National Petroleum Council

Meeting the Dual Challenge:
A Roadmap to At-Scale Deployment of Carbon Capture, Use, and Storage

www.dualchallenge.npc.org

Ground Water Protection Council
UIC Conference
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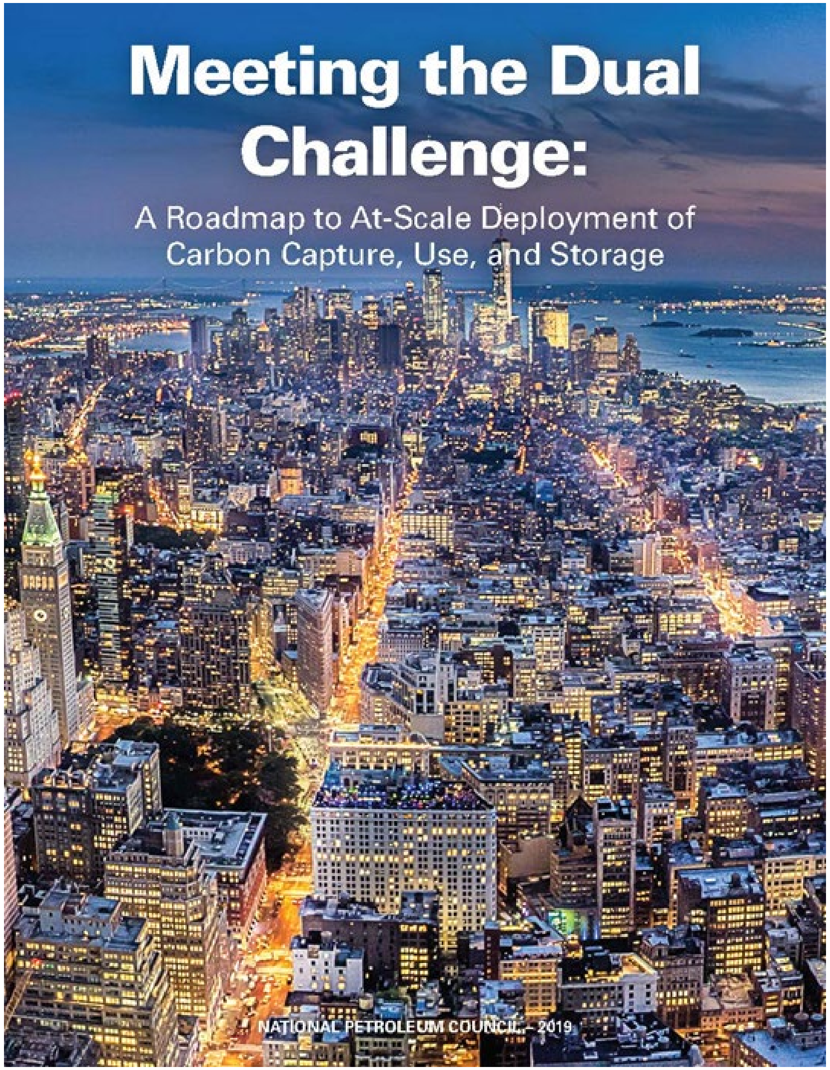
Susan Blevins, ExxonMobil
Leslie Savage, Texas RRC
On behalf of the National Petroleum Council



In September 2017

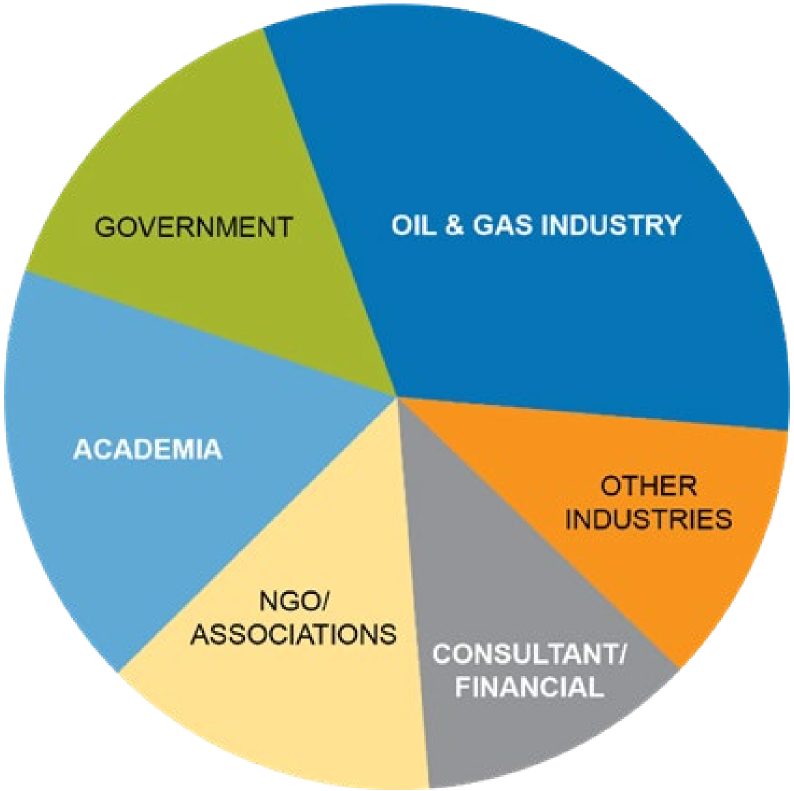
The Secretary of Energy requested the NPC conduct a study

- Define the potential pathways for integrating CCUS at scale into the energy and industrial marketplace.

- The request included five key questions:
  1. What are **U.S. and global future energy demand outlooks**, and the environmental benefits from the application of CCUS technologies?
  2. What **R&D, technology, infrastructure, and economic barriers** must be overcome to deploy CCUS at scale?
  3. How should **success be defined**?
  4. What actions can be taken to establish a **framework that guides public policy and stimulates private-sector investment** to advance the deployment of CCUS?
  5. What **regulatory, legal, liability or other issues** should be addressed to progress CCUS investment and to enable the U.S. to be global technology leaders?

Study participation

- Over two-thirds of study participants came from outside the oil and gas industry.
- The Coordinating Subcommittee has membership of 22 individuals representing upstream and downstream oil & gas, LNG, biofuels, power, NGO, and state and federal governments.
- Overall study team included over 300 participants from more than 110 different organizations and 17 international members.



Findings 1- 4

1. As global economies and populations continue to grow and prosper, the world faces the dual challenge to provide affordable, reliable energy while addressing the risks of climate change.

2. Widespread CCUS deployment is essential to meeting the dual challenge at the lowest cost.

3. Increasing deployment of CCUS can deliver benefits and favorably position the United States to participate in new market opportunities as the world transitions to a lower CO_2 intensive energy system.

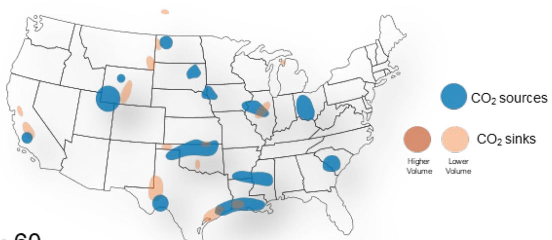
4. The United States is uniquely positioned as the world leader in CCUS and has substantial capability to drive widespread deployment.

Finding 5: Activation Phase

5. Clarifying existing tax policy and regulations could activate an additional 25 to 40 million tons per annum (Mtpa) of CCUS, doubling existing U.S. capacity within the next 5 to 7 years. (No congressional action required)

Recommendations

- IRS to clarify Section 45Q requirements for transferability, secure geologic storage, construction start date, and credit recapture
- DOI and states to establish a process for access to and use of pore space for geologic storage on federal and state lands
- EPA should issue a Class VI permit to drill within six months
- EPA, upon receipt of a completed well report, should review and make any necessary modifications, and issue a Class VI permit to inject within six months
- EPA to undertake planned periodic review of Class VI regulations to align with site-specific risk and performance-based approach



~60 Mtpa — Cumulative annual CCUS Volume

~$50 B investment (cumulative)

~$2 B pipeline infrastructure investment

~10K annual jobs

9% of US oil system by volume

** note: 35mtpa is likely overstated based on current 12 year life of 45Q tax credit – the increase to 20 years does not come until Expansion phase*

Finding 6: Expansion Phase

6. Extending and expanding current policies and developing a durable legal and regulatory framework could enable the next phase of CCUS projects (an additional 75-85 Mtpa) within the next 15 years.

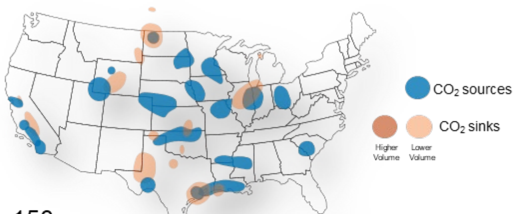
Recommendations

Congress to:

- Amend 45Q to extend construction start date to 2030, increase duration to 20 years, lower volume threshold, and increase credit for saline storage
- Expand access to Section 48 tax credits for all projects
- Expand access to MLPs, private activity bonds, and TIFIA eligibility/funding for all projects
- Increase EPA and state regulatory funding to support well permitting and timely reviews
- Amend OCSLA and MPRSA to allow geologic storage in federal waters from all CO_2 sources

Agencies to:

- DOE & DOI to implement process for access and regulation
- DOE to create CO_2 pipeline working group made up of relevant agencies and stakeholders to harmonize permitting processes, establish tariffs, grant access, administer eminent domain authority, and facilitate corridor planning
- DOE to convene stakeholder forum to develop a risk-based standard to address geologic storage long-term liabilities
- State policymakers adopt regulation for access, ownership, unitization & fair compensation for storage on private lands



~150 Mtpa — Cumulative annual CCUS Volume

~$175 B investment (cumulative)

~$9 B pipeline infrastructure investment (cumulative)

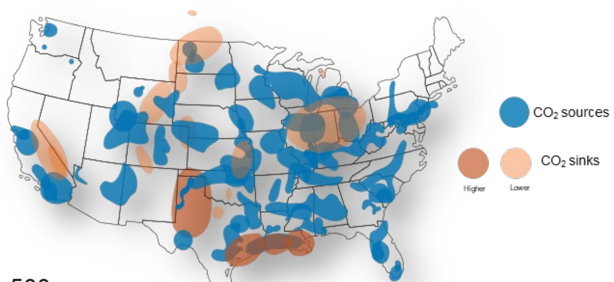
~40K annual jobs (cumulative)

23% of US oil system by volume

Finding 7: At-Scale Deployment Phase

7. Achieving CCUS deployment at scale, an additional 350-400 Mtpa, in the next 25 years will require substantially increased support driven by national policies.

<u>Recommendation</u>:
To achieve at-scale deployment, congressional action should be taken to implement economic policies amounting to about \$110/tonne. The evaluation of those policies should occur concurrently with the expansion phase.



~500 Mtpa — Cumulative annual CCUS Volume

~\$680 B investment (cumulative)

~\$28 B pipeline infrastructure investment (cumulative)

~230K annual jobs (cumulative)

76% of US oil system by volume

Finding 8: Research, Development and Demonstration

8. Increased government and private research, development, and demonstration is needed to improve performance, reduce costs, and advance alternatives beyond currently deployed technology.

Recommendation: Congress should appropriate $15 billion of RD&D funding over the next 10 years to enable the continued development of new and emerging CCUS technologies and demonstration of existing technologies.

Technology	R&D (including pilot programs)	Demonstrations	Total	10-Year Total
Capture (including negative emissions technologies)	$500 million/year	$500 million/year	$1.0 billion/year (over 10 years)	$10 billion
Geologic Storage	$400 million/year		$400 million/year (over 10 years)	$4 billion
Nonconventional Storage (including EOR)	$50 million/year		$50 million/year (over 10 years)	$500 million
Use	$50million/year		$50 million/year (over 10 years)	$500 million
Total	**$1.0 billion/year**	**$500 million/year**	**$1.5 billion/year**	**$15 billion**

Findings 9 and 10: Public and Industry Engagement

9. Increasing understanding and confidence in CCUS as a safe and reliable technology is essential for public and policy stakeholder support.

Recommendations:

- Government, industry, and associated coalitions design policy and public engagement opportunities to facilitate open discussion, simplify terminology & build confidence that CCUS is a safe, secure means of managing emissions.
- Oil and natural gas industry remain committed to improving its environmental performance and the continued development of environmental safeguards.

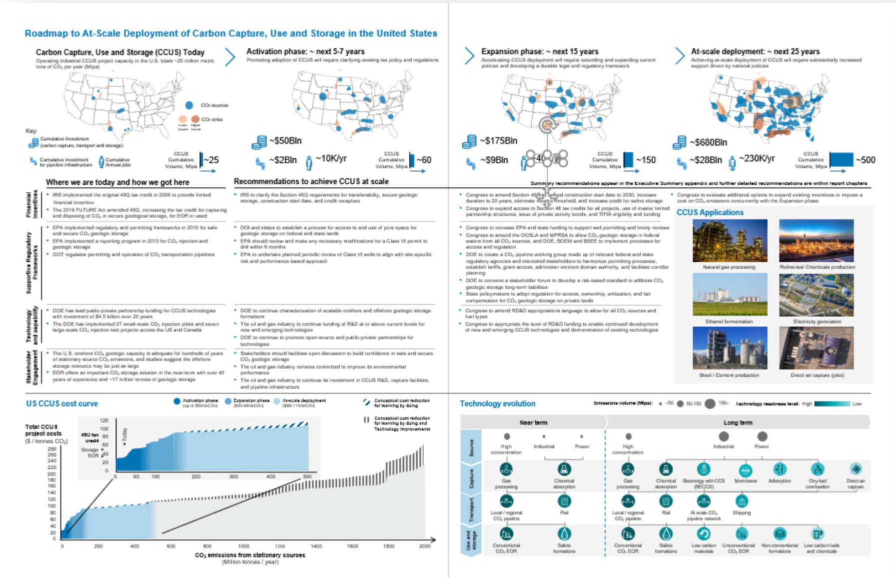
10. The oil and natural gas industry is uniquely positioned to lead CCUS deployment due to its relevant expertise, capability, and resources.

Recommendation:

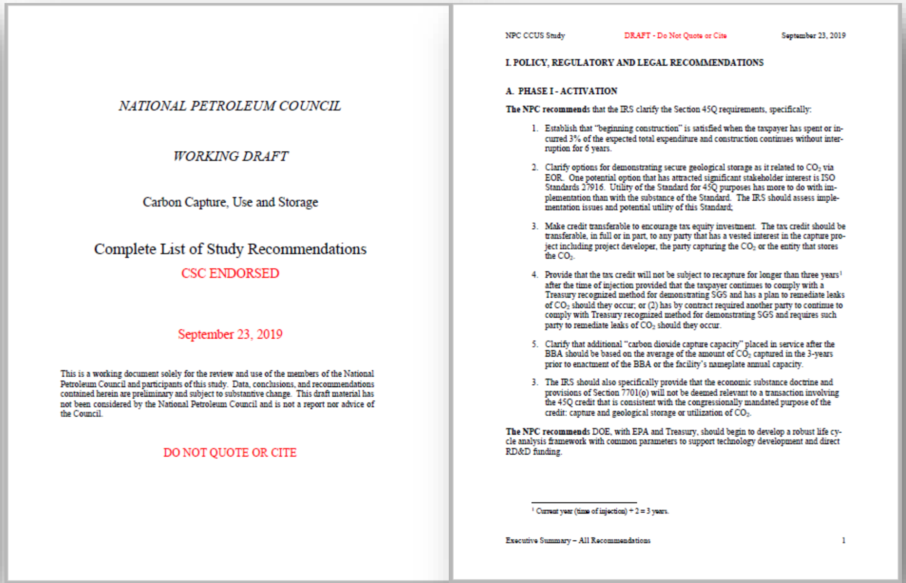
- The oil and natural gas industry continue investment in CCUS, specifically:
  - Current and next generation capture facilities
  - Development of new technologies
  - CO_2 pipeline infrastructure needed for EOR and saline storage
  - R&D for advancing CCUS technologies

Roadmap and full list of recommendations

Roadmap to At-Scale CCUS Deployment



All Study Recommendations


NATIONAL PETROLEUM COUNCIL

WORKING DRAFT

Carbon Capture, Use and Storage

Complete List of Study Recommendations

CSC ENDORSED

September 23, 2019

This is a working document solely for the review and use of the members of the National Petroleum Council and participants of this study. Data, conclusions, and recommendations contained herein are preliminary and subject to substantive change. This draft material has not been considered by the National Petroleum Council and is not a report nor advice of the Council.

DO NOT QUOTE OR CITE

NPC CCUS Study DRAFT - Do Not Quote or Cite September 23, 2019

I. POLICY, REGULATORY AND LEGAL RECOMMENDATIONS

A. PHASE I - ACTIVATION

The NPC recommends that the IRS clarify the Section 45Q requirements, specifically:

1. Establish that "beginning construction" is satisfied when the taxpayer has spent or incurred 3% of the expected total expenditure and construction continues without interruption for 6 years.
2. Clarify options for demonstrating secure geological storage as it related to CO_2 via EOR. One potential option that has attracted significant stakeholder interest is ISO Standards 27916. Utility of the Standard for 45Q purposes has more to do with implementation than with the substance of the Standard. The IRS should assess implementation issues and potential utility of this Standard;
3. Make credit transferable to encourage tax equity investment. The tax credit should be transferable, in full or in part, to any party that has a vested interest in the capture project including project developer, the party capturing the CO_2 or the entity that stores the CO_2.
4. Provide that the tax credit will not be subject to recapture for longer than three years[1] after the time of injection provided that the taxpayer continues to comply with a Treasury recognized method for demonstrating SGS and has a plan to remediate leaks of CO_2 should they occur; or (2) has by contract required another party to continue to comply with Treasury recognized method for demonstrating SGS and requires such party to remediate leaks of CO_2 should they occur.
5. Clarify that additional "carbon dioxide capture capacity" placed in service after the BBA should be based on the average of the amount of CO_2 captured in the 3-years prior to enactment of the BBA or the facility's nameplate annual capacity.

3. The IRS should also specifically provide that the economic substance doctrine and provisions of Section 7701(o) will not be deemed relevant to a transaction involving the 45Q credit that is consistent with the congressionally mandated purpose of the credit: capture and geological storage or utilization of CO_2.

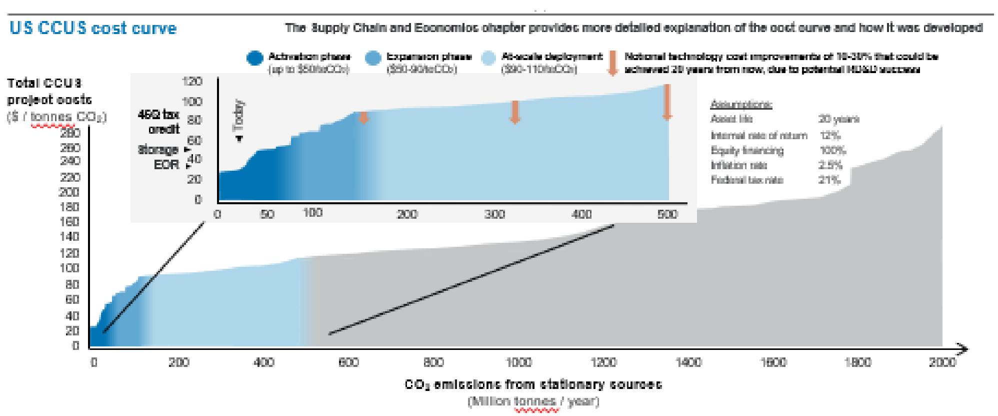
The NPC recommends DOE, with EPA and Treasury, should begin to develop a robust life cycle analysis framework with common parameters to support technology development and direct RD&D funding.

[1] Current year (time of injection) + 2 = 3 years.

Executive Summary – All Recommendations 1

Roadmap for CCUS deployment

- The Secretary requested a roadmap of actions needed to drive widespread deployment of CCUS in the U.S. over the next 25 years
- To develop the roadmap, a CCUS cost curve was developed:
  - Assessed the costs to capture, transport and store the largest 80% of U.S. stationary source CO_2 emissions – source, industry, and location specific and use transparent assumptions
  - Plotted the cost to capture, store and transport one tonne of CO2 against the volume of CO2 abatement possible – identifies the level of value (incentives, revenue, etc.) needed to enable deployment.



- The roadmap details recommendations in four pathways – financial incentives, regulatory frameworks, technology and capability, and stakeholder engagement and across three phases – activation, expansion and at-scale, designed to achieve widespread deployment.

CCUS deployment at scale

Will mean:

- Moving from 25 to **500 Million tonnes per annum** of CCUS capacity
- Infrastructure buildout equivalent of **13 million barrels per day** capacity
- Incremental investment of **$680 billion**
- Support for **236,000 U.S. jobs** and **GDP of $21 billion** annually

Will require:

- Improved **policies**, **incentives**, **regulations** and **legislation**
- Broad-based **innovation** and **technology** development
- Strong **collaboration** between **industry** and **government**
- Increased **understanding** and **confidence** in CCUS

Backup

NPC study report

Executive Summary (Volume 1)

- Transmittal letter
- Report outline
- Preface
- Executive Summary, Roadmap and Recommendations

Appendices

A. Request Letter and NPC Description
B. Study Group Rosters

CCUS Deployment At-Scale (Volume 2)

- **Chapter 1:** The Role of CCUS in Future Energy Mix
- **Chapter 2:** CCUS Supply Chains & Economics
- **Chapter 3:** Policy, Regulatory & Legal Enablers
- **Chapter 4:** Stakeholder Engagement

Appendices

C. CCUS Project Summaries
D. Integrated Economic Analysis (ERM Memo)

CCUS Technologies (Volume 3)

- **Technology Introduction**
- **Chapter 5:** CO_2 Capture
- **Chapter 6:** CO_2 Transport
- **Chapter 7:** CO_2 Geologic Storage
- **Chapter 8:** Enhanced Oil Recovery
- **Chapter 9:** CO_2 Use

Appendices

E. Mature CO_2 Capture Technologies
F. Emerging CO_2 Capture Technologies
G. CO_2 EOR Case Studies
H. CO_2 EOR Economic Factors and Considerations

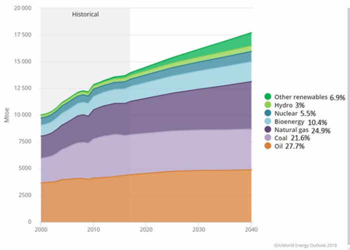
List of Topic Papers
Abbreviations, Units, Glossary

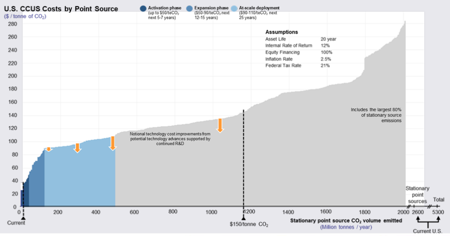
Findings and Recommendations

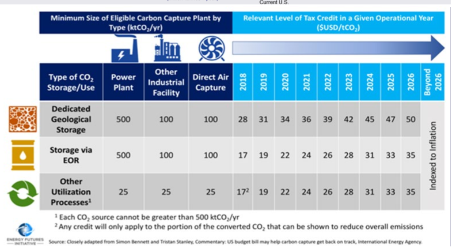
Full Report

CCUS Deployment At-Scale (Volume 2)

Title	Lead Authors	Key Sections
The Role of CCUS in a Future Energy Mix	Jason Bordoff Julio Friedmann	• Global & U.S. energy demand forecasts • Role of CCUS • U.S. CO_2 emissions profile • Benefits of CCUS – environmental, economic, US leadership
CCUS Supply Chains and Economics	Nigel Jenvey Guy Powell	• Complexity of supply chain • Description of existing projects • Supply chain enablers • Cost to deploy CCUS • Enablers for future projects
Policy, Regulatory and Legal Enablers	Leslie Savage Susan Blevins	• Existing policy and regulatory framework • Activation phase actions • Expansion phase actions • At-scale phase actions • Research and development priorities
Stakeholder Engagement	Sallie Greenberg	• Spheres of public engagement • Public perception of CCUS • Defining and understanding stakeholders • Strategic engagement





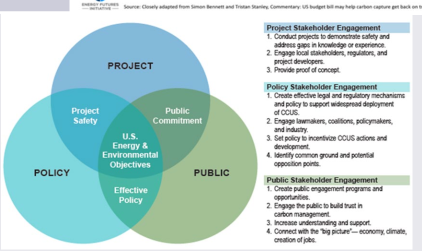


Type of CO_2 Storage/Use	Power Plant	Other Industrial Facility	Direct Air Capture	2018	2019	2020	2021	2022	2023	2024	2025	2026	Beyond 2026
Dedicated Geological Storage	500	100	100	28	31	34	36	39	42	45	47	50	Indexed to Inflation
Storage via EOR	500	100	100	17	19	22	24	26	28	31	33	35	Indexed to Inflation
Other Utilization Processes[1]	25	25	25	17[2]	19	22	24	26	28	31	33	35	Indexed to Inflation

Minimum Size of Eligible Carbon Capture Plant by Type ($ktCO_2/yr$) — Power Plant, Other Industrial Facility, Direct Air Capture; Relevant Level of Tax Credit in a Given Operational Year ($\$USD/tCO_2$) — 2018 to Beyond 2026.

[1] Each CO_2 source cannot be greater than 500 $ktCO_2/yr$
[2] Any credit will only apply to the portion of the converted CO_2 that can be shown to reduce overall emissions

Source: Closely adapted from Simon Bennett and Tristan Stanley, Commentary: US budget bill may help carbon capture get back on track, International Energy Agency.



CCUS Technologies (Volume 3)

Title	Lead Authors	Key Sections
CO_2 Capture	John Northington Jennifer Wilcox	• Capture process • Technology types and maturity • Opportunities by sector • Capture cost drivers • Research and development priorities
CO_2 Transport	Dan Cole	• Current transport technologies • Existing U.S. CO_2 pipeline network • Role of transport in widespread CCUS deployment
CO_2 Geologic Storage	Richard Esposito Sally Benson	• Description of CO_2 geologic storage • Commercial scale experience and enablers • Options for CO_2 storage and capacity potential • Research and development priorities
CO_2 Enhanced Oil Recovery	William Barrett	• EOR technology experience and maturity • Conventional vs. non-conventional EOR • EOR capacity potential, near- and long-term • Research and development priorities
CO_2 Use	Will Morris Alissa Park	• CO_2 use technologies, pathways and products • Relative experience and maturity • Opportunities and challenges • Research and development priorities