

**Greenhouse Gas Cap and Trade Program:  
Transition to Implementation**

**Ministry of the Environment and Climate Change  
June, 2016**

# 1. Legislative and Regulatory Framework

Note: This presentation has been produced for information purposes. It is necessary to consult the regulation for comprehensive references.



# Context and Status

- Between May 2015 and April 2016, MOECC met extensively with stakeholders on cap and trade to gather information to inform key program design decisions.
- MOECC received 794 sets of comments from stakeholders over the course of these consultations.
  - 158 comments were submitted regarding the latest cap and trade regulatory proposal which was posted for comment to the Environmental Registry for 47 days.
- On May 18<sup>th</sup>, 2016 the *Climate Change Mitigation and Low-carbon Economy Act, 2016* received Royal Assent.
  - This legislation provides the authority to implement a cap and trade program
- On May 19<sup>th</sup>, 2016 two regulations that form the backbone of the cap and trade program became law – the Cap and Trade Program Regulation (O.Reg. 144/16) and the Quantification, Reporting and Verification of Greenhouse Gas Emissions Regulation (O.Reg. 143/16),
  - The Cap and Trade Program Regulation is effective July 1, 2016
  - The Quantification, Reporting and Verification of Greenhouse Gas Emissions Regulation takes effect January 1, 2017

# Cap and Trade and Reporting Regulations

- The final Cap and Trade Program Regulation (O.Reg 144/16) outlines a number of program elements, including:
  - Caps
  - Compliance periods and requirements
  - Auction and sale rules
  - Strategic reserve of allowances
  - Market rules
  - Allocations
- The new quantification, reporting and verification regulation (O.Reg 143/16):
  - Under the new Act
  - Facilitates the opt-in provisions for facilities with annual emissions between 10,000 and 25,000 tonnes;
  - Refinements to support implementation of the Cap and Trade Regulation (e.g., collection of additional product, process and energy use information to support the calculations for free allowance allocations)



## Key Changes from Draft Regulation

The final regulation:

- provides free allowances for both the steam and electricity produced on-site or purchased directly from a generation facility
- Adjusts the cap adjustment factor for combustion emissions based on biomass fuel use
- Several additional facilities being allocated under the history based method instead of the energy use method.



# Mandatory Participants

- A person who meets one of the following descriptions is required to register no later than November 30, 2016 as a mandatory participant:
  1. A person who was required to prepare and verify an emissions report under reporting regulation as it read on January 1, 2015 (2015 EPA Regulation)
    - electricity generators covered upstream are excluded
  2. A person who was required to report under the reporting regulation as it read on January 1, 2016 (2016 EPA Regulation) but excluded from the requirement to have the report verified
    - fuel suppliers/distributors, electricity importers, magnesium producers, electricity transmission
  3. Electricity generators that receive natural gas directly from an international or inter-provincial natural gas transmission pipeline

## Voluntary Participants - Exceptions

- A person who meets the following criteria may apply in 2016 to register as a voluntary participant (i.e., opt in):
  1. Industrial facilities with emissions between 10,000 and 25,000 tonnes per year (see slide 6)
  2. The person is not required to register as a mandatory participant in respect of the specified GHG activities engaged in at the facility
  3. An emissions report and positive or qualified positive verification statement has been submitted to the Director in accordance with the January 1, 2016 version of O.Reg. 452/09.
- Electricity generators whose emissions are covered upstream at the natural gas distributor are not eligible to opt-in into the program

# Eligibility for Free Allowances

- Mandatory participants or eligible voluntary participants may apply for allowances in respect of the specified GHG activities engaged in at the facility
- Eligible specified GHG activities include activities listed in Schedule 2 of the new reporting regulation with the exception of the following:
  - electricity transmission (Item 18 of Schedule 2)
  - natural gas transmission and distribution (Item 19 of Schedule 2)
- Other exclusions
  - Electricity generators that are covered directly because they receive natural gas from an interprovincial or international pipeline
  - Mandatory participants who permanently ceased engaging in all specified GHG activities at the facility in the year prior to the vintage year of allowances
    - e.g., facilities that ceased specified GHG activities in 2016 are not eligible for 2017 allowances
    - If specified GHG activities ceased after the application was made, the application must be withdrawn by giving written notice to the Minister no later than December 31 in the year the application was made



# Allocation Methods

## Output Benchmarks, Energy Use and Historical

The number of allowances a facility may receive each year will be determined according to Methods A through E set out in *Methodology for the Distribution of Ontario Emission Allowances Free of Charge*. More than **one method** may be applied to calculate the number of Ontario emission allowances for a facility.

1. Method A: Product Output Benchmark Method
  - Tables 1 a, 1b or 1 c in the Methodology indicate the products on which eligible facilities' allocations will be based
2. Method B: Energy Use-Based Method
  - Exclusions are outlined in Section 2.2.2 of the Methodology ( e.g., coal used in a coke oven to produce coke; coal, coke and other carbon material charged into the blast furnace as a reductant)
3. Method C: History-Based Method
  - Facilities described in Table 3 of the Methodology will have allocations based on absolute amounts (i.e., not based on either production, energy use or emissions)
  - Facilities described in either Table 2a or 2b of the Methodology will be eligible to receive allowances according to their output and a facility-specific emissions intensity

# Allocation Methods

## Direct Emissions and Indirect Steam

4. Method D: Direct Method
  - Method D applies in respect of the following facilities:
    - A facility that is set out in Table 4a or 4b or 4c of the Methodology; or
    - A facility that is not set out in Table 4a or 4b or 4c and that meets one of the following criteria:
      - The facility is an institution; or
      - The facility incinerates municipal or hazardous waste, as those wastes are defined in O. Reg. 347 made under the *Environmental Protection Act*.
5. Method E: Indirect Steam (Useful Thermal Energy) Method
  - Method used to calculate allocations to facilities that take useful thermal energy generated at another facility
  - Exception: Method E does not apply to a facility that receives and uses useful thermal energy from another facility that is eligible to receive Ontario emission allowances under another method for that same useful thermal energy.

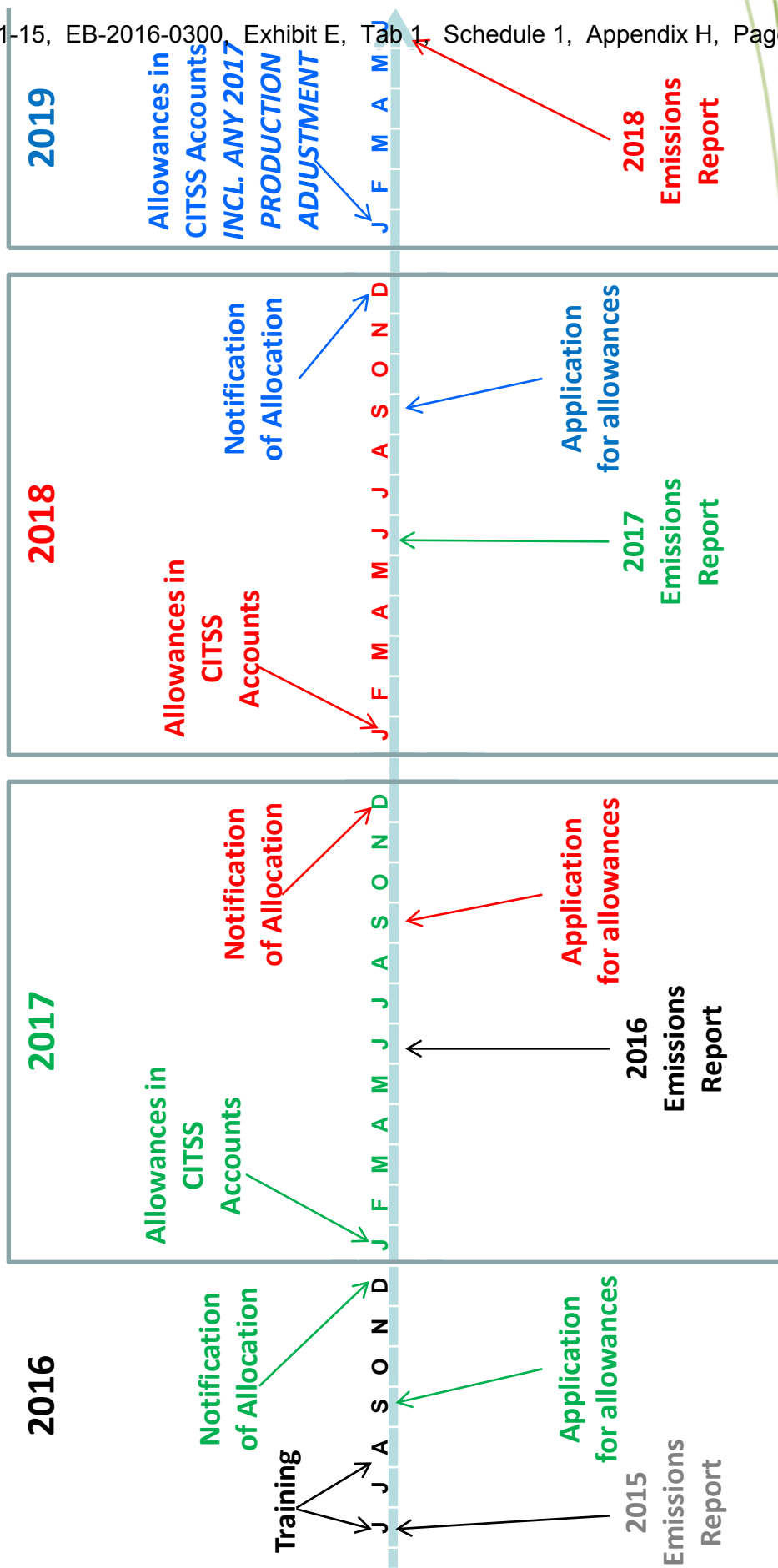
# Distribution of Allowances

- Assistance factor will be 1 for each year in the first compliance period.
- The cap adjustment factor and the assistance factor will be applied to the base number of allowances under each Method.

Capped Emitter	Cap and Adjustment Factor for fixed process emissions	Cap and Adjustment Factor for combustion emissions
Institutions or facilities that incinerates municipal or hazardous waste and that generates electricity	n/a	1
Other facilities eligible for free allocation	1	4.57% decline annually adjusted for biomass fuel use

- Allowances distributed free of charge will include a production adjustment ( $B_{adj,t}$ ) starting with applications in 2018 for 2019 allowances
  - The production adjustment will account for changes between actual production, energy or process parameters and the estimates used in prior applications

# Allocation Timelines



## 2. Implementation



# Background

## Cap-and-Trade Systems and Western Climate Initiative, Inc.

- Ontario will deliver its cap-and-trade program through infrastructure established by Western Climate Initiative, Inc. (WCI, Inc.)
- **WCI, Inc.** is a not-for-profit corporation established in 2011 to provide infrastructure and services to support the implementation of state and provincial cap-and-trade programs.
- California and Quebec deliver their cap-and-trade program using WCI, Inc. infrastructure and services.

## WCI, Inc. Core infrastructure and services:

- A compliance instrument tracking system service (CITSS).
  - **CITSS** tracks the ownership, sale, transfer and retirement of allowances and offset credits, and allowa for the creation and retirement of compliance instruments)
- An **Auction** platform
- Auction related financial services (escrow/ settlement), known as the **Financial Services Administrator**
- Third party **Market Monitor** services (monitors compliance related to auctions and trading/ holdings of allowances)
- **Help desk** (for technical, system-related questions, e.g., password resets)



# Key Dates

## Emissions Reporting (Annually)

- Report by June 1
- Verification Statement by September 1

## Allowance Distribution Outreach Activity

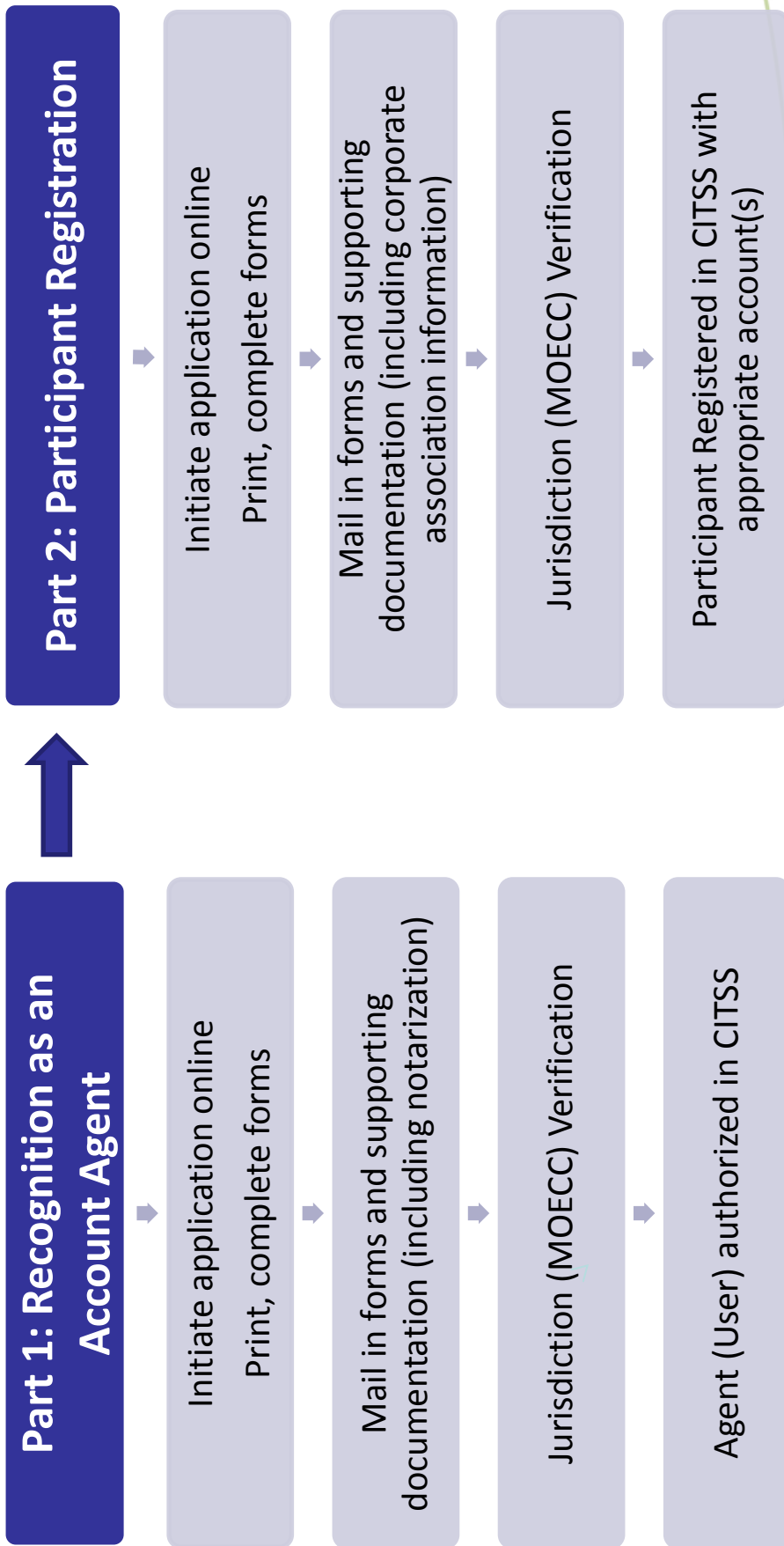
- Webinars, by invitation, planned for:
  - Free Allowance methodology—week of June 13
  - Free Allowance application—mid July/ early August

## Allowance Market Activities

1. CITSS Training - Mid-July to early August. Three separate training sessions.
2. CITSS Registration (*see overview on next slide*) - Early August to November 30<sup>th</sup> regulatory deadline.
  - Part 1: Recognition as an Account Agent
  - Part 2: Participant Registration
3. Auction Notice - January 2017
4. Auction - March 2017



# Overview of CITSS Registration





# Part 1: Recognition of Account Agent (RAA)

## **Purpose:**

- To verify and confirm an applicant's identity through the collection and validation of personal information prior to granting them access to the CITSS

## **Requirements:**

- Individuals who will be account agents (users) on a participant's (entity's) account must apply and be approved under the RAA process. Process includes *Know Your Customer* checks.
- Two account agents are required to initiate a Participant Registration.

## **Outcome:**

- Recognized Account Agents receive a CITSS User ID, enabling them to perform Part 2: Participant Registration requirements.



## Part 2: Participant Registration

### **Purpose:**

- To register participants (entities). Participants are either ‘capped participant’ (mandatory or voluntary/opt-in) or ‘market participant’ in CITSS. Participants are assigned appropriate accounts.

### **Requirements:**

- All participants of the Ontario Cap and Trade program require an account in CITSS.
- Participant Registration includes the disclosure of corporate associations (inter-company ownerships). Enables monitoring of regulatory allowance holding limits.

### **Outcome:**

- All Participants receive a holding account
- ‘Capped’ participants also receive a compliance account



# Key Auction Processes & Next Steps

## Key Auction Processes

- Auction Notice - January 2017
  - Posted 60 days in advance
  - Details of auction, requirements to participate
- Auction Registration
  - Declare intent to Participate
  - Open account with Financial Services Administrator (FSA)
  - Post Bid Guarantee with FSA
- Auction - March 2017
- Post Auction
  - Settlement, reconciliation, distribution of allowances

## Next Steps – Implementation

- Watch Ontario's Cap and Trade website at <https://www.ontario.ca/page/cap-and-trade> for updates on allocation distribution activity and registration instructions for training sessions (scheduled to begin mid-July 2016) and other program updates
- For questions specific to the cap and trade program, excluding emissions reporting and technical help for the Compliance Instrument Tracking System Service (CITSS), please contact [CThelp@Ontario.ca](mailto:CThelp@Ontario.ca)