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(Original to follow by mail)

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**RE: Clean Fuel Standard Discussion Paper**

The Business Council of BC is pleased to submit comments on Environment and Climate Change Canada's Clean Fuel Standard Discussion Paper.

As a first principle, we submit that opting for a fuel-by-fuel standard is not the best regulatory approach. It is inefficient, administratively and technically complex, and likely to limit opportunities for innovation. Instead, we suggest that Canada should establish a standard focused on the **carbon intensity of an energy sales portfolio** (ESP). There are already some successful Canadian precedents for this model, including removing lead from gasoline and the elimination of ozone depleting substances.

The scope of an ESP would measure the average carbon intensity per gigajoule (CI/GJ) of energy sales — domestic, imports, and exports — by seller. A portfolio could include all forms energy — electricity, petroleum products, coal, natural gas, or any combination of these. In this model, sellers decide on the energy mix in their portfolio to meet the specified CI/GJ target. The CI/GJ level would be set and a rate of decline established (and reviewed regularly) as laid out in a regulation, along with a CI/GJ floor below which there are no further obligations. Importantly, regulated parties could comply jointly on a sales portfolio average basis, and not be asked to meet the CI energy factor of every single energy product line. This should reduce complexity and lighten the administrative burden.

The benefits of our suggested model include the following:

1. **Jurisdiction:** The proposed approach respects provincial and federal responsibility for energy management if implemented through equivalency agreements with the provinces.
2. **Simplicity:** One measure would be adopted for all forms of energy using a simplified formula, avoiding the potential for a cumbersome provincial patchwork of fuel standards and removing the need for some existing standards (e.g., BC Low Carbon Fuels Standard, Federal Renewable Fuels Standard).



3. **Efficient:** Reduces administrative costs for government and industry.
4. **Market based:** Enables seller decision-making on what to include in their portfolios.
5. **Innovation:** Facilitates market-based, least cost combinations of energy and technology to meet the CI/GJ target.
6. **Trade:** Treats all energy in a like manner, helping to provide Canada with evidence of non-discriminatory behaviour that can be used in trade challenges.
7. **Compliance:** Easy to track and report on one measure; also, would enable regulated parties to jointly comply for maximum flexibility.
8. **Credits:** Joint compliance allows industry to find each other and partner in innovations/solutions; also, creates a non-government driven or administered secondary market.

In terms of jurisdiction, Canada would have responsibility for setting the CI energy factors, based on common lifecycle assessments (LCA) through a process much like the one used for determining Canadian Ambient Air Quality Standards. The science- and evidence-based LCA analysis needs to be independent of the overall determination of a Canadian CI/GJ target. Provinces/territories and sellers of energy would use CI energy factors, thus helping to establish a common rule for reporting purposes and supporting bottom-up, transparent reporting (i.e., the ESP CI/GJ is just the sum of the CI energy factors times volume in an ESP.) Canada could use the reported sum or all ESP CI/GJ data to report on progress towards its international GHG reduction commitments. Implemented through equivalency agreements with provinces/territories, this approach recognizes provincial authority for energy development and enables use of existing GHG reporting structures and provincial Administrative Monetary Penalties regulations.

An ESP approach simplifies administration by eliminating the need for a complicated carbon intensity calculation. It also avoids an unnecessary government role in specifying fuel additives (i.e., 5% ethanol, etc.), types of energy in an ESP, and/or choice of technologies. The proposed model is also less time consuming and less costly compared to a sector-by-sector or fuel-by-fuel regulatory approach. Moreover, it is deliverable using existing resources within the current regulatory framework — government has a role in collecting reports, verifying compliance, and conducting audits, but steers clear of a market-maker or administrator role. If combined with a resurrected and modernized Class 27 depreciation schedule under the federal Income Tax Act,<sup>1</sup> an ESP could incentivize innovation and spur investment in new technology led and guided by the market.

In terms of compliance, under our model a regulated party is the entity who executes the first sale of the energy product in Canada, regardless to whom they sell. This aligns with the current Fuel Tax collection system. Regulated parties would include wholesale energy suppliers (i.e., fuel and vertically integrated entities who generate electricity, import, and/or resell electricity) but exclude retail suppliers

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<sup>1</sup> See page 9 of [http://www.bcbc.com/content/2278/BCBC\\_SubmissiononCLTRRecommendations\\_April2016.pdf](http://www.bcbc.com/content/2278/BCBC_SubmissiononCLTRRecommendations_April2016.pdf).



(i.e., retail gas stations owners or retail electricity distributors). Entities who sell natural gas to or through a natural gas utility must comply.

Under the recommended approach, regulated parties must be able to jointly comply for two reasons. First, joint compliance enables two or more regulated parties to take advantage of the average CI/GJ of their combined ESPs. If the sum of all ESP CI/GJ content is less than the target, then all parties who are signatories to a compliance agreement are compliant; the transaction for CI credits is between the parties and this supports a secondary market driven by the participants seeking partnerships, projects, or innovations to reduce CI/GJ in their portfolios; there is no hands-on role required of government. Second, the ESP approach encourages partnerships among companies and sectors in solution-seeking, leaving the private sector to compete on price and pursue best and least cost solutions – by default fostering a secondary market for credits because of the existence of joint compliance opportunities.

Aside from this, Canada could include one other form of alternative compliance option credits – investment in transmission capacity – as is built into Nova Scotia’s Greenhouse Gas Emissions Regulations<sup>2</sup> (section 7). The substance and form of section 7 of the Nova Scotia regulation is simple and straightforward. It could be adopted as is or modified as needed, thus facilitating one of the main policy actions embedded in the pan-Canadian climate policy framework. It would also operationalize and be a reportable item in Canada’s Mid-Century Long-Term Greenhouse Gases Development Strategy filed with the United Nations Framework Convention on Climate Change program.

Importantly from a trade perspective, a CI/GJ measure inoculates Canada from exposure to foreign trade tariffs, since all forms of energy (i.e., domestic, imports, and exports) are treated the same. Given the global nature of energy trade and the large-scale contributions of Canada’s oil and gas sector to our economy, this should protect our energy sector from the threat of trade sanctions. Furthermore, transparency is improved if the CI/GJ calculation is based on publicly-available LCA factors and assumptions, with all sales of energy included in the measure. Therefore, Canada would be in a stronger position to argue “comparability” with the United States without adopting onerous US-style reporting requirements.

In summary, the Business Council supports one broad-based clean fuel standard (i.e., avoid both federal and provincial fuel standards and include all forms of energy), that is market driven and simple rather than prescriptive (i.e., does not specify product solutions, technology choices, industrial processes, or prices) and complex. We believe this will stimulate investment, innovation, and partnerships while also providing for appropriate penalties for non-compliance. Our proposed Energy Sales Portfolio approach is consistent with these characteristics.

By way of background, the Business Council, established in 1966, is an association representing approximately 260 large and medium-sized enterprises engaged in business in British Columbia. We are a public policy organization, providing research, analysis, commentary, and advocacy on issues relevant

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<sup>2</sup> <https://www.novascotia.ca/just/regulations/regs/envgreenhouse.htm>.



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to enhancing Canadian and BC competitiveness and prosperity. We support competitive taxes, effective and nimble regulation, and responsible fiscal government budgets, to enable vigorous business activity and provide the resources to pay for government programs delivering education, health care, and other services to citizens. We have a proven record of accomplishment of constructive policy advocacy on environmental sustainability, economic reconciliation with First Nations, innovation and productivity, climate change and energy, competitive tax and fiscal policy, effective regulatory regimes, advancing trade policy and export markets, and the development and attraction of a deep and diverse talent pool. Our members come from all major sectors of the province's economy, including forestry, energy, mining, manufacturing, transportation, advanced technology, health research and life sciences, tourism, retail and wholesale trade, construction, utilities, post-secondary education, and professional, scientific, and technical services. Taken together, the enterprises, academic institutions, and sectorial associations affiliated with the Business Council account for approximately one-quarter of all private sector payroll jobs in BC.

We would welcome further dialogue on these matters.

Yours sincerely,

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