

Market Update for Forest Carbon in Ontario

MARKET AND POLICY DEVELOPMENTS

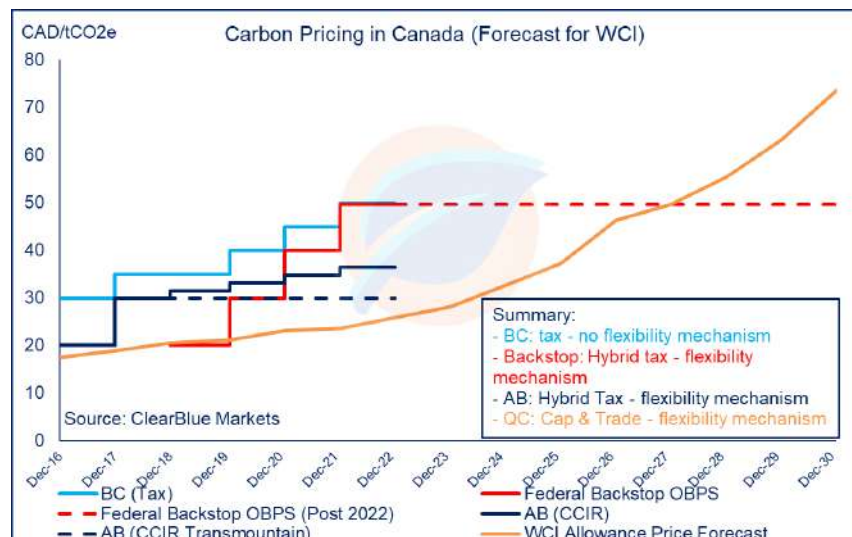
As of Jan 1, the Federal Output-based Pricing Standard (OBPS) has taken effect in Ontario creating a requirement for large emitters to achieve GHG intensity targets in exchange for an exemption from the carbon levy, although the implementing regulations are in draft form and due to be finalized shortly. The federal backstop system includes use of offsets from existing provincial programs and also provisions for a federal offset system that would approve projects from provinces such as Ontario. The federal backstop system has stated forest carbon as a priority project category for inclusion in the system.

The draft Federal Backstop regulations published in December can be found [here](#) and you are still able to provide public comments until Feb 15th.

Minister Phillips of Ontario Environment, Conservation and Parks (MECP) has published draft regulations (found [here](#)) for an alternative carbon pricing plan it refers to as the Emissions Performance Standard (EPS), which it hopes will be recognized by the federal government in the place of the OBPS. It too defines carbon offsets as an eligible compliance instrument and states that further rules will be published in offset protocols. In its Environment Plan published in October 2018, MECP stated the government will “support forest managers to further reduce emission and increase carbon storage in forests and harvested wood products.”

We are confident that the forest carbon offset opportunity will exist for Ontario landowners in the near future under the federal OBPS system. Should the OBPS suffer setbacks from either provincial court challenges or a new government in October, we would fall back on the Ontario regulation that also include offsets and is likely to include a forest carbon offset protocol.

A very interesting development with the federal OBPS system replacing the Ontario cap-and-trade program is the prospect of higher pricing for offsets. This is due to the carbon levy of \$20 in 2019 going up \$10/year to \$50/t in 2022. Offsets are an alternative compliance instrument to paying the levy, meaning that the levy will be a strong pricing



signal for offsets. The graph above shows ClearBlue Market's price projections for different markets, including the orange line for Quebec which would also be the price for Ontario under the previous cap-and-trade program. The red line shows the levy pricing under the federal OBPS applicable in Ontario. Offsets will trade at a discount to this levy price but indications are favourable for higher pricing than under the previous cap-and-trade program. Ontario's proposed EPS regulation also propose a compliance option to pay into a fund at \$20 in 2019 going up \$10 a year to \$50 in 2050.

FOREST CARBON OFFSET PROTOCOL DEVELOPMENT

The Federal Government has initiated the process to review protocols from existing provincial programs for applicability in the federal OBPS. For its part, the BC Government is revising its Forest Carbon Offset Protocol (FCOP) to streamline it and have it recognized by other Canadian and American jurisdictions. They have stated their intention to publish the new protocol this summer, potentially creating a protocol that both the federal and Ontario governments could adopt for applicability in Ontario. In addition, a protocol development is underway in Alberta and we expect this to provide a protocol by Q4 of this year that can be adopted federally or in Ontario. Bluesource authored much of the guidance document the Alberta regulator is due to publish on rules for the forest carbon protocol and we are confident it will produce a very workable protocol.

PLAN TO DELIVER VALUE FOR ONTARIO LANDOWNERS

The experience with forest carbon offset markets in other jurisdictions tells us that there is a first-mover advantage as a result of the likelihood of changing goal-posts as the program is implemented and that affect project economics. As a result, Bluesource proposes to help Ontario landowners assess the opportunity by providing a Carbon Assessment that estimates a range of potential revenues, costs and analyses commitments. This can be done with a reasonable range of values that accommodate the uncertainty related to protocol development and serves to inform the decision-making process of the landowner. For those wishing to pursue the opportunity provisionally on this basis, Bluesource would help prepare the landowner to capitalize on the forest carbon offset opportunity but retain the discretion to proceed definitively until after Bluesource is able to issue a revised Carbon Assessment once an applicable offset protocol is approved.

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