



BC releases greenhouse gas emissions reporting regulation

Under the regulation, reporting operations outside the public sector that emit more than 10,000 tonnes of CO₂e will be required to report 2010 emissions in 2011, and annually thereafter.

On 25 November 2009, the British Columbia Ministry of Environment released the greenhouse gas (GHG) reporting regulations under the *Greenhouse Gas Reduction (Cap and Trade) Act*, in order to provide a single reporting framework to support the introduction of the proposed cap and trade system. Facilities emitting more than 10,000 tonnes of CO₂ equivalent (CO₂e) are to begin collecting data 1 January 2010, with verification required for facilities emitting more than 25,000 tonnes of CO₂e. GHG emissions resulting from the combustion of biomass are excluded from the calculation of emissions with respect to the 10,000- and 25,000-tonne thresholds.

It is estimated that approximately 200 facilities across BC will be required to report under the regulations. The regulations will be accompanied by preliminary guidance materials, a quantification methods manual, and a verification manual.

Purpose of the regulation

The GHG emissions reporting regulations align directly with the commitments and obligations of the Western Climate Initiative (WCI), of which BC is a signatory. The reporting regulation will provide the basis for BC to implement an effective cap and trade program and will assist in achieving key climate change goals.

What does the regulation mean for you?

Once this legislation comes into effect, affected facilities will be required to report their GHG emissions to the government annually on a per-facility basis. Companies that have not yet conducted a baseline inventory of their GHG emissions may not even be aware of whether or not the new regulation applies.

Activities covered under the regulation

Single-facility operations

- General stationary combustion
- Fuel combustion by mobile equipment at specified single-facility operations
- Aluminium or alumina production
- Ammonia production
- Cement production
- Coal mining, underground mines
- Coal storage at facilities that combust coal
- Copper or nickel smelting or refining
- Electronics manufacturing
- Ferroalloy production
- Glass manufacturing
- Hydrogen production
- Industrial wastewater production
- Lead production
- Lime manufacturing
- Magnesium production
- Nitric acid manufacturing
- Petrochemical production
- Petroleum refining
- Phosphoric acid production
- Pulp and paper production
- Refinery fuel gas combustion
- Zinc production

Linear-facility operations

- General stationary combustion for specified linear-facility operations
- Oil and gas extraction, and gas processing
- Electricity transmission
- Natural gas transmission, distribution and storage
- Oil transmission
- Carbon dioxide transportation

Single-facility and linear-facility operations

Both single-facility and linear-facility operations are liable under the regulations. Single-facility operations are those that generally occupy a single contiguous site. Linear facilities generally include connected facilities that do not occupy a single contiguous site, such as electrical transmission lines or natural gas transmission, distribution and storage systems. Examples of the activity types covered by the regulations are listed in the sidebar.

What emissions must be included?

Attributable operational activities and associated emission sources and gases are listed in the regulation. A facility's emissions are attributable under these regulations if:

1. It undertakes one of the operational activities shown in the sidebar
2. The operations emit a greenhouse gas from one of the listed source types
3. Greenhouse gas emissions are from a listed greenhouse gas type (e.g., CO₂, CH₄, N₂O)

A reporting operation must report its attributable greenhouse gas emissions if the total emissions during the reporting period are greater than or equal to 10,000 tonnes of CO₂e.

Highlights of the regulation

The regulation outlines the following requirements:

- Reporting is required for all facilities that are emitting 10,000 tonnes of CO₂e or more per year
- Reporting is required for 2010 emissions by 31 March in the year 2011, and yearly thereafter
- Facilities emitting more than 20,000 tonnes per year in any year between 2006 and 2009 will be required to report their best estimates of GHG emissions by source category for the 2006, 2007, 2008 and 2009 calendar years
- Facility registration is required by 31 March 2010
- Biomass is not included in the 10,000 tonne-per-year reporting threshold
- Upstream oil and gas operations, natural gas transmission and distribution, electricity transmission and distribution, and oil pipeline transportation emissions are aggregated and use a 10,000 tonne-per-year threshold
- Third-party verification is required for reporting operations emitting over 25,000 tonnes per year

Reporting thresholds

GHG (CO ₂ e) emissions	Regulation requirements
< 10,000 t	Not currently required to report or register under the reporting regulations
≥ 10,000 t	Registration and reporting
≥ 25,000 t	Registration and verified reporting

Offense provisions in the *Greenhouse Gas Reduction (Cap and Trade) Act* apply to non-compliance of regulation. Both single-facility and linear-facility operations that reported in a given year, and whose GHG emissions fall below the reporting threshold of 10,000 tonnes in the subsequent year, must continue to report for three consecutive years including the first year the GHG emissions fall below the reporting threshold.

Entities that are "on the bubble" will need to calculate their emissions in order to understand their emissions profile and determine whether they will be captured by the new regulations.

Organizations that have already been reporting voluntarily or that are reporting under the federal National Inventory Report will be aware of whether the new reporting requirements apply. In either case, companies that are required to report will have to create new – or enhance existing – GHG business systems and processes.

All organizations to which the legislation applies should be thinking now about implementing or enhancing their GHG accounting programs in order to allow for ongoing emissions management and monitoring. The data will need to be thorough enough to withstand verification. Organizations should be focusing on their GHG data collection and management processes and systems, GHG methodology, and GHG governance and quality-control programs. Consistent tools and enablers should be used in order to reduce error.

Reporting timelines

Year	2009		2010				2011									
	N	D	J	F	M	...	J	F	M	A	M	J	J	A	S	
Regulations released																
Regulations become effective (data collection and management)																
Emissions forecasts required for reporting operations greater than 10,000 t CO ₂ e																
Registration required if emissions are greater than 10,000 t CO ₂ e																
Submit 2010 emissions report																
Third-party verification statements for facilities emitting >25,000 t CO ₂ e *																

* Post-2011 reporting, verification will be required in line with the timing for the emissions report submission.

Third-party verification requirement

Third-party verification will be adopted starting with 2010 emissions for facilities emitting more than 25,000 tonnes of CO₂e. Verification is to be performed in accordance with ISO 14064-3. Verification statements must be submitted by 1 September of the following year for 2010 and 2011. Thereafter, verification reports are due at the same time as the emissions reporting deadline, 31 March.

Verifier accreditation

Verification must be completed by an independent third-party verification body accredited by the Standards Council of Canada or the American National Standards Institute in accordance with ISO 14065. For verifications prior to 31 December 2012, verifiers can be accredited by the California Air Resources Board.

What is a “cap and trade” system?

Cap and trade is a flexible, market-based mechanism that can be used to reduce GHGs, and help the transition to a low-carbon economy by encouraging technological innovation, economic growth and job creation.

How does it work?

The government sets limits that will steadily reduce the total amount of GHGs that can be emitted from regulated facilities. Those that are able to reduce emissions *below* the limits will have surpluses that can be banked for future use or sold.

Looking ahead to a cap and trade system

As discussions continue regarding the implementation of a cap and trade system in BC, many reporting operations will be considering the broader implications of forthcoming cap and trade regulations. Proposed cap and trade systems, such as the one proposed by WCI, will require many reporting operations to reduce their emissions over a period of time. The development of effective data management systems and the necessary verification steps under this new reporting regulation will assist organizations in preparing for a fully functional cap and trade regime. Organizations will be faced with complex decisions that involve the assessment of whether or not the emissions at a facility can be reduced through the implementation of new technology or conservation, or whether other means such as emissions offsets will be required to meet the requirements of any cap.

What are the potential income tax implications?

As the operational landscape related to GHG regulations develops in BC, the changes will have income tax implications and provide tax opportunities for organizations. At a high level, the effects include:

- the income tax consequences of acquiring, holding and trading offsets
- the international and transfer pricing tax considerations on:
 - the transfer of offsets or carbon credits across borders
 - the taxation implications throughout the supply chain related to climate change
- the alternative treatments of the expenditures incurred in connection with GHG emission reduction to understand the most cost-effective choice:
 - accelerated Capital Cost Allowance (CCA) classification
 - eligible scientific research and experimental development expenditure (SR&ED) provisions of the Income Tax Act, or
 - other federal and provincial incentive programs

For example, some organizations may decide to manage their future emission compliance by buying and selling emission reduction credits or emission offset credits. In these instances, it will be necessary for the organization to consider the potential income tax implications of such transactions. While the Income Tax Act does not specifically address the tax consequences relating to the acquisition or disposition of emission reduction or offset credits, organizations will need to evaluate the consequences using tax principles established under the existing legislation, and Canada Revenue Agency (CRA) guidance available, following a review of the facts.

We can help

The Ernst & Young Climate Change and Sustainability Services team is grounded in our core skills in assurance, tax, transactions and advisory. We have the specific knowledge and credentials to help organizations comply with the regulation, by:

- Assisting in the assessment of whether the regulation applies, and the identification of in-scope emissions
- Advising on potential systems and controls to assist in the measurement, collection and calculation processes
- Assisting with the calculation of emissions in accordance with the prescribed quantification methodologies
- Undertaking the third-party verification required for facilities emitting over 25,000 tonnes per year
- Providing a team of experienced professionals who can assist in analyzing the future implications of the regulations, including tax and transaction issues relating to emission reduction credits and offsets

Learn more

For further information about the BC GHG emissions reporting regulation and how it could affect you, contact one of our professionals:



Meg Fricke
Vancouver Climate Change Advisory Manager
604 891 8268
meg.fricke@ca.ey.com



Ted Bell
Vancouver Climate Change Tax Senior Manager
604 891 8259
ted.c.bell@ca.ey.com



Mike Mannella
Vancouver Climate Change Advisory Partner
604 899 3540
mike.a.mannella@ca.ey.com



Bruce Sprague
Vancouver Climate Change Tax Partner
604 891 8415
bruce.f.sprague@ca.ey.com



Ann Brockett
Canadian Climate Change Assurance Leader
403 206 5016
ann.m.brockett@ca.ey.com

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