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Cap and Trade in Ontario

Key Design Considerations and Lessons Learned

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3 Key Design Considerations

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Allocation of Emissions Allowances

- **Allowances can be auctioned or provided free of charge by government**

- **Several existing methodologies to determine nature of EITE, portion of free allowances**
  - In-out vs. tiered approach (California, EU, Korea)
  - Political decision (Quebec)

- **Potential Ontario approach**
  - **All free** allocation to emissions intensive trade exposed (EITE) industry – *all industry (?)*
  - **Some free** allocation for electric utilities, natural gas distributors
  - **No free** allocations for transportation fuels

Allocation of Emissions Allowances

Factor	Considerations
Translation of Cap	• Methodologies for facility-level benchmarks, baselines • Still need to purchase allowances above cap • How to account for change over time, tightening of cap
Rate of Decline	• Relates to both cap and # of free allowances • Limited movement in WCI, difficult to scale back once provided • Post-2020 test
Relationship to Revenue	• More free allowances = less revenue • Need clear assumptions behind regulatory proceed estimates

Use of Revenues

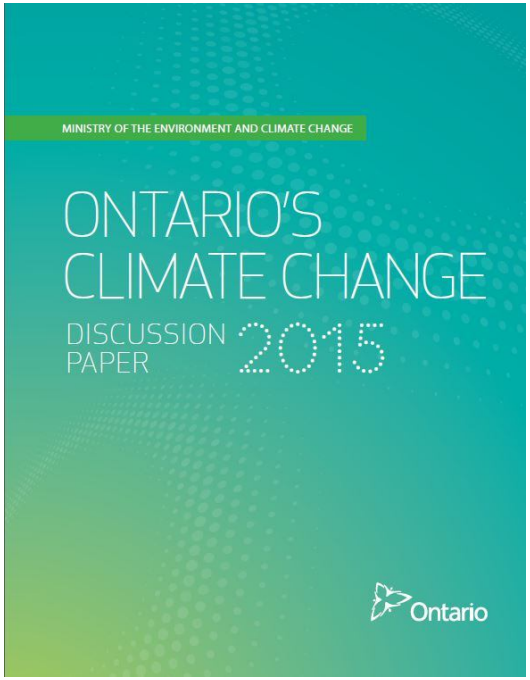
- **~2 billion annually in regulatory proceeds from allowance auctions**
  - Grows as price increases, free allowances decrease
- **Could be spent in a number of ways:**
  - Recycled back to individuals
  - Flowed into general revenues
  - Fund specific programs in key sectors
    - Via existing programs and initiatives
    - Creation of new funding window (s)
- **Clear sense of priority areas, transparent process critical**
    - Credibility of the program
    - Helps avoid stroke of pen risk
    - Ensure efficient/effective access

Use of Revenues

Factor	Considerations
Support for Covered Entities	• Reductions that cap and trade compliance alone won't drive • Political considerations re: flowing back to covered sectors
Support for Broader Shift	• Important for renewables, transformational energy opportunities • Price and offsets will be limited drivers
Rate Impacts	• Pass through costs from natural gas distributors/utilities • Ratepayer and direct bill assistance
Choice of Mechanism	• Existing program windows, incentive programs • New approaches (technology fund, green bank)
Investment Certainty	• Transparency in processes needed • Link funding to direct GHG outcomes

Relationship to Broader Climate Strategy

- **Cap and trade important, but only one piece of puzzle.**
- **Economic + environmental outcomes shaped by interaction between policies, regulations.**
- **‘Climate Strategy’ to be released by end of year.**
  - Additional measures in transportation, electricity and buildings sectors
- **‘Action Plan’ expected to follow in 2016.**



Relationship to Broader Climate Strategy

- **Consideration of trade-offs under different scenarios.**
- **Avoid competing policies – lessons from other jurisdictions.**
- **Will need all the tools in the toolbox to meet goals.**
- **Unique energy reality and broader market dynamics; climate one of many factors.**
- **Many outstanding questions, onus on market participants, stakeholders to take constructive points to government.**

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Thanks!

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