ACCR Investor Briefing

Santos Ltd (ASX:STO, ISIN:AU000000STO6)

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About ACCR

The Australasian Centre for Corporate Responsibility is a philanthropically-funded NGO that monitors environmental, social and governance (ESG) practices and performance of listed companies. We undertake research and highlight emerging areas of business risk through private and public engagement, including the filing of shareholder resolutions.

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Background

ACCR has engaged regularly with Santos on its decarbonisation commitments and climate-related lobbying for several years.

In 2020, ACCR filed a shareholder resolution with Santos calling on the company to conduct and publish a review of its direct and indirect lobbying in relation to climate and energy policy. That resolution was supported by 46.35% of Santos shareholders.

In August 2021, ACCR commenced proceedings against Santos in the Federal Court of Australia in relation to its claims about clean energy and the feasibility of its net zero target. Those proceedings are ongoing.

ACCR has filed two shareholder resolutions for consideration at Santos' forthcoming AGM, on climate-related lobbying and decommissioning.

1. Ordinary resolution on climate-related lobbying

Shareholders request that our company cease all private and public advocacy, both direct and indirect, that contradicts the conclusions of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) on 1.5°C alignment, including advocacy relating to the development of new oil and gas fields.

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company.

1.1 Reasons to support this resolution

Santos claims to support "the objective of limiting global temperature rise to less than 2 degrees Celsius".[1]

The IEA's 'Net zero by 2050' report concluded that no new coal, gas or oil developments could proceed beyond 2021, in order to limit global warming to 1.5°C.[2]

However, Santos' direct and indirect advocacy for the development of new and expanded oil and gas fields is counter to this goal, and destructive to shared and urgent decarbonisation goals.

ACCR encourages shareholders to support the resolution for the following reasons:

1. Advocacy for new and expanded oil and gas fields is at odds with the IEA's Net zero by 2050 pathway, which found that new fossil fuel projects were inconsistent with 1.5°C goals.
2. Santos' review of industry associations was manifestly inadequate, and failed to assess the impact of unconstrained growth in oil and gas development.
3. Santos has not identified any misalignment with its industry associations, nor has it attempted to change their advocacy beyond cosmetic policy changes.
4. Santos has not made a commitment to conduct all of its lobbying in line with the Paris Agreement, and it would fail to meet few, if any, of the 14 indicators of the Global Standard on Responsible Corporate Climate Lobbying.[3]
5. There is no evidence of Santos' or its industry associations supporting ambitious emissions reductions policies.
6. Santos' influence on the Australian government is clear, and poses a risk to Australia improving its 2030 target.

1.2 Climate urgency

The IPCC Working Group II Report on impacts and adaptation (2022) concluded that if warming exceeds 1.5°C in the "coming decades or later, then many human and natural systems will face additional, severe risks, compared to remaining below 1.5°C"[4] and that "near-term actions that limit global warming to close to 1.5°C would substantially reduce projected losses and damages… compared to higher warming levels".[5]

[1] Santos Ltd, Climate Change Policy, Feb 2019, link
[2] IEA, Net zero by 2050, 2021, link
[3] Global Standard on Responsible Corporate Climate Lobbying, Appendix: The 14 indicators of responsible climate lobbying, 2022, link
[4] IPCC, Climate Change 2022: Impacts, Adaptation, Vulnerability. Summary for Policymakers, 27 Feb 2022, link
[5] ibid.

In order to limit warming to 1.5°C, the IEA's Net Zero Emissions pathway (2021) forecast a significant decline in gas usage from 2025.[6] The IEA concluded that "beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway".[7] The IEA noted that this pathway was "the most technically feasible, cost-effective and socially acceptable".[8]

Santos' record of advocacy is at odds with the projected decline in use of fossil fuels required to limit global warming to 1.5°C.

1.3 Santos' direct advocacy

In 2021, InfluenceMap found Santos was the most active company in Australia on climate and energy policy between 2018-21, scoring it D- (scale A-F) for its opposition to Paris-aligned climate policy.[9]

Santos disclosed the following advocacy in 2021:[10]

- Lobbied government to ensure carbon capture and storage (CCS) was eligible for carbon credits, which Santos will use to offset its fossil fuel expansion plans;
- Encouraged the Australian government to recognise and support the development of hydrogen made from fossil gas;
- Lobbied to weaken the methods used to estimate fugitive methane emissions from coal seam gas operations.

In November 2021, Santos CEO Kevin Gallagher was invited by the Australian government to attend COP26 in Glasgow to promote CCS.[11] The Australian pavilion at COP26 featured Santos branding on a CCS diorama, paid for by Australian taxpayers.[12]

Santos CEO Kevin Gallagher has a significant media profile and in 2021 was found to be the most prolific CEO in Australian media coverage on sustainability, with 145 mentions that year.[13] Often that media coverage promoted fossil gas as a solution to climate change, or justified further oil and gas expansion through the use of CCS.

In March 2021, Santos only partially met the assessment of climate policy engagement in the Climate Action 100+ Net-Zero Company Benchmark.[14] While Santos publishes a list of industry associations, it has not made a commitment to conduct all of its lobbying in line with the Paris Agreement.

Santos used the 2022 Notice of Meeting to further justify new and expanding gas fields, claiming gas produces about half the emissions of coal-fired electricity, with no evidence for this claim. ACCR research[15] shows any lifecycle emissions benefits of gas over coal are eroded subject to the type of gas generator used, how the gas is distributed, and the proportion of methane vented or leaked in the supply chain. In addition, arguing that gas is a low emissions source of electricity ignores the fact that lower emissions (and cheaper) forms of electricity exist.

1.4 Santos' indirect advocacy

In December, Santos published its 2021 Statement on Review of Industry Associations.[16] Santos did not identify any misalignment with its industry associations. The review only considered cosmetic support for the Paris Agreement and net zero emissions.[17] It failed to assess advocacy for new oil and gas developments, support for subsidies for new oil and gas infrastructure, or advocacy on emissions reduction policies.

In 2021, Santos paid A$1.34 million in membership fees to its key industry associations.[18] Several of Santos' industry associations have climate lobbying practices that are misaligned with the Paris Agreement (see Table 1).

Table 1. Santos' key industry associations

Industry association	InfluenceMap rating*
Australian Industry Greenhouse Network (AIGN)	D
Australian Petroleum Production and Exploration Association (APPEA)	E+
Australian Pipelines and Gas Association (APGA)	D+
Chamber of Mines and Energy Western Australia (CMEWA)	E
South Australian Chamber of Mines and Energy (SACOME)	D+

**D or below = lobbying practices misaligned with the Paris Agreement*

In 2021, Santos left the Queensland Resources Council and joined the Asia Natural Gas and Energy Association (ANGEA). ANGEA has called for investment of US$425 billion for new fossil gas supply infrastructure across Asia.[19]

Santos is one of the most influential members of the peak petroleum lobby group in Australia, APPEA. Santos CEO Kevin Gallagher sits on the board of APPEA, and served as its Chair for a two-year term until November 2021.

APPEA's advocacy

Despite its notional support for net zero emissions by 2050, APPEA remains a serious obstacle to ambitious and effective national climate policy in Australia. APPEA's principal aim is to further the development of the Australian upstream oil and gas industry.[20] For that reason, policies to reduce greenhouse gas emissions pose an existential threat to APPEA and its members.

[6] IEA, Net Zero by 2050, 2021, link
[7] ibid.
[8] Investor Group on Climate Change, IEANZE Briefing, 2021, link
[9] InfluenceMap, Australia - Corporate Climate Lobbying, link
[10] Santos, 2021 Statement on Review of Industry Associations, link
[11] Michael Mazengarb, 'Taylor and department invited Santos to promote CCS in Australia's pavilion at Glasgow', RenewEconomy, 14 Feb 2022, link
[12] Adam Morton, 'Australia puts fossil fuel company front and centre at Cop26', The Guardian, 3 Nov 2021, link
[13] Emma Shepherd, 'Australia's top 10 most prolific business leaders on sustainability', Mumbrella, 11 Aug 2021, link
[14] Climate Action 100, Net-Zero Company Benchmark - Santos Ltd, 2021, link
[15] ACCR, Facts over Fiction: Debunking gas industry spin, Feb 2022, link
[16] Santos, 2021 Statement on Review of Industry Associations, link
[17] ibid.
[18] ibid.
[19] ANGEA, Regional Energy Economic Snapshot, 2021, link
[20] APPEA, Annual Report 2019-20, p7

APPEA is a consistent advocate for the expansion of the oil and gas industry in Australia. Its influence over governments has steadily increased with the growth of the LNG export industry since 2010.

APPEA's advocacy for oil and gas expansion has been prolific in recent years. Throughout 2020-21, APPEA published a series of reports that called for government support to accelerate the development of new gas basins, culminating in the Australian government's "gas-fired recovery":

> ***"We believe that a successful future for Australian oil and gas will consist of developing the currently uneconomic or stranded discovered gas resources that abound through Australia's hydrocarbon regions. Using this gas is vital to extending the economic life and utility of existing gas and LNG infrastructure and thus maximise value from these assets."***
>
> APPEA, Australia Oil & Gas Industry Outlook Report, May 2020[21]

APPEA's Powering Australia's Recovery report[22] advocated for government incentives for further gas exploration, streamlining regulation and fast-tracking approvals for new development.

A 2020 EY report commissioned by APPEA[23] advocated for policies to develop multiple new gas basins that would require capital expenditure of $350 billion over the next 20 years. APPEA then cited these figures in its pre-budget submission in February 2022.[24]

In a 2021 submission to an Australian parliamentary inquiry, APPEA suggested that Australia can only meet the Paris Agreement by developing new gas resources.[25]

In February 2022, APPEA claimed that "Australia's gas industry will enjoy strong growth in demand stretching through to 2050".[26]

APPEA's influence over the Australian government was further demonstrated in a recent report from the Department of Industry, Science, Energy and Resources, which included a two-page message from APPEA CEO Andrew McConville, encouraging "long-term investment to grow Australia's LNG industry".[27]

APPEA and the Australian Pipelines and Gas Association (APGA) have consistently promoted the long-term use of fossil gas in Australia's energy mix. In a jointly published report in late 2020, APPEA and APGA advocated for fossil hydrogen to be introduced into domestic gas networks, and more recently opposed the electrification of domestic cooking and heating.[28]

The South Australian Chamber of Mines and Energy used the 2022 South Australia state election to attack changes to land access provisions that could prohibit future oil and gas exploration, and singled out individual independent political candidates.[29]

The Chamber of Minerals and Energy (CME) used a pre-budget submission to the Western Australian Treasury to advocate for "legislative change and industry support resourcing" hydrogen produced from fossil gas.[30]

1.5 Australia's lack of climate policy

In February 2021, Bloomberg ranked Australia's climate policies as the weakest of the largest developed economies.[31] In June 2021, Australia received the lowest score awarded to any of the 193 UN member states for climate action.[32] In November 2021, Australia was ranked last out of more than 60 countries on climate policy by German thinktank Climate Change Performance Index.[33]

Australia's approach to climate policy is has been heavily influenced by Santos and its industry associations, including:

- The 'gas-fired recovery'[34] from the COVID-19 pandemic, by subsidising the development of new gas basins and associated infrastructure, including roads and pipelines;
- A 'technology not taxes' approach to emissions reduction, which prioritises unproven technologies rather than constraining the use of fossil fuels, intended to prolong the use of coal and gas.

In March 2022, the UN Secretary General António Guterres labelled Australia a "hold out" for failing to commit to meaningful emissions reductions by 2030.[35]

1.6 Conclusion

Cumulatively, advocacy by Santos and its industry associations has encouraged governments to support the expansion of the oil and gas industry in Australia and Asia. This advocacy is simply not aligned with the Paris Agreement, nor the international goal to keep global temperature rise below 1.5°C.

Despite publishing two reviews of its industry associations since ACCR's shareholder resolution in 2020, Santos has shown little inclination to constrain its own advocacy or that of its industry associations.

Shareholders must call time on lobbying at odds with the Paris Agreement and the goal of 1.5°C.

ACCR urges shareholders to support this proposal.

[21] Wood Mackenzie, 'Australia Oil & Gas Industry Outlook Report', 2020, link
[22] APPEA, Powering Australia's Recovery, 2020, link
[23] EY, 'Australia's oil and gas industry: kickstarting recovery from COVID-19', 2020, link
[24] APPEA, 'The 2022-23 Federal Budget: Unlocking Australia's competitive advantage', 2022, link
[25] APPEA, submission number 62 to the Joint Standing Committee on Trade and Investment Growth, 2021, link
[26] APPEA, 'New Government report highlights gas demand for decades to come', 2022, link
[27] Australian Government, Global Resources Strategy Commodity Report: Liquefied Natural Gas, 2022, link
[28] Victorian Government, Submissions to the Gas Substitution Roadmap, 2021, link
[29] SACOME, Stable Land Access Frameworks Critical to South Australian Resources Sector, 2022, link
[30] CMEWA, 2022-23 pre-Budget submission to the WA Dept of Treasury, link
[31] BNEF, 'BNEF G20 Zero-Carbon Policy Scoreboard: Who's Doing It Best?', Feb 2021, link
[32] Sachs et al, The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021, link
[33] Michael Doyle, 'Australia scores zero on climate policy in latest Climate Change Performance Index', ABC News, 10 Nov 2021, link
[34] Prime Minister of Australia, Gas Fired Recovery, 2020, link
[35] United Nations, '1.5-degree goal is on life support', YouTube, 2022, link

2. Ordinary resolution on decommissioning

Shareholders request that the Board disclose annually from 2023:

1. *A list of all onshore and offshore oil and gas infrastructure which may be decommissioned over the medium-term;*
2. *Audited asset-level provisions for the decommissioning of this infrastructure and restoration of sites, along with the major assumptions underpinning these provisions;*
3. *Analysis of the useful life of all assets using different oil and gas demand scenarios, including the IEA Net Zero by 2050 scenario.*

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company.

Reasons to support this resolution

The decommissioning of offshore and onshore assets is a significant, complex, and immediate challenge for Santos. As noted in the Oil Search merger Scheme Booklet, Santos' upcoming decommissioning activities will involve a number of "commercial, political, engineering, execution, operational and legal risks."[36]

In its 2021 Annual Report,[37] Santos disclosed restoration provisions of **US$3,817 million**, an increase of US$796 million from the previous year. The Oil Search merger added US$800 million to the corporate total.[38] Santos' total provisions equate to approximately 20% of market capitalisation.[39] Santos acknowledges that a broad range of assumptions are involved in the quantification of provisions, however no specifics are disclosed and neither is any asset-level information.[40]

> ***"Decommissioning is the biggest industry time bomb that's just waiting to go off...even the big boys, it's going to have impacts on their balance sheets, all the numbers in this sector are underbaked. This is an area where it's all bad news"*** *Saul Kavonic, Credit Suisse*[41]

The primary reasons to support this resolution are:

1. Shareholders are not receiving sufficient information to assess this immediate issue that intersects with a broad range of risks.
2. There are genuine risks with under provisioning due to inappropriate assumptions and this has a bearing on company value.
3. The regulatory and legislative environment for decommissioning has changed significantly in Australia. It is unclear whether Santos has updated its provisions to reflect this.
4. Enhanced asset-level disclosure on timing and major assumptions will provide investors with greater comfort about the appropriateness of provisions.
5. Climate change transition considerations should inform provisioning. Investors need to know that companies are stress-testing provisions under low demand scenarios such as the IEA Net Zero scenario.
6. Enhanced decommissioning disclosure is consistent with the requirements of regulators and accounting standards
7. Companies often use concerns regarding commercial sensitivities when additional disclosure is sought. A sensible balance can be struck that ensures enhanced transparency without breaking contractual obligations.

These issues are discussed further below.

1. Insufficient disclosure of provisioning assumptions

In 2020, Wood Mackenzie estimated the cost of Australia's onshore and offshore decommissioning at more than US$49 billion (A$60 billion) over the next 30 years.[42] As decommissioning is an immature industry in Australia, such high-level cost estimates have not been reconciled to actual costs yet.[43] Shareholders should be aware that internationally, remediation costs have often exceeded provisioning.[44] A 2021 study of North Sea projects found average actual decommissioning costs exceeded estimates by 76%.[45]

Company decommissioning provisions are calculated using information about assets (age, condition, complexity), and assumptions about removal requirements and future costs. These assumptions may be refined based upon legislation (climate, environment, safety, taxation), regulatory settings, and commodity prices, among other factors.

Full removal of infrastructure is the regulatory base case in Australia. The National Offshore Petroleum Safety Environmental Management Authority (NOPSEMA) has questioned if operators are properly valuing offshore assets on this basis.[46] NOPSEMA plans to 'take action where companies are not making appropriate considerations'.[47]

In 2021, the Australian Securities and Investments Commission (ASIC) highlighted asset values and provisions as key areas of regulatory focus.[48] Following its recent investigations into Woodside

[36] Santos/Oil Search, "Oil Search and Santos merger update: Court approves distribution of Scheme Booklet and convening of Scheme Meeting", 11 November 2021,84, link
[37] Santos, Annual Report 2021, 94
[38] Santos, Annual Report 2021, 95
[39] Based on market cap as at 18 March 2022, ASX
[40] Santos, Annual Report 2021, 94
[41] Saul Kavonic (Credit Suisse), "Our Investment Environment" panel, 2021 APPEA conference, 16 June 2021

[42] "Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [and] Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021", Parliament of Australia, accessed 1 February 2022, link
[43] Centre of Decommissioning Australia, 2021, *A Baseline Assessment of Australia's Offshore Oil and Gas Decommissioning Liability*, link
[44] Shaw, Paul F., 2017. "Decommissioning and Remediation Challenges for the Petroleum Industry." The APPEA Journal 57 (2): 546–48. link
[45] Tan, Y. et al.. 2021. "Cost and Environmental Impact Estimation Methodology and Potential Impact Factors in Offshore Oil and Gas Platform Decommissioning: A Review." Environmental Impact Assessment Review 87 (March): 106536. link
[46] NOPSEMA advisory board, *NOPSEMA advisory board meeting minutes,* September 2020, 2, link
[47] ibid.
[48] ASIC, "21-342MR ASIC highlights focus areas for 31 December 2021 financial reports under COVID-19 conditions", 2021, link

Petroleum's reporting of restoration provisions, it is encouraging "other industry participants to reassess the reasonableness of their financial reporting obligations and adequacy of disclosures".[49]

Santos Chairman Keith Spence recently stated that Santos' pursuit of Carbon Capture and Storage (CCS) developments "at scale" is viewed by the company as an "opportunity to defer decommissioning expenditure at mature assets".[50] In accounting for its decommissioning obligations, Santos will need to make decisions about the probability of success of these opportunities. The AASB 137[51] guidance states that future events relating to technology can influence provisions "where there is sufficient, objective evidence they will occur".[52] It is not known how Santos' CCS plans are factored into its current provisioning.

Shareholders would greatly benefit from understanding the major asset-level assumptions that Santos is deploying when estimating decommissioning provisions, particularly as the task of decommissioning draws nearer for many assets. This will also address growing regulatory risk.

2. New legislative and regulatory requirements

Operators in Commonwealth Australian waters face a strengthened legislative framework. A raft of legislation and regulatory policies have been introduced over the last 18 months,[53] partly triggered by the widely-publicised Northern Endeavour case. For offshore assets, operators are newly burdened by: stricter decommissioning timelines;[54] stronger trailing liability provisions;[55] increased oversight of company control; stricter financial assurance requirements; strengthened remedial directions powers; and, new transparency measures.[56] Regulator NOPSEMA has reasserted that ageing offshore assets must be continuously and proactively managed by senior executives.[57] NOPSEMA is now issuing more directions, prohibition notices and improvement notices,[58] and stressed its willingness to prosecute operators for decommissioning failures, including inadequate maintenance.[59]

It is unclear whether Santos has amended its provisions for assets regulated by NOPSEMA as a consequence of these changes.

3. Investors have limited view of the assets due for decommissioning in the short and medium term

A key rationale for this resolution is the difficulty associated with obtaining a comprehensive picture of the stage of life and condition of Santos' wells and assets. It is apparent that Santos has current or imminent decommissioning obligations spread across a variety of jurisdictions and this is summarised below. It is important for shareholders to recognise the following is an incomplete picture. It excludes Papua New Guinea and New South Wales due data scarcity.

Commonwealth

Known Santos assets that are regulated by NOPSEMA and are at or nearing end of life include:

- Legacy oil assets Mutineer-Exeter, Fletcher, Finucane;[60]
- Bayu-Undan to Darwin Gas Export Pipeline: Santos has previously submitted (and withdrawn) documents for this,[61] presumably due to CCS plans for this site.

Western Australia

Santos is reported as the operator of 282 wells in Western Australia.[62] These wells are mainly around Varanus Island (255 offshore; 27 onshore - sidetracks counted separately).[63] It is understood that a number of wells and associated infrastructure are at or nearing end of life, including:

- Harriet Joint Venture, WA - including three platforms;[64]
- Varanus Island Hub platforms, WA - Sinbad and Campbell platforms;[65]
- Barrow Island and Thevenard Island, WA.[66]

South Australia

Santos discovered first gas in the Cooper-Eromanga Basin in South Australia in 1963.[67] New industry-supported analysis of onshore oil and gas well decommissioning in the South Australian area of the basin found that 'large volume[s] of wells that are potential plug and abandonment candidates are not being addressed'.[68] In this basin, the inventory of shut-in or suspended wells has been increasing over the last 60 years, as operators are working at a slower rate of abandonment.[69] The analysis concludes that 'as a result, operators in the basin face increasing environmental, regulatory, and operational risk associated with mature/maturing assets'.[70]

Data for Santos' South Australian wells is reported via PEPS, and shows details of 1,798 wells drilled by Santos since the 1950s. However, gaps in this public dataset make it difficult to determine the status of each well.[71]

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[49] ASIC, "Woodside Petroleum increases restoration provision", 2022, link
[50] Oil Search Limited, *Scheme Booklet,* (2011), 10, link
[51] Provisions, Contingent Liabilities and Contingent Assets
[52] The Australian Accounting Standards Board (AASB), *AASB 137 Provisions, Contingent Liabilities and Contingent Assets,* sections 48-49, link
[53] NOPSEMA, "Decommissioning", 2022, link
[54] NOPSEMA, 'Decommissioning Compliance Strategy', 2021, link
[55] DISER, *Trailing Liability for decommissioning of offshore petroleum property guidelines released,* 7 March 2022, link
[56] Offshore Petroleum Bill 2021, Parliament of Australia
[57] NOPSEMA, "Ageing assets and life extension", 2021, link
[58] NOPSEMA, "Decommissioning compliance strategy", 2021, link
[59] NOPSEMA, "Decommissioning compliance strategy", 2021

[60] Santos, *Mutineer Exeter Development Cessation of Production Environment Plan,* link
[61] See now-cancelled EP at: NOPSEMA, *Bayu-Undan to Darwin Gas Export Pipeline Decommissioning & Preservation,* link
[62] Note: DMIRS advises that each sidetrack to wells counted separately
[63] Boiling Cold, "WA onshore and coastal oil & gas clean up to cost billions", 1 September 2021, link
[64] Santos, *Harriet JV Plug And Abandonment 5 Year Summary,* link
[65] Santos, *Sinbad Campbell Asset Removal Bridging Document Summary,* link
[66] Oil Search Limited, *Scheme Booklet,* 190, link
[67] Santos, Cooper Basin, link
[68] Kokkoni, P. P., & Salmachi, A. (2021). Analysis of South Australian Onshore Oil & Gas Well Decommissioning and Potential Impact on Regulatory Compliance, Environmental and Corporate Risk—Unified Risk Code. 15, link.
[69] Kokkoni & Salmachi, 2021
[70] Kokkoni & Salmachi, 2021
[71] Department for Energy and Mines - Energy Resources, South Australia, "PEPS South Australia (for well data)", accessed 10 March 2022, link

Joint Petroleum Development Area (Timor-Leste)

The Bayu-Undan facility is regulated by the Autoridade Nacional do Petróleo e Minerais (ANPM), in Timor-Leste. Whilst the asset will cease producing hydrocarbons by 2023,[72] decommissioning is on hold as Santos is exploring the "viability of repurposing"[73] this site for CCS and expects to make a final investment decision in 2023, "subject to relevant regulatory frameworks and agreements being in place in both Timor-Leste and Australia".[74]

Queensland

Santos' upstream Gladstone LNG Project has approval to drill up to 8,750 wells across the Surat and Bowen basins.[75][76] Individual well completion and abandonment reports are published by the Queensland government between 3-5 years after the rig release date.[77] However, data is not aggregated and it is difficult to determine overall well numbers for each operator, or to understand completion trends.

Northern Territory

Santos is reported as the operator of 42 wells in the Northern Territory and in NT-administered waters.[78] 22 of these are in production, all in the Amadeus Basin. 8 are suspended, with 7 of these being in the Amadeus Basin and 1 in the McArthur basin.

4. Increasing climate change transition risks

The oil and gas industry faces increasing pressure to decarbonise and plan for the energy transition.[79] These pressures are being reflected in reporting standards. A recent Australian Accounting Standards Board (AASB) Practice Statement advises that climate-related risk may cause an increase of provisions recognised for decommissioning due to regulatory changes or shortened project lives.[80] For this reason entities 'must disclose the major assumptions made about future events, which may need to include an explanation of how climate-related risk has been factored into the best estimate of the provision.'[81]

Climate Action 100+ has developed a new Climate Accounting and Audit Indicator for the Net Zero Company Benchmark, requiring companies and auditors to ensure visibility of how accelerating Paris-aligned decarbonisation will impact companies' financial positions and profitability.[82]

Australian oil and gas companies intend to fund decommissioning works out of future cash flows. Therefore a key risk for companies in 1.5°C scenarios such as the IEANZE is lower oil and gas prices due to lower demand, which decreases the available cash to fund the cost of decommissioning obligations. This problem would be exacerbated if decommissioning is brought forward due to insufficient demand. Such a scenario could affect the financial stability of the company and may partly explain Credit Suisse's view that "decommissioning is the biggest industry time bomb".[83] ACCR expects these factors to be contemplated by Santos when analysing its portfolio against IEANZE.

5. Consistent with regulator expectations and possible to navigate commercial sensitivities

Santos has stated in its 2022 Notice of Meeting that this resolution is seeking disclosure of "commercially sensitive information".[84] It is not ACCR's intention that the company break its contractual obligations, however a reasonable balance can be struck. There is still a significant amount of information relating to assumptions, provisions and assets that can be provided. We note that similar concerns[85] regarding commercial sensitivity were expressed by the oil and gas industry in consultations on the Taskforce for Climate-Related Financial Disclosure, which has quickly become an industry norm. Santos already discloses reserves data, production, revenue, capex and other metrics at a more disaggregated, regional hub level.[86]

In addition, whilst no Australian operator is currently disclosing in line with this resolution, there have been some recent improvements in disclosure. ExxonMobil published a Decommissioning Report 2021[87] for its Bass Strait operations, including: the total number of offshore wells, platforms, facilities and km of subsea pipeline that the company operates; and plans for decommissioning non-producing assets and those that will cease production by 2025. Notably, this report does not include any information on provisioning.

To conclude, there are no known regulatory reasons why disclosing consistently with this resolution would not be possible. As previously advised ASIC[88] and AASB[89] expect that operators enhance

72 Santos, Annual Report 2021, p23
73 Santos, "Bayu-Undan Joint Venture and Timor-Leste's ANPM sign MOU on Bayu-Undan Carbon Capture and Storage", 14 September 2021, link
74 Santos, 'Globally Significant CCS Project a Step Closer', 9 March 2022, link
75 Santos, Gas Field Development Project EIS, 2014 link
76 QLD Government State Department of Infrastructure, Local Government and Planning, Santos GLNG Gas Field Development Project, link
77 3 years for an exploration/appraisal well or bore, and 5 years for a development well or bore
78 NTG Open Data portal, *NT Petroleum Wells,* link. Last updated June 2020.
79 Deloitte Touche Tohmatsu for DISER, *2020 Review of activities of the National Offshore Petroleum Titles Administrator* (Canberra, 2020), 19, link
80 AASB, *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB - Practice Statement,* 2019, 5, link
81 Ibid.
82 Climate Action 100+, *Global Investors Driving Business Transition,* 19-20, link
83 Saul Kavonic (Credit Suisse), Our Investment Environment panel, 2021 APPEA Conference, 16 June, 2021
84 Santos, Notice of Annual General Meeting, 1 April 2022, link
85 Rob Schuwerk, Industry opposes enhanced climate risk disclosure, concerned it will move markets, CarbonTracker blog, 31 May 2017, link
86 Santos, 2021 Annual Report, pages 16, 21-23
87 ExxonMobil (Esso Australia Resources), 2021, 'Decommissioning Report 2021', link
88 ASIC, "21-342MR ASIC highlights focus areas for 31 December 2021 financial reports under COVID-19 conditions", 2021, link
89 AASB, *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB - Practice Statement,* 2019, 5, link

their disclosure of assumptions as they relate to decommissioning provisions and ASIC has clearly articulated its expectations with regard to management of climate-related risks.[90]

Conclusion

Given the scale, cost, and technical and legal complexity of Santos' current and upcoming decommissioning challenge, and in light of heightened regulatory pressures and increased climate change transition risks, Santos shareholders would significantly benefit from enhanced, annual disclosures on decommissioning.

ACCR urges shareholders to support this proposal.

[90] ASIC, "ASIC Commissioner Cathie Armour salsy disclosing and managing climate-related risk is a key director responsibility", February 2021, link

3. Re-election of Peter Hearl

ACCR recommends voting against the re-election of Peter Hearl.

Peter Hearl is the Chair of the Environment, Health, Safety and Sustainability Committee, and a member of the People, Remuneration and Culture Committee and the Nomination Committee.[91]

Following the merger with Oil Search, the Santos board has undergone significant change. Eileen Doyle and Musje Werror joined the board in December 2021, and Michael Utsler will join from the annual general meeting (AGM),[92] due to the current Santos constitution limiting the board to ten members (see Appendix).

Voting against the re-election of Peter Hearl is warranted for the following reasons:

- Peter Hearl is the Chair of the Environment, Health, Safety and Sustainability Committee, which has direct oversight of Santos' approach to climate risk.
- Santos is planning to significantly increase production over the short- to medium-term, despite the IEA's 'Net zero by 2050' report concluding that no new coal, gas or oil developments could proceed beyond 2021, in order to limit global warming to 1.5°C.
- Despite more than 43% of Santos' shareholders supporting a resolution in 2020 that asked the company to set targets for all of its emissions, Santos has failed to set a target on its Scope 3 emissions. In fact, Santos is planning to significantly increase its Scope 3 emissions.
- Santos continues to allocate substantial capital to oil and gas expansion—approximately US$1.65 billion in 2022, and insufficient capital to low or zero emissions projects—US$50 million in 2022.[93]
- The Santos board lacks "climate competence", with few, if any, directors having industry experience in sustainability, renewable energy, low or zero emissions technologies, or business transformation.
- Peter Hearl spent 18 years in the oil and gas industry with ExxonMobil, which raises doubts about his ability to question the merits of oil and gas expansion.
- The Santos board approved the appointment of CEO Kevin Gallagher to be an independent non-executive director of Mineral Resources Ltd in January 2022.[94] Gallagher's nomination was subsequently withdrawn in March 2022, following shareholder backlash.[95] The board failed to recognise that Kevin Gallagher should be entirely focused on finalising the merger with Oil Search, rather than be distracted by other responsibilities.

ACCR urges shareholders to vote against the re-election of Peter Hearl.

[91] Santos, Our Board, website, link
[92] Santos, 'Santos appoints new directors', 16 Dec 2021, link
[93] Santos, '2021 Full-Year Results Announcement and Presentation, 16 Feb 2022, link
[94] Mineral Resources Ltd, 'Board Update', 31 Jan 2022, link
[95] Mineral Resources Ltd, 'Board Update', 3 March 2022, link

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The information contained in this report has been prepared based on material gathered through a detailed industry analysis and other sources and although the findings in this report are based on a qualitative study no warranty of completeness, accuracy or reliability of fact in relation to the statements and representations made by or the information and documentation provided by parties consulted as part of the process.

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Appendix: Santos Board

Name	Role	Gender	Appointed	Election / re-election	Nomination	People, Remuneration & Culture	Audit & Risk	Environment, Health, Safety & Sustainability
Keith Spence	Chair	M	1-Jan-18	2021	Chair	-	-	-
Kevin Gallagher	CEO	M	1-Feb-16	-	-	-	-	Member
Yasmin Allen	NED	F	22-Oct-14	2023	Member	Chair	Member	-
Guy Cowan	NED	M	10-May-16	2023	-	-	Chair	-
Eileen Doyle	NED	F	17-Dec-21	**2022**	TBC	TBC	TBC	TBC
Vanessa Guthrie	NED	F	1-Jul-17	2021	-	Member	-	Member
Peter Hearl	NED	M	10-May-16	**2022**	Member	Member	-	Chair
Janine McArdle	NED	F	23-Oct-19	2023	-	-	Member	Member
Michael Utsler	NED	M	Joins at AGM	**2022**	TBC	TBC	TBC	TBC
Musje Werror	NED	M	17-Dec–21	**2022**	TBC	TBC	TBC	TBC

Source: Santos Ltd