



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
- ❑ 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
- ❑ 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
- ❑ 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?