

Oil & Gas Sector transition project

Science-based Targets TWG

**Public consultation results
Way forward**

Agenda

1. Purpose
2. Public consultation results
3. Next steps

Purpose

1. Recommendations from CDP to Steering Committee
2. Welcome TWG members voicing strong objections to each proposals, so we can note them for the SC (otherwise we assume support)
3. Note, we have two types of topics:
 - SBTi requirements on SBT setting;
 - Methodology/technical decisions.



Who responded to the public consultation

Public consultation



The SBTi Oil, Gas, and Integrated Energy Companies Methodology Public Consultation was open from August 10th until October 30th.

Responses submitted: 54

Regional Representation:

Europe: Greece, Switzerland, France, Sweden, UK, Spain, Portugal, Italy, Germany, Norway, Austria, Netherlands, Belgium, Finland

North America: USA, Canada

South America: Chile, Argentina, Colombia

Asia: India, Thailand, Japan

Oceania: Australia

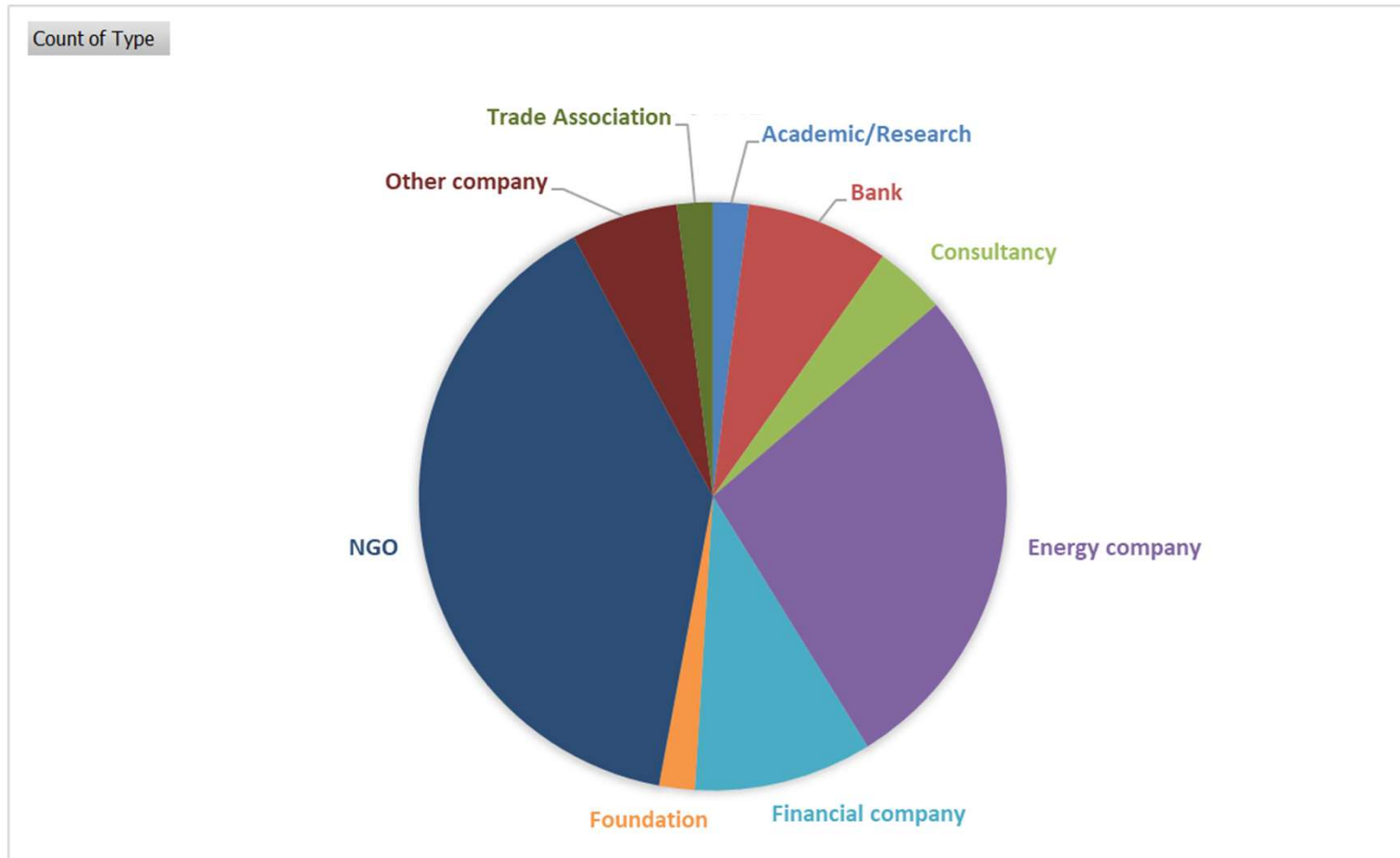
Africa: Tunisia

Webinars/Session:

35+ meetings and webinars with companies, investors, governments, NGOs, and academic stakeholders.

Who responded

54 responses



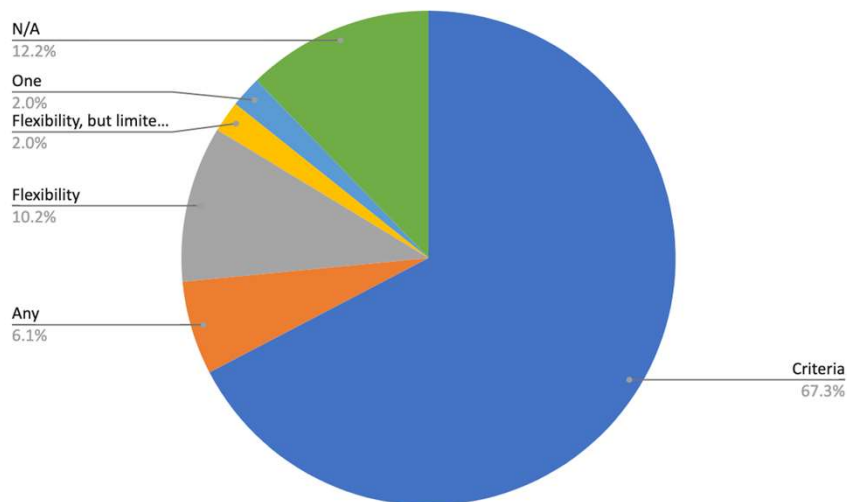
Scenarios

Emission budget balance between sectors - basics

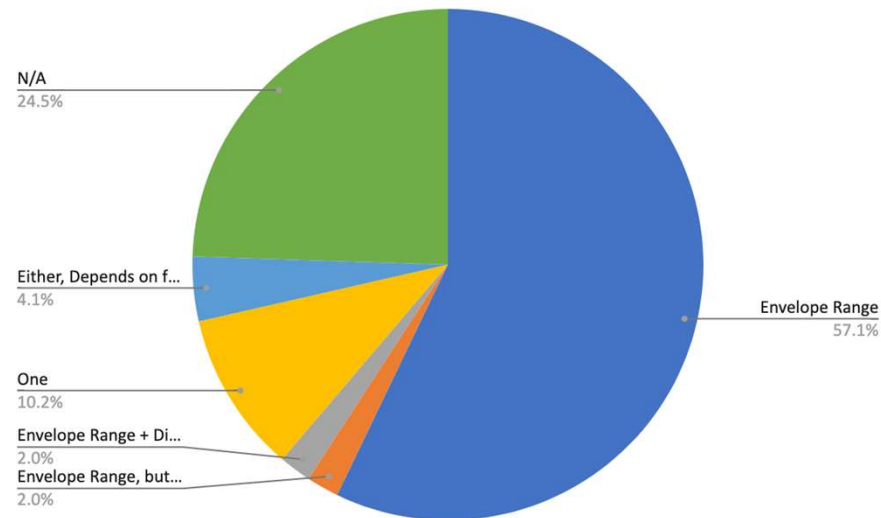
- Energy/Oil and Gas is a supply-side sector of carbon, together with LUC and Process emissions;
- An expansion of Energy budget, leads to an expansion of budgets of the demand side too (transport, energy use in industry, buildings);
- An expansion of the Energy budget can be compensated by (excess/additional) CCS, BECCS or CDR; only one of this options (CCS) does not interfere with the land-system; more energy emissions in industry also expected to imply more process emissions (higher activity levels);

Emission budget balance between sectors - results

Q1. Should any scenario that meets WB2C or 1.5C be allowed, or are considerations around levels of overshoot, need for early action and approaching uncertain physical planetary limits reasonable criteria to select scenarios?



Q3. SBTi select just one scenario, or give flexibility for a scenario envelope (range of scenarios) filtered for implausible scenarios?



Emission budget balance between sectors - results

Q3. What criteria could reasonably be implemented to remove implausible scenarios?

CDR, CCS, BECCS (23)

- CCS - low/limited reliance (12)
- CCS - realistic reliance (1)
- CDR - limited (4)
- CDR - none/very limited (1)
- CDR - none (except limited afforestation) (1)
- LU CDR - limited (1)
- BECCS - limited (1)
- BECCS - none (1)

- CCS, CDR, BECCS - no limits (1)

Timeline (14)

- Early action/ no late action (13)
- Time to transition (1)

Overshoot – low/limited (12)

Precautionary Principle (7)

Temperature targets (16)

- 1.5C (11)
- 1.5C, WB2C (2)
- WB2C (1)
- 1.5C, WB2C, 2C (1)
- Temperature target (1)

Bioenergy (7)

- Limits bioenergy (5)
- No limits to bioenergy (2)

Technology

- Uncertain technologies - limited reliance (8)
- Unproven, negative emissions technologies – reliance based on stage of tech dev (1)
- Pyrolysis - low reliance (1)
- Fossil-based hydrogen - low reliance (1)
- Consider technology/ science (1)
- Scientific uncertainty (1)

- Renewables – limited reliance (1)

Reductions

- No short-term large GHG reductions (1)
- No short-term fossil fuel divestment (1)
- No long-term small GHG reductions (1)
- 50% GHG reductions by 2030 (1)

Coal – rapid phaseout (1)

Fossil fuels – complete phaseout (1)

Scenario plausibility and credibility (2)

Scenario has min 67% chance of staying below desired temp C (1)

Scenario consistency with other sectors (1)

Independent Scenarios (1)

SDS (1)

IEA Scenario (1)

O&G sector appropriate: energy demand focus (1)

Account for externalities (1)

Account for feedback loops (1)

Consider impact – technological, societal, social, policy, geopolitical, environmental (1 each)

Deforestation (1)

Geological storage - Regional limits (1)

Historical examples of transition (1)

Cost of transition (1)

Regional - developed vs developing countries (1)

Emission budget balance between sectors - summary

- It is important to have criteria to select scenarios so you can make objective assessments about them; criteria might need to evolve, for example as scenarios are submitted to SBTi for inclusion within the set;
- Most people recognize the need to not include all scenarios, including several companies; but some request trimming “implausible” scenarios, but do not make clear criteria for implausibility; current criteria match “implausibility” criteria (e.g. volumes of bioenergy available) plus some normative criteria (overshooting, early action);
- Main concerns are with CCS, BECCS and CDR volumes;

Emission budget balance between sectors - forward

Recommendation to the steering committee:

- We stick with current criteria (overshoot, early action, bioenergy);
- Recheck bioenergy limits and science;

Intensity vs. Absolute

Two extremes

Simple

One carbon intensity target of sold energy

Complicated

Target at each step of value chain (3)

X

Absolute and intensity (2)

X

S1 CO2, S1 CH4, S2 and S3 (4)

X

= 24 separate targets for an IOC

Consultation proposal – somewhere in between, searching balance



Simple



Complicated

One carbon intensity (S123) target of sold energy

Upstream and Integrated companies:

- Shall: Absolute Scope 3 (or commitment)
- Shall: Absolute CH4 target (Upstream and Midstream)
- Shall: Intensity (S123) sold energy

Midstream companies:

- Shall: Absolute CH4 target (Midstream)
- Shall: Intensity (S123) sold energy

Downstream companies:

- Shall: Absolute or Intensity (S3) sold energy
- Shall: Absolute or Intensity (S1)
- Shall: Absolute S2

Target at each step of value chain (3)

X

Absolute and intensity (2)

X

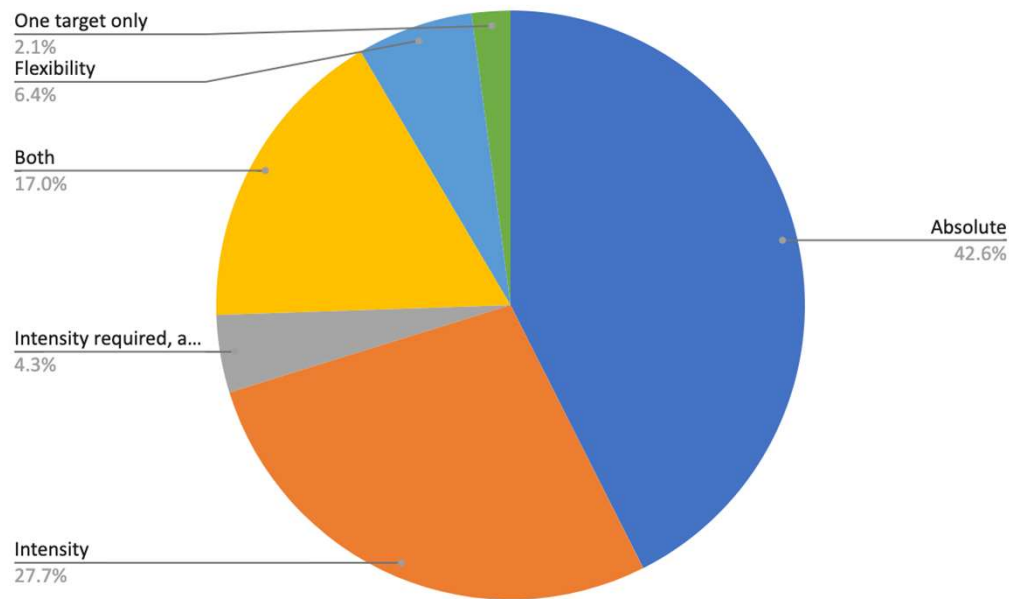
S1 CO2, S1 CH4, S2 and S3 (4)

X

= 24 separate targets for a IOC

Public consultation - results

Q4. In your opinion, is it acceptable for companies to set only intensity targets or do you think they should also set absolute targets?



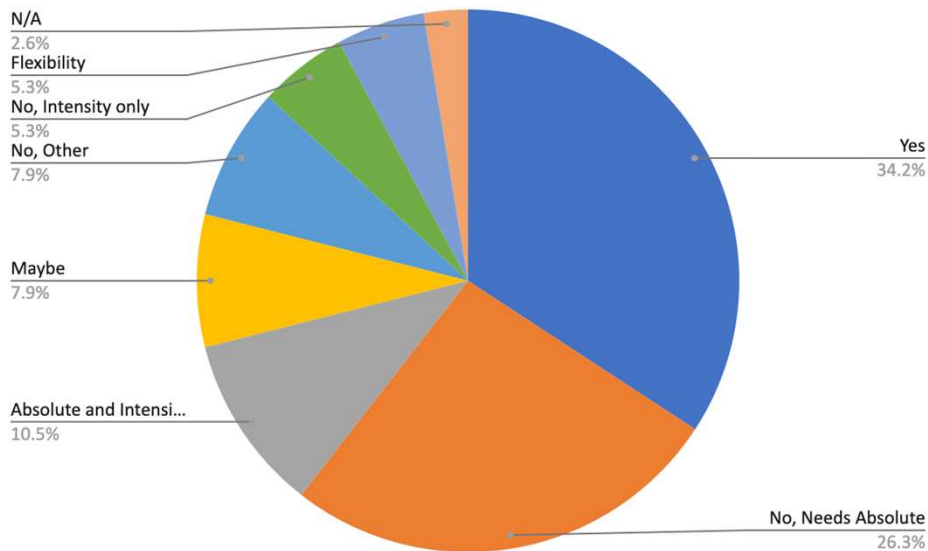
Intensity notes:

- If there are absolute emissions reductions
- but should ensure absolute reductions
- If it also leads to absolute emissions reductions
- If net-zero is required
- Should clearly communicate the methodology and the assumed absolute emissions change
- Intensity targets today, absolute targets in future

Overall consensus that absolute targets are needed to drive absolute emissions reductions

Public consultation - results

Q5. Do you think that requiring companies to set an intensity target, reflecting changes in demand, and an absolute target, reflecting changes in supply, is sufficient to address the concerns about the climate integrity of the targets set by companies?



“Yes” + “No, must have absolute targets” + “Absolute&Intensity” >67% requiring some form of absolute emissions reductions

Absolute and Intensity

- Ideally have separate targets for Removals/Neg emissions and carbon reductions
- Needs to be supplemented with not allowing exploration or new projects

No, other

- Only need long-term net-zero ambition for E&P production
- Targets should not be connected to demand/supply
- Change in supply should be indicator

No, Must have Absolute

- Must have absolute targets based on activities - should have absolute for scope 3 upstream activities and where emissions are produced

Maybe

- If level of disclosed and emissions estimation method is identified; align target with absolute
- Phased: intensity first, then absolute
- Also look at competitiveness of assets under Paris-aligned scenarios to which intensity and absolute can be supplemental

Yes

- Nut targets should apply to all business units and investments on a net equity basis
- Needs to ensure absolute reductions and progress needs to be monitored
- Require clear disclosure so that intensity reduction does not mask business increases

Emission budget balance between sectors - forward

Recommendation:

- Keep current suggestion of requiring absolute for Upstream and Intensity for Downstream for Upstream companies and IOC/IEC;
- Keep current SBTi criteria of requiring companies to demonstrate intensity targets lead to emission reductions Midstream and Downstream;

Where to set targets

Two other extremes

Upstream

Downstream

Natural resources



Consumer

Scope 3, USP emissions

Scope 3, USP emissions

Investment & stranded assets

Consumer behaviour change

Abundance of resources

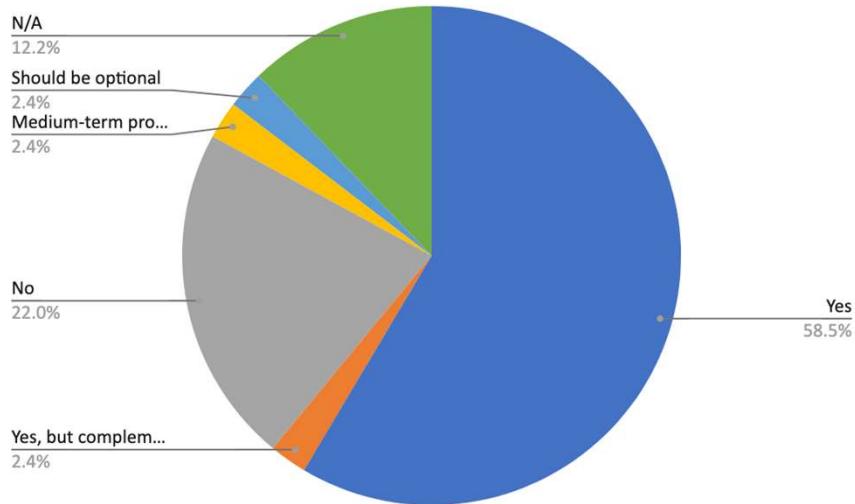
Electricification/Hydrogen

Shifting economics

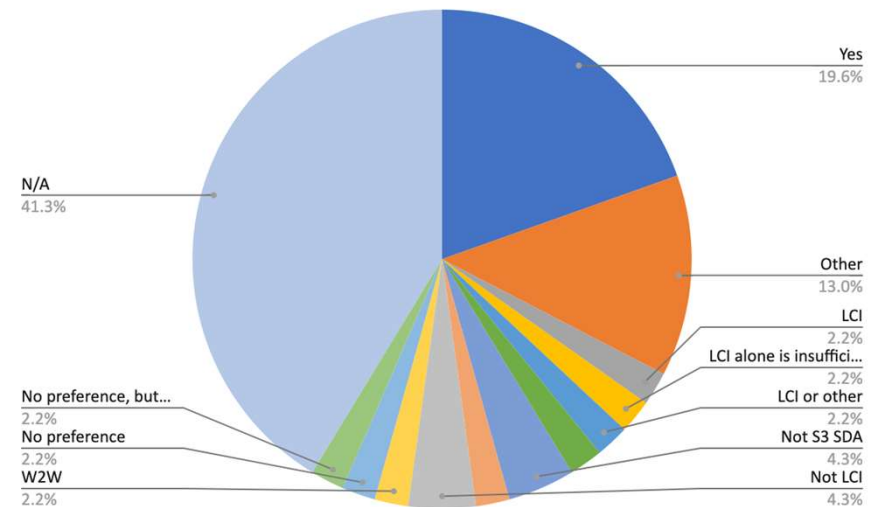
Demand shocks

Public consultation

Q6. Do you agree that IOC and Upstream companies should set at least short-term production targets and why?



Q7. Do you agree that these can be set using any of the proposed methodologies?

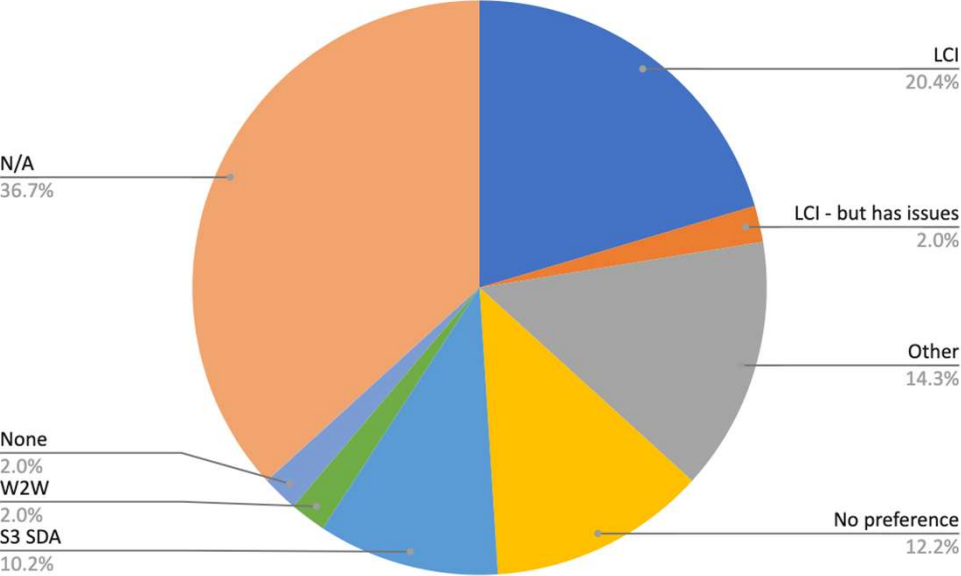


Other:

- Targets should measure oil and gas volume extracted reduction rate (3x)
- Upstream targets set on production, absolute or intensity
- Require no investment in exploration/exploitation of new fossil fuel reserves, coal phase-out, fossil-fuel phase-out
- Include just transition component

Where in the value chain should companies set targets?

Q8. Do you have a preference between any of the methodologies?



Where in the value chain should companies set targets - summary

- A majority support production targets for Upstream and IOCs;
- No consensus on methodology to do it;
- But Least-cost methodology is the one with strongest support (but with reservations about it).

Where in the value chain should companies set targets - forward

Recommendation:

- Keep requirement for absolute targets Upstream (and intensity targets for Downstream, for IOCs);
- Keep methodological flexibility on how to do absolute targets upstream;

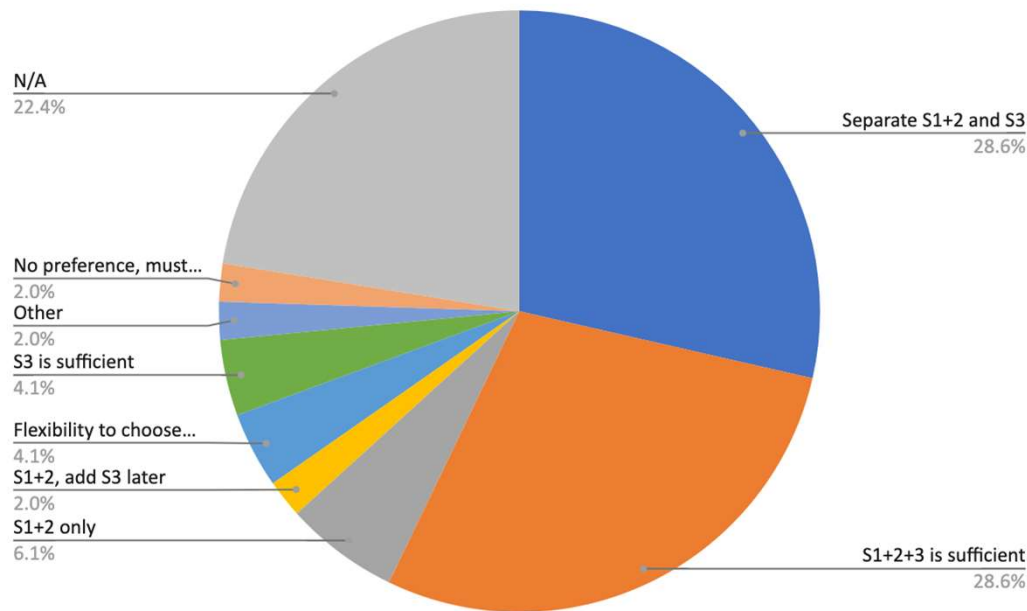
Scope 1 and Scope 2

Scope 1 and Scope 2 - basics

- Scope 3, USP emissions is the largest source of all sources and ~10x than S1&2 (minor source)
- But S&2 of Oil and Gas one of the largest emitting industrial sectors (direct emissions)

Disaggregation of Targets by Scope - results

Q9. Is a S1+2+3 target sufficient to address S1+2 emissions from companies or should an IOC have separate S1&2 targets, even though they are methodologically complex to calculate?



Notes:

S1+2+3 is sufficient

S3 only for category11
With transparency/reporting on S1+2 reductions (3x)

Separate S1+2 and S3

S1+2 not needed when very low operational intensity
S1+2 should encompass measured methane emissions

Other:

Need all scopes, there is lack in methane data

Scope 1 and Scope 2 - Summary

- No clear indication – a tie between S1+2 and S3 and S1+2+3
- Two minority views are that only S1+2 is sufficient; or just S3 is sufficient;

Scope 1 and Scope 2 - Forward

Recommendation:

- Conservative approach, also following opinions expressed 1-2-1 by investors and other NGO's, requiring separate Scope 1 & 2;
- No views on absolute or intensity, but propose following SBTi rules (Should be absolute, if intensity it shall lead to absolute reductions)

[Will require further development of Scope 1 and Scope 2 methodologies for Upstream and Midstream;]

Overall target requirements

Overall proposal on target requirements – New balance

Simple



Complicated

One carbon intensity (S123) target of sold energy

Integrated companies:

Shall: Absolute Scope 3 (or commitment) extraction

Shall: Intensity (S123) sold energy

Shall: Absolute CH4 target (Upstream and Midstream)

Shall: Absolute or intensity S1&2 CO2 (Up and Midstream)

Target at each step of value chain (3)

X

Upstream companies:

Shall: Absolute Scope 3 (or commitment)

Shall: Intensity (S123) sold energy

Shall: Absolute CH4 target (Upstream and Midstream)

Shall: Absolute or intensity S1&2

Absolute and intensity (2)

X

Midstream companies:

Shall: Absolute CH4 target (Midstream)

Shall: Absolute or intensity S1&2

Shall: Intensity (S123) sold energy

S1 CO2, S1 CH4, S2 and S3 (4)

X

Downstream companies:

Shall: Absolute or Intensity (S3) sold energy

Shall: Absolute or Intensity (S1)

Shall: Absolute S2

= 24 separate targets for a IOC

Overall proposal on target requirements – New balance

Scope 1 Upstream and Midstream targets will take time to develop.

Interim rule is needed for companies to be accepted as “SBTi” without S1 Upstream and Midstream – commitment or a conservative SBT setting method.



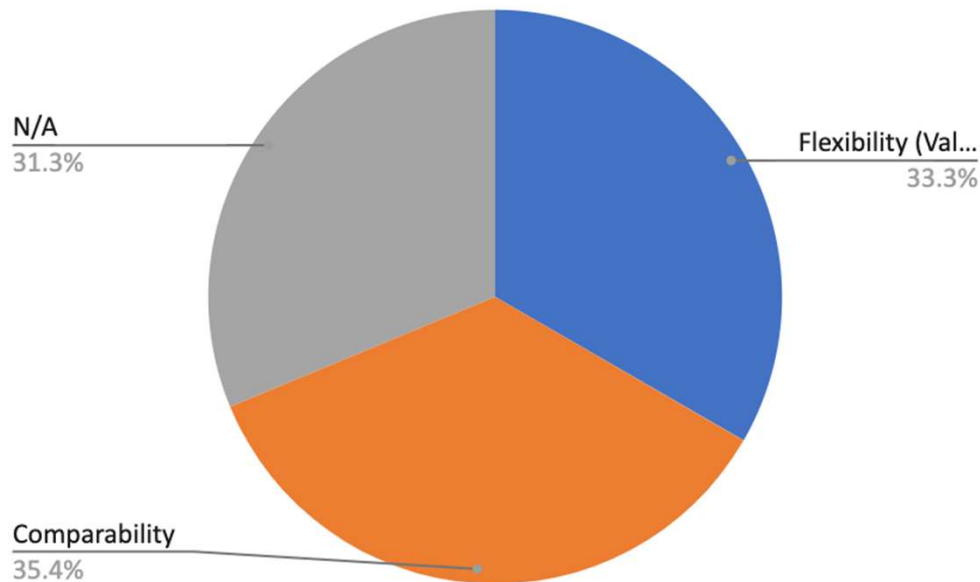
Balance between flexibility and comparability

Flexibility vs Comparability - Basics

- An extreme and complex sector;
- High sensitivity and spotlight;

Flexibility vs Comparability - results

Q10. the importance of like-for-like comparability of company targets - which requires a one single prescriptive methodology – versus the possibility of just having an approval “stamp” like the SBTi validation of a company target – even if not following one single methodology – but maintaining flexibility in the construction of indicators and scenario pathways.?



Flexibility vs Comparability - summary

- A tie between the two, with a slight advantage for comparability;
- However, feedback from companies and investors is for a push for comparability (with some considering it absolutely essential);

Flexibility vs Comparability - forward

- Push for comparability;
- More prescriptive methodologies → requiring more technical work and detail ahead; less work forward during validation;



What counts for reaching a target and for reaching net-zero Accounting of CCS

CCS - Basics

- No discernible physical limits to CCS globally, but regional and other limits (sustainability, social) might exist;
- Social perception and acceptance different, e.g. USA vs. Europe;
- Two divergent requirements: companies should make explicit their CCS targets vs. CCS should not be counted towards targets;
- TWG agreed: CCS included in scenarios and counted; no need for CCS targets, CCS should be able to affect absolute (or intensity) emissions (technology neutral approach);

CCS - Results



Answer	Amount
Direct Abatement	
Agree (Count)	14
Disagree (Do Not Count)	12
Indirect Abatement	
Agree (Do Not Count)	18
Disagree (Count)	4
Problematic	2
Both	
Other	3

Some representative individual perspectives:

“Injections of CO2 for enhanced oil recovery (EOR) should not be counted as permanently stored carbon. In the United States, where EOR is used widely, most captured CO2 is used to increase oil production.”

“It is unfortunate that the lack of clear rules prevents this important mitigation technology from reducing company Scope 3 emissions when used on products such as gas downstream of the point of sale. This shortcoming should be addressed as soon as suitable rules (standards) become available.”

“If a company adopts a financing mechanism (direct or through policy) to work with a downstream client with CCS then it should count towards their target.”

CCS - Summary

- Polarized views on CCS (as expected): do not limit in scenarios/do limit it; do not account in indicator/should be counted;
- Views do not necessarily reflect a good understanding of its role in scenarios and in GHG accounting and the need to align decisions in both scenarios and company indicator; [rationale to be further explained];
- Need to set some rules on what type of CCS are valid, particularly around EOR;

CCS - forward

- Keep current criteria [use for target setting scenarios that minimize CCS; account CCS when in practice as a non-emission, but enforce conditions for its monitoring];
- Add clarity on EOR types and what would count as CCS;



What counts for reaching a target and for reaching net-zero Energy removals

Energy value-chain removals - Basics

- Removals will be needed to reach net-zero;
- Removal value-chain needs to get started within the 2020's to get to certain scale by 2050;
- Removals in energy value-chain play an important role in most scenarios, but scale conditioned by sustainable biomass availability;

Energy value-chain removals - results

2) Accounting of removals within energy value chain

- a. Indirect Removals within value chain – Not counted, until rules clarified
- b. Direct Removals in biorefineries – Counted

Answer	Amount
Indirect Removals	
Agree (Do not count)	4
Disagree (Count)	6
Direct Removals	
Agree (Count)	11
Disagree (Do not count)	1
Misc.	
BECCS should count	1

Energy value-chain removals - Summary

- Support for counting of direct removals (e.g. biorefineries)
- Support for counting of indirect removals

However, what has been proposed still applies, as what is proposed is to get clarity first on how removal accounting should be done (unclear to date, end of 2020). While this clarity is not established, removals can not be counted for target purposes.

Energy value-chain removals - forward

- Keep proposal as is:
 - 1) direct removals in sector can be counted, e.g. for biorefineries (do not allow for accounting of removals outside sector, e.g. from forest activities even if owned by company);
 - 2) indirect removals in value-chain (e.g. a removal by an electricity company) will need clarification under GHG Protocol process;



What counts for reaching a target and for reaching net-zero Accounting of non-energy sector removals

Accounting of non-energy sector removals - Basics

- Avoiding deforestation, reforestation and afforestation essential to meet climate goals;
- Considerable interest from other sectors in financing “NCS” removals provided “claims” can be made;
- No allocation of LUC removals has been made to other sectors; No transfer mechanism for removals has been agreed by SBTi or any other standard/body as far as aware;

Non-Energy value-chain removals - results

3) Accounting of removals outside of energy value chain

- a. Indirect/direct carbon removals through afforestation/reforestation – Not counted
- b. Investments in Nature based Solutions – Not counted

Answer	Amount
Indirect/direct carbon removals through afforestation/reforestation	
Agree (Do not count)	18
Disagree (Count)	9
Investments in Nature based Solutions	
Agree (Do not count)	18
Disagree (Count)	9
Misc	
Other	1

Energy value-chain removals - Summary

- No support for counting of removals in land sector in the Energy sector;
- No support for counting of avoided emissions in land sector in the Energy sector;

Energy value-chain removals - forward

- Keep proposal as is – not allowing for removals or avoided emissions to be counted for reaching targets,

but

- Review after end of Net-zero discussions under SBTi and GHG Protocol process [within next 1 to 2 years].



What counts for reaching a target and for reaching net-zero Energy accounting

Energy accounting options - Basics

- Several ways to count energy – all require some data transformations, other from scenario side or from company side;
- Scenario energy data is often inconsistent between scenarios with differences that are hard to explain and figure out;
- Companies have expressed strong views on this issue;
- Strong impact of choices on indicator and how it evolves;

Energy accounting options - Results

4) Where and how energy should be counted

a. Should energy delivered by companies be counted as primary, secondary or final energy? – Secondary

b. How to account for electricity, namely if corrections should be made to acknowledge the substitution potential of fossil fuels for electricity – Using the partial substitution method

Answer	Amount
Secondary	
Agree	3
Disagree	1
Partial Substitution Method	
Agree	3
Agree, with edits	1
Disagree	1
Misc.	
Other	3

Energy accounting options – Summary

- Section with least number of responses (highly technical);
- Tendency to agree with what has been proposed (secondary energy; electricity counted using partial substitution method);

Energy accounting options – forward

- Different options need to be further elaborated;
- Propose that a vote is done in the TWG between 3 or 4 options;
- Propose that we seek a close alignment with TPI/ACT and that this aspect is also taken into consideration;
- Propose that, if no clear and definitive view emerges from above, issue is brought to the SC for decision;



Other issues raised during public consultation

Other issues

- Petrochemical boundary
- Net vs Full value-chain accounting
- Inclusion of a target for petro-chemical products
- Non-inclusion of Scope 3 for gas transmission and gas distribution companies
- Clarification of role of divestments in meeting targets
- Data requirements for target calculations
- Additional requirement: no further investments in sensitive areas (areas of high value for nature conservation);



The Oil & Gas Sector and the transition to a zero- carbon economy

Thank you!