CAP & TRADE REGULATION

Key elements

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Quebec’s 2009 GHGs

Total: 81,79 Mt CO2e

Source: GHG inventory 2011, MDDEP

Total transportation: 35,6 Mt, 43,5 %
Rational for a C&T

Cap-and-trade system ➔ Flexible economic tool

Helps:
- Send a carbon price signal in the economy
- Integrate the cost of carbon into business decisions
- Contribute to the fight against climate change

Regulatory compliance:
- Encourages companies under the system to improve their energy efficiency or their production methods
- Creates an incentive to cut GHG emissions, even in sectors not targeted by the C&T system
- Allows emission allowances to be traded on the carbon market
History of the C&T system

- Quebec joins WCI (2008)
- Creation of WCI Inc. (2011)
- Regulation respecting a C&T system (2011)
- Beginning of the 1st compliance period (January 1st, 2013)

- Authorization to implement a C&T system (Bill 42, 2009)
- Modifications to the Regulation on mandatory reporting (2011)
- Modifications to the Regulation allowing the linking of Quebec and California’s C&T systems (Dec. 2012)
Who is subject to the Regulations

- Reporting, 3\textsuperscript{rd} party verification and Cap & Trade Regulation threshold
- Reporting threshold (Reporting Regulation)

Establishment

- A
- B
- C

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<th>Establishment</th>
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Cap & Trade Regulated sectors

Starting in 2013

- Industrial sectors
  - Aluminum, cement, lime, mining & pelletizing, pulp & paper, metallurgy, chemical & petrochemical industry, petroleum refining, others (glass, gypsum, agri-food)
- Electricity sector

Starting in 2015

- Distributors of fuels
Caps

MtCO₂ eq.


1990 = 87.13 Mt (including distribution of electricity produced outside but consumed in Québec)
OBJ(2020) = 54.74 Mt (covered sources) + 14.96 Mt (non covered sources) = 69.70 Mt
Definition of an emission allowance

• **Emission allowance**
  - Equal to 1 ton CO₂ equivalent
  - Issued exclusively by the Government of Québec
  - Only exists in electronic form in the **CITSS** system
  - Identified by individual serial numbers according to type and year of creation

• **3 types of emission allowances**
  - Emission units distributed free of charge, auctioned off or sold by the government
  - Early reduction credits (2008–2011)
  - Offset credits

**CITSS:**
Compliance Instrument Tracking System Service

All three types are interchangeable and have the same value, regardless of which WCI partner government issued them.
Offset credits

**Objectives**: Contain the overall compliance cost of covered entities

- **Utilisation limit**: Max of 8% of compliance
- Generated through eligible greenhouse gas reduction projects
  - **in sectors not covered by the C&T system**, mainly:
    - Agriculture
    - Waste
  - **or emanating from certain GHG emission sources**, currently:
    - Ozone-depleting substances
- **Requirements**: Must comply with Quebec’s quantification protocols
- **Project location**: Québec, Canada or US (depending on the protocol)
- **Offset credit ownership**: The project promoter, who can sell them
Price containment

Minimum Auction Price:

- 10,75$ (2013)
- increases by 5% + inflation each year
- unsold allowances will be temporarily removed from the market

Strategic Reserve Sales:

- up to 4 sales per year
- covered entities only
- 40$, 45$ and 50$ (2012)
- price increases by 5% + inflation each year
Regulatory compliance

3 compliance periods:
- 1st period: January 1, 2013, to December 31, 2014
- 2nd period: January 1, 2015, to December 31, 2017
- 3rd period: January 1, 2018, to December 31, 2020

Compliance: On November 1 following the end of each compliance period, every major emitter must have in its account a number of GHG emission allowances equal to the total of its declared and verified GHG emissions for that period.

Sanctions for noncompliance:
- GHG: 3 additional emission allowances must be submitted for every ton not covered
- Possible financial sanctions
Thank you!

For more information:

•  http://www.mddefp.gouv.qc.ca/changements/plan_action/index-en.htm

•  www.wci-inc.org

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