NEI

September 30, 2022

Environment and Climate Change Canada

Submitted via email: PlanPetrolieretGazier-OilandGasPlan@ec.gc.ca

Re: Comments on the Federal Government's Discussion Document: *Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050*

Dear Minister Guilbeault:

With approximately C$10 billion in assets under management, NEI Investments' approach to investing incorporates the thesis that companies can mitigate risk and take advantage of emerging business opportunities by integrating best environmental, social and governance (ESG) practices into their strategies and operations. We have also made a pledge to align our portfolio with a net-zero by 2050 target. Importantly, we apply this lens to our investments in the Canadian oil and gas sector, where we continue to have material investments. We believe the sector has a significant role to play in helping Canada achieve its net-zero ambitions. Thank you for the opportunity to provide comments on the Government's proposed options to implement a GHG emissions cap in the oil and gas sector.

While we do not feel that we are best placed to decide how the government implements the emissions cap, we are aligned with the rationale behind the proposal. Namely, we agree that the current (and projected) trajectory of emissions from the oil and gas sector will make it very difficult for Canada to meet its net-zero commitments. As such, a sector-specific approach is both reasonable and required. Our interest is in ensuring that the policy option chosen effectively incents the capital investments required to drive real-world emission reductions from the companies we own and improves the resiliency and competitiveness of the Canadian oil and gas sector, while also resulting in the magnitude of emission cuts required to keep us on a net-zero trajectory. Ultimately, as investors with a net-zero commitment, our ability to continue to invest in the Canadian oil & gas industry hinges on the ability of the sector to effectively navigate a net-zero transition.

It is important to note that while we speak about the oil & gas sector, we invest in individual companies – not sectors. The distinction is important. Not every company is equal when it comes to actions taken to reduce emissions, and not every company (or project) will be a candidate for successful transition. A successful policy outcome for ESG-focused investors like ourselves would see the leaders rewarded, relatively speaking, to the laggards. For the industry to continue to enjoy the support of increasingly climate-conscious investors, it is imperative that carbon competitiveness be associated with outperformance. Conversely, it is not the Government's job to keep the poorest performers in business. The regulatory environment is critical to setting the stage for this race to the top.

Resiliency of the policy changes that will be required should be a primary concern for the government. While it is not acceptable at this late hour in our fight against climate change to excuse

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a lack of action on the lack of political certainty, it is nonetheless true that an absence of certainty is slowing progress. Specifically, we are mindful that the threat of legal challenges to any form of emissions cap is very real. There do not appear to be any easy solutions to this dilemma, but we would encourage the Government to take all reasonable steps to ensure the policy changes it makes have staying power. That will in large part be dictated by the degree to which the Government is able to bring industry (and provincial) perspectives into its final policy solution. We urge the government to engage industry stakeholders and address genuine concerns to the degree possible. We are likewise engaging industry to indicate our support for a cap and to urge them to engage constructively in the conversation.

As noted in the discussion document, policy coherence and coordination with other climate measures should also be a key consideration. Best effort should be made to reduce the overlap with other climate measures and to reduce the compliance burden on companies. As an investor, we want to see company effort and resources going into transition activities as quickly as possible, as we see significant threats on the horizon for the sector should it not transition quickly enough. An overly complex regulatory environment with multiple regulations targeting the same emissions will likely impede, not hasten, transition activities. As such, we would like to see any new regulation simplify, not complicate, the path to transition.

In a similar vein, the prudent introduction of compliance flexibility should be considered to reflect the fact that emissions reductions in the sector will not occur in a linear fashion. Compliance mechanisms should be flexible enough to accommodate this reality. However, in both cases (reducing the regulatory complexity and allowing for compliance flexibility) it is of the utmost importance that there be a strong accountability mechanism in place with firm guardrails. Achieving emissions reductions should not be a voluntary exercise, and there needs to be consequences for companies that don't achieve the reductions required of them. The tradeoff for any flexibilities or accommodations granted needs to be a firm regulatory backstop that imposes material costs/impacts.

One aspect of the energy transition debate in Canada that has had woefully little attention are the very real challenges facing companies looking to build transition-friendly infrastructure. It simply takes too long to approve and permit projects that both government and industry have agreed are necessary in helping us meet our net-zero ambitions. While this might be out of scope for the emissions cap consultation, it is imperative that the Government significantly increase its focus, and resources, on this critical issue. Whether it is windfarms or CCUS projects, the current system is not fit for purpose when it comes to the scope and scale of investment we require.

An opportunity that was not addressed in the discussion document is the near-term opportunity to reduce methane emissions from the oil and gas sector. We recognize the existing commitments the Government has made to reducing methane emissions and we strongly support these actions. We believe there can be further focus on methane in the emissions cap and that such a focus may allow for greater flexibility in how the industry can align with Canada's goals. Aggressive, near-term action on methane emissions could, for example, help offset the expected delays in reductions that are expected due to the substantial infrastructure investments required in the oil sands region.

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Methane abatement is the most cost-effective opportunity for reducing emissions in the sector and can largely be achieved with existing technologies.

However, absent an improved system for detecting and measuring the sources of methane emissions, this opportunity will not be realized. It seems clear that current methodologies for estimating methane emissions are not fit for the task. Incentives for implementing direct measurement of methane should be considered, if paired with increased expectation for reductions. Specifically, we note the Oil and Gas Methane Partnership (OGMP) 2.0 has established best practices in measurement and mitigation but has to date had little to no participation from Canadian firms. The Government should consider how it could incent company participation and accountability to the OGMP 2.0 framework.

We thank you for the opportunity to share our perspective on the proposed emissions cap for the oil & gas sector. We support the Government's ambition to align the sector with a net-zero trajectory and continue to believe the sector has the ability and the innovative spirit to meet this challenge. Please feel free to contact us should you have any questions on what we've written.

Best regards,

Jamie Bonham
Director, Corporate Engagement, NEI Investments