

June 6, 2008

To: Tim Lesiuk, Chair
Offsets Sub-Committee
Western Climate Initiative

Dear Mr. Lesiuk:

We appreciate the opportunity to provide stakeholder input on the *Draft Recommendations*, released on May 16, 2008 and prepared by the Western Climate Initiative (WCI)'s Offsets Sub-Committee. 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 providers. 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 through a domestic offset system.

Core Offset Design Principles

Similar to Canada's federal context, a robust and efficient Offsets System will be essential to providing industry the flexibility required to meet WCI's compliance targets in an economically efficient manner. In general, we believe the following Core Principles should guide the development, implementation and delivery of a fully-functional offset system that supports, with integrity, the achievement of associated environmental outcomes:

1. An offset system should encourage broad participation against rigorous criteria and reporting;
2. Maximize offsets through a range of project types and sizes, potentially from all sectors;
3. 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 provinces/states, municipalities and business.

Following these core principles, IPOG believes that WCI's Offset System design should aim to support transformational change throughout 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.

Key Offset Design Elements and Governance Considerations

Limits: To maximize real GHG reductions and reduce costs associated with regulated entities' compliance under a regional cap and trade program, IPOG recommends the unlimited use of offsets (internal and external to WCI) within the system.

New Protocols & Adapting/Adopting Existing Protocols: Protocols (or standard methodologies) are essential to the efficient functioning of an offsets system. To facilitate the use of existing protocols, the development of new protocols and adaptation of adopted protocols, project eligibility criteria must be clearly defined (i.e., Real, Quantifiable, Surplus, Verifiable, Unique, along with start date and credit period). Existing/appropriate standards that align with the requirements of the quantification protocol/methodology filter mechanism should be adopted for the following:

- o Project documentation;
- o Offset project eligibility criteria;

- Validation and verification; and
- Validators and verifiers.

System Efficiency & Transparency: To ensure WCI's Offset System is as efficient as possible, several process goals can be established and practices put into place. First, we encourage WCI to allocate adequate resources to the system's design and implementation, in order to avoid potential backlogs and process delays. Second, defined protocol and project turn-around times will prove essential in lending certainty to proponents, while enabling protocols to enter the system in a timely manner. Finally, to achieve an efficient system, protocol and project review processes must be as transparent as possible (i.e., transparent review criteria for projects/protocols, transparent grading systems for projects/protocols, approval templates etc...).

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.

Jurisdictional Flexibility: Each region has unique policy, regulatory, available incentives and grid intensity considerations. To accommodate these differences, eligible protocols must include jurisdictional flexibility provisions and considerations. The use of normalized baselines, which discount these jurisdictional differences, will not adequately meet the needs of stakeholders; in fact, normalized baselines will stifle the timely development of an effective Offset System that maximizes reductions from coast to coast.

Validation & Verification: Based on existing financial audit system principles, third-party project verification is a critical part of an offset system. Validation, on the other hand, should remain a voluntary element of the system. Validation is simply a risk management issue for the project proponent.

Bio-Sequestration Projects & Liability Periods: To maximize reductions and achieve a fully-functional trading system, the eligibility of bio-sequestration offset projects (agriculture and forestry) will prove critical. However, the viability of such projects will largely depend on the availability of permanent offset credits.

Transaction Costs: A short time period for learning will increase the risks associated with transaction costs, both within (government fees) and outside (gauging the commercial feasibility of a project) the regional offset system. There are material costs imposed during the creation of credits: project documents, validation (when necessary), project implementation, verification, and brokerage. Combined, these factors will significantly increase the cost of compliance, while acting as artificial barriers to market participation, resulting in a reduction of market liquidity.

Harmonizing & Linkages: WCI's Offset System should seek to maximize efficiency and resources by building on and linking with existing programs and trading systems.

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 BC, Manitoba and Ontario.

Our 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 Offsets System. In addition, we have supported a number of technical and policy-focused working groups, including the: Offsets Rules & Eligibility Working Group; Protocol Technical (Quantification) Working Group; Bio-Sequestration Working Group; Registry & Exchange Working Group; and Validation & Verification Working Group¹. To access IPOG's work to date, visit www.offsetsgroup.ca.

It is IPOG's intention to work actively within the stakeholder engagement process to realize a fully-functioning offset system in the WCI region, 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 WCI's system.

Sincerely,

Tony Irwin, Spectra Energy
Co-Chair, IPOG

Andy Ridge, Alberta Environment
Co-Chair, IPOG

Attached:

- *IPOG Executive Committee Membership 2008*
- *Report by IPOG's Offsets Rules & Eligibility Criteria Working Group*
- *IPOG Summary Deck on Key Offset Design Issues & Considerations*

¹ More recently, IPOG has developed ad-hoc Working Groups, focused on addressing the Canada's Federal Government's Turning the Corner Offsets document. Key issues and challenges explored by these working groups include: defining baseline criteria (incrementality); avoiding liability periods linked to bio-sequestration projects; timeline and process issues; and encouraging protocol/project certainty.

IPOG Executive Membership 2008

Alberta Environment
Bruce Power
Canadian Cattleman Association
Carbon Capital Management
Climate Change Central
Direct Energy
EPCOR
ICF International
JD Irving
Ontario Ministry of Environment
Ontario Environmental Commissioner
Ontario Power Generation
Petro-Canada
Soil Conservation Council of Canada
Soil Conservation Council of Saskatchewan
Spectra Energy
TransAlta
TSX/MX Markets
TransCanada Corporation
Viterra