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PETRO-CANADA
LUBRICANTS

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Delivered to:

Honourable Rod Phillips
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Petro-Canada Lubricants, Inc. ("PCLI") is pleased to submit the following comments to the Ministry of the Environment, Conservation, and Parks ("MECP") regarding the proposed industrial Emission Performance Standards ("EPS"). PCLI is a proud and dedicated Ontario business that employs over 690 employees in Ontario and relies on an embedded Canadian network of suppliers, contractors, distributors and marketers to run its operations and supply chain. **PCLI is the only remaining conventional lubricant production facility in Canada** and operates in Mississauga, Ontario.

PCLI is highly emissions intensive and trade exposed ("EITE") with increasing competitiveness concerns. As detailed in our January comments on the Made-in-Ontario Environment Plan ("Environment Plan"), PCLI only represents ~1.4% of global production capacity; depressed pricing conditions from growing market oversupply further stresses PCLI's inability to react to rising carbon costs fairly and competitively.

PCLI applauds Ontario's strong commitment to developing a program that protects against carbon and investment leakage, preserving the global competitiveness of Ontario's world-class products. Overall, PCLI is in favor of the following mechanisms that MECP has proposed to reduce carbon leakage, including:

1. Stand-alone metrics for assessing trade exposure during the carbon leakage risk evaluation;
2. Separate stringency factors for high-leakage risk sectors; and
3. 100% stringency factor for fixed process emissions.

PCLI recommends the following additional considerations for MECP to include in the final EPS design:

a. ***Lubricant Basestock production must have its own performance benchmark.***

The previous Ontario cap-and-trade program and the federally-proposed Output-Based Pricing System have correctly delineated lubricant basestock ("Lubricant") production from other petroleum refining activities. Consistent with the messaging from MECP's February 27th sector meeting, PCLI looks forward to working with the Ministry to confirm and clarify the appropriate data for setting the separate Lubricant EPS. **As the only conventional Lubricant production facility in Canada, PCLI recommends that the Lubricant sector EPS be based on PCLI's standalone facility data**; this is consistent with former provincial and federal methodologies.

b. ***Performance Standards must be scientifically achievable, cost-effective and representative of the emissions profiles of the regulated facilities.***

1. **PCLI strongly supports the delineated treatment of fixed process emissions and the 100% stringency factor being applied**. Process emissions are fixed by chemical, physical or technological limitations and are unavoidable for production.

2. **PCLI strongly supports differentiated treatment for non-fixed process emissions of EITE sectors that appropriately protect Ontario businesses from carbon leakage risk.** Further to the increased energy use required by PCLI's facility due to its lack of integration with a refinery and the incremental heating requirements to accommodate Canada's colder climate, PCLI's leading global competitors all operate in noncarbon priced jurisdiction – such as the US Gulf Coast and the Middle East. This elevates the importance of reduced EPS stringency for EITE sectors.

3. **PCLI firmly recommends that the reference years used to establish the EPS fairly represent the facilities and sector.** For example, the previous Ontario cap-and-trade allocation methodology allowed PCLI to use a historical data sampling unique to its facility.

PCLI is prepared to provide our recommended Lubricant EPS value – with supporting emissions intensity data and calculations – to the MECP and invites the opportunity to have a follow-up meeting after this comment period to discuss in further detail.

c. ***Compliance options must maximize optionality, flexibility and market liquidity.***

Well-designed markets allow industry to mitigate and adapt to the impacts of a new emission reduction program. Therefore, compliance options must be flexible and predictable. PCLI supports the utilization of additional mechanisms to mitigate compliance costs and further protect against carbon leakage, including:

1. Compliance units generated by facilities emitting below their Facilities Annual Emission Limit; and
2. Compliance units from voluntary carbon emissions reductions or removals.

PCLI urges MECP to not place any limits on trading or banking of compliance units. The ability to trade or bank compliance units indefinitely will enable maximum compliance flexibility, attract private investment and incent market liquidity.

Additionally, as outlined in our January comments, **the EPS should include flexible guidelines on emissions trading and market linkage opportunities**, both domestically and internationally. Creating a larger market to access credits will bolster supply and improve market liquidity. A well-functioning liquid market helps EITE facilities meet GHG reduction targets and make long-term investment decisions in a cost effective and predictable manner.

d. Reporting requirements for provincial and federal programs should be harmonized to reduce and streamline administrative burden on industry and government.

Emissions reporting for Ontario and the federal Greenhouse Gas Reporting Program should be aligned to reduce administrative and verification burdens on large emitters. However, to the extent that federal reporting methodologies do not align with the best interest of local facilities, PCLI recognizes and supports the importance of case-by-case exceptions.

The MECP has made considerable strides in designing a system that will reduce emissions in Ontario, while protecting local businesses in an increasingly global market. PCLI applauds MECP's decision to prioritize minimizing carbon leakage by including specific considerations for EITE sectors when setting stringency factors, emissions intensities, and overall performance standards.

We thank MECP for their continued engagement with industry and look forward to an ongoing transparent process to design an EPS regulation that balances the health of our communities while maintaining a robust local economy. Please do not hesitate to reach out should you have any clarifying questions about our feedback or recommendations.

Sincerely,

Dan Ralph

Daniel Ralph
Director, Business Integration