

67 Yonge St.
Suite 1040
Toronto, ON M5E 1J8



APPRO
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

March 29, 2019

Ministry of the Environment, Conservation and Parks
Attention: Vicky La, Senior Policy Coordinator
77 Wellesley Street West
Toronto ON, M7A 2T5

Dear Ms. La:

**RE: Written Comments of the Association of Power Producers of Ontario (“APPRO”)
Making Polluters Accountable: Industrial Emission Performance Standards -- EBR
Registry Number: 013-4551**

About APPRO

APPRO is a non-profit organization representing Ontario's commercial power producers and related businesses. Its 20 generator members produce the majority of Ontario's electricity from clean and renewable resources including nuclear, co-generation, hydro-electric, natural gas, wind, wood waste, and solar energy. APPRO is the preeminent voice for electrical generators in Ontario and a trusted, positive, non-partisan contributor to discussions about electricity policy, planning, and operations. APPRO's mission is to achieve an economically and environmentally sustainable electricity sector in Ontario that supports the business interests of electricity generators, ratepayers and the provincial economy.

APPRO members build and operate power plants in Ontario, across Canada, and elsewhere in the world. APPRO's membership also includes fuel suppliers and marketers, contractors, equipment suppliers, consultants, local distribution companies, legal services providers and financial organizations. APPRO represents the majority of gas-fired generators in Ontario who will be affected by carbon pricing.

APPRO member companies will likely file their own comments on this important matter.

Background

Electricity is essential to Ontario's social and economic well-being, and APPRO members play an important part in supplying this vital commodity. Ontario became the first jurisdiction in North

America to stop burning coal to generate electricity when it shut down its last coal plant in 2014. This continues to be the largest single action to combat climate change in North America to date. As a result of this and other energy policy decisions in the province, Ontario's electricity sector is virtually decarbonized (approximately 96 percent emissions-free) with an effective emissions rate of 36 kg/MWh estimated in 2017. It has among the very lowest electricity sector emissions rates in the world. By contrast, US electricity imports into Ontario, can be up to 300% higher in emissions than Ontario's clean natural gas electricity generators, and 3000% higher than the average emissions intensity of Ontario's electricity sector.

Ontario also has experienced rising electricity costs. This impacts families and businesses, and hampers the competitiveness of the province's manufacturing sector. Affordability of electricity has become a major focus of public concern over the past decade.

APPRO has recommended over a number of years that Ontario's clean electricity sector should not be further burdened with additional carbon costs, but rather it should be used to facilitate greater, beneficial emissions reductions in other sectors of the economy where emissions are growing, like transportation and buildings. APPRO supports a stable and meaningful climate policy framework, which is essential to ensuring ongoing investment in Ontario's electricity sector and avoiding undue costs and stranded assets.

APPRO Comments on the Ontario Emission Performance Standard (EPS)

APPRO appreciates the opportunity to comment on the Ministry of the Environment, Conservation and Parks' (MECP) proposal for an as an alternative to the federal Output-Based Pricing System (OPBS) under the Greenhouse Gas Pollution Pricing Act (GGPPA).

APPRO has already endorsed the general direction of the Ontario government's plan, and in particular the issue of performance standards. We have also submitted similar comments to the federal government through Environment Climate Change Canada ("ECCC").

We understand that the Ontario EPS regulation is expected to be finalized in summer 2019, similar to the timing of the federal OPBS regulation being finalized. We are concerned about the potential for federal-provincial program and costs duplication, confusion and lack of transparency around compliance for Ontario fossil- -fired generators. Therefore, timely clarity and certainty around which rules are to be followed and how is an important commercial operations concern. Stacked and duplicative carbon costs will unnecessarily add to the cost of clean electricity in Ontario with no additional environmental benefit. This will be harmful to industry and to Ontario citizens alike.

APPRO's specific answers to the Questions for Discussions outlined in section 8.0, follow:

Q.1 How can the EPS be designed to optimize GHG emission reductions while minimizing carbon leakage?

A major contributor to carbon leakage is basic economics. When businesses and industry can no longer bear the brunt of GHG-related costs, relocation to another jurisdiction may be a means of avoidance. Allowing businesses flexibility to manage their costs prudently through the use of offsets should be a fundamental component of the EPS. Offsets drive real reductions in emissions from areas of the economy that are not regulated and ensure regulated entities can comply with targets at a reasonable cost.

APPPrO has previously noted its support for credits and offsets as compliance mechanisms under the Plan. These have worked successfully in Alberta.

The credibility of offsets can be ensured by the development of guidelines to address GHG additionality, permanence, leakage, and quantification. Therefore, there should be no restriction on the number of years that offsets and emission credits can be banked, nor a cap placed on their use. Unlimited banking and use of offsets will result in larger reductions in emissions per unit of capital investment.

A related issue is imports of electricity from higher emissions jurisdictions that are electrically connected to Ontario. Under the proposed federal Output-Based Pricing System (“OBPS”), importers of electricity are not required to achieve compliance for their imports. As noted above, US electricity imports into Ontario, can be up to 300% higher in emissions than Ontario's clean natural gas electricity generators, and 3000% higher than the average emissions intensity of Ontario's electricity sector. Absent an adjustment, an unlevel playing field between imported and domestically generated electricity may arise. APPPrO is pleased that Ontario is considering adoption of a cross border carbon adjustment mechanism. APPPrO recommends using the methodology developed by the Western Climate Initiative based on the concept of first jurisdictional deliverer. This approach is already well-understood, and Ontario developed different GHG Default Emission Factor (“DEF”) values for on-peak and off-peak electricity for each jurisdiction when Ontario was part of WCI. DEFs were applied to specifically named jurisdictions. For imports from other unspecified regions, generic emissions factors were used.

In addition, the Independent Electricity System Operator (“IESO”) has recently announced that it is developing a Transitional Capacity Auction (“TCA”) that will eventually enable imports to compete with Ontario demand response, uncommitted generation and generation “uprates” commencing with the summer/winter 2021 commitment period and thereafter. The TCA will likely be superseded by the IESO’s Market Renewal Program Incremental Capacity Auction (“ICA”) that is targeting a first auction in Q4 2022 for a summer/winter 2025 commitment period. Failure to include imports in Ontario’s program will negatively impact Ontario’s existing and future investment in generation.

Q.2 What compliance options should industrial facilities have under the program (e.g. use of compliance units for payments for excess emissions that go into a fund that could be used to support greenhouse gas emissions projects in industry, voluntary emission reductions or removals or overachieving the EPS, other)?

APPPrO supports a made-in-Ontario program that allows for compliance flexibility. Ontario should create an offset program that provides consumers with additional options to meet their obligations. In creating an offset program, APPPrO suggests looking at to Alberta as an example. Ontario might also consider linking with Alberta in order to access offsets (and surplus credits) from an already established market. This will provide greater liquidity and flexibility which in turn will have a positive impact on costs and customers

Q.3 If facilities receive compliance units for GHG emission reductions beyond the standard for the facility, should they be eligible to trade or bank them indefinitely?

APPPrO supports compliance flexibility to drive emission reductions and avoid carbon leakage. Ontario should incentivize regulated entities to invest in technologies and solutions that drive real reductions. The ability to bank and trade credits provides flexibility to regulated entities to manage reduction requirements in the most prudent and cost-effective way possible. Limitations on trading and banking reduce flexibility for regulated entities and ultimately increase the costs of compliance.

Q.4 Which industrial facilities should be covered by the program (e.g. industrial facilities with GHG emissions greater than 10,000 or 25,000 or 50,000 tonnes CO₂e per year)?

APPPrO continues to recommend that all fossil generation facilities should be able to opt-in under the program if they compete directly against other facilities regulated under the program, which is the case in Ontario's electricity market. Such an approach would avoid competitiveness issues for small generators and peaking units, and simply makes sense in the electricity sector where facilities are designed for specific system duty and reliability needs. A differentiated program would lead to inefficient market outcomes, and result in no environmental benefit.

Q.5 Should Ontario harmonize with the federal reporting under the federal Production Order (which sets out reporting and verification requirements) and the federal OBPS (output based pricing system) (e.g. methods, threshold, verification)?

As noted earlier, duplication and overlap will be inefficient and harmful to industry and consumers alike. APPPrO supports Ontario working with the federal government to standardize reporting requirements as far as possible, reflecting the realities of Ontario's open and competitive electricity market and its configuration.

Q.6 Should different stringency factors apply to fixed process and non-fixed process emissions?

As noted above, APPPrO supports a single EPS standard of 420 kgCO₂e/MWh for the Ontario electricity sector as reflective of the current status and operations of the fossil-

based fleet in Ontario, and the significant reductions Ontario has already achieved through elimination of coal-fired generation. Hence, a stringency factor need not be applied.

The electricity sector will also report emissions from steam generation from cogeneration facilities. APPrO supports the proposal for inclusion of a defined steam standard; however, we recommend a review of the proposed standard based on 90% efficiency. This level of efficiency is not reflective of operational boilers in the province and may result in competitiveness concerns. For example, in Alberta where industrial cogeneration has a much higher penetration, the system is based on an efficiency of approximately 83%. If standards are set above what is technically and economically feasible, it will simply result in increased costs without a commensurate ability to reduce emissions. APPrO encourages MECP to work with operators to set an appropriate steam standard.

APPrO looks forward to continued participation in the province's development of an EPS. Please do not hesitate to contact me if there are further questions on our submission.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Butters', is written over a horizontal line.

David Butters
President & CEO

David.butters@apro.org
416 322-6549 x 231