

IETA Comments on Clean Electricity Regulations Update Paper

15 March 2024

IETA appreciates this opportunity to provide input in response to the Clean Energy Regulation (CER) “Public Update: ‘What we Heard’ during consultations and directions being considered for the final regulations” paper (“the update paper”).

For over 20 years, IETA has been the leading international business voice on robust markets solutions to tackle climate change, while driving clean finance at scale. Our non-profit organization represents over 300 companies, including many with operations and investments across Canada and Canada’s largest global trade partners. IETA’s expertise is regularly called-upon to inform carbon market solutions that deliver measurable climate outcomes, address economic competitiveness and carbon leakage concerns, balance efficiencies with social equity and support a just transition.

IETA is encouraged to see the intent to include offsets within the draft CER for compliance flexibility of regulated entities. As the update paper recognizes, uncertainty-related compliance costs, future economic risks, and technological risks, mean that low-carbon investments in the energy sector can have high-risk premiums. Compliance credits can play a crucial role in providing the needed flexibility for regulated facilities to move ahead with final investment decisions, deploying newer and riskier technologies, while simultaneously still providing a climate benefit.

In incorporating credits into the CER, IETA has three (3) key recommendations and concerns for the consideration of Environment and Climate Change Canada (ECCC).

- 1. Bolster fungibility and scale of carbon markets across carbon pricing regulation.** The update paper has not specified the source of offsets that would be allowed for compliance within the CER. Following the lines of thinking in proposed and other regulation, the Federal Oil and Gas Emissions Cap (O&G EC) and the Federal Output Based Pricing (OBPS) system, IETA expects ECCC will initially look to recognize offsets from Canada’s Greenhouse Gas Offset Credit System. **IETA strongly believes that ECCC needs to better facilitate fungibility and interoperability between the suite of federal and provincial carbon markets and climate regulations. The scope of recognized units within federal regulations needs to be broadened.**

Sources of demand greatly outweigh the existing supply of units. Currently the *Compendium of Federal Offset Protocols* only has two protocols, and the Federal offset public registry only lists one offset project and no issued offset credits.¹ The Federal OBPS allows the recognition of five (5) protocols from Alberta’s Technology Innovation and Emissions Reduction (TIER) regulation and has indicated that it could recognize units from British Columbia’s offset system.² However, this still lies in stark juxtaposition to the existing and forthcoming sources of demands for units: the Federal OBPS, the Federal O&G EC, the net-zero challenge, the government of Canada, and the CER.

ECCC needs to better facilitate fungibility and scale of carbon markets across the country. There must be adequate supply of offsets for facilities regulated under the CER to hedge their decarbonization strategies against downside risk scenarios (i.e. emissions above their emissions limits, within the limited range). This is best achieved through broader recognition of offsets produced in provincial carbon pricing systems.

¹ <https://marchescarbone-carbonmarkets.canada.ca/en/public-registry> (As of 29 February 2024)

² <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system/list-recognized-offset-programs-protocols.html>



IETA strongly recommends that the federal government ensure that CER regulated facilities are granted at least the same access as those under the Federal OBPS (i.e. Federal Offsets Protocols and the five protocols recognized from Alberta's TIER regulation). Further, we encourage ECCC to continue the development of their offset protocols, recognizing that several are expected to be delivered in the coming years. The federal government should not stop at these efforts. With a line of site to Canada's climate ambitions its essential that the federal government push for broader market scale and fungibility. Having greater fungibility and scale would reduce the duplication of protocol development and facilitate broader markets that lead to real, verifiable, additional, permanent emissions reductions or removals. We strongly encourage ECCC to recognize more protocols from Alberta, British Columbia, and Quebec for compliance across its regulations.

- 2. Allow firms to utilize Internationally Traded Mitigation Outcomes (ITMOs) for compliance.** In the process of broadening the scope of recognized offsets, ECCC needs to look beyond Canada's borders. If Canada is serious about cost-effectively managing climate change, its needs to leverage international carbon markets. IETA's research with the University of Maryland found that in the near-term cooperative implementation of nationally determined contributions (NDCs) using Article 6 of the Paris Agreement (Article 6) could substantially reduce the resources needed to achieve emissions reductions compared to independently achieving NDCs.³

IETA was encouraged by how ITMOs were being considered in the Oil and Gas Emissions cap framework, we recommend that a similar approach is considered for the CER. However, paramount to engaging with Article 6 is developing an appropriate ITMO framework, **we implore the government to provide this needed guidance.** Firms are not able to act and start to develop the needed supply without the appropriate certainty from the federal government. We also encourage ECCC to review our paper, co-authored with Resilient LLP and the Public Policy Forum, "[Article 6 Opportunity for Canada: Blueprint to International Carbon Market Cooperation](#)". The paper outlines the benefits of Article 6 international engagements with specific considerations for Canada while underscoring the urgency to move forward with concrete signals and actions on international Article 6-aligned market cooperation.

- 3. Regulatory overlap with carbon pricing systems needs to be managed.** IETA is concerned how the regulatory overlap between existing provincial carbon pricing systems and the CER will be managed. The expected regulatory overlaps creates a dynamic, complex, and uncertain regulatory environment that increases the complexity of a regulated company's strategy and the administrative burden for compliance.⁴

Existing carbon pricing systems, like the Federal OBPS and Alberta TIER, already use an emissions limit approach to establishing a compliance obligation for facilities in the electricity sector. Where the CER is more stringent on an emissions limit basis, than provincial carbon pricing, downward pressure will be held on the carbon price for traded instruments like emission performance credits (EPCs). IETA is highly concerned about how this will impact existing investments and Canada's carbon markets. Further, it will be critical to recognize facilities that have acquired offsets, in good faith, under existing provincial carbon pricing systems. It's essential to allow for the recognition of these offsets so facilities do not need to acquire offsets separately in the CER.

³ <https://www.ieta.org/initiatives/modelling-the-economic-benefits-of-article-6/>

⁴ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=565322



Building on this issue, IETA is concerned regulation of co-generation under the O&G EC, the CER, and provincial carbon pricing creates a high degree of regulatory complexity. The proposed Oil and Gas Emissions Cap Regulatory Framework (“the framework”) intends to cover scope 2 emissions related to the production of oil, gas and LNG, including cogeneration units. The proposed changes under the CER for co-generation, as IETA understands, sets an emissions allocation based on the total capacity of the cogeneration facility times the Emission Performance Standard (EPS); however, only the emissions associated with the electricity exported to the grid would be considered under the emissions limit. Finally, some provincial carbon pricing systems, like Alberta’s TIER system, already enforce a carbon price on cogeneration. IETA is concerned the combination of these systems can create a highly complex regulatory environment, especially if “behind the fence” falls under other pricing systems and exported electricity is subject to the CER.

Once again, we appreciate this opportunity to record IETA's insights and recommendations to inform the design of the CER. If you have questions or require further information about IETA's insights and recommendations, please contact **Sam Grootelaar** (grootelaar@ieta.org).

