

# Compliance Offset Credits Regulatory Proposal

## Index

1.0 Glossary of Terms.....	2
2.0 Introduction .....	4
3.0 Offset Participants .....	5
3.1 Offset Initiative Operator .....	5
3.2 Offset Initiative Sponsor .....	6
4.0 Compliance Instrument Tracking System Service .....	6
5.0 Offset Registry.....	7
6.0 Ontario Offset Protocols .....	7
7.0 Approval of Ontario Offset Protocols .....	8
8.0 Initiative Start Date .....	8
9.0 Crediting Periods.....	8
10.0 Renewal of Crediting Period .....	9
11.0 Aggregation.....	9
12.0 Offset Credit Criteria .....	10
12.1 Ownership of Project and Authority to Claim Offset Credits.....	10
12.2 Real.....	10
12.3 Quantification .....	11
12.4 Leakage .....	11
12.5 Additional.....	12
12.6 Permanent.....	12
12.7 Verifiable .....	13
13.0 Offset Creation Procedure .....	14
13.1 Initiative Registration.....	14
13.2 Initiative Implementation .....	16
13.3 Monitoring and Quantification .....	16
13.4 Initiative Data Report.....	16
13.5 Verification of Initiative Data Report .....	18
13.6 Verification Report.....	20
14.0 Buffer Account .....	20
15.0 Offset Credit Issuance .....	21
15.1 Non-Sequestration Offset Issuance .....	21
16.0 Initiative Reversals, Fraud and Error .....	22
17.0 Requirement to Replace Offset Credits .....	22
18.0 Unintentional Reversal.....	24
19.0 Notification of Offset Credit Holders .....	24
20.0 Next Steps .....	25

## 1.0 Glossary of Terms

**Aggregation:** The bundling of identical initiatives undertaken under the same offset protocol into a single initiative for the purposes of reporting, verification and application for offset credits

**Buffer Account:** A Ministry account to ensure the ongoing validity of offset credits within the program through the replacement of offset credits that have been either reversed (e.g., sequestered carbon released in a forest fire) or found to be ineligible.

**Compliance Instrument Tracking System:** an account-based registry that tracks the distribution, trades and uses of emissions allowances and offset credits.

**Crediting Periods:** Once an initiative is registered the crediting period is the number of uninterrupted years that an initiative may claim offset credits if it continues to meet the criteria of the regulation and Ontario offset protocol.

**Initiative Data Report:** A yearly report that provides the documentation and demonstrates that the initiative has met the requirements of the protocol.

**Initiative Registration:** The first step in applying for offsets and provides information to ensure that the initiative meets the requirements of the regulation and the Ontario Offset Protocol. Registration does not represent an endorsement of the initiative by the Government of Ontario and does not a guarantee that the project will be successful in creating offset credits.

**Initiative Reversals:** The recognition that some offset initiative types that remove carbon from the atmosphere could be reversed leading to greenhouse gases going back into the atmosphere.

**Initiative Start Date:** The day at which the offset initiative began removing or reducing greenhouse gases.

**Offset Credit Criteria:** The criteria established by the Western Climate Initiative to ensure the integrity of the compliance offset credit system

**Offset Initiative:** The activities that cause a reduction, removal or avoidance in greenhouse gases that are eligible for registration and application for offset credits.

**Offset Initiative Operator:** A person who undertakes action to remove greenhouse gases or reduce or avoid their emissions outside of the capped sectors.

**Offset Initiative Sponsor:** A person who registers an initiative, submits annual reports and applications for offset credits.

**Offset Registrar:** Administrator of the Offset Registry

**Offset Registry:** Public site where all applications for registration, data reports, Verification Reports and application for offset credits will be made available. The Offset registry will also house forms and guidance documents.

Ontario Offset Protocols: A set of procedures and requirements for a specific class of initiatives (i.e., project types) that must be followed to quantify GHG reductions, avoidances or removals, based on the science underlying the removal, avoidance or reduction in emissions of greenhouse gases

Verification Report: An independent third party qualified report on the validity of the Initiative Data Report.

## 2.0 Introduction

To help mitigate climate change – one of the most urgent issues of our time – Ontario is implementing a greenhouse gas cap and trade program that can link with the programs in Quebec and California. A cap and trade program effectively reduces the amount of greenhouse gas pollution going into our atmosphere by setting a limit on allowable emissions, rewarding innovative companies for achieving greenhouse gas (GHG) emissions reductions, avoidances and removals; providing certainty for industries regarding their GHG emissions compliance obligations; and creating opportunities for investment.

The availability of offset credits will increase the compliance options for facilities covered by the cap and trade program, thereby increasing the flexibility in managing their GHG emissions, while extending the environmental and financial benefits of greenhouse gas mitigation beyond the capped emissions and activities. The offsets section of the Cap and Trade Program Regulation will be developed to supply high quality offset credits for use in the cap and trade program.

An offset, also called an offset credit, is a type of compliance instrument that is issued by the program authority to the Offset Initiative Sponsor of a GHG emissions reduction, avoidance or removal offset initiative, subject to all applicable limitations contained in the program regulation. Ontario will retain the authority for approving and issuing offset credits for use in the cap and trade program. The offset credit must meet essential regulatory criteria to be real, additional, permanent, quantified, independently verified, enforceable and unique. Reductions, avoidances and removals must, adhere to approved quantification protocols, and result from an offset initiative located in a qualifying geographic area. Ontario will consider offset initiatives undertaken anywhere in Canada. Quebec offset initiatives will be registered in Quebec and Ontario offset initiatives will be registered in Ontario.

Ontario has introduced a broad scope cap and trade program which covers about 82% of provincial greenhouse gas emissions. Activities not directly subject to O. Reg. 144/16 (the Cap and Trade Regulation) that can be demonstrated to have reduced or removed greenhouse gases may be eligible for recognition by the government in the form of offset credits. An offset credit represents one tonne of CO<sub>2</sub>e reduced, avoided, or removed from the atmosphere. Offsets cannot be issued for offset initiatives related to capped emissions (i.e., offset credits may not be created or issued for offset initiatives that reduce electricity or fuel consumption).

The offset credits become tradable instruments that can be used by capped emitters to meet up to 8% of their compliance obligations under the Cap and Trade Program Regulation. These offset credits are tradable in the same way Ontario emission allowances are tradable. Offset credits do not expire and remain valid until they are surrendered for retirement by a registered participant in the cap and trade program

(either by a capped emitter to meet a compliance obligation; or by a market participant choosing to do so). Holding limits do not apply to offset credits.

The use of offset credits offers capped emitters flexibility in meeting their compliance obligation by allowing markets to determine the most cost-effective emissions reduction, avoidance or removal opportunities from across the entire economy. Use of offset credits also encourages emission reductions, innovation, and technology development for sources of GHGs and carbon sinks (GHG removals) not covered by the Regulation.

Ensuring that offset credits are robust is critical to maintaining the integrity of the cap and trade program and will be an important consideration in Ontario linking with Quebec's and California's programs. Specific criteria, that are consistent with the *Offset System Essential Elements Final Recommendations* of the Western Climate Initiative, will demonstrate that the reductions, avoidances or removals are real, permanent, additional, quantified, verified, enforceable and unique. Discrete rules related to these criteria are embodied in specific protocols that must be followed for specific classes of offset initiatives. As a result, offset initiatives must be well documented and independently verified, and methods to quantify and verify reductions, avoidances or removals must be described comprehensively. The process for seeking the creation and issuance of offset credits will include:

- Initiative Registration
- Initiative Data Reporting
- Initiative Verification
- Application for Offset Credit Creation and Issuance

**Note that Initiative Registration does not imply that the Offset Initiative Sponsor has or will be issued offset credits.**

More details on these steps can be found in the sections below.

### **3.0 Offset Participants**

There are two types of participants that may be involved in offset initiatives: Offset Initiative Operators and Offset Initiative Sponsors.

The Offset regulatory provisions will require that Offset Initiative Sponsors, and Offset Initiative Operators comply with the Ontario offset protocols and the requirements of the regulation.

The Climate Change Mitigation and Low-carbon Economy Act, 2016 includes enforcement mechanisms to ensure compliance (e.g. compliance orders).

#### 3.1 Offset Initiative Operator

An Offset Initiative Operator is an entity with legal authority to implement the offset initiative and the authority to apply for the offset credits for the initiative.

### 3.2 Offset Initiative Sponsor

An Offset Initiative Sponsor is the entity who will be responsible for making all applications and submissions to an Ontario offsets registry with respect to the registration of the offset initiative, reporting and verification and application for the issuance of offset credits. The Offset Initiative Sponsor can be either the Offset Initiative Operator or an individual designated in writing by the Offset Initiative Operator to act on the Offset Initiative Operator's behalf. An Offset Initiative Sponsor may also be an offset initiative aggregator acting on behalf of a group of Offset Initiative Operators undertaking an offset initiative or offset initiatives under the same protocol.

An Offset Initiative Sponsor shall be a resident or entity with a presence in the province of Ontario

The Offset Initiative Sponsor will be responsible for all statements and information provided to the Ministry in respect of the registration of the offset initiative as well as the ongoing reporting, verification, applications for offset credits and the ongoing responsibility (where applicable) to ensure the offset initiative's permanence (Section 12.6)

Where several parties are involved in the offset initiative or an offset initiative has been subsidized by another party, a copy of an agreement indicating either the sharing of the offset credits or indicating the Offset Initiative Sponsor's right in claiming offset credits from the offset initiative must be submitted.

The Offset Initiative Sponsor will be required to be registered within the Compliance Instrument Tracking System Service (CITSS). Offset credits that are issued will go into the Offset Initiative Sponsor's CITSS account, described in Section 4.0. Further detail on the process for creating offsets is given below.

## **4.0 Compliance Instrument Tracking System Service**

The Compliance Instrument Tracking System Service (CITSS) is a tracking system for emissions allowances and offset credits provided for in the cap and trade and offset regulations of specific participating jurisdictions. The CITSS is hosted by the Western Climate Initiative, Inc. (WCI, Inc.). CITSS tracks emissions allowances and offsets from the point of issuance to retirement including all transfers between and among registered participants, as well as the cancellation of invalid offset credits.

Each allowance and credit is individually serialized allowing for tracking of individual allowances and credits. CITSS for Ontario account holders will be administered by the Ontario Offset Registrar.

A CITSS account is required for any individual seeking to be issued offset credits.

## **5.0 Offset Registry**

The Ministry of the Environment and Climate Change (the Ministry) will establish an Offsets Registry as an online website which will be the public registry of compliance offset credit initiatives that are eligible to apply for Ontario offset credits. The Offset Registry will contain the names and contact information of the Offset Initiative Sponsor, Offset Initiative Operator(s), the name(s) of the Offset Initiative Operator, or Offset Initiative Operators in the case of an aggregation of offset initiatives, facility(ies) where the reductions, avoidances or removals will be undertaken and their locations and all other information that may be required related to the offset initiative. It is through the Offset Registry that the Offset Initiative Sponsor will submit an offset initiative description as part of the Offset Initiative Sponsor's application for offset registration as well as all forms, offset Initiative Data Reports and Verification Reports in accordance with the regulation.

A prerequisite for registering an offset initiative on the Offsets Registry is the establishment of an Account for the Offset Initiative Sponsor, with the Compliance Instrument Tracking System Service (CITSS).

The Offset Registry will provide public access or links to all documents submitted to the Registry to support the registration of an offset initiative and the application for and creation of offset credits. The Offset Registry provides a transparent and accessible online repository for all the information related to each offset initiative, including:

- application for offset initiative registration
- attestation of authority to represent Offset Initiative Operators as an Offset Initiative Sponsor
- Initiative Data Reports and Verification Reports
- notice of acceptance of an offset assertion and approval of issuance of Ontario offset credits
- posting or a link to posting on an Ontario Government website to all forms and documents associated with the offsets credits, including:
  - Ontario Offset Protocols (see Section 6, Ontario Offset Protocols, below)
  - Application forms for Offset Initiative Registration, Initiative Data Reports and Verification Reports
  - Guidance documents

## **6.0 Ontario Offset Protocols**

An Ontario Offset Protocol is a set of procedures and requirements for a specific class of offset initiatives (i.e., project types) that must be followed to quantify GHG reductions, avoidances or removals achieved by a particular offset initiative as compared to the offset initiative baseline. Offset protocols specify relevant data collection and monitoring procedures, emission factors, and conservatively account for any uncertainty associated with an offset initiative. (See Section 12.0, Offset Credit Criteria.)

To qualify to apply for and to receive offset credits an Offset Initiative Sponsor must ensure that the offset initiative meets all of the applicable requirements specified in an Ontario Offset Protocol.

## **7.0 Approval of Ontario Offset Protocols**

The Minister may approve new protocols from time to time. A protocol may be developed by the Ministry or other entity and submitted to the Minister for consideration for incorporation in the regulation. Protocols will be considered by the Ministry for inclusion under the regulation once the Minister is satisfied that the protocols establish the parameters to demonstrate the reductions, avoidances or removals are real, permanent, additional, quantified enforceable and verifiable, and that the protocols have been peer/expert reviewed.

Upon receipt of a proposed protocol, the Ministry will conduct an internal review followed by a public posting and comment period prior to considering the protocol for use in Ontario.

All Ontario Offset Protocols will be available on the internet either on the Offset Registry or through links provided on the Offset Registry to an Ontario Government website.

## **8.0 Initiative Start Date**

Greenhouse gas emission reduction initiatives are eligible to create offset credits for use in Ontario's cap and trade program for offset initiatives that began on or after January 1, 2007.

## **9.0 Crediting Periods**

Crediting periods are the number of years for which Ontario offset credits will be issued for an eligible offset initiative (after an eligible offset initiative is registered). Crediting periods will be identified in the relevant protocols with the following limitations:

- A non-sequestration offset credit initiative will have a continuous crediting period of no more than 10 years (i.e., offset credits cannot be created after 10 consecutive years unless a new crediting period is approved. See section 10.0 Renewal of Crediting Period).



- A sequestration offset credit initiative will have a continuous crediting period of no more than 30 years.

An offset initiative's crediting period begins on the date of the first reductions, avoidances or removals in GHG emissions from the offset initiative following the commissioning period. The crediting period for an aggregation offset initiative will begin on the earliest start date of the emission reductions, avoidances or removals of the inaugural members of the aggregation. Required timing for registration will apply, Section 13.1, Initiative Registration. New members may be accepted into the aggregation however the established start date identified in the registration will not change.

Reductions avoidances and removals must be reported and verified annually for the duration of the crediting period in accordance with the applicable Ontario Offset Protocol. Exceptions to annual reporting such as instances where annual reductions, avoidances or removals are below 25,000 tonnes are described in Section 13.4., Initiative Data Report.

## **10.0 Renewal of Crediting Period**

An Offset Initiative Sponsor may request the renewal of a crediting period if the offset initiative continues to meet the requirements of the regulation and the applicable protocol. The most recent version of the offset initiative-specific Ontario Offset Protocol will indicate the requirements for offset initiative registration and renewal. At a minimum, the offset initiative must re-evaluate additionality, baselines, quantification and monitoring methods based on the most recent version of the Ontario offset protocol.

Every Offset Initiative Sponsor may apply for renewal of an offset initiative registration for an offset credit initiative no more than 18 months prior to the end date of the existing crediting period but not less than 6 months prior to that date, provided an Ontario Offset Protocol continues to apply to the offset initiative. In specific cases where a crediting period may have expired prior to the time an offset initiative has been initially registered, an application for renewal of registration may be made immediately following the first approved registration. Application for renewal of an offset initiative registration will be sent to the Offset Registry for consideration by the Director.

Where an application for renewal of registration is submitted for an offset initiative that continues to meet all of the criteria of the current applicable Ontario Offset Protocol, the offset initiative may be registered for an additional crediting period.

## **11.0 Aggregation**

An Offset Initiative Sponsor may carry out an aggregation for offset initiatives of the same class on several sites on behalf of a group of Offset Initiative Operators (members

of the aggregation) if the same Ontario offset protocol applies to each offset initiative. All of the offset initiatives in the aggregation will use a common baseline and identical calculation methodologies/factors, which will be dependent on geographic conditions.

The application for offset initiative registration of an aggregated offset initiative will include the list of Offset Initiative Operators members of the aggregation for which the offset initiatives are being carried out. The application will include each Offset Initiative Operator's member of the aggregation information and reference the CITSS account number of the Offset Initiative Sponsor'.

The application for an offset initiative registration of the aggregated offset initiative will include a declaration signed by each participating Offset Initiative Operator member of the aggregation attesting that the Offset Initiative Sponsor is designated to carry out the offset initiative on behalf of the Offset Initiative Operator and authorizing the issuance of the offset credits to be made to the Offset Initiative Sponsor's CITSS account.

An Offset Initiative Sponsor may add an offset initiative to an aggregation of initiatives after an Offset Initiative Sponsor has registered an initiative if the additional offset initiative(s) meet the conditions set out in the regulation and the Ontario Offset Protocol. The Offset Initiative Sponsor may register the offset initiative to be added to the aggregation on behalf of the Offset Initiative Operator. The Offset Initiative Sponsor must submit to the Ministry the required information and signed declarations for the additional offset initiative.

## **12.0 Offset Credit Criteria**

The criteria for the creation of an offset credit will include:

### 12.1 Ownership of Project and Authority to Claim Offset Credits

An Offset Initiative Sponsor must identify the legal ownership of the greenhouse gas, offset initiative. The Offset Initiative Sponsor will be responsible for all statements and information provided to the Offset Registry in respect of the registration of the offset initiative, ongoing reporting and verification and applications for offset credits.

Where several parties are involved in the offset initiative or an offset initiative has been subsidized by another party, a copy of an agreement indicating either the sharing of the claim to the offset credits or indicating the Offset Initiative Sponsor's right in claiming offset credits from the offset initiative must be submitted.

### 12.2 Real

The Offset Initiative Sponsor must document that the source(s) exist and provide confirmation from that the activities resulting in the reductions, avoidances or removals took place.

### 12.3 Quantification

Emission reductions, avoidances or removals are measured or modeled in a reliable and repeatable manner that includes all relevant sources and sinks. The Ontario Offset Protocols for GHG emission reductions, avoidances or removals shall:

- Be appropriate to the GHG reduction, avoidance or removal being undertaken.
- Be current at the time of quantification
- Consider local conditions, emission factors whenever applicable
- Account for uncertainty by being calculated in a manner that yields accurate and reproducible results
- When uncertainty is above the acceptable defined threshold, quantification methods should use more conservative quantification parameters, assumptions, and measurement techniques that minimize the risk of overestimating emission reductions, avoidances or removals credited for a given offset initiative. The principle should be employed when significant uncertainties exist to ensure a higher level of confidence that all calculated reductions, avoidances or removals are real and not overstated.

Uncertainty and Accuracy: Ontario Offset Protocol measurement techniques shall set standards for acceptable precision and be based on the best available science while promoting conservative estimates. When uncertainty remains high in quantifying the amount of a greenhouse gas emission reduction, avoidance or removal, the principle of conservativeness will be applied.

Principle of Conservativeness: Ontario Offset Protocols shall require use of conservative quantification parameters, assumptions, and measurement techniques that minimize the risk of overestimating emission reductions, avoidances and removals credited for a given offset initiative.

During quantification, Offset Initiative Sponsors shall convert each type of Greenhouse Gas to metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). Global warming potentials shall be those set out in O. Reg. 143/16 Quantification, Reporting and Verification of Greenhouse Gas Emissions as it may be amended from time to time.

### 12.4 Leakage

Leakage exists where the efforts to reduce emissions by an offset initiative may increase emissions in another location. For example a forest conservation offset initiative may shift deforestation activities to other forests, including those in

other jurisdictions, thereby reducing or eliminating the net sequestration from the offset initiative.

Emission reduction, avoidance or removal offset initiatives will require an assessment of potential leakage associated with each offset initiative. A quantitative assessment of leakage will be performed whenever possible.

When a quantitative leakage assessment is not feasible, a qualitative assessment of the risk of leakage will determine whether the risk of leakage is significant or not. Ontario Offset Protocols will include a threshold to identify significant leakage associated with each offset initiative class.

Whether qualitative or quantitative, an offset initiative's claimed tonnage may be reduced to compensate for the amount of the leakage.

If leakage is found to be above the threshold, the Ontario Offset Protocol will include a factor to account for leakage. The factor may discount the number of tonnes of offset credits that may be made.

#### 12.5 Additional

Offsets will only be created and distributed for the portion of greenhouse gas emission reductions, avoidances or removals that would not have happened under a baseline scenario. The method or requirement to determine a baseline is established in the Ontario Offset Protocol to ensure that reductions, avoidances or removals are not, as an example, simply a result of reducing production as opposed to lowering emissions on a unit of production basis. Baselines will reflect conservative assumptions. The method required to determine a baseline will be established in each Ontario Offset Protocol.

All baselines will reflect regulatory and other legal requirements in relation to the offset initiative. An offset initiative would not be additional if the reductions, avoidances or removals occurred as a result of regulatory or other legal requirements, and were not as a result of emission reductions, avoidances or removals resulting from business as usual activities.

#### 12.6 Permanent

The reductions, avoidances or removals may not be reversible. Sequestration offset initiatives must be designed so that the net atmospheric effect of their greenhouse gas removal is comparable to the atmospheric effect achieved by non-sequestration offset initiatives. The atmospheric effect will be based on the international standard established by the UNFCCC, which is currently 100 years. That is, any carbon sequestered by the offset initiative and issued an offset credit must ensure that each offset credit remains sequestered for 100 years.

- A reversal: is an emission removal for which an Ontario offset credit has been issued that is subsequently released or emitted back into the atmosphere. A reversal may be intentional or unintentional.
- Intentional Reversal is any reversal which is caused by an Offset Initiative Sponsor or Offset Initiative Operator's negligence or wilful intent within the offset project boundary. (See section 17.0 Requirement to replace offset credits.)
- An intentional reversal may also occur as result of a future land owner, or a person who through purchase, gift or inheritance acquires control over an offset initiative upon which a sequestration offset initiative is based, wilfully causing a reversal. An example of an intentional reversal would be that associated with the deliberate disturbing of soil, though for example, ploughing, the non-disturbance of which is the basis for a sequestration (removal) offset credit.
- Unintentional Reversal is a reversal caused from a predetermined risk of reversal stated in the relevant Ontario Offset Protocol. Unintentional Reversals will be addressed through the offset credits in the Buffer Account (See Section 18.0 Unintentional Reversals). An example of an unintentional reversal would be a forest fire that consumes a forest that is the basis of a sequestration offset initiative that is issued offset credits.

A sequestration offset protocol may offer alternative methods for addressing permanence.

### 12.7 Verifiable

With respect to an offset initiative, a GHG reduction, removal, or avoidance, or assertion thereof, must be well documented and transparent such that it lends itself to an objective review by a qualified verifier. Verifiers of offset initiatives will be independent third parties as set out in Ontario Regulation 143/16 Quantification, Reporting and Verification of Greenhouse Gas Emissions, as it may be amended from time to time. The verifier will also have relevant experience in the offset initiative class under which the offset initiative being verified is being undertaken.

The verifier must state with reasonable assurance that the total reported reductions, avoidances or removals meet the requirements of the regulation and the Ontario Offset Protocol and that the reductions, avoidances or removals are free of material misstatement. Material misstatement means that errors, omissions or an aggregation of both in the reported GHG reductions, avoidances or removals exceeds 5.00%. If the percentage of error stated in the Verification Report is above 5.00% the Offset Initiative Sponsor must correct the offset initiative report and submit it again for verification.

All applications for Offset Credits require an Initiative Data Report and Verification Report.

### **13.0 Offset Creation Procedure**

No offset credits will be issued until the offset initiative is registered, emissions reductions, removals or avoidances have been reported, and have been verified, and the Director has completed a review and approved the application for offsets.

#### 13.1 Initiative Registration

Initiative registration requires the submission of information for each initiative to the Offset Registrar, which will confirm its suitability for registration. The required information will be defined by the appropriate protocol and must be submitted in the form of an offset initiative description. Registration information will be posted to the Offset Registry and a decision will be made to register the offset initiative on the Offset Registry or not. The Offset Registrar may request additional information from the Offset Initiative Sponsor.

**Registration does not guarantee that an offset initiative has or will create valid offset credits, nor is it an indication of an endorsement of the proposed offset initiative in any way by the Government of Ontario. Registration is merely an important first step in the process of creating offset credits.**

If an offset initiative is registered the initiative's information will be available to the public.

For aggregations of offset initiatives, a single request for registration may be submitted by the Offset Initiative Sponsor on behalf of all members of the aggregation. The request for registration must include the information specific to each offset initiative that participates in the aggregation.

The Offset Initiative Sponsor must identify that the offset initiative will be undertaken in accordance with the requirements of the regulation and the Ontario Offset Protocol. If the Offset Initiative Sponsor changes any aspect of the offset initiative compared to the offset initiative description following offset initiative registration, the change will need to be re-evaluated through a review of a revised offset initiative description reflecting the change(s) posted for public review and re-registration.

An Offset Initiative Sponsor applying to be issued Ontario offset credits for an offset initiative must submit an application for offset initiative registration, not later than 18 months after the offset initiative begins. See Section 9.0

If an offset initiative commenced before an Ontario Offset Protocol was available for that offset initiative class the Offset Initiative Sponsor must send the application

for registration to the Offset Registrar not later than 18 months after the date the relevant protocol becomes available on the Offsets Registry or MOECC website.

Registration must be completed prior to the submission of the first annual Initiative Data Report for the initiative. An application for initiative registration will be made to the Offset Registry by submitting an application and offset initiative description indicating the offset initiative is eligible for registration and complies with the regulation and applicable protocol.

The offset initiative description will be in a format specified by the Ministry. The format will be available on a Ministry web site.

The information required for offset initiative registration will include:

- the name and contact information of the Offset Initiative Operator (Operators in the case of an aggregation);
- the name of the Offset Initiative Sponsor and Offset Initiative Sponsor's authorization from the Offset Initiative Operator(s)
- the title and a description of the offset initiative(s);
- an indication of whether the application is for a single offset initiative and, if so, the location of the offset initiative site;
- an indication of whether the application is for an aggregation of offset initiatives and, if so, the number of offset initiatives involved and their locations;
- the Ontario Offset Protocol applicable to the offset initiative(s) ;
- if the application is for a new offset initiative or is an application for renewal;
- an estimate of the annual and total GHG emissions (over the crediting period) in metric tonnes CO<sub>2</sub> equivalent;
- the duration of the offset initiative and the estimated offset initiative commencement date;
- the signature of the Offset Initiative Sponsor and the date of the application;
- a declaration attesting that the offset initiative will be undertaken as required by the regulation and the applicable Ontario Offset Protocol and that the information provided is accurate.

Once an offset initiative is registered the Offset Initiative Sponsor may apply for offset credits for the duration of the crediting period, subject to de-registering due to a failure to replace offset credits that are subject to an intentional offset initiative reversal, which includes fraud or error.

A third party validation is not a requirement for Initiative Registration. If an Offset Initiative Sponsor voluntarily obtains a third party validation, the Offset Initiative Sponsor may submit it at the time of Offset Initiative Registration and it will become part of the public record.

## 13.2 Initiative Implementation

Normally an Offset Initiative Sponsor will proceed with offset initiative implementation upon offset initiative registration by the Offset Registrar.

## 13.3 Monitoring and Quantification

Each offset initiative will be required to follow the monitoring and quantification requirements specified in the applicable protocol. In the case of an aggregation the Offset Initiative Sponsor will be required to ensure that the requirements are followed.

## 13.4 Initiative Data Report

Not later than 18 months after the offset initiative begins, as defined in Section 9.0, the Offset Initiative Sponsor must submit an Initiative Data Report of the first 12 months of reductions, avoidances or removals in a project report to the Offset Registrar, and annually thereafter for the duration of the offset initiative in order for the initiative to be eligible for offset credits. The Initiative Data Report will be in a format specified by the Ministry. The format will be available on a Ministry web site.

Each full year from the start date of an offset initiative constitutes an offset initiative reporting period requiring an Initiative Data Report. The start date may be anytime during the calendar year, but the offset initiative reporting period consists of 12 consecutive months.

Each Initiative Data Report will include an assertion signed by the Offset Initiative Sponsor. The assertion specifies the reductions, avoidances or removals being claimed for the period covered by the Initiative Data Report, and confirms that all requirements set out in the registration and applicable adopted protocol have been met.

The Offset Initiative Sponsor submits the completed Initiative Data Report to an accredited verification body. The verification body prepares a Verification Report and submits it to the Offset Initiative Sponsor. The Offset Initiative Sponsor then submits a completed application form for the issuance of offset credits, an Initiative Data Report which will address all of the criteria specified in the relevant Ontario Offset Protocol, and a Verification Report, to the Ministry.

Every Offset Initiative Sponsor must, within six months of the end of each offset initiative reporting period, submit a completed offset credit application form, an Initiative Data Report and a Verification Report to the Offset Registry covering the most recent offset initiative reporting period for the issuance of offset credits, including the following information and documents:



- the Offset Initiative Sponsor's CITSS account where any issued offset credits will be held.
- a statement that the offset initiative continues to meet the criteria of real, in that the offset initiative exists and continues to make reductions, avoidances or removals in accordance with the registration;
- a statement that the offset credits being claimed have not been registered under any other voluntary or regulatory emission trading system;
- any information concerning the geographic boundaries of the offset initiative and any carbon source, sink or reservoir relevant to the offset initiative;
- a calculation of emissions under the baseline scenario for the offset initiative, emissions during offset initiative implementation and emission reductions, avoidances or removals, along with the related documentation;
- the data measured, sampled or used to calculate emissions under the baseline scenario for the offset initiative;
- emissions during offset initiative implementation;
- emission reductions, avoidances or removals for each emission source, and the type of process, and equipment used;
- information concerning any analysis conducted, any results, and any documentation relating to the testing/calibration of any equipment and sources used to calculate emissions under the baseline scenario, emissions during offset initiative implementation and emission reductions, avoidances or removals from the offset initiative;
- any data or documentation that the applicable protocol requires be recorded; and
- description and/or estimate of leakage, and how it is accounted for in the quantification of the offset assertion.

Where an offset initiative started before the regulation has been amended to include offset credit creation requirements and the offset initiative is an offset initiative in a class for which there is an Ontario Offset Protocol under the regulation, the applicant must, no later than six months after the date of offset initiative registration, submit to the Ministry via the Offset Registry an Initiative Data Report should include the application form and emission reduction, avoidance or removal reports covering the whole period beginning on or after 1 January 2007 and ending on the date of the offset initiative registration. Subsequent emission reduction, avoidance or removal reports will be submitted in 12 month intervals from the date of the offset initiative registration.

For an offset initiative, or for an aggregation of offset initiatives, where GHG emission reductions, avoidances or removals of less than 25,000 metric tonnes CO<sub>2</sub> equivalent have been achieved during the 12 month period covered by a Initiative Data Report, the Offset Initiative Sponsor may postpone the Verification Report to the following year. The applicant must submit the annual Initiative Data Report and notify the Offset Registrar in writing within six months prior to the end of the relevant reporting period which indicates the emission reductions, avoidances or removals for that year were below 25,000 tonnes and that the

verified Initiative Data Reports will be submitted the following year covering two years. The applicant must submit an Initiative Data Report and Verification Report within six months following completion of the second year.

If an Initiative Data Report is not submitted within the required time, the GHG emission reductions, avoidances or removals calculated and reported in the Initiative Data Report will not be eligible for the issuance of offset credits for that period.

In the case of an aggregation of offset initiatives, a single Initiative Data Report may be submitted by the Offset Initiative Sponsor, but the report must contain the information and documents for each offset initiative participating in the aggregation.

### 13.5 Verification of Initiative Data Report

Each Initiative Data Report submitted to the Ministry to request the issuance of offsets must be accompanied by a Verification Report prepared by a verification organization accredited under ISO 14065 by a member of the International Accreditation Forum in either Canada or the United States and according to an ISO 17011 program, with respect to the sector of activity for the offset initiative.

Details concerning verifier qualifications/criteria are as defined in O. Reg. 143/16 Quantification, Reporting and Verification of Greenhouse Gas Emissions.

The Offset Initiative Sponsor must submit the Initiative Data Report to the verifier. The verifier may issue a positive Verification Report of a submitted Initiative Data Report if the verifier is satisfied that:

- the assertions in the Initiative Data Report are materially correct and are a fair and reasonable representation of the offset initiative's greenhouse gas reduction, avoidance or removal; and
- there have been no material changes to how the offset initiative was carried out compared to the description of the offset initiative in the registered offset initiative description. Substantive changes may require a re-registration of the offset initiative.

For the verification, the Offset Initiative Sponsor and where applicable the Offset Initiative Operators who are participating members in an aggregation must give the verifier access to all the information and sites where the offset initiative(s) are undertaken.

The verification of the Initiative Data Report must:

- be conducted in accordance with ISO 14064-3 and according to procedures so that a reasonable assurance level is obtained within the meaning of that standard; and
- include at least one visit to the site of the offset initiative by the verifier accompanied by the Offset Initiative Sponsor
- for an aggregation, include a visit, to each of the offset initiative sites that are members of the aggregation.

Notwithstanding the above-noted site visit requirement, a reasonable assurance verification may be acceptable where random spot checks, in the case of an aggregation offset initiative or a forestry project, may be considered to provide a representative sample in meeting the requirements of the regulation.

A Verification Report of an offset initiative report is positive if the verifier can attest with reasonable assurance that the percentage of error is not above 5.00% and that the other conditions of the Regulation are met.

The sampling technique must not over-estimate the quantity of the reductions, avoidances or removals. Sampling techniques for reasonable assurance may include, for example, aerial monitoring (including drones) and/or satellite observations, and must meet the requirements of the applicable protocol.

The Verification Report must include the following information and documents:

- the name and contact information of the verification organization and of the verifier designated by the organization to conduct the verification and, where applicable, of the members of the verifier's team;
- the name and contact information of the member of the International Accreditation Forum that accredited the verification organization, and the date of the accreditation;
- a description of the activities undertaken by the verifier to ensure the offset initiative complies with the regulatory requirements, including the incorporated protocol applicable to the offset initiative;
- the dates during which the verification was conducted, and the date(s) of offset initiative site visits;
- an assessment of the accuracy and completeness of the Initiative Data Report, and its conformity to the applicable protocol;
- a description of any error, omission or inaccuracy noted in the Initiative Data Report or relating to the data, information or methods used, and the impact of any error, omission or inaccuracy on the Initiative Data Report, on the assessment of the emission reduction, avoidance or removals, and on the estimated percentage of error in the assessment of the emission reductions, removals or avoidances;

- the percentage of error estimated for the Initiative Data Report;
- where applicable, a summary of any changes/ corrections that were made to the Initiative Data Report during the verification;
- the total quantity of GHG emission reductions, avoidances or removals in metric tonnes CO<sub>2</sub> equivalent achieved over the period of the Initiative Data Report, based on the provisions of the offsets regulation and the applicable, incorporated offset protocol;
- the conclusions of the verification concerning the accuracy and reliability of the Initiative Data Report and its conformity with the requirements of the regulation, including the incorporated protocol applicable to the offset initiative; and
- a declaration by the verification organization and the verifier that the verification was conducted in accordance with the regulation and the applicable incorporated protocol.

### 13.6 Verification Report

A Verification Report of an Initiative Data Report is positive if the verifier can attest that the percentage of error committed in applying quantification, surveillance or measurement conditions, calculated in accordance with this amendment to the cap and trade regulation, is not above 5.00% and that the other conditions of the applicable Ontario Offset Protocol and all applicable regulatory requirements are met.

When the percentage of error is above 5.00%, the reports may not be submitted. The Offset Initiative Sponsor must correct the Initiative Data Report and submit it again for verification before sending it to the Offset Registrar.

### **14.0 Buffer Account**

The Buffer Account is a holding account for Ontario offset credits issued by Ontario to sequestration offset credit initiatives where a percentage risk of reversal has been established in an Ontario Offset Protocol. The regulation and protocol will set out the portion of the offsets that will be required to be placed in the Buffer Account. The intent of the Buffer Account is to provide a pool of offsets to serve as an insurance mechanism against unintentional reversals for all sequestration offset initiatives under an Ontario Offset Protocol and to provide an insurance pool to the overall offsets program.

The requisite number of offsets will be placed in the Buffer Account at no cost to the Ministry and will be administered by the Ministry.

The Buffer Account will also include three percent of all non-sequestration offset credits as insurance for any offset credits found to be created in error or fraudulently and that

are not replaced by the Offset Initiative Sponsor as required (see Section 16, Initiative Reversals, Fraud and Error). Through this mechanism the liability for the ongoing legitimacy of offset credits will be with the Offset Initiative Sponsor. The buffer account will also be drawn on to replace sequestration offset credits for sequestration offset initiatives which are intentionally reversed.

## **15.0 Offset Credit Issuance**

Offset credit creation and issuance involves the Ministry reviewing offset initiative documentation presented as evidence supporting the emissions reduction, avoidance or removal assertion being made by the Offset Initiative Sponsor, and accepting that documentation when it is satisfied all regulatory requirements of the Ontario offset program have been met. The documentation must consist of the annual Initiative Data Report accompanied by the annual Verification Report.

If the Verification Report is negative or the offset initiative is not in conformity with the regulatory requirements or of the applicable incorporated protocol, no offset credits will be issued to the Offset Initiative Sponsor for the period covered by the Initiative Data Report.

Once the application form, Initiative Data Report and Verification Reports have been received, the Ministry shall make a determination as to the issuance of Ontario offset credits. During the review, the Ministry may request additional information from the verification body and the Offset Initiative Sponsor, as appropriate, and may request clarifications and revisions to the materials. A response to a request for additional information will be made within 30 days. Requests for additional information and responses will become part of the record on the Offset Registry.

Ontario offset credits that are issued by the Ministry will be entered into the CITSS account of the Offset Initiative Sponsor. The Ontario Offsets Registry will not have accounts in which offsets that have been approved will be held.

### **15.1 Non-Sequestration Offset Issuance**

Following the receipt of an application form which will include a valid CITSS account for the Offset Initiative Sponsor, an Initiative Data Report, and a positive Verification Report that meets the requirements of the offsets regulation, the Offset Registrar places an offset credit for each metric tonne CO<sub>2</sub> equivalent of 97% of the eligible GHG emission reductions, avoidances or removals reported and verified for the period covered by the Initiative Data Report, rounded down to the nearest whole number, in the Offset Initiative Sponsor's CITSS account.

The offset credits corresponding to the remaining three percent of the GHG emission reductions, avoidances or removals for the period covered by the Initiative Data Report, are placed in the Ministry's CITSS Buffer Account to be used to replace offset credits that are found to be intentionally reversed, fraudulent or

not created in accordance with the regulation that are not replaced by the Offset Initiative Sponsor upon request.

### 15.2 Sequestration Offset Issuance

Upon their creation, the issued offset credits, minus the offset credits representing the percentage risk of reversal identified in the applicable protocol, will be transferred into the CITSS account of the Offset Initiative Sponsor.

The offset credits created that represent the risk of reversal as identified in the offset protocol are transferred to the Ministry's CITSS Buffer Account.

## **16.0 Initiative Reversals, Fraud and Error**

Ontario Offset Initiative Protocols and the regulation will have mechanisms in place to address permanence, including provisions to address unintentional and intentional reversals, error, and fraud.

On an ongoing basis the program will ensure that every offset credit in the system is supported by emission reductions, avoidances or removals that continue to meet the criteria of the Regulation and the offset protocols. This will be accomplished through the development of an offset buffer pool populated by the mandatory contributions of offset credits by Offset Initiative Sponsors.

In the event of an intentional or unintentional reversal the Offset Initiative Sponsor will, within 30 calendar days of the reversal give notice in writing to the Offset Registrar. The notice will include a description of and explanation for the reversal as well as the tonnes of GHGs reversed. Within six months of giving such notice to the Offset Registrar the Offset Initiative Sponsor shall submit an updated Initiative Data Report and Verification Report of the remaining inventory of emission reductions, avoidances or removals. The Offset Registrar will determine the amount of offset credits requiring replacement by the Offset Initiative Sponsor or by the regulatory authority's Buffer Pool. The offset credits to be replaced will equal the calculated number of tonnes of GHGs that are reversed.

It is understood that certain issues involved in the reversal may make it unlikely that a follow up Initiative Data Report and Verification Report can be completed within six months. In such cases the Offset Initiative Sponsor shall request, in writing, an extension to the period stating the reason for the request. .

## **17.0 Requirement to Replace Offset Credits**

The Minister would remove offset credits from an Offset Initiative Sponsor's CITSS account in the event of an intentional reversal. The regulation will also set out a requirement for the Offset Initiative Sponsor to replace offset credits for any offset credit issued for an offset initiative in the following cases:

- an intentional reversal;
- where, because of omissions, inaccuracies or false information in the information and documents provided by the applicant, the GHG emission reductions, avoidances or removals for which the offset credits were issued were not eligible for offset credits;
- where it is found that offset credits were applied for under another program for the same reductions, avoidances or removals as those covered by the application for offset credits under this Regulation;
- where the offset initiative was not carried out in accordance with the provisions of the Ontario offset protocol and /or the regulation.

In any of these cases, the Ministry will suspend the Offset Initiative Sponsor's CITSS account and notify the Offset Initiative Sponsor of the invalid offset credits. This suspension will freeze all holdings in the account including any allowances or offset credits not subject to invalidation. The Offset Initiative Sponsor will respond within 30 days to the notification of invalid offset credits. Upon receipt of the Offset Initiative Sponsor's response the Offset Registrar will make a determination of the offset credits requiring replacement. The Offset Initiative Sponsor will be required to, within 30 days of receiving the notice, place in its account a valid emission allowance or valid offset credit for each offset credit that the regulatory authority has determined must be replaced. If the invalid offset credits still reside in the Offset Initiative Sponsor's CITSS account (have not been transferred to another party) they will be removed from the Offset Initiative Sponsor's account.

If the Offset Initiative Sponsor fails to surrender the replacement emission allowances or offset credit on the expiry of the 30-day period, the Offset Registry shall remove the illegitimate offset credits from the Offset Initiative Sponsor's CITSS account. Where the reversed offset credits had been transferred to another party and the Offset Initiative Sponsor has not replaced the offset credits then the regulatory authority shall remove other valid allowances or valid offset credits from the Offset Initiative Sponsor's CITSS account. If valid compliance instruments are not available within 30 days the regulatory authority shall replace the illegitimate offset credits with an equivalent number of offset credits from the Buffer Pool account.

The Ministry will also cancel the offset credits in the buffer pool that have been rendered invalid by the intentional reversal, fraud or error.

If the Offset Initiative Sponsor fails to replace cancelled offset credits, the initiative registration would be cancelled and the initiative is removed from the Offset Registry.

## **18.0 Unintentional Reversal**

If an offset credit initiative experiences a loss in carbon sequestered due to an unintentional reversal, as described in the applicable incorporated Ontario Offset Protocol, the Ministry will retire from the Buffer Account a quantity of Ontario offset credits equal to the total number of tonnes of GHGs reversed.

The Regulatory Authority shall also invalidate the offset credits in the buffer pool that have been rendered invalid by the unintentional reversal.

## **19.0 Notification of Offset Credit Holders**

In the case of cancellation or intentional reversal the Ministry will notify the Offset Initiative Sponsor affected by the cancellation of the offset credits. The Offset Initiative Sponsor's account where the invalid offset credits were registered may be placed on hold by the Regulatory Authority until the Offset Initiative Sponsor has replaced the illegitimate offset credits. The Regulatory Authority's Buffer account will be used as required to ensure the ongoing validity of the offset system.



## **20.0 Next Steps**

The posting of this regulatory proposal is the first step in the process that will make it possible for offset initiative proponents to create compliance instruments for use in Ontario's cap and trade program. It will be posted on the Environmental Registry for 45 days, during which the input of a diverse range of groups will be sought. The feedback received will be considered for incorporation into regulatory amendments to the cap and trade regulation that will be posted near the end of 2016.

Protocols are a critical component of an offsets program. Ontario, in collaboration with Quebec, is working to develop thirteen protocols that in most cases proponents across the country will be able to follow to create offset credits eligible for use in Ontario's cap and trade program. These protocols will be adapted from the best existing protocols for each offset initiative type. The first three will be based on Quebec's existing protocols, with the remaining ten being mostly agriculture and forestry related.

Readers should note that the development of an offsets registry will include the creation of Offset Application Forms, Offsets Program Guidance, Verification System (draft of verification statement template and forms) and other implementation details will be proceeding in tandem with the refinement of this regulatory proposal.