

Énergir’s Initiative was not only informed by, but also leveraged the environmental and social performance indicators identified by NGSC in its criteria for requiring the disclosure of key indicators.

² More information on the EO100™ Standard available at: <https://www.equitableorigin.org/eo100-for-responsible-energy/eo100-for-shale-oil-gas-operations/>.

³ Kakwa River Project Equitable Origin summary report available at: https://energystandards.org/wp-content/uploads/2020/02/EO100-Certification-Summary_SevenGenerations_11NOV2019.pdf.

Discussion

Énergir identified two principle objectives for the Initiative: 1) purchase natural gas from specific producers so that supplies are easier to track and; 2) purchase natural gas from producers that have adopted best practices to reduce the social and environmental impacts of their operations. Énergir recognized that to achieve these objectives and maximize their durability, they would need to adopt an approach that included a partner, the Pembina Institute, to lead a stakeholder process designed to identify and address key environmental and social impacts of natural gas production. Below is a discussion of key elements of the Initiative that led to the success of the Initiative and to Énergir and 7G entering into a responsible gas supply agreement.

Element 1: Environmental and Social Impacts Review and Identification

The Pembina Institute conducted a review of environmental and social impacts from unconventional natural gas production in North America. This exercise identified key impacts and developed criteria for Initiative to address these impacts. The Pembina Institute identified the following key impacts:

- Stress on available water supplies;
- Risk of surface and groundwater contamination;
- Air pollution impacts on health and air quality;
- Greenhouse gas emissions and fugitive methane leakage;
- Vented methane emissions;
- Impacts on land, wildlife, and communities; and
- Seismicity.

To maintain consistency and facilitate information gathering for producers participating in the Initiative, the Pembina Institute also identified and evaluated third-party and industry certification frameworks that address natural gas environmental and/or social impacts. Ultimately, the Pembina Institute recommended the Equitable Origin EO100™ Standard for Responsible Energy Development and its addendum on Shale Oil & Gas Operations. Énergir validated the EO100™ Standard certification framework with additional stakeholder engagement.

Element 2: Best Practices and Performance Indicators

Best operating practices and performance indicators enables stakeholder understanding of actions a producer is taking to reduce its social and environmental footprint. Énergir worked with its partners to identify and incorporate key best practices and performance indicators as the criteria for the Initiative.

Practices

The Equitable Origin EO100™ Standard, developed through extensive collaboration with the energy industry, is a third-party certification of metrics and performance targets that incorporate a variety of related environmental, social and governance (ESG) initiatives. It includes 61 provisions and 201 performance targets organized into five main principles:

- 1) Corporate Governance, Accountability & Business Ethics;
- 2) Human Rights, Social Impact & Community Development;
- 3) Fair Labor and Working Conditions;
- 4) Indigenous Peoples' Rights;

5) Climate Change, Biodiversity & Environment; and

The EO100™ Standard verification process begins with a producer self-assessment followed by review of the company by a certified independent third-party auditor. Next, the auditor synthesizes an assessment report with findings and recommends or does not recommend the producer for the EO100™ Standard certification. The assessment report is then peer reviewed by an independent expert selected by Equitable Origin. Lastly, Equitable Origin makes a certification decision based on the auditor report and results of the peer review⁴. A summary version of the independent auditor report and level of certification are publicly disclosed if the producer becomes certified. Under the Initiative, natural gas producers are responsible for the costs associated with certification. There are three levels of certification in the EO100™ Standard:

- 1) Level 1 (PT1): Performance consistent with international standards and industry best practices. This level identifies the presence of management practices that enables reporting to meet regulations and international standards, but not necessarily comply with them.
- 2) Level 2 (PT2): Performance exceeding international standards and industry best practices. This level typically reflects innovative solutions to a sustainability challenge, or the voluntary extension of an operator's responsibility beyond the boundaries of the project.
- 3) Level 3 (PT3): Performance demonstrating leadership and innovation. This level typically reflects innovative solutions to sustainability challenges, or the voluntary extension of an operator's responsibility beyond the boundaries of the project.

Énergir employs the EO100™ Standard to maintain consistency between producers participating in the Initiative and create a systematic framework for evaluating producer stewardship across a vast array of corporate actions. In addition, Énergir employs key indicators to support a quantitative assessment of a producer's actions related to key environmental issues.

Key Indicators:

The performance indicators Énergir selected for the Initiative were informed by several frameworks that evaluate social and environmental impacts of oil and natural gas development, including the Natural Gas Supply Collaborative (NGSC), the Sustainability Accounting Standards Board, the Global Reporting Initiative and the Carbon Disclosure Project. Indicators provide targeted information on the environmental performance of natural gas producers beyond existing certification frameworks and increase transparency of producer actions.

The indicators selected for the Initiative are:

- Intensity of methane production (methane emitted by production volume, or leak rate);
- Intensity of greenhouse (GHG) gas emissions from operations;
- Intensity of water usage for operations (volume of freshwater used by production volume);
- Percentage of water recycled;
- Percentage of serviced land on the company's leases; and
- Soil usage area by natural gas production volume.

⁴ More information on the EO100™ certification process available at: <https://energystandards.org/EO100-certification-process/>.

Element 3: The Pilot Project to Test Methodology and Key indicators

In spring 2018, Énergir launched a pilot project to test the Initiative's methodology and validate the proposed third-party certification framework and key indicators. The pilot project included Énergir, the Pembina Institute, an active natural gas producer in Western Canada, evaluators for the EO100™ Standard, and third-party representatives of stakeholder interests.

During the pilot project, the producer conducted a self-assessment with the certification framework followed by a third-party evaluator led site visit at the corporate office and production sites. The pilot project enabled Énergir to ensure both objectives of the Initiative were achieved, the Initiative could easily be communicated to stakeholders, and identify opportunities to improve the evaluation process for larger scale deployment.

Element 4: Evaluation Process and Producer Eligibility

Following the pilot project, Énergir proposed a two-part evaluation process for the Initiative to address the environmental and social impacts of natural gas production and prioritize stakeholder concerns:

- 1) Practices: Producers are evaluated and certified according to the EO100™ Standard.
- 2) Key Indicators: Producers publicly disclose their performance against the key indicators.

To become eligible for the Initiative, a producer must complete a self-assessment questionnaire, undergo certification according to the EO100™ Standard, receiving at least PT1 certification, and disclose the key indicators. For the first version of the Initiative, producers only need to disclose the key indicators. Énergir may incorporate performance in the future to favor producers with lower environmental and social impacts. Producer eligibility remains valid until the end of the period of the version of the Initiative. Énergir expects to maintain the requirements of the first version of the Initiative for a period of four years (until March 31, 2023). Producers are required to annually declare continued compliance with the Initiative's criteria. Énergir will review the criteria every three years in an ongoing stakeholder engagement process, participating producers are required to demonstrate compliance with new version of the Initiative during year three.

Element 5: Agreement

The agreement between Énergir and 7G establishes that Énergir will pay a premium for the natural gas supplied through the Initiative and has a total cost allocation for the Initiative. Pursuant to the rate case findings, Énergir estimates the bill impact of a typical residential customer is less than \$2 a year, equivalent to a 0.11 percent bill increase. Énergir needed to be authorized by its regulator, Régie de l'énergie, to recover the costs associated with the program and applied for funding in its 2019-2020 rate case. The approval of the 2019-2020 rate case included the funds Énergir needed for the Initiative and resulted in Énergir entering an agreement with 7G.

Conclusion

Énergir developed the Initiative for the Responsible Procurement of Natural Gas through extensive stakeholder engagement and demonstrated a process for natural gas distribution companies to increase the visibility into the natural gas supply chain and reduce the environmental and social impacts of natural gas. Through the Initiative, Énergir demonstrated the viability of using third-party certifications and performance indicators to procure responsible gas.

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