



CF Industries

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Financial Instruments Branch
Ontario Ministry of Environment, Conservation and Parks
40 St. Clair Avenue West, Floor 8
Toronto, ON
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RE: Amendments to support transition and implementation of Ontario's Emissions Performance Standards program (ERO # 019-3719)

Thank you for the opportunity to provide input on proposed regulatory amendments to support implementation of Ontario's Emission Performance Standards ("EPS") program. Below please find comments from CF Industries.

About CF Industries

At CF Industries, our mission is to provide clean energy to feed and fuel the world sustainably. With our employees focused on safe and reliable operations, environmental stewardship, and disciplined capital and corporate management, we are on a path to decarbonize our ammonia production network – the world's largest – to enable green and blue hydrogen and nitrogen products for energy, fertilizer, emissions abatement and other industrial activities. Headquartered in Deerfield, Illinois, CF operates nine manufacturing complexes in the United States, Canada, and the United Kingdom, with an unparalleled storage, transportation and distribution network in North America, and logistics capabilities enabling a global reach.

CF is committed to achieving net zero emissions by 2050, with an interim goal of reducing the carbon intensity of production by 25% by 2030. The company is reviewing all options for carbon abatement across its network, including in Canada.

CF Industries in Ontario

CF Industries' indirect subsidiary, Terra International (Canada) Inc., owns and operates the Courtright Nitrogen Complex in southwestern Ontario ("Courtright" or "the facility"). The facility manufactures and distributes nitrogen products for agricultural and industrial uses, including ammonia, urea ammonium nitrate (UAN) and diesel exhaust fluid. Thanks to early investments to electrify key processes at Courtright, the facility delivers some of Canada's lowest-carbon fertilizer products. Courtright's ammonia plant configuration is unique in Canada but is subject to some of the highest electricity costs in our North American network due to earlier provincial policy decisions.

Courtright is currently a covered facility under the Output-Based Pricing System ("OBPS") and will be directly impacted by the transition to the EPS program once the province is removed from Part 2 of Schedule 1 to the Greenhouse Gas Pollution Pricing Act ("GGPPA") on January 1, 2022.

Transfer of OBPS Surplus Credits

CF is concerned that OBPS surplus credits held by Ontario facilities may lose their value once the EPS system is implemented, either through suspension or usage limits imposed by the federal government. This issue is not addressed in the proposed amendments published in the Environmental Registry of



Ontario on May 27, 2021. CF believes the regulatory amendments should outline a process to facilitate the transfer of OBPS credits held by Ontario facilities to the EPS system as a way to preserve the value of credits earned under the federal system and to uphold the price signal to incentivize emission reductions in the province.

The OBPS is designed to reward facilities that emit below an emissions intensity benchmark through the allocation of surplus credits. In many cases, these credits, once sold, will offset only a small portion of the costs associated with building and operating lower-emissions technologies. Nonetheless, the credits provide a necessary incentive to recognize and reward emission reductions by industrial emitters – a fundamental principle of an effective carbon pricing system.

In preparation for the removal of Ontario from Part 2 of Schedule 1 to the GGPPA, Environment and Climate Change Canada (“ECCC”) is proposing regulatory amendments to allow the Minister to suspend surplus credits held by Ontario facilities once the OBPS system is withdrawn, as well as other provisions that will limit facilities’ ability to monetize those credits early to avoid suspension. Such measures will result in a significant loss of value for credits legitimately earned or purchased by Ontario facilities between 2019 and 2021. They also will undermine the price signals that are intended to drive long-term emission reductions in the province because credits earned under one system will have no value if that regulatory system is revoked or changed in the future.

The Ontario government can mitigate these adverse impacts by allowing the one-time transfer of OBPS credits to the EPS system when it takes effect in 2022. This measure would allow Ontario facilities to realize some value for those credits in the new program and would help achieve the stated purpose of the EPS regulatory amendments to “[p]rovide for a smooth transition for Ontario industry from the OBPS to the EPS”. ECCC has confirmed the Ontario Ministry of Environment, Conservation and Parks (“MECP”) has discretion to accept federal surplus credits into the EPS system. MECP, however, informed stakeholders that such a measure would require additional federal approval. This lack of alignment between the two levels of government is creating confusion, impeding a practical solution and placing the burden of regulatory change on Ontario companies which have no control over the process.

Because the removal of the federal backstop regulations was undertaken at Ontario’s request, the onus is on the Ontario government to ensure the province’s industries are not unduly impacted by the change. MECP should take the lead to jointly develop a practical solution with the federal government that will allow OBPS credits to be transferred to the EPS system in a manner that preserves their value and maintains the integrity of Ontario’s long-term carbon price signal.

Thank you for the opportunity to provide input on the EPS regulatory amendments and we look forward to working with MECP to address this important issue.

Sincerely,

Greg Kennette
General Manager
Courtright Nitrogen Complex