

TORYS

Ontario's Cap-and-Trade Proposal: Application to Regulated Utilities

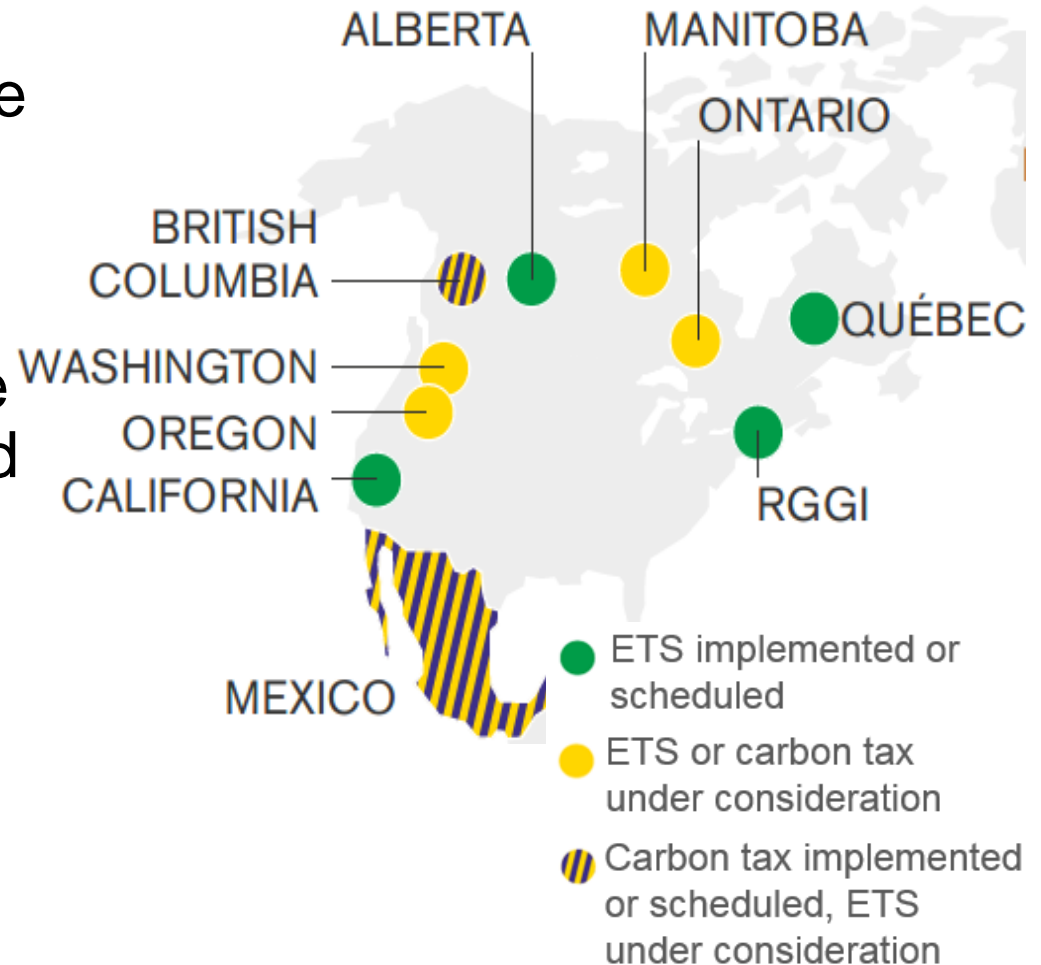
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- Local and regional initiatives have become building blocks for broader harmonization
- California and Quebec debuted cap-and-trade markets in 2013; linked in 2014
- Ontario market would debut in 2017 and link with existing CA-QC market as early as 2018



WCI cap setting: 2017-2020

	California	Quebec	Ontario*
<i>GHG emissions (2013)</i>	459.3 MtCO ₂ e	82.6 MtCO ₂ e	170.8 MtCO ₂ e
<i>Target by: 2020 2030</i>	<ul style="list-style-type: none"> • 1990 level • 40% < 1990 level 	<ul style="list-style-type: none"> • 25% < 1990 level • 37.5% < 1990 level 	<ul style="list-style-type: none"> • 15% < 1990 level • 37% < 1990 level
<i>Allowances: 2017 2018 2029 2020</i>	<ul style="list-style-type: none"> • 370 MtCO₂e • 358 MtCO₂e • 346 MtCO₂e • 334 MtCO₂e 	<ul style="list-style-type: none"> • 61 MtCO₂e • 59 MtCO₂e • 57 MtCO₂e • 55 MtCO₂e 	<ul style="list-style-type: none"> • 142 MtCO₂e • 136 MtCO₂e • 131 MtCO₂e • 125 MtCO₂e

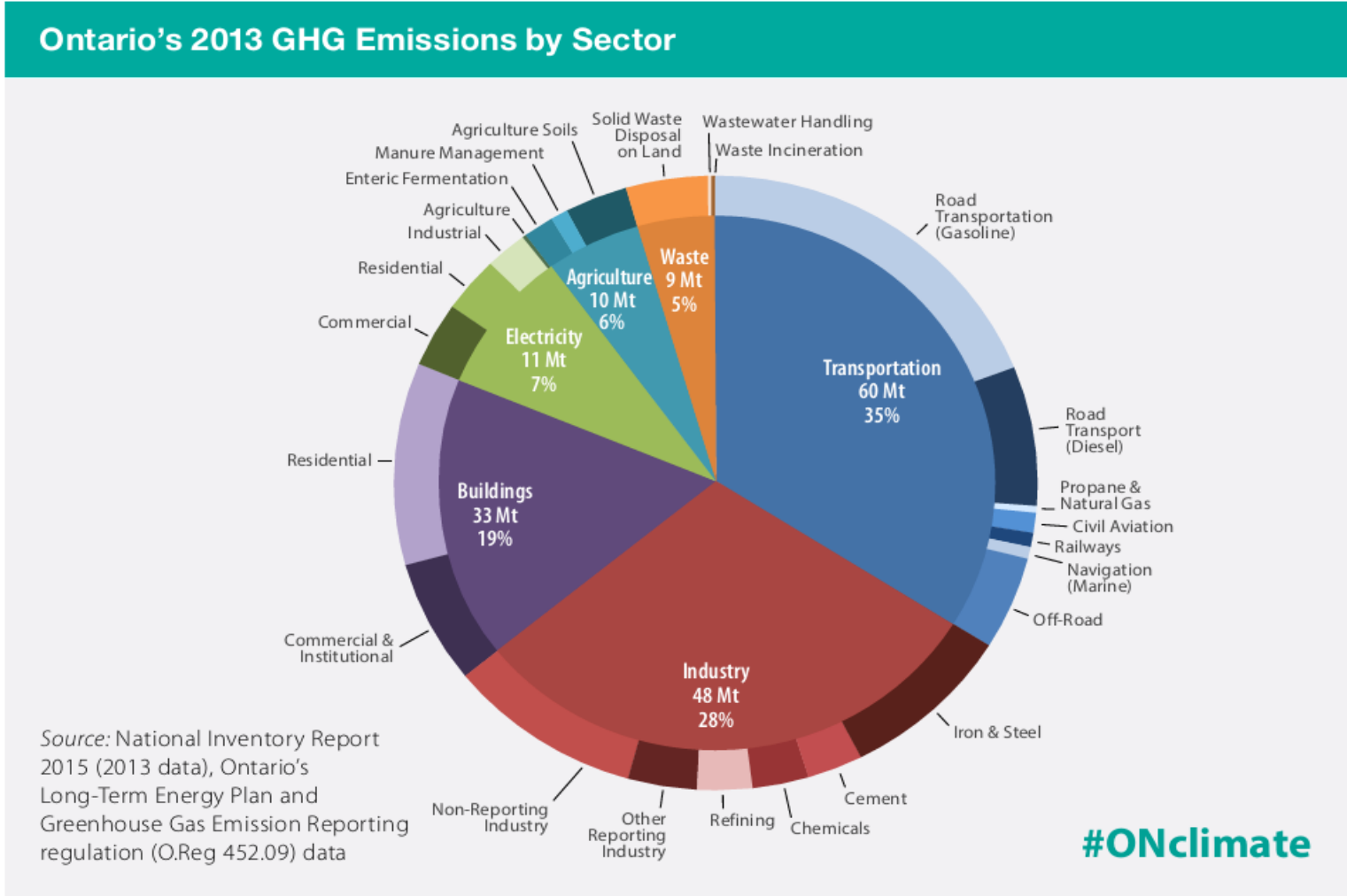
* Based on Bill 172 and proposed cap-and-trade regulations

Capped participants

Sector	Threshold for Mandatory Participation
Large industrial emitters*	Emissions of 25,000 tonnes or more of CO ₂ _e per year
Natural gas distributors	Attributed emissions of 25,000 tonnes or more of CO ₂ _e per year
Petroleum product suppliers	200 litres or more of petroleum product supplied per year
Electricity importers	More than zero megawatt hours of electricity imported per year

*Nearly 150 facilities report emissions above this threshold (by contrast, California's system covers ~350 total participants, and Quebec's covers ~90)

Ontario's GHG emissions, by sector



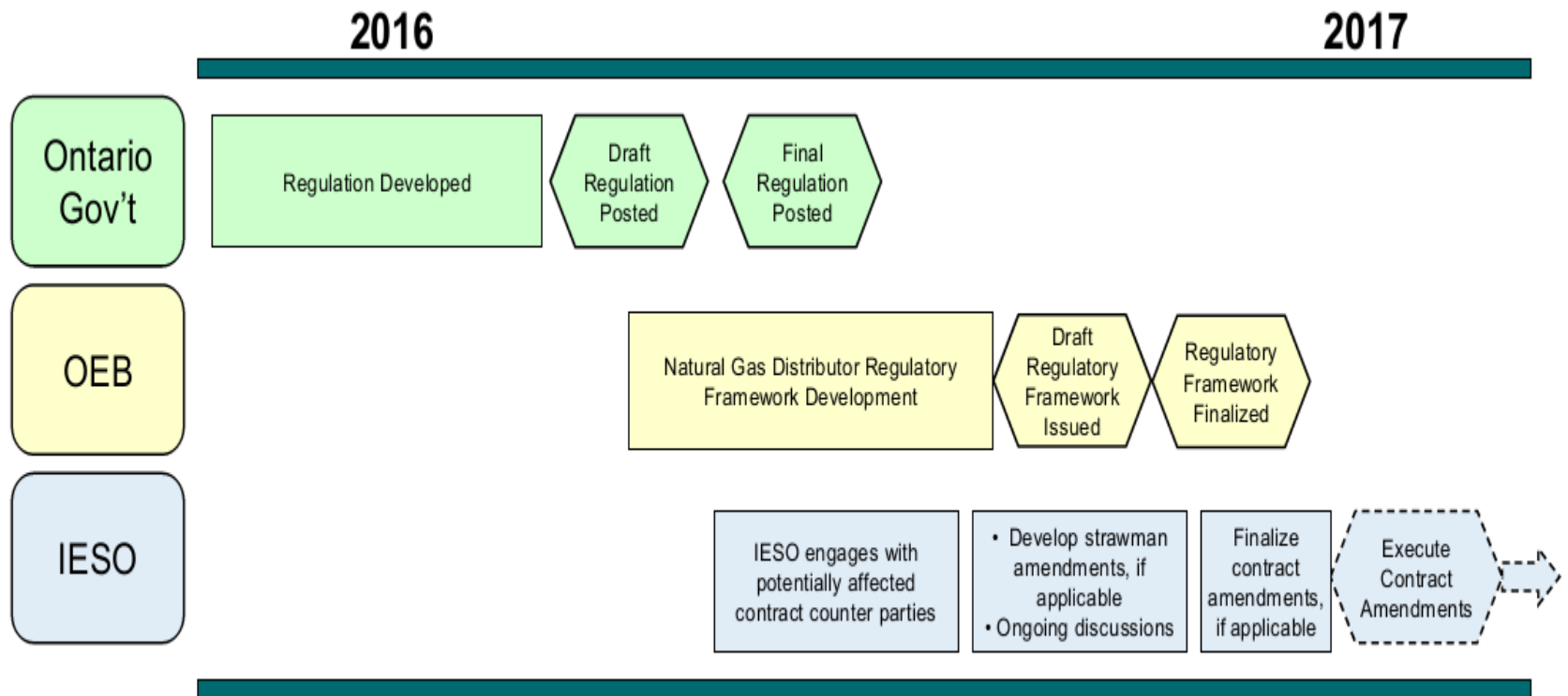
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- To be eligible for free allowances, must fall within a category of large industrial emitter
 - one exception is electricity generation facilities, most of which are ineligible
 - Certain activities are not eligible:
 - natural gas distribution
 - stationary source combustion associated with operation of natural gas-related equipment
 - petroleum product supply
 - electricity importation

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- Ontario would set a floor price for auctioned allowances
 - Ontario's floor price in 2017 (pre-linkage) would be ~C\$13.50/tonne plus CPI adjustment
 - upon linkage, floor price would likely be determined by highest floor price in California-Quebec-Ontario
 - California-Quebec market has a 2016 floor price of C\$17.64 (US\$12.73)/tonne
 - floor prices in all jurisdictions increase 5% plus inflation each year
 - Like California and Quebec, Ontario would also set a soft ceiling on the price of allowances through a strategic allowance reserve
 - California March 2016 reserve prices US\$47.54/53.49/59.43 per tonne

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- Ontario projecting \$1.8-1.9 billion per year in revenue
 - C\$830 million in auction revenue in Quebec in 2015
 - US\$2.0-4.9 billion in auction revenue projected for California in 2015-2016
 - New Greenhouse Gas Reduction Account (established under Bill 172) will be funded primarily by allowance auction proceeds
 - GGRA funds may be used for:
 - costs of initiatives reasonably likely to reduce GHG emissions
 - including re energy sources, land use and buildings, transportation, industry, agriculture, forestry, waste management
 - government's costs in administering and enforcing the system

Cap-and-trade program timing

- Program development is moving quickly...



**Note: Timeline is not to scale and is non-binding*

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- Formal consultation on regulatory framework initiated on March 10, 2016
 - Next steps:
 - stakeholder consultation sessions to continue
 - OEB staff discussion paper to be released for stakeholder comments
 - OEB staff working group to prepare draft regulatory framework
 - regulatory framework to be finalized prior to 2017
 - Gas distributors to file compliance plans with OEB following finalization of regulatory framework
 - In the interim, OEB considering request for interim rate order to take effect January 1, 2017

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