



**CanSIA Submission re: EBR Posting 012-5666  
Cap and Trade Program Design Options**

**December 16, 2015**

**Canadian Solar Industries Association (CanSIA)**  
[www.cansia.ca](http://www.cansia.ca)

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## Introduction

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Dear Ms. Ollevier,

Thank you for the opportunity to provide feedback to the Ministry of the Environment and Climate Change (MOECC) regarding Cap and Trade Program Design Options.

CanSIA is a national trade association that represents the solar energy industry throughout Canada. CanSIA's vision for Canada's solar energy industry is for solar electricity to be a mainstream energy source and an integral part of Canada's diversified electricity mix. In order to accomplish this goal, supportive policy and regulatory frameworks must be in place. One of these frameworks is a strong climate policy that takes into account emissions from electricity generation and natural gas use in Ontario.

CanSIA is supportive of the efforts that have been made by the MOECC in releasing the Climate Strategy and Cap and Trade Program Design Options. We are also largely supportive of the framework that has been detailed within both documents. In regards to the Cap and Trade Program Design Options specifically, broad sector coverage and points of regulation have been established relatively appropriately, however, ensuring that end uses of natural gas are covered under the regulation will be important. Additionally, the MOECC must take account of the potential for emissions to increase within the electricity sector within their calculations for setting the cap for the first, and future, compliance periods.

CanSIA's comments are differentiated under the section titles used in the Cap and Trade Design Options document.

## Linking with California and Quebec

CanSIA is in full support of linking Ontario's cap and trade regulation with that of California and Quebec. We are also encouraged by the recent announcement that Manitoba will also be joining system. Broadening the number of participants within the cap and trade system helps focus efforts on the most cost-effective emissions reductions and increases flexibility for participants.

## Timing

CanSIA agrees that initiating the first compliance period in 2017 is reasonable given the time required to implement the Cap and Trade infrastructure and fully educate all participants on the mechanics and impacts. It will be important

to maintain the MOECC's commitment to perform extensive outreach and training for affected sectors on their compliance obligations. Training should begin immediately following the finalization of the cap and trade regulation.

## Sector Coverage

Broadness and inclusivity are the primary principles upon which sector coverage decisions should be based. CanSIA is supportive of the MOECC's decision to include the following sectors within the cap and trade regulation:

- Electricity, including imported electricity for consumption in Ontario
- Industrial and large commercial
- Institutions
- Transportation fuel
- Distribution of natural gas

The electricity sector has already seen a significant reduction in its emissions profile due to the closure of coal fired generation plants in 2014. It is important that this success is not compromised in the future due to increased reliance on natural gas generation. On December 3, 2015 the Independent Electricity System Operator (IESO) and Ministry of Energy announced the finalization of the Bruce Power Refurbishment Implementation Agreement (BPRIA). This agreement will finance the refurbishments of 6,300 MW of nuclear generation at the Bruce facility. Beginning in approximately 2021 the IESO has forecasted the emergence of a capacity gap in Ontario that could be as large as 3,000 MW depending on several factors. This capacity gap will exist primarily due to the refurbishment schedule of the Bruce and Darlington generating stations. During this time, the IESO has indicated that GHG emissions from the electricity sector could increase due to increased reliance on natural gas generation to meet supply needs. To ensure that any increase in emissions from natural gas use in the electricity sector is mitigated (and at the very least, priced accordingly), domestic electricity production and electricity imports must remain covered sectors under the cap and trade regulation.

The MOECC should also ensure that energy from waste (EFW) facilities are considered part of the electricity sector and covered by the cap and trade regulation. Emissions from EFW generation can be reliably measured at the point of emission and EFW facilities could be regulated similarly to how the MOECC has proposed regulating natural gas facilities that connect to international or interprovincial natural gas pipelines (i.e. at the facility level).

Phasing in transportation fuels at a later date should be avoided. The transportation sector accounts for 34% of total emissions in Ontario and is the single largest contributor to the provincial emissions profile. The government of Ontario has already announced \$20 million in funding for electric vehicle charging infrastructure and has signaled a strong commitment to fuel switching and the promotion of electric vehicles in the Climate Strategy. Phasing in transportation fuels in a later compliance period would undercut the effectiveness of initiatives designed to increase the use of low/no emission transportation options by largely removing cost of carbon from fuel for the next 4 years.

Similarly, the MOECC should ensure that the distribution of natural gas is a covered sector under the final cap and trade regulation. The electricity and buildings sector together account for 26% of total emissions in Ontario, based primarily on the use of natural gas for the production of electricity and heat. In conjunction with the MOECC's decision to regulate the distribution of natural gas at the distribution level (rather than the facility level), the inclusion of natural gas distribution as a covered sector will ensure that the price signal created by cap and trade will filter through to all users of natural gas regardless of size. This is essential to transitioning away from natural gas as the fuel source of choice for peaking electricity generation and home heating.

## Point of Regulation

As discussed above, for domestic electricity production and transportation fuels the point of regulation should be at the fuel distributor level. Targeting a smaller number of participants will provide administrative efficiencies while simultaneously applying the carbon price to all end-users of the fuel regardless of their emissions level. This will allow individual users (drivers, homeowners, electricity purchasers (including the IESO)) to evaluate other options to meet their electricity and transportation needs while factoring in the cost of carbon. For administrative simplicity CanSIA agrees that utilizing the first jurisdictional deliverer principle for electricity imports is appropriate.

Further information is requested on how the facility level regulation of industrial and institutional emitters will factor in the use of natural gas for on-site for electricity generation, heat, and stationary purposes. Given the compliance threshold of 25 Mt it is unclear how many industrial and institutional facilities will actually be subject to the regulation if emissions from fuel use, including natural gas, for stationary purposes at industrial and institutional sources will be excluded from upstream suppliers when determining emission levels from natural gas distributors.

In the MOECC's Climate Change Discussion Paper it is acknowledged that "reducing emissions from the industrial sector requires a combination of fuel-switching (e.g. to electricity or biomass), supported by strategic investments that allow energy-intensive activities to reduce emissions through adoption of new energy-efficient technologies, low-carbon inputs and onsite renewable energy production." To accomplish this the carbon price on natural gas and other emitting fuels must be transferred to all emitters in the industrial and institutional sector, not just those that emit more than 25 Mt. CanSIA recommends that natural gas sold by distributors to industrial and institutional facilities for stationary purposes be included in the calculation of emissions for natural gas distributors.

## Emissions Coverage

CanSIA supports the MOECC's proposal to include both combustion and fixed process emissions under the cap and trade regulation. Similar to broad sector coverage under the regulation, including all sources of emissions under the regulation allows for markets and emitters to most efficiently reduce emissions based on what is most cost efficient in their own processes/business practices.

## Setting the Cap

Setting the emissions cap based on a best estimate of emissions in 2017, declining at a rate to help the province achieve its 2020 reduction target, is appropriate. The MOECC should work with other government ministries to simultaneously implement additional programs/regulations during the first compliance period that are designed to help achieve the 2020 and 2030 targets. The MOECC should also be working with other ministries to revise existing programs and regulations to ensure they are not working counteractively to the goals of the cap and trade regulation, and at least are factored into the setting of the cap.

Uncertainty exists across the economy in regards to how emissions will change over the initial compliance period. In the electricity sector, for example, the current Long Term Energy Plan (LTEP) forecasts meeting a prescribed target for conservation of 7 TWh by 2020. Meeting those targets (or not meeting them) has implications for energy production in the province and thus the GHG profile of the electricity sector. Local Distribution Companies (LDCs) have already begun signaling possible difficulties in meeting these conservation targets using the usual energy efficiency measures available to them. For this reason some LDCs, in conjunction with the IESO, have funded behind

the meter natural gas generation as a method of conservation. Meeting the conservation targets with this tool will increase GHG emissions.

Not meeting conservation targets could also increase GHG emissions if the IESO is forced to rely on natural gas peaking generation to meet demand due to the forecasted conservation not materializing. Research recently performed by Power Advisory LLC on behalf of CanSIA has identified considerable risk that LDCs will be unable to reach their long term directed conservation target of 30 TWh by 2032. A more reasonable level of 27 TWh was suggested by this research, and even this level has risks of not being achieved. A lower than targeted conservation impact on gross electricity demand in the province would increase net demand and necessitate new generation, or, relying on existing natural gas generation to a larger degree.

The MOECC should ensure the IESO and Ministry of Energy are consulted thoroughly on the impacts to the GHG profile of the electricity sector due to increased reliance on natural gas as conservation, natural gas plants currently under construction (such as the 250 MW Green Electron Gas Plant and 900 MW Nappanee Generating Station), new combined heat and power construction through the CHPSOP programs, as well as running existing natural gas generation to meet the capacity gap created by underachieving conservation targets or the nuclear refurbishments outlined above. The MOECC should also ensure, as specified in the proposed Bill 135, that the next Long Term Energy Plan adequately takes into account the effects of climate policy (and the increasing cost on carbon) on long term electricity planning in the province.

## Border Carbon Adjustments

CanSIA supports the use of border carbon adjustments (BCAs) for electricity and fuels. Beyond electricity and fuels, border carbon adjustments (BCAs) could be a useful instrument to address competitiveness concerns and leakage risks. When designed well, BCAs ensure that products imported into Ontario are treated the same as those produced by companies under the cap. They can also work to ensure that exports from Ontario aren't disadvantaged in export markets without equivalent policies. In this way, BCAs can help protect trade-exposed industries while reducing leakage and preserving a high level of program stringency.

However, subnational governments like Ontario have limited legal authority to implement BCAs. Provincial governments across Canada are putting a price on carbon and the new federal government is working with the provinces to develop a national climate change strategy. There is some speculation that the federal government will establish a national floor price on carbon. As the intergovernmental process to price carbon unfolds across Canada, many jurisdictions will be determining how to mitigate leakage concerns. CanSIA recommends that Ontario encourages and collaborates with the federal government and other jurisdictions to develop BCAs and other solutions to address competitiveness concerns and leakage in a way that treats the provinces equitably, minimizes legal risks under international trade law, and mitigates leakage risks in Ontario and other provinces.

## Conclusion

Once again thank you for the opportunity to comment on the Cap and Trade Program Design Options. CanSIA is encouraged by the strong progress being made by the MOECC and is generally supportive of the preferred options being identified for the cap and trade design. As discussed above it will be important the electricity sector, including imports, natural gas distribution, and the transportation fuel sectors remain covered by the forthcoming cap and trade regulation. The MOECC should also ensure that natural gas used for combustion and stationary purposes by industrial and institutional emitters is accounted for. The MOECC must also examine expected emissions increases in

the electricity sector, including the impacts from increased use of natural gas as conservation, when determining the caps for the first (and future) compliance periods.

If you have any questions or require further information on any of the recommendations/comments included in this document please do not hesitate to contact me. CanSIA looks forward to continuing the dialogue with the MOECC following the release of the Climate Action Plan and draft cap and trade regulation in 2016.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'JAG', written over a light blue horizontal line.

John Arthur Gorman  
President, Canadian Solar Industries Association