California Independent Petroleum Association
1001 K Street, 6th Floor
Sacramento, CA 95814
Phone: (916) 447-1177
Fax: (916) 447-1144

CIPA

California Independent Petroleum Association Comments on the July 27, 2023 – Informal Cap-and-Trade Workshop

Ms. Rajinder Sahota
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 July 27, 2023, 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 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 market place 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.

Though this rulemaking process has really just started, CIPA understands the breadth and significance of the discussions by CARB staff. Your remarks relating to needing to look holistically at the program are important as we stakeholders, still have not seen many aspects of potential changes to the program, including any post-2030 scenarios, or how other industrial sections will be addressed moving forward. 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.

Crude oil is a world-wide commodity and the price producers receive does not adjust for the costs for Cap-and-Trade compliance. These costs place tangible pressure on in-state production and could result in early retirement of locally produced crude, and could reduce jobs, taxes, and impact on the State's reliable highly-regulated energy supply. Such impacts also carry over to the cost borne by Californians in their daily fuel cost.

[1] https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf

CIPA has previously submitted comments to CARB's LCFS docket related to the OPGEE model update. Those comment go into great detail about the need to get the science right BEFORE policy decision are made, and describe a model in which the regulatory framework of California is ignored.[2,3] It is worrisome that the opposite is being proposed, i.e., policy decisions preceding finalized updates to the foundational GHG model. We incorporate those comments by reference and provide these additional thoughts.

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. Such an analysis needs to consider all the emission reduction efforts highlighted in the previous CIPA OPGEE letters to CARB. Slide 57's lifecycle depiction of California crude as compared to foreign crude is both misleading and irrelevant, as the LCFS is a life-cycle based program and Cap-and-Trade is not. It is also known that California refineries are limited in the types of crudes they can accept, and that they are already optimized to received California crude.

The possibility of decreasing California produced crude, and replacing it with foreign crude is against the 2022 Scoping Plan Update. CIPA is working to show that the OPGEE model clearly overestimates the CI of California crude oil, and underestimates the CI of foreign crudes, most notably those from Saudi Arabia and Ecuador, the two largest suppliers of oil to California. The data support the common-sense conclusion that California's demand for oil is best met by locally produced, locally regulated, and lesser greenhouse gas emitting oil than those foreign sources which require long transport distances in addition to non- or under-reported greenhouse gas emissions and environmental protections.

Slides 57-59, Feedback Request on Direct Industrial Assistance Allocations

We understand and appreciate that the material presented is not yet a staff 'proposal' like the EITE electricity proposition. That being said, the potential switching of an industrial sector's allocation methodology is a significant event in a mature GHG program. Changing the benchmark itself is impactful, and changing the methodology is more so. CIPA is concerned such an alteration could have unintended consequences. Additionally, such a shift would require a robust data collection effort and a detailed stakeholder effort, which hasn't been completed, or even, suggested to date.

Direct industrial allocation is at the heart of the Cap-and-Trade's cost containment measures. It is also foundational to minimizing GHG leakage. The concept presented at the workshop is directly counter to a decision made back in 2010 at the beginning of the program after considerable staff and stakeholder work.[4] From Appendix J-Allowance Allocation, CARB noted:

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[2] https://www.arb.ca.gov/lists/com-attach/53-lcfs-wkshp-oct20-ws-WjldMgBxUmACWwVp.pdf

[3] https://www.arb.ca.gov/lists/com-attach/4-opgee-general-ws-AGMBbgNyVmQAWVI9.pdf

[4] https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/capv4appj.pdf

"Although staff prefers to apply a "one product, one benchmark" principle, an exception was made for oil extraction because non-thermal alternative techniques are not usually substitutable in the wells where thermal EOR is applied."

There was a recognition that even though the 'product' is the same, the energy input, and fundamentally, the production processes are completely different between thermal and non-thermal extraction. This can be seen in the fact that the benchmark of energy input is an order of magnitude different.

CIPA respectfully asks 'What is different today than when that decision was made?'. We look forward to meeting directly with CARB staff to discuss this issue.

Since there are many unknowns with this concept, including how a new single benchmark would be calculated, we are concerned that the outcome of such a merging of benchmarks would lead to higher costs for the industry as a whole. Many CIPA members produce crude without thermal enhancements, and again, it would be unclear how those members would be impacted.

The cost of the program is an established incentive to reduce GHG emissions and the energy intensity of production. CIPA members have been on the forefront of renewable technologies (solar PV and thermal storage), as well as, carbon capture and storage. When regulatory changes are proposed that introduce stroke-of-pen risk, it has a chilling impact on potential future investments.

Slide 59 asks a series of questions that are actually intertwined. Changing the benchmark will have a direct impact on potential leakage, as well as, the incentive to produce product at the lowest GHG rate. Aligning with the 2022 Scoping Plan, and its recognition that leakage is a distinct possibility from this section, requires careful analysis.

Unlike the EITE proposal below, CIPA does not have enough information about the potential proposed change, nor has sufficient data been presented to show either the cost impact or the rationale.

Slides 48-50, Proposal for EITE Electrical Allocation

CIPA supports the proposed concept of directly allocating industrial sources for the cost of carbon imbedded within their electricity purchases. This cost of the program has long been known and we appreciate the staff proposal to fix what could certainly be described as a policy gap over since the program started over a decade ago.

Summary

California will need petroleum and natural gas fuels for many years. 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 appreciate the opening of stakeholder dialogue with us. We look forward to working with CARB on this important topic.

Sincerely,

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association