

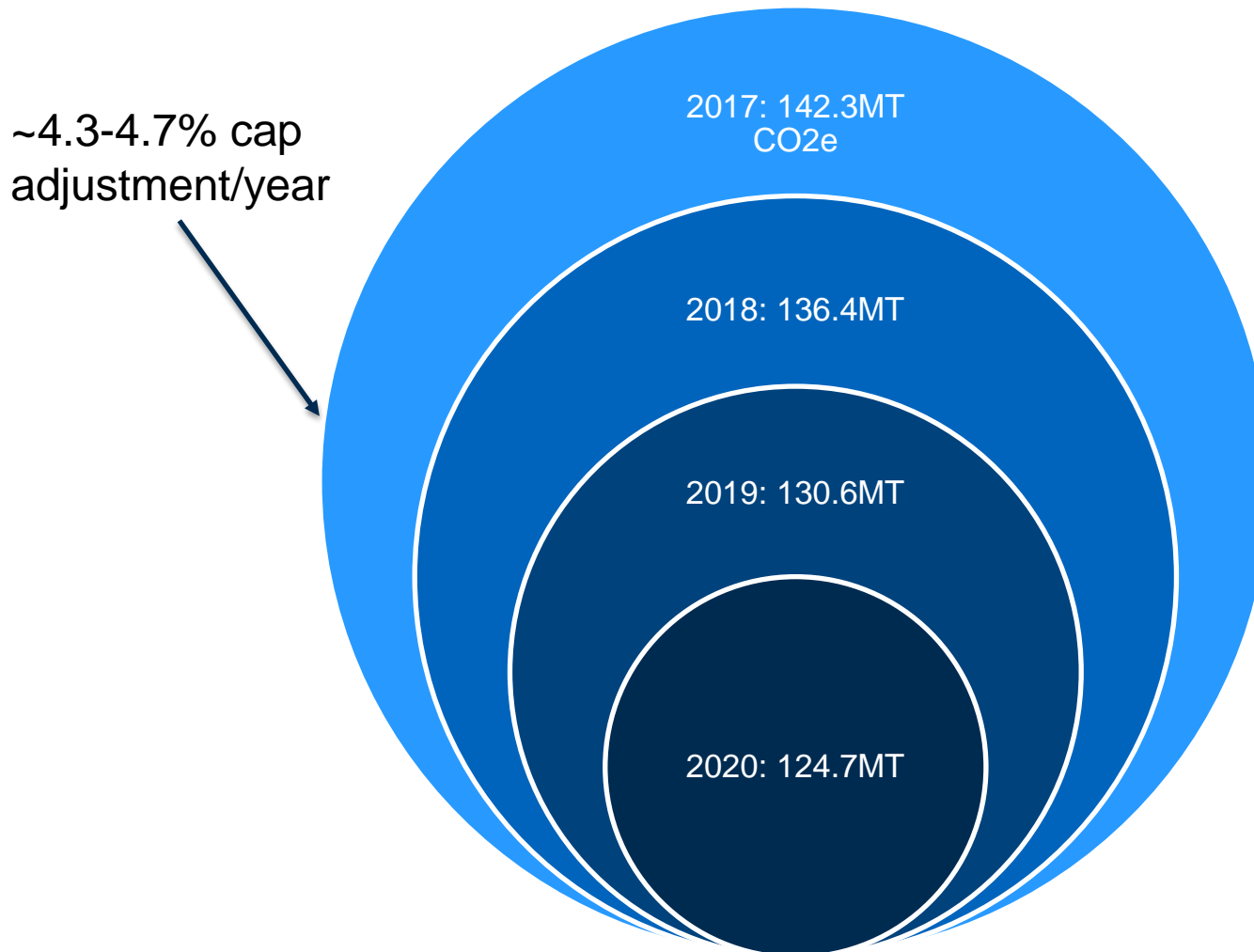
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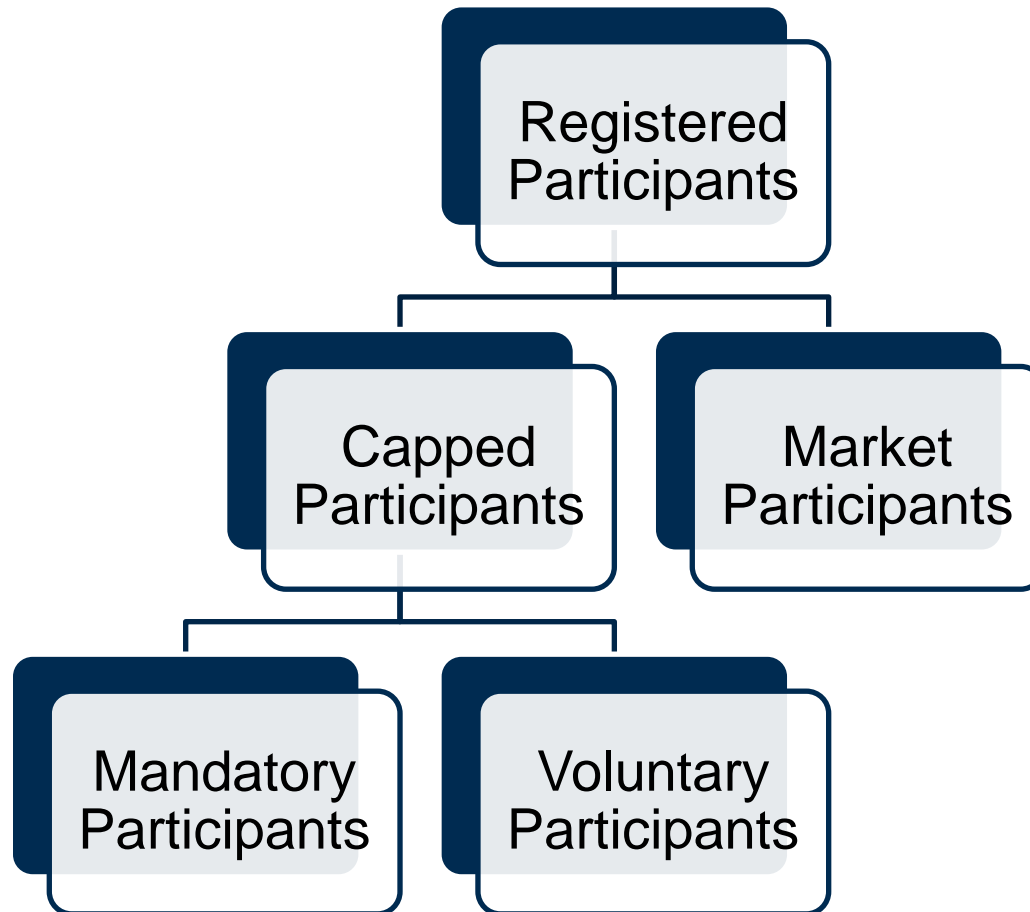
Ontario's Cap-and-Trade Program: Application to Natural Gas Distributors

Tyson Dyck, Torys LLP
June 9, 2016



Ontario's emissions cap: 2017-2021

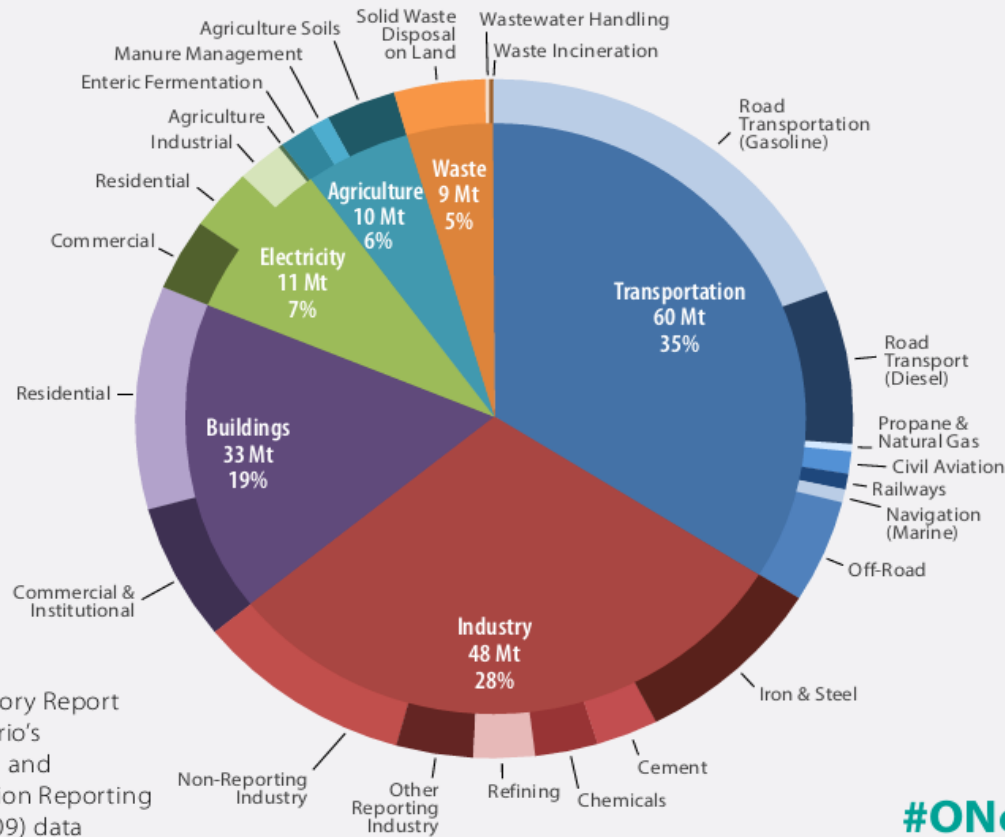




Sector	Threshold for Mandatory Participation
Large industrial emitters	Emissions of 25,000 tonnes or more of CO ₂ _e per year*
Natural gas distributors	Attributed emissions of 25,000 tonnes or more of CO ₂ _e per year
Petroleum product suppliers	200 litres or more of petroleum product supplied per year
Electricity importers	More than zero megawatt hours of electricity imported per year

*Nearly 150 large industrial emitters report emissions above this threshold. For comparison, California's system covers ~350 participants in all categories, and Quebec's covers ~90 in all categories

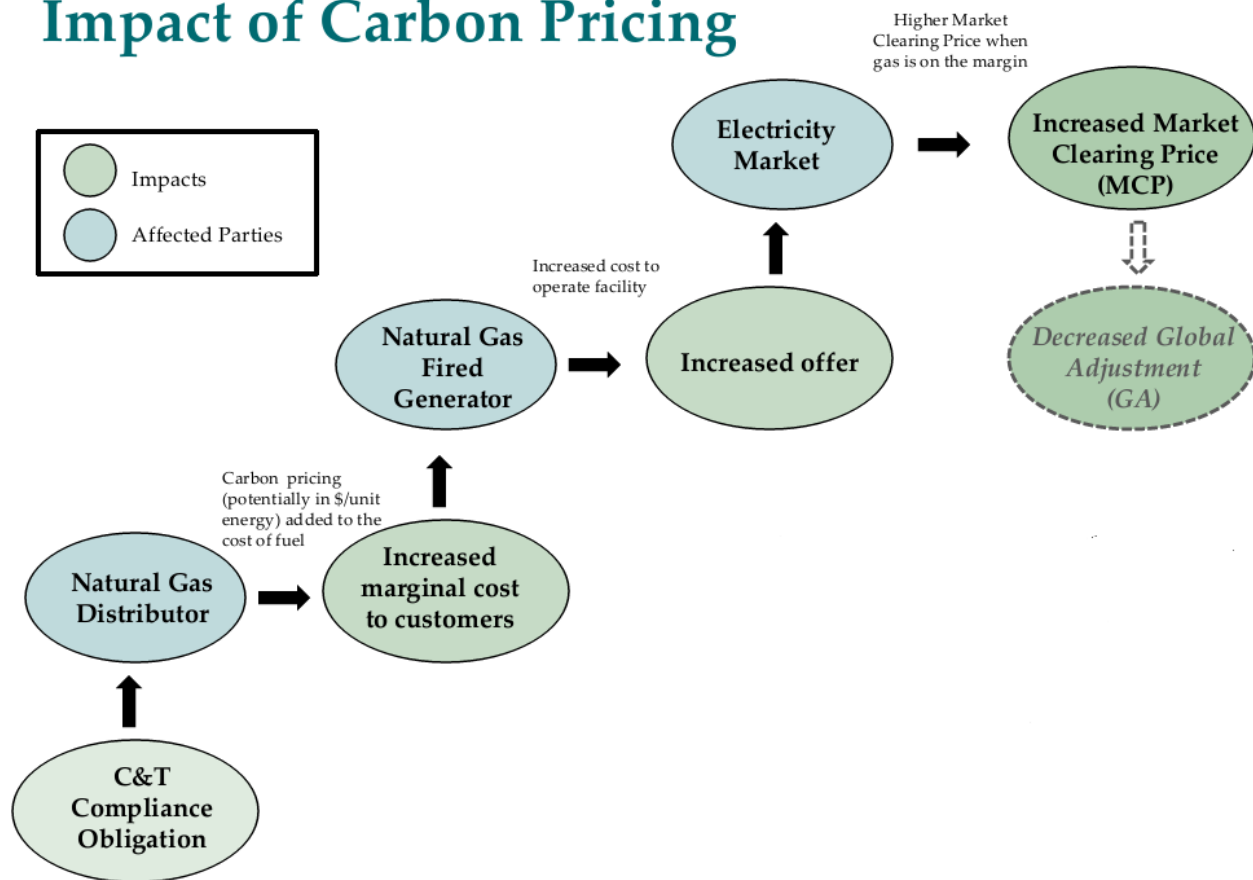
Ontario's 2013 GHG Emissions by Sector



Source: National Inventory Report 2015 (2013 data), Ontario's Long-Term Energy Plan and Greenhouse Gas Emission Reporting regulation (O.Reg 452.09) data

#ONclimate

Impact of Carbon Pricing



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- Voluntary participants may “opt-in” and “opt-out” of the cap-and-trade program
 - Certain criteria must be met to opt-in:
 - must be in the categories of large final emitters, with emissions >10k but <25k
 - must have emissions report verified and submitted to MOECC
 - must complete registration as if a mandatory participant
 - Prior to opting-out, voluntary participant must:
 - request cancellation in writing
 - submit allowances/credits to cover emissions during the period of registration

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- Capped participants must cover their emissions in each compliance period with any of the following:
 - allowance allocated to them for free (where applicable)
 - allowances purchased:
 - through quarterly auctions
 - in the secondary market
 - through reserve sales
 - emissions offset credits
 - early action credits
 - Allowances/credits must be submitted by Nov. 1 following each compliance period

-
- Generally, to be eligible for free allowances, must fall within a category of large industrial emitter
 - natural gas distributors, petroleum product suppliers and electricity importers are ineligible
 - Certain types of large industrial emitters will also be ineligible:
 - certain natural-gas fired generators, including those that provide electricity to the IESO-controlled grid or local distribution system
 - facilities operating equipment related to the transmission, storage and transportation of natural gas
 - facilities operating equipment for an electricity transmission or distribution system

-
- Emissions from with certain combined heat and power (CHP) units will be eligible for free allowances
 - Eligibility will be depend on the facility-specific facts, but generally the emissions will be ineligible if:
 - the CHP unit receives natural gas directly from an international or interprovincial pipeline
 - the CHP unit transfers electricity to the IESO-controlled grid or a local distribution system (i.e., unit must be behind-the-meter)
 - free allowances are being allocated to the facility using a methodology that already covers the CHP unit's emissions
-

Allowance Allocation Method	Eligible Sectors/Facilities
Product-Output Benchmarks (i.e., allowances per unit of output)	For example, certain petroleum refining and iron and steel, grey cement, hydrogen and beer production
Energy Use Based Benchmarks (i.e., allowances per unit of energy used)	Generally, eligible emitters may apply for an energy use-based allocation for activities not already receiving a free allocation
Historical Emissions Benchmarks (i.e., allowances per historical emissions or emissions intensity)	For example, certain general stationary combustion and certain lime, glass, ammonia, nitric acid, pulp and paper and copper and nickel production
Direct Allocation	Mostly public institutions; some selected industrial emitters

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- Ontario would set a floor price for auctioned allowances
 - California-Quebec market has a 2016 floor price of US\$12.73 per tonne (CA\$16.40 per tonne at May 2016 auction, given exchange rate)
 - most auctions have cleared at or just above floor price
 - floor prices in all jurisdictions increase 5% plus inflation each year
 - Ontario would also sell “reserve allowances” if allowances prices reached predetermined thresholds
 - 5% of all allowances made available for sale each year will be reserved for sale at three price tiers
 - California March 2016 reserve sales at US\$47.54/53.49/59.43 per tonne

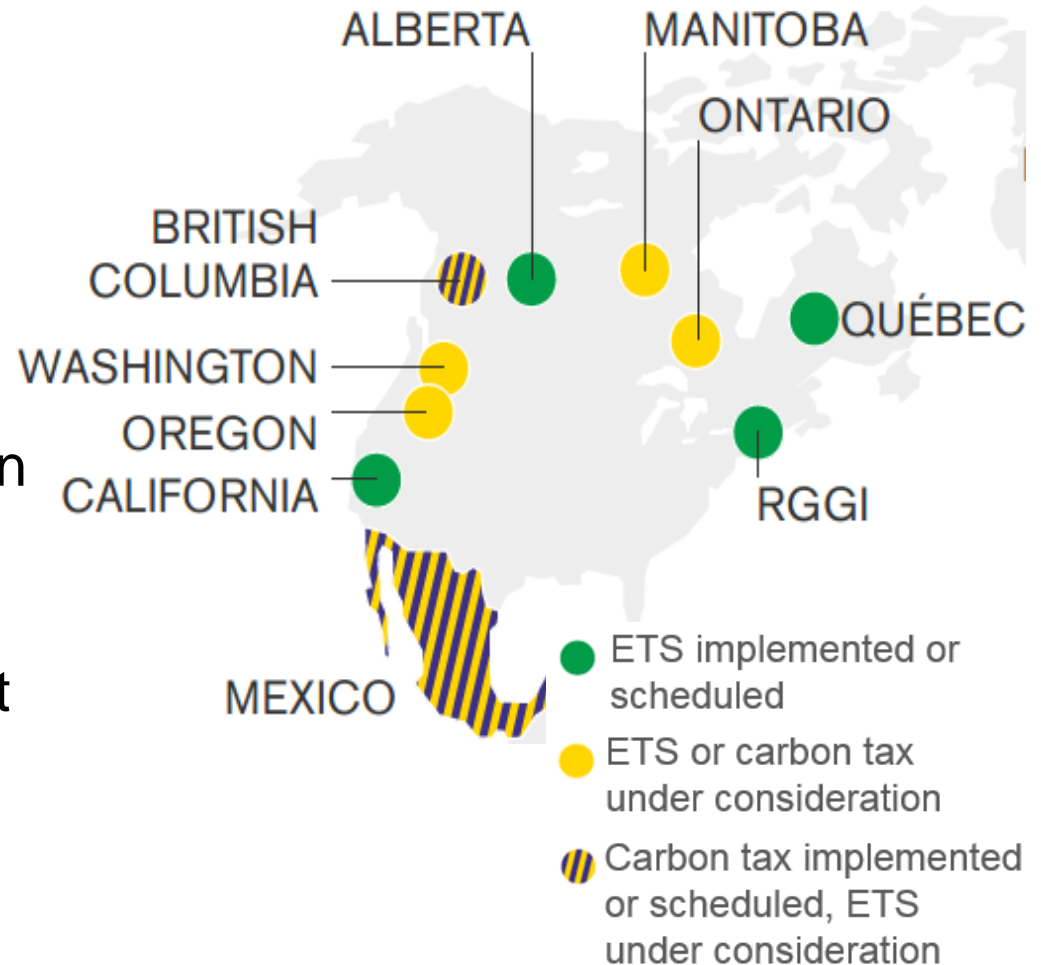
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- Offset rules not included in draft cap-and-trade regulations
 - offset regulation expected mid-late 2016
 - Capped participants will likely be able to use offset credits to cover up to 8% of their emissions
 - Offsets must be additional, permanent, verifiable and real
 - Only projects that follow approved protocols are eligible for offsets
 - priority development of protocols for mine methane capture and destruction, landfill gas capture and destruction and ODS capture and destruction

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- Ontario projecting \$1.8-1.9 billion per year in revenue
 - C\$830 million in auction revenue in Quebec in 2015
 - US\$2.0-4.9 billion in auction revenue projected for California in 2015-2016
 - New Greenhouse Gas Reduction Account will be funded primarily by allowance auction proceeds
 - GGRA funds may be used for:
 - government's costs in administering and enforcing the system
 - costs of initiatives reasonably likely to reduce GHG emissions
 - including re energy sources, land use and buildings, transportation, industry, agriculture, forestry, waste management
 - Climate Change Action Plan expected to identify funding priorities

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- July 1, 2016 to November 30, 2016: Registration of capped participants prior to first compliance period
 - Mid-Late 2016: Draft regulations on offsets and administrative penalties
 - Late 2016: OEB framework for natural gas utilities
 - Late 2016/Early 2017: Regulatory amendments to incorporate rules requesting for Early Reduction Credit
 - Q1 2017: First allowance auction
 - Mid-2017: Deadline for requesting Early Reduction Credits
 - June 1, 2017: Next reporting deadline (for 2016 emissions)

Appendix

- Local and regional initiatives have become building blocks for broader harmonization
- California and Quebec debuted cap-and-trade markets in 2013; linked in 2014; added NG distribution in 2015
- Ontario market will debut in 2017 and link with existing CA-QC market as early as 2018



Overview of WCI jurisdictions

	California	Quebec	Ontario*
<i>GHG emissions (2013)</i>	459.3 MtCO ₂ e	82.6 MtCO ₂ e	170.8 MtCO ₂ e
<i>Target by: 2020 2030</i>	<ul style="list-style-type: none"> • 1990 level • 40% < 1990 level 	<ul style="list-style-type: none"> • 25% < 1990 level • 37.5% < 1990 level 	<ul style="list-style-type: none"> • 15% < 1990 level • 37% < 1990 level
<i>Allowances: 2017 2018 2029 2020</i>	<ul style="list-style-type: none"> • 370 MtCO₂e • 358 MtCO₂e • 346 MtCO₂e • 334 MtCO₂e 	<ul style="list-style-type: none"> • 61 MtCO₂e • 59 MtCO₂e • 57 MtCO₂e • 55 MtCO₂e 	<ul style="list-style-type: none"> • 142 MtCO₂e • 136 MtCO₂e • 131 MtCO₂e • 125 MtCO₂e
<i>Cap adjustment (2017 → 2020)</i>	~90% (~3.3-3.5%/year)	~90% (~3.4-3.6%/year)	~88% (~4.3-4.7%/year)



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Cap and Trade Update

June 9, 2016





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Disclaimers

- The content of this presentation represents Union Gas' current understanding of the Cap-and-Trade Program, and should only be used for informational purposes.
- Union Gas does not guarantee the accuracy of the information provided in this presentation and advises all customers to expand their knowledge on Cap-and-Trade through government and independent sources.
- Customers shall not base their actions or decisions solely on the information provided in this presentation.



Expected Impact on Union Gas' Customers

- Under Ontario's Cap & Trade Program, Union Gas is expected to purchase allowances on behalf of their customers with emissions under 25,000 tCO₂e (~13 million m³ of NG)
 - Excluding voluntary participants who choose to opt-in
- Union Gas will seek to recover costs of acquiring allowances on behalf of their customers
 - Proposing the new charge to be displayed as a separate line item on the bill
- Union Gas will also seek to recover costs of acquiring allowances to operate its own system and to administer the Cap-and-Trade Program

Estimated Initial Cap-and-Trade Annual Impact to Customers (Related to Customer Allowances)

Customer Rate Type	Annual Volume Consumption 10 ³ m ³ /GJ	Estimated Cost of Carbon Allowances for 2017*	
		\$18 CAN/tCO ₂ e (Government budget price) \$0.035/m ³	% Increase of Union's Delivery Invoice (@ \$0.035/m ³)
M4	2,500 / 97,025	\$87,500	111%
M7	8,500 / 329,885	\$297,500	146%
T1	11,500 / 446,315	\$402,500	159%
T2	200,000 / 7,762,000	\$7,000,000	****

Notes:

*These are estimates of customers allowance acquisition cost only and do not include Union Gas' allowance costs or program implementation costs

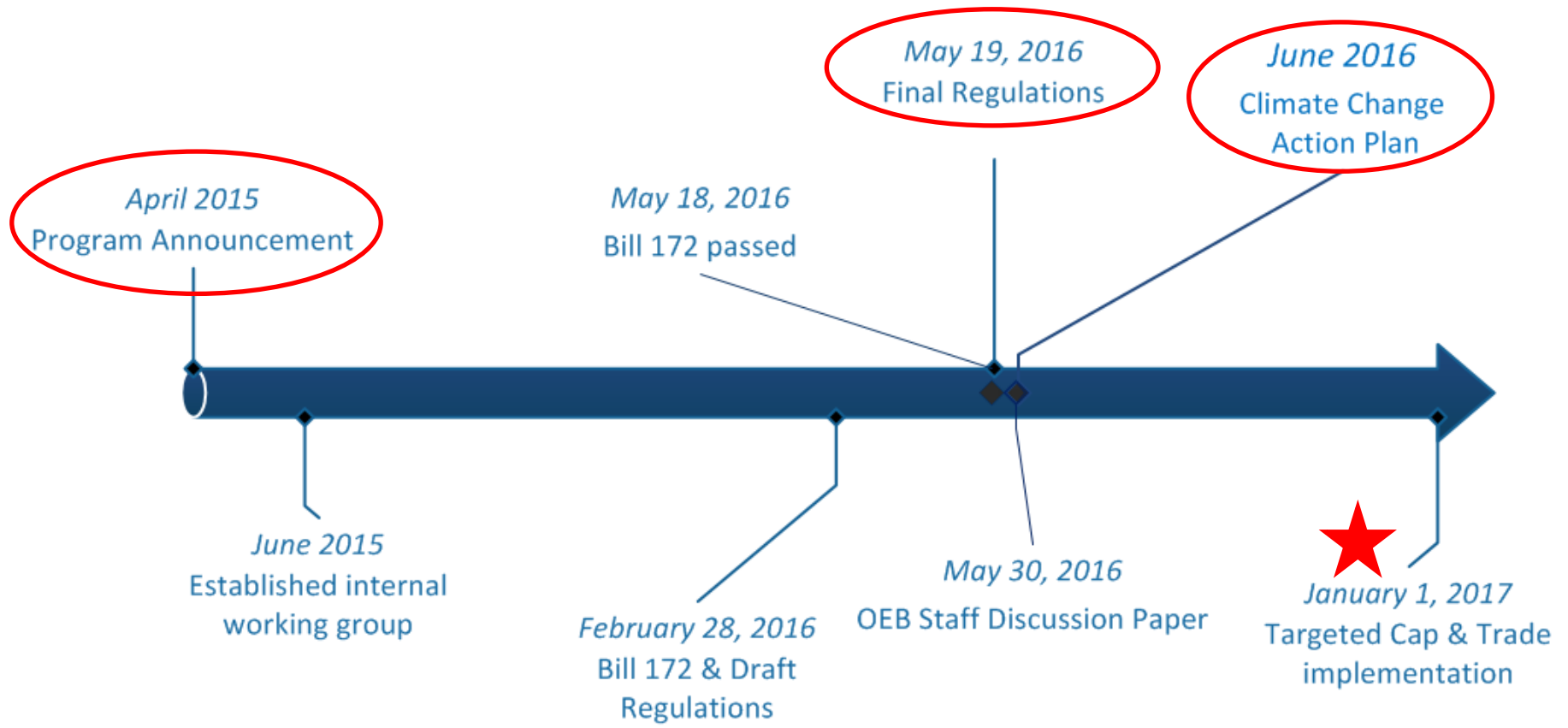
**Customers with total emissions >25,000 tCO₂e are responsible for acquiring their own allowances; unless exempt (example: electricity generators)

-The default CO₂ emission for natural gas is 0.001863 tCO₂/m³

-These costs are preliminary estimates and should only be used as an estimate of cost impact



Cap-and-Trade Timeline





The Climate Change Action Plan

What is it?

- The government's plan for spending approximately \$7 billion raised from the cap and trade program between 2017 and 2020.
- The purpose is to meet Ontario's ambitious emissions reductions targets (relative to 1990 levels):
 - 15% reduction by 2020
 - 37% reduction by 2030
 - 80% reduction by 2050

What is its status?

- A draft version of the Climate Change Action Plan was leaked to the media mid-May
- The final Climate Change Action Plan was released June 8, 2016



Content of the Climate Change Action Plan

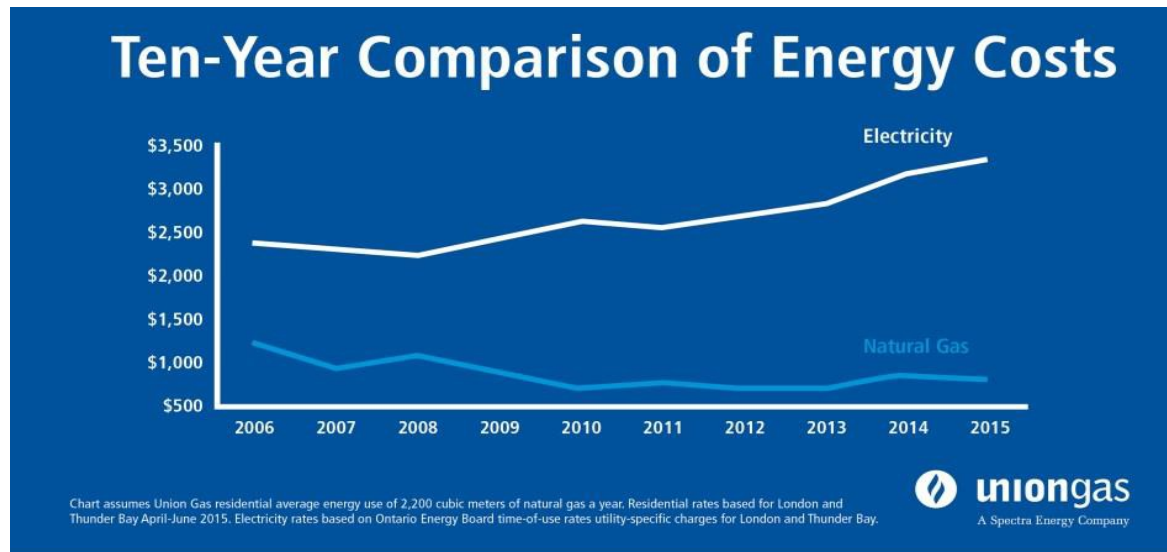
Relating to Natural Gas:

- Building code changes for new 'net zero carbon' emission small buildings by 2030; initial changes will be effective by 2020
 - This is unclear and undefined, creating uncertainty for customers, businesses and investment
- Support for LNG for heavy transport
 - Funding to incent trucking companies to switch to lower-carbon trucks, including by building more liquid natural gas fuelling stations.
- Support for RNG
 - \$100 million over four years to develop renewal natural gas solutions for inclusion in Ontario's energy supply mix.

Cap-and-Trade and Climate Change Action Plan

What they mean to you

- Almost 80% of Ontario homes and businesses have chosen natural gas as a source of heat because it is the least expensive and most reliable energy available today
- The cap and trade program is expected to cost Ontario \$1.9 billion in 2017



Natural Gas can help the government meet its climate change goals



Key Messages

- Union Gas supports a transition to a low-carbon economy that balances the economy, energy affordability and the environment
- Prescriptive policy measures which phase out natural gas will remove consumer choice, drive up energy costs for consumers, business and institutions, and deter future investment
- Affordable natural gas is part of a balanced solution for a cleaner, stronger Ontario



Your Voice Can Make a Difference



- ❖ Learn more about the Cap-and-Trade Program as it relates to your business, and understand your obligation



- ❖ Contact your industry association for further information or support



- ❖ Send a letter of comment to the Premier, Minister of Environment and Climate Change and your member of parliament to express your concerns



Information and Resources

- [MOECC \(www.ontario.ca/ministry-environment-and-climate-change\)](http://www.ontario.ca/ministry-environment-and-climate-change)
- [Bill 172 \(www.ontla.on.ca\)](http://www.ontla.on.ca)
- [Cap and Trade Regulations \(www.ontario.ca/climatechange\)](http://www.ontario.ca/climatechange)
- [Reporting Regulations \(www.ebr.gov.on.ca\)](http://www.ebr.gov.on.ca)
- [Ontario Cap and Trade Website \(www.ontario.ca/capandtrade\)](http://www.ontario.ca/capandtrade)
- [Ontario Energy Board \(OEB\) \(www.ontarioenergyboard.ca\)](http://www.ontarioenergyboard.ca)

Q&A



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