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**Re: Emissions Performance Standards (EPS) program regulatory amendments for the 2023-2030 period – Suncor Comments**

We appreciate the opportunity to provide comments regarding Ontario's *Emissions Performance Standards (EPS) program regulatory amendments for the 2023-2030 period*, as well as your government's ongoing efforts to consult with the stakeholders impacted by policies and regulations.

Suncor is an integrated energy company headquartered in Canada. Suncor's operations include oil sands development and upgrading, onshore and offshore oil and gas production, petroleum refining, renewables, and product marketing under the Petro-Canada™ brand. As Canada's leading integrated energy company, we believe environmental and social progress and economic performance are intertwined and integral to our success. While we are proud of our past accomplishments, we are focused on expanding our leadership in the energy transition and achieving our objective of being a net-zero company by 2050. A significant aspect of this plan involves investing in new low carbon forms of energy such as low-carbon electricity, hydrogen, and biofuels. Our purpose *is to provide trusted energy that enhances people's lives, while caring for each other and the Earth.*

Further examples of our commitment to sustainability and climate action include:

- Renewable fuels - we own and operate the largest Canadian ethanol plant in St. Clair, Ontario.
- Next Generation Renewable Fuel Technology – we are direct equity investors in Enerkem and LanzaTech/LanzaJet technologies;
- Canada's Electric Highway – we were the first to build a coast-to-coast, high-speed EV charging network.
- Low Carbon Electricity – we are committed to investing in low GHG, highly reliable and efficient cogeneration electricity.
- Hydrogen Economy – we recently announced a world scale low-carbon hydrogen project with ATCO.
- Oil Sands Pathways to Net Zero Initiative – we are a member of a broad collaboration with other oil sands companies to accelerate the deployment of carbon capture projects and other decarbonization efforts.

In addition to the initiatives mentioned above, Suncor participates and invests in multiple initiatives linked to sustainable development, like Evok Innovations, Clean Resource Innovation Network, Canada's Oil Sands Innovation Alliance, Carbon XPrize and ArcTern Ventures.

Suncor is supportive of the Emissions Performance Standards (EPS) as an efficient way to promote industry decarbonization. We also support regulatory stability and certainty over time, and therefore, we support the Ontario government with its responsible and balanced approach to meeting the federal benchmark.

In connection with the Ministry of the Environment, Conservation and Parks questions posted on August 26, 2022, for stakeholder input, Suncor's comments are set forth below:

1. Carbon price

Suncor supports the alignment of EPS program carbon price with the updated federally mandated pricing. This will support federal equivalency and program continuity.

2. Program scope

Suncor supports the evaluation and inclusion of new sectors in the EPS program to align with the federal program and improve the GHG coverage and GHG reduction opportunities across sectors.

3. Registration and cessation of coverage

Suncor supports the facilitation for opt-in conditions for facilities between 10,000 tonnes CO<sub>2</sub>e to 50,000 tonnes CO<sub>2</sub>e as soon as they meet the threshold, to allow stable coverage under the provincial program (with an exemption from the federal program). Suncor also supports the conditions under which a facility ceases to be covered under EPS, including GHG emissions that decreases under the threshold, temporary closure of one year or more and permanent closure of a facility.

4. Emissions performance standards

Suncor supports the use of historical performance standards where sector-wide performance standards or facility-specific standards are not available or can't be developed.

We would like to highlight the importance of:

- A stable site/sectoral benchmark over time to allow predictable outcomes for the implementation of GHG reduction projects and the application of new GHG reducing technologies.
- The application of gradual stringency increases against the benchmarks while maintaining competitiveness and avoiding risk of carbon & capital leakage, and not variable changes based on the implementation of new technologies.

If standards are modified over time to reflect new GHG reduction technologies, the investment for such projects will be disincentivized, which is why we recommend keeping a stable benchmark over time.

In any case, sites may need to add the units or change their process to adapt to changing economics and environment, and hence, we support the possibility of reviewing the standard/benchmark in these cases. This change should be considered as a partial new unit/site/operation and would help adapt the benchmark of a site if there is a project for expansion, for example, and ensure that the project remains competitive in comparison to other jurisdictions, in an effort to minimize carbon and capital leakage.

Per the consultation documents in section 13, we are being asked to answer the following questions:

- “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?”. We suggest starting to apply these modifications at the beginning of 2022, to streamline the administrative burden and use a standard approach for the first year of reporting and the future compliance years.
- “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)?”. Suncor would support the use of a sector-wide performance standard for ethanol production if one was implemented in the future.

5. Electricity generation and cogeneration

As described in previous Suncor submissions, Suncor recommended applying a uniform benchmark to the electricity sector of 0.37 tonnes CO<sub>2</sub>e per MWh<sup>1</sup> to promote efficient GHG reduction in the province. We believe that the most recent proposed changes in EPS relative to cogeneration is in line with other Canadian GHG regulations, and Suncor supports this modification. This new calculation includes a benchmark of electricity generation from natural gas for the GHG intensity associated with the electricity portion, combined to a benchmark for thermal energy production for the GHG associated with steam production. We believe that it is a good way to incentivize this most efficient use of natural gas through cogeneration.

Cogeneration supports the energy transition, as it provides the most efficient means for heavy industry (such as pulp and paper, steel, petrochemical and energy producers) to use natural gas to generate both electricity and thermal energy. Cogeneration also provides an important decarbonization pathway for heavy industry during a period when it might not be feasible to electrify all sectors.

The consultation document includes a question in section 13 as follows: “Should the EPS program consider a more stringent performance standard for the electricity sector for the 2023-2030 period? “. Suncor understands that the federal Clean Electricity

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<sup>1</sup>The electricity benchmark of electricity of 0.37 tonnes CO<sub>2</sub>e per MWh is also used in the Alberta Technology Innovation and Emissions Reduction (TIER) and the federal Output-Based Pricing System (OBPS) for natural gas electricity generation.

Regulation (CER) is pursuing a net zero electricity sector by 2035. From this policy, we believe that carbon pricing systems will have to reduce power performance standards to zero by 2035 to meet federal benchmarks. We are concerned that the implementation of the CER could reduce incentives towards low-carbon power (like cogeneration and renewables) and raise power prices for consumers. Suncor does not support including cogeneration emissions as part of the federal CER based on its primary driver of supplying process heat and power generation for internal industrial use.

Generally, Suncor recommends that electricity standards remain included in the EPS and, if the benchmark must be reduced to align with federal policy, that it should be reduced gradually. Suncor recommends that Ontario and other provinces work closely with the federal government to ensure the smooth implementation of the CER in order to maintain affordable and reliable power.

6. Stringency factors

Suncor supports the Ontario government with EPS modifications that are done to align with the federal regulation to keep the program's equivalency and stability for regulated entities, including the reasonable modifications relative to stringency factors.

We are being asked in the consultation document per section 13 "Should different stringency factors continue to apply to fixed process and non-fixed process emissions for the 2023-2030 period?". We would like to highlight that process emissions remain stoichiometrically/chemically impossible to lower, or very difficult to change while keeping the same process. New technologies are emerging, and they are often significantly more expensive in terms of initial investment and in terms of operating expenses. Hence, there needs to be good programs and incentives in place to support these transitions, when the technology is available. Where the technology is not available, we recommend that the government supports research and development. Suncor thinks that process emissions should not be subject to a declining benchmark until such time as there are commercially available cost-effective technologies available that can be deployed as alternatives.

7. Compliance

Suncor would like to highlight that we do not recommend the intentional omission of regulatory offsets as an option to cover a compliance obligation. The Ontario government should consider allowing offsets from the Federal Offset program to be eligible for usage if the government does not currently have the resources to develop its own provincial offset program. Ontario should take advantage of encouraging the development of non-regulated carbon reduction projects in its jurisdiction while allowing its industries the opportunity to lower their own cost of compliance.

We recommend, for example, that the Ontario government incentivize new biofuel projects that would take municipal waste, wastewater treatment sludge and forestry residues as sources of environmentally beneficial feedstocks. Emphasizing the use of these materials would not only have benefits in terms of GHG reduction but would also

help the province divert this high-value waste from its landfills. This can be achieved through the addition of offset protocols for methane avoidance from landfills. Conversely, we do not recommend that the province implement a regulation on methane capture from landfills (nor a provincial methane avoidance regulation stricter than the federal one), as this would lower the incentive to divert these materials from landfills due to additionality considerations.

8. *Other administrative and technical changes*

We support the Ontario government's proposed inclusion of Carbon Capture and Sequestration (CCS) as a way to generate GHG reductions. In addition to CCS inclusion, we strongly encourage the Ontario government to include other variations including Carbon Capture, Utilization and Sequestration (CCUS) and Direct Air Capture technologies. Please notice that Ontario's natural geography is less suited to geological sequestration than other Canadian provinces, hence the need to find alternative ways to sequester CO<sub>2</sub> and recognize these technologies accordingly.

We encourage the Ontario government to consider netting the CCUS reduction directly in the capturing site GHG inventory to streamline the administrative burden. If a different methodology is chosen, we recommend that Alberta's proposed approach, where a new stream of CCUS credits could be generated at the facility of capture (not sequestration), be taken. This would also permit CCUS credits to be stackable with CFR credits, similar to other GHG reductions from other industrial sites which are regulated by two different programs. We also encourage the Ontario government to ensure that these GHG reductions are not time-limited. This would improve project economics as CCUS usually has higher operating costs than other GHG reduction projects. In addition, this would also reduce the risk that projects halt CCUS activities at the end of the crediting period. Finally, it recognizes that the reductions from CCUS facilities will continue up until the point the facility is shut down, and not some arbitrary time period before that.

9. *Carbon leakage and related competitiveness assessment*

In response to Section 13 of the consultation document, where we are being asked "How can the future EPS program elements, such as stringency factors, optimize GHG emissions reductions while minimizing carbon leakage?" we would like to offer two recommendations. Firstly, we think it is important that the EPS program remains as aligned as possible with the federal OBPS and other Canadian jurisdictions to minimize carbon and capital leakage within Canada. Secondly, we recommend that energy transition projects be supported by the government as they are critical, not only because they create new low-carbon energy opportunities for consumers and businesses in Ontario, but also because they extend the lifespan of existing assets that support the province's energy security and economy. The Ontario government's support for such projects, as well as predictable regulations that protect the competitiveness of local industries, will help maintain the industry and related jobs in the province.

The Inflation Reduction Act in the United States has created new competitiveness pressures on energy transition projects in Canada. Projects like Sustainable Aviation Fuel, Hydrogen and low-carbon renewable fuels have been especially incentivized by the Inflation Reduction Act. It is our recommendation that the Ontario Government evaluate how it can incentivize these projects in Ontario through measures like an advanced biofuels blenders tax credit, production credits for low carbon intensity hydrogen, CCUS and other measures that can ensure these early energy transition projects remain competitive against other jurisdictions.

10. Public reporting

Suncor supports the regular publication of key markets and obligation/compliance data from the EPS program, if no one single facility can be clearly identified through the information made public. This information could be made available from the tracking platform where excess emissions units (EEUs) will be managed.

11. Use of Proceeds

Suncor recommends that the use of proceeds from EPS be reinjected into regulated industries to promote the implementation of decarbonization projects while ensuring these well-paid jobs are retained in Ontario.

12. Stackability of EPS credits with the federal Clean Fuel Regulations

Suncor recommends ensuring that GHG emissions subject to different regulations be able to generate credits under more than one regulation (i.e., Ontario EPS and the federal Clean Fuel Regulation (CFR)). We understand that jurisdictions under the federal Output-Based Pricing System (OBPS) would be able to generate GHG credits under both OBPS and CFR. In order to promote GHG reduction projects in Ontario, especially those that involve carbon capture and storage technologies, the same credit generation potential should be present. The principle being, if emissions are subject to multiple compliance obligations, emission reductions should also generate multiple credits for each of these obligations.

13. Biofuels production incentive

Suncor recommends incentivizing the local production of biofuels through the low-carbon intensity value of diversified wastes and residues with advantageous renewable facility EPS benchmarks. We also recommend implementing a biofuels tax credit and ensuring that future regulations do not have a negative effect on GHG credit generation as a result of additionality criteria. We recommend, for example, that the Ontario government incentivize new biofuel projects that valorize/use wastes as a feedstock through the recommendations mentioned in section 7 of this document (GHG avoidance offset generation).

14. Renewable Natural Gas (RNG) and low carbon intensity hydrogen book and claim

Suncor recommends that the Ontario government recognize the application of book and claim (B&C) accounting for the sourcing of Renewable Natural Gas and Low Carbon

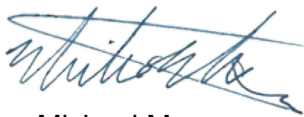
Intensity Hydrogen. Biogenic feedstock is already recognized as a neutral GHG source in the EPS (since it is not adding a new source of CO<sub>2</sub> in the atmosphere.) To ensure that Ontario industries can take advantage of these low-carbon intensity energies (RNG, low carbon intensity hydrogen) without building completely new infrastructures, a B&C mechanism is required.

B&C accounting is a practice used by other jurisdictions that allows a company facility to buy a recognized low carbon product with its environmental attributes and count those emission reductions towards its compliance, without the physical delivery of the molecule of the low-carbon product to the company facility. Allowing B&C for RNG would promote a market for RNG produced from Ontario farms, creating a revenue source for farmers, and would help the industry and the province make significant emission reductions. At present, RNG produced in Ontario is being booked and claimed by companies operating in the US and other Canadian provinces.

In the future, a B&C mechanism could also be applied to low carbon intensity hydrogen production, which could be injected in small percentages into the natural gas infrastructure. The use of RNG and low carbon intensity hydrogen should be counted directly in the GHG inventory of the given site just like onsite production and consumption would be accounted. This methodology would reduce the administrative burden and help promote these improvements.

We thank you for the opportunity to provide comments. Should you have any questions or comments on our submission, please feel free to contact Emmanuelle Plante (eplante@suncor.com).

Sincerely,

A handwritten signature in blue ink, appearing to read 'Michael Munoz', with a stylized flourish at the end.

Michael Munoz  
VP External Relations  
Suncor Energy Inc.