



TURNING THE CORNER

March 2008

Canada's Credit for Early Action Program



Government
of Canada

Gouvernement
du Canada

Canada

For more information:

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TABLE OF CONTENTS

SUMMARY	iii
1. INTRODUCTION	1
Background	1
Purpose of this Document	1
Program Objective	2
Guiding Principles	2
Participants	2
2. CHARACTERISTICS OF EARLY ACTION CREDITS	4
3. APPLICATION PROCESS	5
Phase I: Initial Information Submission	6
Phase II: Final Submission	6
Phase III: Allocation of Entitlement to Early Action Credits	7
Fees	7
4. PROGRAM REQUIREMENTS	8
Eligibility	8
Incrementality	8
Allocation and Issuance of Early Action Credits	9
Quantification	9
Project Review	10
Confidentiality	10
5. TIMING OF IMPLEMENTATION	11
6. DEFINITIONS	12

SUMMARY

Purpose of this document

This document is intended to seek feedback on the proposed Credit for Early Action Program, including eligibility rules and the process for allocating credits. Comments will be accepted up to May 14, 2008.

- The Credit for Early Action Program will recognize firms that took verified early action to reduce greenhouse gases between 1992 and 2006. The purpose is to address the disadvantage that a firm could incur for having undertaken an incremental action to reduce greenhouse gases before the regulatory regime was set out.
- The Program will provide a one-time allocation of credits in recognition of greenhouse gas reductions achieved by industrial entities that will be subject to the proposed industrial air emissions regulations in 2010. To be recognized, the early action must have been beyond usual business conditions when it was implemented.
- The early action credit budget has been established at a maximum of 15 megatonnes. A *pro rata* allocation will be used if the eligible reductions exceed the 15 megatonnes.
- Five megatonnes of credits will be issued to successful applicants in each of 2010, 2011 and 2012. Each individual allocation of credits will be divided into equal parts over these three years.
- The proposed industrial air emissions regulations will set out the conditions under which regulated entities will be able to use early action credits to comply with their obligations.
- The Program will be implemented using a three-step process.

Phase I (May – June 2008): The “initial information submission phase” will generate information that will help the Government estimate the total potential claim on the early action budget and allow potential applicants to test whether they wish to participate in the next phase of the Program.

Phase II (February – April 2009): The “final submission phase” will provide the Program with all the information it needs to make final allocation decisions.

Phase III (July 2009): The Government will allocate entitlement to early action credits.

- Only those applicants that provide the required information in the first phase will be eligible to participate in the second phase and to receive early action credits.

1. INTRODUCTION

Background

In April 2007, the Government of Canada released *Turning the Corner: an Action Plan to Reduce Greenhouse Gases and Air Pollution*. It outlined the Government's approach to reducing greenhouse gas and air pollutant emissions. Among other things, reductions are proposed to be mandated through regulations applied in major industrial sectors. In the case of greenhouse gases, the regulations would set a 2010 implementation date for emission-intensity reduction targets for regulated entities.

Turning the Corner sets out several compliance mechanisms to provide industry with flexibility in meeting regulatory obligations. One such mechanism is the Credit for Early Action Program, which recognizes firms that took verified early action to reduce greenhouse gases between 1992 and 2006.

April 2007 *Turning the Corner* on Credit for Early Action

"Firms in a number of sectors have made efforts over the last decade to reduce emissions. There would be a one-time allocation of credits to those firms covered by the proposed regulations that took verified action to reduce their greenhouse gas emissions between 1992 and 2006. A maximum of 15 megatonnes would be allocated, with no more than 5 megatonnes to be used in any one year.

Firms would be invited to make a one-time application where they would submit evidence of changes in processes or facility improvements they undertook that resulted in incremental greenhouse gas emission reductions in the specified timeframe. There would be eligibility criteria to determine which emission reduction activities would be considered, and evidence of emission reductions would be audited. Once all applications were received, the reserve would be allocated to all qualifying applicants on a *pro rata* basis. The maximum allocation for emission reductions would be one credit for one tonne of carbon dioxide equivalent reduction. If the total tonnage of emission reductions applied for were to exceed 15 megatonnes, the credits would be distributed to individual firms in proportion to their contribution to the total emission reduction achieved."

Purpose of this Document

This paper is intended to seek feedback on the proposed Credit for Early Action Program, including eligibility rules and the process for allocating credits.

Written comments on the proposed Credit for Early Action Program will be accepted up to May 14, 2008. Please send input to:

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This paper also introduces a number of technical issues around quantification of greenhouse reductions and evidence. These issues will be addressed in more detail in the "Guidance Manual for Applicants for Early Action Credits". The Guidance Manual will provide detailed technical guidance to applicants wishing to have their actions to reduce greenhouse gases recognized under this Program. It will provide information on acceptable approaches to quantifying greenhouse gas reductions and guidance on required evidence to demonstrate early action. The Government will consult on the draft Guidance Manual in Fall 2008.

Program Objective

The objective of the Credit for Early Action Program is to recognize actions implemented to achieve an incremental reduction in greenhouse gases. Its purpose is to address the disadvantage that a firm could incur for having undertaken an incremental action to reduce greenhouse gases before the regulatory regime was set out.

The Program will provide a one-time allocation of credits in recognition of greenhouse gas reductions achieved by industrial entities that will be subject to the proposed regulations in 2010. These actions must have been achieved between 1992 and 2006 as a result of an incremental process change or facility improvement. The total early action credit budget has been fixed at 15 megatonnes. A *pro rata* allocation of the budget will be used if the eligible reductions exceed 15 megatonnes.

The Credit for Early Action Program will be administered as a voluntary program under the *Canadian Environmental Protection Act, 1999*. **The proposed industrial air emissions regulations will set out the conditions under which regulated entities will be able to use early action credits to comply with their obligations.**

Guiding Principles

The design of the Credit for Early Action Program is based on the following principles, which reflect input received following the publication of *Turning the Corner*:

1. *Simplicity and cost-effectiveness* – The Program will impose the lowest cost possible on government and industry that is consistent with the level of rigour needed.
2. *Fairness* – Facilities that wish to have actions considered for recognition will have an equal opportunity and all submissions will undergo the same evaluation process.
3. *Transparency* – The Program rules, technical guidance and approach to making allocation decisions will be clearly expressed and publicly available.
4. *Consistency* – Decisions on issues such as technical guidance and evaluation of submissions will be as consistent as possible across sectors.

Participants

Government of Canada

The Government is responsible for the design and operation of the Program, including

- developing the guidance documentation;

- overseeing application processes;
- evaluating submissions; and
- allocating and issuing early action credits.

The Government will also establish a system for tracking all credits from issuance to retirement or cancellation (the “unit tracking system”).

Applicants

The operator of the facility that took the early action can apply for early action credits and is responsible for preparing its submissions. In order to complete a submission, the applicant needs to

- establish the baseline;
- quantify reductions;
- provide evidence to support the claim, including assurance from a third-party verifier; and
- provide the Program with the completed submission.

Successful applicants will need to establish an account in the unit tracking system to receive their credits.

Firms that claim early action credits are responsible for resolving any disputes over entitlement to the greenhouse gas reductions. When aware of an unresolved dispute, the Program may delay the allocation of early action credits to those parties.

2. CHARACTERISTICS OF EARLY ACTION CREDITS

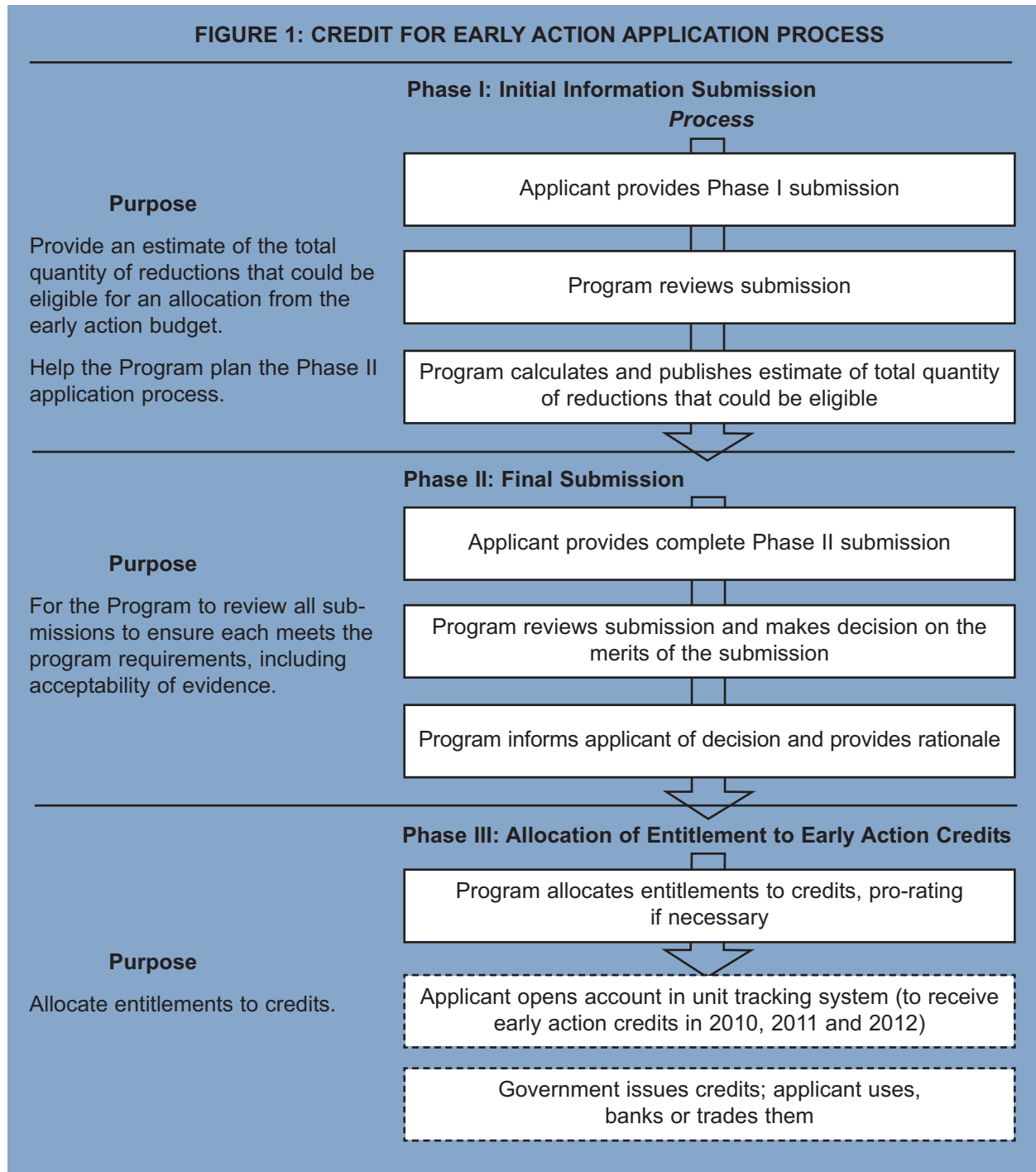
Early action credits would have the following characteristics:

1. *Unique* – Each credit will have a unique serial number and will be tracked from issuance to retirement or cancellation. Credits will be issued in whole units of one tonne of carbon dioxide equivalent (CO₂e).
2. *Earned* – The Government will only allocate and issue credits to industrial facilities when greenhouse gas reductions can be demonstrated in accordance with the program requirements.
3. *Uses for regulatory compliance* – The proposed industrial air emissions regulations will set out the conditions under which regulated entities will be able to use early action credits to comply with their obligations. The value of each early action credit for the purposes of compliance will not be finalized until the industrial air emissions regulations come into force. It is anticipated that the regulations will provide for the following:
 - The credits will be *tradable* – Once issued, credits can be traded among facilities subject to the regulations, as well as with other market participants.
 - The credits will be *bankable* – Credits can be banked (retained for future use) without restriction.
 - Regulated parties will be able to use one early action credit to satisfy a compliance obligation of one tonne of carbon dioxide equivalent.

The market will determine the financial value, if any, of early action credits.

3. APPLICATION PROCESS

FIGURE 1: CREDIT FOR EARLY ACTION APPLICATION PROCESS



The application process will have three phases.

Following a 60-day comment period for this overview paper, the Program will publish the Phase I submission requirements and launch Phase I.

Phase I: Initial Information Submission (May – June 2008)

Purpose: To generate information that will

- allow the Government to estimate the total quantity of reductions that could be eligible for an allocation from the early action budget; and
- help the Program to plan the Phase II application process.

Outcome: In July, 2008, a published estimate of the total potential claim on the early action budget which, among other things, will allow potential applicants to determine whether they wish to continue to participate in Phase II.

Process:

- Using the instructions and submission template for Phase I (to be provided by the Program), applicants will provide the Program with
 - information on the type of evidence they propose to provide in Phase II;
 - an estimate of the number of tonnes they will claim for early action; and
 - the quantification approach they used to develop the estimate.
- The Program will review each submission, and will publish an estimate of the total potential claim on the early action budget.

Applicants must complete one submission template per action for which they are seeking early action credits.

Phase II: Final Submission (February – April 2009)

The Program will consult on a draft “Guidance Manual for Applicants for Early Action Credits” in Fall 2008. The Guidance Manual will address

- acceptable evidence to demonstrate that an action was incremental and continued up to December 31, 2006;
- acceptable approaches to establishing the baseline;
- defined quantification approaches for certain actions; and
- conditions under which an applicant can use its own quantification approach.

The Program will publish the final Guidance Manual and any associated documents, and launch the Phase II submission process in early Winter 2009. Applicants will have three months to make their submissions.

Purpose: To provide the Program with all the information it needs to make final allocation decisions.

Outcome: Applicants are notified as to the eligibility of their claim and the rationale for the decision.

Process:

Phase II will only be open to applicants that provided the required information in Phase I

- Using the “Guidance Manual for Applicants for Early Action Credits”, and the instructions and submission template for Phase II (to be provided by the Program), applicants will submit the evidence and technical information required. A Help Desk will assist applicants with inquiries.
- The Program will review and make decisions on the eligibility of each submission, including the acceptability of the evidence, and advise each applicant of the outcome, providing a rationale for the decision taken. Occasionally, the Program will undertake a more detailed review of a submission.
- For each submission, the Program will provide the applicant with a notification of the proposed decision. The applicant will have a specified period of time to respond. The Program will evaluate any additional information provided, and will then provide the applicant with the final decision.

Applicants must complete one submission template per action for which they are seeking early action credits.

Phase III: Allocation of Entitlement to Early Action Credits (July 2009)

Purpose: Allocation of entitlements to up to 15 megatonnes of early action credits, using a *pro rata* distribution, if necessary.

Process:

- The Program will allocate all eligible entitlements to credits, using a *pro rata* distribution if eligible reductions exceed the 15 megatonnes budget.
- The Program will notify applicants of the number of credits to which they are entitled.

Outcome:

- The Government will issue early action credits in three equal parts in 2010, 2011 and 2012.
- Firms that are awarded early action credits will need to open an account in the unit tracking system to receive the credits.

Fees

The Government will not charge fees for submissions for early action credits. It is anticipated that fees will be required to establish an account in the unit tracking system and to move credits among accounts in the system.

4. PROGRAM REQUIREMENTS

Eligibility

An action to reduce greenhouse gases is eligible for early action credits if:

- The action reduced emissions of one or more of the following greenhouse gases: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).
- The action occurred in a facility that meets one of the “facility definitions” outlined in schedules 5 to 14 and 16 to 19 of the December 8, 2007 Section 71 Notice,¹ and the emissions from or capacity of the facility (in 2006) exceeds the minimum threshold specified in section 4.2 of the *Regulatory Framework for Industrial Greenhouse Gas Emissions*. Natural gas distribution facilities (in schedule 13) are excluded.
- The initial reductions from the action(s) occurred in 1992 or later, and the reductions continued at least until December 31, 2006.
- The action was beyond usual business conditions when it was implemented.

Incrementality

To be eligible, reductions must have been caused by “incremental” actions: that is, the reductions must have resulted from an action that was beyond usual business conditions when it was implemented.

An action to reduce greenhouse gases is not eligible for early action recognition if it was

- undertaken to meet a requirement of a federal, provincial or territorial statute or regulation, with a defined date when the requirement must be satisfied and a clear target (for example, emissions cap, performance standard, rate of annual improvement from a baseline);
- a result of a direct federal, provincial or territorial climate change incentive other than an accelerated capital cost allowance;
- part of standard improvement in line with changes generally occurring in the industry;
- a result of reductions in production activity or shut-downs; or
- implemented outside the facility’s boundary (for example, reforestation projects, transportation of goods offsite).

It is therefore possible that only some of the reductions from an action will be eligible.

Evidence of financial incrementality – that is, where an action to reduce greenhouse gases would not have proceeded without the expectation of some future financial benefit – is not required.

¹ “Notice with Respect to Reporting of Information on Air Pollutants, Greenhouse Gases and Other Substances for the 2006 Calendar Year” found in the *Supplement to the Canada Gazette*, Vol. 141, No. 49, December 8, 2007.

Allocation and Issuance of Early Action Credits

There will be no division or initial allocation of the 15 megatonnes credit budget on the basis of sector or region.

The Program will allocate up to 15 megatonnes of early action credits. Credits will be allocated at a maximum rate of one credit per tonne (carbon dioxide equivalent) of eligible reduction.

A maximum of five megatonnes of credits will be issued in each of 2010, 2011 and 2012. Each individual allocation of credits will be divided over these years. If the quantity of eligible reductions exceeds 15 megatonnes, a *pro rata* allocation will be used.

Quantification

This section introduces a number of technical issues related to the quantification of greenhouse gas reductions. These issues will be dealt with in greater detail in the "Guidance Manual for Applicants for Early Action Credits". The Government will consult on the draft Guidance Manual in Fall 2008.

Approach to Quantifying Greenhouse Gas Reductions

For the purpose of the Program, greenhouse gas reductions will be calculated as the difference between what the emissions would have been in the absence of the action (that is, under usual business conditions) and the emissions that occurred with the action in place.

To quantify eligible reductions

- applicants will establish a baseline, representing the conditions most likely to have occurred in the absence of the action;
- for certain activities, the Program will specify the approach to quantify reductions; and
- for other specified activities, applicants will be allowed to use their own approach provided that specific criteria are met.

Quantification approaches must calculate greenhouse gas reductions net of leakage.

Calculating Greenhouse Gas Reductions

Applicants may use either of the following two methods to calculate greenhouse gas reductions over the implementation period up to and including 2006:

Method 1:

- Quantify the change in emission intensity for the first full year of implementation of the action.
- Multiply the emission intensity from the first full year of implementation by production or output related to that action in each subsequent year, including 2006.
- Sum the total reductions from the first year of implementation through 2006.

OR

Method 2:

- Quantify the change in emission intensity for the 'best year'.

- Multiply the emission intensity from the 'best year' by production or output related to that action in each subsequent year, including 2006.
- Sum the total reductions from the 'best year' through 2006.
- The applicant can choose the 'best year', but reductions will only be aggregated from that year onward.

There will be no premium for earlier versus later reductions.

Project Review

Evidence that the reductions meet all the eligibility requirements must be provided and available for the Program to review.

Third-party verification will be required. The Program will provide guidance on acceptable verification. Applicants are responsible for paying the costs of verification.

Confidentiality

In order to provide transparency to the public, the Program will publish selected information from the application process. At all times, the confidentiality provisions of the *Canadian Environmental Protection Act, 1999*, the *Access to Information Act* and the *Privacy Act* will be respected.

5. TIMING OF IMPLEMENTATION

The proposed implementation schedule is as follows:

Activity	Timing
Comment period for this program overview paper	To May 14, 2008
Publish Phase I submission requirements and launch Phase I	June 2, 2008
Close of Phase I submission period	June 27, 2008
Publish an estimate of total potential claim on early action budget	July 28, 2008
Consultation on the draft “Guidance Manual for Applicants for Early Action Credits”	December 2008
Publish final “Guidance Manual for Applicants for Early Action Credits” and launch Phase II	February 2009
End of Phase II submission period	April 2009
Program makes allocation decisions	July 2009

6. DEFINITIONS

Allocation – Determining the total number of credits to be issued to an industrial entity.

Baseline – The hypothetical reference case against which the performance of an action will be measured.

Cancellation – The use of a credit for purposes other than complying with the proposed industrial air emission regulations.

Carbon dioxide equivalent – A unit that expresses any greenhouse gas in terms of carbon dioxide, calculated using the mass of a given greenhouse gas multiplied by its global warming potential. In more technical terms it is a unit that expresses the radiative forcing of a mass of a given greenhouse gas in terms of a mass of carbon dioxide with equivalent radiative forcing.

Emission intensity – Greenhouse gases per unit of production or output.

Facility – All buildings, equipment, structures and stationary items that (i) are located on a single site, or on contiguous sites or adjacent sites; (ii) are owned or operated by the same person; and (iii) function as a single integrated site.

Greenhouse Gas – A gas emitted to the atmosphere from natural sources and as the result of human activity. Greenhouse gases both absorb and reflect the sun's radiation.

Issuance – The deposit of credits into a firm's account (in the unit tracking system).

Leakage – A rise in emissions outside the facility's boundary that is a result of an action to reduce the greenhouse gases of the facility.

Operator – The person, or persons, owning or having charge, management or control of a facility.

Reduction (greenhouse gases) – A decrease in greenhouse gas emissions released into the atmosphere by a source.

Retirement – The transfer of a credit into a retirement account in the unit tracking system in order to comply with a regulatory requirement.

Verification – Process for establishing whether a statement or information about greenhouse gas reductions achieved is accurate.