Québec enters complex low carbon fuel crediting field

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Just when the world of Canadian low carbon fuel standards was already incomprehensive, the Government of Québec has added to the intrigue with its Regulation respecting the integration of low-carbon-intensity fuel content into gasoline and diesel fuel (the Québec Regulation) on Dec. 1, 2021, introducing a province-specific credit generation and trading scheme for the distribution of lower carbon fuels.

Focus on gasoline and diesel

As also anticipated initially in the coming federal Clean Fuel Standard, the Québec Regulation is limited to greenhouse gas emissions standards for gasoline and diesel, requiring minimum "low-carbon fuel content":

- **10%** content in gasoline; and
- **3%** in diesel in 2023, a steep increase from the current federal requirement.

These minimum requirements will be gradually increased to 15% and 10% respectively by 2030. Excluded are aircraft, marine, non-combustion industrial and heating uses.

Distributor-specific crediting for lower CI fuels

Unlike the British Columbia LCFS and the CFS, the crediting opportunity under the Québec Regulation lies with the distributors and not the suppliers of fuels. Specifically, provincial carbon intensity averages are set as baselines annually and distributors earn credits where the carbon intensity of their distributed fuels are:

- 45% below the gasoline CI baseline, or
- 70% below the diesel CI baseline.

One credit will then be awarded for each liter of low-carbon intensity fuel content that meets these lower CI thresholds, with some ability to transfer credits between the two categories – with a gasoline credit equal to **1/3rd** of a diesel credit.

But what can you do with these credits?

The distributor credits are essentially allowances to permit the distribution of gasoline and diesel fuels which don't contain the minimum low-carbon content, which can be carried forward (capped at 20% of low-carbon content requirement) or transferred to another distributor.

This limitation on the carry-over ability could stimulate the credit market, but could affect the price negatively if there are too many credits on the market for a given year. Distributor credits that are not sold before the annual March 31 deadline or carried over are cancelled.

Uncertain financial opportunity for lower CI fuel distribution

The Québec government has yet to release detailed information on the credit market's operations. As currently set up, the credit market will not be an open market. The distributors, aside from reporting the total amount of credits exchanged, do not need to submit the credit price nor other financial information. This lack of public access to credit pricing could render the credit market more opaque as to its operations and activities, and would make it difficult for industry stakeholders to evaluate the financial opportunity.

This lack of visibility on credit price will be challenging for fuel producers in assessing the potential returns in placing lower CI-fuels into Québec.

No clear alignment with CFS

The CFS expressly aligns with, and allows for dual-crediting, of compliance activities with the BC LCFS, the model upon which the CFS was built. Less clear is how crediting under the Québec Regulation might be recognized under the CFS.

No commentary from Environment and Climate Change Canada on the interaction has yet been released and the focus on distributors, and not fuel suppliers, might mean that the Québec Regulation simply adds to the complexity of Canada-wide low-carbon fuel crediting.

Attracting lower CI fuels a sign of things to come?

Finally, the Québec Regulation may serve as a model for other provincial initiatives around low-carbon fuels in combination of the CFS, which only imposes national average fuel CI standards and does not require any particular allocation of those fuels within Canada. The distributor crediting scheme cleverly seeks to direct lower CI fuels into the province, thereby lowering the carbon emissions of Québec in the process.

The authors would like to thank Qian Sun for her contribution to the article.

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