



**Canadian
Petroleum
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des produits
pétroliers**

July 12, 2005

Mr. Samy Watson
Deputy Minister
Environment Canada
10 Wellington Street
Gatineau, Québec
K1A 0H3

Dear Mr. Watson;

Re: Aligning Canada's On-road Low Sulphur Diesel Regulation to Pending USA Changes

CPPI requests that Environment Canada modify the On-road portion of the Low Sulphur Diesel Regulation to maintain alignment with that proposed by the US EPA. As we currently understand the pending changes in the USA, from June 1 to Oct. 15, 2006, on-road diesel must be less than 500 ppm S. If it is less than 22 ppm S, it can be marketed as ULSD for purposes of credit trading. After Oct. 15, 2006, on-road diesel in the USA will either be LSD < 500 ppm S or ULSD < 15 ppm S with both the 80/20 rule applying and the continuation of credit trading.

CPPI's request, which we believe best aligns with this situation in the USA, is that:

1. Starting June 1 2006, all on-road diesel must not exceed 15 ppm S at the point of production (i.e. the refinery gate) and at the point of importation¹.
2. Downstream of the refinery and up to Sept 1 2006, all on-road diesel sold must be less than 500 ppm S. Between Sept. 1, 2006 and Oct. 15, 2006, all on-road diesel sold must be less than 22 ppm.
3. After Oct. 15, 2006, all on-road diesel must be less than 15 ppm S.

Background

On May 27, 2005, the US EPA announced its intention to modify its On-road Ultra-Low Sulfur Diesel [ULSD] Regulations (attached). The modification would result in the 15 ppm point-of-sale criteria moving from September 1, 2006 to October 15, 2006. During this short transition period, diesel fuel meeting a 22 mg/kg S level can be delivered or

¹ The US proposal to set terminal requirements at 22 ppm S from July 15, 2006 to Sept. 1, 2006 will create a mismatch with the 15 ppm S max. Canadian point of import requirement during that period – this may constrain supply options if 22 ppm S diesel cannot be imported into Canada from US terminals for sale as low sulphur on road diesel

sold/marketed as ULSD downstream of the refinery in order to facilitate the transition during the introduction of ULSD into the market.

Their rationale for the change arises from an improved understanding – relative to the time when the regulation was established in early 2001 - of the challenges within the US distribution system which will require more time to fully turnover the on-road diesel fuel inventory. If not allowed this extension and improved flexibility, fuel disruptions could occur because slightly above-specification fuel cannot be sold as ULSD and would have to be either downgraded to the 500 ppm pool or reprocessed in the refinery or by a fuel reprocessor. According to the EPA announcement, the proposed changes “will not interfere with the planned introduction of clean diesel vehicles and engines anticipated in the autumn of 2006, nor will they reduce the environmental benefits that will be achieved by this historic Clean Diesel Program”.

CPPI’s Request for Alignment

CPPI’s rationale for this request is based on three factors:

1. CPPI, in promoting a competitive level playing field between Canada and the USA, supports alignment of specifications for fuels that enable vehicle or engine technology. Ultra-low Sulphur On-road Diesel fuel enables the Tier 4 engines tailpipe emissions standards that come into effect with the 2007 model year heavy duty on-road diesel engines.
2. CPPI recognizes that alternative ULSD fuel supply in Canada may well be sourced out of the USA. If Canada’s compliance timing for ULSD is earlier than that of the USA, this alternative supply may not be available and the impact of this could be significant.
3. CPPI believes that the potential for supply disruptions is as much of an issue for Canada as it is for the USA. Although earlier Canadian pipeline trials indicated only modest sulphur pick-up for dedicated product pipelines, we do have more complicated pipelines in Canada which co-ship non-product liquids. In addition, subsequent detailed examination has shown CPPI members that this movement phase is only one of many which could experience cross-contamination. For example, the post-terminal movement of products is an area in which US companies have not undertaken a lot of analysis.

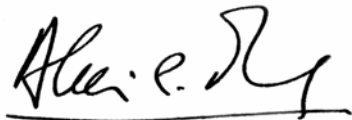
In general, the logistical distribution system in Canada is comparable to that of the USA. This means that the outer branches of the supply orbit experience a large number of product “hand-offs” in which the diesel fuel is moved out from the refinery in a number of stages. Because these logistics involve a common carrier multi-product network, the potential for cross-contamination occurs with each hand-off. A hand-off occurs each time that product is moved into a fixed inventory container (tank, truck, etc). This happens when the diesel fuel moves from refinery to pipeline, from pipeline to terminal, from terminal to bulk plant and from bulk plant to end customer. To add complexity to the issue, in some distribution systems, there may be secondary terminals as well as secondary bulk plants.

A good example of a long supply line, with many product breakouts, is the movement of product from Edmonton area refineries to beyond Thunder Bay. From refinery storage, the product enters the Enbridge pipeline [natural gas liquids and synthetic crude are shipped on this line in addition to gasoline and distillate], it goes into breakout tankage at Gretna, enters the Winnipeg pipeline and then into terminal breakout tankage at Winnipeg. From there, it is railed to Thunder Bay to further breakout tankage after which it can be shipped to area bulk plants prior to final delivery to the customer.

With a contamination pickup as low as 1 or 2 mg/kg at each hand-off, the product could easily exceed 15 mg/kg at the point-of-sale even when it leaves the refinery at 8 mg/kg. While the potential problem is evident, we believe that, with operational experience, the 15 mg/kg specification can be achieved on a consistent basis with very little downgrading. The challenge will primarily occur during the initial transition period. It is during this period when existing tank inventories are being turned over, that small - beyond 15 mg/kg - levels of sulphur are most likely to appear. We believe that the US EPA's proposal is entirely appropriate and we therefore recommend that Environment Canada take similar action.

We appreciate your consideration of our proposal and invite you and your staff to direct any questions you may have to either myself or Jack Belletrutti, CPPI Vice-President (613-232-3709).

Yours truly,

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

Alain Perez
President, CPPI

Cc: Steve McCauley, EC
Bruce McEwen, EC
Maureen Monaghan, NRCan
Jack Belletrutti, CPPI

Attachment

<http://yosemite.epa.gov/opa/admpress.nsf/d9bf8d9315e942578525701c005e573c/808f29e5be8242ea8525702e004fbfb3!OpenDocument>

Rule Planned to Ease Ultra-Low Sulfur Diesel Fuel Transition

John Millett, 202-564-4355/ millett.john@epa.gov

(05/27/05) To facilitate the transition to the ultra-low sulfur diesel (ULSD) fuel, EPA today announced plans to issue a rule later this year that will take two actions. The first action will shift the retail compliance date from September 1 to October 15, 2006, to allow more time for terminals and retail outlets to comply with the 15 ppm ULSD standard. During this extended transition period, diesel fuel meeting a 22 ppm level can be marketed as ULSD downstream in order to speed the transition. This action will help ensure nationwide transition to 15 ppm ULSD prior to the introduction of new clean diesel trucks and buses. The second action will establish a test program, in cooperation with the fuel industry, to collect the data necessary to determine if the current 2 ppm testing tolerance is sufficient.

These transitional items will not interfere with the planned introduction of clean diesel vehicles and engines anticipated in the autumn of 2006, nor will they reduce the environmental benefits that will be achieved by this historic Clean Diesel Program.

For more information on the Heavy-Duty Highway rule, visit:

<http://www.epa.gov/otaq/diesel.htm> .

Release date:05/27/2005