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APPrO
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

COMMENTS OF THE ASSOCIATION OF POWER PRODUCERS OF ONTARIO

on

the Western Climate Initiative ("**WCI**") design documents including the document entitled *Allocating Greenhouse Gas Allowances in California's Electricity Sector* by Scott Murtishaw, Adam Langton, and Karen Griffin dated May 14, 2008 (the "**Allocation Paper**"), the *Electricity Committee Discussion Paper on FJD Boundary Options for Regulating Imports* by Scott Murtishaw dated January 12, 2009 (the "**FJD Paper**"), the *Straw Proposal on Reporting GHG Emissions Associated with Electricity Imported from Non-WCI Jurisdictions* by Scott Murtishaw dated November 10, 2008 and the associated stakeholder questions dated December 10, 2008 (the "**Default Emission Rate Paper**"), and the *Electricity Subcommittee Discussion Paper on Renewable Portfolio Standards, Renewable Energy Certificates, and GHG Accounting* by Scott Murtishaw dated December 8, 2008 (the "**REC Paper**")

Executive Summary

- The Association of Power Producers of Ontario "**APPrO**" is an organization representing over 95% of the Ontario electricity market with members who have more than 30,000 megawats of renewable and conventional power generation capacity. APPrO members operate in the unique Ontario electricity context, which is a hybrid, regulated contract model where independent power is government contracted under 20 year Power Purchase Agreements ("**PPAs**") with the Ontario Power Authority ("**OPA**"). The majority of retail customers continue to be served by utilities offering a smoothed regulated price. There are no mandatory load serving entities or a renewable portfolio standard, and the Government intends to phase out all coal-fired generation by 2014.

- **Apportionment and Keeping Generators Whole.** The changing WCI design parameters may result in members assuming enforcement obligations for import emissions beyond their borders. The apportionment of allowances among WCI members should therefore be aligned with the final design parameters. The posted PPAs in the Province currently do not allow contracted electricity generators to pass through or be compensated for the costs of WCI compliance. APPrO supports the WCI goals, but submits that contracted generators should be kept whole in order to facilitate ongoing reliability.

- **Allocation.** WCI members may wish to expand the allocation evaluation criteria to consider each mechanism's potential to cause major redistributive effects (extreme winners and losers). Evaluating "transfers among retail provider customers" is not necessary in Ontario given the retail market structure and deemed emissions of the system supply mix. Evaluation of consumer cost is contingent on factors related to the uncertain future treatment of WCI costs under the PPAs. APPrO submits that allocation on the basis of historical emissions is the least suited to the Ontario context in light of the market and the coal phase-out. Output based allocation may provide the strongest economic incentives and best align with the province's power and climate change objectives. However, its success is contingent on a number of complex design parameters, including the default emission rate, treatment of large nuclear, hydro and new entrants. Auctioning may be efficient, however it has the most potential to create significant competitiveness and reliability issues, particularly if contracted generators are not kept whole. An auction may otherwise be appropriate for Ontario if: generators are kept whole, auction revenue is recycled to customers, measures to facilitate clean generation and prevent electricity market distortions are implemented. APPrO recommends that Ontario consider a hybrid auctioning and output-based allocation approach, or at a minimum maintain a reliability reserve available to contracted generators for at least the early years of the WCI operation. To the extent possible, WCI members should attempt to harmonize allocation methods until WCI emission markets become liquid in order to avoid distortions in both the emission and electricity markets.

- **Point of Regulation and the First Jurisdictional Deliverer.** APPrO supports WCI's attempts to ensure that an unlevel playing field, perverse environmental incentives, and other distortive environmental impacts do not result from its design rules. WCI's proposed approaches are outlined in para. 28 and APPrO's preferred option for the point of regulation for power imports is Option No. 3, which aligns the obligations for monitoring compliance and enforcement with the importing jurisdiction and consuming jurisdiction, respectively. However, APPrO's support for Option 3 is based on the assumption that the actual jurisdiction in which power is consumed can be accurately, transparently, and promptly tracked and reported. If this is not the case, APPrO provides qualified support for Option 4, which imposes the obligations for monitoring compliance and enforcement with the importing jurisdiction. APPrO's support for Option 4 is conditional on the factors set out in para.32.

- **Applicable Default Emission Rate.** APPrO supports an approach to setting default emission rates for imports on the basis of actual historical data, which in Ontario's case supports the implementation of a default emission rate associated with largely coal-fired imports.

- **Treatment of Renewable Energy and RECs.** APPrO submits that WCI's objectives are best achieved by ensuring the renewable power imports and customer confidence in specified renewable power imports are facilitated by avoiding the double counting and double use in the environmental benefits. Failure to address the emissions associated with specified imports of renewable power and/or the RECs associated with same will result in double counting of the environmental emission benefits and detract from the environmental integrity of WCI. APPrO therefore prefers either Option 1 or Option 2 (as outlined in the WCI RECs discussion paper). Each requires bundling of RECs with the renewable power if it is intended to be attributed zero GHG emissions for import purposes. Imports of renewable power without the RECs will be deemed to have the applicable default emission rate. APPrO is opposed to Option 3, which would allow for both a separate sale of RECs and the sale of renewable power as zero emission power into a WCI jurisdiction. This would allow for the double counting of the environmental attributes of the power and is likely to be in contravention of a number of the RPS requirements in the US northeast.

1. The Association of Power Producers of Ontario ("**APPrO**") is an organization representing over 95% of the Ontario electricity market, with members who have more than 30,000 megawatts of renewable and conventional power generation capacity. APPrO's membership includes generators, marketers, contractors, equipment suppliers, consultants, local distribution companies, fuel suppliers, service providers and financiers. Its mission is to promote the interest of its members within an open and economically sound power industry in Ontario. APPrO plays a leadership role in the formation of electricity policy and rules to facilitate investment in sustainable electricity infrastructure and the clear and transparent pricing of electricity in Ontario. APPrO has also taken an active and principled role in assisting governments in the development of market-based solutions to address climate change and air emissions from Ontario electricity sources.

2. The following submissions are made by APPrO in order to assist both the WCI and its newest participant, the Ontario Government, in developing cap and trade design parameters that: (i) reflect the distinct realities of the Ontario electricity sector and the North-east North American integrated electricity markets (ii) facilitate efficient and effective GHG reductions (iii) promote administratively simple and transparent rules and (iv) avoid negative and unforeseen impacts on the electricity sector and the Ontario economy.

3. APPrO would like to thank Scott Murtishaw and the other authors of the Allocation Paper (Adam Langton and Karen Griffin) for all of their work in preparing the discussion papers, and the WCI for the opportunity to make the following submissions. They are organized as follows:

I. The Ontario Electricity Context
II. Apportionment and the Allocation Mechanism
III. Implementing Electricity Import Measures
- **a. Point of Regulation and the First Jurisdictional Deliverer**
- **b. Applicable Default Emission Rate**
- **c. Treatment of Renewable Energy and RECs**

I. The Ontario Electricity Context

4. **The Hybrid Approach.** The Ontario electricity market is unique. Unlike the electricity markets in many of the other WCI member jurisdictions, the Ontario electricity market is not a true competitive market. Nor does Ontario take a fully regulated utility approach to its electricity sector. Rather, the Ontario electricity market constitutes a hybrid, regulated contract approach to facilitating the generation, sale and import of electricity in the Province. A significant portion of electricity generation assets in the Province are government owned, and the vast majority of independent power is produced and sold in accordance with the terms and conditions of contracts issued by the Ontario Government (the Ontario Power Authority ("**OPA**") and other divisions).

5. **The Retail Sector.** The Ontario electricity retail sector is also unique in that the majority of electricity customers continue to be served by utility suppliers and there are no mandatory load serving entities or retail sales requirement. As a result, the majority of retail customers receive a smoothed, regulated electricity price and those customers that choose a competitive service provider are deemed to have purchased electricity

with the emissions intensity of Ontario's system supply mix unless they specifically purchase a premium priced "green power" offering from a retailer. Further, Ontario currently does not have a regulated renewable performance portfolio standard ("**RPS**") and there are no related obligations imposed on electricity retailers or consumers. All customers, including those that have chosen competitive supply options, pay the price of OPA clean and green generation procurement contracts,[1] imports, and other regulatory charges through bundled "uplift charges" that are included in their bills.

6. **Government Procurement of Clean Generation**. The Ontario electricity sector continues to undergo a number of significant changes in order to replace the majority of its aging electricity generation infrastructure and effect a phase out of coal-fired electricity generation by the end of 2014. Ontario's energy policies and programs are an integral part of Ontario's strategy to achieve the proposed 29% reduction in GHG emissions from the electricity sector as set out in Ontario's Climate Change Plan. Ontario's policy push toward renewable electricity, conservation and demand management is embodied in the Ministerial Directive on the future electricity supply mix for Ontario, which informs electricity planning (through the proposed Integrated Power System Plan ("**IPSP**") and numerous green and clean electricity procurement programs administered by the OPA.

Government PPAs and Keeping Generators Whole

7. Over the last several years, the OPA has completed a number of successful generation procurement initiatives and entered into various forms of 20-year power purchase agreements ("**PPAs**") with numerous generators in order to facilitate the development and operation of clean and renewable electricity generation, combined heat and power facilities, and other conservation initiatives. The posted PPAs currently do not allow contracted electricity generators to pass through, or be compensated for, the costs associated with participation in the WCI cap and trade program. All forms of Non-Utility Generator contracts (NUG Contracts) are also silent on WCI and emission related costs. As a result, many Ontario generators are faced with the potential liability of fixed revenues under government PPAs and potentially significant increased costs resulting from complying with WCI.

8. APPrO respectfully submits that, while it supports the WCI goals, this significant potential liability to contracted Ontario electricity generators must be addressed in order to facilitate ongoing reliability of Ontario's clean electricity supply.

9. Further, APPrO submits that the spirit and intent of Ontario's generation procurement initiatives, which were intended to facilitate the development and operation of financially viable clean and green generation, supports amendments to the 20-year PPAs or some other mechanism to ensure that government contracted generators are kept whole and face no additional, non-recoverable costs associated with WCI.

10. Moreover, APPrO submits that, the failure to keep clean, Ontario contracted generators whole from the anticipated costs of WCI compliance, will result in an unlevel playing field in favour of higher emission intensity electricity generators in other jurisdictions that either do not have WCI compliance costs or allow generators to be kept whole. This has the potential to frustrate all of the government's WCI, coal phase out,

[1] (elaborated upon in paragraph 7)

and clean energy goals by altering the relative cost and price of generation and indirectly facilitating the import of coal power from high emitting non-WCI facilities over low-emission Ontario generation from contracted facilities.

11. This is a fundamental issue of significant importance to APPrO members. APPrO therefore provides the following principled submissions on specific WCI design parameters on the understanding that the currently unrecoverable costs to contracted generators associated with WCI will be addressed by the Ontario Government and the OPA in an equitable and proactive manner.

II. Apportionment and the Allocation Mechanism

Alignment of Apportionment Rules and Final Design Parameters

12. The WCI September 23, 2008 Design Document (the "**Design Document**") indicates that WCI allowances will be apportioned to each WCI member jurisdiction in accordance with the individual member's GHG emission reduction target, which presumably was set and defined based on the GHG emissions ***in that province or state***.

13. A number of the WCI parameters being discussed in relation to electricity, including the allocation mechanism, the point of regulation, first jurisdictional deliverer ("**FJD**"), clean hubs and the treatment of RECs have the potential to cause a WCI member state or province to be required to ensure that allowances are surrendered for emissions occurring ***outside of that province or state*.**

14. In the early years of the WCI markets this may present practical and political challenges for member states/provinces in both (i) ensuring that sufficient allowances are available to regulated entities that they are responsible for[2] and (ii) accounting for, and reporting on, actual state/province wide emissions and emission reduction targets.[3] These system wide challenges are exacerbated when WCI member jurisdictions take disparate approaches to allocation, with certain members allocating on a gratis basis, based on historical emissions, and others requiring all allowances to be auctioned.

15. For example, several of the clean hubs proposals may alter liquidity and transmission paths in the wholesale power markets for at least a period of time if the initial apportionment of allowances among WCI members is not aligned with the final design rules relating to the point of regulation. Similarly, WCI members may face undue political pressure as a result of the mismatch between emission targets, actual emissions and the reported retirement of WCI compliance units in excess of those numbers resulting from certain point of regulation proposals.

16. As a result, APPrO recommends that the WCI revisit and re-evaluate its rules of apportionment, accounting and public reporting so that they are aligned with the final design parameters applicable to the electricity sector.

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[2] This is a particular concern if there is limited or no auctioning throughout all WCI member jurisdictions.

[3] (in light of the likely discrepancies between actual emissions in the state/province and the reported number of allowances that are required to be retired)

Allocation

17. Generally APPrO recommends an administratively simple approach to allocation of emission allowances that facilitates (i) certainty in the emission and electricity markets and (ii) the development and operation of low emission intensity, clean and renewable generation. APPrO is, however, cognisant of the political and other challenges that California and jurisdictions have faced in attempting to implement such an approach.

18. The Allocation Paper sets out three main allocation mechanisms for discussion and includes three other allocation options based on hybrids of the main options. The three main allocation mechanisms are: (i) administrative allocation to generators and importers based on historical emissions ("**Historical Emission Allocation**") (ii) out-put based allocation to generators and importers ("**Out-put Based Allocation**") and (iii) auctioning. All options and combinations are evaluated on the criteria of consumer cost, transfers among retail provider customers, administrative simplicity, and availability to new entrants. Table 9 of the Allocation Paper summarizes the evaluation of six potential allocation methods based on the four criteria.

Table 9. Summary of Evaluation Criteria Applied to the Allocation Methods

Allocation Method	Consumer Cost	Transfers among Retail Provider Customers	Admin Simplicity	New Entrants
Pure Emission-Based	✗/✓ [a]	✓	✓	✗
Preferred Emission-Based	✓	✓	✗	✓
Pure Output-Based	✓	✗	✓	✓
Preferred Output-Based	✓	✓	✗	✓
Pure Auction	✗	✗ [b]	✓	✓
Preferred Auction	✓	✓	✗	✓

[a] Emission-based allocation does not produce a transfer to producers for customers of fully-resourced vertically-integrated utilities.

[b] The degree of transfer among retail provider customers would depend on the distribution of the auction revenues.

19. A number of these evaluation criteria must be adapted for the unique Ontario electricity context set out in Section I, above, where, among other differences (i) transfers among retail provider customers is not a real concern given the Ontario electricity retail market structure and the same applicable emission rate and (ii) consumer cost is contingent on factors related to the uncertain future treatment of WCI costs under the 20-year government PPAs and the evolving nature of uplift charges. WCI members may also wish to expand the allocation evaluation criteria to consider each mechanism's potential to cause major redistributive effects (extreme winners and losers).

20. APPrO's evaluation of each of the main allocation options in the Ontario context is set out below.

Historical Emissions Allocation. While this method is largely viewed as the most simple to administer, it is least suited to the Ontario context in light of: (i) the significant difference in historical and future emissions resulting from the Ontario coal phase out (ii) the significant number of new entrants into the Ontario market through the OPA generation procurement processes that would not receive allocations (iii) the lack of any historical emissions data applicable to importers and the complex administrative

processes that would be required to approximate same and (iv) the perverse incentive that would favour allocation to the historically most emission intense generators, in a manner antithetical to the goals of the coal phase out.

Out-put Based Allocation. This method has the potential to provide the strongest economic incentives to clean and renewable electricity generation but its success is contingent on: (i) the default emission rate applicable to imports (ii) the treatment of, and allocation to, renewable generators, large nuclear and hydro (iii) the changing supply mix making up base load power (iv) provisions to accommodate new entrants in the first years of operation (v) the treatment of GHG emissions in the originating jurisdictions of imports. This method therefore appears to have the best potential to align with Ontario's power and climate change objectives but may be complex to administer.

Auctioning. Academically, auctioning is viewed as the most efficient method of allocating emission allowances. However, auctioning has the most potential to create significant competitiveness and reliability issues in the event that the government contracted generators cannot recover costs of purchasing allowance (through PPAs or otherwise). It may otherwise be appropriate for Ontario if: (i) contracted generators are kept whole from the costs associated with purchases of allowances to cover actual emissions (ii) there are appropriate auction processes and there is adequate market surveillance to ensure that the allowance auctions are structured to avoid market distortions by any and all WCI capped entity or entities that have access to the auction and are acting as a trading block, and to monitor related impacts on the power markets (iii) customers that would otherwise face additional costs through increased prices or uplift charges benefit from auction revenue recycling (and such customers are not unjustly enriched if they do not bear emission allowance costs through increased charges and they benefit from auction revenue recycling) (iv) the Ontario auctions are structured in a manner to ensure that Ontario generators have sufficient access to allowances in order to ensure that electricity supply in the province can operate, Ontario demand can be met efficiently and in an environmentally effective manner, and Ontario electricity system reliability is maintained[4] (v) access to allowances and transmission rights are optimized, and (vi) there is sufficient flexibility to accommodate extreme weather and other market conditions. However, if these parameters can be addressed and liquidity develops in WCI markets, auctioning may become an administratively simple allocation method.

21. We understand that Ontario is leaning toward a 100% auction model for the allocation of WCI emissions. Given that Ontario electricity generators cannot currently pass through the costs associated with allowance auctions, customers would see no costs associated with the emission intensity of Ontario's generation, would have no incentive to purchase or procure specific green energy offerings, and moreover would be unjustly enriched if the government recycled auctioned revenue to customers without allowing the pass through of such costs in the first instance. Similarly, there are a number of reliability and competitiveness concerns associated with auctioning that may, in part, be addressed through the recommendations outlined in paragraph 20. As a result, Ontario may wish to consider a hybrid auctioning and Out-put Based Allocation

[4] If a 100% auction is open to all regulated entities in WCI jurisdictions, there is no assurance that sufficient allowances will be available to allow Ontario generators to meet their PPA commitments. This potential reliability issue is exacerbated in the early years of the operation of WCI, where there is likely to be uncertain and illiquid supply of allowances and offsets to assist in mitigating individual compliance obligations.

approach, or at a very minimum a reliability reserve of allowances available to contracted generators at least in the early years of the WCI system.

22. The ultimate allocation decision must also reflect the potential impacts of allocation decisions in other WCI jurisdictions. The WCI Design Document recommends that at least 10% of allowances are auctioned by WCI members in 2012 and 25% of allowances are auctioned in 2015. However, certain WCI jurisdictions[5] have already taken a distinct approach and proposed allocating all allowances on a Historical Emissions Allocation basis.

23. APPrO submits that until the WCI emission markets are liquid, there is significant potential for the creation of an unlevel playing field in both the emission and electricity markets if WCI members take significantly different approaches to the allocation of allowances to electricity generators in their jurisdiction. Specifically, in the event that one WCI member provides for gratis Historical Emissions Allocation and another require the purchase of allowances through auctions without revenue recycling to generators, generators in the first jurisdiction will be provided with a free asset and those in the second will have a new liability. This situation has the potential to significantly alter the relative cost and price of electricity in each of the jurisdictions and, as a result, the underlying wholesale power market dynamics. Further in the event that WCI members with desperate allocation mechanisms compete to serve non-WCI load the allocation differences could significantly alter the market dynamics.

24. In order to achieve the WCI GHG emission reduction objectives without creating competitive distortions in each of the underlying electricity markets, APPrO recommends that Ontario and all other WCI members take an allocation approach that provides for equitable access to allowances, avoids power market distortions, and avoids incenting the generation or import of higher emission electricity at the expense of cleaner, lower GHG emitting electricity.

III. Implementing Electricity Import Measures

25. There are a number of unique considerations that apply to the import of electricity from non-WCI jurisdictions and attempting to prevent leakage of greenhouse gas emissions in perverse market incentives for higher jurisdictions that are not WCI members. In order to address these concerns, WCI has produced a number of discussion papers in order to appropriately address the point of regulation, applicable default emission rates that should apply to non-WCI importers of electricity and the treatment of the renewable energy certificates associated with imports of renewable power. Generally, APPrO supports WCI's attempts to ensure that an unlevel playing field, perverse environmental incentives and other distortive environmental impacts do not result from its design rules. APPrO's specific comments proposed treatment of the point of regulation, the applicable default emission rate, and the treatment of renewable energy and RECs under WCI follow.

a. Point of Regulation and the First Jurisdictional Deliverer

26. In order to address leakage issues, the Design Document first proposed that the point of regulation associated with electricity generated outside of a WCI member and

[5] Washington

imported into such member would be the first entity over which the WCI member in which the power was consumed had jurisdiction or regulatory authority (the "**First Jurisdictional Deliverer**" or "**FJD**").

27. California and WCI members raised several concerns about the practical application of this concept, in light of the complex nature of wholesale power market transactions. Specifically, it is very difficult through NERC tags or otherwise, to ensure that the entire wholesale power transaction is being reported and is captured up to the point of consumption, and therefore that the appropriate FJD is being regulated. Wholesale power transactions may be segmented along transmission paths or structured to optimize transmission and price differentials, thereby making it very difficult to determine the jurisdiction in which the power is actually ultimately consumed. As a result, there were many concerns expressed about the FJD approach and its negative impact on liquidity in the wholesale power market.

28. WCI therefore produced the FJD Paper, setting out four potential options to address the point(s) of regulation for imports of non-WCI power. These options are summarized in chart form below.

Proposed Treatment of Point of Regulation for the WCI Electricity Sector

Option	Responsible Entity (with compliance obligation)	Jurisdiction Responsible for Monitoring	Jurisdiction Responsible for Accounting to WCI, Compliance and Enforcement
1	Purchasing/selling entity (PSE) holding title* to non-WCI power when imported into consuming WCI jurisdiction	Each WCI jurisdiction monitors all transmission paths and "consumption" within its borders	WCI member where power is consumed. ("Consumption Jurisdiction")
2	PSE holding title* to non-WCI power when first imported into any WCI jurisdiction	Consumption Jurisdiction	Consumption Jurisdiction
3	PSE holding title* to non-WCI power when first imported into any jurisdiction	WCI jurisdiction where non-WCI power is first imported into ("Import Jurisdiction")	Consumption Jurisdiction
4	PSE holding title* to non-WCI power when first imported into any jurisdiction	Import Jurisdiction	Import Jurisdiction

*Note that often transactions occur through contracts for differences and other means that do not necessarily effect transfer of title at the point of interconnection. As a result, the operative provisions of the chosen approach to the point of regulation should apply to the entity responsible for initiating the import transaction and not the entity holding title at that point.

29. APPrO submits that its preferred option for the point of regulation for power imports is Option 3, in that the obligations for monitoring and compliance are aligned with the physical transmission path and consumption, respectively. In this manner, the point of regulation would be the responsible entity (power marketer/importer) that first causes the import of non-WCI power into any WCI jurisdiction, the Import Jurisdiction would monitor and report to the Consuming Jurisdiction the NERC tag information associated with the import and report on same to the Consuming Jurisdiction, who would, in turn receive the allowances from the importer and enforce its compliance. In this manner, the risks of compliance are associated with the entity that can best effect a change in the consumption patterns that give rise to the compliance obligation.

30. APPrO's support for Option 3 is based on the assumption that the actual jurisdiction in which power is consumed can be accurately, transparently, and promptly tracked and reported, with information accessible to the importer and the Importing Jurisdiction. If this is not the case, APPrO provides qualified support for Option 4.

31. Given the complex and potentially segmented nature of wholesale power transactions, APPrO acknowledges that it may be difficult to effectively track and account for the final Consumption Jurisdiction. This challenge is equally applicable if the WCI rules are intended to exempt from regulation power wheeled though a WCI jurisdiction and consumed in a non-WCI jurisdiction. In the alternative, APPrO hereby provides qualified support for Option 4.

32. In Option 4, point of regulation would be the responsible entity (power marketer/importer) that first causes the import of non-WCI power into any WCI jurisdiction, the Import Jurisdiction would monitor the NERC tag information associated with the import and receive the allowances from the importer and enforce its compliance for all subsequent WCI jurisdictions that receive the power. APPrO's support for such option is qualified and would only be provided if it is possible to: (i) ensure that the apportionment of allowances is among WCI partners is appropriately adjusted to reflect the increased allowance retirement accounting for imports in the import jurisdictions (ii) ensure public reporting and other accounting associated with WCI compliance could reflect the fact that the actual emissions in the province or state were not reflective of the actual amount of allowances that would have to be submitted/retired by the jurisdiction (iii) adapt in the event that there is any public outcry or backlash with what appear to be rising emissions as a result of Option 4, each WCI member would ensure that capped generators within WCI jurisdictions bear no additional compliance burden and (iv) efficiently report, track and address the situation where power follows a transmission path from a non-WCI jurisdiction, into a WCI jurisdiction, then a non-WCI jurisdiction, and is ultimately consumed in a WCI jurisdiction. (For example, where Michigan power gets wheeled through Ontario then New York to be consumed in Quebec, do both Ontario and Quebec have compliance obligations as the point of regulation?).

33. In summary on this point, APPrO submits that further modelling and other work is required to assess the potential effectiveness, practicality, and impacts of the proposed options to address the point of regulation for imports. At this point and assuming technical feasibility, APPrO's preferred option is Option 3 and qualified alternative preferred option is Option 4.

b. Applicable Default Emission Rate

34. APPrO supports an approach to setting default emission rates for power imported from non-WCI jurisdiction that reflects the annual average emission rate of imports of power based on actual historical data. In Ontario, the vast majority of electricity imports are from coal-fired facilities. As a result, APPrO supports the Province of Ontario's, the IESO's, and OPG's data and submissions on the appropriate default emission rate that should be applied to Ontario imports, which we understand to reflect the average emission rate of importing coal-fired facilities.

c. Treatment of Renewable Energy and RECs

35. The treatment of renewable energy certificates ("**RECs**") and the import of renewable energy from jurisdictions outside of the WCI also imposes design challenges in that certain WCI and non-WCI jurisdictions have differing approaches to the treatment of renewable energy and may or may not have regulated renewable portfolio standards ("**RPSs**"). Ontario currently does not have a mandatory RPS. APPrO admits that the failure to address the emissions associated with specified imports of renewable power account for the RECs associated with such power, will result in double counting of the environmental and emissions benefits associated with the power, detract from the environmental integrity of the WCI system, and place imported renewables in a far better competitive position than domestic renewables.

36. The REC Paper outlines three options for addressing these challenges:

1. **Mandatory Bundling of Renewable Power and <u>its</u> RECs for Zero Attribution.** In order to import zero GHG power, this option requires the import of bundled renewable power with any associated renewable energy certificates from the specific qualified generation facility that produced the power. If the power is imported without its RECs, it will be ascribed the default emission rate.

2. **Mandatory Bundling of Renewable Power and any RECs for Zero Attribution.** This option provides that the zero GHG attribution stays with the renewable energy certificate and if the renewable energy certificate is disaggregated from the power from which it results, the resulting power will be ascribed the default emission rate. This option would, however, allow power marketers and purchase and selling entities to rebundle RECs from any jurisdictions with RPS in order to provide it with a zero GHG attribution.

3. **Zero Attribution of Renewables Regardless of Use or Treatment of RECs.** This option would allow specified renewable power imported from a non-WCI jurisdiction to receive zero GHG attribution regardless of whether or not the RECs were sold or otherwise used for compliance in any other jurisdiction.

37. Generally, APPrO supports either Option 1 or Option 2. However, it is strongly opposed to Option 3, which would allow for double counting of the environmental

attributes of the power and is likely to be in contravention of the RPS requirements of a number of jurisdictions (including Massachusetts and other New England states).[6]

38. While Option 1 would require the RECs from the originating renewable power facility to accompany any specified imports, and would thereby be administratively simple to implement, it may cause increased demand and compliance challenges in RPS programs in non-WCI jurisdictions. This Option would also avoid the potential for arbitrage in RECs originating from different jurisdictions.

39. Option 2, provides additional compliance flexibility for both the REC and power markets and thereby is likely increase to liquidity in both. It will also result in increased flexibility for power markets. However, this Option 2 increases the likelihood of REC arbitrage among RPS jurisdictions, particularly in the Northeast.

40. In conclusion on this point, APPrO submits that the WCI objectives are best achieved by ensuring the renewable power imports and customer confidence in specified renewable power imports are facilitated by avoiding the double counting and double use of the environmental benefits. Either Option 1 or Option 2 have the ability to address this challenge.

41. APPrO would like to thank WCI and the Province of Ontario for the ability to make these submissions. For further information on this submission or APPrO please contact:

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[6] In doing so, APPrO notes that it may be appropriate to provide for distinct treatment of the direct (on-site) methane GHG reductions for biogas and biomass renewable power.