

Renewable and Low Carbon Fuels Program

Part 3 Agreements 2015

British Columbia Ministry of Energy and Mines

July 2015

Background

The *Greenhouse Gas Reduction (Renewable and Low Carbon Fuel Requirements) Act* (the Act) and *Renewable and Low Carbon Fuel Requirements Regulation* (the Regulation) were enacted to reduce greenhouse gas (GHG) emissions in the transportation sector through the supply of renewable and low carbon fuels in British Columbia. The Regulation sets minimum “Part 2” renewable content requirements for gasoline (5%) and diesel (4%), and establishes a “Part 3” low carbon fuel standard with prescribed carbon intensity limits that decrease ten percent between 2010 and 2020.

Part 3 fuel suppliers are required to report their compliance with the low carbon fuel standard to the Ministry of Energy and Mines (the Ministry). Compliance credits and debits are the difference (in tonnes of carbon dioxide equivalent emissions) between the actual emissions of supplied fuels and the emissions of an equivalent quantity of fuel at the prescribed carbon intensity limit. At the end of each compliance period, a fuel supplier with more debits than credits is out of compliance, and is subject to an automatic penalty of \$200 per tonne multiplied by the number of debits.

Part 3 fuel suppliers have three mechanisms for ensuring compliance with the low carbon fuel standard: (1) *supply low carbon fuels*: reduce the overall carbon intensity of supplied fuels to below the prescribed limit in each compliance period; (2) *credit trading*: acquire credits from other suppliers; and/or (3) *Part 3 Agreements*: Enter into agreements with the Director¹ to take actions, or cause others to take actions, that would have a reasonable possibility of reducing GHG emissions through the use of Part 3 fuels sooner than would occur without the agreed-upon action.

Part 3 Agreements

Part 3 Agreements promote innovation, diversity and greater uptake of lower carbon transportation fuels – all contributing to accelerated market transformation. Projects and activities supported by Part 3 Agreements should reduce, or enable reductions of, GHG emissions resulting from the use Part 3 fuels. It is expected that Part 3 Agreements will help fuel suppliers undertake actions that are not otherwise economically viable, and that will help create future pathways for compliance. For example, the lack of demand certainty has been cited as a barrier to E85 supply initiatives. Supplying E85 under a Part 3 Agreement could establish this as a fuel that contributes to the supply of more low carbon fuel.

Credits will be allocated based on estimates of GHG reductions resulting from the project, awarded at specified milestones. Part 3 Agreements cannot be signed unless the Director is satisfied that there is a reasonable possibility that the project will achieve the estimated reductions.

Credits awarded through Part 3 Agreements are additional to credits generated through the supply of Part 3 fuels in a given compliance period, even when the fuels are supplied under the Part 3 Agreement. As with all credits under the Regulation, the credits obtained through Part 3 Agreements may be used to meet compliance obligations and/or traded with other fuel suppliers.²

¹ In this document, “Director” refers to the director as defined under the Act.

² Only Part 3 fuel suppliers may trade credits and enter into Part 3 Agreements.

Part 3 Agreements are performance-based and provide credit for work completed. Since some projects may include actions in areas beyond current market acceptance, projects are not required to achieve all estimated GHG reductions upon completion. As long as the agreed-upon milestones are met, credit will be awarded. The risk that GHG reductions may not be realised is that of the Ministry, while the risk that a project may not be completed is that of the project proponent. This creates the need for strong business cases for project proposals that allow project completion risk to be managed.

Principles

Five principles guide the Ministry's approach to Part 3 Agreements:

1. Part 3 Agreements support the accelerated development and market penetration of low carbon fuels by promoting innovation across a diversity of projects.
2. The largest number of credits possible should be awarded each year, within legislated limits.
3. Part 3 suppliers have an equal opportunity to access credits through Part 3 Agreements. Equal credit is awarded for equal action, within project types.
4. Part 3 Agreements are predictable, fair, and flexible – able to accommodate and adapt to changing circumstances and markets.
5. Continuous improvement in the implementation of Part 3 Agreements will consider the needs of Part 3 fuel suppliers and input from stakeholders.

Third-party projects

At the request of a third party, the Director may assess a third party project concept for credits under a Part 3 Agreement, prior to the submission deadline. The third party is still required to work with a Part 3 fuel supplier, who would apply for the credit through the standard Part 3 Agreement process by the stated deadline. The Part 3 Agreement would be between the Ministry and the Part 3 fuel supplier, and the credits would be awarded to the Part 3 fuel supplier, not the third party.

Multi-proponent proposals

The Director will consider proposals that span categories or include a group of Part 3 fuel suppliers with similar or complementary projects. The responsibilities of each party must be identified when submitting a multi-proponent application, in order to allocate the responsibility for project completion and to award credits appropriately.

Low carbon fuel credits vs. emission offsets

Part 3 Agreements generate low carbon fuel credits for compliance under the *Renewable and Low Carbon Fuel Requirements Regulation*. B.C.'s *Emission Offsets Regulation* disqualifies projects whose GHG reductions have been previously recognized under another GHG reduction program. Once a Part 3 Agreement has been signed, the actions under the Agreement can no longer qualify as offset projects under the *Emission Offsets Regulation*.

Credits

The Director entered into Part 3 Agreements to issue 130,000 credits in 2014, which was the maximum number permitted for the 2013-14 compliance period. These credits are considered encumbered for the duration of the relevant agreements.

For the 2015 compliance period, the Director may enter into Part 3 Agreements that issue not more than one quarter (25%) of the gross debits reported by Part 3 fuel suppliers during the previous compliance period. For the 2013-14 compliance period, it is estimated that there were over 480,000 gross debits; 25% = 120,000.

In keeping with the principle of fairness and to limit over-subscription (see below), the Ministry is limiting the amount each individual proponent may apply for one third of the credits available in the current year. For 2015 this amount is about **40,000 credits**.

Multi-year Part 3 Agreements can include credits that may be awarded based on their anticipated availability in future compliance years. The table below sets out the minimum number of credits that are anticipated to be available in future compliance years.

Compliance period	Part 3 Agreement credits available
2013/2014	130,000
2015	120,000 <i>(estimated)</i>
2016	157,000 <i>(estimated)</i>
2017	220,000 <i>(estimated)</i>
2018	313,000 <i>(estimated)</i>
2019	409,000 <i>(estimated)</i>
2020 and after	507,000 <i>(estimated)</i>

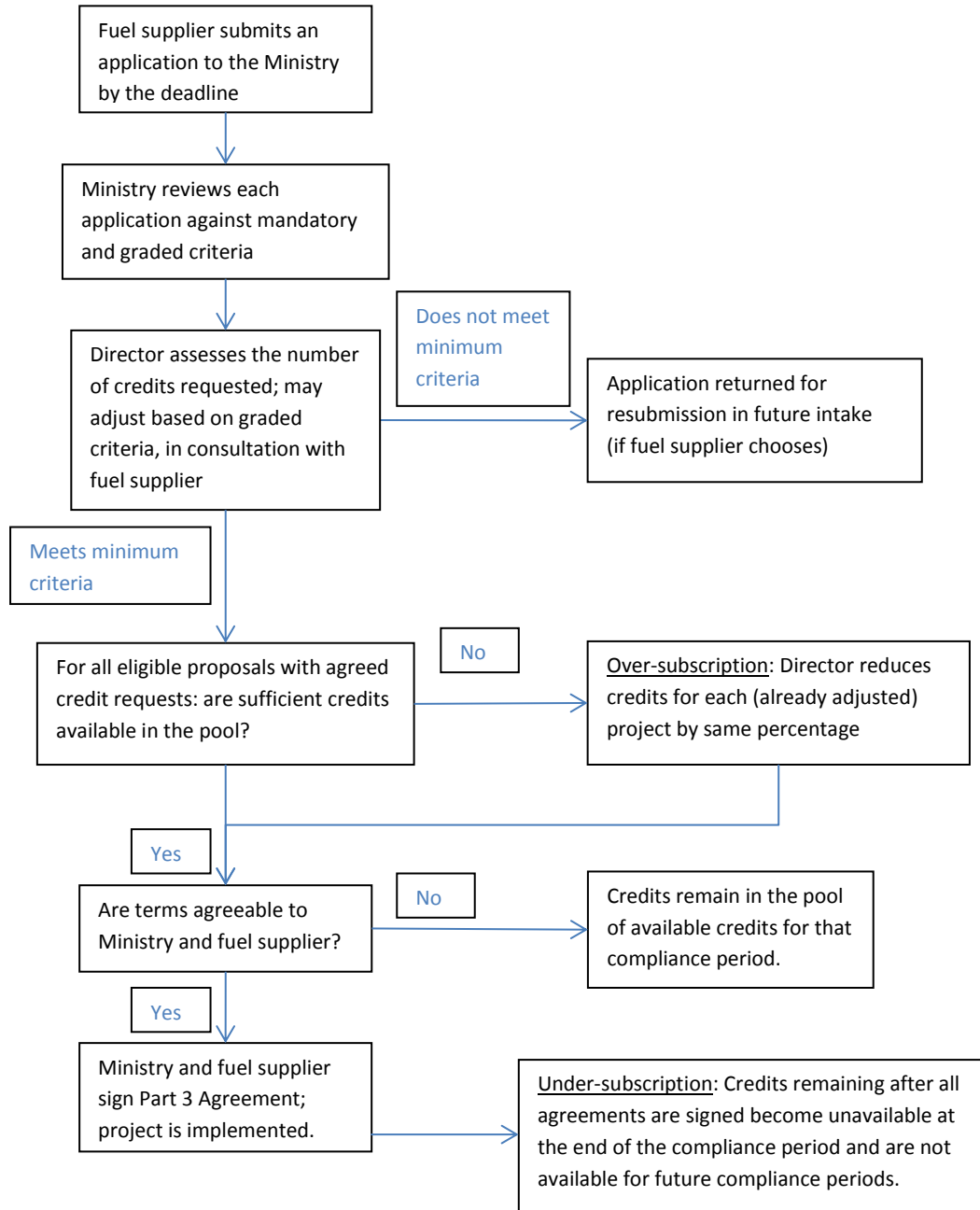
Under- and over-subscription

It is the Ministry's intent to ensure that the maximum allowable Part 3 Agreement credits are allocated in each compliance period. However, under-subscription could occur if the number and quality of applications does not result in the allocation of all credits available in the 2015 compliance period. Credits that are not committed through Part 3 Agreements cease to be available at the end of the compliance period.

Over-subscription could occur if the number of approved applications exceeds the credits available in the 2015 compliance period. In the case of over-subscription, the Director will reduce credits for each project by the same percentage in order to arrive at the upper limit of available credits.

Applications

Application process



Application form

The *Part 3 Agreement Application Form 2015* is available on the Ministry’s website (<http://www.empr.gov.bc.ca/RET/RLCFRR/>). Fuel suppliers must complete and submit the form before the deadline specified below. A *Part 3 Agreement prototype 2015* is also posted on the web site for reference.

Deadline

The Ministry will consider one intake of applications for Part 3 Agreements in the 2015 compliance period. The closing date for this intake is **4p.m. Pacific time, October 1, 2015**. Fuel suppliers are encouraged to seek Ministry feedback on draft proposals. To ensure fairness to all suppliers, the Ministry will provide informal feedback on concepts in discussion with the proponent until August 20, 2015 and provide one round of feedback on draft materials submitted before September 10, 2015.

Project criteria

Criteria and credit allocation

- Project proposals will be evaluated against both mandatory (pass/fail) and graded criteria. The mandatory criteria must all be met before evaluation on the graded criteria can proceed. A minimum 60% score will be required on each of three graded criteria categories.
- The total score from all four graded criteria will inform the Director's decision on the project's estimated GHG reductions, and therefore the number of credits, to be stated in the signed Part 3 Agreement. Though the Act provides the Director with discretion regarding Part 3 Agreements, the criteria are designed to make the Director's decisions as objective and transparent as possible.
- Credit allocations will be based on the estimated GHG reduction as a result of the project, as agreed in a signed Part 3 Agreement.
- In the case of third party projects, a Part 3 fuel supplier must sign the Part 3 agreement, not the third party. Further, the credits would be awarded to the Part 3 fuel supplier, not the third party. The Part 3 fuel supplier would negotiate their own agreement with the third party separate from the Part 3 Agreement signed by the Ministry and the Part 3 fuel supplier, and would be responsible for adhering to the terms of the signed Part 3 Agreement.

Evaluation process

If any mandatory criteria are not met, and/or the minimum score is not achieved in each of three graded criteria sections, the Director will return the application to the proponent, who may choose to make adjustments and re-submit the proposal in a subsequent intake.

For proposals that meet all mandatory criteria and achieve the minimum score in each of three graded criteria sections, the Director will determine whether estimated GHG reductions are acceptable, based on assessment against criteria and any other related factors. If the Director determines that an adjustment to the estimated GHG reduction is required, the Ministry will contact the proponent regarding the adjustment. This could include adjustment to credit allocation requested for each milestone. The proponent can then withdraw or adjust and resubmit the proposal within seven days.

All proposals in a given intake period will be assessed simultaneously against each criterion in turn, to help establish relative merit.

Mandatory criteria: (Pass / Fail)

The project proposal:	PASS	FAIL
Is submitted on time at the specified location in specific format.		
Has complied with the guidelines.		
Satisfies the Director that the proposed action has a reasonable possibility of reducing the amount of CO ₂ e emissions resulting from the use of Part 3 fuels.		
Includes estimates of GHG reductions due to a reduction in carbon intensity of a fuel and/or reduction due to substitution of a lower-carbon Part 3 fuel.		
Uses an approved method in accordance with the Regulation for greenhouse gas emissions and carbon intensity calculations, and clearly shows the initial assumptions as well as the calculations leading to the final estimates.		
Includes a business case demonstrating the need for credit in order to complete the project.		
Lists specific and measurable outcomes, project milestones and dates, and proposed credits associated with each milestone.		
Shows that the project would result in a carbon intensity reduction in B.C. transportation fuel.		

Graded criteria: Minimum 60% score in first three sections

	High	Medium	Low	Incom.
1. Validity of GHG reduction / carbon intensity reduction (40 points total; 24 point minimum score)				
Validity of assumptions, data, and metrics in the analysis of estimated GHG and carbon intensity reductions.				
Bases calculations on conservative estimates.				
Demonstrates low risk to successful project completion (including risks introduced by external factors such as an environmental assessment or other government approval).				
Quality of mitigation plans for identified risks.				
Degree of certainty of achieving estimated GHG reductions.				
Section 1 subtotal				

2. Project design and management (30 points total; 18 points minimum score)				
Credible business case including:				
o Thorough assessment of obstacle(s) to development, supply, and/or increased market penetration of low carbon fuels that is addressed by the project.				
o Effective approaches to address obstacle(s).				
o Best practice methodologies for analysis of the obstacle(s), effectiveness of proposed actions, and anticipated outcomes.				
o Reasonable timeline, including milestones for credit awards, and implementation plan for the project.				
o Reasonable budget, presented by quarter.				
Effective indicators for accurately evaluating the project relative to proposed milestones.				
Clear process for regular project monitoring and reporting.				
Section 2 subtotal				
3. Market transformation potential (30 points total; 18 points minimum score)				
Project contributes to accelerated adoption of low carbon fuels.				
Sector leadership or innovation in clean energy transportation.				
Project's potential to be replicated and/or adopted by other Part 3 fuel suppliers and/or consumers.				
Project addresses a technical issue affecting Part 3 fuel suppliers that is an obstacle to reducing greenhouse gas emissions from the use of Part 3 fuels.				
GHG reductions are additional to reductions that would occur without the project.				
Section 3 subtotal				
4. Additional benefits (5 points total)				
Additional (non-GHG) environmental benefits.				
Additional economic/job creation benefits.				
Additional social benefits.				
Section 4 subtotal				
OVERALL TOTAL				

Project categories

Listed examples provide illustrations of different kinds of projects and/or milestones within a given project. Successful project proposals have included elements from one or more categories. All projects must lead to GHG reductions through the supply of low carbon fuels in B.C. These categories may be adjusted or expanded as the Part 3 program develops, reflecting the Program principles of flexibility and being informed by supplier needs. Fuel suppliers are encouraged to submit proposals that may not appear to fit into one of these categories.

1. IMPROVE LIFE CYCLE CARBON INTENSITY OF PART 3 FUEL

These projects would address barriers to achieving direct GHG reductions, and could include:

- fuel switching in an existing Part 3 fuel production facility
- carbon capture and storage at an existing Part 3 fuel production facility

2. INCREASE LOW CARBON FUEL SUPPLY: QUANTITY AND ACCESS

These projects would address supply, access, and market penetration barriers, and could include:

- production, blending, and/or distribution of low carbon fuel
- fuel production equipment development
- fueling/distribution infrastructure development
- blending facility development
- fuel blend feasibility demonstrations
- research related to fuel development, blending, infrastructure

3. INCREASE LOW CARBON FUEL DEMAND

These projects would address barriers that hinder low carbon fuel demand, and could include:

- vehicle conversion or vehicle replacement projects
- information/education for fleet managers and drivers
- marketing campaigns to support greater uptake of low carbon fuel
- pricing campaigns to incent purchase of low carbon fuel
- research related to increasing low carbon fuel demand

Credit award process

Milestones

The Director will award credit based on the agreed estimate of GHG reductions, per the signed Part 3 Agreement. The graded criteria will inform the Director's determination of GHG estimates. Milestones must be met to receive the agreed upon credits per milestone. Timelines for achieving milestones and associated credit awards must be detailed in the signed Part 3 Agreement. To receive credit awards for achieving a milestone, proponents must submit documentation proving that the actions have occurred such as: fuel volume bills of sale, bill of sale for vehicles, commissioning reports for infrastructure, quantitative GHG reduction reports, and any other physical evidence proving the milestone was achieved.

The proponent must complete all work proposed to receive full credit. The project is not required to achieve all estimated GHG reductions to receive the final, full award of credit.

Project milestones and associated credit allocation will be tailored to project type, and set in signed Part 3 Agreements. The Ministry recognizes that projects may include elements of more than one project type. Proponents must outline milestones and associated credits in their proposals, consistent with their business case, and must outline indicators to be used to assess milestone achievement. Each proposal's milestones will be reviewed on a case by case basis; however, the Ministry suggests the following guidelines:

- Improve life cycle carbon intensity of Part 3 fuel: Credit would be awarded as reductions are realized from the project. Due to the variety of projects that could be proposed under this category, this credit allocation method is to ensure a program will receive credit when it realizes actual reductions.
- Increase low carbon fuel supply: infrastructure projects: The majority of credit would be awarded when fuelling infrastructure is completed. As a guide, 25% of credit would be awarded up front, while 75% of credit would be awarded when the fuelling infrastructure is completed. This method of allocation is to ensure that the project completes the development of infrastructure and has the ability to deliver the fuel volumes the project proposal outlined.
- Increase low carbon fuel supply: new low carbon fuel supply – Credit would be allocated as fuel is supplied to the B.C. market, since the low carbon fuel supplied already generates credit under the Regulation. However, certain low carbon fuels require encouragement, as the market risk associated with offering them is higher.
- Increase low carbon fuel demand: vehicle programs – 50% of the credit would be awarded up front. The remaining credit would then be awarded as proof is submitted proving vehicles have been delivered to consumers. This approach would provide the parties with necessary upfront resources to develop and implement a program.

Projects that span categories will be awarded credit based on the actions completed in each category or project type; no additional credit will be awarded because the project spans categories or project types. In the case of multi-proponent projects, credit will be awarded to specific Part 3 fuel suppliers for their specific actions, as detailed in the signed Part 3 Agreement. In the case of third party projects, upon completion of agreed milestones credit will be awarded to the Part 3 fuel supplier, not the third party. Milestones identified in project proposals must incorporate the credit allocation outlined above for all four project categories within the proposed project milestones.

Additional policies

1. Projects cannot be replicated to infinity. There will be a natural sunset for acceptance of certain projects. This sunset will occur when, in the Director's opinion, the completion of the project brings no additional benefit to reducing the carbon intensity of B.C.'s fuel supply. It is anticipated that the Director would indicate whether previously-approved project types are no longer beneficial before the next intake process begins.
2. Multi-year projects can only be guaranteed credits from the compliance period in which the Part 3 Agreement is signed. These milestones and credits are specified in Schedule B. The agreement also identifies milestones to earn credits from future compliance periods in Schedule C. This indicates the Director's intent to enter into subsequent agreements to provide the identified credits, but does not fetter the statutory authority of the Director not to do so. The agreement also provides mechanisms for the provision of additional credits for Schedule C milestones if such credits become available through the cancellation of other agreements within the same compliance period.
3. Signed Part 3 Agreements will include a clause requiring Part 3 fuel suppliers to allow the Ministry or its authorized officials to inspect the project, if the Director so chooses, for the purposes of program oversight and accountability.
4. Following completion of the Part 3 Agreement project, the Part 3 fuel supplier must, no later than 60 days after the end of the term of the Agreement, provide a project performance report with project highlights, description of outcomes with respect to GHG reductions and milestones described in the Agreement, quantitative and qualitative description of the accomplishments / success of the project; challenges faced and solutions found, information on results (negative or positive) that were not anticipated, and lessons learned.
5. Any information submitted in a project proposal that could be considered confidential must be identified.
6. Review and revision of this Part 3 Agreement policy will be undertaken at regular intervals, at the Director's discretion, and will respond to the needs of Part 3 fuel suppliers as well as input from stakeholders.
7. The Ministry intends to create an annual summary report regarding Part 3 Agreements. The report will include details that the Ministry feels will enhance further Part 3 Agreements and proposals, while respecting confidentiality.