

B.C. Climate **Solutions** Council

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Dear Minister Heyman,

The Low Carbon Fuel Standard (LCFS) is a key element in CleanBC and has been part of the province's climate plan for over a decade. B.C.'s early leadership with California has helped create the space for similar policies in Washington, Oregon and Canada. As more jurisdictions adopt these types of policies, the market for renewable fuels will continue to grow, which should help all of those jurisdictions achieve their objectives more cost-effectively.

Our advice at the end of 2020 highlighted the LCFS, along with the Carbon Tax, the Zero Emissions Vehicle (ZEV) Standard, and the Clean Portfolio Standard as four provincial policies that should be strengthened to reach our 2030 targets. The LCFS is particularly important because it targets the transportation sector, which is the sector that produces the largest amount of carbon emissions in B.C.; accounting for about 37% of the total. The transportation sector also had the largest increase in annual emissions of any sector over the past decade.

We recommend that you increase the stringency of the LCFS 2030 target to align with the CleanBC province-wide and sectoral targets. Based on the modelling that informed our November 2020 advice, the LCFS target would need to increase from a 20% reduction in life-cycle carbon intensity in 2030 to about a 40% reduction relative to the 2010 baseline.

We understand that there are challenges to adopting a more stringent target, but any of the pathways that are consistent with our 2030 CleanBC targets will be challenging. We point to two reasons why we are advising a more stringent target:

1. As we recommended in our recent advice on the ZEV Standard, we think the government should speed up the timelines for light-duty ZEV requirements and introduce requirements for medium- and heavy-duty ZEVs. Doing so will put more ZEVs on our roads, which will enable the province to meet a more stringent LCFS target. Related to this, we were pleased to see government's recent changes to the LCFS, which will make it easier for private and public sector entities to

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advance electric vehicle charging projects. In addition to helping to advance good projects, these changes will ensure that the resulting electric mobility is counted against the LCFS targets.

2. We were encouraged by an update from Ministry of Energy Mines and Low Carbon Innovation staff that indicated the province is likely ahead of schedule on the CleanBC target of producing 650 million litres of renewable fuels by 2030. If we can surpass that renewable fuel target, it will count towards the province's LCFS target. Further, domestic production of renewable fuels provides local economic benefits that imported fuels do not.

If the LCFS target is not changed and the province accelerates its efforts on ZEVs, there is a risk that the LCFS would cease to be a binding policy – i.e. it would not provide an incentive to find further reductions in the carbon intensity of transportation fuels. In this scenario, the growing number of ZEVs would account for an increasing share of LCFS compliance, and the incentive for the broad range of additional carbon reducing actions that would otherwise be encouraged by a binding LCFS would be undermined. Those additional carbon reductions offer an important contribution to a cost-effective pathway to B.C.'s 2030 targets.

In addition to the more stringent 2030 target, reduction requirements should be set to align with the provincial government's 2040 and 2050 targets, including the overarching CleanBC objective of transitioning away from fossil fuels toward clean energy. Establishing this longer-term trajectory through the LCFS will help the private sector plan for the needed investments, and minimize the risk that investment is directed to fuels that might help with 2030 targets, but aren't sufficient for the reductions needed in 2040 or 2050.

Ideally, a strengthened LCFS is complemented with improvements to the carbon tax so that consumers pay a lower carbon tax rate for higher blends of renewable fuels, which is currently how the carbon tax works for renewable gas, but not for renewable diesel or gasoline. This would align the incentives provided by these two important policies and fully reward consumers for making the decision to use renewable fuels.

An issue related to increasing the stringency is that the gap between the penalty for non-compliance and the cost of reducing emissions (as measured by the value of LCFS credits) will become larger. While many companies are taking steps to meet requirements, allowing this gap to grow would exacerbate an existing problem where some companies are choosing to pay the non-compliance penalty because it is below the cost of reducing emissions. To address the problem, we support raising the penalty for non-compliance so that it is higher than the anticipated marginal cost of reducing emissions enough to meet a more stringent 2030 target. We also support government's recent change to the LCFS that gives them the authority to publish the names of fuel suppliers that have failed to comply, which will prevent companies from choosing to be non-compliant anonymously.

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Directing B.C. government and BC Hydro revenue from the LCFS to climate solutions represents another potential improvement to the LCFS. The government receives payments for non-compliance penalties that currently go to general revenue. BC Hydro generates revenue through the sale of LCFS credits that it currently uses to mitigate upward pressure on rates. In both cases, we support the idea of directing this revenue to projects and programs that are consistent with the LCFS targets and help make zero emissions transportation choices more affordable to British Columbians, and BC businesses and organizations. In the case of BC Hydro, the LCFS revenue could also be used to make the business case for rates that encourage their customers to switch to electric vehicles.

In addition to strengthening the LCFS, we encourage government to dedicate greater resources to engaging with the federal government as they ramp up their work on the Clean Fuel Standard. As an early mover with the LCFS, BC has an important opportunity to help shape the Clean Fuel Standard with the lessons we've learned and ideally work with the federal government to set aligned expectations and opportunities for clean fuels across the country. The opportunity that B.C. is considering to extend the reach of the LCFS to address marine and aviation fuels that are sold in B.C., but used outside our boundaries, may fit more effectively in a federal policy than a provincial one.

Thank you for considering our LCFS advice. We look forward to continuing working with you and your staff on the role that a strengthened LCFS can play in B.C.'s 2030 Roadmap.

Sincerely,



Merran Smith
Executive Director
Clean Energy Canada
Co-Chair, B.C. Climate Solutions Council



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