



Ocean Renewable Energy Group

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Comments on the Consultation Papers on the Offset System for Greenhouse Gases

OREG is pleased to respond to the Government of Canada discussion paper regarding a GHG offset system that would evolve into a Canadian market for GHG reduction credits. Non-emitting energy such as renewable ocean energy would generate these offset credits and large final emitters are expected to be a market. A private sector trading mechanism will likely develop and this can be an important source of revenue to renewable energy suppliers like ocean energy.

Abundant ocean energy resources are going to be harvested by various technologies and projects whose costs will not be met by electricity prices for several years. While the Renewable Power Production Incentive will contribute to meeting the cost/price gap, diversifying into renewable ocean energy will require supplemental incentives. These incentives could take the form of a “Super-RPPI” for emerging energy, price premiums by cross-subsidisation by utilities, trading the attributes of non-emitting energy production, or a combination that reaches the necessary stimulus. We see the GHG Offset system as a potentially important component of the needed financing.

We are concerned that the system be achieved simply, and in a way that makes launch of the new sustainable technologies and resource opportunities become part of business planning for traditional industry and LFE’s. Some ocean energy projects may always be small and others will be small for at least the early stages; many of the projects will be developed by small companies and “start-ups”. OREG is hopeful that the *Paper’s* intent to have a simple transparent and effective approval, verification and trading system will in fact create a working relationship between green energy producers and larger corporate purchasers of offsets. If we have a concern it is that the trading system could emerge as a buffer and incorporate intermediate markets, brokerages and commissions that result in a major discount on the value of the credits to clean energy producers.

The discussion paper is currently focused largely on carbon sinks, but lays out the principles of the proposed approach. We hope to be able to comment on the follow up

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discussion on non-emitting energy, expected in coming months. We draw your attention to the potential for ocean energy to be transformed into non-electricity products. Non-emitting energy capture projects may be producing pumped water, pressurised gas, potable water or hydrogen which may displace traditional GHG emitting sources of these commodities. Whether these should also be dealt with by a “national emissions intensity factor”, or in a case-by-case project approval seems to merit discussion.

While the discussion document talks specifically about the "usual suspects" renewables, it is silent on ocean energy - OREG has raised the same issue with EC's Eco-Logo certification. There is no apparent intent to exclude ocean energy and it may be appropriate to make more inclusive references at this early stage.

The current proposal is that non-emitting generators below a threshold of 50-200MW (we would suggest the upper, but allow developers to opt for the large project approvals route if they choose to) will apply for assessment and issuance of offsets based on the product of production multiplied by a "national emissions intensity factor for Canada's mix of electricity generation". Project developers of these small projects will not have to identify any specific GHG producing generation capacity they are replacing. Initial thoughts are that this will be a relatively simple approach for OE projects to get certified offsets.

However, we are concerned that this approach may not give ocean energy projects the credits they deserve, because Canada's electricity supply already includes a large Hydro supply. For example, the GHG emission reduction calculations that are currently part of the application process for federal government grants, are based on a provincial energy mix in the province where the project is to take place. This makes connecting to the grid in BC, for example, a lost cause because no GHG emission reduction credit is given when comparing a new clean source to the existing provincial mix, primarily large hydro. This is the case even though the next plant proposed may be a fossil fuel based plant. It's not what exists that should be used as the measure, it is what we might prevent being built next that matters. While we believe establishing an intensity factor can simplify the process, we suggest an objective marginal emissions-based standard intensity factor be established as the basis for calculating emission credits.

We are also concerned that the offset volumes set by the proposed “national factor” might be expected to decrease over time as the "intensity factor" reflects a growing national renewable portfolio. This would create a critical business uncertainty. The other uncertainty is that projects will have to reapply after 8 years. OREG proposes that any project launched under this provision be operated at the “intensity factor” in force at the time of project planning. Such a fixed-rate may still leave a project susceptible to market valuation of the offset credit, but it would remove a concern over variations in offset volumes generated from what may be a fixed production capacity.

Larger projects will be evaluated on a case-by-case basis and will have to show specific

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energy generation they are replacing. We remain uncertain why the direct displacement requirement should be needed. If a non-emitting energy project secures a market, it has clearly increased the non-emitting energy supply in distribution, decreasing pressure for development of GHG emitting energy production, or displacing other energy sources.

All projects will have to disclose any other "renewable energy credit" system in which they will participate and ownership of the offsets will have to be clear before they will be issued - all to avoid "double dipping". OREG recognizes the transparency and accountability requirement, but would like to register a concern that the "REC" definitions exclude any temporary incentives such as WPPI/RPPI designed to increase renewables penetration, or other incentives needed to open energy diversification options. While incentives are needed to move projects ahead, their use should not devalue any GHG offset eligibility of those projects. With regard to ownership of offsets, we ask that you ensure that there are no programme structure, or fiscal considerations that will result in the loss of their full value to the non-emitting generator. (Secondary markets for fish quotas and the original Science tax credits are examples where the "producer" received less benefit than intended.)

We thank you for the opportunity to provide comment and look forward to further dialogue.

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