



Ontario Federation of Agriculture

Ontario AgriCentre

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David Coates
Project Manager
Ministry of the Environment and Climate Change
Climate Change and Environmental Policy Division
Air Policy Instruments and Programs Design Branch
77 Wellesley Street West,
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Dear Mr. Coates,

RE: EBR Registry Number 012-9078 – Ontario Cap and Trade Program: Offsets Credits Regulatory Proposal

The Ontario Federation of Agriculture (OFA) is pleased to provide comments on the Offsets Credits Regulatory Proposal under Ontario's Cap and Trade Program. The OFA is Canada's largest voluntary general farm organization, representing over 36,000 farm families across the province. These farm businesses form the backbone of a robust food system; helping to drive the Ontario economy forward.

Ontario's commitment to ambitious targets for reducing greenhouse gas emissions in the province will require significant efforts from regulated industries and from other sectors. A market-based carbon compliance system which includes the use of carbon offset credits will provide regulated facilities with flexibility in meeting compliance with greenhouse gas regulations while allowing non regulated sectors to pursue opportunities to reduce their emissions. OFA is confident that greenhouse gas offset credits can provide a necessary bridge for industry to make a cost effective transition to cleaner activities while incenting other unregulated industries to develop through carbon revenues. The agricultural community has the potential to be an important contributor to addressing climate change however in order to do so, the system needs to be designed in such a way as to enable broad participation. Not only is this approach internationally supported as a cost effective way of achieving climate change objectives, offsets provide an incentive for the development of greener technologies and industrial processes in the province.

In the spring of 2015 Ontario announced its intention to create a provincial Cap and Trade System as a means of putting a price on carbon. OFA accepted this direction under the condition that the Cap and Trade System include opportunities for the unregulated sectors (i.e. agriculture) to create and market offset credits. We are pleased to see that the Ministry of Environment and Climate Change (MOECC) has released the regulatory conditions for participation Ontario's offset market; however, our continued support/acceptance remains predicated on the ability of Ontario's agricultural sector to engage in the development, creation, and marketing offset credits.



In reviewing the criteria presented in the regulatory proposal, we recognize the burden must be high to ensure rigour in offset generation and confidence within the offset market and we recognize that much of the proposed criteria have been defined by the Western Climate Initiative (WCI), of which Ontario is a member. Common criteria among participant jurisdictions for credits to be real, permanent, qualified, independently verified, enforceable, and unique is understandable, however, we insist that government and the MOECC take all opportunities to create made in Ontario solutions.

We have provided comments on selected section of the regulatory proposal below.

2.0 Introduction – Qualifying Geographic Area

As of January 1, 2017, Ontarians will be paying for a price on carbon. Ontarians will be paying to internalize in the price of a product an externality that has until now been unaccounted for and is widely agreed to be causing global warming and a change to the Earth's climate. The Cap and Trade System will be the mechanism to internalize this cost and is expected to generate up to \$1.9 billion per year. The money generated from Ontarians through this system will be used to fund greenhouse gas mitigating activities in Ontario, and hopefully stimulate direction towards a low-carbon economy.

The regulatory proposal indicates that the Ontario Cap and Trade System will consider offset initiatives undertaken anywhere in Canada. It is difficult to drive a low-carbon economy in Ontario when money raised through the compliance obligations of emitters leaves the province. OFA believes that the increased costs Ontarians are expected to pay should stay in Ontario and that projects in Ontario generating offset credits should be given precedence.

We recognize that greenhouse gases do not follow political boundaries, but allowing the purchase of credits from other (competing) jurisdictions does nothing to encourage greenhouse gas emission reductions, drive innovation, or inspire technology development in Ontario. If Ontarians are paying the price, they should receive the benefits.

If the province is allowing for offsets in the Cap and Trade System, and those offsets are ultimately being paid for by increased costs to Ontarians, then those offsets should come from Ontario to drive innovation and create opportunities for change here.

If the availability of offsets from Ontario in the early days of the Cap and Trade System is a concern, we would like the MOECC to investigate the potential for a phased approach where the amount of allowable non-Ontario based offsets are scaled back, or capped, over time to keep as much money in Ontario as possible.

6.0 Ontario Offset Protocols; and 7.0 Approvals

Protocols are only as good as the protocol review process. A robust and transparent protocol review process is key to ensuring protocols will meet the regulatory requirements. The protocol development and review process may include a number of features designed to ensure a high degree of integrity is maintained including expert and market engagement, defensible scientific and technical methodologies and best practice guidance, a rigorous peer review process and documented transparency in development stages and final decision making on the part of the regulator.

Uncertainty and accuracy are key principles in protocol development. Quantification methodologies and measurement techniques set the standard for acceptable statistical



precision and they must be based on the best available science. Protocols must also reduce bias and promote conservative estimates.

We recognize the criteria have been set out by the WCI, however for offset providers to participate meaningfully, Ontario's offset system must recognize the need for offsets and protocols to be:

- Be economically viable
- Support aggregation
- Be prescriptive yet flexible
- Be focused on monitoring and measuring the data/activities that result in an emission reduction
- Be rooted in the reality of on farm emission reductions
- Developed by people that understand agricultural offsets

A number of factors should be addressed in defining a protocol development, approval, and revision process:

- **Clearly defined timelines:** Timelines of protocol development must be clearly established and communicated. Protocol development times must clearly outline dates which protocol documentation must be submitted, technical reviews/public consultations are to be conducted, and when responses from the regulator can be anticipated. Timelines should be established which ensure an adequate period for development and review and regulators need to ensure necessary resources are addressed. Final approval of protocols by the Government requires discretion with respect to time, particularly if there are outstanding policy issues that need clarification. Wherever possible, it is important to establish and ensure timelines are met.

Lack of a timely process has been a large criticism of many offset systems. The protocol development process is lengthy and expensive, it is important to give protocol developers confidence in the development process so that they can invest time and money with a degree of certainty.

- **Documented Transparency:** Transparency in the review process, who was engaged and the decisions made by the protocol committees and regulator is critical to public acceptance and credibility of the Offset protocols. It also enables clear decision-making on the part of the regulator, and minimizes claims of favouritism or industry pressure.
- **Effective technical review process:** Technical reviews are important to ensure industry experts are consulted on protocol scope, applicability, relevance, robustness and conservativeness.
- **Effective stakeholder review process:** Having the broader set of market stakeholders review the technically reviewed document is important. It's important to ensure the verifier community, project developer community, potential purchasers as well as other technical experts can understand and apply the protocol;
- **Public review process:** Most governments have public review periods for regulatory documents although it can be a challenge to engage the public. Building stakeholder mailing lists and using web-based meetings has been the preferred method with periodic mail outs reminding the public that the document is posted and to review the materials.



- The establishment of an official, formal revision process and timeline: Offset quantification protocols are organic, continuously evolving documents which may require frequent adjustments and revisions as the protocol is applied and project specific scenarios are unveiled. As such, protocols which are written as static regulatory documents may inhibit potential projects from being able to quantify emissions reductions, particularly under time-sensitive conditions. A formal timely review process may prove to be beneficial for long term protocol and project development. Particular project types may be impacted by changing market and regulatory conditions, as such, periodic review processes may be established to ensure protocols continue to remain true to the key principles of the offset system and eligibility conditions.

8.0 Initiative Start Date

OFA is encouraged to see that the proposed regulation will allow for crediting of offset initiatives that began on or after January 1, 2007. The agricultural sector has a long history of seeking innovations and efficiencies in food production, many of which have a greenhouse gas emissions reduction co-benefit, and we have insisted that the Ministry consider this early action when developing the offset system. We remain optimistic and that the offset protocols will be flexible enough to accept these early actions while remaining true to the proposed criteria.

9.0 Crediting Periods

OFA does not agree with limiting the offset crediting period in the regulation. If a project, for example one that destroys methane, continues to meet the eligibility criteria to generate credits and nothing changes in the process, why would it need to have a limitation on the crediting period. We believe it is more acceptable and appropriate to have the crediting period determined by the types of the offset credit projects and initiatives seeking approval. Furthermore, some biological processes that are being considered for offset credits have longer timelines where renewal of crediting periods may result in an unnecessary burden.

11.0 Aggregation

The agricultural sector is prepared to develop projects from the biological systems we manage to create offsets for the regulated sectors. As the volume of credits from individual projects may be too low to market successfully, we need to aggregate multiple projects to achieve this goal. An aggregated offset project is a collection of small projects that have been grouped together and are using the same protocol to reduce transaction costs and achieve economies of scale for marketing, verification and registration purposes.

OFA is pleased that the Ontario Cap and Trade System is allowing for the aggregation of emission reduction projects in the offset credit system. There are substantial costs associated with bringing an offset project to market including: validation; registration; and verification – all in addition to project implementation. Aggregation helps overcome this challenge by grouping multiple small and often geographically and temporally dispersed projects together to achieve economies of scale.

The regulatory proposal indicates that aggregation may be carried out “for offset initiatives of the same class on several sites on behalf of a group”. Given the amount of credits generated by an individual project site (farm) is likely too low to market, and nature of most agricultural offsets requires aggregation of many small ‘activities’ into one ‘project’, we are concerned that the regulatory proposal use the term “several” in describing the aggregation process. This may seem a minor consideration, however any suggestion there will be a limit to the number of



aggregated projects can seriously restrict the ability of the agricultural sector to participate in an offsets system.

We recommend that the resulting regulation does not include any language suggesting that there will be a limit to the number of participant sites following the same protocols that can be aggregated. Should there be a need to limit the number of projects in an aggregation, this should be explained and justified in the respective protocols and not in the regulation.

A wide range of aggregation approaches have been adopted by various markets. Ideally, aggregation should be considered upfront in the design of an offset project since it can fundamentally change the approaches used to qualify and quantify emissions reductions. Historically, greenhouse gas emissions reductions have been generated from large projects that reduce emissions from a single source such as a landfill or large livestock farm. Projects like these are critical as they provide significant reductions; however, the number of large projects that can create emission reductions is limited. Nevertheless, there are many small projects and simple activities that can be done by individuals or companies that result in equally important emissions reductions, albeit on a smaller scale. In many cases these small projects have greater social impact than large projects as more people share in the benefits. Aggregation is the process that allows smaller projects to participate in carbon offset markets and is essential to achieving the economies of scale needed to cost-effectively implement agricultural offset projects. Key benefits of aggregation include the following:

- Aggregation reduces transaction costs – emission reduction registration, quantification, monitoring, additionality assessments and verification (amongst other items) are streamlined, lowering the cost of producing a single ton of emission reductions.
- Geographically and temporally dispersed reductions are enabled – coordinating neighboring farmers/households to participate in an offset project starting and finishing at the same time is impractical. Flexible aggregation programs enable project developers to realize offsets from geographically dispersed farms over time. This removes the barrier of having to know the identity of all the participants before registering an aggregated offset program
- The risk to aggregators and their financiers is reduced – the diversity of participants involved in an aggregated project can reduce risk to the aggregator and their financier. For example, under the Clean Development Mechanism (CDM) Programme of Activities (PoA) system, once an aggregation program is created and implemented, additional activities added to the program do not require approval from the CDM Executive Board. Consequently, the regulatory risk that new activities will be delayed, rejected or improperly implemented is reduced, which may create opportunities for project developers to borrow funds against future carbon revenues. Therefore, aggregation can help reduce financial and other risk to project participants and can help aggregators finance capital costs associated with their offset activities.
- Aggregation enables new, innovative methods for quantifying offsets and assessing additionality – aggregation can change the way protocols quantify emission reductions and assess additionality. These methods may be more accurate and cost-effective than traditional project-by-project approaches. The variability between individual sites is hard to capture in these models and therefore they are not designed for accurately measuring emissions from a single site. Through aggregation certain sources of quantification



uncertainty decrease as the number of fields or total acres increase. Furthermore, as done in Alberta, aggregation could enable proportional additionality. Proportional additionality discounts the amount of offsets based on the project type's level of practice.

- Aggregation helps prevent commercially sensitive information from being tied to a specific producer or field. This is an important consideration in agriculture, where confidential business information requires appropriate protections.

12.0 Offset Credit Criteria

It is crucial that an offset system be designed and implemented in such a way as to ensure the integrity of the greenhouse gas removals, reductions or avoidances. Failure to ensure integrity may undermine the objective of reducing greenhouse gases and preclude important political acceptability of the system. Furthermore, failure to ensure the integrity may prevent acceptance of offsets by external markets including those with which the regulatory body may be trying to establish linkages.

It is vital to develop a market framework that will allow offsets to be generated in a cost-effective manner. Quite simply, an offset market will not flourish if development costs are too high or opportunity too limited. Protocols need to be economically viable, environmentally credible, verification and registry costs must be reasonable, and aggregated project development must be facilitated in order to increase the number of participants in the market.

Prior to making an investment decision it is necessary to understand the timeframe of the investment and payback. Stability enables project developers to forecast and determine offset yields for a set period of time. To enable a robust market it is necessary to provide project developers with both baseline stability as well as stability of the system. This will provide project developers, investors and purchasers with a project life which will enable them to run a more fulsome analysis of the opportunity. Uncertainty will undermine the system by creating doubt.

12.1 Credit Ownership

Proving clear title and claim to carbon offsets is necessary but not always easily achieved. Aggregated projects where many players can be involved – the project developer, the aggregator, the landowner (which may be the government in the case of public lands) and the land manager (lessee) are even more complex. Sequestration projects involving soil or forest carbon can introduce additional risks since the liability for maintaining the carbon in the sink for the specified permanence period must be accountable by someone. While ownership can add complexity and some uncertainty, a variety of methods to ensure clear title and claim to carbon offsets have emerged.

The circumstances under which ownership can become unclear or contended include:

- An offset project that is operating on public land;
- A project that is implemented on leased land by a lessee and not the land owner;
- A technology service provider that is installing a unit that results in emission reductions (i.e.: energy efficiency gains from the installation of digital thermostats); and/or,
- Multiple, unrelated entities that are involved in the lifecycle of the project (e.g. biomass energy generation from the combustion of residues from forest industry activities)



OFA recommends that the MOECC provides a comprehensive, plain language guidance document outlining issues around credit ownership, including explanation of the common types of contractual arrangements that may be offered by offset initiative sponsors and aggregators.

12.5 Additional

In quantifying emissions reductions, the baseline condition defines a reasonable representation of conditions that would likely have occurred in the absence of the proposed project. In other words, the baseline represents “business as usual” and the project represents a change from this practice. In order to determine if something is additional, it is necessary to determine what would happen in the absence of the project – the project baseline or business-as-usual.

Baselines can be standardized or specific to the project or a hybrid approach. Standardized baseline assessments involve using a protocol that defines the baseline or business as usual (BAU) scenario. Assessments may use performance standards (such as, energy consumed per unit of production), emissions factors (i.e.: emissions per unit produced), or common practice (that is, the most commonly used technology or practice in the industry/sector) to identify the business-as-usual case. Project-specific baseline assessments involve the case-by-case examination of offset projects to deem whether a project is additional. Under this approach, a distinct project baseline scenario is identified and any emission reductions beyond the baseline are considered additional.

Adjusted and normalized baseline approaches are an important tool in recognizing activities which may be subject to eligibility constraints to ensure the environmental integrity of emissions reductions from these projects is maintained. In reality, most approaches to additionality assessments are a hybrid of a standardized and project-specific approach, (i.e.: where a project uses a standard baseline coefficient, but also requiring the project activity data to establish the magnitude of the baseline emissions).

The use of an adjusted or normalized baseline approach takes into account the current practice levels of a particular project. Based on the practice level, the baseline scenario is “adjusted” or “normalized” to reflect the current level of practice so that emissions reductions which go above and beyond the practice level, or are surplus to the business as usual scenario, can be quantified. For example, an adjusted baseline can be applied to quantify emissions reduction from no-till and reduced-till projects. In this case, the adjusted baseline is applied to all tillage management projects to adjust for the existing level of the various practices.

For example, Alberta’s Conservation Cropping Protocol’s baseline is developed using sector level performance in 2011 census data and known levels of adoption of reduced and no till agriculture practices. This approach allows all farm operators practicing conservation tillage farming to participate irrespective of the adoption date of the practice change. It does this by assuming all carbon stored prior to 2001 is discounted from 2011 levels and only the new, incrementally stored carbon is eligible for offset credits. This approach means that as adoption levels rise, the potential for new carbon sequestration is reduced and the associated emission reduction coefficient and resulting offset credit opportunities are also reduced.

We recommend adjusted baselines be used, where practicable, to enable broader participation and maintain the emission reduction activities being done early adopters.



12.6 Permanent

Offsets must represent emission reductions that are non-reversible or 'permanent'. In theory, permanence means that if reductions or removals are reversible (i.e. in the case of bio-sequestration), WCI guidelines and policies state the permanence period is 100 years, meaning that the carbon must be sequestered for that time period. In practice, permanence refers to the risk that a carbon removal is reversed at a later date (in part or in full). As a result, offset projects that are based on the biological sequestration of CO₂ require safeguards to prevent or compensate for intentional (e.g. harvesting of trees in a reforestation project) or unintentional (e.g. a forest fire in a reforestation project) reversals that may result in the release of previously sequestered CO₂ back into the atmosphere. Various reversal and replacement mechanisms have been developed to address this risk.

Sequestration projects must be designed so that the net atmospheric effect of their greenhouse gas removal is comparable to the atmospheric effect achieved by non-sequestration projects. The atmospheric effect will be based on the current international standard established by the UNFCCC, which is currently 100 years. With sequestration projects it is not possible to say with 100% certainty that offsets will be permanently removed from the atmosphere. Therefore, a widely adopted mechanism for ensuring permanence of offsets is to monitor for reversals and replace any reversals. A risk based assurance factor, not unlike Alberta's, is a transparent way of ensuring and demonstrating the permanence of reductions. However, unlike Alberta, it is recommended that these offsets be publically tracked and display the 'pool' of offsets. This will allow the regulator to publically demonstrate the conservativeness of the offset system. It will also enable the regulator to publically correct reversals.

Recommendations by the WCI Offset Committee to ensure offset integrity suggest that with emission reduction reversals after offsets are issued, the project developer must either replace offsets representing reversed reductions with other compliance units from within the system (i.e. if a buffer reserve has been established at the program/policy level, as in Alberta's offset system) or return offsets that were issued to the project (e.g. from their own buffer reserve, or purchase offsets in the market to replace the reversed ones). The number required to be replaced or returned will, at a minimum, be the difference between the atmospheric benefit the sequestration project until it was reversed and the total sequestration for which offsets were issued. Applicable approaches to assuring permanence for a project type will be included in the appropriate WCI offset protocol.

Aligning with WCI recommendations we recommend project developers follow or establish effective (i) monitoring systems, (ii) risk mitigation approaches, and (iii) contingency plans which address how, in the event of a reversal that is the result of proponent intention or negligence, any affected offsets will be replaced. The contingency plan should include specific mechanisms that are exercisable at the time a reversal is identified whether or not the proponent is solvent, exists in its original form, and/or has ownership of or responsibility for the project.

13.0 Offset Creation Procedure

The regulator is responsible for providing guidance to stakeholders on how to interpret and navigate within the market. Guidance documents are formal, legally binding documents that have been produced to assist stakeholders. Guidance documents typically cover many aspects of the market that are set at a finer level of detail than the regulations - such as, establishing protocols, verification, and project implementation. The guidance documents are intended to provide the operating rules for the market, tailored to specific circumstances (e.g. permanence



periods, replacement mechanisms, policy coherence between offset credit generation and other complementary measures to the carbon pricing framework. Guidance documents are not usually enforceable rules or requirements by themselves; they often define standards or expectations which are part of a rule or requirement.

We recommend that the MOECC compile a comprehensive, plain language guidance document to assist in navigating the offset creation procedure.

13.1 Initiative Registration

Registration is a key step in developing and maintaining integrity in an offset system. The ability to track ownership is vital to a regulatory carbon market and transparency is key. It is, however, important to balance the needs of the regulator with the privacy needs of the participants. Therefore, not all information should be publically displayed on a registry. For example, aggregated tillage projects require the collection and reporting of substantial personal data including producer name, crop type, acres, legal land location and other information. This data can be collected by the registry to be available to the regulator and the verifier, but does not need to be displayed. Instead, aggregate data such as acres of production, crop types, etc. should be reported publically for each project.

13.4 Initiative Data Report

OFA understands the need to have accurate and complete reporting of all initiative activities, however, we encourage the MOECC to explore options to make the reporting process reasonable, efficient, and timely. This includes the use of digital applications, reporting and verification. Ideally, we would like to see timelines for reporting outlined in the protocols specific to each project type. This way the reporting burden can be better tailored to the particulars of the offset initiative than to a routine process.

13.5 Verification of Initiative Data Report

OFA is encouraged to see that the offset regulation proposal is suggesting that, in the case of an aggregation, random spot checks may be used to provide a representable sample and assurance in verifying the requirements of the regulation.

We have seen in California how a complex or onerous verification process can curtail the development process. As we understand it, the California system allows for aggregation of projects, but requires individual site inspections to verify compliance. This effectively prevents widespread participation by farmers in offset generating projects and ultimately frustrates progress towards continued environmental quality.

Accepting representative sampling of a set of aggregated projects is a reasonable and prudent method of verification.

14.0 Buffer Account

We believe the regulatory proposal must provide significantly more information regarding the proposed buffer account. We have serious questions regarding the administration if this account; evaluation of the application process to use buffer account credits; ongoing monitoring and evaluation of the account itself; the potential use of credits or associated proceeds should the buffer account not be utilized; and the Ministry's transparency process around decisions to award buffer credits to reversals.



We recommend that the MOECC provide explicit details on the buffer account either in the regulation or in the comprehensive guidance document recommended earlier in these comments.

20.0 Next Steps

The agriculture sector has the potential to make tremendous contributions to reducing greenhouse gases however reducing greenhouse gases will involve investments. Offsets are a way to incent the adoption of new technologies, management practices, and activities, and for some to 'offset' the costs associated with carbon pricing. While producers may want to do the right thing and take action, it is difficult to justify investments in an uncertain environment and where the returns on investment of time, money, and effort are impracticable and unrewarding.

We look forward to continuing to work with the MOECC to develop an offset credit system that helps drive down greenhouse gas emissions, is highly practical and financially feasible, and provides positive environmental benefits.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Currie".

Keith Currie
President
Ontario Federation of Agriculture