BRIEFING NOTE – ALTERNATIVE PROCEEDS RECYCLING PROPOSALS PROVIDED BY THE MINISTRY OF THE ENVIRONMENT AND CLIMATE AND CHANGE

ISSUE:

- The Ministry of the Environment and Climate Change (MOECC) has provided four cap and trade proceeds recycling options for consideration as alternatives to the current ENERGY proposal to recycle proceeds volumetrically in either “all hours” or in “off-peak” hours.

KEY INFORMATION:

- On September 12, 2016, Cabinet approved a plan to recycle proceeds to commercial and industrial electricity consumers to offset the impact of cap and trade and provide an overall net benefit.

- In the September 12th Cabinet submission, ENERGY proposed to recycling cap and trade proceeds “volumetrically across all hours” for all non-Regulated Price Plan (RPP) consumers, which showed <u>all</u> commercial and industrial consumers receiving a modest benefit.

- MOECC has prepared four alternative options for recycling proceeds to electricity consumers. The options are:
    1. Recycling through Global Adjustment (GA) plus targeted funding;
    2. Recycling through GA plus enhanced Northern Industrial Electricity Rate Program (NIERP);
    3. Recycling in “off-peak” periods plus expanding the Industrial Conservation Initiative (ICI); and
    4. Using proceeds to pay Non-Utility Generators (NUGs) to not operate.

- ENERGY has reviewed the proposals and believes that Option 3 lines up closely with the current volumetric “off-peak” recycling proposal. Additional ENERGY comments on MOECC’s options are outlined below.

BACKGROUND

<u>Summary of MOECC’s Proposed Recycling Options</u>

Option	Description	Comments
1. Recycling to Global Adjustment (GA) plus Targeted Funding	• Under this proposal, proceeds would be recycled through GA to provide a benefit to average residential, commercial and industrial consumers.	• This proposal would require additional auction proceeds than the proposed volumetric options and more than the original GA proposal due to the need for additional targeted funding. The exact amount of funding is unknown, but could

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	• An additional amount of targeted funding would be provided to industrial consumers that do not pay as much GA and therefore would not receive as much benefit. • This supplementary funding would be contingent on completion of “carbon management plans”.	be hundreds of millions of dollars annually depending on the implementation. • Providing “targeted funding” would likely be very administratively complex and potentially prone to: − Gaming due to the lack of transparency into the actual impact of cap and trade on each consumer. − Claims of unequal treatment as some consumers would receive GA recycling while others would receive direct rebates. • Further legal review is required and additional information from MOECC on details of its option are required. • At the September 12, 2016 Cabinet, approval was given for residential electricity consumers to receive a benefit of roughly $2 in addition to the 8% rebate for RPP-eligible consumers.
2. Recycling to Global Adjustment plus Enhanced Northern Industrial Electricity Rate Program (NIERP)	• Similar to Option 1, auction proceeds would be recycled through GA to provide a benefit to average residential, commercial and industrial consumers. • Additional funds would be recycled through an enhanced NIERP to consumers that pay less GA and therefore would receive less recycling. **Note:** NIERP is currently funded through the tax-base.	• This proposal would cost more than the current proposal and more than the original GA proposal due to the need for additional targeted funding. The exact amount of funding is unknown, but could be hundreds of millions of dollars annually depending on the implementation. • Providing “targeted funding” through NIERP could be less administratively complex than Option 1, but would still be prone to: − Gaming due to the lack of transparency into the actual impact of cap and trade on each consumer. − Claims of unequal treatment as consumers that pay less GA in the south would <u>not</u> receive targeted funding. **Note:** Only 17 northern industrial electricity consumers are eligible for NIERP.

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		• Further legal review is required and additional information from MOECC on details of its option are required. • At the September 12, 2016 Cabinet, approval was given for residential electricity consumers to receive a benefit of roughly $2 in addition to the 8% rebate for RPP-eligible consumers.
3. Recycling in Off-peak Periods plus Expanding the Industrial Conservation Initiative (ICI)	• Under this option, auction proceeds would be used to lower off-peak electricity rates to provide an enhanced price signal to consumers to shift consumption to off-peak periods. • This, combined with the recently announced expansion of ICI, would provide incentives to reduce peak demand and overall peak consumption, which would lead to reduced need for new peaking generation and less use of existing peaking resources (i.e., electricity generated through natural gas generators).	• This option is similar to ENERGY's proposed volumetric recycling in "off-peak" hours option. • The proposal would provide a benefit to nearly all industrial electricity consumers. **Note:** There are likely some very "peaky" electricity consumers that would remain negatively impacted by cap and trade. ENERGY is currently undertaking analysis on consumers that could be worse off. • Volumetric recycling whether it is in "all hours" or in "off-peak hours" is more administratively complex than recycling through GA.
4. Using Auction Proceeds to Pay Non-Utility Generators (NUGs) Not Operate	• This proposal involves using auction proceeds to pay NUG contract holders to not operate their natural gas-fired generating facilities. **Note:** Not all NUGs are natural gas-fired generating facilities, some include hydro-electric and biomass facilities.	• The majority of the generation from the NUG facilities is surplus to Ontario's electricity needs, and it would be replaced by water, wind and nuclear power for the most part, leading to a decrease in greenhouse gas (GHG) emissions. • Amendments to NUG contracts are already under consideration that would drastically decrease their generation and their GHG emissions (i.e., shifting from being a load-based facility to a peaking facility). • In addition, as NUGs are paid from the GA, this would be the same as recycling through GA. This option faces the same issues related to the consumers that pay less GA receiving a smaller benefit.

Climate Change and Rate Mitigation

- On September 12, 2016, the Throne Speech announced a number of initiatives to reduce electricity bills for consumers across Ontario, including the government's intention "to use a portion of the cap and trade auction proceeds to reduce greenhouse gas (GHG) emissions by helping industrial and commercial electricity consumers use less electricity, which will also help to keep rates affordable".

- On September 12, 2016, ENERGY was directed to work with MOECC, to develop options to recycle cap and trade auction proceeds from the Greenhouse Gas Reduction Account (GGRA) to commercial and industrial electricity consumers over the first compliance period (2017-2020).

- The *Climate Change Mitigation and Low-carbon Economy Act*, 2016, requires that auction proceeds be used to fund initiatives that are reasonably likely to reduce, or support the reduction of GHG emissions.

Climate Change Legislation

- The Climate Change Mitigation and Low-Carbon Economy Act, 2016 requires that:
  - Auction proceeds from the Greenhouse Gas Reduction Account (GGRA) be used to directly and/or indirectly fund specific initiatives; and

  - Such initiatives must be reasonably likely to reduce, or support the reduction of, greenhouse gas (GHG) emissions, or be related to initiatives that are reasonably likely to do so (e.g., renewable energy, fuel switching, etc.).

Climate Change Action Plan (CCAP)

- Released on June 8, 2016, Ontario's Climate Change Action Plan (CCAP) expresses support for actions that incent fuel switching to electricity, incent off-peak electricity consumption and off-set the cost of current and future GHG reduction initiatives.
  - Action 4.4 of the CCAP states that up to $1.3 billion of cap and trade proceeds will be used to "offset the cost of greenhouse gas pollution reduction initiatives that are currently funded by residential and industrial consumers through their bills."

  - CCAP did not set out potential approaches for proceeds recycling to the electricity sector.

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