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# *Cap-and-Trade Policy Updates*

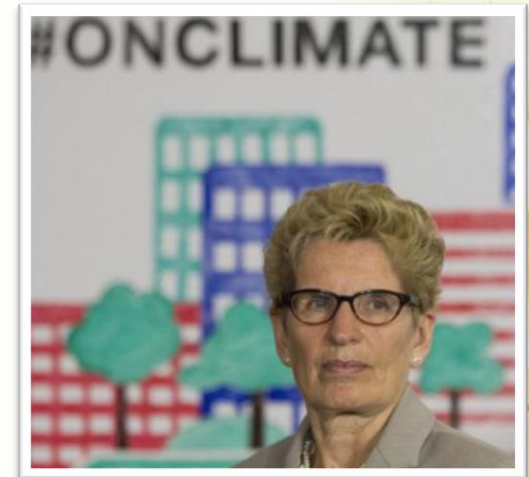
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October 7, 2015

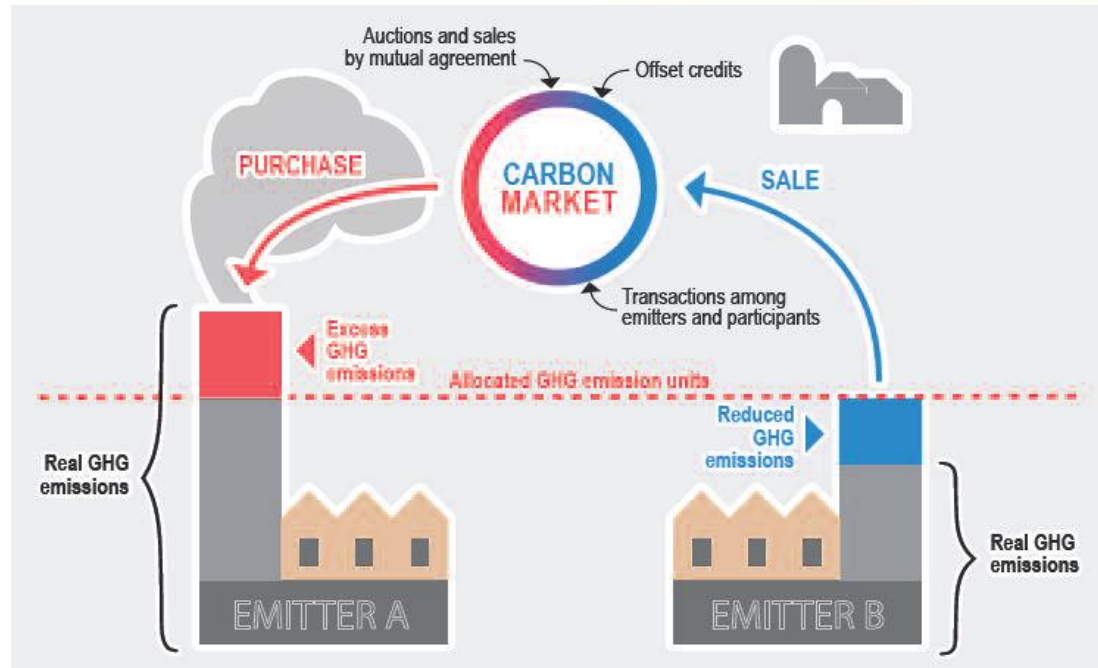
## Cap-and-Trade in Ontario

- Cap-and-Trade Basics
- Key Areas of Program Design
- Key Players
- Timeline

- March 2015: Ontario Government announces intentions to implement carbon pricing scheme.
- April 2015: Ontario Government announces it will develop a cap-and-trade program that can link to the existing programs in Québec and California.
  - Revenue Neutral



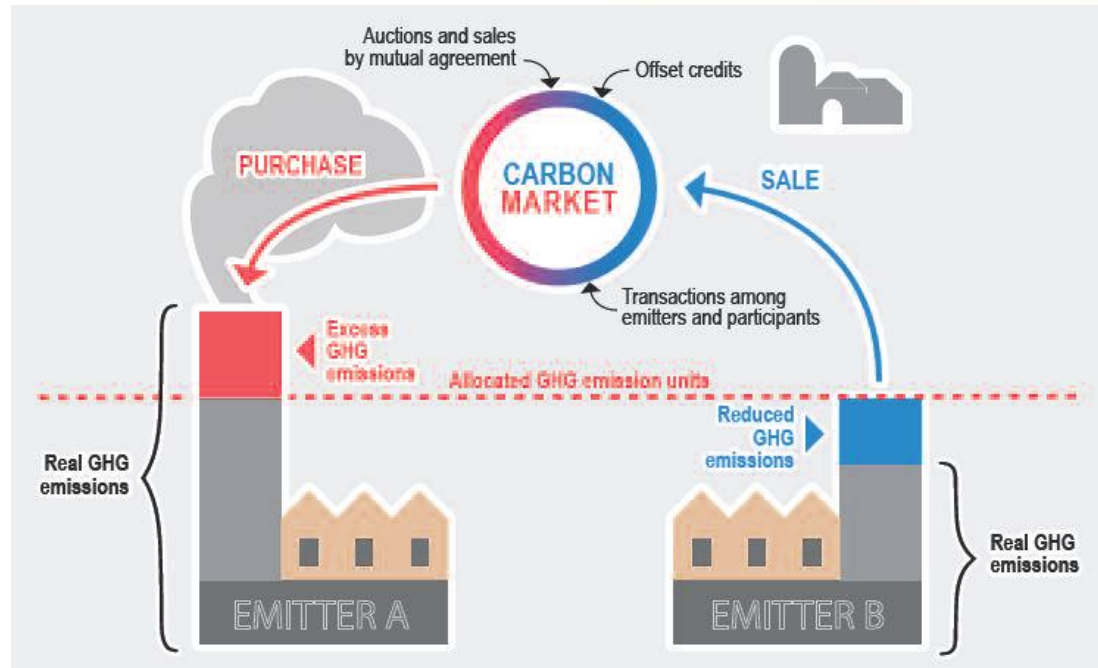
# Cap-and-Trade Basics



Source: MOECC, 2015.

- Inventory of emissions established through reporting.
- Government sets cap on emissions.
- Over time, cap is lowered.

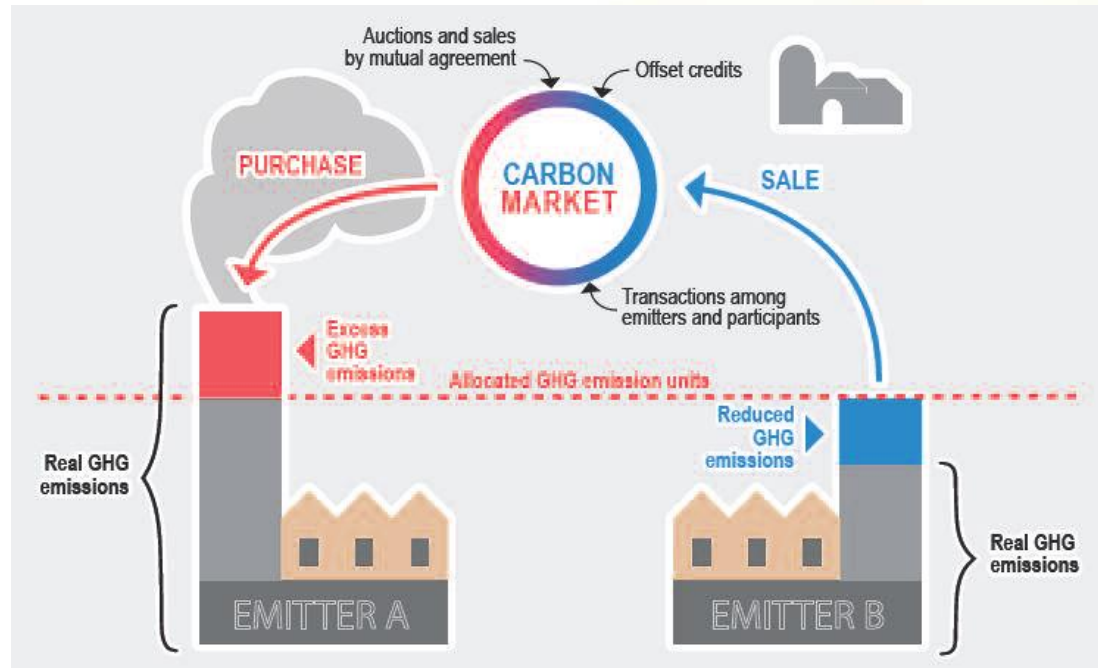
# Cap-and-Trade Basics



Source: MOECC, 2015.

- Cap is divided into units called “allowances”, equal to 1 tonne of CO<sub>2</sub>-e each.
- Government distributes allowances either free of charge or by auction.
- Offset credits introduced for emissions reductions/removals that occur outside of the regulated scope.

# Cap-and-Trade Basics



Source: MOECC, 2015.

- Allowances and offsets bought and sold.
- Facilities need to acquire enough allowances and/or offset credits to cover their emissions.
- Cap-and-trade harnesses the power of the marketplace to reduce emissions efficiently.

# KEY AREAS OF PROGRAM DESIGN

Western Climate Initiative Framework

## Sectors

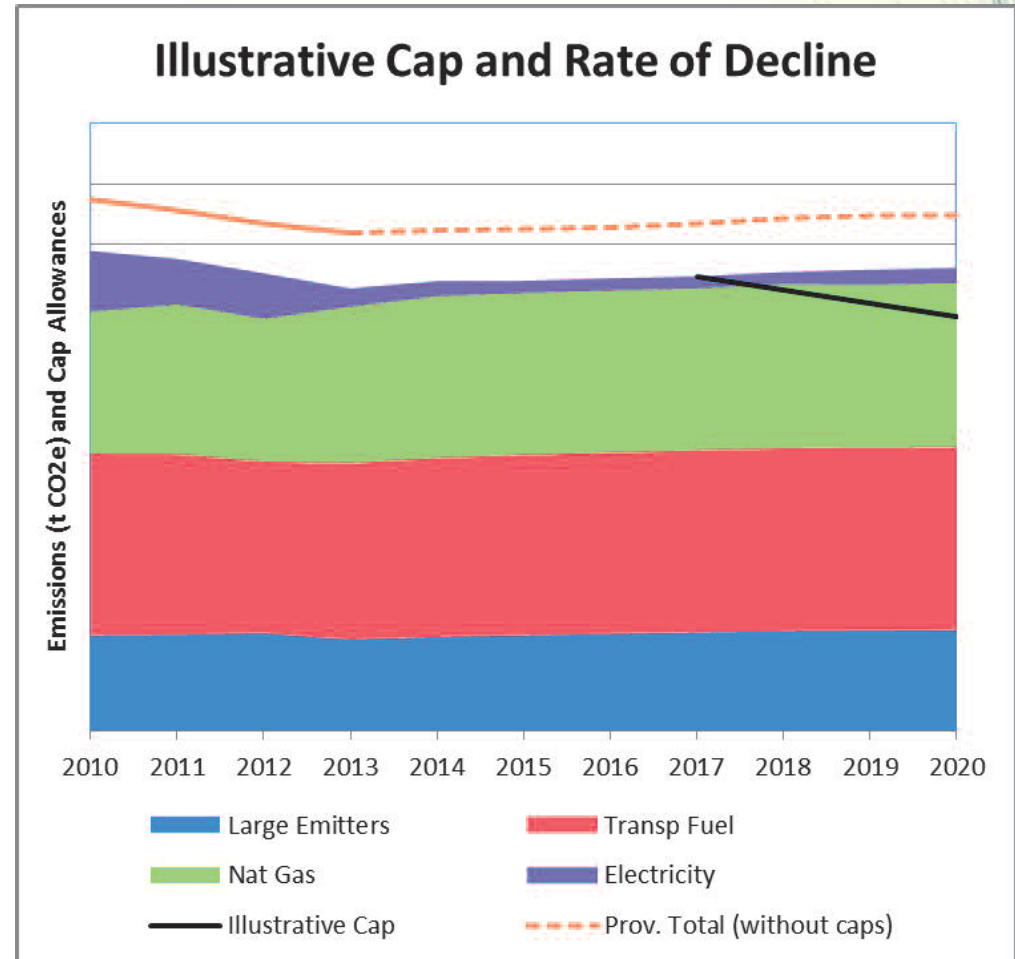
- Large emitters (>25,000 tonnes CO<sub>2</sub>-e)
  - Industry
  - Institutions
  - Utilities
  - Waste Management
- Electricity generators and importers
- Liquid petroleum fuel distributors and importers
- Natural gas distributors



## Emissions

- Combustion emissions
  - Burning fuel for heating or industrial furnaces
- Process emissions
  - Emissions from chemical or physical reactions as part of production
- Ontario program proposes to cover both
  - Some indications that there will be no reduction requirements for process emissions in the near-term

- Initial cap set to match starting inventory.
- Caps in Quebec and California decline at more than 3% per year.
- Cap decline of 2-3% per year could put Ontario on track to meet 2020 target.



Source: MOECC, 2015.

- Government will distribute allowances at auction and free-of-charge.
  - Free-of-charge for trade-exposed emitters, including most industry.
  - Auctions for non-trade exposed sectors, including fuel distributors and electricity generators.
  - Quebec and California provide free allowances through a combination of product benchmarks and energy usage methods.
- Allocations need to accommodate growth and new entrants.

- Offset projects are emissions reduction or removal initiatives undertaken by entities outside the sectors covered by cap-and-trade.
  - Agriculture
  - Forestry
  - Waste
  - Other
- Government certified offset credits can be used by facilities in covered sectors as an alternative to allowances.

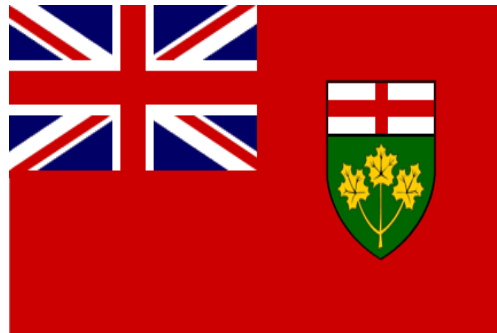
- Ontario has committed to develop a joint offset system with Quebec.
  - Consistent eligibility criteria
  - Consistent project types and protocols
  - Supports inter-jurisdictional use
  
- Current approved offset protocols in Quebec:
  - Manure Management – methane destruction
  - Landfill Gas Management – methane destruction\*
  - Destruction of Ozone Depleting Substances – insulating foam in freezers and refrigeration appliances.

\*additionality requirement

- To be determined
- Quebec has rules for awarding early action allowances to facilities that improved emissions before cap-and-trade began.
- California does not.
- Benchmarking can reward early actions intrinsically as part of the allocation process.
  - Facilities that have taken early action will receive more allowances relative to their emissions, than facilities that have not.

- Continuation of Ontario Regulation 452/09
- Changes proposed in September EBR posting:
  - Reporting threshold reduced from 25,000 tonnes to 10,000 tonnes.
  - New sources for 2016 reports:
    - Liquid petroleum and natural gas fuel suppliers
    - Electricity importers
    - Electricity transmission
    - Oil and gas pipelines (methane emissions)
    - Magnesium production
    - Mobile equipment (verification not required)
  - Verification of production data to ensure fair distribution of allowances based on benchmarking.

- Committed to linking with the existing joint Quebec/California program.
- Benefits
  - Access to larger pool of low-cost abatement opportunities.
  - Larger market is more stable.
  - Savings on program admin costs (e.g., auction and trading platforms, market oversight mechanisms).





- Requires consistency in terms of:
  - Price stability mechanisms (price collar).
  - Trading rules to ensure transparency (e.g., requirement to report trades within a specified timeframe).
  - Market rules (e.g., disclosure requirements on corporate affiliations, limits on number of allowances an entity can hold).
  - Limits on the use of offset credits (e.g., 8% of compliance obligation).
  - Enforcement provisions to ensure compliance since non-compliance weakens the program for all jurisdictions.

# KEY PLAYERS

## ■ Government

- Sets the cap
- Sets the scope: regulated sectors and sources
- Allocates allowances (free or by auction)
- Establishes program/market rules, monitors compliance

## ■ Emitters and Fuel Distributors

- Determine the most efficient way to comply
- Reduce emissions or buy allowances or offsets
- “Submit” allowances and offset credits at end of compliance cycle

## ■ Administrative Organization (WCI Inc.)

- Manage auctions, financial settlements, tracking system, market monitoring



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# TIMELINE

- Spring/Summer 2015:
  - Consultations on program design. Focus on allowance allocation methods and competitiveness issues.
- Fall 2015:
  - Regulatory proposal posted to EBR
- Winter 2015/2016
  - Draft regulation posted to EBR
- 2016
  - Final regulation posed to EBR
- January 2017 – December 2020
  - First compliance period?

# THANK YOU

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