

Specified Gas Emitters Program – Review Workshop

June 2008





Outline

- Purpose
- What we Saw
- By the numbers
- Where are we at now
- General Lessons learned
- Specific Issues
- Next Steps



Purpose of this workshop

- AENV is holding a series of workshops as part of a program review
 - Two industry sessions – Edmonton and Calgary
 - Also meeting with verification and offset communities
- Focused sessions identifying areas for improvement or outstanding issues that need to be resolved for future compliance periods
- Feedback will be combined with results from facility audits for the purpose of continuous improvement



Overview of the First Compliance Cycle

So what did we see?

- Participation was more or less as expected
 - Compliance focus on the Fund (\$40 million or 68%)
 - 1 million tonnes (25%) of offsets used for compliance
 - Primarily Tillage and Wind
 - About a million tonnes of EPCs created
 - 258,000 tonnes (6.8%) used for compliance in first cycle
 - Early indications are that these are mostly from co-generation incentive, not by facilities improving their emissions intensity

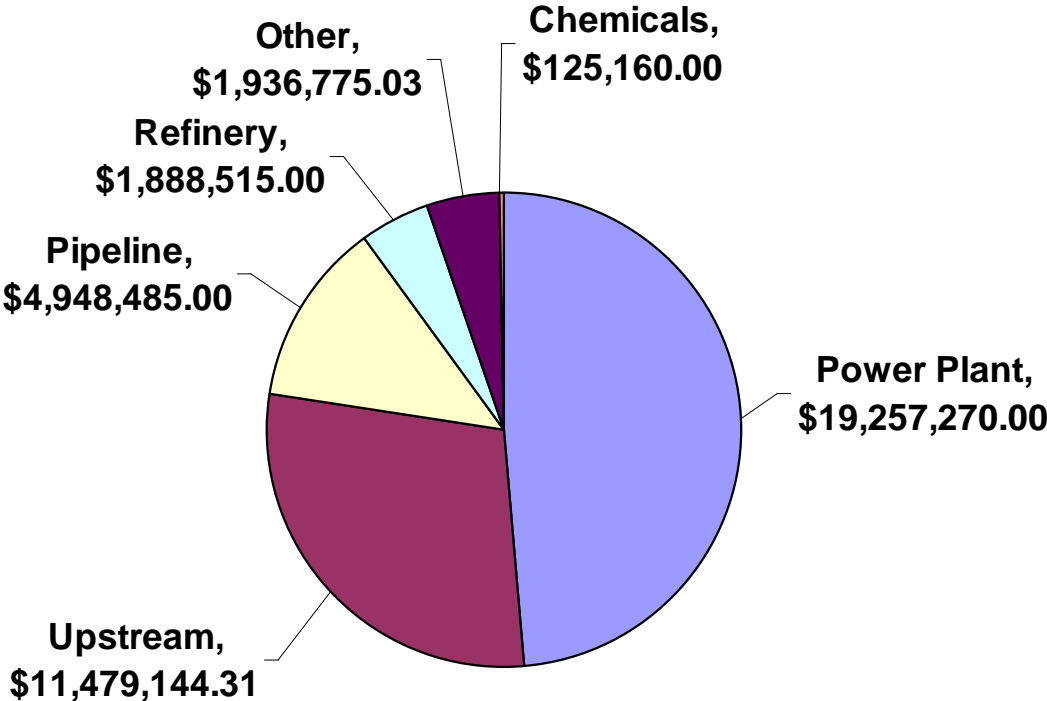


Compliance - By the Numbers

- 96 Baseline applications received
- 93 Compliance Reports submitted on time
- 55 Facilities contributed to the Fund
- 34 Facilities generated EPCs
- 7 Facilities used Offsets credits

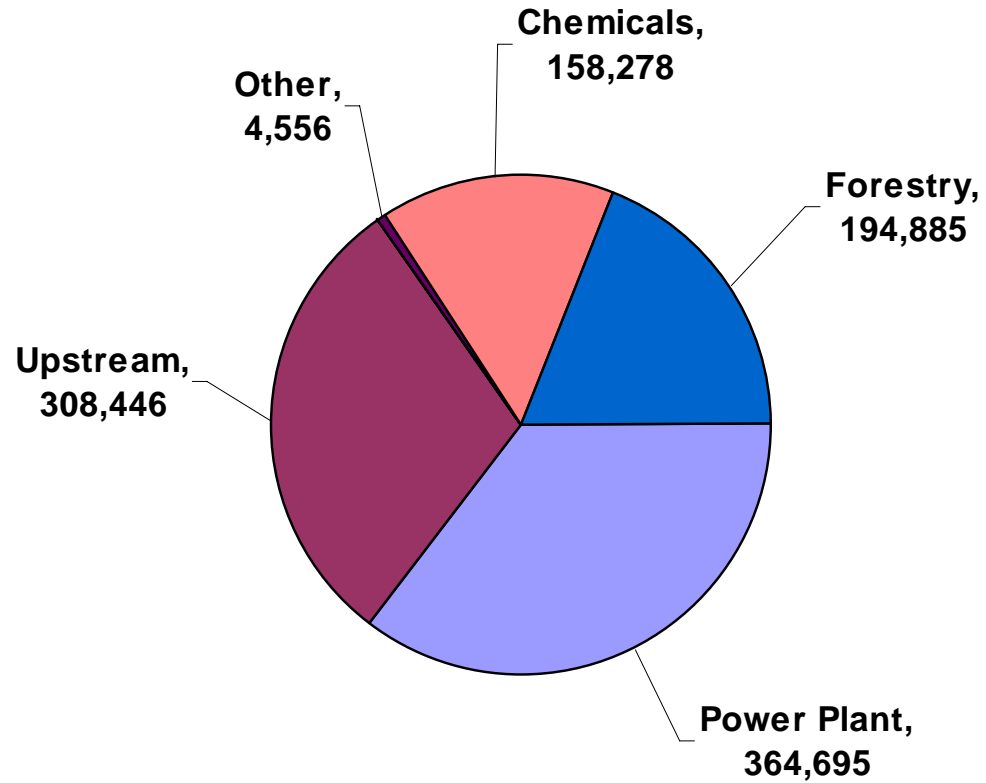
Fund Contributions

**Fund Credit Purchases By Sector
(\$ CDN)**



EPCs Generated

**Emission Performance Credits Generated By Sector
(Tonnes CO₂e)**





Where are we at now

- Currently completing the desktop review of the compliance reports
- Audited 10 baseline applications with over half of these completed
- A further 15 facilities will be audited on their Compliance Reports
- Moving forward with the development of the governance framework for the Climate Change Fund



Program Highlights

- Alberta - the first jurisdiction in North America to regulate greenhouse gas emissions
- Provincial system focusing on technology development
- First stages of a carbon market - the carbon price signal is now in play
 - Will lead to new carbon reduction opportunities
 - Shadow price of carbon will start to be built into investment decisions



Some Lessons Learned to Date

- Clear jump in effort and resources required to shift from reporting to meeting compliance obligations
 - Both for reporting entities and government
- Need clear direction, definitions and methodologies to ensure consistency, but some flexibility/discretion to address individual circumstances or anomalies.
 - Policy “grey areas” were explored and tested.
- Need more work on understanding growth sectors (growth and expansions have significant impact on intensity).
- Sectoral approaches beneficial for recognizing unique sector circumstances or issues but policies in one sector may have “knock-on” effects in other sectors or challenge principles of fairness and equity across sectors.



Lessons Learned To Date

- Reporting threshold needs to be lower than the thresholds for target/compliance.
 - to serve as an early radar for the system
 - to assist compliance and enforcement efforts
 - Inform future policy and regulatory choices.
- Differences between federal/provincial definitions and rules have added confusion to the system and required significant time and resources to clarify or resolve.
- The first cycle has been a significant learning process
 - will make incremental improvements
 - need to think about the implications provincially and nationally



Issues Encountered



Overview of Issues Encountered

- Definitions
- Production denominators used
- Industrial Process Emissions
- Cogeneration
- Verification purpose and intent
- Offsets generation and use
- EPC generation
- Data Management Systems
- Forms



Definitions

- New vs. Established – no criteria for addressing major expansion or changes in operation. Should there be a threshold?
- Integrated vs. Stand-alone Cogeneration – We are not sure we need this separation
- Facility – We saw confusion over the definition of facility
 - How does it affect boundaries in complex facilities and interconnectedness of contiguous small facilities?
 - Does it work for all sectors, e.g. pipelines, gathering systems?
- Production – is defined as an end product/output.
 - Do we need to look at a broader definition?



Production

- Intention was to use a similar metric within each sector – end product
 - exception is landfills which do not have an end product
- Received alternative production metrics such as RAI, Inlet Gas, coal per distance, blending of flyash outside the regulated facility
- Concern - how these alternate approaches meet our production definition and understanding how they affect intensity over time.



Industrial Process Emissions

- Currently defined as emissions from a chemical or physical reaction other than combustion.
- The policy intent was to address a narrow class of emissions that facilities do not have an opportunity to reduce.
- The following were brought forward but were a challenge to our legal definition
 - Steam methane reforming
 - Catalytic regeneration
 - Mine face emissions
 - Formation CO₂



Cogeneration

- Policy intent is to ensure no disincentives for facilities that upsizing beyond their internal needs
 - Assumes co-gen electricity is produced more efficiently than coal fired generation
 - OK with small benefits but should avoid windfall gains or significant penalties
- The number of credits generated in the first round where higher than expected
- We are assessing this policy
 - Want to ensure a balanced approach that incepts efficiency while continuing to achieve emissions reductions.



Verification

- The policy intent of third party verification is to improve the overall assurance of the system and to bring additional expertise and scrutiny to bear.
- Some issues we saw was:
 - Quality of verification varied significantly
 - Verifiers signed-off on reports that did not meet basic regulatory requirements.
 - Some verification reports that were incomplete
 - Industry complained that limited capacity resulted in high initial costs and reports coming in late
 - Some verifiers slipped into the role of consultant or advocate for the facility.
 - Some confusion over the level of assurance being verified to.



Verification con't

- Additional issues from first compliance cycle:
 - Not using prescribed forms
 - Not providing signed originals
 - Signing-off on unapproved methodologies, using different BEI for compliance reports than approved in baseline application, submitting unapproved offsets for compliance.
- The above are significant regulatory issues
- We will work with industry and the verification community to improve the system
 - review the guidance and clarify our expectations.



Offsets/EPCs/Fund Credits

- Some facilities were confused over their compliance options.
 - EPCs are generated by regulated facilities exceeding their target obligations
 - Offsets are generated by reductions that occur outside the regulated facility
 - Fund Credit purchases must be made to the Minister of Finance c/o Alberta Environment
- Compliance cheques submitted without documentation, made out to the wrong ministry and/or sent to the wrong address



Data Management System

- We saw varying levels of sophistication in inventory management, data management systems, and monitoring systems.
- Alberta supports ISO 14064 standards, but we recognize that adoption will take some time.
 - Need to evolve and develop more accurate and robust quantification approaches and emissions management systems
 - Methods, emission factors need to be credible.
 - Would like consistency within sectors where possible
- This is an issue across sectors; expect it to improve with time

Forms

- Reporting forms are prescribed by AENV
- Forms are locked and should not be changed by the reporter
- If facilities require non-standard forms (e.g. if using an alternate baseline year), all changes must be approved by AENV and appropriate forms will be issued
- Forms must be completed in their entirety including sending in the appropriate signed originals.



What we heard - Industry

- Reporting deadline
 - March 31 deadline was problematic
 - Would like to see this extended to June 1
 - Should harmonize with other related programs
- Difficult accessing Offsets and EPCs as compliance options
- Declining production
- Credit to reduce Industrial Process emissions



What we heard - Industry

- Cost and frequency of verification
- Forms
 - Access and format
- Confusion around materiality
- Timing and implications of harmonization with federal system



What we heard - verifiers

- Level of verification (verify vs. audit, limited vs. reasonable)
- Want methodology guidance for industry
 - eg, ISO standards for data management systems
- Want deadline extend to September to spread work over time
- List of verifiers
- Different perceptions of verification between engineers and accountants



Updates and Next Steps



AENV Audits

- The policy intent of the audit is to backstop the regulatory system by providing an additional level of assurance and rigor
 - Information gained from the audit process will be used for further refinement of the system
- Involves re-verify submissions against policy and flagging anomalies



AENV Audit con't

- Audit results and any system improvements will be applied on a go-forward basis
- If material discrepancies are identified, AENV will follow up with the company/facility to determine an appropriate course of action.



AENV Baseline Audit

- 10 facilities were selected:
 - represent a variety of sectors and facility types, levels of complexity, new vs. established facilities, cross-section of verifiers used, where issues were identified during the desktop review
- Seven audits have been completed, with three nearing completion.
- Results will be used to flag compliance issues and inform the program review.



AENV Compliance Report Audit

- Contracts issued to audit 15 facilities
- Selected using the same criteria as the baseline audits
- Will take place over the summer
- Results will be used to identify compliance issues and support program review.



Bill 8

- Amendments to the Climate Change and Emissions Management Act were introduced in the Spring 2008 Legislative Session
- The purpose of the proposed amendments are:
 - to support the administration of the Climate Change and Emissions Management Fund by a delegated organization.
 - to improve the legal authority of existing provisions and the administration of the *Specified Gas Emitters Regulation*.
- The amendments did not pass this session, but will be brought forward again in the fall session.



Climate Change Fund

- The elements of the fund administration required to receive money from industry are established and were operationalized during the first regulatory compliance period, which ended on March 31, 2008.
- The remaining work on the fund is focused on the governance process for managing and allocating payments out of the fund.
 - This work will wrap up by the fall of 2008 in time for the 2008 - 2009 compliance cycle.
- We anticipate the governance structure of the fund will be in place and in a position to begin accepting funding allocation proposals (through the Request for Proposal process) in 2009.



National Context

- Federal Government will be implementing GHG emissions legislation by 2010
- Alberta is committed to working with federal government towards a harmonized national system
 - Not interested in duplication, overlap and inconsistencies – perspective shared provincially and federally
 - Building off the experience with mandatory reporting
 - Several important issues we are working though, e.g., targets, thresholds, and compliance mechanisms
- From our perspective, this is about the management of provincial resources - Alberta regulates Alberta industries



Next Steps

- Desktop review complete by end of summer
- Will hold focus sessions on key issues: RAI, Inlet Gas, and cogeneration
- Revise the technical guidance documents by end of September
- Moving forward with the implementation of the new Climate Change Strategy
- Looking at revising the reporting threshold
- May look at revising targets structures as we move towards harmonization with the proposed Federal regulatory system