

# Methane Emissions Policies:

## Voluntary and Regulatory

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# Presentation

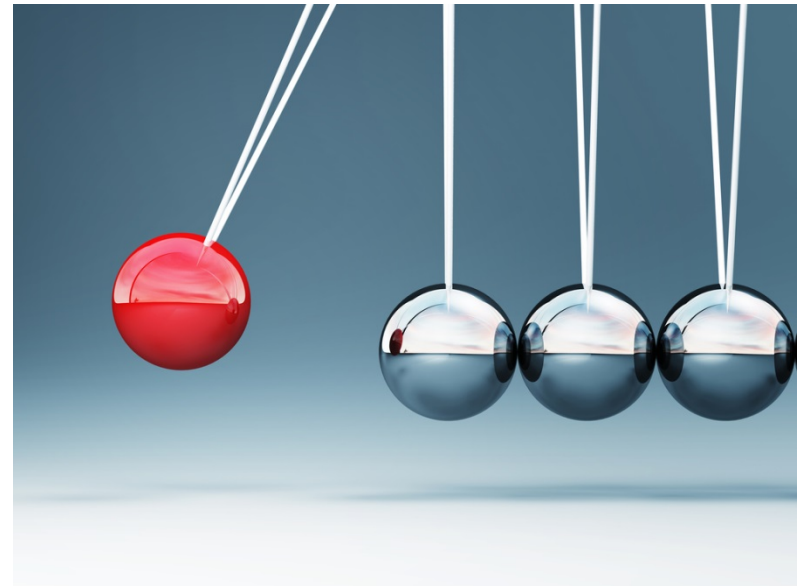
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- Why companies should consider adopting voluntary methane measures
- Why voluntary *intensity* targets make more sense than voluntary *absolute reduction* targets
- How voluntary intensity reductions could integrate into future regulations

# Pendulum Risk

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1. Regulatory rollbacks might not withstand legal challenges
2. A future administration could rollback the rollbacks
3. Methane regulations promulgated by a future administration could be stringent



Companies that measure, manage, and reduce their methane emissions now will be better prepared for the risk of stringent future methane regulations.

# Form of Voluntary Methane Targets

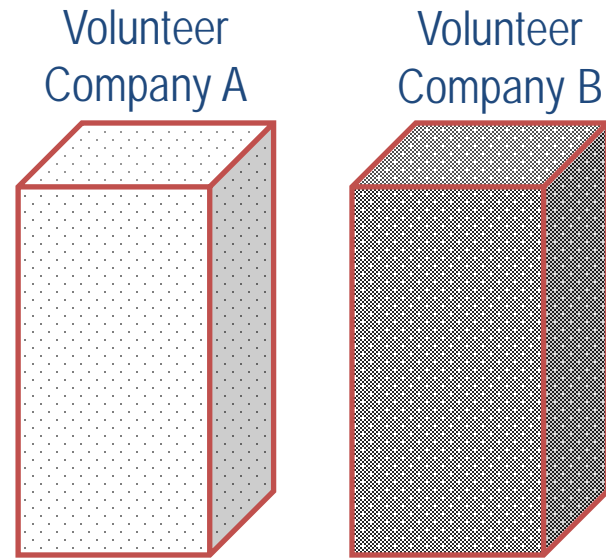
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- Two forms:
  - Intensity target
    - Maintain low methane emission rate (total emissions as a percentage of total gas production)
  - Absolute reduction target
    - Reduce total methane emissions from current levels
- Environmental Defense Fund: “Taking Aim: Hitting the Mark on Oil and Gas Methane Targets” (2018)
  - Recommendation:
    - Volunteering companies should adopt absolute reduction target of 75% reduction from current levels by 2025
  - Second best:
    - Intensity target of 2% or less
  - Focused on upstream production
- ***However, for voluntary company efforts, absolute reduction targets have risks***

# Risk: Rewarding higher emitters, penalizing lower emitters

## It's all about the baseline

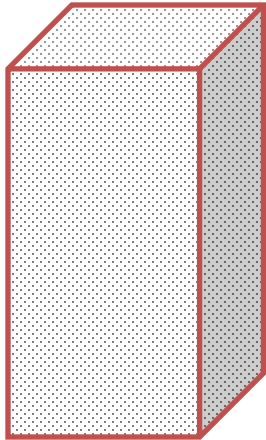
- Company A has low total emissions and low emissions intensity in Year 1
- Company B has high total emissions and high emissions intensity in Year 1



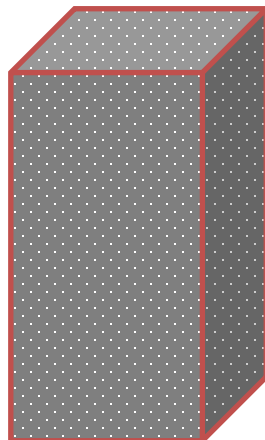
- **Uniform absolute emission target:** With its higher baseline emissions, Company B has less work to do to achieve the target. Company A is penalized for starting as a cleaner system.
- **Uniform intensity target:** With its higher baseline intensity, Company B has more work to do to achieve the target. Company A is rewarded for starting as a cleaner system.

# Risk: Discouraging Growth by Volunteers, Encouraging Growth by Non-Volunteers

Volunteer Company A



Non-Volunteer Company B



## With absolute targets

- Volunteer Company A avoids buying Asset because it will add to its absolute emissions
- Non-Volunteer Company B buys Asset instead
- *No decrease in emissions*

## With intensity targets

- Volunteer Company A buys Asset
- Reduces emissions intensity of the Asset
- *Total emissions decline*

# How Voluntary Corporate Intensity Targets Position Companies Under Future Regulation

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- Possible scenario: Future regulation under Section 111 of the Clean Air Act
- Section 111 emission performance standards
  - Traditionally take the form of *intensity* standards
  - Based on “best system of emission reduction” as determined by EPA
- Section 111 compliance
  - State programs can authorize compliance through *emissions averaging* across regulated facilities
- For further research
  - Can authorized voluntary programs generate *credit for early action* usable in a future regulatory program?

# Conclusions

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- Voluntary measures can help companies manage risk of future methane regulation
- For voluntary company efforts, intensity targets make more sense than absolute targets
- Companies that adopt corporate intensity targets could be better prepared for future methane regulations



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