Clean Fuel Regulations: Changes Between CG I and CG II

Topic	Change from CG I to CG II
Carbon Intensity Limit / Annual Reduction Requirement / Volumetric Requirement	- Removed the annual reduction requirement from kerosene, light fuel oil and heavy fuel oil. o Only gasoline and diesel will have an annual reduction requirement (fuels used mainly in transportation). - Volumes of fuel used in space heating and industrial power generation in remote areas can be subtracted from the reduction requirement (with sufficient evidence). - Increased stringency of carbon intensity limits from 12gCO_2e/MJ in 2030 to 14gCO_2e/MJ below the baseline. o Reduction requirement starts 2023 and trajectory changed accordingly. - Delayed coming into force of annual reduction requirement from December 1, 2022 to July 1, 2023 (7 months). o Provides ~12 months of early credit creation. - Broadened the scope of low carbon intensity (CI) fuels that are eligible to meet the 2% volumetric requirement for diesel fuel, beyond biodiesel and HDRD, to all fuels suitable to be used as a diesel replacement (includes sustainable aviation fuel, low CI fuel oils and co-processed low CI fuel). - The period during which a deficit can be carried forward was increased from two to five years, and the interest rate was reduced from 20% to 5%. Additionally, a primary supplier may take on a new deficit even if the primary supplier has not yet fully satisfied a deficit from a previous year, as long as the 10% obligation deferral limit is not exceeded.
Compliance Category 1: *actions throughout the lifecycle of a fossil fuel that reduce its CI through GHG emission reduction projects*	- Crediting will be permitted for actions throughout the lifecycle of a <u>liquid</u> fossil fuel that reduce its CI through GHG emission reduction projects only (no credits will be provided for GHG reduction projects that reduce the lifecycle CI of gaseous or solid fuels. This could however include the production of co-processed low-CI propane as part of a co-processing project. o In line with the narrowed scope of the CFR and the focus on fuels mainly used in transportation. - Direct air capture for CCS and EOR projects is no longer an eligible action for credit creation. - Projects create credits for the portion of the fossil fuel and crude oil that is used in Canada (i.e. exported portion of products are not eligible for credit creation). - Projects for facilities in jurisdictions outside of Canada can be recognized. Jurisdictions outside Canada will be able to enter into an agreement with GoC to ensure their projects are comparable to Canadian projects in effectiveness and meet the Regulations' objectives. Credits will be prorated based on the portion of liquid fossil fuel or crude oil supplied to Canada. - Requirement to have project applications validated prior to submission to ECCC is removed. - Clarification of requirements for the transition from the generic QM to a project type specific QM. - Outside the Regulations: additional quantification methods developed for co-processing, enhanced oil recovery and via a generic QM. Working on developing a hydrogen-specific quantification method with expert reviewers to allow additional credit creation opportunities for hydrogen supplied to fossil fuel facilities (anticipated in Summer 2022).

Compliance Category 2: *supplying low CI fuels*	- No changes in credit creation. - Some additional flexibility in the choice of default CIs and energy densities of fuels.
Compliance Category 3: *supplying fuel or energy to advance vehicle technology*	- No significant changes in credit creation. - Precisions on definitions of residential and public EV charging to clarify types of charging and default credit creators. - Additional requirement for charging network operators to transfer credits created by public or residential charging at no less than fair market value (to avoid attempts of bypassing revenue reinvestment requirements). - Changes to credit calculation methodology for hydrogen in vehicles other than hydrogen fuel cell vehicles (similar calculation as hydrogen supplied to fuel cell vehicles).
Land Use & Biodiversity Criteria	- Simplified administrative approaches to certain criteria to reduce burden, e.g. having declarations on a per-contract period up to one year versus the previous per-batch proposal. - Terminology edits to better reflect and clarify the intent and scope of criteria and close loopholes, resulting in reduced burden. - Wildlife habitat criterion refined to remove the term "vulnerable ecosystems". - Forest regeneration criterion refined to replace the specific four-year timeframe with language reflecting timely regeneration.

Carbon Intensity and Fuel LCA Model	- Credit creation can occur back to the point of the registration of the Regulations for all CI applications before June 2024.
	- A new version of the Fuel LCA Model will be published for the Regulations in 2024: if the new CI is lower than the previous CI, a one-time credit adjustment will be provided for the associated volume of low-CI fuels supplied since the registration of the credit creator in the reporting system.
	- Parties other than the low CI fuel producer can contribute information that leads to a final CI value.
	    o For example, if RNG were used to produce a low CI fuel, the CI of this fuel could benefit based on accurate information on the RNG used as a feedstock.
	- Addition of default CIs for low CI fuels that do not require an application (time limited).
	- Enabled credit adjustment for changes in the carbon intensity annually.
	    o That is, credits will be added to accounts if the CI decreases by the specific threshold (to account for improvements in fuel production processes)
	- Additional flexibility at the outset of the Regulations for CI Applications, no verification will be required until after June 2024.

Verification and Certification	- Removed validation requirements for applications. - Verification: adding flexibilities for participants with a large number of sites; streamlining the technical scope of accreditation, materiality thresholds, conflict of interest and specialist competency requirements; incorporating requirements for outsourcing. - Certification: Detailing requirements for the composition of the certification team; removing subcontracting, outsourcing and the technical scopes of accreditation; streamlining requirements for site visits; incorporating requirements for remote audits, management of non-conformities and certification schemes.
Reporting / Record Keeping	- Changes to some reporting deadlines to allow additional time to regulated parties and to align the receipt of reports with their corresponding verification report. - New credit adjustment report to provide additional credits that account for reduction in CI of low CI fuels annually. - Some additional flexibility in export provisions to require different participants in the CFR to report and cancel excess credits for exporting low CI fuel. - Additional flexibility in correction of errors provided for reports. - Removal of the Fossil Fuel Production Report.
Review	- Commitment (in RIAS) to undertake a review of the regulations to be completed by 5 years after the coming into force of the regulations and to include a review of provisions on CI limits and credit creation opportunities.