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**Re: Increasing Renewable Content in Fuels: Regulatory Proposal – June 2019**

**INTRODUCTION**

Given widespread use of mid and high-level ethanol blends in the U.S., our organizations have been able to develop a level of technical expertise not available in jurisdictions that are just starting to increase the use of this low carbon intensity (CI) fuel.

We appreciate the opportunity to submit our comments to the Ontario Ministry of the Environment, Conservation and Parks (MECP) on the proposed schedule for implementing 15% renewable content in gasoline. Given ethanol's low-cost, high-octane value, and the fact that it is a proven technology, we are confident that this mandate will be met entirely with ethanol for the foreseeable future.

Overall, we believe that there are a number of unintended consequences of the MECP's proposed implementation of the 15% mandate. For example, based on calculations by our technical experts, Ontario would result in reduced volume demand for ethanol from 2021 through to 2028. Our organizations are certain that the purpose of announcing the 15% mandate was to do the opposite: to encourage more rather than less blending.

With these crucial concerns in mind, we are raising a few red flags in this submission that are key to ensuring that the proposed 15% mandate grows demand for renewable content, both in terms of percent blended, and by decreasing the CI of these renewable fuels.

**SUMMARY OF COMMENTS**

- 1- Demand destruction must be avoided.** MECP's proposal will reduce demand for ethanol starting in 2021 through to 2028. Due to a constant downward pressure on CIs for North American ethanol, the demand for litres of ethanol will be lower in 2025 than in 2020 under the MECP's proposal, even though the volumetric requirement will be increased to 11%. This trend would only be reversed in 2028 under the current proposal.

- 2- **Sustained implementation required.** Ontario must take action to implement an average ethanol blend of 10% (currently projected to happen in 2028) as soon as possible, and then build on this momentum to reach 15%. This will send a clear market signal to investors and obligated parties.
- 3- **Early action credits.** With a gradual schedule of implementation, it is important to create an incentive to make investments early on in the implementation of the mandate. Early action credits allow for Ontario's ethanol producers to monetize CI improvements or increased production as soon as these have come online.
- 4- **Offering a variety of blends can be cost effective.** The American experience shows that blender pumps, not complete gas station overhauls, are a more cost-effective way of making E10 through E85 available at retail stations.

### Recommended schedule of implementation

- **Increase the volume requirement by one percentage point yearly, starting in 2022 until it hits 15% in 2026.**
- **Hold the 45% GHG reduction requirement until 2028 when this should increase to 50%, and increase this again to 55% in 2030.**

This implementation schedule allows for slow and steady demand growth for ethanol, while protecting Ontario ethanol producers from demand backsliding that could occur as CIs naturally improve. Given that ethanol is consistently cheaper than fossil gasoline and that it adds valuable octane, this measure will also offer relief to motorists in terms of fuel costs.

Ontario currently produces about 90% of the ethanol that is blended in the province. This proposed schedule of implementation ensures that these producers will have a clear market signal that investments to increase production and reduce CI will be rewarded in the near term.

### DETAILED COMMENTS

#### Demand destruction must be avoided

It is fair to assume that in 2020, the average ethanol blended in Ontario would reduce GHG emissions relative to unblended gasoline by about 45%. It is important to note, however, that given global and local policies, North American ethanol will continue to see a downward pressure on CIs. Different calculations have shown that we can expect anywhere from a 1-2% reduction per year in CI values for corn-based ethanol in response to these policies, like low carbon fuel standards in California and Oregon, but also British Columbia and at the federal level in Canada.

If the CI of ethanol declines by 1.5% or more per year, then under the current proposal by MECP there will be less demand for ethanol in 2025 than there will have been in 2020 on a per litre basis, even despite the fact that the ethanol volume requirements will have been adjusted to 11%. In other words, the move to 11% is such a weak signal that it would be overshadowed by CI reductions in the fuel, thereby causing less volume to be blended compared to a 2020 baseline.

In this regard, the current regulatory proposal would stop any and all investments in Ontario ethanol production dead in their tracks. This would also have a detrimental impact on Ontario corn farmers who would see a decline in demand for their product. This appears to be an unintended consequence of the regulatory proposal, but it is one that must be rectified.

### **Sustained implementation required**

Our organizations are surprised to see that despite the fact that the policy priority was to implement E15 as early as 2025, the proposal put forward by the MECP only implements an average blend of E10 in 2028. There are no technical barriers whatsoever for the rollout of E10 fuel which has seen uptake levels of 98% in the US. Given that the fleet of light duty vehicles is nearly identical, it is unclear as to what is holding back ethanol use in Ontario.

A sustained implementation with a regular schedule of increases to required volume and or to the GHG performance criterion would achieve greater environmental benefits, and support both local farmers and ethanol producers. Care should be taken to avoid back-end loaded proposals, as put forward by the MECP, as this tends to lead to no action or investment whatsoever until the last years of the program.

Furthermore, the MECP'S current plan has flexibility built into it already that will accommodate this gradual implementation. The ability to generate surplus credits by putting ethanol in premium fuel, or by selling mid-level blends of ethanol, in addition to the GHG performance of the fuel all ensure that E0 and E10 can continue to be available at gas stations even when the average blend of gasoline sold in the province hits E15.

Misinformation is abound with respect to fleet compatibility and E15. The reality is that the U.S. Environmental Protection Agency has done extensive testing and concluded that all light duty vehicles as of 2001 are E15 compatible. Some stakeholders in Ontario have contested this point, however, with clear evidence from the EPA, and widespread use of E15 in the US without any problems, the onus must be on E15 critics to prove that there is actually a problem here. No comprehensive scientific evidence has been presented to support the assertions that the current fleet is not compatible with E15. Drivers should not be missing out on cost savings due to conjecture, and Ontario should not be missing out on economic development opportunities and GHG reductions.

### **Early action credits**

It is important that ethanol producers, gas stations, and obligated parties that make investments in renewable fuel blending can monetize these investments as soon as possible. Early action credits that are bankable would mean that early investments will be more profitable than the same investment made years later. This would also provide more tonnes of GHG reductions on a cumulative basis, thereby amplifying the impact of the policy proposal.



## **Offering a variety of blends at the pump**

While there has been a lot of discussion so far in Ontario about upgrading gas stations, and changing out old tanks to accommodate ethanol blends, for the most part, this is not how mid-level ethanol blends have been implemented in the US.

Experience shows that the best way to offer blends of E0-E85 is not to replace all underground tanks, but instead to add a dedicated E85 tank, and install blender pumps. This means that the motorist can then choose the blend level they want, since the pump can combine E0 with E85 to produce any combination in between. Of course, many gas stations might find it more cost effective to blend E10 through E85 on site, since E10 allows for the octane value of ethanol to be captured by the refiner. Experience in the US suggests that there will always be some level demand for some E0, despite the fact that this is a more expensive fuel. Given the structure of the proposed regulation in Ontario, however, it is most likely that E0 would be sold in premium grades.

## **CONCLUSION**

The U.S. Grains Council, the RFA, and Growth Energy are appreciative of the opportunity to put forward our comments on the proposal to implement a 15% renewable content mandate in Ontario. We continue to believe that there is a strong opportunity for growth in the use and production of ethanol in Ontario. We would welcome the opportunity to discuss our recommendations further.

### *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.

