



# The Québec Cap-and-Trade System for Greenhouse Gas Emission Allowances

## Frequently Asked Questions (FAQ)

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## General

What is the cap-and-trade system for greenhouse gas emission allowances (cap-and-trade system)?

The cap-and-trade system, or Québec's carbon market, is an innovative economic tool that contributes to reducing greenhouse gas (GHG) emissions by imposing an overall annual cap on GHG emissions on all emitters covered. Using market forces to promote the least expensive way of reducing GHG emissions, the cap-and-trade system provides emitters with flexibility in choosing how they can meet their compliance obligations, which lowers overall mitigation costs.

For more information, see [A Brief Look at the Québec's Cap-and-Trade System](#).

### **What is an emission allowance?**

An emission allowance is a legal concept introduced by the regulation respecting a cap-and-trade system for greenhouse gas emission allowances (Regulation). It is equal to one metric ton of CO<sub>2</sub> equivalent and is issued exclusively by the government or by a partner entity.

There are three types of emission allowances:

1. **Emission units**, distributed free of charge or acquired at auctions or in sales by mutual agreement by the Minister;
2. **Offset credits**;
3. **Early reduction credits** (issued in 2014 only, for emissions reduced between 2008 and 2011 in accordance with the requirements of Chapter III, Title III of the Regulation).

### **Who is subject to the Regulation?**

The list of emitters covered by the Regulation is available in [Emitters and Participants Registered for the Cap-and-Trade System in Québec and in other Linked Jurisdictions](#).

For more information on emitters, see [Types of Participants in the GHG Emission Allowance Cap-and-Trade System](#).

### **May an emitter that operates a facility not subject to the Regulation request that the facility become voluntarily covered?**

Yes, this is called opt-in. In accordance with Section 2.1 of the Regulation, an emitter may request that a facility it operates and which is not subject to the Regulation become voluntarily covered if all eligibility conditions are met.

For eligibility requirements and procedures to follow, see [Opt-in](#).



### **As of what date do emitters subject to the Regulation need to cover their GHG emissions?**

Emitters operating a facility whose reported and verified annual GHG emissions are equal to or greater than 25,000 metric tons of CO<sub>2</sub> equivalent are subject to the Regulation beginning on January 1 of the year following the first emission declaration reporting emissions equal to or exceeding this threshold. For example, an emitter operating a facility whose reported and verified emissions in 2018 exceed the emission threshold will be subject to the Regulation starting on January 1, 2020, since the first report of emissions at or above the threshold is due no later than June 1, 2019.

For the years that follow 2020, those emitters will be subject to the Regulation beginning on January 1 of the year in which their reported and verified emissions are equal or exceed the threshold.

Emitters requesting to opt-in will be required to cover the facility's emissions starting on January 1 following its application, providing the emitter's registration in the CITSS system is completed no later than September 1 of the year of its application to opt in.

Emitters whose fuel distribution volume in a given year equals or exceeds the threshold of 200 litres are subject to the Regulation beginning on January 1 of that year. For example, an emitter whose reported and verified emissions for 2018 exceeds the threshold is subject to the RSPED starting January 1, 2018.

### **What happens to the income from the carbon market?**

All auction proceeds go to the Québec [Electrification and Climate Change Fund](#) to finance the implementation the measures of the [2030 Plan for a Green Economy](#) will cover the current commitments made under the [2013-2020 Climate Change Action Plan](#).

For more information on moneys transferred to the Electrification and Climate Change Fund, see [Auction Proceeds Allocated to the Electrification and Climate Change Fund](#).

## **Registration to cap-and-trade system**

### **Are emitters the only ones who can participate in the cap-and-trade system?**

No. The Regulation allows any legal entity or natural person who is domiciled or owns a facility in Canada to register as a participant in the cap-and-trade system and participate in the carbon market. For more information on Participants – Legal entities and Participants – Natural persons, see [Types of Participants in the GHG Emission Allowance Cap-and-Trade System](#).

### **What is the CITSS?**

The CITSS or Compliance Instrument Tracking System Service provides computerized GHG emission allowance tracking. It serves as the official register for the implementation of the cap-and-trade system.

The system's numerous functions include the issuance by the government of emission allowances, recording the ownership of emission allowances and account information,



performing and recording emission allowance transfers, and facilitating the verification of compliance.

### **How to register for the cap-and-trade system?**

Registration in the cap-and-trade system is made through the CITSS.

The procedures to register in the cap-and trade system is described in [Cap-and-Trade System Registration](#).

### **What is the deadline for registering in the cap-and-trade system?**

Emitters operating a facility whose reported and verified annual GHG emissions equal or exceed 25,000 metric tons of CO<sub>2</sub> equivalent must register in the cap-and-trade system no later than September 1 following the first emission report declaring emissions that equal or exceed this threshold.

An emitter able to demonstrate that the verified GHG emissions of one of its establishments will reach or exceed the 25,000 mt CO<sub>2</sub> eq. threshold during a given year may register as of June 1<sup>st</sup> of the preceding year. This demonstration is to be made using one of the following documents or items of information:

- an environmental impact assessment for the establishment prepared pursuant to section 31.3 of the Environment Quality Act (chapter Q-2);
- a mass balance calculation for greenhouse gas emissions, which must be based on the emissions attributable to the materials that contribute 0.5% or more of the total carbon introduced in the establishment's process;
- a technical calculation using an emission factor used for the purposes of the Regulation respecting mandatory reporting of certain emissions of contaminants into the atmosphere (chapter Q-2, r. 15);
- an emissions report made pursuant to the Regulation respecting mandatory reporting of certain emissions of contaminants into the atmosphere accompanied by data explaining the anticipated production increase.

Emitters whose fuel distribution volume in a given year equals or exceeds the threshold of 200 litres must register in the cap-and-trade system no later than September 1 following the first emission report declaring emissions that equal or exceed this threshold.

Emitters seeking to opt-in must send their request not later than May 1 and complete the registration process not later than September 1 of the year prior to the year for which the emitter wishes to begin to cover their emissions.

A Participant – Legal entity and Participant – Natural person may register at any time. No time constraints applies in such cases.

### **What is the difference between the primary account representatives (PAR), an account representative (AR) and an account viewing agent (AVA)?**

An account representative (PAR or AR) is a CITSS user designated to act on behalf of an emitter or a participating legal entity pursuant to the Regulation, in particular to carry out on its behalf operations in CITSS and on the auction and sale by mutual agreement by the Minister platform. Except for accounts established by participating natural persons,





each account must have at least two representatives, that is, a primary account representative (PAR) and an account representative (AR). The accounts can have up to four ARs. The PAR is the contact person for information about the entity.

Account viewing agents (AVA) are CITSS users authorized to view an emitter's account data or that of the account of a participating legal entity in CITSS, but cannot perform any action. Each account, except for those of participating natural persons, can have up to five AVAs.

### **Does an emitter that is already registered (with an active CITSS account) in Québec also need to register in California to participate in that state's carbon market?**

Inasmuch as the Québec and California markets are linked, registration with the Government of Québec enables participation in the linked market.

Nonetheless, emitters covered by GHG emission reduction cap-and-trade programs of other participating governments are required to hold CITSS accounts in each jurisdiction, whether the markets are linked or not. However, emitters that are already registered may not register again as a participant in another jurisdiction.

### **Why are there two types of CITSS accounts?**

Emitters have both a compliance account and a general account, while participants (legal entities or natural persons) only have a general account.

The general account is used to hold emission allowances and for current purchase and sales transaction transfers between emitters and other market participants.

Emitters can deposit emission allowances into their compliance account. These are used to cover the GHG emissions from their facilities at the end of a given compliance period.

## **Allocation of emission units without charge**

### **Why do certain emitters receive GHG emission units without charge?**

This approach minimize the impact of the cap-and-trade carbon cost on emitters facing strong national and/or international competition, thus minimizing the risk of carbon leakage, that is, the offshoring of companies to less stringent or less efficient jurisdictions in terms of GHG emission reduction.

For more information, see [Allocation of Emission Units without Charge](#).

## **Holding limit**

### **What is an emission units holding limit?**

The holding limit is the maximum number of GHG emission units and early reduction credits that an emitter or participant can hold in its general account and, where applicable,



in its compliance account. The limit is calculated on the basis of the annual emission unit cap set by Order-in-Council.

### **What is a limited exemption?**

A limited exemption is equal to the number of emission units and early reduction credits needed to cover estimated GHG emissions for the current year and emissions for preceding years.

As such, the limited exemption for a given year is applied at the beginning of the year. When the emitter fulfils its compliance obligations the limited exemption for the years of that compliance period is reset to zero.

The purpose of the limited exemption is to avoid including emission units and early reduction credits that are needed to cover its GHG emissions in an emitter's holding limit. This makes it possible for emitters to hold as many emission units as other emitters and other participants hold, so as to be able to participate in the market. However, in order to benefit from the exemption, emitters need to transfer their emission units and early reduction credits to their compliance account.

### **What happens when the holding limit is exceeded?**

Whenever an emitter or participant reaches or exceeds half of its holding limit, it must, upon request by the Minister, provide an explanation of its strategy and the reasons that justify holding these emission units and/or early reduction credits.

Whenever the holding limit is exceeded, the emitter or participant is required to correct the situation within five working days in one of the following ways:

1. Divest itself of the excess emission units or early reduction credits;
2. Transfer the number of emission units and/or early reduction credits to its compliance account that equals the excess quantity, if such is allowed by the exemption;
3. In the case of emitters or participants that are part of a corporation association group, modify the distribution of the overall holding limits among group members.

If the emitter fails to comply by the prescribed deadline, the Minister takes back the number of emission units and/or early reduction credits equivalent to the excess amount. The emission units are transferred to the Minister's auction account for later sale. If the Minister takes back early reduction credits, they are transferred to the Minister's retirement account.

## **Compliance**

### **What is a compliance period?**

A compliance period is a period at the end of which an emitter must surrender to the government a number of GHG emission allowances equal to the total verified GHG emissions that the emitter reported for the period. The first compliance period began on January 1, 2013, and ended on December 31, 2014. The second compliance period



began on January 1, 2015, and ended on December 31, 2017. The third compliance period began on January 1, 2018, and ended on December 31, 2020.

Subsequent compliance periods will follow the same terms as the third one, beginning on January 1 following the end of the previous period and last three years.

On November 1 following a compliance period or, if that date is not a business day, on the first business day that follows, covered emitters are required to hold a number of emission units in their compliance accounts that are at least equal to the reported and verified GHG emissions for all of their covered facilities during the target period.

For more information, see [Compliance](#).

## Offset credits

### **What is an offset credit?**

An offset credit is equivalent to a quantity of non-emitted GHG or GHG that has been removed from the atmosphere. One credit equals one metric ton of CO<sub>2</sub> equivalent.

An offset credit project involves reducing GHG emissions from sectors of activity other than those that are covered by the Regulation's compliance obligations or removing GHGs from the atmosphere. These are voluntarily implemented by a promoter (natural or legal person, or municipality).

Purchasing and using offset credits enable an emitter subject to the Regulation to meet its compliance obligations at lower cost.

For more information, see [Offset Credits](#).

### **What project types are eligible for offset credits?**

Eligible project types are those for which there is an applicable ministerial regulation respecting offset credit projects or, for an interim period, an applicable offset credit protocol in Appendix D of the Regulation.

Learn more about eligible project types at [Offset Credits](#).

### **What is an offset credit regulation or protocol?**

A ministerial regulation respecting offset credit projects is the new type of regulatory document to set the requirements for offset credit projects under the cap-and-trade system. Made by the Minister, these regulations will gradually replace the offset credit protocols.

For every type of offset credit project, a ministerial regulation contains all requirements, inter alia, the project eligibility and monitoring as well as the quantification, reporting and verification of GHG emission reduction or GHG removals. This allows for ensuring that offset credits issued meet the general offset credit criteria of the Western Climate Initiative (WCI) regional carbon market which the Québec cap-and-trade system is part of.

To find out the ministerial regulations and protocols into force, see [Offset Credits](#).





**Are offset credits from the voluntary market recognized by the cap-and-trade system?**

No; only offset credits issued by the Government of Québec under the Regulation and those issued by a government that is a partner entity of the WCI regional carbon market (currently California) are recognized.

**Are projects carried out outside Québec eligible to receive offset credits?**

Each offset credit regulation or protocol stipulates whether or not offset credit projects covered by it can be located outside Québec.

**Where can I find out about offset credit projects that have credits for sale?**

The register of offset credit projects is a publicly available database that provides information and documentation about the offset credit projects submitted to the Minister and their promoters as well as the number of offset credits that have been issued by each one. The register is updated on the second and fourth business Wednesday of the month.

Click on this [link](#) to view the register of offset credit project.

## Auctions

**When auctions take place?**

There are no set dates for auctions under the Regulation. A maximum of four auctions is planned each year. Auctions linked to the California system will take place on dates set out in the California regulation. A notice is posted on the Ministère's website at least 60 days before each auction date.

Auction notices can be viewed at [Cap-and-Trade Auction Notices and Results](#).

**Who can participate in the auctions?**

All emitters and participants holding a CITSS account can register for auctions.

**How to participate in an auction?**

Auction registration instructions are detailed in [Auctions](#) as well as in each auction notice, which are available at [Cap-and-Trade Auction Notices and Results](#).

**What terms apply to auction participation?**

All information about auction participation, including number of units available, how to register, submitting a financial guarantee, current and future vintage units sales, how to submit a bid, currency and the establishment of the settlement price are detailed in each auction notice and in the accompanying documents, which are available at [Cap-and-Trade Auction Notices and Results](#).



### **What are the minimum and maximum prices per GHG emission unit at auction?**

Each December, California and Québec announce their respective minimum prices for auctions in the coming year. The annual emission unit budget and minimum price for each year are available at [Auctions](#).

In Québec, the minimum price of an emission unit was \$10 CAD for 2012. This minimum price has increased by 5% plus inflation in each year since 2013.

The minimum price selected for a given auction is the higher of the announced annual minimum prices in U.S. and Canadian dollars, adjusted for the auction exchange rate and determined on the last business day that precedes the sale.

There is no maximum price.

### **How is the settlement price of an emission units set at auction?**

All information about auction participation, including how the settlement price is set, are detailed in each auction notice and the accompanying documents, which are available at [Cap-and-Trade Auction Notices and Results](#).

The price paid is the same for all winning bidders, independent of their offered price. GST, PST and HST used in some Canadian provinces do not apply to emission units purchased at auction.

### **When are settlement price and results released to participants and the general public?**

Auction settlement price and results are made available to the public in the summary results report, which is published at the date and time listed in the auction notice schedule.

The summary results report includes the following:

- The names of the qualified bidders;
- The settlement price for current and future vintages;
- Aggregate or distributional information on purchases, with the names of the entities withheld.

Previous summary results reports are available at [Cap-and-Trade Auction Notices and Results](#).

### **How is the holding limit applied in auctions?**

Bidders must not offer to purchase a number of emission units at auction that would cause them to exceed their holding limit, taking into account the quantity already held in its account(s). In such case, any overhang will lead removal of bid lots in order to meet bidder holding limits.

Emitters and participants that are members of a corporate association group must distribute among themselves their holding limits in accordance with section 33 of the Regulation.



### **What is the emission units purchase limit at an auction?**

This is the maximum number of emission units that can be purchased by a single bidder at a given auction.

The holding limit is equal to 25% of the total number of units offered at an auction in the case of emitters, and 4% of this number in the case of a participants.

Emitters and participants that are members of a corporate association group must distribute among themselves their purchase limits in accordance with section 50 of the Regulation.

## **Sales by mutual agreement by the Minister**

### **When are sales by mutual agreement by the Minister held?**

Under the Regulation, sales by mutual agreement by the Minister have no predetermined dates. No more than four sales by mutual agreement can be held each year, but the decision to hold such sales is made by the Minister. A notice is published on the Ministère's website at least 60 days before the planned date of a sale by mutual agreement by the Minister.

Sale by mutual agreement by the Minister notices are available at [Sale by Mutual Agreement by the Minister Notices and Results](#).

### **Who can participate in a sale by mutual agreement by the Minister?**

Participation in sales by mutual agreement by the Minister is restricted to Québec emitters with a CITSS account whose general account does not hold sufficient emission units needed to cover their emissions for the compliance period for which the sale is held.

### **How to participate in a sale by mutual agreement by the Minister?**

Registration instructions for a sale by mutual agreement by the Minister are detailed in [Sale by mutual agreement by the Minister](#) and in each notice of a sale by mutual agreement by the Minister.

Sale by mutual agreement by the Minister notices are available at [Sale by Mutual Agreement by the Minister Notices and Results](#).

### **What terms apply to sale by mutual agreement by the Minister participation?**

All information about participation in sales by mutual agreement by the Minister, including the number of units available for sale, how to register, submitting a financial guarantee, how to submit offers and currency are provided in the sale by mutual agreement by the Minister notices and accompanying documents, which are available at [Sale by Mutual Agreement by the Minister Notices and Results](#).



### **What are the prices for emission units sold at a sale by mutual agreement by the Minister?**

The emission unit prices for 2013 was set in advance at \$40 for Category A units, \$45 for Category B units and \$50 for Category C units. Since 2014, these prices have been increased by 5% plus inflation each year until 2020.

Following the adoption of the Regulation to amend the Regulation respecting a cap-and-trade system for greenhouse gas emission Allowances in December 2020, those prices are set to \$41.40 for category A units, \$53.20 for category B units and \$65 for category C unit. Those prices are increased annually by 5% plus inflation since 2021. However, if California, as a partner entity, has set higher prices per emission unit for corresponding categories, the emission units are sold at the highest of the prices fixed by those entities, according to the daily average exchange rate of the Bank of Canada published on its website, in force on the day preceding the sale by mutual agreement.

GST, PST and HST used in some Canadian provinces do not apply to emission units purchased at sales by mutual agreement by the Minister.

### **When are the results of a sale by mutual agreement of the Minister released to participants and the public?**

The results of a sale are made available to the public in the summary results report, which is published at the date and time listed in the sale by mutual agreement of the Minister notice schedule.

The summary results report includes the following:

- The names of the qualified bidders;
- Aggregate or distributional information on purchases, with the names of the purchasers withheld.

Previous sales reports are available at [Sale by Mutual Agreement by the Minister Notices and Results](#).

## **Verification of GHG emissions**

### **Why are emitters subject to the cap-and-trade system obliged to have their GHG emissions verified?**

Verification of the reported GHG emissions by an organization accredited to ISO 14065 enables the Minister to ensure the accuracy and reliability of information submitted by a declarant, and guarantees the integrity of the cap-and-trade system.

### **What is the role of the verifying organization?**

The verifying organization makes an objective evaluation of the GHG report in accordance with the ISO 14064-3 standards and in compliance with the Regulation respecting mandatory reporting of certain emissions of contaminants into the atmosphere.



### **Why are verifying organization required to be accredited to ISO 14065, and who handles accreditation?**

Accreditation of verifying organization under the ISO 14065 standard makes it possible to ensure that they are competent to perform audits that comply with regulatory requirements. This is the case for GHG declarations, but it also applies to GHG emission reduction projects that receive offset credits.

The Standards Council of Canada (SCC) and the American National Standards Institute (ANSI) are two accreditation bodies that are recognized in North America and are also members of the International Accreditation Forum (IAF), which meets the ISO 17011 standard program. Both are empowered to accredit auditing organizations under the ISO 14065 standard.

## **Linked markets**

### **Is the Québec carbon market linked to other markets?**

The Québec and California markets have been linked since January 1, 2014. On January 1, 2018, Ontario joined the WCI regional carbon market with Québec and California but withdraw on July 3, 2018 when it repealed its cap-and-trade Program Regulation.

For more information, see [The Québec-California Carbon Market](#).

### **What are the advantages for Québec of linking its market to markets in other jurisdictions?**

Market linking is essential for Québec since a standalone local market would not have the requisite size needed for viability in the medium and long terms.

As the number of partners in the system increases, so does the number of emission allowances. This makes it easier for emitters and participants to acquire emission units at lower cost.

Additionally, a linked market makes it possible to share system costs such as market monitoring and development, management and maintenance of the CITSS and the auction platform.

### **Are emission units differentiated on the basis of provenance?**

No. Emission units are fully fungible among linked cap-and-trade systems. There is no differentiation, and market pricing is identical.

Offset credits are also recognized in the currently linked systems, but they are differentiated (identified by provenance and project type associated with their delivery). These differences may also lead to different prices on the basis of provenance and type of offset credit projects.



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