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Date: December 21, 2016

**Re: OSEA comments on Compliance Offset Credits Regulatory Proposal (EBR Registry Number: 012-9078)**

Dear Mr. Coates:

OSEA welcomes the opportunity to comment on the Compliance Offset Credits Regulatory Proposal and appreciates all the efforts by the Ontario government to promote offset projects being developed in Ontario.

Will there also be an opportunity to comment on a draft regulation once this has been produced?

In general, we would like to encourage the government to develop and make available all the offset protocols as soon as possible. From experience in other markets, we know that there is a long lead-time in developing offset projects. This means that even for offset protocols that become available during 2017, it may take well into 2018 or even 2019 for projects to produce their first offsets. For the Ontario Cap & Trade compliance market, this means that a significant part of the offset supply will come from projects in California, rather than from projects in Ontario itself.

When it comes to the specific protocols, we would ask the government to prioritize those protocols that would actually lead to sustainable energy project being developed in Ontario itself. The biogas related protocols are good examples of that, contributing to rural sustainable projects in Ontario.

We would encourage the government to focus on reducing transaction costs related to developing offset projects. High transaction costs, as seen in other markets, can cause smaller projects to not be developed. In practice, reducing costs could be achieved by providing default values in the protocols if these can replace monitored data, or where monitored data is required, replace continuous monitoring by sampling where possible. Also, rules for verification of an aggregation of offset projects should allow the verifier to only do site visits on a sample of projects, and not necessarily visit all projects in the aggregation.

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We noticed that the terminology used in the regulatory proposal is not always consistent with terminology used in other markets, which might be confusing. If possible, we would prefer to see simpler terminology, and terminology more in line with other markets. For example, an offset Initiative Data Report might simply be called a monitoring report. The terms used to describe the “project developer” (the entity responsible for registering the project, and that would have control over the offsets as they are issued) appear to be different in every market. The Clean Development Mechanism, the main offset market under the UN, had introduced the terms Project Participant, and Project Proponent more than 15 years ago. In California it is called the Operator, Quebec calls it the Promoter, and in Ontario it would now be a Sponsor. Adding to the confusion is that Ontario offset projects would also have an Operator, but in a somewhat different role than California. With more Canadian Provinces and US states joining WCI and developing their own offset markets, it may be good to agree on the terms used, instead of adding even more vocabulary.

Specific comments/questions on different sections of the regulatory proposal:

- It is unclear (in section 3.2 and elsewhere) if a project can have multiple Offset Initiative Sponsors. This may be relevant in cases where different entities share the offset credits, and both want to have control over issuance (can there be issuance to multiple accounts?).
- Section 8: We appreciate the start date for projects as of 2007. We would like the protocols to consider how to treat “missing data” for projects retroactively calculating their offsets. The protocols may have very specific monitoring requirements that were not previously known. For example, biogas projects may be required to monitor both the gas flow and methane percentage in the gas. A project producing renewable power may not have kept track of such data. They would, however, normally have accurate and reliable data on how much electricity they have produced with the gas. Using that information, it should be possible to reverse calculate how much methane has been combusted. It would be good if the protocols allow for such calculations in case of missing data.
- Section 12.3: Protocols need to be very clear on uncertainty and accuracy to avoid unnecessary discussions between project operator/sponsor and verifier.
- Section 12.3: Protocols need to specify where leakage must be considered, again to avoid unnecessary lengthy discussions between project operator/sponsor and verifier. Also, the regulation might clarify that leakage does not need to be considered where it affects sectors already covered by Cap and Trade (e.g. a project results in more road transport fuel use outside the project boundary).
- Timing for verification may be an issue. The Sponsor would only have 6 months to develop the Initiative Data Report and have it verified. If verification is delayed (this could simply be because of capacity problems at verifiers once a lot of Ontario projects start doing their verifications), the project would lose its offsets.
- Section 12.5 - Where possible, the protocols should specify which projects are automatically considered additional.

- In Section 13.4, it is unclear which of the bullets on page 17 are included in the template for the “Initiative Data Report”, and which are separate documents.
- Section 13.5: it would help to specify what should be considered “substantive changes” to avoid discussions with the verifier. For example, is a change in capacity or brand of the equipment used a substantive change?
- The structure set out in section 17.0 Requirements to Replace Offset Credits suggests there is no difference in penalties in cases of mistakes versus cases of fraud. On page 23, inaccuracies and omissions appear to be treated the same as false information, or selling offset credits into another program (while providing a statement that this was not the case). Can a project sponsor simply replace the illegitimate offset credits after a case of fraud, and continue with the project? Also, is there any procedure to still claim replacement allowances or offsets from the Sponsor after they have been taken from the Buffer Pool account? Otherwise it seems the Offset Initiative Sponsor has the incentive to empty their CITTs account if they suspect difficulties (prior to it being placed on hold and allowances or offsets being taken from their account).

We look forward to your consideration of our comments.

Best regards,



Nicole Risse

Executive Director