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Comments regarding Quebec's draft regulation: *Minimum volume of renewable fuel in gasoline and diesel fuel*

Introduction

The U.S. Grains Council, Growth Energy, and the Renewable Fuels Association are pleased to put forward comments with regards to the Quebec government's proposed regulation for blending renewable fuel into gasoline and diesel.

This minimum volume requirement is an ambitious policy that will contribute to reductions in greenhouse gas (GHG) emissions from the transportation sector. It will also spur economic investments in Quebec's renewable fuel sector.

Given our experience in renewable fuel policy in the United States and internationally, we are submitting our comments with the aim that this regulation achieves the stated objectives of environmental and economic benefits. Quebec has the potential to become an expanded producer of ethanol and this potential will only be realized if the right policy is put into place.

RECOMMENDATIONS IN BRIEF

Requirement for annual reporting. Rather than having a trailing 365-day compliance period which does not offer much flexibility, an annual compliance report should be submitted for obligated parties to demonstrate that they have in fact complied with the regulation.

Tradeable compliance credits. In order to incentivize discretionary blending, a system of tradeable compliance credits should be developed. This creates a market opportunity for fuel providers that want to market a high-ethanol blend and helps to prove that the Quebec market can blend 15% ethanol and beyond.

Carbon intensity incentive. An incentive should be created for the use of low-carbon intensity ethanol – regardless of which feedstock it is made from – similar to the one put in place for cellulosic ethanol.

Recognition for early action. Quebec's fleet of light-duty vehicles – like in the United States – is ready to use E15 fuel. An incentive for the early adoption of E15 at retail locations should be included in the regulations. Quebecers should not have to wait to reap the environmental benefits.

Maintain scheduled implementation for ethanol. It is important to provide ample time for Quebec's domestic producers to build out capacity in order to meet the targets of E10 and E15. The implementation dates of July 2021 and July 2025 respectively are feasible.

DETAILED COMMENTS

Requirement for annual reporting

This requirement is a basic principle in most successful biofuel blending requirements. With annual reporting, each obligated party is required to submit proof that it has met its commitments to blend the correct amounts of biofuels in that year. There are several benefits to this system: it simplifies compliance because obligated parties can work towards a set deadline on an annual basis and audits are also simplified. Instead of having a moving target, a set compliance period allows a company to keep a set record book to demonstrate its compliance in any given year.

With annual reporting, the cost of enforcing the regulation goes down for the Quebec government, and stakeholders will have the certainty of clear deadlines to meet their obligations for blending biofuels.

Tradeable compliance credits

Quebec's cap and trade system is an example of how a regulation can reward stakeholders that do the right thing for the environment, while forcing companies that don't do enough to pay more. Cap and trade creates an incentive for investing in GHG reductions. Implementing a system of tradeable compliance credits in Quebec's biofuel blending mandates can achieve the same results: Companies that blend high levels of biofuels are rewarded by selling their excess compliance credits to companies that did not blend enough biofuel. In addition to rewarding stakeholders that over-blend biofuels, tradeable credits create an important flexibility mechanism enabling obligated parties to choose how to meet their obligations.

Most importantly, without tradeable compliance credits, Quebec will inadvertently be shutting out discretionary blending, and high ethanol blends. In the US, there are currently over 3,500 stations that offer E85 fuel.[1] This is made possible by a system of tradeable compliance credits.

Tradeable compliance credits also enable retailers to sell E85 at a lower price than traditional gasoline, because the retailer benefits not just from the sale price of the fuel, but also from the excess compliance credits that it generates. For this reason, the cheapest fuel available in the US is typically E85 ethanol.

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[1] According to the US Department of Energy. See here: https://afdc.energy.gov/fuels/ethanol_locations.html#/find/nearest?fuel=E85&country=US

Carbon intensity incentive

As it stands, the draft regulation creates an incentive for the use of cellulosic ethanol. But omitting an incentive for low carbon incentive ethanol is an oversight that should be addressed. From an environmental point of view, the most important quality of a fuel is its lifecycle carbon intensity, the total impact that the fuel has on the environment throughout the whole production chain and burning of the fuel.

Quebec's agriculture industry has the ability to grow different feedstocks that could be used for ethanol, corn being one of them. If this corn is grown sustainably and with sound agricultural practices, the ethanol made from it will have a lower carbon intensity. As it stands, the regulation looks to incentivise a specific process for making ethanol as a proxy for environmental benefit. We recommend making the environmental benefit of the fuel itself the aspect that should be incentivized.

Putting in a carbon intensity criteria will benefit domestic ethanol producers, since they do not have to transport their fuels long distances to bring their product to market.

Recognition for early action

In an ideal world, the transitions to E10 and E15 fuel should happen in as gradual a way as possible. As the regulation is currently drafted, there are hard start dates in July 2021, and July 2025 for the requirement to use each of these fuel blends. To incentivise early use of E10 and E15, the regulation should allow for the generation of compliance credits starting in January 2021, which would enable obligated parties that are already in compliance with the E10 mandate to start banking credits.

With regards to the implementation of E15, at any time, a system of tradeable compliance credits could be used to ensure that E15 sales before July 2025 are rewarded.

Maintain scheduled implementation for ethanol

In the US E15 is already available at over 1700 stations and there have been no compatibility issues whatsoever with the fuel.[2] The US fleet of light-duty vehicles is essentially identical to the fleet in Quebec. The US Environmental Protection Agency has indicated that all cars built as of 2001 are compatible with the fuel, so unnecessary delays in implementation should be avoided since delays result in increased GHG emissions.

The blending requirement for E15 could be implemented before 2025, but we are aware that part of the goal of this regulation is to spur domestic production of ethanol, and that a clear policy signal needs to be sent before these investments will be made. In order to ensure there is enough time for domestic industry to build out, our organizations are supportive of the current timetable for implementing E10 in mid-2021, and E15 in mid-2025.

[2] See US Department of Energy for statistics on E15 availability: https://afdc.energy.gov/fuels/ethanol_locations.html#/find/nearest?fuel=E85&country=US

CONCLUSION

The U.S. Grains Council, Growth Energy and the RFA are appreciative of the opportunity to put forward our comments on Quebec's draft regulation regarding the minimum blending levels of renewable fuel.

As stakeholders based in the United States where blends of 10 percent is most common and where 15% and 85% ethanol (E15 and E85 respectively) are increasingly common, we possess a wealth of scientific data on the use of these fuels. Misinformation abounds with respect to ethanol use, and in the US it has been proven that concerns around E15 are severely overstated at best, and in most cases are simply misinformed. The US industry has already shared information about vehicle compatibility with the Quebec Ministry of Energy and Natural Resources, but we would welcome the opportunity to address any additional technical questions or challenges that are being presented as roadblocks to Quebec's adoption of E10 and E15.

About us

RFA is the leading trade association for America's ethanol industry, working to advance development, production and use of ethanol as a beneficial renewable fuel.

The U.S. Grains Council is an organization with specialization in markets for barley, corn, sorghum, and related products – particularly ethanol.

Growth Energy is the world's largest association of biofuels and supporters representing 100 ethanol plants and 91 associate members who serve North America's need for renewable fuel.

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