CANADA'S OIL & NATURAL GAS PRODUCERS

October 24, 2023

Honourable David Eby
Premier of British Columbia
P.O. Box 9041 Stn Prov Govt
Victoria, B.C. V8W 9E1
(via email: premier@gov.bc.ca)

Dear Premier:

Re: CAPP Comments regarding the Government of British Columbia'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 a constructive and solutions-oriented partner in addressing the triple challenge of reducing emissions while assuring energy security and affordability for British Columbians and Canadians. In this regard, CAPP and our member companies respectfully submit the following comments regarding the Government of British Columbia's proposed oil and gas emissions cap.

Recent data shows[1] our sector is making significant progress in reducing emissions, and we agree further progress is needed. The proposed emissions cap on the upstream oil and natural gas and emerging LNG sectors, however, will have negative implications for our sector and the provincial economy. In our view, other existing and proposed climate policies will help achieve the province's long-term emissions reductions goals. We therefore ask the Government of B.C. to work with industry to avoid the potentially negative outcomes of a sectoral emissions cap. Our specific concerns related to this proposed policy are described below.

Upstream Emissions Reduction Progress to Date

Emissions reduction in our sector has been progressing. For example, recent progress reports from the Alberta, B.C., Saskatchewan and federal governments have shown that industry is on track to achieve stated 2025 methane reduction ambitions. This early action demonstrates our industry's commitment to responsible development and our focus on solutions.

Across Canada, from 2012 to 2021 natural gas production rose 35 per cent while CO_2 equivalent emissions fell 22 per cent. Natural gas producers have also reduced methane emissions by 38 per cent. This decrease in emissions across the country is partly due to the growth in B.C. production, which is some of the lowest carbon intensive natural gas in the world.

[1] https://www.capp.ca/wp-content/uploads/2023/09/Emissions-Performance-Data-Updated-2023.pdf

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Proposed Emissions Cap Target and Trajectory

Our sector continues to focus on opportunities for further emissions abatement, but these efforts will require constructive policies paired with the sector's established ambition while recognizing the technical, logistical, capital, regulatory and multi-jurisdictional political complexities. To this end, **CAPP believes the compliance pathways to achieve government's proposed sectoral emissions reduction cap do not exist within the proposed time frame, as many of these pathways will take time to develop and implement. As a result, the output-based pricing system (OBPS) in combination with the proposed emissions cap, will likely result in curtailment of production and foregone future production.** A discussion regarding pathways to compliance and the associated challenges is included below.

An emissions reduction target of 33 to 38 per cent by 2030 does not provide sufficient time for our sector to execute the many large-scale emissions reduction projects that will be required. We understand the province's oil and gas emissions-reduction target was initially a government-stated ambition, and CAPP is concerned that this ambition is now proposed to become a regulated oil and gas sector emission cap which companies will be mandated to achieve. Importantly, this target does not reflect the dramatic changes that have occurred within the industry since that ambition was established. For example, horizontal drilling, approved LNG projects and large growth in the Montney play have made the current context much different than when the target was set at 2007 levels. As a result, **government should review the target, and ensure it considers industry growth and has the appropriate mechanisms to prevent unintended consequences on competitiveness and to avoid carbon leakage (where production goes to jurisdictions with less stringent environmental regulations). We recommend the Government of B.C. engage with industry to review the proposed trajectory and determine a more appropriate emissions reduction target.**

We believe there is a mutual interest in finding ways to reduce emissions and to continue growing the economy in a sustainable manner by advancing policies that attract investment. This is a viewpoint that was recently outlined in the MLA's Select Standing Committee on Finance and Government Services in its August 2023 *Report on the Budget 2024 Consultations*. Recommendation 68 states: "Develop an output-based pricing system in consultation with stakeholders to improve the competitiveness foundation for B.C.'s leading export sectors and avoid lost benefits and job losses linked to carbon leakage". CAPP supports this recommendation, considering world demand for natural gas will remain strong for many decades and new production and infrastructure are needed to satisfy this growing demand for affordable, reliable, secure and lower-emission energy. **In our view, a properly designed OBPS system is the right policy to reduce emissions while protecting emissions-intensive trade exposed (EITE) industries. However, as our September 2023 submission on OBPS outlines, substantial OBPS design amendments are required to achieve this objective and avoid carbon leakage.** Introducing a new sectoral emission cap on top of the OBPS further erodes the protection of B.C.'s leading export sectors, will damage

B.C.'s economic performance and set back its social, environmental and affordability objectives. Additional information regarding these impacts is provided below.

In addition, CAPP offers detailed technical comments on the design of the proposed oil and gas emission cap in the attached Appendix 1.

LNG and Global Emission Reductions Recognition

B.C. oil and gas have a critical role in the integrated energy system and are part of the solution to the global climate challenge. By acting globally, B.C. can make an outsized contribution to addressing climate change. The IEA *World Energy Outlook* states that switching to natural gas has already helped to limit the rise in global emissions since 2010, alongside the deployment of renewables and nuclear energy, and improvements in energy efficiency. On average, coal-to-gas switching reduces emissions by 50 per cent when producing electricity and 33 per cent when providing heat.[2] We recognize that maximizing the climate benefits of switching to natural gas requires best practices to reduce methane leaks, and as noted previously, Canada has a proven track record in this regard.

Analysis by the B.C. government and the B.C. Business Council demonstrates that LNG produced in B.C. has a lower emissions intensity than LNG from competing suppliers.[3] LNG exports from B.C. can help to reduce global emissions by displacing more carbon-intensive fuel. To realize this opportunity, all emissions-reduction initiatives need to be structured in a way that avoids inhibiting the growth of LNG production in B.C.

Therefore, the emissions cap policy should provide recognition for global GHG reductions that are realized because of higher carbon fuel displacement from our Canadian natural gas and LNG. One mechanism for this would be to assign emission credits for LNG exports, and then use these credits against future emissions reduction requirements.

Implications of an Emissions Cap

Our industry is a key economic driver within B.C. and one of the largest economic sectors in the province. Any impacts of government policies on regional production growth and natural declines could have implications for local communities, Indigenous Nations and national energy security.

In the absence of viable carbon capture, utilization and storage (CCUS), electrification and other technology solutions to reduce emissions, the only alternative open to upstream producers will be to curtail natural gas production. Compromising production over the next decade may render millions of Canadians, and the companies that power our economy, vulnerable to scarcity at a time when geopolitical tensions are at a multi-decade high.

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[2] IEA. *The Role of Gas in Today's Energy Transitions* https://www.iea.org/reports/the-role-of-gas-in-todays-energy-transitions

[3] https://bcbc.com/dist/assets/images/photo-gallery/lowcarbonadvantage/MNP-LCIS-Sector-Results.pdf

Below are some of the potential impacts and unintended consequences that may result from an emissions cap for our sector, including:

- **B.C. economy:** Industry must be able to operate and attract investment capital or risk a decline in production, a loss of GDP and government revenues, and job losses (see section below).
- **Public impacts and affordability:** An emission cap must consider impacts on Canadian energy supply and avoid increased energy costs for the public (see section below).
- **Impacts to Indigenous communities:** An emission cap could impact Indigenous communities currently partnered with energy developments and limit new partnerships with communities reliant on future economic benefits.
- **Production curtailment and energy security:** Producers will be forced to cut production to achieve compliance. An emission cap will limit Canada's ability to support our allies and invest in decarbonization.
- **Weakens existing policy tools:** These policy tools include carbon pricing, methane reduction regulations, federal Clean Fuel Regulations, and other provincial policies. The proposed emissions cap contemplates separating the oil and natural gas sector from existing carbon pricing programs and thus may impact both the price and overall demand of offset credits. The industry does not support a differentiated carbon price for oil and natural gas alone. Any new climate policy should encourage lowest-cost reductions across the economy.
- **Sectoral impacts:** This complex industry has different economics and emission profiles. A one-sized-fits-all emissions cap would have differing impacts within the sector and regions where they operate.

<u>Economic Implications to B.C.</u>

In addition to the emissions cap, B.C. has recently introduced several other climate policies, including the OBPS, Net-Zero New Industry and methane regulations. The additional expected compliance costs, regulatory burden and uncertainty have tremendously impacted our sector's future viability in the province.

The proposed climate policies could significantly impact industry and future growth, which in turn will impact energy security and affordability for consumers. If all the above policies, as currently suggested, are advanced, there is a significant risk that the oil and natural gas sector will become uncompetitive in comparison to other jurisdictions, both internationally and domestically.

BMO Capital Markets has assessed the B.C. OBPS proposal[4]. The commentary is both extensive and cautionary, and reinforces CAPP's analysis and concerns.

> "*While on its own the OBPS is not materially different from the estimated obligations under CIIP, when applied in combination with these other policies [NZNI & GHG Cap],*

[4] BMO Carbon Innovation Report. *No Summer Lovin' From BC as Industry Told It Better Shape Up. September 5th, 2023*

> *the financial implications, complexities, and regulatory burden could make further development in the Province of British Columbia potentially uneconomic for much of industry. This is especially the case for operators who can simply shift capital and operations to other jurisdictions, such as Alberta or the U.S. In a sense, we [BMO] believe these policies could act as an indirect production cap for industry in B.C."*

A cap on emissions that subsequently results in a cap on B.C. natural gas production would have detrimental economic consequences for B.C. Our sector significantly contributes to B.C.'s GDP and is a significant source of employment and government revenues. The sector is the largest source of provincial resource revenue; natural gas is B.C.'s second-largest export by value and the number-one export to the province's largest and most important trading partner, the United States[5]. A policy that potentially curtails production could therefore lead to job losses, reduced investment in industry and negative impacts on the broader economy. An emission cap may also result in a shift in production to other jurisdictions with less stringent environmental regulations, resulting in a net negative impact on global emissions, lower B.C. exports and lost benefits due to carbon leakage.

While it is difficult to forecast how much production will be curtailed, a reduction from current production levels or forgone growth opportunities means substantive lost provincial economic benefits and jobs. CAPP is continuing to refine analyses as more policy details become available.

Initial economic estimates show that every billion cubic feet per day of natural gas foregone because of production shut-ins would result in a loss for the province of approximately:

- $300 million to $600 million in government revenue annually.
- $1 billion in GDP by 2030.
- 900 to 1,300 direct jobs.

Implications to B.C.'s Energy Use

In addition to the important role that the conventional oil and gas sector plays with respect to the B.C. economy, hydrocarbons are still needed in the province and will be for decades to come. Ensuring a stable supply of energy for B.C. should be a primary goal of any policy.

According to the Canadian Energy Regulator[6], B.C.'s total energy end-use demand in 2019 was 1,346 petajoules (PJ). The largest sector for energy demand was industrial at 47 per cent of total demand, followed by transportation at 30 per cent, residential at 12 per cent and commercial at 10 per cent.

[5] BC Government Statistics: Country Trade Profile: https://www2.gov.bc.ca/gov/content/data/statistics/business-industry-trade/trade/trade-data

[6] CER Provincial and Territorial Energy Profiles – British Columbia. https://www.cer-rec.gc.ca/en/data-analysis/energy-markets/provincial-territorial-energy-profiles/provincial-territorial-energy-profiles-british-columbia.html

Refined petroleum products, including gasoline and diesel, were the main fuel types consumed in B.C., accounting for 512 PJ, or 38 per cent of total end-use demand. Natural gas, electricity and biofuels accounted for 389 PJ (29 per cent), 216 PJ (16 per cent) and 222 PJ (16 per cent), respectively.

According to B.C. Hydro[7], most B.C. households rely on multiple fuels. Electricity is used for lighting and appliances, but most homes use natural gas for heat. More than half, or 52 per cent, of homes use natural gas as the primary heating source, and 41 per cent use electricity to heat.

Natural gas will continue to play a critical role in providing energy security and affordability for British Columbians. Decarbonizing more than half the homes in B.C. and 68 per cent or more of all the energy end-use in B.C. will take time and flexibility. An "all fuel and all technologies" approach to energy policy will be required if the B.C. government wants to maintain energy security and affordability for British Columbians while implementing its emission reduction policies and actions.

Ensuring the emission cap policy avoids production shut-ins and that there continues to be an abundance of secure, low-cost natural gas to fuel the province will be essential to the design of the policy. If this policy leads to shut-ins, the average B.C. consumer could see higher energy prices, in particular home heating costs. As Canadians are experiencing a rising cost of living, government should be cautious that this policy does not further increase costs.

Emission Reduction Pathways and Challenges in B.C.

Methane mitigation, CCUS, electrification of facilities and a range of other abatement processes are being considered to reduce emissions and, in many cases, are already being deployed to achieve emission reductions to 2030 and beyond.

The ongoing reduction of methane emissions remains one of the best opportunities for producers to reduce overall emissions, and CAPP members believe there is a path to support increased methane reductions. Government should focus on creating a flexible and efficient approach to drive innovation in technology and develop practices that address the most material emission sources first such as is currently occurring with the development of methane regulations.

Electrification also has a role to play in reducing emissions at oil and natural gas producing facilities. Such electricity can be sourced from the grid or from distributed generation methods if conditions permit. CCUS also has a role to play in the conventional oil and gas sector, but not universally.

[7] BC hydro "Cold comfort: the link between home heating and climate change" October 2021 https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/news-and-features/cold-comfort-report.pdf

Decarbonization potential and a timeline of deployment of emission reduction opportunities includes 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 consideration prior to any potential implementation of a proposed emission cap and associated emission reduction targets include:

1. **Access to Electricity:** Electrification is one opportunity to reduce emissions. Yet producers depend on electrical utility companies to build utility lines within reasonable proximity to oil and natural gas operations. This is particularly true for northeast B.C., where not only transmission lines but also increased capacity are needed to help communities and our sector electrify.
2. **Permitting Barriers**: 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 eight to 16 years.[8]
3. **Prioritization:** Limitations of infrastructure, commercial viability and gaps in the regulatory frameworks 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) need more time to analyze, identify and prioritize corporate emission abatement opportunities.
4. **Projects Approved or under Construction:** Several projects are currently approved or under construction that were not contemplated when baseline emissions were established and are expected to become operational before 2030. Accounting for these projects in baseline assessment is critical to ensure the targets are inclusive of current and future infrastructure.

These considerations highlight the need for further analysis of the proposed cap and collaboration with external parties to resolve areas of complexity with governments, utilities, midstream operations, comingled hydrocarbon production and industry. Only by working together can we investigate, plan and implement optimally prioritized pathways to manage the complexity of achieving emission reduction targets under workable timeframes.

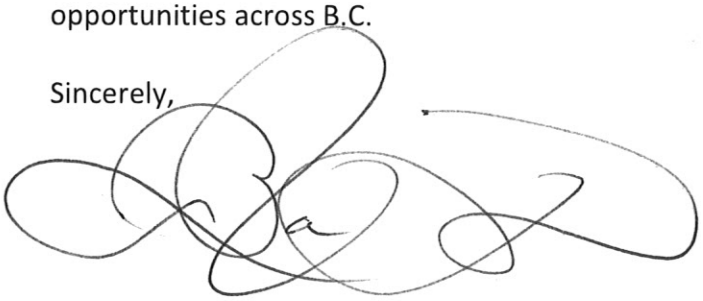
Conclusion

CAPP and the natural gas and oil industry share in B.C.'s vision to create a more prosperous, balanced and sustainable future by working together to unlock B.C.'s full economic potential in a world moving to take climate action, and which is eager for low-carbon products, services and energy inputs. Our industry has the expertise in both science and technology to reduce emissions, and we recognize that all energy sources and technologies are needed to meet these challenges together. It is also important to maintain a global perspective with respect to climate outcomes – policies should drive emissions reductions while also assuring energy security and encouraging investment in low–emissions jurisdictions like B.C.

[8] S&P Global Analysis 2023, Electrification

We are asking the Government of B.C. to work with industry to review and recalibrate its proposed OBPS policy prior to any potential implementation of an emission cap, to pause and take a realistic view of the near- and long-term demand for affordable energy at home and global markets, and examine how B.C. can best meet its climate ambitions while maintaining good jobs and economic opportunities across B.C.

Sincerely,



Lisa A. Baiton
President and CEO
Canadian Association of Petroleum Producers

cc: Honourable George Heyman, Minister of Environment and Climate Change Strategy
Honourable Josie Osborne, Minister of Energy and Low Carbon Innovation
Honourable Katrine Conroy, Minister of Finance
Honourable Brenda Bailey, Minister of Jobs, Economic Development and Innovation

Appendix 1: Additional Comments Regarding Design of the Proposed Emissions Cap

'Ringfence' of Industry

CAPP has significant concerns about how the proposed policy will segregate our sector from the existing carbon pricing system by introducing the enhanced OBPS. Government's climate policy should seek to achieve the greatest emissions reductions with the smallest cost impact on the economy. Isolating the oil and gas sector – 19% of B.C. emissions[9]– from the rest of the obligated sectors under OBPS — will be an inefficient outcome for the economy and could lead to a decline in both investment and production. This risk would have impacts on the B.C. economy, jobs, government revenues and energy security and affordability.

Applying such a measure to one sector in isolation from the rest of the economy goes against the logic of how carbon pricing systems work. The separation of our sector from the offset market will hurt the price and uptake of potential credits earned by our sector, impose unnecessary increased costs on the B.C. economy and impair affordability objectives. The ringfencing of our sector may lead to an increase in carbon leakage and will compromise the overall compliance unit marginal price signal. Any policy introduced should not segregate or ringfence any specific sector.

Emissions Profile

The scope of the emissions used to calculate the oil and gas sectoral target does not match the emissions that will be covered under the proposed emissions cap policy. For example, the current profile includes downstream emissions, which may not be covered under the emission cap. Determining the scope of the cap and adjusting the stringency accordingly will be necessary to set realistic trajectories and targets. The government must further provide clarity on what will be included under the cap and then re-adjust the emission profile and make corresponding adjustments to the trajectories to ensure it is a fair and achievable target.

Large Scale Emission Reduction Support

For our sector, many of the key reduction pathways will be through large scale emission reduction projects such as electrification and CCUS. The infrastructure to achieve this compliance pathway will not be possible for our sector to undertake alone, for example, the building and timing of generation and transmission capacity to supply clean electricity to sites is dependent on B.C Hydro. It will be essential for the government to undertake a comprehensive review of the measures needed to support decarbonization. The government must work with industry to create a system that would support these large-scale reductions through revenue recycling (via the OBPS) and must ensure that B.C. Hydro can provide the needed electricity under timelines that align with industry in service dates.

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[9] 2023, B.C. Sector Specific Emissions *Net-Zero New Industry Intentions Paper.* net-zero-new-industry-intentions-paper.pdf (gov.bc.ca)