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Ottawa, Canada
K1A 0E4

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Mr. John Curtis, Manager, Alternative Fuels Section and
Mr. Dean C. Simeroth, Criteria Pollutants Branch Chief
California Air Resources Board
1001 I Street, PO Box 2815
Sacramento, CA
95812 USA

Dear Messrs. Curtis and Simeroth:

Thank you for the opportunity of the January 30 Workshop that you hosted to provide the Government of Canada and other interested parties an update on the development of California's proposed Low Carbon Fuel Standard (LCFS). Indeed, we understand the complexity of your task and are grateful for the openness and transparency that you have shown to us in the process to date. In particular, we appreciate that you and others at the California Air Resources Board (CARB) have been willing to meet with senior and working level representatives of our Government and the Alberta Government over the course of the regulation's development.

From our understanding of the LCFS, its main intended effect is to encourage the use of lower GHG emitting alternatives to crude oil in transportation, such as alternative and renewable fuels. This could provide a dual role of reducing the GHG intensity of transport fuels while encouraging reduced oil dependence. By using life cycle emissions as a performance measure, the LCFS encourages fuel pathways that are the least GHG intensive on a life cycle basis. As we have discussed, the Government of Canada's aim has been to work with you to ensure that California's innovative LCFS uses the best science and policy to treat all fuels in a fair and transparent way.

Further to the letter from Canada's Ambassador to the United States, Michael Wilson, to CARB Chair Mary Nichols dated November 14, 2008, we would like to underscore several of our concerns.

1. The LCFS should not make any distinctions among crude oil sources. Our current understanding is that California's approach is to develop a baseline of fuel pathways derived from the current mix of crude oils being used in the state. Currently, the draft LCFS regulation divides crude oil into two categories, "conventional" and "non-conventional". However, in the January 30 workshop, CARB discussed replacing these categories with ones that make a

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distinction between California's "average crude mix" versus "other" crude oils. While such a change would be an improvement as it would no longer single out oil sands crude from all other current mainstream crude oil sources, we believe that making any distinctions among crude oil sources may go beyond the reasonable boundaries of the LCFS, undermine its effectiveness and possibly lead to unintended consequences.

By favouring different crude sources, the scope of the LCFS encroaches into the scope of other, arguably more effective, regulatory tools such as a national or continental cap and trade program and greenhouse gas (GHG) regulations in Canada's oil sector. Favouring different crude oil sources could also lead to a shuffling or rationalization of crude oil supply, where lighter crudes are sent to California and heavier crudes are sent to other jurisdictions, leading to no change or possibly higher GHG emissions on a global level. This would also take away from the energy security benefits derived from reducing oil dependence by promoting the use of crude oil from less secure sources around the world, often with their own environmental issues. Not only are these sources less secure, but revenues from the exploitation of some of them help fund foreign elements which threaten our security. Given these factors, we would suggest that the LCFS preferably assign all crude oil fuel pathways the same carbon intensity, or otherwise treat each pathway on its own merits, rather than distinguish among different classes of crude oil.

2. The LCFS continues to be extremely complex and we are concerned about the possible difficulties this will create for implementation. For example, production from each oil sands facility has a different GHG emissions intensity based on factors such as geology, technology and fuel use. Crude oil is often blended throughout the North American pipeline system, mixing crude oils derived from different sources. This makes tracking crude oil blends used by refiners to their source a particular challenge. If the LCFS requires detailed information about crude oil sources, some fuel providers may not be able to comply or this may impose impractical accounting requirements which would in themselves create barriers to trade. We request that details about the implementation be provided with sufficient time for comment before the regulation is finalized.

In addition, work in Canada continues on obtaining the best and most pertinent data comparing the lifecycle GHG emissions of fossil fuels in North America. This data can be used to support the Californian GHG accounting model and provide the most accurate representation of emissions from oil sands and other fossil fuels.

3. If the LCFS requires carbon intensity values for all crude oil fuel pathways, we would urge that it also recognize the actions being taken in Canada to reduce the GHG emissions associated with oil production. In the past, you have discussed developing an approach for recognizing processes such as carbon capture and storage (CCS) and co-generation that will be included in the regulation. In order to treat fuels equally, it is also important that California recognizes offsets from out of State. Given the integrated Canada-US energy market, offsets in Canada should be acknowledged in California's LCFS provided that they comply with Californian protocols. It would also be unfair in our view if CARB were to take an approach whereby the difference in carbon intensities that would be assigned to any two crude oil fuel pathways could be greater than the actual difference in carbon intensities between them.
4. We are concerned with the absence of clear information in the LCFS on such fundamental issues such as the burden on regulated parties, the cost of compliance, and the penalties for non-compliance. At the January 30, 2009 LCFS workshop, it was specifically noted that several important issues are still being assessed, and there may be no further information available to us about how they would be addressed until CARB releases its final draft regulation in early March. Without a better understanding of how CARB will address these issues before final regulations are published, we are concerned this will not allow the Government of Canada and other stakeholders to provide comments.

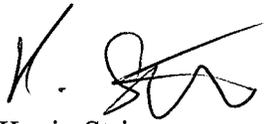
As you know, the Government of Canada is committed to a climate change strategy that promotes improved energy efficiency, an expanded role of renewable energy and the introduction of innovative technologies. This will lead to significant reductions in GHG emissions from all sectors of the economy, including the oil sands. Our plan is also backed up by investment, for example, both the Canadian Government and the Government of Alberta combined have committed \$3 billion dollars in CCS technology. Between 1990 and 2006, the oil sands sector has reduced its GHG intensity by 32% and we expect these kinds of improvements to continue under the Government's climate change plan.

Given the integrated nature of the North American energy market, I also believe that the best way to address the environmental impacts of oil sands development is through cooperation between Canada, the largest supplier of crude to the US, and the US, the world's single largest consumer of crude oil. This belief in a shared challenge and a common climate change agenda was affirmed by President Obama when he visited Canada in February, 2009. As a result of that visit, a US-Canada Clean Energy Dialogue was initiated with the goal of better aligning Canada-US policy, and developing and deploying clean energy technology, including CCS.

Given these considerations, we encourage CARB to take the time you require to work through these issues as these regulations are not only important to California's Climate Change Plan, but they also serve as a precedent for other jurisdictions around the world. As we go forward, we would like to continue our productive engagement with your team and request that CARB maintains the open and transparent process that you have had to date.

Thank you again for the opportunity to comment on this important initiative.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Stringer', with a stylized flourish at the end.

Kevin Stringer
Director General,
Petroleum Resources Branch

cc: James N. Goldstene, Executive Officer, California Air Resources Board
Michael H. Scheible, Deputy Executive Officer, California Air Resources Board