



# Update on the Potential for Linkage of California's Cap-and-Trade Program With Ontario

*April 28, 2016*

# Workshop Agenda

- ❑ Introduction
- ❑ Cap-and-Trade Linkage With Ontario
  - ❑ Ontario's Emissions and Planned Reductions
  - ❑ Ontario's Reporting Regulation and Amendments
  - ❑ Ontario's Cap-and-Trade Draft regulation
  - ❑ Ontario's Offset Program Plans
- ❑ Lunch

# Ontario's Emissions and Planned Reductions

## ❑ Ontario's 2013 GHG Emissions Source Profile

❑ Transportation	60 MMT	35%
❑ Industry	48 MMT	28%
❑ Buildings	33 MMT	19%
❑ Electricity	11 MMT	7%

## ❑ Ontario's Goals

- ❑ 15% reduction from 1990 by 2020
- ❑ 37% reduction from 1990 by 2030
- ❑ 80% reduction from 1990 by 2050

Source: MOECC 12/23/15, Climate change strategy, <https://www.ontario.ca/page/climate-change-strategy>,

# Ontario in the WCI Market

- ❑ Ontario's WCI Activities
  - ❑ Active member in developing WCI market design
  - ❑ Proposed Ontario-only C&T in 2017
  - ❑ Proposed link with California and Québec in 2018
- ❑ Proposed Ontario Cap-and-Trade Annual Allowance Budgets
  - ❑ Emissions Target for Start of Program (2017): 142.3 MMT
  - ❑ End of First Compliance Period (2020): 124.7 MMT
- ❑ Allowance Budgets in the Linked 2018 WCI Market
  - ❑ Ontario: 136.4 MMT
  - ❑ California and Québec: 417.3 MMT

# Ontario's Regulatory Development

- ❑ Proposed Enabling Legislation
  - ❑ Status: Being considered by Standing Committee
  - ❑ Link:  
[http://www.ontla.on.ca/web/bills/bills\\_detail.do?locale=en&Intranet=&BillID=3740](http://www.ontla.on.ca/web/bills/bills_detail.do?locale=en&Intranet=&BillID=3740)
- ❑ Reporting Rule
  - ❑ Status: In effect, being amended
  - ❑ Existing Rule: <https://www.ontario.ca/laws/regulation/090452>
  - ❑ Revised Reporting Methodology:  
[http://www.downloads.ene.gov.on.ca/envision/env\\_reg/er/documents/2016/012-6837\\_Guideline.pdf](http://www.downloads.ene.gov.on.ca/envision/env_reg/er/documents/2016/012-6837_Guideline.pdf)
- ❑ Proposed Cap-and-Trade Rule
  - ❑ Status: Program rule expected to be in place for July 1, 2016
  - ❑ Link:  
[http://www.downloads.ene.gov.on.ca/envision/env\\_reg/er/documents/2016/012-6837\\_DraftReg.pdf](http://www.downloads.ene.gov.on.ca/envision/env_reg/er/documents/2016/012-6837_DraftReg.pdf)
- ❑ Proposed Offset Program Rule
  - ❑ Status: Offset protocols in development, draft regulatory proposal spring 2016
- ❑ Administrative Penalties Rule:
  - ❑ Status: Draft rule planned for fall 2016

# Reporting Regulation (1)

- ❑ GHGs Covered – Ontario matches California
- ❑ Entities Regulated – Some differences in point of regulation (electricity generation, natural gas) but all sectors covered
- ❑ Inclusion Thresholds – Ontario matches California with some proposed stricter thresholds for fuel suppliers
  - ❑ 200 liter threshold, consistent with Québec:
    - ❑ Maximizes coverage of petroleum products in the Ontario market
    - ❑ Further protects against carbon leakage

# Ontario's Reporting Regulation (2)

- ❑ Reporting and Verification Requirements generally comparable, with ongoing discussions of:
  - ❑ Definitions and default emission factors for specified vs. unspecified sources of electricity
  - ❑ A third-party accredited to ISO 14065 by a member of the International Accreditation Forum must verify that the report is accurate and meets international verification standards (ISO 14064-3)
  - ❑ Missing data, calibration, and quantification methods
  - ❑ Emissions from natural gas and electricity transmission
- ❑ Report Timing – aligned to allow uniform Cap-and-Trade compliance dates

# Ontario's Proposed Cap-and-Trade Regulation: Market and Compliance

- ❑ Regulated Entities
  - ❑ Generally the same
  - ❑ Different point of regulation for electricity generators using natural gas
  - ❑ Stricter inclusion for small fuel suppliers
  - ❑ Specified/unspecified electricity importers still under discussion
- ❑ Trading Rules are comparable (holding limits, purchase limits, transfer rules)
- ❑ Auctions Rules are comparable to allow joint auctions
- ❑ Price Containment Reserve available only to Ontario entities
- ❑ Compliance Provisions Comparable
  - ❑ Compliance Dates
  - ❑ Excess Emissions
  - ❑ Ontario's first compliance period will run four years (2017-2020)



# Ontario's Proposed Cap-and-Trade Regulation: Allocations

- ❑ WCI Policy: Allocation is at the discretion of the jurisdiction
- ❑ Ontario will include list of allocation sectors in regulation, as does California

# Ontario's Proposed Offsets Provisions

- ❑ Offset Usage Limit – 8% of compliance obligations
- ❑ Post-Issuance Assurance Policies – under discussion
  - ❑ Invalidation
  - ❑ Use of a buffer pool
  - ❑ Anticipate draft regulatory proposal June 2016 to include offset provisions
- ❑ Offset project types allowed throughout Canada after linkage:
  - ❑ Destruction of Ozone Depleting Substances
  - ❑ Landfill Gas
  - ❑ Mine Methane Capture
- ❑ Strictest regulatory requirements across linked jurisdictions will be considered for any offset crediting

# Ontario's Proposed Implementation Plans

- ❑ Initial 4-year compliance period would run 2017 to 2020
- ❑ Ontario's market would not be fully linked in 2017
- ❑ Ontario would conduct its own auctions in 2017
  - ❑ In 2017, Ontario will auction 2020 vintage allowances
- ❑ Conduct joint auctions with WCI Regional Program in 2018
- ❑ Fully linked markets and systems

# Draft Changes to the California Cap-and-Trade Regulation for Linkage

- ❑ Draft text allows California to recognize entities registered into linked cap-and-trade systems as able to participate in California's system
- ❑ Draft text also requires entities to register into a linked jurisdiction based on where they are located
- ❑ Draft text allows use of California compliance instruments for compliance in linked cap-and-trade systems
- ❑ Existing text in section 95942 allows California entities to use instruments from linked cap-and-trade systems

# Environmental Analysis

- ❑ California will conduct an assessment of potential environmental impacts of linking with Ontario's program within the overall California Environmental Quality Act (CEQA) assessment for the Cap-and-Trade rulemaking

# SB 1018 Requirements

- ❑ Gov. Code section 12894(f)
  - ❑ Prior to approving any linkage:
    - ❑ ARB would have to notify the Governor that it intends to take such action, and
    - ❑ The Governor must make all of the following findings:
      - 1) Partner Jurisdiction has adopted program requirements for GHG reductions and offset credits which are equivalent to or stricter than California's
      - 2) California has continued ability to enforce its laws and regulations
      - 3) Partner Jurisdiction has ability to enforce its laws and regulations, and enforcement requirements are equivalent to or stricter than California's enforcement requirements
      - 4) Proposed linkage does not impose any significant liability on California for any failure associated with the linkage

# Information Sharing Between WCI Market Jurisdictions

- ❑ California and Québec share information for market monitoring purposes
  - ❑ Both can see all transfers and market holdings in tracking system (CITSS)
  - ❑ Each jurisdiction manages information on individuals registered as users and disclosed during the registration process
    - ❑ Only jurisdiction in which individual is registered would have access to that individual's information
  - ❑ Market information shared with WCI contracted market monitor (Monitoring Analytics)
- ❑ Ontario would follow the same procedures
  - ❑ Staff with access to CITSS go through Know-Your-Customer requirements
  - ❑ Joint jurisdictional MOU on information confidentiality

# ARB's Schedule of Next Steps for Linkage

- ❑ July 2016: Public Notice of draft Regulation
- ❑ September 2016: First Board Hearing to Consider Approving Draft Regulation
- ❑ Potential 15-Day Revisions
- ❑ Spring 2017: Second Board Hearing to Vote on Approving Regulatory Amendments
- ❑ Summer 2017: Response to Comments, Final Statement of Reasons, Submittal of Final Regulation Documents to Office of Administrative Law
- ❑ October 2017: Regulatory Amendments become effective (some would be specified to become applicable starting January 1, 2018)



# Additional Information

- ❑ Main Cap-and-Trade Program page

<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

- ❑ Québec Program page

<http://www.mddelcc.gouv.qc.ca/changements/carbone/index-en.htm>

- ❑ Ontario Program page

<https://www.ontario.ca/page/cap-and-trade>

Questions?