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Melissa Ollevier  
Senior Policy Advisor  
Ministry of the Environment and Climate Change  
Climate Change and Environmental Policy Division  
Air Policy Instruments and Programs Design Branch  
77 Wellesley Street West  
Floor 10, Ferguson Block  
Toronto, ON M7A 2T5  
Phone: 416-212-4552  
Email: [Melissa.ollevier@ontario.ca](mailto:Melissa.ollevier@ontario.ca)

**RE: EBR Registry Number 012-5666, Cap-and-Trade Program Design Options**

Dear Ms. Ollevier,

The following submission provides the Clean Economy Alliance's response to Ontario's proposed Cap-and-Trade Design Options document. Our submission includes general comments, as well as more specific responses to questions posed in the design options paper.

The Clean Economy Alliance (CEA, or the Alliance) is a group of 85 organizations representing a broad cross-section of Ontarians that united earlier this year to urge Ontario 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 charities, 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 pollution will bring many benefits, including cleaner air, improved public health, and more jobs and business opportunities in the clean economy.

The CEA welcomes Ontario's plan to put a price on carbon pollution with a cap-and-trade program. We have held several workshops over the last year that featured experts on cap-and-trade programs in Quebec, California and the European Union. Alliance members have participated in multiple detailed discussions about cap-and-trade design and reached consensus on a number of key aspects of cap-and-trade. Given the diversity of members in the Alliance, we believe it fair to say that the consensus we have reached reflects the interests of a diverse cross-section of Ontario organizations and stakeholders.

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 and recommendations guide our approach to this submission.

The Ministry of Environment and Climate Change's (MOECC's) proposed design options largely reflect the CEA's principles and recommendations, although there is room for improvement to ensure that the program is effective, predictable, stringent, fair, transparent and durable. Further, we await more clarity on details surrounding the administration and allocation of cap-and-trade proceeds, a topic we believe

to be of considerable importance. The CEA recognizes that the design of Ontario's program must be similar to the programs in Quebec and California in many aspects. However, we encourage Ontario to work within its sphere of influence to improve upon the existing Western Climate Initiative (WCI) framework and programs where possible.

### **Linking with Quebec and California**

The CEA welcomes Ontario's plans to link its cap-and-trade program with Quebec and California and align compliance periods. This means the linkage should take place on January 1, 2018. Linking will encourage greater cost-effectiveness of emissions reductions, a larger carbon market that allows for more flexibility for reductions, and a more stable and durable system which should find high levels of acceptance among stakeholders across jurisdictions. The chances of success for Ontario's cap-and-trade program improve as the number of linked partners increases. This paves the way for other linkages, which could create greater environmental and economic benefits.

Ontario should ensure its program has similar design details to programs in Quebec and California in order to facilitate linkage, recognizing however, that in some aspects, it makes sense to tailor the design to suit Ontario's unique context. The province should also work with Quebec and California to give clarity on subsequent compliance periods (starting with 2021-2023) as soon as is reasonably possible to help ensure longer-term program design alignment, durability, and market stability. In linking with these other jurisdictions, Ontario should also take the opportunity to press for improvements to the WCI program where possible, to help ensure that the WCI program continues to be robust and effective.

### **Program Timing and Setting the Cap**

The CEA recommended earlier this year that the cap should decline commensurate with Ontario's 2020 and 2030 carbon reduction targets. We agree that 2017 is the earliest possible date that allows time for development of regulations and supporting information technology systems. We support the proposed cap decline rate of approximately 3.7 per cent per year which will permit Ontario to achieve its 2020 target.

However, based on a 2020 GHG target of 150 megatonnes (MT) and the proposed 3.7 per cent annual cap decline rate, it appears that MOECC is projecting 2017 emissions to be slightly higher than the last year for which data is available.<sup>1</sup> We suggest that Ontario consider climate actions already planned for implementation between now and 2017 and ensure the cap is set appropriately to avoid a glut of permits in the first compliance period. A lower cap would mean a lower decline rate and would give businesses more flexibility in meeting their compliance obligation.

The design options paper does not propose a cap beyond 2020. Businesses and covered entities will need to make investment decisions affected by the price on carbon after 2020. Without more clarity on the stringency of the cap, the rate of decline, and the treatment of competitiveness impacts (e.g. free allowances) after 2020, businesses lack medium- and long-term certainty about the cap-and-trade program and the price of carbon. Ontario should therefore consider providing more clarity in the design of the program beyond the first compliance period, including setting a 2025 and 2030 cap, establishing

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<sup>1</sup> Environmental Commissioner of Ontario. (2015). *Feeling the Heat: Greenhouse Gas Progress Report 2015*. Retrieved from <http://eco.on.ca/wp-content/uploads/2015/07/2015-GHG.pdf>.

fixed program review dates, and providing more clarity on how changes to the cap and to allowance distribution will be determined.

## Coverage

The CEA applauds the Ontario government for the broad coverage of the cap-and-trade program, including emissions from industry, buildings, transportation, and electricity. Based on 2013 GHG data, this represents 88.6 per cent of provincial emissions.<sup>2</sup> This coverage aligns Ontario with Quebec and California. The effectiveness of the program will benefit from the inclusion of transportation fuels and natural gas, two of the largest sources of emissions in the province. We also applaud the decision to cover both combustion and fixed process emissions. We are pleased that the province is not proposing to exempt any sectors or industries. Granting exemptions to one industry or sector makes it challenging to deny others the same treatment, and as such, exemptions are best avoided.<sup>3</sup>

Cap-and-trade should be complemented by legislation and regulations to reduce emissions from agriculture and waste, particularly methane from landfills. Where emissions can be best controlled with regulation (e.g. landfill gas capture), they should not be eligible for offsets.

Further, the Ministry has asked about how energy-from-waste facilities should be handled. In the opinion of the Alliance, any energy-from-waste facilities, which we understand to be facilities that generate electricity from the incineration or combustion of waste, should be covered under the cap-and-trade program and be required to obtain permits for any carbon they emit.

## Market Design Features and Price Stability Mechanisms

MOECC's proposed market design features, including an escalating auction reserve price that increases by five per cent per year plus inflation, a five per cent strategic reserve, and a 25 per cent allowance purchase limit, are aligned with Quebec and California. The CEA recognizes that these features have created stable carbon markets in Quebec and California and recommends that Ontario follows through with this alignment with its cap-and-trade partners. These features will ensure a stable and escalating carbon price, provide certainty for entities with a compliance obligation, and enhance stakeholder buy-in and acceptance. The Alliance also recommends that MOECC hold a practice auction in 2016 to assist participants and emitters in understanding the auction process.

## Allowance Distribution

The CEA supports Ontario's decision to auction 100 per cent of the allowances allocated to fuel distributors. However, the process for assessing and addressing leakage risk and allocating free allowances is less clear. In our report on cap-and-trade, "Getting it Right," we recommended that:

"...any process for assessing and addressing competitiveness impacts must be rigorous, transparent and based on sound economic analysis. If any permits should be allocated without

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<sup>2</sup> Ibid.

<sup>3</sup> Clean Energy Canada (2015). *How to Adopt a Winning Carbon Price*. Retrieved from <http://cleanenergycanada.org/wp-content/uploads/2015/02/Clean-Energy-Canada-How-to-Adopt-a-Winning-Carbon-Price-2015.pdf>.

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.”<sup>4</sup>

The current proposal to grant free permits to all emitters is not consistent with the recommendations of the alliance nor with those of the Ecofiscal Commission.<sup>5</sup> We recommend Ontario revise this approach.

The recent Ecofiscal Commission report found that just two per cent of Ontario’s economy is exposed to competitiveness pressures from carbon pricing.<sup>6</sup> This suggests that it may not be necessary to grant 100 per cent of allowances freely for the first four years to all industries over the 25,000 tonne threshold. Furthermore, regardless of the decision made about the distribution of free permits, it is critical for the government to transparently demonstrate how that allocation of allowances was determined.

The CEA also recommended that the free allocation of allowances be transitional, decreasing consistently over time and in keeping with emissions intensity targets that also decrease consistently over time.<sup>7</sup> To achieve this transitional requirement, Ontario should conduct regular reviews of leakage risk to evaluate an entity’s appropriate assistance factor and cap adjustment factor. The methodology of these reviews should be made public in keeping with the principles of transparency and so that businesses can have greater certainty when making investment decisions. The CEA recommends calculating an entity’s base amount (b)<sup>8</sup> using a product-output method, as opposed to a benchmark based on past performance of the facility (poor past performance should not be rewarded).

Ontario can also address competitiveness concerns by providing entities with greater certainty after the first compliance period. While the current proposal would give businesses a measure of certainty until 2020, it is unclear how allowances will be distributed in 2021 and beyond. To address these concerns, the government should consider setting a 2025 and 2030 cap, confirming that the cap-and-trade program will continue post 2020, and consulting on the design details of a second compliance period, in collaboration with Quebec and California.

100 per cent free allocation of allowances for four years will result in a large amount of forgone revenue from the cap-and-trade program. This revenue will be critical to funding complementary measures that must work in conjunction with the cap-and-trade program to reduce emissions in keeping with Ontario’s climate targets.

For purposes of illustration, if allowances totaling 85 per cent (low estimate of coverage) of 170 MT (MOECC estimate of emissions in 2017)<sup>9</sup> were sold for \$17.49 per tonne (allowance price in the last

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<sup>4</sup> Clean Economy Alliance. (2015). *Getting it Right: Design Recommendations for Ontario’s Cap-and-Trade System*. Retrieved from <http://cleaneconomyalliance.ca/getting-it-right/>.

<sup>5</sup> Canada’s Ecofiscal Commission (2015). *Provincial Carbon Pricing and Competitiveness Pressures: Guidelines for Business and Policymakers*. Retrieved from <http://ecofiscal.ca/wp-content/uploads/2015/11/Ecofiscal-Commission-Carbon-Pricing-Competitiveness-Report-November-2015.pdf>.

<sup>6</sup> Ibid.

<sup>7</sup> Clean Economy Alliance, 2015.

<sup>8</sup> Ontario Ministry of Environment and Climate Change presentation to stakeholders (November 2015). *Cap and Trade Design Options*. Retrieved from [http://www.downloads.ene.gov.on.ca/envision/env\\_reg/er/documents/2015/012-5666\\_Options.pdf](http://www.downloads.ene.gov.on.ca/envision/env_reg/er/documents/2015/012-5666_Options.pdf).

<sup>9</sup> Ibid.

Quebec-California auction)<sup>10</sup>, the program would raise over \$2.5 billion each year, beginning in 2017/18. With the Ontario government projecting cap-and-trade will generate \$1.3 billion in 2017/18,<sup>11</sup> free allocations represent a loss of revenue of over a billion dollars per year for each year in the first compliance period. To be sure, some free allocations are likely justified for high leakage risk firms but the proposed approach to give free allowances to all firms will result in a large amount of forgone revenue. This money could go a long way toward driving further emissions reductions, helping Ontarians adapt to climate change and carbon pricing, and creating jobs by investing in public transit, energy efficiency, and renewable energy.

Finally, it is also important to recognize that cap-and-trade is an opportunity for Ontario firms to innovate and compete in the growing low-carbon global economy. Ontario is already a leader in clean technology and renewable energy, employing more people in these sectors than anywhere else in Canada.<sup>12</sup> Climate action presents an opportunity to stimulate innovation and develop domestic and international markets for low-carbon goods and services produced in Ontario, creating jobs and business opportunities for Ontarians. Cap-and-trade is part of a larger climate change strategy that allows these clean tech firms to succeed. Allocating fewer permits freely would send a stronger price signal, creating more demand for low-carbon innovation, and greater revenues could also provide the financial resources needed to help firms adopt those innovations.

### **Border Carbon Adjustments**

Border carbon adjustments (BCAs) could be a useful instrument to address competitiveness concerns and leakage risks. If designed well, BCAs would ensure that products imported into Ontario are treated the same as those produced by companies under the cap. They can also work to ensure that exports from Ontario aren't disadvantaged in export markets without equivalent policies. In this way, BCAs could help protect trade-exposed industries while reducing leakage and preserving a high level of program stringency.

However, subnational governments like Ontario have limited legal authority to implement BCAs. Provincial governments across Canada are putting a price on carbon and the new federal government is working with the provinces to develop a national climate change strategy. There is some speculation that the federal government will establish a national floor price on carbon. As the intergovernmental process to price carbon unfolds across Canada, many jurisdictions will be determining how to mitigate leakage concerns. The CEA recommends that Ontario encourage and collaborate with the federal government and other jurisdictions to develop BCAs and other solutions to address competitiveness concerns and leakage in a way that treats the provinces equitably, minimizes legal risks under international trade law, and mitigates leakage risks in Ontario and other provinces.

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<sup>10</sup> Quebec Ministry of Sustainable Development, Environment and the Fight Against Climate Change (2015). *California Cap-and-Trade Program and Quebec Cap-and-Trade System November 2015 Joint Auction #5 Summary Results Report*. Retrieved from <http://www.mddelcc.gouv.qc.ca/changements/carbone/ventes-encheres/2015-11-24/Vente-Encheres-5-Sommaire-resultats-en.pdf>.

<sup>11</sup> Ontario Ministry of Finance (2015). *Building Ontario Up: Ontario Economy Outlook and Fiscal Review*. Retrieved from <http://www.fin.gov.on.ca/en/budget/fallstatement/2015/statement.pdf>.

<sup>12</sup> Clean Energy Canada (2015). *Tracking the Energy Revolution*. Retrieved from <http://cleanenergycanada.org/trackingtherevolution-canada/2015/>.

## **Offsets**

The CEA welcomes, as a provision of linking under the WCI, Ontario's decision to limit the use of offsets to a maximum of eight per cent of an entity's compliance obligation, as well as limiting project eligibility to offsets that achieve emissions reductions and removals within Canada and California. We reiterate our previous recommendation that offsets must be real, additive, permanent and verifiable. We also caution that allowing offsets from across Canada must be tied to the development and application of appropriate regulatory and verification mechanisms. Ontario should focus on verification, ensuring that offset protocols are of the highest quality and subject to very high standards of third-party verification.

We encourage Ontario to adopt similar offset enforcement procedures as those in Quebec, where the government holds offsets in a contingency reserve to compensate entities in the case that any poor quality offsets end up on the market and need to be revoked/annulled.

Offset protocols should be developed to encourage emissions reductions from activities and sectors not covered under the cap. However, offsets are not the only approach Ontario can use to achieve emissions reductions, and in some cases, regulation may be preferable. For example, manufactured gases—highly potent greenhouse gases such as certain refrigerants—should be regulated rather than treated under the cap. Having manufactured gases under the cap can lead to a situation where the manufacture and subsequent destruction of those gases becomes highly profitable.

## **Recognizing Early Reductions**

As stated in our 2015 report, the CEA believes Ontario should allow early action offsets credits. It is important to recognize the efforts that leading industries have already taken to reduce their emissions intensity. These industries have helped Ontario to achieve the progress made toward its 2020 target to date. Other industries have made necessary investments in the immediate past and may not have opportunities to further reduce emissions in the near term. Rewarding early action can build further trust, foster greater innovation by business, and encourage businesses to take climate action earlier rather than later.

That being said, Ontario must not take an overly generous approach to recognizing early action. Allocating too many recognition-based allowances to early actors could compromise the integrity of the carbon market and the effectiveness of the program. For industries eligible for free allowances, Ontario should recognize and reward early action through a product-output benchmarking approach. Under the benchmarking approach, early-acting facilities will already be rewarded by receiving relatively more allowances than their peers. If these facilities then also receive early action allowances, reductions would be double counted.

California, which has received some criticism for being too generous with its allowances to industry, employs a product-output benchmarking approach to allocating allowances and does not include early reduction credits. Meanwhile, Quebec did not employ a product-output benchmarking approach to allocating allowances and instead issued one-time early reduction credits at the launch of its program. Neither jurisdiction employs both options for recognizing early action, and neither should Ontario. Ontario should pick the approach that works best, based on the experiences of these WCI partner jurisdictions and on the specifics of Ontario's economy.

## **Compliance Requirements, Enforcement and Penalties**

The CEA recommends that the cap-and-trade program have an annual compliance requirement of 70 to 80 per cent and a 100 per cent true-up at the end of the first compliance period. Having regular annual true-ups will help entities familiarize themselves with the program, demonstrate progress (or lack thereof) toward 2020 climate targets, and reduce the risk of an entity going out of business before 2021 without trueing up.

The CEA also applauds Ontario for subjecting covered entities to a three-to-one penalty. This is consistent with Quebec and California and imposes a sufficient penalty to ensure compliance.

### **Revenue Oversight and Allocation**

Although the question of revenue oversight and allocation is not addressed in the design options paper, the CEA strongly reiterates its recommendation that cap-and-trade proceeds be administered by an arms length body, in a transparent manner and dedicated to projects and initiatives that most cost-effectively maximize emissions reductions and/or increase climate resilience. Cap-and-trade proceeds must not go into general government revenues or re-shuffle government revenues to pay down debt or pay for other projects. This is an issue for the credibility of the program as well as for its effectiveness as the revenues will be instrumental in reducing emissions in Ontario. Proceeds should go to new, unfunded projects.

In administering and disbursing the proceeds, a value-for-money and emissions reductions per dollar process must be applied which balances the need for long term transformative changes with those that will deliver more immediate reductions and contribute to meeting Ontario's near-term targets. The Ontario government or fund administrator should transparently demonstrate the return on investment of proceeds from a carbon reduction perspective and disclose how this was calculated. Revenue allocation should also include analysis to ensure proceeds deliver lasting social and economic benefits, help build more climate-resilient communities, consider the timeframe of when an initiative will begin delivering carbon reductions, and ensure that low-income communities, families and workers receive the assistance needed in order for them to adapt to the carbon price.

### **Conclusion**

The CEA is strongly supportive of Ontario's commitment to implement a cap-and-trade program to price carbon pollution. But the program needs to be designed properly in order to be effective. This means, among other things, sending a strong price signal into the market. The proposal to assign a 100 per cent assistance factor to all covered entities will dampen that signal significantly and reduce the amount of proceeds the system can generate, which will be needed to fund complementary policies such as public transit expansion, energy efficiency, and renewable energy. An effective system would also ensure that proceeds from cap-and-trade be reinvested transparently in to initiatives that will drive further GHG reductions while creating lasting health, economic and social benefits.

Although the proposed design is satisfactory in many ways and includes many of the best practices and lessons learned from other carbon markets, the cap-and-trade program should provide more certainty about the decline of the cap and the issuance of free allowances after 2020. And it should clarify that proceeds will be overseen by a third party and reinvested into projects with the greatest positive

environmental and economic impact. Neglecting these two matters will undermine Ontario's efforts to achieve its 2020 and 2030 climate targets and undermine public support for the program.

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:

Patrick DeRochie  
Coordinator, Clean Economy Alliance  
116 Spadina Ave, Suite 300  
Toronto, ON M5V 2K6  
Phone: 416-323-9521 x.248  
Email: [pderochie@environmentaldefence.ca](mailto:pderochie@environmentaldefence.ca)

## 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](#)  
[EnviroCentre](#)  
[Environmental Defence](#)  
[Evergreen CityWorks](#)  
[Fadco Consulting Inc.](#)  
[Faith & the Common Good: Greening Sacred Spaces](#)  
[Field Chemical Technologies Inc.](#)  
[Forests Ontario](#)  
[Green Neighbours 21](#)  
[Innovolve Group](#)  
[International Institute for Sustainable Development](#)  
[Lafarge Canada Inc.](#)  
[LED Roadway Lighting](#)  
[Lumos Energy](#)  
[MaRS CleanTech](#)  
[Mindscape Innovations](#)  
[Mountain Equipment Co-op](#)  
[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 Society of Professional Engineers](#)  
[Ontario Sustainable Energy Association](#)  
[Ontario Waterpower Association](#)  
[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 [Carbon Pricing Principles](http://cleaneconomyalliance.ca/#section2)** (accessible at: <http://cleaneconomyalliance.ca/#section2>)

- 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](#)** (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.