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Submitted via Email: Vicky.La@ontario.ca
and on the Environment Registry of Ontario

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

Dear Ms. La:

**RE: Written Comments of TransCanada Energy Ltd.
Making Polluters Accountable: Industrial Emission Performance Standards
ERO Registry Number: 013-4551**

TransCanada Energy Ltd. (TCE) appreciates the opportunity to comment on the Ministry of the Environment, Conservation and Parks' (MECP) proposal for an Ontario Emission Performance Standard (EPS) as an alternative to the federal Output-Based Pricing System (OBPS) under the *Greenhouse Gas Pollution Pricing Act* (GGPPA).

It is TCE's understanding the Ontario EPS regulation is expected to be finalized in summer 2019, similar to the timing of the federal OBPS regulation being finalized. Due to the proximity of both regulations being finalized, TCE submits that time, transparency and clarity are of the essence.

TCE is supportive of MECP's initiative to develop an EPS system. However, given the current status of the *Greenhouse Gas Pricing Pollution Act* and the imminence of final federal regulations governing the Output-Based Pricing System, there is significant risk that industry might be regulated by both the provincial program and the federal OBPS. It is thus imperative that industry is shielded from this disruptive risk, and in order to do so a concerted effort from both MECP and Environment and Climate Change Canada (ECCC) is needed to harmonize and align implementation timelines effectively ensuring that there is no duplication of carbon pricing regimes.

With respect to the Questions for Discussions as outlined in section 8.0, TCE offers the following:

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

In order to secure the greatest and most economical GHG abatement opportunities and minimize carbon leakage, TCE's view is that the EPS would need to introduce a consequential number of compliance mechanisms for industrial emitters. A major contributor to carbon leakage is economics. When businesses and industry can no longer bear the brunt of GHG-related costs there is a tendency to look at relocation as a means of avoidance. If Ontario's focus is to optimize GHG emissions reductions, 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.

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)?

TCE recommends that a made-in-Ontario program should allow for compliance flexibility and should be expanded beyond payment and using banked compliance units from prior years. In addition to these mechanisms, Ontario should create an offset program as in doing so, it would provide consumers an additional option to meet their obligation. In creating an offset program, TCE

suggests MECP look to Alberta as an example. Furthermore, in order to provide even more flexibility, which will allow facilities to reduce their costs of meeting compliance, Ontario should consider linking with Alberta in order to access offsets (and surplus credits) from an already established market.

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?

TCE's view is that compliance flexibility is paramount to driving emission reductions and avoiding 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)?

TCE recommends the mandatory emission threshold be set at 25,000 tonnes/year. Furthermore, TCE is of the view that a voluntary opt-in provision is important; however, there should not be a limit for opting in. Any facility that falls below the mandatory emission threshold should have the discretion as to whether they would like to opt into the program.

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)?

TransCanada supports the province working with the federal government in an attempt to standardize reporting requirements.

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

Specific to the electricity sector, TCE agrees that Ontario has already made significant emission reductions to-date. For the activity of electricity production, TCE supports the proposed performance standard of 420 tonnes/GWh as it is reflective of the current operations of the fossil-based fleet in Ontario. Additionally, TCE concurs that that a stringency factor should not be applied.

Given the intrinsic and indispensable value of heat to the different processes adopted by industrial activities, TCE supports a stand-alone standard for steam based on the actual fleet of fossil steam generation in the province and the real performance of the units rather than the current proposal of 90%, which may be more in line with theoretical thermodynamic efficiency. Furthermore, TCE supports the adoption of a fair, equitable and level playing field method in providing an explicit recognition for all thermal energy.

TransCanada looks forward to continued participation in the province's development of an EPS and welcomes the opportunity to be engaged in the development of this policy. Should you have any questions on this submission, please do not hesitate to contact the undersigned.

Sincerely,

TRANSCANADA ENERGY LTD.



Margaret Kuntz
Manager, Market Affairs
Eastern Canada Power