

ONTARIO ENERGY ASSOCIATION

**OEA REMARKS TO STANDING
COMMITTEE ON GENERAL
GOVERNMENT, RE: BILL 172
CLIMATE CHANGE MITIGATION AND LOW-CARBON
ECONOMY ACT**

APRIL 4, 2016

CHECK AGAINST DELIVERY

To shape our energy future for a stronger Ontario.



Ontario Energy Association

[INTRODUCTION]

Good afternoon and thank you for allowing the Ontario Energy Association to present our positions on Bill 172 to you today.

I'm Bob Huggard, the President and CEO of the OEA, and I am joined by Duncan Rotherham, our technical expert, Vice President, ICF International.

As many of you know, the OEA is an advocacy association that represents Ontario's electricity and natural gas industries. We have a diverse membership and represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA members have come together to provide our collective advice to the government regarding Bill 172 so that our diverse and expansive industry experience and expertise can be utilized to improve, clarify and strengthen the functioning of Ontario's cap and trade program.

Bill 172 marks an important moment for Ontario as the province works to address, and mitigate, climate change and to continue the province's transition to a low-carbon economy.

The OEA endorses the purpose of Bill 172 and believes that industry and, indeed, every Ontarian has a role to play in addressing climate change.

We are here today to provide you with recommendations that will facilitate the smooth roll out of the cap and trade program and ensure that the program meets the government's primary objective of reducing greenhouse gas emissions.

Our first recommendation is about making sure that cap and trade revenues are used for the right purposes. In principle the OEA endorses Ontario joining the Western Climate Initiative or WCI, but we also need to be sure that participating in a broader cap and trade market meets one of the key purposes of the program, which is to assist Ontarians to transition to a low-carbon economy. Our concern arises because the California 2018-2020 carbon market appears to have ample allowances available for auction, but the Ontario market will likely be intrinsically short on allowances. Ontario businesses would therefore be buying carbon allowances from California, thus increasing the likelihood of a transfer of wealth from Ontario to California. Quite simply, this transfer of funds to California would

mean less money available for reinvestment in Ontario's transition to a low-carbon economy.

To mitigate this potential problem, the OEA suggests that the government negotiate arrangements so that some or all of the monies paid to other WCI members be returned to Ontario for domestic reinvestment through the Greenhouse Gas Reduction Account.

On a similar note, the government must ensure that the administration and enforcement expenditures that will be recovered from the cap and trade revenues are minimized and do not result in inappropriate cost shifting from ministry budgets to the Greenhouse Gas Reduction Account.

Our second recommendation is about timelines, and the OEA recommends that specific timelines be published for key components of the cap and trade program.

In order for industry to effectively participate in the cap and trade program, government must provide context, modelling and analytics related to the market.

Participants need these important details in order to effectively engage with the cap and trade program.

In the Bill's current form there is no commitment to providing key content with specific timelines; we therefore recommend the following timelines be adopted so that OEA members can align their efforts with the Province's plans:

- First, the public notice of the baseline 1990 calculation amount should be made available to the public no later than six months before the start of a compliance period
- Second, the action plan should be laid before the Assembly no later than six months before the start of a compliance period and
- Lastly, the GGRA Annual Report should be released by March 31st following the prior fiscal year, beginning in March 2018 for vintage year 2017.

Getting these timelines in place will give industry the concrete information it needs to prepare for the launch of the cap and trade program.

Our third recommendation is that there must be adequate allowance available for fuel distributors to access.

Specifically, in the event Ontario does not join the WCI, or is delayed in joining, it is unclear that fuel distribution companies will have access to enough allowances at auction to meet their compliance obligations. Fuel distributors are only able to influence customer behavior by passing through the cost of purchasing allowances. Unlike industrial emitters, your natural gas distributor can't just shut off supply to your home if it is unable to obtain enough allowances to cover the emissions from your furnace or hot water tank. Without adequate allowances, the fuel distributors will be placed under significant pressure from their customers. Fuel distributors need to be able to buy allowances and then pass those costs on to customers if we want to see behavioural changes.

And the same dynamic is true of electricity generators – charging the price of carbon to end use consumers is the primary means of modifying their behavior. However, some of the older electricity generation contracts do not allow generators to recover cap and trade costs from consumers. And without that price signal, little behavior modification can be expected. It is therefore of the utmost importance that the Ministry work with the IESO and the Ontario Electricity Financial Corporation to ensure that all electricity generation contracts allow for recovery of cap and trade compliance costs.

Our fourth recommendation is made in the same vein as our first one. When it comes to offsets, we need to ensure that offset related emission reduction credits are Ontario-centric in order to meet the stated purpose of Bill 172 and to avoid a transfer of wealth outside of Ontario.

Paying for offsets created outside of Ontario will not result in the deployment of capital to our local green economy, nor will it reduce emissions in Ontario.

The OEA would like the opportunity to engage with government on developing offset regulations with the goal of maximizing economic benefits for Ontario, and ensuring material offset supply, in order to maximize emissions reductions in areas of the economy not directly covered by cap and trade.

Last, the OEA recommends that government recognize the benefits of combined heat and power, or CHP, and ensure that the cap and trade rules enable continued growth of combined heat and power systems.

CHP, when designed well, is an efficient use of natural gas to generate both electricity and useable heat or steam at the same time. Integrated cogeneration has been identified as an integral component of LDC plans to meet their assigned Conservation and Demand Management (CDM) targets. For years, Ontario has been providing incentives to implement cogeneration, due to its net benefit to the provincial electricity grid and total provincial emissions. CHP, as a key component of many electricity LDC's CDM plans, has already been approved by the IESO and is in the process of being implemented.

Unfortunately, the proposed treatment of CHP facilities under cap and trade would make many of the planned projects less feasible and, in some instances, uneconomical. The OEA has worked with the government to provide ongoing counsel on the effective use of CHP. The current cap and trade program, as structured, puts the implementation of CHP and the success of many electric LDCs' conservation plans at significant risk.

The OEA therefore recommends that government reconsider how CHP will be addressed under the cap and trade program to help ensure that CHP can continue to serve as an electricity conservation tool that, owing to its inherent efficiency, also reduces total natural gas consumption. In the alternative, the Government should direct the Ontario Energy Board and Independent Electricity System Operator to take such measures as are necessary and sufficient to put the LDCs in the positions they would have been in but for this change in the Government's CHP policy.

In closing, I'd like to reiterate that the OEA supports the purpose of Bill 172, and believes that our five key recommendations will bring the cap and trade program even closer to meeting its objectives

within Ontario's broader climate change strategy. Our recommendations are both feasible and necessary given the scope, mandate and objectives of Bill 172.

The important considerations that we have raised here will ensure that industry and the public have confidence in the process, and confidence in the overall outcome.

As Ontario's energy voice, we will continue our advocacy for our members in order to present a responsible, effective and efficient process and plan for Ontario's cap and trade program.

Cap and trade has tremendous potential, but it must be done right. This is a long term program that will impact all Ontarians, so we need to ensure we get all of the considerations right at the outset.

We look forward to continuing the dialogue with the government and our other important partners in this process as we work to combat climate change and build a stronger energy future for Ontario.

Thank you.

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Ontario Energy Association

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