

August 22, 2008

To: Lee Thiessen
Director, Climate Change Branch
Environmental Protection Division, Climate Change Section
British Columbia Ministry of Environment
c/o cindybertram@shaw.ca

Dear Lee Thiessen:

We appreciate the opportunity to provide stakeholder input on the Emission Offset Regulations under the “Greenhouse Gas Reduction Target Act (GGRTA) – Policy Intentions Paper”, released on July 16, 2008 and prepared by the British Columbia Ministry of the Environment.

The following is submitted on behalf of Canada’s Industry Provincial Offsets Working Group (IPOG), a group of representatives from Canada’s provincial governments, industry and service providers¹. Formed in 2006, our objective has been to serve as the principal process to develop useful, constructive recommendations on policy and market design options and governance considerations that reflect the needs of those who will be engaged in reducing and removing greenhouse gas (GHG) emissions across Canada, and beyond, through a offsets systems.

Core Offset Design Principles

In general, we believe that a set of core principles, listed below, should guide the development, implementation and delivery of any fully-functional offset system that supports, with integrity, the achievement of associated environmental outcomes. IPOG believes that an offset system should:

1. Encourage broad participation against rigorous criteria and reporting;
2. Maximize offsets through a range of project types and sizes, potentially from all sectors;
3. Be based on market principles and management; and
4. Acknowledge the importance of offsets to meeting a region’s climate change objectives, while stimulating clean investment by public and private sector entities.

Based on these core principles, IPOG believes that British Columbia’s Emissions Offsets Regulation should aim to support transformational change across all sectors of the economy and society in such a way that emission reductions and removals become part of daily individual/group decision-making processes. This change will be enabled, in part, by the deployment of proven, enhanced and innovative technologies with support from public education, regulatory and other policy direction to drive the behaviors necessary to contribute to overall reductions.

IPOG would like to provide specific comments with respect to the Ministry’s proposed eligibility criteria, laid out in the Offsets Intentions Paper.

¹ Attached, find IPOG’s Executive Committee Membership.

Eligibility Criteria

Section 7.4 of the Intentions Paper reviews the proposed incrementality, or additionality, tests and considerations associated with defining project eligibility under the Regulation. In determining additionality, the Intentions Paper proposes that project proponents: demonstrate that reductions “come from a project whose technologies or practices are not ‘common practice’; and conduct investment analyses (financial additionality) or barriers analyses to test for additionality².

IPOG strongly opposes the abovementioned proposed approaches to additionality testing, as they are overly subjective in nature and have the potential to thwart project investment and achieve reductions attached to clearly quantifiable environmental benefits. Based on IPOG’s broad and in-depth understanding and experience in the emissions trading space, we believe that the most reliable test in gauging the incrementality of a project is by measuring its environmental additionality.

Environmental Incrementality

For environmental results (emission reductions) to be measured, and thereby allow for the system’s performance to be monitored and evaluated, an offsets system must be based on the concept of environmental incrementality. Environmental incrementality is the only additionality concept that provides clear, quantifiable boundaries and criteria to accurately measure reductions and program success.

For example, consider a leading forestry company that converts its boilers to burning biomass. In this scenario, the environmental benefits are clear; whether the given forestry company is the first, tenth, or twentieth project proponent to make this project investment, the environmental benefits (GHG emission reductions) remain the same.

There are numerous, disparate reasons for late adopters of reduction practices/technologies to prolong investment decisions (e.g., expiration of a multi-year diesel supply contract, in the case of the forestry company); hence, making a subjective determination about the point at which an investment is not ‘common industry practice’ or ‘business as usual’ is arbitrary and ignores the underlying environmental benefits that should, ultimately, be the determining criteria.

In addition, as the world has witnessed with the Clean Development Mechanism (CDM), the inclusion of the “financial additionality” test in demonstrating CDM project eligibility has, time and time again, encumbered promising international project and reduction opportunities from being realized, while causing numerous program, project and administrative delays. With respect to (financial) additionality testing, basing GGRTA’s project eligibility on the CDM model would, unquestionably, impede the realization of a number of stated policy objectives, laid out in the Intentions Paper, including the realization of reductions and removals in a manner that: “is administratively simple and minimizes uncertainty”; “builds on experience gained from other systems”; and “maximizes scope, timeliness and cost-effectiveness”.

The following summarizes key arguments for avoiding problematic ‘common industry’ language and ‘financial additionality’ tests in Province’s project eligibility criteria:

² *Offsets Intentions Paper. Outline of Proposed Procedural Guidance, Section 6: p.15.*

- Referencing ‘common practice’ (BAU) introduces an element of uncertainty, which does not reflect t move towards establishing a system based on achieving quantifiable, measurable and verifiable environmental benefits
- A ‘common practice’ test is qualitative and judgmental in nature, leading to administrative and staffing requirements, as well as potential controversy;
- Baseline criteria, which embeds elements related to ‘common industry practice’ becomes a challenging adjudication process;
- If operations were in compliance with all relevant regulations at the time of implementation, the project is incremental and, therefore, creditable;
- British Columbia’s ability to effectively harmonize and transact with other systems will be impaired, if it includes elements that are inconsistent with common environmental practice; the majority of other systems are based on their ability to achieve quantifiable GHG emission reductions and removals.

IPOG’s Membership & Activities

Since its inception, IPOG has been committed to working with stakeholders and providing input into the sound development of the Canadian Offset System, a key compliance mechanism under Canada’s *Federal Regulatory Framework on Air Emissions*. Our work and meetings have included participants from a broad spectrum of private sector and public sector groups, including industry, environmental, project proponents, service providers, non-governmental organizations and the provinces of Alberta and Ontario.

IPOG’s diverse multi-stakeholder group has devoted considerable amounts of time and resources to supporting protocol reviews, preparing guidance documents and engaging in policy dialogue with government (bureaucratic and ministerial-level) related to the design and implementation of Canada’s domestic offset system. In addition, we have supported a number of technical and policy-focused working groups and protocol review and adaptation exercises.

Going forward, it is IPOG’s intention to work actively within the stakeholder engagement process to realize a fully-functioning offset system in the province of British Columbia, and we are willing to act as a ready reference group based on our collective experience as market participants to ensure that we learn from the development of other trading systems and optimize the design of British Columbia’s emerging offset system.

Sincerely,

Tony Irwin, Spectra Energy
Co-Chair, IPOG

Andy Ridge, Alberta Environment
Co-Chair, IPOG

IPOG Executive Membership 2008

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Bruce Power
Canadian Bioenergy Corporation
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Canadian Energy Pipeline Association
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