



The Climate Registry

Cover Memo to Accompany The Oil & Gas Production Protocol and Addendum to the General Verification Protocol

DRAFT FOR PUBLIC COMMENT

August 24, 2009

The Climate Registry (The Registry) is pleased to release the Oil and Gas Production (O&GP) Protocol and the O&GP Addendum to the General Verification Protocol (GVP) for public comment. The Registry developed these documents through a collaborative process with the Western Regional Air Partnership (WRAP) and the WRAP's Technical Working Group (see page iii of the draft O&GP Protocol for a list of participants). SAIC, Environ, The Registry's Verification Advisory Group, Eileen Tutt and The Registry's Protocol Committee and Registry staff including Jill Gravender, Peggy Foran, Jackie Huggins and Adam Regele also made substantial contributions to these documents.

O&GP Protocol

The purpose of this protocol is to provide the necessary reporting guidance for O&GP sector Members of The Registry's voluntary greenhouse gas (GHG) reporting program. The O&GP Protocol is designed as an appendix to The Registry's General Reporting Protocol (GRP), and must be used in conjunction with the GRP. It provides important supplemental reporting guidance, additional requirements for Registry Members with oil and gas exploration, production and oil transportation operations, as well as sector specific clarifications to requirements in the GRP. O&GP Members will still need to use the GRP to understand The Registry's overall reporting requirements and to quantify and report emissions from many of their sources. In order to facilitate coordinated use of the GRP and this protocol, the O&GP Protocol structure closely parallels that of the GRP.

The Registry seeks public comment on the draft O&GP Protocol. While The Registry welcomes and encourages comments on all aspects of the O&GP Protocol, it particularly seeks comments on the items listed below.

1. Facility Definitions: Sector-specific Definition of an Aggregated Facility

The Registry's GRP allows for the aggregation of emissions from facilities by facility type. However, operators in the O&GP sector often control a large number of distributed stationary facilities of different types, such as individual wellheads or compressor stations. Reporting these distributed facilities according to the requirements in the GRP constitutes an unparalleled burden for reporters in the O&GP sector. Furthermore, the transparency gained through the reporting of distributed stationary O&GP facilities according to the requirements in the GRP is of little additional use to stakeholders.

To address the needs of the O&GP sector, this draft O&GP Protocol allows for the aggregation of emissions from distributed facilities into "Oil and Gas Exploration and Production Installations." These installations will consist of aggregated emissions from all distributed facilities within a Member-defined area. The minimum defined area acceptable for reporting to The Registry is a single government-defined production field. Members can also aggregate emissions from distributed facilities within multiple production fields together, provided they indicate which government-defined production fields have been combined for reporting GHG emissions.

The Registry would like feedback on two specific questions related to the facility definition outlined above:

A. Upper Bounds Limit on Aggregation of Emissions from Distributed Facilities:

In the GRP, The Registry has worked to ensure that GHG emissions data be associated with the state, province, territory or Native Sovereign Nation it originated in whenever possible. The Registry would like to understand if Oil and Gas Exploration and Production Installations can be defined to include, at most, all emissions from distributed facilities within a single state or province/territory. Are there situations that would make this impossible? If this is feasible, what caveats or guidance should The Registry provide to assist Members defining their Oil and Gas Exploration and Production Installation boundaries? The Registry is also interested in understanding if the upper bounds for aggregating distributed facilities into an Oil and Gas Exploration and Production Installation should be based on a different characteristic, such as the oil and gas basin in which a group of production fields are located. Are there reasons why it would be beneficial not to define an upper boundary for the aggregation of these distributed facilities? If Registry Members were not required to adhere to a prescribed upper bounds limit and therefore had unlimited flexibility to set their own Oil and Gas Exploration and Production Installation boundaries, would there be a tradeoff between broader boundaries and the determination of reporting thresholds under a forthcoming mandatory reporting program? *Please include the rationale for your comments and examples in your response.*

B. Requirement to Report Facility Types in Installation:

Because the sector-specific facility aggregation provision above combines emissions from different facility types (wellheads, compressor stations, etc.), the transparency of the reported emissions is not as great as if the facilities had been reported separately. In order to preserve the transparency within its reporting program The Registry is considering requiring that when a Member reports emissions from an Oil and Gas Exploration and Production Installation, it will include a list of the facility types operating within that installation. Emissions will not be allocated to each facility type, but this additional information will help demonstrate the types of operations that contribute to that Member's GHG emissions footprint. *The Registry is also interested in understanding if the facility types operating within Oil and Gas Exploration and Production Installations would need to be updated on an annual basis due to the dynamic operations in production fields or if facility types typically remain constant.*

The Registry recognizes that if Members are defining the facility types themselves, it may not be clear from one organization to another where those emissions were coming from and comparisons of Oil and Gas Exploration and Production Installations may be difficult to make. The Registry seeks feedback on the benefits and disadvantages of allowing Members to define their own facility types. The Registry would also appreciate feedback on the feasibility of Registry-defined facility types and on whether or not Registry-defined facility types would be beneficial to Members. *If you believe The Registry should define facility types, please indicate what appropriate facility type categories are for this sector, how The Registry's definitions could ensure consistency across reporters and with future mandatory programs, and the reasoning behind your comments.*

2. Calculation Methodologies: Sector-specific Defaults for Stationary Combustion Sources

Chapter 12 of the O&GP Protocol provides some calculation methodologies for equipment in this sector that is operated without fuel-use meters. These methodologies require that either time of use is metered or that the unit runs continuously (24 hours per day). The Registry recognizes that there may be a need for default factors for these methodologies where factors such as time of use, load factors and horsepower data are not available. Therefore, The Registry has the following questions:

- A. Do the methodologies in Chapter 12 of the O&GP Protocol and Chapter 12 of The Registry's GRP provide sufficient guidance to allow for the reporting of all direct stationary combustion emissions from this sector?
- B. If defaults are needed for time of use, load factor, and horsepower, where could The Registry find published information that could serve as those defaults or lead to the calculation of default factors?

3. Additional Reporting Requirements: Scope 3 Emissions from Drilling, Completions and Workovers

GHG emissions reports submitted to The Registry should reflect a faithful, true and fair account of an organization's GHG emissions. An emissions report that accurately reflects these characteristics ensures the relevance of the report, allows for appropriate risk management on the part of the reporting organization and its stakeholders, and identifies all opportunities for emissions reductions that the reporting organization can influence.

The Registry's GRP indicates that if activities are outsourced, any emissions from the outsourced activities are not required to be reported because the nature of the contracting relationship moves the emissions outside of the organizational boundary of the reporting entity. These emissions can optionally be reported to The Registry as Scope 3 emissions.

In the O&GP sector certain GHG-emitting activities, specifically drilling, completions and workovers, have been seen as integral to the O&GP process. These activities are typically operated and managed by contractors. Therefore, The Registry must determine if Scope 3 emissions from these activities should be required to be reported by O&GP companies. Emissions from equipment used to conduct drilling activities, completions and workovers are believed to reach up to ten percent of the total emissions from O&GP operations in some cases. Understanding the true extent of emissions from these operations will help O&GP companies to understand their full GHG risk exposure – as emissions from equipment used to complete drilling activities, completions and workovers may be required to be reported to mandatory programs. O&GP company stakeholders may also see great value in understanding the emissions from these sources both for their own financial risk management and their interest in environmental initiatives.

Furthermore, although O&GP companies do not directly control their contractors, they do have some indirect control over the emissions they generate. Therefore, an understanding of these emissions could lead to actions to reduce GHG emissions.

However, it is important to ensure that reporting requirements for The Registry's voluntary program are balanced for all Members across all sectors. Although The Registry has reserved the right to require Scope 3 emission reporting through industry-specific protocols, to date this has not been implemented. Should The Registry require the reporting of Scope 3 emissions from equipment used to conduct drilling activities, completions and workovers, it will be the first requirement of its kind in the program. Therefore, it is crucial that these activities be truly integral to the operations of O&GP companies.

Another issue that generally arises when Scope 3 emissions are required to be reported is that it can be difficult to obtain the activity data necessary to report accurate emissions for activities that an organization does not directly control. In order to ensure that all Members who are required to report Scope 3 emissions are able to, The Registry will provide an alternative default calculation methodology that it will explicitly accept for the reporting of emissions where activity data is unavailable. The use of this alternative default methodology may lead to very rough

conservative estimations of emissions from the Scope 3 sources it applies to, but it will also ensure that all Members are able to meet their reporting requirements.

Given the discussion outlined above, The Registry is highly interested in receiving comments addressing the following questions:

- A. Should The Registry require that Scope 3 contractor emissions from drilling, completions and workovers be reported by O&GP companies? *Please describe in detail why The Registry should or should not require these emissions be reported by O&GP companies responding to the issues outlined above.*
- B. When Members cannot obtain activity data from their contractors, what default calculation methodologies should they use to estimate these Scope 3 emissions? *Please comment on the types of information available to O&GP companies and how that information can lead to a default calculation methodology.*

4. Completeness of the Protocol

The O&GP sector has many unique emission activities and sources. The Registry's O&GP Protocol will need to ensure that appropriate calculation methodologies are available for all sources of GHG emissions within this sector. Given the requirement of The Registry's voluntary reporting program that 100 percent of an entity's emissions be reported, please comment if any GHG emission sources from this sector have been omitted or if there are additional calculation methodologies or emission factors in practice for the sources that are identified in the draft O&GP Protocol. The Registry is especially seeking information about sources, methodologies and emission factors that are appropriate for use across Canada and Mexico.

O&GP Addendum to the GVP

The purpose of this addendum to the GVP is to communicate O&GP sector-specific verification requirements and guidance to Verification Bodies. The addendum is structured to mirror the organization of the body of the GVP (e.g. the section numbers and topics addressed in the addendum parallel those of the GVP) and is intended to be used in conjunction with the GVP.

The Registry seeks public comment on the draft O&GP Addendum to the GVP. While The Registry welcomes and encourages comments on all aspects of the addendum, it particularly seeks comments on the items listed below.

1. Verification of Scope 3 Emissions from Drilling, Completions and Workovers

If the final O&GP Protocol requires Members to report Scope 3 contractor emissions associated with drilling, completions, and workovers and these emission sources are included in the Verification Body's sampling plan, The Registry would welcome feedback as to whether the

Verification Body should be required to review first-hand evidence (as opposed to a written attestation from the contractor).

2. Facility Visits

The Registry requires that Verification Bodies conduct facility visits as part of their verification activities. The Registry welcomes feedback regarding considerations specific to conducting visits at O&GP facilities, specifically to offshore platforms. Does the benefit to visiting facilities outweigh the cost, transportation, and health and safety issues or could a reasonable level of assurance be achieved through a desktop review?

3. Conflict of Interest Assessment

The Climate Registry requires Verification Bodies to conduct a case-specific conflict of interest (COI) assessment for each verification it undertakes. Do the standard COI rules in the GVP need to be expanded to address the complex ownership and operating patterns characterizing the O&GP sector? Specifically, if a Verification Body is retained to verify the emissions of the operating company of a consortium, should the Verification Body's relationship with other consortium members be relevant to the determination of a case-specific COI? If so, how would the rules need to be changed? Would expanding upon the existing COI rules still leave a sufficient pool of Verification Bodies that are qualified to perform work for this sector or would O&GP Members be unable to find a Verification Body without a conflict of interest?

Conclusion

Thank you for your thoughtful feedback and comments. The Registry will make final determinations on the issues presented above based on the public comments that are received.

The Climate Registry strives to implement a transparent protocol development process that includes the participation of a wide array of stakeholders. We sincerely appreciate your interest in this draft O&GP Protocol and draft O&GP Addendum to the GVP.

Public comments on these documents must be submitted to Sandra Miranda at sandra.miranda@saic.com using the appropriate comment template by COB September 25, 2009.