

# DIFFERENTIATED GAS COORDINATING COUNCIL

February 16, 2024

Chairman Rostin Behnam  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581

Submitted electronically via: <https://comments.cftc.gov>

**Re: Commodity Futures Trading Commission (CFTC) Request for Comment on Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts**

Dear Chairman Behnam,

The Differentiated Gas Coordinating Council (DGCC) appreciates the opportunity to respond to the Commodity Futures Trading Commission's (CFTC or "the Commission") proposed guidance titled "Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts" (guidance).<sup>1</sup>

The DGCC applauds the CFTC's decision to weigh in on Voluntary Carbon Credit (VCC) markets. While the Commission's jurisdiction to regulate this sector is limited, its efforts to provide informed guidance to the market are laudable. However, the DGCC recommends the CFTC take into consideration the fact that VCCs are not the only differentiated product on the market today. As the world endeavors to reconcile the need for action on climate change and the continued use of commodities with smaller environmental footprints, the guidance that the CFTC establishes will have a broad impact on the development and uptake of these emerging differentiated markets.

To that end, the DGCC suggests that the insights provided herein be considered as the CFTC develops its guidance, ensuring it reflects the nuanced dynamics of markets beyond traditional VCCs, thereby fostering growth and integrity in these emerging platforms.

## **Background on Differentiated Gas Market and the DGCC**

The DGCC is a coalition of stakeholders across the natural gas value chain dedicated to expanding the differentiated natural gas market. The DGCC's goal is to facilitate a pathway for regulators, utilities, and gas consumers to utilize differentiated gas as an important option to meet their climate goals, and our work is aligned with three principles: trust, transparency, and transactability. We believe adopting differentiated gas is the best way to rapidly reduce methane emissions in the oil and gas sector—a win for energy producers, energy consumers, and the climate.

Differentiated gas, also known as certified gas or responsibly sourced gas, is geologic natural gas characterized by the assessment and verification of its superior environmental performance

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<sup>1</sup> See [Commission Guidance Regarding the Listing of Voluntary Carbon](#).

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criteria, particularly methane measurement, across the natural gas value chain.<sup>2</sup> The reliable verification of a cleaner product means that such a product can be valued at a premium by stakeholders who seek a trusted and transparent method of verifying emissions reductions.<sup>3</sup> To participate in this market, natural gas producers, midstream companies, and buyers must track, measure, and communicate their methane and carbon dioxide emissions to investors, customers, and regulators.

Last year, S&P Global Commodity Insights estimated that 30 percent of the U.S. natural gas market is certified in some form.<sup>4</sup> Within the natural gas sector, cutting-edge methane-monitoring sensors and measurement protocols are catalysts for significantly greater transparency by facilitating pathways to precise quantification of methane emissions. The availability of such data, combined with mounting ESG (environmental, social, and governance) financial and regulatory drivers, holds the potential to spur the continued growth of a differentiated natural gas market in the United States.

## Analysis of CFTC Guidance Topics

The development needs of the differentiated gas market align with many of the CFTC's proposed criteria related to the quality standards, delivery points and facilities, and inspection provisions. We agree these standards are necessary to ensure that the differentiated gas market operates with a high level of integrity. Trust can only be garnered by providing clear emissions data, ensuring genuine reductions, guaranteeing long-term impact, and employing rigorous methods to accurately measure emissions reductions. This approach not only enhances the credibility of the differentiated gas market but also aligns with the broader objectives of the CFTC in promoting a transparent, reliable, and environmentally impactful carbon market.

Building off of this need, in 2023, the U.S. Department of Energy's (DOE), Office of Fossil Energy and Carbon Management, launched an international working group to establish a greenhouse gas (GHG) supply chain emissions measurement, monitoring, reporting, and verification (MMRV) framework for providing comparable and reliable information to natural gas market participants.<sup>5</sup> The DGCC commends this effort and agrees with the need to address gaps and promote consistency across platforms in the emerging differentiated gas market to ensure market participants are provided with comparable and reliable information about GHG emissions and the intensity of natural gas.

On its website, the DOE clearly states how this aligns with the CFTC's proposed guidance:

*Potential elements of the MMRV Framework include:*

- **Common Criteria:** *Criteria to ensure rigor of quantification and reporting of GHG emissions and a process for independent certification or verification of emission estimates and adherence to criteria.*

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<sup>2</sup> See Differentiated Gas Coordinating Council's (DGCC) "[What is Differentiated Gas.](#)"

<sup>3</sup> See Bloomberg Law's "[U.S. Can Ensure Climate Security With Differentiated Natural Gas.](#)"

<sup>4</sup> See S&P Global's "[US DOE will not develop certified natural gas standard amid focus on international emissions framework.](#)"

<sup>5</sup> See [Greenhouse Gas Supply Chain Emissions Measurement, Monitoring, Reporting, Verification Framework.](#)

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- **Data Transparency and Tools:** Expectations for collecting and reporting data consistent with the needs of natural gas market participants and a transparent and consistent life cycle analysis tool for calculating and reporting supply chain data quality and GHG emission intensity.
- **Accreditation Process:** A process to confirm certifiers are employing consistent protocols, as identified through the framework, including a mechanism for independent oversight of the accreditation process.

*The MMRV Framework is intended to improve the accuracy, completeness, and transparency of reported emissions in the marketplace and drive emission reductions across the natural gas supply chain.*

In addition to the DOE's work in international markets, the U.S. natural gas industry is taking steps to improve the differentiated gas market. In March 2023, the North American Energy Standards Board (NAESB) announced the adoption of an addendum for differentiated gas to its "NAESB Base Contract for Sale and Purchase of Natural Gas," a standardized contract form designed to streamline the purchase and sale of natural gas within the United States. This addendum seeks to support existing and future certification programs and related transactions and improves the efficiency, transparency, and auditability of differentiated gas.<sup>6</sup>

The DGCC encourages the CFTC to monitor the developments from these efforts, as products of the initiative could include guidance, protocols, and tools for voluntary use in natural gas markets.

Below you will find the DGCC's thoughts on various aspects of the CFTC's proposed guidance.

## Transparency

Transparent data is pivotal to ensure well-functioning markets of all kinds but is especially important as differentiated markets seek to build their credibility with buyers and sellers.<sup>7</sup> It ensures that all stakeholders have access to essential information, facilitating informed decision-making and promoting accountability. In carbon markets, transparency helps to verify that emissions reductions are real, additional, and quantifiable, which is crucial for maintaining market confidence and driving meaningful environmental action.

In the context of differentiated gas, transparency is achieved through several key initiatives. Advanced monitoring and measurement technologies provide precise, granular emissions data, while improved analytics enable deeper insights into this data.<sup>8</sup> Robust verification processes and rigorous auditing of environmental claims ensure that information is reliable and reflects true emissions intensity.

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<sup>6</sup> See North American Energy Standards Board's "[NAESB Adopts Standardized Addendums for Renewable Natural Gas And Certified Gas.](#)"

<sup>7</sup> See United Nations Development Programme's "[What does transparency mean when it comes to climate change?](#)"

<sup>8</sup> See DGCC's "[Measuring Our Way To Differentiation.](#)"

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## **Additionality**

Additionality is a crucial concept when considering emission reduction projects, emphasizing that GHG emission reductions or removals must be a direct result of a specific investment. This ensures that the emissions reductions are genuine and contribute meaningfully to climate change mitigation, rather than being outcomes that would have occurred regardless of VCC incentives.

Differentiated gas, as a voluntary effort on top of existing energy production (i.e., the production and transportation of natural gas), exemplifies the principle of additionality by achieving emissions reductions that surpass existing regulatory requirements and might not have been realized without the financial incentives provided by the buyers and financiers of natural gas. This not only demonstrates the sector's commitment to going beyond the minimum standards but also highlights the potential of differentiated gas to contribute to significant environmental improvements in the natural gas industry.

## **Permanence and Risk Reversal**

Permanence and risk reversal are vital in VCC markets to ensure the long-term impact of emissions reductions and to manage the risk of any benefits being negated over time, such as through the release of sequestered carbon back into the atmosphere. These considerations are integral to maintaining the integrity and reliability of carbon credits, ensuring that they deliver the intended environmental benefits.

Differentiated gas addresses permanence and risk reversal by focusing on the immediate and permanent reduction of emissions associated with natural gas production and transportation. The certification of differentiated gas, representing cleaner natural gas, inherently carries a lower risk of reversal since the emissions reductions are realized and locked in at the point of delivery. Differentiated gas is a means to reward improvements in the natural gas value chain today. The carbon reductions are due to the immediate benefit of keeping methane in the pipe for eventual combustion, instead of relying on any carbon savings created over a 100-year period.

## **Quantification**

Quantification is an important piece in ensuring the credibility and effectiveness of carbon markets, as it allows for the accurate measurement of GHG emission reductions or removals. A robust, conservative, and transparent approach to quantification ensures that the number of VCCs issued truly reflects the environmental impact, thereby maintaining market integrity and participant confidence.

Numerous entities are working on initiatives to develop common criteria for quantification that maintain a high degree of accuracy, transparency, and verifiability. In 2021, GTI Energy launched "GTI Veritas," which aims to meet the growing need for robust protocols to reduce methane leakage throughout the natural gas value chain.<sup>9</sup> These include protocols on methane intensity, measurement, reconciliation, supply chain summation, and audit and assurance, all

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<sup>9</sup> See GTI Energy's "[GTI Launches Veritas, an Initiative to Measure and Verify Companies' Methane Emissions Reductions.](#)"

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of which will be crucial as the industry works to meet the goal of emissions quantification.<sup>10</sup> This commitment to precise quantification aligns with the principles outlined by the CFTC, demonstrating the sector's dedication to contributing substantively to emissions reduction goals.

## Governance

Governance within the VCC market is critical for ensuring the integrity, transparency, and accountability of these programs. Effective governance frameworks support the independence of crediting programs and foster confidence among stakeholders, ensuring that the processes and outcomes are reliable and contribute meaningfully to emissions reduction efforts.

In addition to the DOE's leadership in the development of the MMRV Framework, the drive for measurement technology organization and coordination is well underway. Several initiatives in academia, industry, and non-governmental organizations are working to provide tools to bolster the ability of differentiated gas market participants to utilize the most transparent, credible data possible.

The Energy Emissions Modeling and Data Lab (EEMDL), an initiative of the University of Texas at Austin, Colorado State University, and the Colorado School of Mines works to develop transparent models and datasets for accurate GHG emissions accounting across global oil and gas supply chains.<sup>11</sup> EEMDL manages and maintains the Fugitive Emissions Abatement Simulation Toolkit, often referred to simply as "FEAST," which helps operators and regulators compare a variety of methane leak detection and repair program configurations, such as continuous monitoring systems and hybrid aerial and ground surveys to develop cost-effective mitigation protocols.<sup>12</sup>

The Oil & Gas Methane Partnership 2.0 (OGMP 2.0) is a multi-stakeholder initiative launched by the United Nations Environment Programme (UNEP) and UNEP's Climate and Clean Air Coalition.<sup>13</sup> The OGMP 2.0 is a comprehensive, measurement-based reporting framework for the oil and gas industry that improves the accuracy and transparency of methane emissions reporting in the sector.

Finally, the GTI Veritas initiative, mentioned previously, serves as an important effort that provides protocols to natural gas stakeholders with a "credible, consistent, verifiable, and transparent methodology to measuring methane emissions."<sup>14</sup> These protocols will help support responsible action and accurate, transparent reporting of emissions.

These efforts aim to create transparent, accountable systems that facilitate the accurate tracking, assessing, and verifying of emission reductions, aligning with the CFTC's guidance and enhancing the credibility and effectiveness of differentiated gas.

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<sup>10</sup> See GTI Veritas's [Version 2 Protocols](#).

<sup>11</sup> [Energy Emissions Modeling and Data Lab \(EEMDL\)](#).

<sup>12</sup> See EEMDL's "[Fugitive Emissions Abatement Simulation Toolkit \(FEAST\)](#)."

<sup>13</sup> [Oil and Gas Methane Partnership 2.0 \(OGMP 2.0\)](#).

<sup>14</sup> See [GTI Veritas](#).

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## Tracking

Tracking is essential in carbon markets to ensure the integrity and transparency of carbon credit transactions. It provides clarity and certainty around the issuance, transfer, and retirement of VCCs, ensuring that each credit is uniquely identified and linked to a specific emission reduction or removal.

The differentiated gas market is embracing new technologies such as distributed ledger technology (DLT) to revolutionize the tracking of emissions data.<sup>15</sup> By recording emissions data on a secure, immutable blockchain, market participants can ensure the provenance and quality of environmental attributes, enhancing the credibility and efficiency of transactions within the voluntary marketplace. This innovative approach aligns with the CFTC's guidance on effective tracking mechanisms, setting a new standard for transparency and trust for emerging differentiated commodities.

## Double counting prevention

Preventing double counting in VCC markets is essential to ensure the credibility and effectiveness of emission reduction efforts. It guarantees that each carbon credit represents a unique and actual reduction or removal of emissions, reinforcing the integrity of carbon mitigation goals and accurate pricing of carbon credits.

The differentiated gas market is also addressing double counting concerns by leveraging and utilizing DLT, ensuring that each emission reduction or environmental attribute is transparently recorded and audited. DLT creates the opportunity for the system of emissions measurement frameworks, protocols, certifications, and audits to ensure the data provenance of differentiated gas. This approach provides a reliable mechanism to track the issuance, sale, and retirement of credits, ensuring that each credit is counted only once and upholding the integrity of carbon markets.

## Third-party validation

Third-party validation and verification processes are fundamental in ensuring that emission reductions are not only promised but delivered, thereby safeguarding the environmental integrity and market value of carbon credits. These external assessments provide an essential layer of objectivity and trust, reinforcing stakeholder confidence in the carbon market's contribution to global emission reduction goals.

To ensure transparency and credibility, the differentiated gas market relies on rigorous third-party validation and verification processes, often through certificates, to ensure compliance with these standards. This approach involves regular measurement and monitoring of emissions, along with swift responses to any discrepancies, thereby aligning with the CFTC's requirements for transparent and accurate representation of emission reductions.

The differentiated gas market utilizes strict verification processes, where third-party auditors, such as the international accounting firm KPMG, conduct periodic reviews of emissions data

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<sup>15</sup> See DGCC's "[Established Transactability](#)."

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and operational practices.<sup>16</sup> These audits are designed to detect any deviations from projected emissions reductions and to ensure prompt corrective actions. The implementation of such thorough verification practices demonstrates the sector's dedication to environmental integrity and market trust.

CFTC can also look to programs being implemented at the state level for guidance on verification practices. For example, Colorado has approved a "greenhouse gas intensity verification rule" that would require third-party audit or verification procedures.<sup>17</sup> These audit provisions are still in development, but it is expected to look at calculation methodologies, measurement sampling frequency, monitoring technology, and the uncertainty of any emission factors and measurements used as applicable. Colorado will accredit the third-party auditors that operators. These auditors will be expected to have experience performing audits and evaluating GHG emissions and calculations. California and Oregon also have established programs for third-party auditing.<sup>18</sup>

The development of the differentiated gas market will align with the CFTC's guidance on third-party validation and verification by ensuring that verification is performed by independent, qualified entities.

## Conclusion

The DGCC urges the CFTC to reconsider its guidance with a wider view to include the evolving landscape of differentiated commodities. While targeted specifically at VCCs, this guidance could impact other tradable environmental commodities with their unique characteristics and requirements. The DGCC urges the CFTC to consider these insights to ensure that emerging markets like differentiated gas are supported by regulatory frameworks that recognize their distinct attributes and contributions to environmental sustainability and market integrity.

Sincerely,



Tom Hassenboehler  
Executive Director  
Differentiated Gas Coordinating Council

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<sup>16</sup> See KPMG's "[Proving environmental performance in natural gas markets.](#)"

<sup>17</sup> See Colorado Department of Public Health and Environment's "[Colorado adopts first-of-its-kind measures to verify greenhouse gas emissions from certain oil and gas sites.](#)"

<sup>18</sup> See California Air Resources Board's [Third-Party Certification](#) and [Oregon Third Party Verification Program](#).

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## **About the Differentiated Gas Coordinating Council:**

Established in 2022, the DGCC is an ad hoc coalition of stakeholders across the natural gas supply chain dedicated to expanding the market for low methane, “differentiated” natural gas. Its members include academics; downstream, midstream, and upstream energy producers; gas customers; and technology companies. The DGCC’s goal is to facilitate a federal pathway for state regulators, utilities, and gas consumers to accept differentiated gas as an important option to meet their climate goals. We believe that the adoption of differentiated gas is the best way to rapidly reduce methane emissions in the oil and gas sector—a win for American energy producers, energy consumers, and the climate.

More information can be found at [www.DGCCouncil.com](http://www.DGCCouncil.com).