

***Considerations for the Ongoing Development of the Clean Fuel Regulations  
as presented in Canada Gazette, Part I, Volume 154, Number 51***

The Business Council of Alberta (BCA) is pleased to provide our response and recommendations on the design elements of the updated Clean Fuel Standard (CFS) Regulations as recently presented in Canada Gazette, Part I, Volume 154, Number 51.

The BCA is a non-partisan, non-profit, for-purpose organization composed of the chief executives and leading entrepreneurs of Alberta's largest enterprises. Our members represent the majority of Alberta's private sector investment, job creation, exports, and research and development. We are dedicated to building a better and more prosperous Alberta within a strong Canada, a goal that necessarily includes becoming increasingly environmentally sustainable in order to leave our province and the world even better for future generations to meet their own needs.

The BCA remains broadly supportive of the federal government's goal to materially reduce GHG emissions. However, we had expressed concern about the original design of the CFS, as outlined in our December 2019 paper, [Getting it Right the First Time](#). While we consider the changes since proposed to be an improvement, we remain of the view that the updated design still creates narrow and potentially higher-cost pathways to reducing emissions compared to what other emissions-reducing policy alternatives could achieve. Moreover, while several of the recommendations from our original paper have been at least partially addressed, many others remain.

This policy brief provides a brief discussion on the implications of the CFS changes in the *Canada Gazette*, and lists recommendations—with context provided, when necessary—that BCA members believe would maintain the integrity of the CFS while addressing our outstanding concerns.

**Discussion on CFS Changes Introduced in the Canada  
Gazette**

While the proposed changes to the CFS do not fully address BCA's concerns, they do represent steps in the right direction by addressing barriers to compliance; unnecessarily imposed uncertainties to clean tech investments; and some cost increases that would have disproportionately impacted Albertans and the Alberta economy.

The move to eliminate solid and gaseous fuels from CI reduction requirements is a welcome change for Alberta businesses and for all who consume energy in this province. Alberta's



electricity supply largely relies on natural gas. Imposing CI reduction requirements on solid and gaseous fuels would have imbedded additional costs into every aspect of the Alberta economy, while leaving other provinces with different resource endowments largely unaffected. Moreover, this change aligns the CFS much closer with similar domestic and international regulatory schemes.

The decision to delay the first CI reduction threshold by six months and to reduce the stringency in the policy's early years will help to provide fuel suppliers and voluntary credit creators with more time to make investments to reduce the CI of their fuels. This should help broaden compliance pathways, encourage more efficient investments in CI reduction options, and improve credit market liquidity.

The introduction of the generic quantification method, and the decision to increase the credit generating timeframe for CI-reducing projects, are welcome improvements that will help to reduce investment uncertainty, particularly for innovative and possibly transformative long-term investments in new clean technologies. These changes will help de-risk green technology investments and encourage long-term solutions to life cycle emissions that otherwise may have been limited due to slow project assessment times and limitations on a project's ability to generate a return on investment.

Several changes and clarifications to the land use and biodiversity (LUB) criteria are also positive. The change of the baseline year for crop expansion from 2008 to 2020, along with the greater alignment of the criteria with local land use regulations, will help reduce regulatory overlap and will provide more fairness for the biofuel industry in their preparation for CFS enactment. Furthermore, holding all biofuel supply to the same life cycle emissions standards regardless of the jurisdiction of origin will help level the playing field between Canadian suppliers and their international competitors.

## **Recommendations for Improvement**

Despite these positive changes, several design elements of the CFS continue to create arbitrary and unnecessarily narrow compliance pathways, ultimately imposing higher costs that disproportionately impact businesses and low-income Canadians and deterring long-term investments in emissions reduction technologies. To address these issues, BCA recommends the following improvements:



### *Removing Barriers that Create Narrow Compliance Pathways:*

1. It is unclear whether or not a new policy that is introduced during the mid-life of a CI-reducing project can create a new business-as-usual case and subsequently disqualify this project from producing credits within its credit generating window. This uncertainty should be clarified. All CI-reducing projects installed before the introduction of a new policy establishing a new business-as-usual case should be grandfathered to allow for the projects to continue generating credits for their credit generating window.
2. The five percent market penetration threshold for CI-reducing technologies should be substantially increased to at least 25 percent. Projects that exceed this new technology penetration threshold or that become part of the new 'business-as-usual' case should continue being able to generate credits, but with credit quantity tied to the real penetration rate of a given technology.
3. While BCA welcomes the addition of CI reduction thresholds for gaseous and solid fuels, the federal government should consider eliminating the 10 percent compliance cap for cross-fuel class carbon intensity reductions as they apply to the liquid fuels class. All emissions reduced, regardless of the class of fuel they come from, should be held equally, particularly considering that the life cycle emissions intensity of a liquid fuel will often contain emissions contributed from gaseous or solid fuel sources.
4. To better align the impacts of the CFS with other jurisdictions whose low carbon fuel policies only impact the transportation sector, the federal government should consider mitigating cost increases and competitiveness challenges incurred by the buildings and industrial sectors.
5. The federal government should remove the 10% cap from the annual compliance contributions attributable to generic quantification method-assessed projects. Alternatively, if ECCC decides to keep a compliance cap for generic QM projects, the cap should be increased to at least 20%. If the project is later approved under a specific QM assessment, any emissions reductions produced by a generic QM project over and above this 20% cap while the project is still being assessed under the generic QM should be able to be banked for use in meeting future annual compliance thresholds.

### *De-risking the Investment Environment for Long-term CI-reducing Projects:*

6. Before investment decisions on CI-reducing projects can proceed, primary suppliers and voluntary credit creators will require policy certainty in order to assess their best



investment options. The Fuel Life Cycle Assessment (LCA) model, scheduled to be released upon final publication of the regulations, underpins the entire architecture of the CFS. Until the LCA and its components have been finalized, investment decisions cannot be made with certainty and will be delayed. To reduce this uncertainty, the final version of the LCA should be published well in advance of the publication of the final regulations. This will provide industry with the time needed to prepare for regulatory implementation and to plan credit generation investment strategies.

7. To create a more attractive investment environment for the venture capital that may be needed to fund innovative CI-reducing technological developments, the federal government should consider extending the minimum credit generation window for non-CCUS projects to 15 years rather than 10 years.
8. The application for a one-time 5-year extension to a CI-reducing project's credit generation window should be changed to allow for extensions until the investment has been fully depreciated, or the project has become part of the business-as-usual case, subject to the market penetration and new policy conditions outlined in recommendations 1 and 2, respectively.
9. For all credits generated by CI reductions—whether through specific QM or generic QM assessments—projects should generate credits retroactive to the date of their installation rather than the date of their assessment approval, provided they do not become part of the business-as-usual base case. To clarify, retroactive credits should remain subject to existing rules in the CFS outlining the earliest dates after which projects developed or announced can create credits.
10. Every unit of life cycle emissions reduced by the various compliance pathways should be weighed equally, and structures favouring investments in short-term compliance targets ought to be removed in favour of structures that contribute to long-term, absolute emissions reduction targets. The removal of arbitrary compliance caps on cross-class fuel emissions reductions and on credits generated by projects assessed under the generic QM have both been discussed above. In addition, however, credits generated in excess of annual reduction targets in a given year should be eligible to retroactively contribute towards compliance in previous years. This retroactive contribution should extend beyond the two-year deferral limitation currently in place.



### *Capturing the Economic Benefits Created by the CFS:*

11. The federal government should explore ways to accelerate investments in domestic biofuel production capacity, including by expediting project approvals and other regulatory processes.
12. The federal government should commit to immediate and continued consultations with land-use industries to ensure that science is guiding the clarification of key definitions in the land use and biodiversity criteria, particularly the definition of ‘high-carbon stock lands’.
13. Generating credits from the electrification of economic activities in Alberta requires ECCC to set accurate electricity grid factors and up-to-date projections of how the grid factor will change in the years leading up to the implementation of the CFS. ECCC should consider updating Alberta’s direct emissions grid factor to reflect the ongoing trend of declining reliance on coal generation.

### *Reducing Compliance and Administrative Burdens:*

14. The federal government should ensure that assessment and approval processes are conducted in a timely and cost-effective manner, with binding timelines written into the regulations. Every effort should be made to ensure that federal assessments minimize costs for those seeking approvals, and federal approval bodies should be adequately resourced to exceed assessment and approval timelines in leading jurisdictions like the United States.
15. The CFS should be removed from the Canadian Environmental Protection Act and instead be housed in alternative legislation where violations do not carry a criminal charge.
16. Given the severe penalties for non-compliance, it is vital that the CFS maintain a liquid credit market. The federal government should be flexible and willing to adjust credit market mechanisms if barriers to market-based compliance become too onerous and threaten to reduce business competitiveness and compliance capability.
17. Given the importance of credit market liquidity in achieving full compliance, the CFS should include in the regulations a commitment to release annual credit market status reports outlining key metrics about the market’s liquidity; the source of credits; the cost of credits; and renewed, ongoing modeling on future credit market outlooks.



*Promoting Business Competitiveness for Energy-intensive, Trade-exposed Sectors:*

18. EITE sectors do not have the capacity to pass costs along to a captured domestic market, thereby creating unique competitiveness challenges by cost increases attributable to the CFS. Accordingly, the federal government should consider identifying ways to both harmonize and reduce the duplication of carbon measurement and pricing policies between the provinces and, when appropriate, with key trading partners like the United States, particularly if President Biden introduces more stringent national carbon policies. This will help avoid duplication and reduce regulatory burden.
19. If necessary, emissions reduction goals and domestic business competitiveness could both benefit from exploring the idea of a carbon border adjustment tax alongside offsetting carbon export credits.

*Addressing Equity Concerns for Low-income Canadians:*

20. Environment and Climate Change Canada's own regulatory analysis acknowledges that fuel cost increases attributable to the CFS will disproportionately impact low-income Canadians, particularly for those with a limited ability to change consumption behaviour in the face of higher fuel prices. Mindful of this hardship, the federal government should consider expanding its current carbon tax rebate program to extend to the anticipated cost increases associated with the CFS without imposing additional costs on business.