



September 29, 2009

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Dear Mr. Cleeves:

Re: **B.C. Low Carbon Fuel Regulation Requirement Intentions Paper**

The Canadian Petroleum Products Institute (CPPI)¹ is pleased to provide input to the Ministry of Environment process for reviewing the intentions paper for the Low Carbon Fuel Requirements Regulation (LCFRR).

CPPI would offer the following comments:

1.0 Introduction

CPPI appreciates the consultation process used to arrive at a scientifically sound life cycle analysis (LCA) to address GHG reductions in the transportation sector. However, CPPI is opposed to the introduction of an LCFRR in addition to the existing Renewable Fuel Requirements Regulation (RFRR) and CPPI believes B.C. should avoid having duplicative requirements aimed at the same industrial sector.

1. 2(iii) Review Periods

CPPI is encouraged with the inclusion of the proposed review periods in 2012 and 2015. We believe this is a prudent approach to the introduction of this type of Regulation because of the rapid evolution in the biofuel sector. In view of the criticality of this issue for the environment and the industries, CPPI suggests that the review process be evergreen and repeats itself every three (3) years, starting in 2012. As part of the 2018 review, the potential for further reduction beyond 2020 would then be addressed. At each review period, the attainability of the LCFRR objectives should be validated based on technology developments, existing OEM's limitations and availability of next generation biofuels.

¹ CPPI members: Bitumar Inc., BP Canada Energy Company, Chevron Canada Limited, Husky Energy Inc., Imperial Oil Limited (Products and Chemicals Division), North Atlantic Refining Limited, NOVA Chemicals (Canada) Ltd., Parkland Income Fund, Shell Canada Products, Suncor Energy Products Inc. & Ultramar Ltd.

3(i) Scope of Regulation

The intentions paper outlines that the regulation will apply to “Part 2 Fuels”. CPPI recommends that regulation not apply to low cloud diesel (>-33C), and to specifically exclude the northern zones of BC05 and above. The challenge of supplying distillate fuel in the northern cloud zones does not lend itself to an LCFRR application and therefore should be excluded.

3(iv) Compliance Schedules/Baseline

The proposed 2010 baseline determination methodology is not endorsed by CPPI. CPPI recommends that the baseline should be adjusted to reflect hydrocarbons only because the LCFRR and the RFRR should not operate in a cumulative fashion. As the stated intention of the LCFRR is to lower the carbon intensity of the current transportation fuels, CPPI believes that the baseline should not include the 2010 mandated renewable volumes (similar to European approach). This would allow for an accurate measurement of performance in future years.

4(ii) Life Cycle Improvements

CPPI recommends that the B.C. gasoline/diesel carbon intensity should be based on the average Western Canadian crude mix.

B.C. should have an objective of no discrimination on crude types in their CI calculations.

Assuming that adequate evidence is provided, and the director accepts a new biofuel source, then that information should be made publicly available possibly posted on the government website. In addition, any revisions made by B.C. to existing biofuels carbon intensities should be scientifically supported and adequate lead time provided for an adjustment.

Appendix E – Fuel Descriptions

CPPI is unclear as to the purpose of including 360 ppm sulphur gasoline in the tables. CPPI recommends that the base gasoline fuel definition be consistent with the Federal mandated transportation fuel.

Appendix E/F – Comparison with Neighbouring Jurisdictions

In our review with other jurisdictions, CPPI noted that there appears to be differences in carbon intensity values between B.C. and Alberta biofuels, although we understand that they are both based on GHGenius. In addition, the CI values for nearby U.S. jurisdictions are abnormally high relative to Canadian biofuels. Unless resolved, this may cause ‘shuffling’ in cross border biofuels business and may cause economic dis-benefits for Canadian supply from time to time.

There should be an objective to have consistent LCA modeling, and differences between GHGenius and GREET should be well understood and resolved. B.C. must seek harmonization of this regulation with other jurisdictions with respect to LCA modeling.

CPPI does not support the assumption that CNG would offer an efficiency advantage compared to gasoline in HD applications. CPPI believes CNG should have an EER closer to 1.0 of gasoline.

The Appendix F of Fuel Carbon Intensities should be a complete list of the most commercially available transportation fuels, and as a minimum include those listed in the California CARB look-up table.

Appendix F - Part 2

When will the CI values for HDRD be made available? We understood that the 3.16 version of GHGenius was to be released in late August and to date we are not aware of an update.

It appears that electricity is one alternative which may help in achieving the 2020 targets. How would this impact be brought into the transportation mix if the electric vehicles are re-charged from residential sources? Who or what body would have the credits to sell from the residential segment?

Tables 5 & 6 – Indirect Land Use Change (ILUC)

Industry needs to understand why ILUC values for U.S. based biofuels are substantially higher relative to Canadian based product.

As Canadian and other biofuel sources increase production, is there a science based process that will determine changes in ILUC values? How frequently will this process be used?

Many ILUC values are missing for Canadian sourced biofuels. CPPI believes ILUC values need to be determined for ALL biofuels to avoid distortions where biofuels would be advantaged simply because its ILUC value has not been determined. B.C. had indicated the possible use of GTAP values. What process will determine if this is the process to be used and will it be incorporated into the regulatory process?

ILUC values have a significant impact on biofuel supply contracts for Part 2 Fuel suppliers. Where will the factors be based or derived from? Industry needs consistency and repeatability in life cycle modeling to make proper sourcing decisions.

Appendix Table II

Federal regulations require off-road diesel to be 15ppm by 2010 and rail & marine to be 15ppm by 2012. CPPI believes the percentage reduction by 2010 for LSD to be significant. CPPI recommends the baseline CI value for all diesel volumes reflect 100% ULSD conversion.

Financial Penalty

CPPI would suggest that non-compliance financial penalty (fee for shortfall) for the LCFRR should be based upon a North American market based system \$/tonne CO₂e.

Compliance Options

CPPI recommends, given the technology-forcing nature of the LCFRR, that the regulation explicitly contemplate options to sustain fuel supply while still in compliance with the LCFRR.

Credit Systems

Enabling legislation does not allow for a 10% carryover of “non-compliance”. B.C. is the first jurisdiction to implement RFRR and LCFRR concurrently. A carryover option in the initial years would be prudent. The preference of CPPI is to amend the enabling legislation to allow a 10% carryover provision. Should amendment of the enabling legislation prove to be impractical, CPPI recommends a 10% reduction in the carbon intensity objective in the years 2011-2014 inclusive compensated by an increase in the carbon intensity objectives in the 2015-2019 timeframe. This will achieve the same effect as a 10% carryover. This back-end loaded approach would be the preference for CPPI members.

The Intentions Paper is proposing that only credits generated before 2015 will be bankable until 2018. Any credits after 2015 will need to be used in the current year or become null and void. CPPI believes that banking and indefinite life of LCFS credits should be allowed assuming rigorous controls are in place to assure integrity of the credit market. The banked credits will provide important flexibility to Part 2 Fuel Suppliers as they attempt to comply with LCFRR, especially in the later portion of program when availability of compliance mechanisms remains highly uncertain. Moreover, CPPI believes that given that the first year (ie. 2010) would require reporting only with no requirement to meet a particular carbon intensity reduction, fuels suppliers should be allowed to generate bankable credits in 2010 if they achieve a lower CI value than the B.C. CI baseline.

General Comments

CPPI is advocating a “biofuels” approach rather than the complex LCFRR “California style” initiative which would include the following principles:

- Blending up to the “blend maximum”
- Extra credit for low-GHG biofuels:
 - Sugar cane based ethanol
 - Municipal waste ethanol
 - Cellulosic ethanol
 - Biomass-to-liquid biofuels
 - Renewable diesel
- Movement of the OEMs biofuels limits
- Movement towards transformative technologies
- Prescribed Review Periods

CPPI would like to reinforce our key principles in our approach to the petroleum products supply for the B.C. market. CPPI members will be responsive to customer demand for existing and future fuels. In doing so, we will be supportive of government and stakeholders in the development and deployment of transformative technologies. At all times CPPI members will maintain quality standards in a competitive North American framework.

This being stated, CPPI remains concerned the LCFRR and the RFRR will put a significant strain on the existing transportation fuel industry.

Additional Comments

CPPI appreciates the opportunity to provide input on the review process. During our review on September 10, 2009, B.C. had asked for comments on participation in the regulatory drafting process. Similar to the recent RFRR experience, CPPI members believe that we could contribute to the detailed drafting process and would agree to participate in a similar function again.

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Should you have any questions on the above, please do not hesitate to contact us at (403)266-7565.

Yours truly,

CPPI – Western Division



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