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RE: EBR Registry Number 012-6844, *Climate Change Mitigation and Low-Carbon Economy Act, 2016 (Bill 172)*

Dear Ms. Ollevier,

The Clean Economy Alliance (CEA, or the Alliance) is pleased to make the following submission concerning the proposed *Climate Change Mitigation and Low-Carbon Economy Act, 2016* (the Act), published on February 24, 2016.

The CEA is a group of nearly 90 organizations representing a broad cross-section of Ontarians that united last year to urge Ontario (or the province) to show leadership in addressing the crucial issue of climate change. (See Appendix 1 for full membership list). The CEA includes prominent Ontario businesses, industry associations, labour unions, farmers' groups, health advocates, and environmental organizations. The Alliance supports the Ontario government's commitments to develop and implement a climate change strategy and cap-and-trade program. We recognize that reducing greenhouse gas (GHG) emissions will bring many benefits, including cleaner air, improved public health, and more jobs and business opportunities in the clean economy.

In April 2015, the Alliance established [six principles of carbon pricing](#) (see Appendix 2), followed in September 2015 by a more detailed [set of recommendations](#) (see Appendix 3) for the design of Ontario's cap-and-trade program. These principles continue to guide the CEA's recommended approach to cap-and-trade design and are reflected throughout this submission.

The CEA welcomes Ontario's plan to put a price on carbon pollution with a cap-and-trade program. The Alliance believes that carbon pricing is a significant policy instrument that can help to ensure the province reaches its targets of reducing GHG emissions—so long as the cap-and-trade system is designed to be effective, predictable, stringent, fair, transparent and durable.

Specifically, the CEA believes the Act should be amended to ensure that the Greenhouse Gas Reduction Account (GGRA) is a special purpose account that is separate from general government revenues; has specific, required, data-driven criteria to invest in new, unfunded initiatives that reduce GHGs; and has more public oversight and transparent reporting mechanisms to improve public confidence that cap-and-trade proceeds are being invested optimally.

1. PREAMBLE

The CEA commends Ontario for couching this legislation in a strong preamble that integrates scientific evidence and acknowledges key climate change principles, including:

- human-induced climate change is real and Ontario and global communities are already experiencing the impacts;
- the progress made under the United Nations Framework Convention on Climate Change and Ontario's role in helping achieve global climate change commitments;
- the importance of the 2 degrees Celsius warming target and the pursuit of 1.5 degrees;
- the economic, environmental and social benefits of transitioning to a low-carbon economy;
- the special relationship and role of First Nations and aboriginal peoples in fostering a low-carbon economy and society; and
- carbon pricing is one way to reduce GHG emissions but that complementary actions are needed to achieve Ontario's GHG emissions reduction targets.

Ontario has played a leadership role on climate action in Canada and around the world. The vision and goals set forth in this Act demonstrate the Province's continued commitment. The Alliance's recommendations seek to ensure that Ontario continues to play a leading and exemplary role by addressing climate change through effectively designed and implemented policies.

2. GHG TARGETS

Section 6 of the Act would enshrine Ontario's current GHG emissions reduction targets for 2020, 2030 and 2050 in legislation. Subsections 6(2) and 6(3) provide for the authority to increase existing targets and create interim targets, respectively, by regulation. The CEA supports the target-related provisions of the Act, as these indicate that Ontario is serious about fulfilling its GHG emissions reductions commitments. The Alliance suggests, however, that the language in subsection 6(2) be amended to clarify that the Act grants the government authority to increase the *ambition* of existing targets. Subsection 6(2) as currently written could be interpreted to mean that the targets could be weakened.

3. TRANSITIONAL MEASURES

Section 30 of the Act grants the Minister authority to distribute Ontario emission allowances, including the authority to distribute free allowances to certain registered participants as a transitional measure.

The CEA will address Ontario's proposed transitional measures in more detail in its submission concerning the draft cap-and-trade regulation. In the meantime, the Alliance reiterates some of its previous recommendations about cap-and-trade design. Specifically, the CEA supports addressing the potential competitiveness impacts on energy-intensive, trade-exposed industries but maintains that any transitional measures the Province intends to adopt should:

- provide targeted support to a very small set of industries where there is compelling evidence that there will be competitiveness challenges and leakage;
- be based on transparent and data-driven criteria and economic analysis; and
- be transitional and temporary, decreasing consistently over time and in keeping with emissions

intensity targets that also decrease consistently over time.

Furthermore, Ontario's cap-and-trade program should be predictable and increase in stringency over time. This means that details concerning the availability or planned phase-out of transitional measures post-2020 should be finalized and released as soon as practically possible.

4. GREENHOUSE GAS REDUCTION ACCOUNT (GGRA)

The CEA believes that an effective cap-and-trade program can generate significant economic benefits and promote further GHG emissions reductions through the reinvestment of revenues raised. Quebec's Green Fund, for instance, is predicted to grow between \$2.7 and \$3.3 billion over the next eight years.¹ The Regional Greenhouse Gas Initiative (RGGI), which applies only to electric power plants, has raised over \$2 billion in auction proceeds to date.² A recent analysis of the RGGI reports that over \$1 billion of auction proceeds have been reinvested in energy efficiency, clean energy and direct energy bill assistance programs and are expected to generate a return of "over \$2.9 billion in lifetime energy bill savings to more than 3.7 million participating households and 17,800 businesses".³ Ontario's cap-and-trade program is similarly expected to generate approximately \$478 million in 2016-17 and \$1.8-\$1.9 billion annually starting in 2017-18.⁴

The adoption of a carbon price will only get Ontario part of the way to its GHG reduction targets; complementary actions are also required. For instance, the California cap-and-trade program will be responsible for approximately 20% of the GHG emissions reductions required to meet the State's 2020 target,⁵ while complementary policies such as the Renewable Portfolio Standard and Low Carbon Fuel Standards are expected to realize closer to 80% of the reductions needed.⁶ Similarly, Quebec is relying on 30 priority complementary projects that are expected to achieve more than 50% of the emissions reductions required to meet its GHG emissions targets.⁷ Complementary measures will be essential to achieving Ontario's required emissions reductions as well.

Therefore, cap-and-trade proceeds should not go into general government revenues or help to re-shuffle government revenues to pay down debt or fund other projects. Rather, they should be reinvested into projects that drive deeper GHG emissions reductions. Investment decisions should be transparent, thoughtful, and fair to those who may be disproportionately impacted, such as low-income families and workers. Investments should seek to maximize environmental, economic and social impact.

The following comments and recommendations seek to help shape the nature and function of the GGRA; the criteria for initiatives and expenses eligible for GGRA funding; and other planning, administration and reporting requirements relating to the GGRA to ensure effective and transparent decision making.

¹ Clean Energy Canada (2015). *Inside North America's Largest Carbon Market: Lessons from Quebec*. Retrieved from <http://cleanenergycanada.org/work/quebec-carbon-market/>.

² The Regional Greenhouse Gas Initiative (2015). *Investment of RGGI Proceeds Through 2013*. Retrieved from <http://reggi.org/docs/ProceedsReport/Investment-RGGI-Proceeds-Through-2013.pdf>.

³ Ibid.

⁴ Ontario Ministry of Finance (2016). *Jobs for Today and Tomorrow: 2016 Ontario Budget*. Retrieved from http://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/papers_all.pdf.

⁵ State of California (2016). *Cap-and-Trade Auction Proceeds Second Investment Plan: Fiscal Years 2016-17 through 2018-19*. Retrieved from <http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/16-17-final-second-investment-planii.pdf>.

⁶ Clean Energy Canada (2015)

⁷ Ibid.

A. Replacement of GGRA Under the *Environmental Protection Act (EPA)*

The Act indicates that it would repeal subsections 176.1(4)-(9) of Ontario's *Environmental Protection Act (EPA)*,⁸ which created a GGRA that is similar to the one being proposed under the Act.

It is unclear why the Ontario Legislature seeks to establish a new GGRA when such a mechanism was already in place under the EPA. As set out in further detail below, the GGRA under the proposed Act appears to be a weaker mechanism in certain ways than that which was provided for under the EPA. CEA members would appreciate further clarity as to why these amendments were needed and how the proposed GGRA under the Act would be different from (and improve upon) the former GGRA under the EPA.

B. GGRA as a Separate, Special Purpose Account

Section 176.1(6) of the EPA currently provides that any revenues earned through the market instruments created under that Act (which would include cap-and-trade revenues) “shall be deposited in a separate account in the Consolidated Revenue Fund to be known in English as the Greenhouse Gas Reduction Account ...” (emphasis added).⁹ Section 176.1(7) then states that “money deposited in the Greenhouse Gas Reduction Account shall be deemed to be money paid to Ontario for the special purpose described in subsection (8)”, including but not limited to supporting greenhouse gas reduction initiatives (emphasis added).¹⁰

In contrast, Section 68(1) of the proposed Act states that “[a]n account shall be established in the Public Accounts to be known as the Greenhouse Gas Reduction Account” in which certain amounts – including cap-and-trade revenues – “shall be recorded”.

Unlike the EPA, the proposed Act does not indicate that the GGRA is a separate, special purpose account. Instead, the Act suggests that the GGRA would function more as an accounting procedure that records the inflows and outflows of dedicated revenues. For instance, subsection 68(2) concerning “Authorized Expenditures” states that “[a]mounts not exceeding the balance in the account may be charged to the Greenhouse Gas Reduction Account and paid out of the Consolidated Revenue Fund” for eligible purposes (emphasis added). Provisions such as this suggest that the GGRA may recognize revenue and authorize expenditures but the actual cap-and-trade proceeds will flow into and out of general revenues and therefore be intermingled with other public funds.

The CEA affirms that cap-and-trade proceeds must be collected and contained in a separate, special purpose account to preserve the integrity and effectiveness of the program. Revenues will be instrumental in achieving further emissions reductions in Ontario and must be reserved for that purpose. Moreover, a separate account is necessary to maintain public trust and ensure the credibility of fund administration. If cap-and-trade proceeds go into general government revenues or are used to pay down debt or pay for other projects, the credibility of the program would be seriously undermined.

⁸ Ontario Legislature (2009). Bill 185, Environmental Protection Amendment Act (Greenhouse Gas Emissions Trading, 2009). Retrieved from http://www.ontla.on.ca/web/bills/bills_detail.do?locale=en&BillID=2195.

⁹ Ibid. s. 176.1(6)

¹⁰ Ibid. s. 176.1(8)

C. Projects and Expenses Eligible for Funding via the GGRA

Section 68(2) sets out the authorized expenditures that may be charged to the GGRA and Schedule I provides a list of initiatives and actions that could be eligible for GGRA funds. The current parameters for eligible expenses, initiatives and actions are comprehensive and the CEA sees strong carbon reduction potential in Schedule I. However, the list is broad and the requirement to link expenses to GHG emissions reductions is weak. The CEA is concerned that the lack of detailed, transparent criteria for eligible initiatives and expenditures could threaten the cap-and-trade system's integrity and effectiveness and open the door to using cap-and-trade proceeds as general public funds.

i. Requirement to Reduce GHG Emissions

Subsection 68(2)2 and Schedule I provide that initiatives will be eligible for funding from the GGRA if they are "reasonably likely to reduce, or support the reduction of, greenhouse gas and costs relating to any other initiatives that are reasonably likely to do so". Moreover, these provisions state the GGRA funds may be used to fund, "directly or *indirectly*", costs relating to such initiatives (emphasis added). Finally, Schedule I, subsection (2) adds that the eligible initiatives may include actions such as research and development, education and training, providing information to the public, innovation and "other actions".

The CEA believes that the requirement linking initiatives to GHG emissions reductions is too weak. Revenues from cap-and-trade should be dedicated to supporting complementary policies to reduce carbon emissions. Eligible projects should be limited to those that directly achieve GHG emissions reductions to ensure that cap-and-trade revenues are reinvested in initiatives that combat climate change. This may include education, training, and provision of information that enhances public understanding of climate change and public participation in climate action, with reporting on measurable carbon reduction impact. In addition to reducing emissions, funding decisions should also seek to maximize social, health and economic benefits and address impacts on marginalized communities. Specific criteria should be developed and used to determine which initiatives receive funding. See section 4.C.iv below for more detail concerning the criteria that should be attached to fund distribution.

ii. Expenses Related to the Administration and Enforcement of the Act

Subsection 68(2)1 and 3 of the Act set out another set of authorized expenditures, which are those that are used to fund the costs of or reimburse the expenses directly or indirectly incurred by the government in connection with the administration and enforcement of the Act or in connection with the eligible initiatives described above.

The CEA accepts the proposed use of cap-and-trade proceeds to support the administration of the Act and its regulations. However, the CEA feels that the linkage between the expense incurred and the administration of the Act should be tightened such that proceeds are only used to fund or reimburse costs and expenses that are *directly* incurred in connection with administration, including education, training and provision of information to the public that has measurable carbon reduction impact.

iii. Past Projects or Expenses Incurred

Subsection 68(2) of the Act, as discussed above, allows for the reimbursement of costs or expenses directly or indirectly incurred by the government in connection with the administration and enforcement of the Act. There are no dates or time limits specified in this subsection. Subsection 68(4) of the Act explicitly allows for the reimbursement of prior expenditures incurred by the government on or after November 1, 2015 and before the Act comes into force. These provisions suggest that GGRA funds will not be used exclusively to fund new expenditures related to the administration or enforcement of the Act *once it comes into force*, nor will they be used exclusively to support future GHG-reducing initiatives. The Financial Accountability Office of Ontario recently remarked that “it is unclear to what extent these new revenues (both cap-and-trade proceeds and expected federal transfers) will be directly tied to new program spending or can be used to fund existing spending commitments.”¹¹

The CEA is concerned that under the Act as currently proposed, cap-and-trade proceeds could be used to pay for commitments the government has already announced or provided funding for. The Alliance urges the government to adopt language to ensure that cap-and-trade proceeds will be reserved solely for new, unfunded initiatives that will directly achieve GHG emissions reductions.

The Ministry has indicated that Ontario’s first cap-and-trade auction would be held in March 2017. In light of this, Ontario could consider amending the Act to state that only initiatives launched and expenses incurred on or after January 1, 2017 would be eligible for funding.

iv. Criteria for GGRA Fund Distribution

CEA strongly reiterates its recommendation that cap-and-trade proceeds be administered in a transparent manner and dedicated to initiatives that most cost-effectively maximize emissions reductions. Ontario’s determination of which projects receive funding should be based on clear, transparent criteria and decisions should be accompanied by a detailed analysis, available to the public, showing:

- the projected emissions reductions of an initiative;
- a timeline of when such reductions are expected to be achieved (balancing the need for long term transformative changes with those that will deliver more immediate reductions and contribute to meeting Ontario’s near-term targets);
- a per dollar assessment of the GHG reduction potential of the initiative and economic analysis to ensure the proceeds deliver optimal impact, disclosing how this return on investment was calculated¹²; and
- the health, safety, environmental, social and economic benefits associated with the initiative.

The MOECC should be required to conduct an analysis of these factors and demonstrate to the public whether and how selected initiatives met the criteria.

¹¹ Financial Accountability Office of Ontario. (2016). *Assessing Budget 2016’s Fiscal Plan*. Retrieved from http://www.fao.on.org/en/Blog/Publications/Budget_2016#_ftnref2.

¹² Ultimately, the CEA would like to see carbon reduction analysis and potential across all government spending.

Revenue allocation should also include analysis to ensure proceeds deliver lasting health, social and economic benefits, and ensure that low-income communities, families and workers receive the assistance needed in order for them to adapt to the carbon price. For instance, California’s Senate Bill 535¹³ requires that “at least 25 percent of the annual GGRF proceeds be allocated to projects that benefit disadvantaged communities and at least 10 percent be allocated to projects located within disadvantaged communities”.¹⁴ Quebec’s *Law on Environmental Quality* also includes language directing or allowing cap-and-trade proceeds to be used to mitigate the “economic and social impact of emission reduction efforts”.¹⁵

The CEA recommends the adoption of similar requirements in Ontario and would like to see amendments to the Act that commit some portion of the proceeds to helping low-income and First Nations communities. The Green Investment Fund’s allocation of funding for energy retrofits for social housing and support for development of renewable power, energy storage and climate change mitigation initiatives in First Nations communities is a good start, and should be strengthened in the Act. Investments in public transit and active transportation infrastructure also tend to provide many health and social benefits.

The criteria described in this section of CEA’s submission could be added under section 68(3) of the Act and required as part of the MOECC’s review and evaluation. This approach will ensure political objectives do not unfairly motivate investment decisions, ensure broad emissions reductions are maximized, and help make climate action fair to marginalized communities. Furthermore, the Act should formalize the inclusion of First Nations traditional knowledge in the development of the climate change action plan. Section 7(2) should be amended to put the onus on government to seek this knowledge and read “The Minister shall seek traditional ecological knowledge from First Nation and Métis communities and incorporate this in to the development of the climate change action plan.”

D. Cap-and-trade Revenue Investment Plans

In order to guide cap-and-trade proceeds investment decision making, the CEA recommends requiring the GGRA fund administrator, in coordination with other relevant ministries and stakeholders, to develop multi-year cap-and-trade proceeds investment plans. Such investment plans would be developed through various stages of public consultation to ensure public accountability with respect to investment decision making.

In California, the Department of Finance, in consultation with the California Air Resources Board (CARB) and other State agencies, must develop and submit a three-year Investment Plan for cap-and-trade proceeds to the Legislature.¹⁶ The Investment Plan is required to, among other things:

- identify near-term and long-term greenhouse gas emission reduction goals and targets;

¹³ California Legislature (2012). *Senate Bill 535: California Global Warming Solutions Act of 2006: Greenhouse Gas Reduction Fund (De León, Chapter 830, Statutes of 2012)*. Retrieved from http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120SB535.

¹⁴ State of California, 2016.

¹⁵ Government of Quebec. (2016) *Environmental Quality Act, section 46.16*. Retrieved from http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=2&file=/Q_2/Q2_A.htm.

¹⁶ California Air Resources Board. (2016). *Cap-and-Trade Auction Proceeds Triennial Investment Plan*. Retrieved from <http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/investmentplan.htm>.

- review and analyze gaps in existing plans, programs, and other State strategies that are designed to help achieve GHG emission reductions in various sectors
- analyze gaps in current State funding for meeting these goals; and
- identify priority investments that facilitate GHG emissions reductions, while realizing additional health, economic and environmental benefits.

The CARB then hosts workshops and a public hearing for the three-year Investment Plan.¹⁷ For instance, seven workshops were held during August 2015 and an additional three in November 2015 to obtain public input in response to the July 2015 Draft Concept Paper for the Cap-and-Trade Auction Proceeds Second Investment Plan for Fiscal Years 2016-17 through 2018-19. A public hearing was then held in December 2015 to obtain additional public input on the Investment Plan.¹⁸ Once the three-year plan is finalized and submitted, funding is appropriated to State agencies by the Legislature, consistent with the Investment Plan.¹⁹

E. Administration of Funds

i. Treasury Board as GGRA Fund Administrator

The Act indicates that the Treasury Board will be administering cap-and-trade proceeds from the GGRA as opposed to the MOECC or some other arms length body, as the CEA formerly recommended.

The CEA reiterates that Ontario's cap-and-trade proceeds must be administered in a transparent, effective way according to clear criteria that ensures proceeds go towards further GHG emissions reductions. If the purpose of the GGRA is to reinvest in projects that will further reduce GHGs, the Treasury Board lacks the expertise needed to make the determination of which projects would most effectively achieve these goals.

Moreover, if the GGRA is controlled by the Treasury Board, Ontario runs the risk of these fund administrators selecting projects based on cabinet priorities. Quebec's approach to the reinvestment of its cap-and-trade proceeds has been criticized for lacking specific project criteria, calls for proposals, clearly defined objectives and other program information.²⁰ Ontario should seek to avoid similar criticisms. Funding decisions cannot be politicized and proceeds should not be intermingled with public funds or used for general government expenses.

ii. Role of the MOECC in Fund Administration

Ontario has declined to follow California's approach to fund administration, where the CARB, an independent agency with expertise relevant to the eligible project criteria, administers cap-and-trade proceeds. It should therefore ensure that the MOECC plays an integral role in project selection and GGRA fund administration.

¹⁷ State of California, 2016.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Clean Energy Canada, 2015.

Subsection 68(3) provides that GGRA funds may not be distributed unless the MOECC reviews and provides an evaluation of the initiative to the Treasury Board. This subsection further provides that the MOECC's review *may* consider factors such as:

- (a) the potential greenhouse gas reductions of the initiative;
- (b) the relationship of the initiative to the achievement of the greenhouse gas emission reduction targets established under section 6;
- (c) the relationship of the initiative to other potential, planned and funded initiatives to reduce greenhouse gas;
- (d) the relationship of the initiative to the climate change action plan prepared under section 7;
- and
- (e) such other matters as the Minister considers appropriate.

There is no requirement that the MOECC's review and evaluation be made public, nor is there a requirement that the Treasury Board consider the MOECC review when determining which initiatives it will fund.

The CEA urges Ontario to enhance the role the MOECC will play in determining which initiatives should be funded by cap-and-trade proceeds and strengthen the requirements concerning the review and analysis required prior to project selection decisions. The MOECC should be required to consider the listed factors in subsection 68(3), as well as conduct the analysis CEA describes in section 4.C.iv above. Moreover, the Treasury Board should be required to consider the MOECC's review and evaluation and substantially base its GGRA fund distribution decisions on such analysis. Finally, all MOECC analyses regarding potential and selected projects and the Treasury Board's reasoning for its final decisions should be made public in the annual report, as described below.

F. Annual Report

Subsection 68(6) of the Act provides that the MOECC must prepare an annual report setting out:

- (1) a description of the amount credited and charged to the GGRA during the year;
- (2) a description of each of the initiatives "with respect to which amounts were charged to the Account", including an identification of which of those initiatives were contemplated in the climate change action plan;
- (3) a description of the amounts charged to the GGRA to reimburse the government, directly or indirectly, for expenses incurred in connection with the administration or enforcement of the Act and the regulations; and
- (4) other information as may be required by the regulation (which at this point, no further information appears to be required).

The above requirements do not include a requirement that the Minister indicate the specific amounts that were distributed to (or "charged to the Account" on behalf of) each initiative. Nor do they require a showing of how initiatives were selected for funding; the specific GHG emissions reductions that are expected to be achieved through selected initiatives; or which other initiatives were considered but rejected. These are important factors that should be considered and disclosed as part of the annual report in order to ensure rigorous, diligent decision-making. The CEA recommends that subsection 68(6)

be amended to ensure that MOECC tables the annual report to the Legislature in the same year as amounts are charged to the GGRA, as a stand-alone annex of the MOECC estimates.

In California, Senate Bill 1018, which provides that cap-and-trade auction proceeds go into the GGRF, also establishes accountability requirements to “help ensure that all GGRF expenditures achieve GHG reductions and further the purposes of the California Global Warming Solutions Act of 2006”.²¹ SB 1018 requires State agencies that have been appropriated funds from the GGRF to prepare an expenditure record, which documents the use of funds and provides the following information:²²

- The proposed use of GGRF monies;
- How a proposed expenditure will further the regulatory purposes of AB 32;
- How a proposed expenditure will contribute to achieving and maintaining GHG emission reductions;
- How the State agency considered the applicability and feasibility of other non-GHG reduction objectives; and
- How the State agency will document the result achieved from the expenditure.

The CEA urges Ontario to follow California’s lead and adopt more stringent requirements to ensure greater transparency, rigor and due diligence in the MOECC’s reporting on GGRA expenditures. Subsection 68(6) of the Act should be strengthened such that the annual report required under this section is subject to more detailed requirements. For instance, the annual report should include the analyses conducted as part of the MOECC’s reviews and evaluations undertaken and provided to the Treasury Board pursuant to subsection 68(3) (as well as the additional analysis that CEA recommends the MOECC conduct in section 4.C.iv above). It should also include the Treasury Board’s reasoning for its final funding decision. Such amendments would ensure that the public understands why certain projects were selected for funding while others were not, ensure that decisions are based on GHG reduction potential, and insulate funding decisions from political interference.

5. ROLE OF ENVIRONMENTAL COMMISSIONER

The Act does not refer to the Environmental Commissioner of Ontario (ECO) in any way. It is unclear whether the ECO would have access to any of the GGRA program data, the GHG inventory verification reports, the offset program data, or other data and information about the cap-and-trade program. The CEA recommends that the Act be amended to explicitly state that the ECO have access to any and all data related to the program. This would enable greater transparency and public oversight, and provide greater certainty that cap-and-trade is achieving emissions reductions effectively and economically.

CONCLUSION

The CEA is strongly supportive of Ontario’s commitment to implement a cap-and-trade program to price carbon pollution. The *Climate Change Mitigation and Low-Carbon Economy Act* is the strongest piece of climate legislation that Ontario has seen to date. But the Act could be further strengthened to ensure that the cap-and-trade program is as effective, predictable, stringent, fair, transparent and durable as

²¹ California Air Resources Board. (2014). *Auction Proceeds Implementing Legislation*. Retrieved from <http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/implementinglegislation.htm>.

²² Ibid.



possible. Specifically, the Act should be amended to ensure that the GGRA is a special purpose account, separate from general government revenues; has specific, required, data-driven criteria to invest in new, unfunded initiatives that reduce GHGs; and has more public oversight and transparent reporting mechanisms to improve public confidence that cap-and-trade proceeds are being invested optimally.

The CEA looks forward to continuing to work with the province on the cap-and-trade program and all aspects of the climate strategy in the months ahead. If you have any questions or require any clarification on the contents of this submission, please contact:

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Appendix 1: List of Clean Economy Alliance Members

[ArcTern Ventures](#)
[Asthma Society of Canada](#)
[BioFuelNet](#)
[Bioindustrial Innovation Canada](#)
[Blue Green Canada](#)
[Bullfrog Power](#)
[Canadian Association of Physicians for the Environment](#)
[Canadian Biogas Association](#)
[Canadian Solar Industries Association](#)
[Canadian Wind Energy Association](#)
[Carbonzero](#)
[Cement Association of Canada](#)
[Chrysalix Energy Venture Capital](#)
[Citizens Environment Alliance of Southwestern Ontario](#)
[Clean Air Partnership](#)
[Clean Energy Canada](#)
[Climate Reality Project Canada](#)
[CoPower](#)
[Corporate Knights](#)
[CRH Canada](#)
[Cycle Toronto](#)
[David Suzuki Foundation](#)
[The Clean 50](#)
[Delta Management](#)
[Earth Day Canada](#)
[Earth Rangers](#)
[Ecosystem Energy Services Inc.](#)
[Efficiency Capital Corporation](#)
[Energy Storage Ontario](#)
[EnviroCentre](#)
[Environmental Defence](#)
[Evergreen CityWorks](#)
[Fadco Consulting Inc.](#)
[Faith & the Common Good: Greening Sacred Spaces](#)
[Field Chemical Technologies Inc.](#)
[Forests Ontario](#)
[Green Neighbours 21](#)
[Green Planet Biofuels](#)
[Innovolve Group](#)
[International Institute for Sustainable Development](#)
[Lafarge Canada Inc.](#)
[LED Roadway Lighting](#)
[Lumos Energy](#)
[MaRS CleanTech](#)
[Mindscape Innovations](#)
[Mountain Equipment Co-op](#)
[NAIMA Canada](#)
[Nanoleaf](#)
[NEI Investments](#)
[NRStor Inc.](#)
[Ontario Association of Architects](#)
[Ontario Clean Air Alliance](#)
[Ontario Federation of Agriculture](#)
[Ontario Lung Association](#)
[Ontario Nature](#)
[Ontario Rivers Alliance](#)
[Ontario Secondary School Teachers' Federation](#)
[Ontario Society of Professional Engineers](#)
[Ontario Sustainability Services](#)
[Ontario Sustainable Energy Association](#)
[Ontario Waterpower Association](#)
[OpenConcept Consulting Inc.](#)
[Patagonia](#)
[Perkins+Will](#)
[Petrolup](#)
[Plug n' Drive](#)
[Price Carbon Now, ON!](#)
[RainGrid](#)
[Registered Nurses' Association of Ontario](#)
[Responsible Investment Association](#)
[rethink Green: Solutions for a Sustainable Sudbury](#)
[Shareholder Association for Research & Education](#)
[Smarter Shift](#)
[St Marys Cement](#)
[Sustainability CoLab](#)
[Sustainable.TO Architecture + Building](#)
[The Pembina Institute](#)
[Terragon Environmental Technologies Inc.](#)
[Top Drawer Creative](#)
[Toronto Atmospheric Fund](#)
[Toronto Centre for Active Transportation](#)
[Toronto Cycling Think and Do Tank](#)
[Toronto Environmental Alliance](#)
[Toronto Parks and Trees Foundation](#)
[TREC Renewable Energy Cooperative](#)
[TREC Education](#)
[Unifor](#)
[United Steelworkers](#)
[World Wildlife Fund Canada](#)
[Zerofootprint Software Inc.](#)

Appendix 2: Clean Economy Alliance Six Principles of Carbon Pricing

- Ontario's cap-and-trade system must be designed so it is effective and contributes meaningfully to reaching Ontario's 2020, 2030 and 2050 emissions reduction targets
- The cap-and-trade system should apply to as large a share of Ontario's emissions as is practicably possible
- The system should be designed in a way that is fair to those who may be disproportionately impacted such as low-income families and workers
- It should be fair to companies that have taken early action, and address impacts to energy-intensive and trade-exposed industries
- The cap-and-trade system should be predictable, and be geared toward continuous improvement and increasing stringency over time.
- Revenues from cap-and-trade should be dedicated to supporting complementary policies to reduce carbon emissions and adapt to the impacts of climate change

Appendix 3: Clean Economy Alliance Cap-and-Trade Recommendations from [Getting it Right](http://cleaneconomyalliance.ca/getting-it-right/)
(available for download at: <http://cleaneconomyalliance.ca/getting-it-right/>)

COVERAGE

Following from the principle that the cap-and-trade program should apply to as large a share of Ontario's emissions as is practicably possible, coverage in Ontario should be aligned with Quebec and California at a minimum of 85 per cent coverage of the economy, including electricity, buildings, transportation and industry. Fuels should be included in the system from the outset. No exemptions should be given.

STRINGENCY

Ontario's cap-and-trade program should be implemented by 2017 and the emissions cap should decline by approximately five megatonnes (MT) per year, on a clear and transparent schedule to provide businesses certainty. The cap needs to decline commensurate with Ontario's 2020 and 2030 targets. Consistent with the recommendations on coverage above, fuels should not be subject to delayed implementation.

PRICE STABILITY

Ontario's program should include a price floor, a market stability reserve, and an allowance purchase limit. Ontario should establish an auction reserve price (acting as a price floor) that increases by five per cent per year plus inflation to align with Quebec's and California's systems. It should establish a market stability reserve (acting as a price ceiling) that holds allowances and contains clear guidelines for adding and removing allowances from the system. Lastly, it should establish an allowance purchase limit to prevent covered industries from purchasing unnecessary allowances and artificially raising the price.

OFFSETS

Ontario should limit the use of offsets to a maximum of eight per cent of an entity's total compliance obligation, consistent with California and Quebec. Offsets should be subject to high standards in terms of verification to show that they are additive and permanent.

COMPETITIVENESS IMPACTS

Any process for assessing and addressing competitiveness impacts must be rigorous, transparent and based on sound economic analysis. If any permits are allocated without cost, they should only be granted to a very small set of industries where there is compelling evidence that there will be competitiveness challenges and leakage. Furthermore, any free allocation of permits must be transitional, decreasing consistently over time and in keeping with emissions intensity targets that also decrease consistently over time.

PROGRAM OVERSIGHT AND REVENUE ALLOCATION

The proceeds from carbon pricing should be dedicated to the Greenhouse Gas Reduction Account, per the Environmental Protection Act (2009), and disbursed according to the provisions of that legislation, including but not limited to:

- Mitigation of climate impacts on low-income and otherwise marginalized communities

- Monitoring, reporting, verification, oversight and governance, similar to the allocation of \$45 million for “coordination, monitoring and accountability” in Quebec’s Climate Change Action Plan
- Development and deployment of low-carbon technologies, such as renewable energy, clean technology, energy efficiency and conservation, public transit, and infrastructure for active transit, such as walking and cycling, that will support economic transformation and innovation and position Ontario to build a 21st century clean economy.

The fund should be administered by a third party in a transparent manner in order to avoid the perception of political interference and to facilitate widespread popular support. The determination of which projects receive funding should include a per dollar assessment of the GHG reduction potential of the initiative, economic analysis to ensure the proceeds deliver the greatest impact possible, and consideration of when an initiative will begin delivering emissions reductions. Ontario should also consider allocating a portion of proceeds to municipal planning authorities to develop climate change action plans to help municipalities mitigate and adapt to climate change.

LINKAGE WITH QUEBEC AND CALIFORNIA

Through the WCI, Ontario should focus on similar design details as those in California and Quebec to facilitate linkage, while making minor improvements that ensure its system is just as, or more stringent, equitable and effective than the others while accommodating Ontario’s unique economy and environment.