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Re: Ontario Offset Credits regulation under the Climate Change Mitigation and Low-carbon Economy Act, 2016

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Clean Economy Alliance Comments

The following submission provides the Clean Economy Alliance's response to the proposed Ontario Offset Credits regulation. The Clean Economy Alliance (CEA, or the Alliance) is a group of over 100 organizations representing a broad cross-section of Ontarians that united in 2015 to urge Ontario to show leadership in addressing the crucial issue of climate change. The CEA includes prominent Ontario businesses, industry associations, labour unions, farmers' groups, health advocates, and environmental organizations. The Alliance supports the Ontario government's commitments to develop and implement a climate change strategy and action plan. We recognize that reducing pollution will bring many benefits, including cleaner air, improved public health, and more jobs and business opportunities in the clean economy.

Summary of CEA position on offset credits

Since releasing our *Design Recommendations for Ontario's Cap-and-trade System* in 2015, the Clean Economy Alliance has been clear in supporting the development of clear and stringent offset protocols in Ontario. The Alliance recommended limiting the use of offsets to a maximum of eight per cent of an entity's total compliance obligation, as long as they are subject to high standards of verification to ensure that offsets are real, verifiable, additive, and permanent.

In a well-designed system, offsets can provide potential environmental and economic benefits, including:

- Increasing emissions reductions in areas not covered by the cap-and-trade program
- Increasing compliance options for companies covered under cap-and-trade program
- Creating more affordable alternatives for covered emitters to meet compliance obligations without compromising environmental integrity of the system
- Driving local innovation by incentivizing new and innovative ways to reduce carbon pollution



However, if designed poorly, offsets can create negative impacts, such as:

- Actual GHG reductions are disproportionately distributed between jurisdictions
- Economic gains are inequitably distributed between jurisdictions
- Failure to address dependence on fossil fuels if offsets are not sufficiently limited in use
- Emissions reductions reported on the books but not in the atmosphere
- Excess offsets can overwhelm the supply/demand balance of carbon markets, and keep permit prices too low to send an effective market signal
- Offset projects can threaten ecosystems and have other negative environmental impacts if they focus exclusively on carbon sequestration without considering the impact on natural, undisturbed landscapes

In theory, limiting offsets to a small percentage of an entity's compliance obligation and ensuring the offset's credibility should guard against many of these impacts. However, an oversupply of offsets could impact the viability of the carbon market and dampen the price signal. Ontario's offset regulations should also be carefully monitored and adjusted for any unforeseen economic and environmental factors arising in the future.

It's also important to ensure that offsets are not used in place of proper regulatory tools, but instead used only in circumstances where creating a market incentive to reduce greenhouse gas emissions is the right approach.

Implications of offsets in linked markets

As offsets and allowances will be fully fungible between jurisdictions, Ontario must also consider the potential impacts of offsets within a linked cap-and-trade market. A well-designed system would ideally provide adequate incentive to encourage offset initiatives to enter the market, while ensuring that offsets are credible, i.e. real, verifiable, additive, and permanent. However, an oversupply or undersupply of offsets in any one jurisdiction could mean that the system's economic benefits and/or emissions reductions are inequitably distributed.

For example, if fewer offset initiatives are created than needed to meet domestic demand in Ontario, more offsets from sources outside Ontario could be purchased by domestic entities. Regulations which discourage or inadequately support domestic offset creation could mean that Ontario would effectively be funding carbon mitigation elsewhere instead of at home. This is not expected to become an immediate concern, as uptake on offsets in California and Quebec has not approached eight per cent limits. However this may become an issue in future, when allowances prices rise, caps are lowered, and offsets are expected to play an increasing role in meeting compliance obligations. As such, we have provided recommendations to ensure that the proposed offset regulations are stringent enough to ensure credibility, as well as incentivizing offsets adequately enough to ensure supply.

Recommendations on proposed Offset Credits Regulation:

1. **Ontario needs to finalize additional offset protocols** to ensure covered entities have offset options to reduce emissions closer to home, rather than having to fund initiatives to reduce emissions in other jurisdictions. **While we acknowledge that appropriate time is needed to ensure that protocols are credible and effective, we would like to stress the importance of creating a regulatory environment which supports a robust domestic offset market.** For this to happen, more protocols will be needed to outline requirements for a range of potential offsets, and to allow time for proper research and development to create initiatives associated with new protocols.

In November 2015, MOECC proposed 13 potential offset protocols (many related to the agriculture and forestry sectors) and mentioned their plan to “foster the development of a robust domestic offset supply¹.” While the proposed landfill gas (LFG) protocol – which would allow an eligible destruction device to destroy methane (CH₄) collected at a landfill site - is a start, one protocol is insufficient to create a robust domestic offset supply. The MOECC has retained the Climate Action Reserve to develop 12 additional protocols, and we expect that these will eventually be added on a rolling basis. However with market linkage planned for January 2018, Ontario needs to provide clarification as to when additional offset protocols will be posted for review, and which protocols will be included.

2. **Ontario needs to consider regional differences such as population density, climate and market scale when adapting the proposed landfill gas (LFG) protocol, and any offset protocols used in other jurisdictions.** WCI guidelines do recognize the need for a flexible approach to applying regional baselines to accommodate regional differences, which is meant to accommodate each jurisdiction’s unique economy and regulatory context. The current proposed LFG protocol has been criticized by waste management organizations as inadequately allowing for regional differences between California and Ontario, meaning fewer operators will take advantage of it. **Ontario should therefore consider altering this protocol to better reflect the size and mix of landfill operators in Ontario.**
3. **Ontario should explore more effective aggregation of smaller-scale initiatives** in order to adequately incentivize domestic offsets and create economies of scale. While ensuring verification and credibility of offsets is of primary importance, it is important to ensure that verification costs are not so high as to impair the ability of businesses and farmers to produce offsets. **The proposed LFG protocol needs better tools to aggregate smaller initiatives,** as the capital costs per tonne to invest in the appropriate technology are currently too high to justify participation for smaller producers, who typically have a low LFG recovery rate. Larger producers with a total capacity of over 1.5M cubic metres, and who have potential for more cost-effective LFG recover, are not eligible to participate as they are already required to capture and destroy LFG.

¹ MOECC. Cap and Trade Program Design Options. November 2015. Retrieved from http://www.downloads.ene.gov.on.ca/envision/env_reg/er/documents/2015/012-5666_Options.pdf



As proposed, this protocol would apply to far too few operators, and generate little interest in Ontario. We recognize that allowing offsets for larger producers who are already regulated would not satisfy the additionality requirement for offsets. However, **we recommend consulting further with smaller producers who are eligible for the protocol to better incentivize and encourage LFG capture.**

4. When developing additional offset protocols, **Ontario should prioritize and encourage initiatives with clear co-benefits in addition to GHG reductions**, such as health, social, and ecological benefits. For example, initiatives which may provide climate resilience in flood-prone or otherwise vulnerable areas should be incentivized over projects which provide exclusively carbon storage, which may be cheaper to produce.
5. **Ontario needs to ensure that offsets do not have unintended consequences that run counter to other provincial policy priorities.** Environmental justice advocates have taken issue with offsets in California because they essentially allow for local environmental impacts to persist.
6. **When assessing the carbon impacts of an offset protocol, the regulation must ensure that the complete lifecycle costs are accounted for.** For example, if land is cleared to make way for an offset, the negative impacts of clearing the land needs to be accounted for against any positive impacts from the offset itself.

Contact Information

Thank you for your consideration in reviewing the CEA's comments. The CEA looks forward to continuing to work with the Province on the proposed offset credit regulations and related climate change strategy.

If you have any questions or require any clarification on the contents of this submission, please contact:

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