



December 14, 2006

The Honourable Rona Ambrose, PC, MP
Minister,
Environment Canada
10 Rue Wellington
Gatineau, Quebec K1A 0H3

Dear Minister Ambrose,

I am writing on behalf of members of the Canadian Gas Association (CGA) to provide comments on the *Clean Air Act*, the “Notice of Intent to Develop and Implement Regulations and Other Measures to Reduce Air Emissions”, and the discussion paper “Improving the Health of Canadians and their Environment through an Integrated, Nationally Consistent Approach to Reducing Industrial Air Emissions”.

The Notice of Intent sets out principles and a consultation process for short, medium and long-term target setting for key industrial sectors. While the natural gas distribution sector is not specifically listed in the Notice of Intent and the discussion paper as one of the industrial sectors to be included in these regulations, based on communication with Environment Canada officials our understanding is that the intention is to develop air emissions regulations for the natural gas distribution sector.

CGA and our members have been active participants in the climate change file for well over a decade. We approach the issue from the perspective that the natural gas industry is part of the solution. By that we mean three things:

- While our direct emissions from gas delivery operations are relatively small (1,082,000t CO₂e in 2004 – a reduction of over 65,000t since 2000) we are part of the so called large final emitters group of industries and have worked with government to develop a framework to manage our emissions.
- We also worked with our customers and our regulators to develop and implement demand side management programs aimed at improving the efficiency with which natural gas is used.
- We advance the use of natural gas as a clean alternative in many applications – an alternative that can not only reduce GHG emissions but is also extremely effective at reducing other air contaminants.

In short, CGA believes that by using multiple strategies Canada can cost-effectively manage its greenhouse gas emissions and, over time, begin to reduce them. CGA has reviewed the “continuous improvement approach to GHG policy setting”. CGA supports the general principles of this approach which include providing:

- Certainty to industry by establishing a longer term approach.
- Incentive for making technological improvements to operations.
- Price assurance.
- A range of compliance options.

The details of this structure, as currently drafted, work for industry that make large capital investment subject to technical change and improvements with time. The natural gas distribution sector capital expenditures are gradual and incremental. Besides, the large portion of our covered emissions is from blow-outs and venting. That is not impacted by step changes in technologies. While we continue to review the continuous improvement model, our preferred approach at this time for the natural gas distribution sector over the short-term timeframe is outlined below. We look forward to working with your department over the coming months on the medium term time frame.

Target Setting (Questions 1-4 in the Discussion Paper)

Target Setting for Greenhouse Gas Emissions:

Environment Canada and CGA have made significant progress on the development of policy and regulations related to the climate change file and have worked together, along with other industries in the natural gas value chain, to ensure the greenhouse gas emissions estimates from our sector are based on good science. I have outlined below what I believe to be the state of our discussions as it is imperative that we recognize this significant work already completed and use it as the basis for discussions on target setting for this sector going forward.

GHG emissions from the natural gas distribution sector

The *Clearstone Study*, a joint industry-government study, provides an estimate of the year 2000 GHG emissions associated with natural gas distribution in Canada which is based on industry best practices for preparing GHG emissions inventories. This has formed the basis for a discussion on the GHG reduction obligations for the sector.

Based on an allocation equal to 88% of the 2000 emissions, the covered share of greenhouse gas emissions from the natural gas distribution sector was identified to be 0.198481 megatonnes (Mt) of carbon dioxide equivalent (CO₂e) within the 2008-2012 period. . This number reflects the commitment that covered emissions excludes ‘other fugitive’ emissions which includes unintended losses caused by leaks and third party damages because of the high uncertainty in the measurement of these leaks and the inability to control them. We would also note that this estimate does not include GHG emissions from transmission or storage facilities.

Emissions Intensity Factor for Natural Gas Distribution

The emissions reduction targets for the natural gas distribution sector should be determined using an Emissions Intensity Factor (EIF), not a direct emissions reduction, to account for system expansion due to economic growth. The EIF for the distribution sector should continue to be defined on a facility specific basis as tonnes of CO₂ equivalent per kilometre of main.

Where the greenhouse gas emission reduction target for each company is set at x% by 2015, it is defined as:

Reduction for Year Y = X% x Company Facility Baseline Year EIF x Predicted km of Pipe Main in Year Y

Where

- Y is a year within the 2010 -2015 period.
- Reduction is measured tonnes CO₂ equivalent.
- Company facility EIF is defined as tonnes CO₂ equivalent per km main. In our previous discussions, it was calculated using 2000 as the baseline year.

This provides the best correlation with actual GHG emissions for the distribution sector as a whole, has the least deviation among companies, and is perceived to be relatively easy to implement within the LFE system. The Environment Canada working inventory (spreadsheet) of GHG emissions reflects this EIF as applied in aggregate across the distribution sector. When operationalized, each company facility would in fact have a unique, company facility-specific EIF.

Summary of points of agreement for “Short term” target setting for GHG emissions

In summary, the significant work already completed should be used as the basis for discussions on target setting for this sector going forward. Your feedback on the following points of agreement would be appreciated.

- For the “short term” time period (2010-2015) indicated in the *Act* and *Notice of Intent*, emissions reduction targets for the natural gas distribution sector should be based on an emission intensity factor (EIF). The EIF for the natural gas distribution sector is defined as tonnes of CO₂ equivalent per kilometer of main.
- There is a continued commitment that covered emissions excludes ‘other fugitive’ emissions which includes unintended losses caused by leaks and third party damages.
- The EIF target for natural gas distribution facilities should be calculated on a facility basis. Determining the EIF target on a facility basis:
 - recognizes that operating profiles are different across facilities and, as a result, emission intensity values are different,
 - is more effective and efficient given the limited number of facilities within the natural gas distribution sector,
 - will not complicate the development and application of the regulation for the natural gas distribution sector.
- A “natural gas distribution facility” is agreed to be defined as follows:
 - “The following definition of a natural gas distribution facility “distribution facility” is intended solely for the purposes of Large Final Emitter regulation and shall not replace or supersede any definition of distribution that is in use for any other regulatory or other purpose.

-A distribution facility consists of all natural gas pipeline facilities downstream of the station yard inlet shut-off valves of natural gas transmission pipelines at stations where pressure reduction first occurs for eventual delivery of natural gas to consumers up to and including the meter set.

-A company may elect to include piping upstream of this pressure reduction point provided that no compressor stations are situated on said upstream piping.

-The purpose of a distribution facility is to deliver natural gas at pressures, normally lower than those typically used in transmissions systems, to end users of natural gas.”

- A discussion on how business as usual (BAU) and early action will be determined and treated will continue among all industry sectors.
- A discussion on how new natural gas distribution facilities should be treated needs to be established as it is not appropriate to apply the sector-average EIF to these facilities.

Target Setting for Criteria Air Contaminant Emissions:

CGA member companies have initiated, using a third party, an inventory of criteria air contaminants and other pollutants from natural gas distribution operations. The inventory is expected to be completed by the end of January 2007. The inventory is a necessary first step to undertaking discussions on target setting for the natural gas distribution industry.

Compliance Options (Questions 5-11 in the Discussion Paper)

Building a credible offsets system:

Domestic offsets, where verified emissions reductions outside the regulated system are recognized as eligible for compliance in the regulated system, is listed in the Notice of Intent as a possible compliance option. CGA is participating in the Industry-Provincial Offsets Group that is providing input to Environment Canada on the structure of a viable domestic offsets system. A domestic offset system for greenhouse gases is a cost effective compliance mechanism for regulated entities and provides important benefits to a broad range of economic sectors and to Canadian society. Given this, industry proponents and provincial regulators have a strong interest in the development of a robust and cost effective offset system that meets the Federal *Clean Air Act* objectives.

One potential offset project area is of particular interest to our members. Demand Side Management (DSM), or energy efficiency programs targeted at end-use energy consumers, should become a part of the fabric of Canada's energy framework and environmental policies. DSM programs have contributed to the decline in Canada's energy intensity over the past decade or so. Utility driven DSM programs can build on past experience to reduce implementation lag times, establish best practices, create prioritized programming and obtain a good return on energy efficiency investments.

We look forward to participating in future discussions and consultations on the development of a viable domestic offsets credit system as it is important to ensure that reductions in air emissions resulting from DSM programs that natural gas utilities support remain eligible for domestic offsets credits.

Technology Investment Fund:

Another mechanism to facilitate industry compliance with the regulatory system is the establishment of a Technology Investment Fund. Industry and potentially governments would contribute to the fund to support the development of transformative technologies for emissions reduction. Contributions to the Technology Fund for compliance purposes should not be limited and should be linked to a specific price/tonne because it is highly desirable to maximize technology investment and it is essential to have a mechanism for ensuring a cap on cost exposure.

In our view, contributions to this fund from the natural gas distribution sector should be allocated towards supporting the development of energy end-use technologies. Such a focus would be an effective complement to the DSM efforts referred to above. We look forward to working with officials on the strategy for the fund to ensure that multiple technology projects that will improve energy use in various sectors of the economy are supported.

Compliance Assessment, Monitoring and Reporting (Question 12 in the Discussion Paper)

The Notice of Intent and discussion paper indicate that the Government will implement a one-window regulatory compliance tool to ensure that industry is on track to meet regulatory obligations. CGA continues to be involved in the national stakeholder process on quantification and reporting of greenhouse gas emissions. Specific feedback on the system being coordinated by Statistics Canada is being provided through this process.

The discussion paper indicates that the Government's approach to compliance and assessment, monitoring and reporting is guided by the following principle: *to ensure effective and efficient monitoring, reporting, and regulatory implementation, including best efforts to minimize overlap and regulatory duplication.*

To manage the small companies within the reporting system it is important that we establish minimum thresholds of annual GHG emissions that a sector, company, or facility must exceed in order to be covered by the proposed regulations. CGA has recommended that Environment Canada consider developing a single window two-tier reporting system thereby providing a less onerous reporting requirement for the smaller facilities. A recommendation on this has been communicated to Environment Canada officials. This would ensure that the requirements to assess compliance and the broader Government of Canada reporting goals are met without forcing companies to face reporting costs that far exceed compliance obligations.

In the Notice of Intent it is noted that "maximum use of continuous emissions monitoring technology" will be required to ensure effective compliance and enforcement. We believe that this is not an effective approach for emissions quantification. Other effective emissions monitoring technologies and emission factor methods are more effective. For GHG's, fuel composition data is the more appropriate quantification approach. Additionally, a one-window compliance tool should recognize and allow for the fact that reporting periods, facility definitions and facility boundaries may differ for air pollutant reporting purposes versus GHGs reporting purposes.

Equivalency and Administrative Agreements (Question 13 in the discussion paper)

As noted in the discussion paper, the Government intends to work in partnership with and where possible would enter into Equivalency or Administrative Agreements with provinces, territories, and aboriginal governments. We support in principle the use of such equivalency and administrative agreements, wherever practical, to improve the efficiency and effectiveness of regulatory processes by avoiding regulatory overlap and duplication.

The Clean Air Act, and in particular the offsets system, should also ensure that existing provincial obligations regarding GHG or energy efficiency programs will not be an obstacle for companies acting in those provinces to be eligible to offset credits.

Medium and Long-Term Targets (Question 14 in the discussion paper)

We will continue to participate in the process being organized by the National Round Table on the Environment and Economy (NRTEE) on long-term targets for greenhouse gas emission. As consultations begin in the coming months on the overall framework, CGA will continue to work with NRCan and Environment Canada officials to ensure continued engagement of our industry in the policy process.

I look forward to continuing to work with you and your colleagues on this important file.

Sincerely,

Michael Cleland
President and Chief Executive Officer

cc: Michael Horgan, Deputy Minister, Environment Canada