

Waiting to Launch

Third Quarter 2022 Update

The gap between Canadian oilsands companies' climate pledges and actions

Jan Gorski and Eyab El-Aini | November 2022



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Summary

This report serves as a brief update to our September 2022 publication, *Waiting to Launch: The gap between Canadian oilsands companies' climate pledges and actions*.¹

Broad trends remain the same. While profits in Q3 were not as exceptionally high as in Q2 (due to slightly diminished global oil prices), 2022 remains on track to be a historic year for the oilsands companies in terms of revenues, profits and free cashflow. The rate at which these windfall profits are being returned to shareholders in share buybacks and dividend payments also remains extremely high. Meanwhile, despite some announcements in recent weeks from Pathways on the “advancement” of their emissions reduction plans, it remains the case that most details of these plans — including project specifics, timelines for projects, capital allocations, or timelines for final investment decisions — remain undisclosed. Conversely, one Pathways member, Suncor, has recently announced it will invest \$1 billion to increase its share in the Fort Hills mining project — demonstrating that companies remain willing to invest in assets.

While much of the focus surrounding the Pathways Alliance has been on multi-year carbon capture projects and investments, other measures could be implemented much more quickly and with less capital investment. For example, there remains a significant opportunity for Pathways members that also operate conventional (non-oilsands) oil and gas assets to invest in proven, affordable methane reduction technology and projects to reduce emissions over and above current methane regulatory requirements. In doing so, they can make real, measurable emissions reductions across their entire portfolios. This is work that could be started today.

In the coming months, individual companies are expected to outline capital spending plans for 2023. It remains to be seen if details on decarbonization investments, as well as timelines for the expected absolute emissions reductions associated with those investments, will be disclosed.

A new quarter, but no new progress

This report serves as a brief update to our September 2022 publication, *Waiting to Launch: The gap between Canadian oilsands companies' climate pledges and actions*. In that report, we examined the emissions reduction promises of the Pathways Alliance, an industry grouping representing some 95% of Canada's oilsands production, and compared them with concrete actions and investments undertaken by Pathways companies. This update incorporates the latest financial results from four of the largest Pathways members for Q3 2022, which were announced in October and November 2022.

The four largest members of the Pathways Alliance (CNRL, Suncor, Cenovus and Imperial Oil) recently released their third-quarter financial results.² Profits are lower than last quarter, in part due to lower oil prices compared with Q2 2022, and also because Suncor recorded an accounting loss after adjusting the long-term plan for the Fort Hills mine (see note below Figure 1). However, as Figure 1 shows, despite fluctuation in profit levels, the net cashflow that oilsands companies have available to them has continued to rise in Q3.

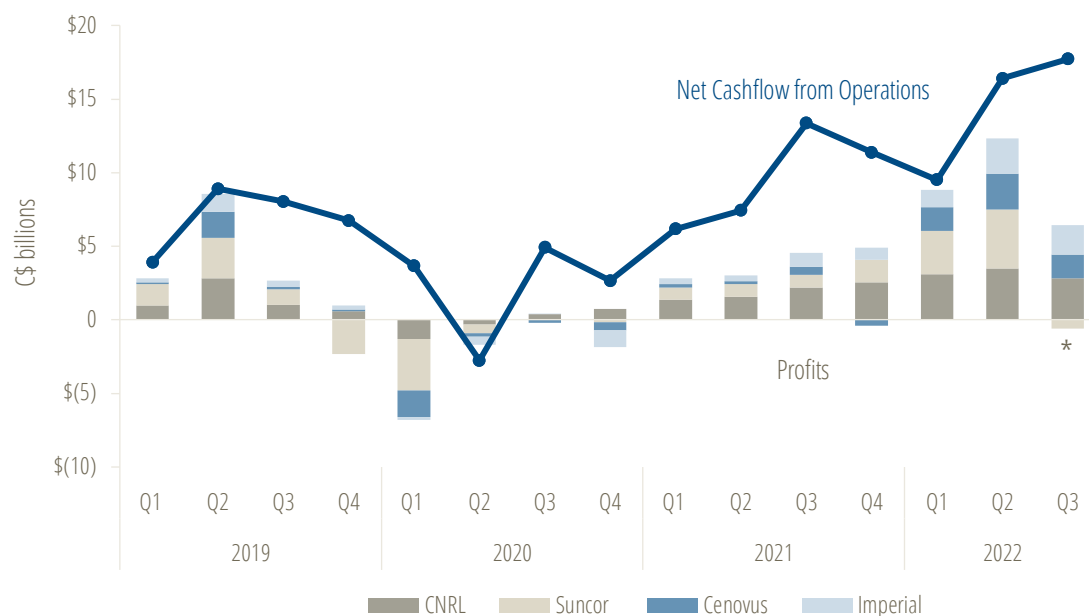


Figure 1. Profits of four largest members of the Pathways Alliance

Data source: MarketWatch for historical values up to Q2 2022; Q3 2022 values are from each company's financial statements.³

*Suncor's Q3 2022 profits included a one-time non-cash asset impairment of \$3.4 billion due to a lower expected value of future revenues from the Fort Hills mine. This is the main driver for net profits to be negative. Operating earnings in Q3 2022 for Suncor was approximately \$2.6 billion compared to approximately \$1.0 billion for the same period in 2021.

Oilsands companies also continue to return a large portion of these profits to investors through record-high share buybacks and dividend payments (Figure 2).

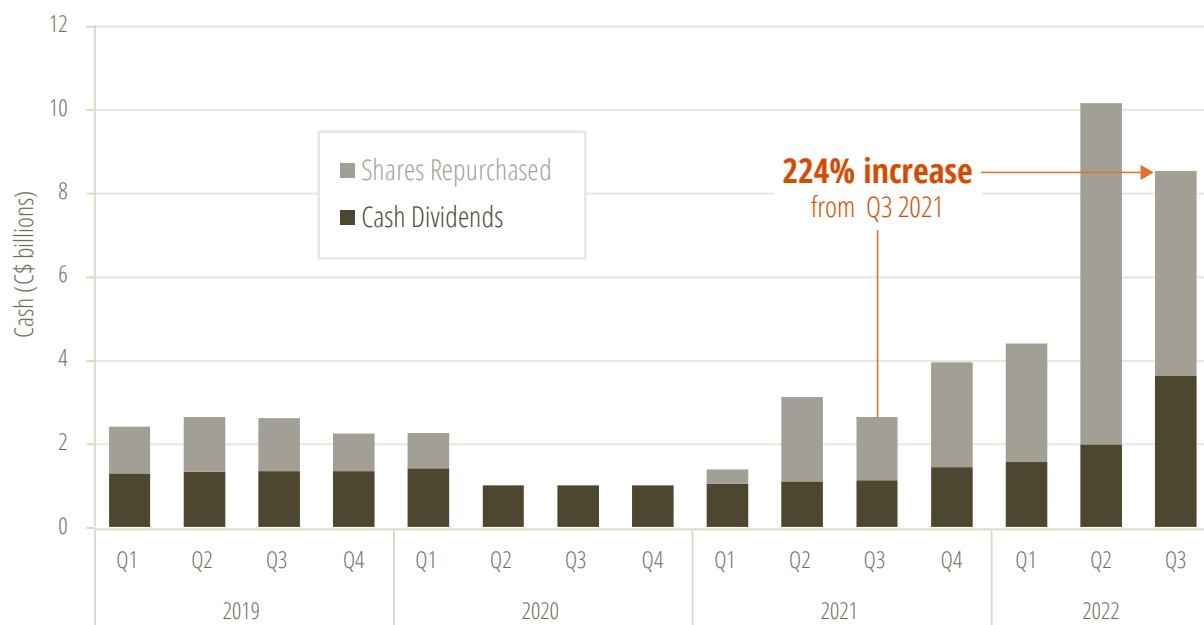


Figure 2. Cash returned to shareholders from four largest Pathways Alliance companies

Data source: MarketWatch for historical values up to Q2 2022; Q3 2022 values are from each company's financial statements.⁴

The federal government's recent *Fall Economic Statement 2022* included a new 2% tax on share buybacks in recognition that some sectors, including oil and gas, should be encouraged to reinvest larger portions of their windfall profits back into their businesses. For the oil and gas sector, this reinvestment should include dedicating capital to emissions reduction projects that will help companies meet their climate imperatives set out under Canada's *2030 Emissions Reduction Plan*. In doing so, they would also be making important future-proofing investments in their own businesses — given falling oil demand outlooks and the resultant sharp uptick in competition for providers of low-carbon energy (a point underscored by the International Energy Agency's *World Energy Outlook 2022*, which projects that global fossil fuel demand will fall this decade, under all scenarios).⁵

The Pathways Alliance recently issued a press release which puts a \$24 billion price tag on their 22 Mt plan. They have stated that \$16 billion of this cost is for CCUS and the remaining \$8 billion is for the other measures outlined in their plan. However, there is still no clarity on when final investment decisions will be made, when construction will commence, or any further details on where these CCUS projects will be situated, which companies will implement them, or how much of that price tag the companies are willing to pay themselves. Meanwhile, industry has continued to lobby governments for additional public funding for CCUS, despite there now being a full suite of measures available — including a federal 50% investment tax credit, carbon offset credits (in Alberta), Clean Fuel Regulation credits, and a carbon price scheduled to increase to \$170 per tonne by 2030.⁶ The federal government is also developing a

Carbon Contract for Difference policy to provide carbon pricing certainty, as well as an oil and gas emissions cap.

However, there are instances in which the industry is apparently willing to invest these record profits. Suncor, for example, announced in October that it will be spending \$1 billion to buy a larger share of the Fort Hills oilsands project, bringing their total share in the project from 54% to 75%.

Continued lack of progress on non-CCUS measures

As noted above, we have still yet to see significant investments in reducing emissions — be those detailed plans for large multi-year investments (such as for carbon capture projects), or simpler and more inexpensive projects that could be implemented more quickly.

These other measures (aside from CCUS) formed part of the Pathways Alliance emissions reduction plan first announced in June 2021, and include things such as process improvements, energy efficiency, and electrification.⁷ Together, Pathways says that these measures are expected to achieve 10-12 Mt of the pledged 22 Mt CO₂e reduction by 2030. As companies deploy these different technologies to commercial scale, the measure of success will be the timeline and magnitude of the absolute emissions reductions from each facility or project. Using emissions intensity targets as the only measure can give an incomplete picture (see our report *Getting on Track*⁸).

Immediate opportunities around methane

There is another opportunity for emissions reductions in the sector, one that has been out of the spotlight: methane. While scope for methane reduction is more limited in the oilsands compared with conventional oil and gas facilities, Pathways members CNRL and Cenovus own significant conventional oil and gas assets. Together, they are responsible for about 33% of vented natural gas in Alberta (Figure 3). Most of that vented gas is methane.

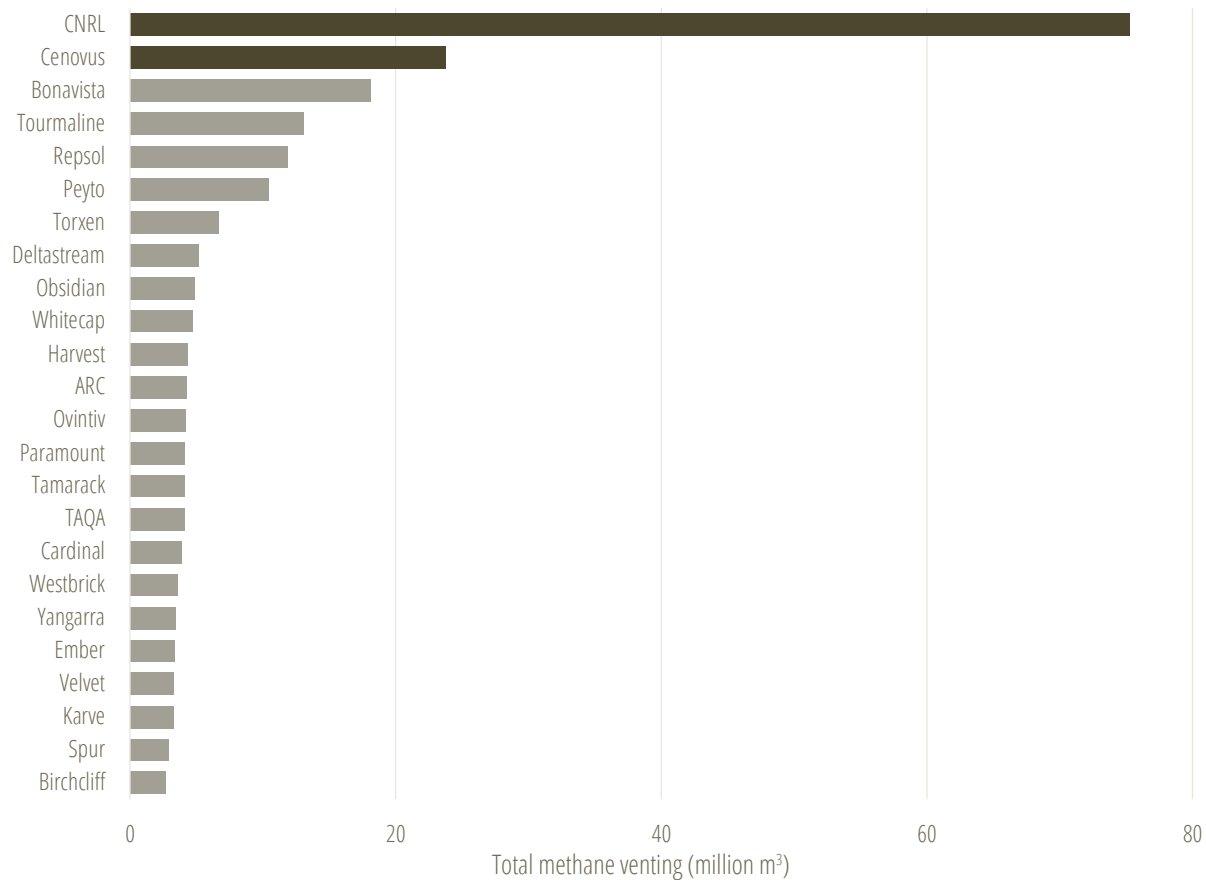


Figure 3. Natural gas vented by Alberta companies in 2020 (top 25 by volume)

Data source: Alberta Energy Regulator⁹

Addressing methane largely involves common-sense projects using existing and proven technology, such as implementing robust leak detection and repair regimes at sites, replacing emitting pneumatic devices, and capturing vented gas (natural gas, which is mainly methane, that is purposefully released into the atmosphere when producers designate it as a waste product).

Pathways expects that it will cost \$24 billion to reduce emissions from the oilsands by 22 Mt by 2030. A Canadian study from 2019 estimates that it would cost, at the most, \$5.5 billion to reduce methane emissions from oil and gas by 33 Mt CO₂e (Figure 4).¹⁰ That’s a fraction of the cost, for 50% more megatonnes saved. It also does not even account for the climate benefit of concentrating on methane reductions as soon as possible — given the outsized warming impact of methane compared with other greenhouse gases.

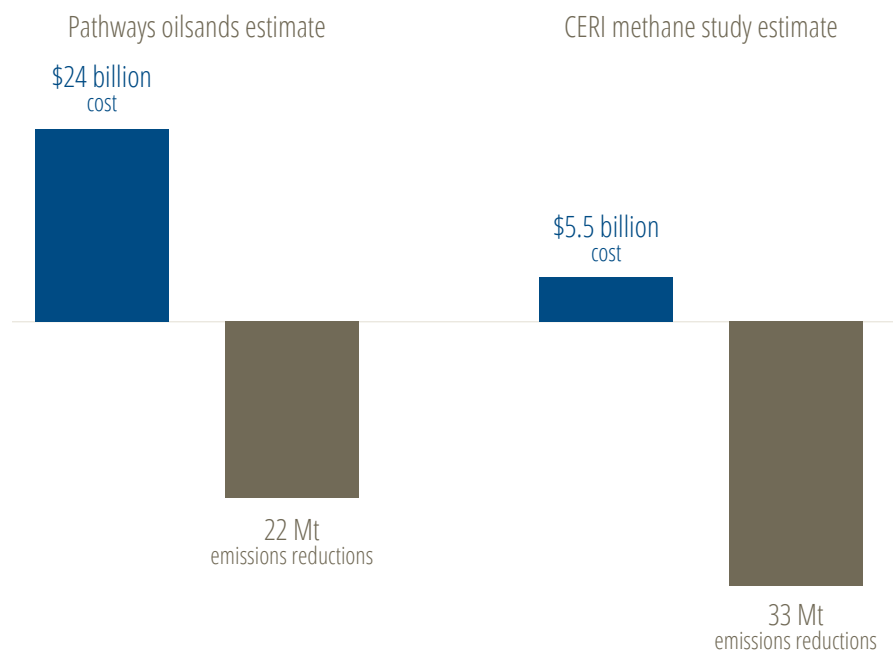


Figure 4. Cost and emissions reductions estimates for oilsands and methane mitigation

Data source: Pathways Alliance, CERI¹¹

Given that the technology exists and the projects are highly affordable, committing to reducing methane emissions to near-zero is now the global industry standard. The Oil and Gas Climate Initiative (a group of twelve global oil and gas majors including ExxonMobil and Saudi Aramco) committed to that target in March 2022.

To demonstrate their commitment to rapidly reducing emissions across their portfolios — including conventional assets as well as oilsands — Pathways Alliance members CNRL and Cenovus could now make investments in methane reduction projects above and beyond the current regulations that would be coherent with a near-zero target. The success in Alberta’s Peace River region shows that methane emissions can be brought to near-zero without negatively impacting levels of oil production, underscoring that there is no downside for producers to invest now.¹²

For their part, the federal and provincial governments should now move swiftly to design and implement strengthened methane regulations that are aligned with near-zero emissions. Our recommendations outline best practices for how this can be done.¹³

¹ Jan Gorski, Eyab Al-Aini, *Waiting to Launch The gap between Canadian oilsands companies’ climate pledges and actions* (Pembina Institute, 2022). <https://www.pembina.org/reports/waiting-to-launch-2022-09-23.pdf>

² MEG Energy Q3 Results had not been released at the time of writing. The sixth member of Pathways, ConocoPhillips, has been excluded because of its much larger total size compared with the other five members — while Canadian oilsands assets represent only around 3%-5% of ConocoPhillips’ entire portfolio. Financials for each company can be accessed at MarketWatch. <https://www.marketwatch.com/>

³ MarketWatch. <https://www.marketwatch.com/>

⁴ MarketWatch. <https://www.marketwatch.com/>

⁵ International Energy Agency, *World Energy Outlook 2022*. <https://www.iea.org/reports/world-energy-outlook-2022>

⁶ See *Waiting to Launch*, 3, for further details on this full suite of financial incentives.

⁷ Pathways Alliance, “Pathways plan to achieve net zero emissions,” November 3, 2021.

<https://pathwaysalliance.ca/the-pathways-vision/>

⁸ Eyab Al-Aini, Chris Severson-Baker, Jan Gorski, *Getting on Track: A primer on challenges to reducing carbon emissions in Canada’s oilsands* (Pembina Institute, 2022). <https://www.pembina.org/pub/getting-track>

⁹ AER, *Upstream Petroleum Industry Emissions Report: Industry Performance for Year Ending December 31, 2020* (2022), 32. <https://static.aer.ca/prd/documents/sts/ST60B-2021.pdf>

¹⁰ Canadian Energy Research Institute, *Economic and Environmental Impacts of Methane Emissions Reduction in the Natural Gas Supply Chain* (2019).

https://www.researchgate.net/publication/331000365_Economic_and_Environmental_Impacts_of_Methane_Emissions_Reduction_in_the_Natural_Gas_Supply_Chain

¹¹ Pathways Alliance, “Pathways Alliance advances net zero emissions plan,” October 14, 2022.

<https://pathwaysalliance.ca/news-release-22oct14/> ; *Economic and Environmental Impacts of Methane Emissions Reduction in the Natural Gas Supply Chain*

¹² Jared Conroy, Janetta McKenzie, Jan Gorski, *Success in Eliminating Methane in Alberta’s Peace River Region* (Pembina Institute, 2022). <https://www.pembina.org/pub/success-eliminating-methane-albertas-peace-river-region>

¹³ Jan Gorski et al., *Reducing methane emissions from Canada’s oil and gas sector* (Pembina Institute, 2022).

<https://www.pembina.org/pub/reducing-methane-emissions-canadas-oil-and-gas-sector>