Vanguard Investment Stewardship Insights

Voting insights: Environmental and social proposals at Origin Energy

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Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: Origin Energy Limited (Origin)

Meeting date: 20 October 2021

Proposal: Item 10b—Approve shareholder proposal re: water resolution; Item 10c—Approve shareholder proposal re: cultural heritage resolution; Item 10d—Approve shareholder proposal re: consent & FPIC resolution; 10e—Approve shareholder proposal re: climate-related lobbying resolution; 10f—Approve shareholder proposal re: Paris-aligned capital expenditure resolution

How the funds voted

At the annual meeting for Origin, Australia’s second-largest utility, the Vanguard funds considered, but did not support, several shareholder proposals requesting that the company:

- Publish a report on water quality and groundwater management at its sites.
- Temporarily halt operations in areas with cultural heritage sites.
- Publicly disclose all materials and agreements used in consent negotiations with Indigenous communities.
- Suspend membership in industry groups whose goals don’t align with the Paris Agreement.
- Commit to align all material future capital expenditures with a 1.5°C global warming limit.

Vanguard’s principles and policies

Boards are responsible for oversight of a company’s long-term strategy and material risks. To conduct this oversight effectively, a board of directors must understand the company’s strategy and play a meaningful role in identifying, mitigating, and disclosing material risks. Investors benefit from clear, decision-useful disclosure of material risks, which may include a company’s strategy for addressing climate change, its plans for maintaining a resilient business model in the context of the expected transition to a low-carbon economy (including transitioning to alternative energy sources where relevant), its lobbying activities, and the impact its operations have on the environment and on Indigenous communities.

Vanguard’s Investment Stewardship team evaluates the materiality and oversight of these various risks on a case-by-case basis. If there are gaps in the company’s current disclosures or disconnects with long-term strategy, the funds may vote in favor of shareholder proposals that seek enhanced reporting of the company’s approach to risk oversight and strategy alignment.

Analysis and voting rationale

Over the last several years, activist groups have targeted Origin as one of the largest carbon emitters in Australia. The company operates a coal-fired power plant and several natural-gas-fired generators. But it also operates wind and solar assets that make it one of the country’s largest providers of alternative energy.
Origin's operations also include exploration and drilling for natural gas, both for domestic consumption and for export to Asia. The company’s natural gas business includes a joint venture with global energy companies, as well as shale gas operations, or hydraulic fracturing (fracking), in the Beetaloo Basin, in Australia's Northern Territory.

Vanguard has engaged with Origin’s board and company leaders over many years. Our recent discussion focused on the company’s climate risk mitigation and energy transition plans, disclosure of potential risks associated with corporate political activity, and oversight of operations in territories with Indigenous communities. Our research, engagement, and analysis informed how the Vanguard funds voted, which is outlined below.

**Paris Agreement-aligned capital expenditure resolution**

Origin leaders explained that the company was in the process of revising its emission reduction targets to a 1.5°C pathway. In 2017, the company obtained certification from the Science Based Targets initiative (SBTi) for its 2032 targets of 50% reduction in Scope 1 and 2 emissions and 25% in Scope 3 emissions, aligned to a 2°C warming scenario.

The leaders explained that the company was engaged in internal analysis as well as discussions with the SBTi and other stakeholders on its target-revision process. Origin expected to update its targets and disclose related impacts and actions in the coming months and before a “Say on Climate” vote at its 2022 annual meeting. (The vote allows shareholders to voice their approval or disapproval of climate disclosures.) Company leaders added that they anticipated that the revisions would lead to an acceleration of its decarbonization road map across the business. They said they would review capital allocation frameworks to ensure that they are in line with the updated targets.

We asked about the extent to which the updated process included consideration of the International Energy Agency’s Net Zero by 2050 scenario, which models rapid phaseout of coal and the absence of new gas projects, as cited by the shareholder proposal’s proponent. Origin leaders explained that the pathway was being considered as part of their analysis. But they also cautioned that the company’s plans and scenarios would be affected by the specific circumstances of the regional markets it serves. Natural gas is forecasted to play a role in those markets for decades and faces supply constraints that could require further near-term investment to meet demand, they said.

We expressed our support for the revision of the climate targets and our expectation that Origin would update its disclosure, including how its capital allocation framework would evolve to align to the revised targets.

The Vanguard funds did not support the capital allocation proposal. We believe that the proposal was aimed at directing the company’s strategy away from gas operations, which we considered overly prescriptive.

**Climate-related lobbying resolution**

We challenged the company on the robustness of its oversight of its lobbying activities and its membership in industry associations. Some of the associations it belongs to appear to conduct lobbying activities that are not aligned to the goals of the Paris Agreement. We also tried to better understand the circumstances in which the company would consider exiting an organization.

Origin leaders acknowledged that some of these industry associations had positions that were not fully in line with the company’s in terms of alignment to the Paris Agreement. However, they described an adequate process of appropriate governance and oversight of these risks and pointed to examples of associations whose policies had evolved because of feedback from members, including Origin. The company leaders said that with the company remaining a member of these groups, there was an opportunity to affect change. They added that they retained the option of withdrawing from the organizations when the risks outweighed the benefits.

In our assessment, the company’s governance and oversight processes on the issue were sufficient, and related disclosures were appropriate; we believe that a company should retain flexibility to manage its relations with industry associations. As a result,
we decided that support for this proposal was not warranted at this time, though we encouraged the board to continue to prioritize its review and oversight of the risks highlighted by the proposal, particularly related to organizations that are not fully aligned to the Paris Agreement. The Vanguard funds did not support the proposal.

**Water, cultural heritage, and consent resolutions**

We also discussed with members of the board and management team the company’s approach to managing the risks and impact of its fracking activities. We noted the sensitivities around operating in territories with significant presence of Indigenous people and questioned the strength of the company’s policies and processes given the scrutiny from recurring opposition and resolutions at recent annual meetings. At this year’s annual meeting, three resolutions made specific requests around water quality, cultural heritage, and “free, prior and informed consent” (FPIC).1

Origin directors described how the company has operated in compliance with applicable regulations and standards and with formal and informal consultation with native title holders in the respective territories. It pointed to its comprehensive disclosures on the issues as signs of its commitment to operate with care and transparency on all the areas requested by the proponent.

We carefully analyzed the proposals and available information on the issue, including both the company’s disclosures and the proponent’s briefing and supporting statements. We concluded that Origin had taken appropriate and sufficient action to manage related risks and impacts and was providing adequate reporting to the public. We deemed the requests of the proposals to be overly prescriptive because they sought to dictate the company’s operations. The Vanguard funds did not support these resolutions.

**What we expect from companies on these matters**

Vanguard has called on companies and their boards to enhance disclosure on oversight and management of a company’s material risks. Market norms, regulations, and investor expectations are moving toward greater disclosure on governance matters, and you can expect Vanguard, through our engagements, proxy voting, and public advocacy, to continue to seek relevant, decision-useful information on material risks.

1The concept of FPIC is defined in various international frameworks and standards. It refers to the right of an Indigenous population to participate, consult, and consent, on a free and informed basis, prior to the beginning of developments that affect them, their ancestral lands, and resources within.