

Are you ready for the Clean Fuel Standard?

In 2016, the Government of Canada announced that it would consult with stakeholders from across Canada to develop a clean fuel standard (CFS). Draft regulations were announced in December 2020 with two notable changes to the plan for the standard:

1. **The CFS regulations will cover *liquid* fuels only, not gaseous and solid fuels as originally planned.**
2. **The CFS aims to reduce greenhouse gas (GHG) emissions by 20 million tonnes. The original goal was 30 million tonnes. To accommodate this difference, the government now plans to increase the carbon price.**

The CFS represents a significant contribution toward exceeding Canada's target of reducing national emissions by 30 percent below 2005 levels by 2030, and will help put Canada on the path to achieving zero by 2050.

The CFS would also incent the innovation and adoption of new clean technologies as well as the development and use of low-carbon biofuels.

CFS IN A NUTSHELL

- **The CFS will cover liquid fossil fuels used in Canada. Fuel exports will not be affected.**
- **The CFS is designed to reduce the lifecycle carbon intensity of fossil fuels across the full lifecycle: from extraction to production, distribution and use. Carbon intensity reductions are not required for non-fossil fuels.**
- **There will be multiple paths to compliance, e.g., blending more low-carbon fuels into the gasoline or diesel mix sold to customers; and/or reducing emissions through cleaner industrial practices during extraction and refining, including carbon capture.**
- **Environment and Climate Change Canada have released requirements for liquid fuels, which will come in effect December 1, 2022.**
- **A credit trading system will be created, which can be used for up to 10% of a company's compliance. Credits may be generated by fossil fuel primary suppliers or by voluntary credit generators in three ways:**
 1. Reducing the carbon intensity of the fossil fuel throughout its lifecycle
 2. Supplying renewable and other low-carbon intensity fuels
 3. Some end-use fuel switching in transportation
- **Some sectors and uses are exempted from regulation under CFS but can still participate in credit-creation activities.**

WHO WILL BE AFFECTED BY THE CFS REGULATION?

The CFS will impact all sectors that produce or use energy in Canada. With a few exemptions, the CFS will cover liquid fossil fuels produced, imported and distributed in Canada. Aspects of the policy will affect other energy sources and activities.

Fuel suppliers: The regulation will require fuel suppliers to evaluate and reduce the lifecycle carbon intensity of the fuels they produce and sell through direct optimization of a fuel production pathway. They can also use credits to meet compliance obligation, subject to specified limits.

Fuel consumers: To avoid or offset the extra costs that fuel suppliers will likely pass on to their customers, consumers will need to consider increasing the energy efficiency of their fuel-powered equipment; switching to lower-carbon fuel; or replacing aging equipment with electricity or hydrogen-powered equipment. Cleantech solution providers and energy consumers can also generate new revenues by participating in the market-based credit system. They can apply to have a reduction project recognized for creating credits as long as it fits into an approved offset protocol.

Now is the perfect time to develop a CFS strategy to prepare and position your organization for the incoming rules.

The Delphi Group can help. We help fuel producers and importers determine the lowest-cost options to comply by leveraging innovation and clean technology solutions. We advise end users in industrial, agriculture, transportation, and building sectors on how to reduce the CFS' impact on their organization by becoming credit creators.

DELPHI'S CFS SERVICES

- **Company impact assessments and regulatory guidance**
- **Technical modelling and assessment of carbon intensity reduction opportunities**
- **Market research and development programs to maintain Canadian leadership in clean fuel technologies and innovation**
- **Clean fuel procurement strategy**
- **Fleet electrification strategy**
- **Funding application support for technology adopters and developers**
- **Economic impact and supply chain studies**
- **Clean fuel investment strategy**

DELPHI'S EXPERIENCE

For more than three decades, Delphi has helped some of Canada's highest-profile organizations be more prosperous and competitive in a changing environment. We take a 360-degree view with our CFS strategies, linking to other corporate initiatives such as sustainability reporting and disclosures, GHG inventories, and 2030 and 2050 target setting and associated implementation plans. Delphi is well versed in technical modelling and can help provide your organization with policy and technical insights to guide your organization's response to the development of the regulation.

Delphi has helped diverse clients in the oil and gas, electricity, chemical, and transportation sectors prepare for the CFS. In addition to our private sector experience, Delphi actively works with all levels of governments to strategically inform the transition to a low-carbon economy.

CONNECT WITH US

For more information on the CFS and/or compliance pathways, please connect with Julia Zeeman at jzeeman@Delphi.ca.

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