

B.C. Climate **Solutions** Council

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April 27, 2021

Dear Minister Heyman,

In the advice we provided at the end of 2020, we highlighted the importance of strengthening four provincial policies to put B.C. on track to reach our 2030 CleanBC targets. Those policies were the Carbon Tax, the Zero Emissions Vehicle Standard, the Low Carbon Fuel Standard, and the Clean Portfolio Standard. In this letter, we offer additional advice on the Clean Portfolio Standard (CPS).

We continue to support the provincial government's intention to implement a CPS to require gas utilities to reduce the greenhouse gas emissions that result from the natural gas they supply in B.C. While the Greenhouse Gas Reduction Regulation (GGRR) has enabled gas utilities to increase their investment in renewable gas, it is a voluntary approach whereas the CPS will set a required reduction in emissions and significantly increase confidence that the CleanBC targets will be met. With the updates to the GGRR nearing completion, we encourage you to follow through on the implementation of the CPS with urgency.

We also continue to support the approach of designing the CPS as an absolute emissions reduction target for gas utilities as opposed to the target initially included in CleanBC, which was for 15% of the natural gas used in B.C. to come from renewable sources. The absolute emissions reduction target increases confidence that the CPS will achieve its desired environmental outcomes, and provides a wider set of compliance options (e.g., investments in renewable gas, energy efficiency, and electrification), which should help minimize the cost of achieving a given reduction compared to a more prescriptive percent renewable gas requirement.

While we support the flexibility and economic benefits that come with a wider range of compliance options, those compliance options should not compromise the CPS' objective of reducing greenhouse gas emissions from the gas grid. For example, we would not support LNG bunkering or upstream gas emissions reductions projects as CPS compliance options because these do not reduce the emissions that result from burning the natural gas that B.C.'s gas utilities supply.

A potential problem in moving to the absolute emissions reduction requirement is that reductions previously counted in other parts of CleanBC could be counted as compliance under the CPS. For example, the original CleanBC modelling anticipates reduced natural gas use because of the BC Energy Step Code, and these reductions would now

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count toward CPS compliance. This would in essence be a form of double counting and if it were not accounted for, the province would be further from its 2030 targets than indicated by the CleanBC modelling. This risk can be effectively mitigated by setting a CPS target that is consistent with the CleanBC province-wide and sectoral targets.

In setting the emissions reduction requirement for gas utilities, we offer the following advice:

- The reduction requirement should be set so that 2030 emissions from gas utilities are consistent with the province's 2030 province-wide target and the newly established sectoral targets. Based on the modelling from Navius Research that we worked with last year, being consistent with the 2030 targets will necessitate greater reductions from gas utilities than initially anticipated in CleanBC. For example, that modelling found that a cost-effective pathway to the 2030 targets included 25% of natural gas consumption in 2030 coming from renewable sources as opposed to the 15% in CleanBC.
- In addition to the 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 CPS will help gas utilities plan for the needed investments, maximize the role they can play in the CleanBC transition, and increase confidence in the role of renewable gas as a long-term solution.

We would also like to comment on four important issues we see on the horizon as you move forward with implementation of the CPS:

- **Affordability impacts for low-income households** – Decarbonizing the gas grid will increase the cost per unit of natural gas. While some of that unit cost increase can be mitigated through improvements in energy efficiency, gas bills will likely increase for many customers. Complementary measures to the CPS should provide direct support to low-income households to help them at least maintain, and ideally reduce, their overall energy costs.
- **BC Utilities commission capacity** – Our understanding is that government staff are considering a significant role for the BC Utilities Commission in the administration of the CPS. While we are open to this role and certainly value the transparency that the BC Utilities Commission brings to energy decisions, we have concerns about their capacity to effectively regulate through a new set of climate objectives that haven't traditionally been the focus of their work. We encourage you to make sure those objectives are as unambiguous as possible, and that advance consideration be given to any support then BC Utilities Commission will need to effectively regulate gas utilities as they put forward plans to achieve those objectives.
- **Role for hydrogen** – There is considerable interest in the role for hydrogen as a compliance option in the CPS. We support that role for hydrogen from renewable and waste sources, which

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is aligned with changes being made to the GGRR. Work commissioned by the provincial government to support the development of the hydrogen strategy showed a wide range of carbon intensities for hydrogen derived from fossil fuels. Whether there is a role for hydrogen derived from fossil fuels within the CPS that is aligned with CleanBC targets will depend on maximum carbon intensity thresholds for hydrogen and the accounting methodologies used to estimate those carbon intensities. At this point, we have not seen enough information on those potential carbon intensity thresholds or accounting methodologies for hydrogen derived from fossil fuels.

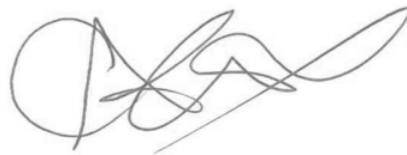
- **Origin of renewable gas supply** – We recommend that B.C. prioritize the domestic production of renewable gas as an important opportunity to create clean jobs and foster a circular economy, in particular within the forest and agriculture sectors. If the CPS allows gas utilities to use renewable gas credits from outside B.C. to meet their compliance obligations, it is critical to have a rigorous carbon accounting system in place to minimize the risk that B.C. and the exporting jurisdiction both count the same emissions reductions from renewable gas.

Thank you for considering our perspectives on the CPS and for your efforts to advance this important component of CleanBC. We expect to continue discussing its development with staff and may provide further advice later in the year. We also intend to provide more detailed advice on the Carbon Tax, the Zero Emissions Vehicle Standard, the Low Carbon Fuel Standard, and in particular, how they can help close the gap to meet our 2030 CleanBC targets.

Regards,



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