Turning Green Into Gold



An opportunity for companies investing in electrification

If your company operates warehouses with electric lifts or maintains a fleet of electric vehicles, you may be able to unlock hidden environmental value and turn it into revenue. Under Canada's *Clean Fuel Regulations* ("CFR"), which came into effect in July 2023, charging station hosts and charging network operators can register with the Credit and Tracking System ("CATS") to generate "Category 3" compliance credits and then sell those credits to gasoline or diesel producers or importers, creating an additional revenue stream for their business.

Understanding the CFR

Under the CFR, gasoline and diesel producers and importers must reduce the carbon intensity of the fuel they produce or import in Canada each calendar year—called a "compliance period"—by purchasing compliance credits. Each credit represents a reduction of one tonne of CO_2e. This reduction can be achieved:

- practically, by improving refining processes; or
- theoretically, by purchasing compliance credits.

The ultimate goal of the CFR is to reduce the carbon intensity of gasoline and diesel refined or imported into Canada by 14

grams of CO_2e per megajoule by 2030.

However, to take full advantage of the current compliance period, which began January 1 and ends December 31, and to create compliance credits beginning January 1, 2025, you must register with Environment and Climate Change Canada as a registered creator by the end of February. If you have not registered by then, you will still be able to create compliance credits, but only for the period beginning the day after you become a registered creator.

In addition, the CFR places restrictions on how revenue from the sale of compliance credits can be used by charging network operators. These revenues must be allocated to: 1) expanding electric vehicle charging infrastructure, including charging stations and electricity distribution infrastructure that supports electric vehicle charging, whether intended primarily for use by the occupants of a private dwelling-place or the public; or 2) reducing the cost of electric vehicle ownership through financial incentives to purchase or operate an electric vehicle.

For example, an ambitious and visionary car dealership could invest in a charging network operator and use the resulting revenue to offer discounts to customers purchasing electric vehicles, thereby gaining a competitive advantage over other dealerships.

What does the future hold for the CFR?

While a change of government in Ottawa could introduce some uncertainty about the future of the CFR, it would be difficult to eliminate it entirely at this time. Amendments are possible, but outright repeal remains unlikely. In a worst-case scenario, compliance credits already created could potentially be transferred under a revised version of the CFR, similar to how compliance units were handled under the CFR's now-repealed predecessor, the *Renewable Fuels Regulations*.

A growing market

In 2023, the most recent year for which statistics are available, there were only 10 registered charging station hosts, 11 public charging stations, and 4 residential charging stations registered as creators under the CFR. These 25 registered creators created a total of 390,856 compliance credits. According to the same statistics, the average price of a compliance credit for the 2022–2023 compliance periods was $133.20. It is important to note that the price of compliance credits is directly proportional to the volume of gasoline and diesel refined and imported into Canada.

Trends to watch

Projections by the Canada Energy Regulator, published in its "Canada's Energy Future 2023" report, indicate that demand for hydrocarbons will continue to grow for a few more years before plateauing around 2030. Depending on the climate scenario, demand could then stabilize or gradually decline.

How to maximize your investment in electrification?

Whether your investment in electrification involves electric lifts or converting your vehicle fleet, the CFR represents a tangible financial opportunity. Ready to turn your green initiatives into gold?

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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