



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

Canada's Oil and Natural Gas Producers

April 8, 2016

Honourable Mary Polak
Climate Leadership Consultation
Ministry of Environment Climate Action Secretariat
PO BOX 9486, STN PROV GOVT
Victoria B.C. V8W 9W6

via e-mail: climateleadershipplan@gov.bc.ca

Dear Minister Polak:

Re.: Feedback on BC's Climate Leadership Plan Consultation Guide

The Canadian Association of Petroleum Producers (CAPP) submits the following comments in response to the *Consultation Guide: Building B.C.'s Climate Leadership Plan*. CAPP appreciates the opportunity to provide our industry's perspective on addressing climate change in British Columbia as the province finalizes the development of the new Climate Leadership Plan.

It is clear that both generally and in the context of natural gas producing and LNG exporting jurisdictions that BC is a leader on carbon policy and addressing greenhouse gas (GHG) emissions. BC has a unique opportunity to help tackle global climate change by making LNG available to countries looking to move off of coal-fired power generation. We are firmly of the view that the economic benefits from responsible natural-gas production and export can be achieved while also meeting BC's ambitions to tackle global climate change.

CAPP supports a climate policy framework in British Columbia that creates a vibrant and competitive oil and gas sector while efficiently and effectively managing greenhouse gas emissions. To this end, CAPP provides the following key recommendations, aligned with the relevant sections of the Consultation Guide. These views remain consistent with CAPP's submission made to Government September 2015, in response to the Climate Leadership Plan Discussion Paper, which outlined the importance of competitiveness and supporting further emissions reductions opportunities for oil and gas, such as electrification and methane emissions reductions.¹

What We Value: Protecting BC's Competitiveness & Minimizing Carbon Leakage

From a competitiveness standpoint, BC's upstream natural gas industry faces significant challenges due to a continued low commodity price environment coupled with the unique challenges associated

¹ https://engage.gov.bc.ca/climateleadership/files/2015/12/179_-Canadian-Association-of-Petroleum-Producers.pdf

with BC's resource plays. We recommend that the BC government consider how any climate policy initiatives undertaken by the province can not only preserve, but enhance the economic competitiveness of BC's upstream oil and gas sector to attract investment and create jobs. Carbon policy design requires full cost accounting of options when evaluating the cumulative burden across policies and regulations in order to prevent further deterioration of industry competitiveness and to minimize the risk of carbon leakage to competing jurisdictions. We offer the following carbon policy recommendation for how to minimize both carbon and investment leakage from BC.

Carbon Tax

The CLT recommended increases to the current \$30/tonne carbon price commencing in 2018. Applying additional increases to our sector would further diminish competitiveness of the natural gas industry and increase the risk of carbon leakage to competing jurisdictions. Economic competitiveness is of paramount importance to ensure the industry is able to thrive, attract new investment, create jobs and generate revenues for government.

Emission-Intensive, Trade-Exposed (EITE)

CAPP strongly supports the efforts of the Government of BC to protect EITE industries. On November 27, 2015, Minister Polak stated that the province would only consider changes to its carbon tax under a regime where EITE industries are "fully protected from any carbon tax increase."

CAPP fully supports the government's position to protect EITE industries, and believes the upstream industry clearly qualifies as an EITE industry.

Given BC's strong leadership on carbon pricing, applying further increases in BC's carbon price to our sector without full protection would further impair the competitiveness of the province's oil and gas sector, especially in the current low price environment when operating margins are already suppressed. An EITE policy applied to carbon price increases would recognize the importance of managing inter-jurisdictional competitiveness, until the carbon policies in key trading jurisdictions are equivalent and/or aligned in level of effort and price. Additional policy principles are provided in the Appendix.

The Way We Work: GHG Emissions Reduction Opportunities

CAPP is looking forward to engaging with the B.C. government in the development of the province's Climate Leadership Plan to meaningfully address GHG emission from upstream oil and natural gas activities while enhancing the overall competitiveness of the industry in British Columbia. The following section provides recommendations on key emissions reductions opportunities from our industry.

Electrification

The consultation guide references the Climate Leadership Team's recommendation 14 to supply clean electricity for the electrification of the upstream industry in a competitive and timely manner.

CAPP believes competitive electrification of the upstream will help BC move toward its provincial GHG reduction targets, representing a foremost opportunity for significant GHG mitigation for the oil and gas sector in BC. Based on our sector's experience, there exists two significant risks to competitive electrification: Reliable and timely in-service transmission capacity; and economic considerations related to rates and tariffs. Practical work is required by BC Hydro and government to work with our sector to align business processes and to find equitable means to balance risks.

Methane

In 2013, upstream oil and gas methane emissions accounted for approximately 20 per cent of BC's total methane emissions. CAPP is committed to making reductions to methane emissions and recommends the following, taking care that responses to each of these demonstrate leadership in seeking alignment with Canada, other provincial jurisdictions and, where appropriate, with competing jurisdictions like the US:

- Applying enhanced regulated standards to new facilities and a regulated standard of practice for leak detection and repair (LDAR) of fugitive equipment leaks; building on existing LDAR requirements.
- A market-based approach to achieve a specified reduction target using fiscal measures focused on reductions from legacy methane emissions sources installed at existing facilities.
- A specific reduction target for vented and fugitives sources at existing facilities that is ambitious yet achievable with the appropriate policy and fiscal mechanisms in place to provide industry with a pathway to achieve the specified reductions. In addition, this target should align appropriately with other provincial and federal goals, including Alberta's Climate Leadership Plan.

CAPP believes properly designed and prescribed programs will achieve greater reductions than those that would be achieved through a carbon tax approach, which increases operating costs and could discourage needed investment in BC. Consequently, CAPP does not at this time support recommendations to increase the rate or scope of the BC carbon tax, as applied to our sector, and believes that all uncombusted methane should be exempt from carbon tax to enable reductions using the market-based mechanisms above. For legacy assets, a market-based approach to achieving a specified methane emissions reduction target is critical to mitigate the costs of retro-fitting industry's inventory of existing equipment to lower emitting devices.

Fiscal Measures

To incent methane emissions reductions, and to incent greater uptake in electrification, a viable path forward hinges on the development of fiscal mechanisms to enable investment. Given the current competitiveness pressures on our sector (including the cost burden of the carbon tax), industry and government will need to work together on ways to improve the economic value of emission reduction projects. By doing so will contribute to more reductions being achieved.

The following fiscal measures should be considered further by the BC government for application by the industry to emissions reductions opportunities:

- *Offsets:* Could be achieved via BC government guaranteed/targeted purchase of offsets, to provide certainty around supply and price, and/or enabling linkages to other offset markets, to expand demand for BC offsets.
- *Carbon compliance certification:* Reduction in carbon tax payable based on emission reductions achieved.
- *Clean infrastructure royalty credit program:* Investing in innovation and technology will enable BC to reduce emissions while also creating and maintaining jobs. CAPP recommends that the province create a broad clean royalty infrastructure credit program that would support investments in infrastructure/technology to reduce methane emissions. A royalty credit program would contribute to investment economics supplemented by fiscal support through offsets or compliance certificates.

In conclusion, BC needs to find the balance so that it can be both a strong world leader in the fight against climate change and a more competitive place to invest in oil and gas. Climate policy should be designed to focus on targeted emissions reductions through enhanced technology investment and deployment, enable flexible compliance options and prioritize economic competitiveness in order to simultaneously enhance competitiveness, attract new investment, while achieving the emissions performance objectives. Going forward industry and government will need to work together to achieve greater GHG reductions in a way that can support or enhance industry's competitiveness. We believe a significant opportunity does exist and can be supported by BC in its climate action plan by: designating EITE industries, supporting upstream electrification, and providing the fiscal mechanism that will enable methane emission reductions. CAPP is committed to working together to find ways to help achieve BC's emissions reduction targets while continuing to grow the economy.

Sincerely,



Brad Herald
Vice-President, Western Canada

Cc: Hon. Rich Coleman, Minister of Natural Gas Development
Hon. Michael de Jong, Minister of Finance
Hon. Shirley Bond, Minister of Jobs, Tourism and Skills Training and Responsible for Labour
Hon. Todd Stone, Minister of Transportation and Infrastructure
Hon. Peter Fassbender, Minister of Community, Sport and Cultural Development and Responsible for TransLink



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Appendix: Emission-Intensive, Trade-Exposed (EITE) Policy Design Principles

Currently, many different carbon management regimes around the world utilize an emission-intensive trade-exposed (EITE) methodology to determine the need to protect industries competitiveness and minimize carbon leakage under carbon pricing policies. The EITE designation serves to recognize those segments of the economy that represent a leakage risk, whereby investment could shift jurisdiction with less stringent carbon policies providing no gain in global GHG reductions but shrinking economic benefit for BC through loss of investment, jobs and government revenue.

CAPP has worked with industry associations along the natural gas value-chain in British Columbia to consider other jurisdictions' EITE methodologies and develop policy design principles for EITE. Through this effort, the following principles have been established and should be part of a BC mechanism for EITE determination:

- *Fair and transparent*, creating competitive parity across competing jurisdictions.
- *Science-based*, with a strong analyses and understanding of implications in practice.
- *Clear, predictable and simple to administer*, with clear and established processes for review of EITE protection.
- *Cost-efficient*, offsetting the difference in incremental carbon price that exists between competing jurisdictions.
- *Balanced and efficient*, recognizing the totality of emissions policies on industry.
- *Viable*, with readily available compliance pathways that support open market mechanisms.
- *Consistent with developing a clean LNG industry*, achievable within the context of a growing and transitioning lower carbon economy.
- *Recognizes the risk of carbon leakage*, and that BC is currently a world leader in carbon price and industry emissions regulations.
- *Does not disadvantage BC natural gas producers*, in existing North America markets and in emerging international markets.

Using these principles as a framework for EITE policy design, CAPP looks forward to working further with the BC government to further develop a BC solution to EITE determination and application.

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