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Vicky La
Senior Policy Coordinator
Ministry of the Environment, Conservation and Parks
Climate Change and Resiliency Division
Financial Instruments Branch, Policy Unit
77 Wellesley Street West
Toronto ON
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Electronic Submission to the Environmental Registry of Ontario

RE: Capital Power Corporation (“Capital Power”) Comments on Making Polluters Accountable: Industrial Emissions Performance Standards (“Plan”)

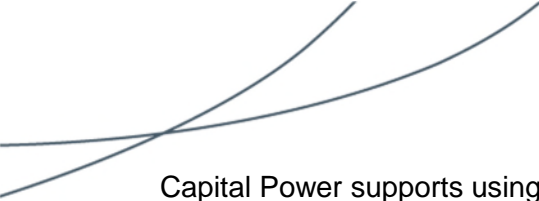
Dear Vicky La,

Capital Power is pleased to provide for consideration by the Ministry of the Environment, Conservation and Parks (“MECP”) the following submission providing Capital Power’s perspectives regarding the Plan released on February 12, 2019.

Capital Power stands to be impacted by the proposed Industrial Emissions Performance Standards (“IEPS”) because Capital Power owns, operates and plans to continue investing in electricity generation in Ontario. In Ontario, Capital Power owns two natural gas-fired generation facilities: East Windsor Cogeneration (84 MW), a 50% interest in York Energy Centre (400 MW), and two wind power generation facilities: Kingsbridge 1 (40 MW), and Port Dover and Nanticoke Wind (105 MW). In addition, Capital Power is one of the largest private-sector investors in offsets in Canada.

Capital Power supports Ontario’s efforts to develop an IEPS to effectively and efficiently regulate large emitters of Greenhouse Gas (“GHG”) as part of Ontario’s broader climate change strategy. A consideration in the development of the IEPS is the federal backstop established under Part 2 of Schedule 1 of the Greenhouse Gas Pollution Pricing Act (“GGPPA”). In this regard, Capital Power believes an IEPS within a range of 370 – 420 kilogram of carbon dioxide equivalent per megawatt-hour (“kgCO₂e/MWh”) for the electricity sector would be reasonable and reflective of the emission intensity of the most efficient natural gas unit taking into account various practicalities and operating considerations.

Capital Power recommends that all facilities should be able to opt-in under the IEPS if they compete directly against facilities regulated under the IEPS. Such an approach would avoid competitiveness issues for small generators and peaking units.



Capital Power supports using offsets and surplus credits issued by the Government of Ontario (“Government”) to facilities that emit less than their regulated limits (“emission credits”), as compliance mechanisms. Use of these compliance mechanisms should not be arbitrarily restricted or capped.

Capital Power recommends the Government allow Ontario offsets, eligible offset credits from provincial offset systems, and Internationally Transferred Mitigation Outcomes (“ITMOs”) as options to hedge compliance costs. ITMOs should be considered as they may be the most cost efficient GHG mitigation option.

Capital Power supports taxing GHGs on electricity imports to avoid an unlevel playing field and to prevent carbon leakage. Capital Power recommends that Ontario adopts its previously developed approach under the Western Climate Initiative (“WCI”) for the treatment of electricity imports.

Regarding cogeneration, Capital Power supports the Government approach. However, more discussion is needed to assess the impact of the proposed IEPS on Emissions-Intensive and Trade-Exposed industries.

Specific Comments

Capital Power supports the IEPS, which establishes emission levels that industrial facilities are required to meet, links compliance to their output or production and allows for flexible compliance options.


1. Industrial Emissions Performance Standards

An IEPS does not represent an emission limit or an emission reduction target, but a value used to calculate free allocations per installation. It is important to carefully consider the levels at which IEPSs are set. An IEPS should not create windfall revenues for units emitting below the performance standards.

Capital Power believes an IEPS of 370 – 420 kgCO₂e/MWh for the electricity sector is appropriate. Capital Power recommends a single IEPS for all fossil fuel electricity generating units, based on an efficient new Natural Gas Combined Cycle unit. A single IEPS would support a level playing field for all market participants. The IEPS should not be generation technology dependent, meaning all fossil fuel generation technologies should be subject to the same IEPS. A differentiated IEPS would provide a direct subsidy to units with higher carbon intensities, lead to inefficient market outcomes, and result in higher GHG emissions.

2. Opt-in under IEPS

A facility’s eligibility to participate in the IEPS system should not be determined based on arbitrary annual emissions. Capital Power recommends that Government adopts a “Like for like” approach, meaning that a facility is eligible to opt-in if it competes directly against a facility regulated under the IEPS. Such an approach would avoid competitiveness issues for small generators and peaking units, including those which may emit below the proposed 10 kilo-tonne of carbon dioxide equivalent (“ktCO₂e”) threshold. For example, the compliance cost on a \$/MWh basis for a unit that emits above 50 ktCO₂e annually would be lower than a unit that emits below 10 ktCO₂e annually even if they have the same heat rate. At a carbon levy of \$20 per tonne CO₂e, a large electricity generator with 12 gigajoules per megawatt-hour heat rate would have a compliance cost of \$4.53/MWh, while for a small generator with the same heat rate, would have



a compliance cost of \$11.93/MWh, or a difference of \$7.40/MWh. This places smaller non-qualifying IEPS generator with the same heat rate at a competitive disadvantage when offered into the real-time energy market.

3. Offsets and Emission Credits

Capital Power supports use of carbon credits, including Ontario offsets, eligible offset credits from provincial offset systems, ITMOs and emission credits, as compliance mechanisms under the Plan. Capital Power is the largest private-sector originator of Alberta carbon reduction projects investing more than \$100 million on Alberta offsets since 2001. Two-thirds of our offset investments have been through long-term commercial endeavours, including a wind farm and a landfill methane reduction project.

Offsets represent real GHG reductions and therefore should be viewed as a mechanism to hedge compliance costs. The credibility of offsets can be ensured by the development of guidelines to address GHG additionality, permanence, leakage, and quantification. Therefore, Capital Power recommends there be no restriction on the number of years that offsets and emission credits can be banked, nor a cap placed on their use. Unlimited banking and use of offsets will result in larger reductions in emissions per unit of capital investment.

4. Internationally Transferred Mitigation Outcomes

Capital Power supports the unrestricted use of ITMOs. Article 6.2 of the Paris Agreement governs the use of ITMOs, which are true GHG reductions subject to robust carbon accounting under the United Nations Framework Convention on Climate Change. ITMOs reduce the cost of GHG mitigation because GHG abatement costs differ substantially between jurisdictions, but the environmental benefits of reducing GHG are always the same.

5. Electricity Imports

The electricity grid is connected across Eastern North America and power is economically transferred across jurisdictions. Under the proposed federal Output-Based Pricing System ("OBPS"), importers of electricity are not required to achieve compliance for their imports. Such an approach may increase carbon emissions leakage and creates an unlevel playing field between imported and domestically generated electricity. Capital Power encourages the Government to mandate a carbon tax on imported electricity using the same methodology that was used under the repealed Cap-and-Trade system. Ontario used different GHG Default Emission Factor ("DEF") values for on-peak and off-peak electricity for each jurisdiction. DEFs were applied to specifically named jurisdictions. For imports from other unspecified regions, generic emissions factors were used.

The Independent Electricity System Operator ("IESO") has recently announced that it is developing a Transitional Capacity Auction ("TCA") that will enable imports to compete with Ontario demand response, uncommitted generation and generation "uprates" commencing with the summer/winter 2021 commitment period and thereafter. The TCA will be superseded by the IESO's Market Renewal Program – Incremental Capacity Auction program that is targeting a first auction in Q4 2022 for a summer/winter 2025 commitment period. Failure to include imports in the IEPS will further exasperate the current inequity in the real-time energy market today but will negatively impact Ontario's existing and future investment in generation.

6. Treatment Steam in Cogeneration Units

Capital Power commends the Government for establishing IEPS for fossil fuel cogeneration. Recognizing the thermal output of a cogeneration unit, the proposed approach acknowledges the actual GHG intensity of a facility producing both electricity and thermal energy. Contrary to the federal OBPS, the IEPS for cogenerations provides fair and equitable treatment and allocation of environmental liabilities for steam and electricity from cogeneration.

Concluding Remarks

Capital Power supports the IEPS approach. Specific to the electricity industry, a common benchmark should not create windfall revenues for units emitting below an established standard. Offsets and emissions credit should be unrestricted compliance options under the Plan including ITMOs. Capital Power supports taxing GHGs on electricity imports using the repealed WCI method. Capital Power would be pleased to respond to any questions or comments MECP may have.

Sincerely,



Ahmed Idriss, Ph.D., P.Eng
Director, Environmental Policy

cc. Jason Comandante, Vice President, Regulatory and Environmental Policy, Capital Power
Anthony Zlahtic, Director, Commercial Services – Capital Power