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Comments to NAESB Certified Gas Draft Addendum (feo_wgq_contracts061622a2...062122)

Comments Submitted by: MiQ; Equitable Origin

24 June 2022

MiQ and Equitable Origin are jointly submitting these comments of the latest version of the NAESB Certified Gas Draft Addendum, to be discussed by the NAESB Wholesale Gas Quadrant Contracts Subcommittee on June 28, 2022. Thank-you for the opportunity to provide these comments, and to participate in the Draft Addendum construction process.

MiQ and Equitable Origin applaud the NAESB in its aim to create an Addendum for certified gas. We believe in the power of markets to accelerate methane abatement and a generally agreed upon format for bilateral transactions. This will encourage liquidity and will lead towards a functioning market. We praise NAESB for removing central confusion by changing the nomenclature from responsibly sourced gas to certified gas (CG).

As background, methane emissions on a global scale equate to seven Gtons of CO₂e, assuming a 20yr GWP, the equivalent of eight times the emissions equivalent from airlines, or 1.3 times the total emissions of the United States on an annual basis. Certification of natural gas will provide transparency to abate 80 percent this decade if global oil and gas operations can meet a methane intensity of 0.2 percent leakage or less.

We cannot risk this key goal by creating confusion in the markets with lower standards, imprecise definitions, policies that allow for inherent conflicts of interest, or approaches that would lead to critiques of greenwashing. The information listed below consists of high-level comments that address concerns with some of the language and structure of the latest version of the Draft Addendum. We lay out principles that should underpin this document, as well as any credible and functioning certified gas marketplace, and then follow that with a section with specific comments.

Principles

MiQ and EO believe that the minimum norms allowed for certified gas need to be such that all stakeholders view the certification process as credible. This requires understood and accepted **key governance principles**. NAESB has an opportunity to facilitate credibility in certifications and a certified gas market by incorporating the following principles into its Certified Gas Addendum.

- Transparent and publicly available Certification Standard

- Independence between and avoidance of conflict between Certifier and all of the following:
 - Operator
 - Technology or Data provider
 - Auditor or Validator
- For any quantitative aspect, such as determination of methane or GHG emissions, application of clear, reproducible metrics for quantification or measurement;
- Reliance upon a Digital Registry to track certificates, avoid double counting, and facilitate a transparent market. This Digital Registry must include all of the following:
 - Name of the Registry for delivery of certificates;
 - Account number;
 - Account name.
- Facility-wide Certification: certification must apply to the entire facility. 'Facility' is defined as all contiguous assets commonly owned, operated and managed within a given geologic field or jurisdictional boundary.

These principles are best practices are long established and have been equally applied in other banking, trading or accounting areas, including clear segregation of duties.

Comments on the Addendum

| Section | Section Language | MiQ/EO Comments |
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| 2.43 | <p>"Certification" shall mean, the certification of well(s) and facilities by the Certification Authority and the Attestation of (a) the creation and characteristics of CG, (b) the qualification of the facility(ies) and/or well(s) under an AEC, (c) Delivery of CG, or (d) other compliance with the requirements of an Applicable Environmental Certification.</p> | <p>Under the current construction of section 2.43, both facilities and wells are permitted. Only facilities, in their entirety, should be considered eligible for certification. Well certification creates a risk of cherry picking by a variety of stakeholders. Operators being able to self-select (i.e., cherry pick) a sub-set of wells or equipment within a facility undermines certification results, the certification process, as well as a functioning market. Allowing well certification invites operators to simply certify or disclose emissions only on those assets with the lowest inherent emissions and does not drive transparency or reductions for remaining assets and further decouples the attributes of the certificate from the physical gas sourced from a given producer. Currently, civil society organizations are actively scanning certified operators and critiquing the occurrence and/or lack of transparency, reporting, or certifications of emissions from pads or equipment adjacent to certified wells. These critiques will only increase over time.</p> |
| 2.44 | <p>"Certification Authority" shall mean an entity that certifies and/or verifies the environmental attributes and certification of CG, or the qualification of well(s) under an AEC. The AEC may include, as applicable, a governmental authority, a Verification Provider, an independent auditor, or any other third-party as determined by the Certification Authority or the Buyer and Seller, as set forth in the CG Transaction Confirmation.</p> | <p>Comment 1: Under the current construction of section 2.44, both facilities and wells are permitted. Only facilities, in their entirety, should be considered eligible for certification. Well certification creates a risk of cherry picking by a variety of stakeholders. Operators being able to self-select (i.e., cherry pick) a sub-set of wells or equipment within a facility undermines certification results, the certification process, as well as a functioning market. Allowing well certification invites operators to simply certify or disclose emissions only on those assets with the lowest inherent emissions and does not drive transparency or reductions for remaining assets and further decouples the attributes of the certificate from the physical gas sourced from a given producer. Currently, civil society organizations are actively scanning certified</p> |

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| | | <p>operators and critiquing the occurrence and/or lack of transparency, reporting, or certifications of emissions from pads or equipment adjacent to certified wells. These critiques will only increase over time.</p> <p>Comment 2: Current construction of section 2.44 states ““Certification Authority” shall mean an entity that certifies and/or verifies the environmental attributes and certification of CG”. This is a clear conflict. In using “and/or” this construction allows for the Certifier to be the Verifier – <i>at the same time</i>. This is counter to decades of standard auditing and accounting practices across a host of sectors. A certifier cannot, by definition, audit its own data. Avoidance of conflicts of interest are central to any credible standard. A clear statement that Certifiers must be a wholly separate entity – free from all financial interest in the outcome and being separate legal and organizational entities – from Verifiers must be included in Section 2.44.</p> <p>MiQ and EO recommend that the existing sentence – “The AEC may include, as applicable, a governmental authority, a Verification Provider, an independent auditor, or any other third-party as determined by the Certification Authority or the Buyer and Seller, as set forth in the CG Transaction Confirmation.” - be replaced by the following language:</p> <p>“The AEC must include, as applicable, a governmental authority or an independent third-party certifying body as determined by the Certification Authority or the Buyer and Seller, as set forth in the CG Transaction Confirmation. This independent third-party may have no financial interest in the outcome of the certification, nor may it have any organizational or legal ties to the facility operator or emissions monitoring technology provider.”</p> |
| 2.74 | <p>“Verification Provider” means an independent third-party entity that verifies or audits specified aspects of CG, including but not limited to the Environmental Attributes as agreed to by the Parties set forth in the CG Transaction Confirmation.</p> | <p>If section 2.74 is needed (pending changes to section 2.44), the following changes should be made to section 2.74:</p> <p>“Verification Provider” means an independent third-party entity that verifies, or audits specified aspects of CG, including but not limited to the Environmental Attributes as agreed to by the Parties set forth in the CG Transaction Confirmation. The Verification Provider must be an independent third-party having no financial interest in the outcome of the certification, nor may it have any organizational or legal ties to the facility operator or emissions monitoring technology provider.”</p> |
| 3.5 | <p>(Refer to section 3.5 in Draft Addendum)</p> | <p>We recommend the inclusion of a Digital Registry in this section (in addition to in Exhibit B), and a requirement that all certifications (and subsequent</p> |

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| | | <p>transactions) be uniquely included in a Digital Registry. MiQ has created a registry for this purpose: www.miqregistry.org. A Digital Registry should consist of the following elements:</p> <ul style="list-style-type: none"> - Name of the Registry for delivery of certificates; - Account number; - Account name. |
| Exhibit B | <i>(Refer to Exhibit B in Draft Addendum)</i> | <p>Currently, there appears to be a lack of delivery mechanism for certificates in a Digital Registry of the certificates. The currently proposed form of self-attestation in the Addendum will create legal, risks – including risks of double-counting of certified gas and of fraud. The alternative and credible mechanism of a central registry is well understood in other markets such as RECs, RNG, etc. MiQ has created a registry for this purpose: www.miqregistry.org. A Digital Registry should consist of the following elements:</p> <ul style="list-style-type: none"> - Name of the Registry for delivery of certificates; - Account number; - Account name. |

Submitted by:



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