



EMISSIONS TRADING REGULATION

CONSULTATION PAPER

SUMMARY OF PUBLIC COMMENTS

Climate Action Secretariat

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Emissions Trading Regulation Consultation Paper – Summary of Public Comments

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Emissions Trading Regulation Consultation

Summary of Public Comments

1. Introduction

The Climate Action Secretariat (“CAS”) is in the process of developing a proposed Emissions Trading Regulation and a proposed Offsets Regulation under the *Greenhouse Gas Reduction (Cap and Trade) Act*. The proposed Emissions Trading Regulation would establish the rules by which emissions may be traded under British Columbia’s cap and trade system. It is intended to establish an efficient, fair market with clear rules on how allowances are created, distributed, traded, tracked and retired for compliance. Consultation papers were prepared for public review and comment outlining the major components and operation of the proposed Emissions trading and Offsets regulations.

1.1 Background to the consultation process

The consultation paper was posted for public review and comment on CAS’ website (www.env.gov.bc.ca/cas/mitigation/ggrcta/emissions-trading-regulation/) October 2010 through December 2010. The consultation paper provided background information and identified consultation issues for discussion to build understanding about the subject and provide a structure for comments and feedback on the proposed regulatory approaches.

1.2 Purpose and format of the *Compilation of Public Comment* document

This document has been prepared for CAS with assistance from C. Rankin & Associates, contracted by CAS to independently receive, compile and review comments. The summary of public comments is arranged by topic as presented in the consultation paper. Direct excerpts from submissions are included in quotation marks (“ ”). Square brackets ([]) indicate inferred or contextual terms.

The complete set of responses received through the consultation process has been compiled for staff review and consideration. As CAS initiates the regulation drafting process, they will continue to work closely with businesses, First Nations, environmental organizations and community groups across the province to address the comments raised.

1.3 Description of responses received

Thirty-nine responses to the consultation paper were received by December 15 2010. Most of the respondents provided substantive and comprehensive comments following the subject areas and structure of CAS’ consultation paper and response form. Many submissions also included a cover letter and/or supplementary information regarding the respondent’s background and interest in development of the regulation. This information has been reviewed for inclusion in the summary under applicable topic areas or as “other comments” (see section 7 below).

With respect to determining the facilities that are considered “regulated facilities” under the regulation, the most common concern raised by respondents was regarding the linear facilities definition proposed for the regulation (and consistent with the WCI design approach) and

treatment of fugitive emissions from these facilities. Respondents also commonly recommended that “covered emissions should be reported as a subset of total reported emissions and that subset should be identified as the liability – items that will remain under the carbon tax should also form a subset of the total emissions and be easily excluded from the covered portion.”

Comments regarding the source types that should be included or excluded from the B.C. emissions trading system included concerns regarding: definitions and rules associated with linear facilities; quantification and inclusion of fugitive emissions; fairly addressing emissions from surface coal mines and stored coal piles; rules for energy from waste facility emissions; the effect on ability to generate offsets from anaerobic or aerobic digestion of wastewater; and appropriate consideration of emissions from methane releases associated with hydro-electric dams, forest, solid waste facilities and agriculture.

Respondents provided substantive comment on topics related to allowance forecasts and budgets, frequently noting the challenges of providing clear signals to the market, incorporating appropriate flexibility for adjustments and consistent and timely communication of information to market stakeholders. A number of respondents suggested that “special consideration [or attention] be given to the first compliance period” with provision for consultation and review of procedures based on experience gained in the early stages of the program. Respondents also suggested linkages with, and learning from, WCI partner jurisdictions and other emissions trading systems to the greatest extent possible.

Respondents commenting on the topic of allowance distribution commonly emphasized the importance of this function in implementing the emissions trading system, while differing sharply in recommendations regarding appropriate and fair distribution mechanisms. Some respondents advocated distribution of allowances by auction to the greatest extent possible, arguing that this method is administratively straightforward, true to market principles and in keeping with the spirit and intent of establishing an emissions trading system. In contrast, other respondents pointed to: inequities faced by “energy intensive trade exposed” sectors; differing approaches to carbon pricing and emissions trading used by WCI partners and other jurisdictions; the opportunity to encourage early action on emission reductions; and the need to accommodate existing British Columbia programs and initiatives. Respondents provided a range of specific recommendations regarding: early reduction allowances; establishing a pool for new entrants to the market and/or a “strategic reserve pool” to accommodate growth in specific sectors such as gas development or other market changes; and linkages with emissions trading programs (within and beyond the WCI system). Respondents differed in recommendations regarding whether “grandfathering” or “benchmarking” are the most appropriate means for determining allocation of allowances. A number of respondents suggested establishing a “manageably small group of... experts” to consider and provide recommendations to CAS on these design elements.

Respondents provided detailed and considered comment on establishment of a registry, market design and appropriate oversight. Commonly, respondents supported: clear rules ; clear and timely communication with market stakeholders; respect for confidentiality needs; transparent and consistent oversight using existing mechanisms; and linkages with other emissions trading systems to the fullest extent possible.

Public Comments

1. Determining which facilities are “regulated operations” under this regulation

If an operation is emitting over 25,000 tCO₂e of emissions covered by the cap under British Columbia legislation, the entity would automatically be a “regulated operation”. The total covered emissions of a regulated operation creates a compliance obligation where the regulated operation would be required to “surrender” a quantity of compliance units equal to the sum of its covered emissions over the three year compliance period (see consultation paper discussion topic area 1 and appendix A).

Response Form Topic Area 1.1: Please provide comments on establishing the link between the quantity of a regulated operation’s verified GHG emissions reported and the regulated operation’s GHG compliance liability.

Several respondents commenting on this topic recommended that “covered emissions should be reported as a subset of total reported emissions and that subset should be identified as the liability – items that will remain under the carbon tax should also form a subset of the total emissions and be easily excluded from the covered portion.” One respondent also commented that “we do not support any potential policies that charge the carbon tax and then refund it to entities at a later time.”

The most common concern raised by respondents on this topic was regarding the linear facilities definition proposed for the regulation (and consistent with the WCI design approach) and treatment of fugitive emissions from these facilities. One respondent commented, for example, that “practical application of the regulation could create an unreasonable burden on producers with no noticeable improvement in data quality... [and] further, the linear facility definition and the complexity of upstream oil and gas joint ventures will create challenges for designing allowance allocation due to the changing nature of reporting assets.” Respondents suggested a variety of actions to address this concern, including: “reporting [of estimates]... but [these emissions] should not be covered as part of any cap and trade system”; “define a ‘linear facility’ as a ‘contiguous facility’ which [would] group wells, compressor stations and gas plants that are physically linked as one facility”; “categorizing [scattered and difficult to measure] sources as reporting only”; and “[driving] emissions reductions associated with fugitive and vented emissions... [using] an Industry Code of Practice.”

One respondent noted that “the current approach for determining GHG emissions is to consider only direct stack emissions... [which] is not appropriate for characterizing emissions from sources outside of the tax or cap – [such as] energy from waste facilities...[which have] emissions [that] are more than offset by preventing landfill methane emissions.” The respondent was concerned that “energy from waste and forest products recycling facilities [could] face a significant carbon cost and no recognition of their benefit in reducing GHG emissions from landfills [which] if allowed to persist... [would result in] a significant leakage of GHG emissions to the landfill sector where they face no carbon cost.”

Additional specific comments included:

- “[Our organization] suggests that the thresholds and the scope of emissions included within the Reporting and Emissions Trading Regulations be harmonized – for operations that are defined as ‘reporting’ operations under the Reporting Regulation but potentially not defined as ‘regulated’ operations under the Emissions Trading Regulations, the added accounting rigour (and associated costs) required by the Reporting Regulation become overly onerous and impractical – we propose that, in the case where an operation is a reporting but not a regulated entity, that...: either: a) exempt the entity from the reporting regulation...; or b) permit entities to adopt simplified methodologies... (i.e., the use of methodologies 1 or 2 for the calculation of stationary fuel combustion as opposed to methodology 3, which entails sampling and analysis requirements for certain fuels)”;
- “CO₂ emissions from the combustion of the biogenic fraction of municipal solid waste, such as in an energy from waste facility, should not be subject to compliance obligations and should be included in Schedule C Biomass Exclusions of the Reporting Regulation – existing cap and trade programs, including the European Union Emission Trading Scheme (EU-ETS), the Kyoto Protocol and the proposed California Cap and Trade Program under AB32 do not cap biogenic emissions – furthermore, exclusion of biogenic emissions from the cap would be consistent with the goals of the B.C. Bioenergy Strategy”;
- “[Our organization] recommends a pause while industry and government work toward clarity on the scope, coverage, definitions and criteria that define which sources and facilities are covered – without clarity on these issues, companies cannot determine their total compliance obligation under the proposed cap and trade regulation”;
- “Facilities that are under the 25,000 tCO₂e threshold have no compliance liability, whereas facilities over the 25,000 tCO₂e threshold are liable for 100% of their emissions – this creates an unfair economic disadvantage for facilities above the threshold”;
- “[We] propose that verification reports for regulated facilities be submitted and posted on the registry website by March 1 of each compliance period in order to accurately assess each regulated operation’s GHG compliance liability, as well as aid in allowance forecasting”;
- Set the threshold higher to “give regulated entities more flexibility to obtain offsets from sources [below the threshold];
- “A clearer link between the quantity of a regulated operation's verified GHG emissions reported and the regulated operation's GHG compliance liability could potentially be established by holding facilities with emissions over the threshold responsible only for emissions over that threshold, rather than the full quantity of their emissions – the threshold would therefore correspondingly be lowered to ensure the same mass of emissions are captured under the regulation”; and
- “[We] request clarification on the definition of linear facilities – our current interpretation is that... distribution terminals... [that] are not connected by pipeline [to a refinery would not be considered part of the refinery] – it is our understanding that other industry participants may have received conflicting interpretations on this issue.”

Response Form Topic Area 1.2: Please provide comments regarding the source types of operations that are under consideration to include in the B.C. emissions trading system.

Many respondents reiterated or provided additional comment on concerns raised under topic 1.1 (above). These included: definitions and rules associated with linear facilities; quantification and inclusion of fugitive emissions; and inclusion of energy from waste facilities. Several respondents recommended “that ‘emissions from surface coal mines when coal is broken or exposed to the atmosphere’ and ‘emissions from stored coal piles’ [should not] be included under cap and trade.” Respondents pointed to difficulties in accurately determining emissions from these sources, potential for “double-regulation” of these emissions, lack of “technologically and economically viable” abatement options and that “B.C.-based users may have to increase their reliance on foreign sources of coal.”

Additional specific comments included:

- “ ‘Emissions from the anaerobic or aerobic digestion of wastewater’ – we believe that emissions reductions from these sources can be easily measured and provide opportunities for the creation of offsets under the Offsets Regulation – the inclusion of these sources under the covered sectors will potentially decrease the number of offsets that will be available for compliance, thereby contributing to increasing compliance costs under cap and trade”;
- “[Our group] does not agree that aerobic wastewater treatment should be included – as our work with the National Council for Air and Stream Improvement shows virtually no GHG emissions from aerobic treatment systems”;
- “There are notable omissions [from] the source types included, such as: methane releases from hydroelectric dams...; deforestation; agriculture...; solid waste [facilities that generate less than] 1,000 t of methane per annum... [an amount that could] significantly exceed the 25,000 t CO₂e of the Emissions Trading Regulation...; and... [the estimated] 90 facilities that fall between the 10,000 t CO₂e reporting threshold and the 25,000 t CO₂e emission trading threshold... [which] could represent up to 3.3% of B.C.’s total emissions”;
- “We believe that the proposed source types should be expanded to recognize the societal benefits created by clean renewable generation, thereby aligning emitting ‘source types’ with non-emitting ‘source types’ – owners of renewable generation should be entitled to receive bankable allowances for every MWh produced”;
- “The BC emissions trading system should strive to promote diversity amongst types of operations – this will increase the number of abatement opportunities and help to reduce the overall emissions”; and
- “We believe that to the extent possible all industrial GHG emissions sources should be covered by either the regulation or the carbon tax – consequently we believe that all of the emissions sources listed on page 5 of the consultation paper should be included as emissions sources... we note that the Climate Action Team, in its report, highlighted the need to regulate all industrial emissions by 2012... in addition, we are concerned that emissions from forestry are not listed as a covered source.”

Response Form Topic Area 1.3: Please provide comments regarding potential provisions for operations to “opt-in” to the emissions trading system.

Most respondents who commented on this topic noted their support for an “opt-in” provision provided that any committing facility is required to “remain in the system for the entire nine year period of 2012-20 (and their emissions are included in the [associated] forecast)... and be held to the same standard [e.g., verification requirements] as regulated facilities with respect to the reporting and cap and trade regulations.” Some respondents however, commented that they were “against allowing non-regulated operations to ‘opt-in’ to the emissions trading system” (without explicitly providing the rationale for their comments).

One respondent noted that since non-regulated facilities are not able to generate offsets for activities such as energy efficiency, “by allowing a facility to ‘opt-in’ to the market, the market will be able to benefit from those types of activities – we would rather see the offset system fixed to allow greater flexibility in offset activities.”

One respondent commented that “since facilities not covered by the cap will be covered by the carbon tax, we suggest that qualifying facilities have the option of ‘opting-out’ of the cap in favour of the tax – qualifying facilities could include ‘linear’ facilities in the upstream oil and gas sector... it would be good to choose to opt-out of the cap in favour of the tax if this is the most cost effective way to reduce emissions, not unlike a small facility opting-in to cap and trade because it is more cost effective than a tax.”

Response Form Topic Area 1.4: Please provide comments on the approach to ceasing compliance obligations for operations that shut down.

While several respondents commented that they “agree with” the approach outlined in the consultation paper or that the approach “seems reasonable” – a number of respondents found the consultation paper “unclear on the issue.” Respondents commonly questioned how a facility that has permanently shut down would be able to report and verify zero emissions, “especially if the shutdown is due to bankruptcy.” The most widespread area of comment on this topic related to the distribution of allowances if a facility shuts down. One respondent, for example, noted that “if allowances are distributed 100% by auction, then there is no issue – the facility has no compliance obligation and requires no purchase of allowances – any outstanding allowances at the time of shutdown are still the property of the operator and are not automatically retired.” Several respondents commented that if however, allowances were freely distributed, “then the operator of the facility should still be entitled to the gratis allocation that has been defined at the facility level for the term of the entitlement.” Respondents commonly recommended that “there should be consistency in approach to ceasing compliance obligations and the allocation of free allowances.”

One respondent noted that the consultation paper “does not describe when the director may unilaterally remove an operation from compliance, or cease providing free allocations to a shut-down facility.” Other topics where respondents requested clarification included: linear facilities (“how would the closure of one of five gas plants in a linear facility be treated?”); what alloca-

tions would be available to a facility that re-entered the program after a shutdown; and definition of a “shutdown” (i.e., how “maintenance, slow-downs, temporary shutdowns and permanent closures can be best addressed”).

2. Setting the number of B.C. allowances through B.C.’s nine-year allowance forecast and three-year compliance period

B.C. will publish a first forecast of the number of allowances that it will issue annually in 2011. By December 31, 2014 the forecast out to 2023 would be established – with the forecast revised and published prior to the beginning of each subsequent compliance period. B.C. also intends to set a cap on allowances issued during a compliance period – i.e., a three-year allowance budget – prior to each compliance period (see consultation paper discussion topic area 2).

Response Form Topic Area 2.1: Please provide comments regarding the timing of the Province publishing the allowance forecast and budget.

Many respondents noted that “providing forecasts and budgets as early as possible helps businesses to plan for their future investments and compliance strategies.” For example, the timing for publication represents “a balance between ensuring that the information on which to base the forecast and the allowance budget is as accurate as possible and the need for covered entities to have sufficient time to make plans.” One respondent commented that the proposed system of forecasts and budgets “that are subject to negotiation and change” would “compound demand side uncertainty by introducing systemic supply side uncertainty [and would] make allowance prices highly uncertain, contrary to the stated objective [of maximizing price certainty to enable investment].”

Additional specific comments included:

- “Special consideration should be given during the first compliance period (and in particular the 2012 budget) due to the fact that 2008-2010 (and likely 2011) are not representative years due to the economic downturn”;
- “Reflecting on the experience of the Regional Greenhouse Gas Initiative (RGGI) program, [our organization] believes that the initial cap level should be set to closely reflect the most recent year of actual emissions data... the regulation could include an annual rate of reduction that ties the cap trajectory to science-based targets and the province’s broader emissions reduction targets for 2020 and 2050, as established by legislation... in addition to the factors outlined on page 7 of the consultation paper, the “best estimate” of emissions used to establish the nine-year allowance forecasts should also be informed by: (1) current and forecasted energy prices, as well as current and projected energy use and demand for specific fuel types; (2) planned use of allowance value and the potential impact from those programs (e.g., increased investment in energy efficiency); (3) anticipated provincial and federal environmental policies; and (4) forecasts from other jurisdictions that may that may directly or indirectly impact demand for energy, commodities and/or products from B.C.”;
- “We strongly urge moving immediately to auctioning the substantial majority of compliance credits and moving as quickly as possible to auctioning 100% of compliance credits...”

the inclusion of free credits inevitably involves direct manipulation of the carbon market, while giving away a valuable public asset to industry free of charge – by contrast, the auction involves less opportunity for government interference in the market, is more transparent and obtains a significant source of revenue for the public that can be used to fund other climate change mitigation and adaptation to the impacts of climate change”;

- “[We] suggest that [CAS] consider providing annual allowance forecasts, for the following nine years, for each of the first three years of the regulation – once processes, methodologies and modeling techniques have been fine tuned, forecasting of allowances, for the following nine years, could then occur every three years”;
- “It is critical to allow for flexibility to make adjustments for growth beyond originally anticipated levels – it is also important that the rules and processes be clear and transparent – the number of allowances must be sensitive to trade-exposed industries and should be consistent with other WCI jurisdictions.”

Response Form Topic Area 2.2: Please provide comments on how best to facilitate stakeholder input on the economic and emissions forecasts that support determination of the allowance budget.

Respondents suggested a variety of means for facilitating stakeholder input, including: “quarterly meetings”; “an advisory committee with representation from independent research scientists, academics and industry sectors [with provision for] entities to comment on the assumptions of the model and provide their own emissions forecasts”; “continu[ing] to engage and meet with both Industry Working Groups and individual emitters... prior to setting the allowance forecast to obtain emitter perspectives on anticipated economic and emissions assumptions guiding the forecast”; “ongoing connections with all key covered sectors”; “a multi-stakeholder forecasting advisory committee”; and “stakeholder experts integrated into the government’s modeling and analysis team.”

Additional specific comments included:

- “Emphasis on stakeholder engagement throughout the development of the allowance forecast and budget is central to ensuring an accurate, fair allowance budget”;
- “It would be desirable for a draft or preliminary B.C. budget allowance to be published at the same time as the 9-year allowance forecast, with a 45 day comment period on the preliminary B.C. allowance budget – this approach would allow input by stakeholders prior to having the B.C. allowance budget finalized at the end of the second quarter in the year preceding the start of a given compliance period”;
- “The best way to facilitate stakeholder input with regards to both the economic and emissions forecasts – is to allow for stakeholder input only after a specific methodology for forecasting allowances has been determined”;
- “The supporting model results, including economic and emissions input, should be made public to the stakeholders 3 months in advance of publishing the allowance forecast, with a 45 day comment period closing approximately 45 days prior to the allowance forecast being published”;

- “Experience gained from the first few years of implementation will inform market participants to better provide input regarding adequate timeframes for publication... [we] suggest that [CAS] provide opportunities for on-going dialogue and input to the forecast process”;
- “Input on economic and emissions forecasts will be fraught with biases and genuine uncertainty – allocations on the basis of forecasts offers too many opportunities for ‘gaming the system’ ”;
- “The process selected must be transparent and a constant for each 3 year compliance period – if the Government decides to change the approach, a long lead time to inform the participants is required”;
- “In general, it is important that stakeholders have an opportunity to provide input on the development of the nine-year forecast as well as the three-year allowance budget (and related annual allowance distribution plans) – however, [we] suggest that the regulation only trigger a formal review process when the Province is considering a cap level adjustment... [a] formal review process should include a modeling component that solicits input from a wide range of stakeholders that are given timely access to data and materials, including the modeling inputs and results”;
- “[Our organization] appreciates the effort and time that [CAS] has put into organizing and supporting the industry consultation process over the past year or more – however, we strongly prefer a federally-crafted, economy-wide, market-driven, continental climate change program over an assortment of provincial and regional measures – there are inherent difficulties in creating a regional program – thus, [we] recommend a pause in further implementation – more data and analysis is required and sufficient time should be allowed to engage in an open, collaborative working-group approach with industry to determine sector-by-sector allocation and distribution of rules”;
- “Work closely with regulated entities to forecast emissions based on expected activity, economic conditions and the anticipated impacts from the establishment of the cap and trade market”;
- “Stakeholder input should be directed through a manageably small advisory committee with representation from independent research scientists (that do not receive funding from government), emission trading experts and industry sectors... companies should also be provided the opportunity to comment on the assumptions of any economic models being used – companies should have the option to forecast their own emissions when submitting their annual inventory report – since this information would be considered confidential and contain forward looking information that could affect markets, it would be necessary for the B.C. government to provide assurance that this data would be kept confidential”;
- “B.C. should consider adopting learning from other cap and trade systems where this experience is applicable and unbiased – we advise caution if making direct comparisons between EU ETS and WCI since the EU market is many times larger and may not face the same challenges or sectoral competitiveness issues as B.C. would face under WCI.”

Response Form Topic Area 2.3: Please provide comments on the list of factors that the Ministry may consider in deciding whether an adjustment of the allowance budget is necessary.

A number of respondents commented that the factors listed in the consultation paper “appear reasonable” or are “theoretically sound.” Respondents also commonly requested “a long lead time” and/or “consultation with regulated emitters” if and when adjustments to the allowance budget are contemplated. Several respondents noted that “the interaction between British Columbia’s actions to establish allowance budgets and those of other WCI partners” is very important. One respondent commented, for example, that “B.C. must be prepared to adjust the volume of allowances to address in a fair way its own circumstances and changes in linked jurisdictions.” Another respondent commented that “in the early days, especially if competing jurisdictions are not taking similar action, the price risk is of greater concern than the quantity risk.”

Additional specific comments included:

- “It may also be appropriate to adjust the budget to accommodate economic growth and new entrants into the system – economic, trade balance, desired GHG reductions achieved, new entrants and closures, expansions and increased processing complexity at existing facilities should be factors used in this consideration”;
- “[We would suggest] add[ing] to the list of factors that could trigger an adjustment: (1) significant changes to energy forecasts; (2) excessive surplus/banked allowances; and (3) unusually low emissions and allowance prices due to unforeseen fuel or technology innovations or opportunities (note that a reserve price with allowance retirement will also help address this issue and the ability to retire allowances should be codified in the regulation)”;
- “Criteria should include the maintenance of both a ceiling and floor for allowance prices to maximize the price certainty, reduce the risk of economic shock of high prices and enable investments in the lower carbon economy”;
- “Consider an adjustment to the forecast whenever there is a ‘material change’ that will impact either the supply and/or demand of: (i) B.C. allowances, or (ii) WCI Partner allowances – there should be adequate notification provided, as well as all relevant information to explain any adjustments – the term ‘material change’ would have to be clearly defined to avoid market challenges and discrepancies [for example, the definition could be] based on the percentage of allowances allocated in the province within a prescribed period of time”;
- “If early reduction allowances are issued for free... then they should be taken out of the annual budget, just as any other compliance credit would be... such emissions reductions, whether voluntary or [undertaken] for some other reason, should [not] be used as a rationale to increase emission levels required in 2012 [in setting the emission allowance]”;
- “We also believe that the impacts of cap and trade on sectors should be considered as the program matures – B.C. should recognize unintended policy consequences are sometimes unpredictable and may require sector specific adjustments to policy and approaches”;
- “A cost containment mechanism, such as a price cap on allowances, is a necessary component for a workable cap and trade system.”

3. Distribution (allocation) of allowances

Following publication of the allowance budget for the compliance period and prior to each three-year compliance period, the B.C. Government would publish a B.C. allowance distribution plan. The total number of allowances in the allowance distribution plan could not exceed

the number of allowances in the allowance budget for that year (see consultation paper discussed topic area 3).

Response Form Topic Area 3.1: Please provide comments on the process to set the three-year distribution budget.

In addition to comments on the process to set the three-year distribution budget, many respondents provided comment on general topics related to distribution and allocation. These have been summarized below under the headings: distribution of allowances; and early reduction allowances.

Distribution of allowances

Respondents differed sharply in their comments on this topic. Arguing for distribution of free allowances, “particularly in early compliance periods”, one respondent recommended that “a significant portion of allowances be distributed gratis to industries exposed to significant competitive pressures” and that this “may help to mitigate the migration of B.C.-based industry to jurisdictions with less stringent or no carbon constraints.” The respondent also expressed “concern about the impact that an allowance auction might have on the cash flow of some regulated operations” and recommended that “the amount of auctioned allowances rise *gradually* [as this] will produce less volatile allowance prices and allow facilities to phase in new emission reductions continuously.” In summary, the respondent noted that “allowances will have an economic value, therefore how B.C. decides to distribute them will have an economic impact on regulated operations, program participants and consumers” and recommended that “B.C. should strive to distribute allowances in a manner consistent with the principles of cost-effectiveness, fairness and administrative simplicity.”

In contrast, other respondents recommended “[distribution by] auction of 100% if of the allowances to ensure [that] the government is collecting a fair value for the allowances and the potential for windfall profits is eliminated.” Respondents arguing in favour of 100% auction commonly noted that this method is “less administratively complex” and more “fair” (as rules for distribution are not determined by government). One respondent recommended addressing “industrial competitiveness” concerns (regarding carbon compliance costs) “through a rebate [of a portion of auction revenues]... to help regulated industries remain competitive with unregulated competitors.”

Early reduction allowances

Some respondents highlighted the importance of early reduction allowances while others argued against their use. In support of early reduction allowances, one respondent commented that “the cap and trade program should be designed to reward, not penalize, industry for early action on emission reductions.” Another respondent requested “more clarity as soon as possible about the mechanism to allocate early reduction allowances, including those related to Pacific Carbon Trust (PCT) contracts, to prevent delay of early action to reduce emissions... a notice clarifying the benefits and requirements for early reduction allowances and sale of offsets to PCT would help to address this barrier.” In contrast, another respondent commented that “[the proposal to allow early reduction allowances to companies that acted in advance of 2012] would

be complex to administer, is flawed...and is only being proposed because free allocation is being considered... based on the combination of concern with the rationale for the proposal and a simple solution – auctioning all allowances – that eliminates the need for the added complexity, we recommend not including early reduction allowances in B.C.'s cap and trade system.”

General comments on topic area

Several respondents commented that “coordination among [WCI] partner jurisdictions on allocation issues and the [associated] impacts on competitiveness is a critical element of the overall WCI design.” Respondents noted that “decisions arising related to competitiveness must take into account not only the allocation plans of partner jurisdictions, but other factors including leakage to other states, provinces or countries that have no or less stringent emissions constraints and/or no mechanisms that place a price on carbon.” “In the absence of a North American-wide cap and trade system, there is an increased risk of ‘carbon leakage’ to non-capped jurisdictions – it will be important for the B.C. government to monitor and manage adverse sectoral impacts and take steps to minimize potential carbon leakage”.

A number of respondents commented on the need to balance between “clear and transparent... rules... so that the market operates efficiently and effectively” and “allow[ing] for flexibility to make adjustments... in light of changing circumstances.” Respondents differed in their comments and recommendations regarding an appropriate balance. One respondent noted the potential that “as designed the number of allowances in the market will be in a constant state of flux – this constant uncertainty will tend to discourage investment in emissions reducing technologies, discourage market participation thus reducing liquidity and cause sudden lurches in allowance pricing as each new quantity is announced, if it differs from market expectations... while [we] appreciate the desire for flexibility and to hedge against unexpectedly high prices for reductions, there are better ways to achieve those objectives... [we] strongly recommend that British Columbia eliminate the routine allowance quantity adjustments aspect of its program and instead publish a fixed schedule of allowance issuance volumes on at least a rolling ten year basis.” In contrast, another respondent commented that “until jurisdictions with which the various sectors of industry British Columbia compete establish similar carbon pricing regimes, the stringency of the budget should be managed to keep the price of allowances within a previously determined and communicated range.” Other respondents commented, for example, that “setting and adjusting the allowance budget in light of changing circumstances is a very important aspect of the emissions trading system – it is critical to allow for flexibility to make adjustments for growth beyond originally anticipated levels.”

Respondents differed in their comments regarding “grandfathering” versus “benchmarking” as recommended methods for distributing free allowances. As noted, some respondents commented that allowances should be distributed by auction rather than gratis. Some respondents supported use of benchmarking, noting, for example, that accepted methodologies have been established for specific sectors (such as the “Solomon Associates complexity weighted tonne” for petroleum refining) and “could be evaluated and modified for application within the WCI system.” Another respondent commented that “[oil and gas development] as an industry that is growing and investing heavily in B.C. it is very important that the allowance distribution mechanism be output based rather than ‘grandfathering’... with the low price of natural gas, exploration and production will not be financially viable without free allowances and a distribution system that takes into account growth and large capital investments in the Province.” Other

respondents, in contrast, commented that, for example, “in the case of natural gas [distribution] there is no current basis for a benchmarking approach because a significant proportion of emissions are fugitive and vented emissions [without] consistently derived data... [regarding] sources of these emissions.”

Additional specific comments included:

- “If any allowances are not auctioned, they should only be allocated through other means if the intended recipient is willing to pay a price equivalent to B.C.’s carbon tax”;
- “The allowance budgets should be announced as far in advance as possible to allow companies time to plan for possible investment decisions and/or expenditures – each three year allowance budget should be announced at least one year before it comes into effect so companies can determine investments – this process should be seen as rigorous and transparent”;
- “It would be ideal for the three-year allowance distribution budget to be released in conjunction with the allowance budget...[as well]... it would be desirable for the allowance distribution budget to provide annual breakdowns, as this will provide earlier guidance than the annual allowance distribution plans and allow for earlier planning by emitters”;
- “Market participants will need... certainty for the entire duration of the compliance period in order to develop positions and strategies – the only exception to this certainty should be action by the strategic reserve if the price of carbon spikes during the compliance period”;
- “These process questions should be worked out by a manageably small group of emissions trading experts... in addition, there needs to be effective consultation on allowance allocation to energy intensive trade exposed (EITE) sectors including the basis for determining EITE sectors and facilities’ allocations”;
- “[We] are generally supportive of free allocation of allowance in relation to voluntary renewable energy purchases... the number of allowances issued should consider the net greenhouse gas emissions avoided (i.e., should consider the emissions profile of the fuel replaced)”;
- “We support formation of an allowance reserve as an effective cost control method as long as the reserve can be replenished with offsets or reductions made outside of the capped sectors”;
- “In the EU, power buyers typically buy forward on 3-year cycles... [we recommend that CAS] consult with applicable IPPs to ensure that these time frames align with their standard business cycles, which will encourage buy-in”;
- “[Our organization] recommends that the province phase-in the decline in allocated allowances over a longer period time, where initial auctions would be small and gradually increase at a steeper rate”;
- “Set allowances based on B.C.’s Climate Action Plan... based on [our analysis of B.C.’s Climate Action Plan, to achieve the 2020 target] industry [emissions] would be 58% below 2007 levels (14.6 million tonnes) – we recommend applying a straight-line trajectory between anticipated 2012 emissions and that 2020 target of 14.6 million tonnes to ensure the industrial sector is making a fair contribution to B.C.’s efforts to reduce emissions”

Response Form Topic Area 3.2: Please provide comments on the process to set the annual allowance plan.

A number of respondents reiterated previous comments regarding the challenges associated with determining a fair and transparent means for distributing allowances by means other than auctions. One respondent, for example, commented that “[our] preference is for a federal or continental system with 100 percent auction of allowances in order to provide a relatively efficient and equitable system for pricing carbon – with a regional or provincial measure, there are inherent competitiveness issues created... if B.C. intends to implement cap and trade, free allocation of allowances must address competitiveness issues for new entrants and existing facilities... free allowance allocation should not be based exclusively on historic emissions as this would unfairly penalize some facilities over others (e.g., due to historic throughput conditions)... [while] past experience with benchmarking as a method to allocate free allowances to sectors and facilities indicates that this approach is too complex and divisive to apply effectively in the oil and gas sector.”

Several respondents commented that they “do not believe that an annual allowance plan is required”, noting that a three year allowance plan would reduce administrative burden –for the government and companies.

Additional specific comments included:

- “In order for the province to maintain the appropriate balance between the regulatory purpose of reducing emissions and the economic need to maintain competitiveness within a global market, proper regard must be given to a complex array of factors including: the position of facilities and industries along the cost abatement curve; an understanding of the technological limitations to emissions reductions within industries; trade exposure; energy and emissions intensity; ability of an industry to reduce emissions using available best practices; and the reliance of an industry on the emergence of new low-carbon technologies – an approach which accounts for these factors will best address concerns surrounding ‘leakage’ which may ultimately cause deleterious impacts not only to British Columbia’s economy, but also the global climate”;
- “ Any over-allocations from early years in the program may significantly delay the real reductions that the [regulation] is supposed to accomplish –Europe’s carbon market, at one time viewed as a success story, has more recently struggled with a collapse in carbon price brought on by an over-availability of carbon credits – this problem should be addressed in a B.C. model... we recommend that: the annual budget should be set below 2012 emissions levels on the assumption that some emitters will achieve compliance through offsets, rather than through compliance credits; compliance units should be auctioned, with few or no free allocations, with a reserve price based on the carbon tax; a percentage of compliance credits should initially be held back to monitor the price and only be released if required;... compliance units and offsets should [have] a definite and finite life-span; ... and the government should obtain economic advice on the impact of oversupply on the price under the [emissions trading] system and how to avoid a collapse in carbon price”;
- “It will be important to have procedures in place to guarantee the confidentiality of the commercially-sensitive information that will be provided to the government”;

- “We request further information [regarding the ‘reserve account’] such as: (1) What criteria would be used to determine the eventual allocation of allowances from the account? (2) Who makes these allocation decisions on behalf of the government? (3) Can allowances held in a given year in the account’ be banked for distribution in later years (or do they have to be surrendered at the end of each year)?”;
- “We can anticipate that many sectors will be [Emission Intensive Trade Exposed] EITE and will be competing for free allowances – it is very important that the Government clearly articulates the information necessary and the decision making process used to determine the distribution of allowances to individual facilities’;
- “The allocation of allowances to new entrants needs to be carefully thought out – this is particularly important for the growing gas production in the north east”;
- “The consultation paper provides few details on the use of emission trading to promote the development and deployment of technologies such as carbon capture and storage... a possible long term compliance option for B.C. gas developers”;
- “From a regulated operator's perspective, an annual allowance plan system where the quantity of allowances to be auctioned, the quantity of allowances to be distributed for free and the quantity of allowances to be held in reserve will introduce tremendous uncertainty related to the quantity of allowance the operation will need to purchase – this is not conducive to planning or investment in the general sense, or for investment in emission reduction – as an alternative we propose that B.C. adopt an allowance allocation system that defines at the outset what the allocation rules will be and that sets out clear free allocation eligibility and clear free allocation formulas – other WCI jurisdictions are doing this”;
- “[We] support an allowance distribution plan that recognizes the benefits of clean renewable generation – owners of renewable generation would be entitled to receive allowances for every MWh produced – thereby aligning emitting ‘source types’ with non-emitting ‘source types’ ”; and
- “Based on the start-up phases of other emissions trading markets... [we] strongly suggest that B.C. provide itself considerable flexibility to adjust allowance allocations throughout not only at the end [of the initial three year period] – this may be critical to avoid a price crash as in the EU ETS 2007.”

Response Form Topic Area 3.3: Please provide comments regarding the proposed date for the Minister to transfer serialized allowances into the accounts of regulated operations in accordance with the applicable quantities on the allowance distribution plan.

Most respondents who commented on this topic expressed “no concerns” or “agreement” with the proposed date. Several respondents suggested that allowances be issued into the market “as soon as possible” and/or that as the program start date is scheduled for January 1st, the “staggered timeline might to a certain extent impede market development.” One respondent commented that “experience will be the best guide to determining timelines and dates” and recommended that “after the first transfer cycle...industry should be able to suggest alternative dates to the Minister.” Another respondent noted that “March 31st is also the date that annual emission reports are submitted – [which] may be a conflict – there needs to be ample time to transfer, receive, trade and true-up in time for the compliance date.”

Response Form Topic Area 3.4: Please provide comments on establishing a process for applying for and obtaining approval to submit bids that is clear, transparent and does not unfairly favour certain participants over others.

Respondents commenting on this topic commonly noted that “market integrity” should be should be a primary principle of the process with measures instituted to ensure transparency and prevent market manipulation. Several respondents suggested that “requirements in line with other regulated markets” can be established to ensure a fair and transparent process.

Recommendations regarding eligibility to submit bids included: “any obligated entity that has demonstrated its financial capability to complete trade obligations”; “any valid account holder, who is able to provide financial assurance that bids will be honored”; and “only market participants with a compliance obligation.”

Additional specific comments included:

- “B.C. should not have the ability to apply discretion or withdraw approval, [however we do support]... standard industry trade credit requirements and... the creation of requirements [by the B.C. government] in line with other traded commodities whereby credit thresholds are granted to investment grade entities”;
- “Smaller players may find themselves in a bidding war with much larger companies – furthermore, [allowing] other ‘non-regulated’ entities... to participate in the auction [would make] the auction even harder on the smaller players... [allowing] non-competitive bid[s] in which the company would have the rights to purchase the allowances under the closing price would be greatly appreciated by the smaller companies”;
- “It’s not a billion tonne market initially and the concerns for market manipulation should be addressed – consideration should be given to initially restricting the participants to only covered emitters, or to impose a quantity limit to the secondary market”;
- “Eligibility to participate should be restricted to stakeholders or designated representatives of stakeholders – the allowance auctions are a mechanism for the Province to distribute allowances to regulated entities and not a mechanism for non-regulated entities to make money or unduly influence the market – speculative trading by third parties should be strictly prohibited”;
- “Clear eligibility criteria for bidders should be published prior to the beginning of the bidding process – these criteria should include measures that prevent or dissuade (to the degree possible) market manipulation”; and
- “Collateral rules can be developed to facilitate participation – however, ensuring that obligations incurred by bidders are supported by adequate financial arrangements, in order to achieve an acceptable level of certainty that bids will be met, is considered a critical property – we encourage financial assurance requirements to be built on robust, proven assessment criteria and authorization to participate should occur after entity screening and analysis – furthermore, participant selection criteria should be consistent across all classes of entities.”

Response Form Topic Area 3.5: Please provide comments on whether or not B.C. should publish a list of eligible auction participants.

All respondents who commented on this topic felt that “yes, the list should be public.”

Specific comments included:

- “[We] would suggest that publishing a list of all regulated facilities is unnecessary – a list, available to the public, of eligible participants is sufficient for maintaining transparency and system integrity”; and
- “The Regional Greenhouse Gas Initiative [RGGI] approach... has proven workable for both the market and auction participants... shortly after each RGGI auction, member states release a post-settlement auction report, which includes aggregate information about the auction (e.g., dispersion of projected demand, dispersion of bids and a summary of bid prices – min, max, average and clearing price – and allowances awarded) – since RGGI's second auction, states have also published the names of ‘potential bidders’ of qualified auction participants that have filed an ‘intent bid’ for that auction – to date, this has been considered a suitable approach.”

Response Form Topic Area 3.6: Please provide any preferences regarding the announcement of the reserve price in advance of or after auction, or not at all.

While respondents differed in their recommendations regarding setting a reserve price, many commented that if a reserve price is established it should be undertaken in coordination with other WCI jurisdictions, “otherwise there will be an arbitrage opportunity.” Respondents who disagreed with establishing a reserve price commented, for example, that “one of the purposes of cap and trade is price discovery” and setting prices outside of the auction process “only serves to undermine the functioning of the market.”

Comments of respondents who favoured a reserve price included: “reserve price (and a ceiling price with an allowance reserve) are valuable for the early start-up of a cap and trade program”; “carbon markets need to deliver robust carbon prices and stimulate investment in low carbon technologies – in order to strengthen the price if necessary the introduction of a reserve price might be considered”; “a reserve price could be used to reduce price uncertainty”; and “a reserve price is a wise approach and will be particularly valuable in the system’s early years when there is a higher likelihood of too many allowances – B.C.’s carbon tax provides an intuitive floor price for all allowances auctioned by B.C. because the price schedule extending to 2012 was implemented in 2008... setting a lower price floor would be a step back for carbon pricing in the province.”

Additional specific comments included:

- “The issue of establishing a reserve price needs further discussion and consideration”;
- “If [CAS] decides to implement a minimum floor price for allowances, it is then reasonable to set a maximum ceiling price”;

- “[We] suggest modifying the *Greenhouse Gas Reduction (Cap and Trade) Act* to include a price cap until at least December 31, 2015 – [CAS] may wish to consider adopting the same or similar price cap levels to those in neighboring regulated jurisdictions”;
- “[We] support the use of an allowance reserve price which is subject to a yearly inflation factor plus 3% per year – we also suggest that allowances not sold in one or more auctions be permanently retired, as low prices are an indication that the environmental outcome can be achieved more quickly and at lower cost than anticipated – [we] also recommend that the B.C. Government include a provision giving it authority to revise the reserve price to ensure programmatic goals continue to be fulfilled”;
- “It is vital that the use of reserve pricing be carefully considered and well justified, as revenue generation is not the goal of the cap and trade program”;
- “[We] do not support establishment of a reserve to hold a pool of allowances – the creation of such an account is disruptive of markets and used in the way described in the consultation paper, amounts to market manipulation – this type of activity is no more desirable or supportable when perpetrated by a government entity than it is when perpetrated by a market participant... the best way to ensure both market and environmental integrity, and therefore successfully utilize cap and trade to achieve the desired goal at the least cost to society, is to provide long-term certainty to markets and then stick to the commitment”;
- “Publishing the reserve price as early as possible should help improve market certainty and allow industry participants to prepare and make business decisions necessary to prepare for the regulated market” and
- “We continue to support the use of offsets as the best available ‘price control tool’ under a greenhouse gas emissions trading scheme – however, if all WCI jurisdictions agree to establish a reserve price, it is important that this price remain the same across each state and provincial jurisdiction.”

Response Form Topic Area 3.7: Please provide comments on conduct of the auction, including length of the bidding window, the form that a bid must take, withdrawal of bids, rejection of bids, calculation of the clearing price and how allowances will be allocated in the event of tied bids.

Respondents commenting on this topic commonly noted the importance of “clear rules... clearly communicated to market participants as early as possible.” Many respondents reiterated previous comments regarding the importance of coordinating procedures and rules “to the greatest extent possible” with other WCI partners and other jurisdictions that may link with B.C.’s emissions trading system. Several respondents agreed that auctions take place on a more frequent than annual (e.g., quarterly) basis and that the final auction in any compliance period be conducted well before (e.g., 1-2 months) the compliance date. A number of respondents recommended that “the auction process needs to be considered further by a small manageable group of trading experts... [with] industry stakeholders... given the opportunity to provide input to such a process.” Respondents also recommended that a review process be put in place after experience with the auction system has been gained by all involved parties.

Respondents suggested a variety of auction rules or techniques, including: “a sealed first price auction, with the option to withdraw or change bid until bidding window closes”; “static auction (using a single 30 minutes round during which multiple sealed bids can be made/ withdrawn/ replaced) with an instantaneous release of the clearing price”; “standardized bidding enabled using electronic means”; and “sealed bids... [with a minimum] clearing price [that is] the minimum price required to clear the allotted number of allowances and all bids that are above or equal to the clearing price [accepted as] successful.”

One respondent encouraged the Province to design an auction following principles to: “avoid unnecessary complexity and ensure efficiency in auction design; optimize auction frequency and size to allow markets to function smoothly; [recognize that] optimal auction format elements will differ based on size and frequency; enable broad auction participation; [consider] financial assurance... [as] the primary limit on auction participation; and [build] auction integrity and acceptance... [through] transparency and information.”

Additional specific comments included:

- “A competent independent authority should be recruited to implement and manage auctions”;
- “The complexity of the auction process will disadvantage smaller emitters who do not have the capacity to become auction experts”;
- “As participation of many buyers and sellers represents the cornerstone of a fully-functional market, [we] strongly recommend that auction participation be open to all sectors of the economy – a broad number of emitting and non-emitting auction participants can help to: maximize market liquidity and generalize information costs; heighten market transparency; curb market volatility; reduce transaction costs; and minimize opportunities for market manipulation – further, limiting market participation unnecessarily would increase overall compliance costs, while limiting the market’s ability to produce a forward price signal”; and
- “We strongly support allowing unlimited participation in both initial auctions, as well as secondary markets... [we] recommend an approach whereby potential auction participants are vetted against objective, specified criteria in order to be placed on an “eligibility” list – once having been vetted and placed on the list, it should not be a requirement to formally apply to participate in each auction”.

Response Form Topic Area 3.8: Please provide comments on how to mitigate the risk of non-payment, including taking a deposit, not requiring advance payment but publicizing any default, or taking full payment in advance.

Several respondents suggested addressing this risk “in the same manner other regulated financial and commodity markets are mitigating trade credit risk – investment grade companies should not have to post collateral.” Respondents also commonly suggested that “B.C. work with subject matter experts and look closely at other similar market processes and the securities markets.”

Specific comments included:

- “Stakeholders that do not make payment should be publicized and prevented from bidding in next year’s auction – there should not be a down payment or advance payment scheme – the intent of the auction is to efficiently distribute allowances in a simple transparent manner”;
- “We favour a process that either takes a deposit at the time the bid is submitted or uses available financial insurance mechanisms such as surety bonds”; and
- “The same way businesses mitigate the risk of non-payment – do credit assessments on the customers, require payment in advance from those with high credit risk and provide appropriate terms of payment for those with acceptable credit risk.”

Response Form Topic Area 3.9: Please provide comments on the means for new entrants to access allowances.

This topic area generated substantive and differing comments from respondents. Several respondents noted that new entrants are anticipated in gas production in the north east of the province and “in this context, the manner in which new entrants are to obtain access to allowances is critical to the fairness of the system as it relates to the rest of the regulated community.” In the view of some respondents, “if British Columbia has full auctioning (no free allocation of allowances), new entrants would have access to allowances through the auctions along with pre-existing facilities so no new mechanism would be required.” However, other respondents recommended that “a new entrant reserve pool” be established to accommodate new entrants. Several respondents suggested reviewing the experience of the EU ETS new entrant reserve, having “a small group of trading experts” address the topic and/or using “an open, collaborative working-group approach with industry to determine fair and effective sector-by-sector allocation and distribution rules.”

Additional specific comments included:

- “The easiest way of managing new entrants is to sell all the allowances – then new entrants may purchase allowances directly from the market (either through auctions or on the secondary market), like everyone else”;
- “The capacity of the ‘new entrant reserve pool’ [needs to] be large enough to accommodate for the possibility of a large number of new entrants”;
- “Ultimately, [we] believe that the increased use of offsets is a preferable approach to accommodating new entrants within a cap and trade system and to support economic growth”;
- “The pulp and paper sector has been in contraction for over a decade and we do not anticipate new entrants in the foreseeable future”;
- “Financial intermediaries should be encouraged to participate in the [emission trading system] – they provide liquidity as well as increased risk management capabilities”; and
- “In order to not limit B.C. economic development, B.C. must develop an equitable process to allow new entrants into the system without negatively impacting the existing participants”.

4. Registry and accounts for emissions trading system participants

B.C. would establish and maintain a registry to ensure the accurate accounting of the issue, holding, transfer, retirement and cancellation of compliance units, and the compliance obligations and status of regulated operations. Any person or organization (not just regulated operations) – including the B.C. Government or someone acting on its behalf – that has an account in the registry may hold compliance units. Information collected by and stored in the registry would be used when determining the Province’s performance in relation to its greenhouse gas emissions reduction targets. The registry would also collect information that is important for market surveillance and market oversight purposes (see consultation paper discussion topic area 4).

Response Form Topic Area 4.1: Please provide comments on the proposed types of accounts.

A limited number of comments were received on this topic area. Comments included: “the proposed types of accounts are acceptable”; “overly complex... should be simplified”; “unclear how the registry intends to recognize multiple general accounts under the same company”; “we generally support the types of accounts currently under consideration”; and “answers to these questions should be provided by a manageably small group of trading experts.”

Additional specific comments included:

- “As entities faced with compliance obligations are not typically in the finance space, it would appear highly undesirable to force these entities to undertake compliance and risk mitigation strategies on their own behalf – to this end, we recommend that B.C. allow for ‘beneficial ownership’ in their program rules, which clearly allows for intermediaries involved in transactions to hold allowances and offsets in order to facilitate the closing of transactions – such a provision would work to reduce program and transaction costs, heighten efficiencies, and improve market efficacy... if regulatory language is made clear about how lenders can take security over units, B.C. can avoid some of the unnecessarily high costs and inefficiencies found in other programs in which nobody hold security over issued units”;
- “At least at the outset, only the governments of WCI jurisdictions and obligated entities within the WCI trading system should be allowed to purchase and hold WCI allowances – this should address the potential for market manipulation by non-WCI or non-obligated entities – participation of these non-obligated parties may be considered once more experience is gained”; and
- “Surveillance by B.C. Securities Commission... needs to be tightly coordinated in advance to ensure that an extra admin step is not inadvertently introduced to the already long credit delivery cycle, any unforeseen delays need to be averted.”

Response Form Topic Area 4.2: Please provide specific comments on what information you would like to see made publicly available from the registry.

Respondents commenting on this topic area most commonly expressed support for the guiding principle of, as one respondent stated, “releas[ing] as much data as possible consistent with protection of the legitimate proprietary interests of the market participants.” Respondents suggested, for example, that “participants and the public should... be able to discern how effectively the market is operating...by aggregating [and reporting] market activities more generally (e.g., the total number of allocations, offsets, compliance units being traded, held or surrendered).” Several respondents suggested that “sensitive business information [such as information on individual trades] must be kept confidential... B.C. should consider this... in assessing all information disclosure decisions.”

Additional specific comments included:

- “Details of allowance transaction in auctions and secondary market trades should include prices, volumes, dates, buyers and sellers and should all be available publicly (similar to US EPA SO₂ registry)”;
- “It is also imperative that the definition of ‘covered emissions’ both annually and summed for the compliance period is consistent with that employed by Environment Canada with respect to its annual reporting requirements – in particular, we are concerned that the emissions associated with biomass combustion not be distinguishable by comparing these two figures... access to this information could place facilities at a competitive disadvantage to both competitors within their sector [and] other industries seeking biomass sources”;
- “Reporting requirements should be no more onerous than they are currently in other commoditized markets (e.g., natural gas, electricity, crude)”;
- “Disclosure of information in general accounts regarding the number of compliance units an account is holding and the beneficial holder of those accounts could be severely detrimental to regulated entities – similarly, the disclosure of compliance account information such as the total emissions covered and the amount of allowances, offsets, etc. held and surrendered could also pose significant issues for regulated entities”;
- “For compliance accounts we support public disclosure of the regulated operation’s total covered emissions annually and summed for the compliance period and the compliance status of the regulated operation... [however] we do not support the public disclosure or government knowledge of the amount of allowances, offsets and RCUs held and surrendered”;
- “[We] would like to better understand how [CAS] intends to secure and safeguard any materials and documents that are considered confidential, as well as the length of time these materials and documents will be secured, and the procedures for destroying them in the future”;
- “There is a crucial duty on the part of the administrators to ensure that any data is released in a manner that provides simultaneous access for all interested parties”;
- “California has proposed draft regulations requiring the reporting of all ‘trades’ of compliance instruments under the[er] program... [we] have communicated to California that the proposed rules are unworkable under anticipated market conditions.”

5. Market design and oversight

B.C. and Western Climate Initiative (WCI) partners have evaluated potential market oversight program design options for their ability to ensure efficient operation of secondary commodities and derivatives markets (see consultation paper discussion topic area 5).

Response Form Topic Area 5.1: Please provide comments on whether to require reporting of over-the-counter derivative contracts to a central repository.

Several respondents suggested “establishment of a cash settled future market, separate from the trading of allowances, carried out on a regulated exchange [with] short selling of allowances not allowed.” Respondents also commonly expressed support for a “transparent market” that includes “reporting of over the counter derivatives contracts to a central registry, the collection of relevant data by the government and ongoing monitoring of market activities.”

Additional specific comments included:

- “We question both the need and practicality of requiring transaction price to be reported... it is not clear what purpose transaction price reporting serves in a market monitoring scheme – our recommendation is to avoid a price reporting requirement and limit data collection to quantities, counterparties and individual allowance identifiers such as serial numbers... it is also stated that B.C. may consider accommodating ‘netting’ prior to reporting and waiving the price reporting criterion for transactions between affiliates – [we] would strongly support both approaches”;
- “It is my strong opinion that a government sanctioned exchange should be initiated from the outset... I believe that the success of over the counter trading in the European emission trading system (ETS) is due to the capacity of the participants, most of whom are power generators and had an established trading network prior to the implementation of the ETS... the exchange would provide a number of useful services for ETS participants such as risk monitoring and quantification, settlements and efficient credit / margin allocation which would be absent in an over the counter market... the exchange may or may not be managed by the existing Crown corporation (PCT)”;
- “Since this would be an entirely new market and given the large financial stakes and incentives, the regulator responsible for oversight should be given a mandate to carry out widespread pro-active and continuous market surveillance (a ‘night watchman’ role) to reduce the opportunities for manipulation (as opposed to a ‘fire-alarm’ type response system).”

Response Form Topic Area 5.2: Please provide comments on whether to limit the number of compliance instruments an entity could hold.

Many respondents who commented on this topic area acknowledged the potential for market manipulation while noting the challenges entailed in setting and monitoring the number of compliance instruments held by an entity or group of associated entities. Some respondents, for

example commented that “there should be no limit on the purchase of instruments to ensure an open, effective and transparent marketplace” while other respondents suggested that “covered emitters [only] should be able to hold allowances in excess of their compliance obligations but that excess should be reasonable.” Suggestions for a “reasonable” holding included: “perhaps up to 200% of the number expected to meet compliance obligations”; “perhaps up to 120%”; and “possibly two full years of allowance obligation.”

One respondent detailed the challenges involved with setting and overseeing holding limits with a range of comments and recommendations, including the “difficult[y] to effectively enforce [holding limits]” The respondent advocated that “market oversight policy should encourage banking instead of potentially limiting it – we believe that this is an important aspect of carbon markets that is different from other markets – in carbon, government wants to provide covered entities with every tool to comply environmentally... since WCI member regions, including B.C., intend to limit the overall amount of offsets allowed in the system, it should not add another layer of ‘holdings limits’ that could distort market formation.”

6. Compliance of regulated operations with program requirements

The *Cap and Trade Act* allows for allowances, offsets and recognized compliance units (RCUs) to be used by regulated operations for compliance. The proposed Emissions Trading Regulation would set out how approved allowances, offsets and RCUs may be used for compliance by surrendering them through the registry (see consultation paper discussion topic area 6).

Response Form Topic Area 6.1: Please provide comments on the process for regulated operations to demonstrate compliance.

Many of the respondents who commented on this topic found the process described in the consultation paper to be “reasonable”, “acceptable” or “aligned with other effective emissions trading program designs.” A number of respondents also requested “more information” or “additional detail” before they felt able to provide comment and/or full support. Several respondents encouraged the Government to pursue linkages with other programs, with one respondent, for example, recommending “including in the regulation a process for determining if allowances and offset credits from other greenhouse gas cap and trade programs qualify as Recognized Compliance Units in the B.C. program, including the criteria for allowing linkage.”

Additional specific comments included:

- “Consider implementing an electronic non-official or preliminary confirmation once the initial compliance obligation appears to be met (i.e., upon receipt of the appropriate number of compliance units in the B.C. compliance (retirement) account)”;
- “The matters identified in [topic areas] 6.1 and 6.2 should be worked out by a small group of market trading experts”;
- “Our organization] agrees with the proposed compliance process and recommends that it be streamlined with other compliance roles in the Ministry of the Environment”; and

- “In order to provide some teeth to the penalties, perhaps an agreed blend of cash and allowances should be considered – for reference, the EU ETS compliance penalty is 100 Euros per missed allowance.”

Response Form Topic Area 6.2: Please provide comments on the setting of a limit on the use of offsets for compliance.

Many of the respondents provided detailed comments on this and related topics in their response to the Cap and Trade Offsets Regulation consultation paper – see the associated Summary of Public Comment document for these comments.

Almost all of the respondents who commented on this topic area recommended that “there should be no limit” on the use of offsets in order to “achieve [emissions] reductions at the lowest cost to British Columbia’s economy.” Several respondents commented that if an offset limit is set under the regulation “the province should at least match any offset limit set by California which exceeds that of the WCI’s proposal.”

7. Other comments

Response Form Topic Area 7.1: Please provide any additional comments on any aspect of the proposed Emissions Trading Regulation that you feel may have not been addressed in the consultation paper and discussion topic areas.

Many respondents provided detailed comments and/or background information in addition to addressing the topic areas identified in the consultation paper. The complete set of comments has been compiled and conveyed to Climate Action Secretariat staff for review and consideration. The information and excerpts in the following points are a selection of these additional comments, emphasizing topics that have not been summarized under previous topic headings.

Additional comments included:

- “Competitiveness and the treatment of new entrants are [our] main concerns with a regional cap and trade system – B.C. industries operate in a global marketplace and there is concern that [they] may be placed in a competitive disadvantage relative to trading partners and competitors in other jurisdictions who may not... face the same carbon compliance costs”;
- “Launching of the cap and trade program in B.C. will have impacts on sectors and unforeseen outcomes around carbon pricing, offsets availability and the auctioning process – we believe as part of the annual setting of budgets that a review process be implemented that gives the province and key stakeholders the opportunity to highlight issues or problems and avenues of resolution”;
- “[Our] views on climate change policy are founded on a few key principles: ensure any cost of carbon is uniform across the economy and predictable; let market prices drive the selection of solutions; promote global participation, including recognizing the impacts of imbal-

ances among national, provincial and state policies; minimize complexity to reduce administrative costs; maximize transparency to companies and consumers; and adjust in the future to developments in climate science and the economic impacts of climate policies”;

- “[We] have been actively involved in the development of the Western Climate Initiative greenhouse gas reduction program over the last few years... [and] are broadly familiar with the framework for the British Columbia proposals, which is intended to be consistent with the WCI program – while there are some aspects of the final WCI framework that we believe are sub-optimal, at a high level we have generally supported the approach, especially with regard to the decision to use cap and trade as the primary methodology for achieving emissions reductions – we strongly support the view that cap and trade is the most cost-effective way to achieve the desired environmental objective, imposing the least burden on society – for that reason, we broadly support the proposed British Columbia Emissions Trading Rule”;
- “There is a possibility that, in stark contrast to other WCI jurisdictions, B.C. may not expand the scope of its emissions trading scheme in 2015 to cover fuel sources, with the expectation that these sources would still be covered by the province's carbon tax during this future timeframe – [our organization’s] main concern with this proposal is that a failure for B.C. to expand ETS coverage - when other WCI partners are broadening coverage – might adversely impact access to reductions at least-cost to B.C. businesses and society and thereby hurt B.C.’s competitiveness while hampering local opportunities for green finance and investment – continuing to pursue a carbon tax over broadening the emissions trading program will also limit market participation and goes against the need to cost-effectively meet environmental objectives”;
- “Competitiveness of British Columbia industry can be maintained and systems aligned without... potential exodus of funds from the province more effectively not [by] linking the markets, but by British Columbia having appropriate price control mechanisms (e.g., safety valves, collars, ceilings, floors) to ensure British Columbia prices remain in a reasonable range aligned with observed U.S. prices, even without cross-border flows”;
- “Other competing jurisdictions may have fairly extensive free allocations, particularly to trade-exposed sectors – determination of what sectors are suited for trade-exposed treatment cannot be based on just a simple test of, for example, what share imports and exports (into and from the province) represent of total sector sales – it is also essential to consider how exposed a local industry is to possible import or export competition even if British Columbia supply and demand might appear reasonably balanced”;
- “We recommend pursuing an approach which balances energy, environmental and economic imperatives for British Columbia and acknowledges the uniqueness of contributions of the participants – recognizing the need to reduce our carbon footprint while growing our economy and clean energy technology industry... while we have concerns with some of the assumptions and the pace of action government is pursuing with respect to this regional cap and trade system, we strongly encourage you to consider greater collaboration and consultation on this matter going forward to ensure that we are rewarded rather than penalized for our efforts, our attributes and our potential contribution to a net regional and global greenhouse gas emissions reductions”;
- “A central issue associated with the entire development of the [proposed cap and trade regulations] is the effective utilization of regulations and policies to formally implement the

objectives outlined in the consultation papers in a manner which provides certainty and flexibility... for example, various forecasts, budgets and plans are expected to be released at particular points during the course of a year or compliance period, the paper does not indicate whether the regulations will impose legal obligations on the Minister to adhere to the proposed schedules, or whether these expected release dates will simply be a general policy of [CAS] ... creating strict requirements by regulation may... imbue those requirements with a level of inflexibility and perhaps reduce the Minister's ability to swiftly respond as issues emerge and contexts change... we recommend that the regulation be designed such that it is able to incorporate specific factors for the Minister to consider in creating such policies, or express contexts in which the Minister may rely on policies or more swiftly alter regulations."

Appendix A: Acronyms and Abbreviations

Acronym or Abbreviation	Definition
B.C.	British Columbia
BCSC	British Columbia Securities Commission
CAS	Climate Action Secretariat
CO ₂ e	Carbon dioxide-equivalent (one metric tonne of CO ₂ emissions)
e.g.	for example
EITE	Emission intensive trade exposed (industrial sector)
EPA	(US) Environmental Protection Agency
ETS	Emissions trading system
EU ETS	European Union Emission Trading Scheme
GHG	Greenhouse Gas
HFC	Hydrochlorofluorocarbon
i.e.	that is
MWh	Megawatt hour
PCT	Pacific Carbon Trust
RCU	Recognized compliance unit
RGGI	Regional Greenhouse Gas Initiative
SO ₂	Sulfur dioxide
t	Tonne (1,000 kilograms)
US	United States of America
WCI	Western Climate Initiative