

Part 3 Agreement Programs for 2017 and 2018

Greenhouse Gas Reduction (Renewable and Low Carbon Fuel Requirements) Act

Ministry of Energy, Mines and Petroleum Resources

Government of British Columbia

August 2017

Introduction

A Part 3 Agreement is an agreement between a Part 3 fuel supplier and the Director under the *Greenhouse Gas Reduction (Renewable and Low Carbon Fuel Requirements) Act* (Act) 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 provide a mechanism for Part 3 fuel suppliers to generate credits in order to comply with B.C.'s low carbon fuel requirements under the Renewable and Low Carbon Fuel Requirements Regulation (Regulation).

The Act requires that only Part 3 fuel suppliers recognized by the Director may enter into a Part 3 Agreement. Fuel companies are recognized as Part 3 fuel suppliers after submitting a compliance report that is verified by the Director, or after being appointed by the Director for the purpose of entering into an Exclusion Agreement with another Part 3 fuel supplier. For more information about compliance reporting, see *Information Bulletin RLCF-003 Compliance Reporting Requirements*. For more information about Exclusion Agreements, see *Information Bulletin RLCF-015 Exclusion Agreements and Reports*.

Part 3 Agreements are performance-based and provide credit for the achievement of project milestones. When a project milestone is not fulfilled, the project may be cancelled and associated credits reallocated to other projects with Part 3 Agreements from the same compliance period. For more information, see *Information Bulletin RLCF-014 – Projects supported under Part 3 Agreements*.

Credits awarded through a Part 3 Agreement are indistinguishable from other credits under the Regulation and, as such, may be used to meet compliance obligations or may be traded with other Part 3 fuel suppliers. For more information on credit trading and a list of the Part 3 fuel suppliers currently recognized by the Ministry, see *Information Bulletin RLCF-013 – Validation and Transfer of Part 3 (Low Carbon Fuel) Credits*.

Program principles

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

- Part 3 Agreements support the accelerated development and market penetration of low carbon fuels by promoting innovation across a diversity of projects
- Part 3 fuel suppliers have an equal opportunity to access credits through Part 3 Agreements, and equal credit is awarded for equal action, within project types
- Part 3 Agreements are fair and flexible – able to accommodate and adapt to changing circumstances and markets
- Continuous improvement in the implementation of Part 3 Agreements will consider the needs of Part 3 fuel suppliers and input from stakeholders

Low carbon fuel credits vs. emission offsets

Part 3 Agreements avoid or reduce GHGs and are awarded credits on that basis under the Act. Consequently, these GHG reductions cannot be recognized under British Columbia's *Emission Offsets Regulation*. 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*.

How many credits are available?

The Director may enter into Part 3 Agreements that issue a total of not more than one quarter (25%) of the sum of all debits reported by Part 3 fuel suppliers during the previous compliance period. In determining the credit pool for a given program year, the Director must consider credit allocations committed to under multi-year agreements for existing projects.

The following table identifies the total credits available for Part 3 Agreements in 2017 and subsequent years, and the credit pools for new projects. This information is current as of the publication of this document; the credit pools for new projects in 2018 and subsequent years will change once the 2017 Part 3 Agreements are established.

Part 3 Agreement program year	Total credits available for Part 3 Agreements	Credit pool for new projects
2017 (estimated)	About 230,000	At least 15,000
2018 (projected)	About 313,000	At least 100,000
2019 (projected)	About 409,000	At least 200,000
2020 and subsequent years (projected)	About 507,000	At least 400,000

How does a Part 3 Agreement work?

Part 3 Agreements describe a project or activity to be supported, and set out a workplan with milestones and credits that represent progress toward the completion of the project or activity. Credits are awarded milestone by milestone after the Director receives the documentation described in the agreement.

It is in the best interest of the proponent to consider how and when project milestones will be achieved in order to ensure that credit awards can occur on a predictable schedule. If the work associated with a milestone is not completed by the date specified in the agreement, the Director may refuse to issue the credits. In some cases, the credit may be awarded if the proponent completes the milestone within a timeframe that is acceptable to the Director. In other cases, the agreement may be cancelled.

Multi-year projects

All Part 3 Agreements include a firm “Schedule B” commitment to allocate credits from the current program year. The “Schedule B” credits are awarded upon the completion of project milestones by the deadlines specified in the agreement. These deadlines may be in the current year or in a future year. The allocation of Schedule B credits is guaranteed by the Ministry.

Most Part 3 Agreements also include an agreement of intent in “Schedule C” to allocate credits from a future program year for the completion of project milestones by a specified deadline. At the time the Part 3 Agreement is signed, the Ministry intends to honour the Schedule C credits as described in the agreement. Should credits be unavailable in a future year, the Director will consider adjustments to the agreement at that time to allow for the allotment of credits from later years as they become available.

Third-party projects

The Director will consider project proposals by Part 3 fuel suppliers that involve a third party. Under this type of project a third party, such as a fuel retailer, would receive compensation from the fuel supplier for work towards project milestones, while the fuel supplier would receive the agreed-upon credits.

2017 program

Given the limited number of credits available for new projects in 2017, the Ministry will only consider proposals in two priority project categories.

Priority category 1: Pumps for higher biofuel blends

Offering consumers the choice of higher biofuel blends is a key step towards developing new compliance pathways for the petroleum industry. The Ministry will consider agreements to support projects that include the fuel supplier actions described in (a) and (b), below:

Fuel supplier actions	Credits allocated																																																				
<p>(a) By the end of 2018, install, advertise and operate 1 new pump and supporting infrastructure at an existing, public fuelling station in B.C. that currently sells petroleum gasoline or diesel finished fuels.</p> <p>The new pump must be designed and used to supply finished gasoline with $\geq 15\%$ ethanol, finished diesel with $\geq 10\%$ biodiesel, or finished diesel with $\geq 50\%$ hydrogenation-derived renewable diesel (HDRV).</p> <ul style="list-style-type: none">• “Public fuelling station” includes facilities where members of the public must join a cooperative or cardlock program.• The new pump must be labelled in accordance with section 7.3 of the Regulation.• Biodiesel supplied at the new pump must meet one of the standards identified in section 2 of the Regulation, i.e., CAN/CGSB-3.524-2011 or ASTM D6751-15cel.	1,500 credits for each new pump																																																				
<p>(b) Advertise and sell the higher biofuel blend at the new pump at the equivalent price, or lower, of the baseline fuel (regular gasoline or diesel) being sold on the same date at the same fuelling station, for 3 years after the commissioning date.</p> <p>“Equivalent price” will be based on the percentages in the table below, which are derived from the fuel energy densities in section 11.02 of the Regulation and the nominal biofuel content of different finished fuel blends.</p> <table><thead><tr><th>Finished fuel</th><th>Biofuel</th><th>Energy density</th><th>Equivalent price</th></tr></thead><tbody><tr><td>Regular gasoline</td><td>5%</td><td>34.13 MJ/L</td><td>Baseline</td></tr><tr><td>E15</td><td>15%</td><td>33.02 MJ/L</td><td>97% of baseline</td></tr><tr><td>E85</td><td>85%</td><td>25.25 MJ/L</td><td>74% of baseline</td></tr><tr><td>Regular diesel</td><td>4%*</td><td>38.49 MJ/L</td><td>Baseline</td></tr><tr><td>B20</td><td>20%</td><td>38.00 MJ/L</td><td>99% of baseline</td></tr><tr><td>HDRV</td><td>50%</td><td>37.58 MJ/L</td><td>98% of baseline</td></tr><tr><td>HDRV + B20</td><td>70%**</td><td>36.93 MJ/L</td><td>96% of baseline</td></tr></tbody></table> <p>* Calculated as 4% biodiesel. ** Calculated as 50% HDRV and 20% biodiesel.</p>	Finished fuel	Biofuel	Energy density	Equivalent price	Regular gasoline	5%	34.13 MJ/L	Baseline	E15	15%	33.02 MJ/L	97% of baseline	E85	85%	25.25 MJ/L	74% of baseline	Regular diesel	4%*	38.49 MJ/L	Baseline	B20	20%	38.00 MJ/L	99% of baseline	HDRV	50%	37.58 MJ/L	98% of baseline	HDRV + B20	70%**	36.93 MJ/L	96% of baseline	<p>Up to 1,500 credits, awarded as a multiplier of the credits accrued through the supply (under section 6 of the Act) of ethanol, biodiesel and/or HDRV at the new pump.</p> <table><thead><tr><th>Biofuel carbon intensity (gCO₂e/MJ)</th><th>Multiplier</th></tr></thead><tbody><tr><td>Ethanol ≥ 50.00</td><td>2x</td></tr><tr><td>Ethanol $30.00 - 49.99$</td><td>3x</td></tr><tr><td>Ethanol ≤ 29.99</td><td>4x</td></tr><tr><td>Biodiesel ≥ 10.00</td><td>2x</td></tr><tr><td>Biodiesel $0.00 - 9.99$</td><td>3x</td></tr><tr><td>Biodiesel ≤ -0.01</td><td>4x</td></tr><tr><td>HDRV $30.00 - 50.00$</td><td>2x</td></tr><tr><td>HDRV $20.00 - 29.99$</td><td>3x</td></tr><tr><td>HDRV ≤ 19.99</td><td>4x</td></tr></tbody></table> <ul style="list-style-type: none">• A 2x multiplier means that the agreement will award twice the credits reported and validated in a given compliance period.• The multiplier will only be applied to fuels with a valid B.C. low carbon fuel code.	Biofuel carbon intensity (gCO ₂ e/MJ)	Multiplier	Ethanol ≥ 50.00	2x	Ethanol $30.00 - 49.99$	3x	Ethanol ≤ 29.99	4x	Biodiesel ≥ 10.00	2x	Biodiesel $0.00 - 9.99$	3x	Biodiesel ≤ -0.01	4x	HDRV $30.00 - 50.00$	2x	HDRV $20.00 - 29.99$	3x	HDRV ≤ 19.99	4x
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The Ministry would prefer to support individual pump installations across a number of fuel suppliers. If a fuel supplier wishes to install one biofuel pump, the above credits would be awarded under Schedule B of the agreement, representing a firm commitment from the 2017 program.

If a fuel supplier wishes to install more than one biofuel pump, the first pump would be supported under Schedule B, and the second and subsequent pumps would be supported (based on the same parameters) in Schedule C of the agreement, representing the intention to award credits in 2018 and future years.

Priority category 2: Cold weather biodiesel supply

The use of additives has enabled the supply of biodiesel in cold weather settings around the world that are equivalent to winter conditions in the interior of B.C. The Ministry will consider agreements to support projects that include the fuel supplier actions described in (a) and (b), below:

Fuel supplier actions	Credits allocated								
<p>(a) Testing and demonstrated use of additives to improve the cold weather operability of finished diesel fuel blended with biodiesel, such as B2, B5 or B20.</p> <ul style="list-style-type: none"> • The testing may occur at facilities inside or outside B.C., but must specifically address biodiesel performance in Operability Zone BC 2, BC 3, BC 4 or BC 5 between October 1 and March 31. • The demonstrated use may also occur inside or outside B.C., but must include an in-province demonstration in one of the Operability Zones by the end of 2019. • The fuel supplier must publish a generalized report of findings, and release this report to the public. The report does not need to reveal the successful additive formulation for the fuel supplier's blending facility, but it does need to report the performance of vehicles using the successful blend. • HDRD does not qualify for this program. 	<p>1,000 credits for automobiles and light-duty trucks 1,000 credits for heavy-duty trucks 2,000 credits for diesel engine inland ferries, including diesel engine cable ferries 4,000 credits for locomotives</p>								
<p>(b) Advertise and supply B2, B5 or B20 with the selected additive in Fuel Operability Zones BC 2, BC 3, BC 4 or BC 5 between October 1 and March 31.</p>	<p>Up to 1,000 credits, awarded as a multiplier of the credits accrued through the supply (calculated under section 6 of the Act) of the biodiesel component of the B2, B5 or B20 blend.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 60%;">Biodiesel carbon intensity (gCO₂e/MJ)</th> <th style="text-align: center; width: 40%;">Multiplier</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">≥ 10.00</td> <td style="text-align: center;">4x</td> </tr> <tr> <td style="text-align: right;">0.00 – 9.99</td> <td style="text-align: center;">6x</td> </tr> <tr> <td style="text-align: right;">≤ -0.01</td> <td style="text-align: center;">8x</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • A 4x multiplier means that the agreement will award four times the credits reported and validated in a given compliance period. • The multiplier will only be applied to fuels whose carbon intensity has been approved with a B.C. low carbon fuel code. 	Biodiesel carbon intensity (gCO ₂ e/MJ)	Multiplier	≥ 10.00	4x	0.00 – 9.99	6x	≤ -0.01	8x
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The Ministry would prefer to support test and demonstration programs across a number of fuel suppliers, including for the same diesel vehicle type. If a fuel supplier wishes to undertake a test and demonstration program for one diesel vehicle type, the identified credits would be awarded under Schedule B of the agreement, representing a firm commitment from the 2017 program.

If a fuel supplier wishes to undertake a test and demonstration program for more than one diesel vehicle type, the highest priority vehicle type (for the fuel supplier) would be supported under Schedule B, and programs for other vehicle types would be supported under Schedule C, representing the intention to award credits in 2018 and future years.

The Ministry will consider proposals under the 2017 program that combine categories 1 and 2, such as the installation and operation of a biofuel pump to supply B20 in the B.C. interior (for example, Kamloops or Prince George), and the testing and supply of B20 with additives at the new pump under cold weather conditions. The quanta of credits identified for categories 1 and 2 would be added together in recognition of the complexity of the combined endeavour.

How will proposals be evaluated?

Mandatory criteria for all projects

Each proposal will be evaluated against the following criteria on a pass or fail basis:

- Was submitted on time at the specified location in the specified format
- Was submitted by a recognized Part 3 fuel supplier that is in compliance with the Act
- Satisfies the Director that the proponent has a reasonable possibility of delivering on the milestones outlined in the proposal

Graded criteria for priority category projects

Priority category proposals that pass the initial screening process will be evaluated by Ministry staff using the following criteria. A score below 60% will disqualify the proposal from further consideration. Proponents may be required to provide the Director with additional information as part of the evaluation process.

Project design and management (up to 5 points each; 30 points total)

How well does the business case offered in the Proposal:

- Demonstrate a thorough understanding of the obstacle(s) to development, supply, and/or increased market penetration of low carbon fuels that is addressed by the project
- Provide effective approaches to address obstacle(s) associated with the project
- Use current best practice methodologies for analysis of the obstacle(s), effectiveness of proposed actions, and anticipated outcomes
- Demonstrate a reasonable timeline and implementation plan for the project, including:
 - appropriate milestones and corresponding credit awards
 - effective and appropriate performance measures
- Present a detailed budget organized by quarter or as is appropriate for the project
- Outline the format and timetable for project monitoring and reporting

What is the application process?

The application process involves the following steps:

1. Fuel supplier submits completed application.
 - The Ministry will consider applications submitted by email to lcfr@gov.bc.ca by:
- 2017 program deadline: 8:00 A.M. Pacific time, October 6, 2017**
- Late submissions or those submitted by any other means will not be considered.
 2. Ministry reviews and evaluates the applications based on the above criteria.
 - All applications received in a given intake period will be assessed against each criterion, to establish relative merit. The total weighted score from all of the graded criteria will inform the Director's decision to award a Part 3 Agreement.
 - While the criteria presented are designed to make the Director's decisions as objective and transparent as possible, section 8.01 of the Act states that the decision to enter into a Part 3 Agreement is at the discretion of the Director.
 3. The Ministry contacts fuel suppliers whose proposals merit further consideration. Only those proponents whose proposals are selected for development in the 2017 and/or 2018 program years will be contacted.
 4. Detailed project agreements under the 2017 program must be developed and signed by December 31, 2017.
 5. Successful projects are listed in *Information Bulletin RLCF-014 Projects supported under Part 3 Agreements*.

Application format

The application cover page is available online at <http://gov.bc.ca/lowcarbonfuels>. All fields must be completed, and the cover page must be the first page of the proposal.

Proposals must be no more than 10 pages, excluding the cover page but including appendices, and must include an Executive Summary that concisely describes the information presented in the proposal. Most of the successful applications received have been 4-6 pages long.

Any information that could be considered confidential must be clearly identified.

2018 program

Given the limited scope of the 2017 program, the Ministry would like to initiate discussions with established Part 3 fuel suppliers on a more ambitious program for 2018. The 2018 projects would be proposed and designed by fuel suppliers, with the participation of third parties as appropriate.

In general, the Ministry encourages Part 3 fuel suppliers to propose projects worth **up to 50,000 credits** per year for up to 3 years. The credits identified for the first year would be included in Schedule B; the credits identified for the second and third year would be included in Schedule C.

The following examples are intended to illustrate the different kinds of projects and/or milestones possible under a Part 3 Agreement. Successful project proposals have included elements from one or more categories. Projects related to the 2017 priority categories will also be considered in the 2018 program. All projects must lead to GHG reductions through the supply of low carbon fuels in B.C.

Reduce the carbon intensity of a 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

Increase the accessibility of low carbon fuels

These projects would address supply, access, and market penetration barriers, and could include the production, blending, and/or distribution of low carbon fuels.

Increase the market share of low carbon fuels

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

- information/education for fleet managers and drivers
- marketing campaigns to support greater uptake of low carbon fuels
- pricing campaigns to promote the purchase of low carbon fuels
- research related to increasing low carbon fuel demand

How will proposals be evaluated?

Mandatory criteria for all projects

Each proposal will be evaluated against the following criteria on a pass or fail basis:

- Was submitted on time at the specified location in the specified format
- Was submitted by a recognized Part 3 fuel supplier that is in compliance with the Act
- Satisfies the Director that the proponent has a reasonable possibility of delivering on the milestones outlined in the proposal

Graded criteria for fuel supplier designed projects

Fuel supplier designed proposals that pass the initial screening process will be evaluated by Ministry staff using the following criteria. A score of below 60% in any section will disqualify the proposal from further consideration. Proponents may be required to provide the Director with additional information as part of the evaluation process.

Validity of carbon intensity reduction (up to 10 point each; 40 points total)

How well does the Proposal:

- Use valid assumptions and data in the analysis of estimated GHG and carbon intensity reductions
- Use conservative estimates for the calculations of emissions reductions or avoidance
- Identify the risks associated with the project and offers a reasonable mitigation plan for said risks
- Demonstrate a high degree of certainty of achieving estimated GHG reductions

Project design and management (up to 5 points each; 30 points total)

How well does the business case offered in the Proposal:

- Demonstrate a thorough understanding of the obstacle(s) to development, supply, and/or increased market penetration of low carbon fuels that is addressed by the project
- Provide effective approaches to address obstacle(s) associated with the project
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- Demonstrate a reasonable timeline and implementation plan for the project, including:
 - appropriate milestones and corresponding credit awards
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- Present a reasonable budget, organized by quarter or as is appropriate for the project
- Outline the format and timetable for project monitoring and reporting

Market transformation potential (up to 5 points each; 25 points total)

How effectively will the project outlined in the proposal:

- Contribute to accelerated adoption of low carbon fuels
- Demonstrate leadership or innovation in clean energy transportation
- Be reproducible by other Part 3 fuel suppliers and/or consumers
- Address a specific technical issue currently affecting Part 3 fuel suppliers that is an obstacle to reducing greenhouse gas emissions from the use of Part 3 fuels
- Demonstrate the additionality of the emissions reductions or avoidance associated with the project work – i.e., that these emissions reductions or avoidance are a product of the project and would not have occurred otherwise

Additional benefits (up to 5 points total)

Does the project outlined in the proposal offer:

- Additional (non-GHG) environmental benefits
- Additional economic/job creation benefits
- Additional social benefits

What is the application process?

The application process involves the following steps:

1. Fuel supplier submits completed application.
 - The Ministry will consider applications submitted by email to lcfr@gov.bc.ca by:
- 2018 program deadline: 8:00 A.M. Pacific time, June 1, 2018**
- Late submissions or those submitted by any other means will not be considered.
 2. Ministry reviews and evaluates the applications based on the above criteria.
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