

December 18, 2006

The Honourable Rona Ambrose
Minister of Environment
Environment Canada
10 Wellington Street
Gatineau, Quebec K1A 0H3

Dear Minister Ambrose:

Re: **CPPI Response to the Canada Gazette Part 1, October 19, 2006, 'Notice of Intent to Develop and Implement Regulations and Other Measures to Reduce Air Emissions'**

CPPI is pleased to respond to the Gazette 1 Notice of Intent (NOI) to regulate air emissions. CPPI is supportive of the government commitment to improve air quality in Canada. We also support the NOI and the framework being proposed to regulate air pollution (AP) and greenhouse gas (GHG) emissions. We have concerns with the aggressive program for developing the regulatory framework and short term targets for emissions. It is quite possible that targets driven by "a rush to the finish line" may not be realistic. We will however work with your officials in helping to develop regulatory requirements for the petroleum refining sector that meet the Government's clean air and climate change objectives.

CPPI has prepared a detailed response to the 12 specific questions posed in the November, 2006 Companion Document to the NOI. As instructed in the Companion Document, we have submitted that response to Environment Canada to the attention of the Director General, Strategic Priorities Directorate. Our purpose here is not to repeat that response but to focus on the NOI document itself.

Overall, CPPI supports the pragmatic approach in the NOI. It has the potential to provide long term regulatory certainty thereby allowing adequate lead times to plan investments and process upgrades. A focus on both APs and GHGs is appropriate. We agree that more can be done and needs to be done to achieve measurable improvements on both fronts. The pace of progress spanning the short, medium and long term appears to be designed to match what might practicably be accomplished in a given time period. This is particularly true for GHGs where there is recognition that significant reductions in emissions will require deployment on a large scale of new, transformative technologies. Those technologies either do not yet exist or are not ready for deployment on the necessary scale. The notion of a technology investment mechanism to advance technology research and development is a core principle which we strongly endorse.

Other aspects of the NOI which CPPI supports include:

- Explicit recognition of Canadian industry's state of technology, capital stock turnover and competitiveness realities. This is critical to the economic well-being of the country and our sector
- Preference for performance based regulations where government specifies the emission target and industry determines how best to meet it, versus technology prescriptive approaches is a particularly appropriate made in Canada concept. Performance based approaches encourage innovative solutions and are generally more cost effective.
- Interest in flexible compliance mechanisms – CPPI strongly supports use of a technology investment fund as the primary compliance or “true-up” mechanism for entities that are unable to physically meet targets in a given year. As such, the contribution level should not be limited, but price of units would have to be capped at a level (e.g. \$15/ tonne) to encourage investment by industry.
- Desire to work in partnership and respect jurisdictional authorities of equivalency agreements. CPPI supports this principle but more will need to be done to avoid cumulative and uneconomic regulatory burdens. Eliminating federal and provincial duplication by providing a one-window regulatory compliance tool must be a primary goal. We believe that equivalency can only work if both parties to the agreement work together towards this goal. The current practice of equivalency meaning that the provinces serve to implement the federal requirements has not worked and will not work in the future.
- Continuing to align new air pollutant regulations on vehicles, engines and fuels with U.S. standards. Such a policy is critically important as it preserves the competitiveness of our sector with the U.S., our major competitor.
- Working with and respecting international processes such as the International Marine Organization in developing standards for controlling air pollution from marine sources. We see this as a logical and necessary strategy. Canadian action on marine emissions has impacts and implications beyond Canadian borders.

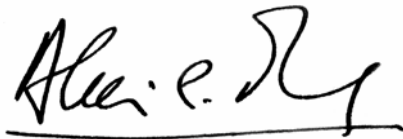
There are certain aspects of the NOI which cause us concern. These are:

- There is no mention of risk based decision making in the air pollution target setting process. The NOI references “*measurable reductions in emissions to improve the health of Canadians*”. It would be more appropriate in our view to set the objective in terms of “*reduction in emissions to give measurable improvement in air quality which contribute to the health of Canadians*”. This change of emphasis serves to guide action where health risks have been identified and need to be managed.
- The NOI promotes the use of continuous emissions monitoring (CEM). For GHGs, we believe this is a bad idea. CEM technology is overly complex, inaccurate, and extremely expensive. A far simpler and more accurate approach is to use flow meters on energy streams combined with stream composition analysis. Knowing the flow rate and stream composition (e.g. for liquid fuel, refinery gas, natural gas), a simple calculation accurately determines carbon and/or CO₂ quantity.

- Although not explicitly stated in the NOI, government officials during the “lock-up” session explained that CEPA authorities will be expanded to include “point of blending” as an additional compliance point for regulating renewable fuel blends. In the case of refining, this authorizes government to write regulations pertaining to our blending terminals. We have resisted this type of authorities’ expansion in the past because there were other means to enforce compliance, and therefore not strictly needed. Specifically, the Government has the authority to regulate fuels at the point of production, importation and sale. Even when provincial or federal ethanol/renewable mandates are implemented, we still see no need for fuel quality regulations to be applied at blending terminals. The mixing of “commercially pure oxygenates” or “sulphur-limited oxygenates” as defined in existing regulations exempts this operation from “blending”. Ontario and Saskatchewan regulations for pool average ethanol simply compare gasoline sales volumes to the volume of ethanol added as a percentage of the sales volume of gasoline. We believe this same approach can be implemented at a national level and would require no change to the existing fuels regulatory authorities in CEPA 1999. Consequently, CPPI opposes the proposed expansion of regulatory authority to include blending terminals.

In closing, CPPI appreciates the opportunity to respond to the NOI. CPPI looks forward to working cooperatively with the Government in designing regulations for clean air and climate change. As always we are prepared to do our part.

Sincerely,

A handwritten signature in black ink, appearing to read "Alain Perez", with a horizontal line underneath.

Alain Perez
President CPPI

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