

# Federal Government Publishes New Greenhouse Gas Offset System Regulations



New rules clarify what GHG emitters will have to do to earn offset credits.

On March 6, 2021, 3 weeks before the Canadian Supreme Court would officially uphold its constitutionality, the federal government published regulations to implement the *Greenhouse Gas Pollution Pricing Act* (GGPPA), specifically the part of the law that establishes a system for greenhouse gas offset credits earned by companies that reduce their emissions. Here's a briefing of what OHS coordinators should know about the new regulations.

## The GGPPA

The GGPPA establishes minimum national standards designed to reduce greenhouse gas (GHG) emissions by using GHG pricing to change behaviour via 'internalizing the cost of climate change impacts, incorporating them into the price of fuel and the cost of industrial activity.' The federal government adopted the legislation as part of its commitment under the Paris Agreement to reduce GHG emissions by 2030.

Part 2 of the GGPPA establishes an output-based pricing system (OBPS) for GHG emissions from large industrial emitters. The OBPS is industry-specific and uses the industry-average emissions as a benchmark. Facilities that exceed their GHG emissions limit must either:

- Pay an excess emissions charge, which is currently \$40/tonne of carbon dioxide or equivalent emissions for 2021 but increases to \$50 in 2022; or
- Submit a compliance unit such as: i. Surplus credits they've earned or purchased from other facilities; ii. Provincial or territorial offset credits recognized by the federal government; or iii. Offset credits issued under the GHG Offset System.

## The GHG Offset System & New Regulations

Offset credits are created when an eligible project regulated by the OBPS causes a real, verified and quantifiable reduction in GHG emissions as compared to common practice, aka, a 'business as usual' (BAU) activity. Each offset credit represents one tonne of carbon dioxide or equivalent removed from the atmosphere or reduced from BAU emissions. The new Regulations provide key details to

implement the GHG Offset System.

## **Requirements for Project Eligibility**

The Regulations list requirements for projects to be eligible to earn offset credits. First, projects must be in a single Canadian province or territory and have a proponent that resides in Canada. The project activities generating offset credits can't be undertaken because they're required by law.

In addition, the project must be implemented under appropriate federal offset protocols that apply to the particular type of product and activity. There are currently protocols for: i. Advanced refrigeration systems, involving activities that reduce or avoid the use of fluorinated refrigerants; ii. Projects that reduce methane from landfills; iii. Activities that improve storage management such as thinning diseased trees and managing competing bushes; and iv. Farming practices that enhance carbon sequestration in soils.

The Regulations also specify that the application for the project must list:

- A description of the project including the GHG reduction or removal targets relative to the baseline, plus details on the project activities, location and start date;
- Information on project characteristics that could result in leakage, or indirect increase in GHG emissions; and
- A risk management plan identifying any risks of GHG reduction reversals i.e., when a quantity of GHGs that is sequestered by an offset project is subsequently released into the atmosphere.

## **Duration of Crediting Periods**

The Regulations specify the length of Crediting Periods, i.e., periods during which offset projects are eligible to generate credits, and how many times they may be extended, which vary depending on the type of project.

## **Reporting Requirements**

The Regulations require all project proponents to submit an initial report no later than 6 months after the first year of their offset Crediting Period and at least once every 3 years after that. The project report must include raw data and calculations of the quantity on GHG emissions reduced from emissions or removed from the environment. This information must be verified by an independent accredited third-party consultant.

## **What Comes Next**

Public comments on the proposed Regulations ended on May 5. The next step is for the Minister of Environment and Climate Change to finalize the rules based on the comments. That's expected to happen in the fall of 2021.