CANADIAN COUNCIL ON
RENEWABLE ELECTRICITY

CONSEIL CANADIEN SUR
L'ÉLECTRICITÉ RENOUVELABLE

10 July 2018

To the Attention Of:

Judy Meltzer, Director General, Carbon Pricing Bureau
Kate Teeple, Director, Carbon Pricing System

Transmitted electronically to: ec.tarificationducarbonecarbonpricing.ec@canada.ca

RE: Carbon Pricing: compliance options under the federal output-based pricing system

Dear Ms. Meltzer and Ms. Teeple

Thank you for the opportunity to comment on the proposed federal approach on compliance options under the federal output-based pricing system (OBPS). The Canadian Council on Renewable Electricity (CanCORE) was established to educate and engage Canadians about the opportunity to expand the production and use of renewable electricity across the country and to develop coordinated positions with respect to relevant policies and measures under the Pan Canadian Framework on Clean Growth & Climate Change ("the Framework"). CanCORE represents the aligned interests of four major renewable power providers in Canada: the Canadian Hydropower Association (CHA), the Canadian Wind Energy Association (CANWEA), the Canadian Solar Industries Association (CanSIA) and Marine Renewables Canada (MRC). Our overarching goal is to ensure that Canada moves towards a virtually 100% non-emitting electricity grid by mid-century, so as to help ensure that Canada can meet its climate change and non-emitting electricity commitments for 2030 and beyond.

Consistent with all our previous proposals related to greenhouse gas emissions regulations for the electricity sector, the carbon pricing backstop and the Clean Fuel Standard, CanCORE's approach is one of constructive engagement with the federal government. As stated in our submission of April 30th, CanCORE believes that a Pan-Canadian clear, fair and effective price signal with long term policy

certainty that shifts investment away from emitting toward non-emitting electricity generation sources over time, is the single largest success factor for Canada to meet its climate change objectives and obligations. In that respect, we have noted in those interventions and in a separate letter to the Minister of Environment and Climate Change and the Minister of Natural Resources, our concern that the federal proposals have consistently not been as stringent as would be required to achieve our climate and non-emitting electricity generation targets. That concern is also present with respect to the federal proposal on compliance options for the OBPS.

More specifically, we are concerned that if too many compliance option units are made available, such as providing NO limit to the use of any type of compliance instruments in a given year, the effectiveness of the system will be compromised and will limit Canada's ability to meet its international obligations under the Paris Agreement. For example, a $50/tonne price on carbon could ostensibly become $10/tonne or lower in the event that there was no limit on the use of compliance option units. In the electricity sector, CanCORE is concerned that the introduction on an OBPS regime through the federal carbon backstop, could result in an overabundance of compliance units that reduce the impact of greenhouse gas emissions policy and regulation whose stringency is already misaligned with our national climate and non-emitting electricity targets.

Regarding the range of compliance units being proposed, CanCORE has the following views:

Surplus Credits: Surplus credits are a unique artifact of the OBPS and the discussion is inextricably linked to the level of the standards set under the OBPS since surplus credits are defined relative to these standards. Setting the level of the standards is critical. Setting the standards too high results in no meaningful constraint on emissions and would result in too many surplus credits being generated, driving down market prices and further diminishing the constraint on emissions. Environment & Climate Change Canada (ECCC)'s proposed OBPS of 420 t/GWh for the electricity sector will produce such an outcome.

To avoid such an outcome, CanCORE has previously offered the following recommendations as a compromise to reduce the impact of carbon pricing on all electricity users while retaining meaningful signals for investment in new generation:

For new emitting electricity generation facilities, CanCORE had recommended that the OBPS should be set at 0 t/GWh. *In other words, new facilities should be exposed to the full Carbon Price as is currently the case in Ontario, Quebec and British Columbia. Such facilities should not be able to produce surplus credits. Investors seeking to build new electricity generation in Canada must receive a clear signal that encourages consideration of non-emitting generation alternatives.*

For existing emitting electricity generation facilities, CanCORE had recommended that the OBPS should initially be set at 370 t/GWh declining at a rate of 1 per cent per year*. This would be consistent with the current approach in Alberta and would address the unique competitiveness and leakage risks in Emissions Intensive and Trade Exposed (EITE) sectors. In this approach, existing facilities would benefit from having much of their emissions sheltered from the full carbon price. For these facilities, surplus credits would only be created if emissions performance fell below the OBPS (i.e. in year 1, 370 t/GWh).*

For facilities that do not have access to power-lines or pipe-lines (i.e. remote mines), a discrete OBPS could be negotiated at a level greater than 370 t/GWh (with a commitment to strengthen on a regular basis thereafter). However, such facilities should only be able to generate surplus credits if their emission performance falls below the OBPS for existing facilities in that year (i.e. in year 1, 370 t/GWh). *This approach would address the unique challenges to decarbonization in these special instances while ensuring that cost-effective emissions are displaced when practical.*

We remain resolute that these recommendations offer a reasonable compromise for the electricity sector.

As noted above, under this framework there would be no surplus credits for new generation since no generation emits at lower than 0 t/GWh.

With respect to existing facilities, CanCORE continues to believe that ***the current proposal that natural gas generating facilities be assessed against a GHG emissions standard of 420t/GWh (when some facilities already perform at a level below this standard) is not the***

level of stringency that is required consistent with our climate and non-emitting electricity targets. *This approach would enable the creation of unjustified surplus credits from BAU type facilities.*

Offset Credits: Currently there appears to be no discussion about limits on the role of offset permits. We note, that in one form or another, all carbon pricing regimes developed so far in North America include some kind of 'limit' on their availability to industry, including *inter alia*, the Western Climate Initiative's limit of 8% access to offsets or Alberta's limit to offsets only developed within its province with a cap set on offsets from 2018 - 2020.

CanCORE suggests that the Federal government consider a limit on access to offset credits to ensure continued carbon price robustness.

CanCORE believes that renewable electricity generation facilities (that retain their greenhouse gas emission reduction attributes) should be eligible to sell those attributes as greenhouse gas emission reduction offsets as a compliance option for participants in the Federal Government's carbon backstop system if they meet the standards developed for such offsets.

CanCORE also supports the proposal that the Federal Government recognize pre-existing provincial offset systems, including pre-2016 credits, such as those provided for in Alberta's offset system.

International Credits: While it still far from clear what the availability, price and environmental integrity of international carbon credits will be 10 to 15 years hence, these issues must be assessed carefully before integrating into the OBPS. Similar to domestic offsets, we would expect there to be some type of limit on their availability and use in order to not compromise Canada's carbon price signal in the Canadian economy. Access to these credits should be designed in a way that works to support the export of Canadian clean, non-emitting technologies and services in the global market without undercutting their penetration here in Canada.

CanCORE urges the Federal Government to limit the role of domestic and international credits and consider setting a floor carbon price such that the national carbon price signal

is not unduly compromised.

Reviews:

Like the carbon price backstop system itself, we also recommend that the compliance options be subject to full review by 2022.

Thank you for the opportunity to comment on the proposal for compliance options under the OBPS. We, of course, would be pleased to meet with you at your convenience to discuss the contents of this letter.

Sincerely,

John Gorman, President & CEO, Canadian Solar Industries Association (CanSIA)

Robert Hornung, President & CEO, Canadian Wind Energy Association (CanWEA)

Amanda White, Operations Director, Marine Renewables Canada (MRC)

Eduard Wojczynski, President, Canadian Hydropower Association (CHA)