IETA COMMENTS ON SASKATCHEWAN OFFSET FRAMEWORK DISCUSSION PAPER

The International Emissions Trading Association (IETA) appreciates this opportunity to share input on the Government of Saskatchewan’s Offset Framework Discussion Paper (the Paper). IETA is happy to see the Government build on its 2017 Prairie Resilience Plan while providing additional information on the proposed design of Saskatchewan’s provincial greenhouse gas (GHG) offsets program. We are also encouraged to see the Government’s commitment to reducing provincial GHG emissions in a flexible, cost-effective manner while attempting to align most segments of its compliance offsets program with Canada’s Federal Output-Based Pricing System (OBPS), including the proposed criteria for “Recognized Units”. IETA supports this pragmatic approach and strongly believes that such a path will deliver the best results for Saskatchewan business, communities and the climate.

IETA is the premier international business voice on climate markets and finance. Our multi-sector, non-profit organization represents over 150 international companies, including many with investments and operations providing employment and value creation across Saskatchewan and Alberta. Our expertise is regularly called-upon to inform environmental policies that deliver demonstrable GHG emission reductions, address industrial competitiveness, spur and protect jobs, enable fair and realistic program implementation, and balance economic efficiencies with societal benefits.

For two decades, our business community has remained committed to supporting flexible, least-cost market approaches to achieve climate goals that drive economic prosperity and avoid compromising competitiveness. For Saskatchewan, we believe these powerful market tools – underpinned by environmental integrity – should form the backbone of provincial climate action to 2030 and beyond.

IMPORTANCE OF OFFSETS & FUNGIBILITY

The importance of offsets in cost-effectively achieving climate goals cannot be overstated. As part of a robust emissions trading solution, offsets play a vital role in providing the greatest and broadest climate benefits in the least time for a given expenditure of societal resources, eliminating GHG emissions as efficiently as possible. Including offsets in a climate market solution provides a financial incentive that accelerates the adoption of GHG reduction activities in sectors not covered under the compliance program (be it provincially or federally administered). Such actions result in real, measurable GHG reductions, while helping to finance clean innovation – democratizing climate action to a broader range of society and engaging the imagination and participation of the people of Saskatchewan beyond the emitting sectors.
OVERVIEW & EXECUTIVE SUMMARY

IETA’s comments are structured around two sections. Section 1 features high-level priority input, generally relevant to all aspects of the Paper. Section 2 contains more detailed input associated with specific design element sections of the Paper.

Under Section 1, IETA’s high-level priority input can be summarized as follows:

1. Clear, stable rules and offsets framework to ensure market participation and confidence.
2. Support for linkage and cross-border compatibility.
3. Minimize transaction costs to project development and credit creation.

SECTION 1: HIGH-LEVEL PRIORITY INPUT ON PAPER

The following captures high-level priority input on Saskatchewan’s Offsets Framework Discussion Paper.

1.1 CLEAR, STABLE RULES AND OFFSETS FRAMEWORK

IETA supports legislative and regulatory efforts to establish a clearly-defined, predictable and transparent offsets framework over the long-term. A functioning offsets program expands market flexibility and forms a key component to the broader emissions trading system. Clear, stable and predictable regulatory language and rules, upon which all market participants can base long-term business and investment decisions, is critical. Above all, regulators must avoid introducing uncertainty with unanticipated market design changes. Unexpected offsets program design or protocol changes will have adverse impacts on market growth, confidence, and Saskatchewan’s future ability to achieve its climate goals at least-cost to businesses and consumers.

1.2 SUPPORT FOR LINKAGE AND CROSS-BORDER COMPATIBILITY

IETA strongly supports Saskatchewan’s intention to encourage fungibility beyond provincial borders. The benefits of market linking and cross-provincial/border partnerships are clear: the bigger and broader the market, the wider the range of abatement opportunities, technology innovations, and improved efficiencies, resulting in lower program costs and an expanded portfolio of emission reductions, finance and investment. We also applaud Saskatchewan’s close and ongoing collaboration with linkage partners on offset protocol and system coordination. Aligning rules, offset protocols, processes, infrastructure and other program elements across jurisdictions within Canada/potential partner jurisdictions is a cornerstone step towards building broad and effective markets. Cross-border alignment also allows project investors and businesses, particularly those facing regulatory exposure across multiple regions, to more efficiently and cost-effectively plan and invest.
Saskatchewan’s offset system should also be guided by the principle of achieving compatibility with Internationally Transferred Mitigation Outcomes (ITMOs) and cooperative approaches, as established under the 2015 international Paris Agreement. We encourage Saskatchewan to ensure that its offset program has the highest standards and clear guidelines for accounting and environmental integrity, in order to ensure that Saskatchewan’s offsets can ultimately be transferable as recognized emissions reduction units – not only across provincial borders, but also eventually across other jurisdictions in conformance to Article 6 of the international UNFCCC Paris Agreement.

### 1.3 MINIMIZE TRANSACTION COSTS

Saskatchewan’s offsets market should allow compliance units to be generated in as cost-effective a manner as possible. A meaningful offset market simply will not be possible, if transaction and development costs are too high (or opportunity too limited). To increase the number of participants in the market, protocols must be economically-viable, verification and registry costs must be reasonable, and aggregated project development should be allowed. As demonstrated in existing environmental markets, high transaction costs can cause smaller offset projects to not be developed, and therefore limit supply and drive-up overall program and compliance costs. Where possible, we encourage the use of conservative, data-driven default values in offset protocols and deployment of the most efficient current monitoring technologies and systems.

### SECTION 2: DETAILED COMMENTS ON PAPER

The following provides more detailed technical input on specific sections of Saskatchewan’s Offset Framework Discussion Paper.

### 2.1 KEY CONSIDERATIONS FOR SASKATCHEWAN’S OFFSET PROGRAM

Saskatchewan’s recognition of the considerable shift in the Canadian policy landscape with the introduction of the federal carbon levy and OBPS for large emitters – namely the opportunity for Saskatchewan to sell offset credits to facilities regulated under the OBPS in Ontario, Manitoba and New Brunswick – is a critical consideration for the province going forward. IETA not only supports but applauds the proposed move for Saskatchewan offset credits to align/meet the federal essential offset criteria, with the aim of having provincial units considered eligible as “Recognized Units” under the federal system.

We encourage strong engagement between Saskatchewan officials and Federal officials as both Pan-Canadian and Saskatchewan offset systems evolve and are implemented. Our community also endorses the Paper’s strong consideration for balancing the fungibility of offset credits with enabling more provincial offsets supply – to support future levels that match potentially more stringent federal criteria and demand requirements. These opportunities and trade-offs should continue to be a front and centre consideration throughout the design and execution of Saskatchewan’s offset system.
2.2 Core Design Elements of Offset Systems

IETA strongly endorses the proposed core design elements, as listed in the paper (i.e., Real, Verifiable, Additional, Permanent, Enforceable, Single Use). We are also pleased to see that these criteria reflect the latest direction of the Canadian Council of Ministers of Environment (CCME)’s collaborative approach to the Pan-Canadian GHG offsets framework.

We recommend that two additional core elements be added when designing Saskatchewan’s offset program: 1) eligibility; and 2) fungibility. Achieving eligibility for Saskatchewan’s offset program and credits will allow opportunities for Saskatchewan to sell credits into other provincial carbon markets, offer low-cost abatement options for these outside regions and businesses, and attract significant volumes of clean investment and capital to the province. Facilitating fungibility – and identifying this as a criterion – should be a key consideration, given the benefits of regional linkages and cooperative approaches especially for a jurisdiction with Saskatchewan’s unique emissions and land-use profile.

With respect to the permanence criterion, IETA suggests that Saskatchewan consider alternative methods of quantification, such as tonne-year and hybrid approaches, to ensure real offsets are based on climate impacts. This particularly important when considering soil carbon and biomass carbon storage and sequestration.

2.3 Start Dates, Crediting Periods and Baselines

Start Dates: The eligible start date for offset credits in Saskatchewan’s program should allow for early action projects and not be as restrictive, to allow for reasonable offset volumes to be available in the early days of a newly established system. Analysis of market supply and demand should be undertaken before commitments are made on project start dates. There is an important trade-off for Saskatchewan to consider when deciding on a project start date: the earlier the start date (i.e., 2010), the more offsets supply will be available and early action by project developers will be recognized; however, allowing offset credits awarded to projects before 2017 could jeopardize the eligibility of Saskatchewan’s credits as recognized units under the federal program. IETA recognizes the importance of meeting the federal criteria for recognized units, and encourages Saskatchewan to carefully consider these trade-offs as the program is designed.

Crediting Periods: Pre-determined crediting periods are important to allow for investment confidence in offset projects. A 7 to 10-year crediting period appears reasonable. We recommend a 10-year period to minimize the administrative burden of extension requests and approvals. IETA supports longer crediting periods for storage-based projects relative to non-storage-based projects. Crediting period extensions should not be limited, but rather consider the additionality of projects at the time of extension request.
Baselines: Baselines should be determined on a project-specific basis, such that each project developer must prepare and justify their own baseline estimates. Project developers should be able to justify whether their baseline scenarios reflect local common practice or historical practice.

2.4 ELIGIBILITY, OWNERSHIP AND AGGREGATORS

Eligibility: IETA recommends that Saskatchewan consider the inclusion of certain chlorofluorocarbons (CFCs) and hydrofluorocarbons (HFCs), if appropriate. We commend Saskatchewan for identifying the important consideration of which set of GHGs and Global Warming Potentials should be adopted (IPCC or NIR) – and the trade-off between taking a proactive approach (IPCC) and maintaining consistency (NIR). IETA recognizes that consistency across regulations might be the most important consideration, including maintaining uniform accounting of GHG emissions across the Pan-Canadian climate policy landscape. IETA encourages Saskatchewan to carefully consider these trade-offs as the program is designed.

Location: We urge Saskatchewan to allow for the use of compliance offsets already issued by other Canadian governments across existing carbon programs. These real reductions should be recognized as compliance units to help Saskatchewan entities meet provincial obligations. Recognizing credits from jurisdictions with established programs will allow Saskatchewan to immediately account for reductions and necessary “out of the gate” supply, while mitigating compliance costs for facilities in the province. This approach will also allow Saskatchewan to draw-upon the experience from regions that currently have effective pricing systems, while developing its own experience and systems in tandem. The easiest way to enable this form of one-way credit fungibility is to rely on the rules and parameters for compliance (offset and surplus) credit generation in already-existing systems, including compatibility with Canada’s federal OBPS offsets program which is currently under development.

Ownership: IETA encourages an approach to ownership of least interference possible, meaning that ownership is established between the parties involved in project development. Project developers (aggregators included) should declare and prove ownership at project registration. In cases where an entity does not have clear ownership of the physical infrastructure (e.g., land, equipment) or intellectual property, all stakeholders should reach consensus on ownership and demonstrate their agreement in a legally enforceable contract. Note that IETA currently supports the Government of Canada’s proposed requirements for ownership of provincial offset (Recognized Units), including: mechanisms to establish clear ownership and dispute-resolution; and an offset credit tracking system that enables transparent reporting and auditable recordkeeping.

Aggregators: IETA strongly supports permitting aggregators in Saskatchewan’s offset system. Aggregation is an effective way to bring value to smaller project proponents (e.g., single farms) who are reducing and should be compensated for their efforts. Many successful project types, especially in forestry and agriculture, are not viable without aggregation. Aggregation is very common in existing compliance carbon markets and should be allowed in Saskatchewan’s offset program.
Concerns over transparency of pricing could be alleviated with better communication about the market both by government and aggregators. The onus should largely be on project developers to understand whether they are receiving value for their offsets – some communications, outreach and capacity building efforts would help deepen understanding across core stakeholder groups.

### 2.5 QUANTIFICATION PROTOCOLS

IETA appreciates Saskatchewan’s careful consideration of the federal OBPS criteria as they design the provincial offset system. In the case of quantification protocols, we encourage Saskatchewan to meet all federal criteria.

It is important that protocol and project developers know the timeframes for protocol approval. **Outlining the protocol review process and expected timelines should be a priority action.**

IETA strongly encourages Saskatchewan to review and accept current offset protocols from other jurisdictions. This will allow for quick, early adoption in the market – providing the needed supply of offsets, especially in the early years. We recommend that Saskatchewan consider an early adoption of Alberta’s pneumatics, agriculture (i.e. NERP), grasslands, forestry and other protocols. Clear decision-making criteria and transparency on the decision-making process should be a key consideration. The additionality criterion that requires the need for financial additionality should be only considered for extension requests.

### 2.6 VALIDATION, VERIFICATION, GOVERNMENT AUDITS

Verification should be a critical component of the Saskatchewan offsets program, and it would be prudent to align with federal OBPS requirements for third-party verification. Validation should not be mandatory, but could be made available to project developers who choose the extra assurance.

Government audits of projects must occur in the year a project is registered rather than in the future when credits are retired for compliance. IETA encourages Saskatchewan to adopt a process of random audits, similar to the process followed by Alberta.

### 2.7 OFFSET CREDIT REGISTRY

When considering enforcement and fungibility, there should be emphasis on an efficient system and registry, where there is no duplication of review processes. A structure similar to Alberta is encouraged, where the Registry reviews and approves serialization, and where the verifier and verification report provide the technical support for serialization and issuance. The structure in California is more prone to discourage fungibility, as there is a duplication of the review process which can cause long delays and uncertainty when issuing offsets that can lead to market inefficiencies. IETA supports the approach of not
imposing initial arbitrary restrictions on offset expiry. The system could be revised in future years based on a robust market analysis of supply and demand to correct for any market deficiencies.

2.8 RECORDS, REVERSALS AND PENALTIES

To support fungibility and encourage broad participation in commercial transactions, IETA strongly supports an insurance-based approach to managing revocation and replacement risk for compliance credits. It is reasonable for the risk of revocation and replacement to be held by someone in the transaction chain to incent the appropriate scrutiny and assignment of accountability to protect against bad actors in the market. However, to provide credit purchasers and producers with some protection against unquantifiable cost to replace revoked credits, IETA suggest that insurance-based policies for invalidation be adopted. In many instances, leakage or reversals are better assessed and managed at a protocol level. It can often be excessively burdensome and/or inaccurate to assess and manage at a system level, such as by applying an overarching 10% risk factor to all projects. IETA recommends establishing guidance in the relevant protocols for how to determine leakage.

The penalties associated with intentionally causing a reversal should incorporate a payback ratio of 1:1. A buffer account should be established and used in cases of invalidation, so credit purchasers can be confident in the validity of credits purchased in good faith. Similarly, credit generators (project developers) can have a known, identifiable cost associated with protection against revocation risk. The buffer account should be accessible to replace credits which are revoked due to issues outside the control of the issuing facility. In cases of fraud or negligence, including errors or omissions under the control of the issuing facility, responsibility for replacement must sit with the facility to encourage the appropriate due diligence ensuring all issued credits are done so with the utmost scrutiny and attention to detail.

CONCLUSION

Once again, IETA appreciates this important opportunity to record our comments on Saskatchewan’s Offset Framework Discussion Paper. Our input is a result of deep experience and lessons learned across North American and global environmental markets. Our community looks forward to future engagement with Saskatchewan Ministry of Environment officials as rules and frameworks are finalized. If you have questions or require further information, please contact Ellen Lourie at lourie@ieta.org.