



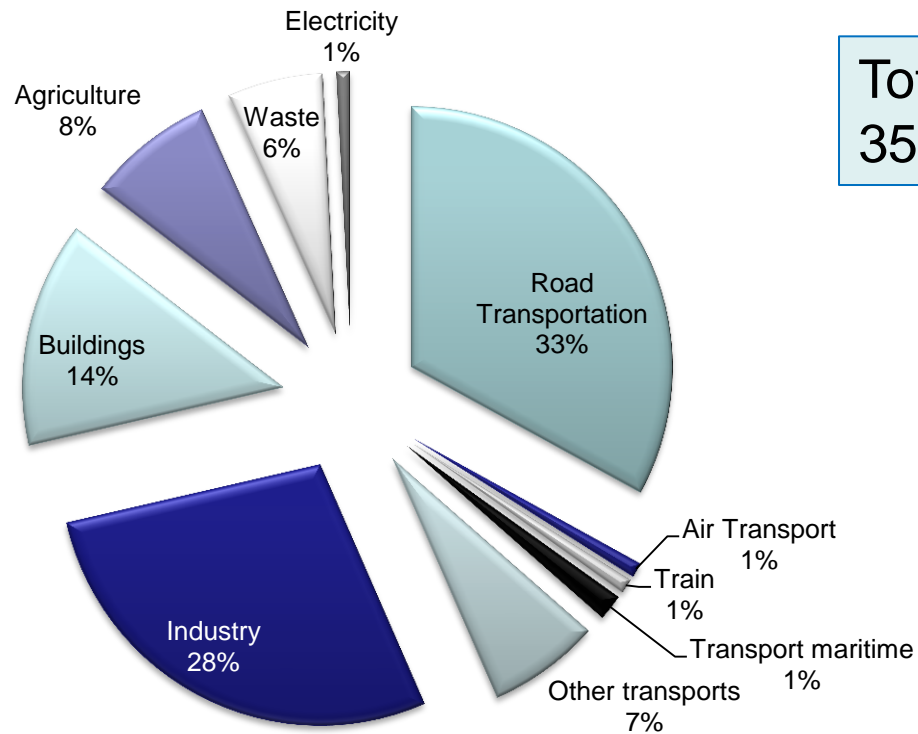
# Québec's Cap & Trade regulation

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# **KEY ELEMENTS CAP & TRADE REGULATION**

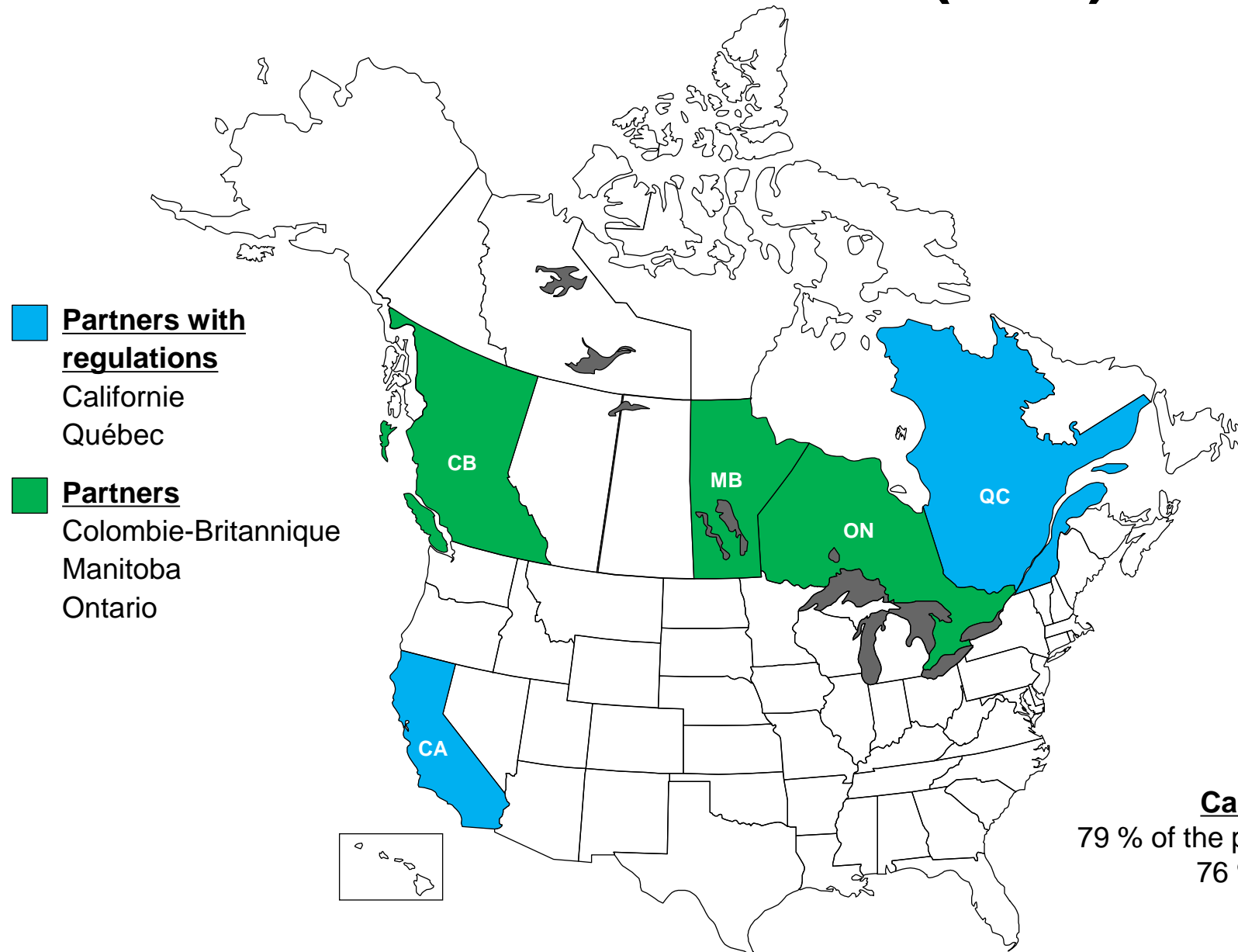
# Quebec's 2009 GHGs



Total transportation:  
35,6 Mt, 43,5 %

Total: 81,79 Mt CO<sub>2</sub>e

# Western Climate Initiative (WCI)



# Timeline

- 2008 : Québec joins the WCI
- 2008-2011: Development of the WCI Ground Rules
- 2009 : Enabling Legislation and 2020 Mitigation Goal
- 2011 : Initial Cap & Trade Regulation
- 2012 : Changes to Québec Cap & Trade Regulation
  - Allow linking with other jurisdictions
  - Introduce offset regulation

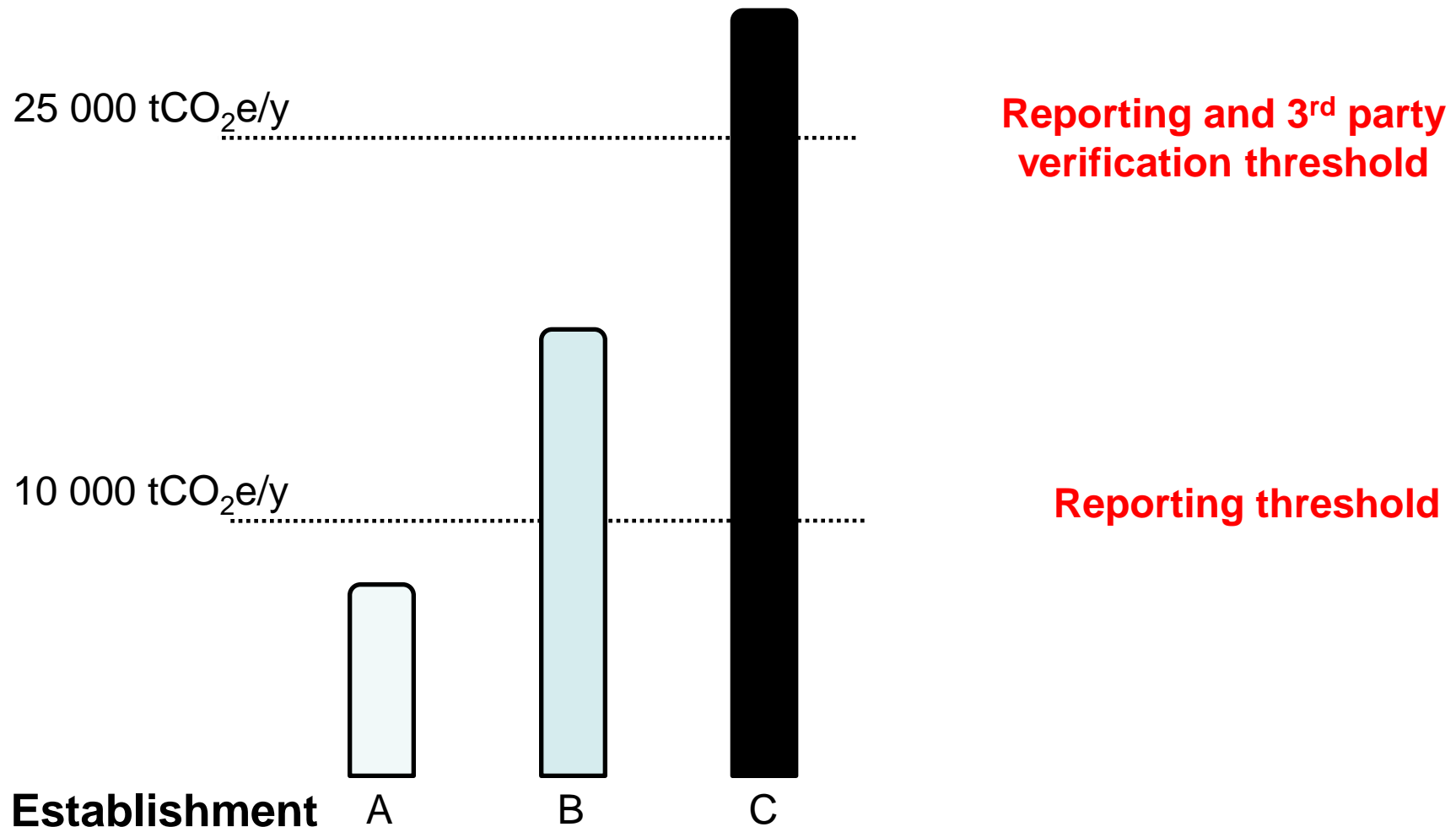
# Implementation - 2013

- January 1<sup>st</sup>: Beginning of the first compliance period
- March : Auction Workshop
- April : Pilot Auction
- May 1<sup>st</sup>: First allocation to covered entities
- May 31<sup>st</sup>: Deadline to submit an Early Action Credit request
- August : First auction
- November : Second auction

# Regulations for a carbon market in Québec

- Reporting regulation: Mandatory reporting of GHG emissions
  - In effect since 2010
  - Last update : December 2012
- Cap & Trade regulation : *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances*
  - In effect since January 1<sup>th</sup>, 2012
  - Last update : Decemer 2012
    - Allow linking with other jurisdictions
    - Introduce offset regulation

# Reporting and verification obligations



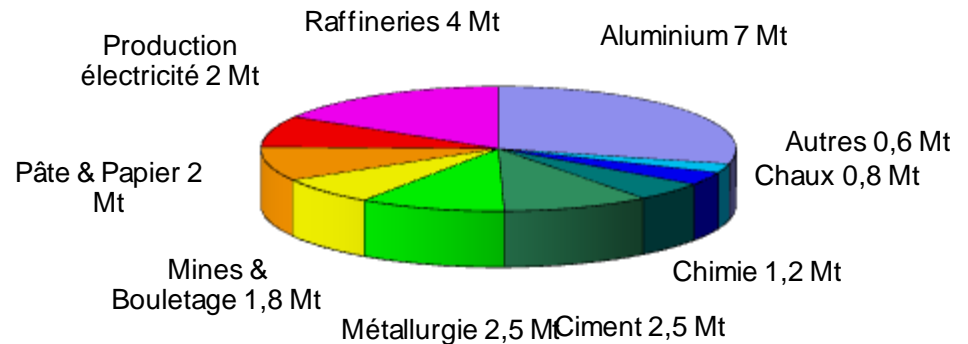


# Cap & Trade Regulated sectors

From 2013 :

Industry:  $\approx$  75 facilities (55 entities) : aluminium, cement, lime, mining, pulp & paper, etc...

Electricity sector: production and distribution of electricity (mainly HQ)



From 2015 :

Operators of businesses that distribute fuel in Québec (all types : gasoline, diesel, propane, natural gas, fuel oil, etc.)

- Transportation, building and industry (below 25kt)

Source: 2007 GHG Inventory, MDDEP

# Compliance periods



Covered entities must return to the Government a number of compliance instruments equal to the total verified GHG emissions that was reported for that period.

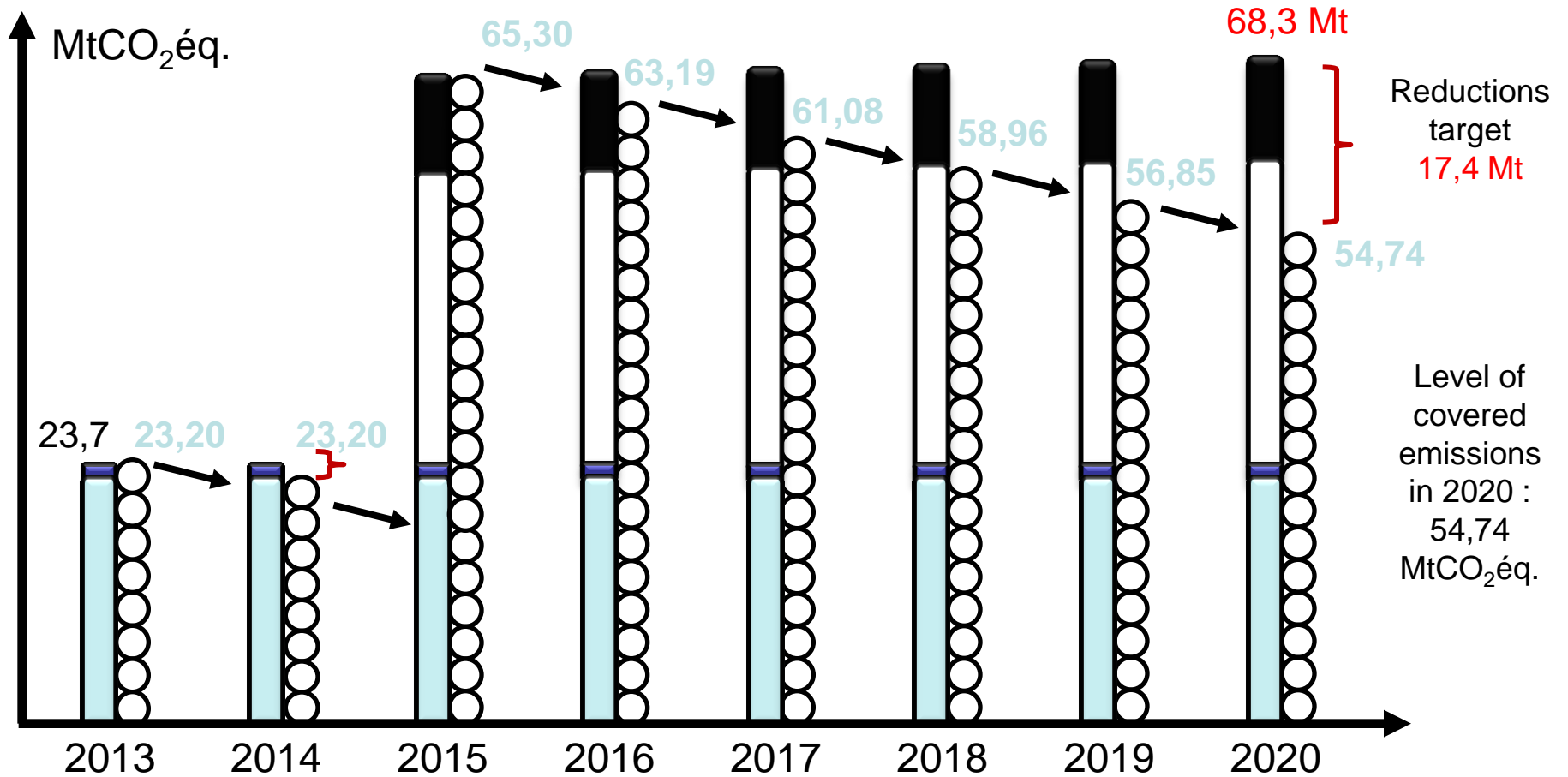
Mandatory reporting is done on a yearly basis. Surrender of compliance instruments occurs on November 1<sup>st</sup> following the end of a compliance period.

# Eligible compliance instruments

- Emission allowances
  - Auction or free allocation
- Offset credits
  - From sources not covered by the Cap & Trade System
- Early action credits

# **CAP, ALLOCATION AND PRICE CONTAINEMENT MECHANISMS**

# Caps



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

# Distribution of allowances

- Free allocation and auctions
- Free allocation for industries facing international competition, declining in time
  - NAICS: manufacturing 31,32, 33
  - Mines
  - Steam production for industrial use
  - Electricity produced outside of Québec and regulated by a cap & trade system
- 100% auction for electricity production and for the distribution of electricity and fuels

# Different allocation calculations

Non sectoral

Regulated in 2013

Pulp & Paper, mines  
and pellets, refineries,  
metal smelters, ...

Sectoral

Regulated in 2013

Aluminium, Cement,  
Lime

# Fundamentals of free allocation

- Intensity based ( $A = I \times P$ ) (P: output)
- Built on 2007-2010 data (GHGs and production/output)
- 100% free allocation for fixed process emissions
- 80% free allocation for combustion emissions in 2013 and 2014
  - Average declining rate of 1 to 2% per year beginning in 2015
- For the sectoral approach, 2020 intensity target based on sectoral average



# Auctions

- Held up to 4 times a year
- Announced at least 60 days prior to the auction
- Have to be registered in the tracking system (CITSS)
- Bid guarantee (CDN or US)
- Purchase Limit
  - 15% (Covered entities receiving free allowances), 40% (other covered entities), 4% (all other participant)
- Holding Limit
  - To prevent market manipulation
- Lots of 1000 units
- Highest bidder served first
- Lowest clearing price

# Price containment

- Minimum Auction Price:
  - 10\$ (2012)
  - 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

# Principles and objectives for price containment

- The minimum auction price aims to prevent (mitigate) a potential over allocation in the system
- Reserve Sale aims to prevent (mitigate) a potential uncontrolled increase of the allowances price in the system

# **OFFSETS DESIGN AND IMPLEMENTATION**

# Key considerations for Offset provisions

- Objectives :
  - Contain the overall compliance cost of covered entities
- Utilisation limit :
  - Max of 8 % of compliance
- Reductions must come from uncovered sources for which an offset protocol was adopted by regulation
- Projects location :
  - California : US
  - Québec : Canada
- Eligibility: from January 1<sup>st</sup>, 2007

# Sector/source Determination

- Non ETS sources too avoid double counting
  - A reduction from a covered source frees up an allowance (ex. energy efficiency)
- Beyond the most stringent environmental regulation
- Potential in emission reductions
- Good sector knowledge (best practices, technical and economical feasibility, ...)

Cap & trade sectors/sources	Offsets sectors/sources
Industry Electricity Fuels : transport and buildings	Agriculture Waste management ODS

# Landfill Protocol

- CH<sub>4</sub> destruction from small landfills in Québec
- Energy-use allowed, but avoided reductions from fossil fuel replacement are not credited
- Eligible destruction devices: enclosed and open flares, combustion engines, boilers and turbines

# Manure protocol

- CH<sub>4</sub> destruction from covered manure storage facilities (cattle and swine) in Québec
- Methane may be captured and destroyed by any approved device
- CH<sub>4</sub> may be destroyed with energy production equipments; but avoided emissions from fossil-fuel replacement are not credited
- Destruction of CH<sub>4</sub> goes beyond existing regulations and common practices



# ODS destruction from appliance foams in Canada

- Credits may be issued for ODS contained in the foam of appliances recovered in Canada.
- Imports are not eligible, foams must be recovered from Canadian appliances.
- ODS refrigerants are not currently eligible for credits.
- Destruction in authorized facilities in Canada or in the United States.

# Protocols (Measurement, Reporting and Verification)

- Directive Protocols in the regulation
  - Well defined activities
  - Prescribed quantification methodologies
  - Prescribed monitoring and destruction methodologies
- Additional:
  - Performance standards include regulations and common practices; no project-specific additionality test
  - Subsidized projects are eligible

# Protocoles (Measurement, Reporting and Verification)

- Validation and verification
  - Conducted by a validation/verification organization accredited under ISO 14065:
    - By a member of the International Accreditation Forum located in Canada or in the US;
    - According to an ISO 17011 program;
    - With respect to the sector of activity for the project.
- Development of more protocols in the future

# Other Regulatory Provisions

- Crediting period:
  - 10 years for manure and landfill projects;
  - 5 years, under certain conditions, for ODS projects.
- After initial crediting, project is eligible for renewal after re-validation. The number of renewals is unlimited.
- GHG emissions *reductions must not have been credited by any other system.*

# Illegitimate Credits and Integrity Account

- Offset credits non revocable, therefore no risk for buyers
- If credits are found to have been illegitimate after their issuance, the minister requires the promoter to replace it.
- If the promoter cannot replace it, the minister may replace the credits by resorting to its environmental integrity account, while maintaining leverage against the promoter.
- The Minister's environmental integrity account is populated by retaining 3% of issued credits from each project.

# Offset process

1. Request for registration
  1. Request form
  2. Project plan
  3. Validation report (Third party)
2. Registration
3. Project implementation
4. Request for the credits
  1. Project report
  2. Verification report (Third party)
5. Issuance of credits to the promoter

**LINKING**

# Linking Québec and California C&T systems

- Why link?
  - Vital for Québec's market
  - Broad C&T systems are more efficient in reducing GHG emissions at a lower cost
  - Spur the interest of more jurisdictions to join our System



# Linking process

- Review and Harmonize Regulations :
  - Compare regulations “line-by-line”
  - What needs to be identical : auction, reserve sale, floor price, ...
  - What needs to be consistent : registration requirements, reporting (a ton is a ton), allowance distribution (competitiveness issues), ...
  - What can be different : early reductions, allowance distribution (no competitiveness issues), ...
  - Amend existing regulations based on findings

# Linking process

- Approach to linking :
  - Quebec :
    - (1) Linking regulation (Adopted in December 2012)
    - (2) Linking agreement
  - California :
    - (1) Governor's review of QC regulation (Request made by CARB on February 22, 2013)
    - (2) Adopt Linking Regulation

# Role of WCI, Inc.

- Created in October 2011
- Facilitate the implementation of the WCI Regional Cap & Trade System
  - Administration services
  - Auction services
  - Market monitoring
  - Development, hosting and maintenance of the tracking system (CITSS)

# Thank you!

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## Sources:

[www.mddep.gouv.qc.ca/changements/carbone/index.htm](http://www.mddep.gouv.qc.ca/changements/carbone/index.htm)

[www.westernclimateinitiative.org/](http://www.westernclimateinitiative.org/)

[www.wci-inc.org](http://www.wci-inc.org)

Finances  
et Économie

Québec 

# **SUPPLEMENTS**

# Current requirements

- Registration on the CITSS system via the MDDEP web site
- Every participant
- Each account must have 2 representatives

# Free allocation

$$A = I \times Pr$$

A = Number of Allowances given for a specific year

I = Targeted Intensity for each year

Pr = Production, number of **unités étalons produites au cours de l'année donnée**

# Free allocation

Free allowances calculation for 2013 et 2014

Number of allowances  $\longrightarrow$

$$A_{2013} = I_{2013} \times Pr_{2013}$$

$\nearrow$   
Targeted intensity (GHG per ton of product) 2013 et 2014, tCO<sub>2</sub>e./t.

$\longleftarrow$   
Quantity of product (t) 2013 and 2014

$$I_{2013} = I_{\Sigma \text{ Process}} + R \times I_{\Sigma \text{ Comb.}} + I_{\Sigma \text{ Other}}$$

$\Sigma$  : Based on 2007-2010 GHGs and production



# Intensity formula

Targeted Intensity calculation for 2013 and 2014

