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# General Guidance on Using Eligible Provincial Offset Credits as Recognized Units for Compensation under the Federal OBPS

The following guidance is intended for persons responsible for covered facilities under the federal <u>Output-Based Pricing System Regulations</u> (OBPS Regulations) who choose to remit recognized units for the purposes of providing compensation for excess emissions.

## I. Regulatory framework

The <u>Greenhouse Gas Pollution Pricing Act</u> (GGPPA) requires a person responsible for a covered facility to provide compensation for the greenhouse gas (GHG) emissions that exceed the covered facility's emissions limit. Under section 174 of the GGPPA, compensation can be provided in the form of an excess emissions charge payment and the remittance of compliance units, comprising of surplus credits, offset credits or recognized units. The <u>OBPS website</u> provides an overview of all these compensation options.

A recognized unit is a credit or unit recognized as a compliance unit under subsection 78(1) of the OBPS Regulations. The unit or credit is recognized as a compliance unit if it is issued by a province or territory under an offset protocol and offset program that is specified on the <u>List of Recognized Offset Programs and Protocols for the Federal OBPS</u> available on Environment and Climate Change Canada's website. The recognized unit must also meet eligibility criteria found in subsection 78(4) of the OBPS Regulations at the time of remittance.

Users of this guidance document should also consult program-specific guidance documents developed by both Environment and Climate Change Canada and Offset Program Authorities (which can also be found on the web page for the List of Recognized Offset Programs and Protocols for the Federal OBPS) as well as all relevant provincial or territorial legislation.

# II. List of Recognized Offset Programs and Protocols for the Federal OBPS

Upon review of provincial<sup>1</sup> offset programs and protocols, Environment and Climate Change Canada determines if they meet federal OBPS eligibility criteria. Provincial offset programs and protocols that satisfy subsections 78(2) and 78(3) of the OBPS Regulations, respectively, may be added to the List of Recognized Offset Programs and Protocols for the Federal OBPS. If provincial offset credits generated from these programs and protocols also satisfy criteria in subsection 78(4) of the OBPS Regulations, they may be remitted as recognized units for compensation under the federal OBPS.

A person responsible for a covered facility under the OBPS Regulations (the person responsible) who is interested in remitting recognized units as compensation for excess emissions should first consult the List of Recognized Offset Programs and Protocols for the Federal OBPS to confirm the eligible offset programs and protocols from which to purchase provincial offset credits.

<sup>&</sup>lt;sup>1</sup> Provincial and territorial offset programs, protocols or credits are referred to as simply provincial offset programs, protocols or credits throughout this guidance document.

Environment and Climate Change Canada will update List of Recognized Offset Programs and Protocols for the Federal OBPS from time to time to add or remove protocols, as provincial offset programs publish new eligible protocols or update existing ones; and when new provincial offset programs are established that meet the criteria of the OBPS Regulations.

Environment and Climate Change Canada requires an administrative arrangement for the tracking and use of offset credits to be in place before a provincial offset program or any of its protocols can be recognized and appear on the List of Recognized Offset Programs and Protocols for the Federal OBPS. Therefore, a provincial offset program will not appear on the List if either an administrative arrangement between the Province and Environment and Climate Change Canada has not yet been finalized, or the program does not meet federal OBPS eligibility criteria.

## III. Federal OBPS eligibility criteria for recognized units

To be eligible for being a recognized unit, a provincial offset credit must be generated from a program and protocol that appear on the List of Recognized Offset Programs and Protocols for the Federal OBPS and have been retired from circulation. Furthermore, a recognized unit must meet additional eligibility criteria set out in subsection 78(4) of the OBPS Regulations. That is, at the time of remittance, a recognized unit must meet all of the following requirements:

#### a. be valid;

**Guidance:** To meet this criterion, eligible provincial offset credits must not have been suspended, invalidated, or revoked by the relevant Provincial Offset Program Authority at the time of remittance as recognized units for compensation under the federal OBPS, and must not have been used for any other purpose, such as compliance in the provincial offset program, another voluntary or compliance system, or for voluntary corporate sustainability initiatives.

b. have been issued in respect of a project that uses a protocol referred to in subsection 78(3) of the OBPS Regulations; [a recognized protocol on the List]

**Guidance:** To meet this criterion, eligible provincial offset credits must have been issued for an offset project that is registered in a recognized provincial offset program under a recognized offset protocol that appear on the List of Recognized Offset Programs and Protocols for the Federal OBPS.

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

**Guidance:** To meet this criterion, eligible provincial offset credits must have been issued for an offset project in Canada that began on January 1, 2017 or later. The date the project began is the date on which the project activity first began to reduce or remove GHG emissions, regardless of whether it generated offset credits as of that date. This date can usually be identified within a project report or project plan document.

- d. have been verified by a verification body that
  - 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.

**Guidance:** To meet this criterion, eligible provincial offset credits must have been issued in respect of an offset project report that has been verified to a reasonable level of assurance by an accredited verification body that is in good standing with its accreditation body at the time of remittance, regardless of its accreditation status at the time of verification. The accreditation status of a verification body can be found on the website of the relevant accreditation body, such as the <u>Standards Council of Canada</u> or the <u>ANSI National Accreditation Board</u>, for example.

**Please Note:** Prior to purchase of any provincial offset credits, the person responsible should confirm that the credits meet all federal OBPS eligibility criteria for recognized units. Remitted recognized units will be refused as compensation for excess emissions under the federal OBPS when Environment and Climate Change Canada determines that the associated provincial offset credits is ineligible for use as recognized units due to non-compliance with section 78 of the OBPS Regulations. The person responsible will be notified of the specific eligibility criteria not met.

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 recognized units.

Should provincial offset credits submitted before the regular-rate compensation deadline be determined to be ineligible for use as recognized units by Environment and Climate Change Canada, and that decision occurs after the regular-rate compensation deadline, the responsible person who submitted them will be subject to the increased rate for the portion of compensation refused. If the timing of the decision is after the increased-rate compensation deadline, the person responsible may also face penalties.

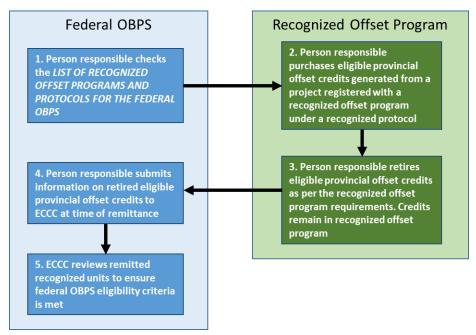
Provincial offset credits that are ineligible for compensation under the OBPS may still be eligible for use in their original provincial offset program, at the discretion of the Provincial Offset Program Authority.

#### IV. Retirement of eligible provincial offsets in a recognized offset program

Before remitting recognized units, a person responsible must retire the eligible provincial offset credits within the registry of the issuing provincial offset program and submit only specific credit information to Environment and Climate Change Canada through the federal Credit and Tracking System (CATS), as explained in section VII. Provincial offset credit Eligibility is only confirmed once Environment and Climate Change Canada has reviewed them after remittance as recognized units (see text box above).

The person responsible must also follow the rules and requirements of the relevant Provincial Offset Program Authority, leading up to and including credit retirement, before remitting the recognized units for compensation under the federal OBPS. Each recognized offset program has different rules, requirements and procedures specified by the Provincial Offset Program Authority. Requirements might include creating an account on the provincial offset program's tracking system or registry, and payment of administration fees for subsequent trading and retiring of credits.

Program-specific guidance has been developed collaboratively by Environment and Climate Change Canada and Provincial Offset Program Authorities in separate documents that can also be downloaded from the web page for the List of Recognized Offset Programs and Protocols for the Federal OBPS. This program-specific guidance provides more detailed information, including requirements for creation, transfer of credits between accounts in the provincial registry and credit retirement, as applicable. As a general overview, however, Figure 1 below depicts a simplified process for remitting recognized units from any recognized program.



**Figure 1: Overview of Remitting Recognized Units** 

ECCC = Environment and Climate Change Canada

#### V. Retirement and compensation deadlines

Eligible provincial offset credits must be retired in their home program before remittance as recognized units for compensation under the federal OBPS. Each recognized offset program needs a specific amount of time to process a request to retire provincial offset credits in its registry or tracking system. For example, requests for retirement of Alberta offset credits must be made several months in advance of when they will be remitted for compensation under the federal OBPS.

The retirement deadlines for each program can be found in the respective program guidance documents, which can be downloaded from the web page for the List of Recognized Offset Programs and Protocols for the Federal OBPS.

It is up to the person responsible to ensure requests for retirement in the provincial offset registry are made sufficiently in advance of the recognized offset program's retirement request deadlines to allow time for processing to be completed. Retirement requests received after the dates specified by each recognized offset program may not be completed in time for the credits to be remitted as recognized units for compensation under the federal OBPS by the required deadline. In this case, it would be up to the person responsible to provide compensation using other options.

For the 2019 compliance period only<sup>2</sup>, the compensation deadlines under the federal OBPS are as follows:

- the regular-rate compensation deadline is April 15, 2021.
- the increased-rate compensation deadline is **June 15, 2021**.

For the 2020 and subsequent compliance periods, the compensation deadlines are outlined in section 57 of the OBPS Regulations as follows:

- the regular-rate compensation deadline is **December 15** of the calendar year in which the related annual report must be submitted.
- the increased-rate compensation deadline is **February 15** of the calendar year following the year in which the related annual report must be submitted.

# VI. Eligibility by year of remittance

Eligible provincial offset credits must have been issued for GHG reductions or removals that took place no more than eight calendar years before the remittance or the deadline specified in a notice of remittance from the Minister.<sup>3</sup> The year in which GHG reductions or removals occurred (the "GHG Reduction Year") can be found in the relevant offset project report and the vintage year of the provincial offset credit may also be an indicator. Please note that the 8-year time limit for remitting recognized units under the federal OBPS does not apply to the use of the provincial offset credits for purposes outside of the federal OBPS.

For illustration purposes, Table 1 below shows the range of eligible GHG Reduction Years for which eligible provincial offsets credits may be remitted as recognized units by calendar year of remittance. The GHG Reduction Year cannot be earlier than 2017 because of the eligibility criteria in paragraph 78(4)(c) of the OBPS Regulations discussed earlier.

<sup>&</sup>lt;sup>2</sup> Due to the COVID-19 pandemic, compensation deadlines for the 2019 compliance period were adjusted as per the <u>Regulations</u> <u>Amending the OBPS Regulations</u>

<sup>&</sup>lt;sup>3</sup> For remittance as compensation or revised compensation (remittance under subsection 174(1) or paragraph 178(1)(a) of the GGPPA), GHG reductions or removals must have occurred no more than eight calendar years before the remittance. For remittance as replacement for compliance units that are no longer valid, the GHG reductions or removals must have occurred no more than eight calendar years before the deadline indicated in the notice referred to in subsection 75(1) of the OBPS Regulations (remittance under subsection 181(1) of the GGPPA).

Table 1: Eligible GHG Reduction Years by Year of Remittance

Calendar Year of	Eligible GHG Reduction
Remittance	Years
(or deadline in notice)	
2020	2017-2020
2021	2017-2021
2022	2017-2022
2023	2017-2023
2024	2017-2024
2025	2017-2025
2026	2018-2026
2027	2019-2027
2028	2020-2028
2029	2021-2029
2030	2022-2030

As an example, persons responsible who remit eligible provincial offset credits as recognized units for compensation under the federal OBPS for the 2026 compliance period by the applicable regular-rate compensation deadline of December 15, 2027 must ensure that GHG reductions or removals associated with the recognized units occurred between 2019 and 2027, inclusively. However, if the person responsible misses the regular-rate compensation deadline but remits recognized units between January 1, 2028 and the increased-rate compensation deadline of February 15, 2028, they must ensure that GHG reductions associated with the recognized units occurred between 2020 and 2028, inclusively.

## VII. Eligible provincial offset credit information required at remittance

Eligible provincial offset credits are not transferred from the recognized offset program into the CATS account of a person responsible when remitted as recognized units. Rather, a person responsible must provide specific information through CATS about the eligible provincial offset credits at the time of remittance as compensation under the federal OBPS. Under paragraph 58(g) of the OBPS Regulations, required details for remitting eligible provincial offset credits as recognized units include the following:

- i. the number remitted.
- ii. the province or territory or program authority referred to in subsection 78(1) [of the OBPS Regulations] that issued the units or credits,
- iii. the date of their retirement,
- iv. the serial numbers assigned to them by the province or territory or program authority referred to in subsection 78(1) [of the OBPS Regulations],
- v. the start date of the offset project for which the unit or credit was issued,
- vi. the year in which the GHG reduction or removal occurred for which the unit or credit was issued.
- vii. the offset protocol applicable to the project for which the unit or credit was issued, including the version number and publication date, and

viii. the name of the accredited verification body that verified the units or credits.

A person responsible can upload into CATS proof of retirement, such as a screen shot image of the eligible provincial offset credits retired in the registry of the provincial offset program. Please see the "Compensation, Credits and Credit and Tracking System" tab of the federal OBPS website for more information on CATS.

### VIII. Accountability for units issued in error or no longer valid

As per subsection 181(1) of the GGPPA, if the Minister determines that compliance units, including recognized units, were issued in error or are no longer valid after he deemed them to be eligible at the time of remittance, the Minister may, in accordance with the regulations, require a person to remit the number of compliance units in question. Section 75 of the OBPS Regulations specifies that if the Minister requires a person to remit a compliance unit under such circumstances, the Minister must notify the person and specify:

- a. The reason for the remittance;
- b. The number of compliance units to be remitted; and
- c. The time by which the remittance is to be made.

The provincial offset program may also have rules, requirements and penalties regarding offset credit liability for buyers or sellers. These rules vary from program to program and may require either the buyer or seller to replace any offset credits that are found to be no longer valid post-retirement.

**Please Note:** It is strongly recommended that the person responsible becomes familiar with the rules of the recognized offset program from which they are buying offset credits to clarify responsibilities of the buyer and the seller in the event of a reversal or invalidation. The recognized offset program's rules will continue to apply to the provincial offset credits after they are remitted as recognized units for compensation under the federal OBPS. As noted above, eligible provincial offset credits are not transferred to the federal CATS and remain retired in the recognized offset program's registry or tracking system.