

Key questions for the consultation on the Guidance on setting science-based targets for the Oil & Gas and Integrated Energy sector companies

Please be aware that the current "Guidance on setting science-based targets for Oil, Gas and Integrated Energy companies" is a work-in-progress representing the views of its authors and perspectives conveyed by the Technical Working Group of this project. It is not meant to represent a definitive position of the Science Based Targets initiative, nor the official position of any of the SBTi partner organisations. Because this document is a work-in-progress, it may still change, perhaps profoundly, namely as a result of this public consultation.

This document frames 6 key themes that emerged while discussing how to set science-based targets for Oil, Gas and Integrated Energy companies. Its purpose is to elicit explicit feedback on these themes which raise complex questions that have slightly different answers depending on the specific viewpoint of each stakeholder and the nuances between them are important. In this document, we aim to concisely lay out the 6 themes and invite the participants in the public consultation to give us their points of view on some of the questions which they raise.

1. Which scenarios should be used for setting SBT's?

The setting of an SBT depends not only on the specific method used to set the target but also on the scenarios used within the methodology. The SBTi currently recognizes WB2C (Well-below 2°C, or targets with a likelihood of staying ~1.7°C) and 1.5°C targets and requires that these are met with low-overshoot, and preferencing scenarios that prioritize early action. Further to this, within the SBT Technical Working Group for Oil, Gas and Integrated Energy companies (TWG-OGIE), there were discussions about the levels of CCS, BECCS and CDR in scenarios meeting the WB2C and 1.5C goals. Overall, it can be said that the higher the level of CCS the more lenient the transition out of fossil fuels is, and that the higher BECCS and CDR are, the more dependent society is on an even more uncertain technological fix to our current dependency on fossil energy. After analysis, it was observed that scenarios with high volumes of BECCS are also dependent on high volumes of bioenergy – some of which might not be available unless other sustainability objectives are compromised. For this reason, a limit to sustainable bioenergy has been proposed (<135 EJ) as an additional filter for scenarios, leaving just a few scenarios available for SBT setting purposes, especially for 1.5°C targets.

Some of the feedback from the TWG included:

- Concerns over reliance on negative emissions technology are perhaps better addressed directly rather than indirectly through the assumption that a high overshoot scenario will always have the largest amount of negative emissions.
- Adopting a very restricted set of scenarios for target setting purposes does not guarantee the delivery of the outcomes described in the scenarios. Similarly, filtering scenarios doesn't make a particular outcome more likely; instead it might limit the future range of possibilities. The value of multiple scenarios is to illustrate the broad range of future outcomes which could satisfy the goals of the Paris agreement. Nonetheless, some outcomes are more likely than others, and some degree of scenario selection may be appropriate to remove less plausible

scenarios. Defining plausibility across environmental, societal, economical, technical, etc, perspectives is a challenge and an uncertain exercise. The SBTi has proposed to advance with physical limits, which might be better able to be objectively assessed.

- The limit set for bioenergy might be too small/restrictive, close to the range where there is “high agreement”, while setting it to a “medium agreement” level of 300 EJ might be more appropriate.

Key questions for consultation

Considering some of the arguments we are particularly interested in hearing from stakeholders on the following questions on this topic:

1. Should any scenario that meets WB2C or 1.5C be allowed, or are considerations around levels of overshoot, need for early action and approaching uncertain physical planetary limits reasonable criteria to select scenarios?

The considerations listed are reasonable due to the structure of the target not necessarily fully aligning with these timelines. A target that is based off of a scenario that heavily relies on negative emissions technologies in the second half of the century, yet is only committed to emissions (absolute or intensity) reductions of a 20-year period, for example, may create misaligned incentives around the need for immediate action. Absolute limits on negative emission technologies ought to extend beyond BECCS, and be determined based on the projected plausibility of those technologies at developing to the proposed carbon sequestration levels. As such, dependent on the progress of these technologies, the range of scenarios may change over time in either direction, opening up new possible scenarios that may be used or closing others down based on the speed of development. The main concern with such an approach would be the burden of continuously updating absolute figures, and the lack of oversight to such a process, around determining absolute contributions from negative emissions technologies. Setting such limits is also more consistent with financial analysis / valuation of companies, which typically would not give credit to unproven future developments, without a credible path to realising them. Adjusting the limits based on development of proven technology or approaches may also create an incentive for companies to invest in developing these sooner.

2. What criteria could reasonably be implemented to remove implausible scenarios?

Criteria which limit an over-reliance on unproven negative emissions technologies ought to be applied, with absolute limits based on the stage of development of each technology. The degree to which other societal outcomes can be inferred may also be a cause for limitation on a case-by-case basis. For example, carbon pricing mechanisms which are socially regressive or scenarios where social inequalities are exacerbated may be omitted. The parameters which restrict certain scenarios should be periodically reviewed and adjusted based off of the stages of technological development and deployment.

3. Should SBTi select just one scenario, or give flexibility for a scenario envelope (range of scenarios) filtered for implausible scenarios?

Once considerations around technology limitations have been taken into account, an envelope of scenarios ought to be allowed. To the degree possible, companies should be encouraged to disclose why a certain scenario is selected, minimising selection bias. Disclosure should also include all material assumptions for investors to be able to compare the application of the scenarios. In applying a least cost methodology, it may be possible to apply a central scenario as well as the one which is chosen by the company, to support comparability between each company's targets.

2. Intensity vs. absolute targets

Climate change requires an absolute emissions reduction and this is part of an “climate integrity check” of any SBT. However, companies are mostly setting intensity targets at the point of sales – which do not necessarily guarantee absolute emission reductions, particularly in the short-term. The SBTi accepts intensity targets, provided that the consideration of growth expectations still leads to an absolute emission reduction. Absolute emissions targets seem to raise an important psychological barrier in business actors in terms of the “freedom to do business” - even if businesses already operate under all sorts of constraints. On the other hand, for many stakeholders, intensity targets are seen as “potential greenwashing” because they do not guarantee absolute emission reductions, even when the reductions in intensity are very significant and it is extremely unlikely that companies in established businesses would be able to grow their activities in such a way that it would not lead to an absolute emission reduction.

On this topic, arguments have been made that: 1) given the significance of the reductions in intensity put forward, there is no way reductions of this magnitude can be achieved while continuing with the old business model (thus, this is a non-issue); and 2) that intensity targets are preferable because they give much needed flexibility for the change ahead.

Our proposal is to accept intensity targets set in a 5-15 year window, which reflect changes in final demand (final energy increasingly decarbonized), with a recommendation to set a long-term target as well. In addition to this requirement, IOCs/IECs (Integrated Energy Companies), as well as Upstream companies should also set an absolute, short-term target on the extraction, reflecting the necessary changes that need to occur at the supply side (decrease of fossil fuel supply).

Key questions for consultation

Considering some of the arguments we are particularly interested in hearing from stakeholders on the following questions on this topic:

4. In your opinion, is it acceptable for companies to set only intensity targets or do you think they should also set absolute targets?

We agree with the position that intensity targets within themselves are not a sufficient means of demonstrating alignment with the goals of the Paris Agreement for companies within the oil and gas sector. Firstly, what is not covered in the prior explanation is that carbon intensity can be seen as a proxy for final product mix. This, therefore, implies that the company is going to transition away from being an oil and gas company, rather than manage the decline of its fossil fuel assets, the principal cause of both the climate and financial risk for the sector. Whether a company is to transition or not is not the most material question with regard to managing climate-related financial risks, and is secondary to minimising risks related to value destruction of fossil fuel assets. As noted, a scope 3 intensity target does not guarantee an absolute reduction in scope 3 emissions. Additionally, there are two points to consider around the assumed transition. Firstly, whether and IOC is the best owner of low-carbon assets, considering the lack of synergies between the activities. In pursuing such a transition under weaker ownership, economic inefficiencies may be produced. Secondly, the transition from IOC to IEC will not be straightforward, and face competition from other directions, such as the utility, technology and automotive sectors. It is unrealistic to suppose, therefore, that all oil and gas companies will be capable of transitioning. It would, therefore, be inappropriate to solely use a metric which incentivises such behaviours, exacerbating risks for shareholders.

We recognise the challenges with oil and gas companies setting absolute scope 3 targets, which disregard the natural competitive nature of the sector. Guarantees around such reductions do act as a better proxy for Paris-alignment, however, and, therefore are preferred.

Both measures have their faults, and a supply cost competitive approach is preferred, whereby companies are able to disclose that all new, material capital expenditures are consistent with the goals of the Paris Agreement, which, over time, would naturally tend towards net-zero emissions.

5. Do you think that requiring companies to set an intensity target, reflecting changes in demand, and an absolute target, reflecting changes in supply, is sufficient to address the concerns about the climate integrity of the targets set by companies?

For those companies that have committed to a transition strategy, the combination of intensity and absolute targets may be appropriate. There is some debate over the boundaries that should be applied for setting such targets, and this ought to be defined for standardisation purposes. Nevertheless, as discussed earlier, the supposition that all oil and gas companies will transition is flawed and should not be encouraged in cases where such clear indications have not been made. An alternative strategy, which focuses on the competitiveness of assets under Paris-consistent scenarios ought to be applied. This is a methodology which can be applied to all potential strategies which oil and gas companies may look to execute. As such, intensity and absolute targets may be seen as supplemental or additional to this methodology.

3. Where in the value chain should companies set targets?

Integrated Oil & Gas companies (IOCs) can set targets for different scopes as well as targets for different parts of the value chain. This could lead to the setting of many targets, 9 or more, which seems unfeasible. The proposed Well-to-Wheel (W2W) methodology addresses many of these issues, but leaves the issue of investment in the development of Oil and Gas resources unaddressed. This is a key aspect in the climate action and investment debate today – the level to which we should be seeing fast decreasing investments in Oil and Gas exploration / development in order to avoid lock-in effects and making sure revenues go to alternative forms of energy compatible with the energy transition.

The SBTi team advanced with 3 methods that can potentially be used for target setting at the supply side:

- Using the *Scope 3 Sectoral Decarbonization Approach*;
- Using the *Least-cost methodology*; which could include an investment commitment (as opposed to a GHG target for production) to only sanction projects with high likelihood of being competitive in 1.5 or WB2C budget (assessed based on least-cost methodology). The least-cost methodology uses CTI¹ stranded assets analysis work and is an innovative way of setting SBTs.

Many companies (but not all companies) do not support targets set on production arguing that: 1) the transition is fundamentally a demand led transition; 2) for that reason, targets on the supply side can lead to “leakage” within the sector with potential detrimental results, as less conscious companies would now be exploring the resources; 3) setting limits on the supply side only limits company flexibility to make their own decisions at each moment on what is the preferable course of action to

¹ Carbon Tracker Initiative.

achieve their objectives; 4) within the constraints of their company operations, decreasing supply will only lead to higher imports, which will lead to same or worse environmental outcomes, but with an undesirable economic impacts.

Key questions for consultation

Considering some of the arguments we are particularly interested in hearing from stakeholders on the following questions on this topic:

6. Do you agree that IOC and Upstream companies should set at least short-term production targets and why?

Short-term (under 5 years) production targets are unlikely to provide much value in managing climate risks. Major projects are already likely to be committed and a short-term outlook on emissions may be valuable from an analytical standpoint but will not be meaningful in driving improved management of climate risks. Production outcomes / targets will be a product of the capital which has already been committed, and it would not make economic sense for a project, where up-front capital has already been committed, to reduce output in order to achieve short-term production targets.

7. Do you agree that these can be set using any of the proposed methodologies?

We do not agree with the proposition that the least-cost methodology acts as a measure of short-term production targets. Rather we see the methodology as constraining absolute supply over the medium- and long-term by ensuring that only projects which are viable under a Paris-aligned scenario will be developed.

8. Do you have a preference between any of the methodologies?

The least cost methodology.

4. Disaggregation of targets by scope

As highlighted above, IOCs can set targets for different scopes as well as targets for different parts of the value chain. This could lead to the setting of many targets, 9 or more, which seems unfeasible. At the same time, the setting of Scope 1&2 targets for upstream activities as well as midstream activities, is affected by a lack of available and detailed scenarios. So far, the work of the TWG has not been able to address this issue appropriately and it seems likely that in order to address it a significant extra amount of technical work would have to be done.

At the same time, the big challenge for IOCs is the energy transition. This is well captured in the Well-to-Wheel (W2W) method with its value-chain S1+2+3 indicator. However, in this method, S1&2 emissions of Oil and Gas companies get dwarfed by S3 the outcome of which could mean that the necessary reductions are not made at S1 and S2. Additionally, the W2W model seems fit for companies that want to transition but does not seem appropriate for companies that want to continue being pure Oil and Gas companies.

The arguments that were advanced for not having separate Scope 1&2 targets included:

1. The need for simplicity in target setting and assessment;
2. The desire to have an integrated perspective/indicator across the value-chain;
3. Scope 2 emissions represent less than 1% and Scope 1 typically less than 10-15% of total value chain emissions;

4. The fact that what really matters for Upstream Oil & Gas is their Scope 3 emissions and the implication of a reduction in scope 3 emissions inevitably means they will reduce their scope 1 & 2 emissions from oil & gas production as their upstream activity will necessarily have to be reduced.

Key questions for consultation

Considering some of the arguments we are particularly interested in hearing from stakeholders on the following questions on this topic:

9. Is a S1+2+3 target sufficient to address S1+2 emissions from companies or should an IOC have separate S1&2 targets, even though they are methodologically complex to calculate?

A scope 1, 2 and 3 target should be sufficient in determining the alignment of the organisation. Nevertheless, we would support the production of a methodology for scope 1 and 2 emissions, where targets are already reported by most companies. A methodology would be valuable in evaluating the stringency of such targets separately from an organisational target. It could be separated as a sub-category, such that the scope 1 and 2 target could be a component to the overall target. It would be expected that each company that had set an organisational science-based targets would have scope 1 and 2 targets which were equally ambitious.

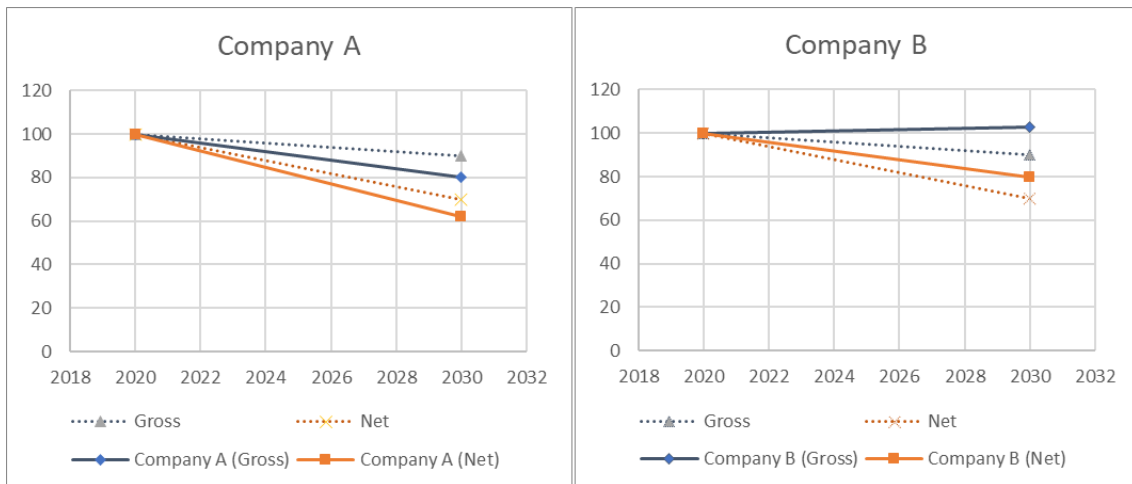
5. Choice of company indicator to set and measure progress on SBT's and alignment with scenarios

Methodologies rely on a comparison between a company indicator to set and measure progress of targets and a scenario variable that reflects the necessary pace of change of the indicator in order to meet the Paris agreement goals. For example, in the case of the WTW method, the indicator is the well-to-wheel carbon intensity of energy and the scenario pathway variable should be calculated in the same way. There are many ways of building the indicators and of modifying scenarios to fit them, but there are also some constraints, both from the point of data availability and from the point of view of what can logically be justified. Additionally, company targets will only be truly comparable², if companies follow one single, prescriptive, methodology.

For example, if a company A says it will reduce 30% of its gross Scope 3 emissions, with its calculation including the embedded carbon of its products, in practice it is saying that it will reduce carbon input to the economy by 30%, meaning a similar reduction (30%) of the high-carbon products it is selling – independently of the mitigation that their clients might then additionally do. On the other hand, if a company B is saying it will reduce 30% of its net Scope 3 emissions, it is saying it will reduce its gross emission

ns minus any CCS the company does minus any potential CCS they provide to their clients. Let us suppose we have a scenario requiring 10% reduction on gross emissions and 30% reduction of net emissions. In this scenario there is ~20% of mitigation happening at client side (CCS).

² E.g. we can have 2 companies stating they will both reduce their absolute S1+2+3 emissions from 2020 to 2030 by 30% and this number might mean very different things depending on how emissions are accounted for.



If the clients of company A capture 20% of their emissions (as in the scenario), total net emissions of Company A will decrease further than the net emission scenario, while Company B could potentially rely exclusively on its clients CCS to meet its targets and maintain its production quota. This is not to say that a gross emission basis is a preferable one to a net emission basis, simply that the comparison basis needs to be the same to compare like for like numbers. Likewise, if the company indicator and the scenario pathway variable are not well aligned, similar distortions might be introduced.

We are particularly interested in hearing stakeholders comments on:

10. the importance of like-for-like comparability of company targets - which requires a one single prescriptive methodology – versus the possibility of just having an approval “stamp” like the SBTi validation of a company target – even if not following one single methodology – but maintaining flexibility in the construction of indicators and scenario pathways.

A singular methodology would be preferable. One of the main purposes for the development of the methodology ought to be the ability to easily compare targets from one company to another, without having the challenge of deciphering different methodologies. The development of the methodology should put an onus on the actions that each company ought to be taking, rather than there to be any reliance on third parties to contribute to emissions reductions.

6. What counts for reaching a target and for reaching net-zero

As per the previous section, what counts for reaching a target is ultimately dependent on how the dyad indicator-scenario is constructed. This can be a nuanced area, however, we try to clarify below how it works under current proposed methods (in particular the W2W method):

1) Accounting for Carbon Capture and Storage (CCS):

a. Direct abatement of CO₂ (CCS of own emissions): is currently accounted in the indicator as a reduced Scope 1 emission. In most scenarios it is not possible to differentiate what amounts of CCS are to be done in the Oil & Gas value chain, but it may be possible in many to do it for an “expanded energy sector” (also covering electricity). As the scenario variable is calculated on a “net emissions” basis, CCS should be counted as an effective mitigation measure when done within the company boundary.

b. Indirect abatement of CO₂ (CCS implemented by a client): is currently not counted in the indicator to reduce Scope 3, USP emissions, due to unclear rules. If CCS is done by client within the client’s

company boundary, this implies a kind of “transfer of a CO₂ emission” to permanent storage. The most substantial part of CCS in scenarios happen within the energy sector – e.g. in gas power – which for some time will likely take place both within the assets of the present day Oil & Gas companies and their clients.

2) Accounting of removals within energy value chain:

a. Indirect removals within the energy value-chain: Indirect removals is not counted as its rules are currently unclear and is also unlikely to play a significant role in decreasing the carbon intensity of energy supplied until the 2040’s. However, negative emissions in the power sector are counted in the scenario for the calculation of energy sector net emissions. BECCS within the power sector is a contentious issue between different stakeholders, and its use in the scenario has been minimized, namely by setting limits connected to sustainable biofuel production.

b. Direct removals in biorefineries: direct removal within a biorefinery process is counted. This is unlikely to play a significant role in terms of decarbonization for a significant amount of companies.

3) Accounting of removals outside of energy value chain:

a. Indirect/direct carbon removals through afforestation/reforestation: these removals are not counted. Afforestation/reforestation removals happen outside the energy sector. It was agreed within the TWG that these removals would not be allocated to the energy sector in the scenario variable. If they were allocated to the energy sector, they would decrease further the energy sector net emissions and the corresponding net carbon intensity of energy would be brought further down, making the scenario more ambitious. This would also make the boundary between sectors murkier.

b. Investments in Nature-based Solutions: these investments, producing either removals or Certified Emission Reductions or other instruments are not counted. There are different types of Nature based Solutions (NbS). While other very important benefits can be delivered by these investment, such as adaptation, disaster risk reduction, green infrastructure, resilience, etc. for the purposes of this methodology, eco-system-based mitigation is the focus. NbS deliver multiple sustainability goals and have key advantages over other carbon dioxide removal (CDR) options, namely their cost-effectiveness and the fact that they can be implemented today. They also have some draw backs like impermanence. But NbS typically occur outside the energy system, within the land or ocean systems and are poorly represented in climate mitigation scenarios. For this reason, while we recognize the importance of Oil, Gas and Integrated Energy companies potentially financing the delivery of NbS, the mitigation outcomes of these investments are not considered within the dyad indicator-scenario and should not be used for purpose of meeting a science-based target as proposed in the current guidance.

4) Where and how energy should be counted:

a. Should energy delivered by companies be counted as primary, secondary or final energy? The TWG agreed to count this as secondary energy, even if this is not readily available in all scenarios.

b. How to account for electricity, namely if corrections should be made to acknowledge the substitution potential of fossil fuels for electricity (the so called “partial substitution method”)? The TWG decided to count for electricity using the partial substitution method, which requires a similar transformation of the electricity data at the scenario level (which uses the “physical energy content method”³). See Annex D “Electricity” for more information.

Key question for consultation

11. We are interested in hearing from stakeholders on their views on what counts and how it should be counted - paragraphs 1 to 4 above – for target compliance purposes.

We agree with the proposed boundaries for the target. If the approach is based off a least-cost methodology, then there would be no reason for negative emissions technologies outside of the energy sector to be counted within the target. Given the correct conditions, and recognising the potential difficulty in reaching net-zero emissions throughout the value chain (3), it may be reasonable for these offsets to be counted within the scope 1 and 2 emission target boundary. It should be noted that offsets are less favourable than actual emissions reductions, due to concerns around permanence and accounting. Any offsets that do take place should be appropriately verified and monitored on a consistent basis.

Other information

The public consultation runs from the 10th of August to the 4th of October.

All information regarding the public consultation can be found on the [SBTi Oil&Gas and Integrated Energy website](#).

We invite you to provide your feedback, opinions, and comments on setting science-based targets for Oil&Gas and Integrated Energy companies.

Please provide your comments on the **SBTi Oil&Gas and Integrated Energy Methodology Public Consultation** [here](#). In the survey, you will have the opportunity to answer the key questions outlined above, as well as to provide general comments.

For comments on the text outside of the key questions, please identify which section of the document each comment refers to by identifying the section, table, or chart and the page number of the guidance document. For comments on tables, please provide the column and row number. For general comments that do not refer to a specific portion of the text, please title your comment “general”.

If you would like to provide comments on the document itself, please send a request to Paulina Tarrant at paulina.tarrant@gmail.com.