

## Directors

## CLIMATE CHANGE PROPOSAL

**Objective:** Provide an overview of API's climate change proposal and plan for next steps on public engagement including with the Biden administration, Congress and the broader public.

**Background:** During the month of February, the API policy committees met at the direction of the API Executive Committee to enhance the industry's policies and initiatives on climate change. The purpose of this effort was two-fold. First to enhance our climate change advocacy with the Biden administration and Congress as the US seeks to establish a nationally determined contribution consistent with the Paris Agreement.

The proposal includes the following five points:

1. **Support a Carbon Price Policy** *to drive market-based solutions*
2. **Promote Technology and Innovation** *to reduce emissions while meeting energy needs*
3. **Mitigate Emissions from Operations** *to accelerate environmental progress*
4. **Advance Cleaner Fuels** *to provide lower carbon choices for consumers*
5. **Establish Comparable Climate Reporting** *to provide consistency and transparency*

**1. Support a Carbon Price Policy**

API **proposes** the following position on carbon pricing:

API supports well-designed, market-based, economy-wide carbon pricing as the most impactful government climate policy instrument to reduce CO2 emissions while helping keep energy affordable, instead of mandates or prescriptive regulatory action.

As policymakers consider various policies and approaches to address the risks of climate change, API will continue to engage based upon its climate principles and issue specific framework on carbon pricing (See Attachment 1) and work to integrate legislation that prices carbon across sectors and political jurisdictions while avoiding duplication.

**2. Promote Technology and Innovation**

API currently supports government funding of basic research toward the objective of reducing emissions, with a focus on technologies evaluated based on the potential for the largest scale and most economic GHG emissions abatement opportunity across the economy.

Based upon our industry's history and expertise we can help to further develop and promote the commercial promise of carbon capture, utilization and storage, and hydrogen technologies. **API proposes** to work with policymakers and other trade associations to:

- Fully appropriate funding for low carbon RD&D programs authorized in the Energy Act of 2020.
- Increase substantially Congress-appropriated funding for government research on a range of low or no carbon technologies, including capturing and storing carbon and production and supply of hydrogen, with formal assessment of funded technologies on the basis of potential for GHG abatement at the lowest cost.

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- Implement federal policies consistent with the NPC study to substantially increase support for CCUS to achieve “at-scale phase” deployment.
- Implement policies to expand the infrastructure needed to secure a place for these low carbon technologies in the economy.

**3. Mitigate Emissions from Operations****Flaring:**

**API proposes** to advance to the second phase of its two-phased Flare Management Program under The Environmental Partnership to address associated gas flaring. This includes API analysis of existing/planned infrastructure and projected oil and natural gas production to better understand and ultimately inform the consideration of an associated gas flaring reduction target or goal.

API maintains that the regulation of flaring is best managed at the state level and we will continue to work with both state and federal agencies to address routine gas flaring and proceed with the development of an operational guidance document on flaring, based on the best practices identified by The Environmental Partnership.

**API proposes** to encourage members to individually commit to no routine flaring by a certain date (e.g., World Bank’s Zero Routine Flaring Initiative by 2030), and promote the development of a common definition of routine flaring.

**Methane:** API currently supports cost-effective policies and direct regulation that achieve methane emission reductions from new and existing sources across the supply chain. Additionally, the oil and natural gas industry remains committed to the development and deployment of new technologies and practices through industry initiatives, like The Environmental Partnership, to better understand, detect, and mitigate emissions.

**API proposes** to engage in a two-year aerial survey project, managed by The Environmental Partnership, supported by supplemental funding from interested member companies. To collect meaningful data as quickly as possible, the project is purposefully designed to be iterative. Each phase of the project, starting in the second quarter of 2021, will inform subsequent project design and data collection to advance EPA approval of the aerial survey technology to satisfy regulatory requirements. As part of this effort, API will also support investigation, testing, and advancement of additional detection technologies. These projects can help inform API’s advocacy with the Biden administration as the EPA considers regulatory requirements to address emissions from existing sources and to continue to reduce methane emissions through voluntary collaborative industry efforts.

**API proposes** to engage proactively in the national debate regarding abandoned wells as a potential contributing factor to methane, by actively working with the Interstate Oil and Gas Compact Commission (IOGCC) to determine where opportunities exist for collaboration on state priorities associated with abandoned wells; to develop a stand-alone federal initiative that will provide federal grant money to meet the needs of the states while reducing potential environmental impacts from abandoned wells; and to participate as a thought partner with authors of federal initiatives focused on abandoned wells.

Refining: **API proposes** to establish a voluntary program for carbon emissions reductions available to all refineries to reduce GHG emissions. Further discussions are necessary to develop a meaningful program to incentivize and measure significant carbon emissions reductions. Such a program would identify a recommended target that is achievable and would result in meaningful GHG emissions reductions, along with a third-party reporting mechanism (i.e., Solomon or OGCI).

Additionally, **API proposes** to conduct forums to share information on topics such as refinery carbon emissions reduction efforts, and energy efficiency that protect company intellectual property and conform to API antitrust guidelines.

#### **4. Advance Cleaner Fuels**

Differentiated Natural Gas and LNG: API currently supports policies that expand the use of US natural gas in both domestic and global markets. As investors and large natural gas customers increasingly look to understand the emissions impact of their suppliers, there has been a rising interest in a standardized and transparent market for natural gas differentiated by its emissions intensity.

Differentiated, or “responsible” natural gas is becoming increasingly important to buyers in both domestic and international gas markets. **API proposes** supporting the ongoing development of markets for differentiated natural gas, recognizing the significance of these efforts in ensuring natural gas continues to be viewed as a major component of a lower carbon energy future. API will continue to seek opportunities to engage with entities in the process of developing these initiatives and will explore the possibility of leveraging the work of API Global Industry Services in establishing criteria and methodologies for certifying differentiated natural gas.

Electricity: In promoting the sustained role for natural gas in an increasingly carbon constrained electricity sector, API has current principles for evaluating—and potentially supporting—Clean Energy Standard (CES) proposals that are inclusive of natural gas. In recognition of API’s newly proposed position in support of an economy-wide carbon pricing (outlined above), **API proposes** that its framework position on CES should be retained. API will make it clear that carbon pricing is the most impactful government policy instrument to reduce emissions. However, we will be prepared to engage on CES proposals consistent with our framework position.

Transportation Fuels: **API proposes** supporting technology neutral policies at the federal level that drive GHG emission reductions in the transportation sector using a holistic approach for fuels, vehicles and infrastructure systems.

More specifically, **this proposal** includes: 1) fuel standards, 2) vehicle standards based on a technology neutral, lifecycle approach for lower GHG emissions, 3) fuel/vehicle system optimization to improve efficiency and 4) supportive infrastructure measures.

Regarding fuel standards, **API proposes** supporting well-designed (technology neutral, lifecycle-based, and feasible) federal standard to reduce the carbon intensity of fuels.

**API proposes** engagement with EPA and renewable fuel stakeholders to develop strategies that eliminate the annual deadlock over RFS volume mandates, and result in a well-designed fuel standard for 2023 and beyond, either through regulation or legislation.

Regarding vehicle standards, **API proposes** support for the use of technology neutral fuel economy and GHG standards as an effective method to reduce the carbon impact of all transportation modes.

**API proposes** support for transitioning the standards from a tailpipe basis to a full lifecycle approach that encompasses both vehicles and fuels.

Finally, **API proposes** considering support for the adoption of a 95 RON octane standard for new vehicles to facilitate cost effective fuel economy improvements, as part of a holistic policy framework to reduce CO<sub>2</sub> emissions from transportation in conjunction with the fuel and vehicle standards mentioned above. API would not support a 95 RON standard on a stand-alone basis.

#### **5. Establish Comparable Climate Reporting**

API recognizes that policy makers, financial stakeholders and others seek to understand GHG emissions across the entire oil and natural gas value chain.

**API proposes** supporting industry sustainability reporting consistent with the *IPIECA-API-IOGP Sustainability Reporting Guidance* and promoting member efforts in this space.

**API proposes** supporting consistent climate-related financial risk and opportunity disclosures amongst the industry, including reporting consistent with or leveraging Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) frameworks. API will continue to monitor and seek to influence the further evolution of external reporting frameworks.

**Next Steps:** API will release a climate action framework outlining the above policy recommendations and new industry initiatives, including support for carbon pricing, accelerating technological advancements, emissions reductions, cleaner fuels and uniform GHG reporting, following approval by API's Board of Directors. API will highlight the industry's climate framework as building on the industry's climate progress to date and supporting the U.S. government's new contribution to the Paris Agreement.

framework

Following Board approval, API will release the

**Action:** To approve the five-point climate change proposal and supporting advocacy plan.