

Canadian Carbon Market Study

Examines Implications and Impacts of Proposed Canadian Regulatory Framework

Under the Regulatory Framework for Air Emissions enacted by the Government of Canada in April 2007, companies are required to reduce their greenhouse gas emissions intensity by 18% for a 2006 baseline by 2010 and continue to make intensity improvements of 2% each year until 2015. The government is keen to see investment in carbon abatement stay in Canada. As a result, it has limited Canadian access to international credits for compliance purposes to 10% of the capped emitters obligation and has focused on the development of a robust domestic offsets market as the primary compliance option. Consequently, future carbon market prices in the domestic Canadian market are of significant interest to companies with Canadian operations in the capped sectors. ICF International's Canadian Carbon Market Study examines the implications of the proposed Regulatory Framework and—using its proprietary carbon pricing tool called the Carbon Planning Model (CPM™)—evaluates on a fundamentals supply and demand basis the future price of domestic offsets under various scenarios.

Our Approach

Using the same multi-sector, multi-fuel energy and emissions model the government is currently using to analyze the impact of their policy, ICF ran scenarios to get a sense of how external variables (such as natural gas prices, economic growth and projected oil sands growth) affect the nation's GHG emissions from sectors targeted under the Regulatory Framework.

This modelling, which will be updated annually, provides insights with respect to:

- price levels and liquidity of the carbon market under different policy configurations based on extensive MAC curve work that ICF previously completed
- an estimate of the volume of offsets that will be available over the compliance period based on policy options and project type availability
- an estimate of the demand for industry compliance units by industry sector
- an estimate of the cost of tradable compliance units
- overall compliance costs and the impact of these costs on various economic sectors

What emerged from this analysis is that GHG emissions, and therefore required reductions, are most sensitive to increases and decreases in economic growth. The high growth scenario for the oil sands placed additional pressure on that sector and the power sector but had limited impacts on other sectors. High natural gas prices had virtually no impact on emissions growth and therefore credit prices.

The CPM™, developed by ICF, allows companies to quantify their potential compliance costs (economic risk) based on user defined scenarios.



“Right now predicting compliance costs is like throwing darts at a dart board. This tool enables a company to more accurately predict the cost of compliance and assess risk to the company going forward,” said Duncan Rotherham, Vice President of ICF International.

Variables within the CPM™ for user manipulation include:

- eligible offset project types
- volume of offset credits available for each eligible offset project type
- transaction costs
- comparative offset scenario overlay analysis

Table of Contents

- The Canadian Market – Regulatory Context
- The Reference Projection of Emissions and the Implications to the Regulated Industries
- Variations in the Reference Projection
- Compliance Mechanisms and the Size of the Offsets Market
- The Outlook for Offsets
- Canadian Carbon Pricing Tool
- Appendix – Emission Reduction Abatement Options (potential offsets)

Deliverables

- **Excel-based Canadian CPM™** will evaluate the impact of various offset credit availability scenarios relative to projected demand for 2015, 2020 and 2030 and project offset credit prices of each scenario.
- **PowerPoint report** will detail how the tool works, general findings, assumptions and areas of uncertainty.
- **Individual subscriber presentation delivered on site by ICF** will look at the various scenarios modeled within the tool, probable policy direction and investigate the implications of the Canadian Carbon Market Study from a subscriber-specific perspective.

Please Note: The models and study will be updated annually.

About ICF International

ICF International (NASDAQ: ICFI) partners with government and commercial clients to deliver consulting services and technology solutions in the energy, climate change, environment, transportation, social programs, health, defense, and emergency management markets. The firm combines passion for its work with industry expertise and innovative analytics to produce compelling results throughout the entire program life cycle, from analysis and design through implementation and improvement. Since 1969, ICF has been serving government at all levels, major corporations, and multilateral institutions. More than 3,000 employees serve these clients worldwide. ICF's Web site is www.icfi.com.

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