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Guidance on Using Eligible Alberta Emission Offsets as Recognized Units for Compensation under the Federal OBPS

The following guidance is intended for persons responsible for covered facilities under the federal Output-Based Pricing System Regulations (OBPS Regulations) who choose to remit eligible emission offsets from the Alberta Emission Offset System as recognized units for the purposes of providing compensation for excess emissions. Readers are also urged to consult the companion document General OBPS.

Overview

The Alberta Emission Offset System is a recognized offset program that appears on the <u>List of Recognized Offset Programs and Protocols for the Federal OBPS</u> published on the Environment and Climate Change Canada website. Alberta emission offsets remitted as recognized units for compensation under the federal Output-Based Pricing System (OBPS) must be generated from a recognized offset protocol that also appears on the List of Recognized Offset Programs and Protocols for the Federal OBPS. Furthermore, the emission offsets must meet all recognized unit criteria outlined in subsections 78(1) and 78(4) of the OBPS Regulations and have a status of *Retired - Federal OBPS* in the Alberta Emissions Offset Registry (AEOR)¹.

In order to allow sufficient time for Alberta's review and retirement process, persons responsible for a covered facility under the OBPS Regulations (persons responsible) should make requests for retirement of eligible Alberta emission offsets in the AEOR by the deadline in Table AB1 below. Requests for retirement made in the AEOR after the deadline in Table AB1 may not be completed in time for persons responsible to remit the emission offsets as recognized units for compensation under the federal OBPS by the regular-rate compensation deadline. In this case, it would be up to the person responsible to provide compensation using other options, such as providing other compliance units or making an excess emission charge payment. Any portion of compensation provided after the regular-rate compensation deadline is subject to the increased-rate and/or penalties.

Persons responsible should be mindful of all key dates in Table AB1 below when using Alberta emission offsets as recognized units for the 2019 and 2020 compliance periods under the federal OBPS.

¹ The AEOR website can be found here: https://alberta.csaregistries.ca/

Table AB1: Key Dates for Using Alberta Emission Offsets as Recognized Units for Compensation under the Federal OBPS

Key Date Description	2019 Compliance period	2020 Compliance period
Person responsible can access Alberta Emissions Offset Registry (AEOR) and create an account (Section 1)	Now Available	Now Available
Deadline for person responsible to submit an annual report under the OBPS Regulations to Environment and Climate Change Canada	October 1, 2020	June 1, 2021
DEADLINE FOR REQUESTING RETIREMENT OF ALBERTA EMISSON OFFSETS: Persons responsible should submit a status change request in the AEOR for emission offsets held in their account from Active to Pending Retire - Federal OBPS by this date. Requests made afterwards may not result in a subsequent status change to Retired - Federal OBPS in time for remittance by the regular-rate compensation deadline as recognized units under the federal OBPS (Section 4, Step 1)	October 22, 2020	June 30, 2021
Environment and Climate Change Canada will notify persons responsible by this date if the status of their emission offsets cannot be changed to <i>Retired - Federal OBPS</i> based on information provided by Alberta (Section 4, Step 3b)	March 15, 2021	November 15, 2021
Regular-rate compensation deadline for providing compensation for excess emissions under the federal OBPS	April 15, 2021	December 15, 2021
Increased-rate compensation deadline for providing compensation for excess emissions under the federal OBPS	June 15, 2021	February 15, 2022

An overview of the process for using Alberta emission offsets as recognized units for compensation under the federal OBPS is shown in Figure AB1 below.

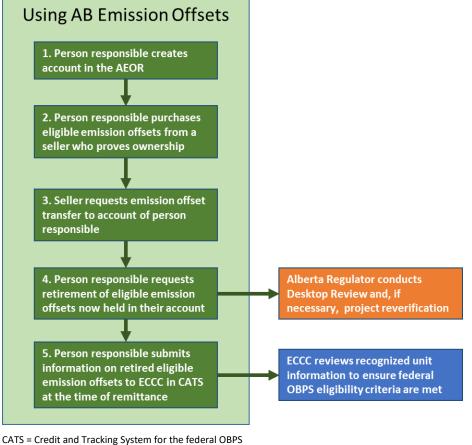


Figure AB1: Steps for Using Alberta Emission Offsets as Compensation under the Federal OBPS

ECCC = Environment and Climate Change Canada

The following sections outline these steps in more detail.

1. Create an Account in the Alberta Emission Offset Registry (AEOR)

In order to acquire eligible emission offsets from the Alberta Emission Offset System, a person responsible can create an account in the AEOR. As an AEOR account holder, a person responsible is subject to AEOR rules and requirements. There are no fees for account creation, but transaction fees apply for transferring offsets between accounts and status change requests, such as retiring emission offsets.

A registry manual with more details can be found on the AEOR website here.

<u>IMPORTANT:</u> Please ensure the new AEOR account name is created to exactly match the name of the person responsible as it appears on the most recent Covered Facility Certificate issued for the facility under the federal OBPS.

August 2020

2. Purchase Eligible Alberta Emission Offsets

It is up to the person responsible to determine if Alberta emission offsets meet the eligibility criteria in section 78 of the OBPS Regulations for use as a recognized unit prior to their purchase. Purchases of Alberta emission offsets occur outside the AEOR through bilateral contracts between buyer and seller. A person responsible should purchase eligible emission offsets from another AEOR account holder who can demonstrate ownership of the emission offsets as well as provide evidence of the emission reduction project activity.

Ownership is demonstrated if the public AEOR project listing shows that the emission offsets are currently in the seller's account. A person responsible should purchase eligible emission offsets that appear on the AEOR website as *Active*, and not in any other status such as *Removed, Cancelled, Pending Transfer, Pending Retirement, Retired or Retired for Compliance*.

The AEOR website does not facilitate financial transactions for the purchase and sale of emission offsets, nor does it serve a record-keeping function. All records, such as purchase contracts, project plans/reports, verification reports and aggregated planning/reporting sheets should be maintained by the contracting parties externally.

2.1 Conformance with requirements in OBPS Regulations

A person responsible is encouraged to review the Alberta Emission Offset System's rules and requirements², and should ensure all criteria from subsection 78(4) of the OBPS Regulations are satisfied when negotiating the purchase of Alberta emission offsets for the purposes of remitting them as recognized units for compensation under the federal OBPS. If Alberta emission offsets remitted to Environment and Climate Change Canada as compensation under the federal OBPS do not meet all criteria in the OBPS Regulations, a delay or default in providing compensation could result. Any portion of compensation not remitted before the regular-rate compensation deadline would be subject to the increased rate and/or penalties.

In particular, paragraph 78(4)(c) of the OBPS Regulations requires that **at the time of remittance**, a recognized unit must:

have been issued in respect of a project located in Canada that began in 2017 or later;

As such, the offset project from which an Alberta emission offset is generated must have an "activity start date" of January 1, 2017 or later in the AEOR for the emission offsets to be eligible for use as recognized units for compensation under the federal OBPS. At the time of remitting eligible Alberta emission offsets as recognized units for compensation, persons responsible must provide the start date of the offset project for which the emission offset was issued, which in Alberta is the activity start date, to satisfy subparagraph 58(g)(v) of the OBPS Regulations. Alberta's activity start date means, "the first day on which the action that is the subject of an emission offset project, or of an emission offset subproject,

² Alberta Emission Offset System webpage: https://www.alberta.ca/alberta-emission-offset-system.aspx

starts" which is not the same as the offset start date. Alberta's offset start date is the first day of the offset crediting period.

Activity start date can be found on the AEOR by clicking on the offset project details page that displays the Alberta emission offset issuances and holdings from that project. For aggregated projects, activity start date for aggregated projects will not be shown on the AEOR, see text box below for more details.

NOTE ON AGGREGATED PROJECTS: In the case of an aggregated project with multiple subprojects, the earliest activity start date of all subprojects listed in the projects Aggregated Project Planning Sheet (APPS) will be used to make an overall determination on whether the project's associated emission offsets satisfy recognized unit eligibility criteria of paragraph 78(4)(c) in of the OBPS Regulations. The activity start date for aggregated projects will not be displayed on the AEOR and therefore a person responsible should request a copy of the most recent APPS and all Aggregated Project Reporting Sheets (APRS), as identified in section 8.1 of *Alberta's Standard for Greenhouse Gas Emission Offset Project Developers*, from the project proponent or seller to confirm the earliest activity start date of all subprojects.

Subsequent to initial registration in the Alberta Emission Offset System, aggregated projects may have new subprojects added later on during the offset crediting period. If a subproject with an activity start date prior to 2017 is added to an aggregated project, all emission offsets from that aggregated project will no longer meet criteria of paragraph 78(4)(c) of the OBPS Regulations and will no longer be eligible for future remittance as recognized units for compensation under the federal OBPS. This will not affect the validity of emission offsets from this aggregated project, if they were previously deemed eligible at the time of remittance as recognized units for compensation under the federal OBPS, and they continue to be valid in the Alberta Emissions Offset System.

If one or more subprojects with an activity start date prior to January 1, 2017 are added to an aggregated project after a responsible person purchases emission offsets from that aggregated project, the responsible person may not be entitled to reimbursement or replacement of ineligible emission offsets from the seller unless stipulated in a purchase contract.

Project proponents may move subprojects from one aggregated project to another upon approval by the Alberta Regulator as described in Alberta's *Standard for Greenhouse Gas Emission Offset Project Developers*. After eligible subprojects are moved to a new aggregated project, the "offset start date", which signals the beginning of the crediting period, may be earlier than the activity start date in the new aggregated project in order to maintain crediting period length for the subprojects as initially established in the original aggregated project. Aggregated projects will be deemed to satisfy criteria of paragraph 78(4)(c) of the OBPS Regulations if the activity start dates of all subprojects are on or after January 1, 2017, regardless of the offset start date.

³ Alberta Standard for GHG Emission Offset Project Developers, version 3.0, November 2019: https://open.alberta.ca/publications/standard-for-greenhouse-gas-emission-offset-project-developers-version-3

The activity start date may also be found in the offset project plan and the offset project report. Offset project reports correspond to distinct reporting periods and are published upon each emission offset serialization event. Offset project reports can be found on the public AEOR web page for the emission offset project. In the Alberta Emission Offset System, the vintage of an emission offset is the year in which the GHG reductions or sequestrations occurred (GHG Reduction Year). Verified offset project reports define the year in which GHG reductions or sequestrations occurred, determining the vintage year of emission offsets serialized on the AEOR.

As well, paragraph 78(4)(d) of the OBPS Regulations requires that at the time of remittance, a recognized unit must:

have been verified by a verification body that

- i. is accredited as a verification body to the ISO Standard 14065 by the Standards Council of Canada, the American National Standards Institute or any other accreditation organization that is a member of the International Accreditation Forum, and
- ii. is not suspended by the accreditation organization that issued its accreditation.

In order to satisfy this criteria, Alberta emission offsets must represent GHG emissions reductions, removals or sequestrations included in an emission offset project report that was verified by an accredited verification body. A person responsible can access the verification report associated with the relevant offset project report within the AEOR project details web page to confirm the identity of the verification body. The accreditation status of the verification body can then be found on the website listing of the relevant accreditation body, such as the <u>Standards Council of Canada</u> or the <u>ANSI National Accreditation Board, for example.</u>

As long as the verification body is accredited to *ISO 14065:2013 Greenhouse gases – Requirements for Greenhouse Gas Validation and Verification Bodies for use in accreditation or other forms of recognition* and in good standing with its accreditation body at the time of the remittance to the Minister of Environment and Climate Change Canada, it is not necessary for the verification body to have been accredited at the time of verifying the offset project report associated with eligible Alberta emission offsets remitted as recognized units for compensation under the federal OBPS. For example, a verification body that verified an offset project report in 2018 must meet the eligibility criteria in the OBPS Regulations at the time emission offsets associated with that offset project report are remitted as recognized units for compensation under the federal OBPS, which could be in 2021.

NOTE: Starting June 30, 2023, all Alberta emission offset project reports will be verified by an accredited verification body as per section 27 of the *Technology, Innovation and Emissions Reduction Regulation* (TIER).⁴

⁴ https://www.alberta.ca/technology-innovation-and-emissions-reduction-regulation.aspx

2.2 Buyer Liability

The Alberta Emission Offset System takes a buyer liability approach to emission offsets. Buyer liability means that the person responsible (the buyer) must replace emission offsets used for compliance if, at any time in the future, they are determined by the Alberta Regulator to be invalid, cancelled or if there is a reversal of project emissions reductions or sequestration. Usually, contracts for purchasing Alberta emission offsets include provisions to address this possibility. When finalizing purchase contracts, a person responsible should consider the following:

- a) After remittance, any emission offsets that Environment and Climate Change Canada determines to be ineligible for use as recognized units due to non-compliance with section 78 of the OBPS Regulations will be refused as compensation for excess emissions under the federal OBPS. Please note:
 - (i) If the timing of the determination is after the regular-rate compensation deadline, any portion of compensation fulfilled using Alberta emission offsets found to be ineligible for use as recognized units at the time of remittance will be subject to the increased rate, and
 - (ii) If the timing of the determination is after the increased-rate compensation deadline, the person responsible may also face penalties.

Environment and Climate Change Canada is not responsible for: reviewing recognized units for eligibility prior to the regular-rate or increased-rate compensation deadlines; or financial losses associated with provincial offset credits that do not meet federal OBPS eligibility criteria for remittance as recognized units.

- b) Unless otherwise specified in a purchase contract, the person responsible may not be able to receive replacement credits or reimbursement of funds from the seller if Environment and Climate Change Canada determines the emission offsets do not meet one or more of the federal OBPS eligibility criteria. However, the Alberta emission offsets may remain eligible to be used for compliance purposes under Alberta's <u>Technology Innovation and Emissions Reduction Regulation</u>.
- c) If Alberta emission offsets remitted as recognized units for compensation under the federal OBPS are subsequently revoked by the Alberta Regulator, or deemed to have been issued in error, the person responsible may receive notice from Environment and Climate Change Canada that additional compliance units must be remitted to replace the ineligible emission offsets as per subsection 181(1) of the <u>Greenhouse Gas Pollution Pricing Act</u> (GGPPA).

3. Transfer of Ownership of Alberta Emission Offsets in the AEOR

Only emission offsets held in the AEOR account of the person responsible can be remitted as recognized units for compensation under the federal OBPS by that person responsible. While terms of sale and financial transactions are stipulated in private contracts, all transfers of emission offset ownership between accounts are required to be publicly recorded in the AEOR for tracking and transparency purposes. A purchase of emission offsets is not final until the emission offsets have been transferred into the AEOR account of the person responsible from the seller's account.

When buying Alberta emissions offsets, persons responsible must follow the AEOR's Emission Offset Transfer Process to transfer emission offsets into their AEOR account from the seller's account. This transfer process is initiated by the seller (known as the "source") and requires agreement and acceptance from the person responsible (the buyer, or "target") before the transfer will be approved and executed by the AEOR.

4. Retire Eligible Alberta Emission Offsets in the AEOR

Alberta emission offsets must be retired in the Alberta Emission Offset System and have a status of **Retired - Federal OBPS** on the AEOR public website before they can be remitted as recognized units for compensation under the federal OBPS. If a person responsible intends to remit recognized units before the regular-rate compensation deadline under the federal OBPS, requests for changing the status of emissions offsets from **Active** to **Pending Retire - Federal OBPS** must be made by the applicable deadlines noted in Table AB1.

NOTE: Alberta emission offsets are not transferred from the AEOR to the federal Credit and Tracking System (CATS). Remitting them as compensation requires providing the information specified in paragraph 58(g) of the OBPS Regulations, related to the retirement of Alberta emission offsets, through CATS to Environment and Climate Change Canada. CATS will be available from January, 2021.

The process and timeline for retiring Alberta emission offsets for federal OBPS compensation includes the steps described below. *4.1 Request Status Change to Pending Retire - Federal OBPS*

a) To request retirement, the person responsible must go into their AEOR account and request a status change from *Active* to *Pending Retire - Federal OBPS* for serial ranges of Alberta emission offsets held in their AEOR account that represent the amount of emission offsets the person responsible wishes to remit as recognized units. This status change request is subject to transaction fees as per AEOR rules and requirements. See the AEOR User Manual for detailed instructions. **NOTE:** If this request for status change to **Pending Retire - Federal OBPS** is made after the deadline to request retirement identified in Table AB1, there is no guarantee Alberta emission offsets will be able to be retired before the regular-rate compensation deadline under the federal OBPS.

b) After the request is submitted, the AEOR updates the status of the Alberta emission offsets to Pending Retire - Federal OBPS within 10 business days. The emission offsets are held for desktop review by the Alberta Regulator and cannot be transferred to another account while in this status.

4.2 Desktop Review

- a) After updating the status of the Alberta emission offsets in the preceding step, the AEOR notifies the Alberta Regulator, so that they may conduct a desktop review of the associated supporting documentation for the Alberta emission offsets.
- b) At any time while the Alberta emission offsets are in *Pending Retire Federal OBPS* status, a person responsible may request a status change back to *Active* status, effectively cancelling the request for retirement if they are no longer needed as recognized units for compensation under the federal OBPS, subject to any applicable transaction fees⁵.

4.3 Reverification (if determined to be necessary by the Alberta Regulator)

- a) Environment and Climate Change Canada will inform the person responsible if Alberta has selected a project associated with their *Pending Retire – Federal OBPS* emission offsets for reverification. The project reverification will be conducted by qualified third party assurance providers selected by the Alberta Regulator.
- b) As noted in Table AB1, Environment and Climate Change Canada will inform the person responsible when Alberta's reverification process will not be concluded prior to the regular-rate compensation deadline of the federal OBPS. In this case, the person responsible may:
 - i. Initiate a reverse status change request within the AEOR to update the Alberta emission offsets included in the request for retirement from *Pending Retire - Federal OBPS* back to *Active* status, subject to an additional transaction fee; or
 - ii. Retain the emission offsets in *Pending Retire Federal OBPS* status and wait for the reverification process to be completed. If no material overstatement is found after reverification, the emission offsets will remain eligible and move to the following step in section 4.4 below.

⁵ AEOR status change requests are subject to applicable fees, regardless of any status the emission offsets may have previously held. For example, fees would apply to status change requests from *Pending Retire – Federal OBPS* back to *Active*, as well as any future status change request to *Pending Retire – Federal OBPS* again.

4.4 Retirement

- a) Once the Alberta Regulator is satisfied that no material overstatements exist in the offset project reports from which the emission offsets were issued, Alberta emission offsets included in a request for retirement will be moved into the status *Retired Federal OBPS* after desktop review, or upon request by a person responsible after reverification.
- b) A person responsible will see the status change of the emission offsets in their AEOR account move to *Retired Federal OBPS* at least 15 business days before the regular-rate compensation deadline if the request for retirement was submitted to Alberta before the relevant deadline in table AB1.
- c) If the status change to *Retired Federal OBPS* occurs after the desired date of remittance in the OBPS (the regular-rate or increased-rate compensation deadlines, for example), the eligible emission offsets may be remitted as recognized units for compensation under the federal OBPS for a future compliance period.

5. Remitting Alberta Emission Offsets as Recognized Units for Compensation under the Federal OBPS

Once the eligible Alberta emission offsets have a status of *Retired - Federal OBPS* in the AEOR, and the person responsible is satisfied the credits meet all other eligibility criteria for recognized units, the person responsible can remit them as recognized units for compensation under the federal OBPS through CATS, which will be available from January 2021.

The person responsible must provide all required information as outlined in paragraph 58(g) of the OBPS Regulations, and can upload proof of retirement, such as a screen shot image of the *Retired - Federal OBPS* emission offsets in the AEOR. Persons responsible should be mindful of the regular-rate and increased-rate compensation deadlines under the OBPS and ensure sufficient compensation is provided depending on the date by which they are remitting.

Please note that the person responsible does not have to immediately remit all the emission offsets that have been placed in *Retired - Federal OBPS* status to Environment and Climate Change Canada. Instead, they may be remitted as compensation under the federal OBPS for a subsequent compliance period, as long as the associated GHG reductions occurred no more than eight (8) calendar years prior to remittance or the deadline indicated in the notice set out in subsection 75(1) of the OBPS Regulations, as required by section 71 and subsection 75(2) of the OBPS Regulations.

Environment and Climate Change Canada will review remittances to determine whether or not federal OBPS eligibility criteria for recognized units are satisfied. The following scenarios may result from this review:

5.1 Eligible at the time of remittance

Should eligibility be confirmed, the status of the emission offsets in the AEOR will then further be changed from *Retired - Federal OBPS* to *Retired - Federal OBPS Remitted*. This is a permanent status that cannot be reversed by the person responsible. Only the Alberta Regulator can make any further status changes from *Retired - Federal OBPS Remitted*, if required to address future scenarios such as reversals or corrections to an offset project's emission offset totals.

5.2 Not eligible at the time of remittance

If Environment and Climate Change Canada determines that Alberta emission offsets do not meet all federal OBPS eligibility criteria for recognized units in section 78 of the OBPS Regulations at the time of remittance, the Alberta emission offsets cannot be remitted as recognized units for compensation under the federal OBPS and:

- a) Environment and Climate Change Canada will inform the person responsible and the Alberta Regulator of which federal OBPS eligibility criteria the Alberta emission offsets do not meet.
- b) Environment and Climate Change Canada will notify the person responsible that he/she must submit a request in the AEOR to change the status of ineligible emission offsets to *Pending Retire* - *Federal OBPS*, which can be moved back to *Active* status upon approval by the Alberta Regulator. These status change requests will be subject to transaction fees in the AEOR.⁶

5.3 Eligible at the time of remittance and later found to be invalid

If Alberta emission offsets remitted as recognized units for compensation under the federal OBPS are determined to be eligible at the time of remittance by Environment and Climate Change Canada and then later found to no longer be valid sometime in the future, subsection 181(1) of the *Greenhouse Gas Pollution Pricing Act* and section 75 of the OBPS Regulations will apply. The Minister of Environment and Climate Change may require the person responsible to remit the same number of compliance units to replace the number of invalid emission offsets remitted as recognized units. The person responsible may choose to comply in accordance with subsection 181(3) of the GGPPA instead. The Alberta Regulator will follow their normal procedures to correct errors, reversals, or cancel invalid emission offsets as per the requirements outlined in the Alberta Emission Offset System.

⁶ Environment and Climate Change Canada is not responsible for financial losses associated with provincial offset credits that do not meet federal OBPS eligibility criteria for remittance as recognized units.