



Ms. Melissa Ollevier
Financial Instruments Branch
40 St. Clair Avenue West
Floor 8
Toronto, ON M4V 1M2
Email: Melissa.Ollevier@ontario.ca

July 11, 2021

Dear Ms. Ollevier:

Re: ERO # 019-3719 Amendments to support transition and implementation of
Ontario's Emissions Performance Standards program

The Industrial Gas Users Association advocates for large industrial gas users in Ontario and Quebec. Our membership spans multiple industry sectors such as mining, steel, chemical, pulp and paper and bio-based materials. In addition to their business mandates, IGUA members are committed to environmental stewardship and take pride in having lower emissions intensity than many of their exogenous competitors. Most have made corporate commitments to substantially reduce carbon emissions; and many have pledged to work towards net-zero. The transition of heavy industry to substantially lower carbon emissions requires lumpy investments in the order of magnitude of hundreds of millions of dollars and decades long project planning and implementation in addition to substantial research and technology demonstration; all the while requiring them to remain globally competitive.

Ontario has introduced three carbon policy frameworks since 2018. Radical policy and program shifts create uncertainty and barriers to investment. IGUA's comments on the current proposed changes are offered with two objectives in mind. First, to help secure a stable and predictable carbon policy platform, and second to remove any unintended consequences of the policy; both of which are necessary to keeping Ontario's industrial base. Ontario's energy-intensive and trade-exposed heavy industries compete for investment funding with other facilities in their corporate families, and for market share with global competitors.

IGUA appreciates MECP's good work in consulting with stakeholders and looks forward to a seamless transition from the Federal Output-Based Pricing System (OBPS) to Ontario's Emissions Performance Standard (EPS) that does not inadvertently penalize industry. We are pleased to comment on the proposed amendments and to offer our recommendations for the additional

clarifications needed to ensure a smooth transfer. We have confined our comments to only the most pressing issues.

Comment on the Proposed Amendments: Cogeneration Emission Factor

Many industrial facilities have combined heat and power production to maximize the efficiency of their operations. Using excess heat from power generation to generate steam allows industry to meet the demand for power and process heat at a lower overall energy demand and consequently lower greenhouse gas emissions, increasing overall productivity and competitiveness.

The proposed EPS handling of co-gen facilities is problematic because:

- It is different from OBPS (EPS penalizes co-generation when the federal OBPS incented co-generation);
- Discourages investment in co-generation which will reduce productivity and make it more difficult for Ontario industry to compete; and
- Penalizes Ontario industries who have already invested tens of millions of dollars each in building co-generation facilities.

IGUA supports aligning the EPS treatment for electricity and steam allocations with the federal OBPS (from 420 to 370 CO₂e/GWh), but strongly opposes the proposed unrealistic standard (227 CO₂e/GWh) for cogeneration. Proposing close to 40% less allocations to Cogeneration than the Electricity Generation Sector and the Thermal Energy Sector reverses the market signal from support for co-generation to a hefty annual penalty. As an example, the penalty on the Sarnia area industrial cluster would be in the order of \$10 million in 2022, escalating to around \$35 million in 2030.

Recommendation - IGUA urges MECP to adopt the OPBS structure for the 2022 transition to EPS and refrain from introducing a contentious new cogeneration treatment. If a separate cogeneration treatment standard is deemed necessary, it should be addressed in the 2023-2030 consultations with transparent sharing of evaluation and benchmarking data.

Additional Recommendations

IGUA is pleased to offer the following additional observations, several of which are reiterated from our January 15 submission in response to ERO # 019-2813.

- Recycle the Revenue – IGUA urges Ontario to recycle the EPS proceeds towards reducing GHG emissions in covered facilities to accelerate innovation, incent continuous improvement and reduce GHGs while keeping Ontario industries competitive. We look forward to discussing the details of revenue recycling with MECP.

- Prevent Carbon Leakage – IGUA members are committed to reducing their GHG intensity and ask that Ontario take serious steps to prevent carbon leakage and keep industry competitive. The federal OBPS evaluated carbon leakage (EITE Analysis), and applied a stringency factor based on the risk of carbon leakage. The EPS program has no specific provision for carbon leakage beyond more lenient stringency factors. We see a need for MECP to provide more details on how the EPS program will assess and manage carbon leakage and interact with and/or incorporate the proposed federal Carbon Border Adjustment Mechanism (CBAM).
- Recognize OBPS Credits as part of the 2021 amendments – Ontario industries have acquired offsets, surplus allowances and credits under the OBPS program with a life expectancy of 5 years. IGUA asks that surplus allowances, credits and offsets from OPBS be transferred to the EPS program as part of the 2021 amendments and not deferred to the future. Failure to transition the surplus allowances, credits and offsets into the provincial system would have a material impact on current investment projects that extend beyond 2022.

IGUA respectfully recommends that these issues be addressed outside of the federal OBPS regulation equivalency analysis because the quantity of surplus allowances, credits and offsets to be transferred is dependent on various factors, which are outside of the control of a provincial system.

Do not hesitate to contact me if you require clarification or additional information.

Regards,

A handwritten signature in black ink, appearing to read 'S. Rahbar', with a stylized flourish at the end.

Shahrzad Rahbar, PhD
President, Industrial Gas Users Association

CC: Serge Imbrogno, Deputy Minister, Ministry of the Environment, Conservation and Parks
Alex Wood, Assistant Deputy Minister, Climate Change and Resiliency Division
Tom W. Johnson, Director, Financial Instruments Branch, Climate Change and Resiliency Division