Cap and Trade Proceeds for Commercial & Industrial Electricity Consumers

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Attachments:	RE: C&T proceeds for Commercial and Industrial Electricity Consumers Briefing (64.51 kB); Cap and Trade Proceeds to Electricity - Interministerial briefing on Nov 7.pdf (869.46 kB); RAN Electricity Price Mitigation v13 2016 09 12 FINAL.doc (726.53 kB); QA - Proceeds Recycling Timing and Prices - DMO on 2016-11-15-530PM.DOCX (35.01 kB)

Hi Nina,

I want to provide you with an update and some context on Energy and MOECC's proposal to use cap and trade proceeds for commercial and industrial electricity consumers. As you know, Cabinet Office has set up an "officials" only meeting for tomorrow morning at 8:30 am to discuss this item. Note this is different than the 8% rebate that we are providing to residential consumers on their electricity bills (which we are talking to Rob Burns about on Friday afternoon).

Here's a bit of context:

As part of the September 12 TB/MBC minute (see attached assessment note), Energy and MOECC were directed to develop options and report back to Cabinet by the end of 2016 on options to use cap and trade proceeds to address rate-impacts on industrial, commercial and institutional consumers. The TB/MBC minute (minute iv) a) indicates proceeds of up to $1.08B from 2017-18 to 2020-21 (or $270M/year) for this purpose.

Energy and MOECC have met with CO and at times, with MOF and TBS, to discuss different options and approaches. There was a multi-corners last Monday on this, which Mercedes from OPCD attended with Liane from Office of the Budget (see attached for our notes and deck from the m/c).

Since the multi-corners, PO has confirmed that they would like the two ministries to pursue Option 3 - which would "recycle" proceeds volumetrically in the off-peak hours, which means that electricity rates for industrial and commercial consumers would decrease during the off-speak hours to further incent off-peak consumption - when traditionally lower levels of GHG are emitted.

The two ministries are now prepared to further develop Option 3 for Cabinet consideration in December. This includes a trip to the Minister's Table on Climate Change on December 8, followed by Cabinet on December 14.

A couple areas of concerns to flag:

1) Timing

Energy had flagged that while the impact of cap and trade will be added to electricity bills as of January 1, 2017, the offsetting effect of "proceeds recycling" will likely not begin until proceeds are made available following the first cap and trade auction. Because the first auction is in March 2017, a minimum 3-month lag is expected. This means, under this proposal, electricity consumers would not see benefits on their bill until April 2017.

What is not clear is when Energy needs the proceeds in their allocation for this to happen. If they need the proceeds in 2016-17, this would require an in-year TB/MBC approval (as per the email from Karen Moore to Greg S re: TB/MBC meeting in Dec). This would also mean we are going to be spending prior to receiving proceeds in March.

If Energy needs the proceeds in Q1 2017-18, then approvals can be secured through the PRRT process. However, because the first auction in 2017-18 won't occur until mid-June, should Energy need the proceeds in April, we would be spending the 2017-18 proceeds prior to receiving them.

2) Methodology

It is unclear how this option will be implemented. From the deck, it sounds like the IESO (a consolidated entity) will be receiving cap and trade proceeds. I understand OPCD has raised some concerns with this approach. We will need to understand the implementation plan, including the financial mechanism to flow the proceeds and any legislative approvals that would be required.

I have also attached some Q&As that Energy did for CO. I'm happy to chat further as well to walk you through our concerns. Also included OPCD on this thread so that they can provide their input.

Thanks,
Felix