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Federal Renewable Fuels Regulations

2010 NATIONAL BIO-DIESEL CONFERENCE

November 16, 2010



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Environment Canada



Canada's Renewable Fuels Strategy

Drivers:

- Reducing greenhouse gas emissions from fuel use
- Encouraging greater domestic production of biofuels
- Accelerating the commercialization of new biofuels technologies
- Providing new market opportunities for agricultural producers and rural communities

Key elements:

1. Regulations to require renewable content (Environment Canada)
2. Support for farmer participation through \$200 million *ecoAgricultural Biofuels Capital Initiative* (Agriculture and Agri-Foods Canada)
3. Production incentives under the \$1.5 billion *ecoENERGY for Biofuels* program to encourage investment in biofuels industry and increase annual domestic production capacity (Natural Resources Canada)
4. Support for next generation technologies through a \$500 million *NextGen Biofuels Fund*[™] for large scale demonstration facilities (Sustainable Development Technology Canada)



The final *Renewable Fuels Regulations* were published on September 1, 2010

- Regulatory approach and key elements are consistent with previous government announcements
- The regulations are made under the authorities of the *Canadian Environmental Protection Act, 1999* (sections 140 and 326)
 - Enforcement provisions (offences and punishment) are described in sections 272 and 273 of the Act, not in the regulations
 - Penalties are up to \$1,000,000 and/or up to 3 years imprisonment
- The regulations require “primary suppliers” (petroleum fuel producers and importers) to have an average renewable content of at least 5% based on their volume of gasoline, commencing on December 15, 2010
- There are provisions for a 2% average renewable content requirement in diesel fuel and heating distillate oil
 - RIAS indicates this is to be implemented by 2011 or earlier, subject to technical feasibility
 - Feasibility assessment through Natural Resources Canada’s demonstration initiative, which builds on the *Alberta Renewable Diesel Demonstration*
 - final report complete; decision expected soon
 - To be implemented by a future regulatory amendment

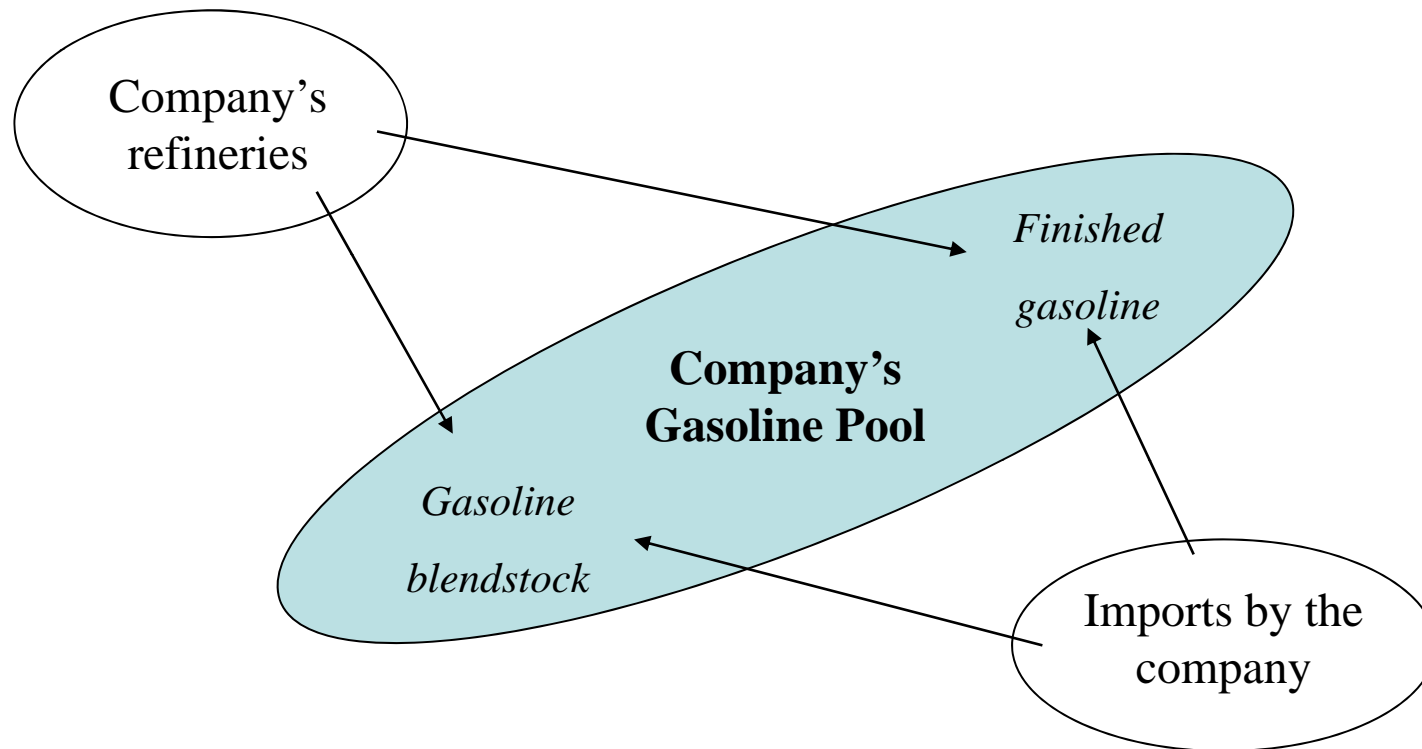


Regulatory compliance is on an annual company basis

- Required renewable fuel content is based on the volumes of gasoline, diesel fuel and heating oil that a company produces or imports
- Regulations do not apply to individual facilities or provinces of import
- Not every litre of gasoline, diesel fuel and heating distillate oil produced or imported is required to contain renewable fuel
- There are some limited exemptions:
 - Companies producing and importing less than 400 m³ of fuel per year
 - Fuel for use in certain specialized applications (e.g., aviation, competition vehicles, scientific research)
 - Fuel for use in the Arctic, and gasoline for use in Newfoundland and Labrador



A company's renewable fuel requirement is based on its total production plus imports



Limits apply on a company (not facility) basis



The regulations provide a number of flexibility mechanisms

- A broad range of liquid renewable fuels may be used to meet the requirements
 - Not limited to ethanol and biodiesel
- The 5% requirement for gasoline may be met by renewable content in gasoline, diesel fuel or other liquid petroleum fuels
- The 2% requirement for diesel fuel and heating distillate oil must be met through the use of renewable content in those products
 - Renewable content in diesel fuel and heating distillate oil before the 2% requirement starts may count towards compliance, either towards
 - 5% requirement, or
 - 2% requirement once in force (with some limitations)



The regulations include a trading system for compliance units

- Compliance units are the basis for complying with the regulations
 - 1 distillate compliance unit = 1 litre of renewable fuel in diesel or heating oil
 - 1 gasoline compliance unit = 1 litre of renewable fuel in gasoline or fuels other than diesel or heating oil
- Companies may acquire compliance units from other parties in lieu of having renewable fuel content in their gasoline and distillate pools



To meet the 5% requirement, a primary supplier must ...

Create compliance units

One CU may be created for each litre of:

Blending facilities



RF blended into fuel



Imports

RF in a blended product that is imported

Refineries



A portion of biocrude used as feedstock at a refinery



Neat fuel use

RF used as neat RF

or

Acquire units from others

Units not used in a compliance period may be carried forward for use in the following period (limitations apply)

Some units may be carried back for use in the previous period (limitations and cancellations apply)



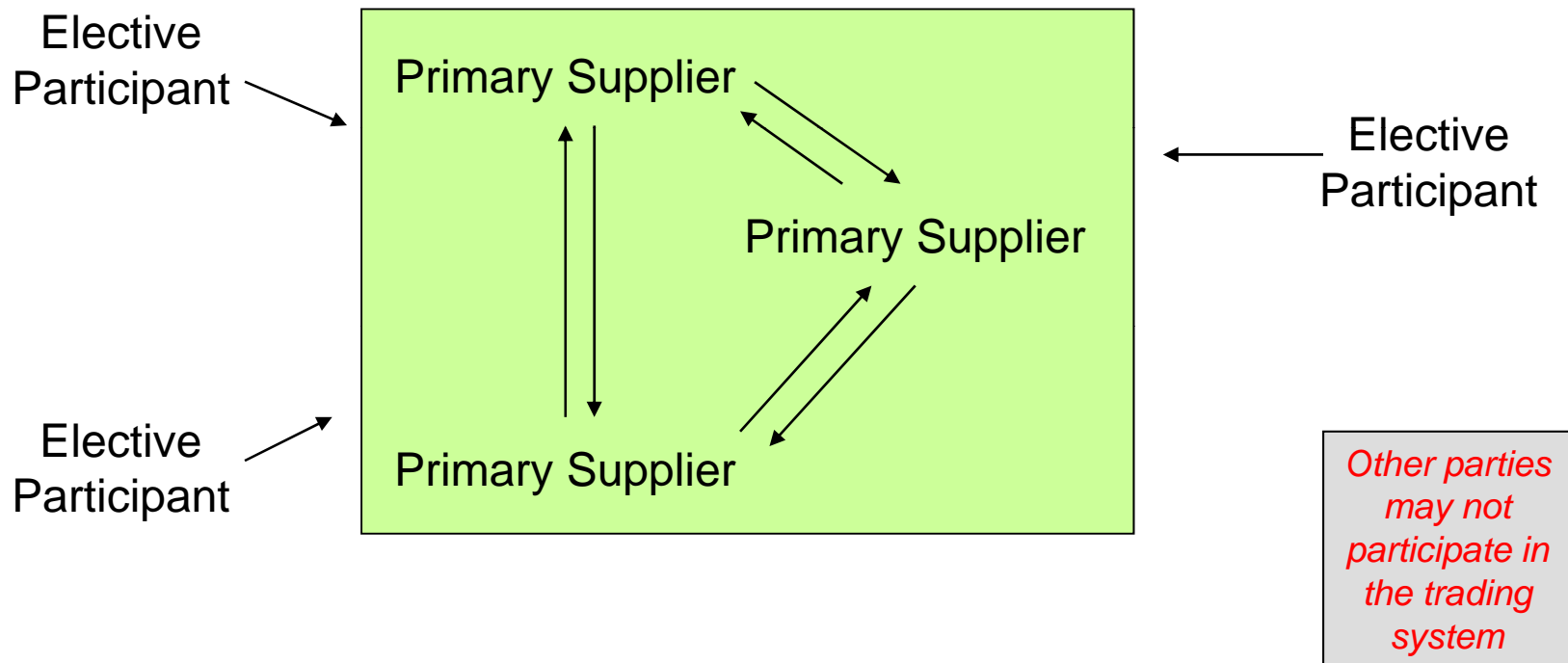
Persons other than primary suppliers may also create compliance units

- In order to do so, a person must elect to participate in the trading system and provide registration information
- They may then create compliance units through:
 - Blending renewable fuel with petroleum fuel
 - Importing petroleum fuel with renewable content
 - Producing fuel using biocrude as a feedstock
 - Selling or using neat renewable fuel
- These elective participants may trade compliance units only to a primary supplier
 - Ensures compliance units get to those who need them to comply
- An elective participant (but not a primary supplier) may withdraw from the trading system



Trading of Compliance Units

Ensuring that compliance units reach obligated parties



Records and reports are key to the regulations

- Enforcement rests upon records and reports
- Record-keeping and reporting requirements apply to:
 - Producers and importers of gasoline, diesel fuel or heating distillate oil
 - Trading system participants who create compliance units
 - Producers and importers of renewable fuel
 - Sellers of fuel for export
- Information required includes:
 - Fuel type
 - Volumes produced, imported, exported, sold for export
 - Renewable fuel content, type, feedstock
 - Renewable fuel volumes produced, imported, acquired, sold, blended
 - Compliance units created, transferred, received, cancelled
 - Year-to-date balance of compliance units
- A third-party audit of records and reports is required annually



Records and reporting on fuel for export are required for tracking of renewable fuels

- Sellers of fuel for export, either renewable fuel or petroleum fuels containing renewable fuel, must make a record of
 - Type of fuel
 - Renewable fuel content
 - Volumes sold
 - Renewable fuel feedstock (if known)
- Annual reporting of these volumes is required
- These requirements do not apply to sellers of small volumes for export
 - Less than 1000 m³ of fuel per gasoline compliance period (a calendar year, except for the first period)



Summary of key requirements

| Requirement | Primary supplier (producer or importer) | Elective participant (e.g., blender) | Seller for export (non-participant) | Producer or importer of renewable fuel * |
|---|---|--------------------------------------|-------------------------------------|--|
| Requirement for renewable fuel in gasoline, diesel fuel, and heating distillate oil | Yes | No | No | No |
| Participation in the trading system | Automatic | Optional | No | No |
| One-time registration | Yes | Yes | No | Yes |
| Annual reports | Yes | Yes | Yes | Yes |
| Compliance unit account book | Yes | Yes | No | No |
| Other records | Yes | Yes | Yes | Yes |
| Third-party audits | Yes | Yes | No | Yes |

** If eligible, they may elect to become an elective participant*



Other provisions address:

- Methods for measuring volumes for:
 - Producers and importers of gasoline, diesel fuel or heating distillate oil
 - Trading system participants who create compliance units
 - Producers and importers of renewable fuel
- Ownership of compliance units (including maximum amounts) and cancellation
- Carry forward of surplus compliance units; carry back into previous year
- For high-renewable-content fuels* and neat renewable fuels, additional records demonstrating:
 - Self-use, or
 - Information made available to consumers through documentation or pump labelling

(* *high-renewable-content fuels: >5% for diesel fuel, >10% for gasoline, >25% for other liquid petroleum fuels*)
- Retention of records in Canada for 5 years



Structure of the draft *Renewable Fuels Regulations*

parts, sections and schedules

General provisions

1. Interpretation
2. Application
3. Special opt-in for non-applicants
4. Measurement of volumes

Part 1: Requirements pertaining to gasoline, diesel fuel and heating distillate oil

5. Prescribed quantities of renewable fuel
6. Gasoline pool and distillate pool – how calculated
7. Use of compliance units
8. Volume of renewable fuel – formulas
9. Registration as a primary supplier

Part 2: Compliance unit trading system

10. Participants in the trading system – definition
11. Election to become an elective participant
12. Creation of compliance units – creator
13. Creation of compliance units -- blending
14. Creation of compliance units – importation
15. Creation of compliance units – biocrude
16. Creation of compliance units – neat renewable fuel
17. Limitation on creation
18. Ownership of compliance units
19. Maximum number of compliance units owned
20. Trading of compliance units
21. Carry forward of compliance units – primary supplier (gasoline)
22. Carry forward of compliance units – primary supplier (distillate)
23. Carry forward of compliance units – elective participant
24. Carry back of compliance units
25. Cancellation of compliance units

Part 3: Records and Reporting

26. Request for for samples and records
27. Form and format of reports
28. Auditor's report
29. Records – primary supplier
30. Annual report – primary supplier
31. Compliance unit account book
32. Additional records for participants in the trading system
33. Annual report – participants in the trading system
34. Records and reporting for producers and importers of renewable fuels
35. Report on measurement methods
36. Records and reporting by sellers of fuels for export
37. Record-making
38. Retention of information
39. Interim reports
40. Coming into force

Schedules

1. Registration report – primary suppliers
2. Registration report – participants in the trading system
3. Auditor's report
4. Annual report – primary suppliers
5. Annual report – participants in the trading system
6. Registration report – producer or importer of renewable fuel
7. Annual report – producer or importer of renewable fuel
8. Report on measurement methods



Some key regulatory dates:

- December 14, 2010: Registration reports are due
- December 15, 2010: Start of gasoline requirement
- February 19, 2011: End of transitional period for measurements and report on measurement methods is due
- Early 2012: Interim reports are due
- December 31, 2012: End of first gasoline compliance period
- Early 2013: First compliance period reports are due
- To be determined: Start of distillate requirements



Implementation support and more information:

Available at Environment Canada's Renewable Fuels site:

<http://www.ec.gc.ca/energie-energy/default.asp?lang=En&n=0AA71ED2-1>

- Link to the Regulations
- Detailed technical Question & Answer document
- Fact sheets:
 - Overview and trading system
 - Primary suppliers
 - Distillate-only primary suppliers
 - Blending operations
 - Renewable fuel producers and importers
 - High-renewable-content and neat renewable fuels
 - Sellers of fuel for export
- Coming soon:
 - Presentations from October information sessions (November 2010)
 - Forms for registration reports (November 2010)
 - Spreadsheet for compliance unit account book (Fall 2010)
 - Electronic reporting system (under development; testing planned in Fall 2011)



Contact information

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