

# Proposed Oil And Gas Sector Greenhouse Gas Emissions Cap Regulations



On November 4, 2024, the government of Canada released its proposed [Oil and Gas Sector Greenhouse Gas Emission Cap Regulations](#) (the Proposed Regulations), to be published in the forthcoming edition of the Canada Gazette, Part I. Issued under the [Canadian Environmental Protection Act](#), the Proposed Regulations will establish a cap-and-trade system that will apply to a wide range of industrial activities within the oil and gas sector, including onshore and offshore oil and gas production, oil sands production and upgrading, natural gas production and processing and liquified natural gas (LNG) production.

The Proposed Regulations represent additional emission-reduction requirements, and are over and above existing provincial emission reduction regimes, including Alberta's [TIER system](#), the federal [Output-Based Pricing System \(OBPS\)](#), [Output-Based Pricing System \(OBPS\)](#), [Clean Fuel Regulations](#), and the proposed [Clean Electricity Regulations](#).

## Overview: The Proposed Regulations

In a [previous post](#), we discussed the proposed regulatory framework for a cap-and-trade system announced in December 2023. Under the cap-and-trade system, the Federal government will determine a maximum threshold for annual emissions and

will freely issue emissions allowances in an amount equal to the cap. The Proposed Regulations, as set out, are to come into force on January 1 2025 and will establish the initial cap based on 2026 emissions (attributed according to a formula set out in the Proposed Regulation). As a result, the cap for the first compliance period, from 2030 to 2032, will be 27% below 2026 attributed emission levels for affected facilities. This reduction is anticipated to correspond to a 35% decrease from 2019 emission levels.

## **Covered Facilities**

Facilities that carry out any of the prescribed industrial activities listed below (Covered Facility) are caught by the Proposed Regulations:

- bitumen and other crude oil production activities, other than extraction of bitumen through thermal in situ recovery or from surface mining:
  - extraction, processing and production of light crude oil with a density of less than 920 kg/m<sup>3</sup> at 15°C; and
  - extraction, processing and production of bitumen or other heavy crude oil with a density greater than or equal to 920 kg/m<sup>3</sup> at 15°C;
- thermal in situ recovery of bitumen from oil sands deposits;
- surface mining of oil sands and extraction of bitumen;
- upgrading of bitumen or heavy oil to produce synthetic crude oil;
- extraction of natural gas and natural gas condensates;
- compression of natural gas between production wells, natural gas processing facilities or re-injection sites;
- processing of natural gas or natural gas condensates into marketable natural gas and into natural gas liquids; and
- production of LNG.

# Operator Obligations – Registration and Reporting

All operators of Covered Facilities must register by December 31, 2025.

Operators of each Covered Facility are required to monitor and annually report production from each designated industrial activity carried out at that Covered Facility, as well as the quantities of GHGs (a) attributed to the facility and (b) from all specified emissions sources at the facility.

Operators producing 30,000 or more barrels of oil (or the energy equivalent) in any month from the beginning of 2024 to July 2025, must start reporting emissions and production levels for 2026 by June 1, 2027. Operators that do not meet either of these criteria are required to begin reporting through the submission of an annual report no later than by June 1, 2029, for their 2028 emissions and production levels.

## Compliance

Every operator is required to submit one compliance unit for each tonne of emissions produced. Under the Proposed Regulations, there are three categories of compliance units that operators may remit to cover their annual additional emission from Covered Facilities: (1) emission allowances; (2) decarbonization units; and (3) certain GHG offset credits.

### ***a. Emissions Allowances***

Each calendar year, the Minister will freely allocate to each Covered Facility emission allowances equal to their specific emission cap as calculated under the Proposed Regulations. Emission allowances are designed to be transferable, allowing operators within the cap-and-trade system to buy and sell them. There are no limits on the number of emissions allowances an operator can hold. Importantly, allowances

obtained within this system cannot be used to meet obligations under other carbon pricing frameworks, including the OBPS. At least 80% of an operator's compliance units must be comprised of emission allowances. The remaining 20% may be comprised of GHG offset credits or a combination of decarbonization units and GHG offset credits, as described below.

### ***b. Decarbonization Units***

Akin to a fund credit under TIER, operators may purchase "decarbonization units" to cover up to 10% of their emissions. The Proposed Regulations currently set the rate for decarbonization units at \$50 per CO<sub>2</sub>e tonne. Unlike pricing of fund credits under the TIER Regulation, the price per tonne of decarbonization units does not appear to be tied to the national carbon price.

### ***c. GHG Offset Credits***

Operators may use recognized offset credits to address up to 20% of their emissions. Currently, only offset credits issued under the [Canadian Greenhouse Gas Offset Credit System Regulations](#), or provincial offset credits recognized for use under the federal [Output-Based Pricing System Regulations](#) will be considered recognized GHG offset credits.

## **Remittance of Compliance Units**

Operators that produce over an annual threshold of 365,000 barrels of oil equivalent (Large Emitter) must not only report their production levels but also fulfill remittance obligations. A Large Emitter retains its status and the associated obligations unless its production drops below half the threshold (182,500 barrels) for four consecutive years. Remittance obligations require the operator to remit one "compliance unit" for each tonne of attributed GHGs during a compliance period.

A Large Emitter's total remittance for a compliance period is due by January 31 of the year that is two years after the compliance period (for example, if the compliance period is 2030-2032, the Large Emitter has until January 31, 2034 to submit its remittance obligations).

In addition, a Large Emitter has interim obligations to submit compliance units covering at least 30% of their GHG emissions for each of the first two years of any compliance period, due by January 31 of the year that is two years after that compliance year (for example, for the 2030 compliance year during the 2030-2032 compliance period, a Large Operator has until January 31, 2032 to remit compliance units equal to 30% of its GHGs during 2030.)

New Covered Facilities are granted a five-year grace period from the start of their industrial activities before they become subject to remittance obligations under the Proposed Regulations. A new Covered Facility's attributed GHGs are deemed to be zero until January 1 of the year that is five calendar years after the year its industrial activities begin.

## Next Steps

The federal government is seeking written feedback on the Proposed Regulations from November 9, 2024, to January 8, 2025.

To view the original article click [here](#)

*The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.*

Author: [Thomas McInerney](#), [Kimberly Howard](#), [Kerri Howard](#), [Brian Bidyk](#), [Riley M. Thackray](#), [Derek Baker](#), [Kyle McMillan](#)

McCarthy Tétrault LLP