
Cap and Trade Auction Proceeds for Commercial and Industrial Electricity Consumers – Hybrid Option

Working Draft

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CONFIDENTIAL DRAFT

Proceeds Recycling Options – Overview

- Recycling cap and trade auction proceeds to lower the cost of electricity would:
 - Offset consumers' contributions to investments/initiatives which reduce GHGs (e.g., non-emitting generation and conservation programs);
 - Support CCAP goal of fuel-switching and electrification; and
 - Depending on the option chosen, incent “behavioural change” such as consuming electricity during off-peak times.
- The proposed auction proceeds recycling options include:
 1. Recycle proceeds back to electricity consumers via Global Adjustment (GA);
 2. Recycle proceeds volumetrically in all hours (as assumed in the September 12 Cabinet submission);
 3. Recycle proceeds volumetrically in off-peak hours; and
 4. Recycle proceeds via a hybrid approach through GA and volumetrically.
- The proposed options are intended to balance the ability to meet the CCAP commitments, provide consistency with the September 2016 direction, maintain the potential for linking funding to GHG reductions and minimize administrative complexity.

Illustrative Impact to Electricity Consumers (2017-2020)

Option	Total (2017-2020)	Avg. Residential Impact (\$/month)	Avg. Class B Commercial Impact (\$/MWh)	Class A Industrial Impact* (\$/MWh)		
				High GA (e.g., chemical)	Medium (e.g., auto)	Low GA (e.g., pulp)
CCAP estimate was based on recycling via GA to offset the average industrial consumer	\$1.3 billion	- \$2.00	- \$2.50	- \$1.10	\$0	\$2.35
1. Global Adjustment (GA) recycling (Targeted amounts to Class A and Class B electricity consumers)	\$1.1 billion	N/A**	- \$1.70	- \$6.90	- \$4.50	\$0.60
2. Volumetric recycling in “all hours” (as assumed in the September 12 Cabinet submission)	\$1.1 billion	N/A**	- \$2.70	- \$3.25	- \$2.70	- \$1.30
3. Volumetric recycling in “off-peak hours”	\$1.1 billion	N/A**	- \$2.70	- \$3.15	- \$2.50	- \$1.60
4. Hybrid option (targeted amounts via GA to Class A, plus volumetric amount in “all hours” to Class A)***	\$1.1 billion	N/A**	- \$1.70	- \$6.20	- \$4.50	- \$0.80

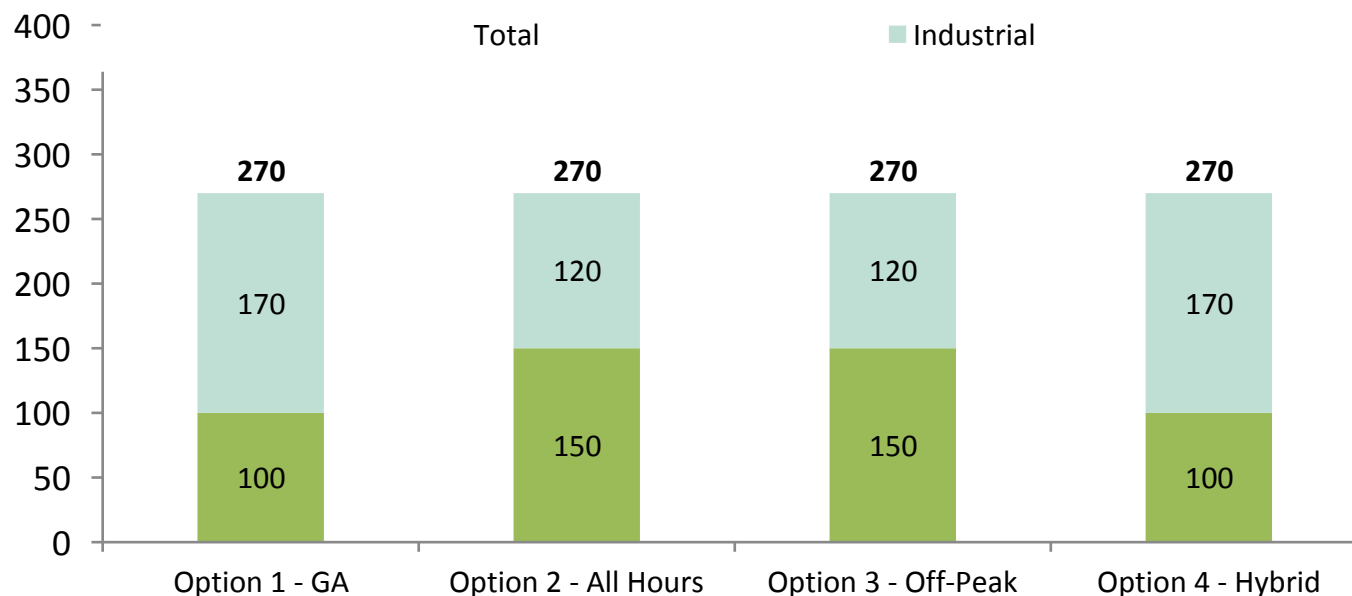
* **Note:** The above benefits do not include the cost of ICI expansion (impact of about \$1/MWh) and the RRRP update (impact of about \$0.76/MWh). Proceeds recycling is net of the cost of carbon and represents an estimated average of the proceeds required over the first compliance period (2017-2020).

** **Note:** Most residential consumers pay under the Regulated Price Plan (RPP). For simplicity, all non-RPP Class B consumers are referred to as “Class B/Commercial” throughout the deck. On September 15, 2016, the government introduced legislation that would provide an 8% rebate equal to the provincial portion of the Harmonized Sales Tax (HST) to consumers eligible for the RPP, such as residential households, small businesses and farms – exceeding the 2016 Budget commitment.

*****Note:** The estimates assume that 60% of proceeds for Class A is recycled via a targeted GA and 40% is recycled volumetrically; Class B consumers are assumed to receive recycling via a targeted GA.

Average Annual Proceeds Required

Average Annual Proceeds Required (2017-2020)
in \$ millions per year



Note: The CCAP estimate which was based on recycling via GA to offset the average industrial consumer allocated an average of \$40 million per year to industrial electricity consumers and approximately \$175 million per year to commercial electricity consumers over the first compliance period.

Note: Option 2 reflects the assumptions in the September 12, 2016 Cabinet submission. Option 4 assumes that 60% of proceeds for Class A is recycled via a targeted GA and 40% is recycled volumetrically; Class B consumers are assumed to receive recycling via a targeted GA.

4. Recycle Proceeds via GA and Volumetrically (Hybrid)

- Propose to recycle an annual average of \$200 million in cap and trade auction proceeds through the GA mechanism to commercial and industrial electricity consumers, and an annual average of \$70 million volumetrically to industrial electricity consumers.
 - Proposal would recycle an annual average of approximately \$100 million to offset the impact to the average Class B electricity consumers (i.e., commercial) and approximately \$170 million per year to Class A electricity consumers (i.e., industrial) over the first compliance period.
 - Represents a reduction of approximately \$60 million per year on average from the CCAP commitment.

Considerations

- Consistent with the September 2016 commitment to use cap and trade auction proceeds to provide a net benefit to commercial and industrial electricity consumers. Similar to the GA-only option, companies with a specific load profile (e.g., such as the ability to avoid the top five peaks to pay lower GA while consuming on-peak in all other hours) would receive less relative to other companies due to their exposure to GA.
 - While the use of the volumetric portion of a hybrid approach could lower the cost impact on consumers who not pay sufficient GA to benefit from a GA-only approach, certain Class A consumers would receive relatively less proceeds recycling.
- A hybrid approach provides a strong link to the MOECC legislation and the GGRA since amounts would be used directly to lower the costs associated with GHG-lowering activities and initiatives funded through GA. However, this option is the most administratively complex given that it involves multiple mechanisms.

4. Recycling Proceeds via Hybrid Approach – Variation in Electricity Costs

Note: The graph is based on transmission-connected industrials reflecting about 70 of the 300 electricity consumers that participate in ICI. While the graph shows an average, there is variation between individual facilities within sectors for Class A electricity consumers. The above benefits do not include the cost of ICI expansion (impact of \$1/MWh) and the RRRP update (impact of \$0.76/MWh). Assumes that two amounts could be targeted via GA. The estimates assume that 60% of proceeds for Class A is recycled via a targeted GA and 40% is recycled volumetrically.

Achieving the CCAP Commitment / Cost Savings

- The Climate Change Action Plan (CCAP) committed up to \$1.3 billion over four years for electricity mitigation for industrial, commercial and residential electricity consumers from GGRA proceeds.
- The proposals require approximately 20% less in auction proceeds, saving approximately \$0.24 billion relative to the CCAP commitment over the first compliance period (2017-2020).
 - The GA option assumes that two amounts could be targeted via GA – one specific to Class A electricity consumers and one specific to Class B consumers. This option does not meet the September 12 commitment as some industrial consumers would continue to pay a carbon price.
 - The volumetric proposals (i.e., “all hours” and “off-peak”) meet the 2016 Budget commitment and ensure that no industrial/commercial electricity consumer would be worse off as a result of cap and trade.
 - The hybrid option also assumes that two amounts could be targeted via GA and that government would specify amounts that would flow through GA and through a volumetric mechanism for Class A consumers. However, some industrial consumers with “specific load” shapes would continue to be disadvantaged compared to other consumers due to their lack of exposure to GA.
- Consistent with the September 12 minute, consideration could be given to allocating the \$0.24 billion in reduced proceeds required towards other existing initiatives that also reduce greenhouse gas (GHG) emissions.

Implementation Considerations

- While the impact of cap and trade would be added to electricity bills as of January 2017, the offsetting effect of proceeds recycling may not occur immediately depending on implementation and potential alignment with the first auction expected in March 2017.
- Due to IESO and LDCs' need to implement billing system changes, proceeds recycling would likely not appear on bills immediately after January 1, 2017, but would require an initial catch-up/true-up payment at first. Recycling either primarily or exclusively to "off-peak" hours would increase administrative complexity for the IESO and LDCs.
- Any of the recycling options would require the tracking of the impact of carbon on HOEP. However, a "true-up" mechanism may need to be done more frequently (i.e., monthly) for the volumetric "all hours" and "off-peak" options.
- The volumetric options may require a "separate regulatory" line item of Class A and non-residential Class B electricity consumers' bills. Staff analysis is ongoing.
- Contemplated legislative amendments to implement proceeds recycling would require approval of the House (Legislature) including its committee process. However, legislation provides more certainty regarding legal authority.

Legal Considerations – Ensuring Authority to Use Cap and Trade Proceeds

Option	Implementation Mechanism	Potential Additional Measures
GAM	- Legislation - Amendments to O. Reg. 429/04 (GA Reg.) made under Electricity Act, 1998	- MOU/SLA with IESO - Amend IESO objects regulation
Volumetric all hours	LGIC OIC and directive to OEB	- MOU/SLA with IESO - Amend IESO objects regulation
Volumetric off-peak	LGIC OIC and directive to OEB	- MOU/SLA with IESO - Amend IESO objects regulation
Hybrid option	- Legislation - Amendments to O. Reg. 429/04 (GA Reg.) made under Electricity Act, 1998 - LGIC OIC and directive to OEB	- MOU/SLA with IESO - Amend IESO objects regulation