

## Economic Development Opportunity

<b>Date</b>	March 10, 2021
<b>To</b>	City Council
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Financial Services
<b>Item No.</b>	CM21-4

### RECOMMENDATION

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That City Council:

1. Approve a grant of up to \$1 million to True North Renewable Fuels Ltd. (TNRF) from the City's General Fund Reserve to be used by TNRF to undertake a front end engineering and design (FEED) study pursuant to the Government of Canada's Agriculture and Agri-Food Canada's Agricultural Clean Technology (ACT) program on the following conditions:
  - The federal government approve TNRF's application under the ACT program;
  - TNRF successfully secures financing for all of the costs of the FEED study not covered by the ACT program; and
  - The City and TNRF enter into a grant agreement and any other agreements necessary as described in these recommendations.
  
2. Delegate authority to the Executive Director, Financial Strategy and Sustainability or his or her designate to negotiate and approve a grant agreement between the City and TNRF outlining the City's contribution to the FEED study pursuant to the federal ACT program based on the following general principles and terms and conditions:
  - The grant funding would be limited to \$1 million and provided to TNRF for eligible expenses/activities under the ACT program related to the FEED study
  - TRNF would be required to provide the City with a \$1 million letter of credit, restricted trust, or similar instrument that can be drawn on by the City if the refinery plant is not constructed in the Greater Regina Region and producing fuel within a set amount of time (with the time frame to be negotiated by the parties).

- The letter of credit (or similar instrument) would be released once the refinery has been constructed and is producing fuel and the City and TNRF have executed a fuel purchase agreement to an upset amount of at least \$1 million in discounted fuel purchase. This agreement will be able to be assigned to a third party at the City's sole discretion.
  - TNRF will agree to pay a penalty of \$1 million (in addition to the \$1 million that can be drawn under the letter of credit) if for any reason the project is constructed in a community other than the Greater Regina Region. This obligation will extend to any entity that acquires or merges with TNRF in the future.
  - The parties would further negotiate as to the definition of the Greater Regina Region and TNRF agrees to work closely with the City and use reasonable efforts to locate the project on a site where the City of Regina's boundaries could be reasonably altered to include the lands upon which the project is located.
3. Delegate Authority to the Executive Director, Financial Strategy and Sustainability or his or her designate to negotiate and approve any future amendments to the grant agreement that may be required that do not fundamentally change what is described in this report and any fuel purchase agreements or any other ancillary agreements or documents required to give effect to the grant;
  4. Authorize the City Clerk to execute any necessary agreements after review and approval by the City Solicitor.
  5. Authorize the Mayor/City Manager to prepare and submit a letter from the City to the Federal Government's ACT program to support TNRF's application indicating that the City will contribute 10% of eligible FEED study costs, up to a maximum of \$1 million dollars in grant funding as required under the ACT program based on the conditions outlined in recommendation 1.

## **ISSUE**

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True North Renewable Fuels Ltd (TNRF) has approached Economic Development Regina (EDR) and the City seeking support for the development of a renewable fuel refinery and an associated value-added agriculture processing facility in or around the general area of the City of Regina. This facility is expected to produce 1 billion litres per year of renewable fuels to be used in the aviation, marine, rail, and road transportation industries. Substantial economic benefits would be realized should the facility be built.

EDR supports this investment attraction opportunity as outlined in Appendix A to this report.

The next step toward building the refinery is to conduct a Front-End Engineering Design (FEED) study. The work is required to define the capital cost requirements, permitting, and detailed construction planning, as well as all other matters necessary to secure the construction and operational financing of the project. The FEED study is estimated to cost

\$21 million. To fund the FEED study, TNRF is seeking funding of up to \$5 million through the federal Agriculture Clean Technology Fund (ACT).

To be eligible for ACT funding, the Province, or their delegate (i.e., City of Regina) is required to provide 10% (up to \$1 million) of the eligible costs of the project (FEED study). While the Province has declined supporting the FEED study, it has informed the federal government that it is supportive of the City of Regina providing a grant towards the project.

## IMPACTS

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TNRF believes that this grant will provide additional investment as the TNRF refinery process provides the corner stone from which to build out a complete set of complementary business aimed at increasing the “value added” from the agriculture industry. This is referred to as the “Agriculture Value-Add Complex.” The Agriculture Value-Added Complex is a purpose-built supply chain and is expected to attract a canola crushing plant and a vegetable protein extraction manufacturing facility. The canola crushing plant will produce canola oil and the by-product of canola meal. These new value-added products will be further processed to produce enhanced vegetable protein extracts to create sustainable food sources.

TNRF engaged (S&T)<sup>2</sup>, an industry leader in greenhouse gas emission consulting to conduct a lifecycle analysis of the potential emission reduction that can be achieved by replacing 1 billion litres of diesel and jet fuel, with the renewable fuels produced by the proposed refinery. (S&T)<sup>2</sup> concluded that the plant could deliver a 3 megatonne (or approximately 83%) reduction in greenhouse gas emissions.

Proceeding with this grant will provide a clear demonstration of the City’s commitment to reducing greenhouse gas emissions and is the first step in the City being the location of the first renewable fuel refinery of its kind in Canada.

The \$1 million grant funding will be provided from the General Fund Reserve. The uncommitted balance of the General Fund Reserve is \$22.1 million compared to a minimum reserve balance of \$23 million. The grant will place the uncommitted balance of the General Fund Reserve at \$21.1 million, slightly below the recommended minimum.

## OTHER OPTIONS

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- 1) **Status Quo:** The City could decline to provide support to this project through the ACT program. This alternative is not recommended as it could jeopardize the significant economic benefits that the advancement of this project would provide the City.

## **COMMUNICATIONS**

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None with respect to this report.

## **DISCUSSION**

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### **Project Description**

TNRF is proposing to construct a 1 billion litre per year renewable fuels refinery in the Regina area utilizing the technology noted above. In addition, a dedicated canola crush plant and a canola protein extraction plant is proposed to be constructed adjacent to the refinery capable of producing slightly less than 1 million tonnes per year of canola oil from 2 million tonnes of canola seed as the renewable oil feedstock for the refinery. The entire project is likely to result in excess of 2,500 construction jobs and 300 permanent operating jobs. As such it represents a major economic development initiative for Regina and would add a very significant boost to Regina's economic recovery arising from the end of the COVID-19 pandemic.

In order to construct the proposed industrial facility, the next step is to conduct a FEED study. Upon successful completion of the FEED study TNRF would need to raise sufficient capital or partners to construct the facility. TNRF has stated it intends to finance the construction of the project through the utilization of traditional forms of private debt and equity capital. TNRF has stated it currently has a term sheet from one of Canada's large financial institutions which would provide a portion of the debt capital upon certain terms being met, and has received interest from a number of capital providers to finance the equity portion of the project, all of who have expressed interest in participating once construction costs are finalized and commercial contracts have been successfully negotiated.

### **ACT Requirements and Timing**

The federal ACT program can provide up to 50% in grant funding of eligible costs for this type of project. The eligible costs are estimated at \$10 million and a 10% requirement from the Province or delegate (local government) requires that the City of Regina provide up to \$1 million in grant funding in order to meet the program guidelines for the Government of Canada's ACT program.

Administration understands through discussion with Provincial officials that the Province will not provide funding to TNRF to leverage federal ACT funds as the Province does not fund or support projects in this stage of development nor does it have any programs under which the FEED study would be eligible for funding. However, the Province has provided commitments to TNRF that should the plant be built it will be eligible for favourable tax treatment including under the Saskatchewan's Commercial Innovation Incentive (Patent Box) program. The Province has sent a letter to the federal government stating they are supportive of the City fulfilling the Provincial/local ACT requirement.

Current funding under the ACT program expires on March 31, 2021. While the federal government has indicated the program will likely be extended (or some version of it) into the federal government's 2021/22 fiscal year, they have indicated significant interest in funding the project out of the existing current year funding to the extent possible. To facilitate their decision-making process, they have stated any application for funding under the ACT program must be provided to their Minister by March 12, 2021 for approval. As a result, they require a letter from the City of Regina stating the City will be contributing grant funding to the FEED study equal to 10% of eligible costs under the ACT program (or up to \$1 million) by March 11, 2021.

### **Environmental Considerations**

The Government of Canada has indicated it will adopt a set of clean fuel regulations as part of its commitment to the Paris Climate Accord. The objective of this and other initiatives is to reduce Canada's greenhouse gas (GHG) emissions by 30 megatonnes by 2030. Diesel emissions represent approximately one third of GHG emissions in Canada. As such, illustrative diesel reduction target is approximately 10 megatonnes by 2030.

TNRF engaged (S&T)<sup>2</sup> to evaluate the carbon intensity of fuel from the proposed refinery using a lifecycle approach following International Standards Organization (ISO) Standard 14040. (S&T)<sup>2</sup> is a leading consultant in GHG consulting in North America. The lifecycle approach to measuring carbon intensity measures the emissions from each stage of the product lifecycle. For biofuels, this considers from cultivation through to end use. For fossil fuels, this analysis begins at the exploration stage through to end use.

(S&T)<sup>2</sup> concluded that the use of TNRF's renewable diesel fuel would reduce emissions by at least 80% compared to fossil diesel fuel. The refinery proposed will produce 1 billion litres of diesel fuel that would result in a reduction of approximately 3 megatonnes annually. As such, the refinery represents a significant step toward the goal of reducing diesel emissions by 10 megatonnes by 2030.

The proposed investment will also give the City the opportunity to make use of locally refined renewable fuel in the City's fleet. As the City moves to green our fleet of vehicles, the proposed refinery would give the City ready access to renewable fuel to join other leading cities, such as Vancouver and New York City, in the use of renewable fuel.

### **Other Considerations**

The City of Regina has not historically provided this type and level of support to an economic development opportunity. While EDR and City Administration are in the process of developing a Competitiveness Framework that will help guide these type of decisions in the future, decisions of this nature will always have an element of subjectivity based on the nature and size of the opportunity. While there may be concern that investing in this opportunity sets precedent, the size, and benefits of this opportunity and how it is structured are unique and set it apart. Ultimately, any decision requiring City grant funding to support an economic development opportunity requires Council approval on an individual basis based on the nature of the opportunity.

## **DECISION HISTORY**

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None with respect to this report.

Respectfully Submitted,



Barry Lacey, Exec. Director, Financial Strategy & Sustainability 3/5/2021

Prepared by: Jonathan Barks, Financial Business Partner

## **ATTACHMENTS**

True North Recommendation Final