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Submitted via email: ec.tarificationducarbonecarbonpricing.ec@canada.ca

Dear Ms. Meltzer:

Re: Draft Federal GHG Offset Credit System Regulations

The Canadian Energy Pipeline Association (CEPA) and the Canadian Gas Association (CGA) appreciate the opportunity to comment on the Draft Federal GHG Offset Credit System Regulations. We support a GHG offset system that is consistent across jurisdictions, non-prescriptive, and incorporates flexible, non-duplicative mechanisms for achieving compliance with the federal Output Based Pricing System (OBPS). A well-designed offset system has the potential to enhance market flexibility and support a broader emissions trading system. It is core to providing cost-effective compliance options for large emitters, and at the same time, realizing GHG emissions reductions from activities not covered by carbon pricing.

We have reviewed the draft regulations and offer the following comments:

- **Credit for early action** - We support the recognition of projects initiated on or before January 1, 2017 in the criteria for offset project eligibility. This will help ensure companies are not penalized for their performance due to the age of their facilities, unique aspects of their industrial processes or investments and technology choices made as a result of past government policy.
- **Ability to aggregate projects** - CEPA and CGA support the ability to aggregate project sites; however, the ability to aggregate projects should not be limited to sites that are contiguous or separate and owned by a single entity. We recommend the criterion be expanded to include sites that may be separate and separately owned but managed by a common operator with the same practices, processes, and procedures.
- **Legal requirements** – We understand the desire to ensure that offset credits are created from activities not required by any federal, provincial or territorial law or regulation. We recommend that this criterion only apply to requirements that are broadly applied, and that it should not include project specific requirements such as conditions placed by regulators or permitting agencies on the project approvals. Also, we are concerned about the inclusion of by-laws, directives or other legal instruments at a regional or municipal level in the definition of legal requirements. This has the potential to introduce significant uncertainty and seems to be

contrary to the consideration as to "whether the protocol could be applied broadly across the country" (p. 8). It could have a significant impact on the frequency and burden of reviewing and updating of baseline conditions.

- **Additionality and Incrementality** – Clearly defining terms such as additionality and incrementality and the associated processes for assessing and demonstrating these can be difficult and potentially costly from an administrative perspective. An unnecessarily complex assessment process could result in delay and possibly inhibit the offsets credit market evolution. We recommend the additionality test focus on parameters derived from legal and regulatory additionality requirements. For other considerations, such as penetration rate, we suggest that ECCC adopt elements of Alberta's updated additionality approach, which focusses initially on supplemental barriers, and then on market penetration.
- **Protocol Development and Acceptance –** Recognizing the diverse Canadian landscape (geography, industrial/economic profiles, population densities and GHG emissions baselines etc.), it is appropriate to use project-specific data in lieu of the standardized and necessarily conservative default federal baselines. This will afford an opportunity to address regional differences and evaluate baselines on a case-by-case basis. Moreover, we recommend protocol development be kept separate from enabling regulation to ensure a nimble process for creating and revising protocols.
- **Avoiding Overlap with other GHG Reduction Programs** – "Double counting" of emission reductions where regulatory overlap may occur can reduce confidence in the integrity of carbon markets and should be avoided; however, this should be balanced with the ability to provide project developers market optionality. We recommend eligibility requirements be amended such that a project proponent is able to stack credits where the activities being undertaken have multiple sources of GHG reductions. For example, methane collected from a landfill that is producing power may generate Renewable Energy Certificates, which are exclusively valuing the production of renewable power. The emission reductions from the destruction of landfill gas methane through the power generation process is a separate activity that should also be eligible to generate offset credits.
- **Frequency of credit issuing** - The regulation does not specify how often a project proponent can submit project reports or be issued project credits. There is; however, a minimum frequency for which projects must report (e.g., up to six years for biological sequestration projects and up to three years for other project types), CEPA and CGA welcome the flexibility of allowing project developers to manage credit issuance frequency based on project specific considerations.
- **Environmental Integrity Account (EIA)** – CEPA and CGA support the creation and use of the EIA as an administratively simple means of avoiding buyer liability for invalidated credits. However, it is not clear if credits held in the EIA would become available to a covered entity that has bought credits or has submitted credits that have later been revoked (through error, over-estimation, voluntary or involuntary invalidation) should the project proponent fail to replace revoked credits. We recommend covered entities be provided credits from the EIA where they have purchased credits that have later been revoked and gone unreplaced, or that

credits from the EIA be used where credits submitted for compliance have later become revoked.

Also, Section 10, 2, B indicates the number of credits directed to the EIA from biological sequestration projects will be determined by the Minister. We believe it would be appropriate to contemplate and reflect the probability of involuntary releases rather than create a comprehensive list of risk factors for determining the number of credits to be deposited in the EIA.

Additionally, consideration should be given to the use of insurance products which guarantee the replacement of any carbon reversals or invalidated credits as a potentially more cost-effective means of maintaining environmental integrity while minimizing buyer liability. We recommend contemplating these dynamic market developments and that if implemented, insured projects should be exempt from EIA requirements.

In closing, CEPA and CGA support a properly designed offsets system that delivers compliance cost savings for covered industries and accelerates the uptake of GHG reduction technologies and practices in activities extending beyond carbon pricing. We are aware of and are witnessing first-hand the complexity and challenge of the various regulatory and policy objectives to reduce domestic GHG emissions. In terms of the proposed federal GHG Offset Credit System Regulations, we believe this complexity can be mitigated by addressing the concerns outlined above.

Please do not hesitate to contact the undersigned if you have any questions or require clarification regarding any of the comments made above.

Sincerely,

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