CANADA'S OIL & NATURAL GAS PRODUCERS

May 25, 2023

The Honourable Steven Guilbeault
Minister of Environment and Climate Change
200, boul. Sacré-Coeur
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(via email: steven.guilbeault5@ec.gc.ca)

The Honourable Jonathan Wilkinson
Minister of Natural Resources
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Ottawa, Ontario K1A 0E4
(via email: HonJonathan.Wilkinson@nrcan-rncan.gc.ca)

Dear Minister Guilbeault and Minister Wilkinson:

Re: Government of Canada's Policy Approach to Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050

The Canadian Association of Petroleum Producers (CAPP) is committed to being a constructive, solution-oriented partner in addressing the triple challenge of emission reduction, energy security and affordability. It is in this spirit that we provide this new letter regarding the federal Government's intent to legislate greenhouse gas emission targets for Canada's upstream oil and gas sector.

CAPP is continuing its detailed work to analyse the challenge of decarbonizing upstream, conventional[1] operations. The intent of the work is to understand the multitude of factors that must be considered when planning and executing an optimum conventional GHG reduction trajectory that considers the triple challenge above, and satisfies the shared principles between CAPP membership and the Canadian people, as represented by respective levels of provincial and federal government.

We conclude this letter by requesting further advanced consultations prior to the issuance of draft regulations.

[1] Operations termed 'conventional' include all activities relating to upstream oil and gas extraction—exploration, development and production—but *exclude* all activities within the oil sands 'ring fence'. The oil sands ring fence is geographically and operationally defined by the Alberta provincial government in its fiscal policies.

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Context of Work

CAPP appreciates the time provided by the federal government to support the ongoing, extensive work with S&P Global to characterize the industry's challenge in reducing GHG emissions within tight time frames. This work aims to identify opportunities to reduce emissions over a timeline and identify constraints that are preventing advancement of possible solutions.

The work will also characterize the many measures that industry has already been advancing to reduce GHG emissions over the past decade. Collective learnings will help inform pathways that deliver emissions reductions.

The upstream conventional sector of the oil and gas industry represents approximately half of Canada's total production and about a third of the total oil and natural gas related emissions in Canada.[2]

Conventional upstream oil and natural gas operations are often small in scale (a fraction of the size of oil sands facilities) with shorter operational timelines. This feature of the sector means that existing production from the currently producing base of over a hundred thousand wells is constantly being replaced with new wells and new processing facilities that come online with the latest technology. The net effect of this faster operational turnover yields lower aggregate emissions as well as a reduction in Canada's overall carbon intensity.

Another feature of the conventional sector is that natural gas and oil, which in many cases are produced together in a producing well, must be separated before each product heads to its respective market. Gas-oil ratios vary greatly across the industry. Recognizing this variation of hydrocarbon types, across a wide geographic distance in Western Canada, means that GHG-reducing solutions must necessarily vary across the geologic resource base. Hence, care must be taken in designing policies that affect different regions. To that end, CAPP and S&P Global have divided the Western Canadian Sedimentary Basin into 10 distinct regions.

We note again that CAPP's work with S&P Global is limited to operations that are outside the oil sands ring fence. Yet there are other 'ring fences' that must be clarified when considering emission reduction policy. CAPP represents *upstream* producers—companies that explore, develop and produce oil and gas. These raw hydrocarbons require further processing and transportation, typically undertaken by companies in the *midstream* part of the business. While third-party midstream emissions are produced and are associated with the broader 'oil and gas industry, these emissions are not within the control of the upstream producers. As such, any emission reduction

[2] National Inventory Report 1990 –2021: Greenhouse Gas Sources and Sinks in Canada

policy must recognize the notional 'fence' between upstream and midstream operations and their integration within the production system.

Emissions Reduction Progress to Date by the Upstream Conventional Sector

Emissions reduction progress from the sector has been meaningful. Currently, all government progress reports from Alberta, British Columbia, Saskatchewan and the federal government have shown that industry as a whole is on track to achieve stated 2025 methane reduction ambitions. This early action is representative of the industry's commitment to responsible development and that its members have been working on solutions.

Methane and CO_2 reductions to date have been realized in the absence of an emissions cap. In addition, the conventional sector has potential for further emissions abatement, if constructive policy pairs with the sector's established ambitions to tackle the next round of opportunities despite the expectations that the task will have to consider many technical, logistical, capital, regulatory and multi-jurisdictional political complexities.

Emission Reduction Options

Methane mitigation, carbon capture and storage (CCS), electrification of facilities, and a range of other abatement processes are being considered and, in many cases, already being deployed to play a role to achieving emission reductions to 2030 and beyond. The potential to apply each solution in priority order, by region, is being investigated with the work underway by CAPP and S&P Global.

Ongoing reduction of methane emissions remains one of the best opportunities for producers to reduce their overall GHG emissions and CAPP members believe there is a path forward for our conventional industry subsector to support Canada's 2030 methane targets. A safe, flexible and efficient approach to drive innovation in technology and develop practices that address the most material emission sources first.

Electrification has role to play in reducing CO_2 emissions at oil and natural gas producing facilities. Such electricity can be sourced from a grid that provides clean electricity, or from distributed generation methods like wind and solar if conditions permit.

Carbon Capture and Storage (CCS) also has a role to play in the conventional sector, but not universally. Operations are being evaluated by the work undertaken by S&P to determine where CCS can be viably implemented.

The Challenges of Complexity, Externalities and Lack of Clarity

Initial efforts to evaluate decarbonization potential and a timeline of emission reduction trajectories have identified and uncovered levels of complexity that CAPP suggests must be addressed and understood to ensure policy actions yield optimal results in the best interest of all stakeholders.

Specific areas that require special consideration prior to the implementation of emission reduction targets include:

1. **One Size Can't Fit All:** Quantifying a holistic, industry-wide emissions trajectory is difficult as CAPP members operate across multiple jurisdictions with varying regulatory rules. Application of abatement processes will vary depending on regulations, the resource recovery techniques required by location and extraction type, within the ten different regions that span one of the largest sedimentary basins in the world. A single policy can't be applied to the entirety of the sector.

2. **Varying, Unknown Impacts on Regions**: In the upstream conventional oil and gas sector, there are hundreds of companies, tens of thousands of facilities, and over one hundred thousand producing wells. As already stated, there is much regional dispersion of extraction methods in differing geologic formations. Consequently, cost structures vary greatly across the sector. Royalty structures also vary across five provincial jurisdictions as resource owners. Overarching emission reduction policies can therefore have varying, and in the absence of detailed financial analysis, unpredictable impacts on the viability of different producing regions.

3. **Electrical Externalities:** As stated, electrification is one of the opportunities to reduce upstream emissions. Yet oil and gas producers are externally dependent on electrical utilities to 'green' their grids and build their lines within a reasonable proximity to oil and natural gas fields. Operators are looking to electrical utilities, and how they work with upcoming Clean Electricity Standard (CES) to assess how to electrify from centralized generation.

4. **Permitting Externalities**: Another externality is permitting. For example, as with pipelines, permitting electrical transmission lines is challenging—the average time to plan, permit, construct and energize is now 8 to 16 years.[3] CAPP is working with S&P Global to delineate regions within 10 study areas where there is potential for electrification to play a meaningful role in emissions reductions.

[3] S&P Global Analysis 2023, Electrification

5. **Other External Dependencies:** Companies in the upstream, conventional oil and natural gas sector must rely heavily on emissions reduction solutions from third parties (such as utilities, regulators, and policy makers). Capital allocation toward large emission reduction projects is challenged until all co-dependent parties have visibility on clear policy. In other words, singular emissions reduction targets on upstream oil and natural gas producers cannot be achieved without full participation from co-dependent companies in other sectors and various levels of governments and indigenous peoples.

6. **Prioritization:** Limitations of infrastructure, commercial viability, and gaps in the current regulatory frameworks (in each province) are additional barriers to what may be achieved on a tight timeline. Operators that produce a wide spectrum of hydrocarbon streams (natural gas, liquids, and various grades of oil) in multiple jurisdictions need more time to analyze, identify and prioritize corporate emissions abatement opportunities.

7. **Defining the 'Industry' Matters:** While the upstream sector is closely integrated with many midstream companies from an product delivery basis and the midstream emissions are included in the National Inventory Report emissions profile, it is not yet clear if midstream companies are within the scope of the proposed emissions cap and corresponding trajectory. To date, midstream companies have not been represented in CAPP's upstream policy implementation discussions. Absence of a 'ring fence' that defines the operational boundaries of upstream production (the absence of midstream considerations) adds to the lack of clarity of what can be achieved within the control of CAPP companies that have entered into mineral rights agreements with different provinces.

The above considerations highlight of the need for further analysis, clarity of boundaries and collaboration with external parties in order for our members to continue the discussions to resolve areas of complexity with governments, utilities, midstream operations, co-mingled hydrocarbon production, and non-CAPP members. Only by working together we can investigate, plan and implement optimally prioritized pathways to manage the complexity of achieving emission reduction targets under tight timeframes.

Importance of Getting Policies Right

It is fundamentally important to take the time to get this right. Our industry is a key economic driver within Canada with five producing provinces and supply chains spanning most of the country. Any impacts of emission reduction policy on the rhythm of regional production growth and natural declines could have implications for national energy security. Central Canada remains reliant on the Western Canadian Sedimentary Basin for its resource needs. For example, in Ontario approximately fifty percent of the oil refinery feed is sourced from conventional domestic

production.[4] As well, approximately 37 percent of the energy used in Ontario is sourced from Natural Gas. [5] Much of this natural gas is used by residents which account of approximately 62 percent of the total demand.

In absence of viable CCS, Electrification, Methane, and other technology solutions to reduce emissions, the only alternative upstream producers will have is to curb or shut in the output of both oil and natural gas which as noted prior in many cases are co-mingled products produced from the same wells. Compromising oil and gas production over the next decade, before consumers switch to alternative sources of energy, may render millions of Canadians and the companies that power our economy vulnerable to scarcity at a time when global geopolitical tensions are at a multi-decade high.

Energy security remains a key consideration for our members. In the absence of a Canadian strategic petroleum reserve (SPR) to handle potential shortages, our industry delivers the energy Canadians and the world needs every day. Canadians depend on upstream conventional oil and gas producers for consistent supply in good times and in times of need.

Canada has a critical role to play in addressing global climate change through displacing coal in the global energy mix with lower-carbon Canadian natural gas[6] exported as liquefied natural gas (LNG). Exporting LNG from Canada to markets in Asia and Europe would reduce net global emissions by displacing coal and would enhance both Canadian and our allies' energy security and prosperity. The market opportunity to support global natural gas demand with responsibly produced Canadian resources will be net benefit to Canadians and to global GHGs.

Conclusion

We urge the Government of Canada to consider the complexities surrounding emission reduction policy. There is a fundamental risk that if not considered and addressed, the impacts of a proposed wide-ranging emissions cap could affect progress both on any incremental short-term emissions reductions in the sector and on the ability to deliver production to those that need it within Canada and beyond.

In the spirit of collaboration in achieving emission reductions amidst the many complexities outlined above, CAPP requests further advanced consultations prior to the issuance of draft regulations, which are likely to go beyond the June/July timeline highlighted by the Minster during his remarks at Canada 2020.

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[4] CAPP, StatsCan, UN Comtrade

[5] CAPP, StatsCan

[6] Natural gas emits 50% fewer CO2 emissions per unit of energy than coal. (Source US. EIA)

CAPP, the federal government, provinces and other stakeholders must take the necessary time to holistically design and manage an effective emission reduction policy.

Sincerely,

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President & Chief Executive Officer

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