Ontario

BACKGROUNDER

Ministry of the Environment and Climate Change

How Cap and Trade Works

November 30, 2016

A cap and trade program effectively reduces the amount of greenhouse gas pollution going into our atmosphere by setting a limit on emissions, rewarding innovative companies, providing certainty for industries, and creating more opportunities for investment.

The cap sets a maximum limit on the amount of greenhouse gas pollution industry can produce. Over time, the cap is lowered, reducing greenhouse gas pollution.

Commented [TC1]: Why is this focussed on industry? Much of the emissions are from residential heating and transportation.

The trade creates a market for pollution credits where industries that do not use all their credits can sell or trade with those that are over.

As indicated in the 2016 Budget, cap and trade is expected to generate approximately $478 million in 2016-17 and $1.8-1.9 billion annually during the first compliance period, starting in 2017-18.

Actual proceeds will vary with changes in carbon prices, sector growth rates, supply and demand for allowances and offset credits and abatement opportunities undertaken at facilities. These estimates are also sensitive to the value of the Canadian dollar relative to the U.S. dollar.

By law, all proceeds from cap and trade are to be invested in projects that reduce greenhouse gas emissions.

Programs in the Climate Change Action Plan will be funded for the most part by proceeds from the cap and trade program. Programs will save households and businesses money, create good jobs in clean tech and construction, and generate opportunities for investment in Ontario.

The action plan and the cap and trade program will work together to help Ontario reduce greenhouse gas emissions to help reach our 2020 targets of 15 per cent below 1990 levels.

2016 Auditor General's Report — Climate Change

The 2016 Auditor General's report included a chapter on climate change and Ontario's cap and trade program.

1. **Auditor General's Report says:** Ontario emissions reduced by 3.8MT with remaining 80 per cent achieved in other jurisdictions.

   In fact: Greenhouse gases are a global pollutant. Ontario's cap and trade program will provide certainty that the province will meet its emission reduction targets by setting caps and lowering them over time. By working together in a linked system, jurisdictions are able to achieve reductions at the lowest cost. The Climate Change Action Plan will help people and businesses save more money in their everyday lives by making Ontario one of the easiest and most affordable jurisdictions in North America for homeowners and businesses to install or retrofit clean-energy systems, increasing the availability of zero-emission vehicles, switching inefficient fuels with cleaner alternatives, and supporting a carbon market that drives the lowest-cost greenhouse gas emission reductions.

2. **Auditor General's Report says:** Ontario "likely be assessed as not meeting its target" – Ontario's emissions reporting will not follow federal rules.

   In fact: Ontario has always and will continue abide by federal reporting rules. Canada's National Inventory Report (NIR) accounts for greenhouse gases generated in Canada. To provide a complete understanding of how Ontario is contributing to global greenhouse gas reductions, we intend to report both on the NIR and achievements through cap and trade and other relevant measures.

3. **Auditor General's Report says:** Concern that Ontario joining linked market will not drive new reductions globally.

   In fact: Cap and trade will provide certainty that the province will meet its targets and drive significant emission reductions moving forward. The main purpose of cap and trade is to fight climate change by guaranteeing reductions in greenhouse gas pollution. Achieving these reductions responsibly requires a plan that is both affordable for households and businesses and effective at reducing greenhouse gas pollution. While variability across individual auctions is expected, the recent auction results from the joint Quebec-California market demonstrate the linked system is functioning as intended.

4. **Auditor General's Report says:** Concern about potential for double counting – more reductions may be claimed than actually achieved.

   In fact: There is no double counting. Ontario, California and Quebec have strict, clear and consistent rules and infrastructure that ensure no double counting occurs in compliance with the cap and trade program. Ontario and our WCI partners are committed to a sound accounting approach that accurately attributes greenhouse gas reductions towards targets.

5. **Auditor General's Report says:** A total of about $8 billion more in costs to businesses and consumers over four years: households to see average increased costs of $156 in 2017 and $210 in 2019 to meet the target.

   In fact: In the Climate Change Action Plan, the Greenhouse Gas Reduction Account funding is estimated to be in a range from $5.96 billion to $8.3 billion. So Ontario may invest up to $8.3 billion in projects. To ease that cost, we're investing cap and trade proceeds to fund retrofit programs that reduce greenhouse gas emissions like solar energy systems, battery storage, building insulation, heat pumps and switching inefficient fuels with cleaner alternatives to help homeowners use less energy and save more money. Current natural gas conservation programs can help save households $7 to $11 per month.

6. **Auditor General's Report says:** Cost of electricity expected to rise by 13 per cent for businesses and 23 per cent for households (IESO data).

   In fact: The report inaccurately implies that these increases in electricity can be directly attributed to cap and trade, which is not the case. The majority of these identified electricity bill increases were included in the 2013 Long-Term Energy Plan, which did not contemplate cap and trade. Ontario has taken significant action to reduce greenhouse gas (GHG) emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation. The

elimination of coal-fired generation has resulted in a 30 Mt reduction in greenhouse gas emissions since 2003. Ontario's electricity sector was 90 per cent emissions-free last year. Because of the limited emissions in the electricity system, cap and trade is forecast to add less than 40 cents to average annual residential electricity costs in 2020.
In addition, the government is taking action to reduce electricity costs through a series of measures. The *Ontario Rebate for Electricity Consumers Act, 2016* that recently received Royal Assent is scheduled to come into force on January 1, 2017. This legislation will provide an 8 per cent rebate, equivalent to the provincial portion of HST, for approximately 5 million eligible electricity consumers including residences, small businesses and farms.

The government also increasing the amount of rate protection available to approximately 330,000 eligible rural customers living in low-density areas by updating the Rural or Remote Rate Protection (RRRP) program.

For large electricity consumers we are lowering the Industrial Conservation Initiative (ICI) threshold to 1 MW and remove sector restrictions so that more consumers can benefit.

Finally, we have committed to recycle a portion of cap and trade auction proceeds to keep rates affordable for industrial and commercial consumers.

7. **Auditor General's Report says:** Under linked system, Ontario businesses will pay up to $466M for Quebec and California allowances (to 2020). Expected to rise to $2.2B by 2030.

   In fact: Ontario is investing in greenhouse gas reductions through the Climate Change Action Plan and does not expect this figure to rise to $2.2B. This estimate was prepared before program design was finalized and before the Climate Change Action Plan was completed. Program design for cap and trade beyond 2020 has not been finalized. This is why, informed by early modelling numbers, we developed the Climate Change Action Plan, which contains measures aimed at reducing emissions and keeping investments in Ontario.

8. **Auditor General's Report says:** The Ontario Energy Board will not separately disclose cost of cap and trade on natural gas bills as a single line item.

   In fact: The Ontario Energy Board is an independent regulator and has oversight over how natural gas utilities pass through the costs of cap and trade. We're investing cap and trade proceeds to fund energy retrofit programs and switching inefficient fuels with cleaner alternatives to help homeowners use less energy and save money. Current natural gas conservation programs can help save households $7 to $11 per month.

9. **Auditor General's Report says:** The Ministry of the Environment and Climate Change forecasts less greenhouse gas reductions than its own Climate Change Action Plan communicates.

   In fact: Third-party modeling of cap and trade showed that under a linked market, 3.8 MT of reductions would occur in Ontario and was done prior to finalizing the specifics of Climate Change Action Plan. The reductions forecasted for CCAP initiatives (9.8 Mt) were the best available estimates at the time. Further analysis will be completed in a transparent manner as initiatives move forward for funding approval.

10. **Auditor General's Report says:** The Climate Change Action Plan commits about $1 billion to previously approved initiatives like electric vehicles and regional express rail.

    In fact: The legislation allows for the use of proceeds to fund any initiatives that are reasonably likely to reduce greenhouse gases. Many of the actions in the Climate Change

Action Plan will build on existing initiatives to further their ambition and associated greenhouse gas reduction potential.

11. **Auditor General's Report says:** Quebec and California businesses will further reduce emissions to sell allowances, but both jurisdictions have an oversupply of allowances available as of August 2016.

    In fact: The WCI program is based on declining caps that will ensure greenhouse gas reductions continue over time. The program provides flexibility for participants to choose the compliance path that works for their business. Some may choose to reduce or purchase allowances early in the program that can be used in the future when prices are higher.

12. **Auditor General's Report says:** Many of the 37 recommended actions in the 2011 Adaptation Plan have not been acted upon.

    In fact: As of June 2016, 36 of 37 actions are fully or partially complete, with significant progress across many of the actions.

Supportive Quotes for Cap and Trade

“The cap and trade system is reasonable and well-designed, balancing the urgent need for GHG reductions with the cost to Ontario citizens and businesses … Linking will lower compliance costs for Ontario emitters. A linked program may also have less price volatility. Economic theory suggests that linking can beneficial for smaller jurisdictions like Ontario.”
— Diane Saxe, Environmental Commissioner of Ontario

“Transparency as well as market and environmental integrity are the cornerstones of the WCI regional carbon market and are necessary to ensure its effectiveness and robustness.”
— Matt Rodriquez, Secretary for Environmental Protection for California, and David Heurtel, Minister of Sustainable Development, Environment and the Fight Against Climate Change

David Mullock, Minister's Office, 416-212-7307
Gary Wheeler, Communications Branch, 416-314-6666