

# Memorandum

## IESO BUSINESS UPDATE

To: Stakeholder Advisory Committee

From: JoAnne Butler, VP, Market and Resource Development

Date: August 3, 2016

**Subject: IESO Business Update – Ontario’s Cap & Trade Initiative**

In April of 2015 Ontario announced it would move forward with a Greenhouse Gas (GHG) reduction program through a “Cap-and-Trade” (C&T) initiative which will include the electricity sector and is intended to be linked to similar programs implemented by California and Quebec through the Western Climate Initiative (WCI).

The Ministry of Environment and Climate Change (MOECC) posted the final regulation on May 19, 2016 which came into effect on July 1, 2016. Compliance obligations under the regulation are scheduled to begin on January 1<sup>st</sup>, 2017. A separate regulation regarding offset credits is also expected to be released later in 2016. MOECC has also announced it will begin its stakeholder engagement process to inform post-2020 C&T program design in August.

IESO staff continues to work with staff at the MOECC and Ministry of Energy providing advice, information, and analysis on the development of the remaining aspects of the program. Here are some of the focus areas:

- The C&T program will impact natural gas fired generators in Ontario. For those generators with IESO contracts, it may trigger contractual entitlements depending on the provisions of the specific contract. The IESO has been in contact with its natural gas generator contract counterparties to communicate the approach the IESO intends to take to address any contractual obligations arising from the implementation of cap and trade.
- Under Ontario’s C&T program natural gas distributors have compliance obligations related to their customer’s emissions from the combustion of natural gas; this includes natural gas fired electricity generators<sup>1</sup>). The OEB is currently in the process of

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<sup>1</sup> However does not include emissions from facilities with direct compliance obligations, certain behind-the-meter generation projects and those facilities that are not connected to OEB regulated natural gas distribution systems.

developing the regulatory framework for the cost recovery of these cap and trade related costs for natural gas distributors. The regulatory framework is expected to be completed during the fall. While any required amendments to IESO contracts cannot be completed until the framework is finalized, the IESO is working towards completing any necessary amendments prior to the end of 2016.

- The IESO continues to support the Ministry of Energy and MOECC with finalizing details related to the implementation of cap and trade in Ontario. This includes:
  - proceeds recycling options and implementation
  - treatment of imports/default emission factors
  - development of offset protocols