

**Submission to Environment and Climate Change
Canada**

In Response to

***Discussion Document: Options to Cap and Cut Oil
and Gas Sector Greenhouse Gas Emissions to
Achieve 2030 Goals and Net-Zero by 2050***

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Introduction

Energy NL was founded in 1977 to represent the supply and service sector of the energy industry. Today Energy NL represents over 460 member organizations worldwide which are involved in, or benefit from, the energy industry of Newfoundland and Labrador. Energy NL members are a diverse representation of businesses involved in a range of activities related to both renewable and non-renewable energy development, construction, and operations. This includes, but is not limited to, areas such as direct offshore and onshore supply, health and safety equipment and training, engineering solutions and fabricators, law firms, and human resource agencies.

Energy NL is pleased to have an opportunity to provide this submission on options for the Government of Canada's Oil and Gas Emissions Cap. Energy NL believes in energy evolution and the importance of reaching net zero as we all work towards improving the global environment and mitigating climate change. Canada's oil and gas industry, including the offshore, has an important role to play and will be active participants in working towards Canada's stated climate change goals. However, the options for an emissions cap as presented in the paper have the potential to unfairly target a low-emitting industry and region of the country. Energy NL has grave concerns that the approaches presented will ultimately force offshore operators to curtail production and even abandon projects prematurely.

Background on Newfoundland and Labrador's Offshore Oil and Gas Industry

Canada's east coast offshore oil and gas industry had its infancy with the commencement of exploration activities in the late 1950s. Since that time, it has evolved into a technology-driven, highly specialized industry providing unprecedented employment and significant overall economic and social contributions, while producing sought after products for Canadian and international markets in an environmentally and socially conscious manner.

Canada's offshore oil and gas activities are now almost exclusively undertaken in the Newfoundland and Labrador offshore area. Analysis conducted by Energy NL indicates that the offshore oil and gas industry provides about 6,000 direct jobs in Newfoundland and Labrador, with well over 17,000 indirect and induced jobs in the province and nearly another 11,000 in Canada.¹ Newfoundland and Labrador is a proven supplier of a responsibly produced product to the world – with 26% of Newfoundland and Labrador's offshore crude production being shipped to Europe since 2016, and the potential to produce and ship more to help alleviate the energy crisis facing Europe. Canada's European allies are seeking such energy solutions and Newfoundland and Labrador can provide a solution during the period of energy evolution.

Newfoundland and Labrador's oil producing projects operate about 350 kms from shore, with new activity at distances greater than 500 kms, in cold ocean and harsh environmental conditions. This environment distinguishes offshore oil and gas exploration, development, and production from onshore activities due to the:

- extensive time and investment between resource discovery, development, and production (typically 10+ years);

¹ Newfoundland and Labrador Offshore Oil & Gas Industry: Economic Impact Report, Jupia Consultants Inc., October 2018.

- significant larger upfront capital investments with production, and return on investment, occurring over several decades;
- technology deployed and continually advancing on the full range of activities associated with exploring for, developing, and producing oil offshore vs on-land;
- additional supply and services, skills, and expertise required on the additional health, safety, and environmental considerations associated with a harsh marine environment;
- entire industry established around the required marine operations, including supply vessels, transshipment operations, and weather forecasting/environmental monitoring;
- presence of large international tier-one offshore companies and a workforce comprised of a mix of international, national, and local workers;
- expertise and technology transferred from other, often larger offshore oil and gas regions;
- joint federal-provincial management, and the role of the Offshore Petroleum Boards in Newfoundland and Labrador and Nova Scotia as regulators;
- additional regulatory oversight, and the presence of local, specialized regulator expertise;
- a local community of offshore/marine research and development which has evolved with the industry, substantially supported by private sector operators.

The above context is important whenever policy or regulatory measures are being considered for Canada's oil and gas industry as blanket approaches do not always work and have the potential to unnecessarily impede one aspect of the industry more than another.

Low-Emitting Characteristics

By any measure, Newfoundland and Labrador's offshore oil and gas industry greenhouse gas (GHG) emissions are low. In 2019, the four offshore oil projects collectively emitted 1.8 Mt CO₂e, comprising just 1% of the national oil and gas sector emissions. To put this in perspective, some single-site industrial operations in Canada, such as some in the steel industry, emit amounts equating to multiple times that of the entire offshore oil and gas industry.

Notwithstanding the low level of emissions, Newfoundland and Labrador's offshore industry is working collaboratively to identify and implement measures to further reduce emissions and participants are committed to reaching net zero by 2050. Energy NL in partnership with econext, Newfoundland and Labrador's environmental industry association, and provincial crown corporation OilCo, initiated the Net Zero Project. This project is leading research into various pathways for the offshore oil and gas industry to reach net zero. While already a global leader in providing lower carbon oil produced with world class ESG standards, the Newfoundland and Labrador offshore oil and gas industry is committed to doing its part to further lower emissions and has taken concrete steps to do so. To further illustrate this point, the Hebron offshore platform is just one example of progress made. Through the gas management strategy for the facility, emissions have been reduced by approximately 33%. This is a significant result achieved via tremendous commitment to lowering emissions.

Discussion Document Options and Canada's Offshore

The following outlines concerns Energy NL has with the discussion document, particularly as they pertain to the offshore oil and gas industry and how the uniqueness of the industry is not reflected in the contemplated approaches. The options proposed could result in reduced production and project shut-ins on what the discussion paper correctly recognizes as some of the lowest-emitting carbon

intensity oil and gas projects in the world². The resulting contribution towards national GHG reductions would be negligible, yet the effects on our province, its communities, and population could be substantial.

Time Frame: Canada's 2030 Emissions Reduction Plan suggested target of an overall 42% reduction in seven years for the oil and gas industry front-loads the objective of reaching net-zero by 2050 and does not allow sufficient time for the offshore industry to implement the required measures. Offshore oil projects are large capital investments in infrastructure and equipment, designed for production over long periods of time and any adaptation requires longer-term planning and implementation than industrial projects on land. With 27 years to 2050, a more balanced and measured approach can achieve the same reductions.

Technology Advancement: The approaches outlined are quite dependent on technology, much of which is just not yet sufficiently advanced. Solutions for reduction of emissions in industrial settings on land are not always directly transferable to an offshore setting. Several of the proposed decarbonization approaches outlined in Section 4 of the discussion paper will not be suitable or available to ensure large-scale percentage reductions in the offshore setting. While operators are undertaking small-scale conversions to electricity for some equipment/operations, complete electrification of existing projects/fields is simply not feasible. Carbon, capture, and storage technologies for offshore facilities remain in the development stage and in most cases, existing infrastructure cannot accommodate the size of current applications. While there certainly is a desire to explore and potentially deploy this technology in the offshore, there are clear limitations at this time due to space and weight and technological readiness which make the application long term.

In addition, federal carbon capture and storage incentives are currently not applicable to such investments in the Province of Newfoundland and Labrador. Two examples are the CCUS Investment Tax Credit and the Clean Fuel Regulations credits for projects that use CCUS to reduce the lifecycle carbon intensity of fossil fuels. Both these programs are only available to projects in jurisdictions where there are sufficient regulations to ensure that CO₂ is permanently stored as determined by Environment and Climate Change Canada. Initially, the CCUS Tax Credit will only be available to CCUS projects that store the CO₂ in Saskatchewan or Alberta. Under the Clean Fuel Regulations, the Minister of Environment and Climate Change Canada may decline projects in provinces or territories that do not have relevant regulations to ensure permanent storage. Hence, at this stage, the regulatory framework required for offshore CCUS is not constructed for offshore Newfoundland and Labrador which is a potential impediment to further reducing emissions.

Implications for New "Best in Class Projects": The Government of Canada requires future oil and gas projects to have "best-in-class" low emissions performance from a global perspective, and with a plan to be net zero by 2050. The proposed Discussion Paper options do not consider this best-in-class requirement, so once in operation, new projects will still be required to continue to reduce at a similar pace to projects which have been in operation for many years. A new project, with all new equipment and best technologies deployed to ensure best-in-class will likely have limited ability to invest in upgrades or equipment or new technologies until it has been in operation for a number of years. Under a scenario where such a project simply cannot meet a certain percentage reduction over a certain

² Page 11: "Some Canadian oil and gas producers operate extraction and processing facilities that are among the lowest emitting of their type in the world, such as the Hibernia platform offshore Newfoundland and Labrador."

period, the project may potentially curtail or shut production, which is counterintuitive to the goals of the Government of Canada and industry. We understand that other jurisdictions, such as the European Union, have specific considerations for new projects as they implement measures to reduce their oil and gas industry emissions.

Impact on Canada as a Competitive Environment for Emission Reduction Investments: As oil and gas operators compare projects in their global portfolio for investment in emissions reduction, said investment will go to projects in jurisdictions which offer the best value for emissions reduction. This places low-emitting offshore projects at a disadvantage – lowering already low offshore emissions would have a higher dollar/unit reduction cost compared to projects/regions with high emissions. Essentially, with emissions so low within the Newfoundland and Labrador offshore, the proposed approaches of the Discussion Paper would be an impediment to investing in further reducing emissions.

Implementation of a punitive approach in Canada, with significant extra costs and enforcement under the *Canadian Environmental Protection Act* (as suggested under Option 1), is significantly different than the approach being undertaken in some other jurisdictions which have the same climate change objectives. As an example, in the United States, the recently enacted *Inflation Reduction Act*, provides some significant incentives for emissions reduction. From a competitiveness perspective, our offshore industry needs to be competitive with other jurisdictions and that applies to emission reduction investments as much as it does to offshore exploration, development, and production.

Percentage Based Reduction and Cost of Carbon: A system based on percentage-based reductions unfairly penalizes projects which are already low-emitting, as they are expected to reduce emissions at the same rate as higher emitting projects which offer more opportunity and options for reduction.

Under the proposed Option 2, uncertainty regarding the price of carbon leaves companies unable to plan, even under a system which includes reviews every five years. As Newfoundland and Labrador's already low emitting industry strives to reduce emissions even further, it will be unfairly exposed to carbon cost increases. With a pricing approach based on "as high as needed to meet reduction targets," the Newfoundland and Labrador offshore, which is at a low emission level to start, could conceivably be exposed to increases as it just cannot reduce emissions quick enough. At some point, this could price our offshore out of the market.

Access to Credits: Currently, facilities implementing offshore emissions reduction projects can earn performance credits, as an appreciable asset under the *Management of Greenhouse Gas Act* and regulations. However, both options presented within the cap on emissions Discussion Document suggest performance credits will no longer be available. The Discussion Document indicates that offset credits will take the place of performance credits, but only in the near term, before they too are eliminated. Canada's offshore would then not qualify for any type of credit to incent emissions reduction. If the objective is reducing overall emissions in Canada, not allowing the oil and gas industry to access credits from other industries does not help achieve this.

Energy NL Recommendation

Given the above information, specifically the already low emissions of the Newfoundland and Labrador offshore oil and gas industry and the potential for an emissions cap to stifle investment and opportunity to further lower emissions due to scale, Energy NL recommends that the Newfoundland and Labrador

offshore oil and gas industry be exempt from the proposed emissions cap and its uniqueness in product and production be acknowledged.

With the low average intensity of offshore production, the relatively low emissions per facility, and the limited potential for credit generation for the offshore, decision makers might consider that Newfoundland and Labrador's performance standard system continue to cover oil and gas GHG sources and emissions in the province, while maintaining a marginal price signal equivalent to the minimum national carbon price across all covered emissions.

Given a level playing field, Newfoundland and Labrador's offshore area can compete with anywhere in the world for investment in low-emitting oil projects. The Government of Canada must support this opportunity to supply the world with a lower carbon product which is produced with world class ESG standards. The world and industry are at a critical juncture, with international events of late, clearly highlighting the need for access to lower carbon and responsibly produced energy. The Government of Canada must acknowledge this as well and support the Newfoundland and Labrador offshore oil and gas industry and foster its contribution to reliable energy production.

Conclusion

Energy NL fully supports the objectives of the Government of Canada and the Government of Newfoundland and Labrador to achieve net zero by 2050. In fact, given the unique energy mix of Newfoundland and Labrador Energy NL believes it is possible for the province to be a carbon negative jurisdiction prior to 2050. The proposals of the Discussion Paper do not adequately support the efforts of the Newfoundland and Labrador offshore oil and gas industry to achieve these objectives, and are more likely to hamper the ability of the sector to do so.

Energy NL is acutely aware of the energy issues facing our world and the context of the climate circumstances within which those energy concerns are occurring. We accept our responsibility to be a part of the solution and Energy NL welcomes the opportunity to be a leader in doing so. The regulatory approaches outlined do not permit the industry to achieve this. The approach required must be one that recognizes the unique circumstance of the Newfoundland and Labrador offshore and permits it to attract investment in emissions reduction and production. The best approach to achieving this is to exempt the Newfoundland and Labrador offshore oil and gas industry and to support investment in carbon reduction practices and production.