



Key Offsets Design Issues and Considerations

*Submission to Offsets Sub-Committee
Western Climate Initiative
June 6, 2008*

IPOG Executive Committee

Alberta Environment
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Key Design Issues: Summary

- IPOG supports the use of a **phased-in approach** to approving project eligibility, which prioritizes offset project types by their volume of estimated reductions and ease of protocol adaptability to WCI.
- System based on concept of **environmental incrementality**, the only concept that provides clear, quantifiable boundaries and criteria to accurately measure reductions and evaluate program's success.
- **Defined timelines and dates** for implementation phases, in order to provide certainty for investing and time to develop trading infrastructure and services.
- Unique considerations for **biosequestration project types** (agriculture and forest carbon management). In particular, temporary credits should not be considered a viable option under the system.
- New **offset project review** should center on the consideration of any project against mandatory eligibility criteria.
- Maximize **private sector involvement** to avoid unnecessary cost/resource burdens on government

Project Types: Phased-In Implementation Approach

IPOG strongly supports WCI's plans to:

- Start by identifying a few key project types that will be eligible to participate in the offset system
- Adapt/adopt existing protocols from other systems in development, including the Alberta System and CCAR

Similar to the Canadian system, we believe that protocol/project type implementation should occur in multiple phases.

- First Wave Project Types → Project types with protocols that are easily adapted to the WCI system and hold high estimated reduction potential.
- Second Wave Project Types → Project types with protocols requiring further work and policy decisions, before eligibility decisions can be finalized. Projects also hold medium to high estimated reduction potential.

Potential First Wave Project Types

Canadian Example

- Acid Gas Injection
- Afforestation/Reforestation
- Agriculture Livestock/Manure
- Biodigesters
- Biofuels
- Emitting Renewable Energy
- Energy Efficiency
- Forest Carbon Management
- Land Fill Gas
- Non-Emitting Renewable Energy
- Soil Management
- Transportation
- Waste Management

Environmental Incrementality

- Environmental incrementality is the only meaningful test of incrementality is **environmental benefits**; it is the only quantifiable test that can be verified. Any BAU test qualitative and judgmental, leading to administrative, staffing requirements and controversy
- Reductions must be ‘surplus’ to all legal federal requirements
- Reductions must be beyond what is expected from receipt of other federal climate change incentives
 - Amount claimed is relative to amount received for reduction projects
 - Should be allocated on a pro-rata basis
- If a non-regulated entity met the relevant regulations at the time of project implementation, the project is incremental and should be creditable

Bio-Sequestration Offset Projects

General Considerations

- For agricultural and forestry biosink project, temporary credits are not an option to consider. These types of credits, essentially attracting a coupon price, will provide no value to the buy-side or supply-side.
- In sink projects, the stored CO₂ could be released back to the atmosphere (known as “reversal”)
- Building flexibility into protocols to address permanence by allowing options to address risk of reversals is highly recommended.
- To manage this risk, permanent credits are made available to proponents, with required credit replacement in the event of a reversal

Options for ensuring permanence in biosinks include :

reserve holdbacks; risk-based assurance factor (expert opinion-based or modeling based); and private insurance.

Reviewing New Offset Projects

- Preference should be given to first wave project types (easily adaptable protocols) but this approach will not prohibit other projects accompanied by new protocols

Preferred Option: Consideration of any project against the eligibility criteria.

- Allows innovative project types to be incorporated into program
- Requires significant time and resources to review each new project (though much of this work can be redirected to the private sector).
- Reactive so not able to focus resources on projects that will achieve greater reductions (relates to resource allocation)

Alternate Option: Consideration of a project only after guidance documents for that project-type have been pre-approved by WCI.

- Reduces administrative (government) and cost (participants) burdens when guidance for the project type is pre-approved
- Allows initial focus on those project types expected to achieve the greatest reductions
- Could delay access of new technologies into the system

Private Sector Role

Private sector tasks in WCI Offsets System could include:

- o Developing guidance documents for project types
- o Developing protocols
- o Project development
- o Validation of proposed projects that are eligible
- o Project Implementation
- o Verification of real emission reductions
- o Providing infrastructure and services for the trading of credits

IPOG Work to Date

General Reports Submitted to Environment Canada

- Offset Protocol Level of Interest Survey (June 2008)
- Bio-sequestration Options Report (June 2008)
- Submission on Cross-Cutting Policy Elements (July 2007)
- Report on Design Elements (February 2007)
- IPOG Workshop Summary Report (July 2006)

IPOG Working Group Deliverables

- **Biosequestration & Forest Carbon Management Working Group:** Options for Approaching Biological Sequestration in a National Offset System (Nov 2007)
- **Validation & Verification Working Group:** Main Differences between Validation & Verification (Oct 2007)
- **Offset Rules & Eligibility Working Group:** Options & Recommendations on Offset Rules & Eligibility (Oct 2007)
- **Registry & Exchange Working Group:** Recommendations for a Canadian Market and Offset Credit System (Dec 2007); and Considerations & Recommendations on a National Registry (Dec 2007)
- **Protocol Technical (Quantification) Working Group:** Fed into Protocol Technical Working Group (Workshop held in Nov 2007)