Focus on

Cleantech | Climate Change

FEBRUARY 2013

Greenhouse Gas Emissions Reduction in Ontario:

A Discussion Paper from the Provincial Government

By Julie Bedford & John Goetz

On January 21, 2013, the Ontario Ministry of the Environment posted a discussion paper regarding greenhouse gas (GHG) emissions reduction in Ontario, eliciting public input in the development of the Ministry's GHG reduction program. The stated objective of the emergent program is to "reduce greenhouse gas emissions while supporting the province's economic goals".

Background

The discussion paper notes that the regulatory environment surrounding GHG emission reduction has evolved as of late, an observation that is highlighted by the fact that the province of Quebec began the initial phase of its cap and trade system in January, 2013 and the federal government recently finalized an emission reduction regulation for coal-fired electricity generation. Although the federal coal regulation does not affect Ontario (as coal-fired electricity is currently being phased out of Ontario and will be eliminated by the end of 2014) additional federal regulation is underway that may impact Ontario sectors. The Canadian government is currently in consultations with other large industrial emitters, with further draft federal regulations expected later this year.

The provincial government has revived this conversation more than three years after Bill 185, the *Environmental Protection Amendment Act (Greenhouse Gas Emissions Trading)* was passed by the Ontario legislature. In early 2010, it appeared Ontario was prepared to implement a GHG cap-and-trade system, but across both the province and the country, momentum stagnated and the relevant sections of the *Environmental Protection Amendment Act* were not proclaimed into force. Given the changing landscape and the tone of the discussion paper, it looks as though the Ontario government is prepared to revisit cap-and-trade as well as other emissions reduction solutions.

Purpose and Timing of the Program

Similar to the approach taken by other Canadian provinces, Ontario has indicated its interest in an equivalency agreement with the federal government, under which federal regulations would not apply where Ontario regulations achieve the same or better environmental outcomes. The Ministry proposes that Ontario's GHG program would be in place by 2015, approximately one year prior to the anticipated federal regulation of GHG's, expected to begin in 2016.

As noted in the discussion paper, the Ontario Climate Change Action Plan (2007) includes GHG emissions reduction targets (6% below 1990 levels by 2014, 15% below by 2020 and 80% below by 2050), and current initiatives are estimated to be able to provide approximately 60% of the reduction required to meet the 2020 target. The "made-in-Ontario" emission reduction program currently underway will attempt to begin to close this gap.

The paper provides a set of key principles that have acted to frame the program elements presented for discussion. Among other things, these principles include: achieving absolute reductions in a cost effective way, considering competitiveness and supporting equivalency with the federal government; simplicity, consistency, transparency and administrative efficacy; and using accurate and verified emissions data to support policy development. Providing emitters with incentives to invest in green technologies is also stated as a key target objective of the upcoming program.

Program Scope

The paper discusses the possibilities for the scope of the program, including which gases and industries may be covered and the level at which emissions targets would be set. Emitters covered by the program would be responsible for emission reduction of those GHGs that are consistent with the gases covered under the Kyoto Protocol and the reporting requirements under Ontario's current *Greenhouse Gas Emissions Reporting Regulation*, namely, carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluourocarbons and perfluorocarbons from covered sources.

The Ministry states that it is considering applying the program, at a minimum, to the same industrial sectors to be regulated by the federal government. Currently, this would include fossil fuel-fired electricity, large emitters from petroleum refining, chemicals, steel, cement and pulp and paper. The Ministry is also considering covering the broader scope of large emitters that are currently subject to the *Greenhouse Gas Emissions Reporting Regulation*. Emissions associated with transportation and residential heating are not presently being considered for regulation.

Emission Reduction Targets

The discussion paper notes that the program will likely apply a mix of approaches for motivating the regulated emissions reductions across sectors, including production-based benchmarks, energy benchmarks and reductions from an historical baseline.

Noting that initiatives such as the phase-out of coal-fired electricity and the Feed-in-Tariff program have already begun to significantly reduce GHG emissions from the electricity sector, the Ministry is also considering including regulation of the emissions from the electricity sector in the program. The target for the electricity sector, however, would be aimed at stabilizing, rather than reducing, emissions that would otherwise be expected to rise during upcoming nuclear refurbishment and economic growth.

The proposed industrial sector targets would be set at the forecast of total emissions expected at the start of the program, thereafter declining by 5% over the next five years. Emissions data is currently available for many facets of the industrial sector dating back to 2010. The expected emissions levels at the start of the program are likely to be based on ongoing emissions forecasting being carried out by the Ministry, with input from the Ministries of Finance and Economic Development and Innovation.

Program and Compliance Options

The Ministry indicates that through prior discussions with stakeholders, it has determined that the province needs flexible compliance options and clear signals to allow industries to plan investments. The discussion paper puts forth compliance options that the Ministry is considering implementing in order to meet these objectives.

Investment in Cleantech

The Ministry lists a number of technologies and industries for which it expects investment opportunities to reduce GHG emissions while simultaneously maximizing competitiveness and productivity, and retaining and creating employment. These include: energy efficiency technologies, renewable energy, industrial cogeneration, district heating, oxygen-enhanced combustion, fuel switching, biofuels and carbon capture and storage. The Ministry acknowledges that complementary policies are required to foster the implementation of such technologies.

Market-based Trading

The possibility of integrating a market-based trading approach to GHG emissions reduction, such as is already established in Alberta and, more recently, Quebec, is presented. Under a flexible trading mechanism (commonly known as a "cap-and-trade" system), regulated industry members may choose how to comply with an emissions reduction target, and trading of emissions credits generated within the system establishes a carbon price, which in turn drives investment decisions. Without explicitly stating that Ontario will develop a cap-and-trade system, the Ministry speaks favourably of the efficacy of such market based mechanisms, citing a number of recent reports by international and domestic think tanks.

Offset Protocols

The Ministry proposes that protocols for offsets to be used in the Ontario GHG emission reduction program would be developed in coordination with the federal government and other jurisdictions, including the Western Climate Initiative (WCI) and North America 2050. Whether an Ontario cap-and-trade regime would officially link with the WCI market, the Regional Greenhouse Gas Initiative, the province of Alberta or another exchange or system is not addressed, although Ontario has been a partner in the WCI since 2008.

Public Review

The discussion paper concludes by requesting public input and listing a number of questions awaiting industry and stakeholder response, including: What sectors should be covered by the program? What should the emissions threshold be? What are the barriers to achieving significant reductions? And how should the program be designed?

The discussion paper is currently open for a 90 day public review, expiring on April 21, 2013. Comments can be submitted through the Environmental Registry.

Since the Ministry posted the paper, further developments have transpired that may serve to create an environment that encourages ambitious emissions reduction legislation. In his state of the union address on February 12, 2013 President Obama called for a "bipartisan, market-based solution to climate change," noting that if such a solution does not emerge from Congress, executive action will be taken in lieu of Congressional action. If the Obama administration adopts more aggressive climate policy, Canada will likely follow suit, both federally and provincially. Past bills and the most recently proposed bill to tax carbon emissions from Senators Sanders and Boxer, indicate that fuel imported from Canada will be subject to the same standards of carbon regulation or tax that domestic energy is subject to. Now is a great time for interested Ontario parties to have their voices heard and to contribute to the evolution of emissions regulation.

Contact Us

For further information, please contact a member of our National Cleantech | Climate Change Group.