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California Independent Petroleum Association Comments on the May 31, 2024 – Informal Cap-and-Trade Workshop

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Deputy Executive Officer
California Air Resources Board

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Via electronic submittal to: regulatory docket

Thank you for the opportunity to share comments and potential concerns related to the recent Cap-and-Trade Program Public Workshop held on May 31, 2024, on behalf of the members of the California Independent Petroleum Association (CIPA). CIPA represents nearly 300 crude oil and natural gas producers, royalty owners, and service and supply companies who all operate in California under the toughest regulations on the planet. Our comments focus on workshop slides[1] that explicitly address allowance allocation benchmark proposed changes for the oil/gas extraction sector.

The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's independent oil and natural gas producer and the marketplace in which they operate; highlight the economic contributions made by California independents to local, state and national economies; foster the efficient utilization of California's petroleum resources; promote a balanced approach to resource development and environmental protection and improve business conditions for members of our industry. In addition, CIPA strongly opposes any GHG program amendments in which in-state crude, produced under the strictest environmental standards in the world, is replaced with imported crude either by direct regulation or indirect impact. A true and successful Cap-and-Trade program would not shift emissions, tax-base and jobs to other jurisdictions.

The recent workshop asked a fundamental question related to industrial allocation to the oil/gas extraction sector: "*Should the allocation for crude oil extraction be aligned with the "one-product one-benchmark" principle?"* Slide 32 goes as far as suggesting an initial concept consisting of the following:

- Starting with vintage 2031, allocate for crude oil extraction using a newly calculated single benchmark for produced barrel of oil equivalent
- Calculate the new benchmark using the same aggregated California oil producer data as the existing thermal and non-thermal benchmarks, providing a similar level of overall leakage protection to the sector

CARB initially broached this question 10 months ago at the July 27, 2023, Cap-and-Trade workshop (Slides 57-59)[2]. At the time, CIPA responded with concerns about the concept both

[1] https://ww2.arb.ca.gov/sites/default/files/2024-05/nc_CapTradeWorkshop_May3124.pdf (Slides 31-32)
[2] https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf

from a policy perspective and from a data justification perspective[3]. Unfortunately, CARB has not engaged with industrial stakeholders on this topic in the ensuing months, nor has any additional data been shared which justifies such a significant change. Staff asserts:

- Crude oil extraction is not *clearly* bimodal in practice or in emissions intensity, (emphasis added), and
- The complexity of oil field operations and geology *may* contribute to inconsistent reporting and verification of "thermal production" (emphasis added)

Ten months ago, this rulemaking process had really just started, but now the timing presented by staff is that it will have an official proposed amendment package to the CARB Board by the end of the year. It is unfortunate that such valuable time has passed. It is incumbent on CARB, as the regulatory agency, to present to industry details so that CIPA and its members can respond. As we look to comment on this Initial Concept, we do not have any additional information to respond to, dissect, or evaluate its correctness or applicability. The lack for information and data to justify such a significant change to the Program was the basis for our last comment letter.

CIPA does appreciate staff's recognition that this proposed change would have significant implications, and as so, has not proposed an effective date until the 2031 vintage allowances are issued. CIPA agrees with such a lead time, if changes are indeed justified.

Procedurally, it looks as if CARB is not intending to release actual details of the proposed new single benchmark for the oil extraction industry until the official 45-day package is released in the coming months. CIPA finds this completely unacceptable. Once the proposal is included in the official regulatory package, it becomes significantly more difficult to make any necessary changes, or even have the CARB Board decide not to advance this staff proposal.

CARB staff claims in the workshop presentation that the new single benchmark will be using the "same aggregated" data and that the 'approach is technology-agnostic'. Neither of these claims can be verified by CIPA or its members at this time.

Quoting from our previous comment letter "Only after all potential changes are publicly discussed, can a complete opinion be formulated. As such, CIPA looks forward to an open line of communication with CARB staff as the rulemaking progresses." We are still waiting for that engagement.

Conclusion

California produced crude oil, is the only traditional fuel feedstock produced under California's Cap-and-Trade Program where the production emissions are *already accounted for, and capped*. Imported crude is neither subject to the State's methane rules, nor price on carbon. California's GHG goals simple cannot claim success if the result is shifting the emissions to other (higher-emitting) jurisdictions.

CIPA has supported its members in GHG-reducing endeavors for years. We believe there should be an analysis that looks at the *global* impact of replacing California crude, with its methane monitoring rules, flaring rules, vapor recovery rules and short pipeline transport distances with the equivalent volume of less regulated, long-distance transported foreign crude.

[3] CIPA Comments from July 2023 https://ww2.arb.ca.gov/form/public-comments/submissions/5376

The possibility of decreasing California produced crude, and replacing it with foreign crude is against the 2022 Scoping Plan Update.

As CARB has repeatedly stated, California will need petroleum and natural gas fuels for many years. In fact, CARB predicts the state will still need 400,000 barrels per day to meet demand going past 2045, and in-state production is 350,000 barrels per day. During this time, California should not only prioritize in-state supply but incent its carbon intensity reduction. Any regulatory proposals that run counter to the ultimate goal of reducing GHG emissions worldwide should be discarded.

The last barrel of oil used in California, should be produced in-state with all the local, regional and statewide environmental, health and safety and labor standards ensured to be used. California environmental and worker leadership cannot include looking the other way through direct or indirect promotion of foreign crude supplies.

We are hopeful to that meaningful engagement on this important topic can begin such that it results in a better understanding of staff's position.

Sincerely,

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association