

July 7, 2021

Via Email: Melissa.Ollevier@ontario.ca

Melissa Ollevier
Ministry of the Environment, Conservation and Parks
Financial Instruments Branch
40 St. Clair Avenue West, Floor 8
Toronto, ON M4V 1M2

Dear Ms. Ollevier:

Re: Amendments to support transition and implementation of Ontario's Emissions Performance Standards program (ERO: 019-3719)

Ontario Power Generation (OPG) appreciates the opportunity to provide comments on the ***Amendments to support transition and implementation of Ontario's Emissions Performance Standards program (ERO: 019-3719)***. OPG is Ontario's largest clean energy generator producing clean, reliable, low-cost power using our diverse mix of generating sources. Our Ontario portfolio includes 66 hydroelectric stations, 2 nuclear stations, 1 solar facility, 1 biomass station, and 1 dual-fuelled oil and gas electricity generating station. Our biomass station qualifies to opt-in, and the oil and gas station is subject to the Output Based Performance Standard (OBPS) and Emissions Performance Standard (EPS) programs.

The EPS program is critical to holding polluters accountable for their greenhouse gas (GHG) emissions while helping Ontario (and Canada) meet our emissions reduction targets, and the transition to a net-zero economy by 2050. We support the proposal to allow for opting in, generation of credits for efficient operation, and to maintain exemption from federal fuel charge for covered facilities. These will incentivize efficient operation and reduce compliance costs.

We also support the MECP's efforts to align with federal OBPS, to ensure no overlap or duplication between the program, and transitioning at a future start date beginning of Jan 1 2022. These provide for ease of administration, tracking of compliance obligations, streamlining of reporting, and more accurate cost-recovery.

To ensure a fair, cost-effective and flexible transition that reflects the circumstances of Ontario, we offer our comments below:

EPS for oil electricity generation does not align with the Federal OBPS

The MECP proposes that all fossil fuel electricity generation be subject to 370 t/GWh to align with OBPS. An EPS of 370 t/GWh for natural gas generation is reasonable and aligns with the OBPS. However, an EPS of 370 t/GWh for oil electricity generation does not align with the OBPS of 550 t/GWh. Oil electricity generation operates only during peak demand and when it is economic; it is

one of the last resources to generate in the Ontario grid. A more stringent performance standard for oil generation is akin to a tax. It will not incent a change in generator behaviour nor a change in consumer behaviour. It will only increase energy costs, with no decreases in GHG emissions.

If the goal is for a program that is tough but fair, cost-effective and flexible to the needs and circumstances of our province, MECP could consider an exemption for standby units, which means an existing unit that, for a given calendar year, operates at a capacity factor of 9% or less. (A definition that aligns with the federal *Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations*).

Alternatively, OPG recommends aligning the EPS for oil generation with the federal OBS of 550 t/GWh.

Electricity Imports - Carbon Border Adjustment Prevents Carbon Leakage as the EPS Increases in Stringency

The proposal is silent on the treatment of electricity imports. With the exception of Quebec, Ontario's electricity trading partners are more carbon-intensive. If in the future Ontario considers an EPS more stringent than the proposed 370 t/GWh, this could result in increased imports of cheaper but dirtier electricity from the United States, which could result in an increase in regional GHG emissions. In order to level the playing field between Ontario and USA electricity trade, imports could incur a Carbon Border Adjustment (CBA). However, a CBA would increase costs as it limits cheaper energy imports.

Modelling indicates that at \$170/t carbon, if natural gas generation is subject to a progressively lower performance standard, transitioning to 0 T/GWh will result in:

- With no CBA - US thermal generation would be economic, and imports of U.S. thermal generation would increase dramatically. This would result in increased regional total carbon emissions, and Ontario's electricity price would increase significantly.
- With a CBA - US thermal generation would not economically be able to displace Ontario gas generation (decreased imports). However, it will push electricity prices even higher, and would not save a significant amount of regional total CO2 emissions until new clean energy sources are brought online.

OPG recommends that future considerations for carbon policy should include a CBA on electricity imports to prevent carbon leakage, create economic incentives for the deployment of clean technologies, and avoid increases in regional GHG emissions.

Timely Communication, Training and Resources

Emitters need sufficient time to understand the regulatory requirements, register and implement business processes to comply. **OPG recommends timely consultation, communication, training and guidance documents to support a smoother transition.**

Regulatory Certainty

Carbon policy in Ontario has evolved greatly in the last 5 years, which has resulted in incremental compliance and administrative burden and costs.

OPG recommends that carbon policy should provide longer-term regulatory certainty and stability to reduce compliance and administrative burden and cost; to incent long-term investments in energy projects to maintain system reliability; and to support transition to a decarbonized economy.

Offsets Program

Currently the EPS program does not include an offsets program. Offsets can encourage cost-effective domestic GHG emissions reductions from voluntary activities that are not covered by carbon pricing programs (e.g. waste/landfill, forestry, agriculture).

OPG recommends that final EPS regulations should allow for enhanced trading design elements including use of offsets for compliance (with preference for Ontario to leverage the Federal Offset System and future project protocols).

Thank you again for the opportunity to provide comments. OPG looks forward to continued engagement in the development of implementing regulations for a smooth transition from the OBPS to the EPS, and is excited to be a catalyst for economy-wide decarbonization.

We would be happy to meet in person to review our comments in more detail.

Sincerely,



Aaron Del Pino
Vice President
Environment, Health & Safety