

The Future of Fossil Fuels

# CNC MISSION

Establish the legal, regulatory, and economic framework that will enable a thriving CCUS industry so that Texas can:

- Meet energy demand
- Reduce carbon emissions
- Maintain a robust economy and **save energy jobs**
- Provide a good standard of living, affordable energy, and new products derived from carbon capture.



# Agenda



CNC: Who We Are



Challenges to the  
Oil & Gas Industry



CNC Legislative  
Priorities

# Carbon Neutral Coalition

- ▶ Founded by Corby Robertson, Jr.
- ▶ Advisory Board Committee chaired by Susan Combs and consisting of university faculty, industry leaders, and experts in the field
- ▶ Working towards industry- led solutions to energy challenges

# Challenges to the Oil and Gas Industry

Increasing Regulation and Opposition from Washington and Wall Street



# Challenges from Washington

- ▶ Speaker Pelosi: (on military use of fossil fuel) :
  - ▶ “As I say, the Defense Department sees this systemically, that we have to stop it as a national security issue. And one way to do that is to stop our dependence on fossil fuels, which exacerbates the climate crisis.”
- ▶ AOC: (on Twitter):
  - ▶ Actually good, major climate news: today New York City is announcing its public pensions are fully divesting out of the fossil fuel industry and into renewables & climate - a massive shift of about \$50 billion.
- ▶ In March, SEC announced new rules governing how publicly traded companies are required to disclose their risks from climate change. After extending the comment period through June, it is predicted final adoption will happen before the end of 2022.



- ▶ “We want them to go bankrupt if we want to tackle climate change.” (Treasury)
- ▶ “...the way we basically get rid of these carbon financiers is we starve them of their source of capital.” (Comptroller of the Currency)
- ▶ “Financial regulators must reimagine their own role so that they can play their part in the broader reimagining of the economy.” (Federal Reserve)
- ▶ “It’s going to change allocation of capital. Suddenly people are going to be making evaluations considering long-term risk to the investment based on the climate crisis.” (John Kerry, Climate Envoy)



## Biden Appointees

# Challenges from Wall Street

 Los Angeles Times

Op-Ed: The Ukraine war is a decision point — banks should stop funding the fossil fuel industry forever

Consider, say, JPMorgan Chase, the largest bank in the world, and the largest lender to the fossil fuel industry. For decades it was the house...



## THE POWERFUL NEW FINANCIAL ARGUMENT FOR FOSSIL-FUEL DIVESTMENT

*A report by BlackRock, the world's largest investment house, shows that those who have divested have profited not only morally but also financially.*

THE  
NEW YORKER

S&P acknowledges that “having a social mission and strong ESG characteristics does not necessarily correlate with strong creditworthiness and vice versa.”<sup>5</sup> S&P’s ESG credit indicators politicize what should be a purely financial decision. This politicization has manifested itself in the capital markets where, for example, banks are pressured to cut off capital to the oil, gas, coal, and firearms industries. ESG is a political rating and should be characterized as such.

State of Utah Letter to S&P



# Polling Results

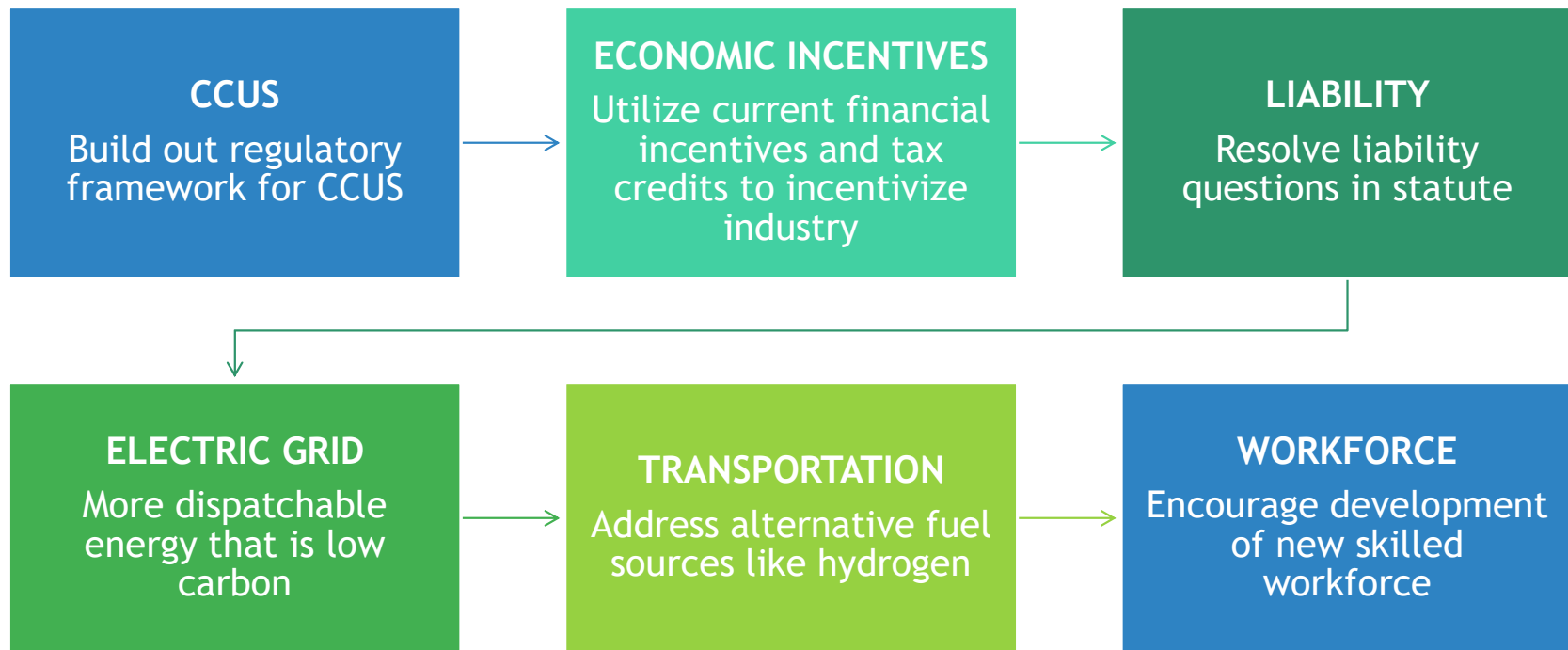
- ▶ CNC had a poll conducted by Baseline and Associates, August 28 to September 1, 2022, among 1,001 Texas voters.
- ▶ 66% of Texas voters favor CCUS, carbon capture utilization and storage, in Texas to reduce carbon emissions in the atmosphere. Only 19% oppose.
- ▶ 65% of Texas voters favor the State of Texas creating the financial incentives and policies so that a marketplace can emerge that will encourage companies to capture, utilize and store the carbon dioxide that comes from fossil fuels and other industrial emissions.
- ▶ After respondents learned more about it, support for CCUS increases to 71% and support rises to 71% for creating the financial incentives and policies so that a marketplace can emerge that will encourage companies to capture, utilize and store carbon dioxide.

# CNC Legislative Priorities

Potential Legislation



# LEGISLATIVE GOALS



# Carbon Capture, Utilization and Storage (CCUS)



Establish legal, regulatory, and economic framework to make Texas the industry leader in Carbon Capture, Utilization and Storage



Determine liability issues that may arise during operation and upon completion



Determine pore space ownership: surface estate or mineral estate



Create a stack of economic incentives to support and encourage entry in the CCUS industry

# Economic Incentives: TERP

Texas Emissions Reduction Program (TERP) offers financial incentives for the reduction of emissions from vehicles and other equipment.

TERP is intended to help Texas reduce pollution and improve air quality, and is administered by TCEQ.

Program is funded by revenues from fees and surcharges relating to off-road equipment and on-road vehicles.

Grant Programs include New Technology Implementation Grant, Emissions Reduction Incentive Grant

**PROPOSAL:** Make amendments to ensure CCUS falls within TERP eligibility.

## Economic Incentives: Tax Credit for Clean Energy

Created by Legislature in 2009, aimed at coal projects (now expired).

Offered tax credit for clean energy projects.

Credit was equal to the lesser of 10% of capital costs of the project or \$100 million.

Limited to 3 projects, to be carried forward no more than 20 consecutive years; Requirement of 70% carbon dioxide sequestered.

**PROPOSAL:** Use existing language to create a new tax credit for CCUS “Clean Energy” projects.

## Economic Incentives: Prop 2

TCEQ program that allows for tax exemption when using certain property or equipment for pollution control.

Must show use to meet or exceed regulations by state/federal agency.

Requires a use determination by TCEQ.

Local tax appraiser determines appraised value of property.

**PROPOSAL:** Include CCUS as eligible property; remove requirement of government regulation for tax exemption

# Economic Incentives: Purchasing Preference

Current statute allows for purchasing preferences on certain items, especially when performed in nonattainment areas

Example: Air Quality Standards

Example: Environmentally Sensitive Products

Generally limited to purchases that are comparable in value.

**PROPOSAL:** Incentivize purchase of products made from captured carbon or hydrogen in state procurement.

# Liability

Owner, Operator,  
or State?



For what  
term?



Upon what  
conditions?

## Pore Space Ownership: Surface Estate or Mineral Estate?

- ▶ North Dakota: Surface Owner
- ▶ Louisiana: Surface Owner
- ▶ Wyoming: Surface Owner
- ▶ Kentucky: Mineral Owner
- ▶ California: UNCLEAR
- ▶ Pennsylvania: UNCLEAR
- ▶ Texas: UNCLEAR

## Electric Grid

CCUS enables the state to have more dispatchable energy that is lower carbon.

Support for CCUS is critical in adding needed capacity while meeting public and political demand for carbon neutrality.

State has incentivized wind and solar; CCUS must be next.

# OTHER STATES WITH CCUS FRAMEWORK

**Kentucky:** Mineral owners own pore space

**Nebraska:** Requires finding that interests of mineral owners/leases not adversely affected

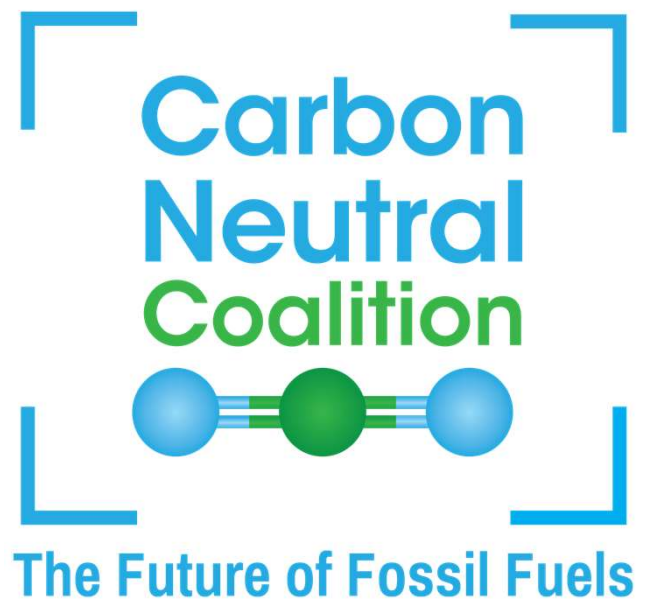
**West Virginia:** State declaration that CCUS implementation is a matter of public interest

**North Dakota:** Title to pore space may not be severed from title to surface estate

**Mississippi:** Had a program to pay timber, farmland owners to store carbon

**Louisiana:** Long-term storage liability transfers to the state 10 years after completion

**Utah:** Treated separately from Enhanced Oil Recovery; creates a fee per ton to go into a Trust



# Thank You!

For questions, please contact us:  
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