



Ontario's Cap and Trade Program

Presentation to ICAP

February 2018

Introduction to Ontario's Cap and Trade Program

- Ontario is a founding member of the Western Climate Initiative, Inc., (WCI, Inc.) a non-profit corporation that provides administrative and technical services to support greenhouse gas emissions trading programs of member jurisdictions, and an active participant in WCI program design and development.
- Ontario has ambitious greenhouse gas emissions reduction targets:
 - 15% below 1990 levels by 2020
 - 37% below 1990 levels by 2030
 - 80% below 1990 levels by 2050
- Ontario's cap and trade program and the Climate Change Action Plan form the backbone of Ontario's strategy to reduce greenhouse gas emissions in Ontario.
- A cap and trade program is a proven way to reduce greenhouse gas emissions and fight climate change by giving polluters an incentive to cut emissions.
- Ontario's cap and trade program is in full operation. The first compliance period began January 1, 2017 and extends to December 31, 2020.
- On January 1, 2018, Ontario linked its cap and trade program with the programs of Quebec and California, forming the largest carbon market in North America.

Legislative and Regulatory Framework

- On May 18, 2016 the *Climate Change Mitigation and Low-carbon Economy Act, 2016* (CCMLEA) received Royal Assent.
 - Enshrines greenhouse gas emission targets in legislation, along with requirement for Climate Change Action Plan
 - Ensures transparency and accountability on how proceeds are used
 - Creates robust framework for cap and trade program
- On May 19, 2016, two regulations that form the backbone of the cap and trade program became law:
 - Cap and Trade Program Regulation (O. Reg. 144/16), which came into force July 1, 2016, defines key elements (e.g. caps, allocations) and program rules (i.e. auctions, market requirements)
 - Quantification Reporting and Verification of Greenhouse Gas Emissions Regulation (O. Reg. 143/16), which came into force on January 1, 2017, lowers the reporting threshold from 25kt to 10kt, with emitters 25kt and above (or those opting into the program) required to submit independently verified reports, and aligns with cap and trade regulation
- Coverage includes about 82% of greenhouse gases:
 - Electricity including imports consumed in Ontario, industrial/large manufacturing, institutions, energy from waste facilities, transportation fuels and natural gas
 - Facilities generating more than 10,000 tonnes but less than 25,000 tonnes of emissions may choose to opt in to the program.

Key Milestones in 2017

- In 2017, Ontario held four standalone cap and trade auctions, raising almost \$2 billion in proceeds. Auction proceeds are required by law to be invested in programs that will reduce greenhouse gas pollution through the Climate Change Action Plan.
- On September 22, 2017, Ontario signed an agreement to link the carbon markets of Ontario, Quebec and California effective January 1, 2018.
- In November 2017, regulatory amendments were made to the Cap and Trade Program regulation linking Ontario's program to the corresponding programs in Quebec and California beginning January 1, 2018.
 - Key linking amendments included:
 - Recognizing allowances and credits from California and Quebec for meeting compliance obligations of Ontario capped emitters
 - Holding joint auctions
 - Allowing cross-jurisdictional trading, and
 - Adjusting holding and purchasing limits to account for the larger market.
 - The Ministry also set 2021-2030 caps at levels that will facilitate the achievement of Ontario's legislated province-wide 2030 GHG emissions target.

Key Milestones in 2018

On January 1, 2018, two key regulations came into effect:

- The **Ontario Offset Credits regulation** (O. Reg. 539/17) and the **Offset Initiative Protocols** for Ontario's Cap and Trade Program.
 - Together these will enable the creation of offset credits for use in Ontario's cap and trade program.
 - The regulation outlines the overall process, criteria and administrative requirements involved in the creation of an offset credit that can be used to meet a compliance obligation in Ontario's cap and trade program, while the incorporated protocols outline the rules specific to each initiative type or class.
 - The first approved protocol under the offsets program is the Landfill Gas Protocol
- The **Administrative Penalties regulation** (O. Reg. 540/17) provides a framework for issuing administrative penalties under the CCMLEA.
 - An administrative penalty is a monetary penalty that can be imposed by the ministry on a company or individual participant in the cap and trade program when that participant has failed to meet the requirements of the Act or regulations.
 - Administrative penalties are tools to help ensure compliance with the legislation and its regulations, and prevent anyone from deriving an economic benefit from not complying.
 - The regulation determines the amount of, and the manner in which, the ministry will issue an order to pay an administrative penalty for non-compliance with the CCMLEA and its regulations.

Outlook for 2018

- Upcoming joint Ontario, Quebec and California cap and trade auctions:
 - February 21, 2018: First Joint Auction
 - May 15, 2018: Second Joint Auction
 - August 14, 2018: Third Joint Auction
 - November 14, 2018: Fourth Joint Auction
- Ontario is developing two distinct carbon offsets programs, each with their own set of rules and requirements.
 - One program will generate offset credits for use in Ontario's cap and trade program that puts a cap on greenhouse gas pollution;
 - Other will be for use by individuals, organizations and companies who want to voluntarily reduce greenhouse gas emissions.
- Task teams have been formed for the development of each offset protocol, and work is underway on all 13 project types.
 - Three priority protocols (landfill gas, coal mine methane and ozone depleting substances) pertain to project types for which Quebec has already adopted protocols.
 - The first of the three, the Landfill Gas Protocol, has been adopted and incorporated into the Ontario Offsets Regulation.