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CANADIAN GAS ASSOCIATION
ASSOCIATION CANADIENNE DU GAZ

Vicky La
Financial Instruments Branch- Policy Unit
77 Wellesley Street West
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March 29, 2019

Dear Minister Phillips:

The Canadian Energy Pipeline Association (CEPA) and the Canadian Gas Association (CGA) would like to thank the Ontario government for the opportunity to comment on the province's proposed Industrial Emission Performance Standards (IEPS). CEPA and CGA are supportive of the government's intention to reduce greenhouse gas emissions from industry while addressing the unique circumstances of Ontario's industrial sectors. We acknowledge the complexity of this challenging task and look forward to working with the government and other stakeholders on developing practical and innovative solutions.

The proposal to regulate industry without imposing the federal government's Output-Based Pricing System (OBPS) via the development of emission performance standards is of particular interest to the natural gas transmission pipeline industry. Although we are supportive of the government's intentions to take into consideration specific industry and facility conditions, clear and equitable rules and expectations around equivalency are critical. CEPA members remain concerned with the possibility of being subject to duplicative carbon pricing systems given that the "top up" identified in the federal government's Pan Canadian Framework on Clean Growth and Climate Change[1] would be applied in provinces and territories that adopt a carbon pricing mechanism which fails to meet the federal government's benchmark. In practice, the application of a "top up" may result in regulatory duplication, additional compliance costs and reporting requirements for industry, particularly for those operating in multiple provincial and territorial jurisdictions.

Not withstanding the above concern, CEPA and CGA would like to provide the following comments regarding the questions posed in the IEPS discussion paper.

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[1] Pan-Canadian Framework on Clean Growth and Climate Change: Canada's plan to address climate change and grow the economy (2016). http://publications.gc.ca/collections/collection_2017/eccc/En4-294-2016-eng.pdf

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

The EPS runs the risk of potentially encouraging carbon leakage and increases costs significantly for EITE industries which would lead to no global reduction of emissions and a loss of jobs and revenue for the government and the economy. Using an IEPS for large carbon emitting industrial facilities appears to be the best way to manage competitiveness concerns. In this context, we agree with the overall objective of developing a provincial IEPS to encourage companies to reduce the overall carbon intensity of their operations through switching to less GHG-intensive fuels as well as developing and adopting innovative technologies. To achieve this objective, the IEPS should not unfairly penalize company performance due to the age of their facilities, unique aspects of their industrial process or investments and technology choices made as a result of past government policy. With this in mind, CEPA and CGA members support the recognition of credit for early action back to 2016. We encourage the provincial government to continue to collaborate with sector and sub-sector organizations to establish baselines and reduction goals (e.g. percentage reductions) which consider carbon competitiveness and project/operational economics.

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)?

CEPA and CGA members support flexible compliance options for industrial facilities to meet their obligations, including paying an excess emissions charge, use of emissions credits and use of offset credits. CEPA and CGA's members have expressed interest in the government's intention to create the Ontario Carbon Trust (the Trust) which will be invested in a private-equity/green bank based on frameworks used in the states of New York and Connecticut. We recommend that the money collected from industry should be used to support green initiatives by industry and not be funneled into the general revenue. The money needs to be used to reduce carbon emissions as the regulations are intending to do. We would like to see such a fund set up in a manner that would allow it also to be recognized under the federal Clean Fuel Standard as a compliance option. Given the importance and potential benefits of the fund, we request further engagement and consultation take place in the near future.

We also support the development of pan-Canadian GHG offset framework and encourage the Ontario government to work with their federal counterparts to develop clear and equitable rules and expectations around equivalency.

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?

The capacity of and cost to our member companies to generate surplus credits will depend on the IEPS Carbon Intensity (CI) metric and reference baseline. Once a final metric is in place, we recommend further consultation with industry take place on capacity and costs associated with surplus credits. This also should include discussion on the lifespan of credits, which we recommend should not have an expiry date. We also recommend that credits should be tradeable with other IEPS participants.

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)?

CEPA supports having facilities that emit over 25,000 tonnes of carbon dioxide equivalent (tCO2e) annually to be considered covered in the IEPS for the natural gas pipeline sector, should be inclusive of stationary combustion only and exclude methane venting, flaring and leakage emissions. A voluntary option should be provided for facilities emitting greater than 10,000 tCO2e. The voluntary participants should have flexibility to opt out of the program at any time or following the completion of the compliance period at the time of notification.

It is also important to note the definition of a facility under the proposed federal OBPS regulations, include a contiguous provision, which is not consistent with the facility definition within the Greenhouse Gas Reporting Program (GHGRP). This is particularly problematic given that GHGRP reported quantities (in tCO2e) for 2014 or any year thereafter are used as criteria in determining if a facility is covered (s.3, a). This means that affected companies with transmission pipelines must remove any distribution pipeline's GHGs reported under GHGRP, and divide reported GHGs into the non-contiguous transmission segments (facilities). This may result in some intra-provincial pipeline systems being split into multiple facilities, with some meeting the federal 50,000 tCO2e or more test for a covered facility, and others falling into the 'voluntary' category (10,000 tCO2e to 50,000 tCO2e) threshold or being subject to the carbon tax (less than 10,000 tCO2e). As pipeline facilities within a province are operated as a system, this unnecessary complication will add considerable administrative burden and costs for affected companies in terms of disaggregation, registration, facility reporting and tracking, and back office accounting system adjustments. CEPA and CGA members suggest that the IEPS not include the contiguous definition for natural gas pipeline transmission.

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)?

CEPA and CGA members are supportive of harmonization of federal and Ontario GHG reporting and verification requirements where possible. This reduces the administrative burden, particularly for companies that report under multiple jurisdictions.

We also include with this letter our joint CEPA and CGA comments on the proposed federal OBPS regulation and on the Information Production Order (as amended in December of 2018).

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Closing

Along with our members, CEPA and CGA look forward to continuing our participation in future consultation opportunities with the Ontario government and other stakeholders. Please do not hesitate to contact the undersigned if you have any questions or require clarification regarding any of the comments made above.

Yours sincerely,

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