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Melissa Ollevier
Financial Instruments Branch
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Toronto, ON M4V 1M2
Email: Melissa.Ollevier@ontario.ca

Dear Ms. Ollevier:

Re: ERO# 019-5769 Emissions Performance Standards (EPS) program regulatory amendments for the 2023-2030 period

Shell Canada Limited (Shell) appreciates the opportunity to comment on the Ontario Ministry of the Environment, Conservation and Parks' (the Ministry) proposed regulatory amendments to the Emissions Performance Standards (EPS) program for 2023 to 2030.

Shell has a target to become a net-zero emissions energy business by 2050. Shell acknowledges and supports Canada's net-zero climate target, which requires all parts of the Canadian economy to work together to achieve these targets at the lowest possible cost and disruption to society. To support this, we encourage the direct pricing of carbon emissions and believe stable and predictable policy frameworks are key to enabling low-carbon investments in Canada.

Shell supports the Ministry's efforts to amend Ontario's carbon pricing program to meet the updated federal benchmark criteria and maintain equivalency with the federal Output-Based Pricing System (OBPS), by developing a fair, cost-effective, and flexible emissions performance program for industries.

We offer the following comments in response to the proposed changes outlined by the Ministry in their proposal.

Carbon Price

Shell supports aligning the EPS program carbon price with the annual carbon price schedule in Canada's Greenhouse Gas Pollution Pricing Act to provide certainty to obligated parties for project planning, stay consistent with other jurisdictions, and maintain provincial jurisdiction.

Registration and Cessation of Coverage
Shell does not object to the proposed changes outlined in Section 4.0 of the proposal.

Emissions Performance Standards
Discussion Question: Should the changes described in sections 5.1 (Replacing Energy-Based Methods) and 8.4 (Implications of a Revised GHG Report) of this proposal start to apply as of the 2022 compliance period or the 2023 compliance period?
Shell recommends these proposed changes start to apply for the 2022 compliance period. This reduces the administrative and reporting burden for regulated facilities and ensures a consistent approach for first year and subsequent EPS program compliance reporting.

Discussion Question: Are there any other sectors that should be considered for a sector-wide performance standard (e.g., lime production, automobile manufacturing, ethanol production, gold mining and milling)?
Shell believes other stakeholders are better placed to offer perspective on this question.

Electricity Generation and Cogeneration
Discussion Question: Should the EPS program consider a more stringent performance standard for the electricity sector for the 2023-2030 period?
Ontario's electricity grid has achieved significant decarbonization, with remaining emissions predominantly from the use of natural gas-fired generators. Shell believes the performance standard applied to electricity generators should increase in stringency, as proposed by the Ministry, to more accurately reflect the decarbonization efforts of the sector and to position Ontario well for the proposed federal Clean Electricity Regulation. This standard should be reviewed at a predictable frequency (e.g., at an interim regulatory review) to ensure continued representativeness and to drive continuous improvement and further emissions reduction in this sector.

Stringency Factors
Discussion Question: Should different stringency factors continue to apply to fixed process and nonfixed process emissions for the 2023-2030 period?
Shell understands the Ministry intends to increase the stringency (via stringency factors, SF) on all types of emissions in order to meet the stringency requirements of the federal benchmark criteria, while maintaining competitiveness and minimizing the risk of carbon leakage. Fixed process emissions are from hard-to-decarbonize processes, such as hydrogen generation through steam methane reforming. These emissions are produced via a chemical/physical reaction rather than fuel combustion, thereby leaving fewer options to decarbonize (other than through high-cost investments like carbon capture and sequestration, CCS).

Under the current EPS program, fixed process emissions in the Total Annual Emissions Limit are subject to a 1.00 SF, recognizing the challenge with reducing these types of emissions. For this reason, we support different SFs continuing to apply for fixed process and non-fixed process emissions, with a less stringent factor for fixed process emissions, as suggested in the Ministry's proposal. This recognizes that process emissions are more difficult to abate, while still providing

recognition for those facilities that invest in improvements to reduce them.

Compliance

Canada's commitment to achieve net-zero emissions by 2050 requires significant transformation in all sectors. There is a need for all jurisdictions in Canada to play a role in emissions reduction. Shell believes additional mechanisms are needed to incentivise emissions reduction and drive investment in low-carbon energy solutions throughout the economy, such as through an emissions offset system and the development of offset protocols.

Under the EPS program, compliance mechanisms available for regulated facilities include the purchase of Excess Emission Units (EEUs) from the government, or the purchase/use of Emissions Performance Units (EPUs). Shell encourages the Ministry to enable the use of approved emission offsets to allow for greater compliance flexibility for regulated facilities, whether this is through the development of an Ontario offset credit system or enabling the use of offset credits within the Federal Greenhouse Gas Offset Credit System for compliance. As seen with other jurisdictions, the use of carbon offsets for compliance within regulations can reduce compliance costs, offer flexibility, and drive innovation and greenhouse gas (GHG) reductions, while generating additional opportunities in sectors such as agriculture and forestry. Further, this would support the EPS program's intent in being flexible to the needs and circumstance of Ontario industries, while allowing for economic growth and reducing the potential for carbon leakage.

Other Administrative and Technical Changes

Carbon Capture Utilization and Storage

Shell is encouraged that the Ministry is proposing to recognize emissions reductions achieved through CCS. Shell supports policy mechanisms that drive deployment of CCS at scale, as CCS is proven technology and will be necessary to meet Canada's net-zero ambitions. Shell provided feedback on the government of Ontario's *Discussion Paper – Geological Carbon Storage in Ontario* in March 2022 and looks forward to collaborating with the government to develop a broader regulatory framework to enable CCS development in Ontario. Of note, offset protocols to enable the quantification of captured CO_2 should be developed, as well as clarity around regulatory processes, measurement, monitoring, and verification (MMV) requirements, and future liability for stored CO_2.

We also encourage the government of Ontario to develop a regulatory framework for Carbon Capture Utilization and Storage (CCUS) to recognize utilization pathways under the EPS program.

Carbon Leakage and Related Competitiveness Assessment

Discussion Question: How can the future EPS program elements, such as stringency factors, optimize GHG emissions reductions while minimizing carbon leakage?

Shell believes the enabled use of offsets to meet compliance obligations under the EPS program would work to drive GHG emissions reduction while minimizing carbon leakage. This action would incent decarbonization by enabling increased economic feasibility and attractiveness of

investment in low-carbon projects in Ontario, providing a diversified suite of project types that could contribute to lowering Ontario's emissions. Potential project types could include those currently enabled under the Alberta Emission Offset System or those enabled under the Federal Greenhouse Gas Offset Credit System.

Shell also believes that nature-based offsets can play a role in decarbonization. These are projects that protect, enhance, or restore natural ecosystems that capture CO_2 emissions, benefit local communities, and improve biodiversity. We encourage the province to consider enabling nature-based project types for compliance offsets in the future. As an example, the federal government and provinces of B.C. and Alberta are developing forest carbon protocols, recognizing the significant forestry opportunities available at scale in Canada.

Predictability is paramount. Shell appreciates the publication of stringency factors up to 2030 in the proposed regulatory amendments to enable obligated facilities to plan for future emissions reduction requirements. The ability to recognize book and claim type agreements would also help to minimize carbon leakage for facilities that procure low carbon intensity power or feedstocks (such as hydrogen).

Clarity around the use of EPS program proceeds would also be helpful. Returning these proceeds through funding programs and initiatives that can support facilities' decarbonization efforts would help to advance projects that may currently be challenged to meet thresholds for final investment decision.

Closing

We would be pleased to discuss our comments in detail or answer questions you may have. Please direct any questions or requests for additional information to the undersigned at kristyn.moore@shell.com or 403-384-6018.

Kind regards,

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