Capital Power
1200-10423 101 Street NW
Edmonton, AB T5H 0E9

October 10, 2022

Melissa Ollevier
Ontario Ministry of Environment, Conservation and Parks
Financial Instruments Branch
6th Floor, 40 St. Clair Avenue West
Toronto, ON
M4V 1M2
Canada

RE: Capital Power Comments on Emissions Performance Standards ("EPS") Program Regulatory Amendments for the 2023-2030 Period.

Dear Ms. Ollevier,

Capital Power is pleased to provide for consideration by the Ministry of Environment, Conservation and Parks ("MECP") the following submission providing Capital Power's perspectives regarding amendments to Ontario's EPS.

The MECP is proposing to amend the following regulations:

- *Greenhouse Gas Emissions Performance Standards Regulation (O. Reg. 241/19* or the "*EPS Regulation"*) and the incorporated Greenhouse Gas ("GHG") emissions performance standards and methodology for the determination of the total annual emissions.
- *Greenhouse Gas Emissions: Quantification, Reporting And Verification Regulation* (*O. Reg. 390/18* or the "Reporting Regulation") and the incorporated guideline for quantification, reporting and verification of greenhouse gas emissions.

Capital Power currently owns, operates and has interests in 5 facilities in Ontario representing over 1300 MW of capacity. Capital Power's thermal operations in Ontario are the East Windsor Cogeneration Centre and Goreway Power Station, which are wholly owned, and the York Energy Centre in which Capital Power has joint interest and serves as operator. Capital Power also owns and operates the Kingsbridge 1 and Port Dover and Nanticoke wind generation facilities. Accordingly, Capital Power has an interest in and stands to be impacted by the amendments to the EPS.

Capital Power supports the Government of Ontario ("Government") and MECP efforts to update EPS to continue to effectively and efficiently regulate large emitters of Greenhouse Gas ("GHG"). We also support the Government's efforts to meet the federal regulatory benchmark and maintain jurisdiction over Ontario's GHG emissions management framework. Capital Power understands that the various updates to the EPS industrial benchmarks are needed to achieve outcomes that would satisfy the threshold for meeting with the Federal regulatory benchmark under the updated federal Output-Based Pricing System ("OBPS").

Capital Power is concerned with the package of changes reflected in the August 26, 2022 Discussion Paper, and submits the following comments regarding certain specific changes being proposed. These are summarized briefly below, and described in more detail in the sections below:

- Capital Power believes Ontario should match the federal headline carbon price that will increase by $15 per year starting in 2023 and rise to $170 per tonne of CO2 equivalent ("tCO2e") in 2030. This will provide an important degree of certainty to market participants.

- Capital Power supports the current electricity benchmark of 0.37 tonnes of carbon dioxide equivalent per megawatt-hour ("tCO2e/MWh"), and believes the current benchmark has and will continue to drive significant and material reductions in emissions from the sector. We are concerned with the proposed immediate step-

change reduction in the electricity benchmark. Such change will result in an immediate electricity cost increase with unclear emission reduction benefits. To the extent MECP believes a decline in the EPS benchmark is required, reducing the current benchmark from the current level to 0.31 tCO2e/MWh by 2030 on a linear basis should be pursued.

- Capital Power recommends that GHG emissions from imported electricity should be subject to the same GHG charges that Ontario generators are subject to. Charging GHG emissions from imported electricity will ensure a level playing field and also avoid carbon leakage and resource shuffling that might otherwise arise.

- Capital Power recommends that MECP adopts the federal offset system as a compliance tool under EPS. Adopting the federal offset system will allow Ontario facilities access to offset projects in different provinces, avoid duplicating the efforts to develop a stand-alone provincial program and reduce the future administrative cost to maintain the offset program.

Capital Power's perspectives are described in detail in the sections below.

1. EPS Performance Benchmark

Capital Power submits that the consideration of the pace and degree of change in the EPS benchmark needs to consider several aspects of Ontario's electricity market. In Ontario, nearly all of the electricity generation is either contracted or rate-regulated, meaning that the cost increases should be recoverable either through contract terms or as approved costs by the regulator and will simply end up as higher electricity rates for consumers as they are passed through. Further, these increased costs may not come with a commensurate reduction in emissions given Ontario's existing market structure. Contracted facilities, for example, may receive out-of-market dispatches by the Independent Electricity System Operator ("IESO") to meet system demand for short period of times or below the steady conditions where market forces would not have otherwise directed such output. These suboptimal and non-baseload operating conditions will reduce the efficiency of Natural Gas Combined Cycle units, which will be reflected in higher emissions intensities and increased variance from the EPS performance benchmark. The variances, and related cost consequences for ratepayers, would increase given the EPS changes proposed by MECP

The IESO has identified a pressing requirement for new capacity in 2025 and specific performance attributes that uprates at existing facilities may be best positioned to address from a cost and project completion perspective. The proposed step-change reduction in the electricity benchmark would accelerate potential cost increases during a time of pressing need for new generation. The MECP should consider the IESO's findings in developing an effective framework, lest it jeopardize reliability for no obvious payoff.

Capital Power also recommends that any ratcheting of the stringency level of the electricity benchmark should approximate the expected pace of improvements in technology performance. If the electricity benchmark outpaces the capabilities of turbine technology, the primary effect will be to increase consumer costs rather than to achieve physical reductions in emissions.

In this context, the proposed step-change reduction in the electricity benchmark from 0.37 tCO2e/MWh to 0.31 tCO2e/MWh would likely primarily result in an increase the electricity cost with limited if any benefit in terms of incremental GHG reductions. To the extent MECP believes a decline in the EPS benchmark is required as part of the package of changes to satisfy federal equivalency criteria, reducing the current benchmark from the current level to 0.31 tCO2e/MWh by 2030 on a linear basis should be pursued to mitigate some of the immediate market and cost impacts that would arise under the current MECP proposal.

2. Carbon Levy on Imported Electricity

The federal and provincial governments have imposed a significant carbon price on Ontario's remaining fossil fuel fired electricity generation facilities, first through the federal *Greenhouse Gas Pollution Pricing Act ("GGPPA")* backstop when it applied and then through Ontario's now implemented EPS. Ontario's electricity sector includes significant, and significantly higher carbon intensity imports from the United States ("US"). Currently, there are over 26 electric transmission interconnections between the Ontario and US State power systems. In short, Ontario has a highly interconnected with Michigan, Minnesota, and New York.

Capital Power believes that the electricity sector should be included in the leakage and competitiveness assessments. Imported electricity will have an unfair advantage over electricity generated in Ontario in the event only domestic electricity generation is subjected to increasingly stringent carbon pricing under the EPS. Imported electricity's carbon

emissions are not currently recognized under EPS. As such, imported electricity enjoys an unfair advantage over electricity generated in Ontario that would increase with a more stringent benchmark that continues to only apply to Ontario generators, and as the headline carbon price continues to increase.

There are three general approaches that should be considered to rectify this unlevel playing field concern. The first option would be to collect a flat carbon levy on all imported electricity. The collected carbon levy would neutralize electricity price uplift due to the internal cost of carbon from EPS. The second option would be to impose a carbon levy that is based on import region. This would more accurately reflect the carbon intensity of imported electricity but would be more challenging to administer. The third option would a levy based on electricity source as tracked through E-tag. Such an approach would be the most difficult and costly to administer. At this time, Capital Power believes the first option would be most appropriate.

3. Offsets

Capital Power supports the flexible compliance mechanisms enabled through the excess emissions units and emissions performance units. In addition, Capital Power recommends that MECP adopts the federal offset system as a compliance tool under EPS. Adopting the federal offset system developed under the GGPPA will allow Ontario facilities access to offset projects in different provinces, avoid duplicating the efforts to develop a stand-alone provincial program and reduce the future administrative cost to maintain the offset program.

Capital Power's support for offsets reflects our experience operating under Alberta's carbon framework for large emitters. The offset mechanism has enabled Capital Power and other large emitters to achieve compliance obligations in a cost-competitive manner. The associated offset projects have provided real and verifiable emissions reductions, while also stimulating economic development and employment in various sectors. Capital Power has been the largest private sector investor in offsets in Alberta's carbon market.

4. Registration Eligibility for Retrofits or Expansions

Capital Power supports lowering threshold to 10,000 tCO2e to create GHG demand to maintain robust GHG market in Ontario and reduce the compliance cost to the industry. EPS continues to provide a carbon price signal to invest in decarbonization technologies.

5. Carbon Capture Utilization and Storage ("CCUS")

Capital Power supports developing CCUS and other carbon mitigation such as Direct Air Capture, Renewable Natural Gas or Bioenergy with Carbon Capture and Storage policies in Ontario. Ontario's CCUS proposal enables the flow of credits and value back to the sites of carbon capture. Such approach would also level the playing field for CCUS projects that sequester carbon on site versus those that sequester off site at a sequestration.

Capital Power appreciates the opportunity to provide its comments regarding this important initiative. Please contact me at (780) 221-2354 if you have any questions or wish to discuss the foregoing comments.

Sincerely,

Ahmed Idriss, Ph.D., P.Eng
Director, Environmental Policy

cc. Tom Johnson, Director, Financial Instruments Branch, Ministry of the Environment, Conservation and Parks
Daniel Jurijew, Vice President, Government Relations, Regulatory & Environmental Policy, Capital Power
Emma Coyle, Director, Regulatory & Environmental Policy, Capital Power