December 19, 2016

To: the Coalition of Concerned Manufacturers

Thank you for reaching out to the Government with your concerns around the upcoming implementation of the cap and trade program. I understand that you have had a series of meetings and discussions with staff from the Ministries of Environment and Climate Change (MOECC); Economic Development and Growth (MEDG); and Energy. The Government of Ontario is committed to providing information to assist your efforts to transition to a low-carbon economy.

The 2016 Climate Change Action Plan (CCAP) includes specific action to keep electricity rates affordable by recycling cap and trade auction proceeds to commercial and industrial electricity consumers. Ontario has a number of energy conservation programs in place that help businesses continue to move towards greater efficiency and competitiveness through the installation of energy saving measures. More detail on this and other answers to your queries are included in the attachment.

In response to your recommendations, there will be no delay to the commencement of the program. We are committed to having our officials work together to ensure a smooth roll out of the program. MOECC will arrange training for MEDG staff to be able to answer questions from businesses.

As you know, small and medium sized businesses play a vital role in the success of Ontario’s economy. Our government greatly appreciates your commitment to fighting climate change, and we look forward to continuing to work with you for years to come.

Deputy

Appendix 1

Use Cap and Trade Proceeds

In September 2016, Ontario committed that non-residential consumers will receive a benefit via the Greenhouse Gas Reduction Account (GGRA) as part of the CCAP. The Ministry of Energy is proposing to recycle proceeds from Ontario's cap and trade program to commercial and industrial electricity consumers to meet this commitment.

The use of cap and trade auction proceeds to lower the cost of clean electricity would make it more competitive with traditionally cheaper fossil fuels, providing an incentive to fuel switch from fossil fuels to electricity consistent with the goals of the CCAP.

The Ministry of Energy continues to work with the Ministry of the Environment and Climate Change (MOECC), the Independent Electricity System Operator (IESO) and stakeholders on finalizing the approach and implementation for proceeds recycling.

Natural Gas Customers

The Ontario Energy Board (OEB) is the independent regulator that is responsible for regulating the natural gas sector in Ontario. The OEB has a strong mandate to protect the public interest and ensure that consumers receive reliable, cost-effective natural gas service.

On September 26, 2016, the OEB issued its cap and trade regulatory framework for the recovery of costs incurred by the rate-regulated natural gas utilities. The regulatory framework indicated that:

- Cap and trade costs will be included in the Delivery component of bills;
- Rates will be publicly available through the tariff sheet; and
- Rates will be set annually, and include adjustment for the variance between the projected costs and actual costs over the previous period.

On November 24, 2016, the OEB issued its decision approving interim cap and trade rates for natural gas customers effective January 1, 2017. Final rates for 2017 will be set through a hearing expected to commence early in 2017.

Industrial Conservation Initiative

Commented [AJ1]: Contact information to learn more?

The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to lower their electricity consumption during peak hours to reduce their bills by up to one third. By reducing the province's peak demand, ICI has the added benefit of deferring the need to build peaking generation. There are now about 300 participating consumers who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Currently, eligible ICI participants include those consumers with monthly peak demand exceeding three megawatts, subject to eligibility requirements. Under ICI, these consumers are charged Global Adjustment (GA) on the basis of their share of the total system demand during the highest five peak hours of the year.

Ontario is expanding the ICI program to include newly eligible customers with monthly peak demand greater than one megawatt, down from the current threshold of three megawatts, and to remove sector restrictions so that more electricity consumers can benefit.

Newly eligible customers will have the opportunity to opt in to the ICI program and will be assessed over the current base period (which started May 1, 2016 and ends April 30, 2017) to determine if they meet the requirements to participate. They will then be charged as ICI participants for the adjustment period starting on July 1, 2017.

Long-Term Energy Plan

The Ministry of Energy is developing its next Long-Term Energy Plan (LTEP) and we encourage input from stakeholders and individuals from all over the province during the consultation process.

Further information including an LTEP Discussion Guide, IESO's Ontario Planning Outlook and Navigant's Fuels Technical Report is available via the Ministry's website: http://www.energy.gov.on.ca/en/ltep/.

Energy Conservation Programs

Ontario has a number of energy conservation programs in place that help businesses continue to move towards greater efficiency and competitiveness through the installation of energy saving measures, or by using energy wisely.

Behind the meter generation (BMG) projects are eligible to receive financial incentives through the saveONenergy Program and Systems Upgrades Initiative and the Industrial Accelerator Program. BMG projects can include combined heat and power (CHP) projects or waste energy recovery systems. CHP projects specifically are eligible to receive incentives up to 40% of the eligible costs of the CHP project.

A number of Ontario companies have leveraged these programs to implement CHP projects. Examples include:

- Campbell Company of Canada, working with Toronto Hydro and the Independent Electricity System Operator (IESO), has installed a new CHP project at their Etobicoke facility. The CHP project consists of a 4.6 MW combustion gas turbine generator and a heat recovery steam generator that produces 90,000 lb/hr of steam. The project was able to leverage $5 million in incentive funding which amounted to approximately 40% of the project costs. A detailed case study on the project is available online.

- Magna International's Polycon Industries, working with Guelph Hydro and the IESO, is installing a new CHP project at their Guelph facility. The 8 MW CHP project is expected to reduce Polycon's typical peak demand load by almost 50%. The project is receiving $8 million in incentive funding towards the project. Additional details on the project are available online.

Also of interest to your membership may be the saveONenergy Embedded Energy Manager program. In our meeting you noted that companies from your membership do not have a dedicated energy manager. The saveONenergy Embedded Energy Manager program pays up to 80% of the cost for industrial consumers to hire an energy manager to identify and achieve savings. Many Ontario industrial consumers have benefitted from this program.

Specific details on these programs are available online at saveonenergy.ca/Business. We would also encourage your membership to directly reach out to their electricity utility or IESO to discuss these programs.

A Carbon Market that Supports Business and Industry

Ontario's Climate Change Action Plan fully supports a competitive low-carbon economy. The plan promotes innovation to develop more of the clean-technology processes and products that are increasingly in demand. Actions in the plan, supported by cap and trade proceeds will help business and industry invest to reduce greenhouse gas pollution. This will help save energy costs, improve productivity and competitiveness, and protect and create jobs.

In addition, the Green Investment Fund included support for business, for example through the $25 million dollar SMART Green program where the government partnered with Canadian Manufacturers and Exporters (CME) to make energy-efficiency/emissions reduction investments in the Ontario manufacturing sector. CME will offer grants to small and medium manufacturers to support energy efficiency improvements to reduce greenhouse gas emissions.

Clarify details around Opt-In

[High level overview of Voluntary participants (Opt-in). Suggest directing SMEs to the cap and trade help desk if they require additional details:]

Facilities with emissions of 10,000-25,000 tCO2e emissions may choose to opt in to the Cap & Trade Program.

· The currently proposed amendment would allow emissions related to Indirect Useful Thermal Energy (IUTE - such as steam), to count towards the 10,000 tonne emissions threshold for qualifying as a voluntary participant.

o This means that facilities which are below 10,000 tCO2e from on-site emissions but import enough useful thermal energy from a non-capped emitter to bring them over the 10,000 tCO2e threshold, may opt-in to the program.

· All opt-in facilities are subject to the same requirements as mandatory participants.

o This means they are required to report and verify their emissions annually and true-up at the end of the compliance period (i.e., turn in allowances and any offset or early

Commented [AJ2]: How does a company go about determining their emissions profile? Do they hire someone if they don't have a dedicated staff person?

Commented [AJ3]: What does this mean?

reduction credits, equivalent to their total GHG emissions from non-biomass sources throughout the compliance period).

Some basic costing details on impact to an SME of increased costs related to fuels and natural gas

Updated natural gas cost impacts provided in table below for inclusion with the other material.

Utility	**Rate Class**	**C&T Rate** ($/m3)	**Typical Volume** (m3/y)	**Current bill** ($/y)	**C&T charge** ($/y)	**Bill with C&T** ($/y)	**Change** (%)
Enbridge	Rate 1 (Residential / Low Volume)	$ 0.03518	2,400	$ 819.63	$ 84.43	$ 904.06	10%
Enbridge	Rate 6 (General Commercial / Industrial)	$ 0.03518	22,606	$ 5,982.40	$ 795.28	$ 6,777.68	13%
Source(s)	*Utility rate information*	*OEB Interim Rate Order, Nov 24 2016*	*Utility rate information (EGD)*	*2015 NG Market Review (EGD)*	*Calculation*	*Calculation*	*Calculation*

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<u>From the Action Plan:</u>

Help industries adopt low-carbon technologies – this will primarily be accomplished through the actions of a low carbon technology deployment agency, which will help small and large industries:

- Identify available government programs;
- Identify available financial supports;
- Achieve economies of scale through project aggregation;
- Calculate returns on investment; and
- Secure financing.

CCAP allocation $875,000,000 to $1,100,000,000

Keeping Electricity Rates Affordable – Using cap and trade proceeds to offset the cost of greenhouse gas pollution reduction initiatives that are currently funded by residential and industrial consumers through their bills CCAP allocation $1,000,000,000 to $1,320,000,000

Provide Incentives for Business: A new Green Commercial Vehicle Program will be set up to provide incentives to eligible businesses that want to buy low-carbon commercial vehicles and technologies to reduce emissions, including electric and natural gas-powered trucks, aerodynamic devices, anti-idling devices, and electric trailer refrigeration. CCAP allocation $125,000,000 to $170,000,000

Help agricultural, food and beverage processing. Ontario will help its food and beverage-processing sector expand the use of

- innovative technologies and practices to reduce emissions. Ontario will support the transition to low-carbon, indoor agricultural
- facilities, such as greenhouses and grain dryers, through retrofits to existing structures. CCAP allocation $50,000,000 to $115,000,000

Strengthen the low-carbon clean-tech sector: Ontario will encourage the development and growth of its clean-tech sector by supporting research in low-carbon technologies; developing low-carbon clean technology accelerators and clusters in sectors where Ontario has a competitive edge; supporting proof-of-concept projects for low-carbon technologies; and helping emerging low-carbon companies increase scale. CCAP allocation: $140,000,000 to $235,000,000

Explore R&D tax credits: Ontario will explore opportunities to create tax credits for research and development in order to encourage investment in Ontario companies focused on low-carbon technologies.