



February 26, 2015

Ontario's Carbon Market Revealed

After years of consideration, Ontario has introduced Bill 172, *Climate Change Mitigation and Low-Carbon Economy Act, 2016*, and released a draft regulation for Ontario's carbon cap-and-trade program. This is the first step toward Ontario joining the Québec-California carbon market.

The Ontario regime proposes provincial targets for the reduction of carbon emissions and would require regulated emitters to take direct action or participate in the trading market to reduce their emissions. Subject industries include those with annual emissions above 25,000 tonnes of CO₂ equivalent, natural gas distributors, electricity importers and petroleum suppliers. Compliance obligations would start in 2017, with the first compliance period running until December 31, 2020. Although free allowances would be distributed initially at levels comparable to current emissions, regulated entities would gradually be required to reduce emissions, purchase allowances from the government or seek allowances or credits in the carbon market.

Ontario's regime has been developed using the Western Climate Initiative model in order to facilitate future linkages with member jurisdictions, such as Québec and California. As in those jurisdictions, offset credits may be generated by voluntary reductions outside the regulated sector and may be used to cover up to 8% of a regulated emitter's compliance obligations. A separate regulation regarding the offset program will be released later this year, but Ontario is expected to follow Québec and California in recognizing offset protocols involving methane, landfill gas and ozone-depleting substances. Ontario's regime provides for an auction floor price of C\$14/tonne in 2017, compared with the trading price of C\$17.64 in the most recently held Québec-California auction.

It is estimated that carbon trading in Ontario will generate approximately C\$1.9 billion in 2017, to be used in initiatives such as renewable and alternative energy sources, transportation and infrastructure, energy management technologies and development of low-emission technologies.

Ontario's announcement comes just in time for the First Ministers' meeting on March 3, 2016, which will focus on laying the foundation of a national climate strategy. This strategy is intended to permit Canada to set new targets consistent with the Paris Agreement, which aims to limit global warming to 2 degrees Celsius above preindustrial levels, with an aspirational goal of 1.5 degrees above. In the face of Canada's sobering carbon emission projections and patchwork of provincial approaches, the federal government has a significant challenge to establish a national carbon pricing standard.

Public comment is invited on [Bill 172](#) until March 25, 2016, and the [draft regulation](#) until April 10, 2016.

For further background, read [Ontario and Québec Collaborate to Reduce Carbon Emissions and Carbon Pricing: Provincial Action Ahead of the Paris Climate Conference](#).

