

TORONTO STAFF REPORT

October 2, 2001

To: Works Committee

From: Barry H. Gutteridge, Commissioner, Works and Emergency Services

Subject: Emissions Trading – Status Report

All Wards

Purpose:

To advise the Works Committee and Council on the status of Emissions Reduction Trading at the City with respect to greenhouse gases, NOx and SO₂.

Financial Implications and Impact Statement:

None.

Recommendations:

It is recommended that:

1. The Commissioner of Works and Emergency Services continue to consult with key stakeholders on the development of a corporate emissions trading policy and strategy which will include the greenhouse gases covered under the Kyoto Protocol as well as NOx and SO₂ as per the provincial regulation currently being developed;
2. the City continue to cooperate with the PERT working group and to use their methodology for calculating ERCs for CO₂ in the absence of domestic regulations or international protocol;
3. this report be distributed to all Agency, Board, Commission or Department for information; and
4. The appropriate City officials be authorized to give effect thereto.

Background:

The Ministry of the Environment released its Strategic Attack on Air Pollution in January 2000. A key component of the Ministry's plan is to introduce an emissions trading program for NO_x and SO₂. Comments were submitted by the Director of Environmental Services of WES and are discussed in section 1 below.

Works Committee at its meeting of September 13, 2000, adopted in principle the WES Staff Report No. 20 entitled Greenhouse Gas Emissions Reduction Trading, All Wards. The minutes of the meeting read, "The Works Committee approved the aforementioned report, in principle, and requested the Commissioner of Works and Emergency Services to meet with interested stakeholders to consider the methodology to be used, and report back thereon to the Committee".

In March 2001, the Ministry of the Environment released Emissions Reduction Trading System for Ontario – A Discussion Paper and requested comments from interested stakeholders. Comments were submitted by the Director of Environmental Services of WES and are discussed in section 5 below.

In August 2001, the Ministry of the Environment released its proposed Emissions Reduction Trading Program for Ontario and requested comments from interested stakeholders. Comments were submitted by the Director of Environmental Services of WES and are discussed in section 6 below.

Comments:

1. Strategic Attack on Air Pollution

The Province released this new initiative on January 24, 2000. The major components were to set emissions caps, introduce an emissions reduction trading program and amend the Environmental Assessment (EA) Act such that all electricity sector projects would be subject to the Act regardless if they are private or government projects.

The Environmental Services section of WES in consultation with other City staff (Facilities and Real Estate, Public Health, WES operating divisions) provided written comments to the Province in a letter dated March 30, 2000. Some of the key points include:

- (a) Conducting a thorough program evaluation after a reasonable implementation period to determine if the objectives of the program are being met. Based on that review, the Ministry should amend the program as appropriate, including lowering the applicable emissions caps; and
- (b) Address additionality requirements, verification and ownership of credits, double-counting, baseline definition, credit for early action and specific rules for NO_x and SO₂.

WES staff continue to cooperate with the Ministry of the Environment with respect to their ongoing work on emissions reduction programs such as the Anti-Smog Action Plan (ASAP) and emissions trading.

2. Stakeholder consultations on the PERT methodology

Report No. 20 dated August 30, 2000 of the Works Committee held on September 13, 2000 was adopted in principle and directed that WES staff consult with interested stakeholders on the methodology to be used for calculating emissions reduction credits. In this case, methodology refers to the Pilot Emissions Reduction Trading (PERT) method for calculating emissions reduction credits (ERCs) versus other options. To this end, two separate consultations were held with key stakeholders from City staff, Toronto Atmospheric Fund (TAF), Enwave, International Council for Local Environmental Initiatives (ICLEI), Ontario Clean Air Alliance (OCAA), PERT, Ontario Power Generation (OPG) and the Ministry of the Environment (MOE). Other organizations such as the Toronto Environmental Alliance (TEA) and Greenpeace were invited but were unable to participate or provide comments.

On the issue of methodology for calculating ERCs, some alternatives were discussed such as the methods used by the Greenhouse Gas Emissions Reduction Trading (GERT) project. The representative from the Ministry of the Environment fully endorsed the PERT method used in the City Hall Retrofit project (see section 3 below) and indicated that the provincial trading program will draw from the experiences learned at PERT. The consultations also revealed some opposition to the prospect of the City trading ERCs for CO₂ before the City's 20% reduction target had been met. Another important concern was that emissions trading without adequate controls could actually lead to an increase of emissions in the local airshed.

Based on these consultations and in the absence of a domestically regulated CO₂ trading program, it is advisable that the City investigate options under the Province's trading program for NO_x and SO₂ at this time. This investigation should not however, limit the City's options to execute a pilot trade for CO₂ as approved in principle in the report described above.

At the Federal level, an initiative called the Pilot Emissions Reductions, Removals and Learnings (PERRL) project is assessing the feasibility of developing a national greenhouse gas trading program using the existing network of emissions trading organizations such as PERT. Until such time that regulations are enacted for a CO₂ trading program, it is advisable that the City continue to cooperate with PERT and use their methodologies as both the provincial and federal levels of government recognize this organization.

3. City Hall retrofit project and other City initiatives

The City Hall retrofit project was developed as the leading candidate project for emissions trading from the City's perspective as described in the WES staff report to the Works Committee

dated August 30, 2000. It was reviewed by the Pilot Emissions Reduction Trading (PERT) group in September 2000. During this review, issues were raised around the legal ownership of the ERCs from this project. It has become apparent that project funding from partner sources can be a barrier to ERC registration if ownership is not negotiated between the parties from the outset. At this time, the division of ownership of these ERCs is yet to be resolved. In the interim, other City initiatives have moved forward with respect to emissions trading and are described below.

The Solid Waste Management Services division has one project involving emissions trading, as described in Report No. 29 dated March 12, 2001 of the Works Committee held on March 28, 2001 entitled, Request for Proposals for the Collection and Utilization of Landfill Gas from the Closed Thackeray Landfill, Ward 7. Recommendation 2 reads, "the ownership of the Emission Reduction Trading credits associated with this project be transferred to the proponent subject to the condition that they be retired. However, should the cumulative value of the gas credits exceed the total initial capital costs of installing the gas collection/utilization system, the value of gas credits from that point on would be shared equally with the City."

The report estimates that 900,000 tonnes of equivalent CO₂ will be captured and a projection is made using \$1/tonne over the 15-year life of the project. It is not clear if this quantity can be counted toward the City's 20% CO₂ reduction target or if this credit will be transferred to the proponent to be claimed and retired under their name. At the time of this writing, ERCs from CO₂ are listed on the PERT website (www.pert.org) at \$3/tonne. Also, ERCs need to be registered before they can be used, or in this case, retired.

The Toronto Atmospheric Fund (TAF) is considering entering into emissions trading from its own program perspective as indicated in Report No. 2 of the meeting of the Board of Directors of TAF held on February 16, 2001 entitled, Establishment of the Better Homes Partnership (BHP) and Solicitation of Carbon Credit Funding from Oregon's Climate Trust, Seattle City Light, and Clean Air Canada Inc. Recommendation 3 reads, "That staff seek additional funding from the Government of Canada's Climate Change Action Fund, the Oregon Climate Trust, Seattle City Light and Clean Air Canada Inc. and engage a consultant, if necessary, to assist in preparation of the carbon credit proposals."

Staff of TAF have confirmed that the BHP program would aggregate ERCs created in the City of Toronto on behalf of its client base and sell them to buyers that are actively soliciting carbon credit projects. The applicability of these ERCs toward the City's 20% CO₂ reduction target is not considered in the TAF report.

As described above, work is proceeding on emissions trading at the City ahead of a Council approved corporate policy and the Province's regulation. This indicates the need for a corporate emissions trading policy to be developed using a consultative process, with the full co-operation of all stakeholders. This policy should include, but not be limited to, issues related to establishment and use of ERCs (banking, trading, retirement), acceptable selling prices for ERCs, downstream effects, environmental re-investment options, etc.

4. CO₂ Emissions Trading Study

WES staff are currently undertaking a study to evaluate the effectiveness of market-based environmental protection policies such as emissions trading from an environmental economics perspective. Also, options for a corporate ERC portfolio that includes trading, banking and retiring ERCs will be developed and an investigation of re-investment options including selling or not selling low-cost ERCs will be carried out. This will assist in the development of a corporate emission trading policy referred to above.

This work is expected to be completed by the spring of 2002.

5. Comments to the Ministry of the Environment regarding their Discussion Paper (March 2001)

Environmental Services staff from WES in consultation with other City staff (Facilities and Real Estate, Public Health, WES operating divisions) submitted written comments on this discussion paper in a letter dated July 5, 2001 to the Ministry of the Environment. Some of the key points include:

- (a) Applying restrictions to the creation and use of ERCs in Ontario;
- (b) Using emissions trading as a means to transform the energy marketplace by creating incentives for green power producers;
- (c) Restricting the use of ERCs created from early actions;
- (d) Advocating for Demand-Side Management (DSM) projects to be included in the trading program; and
- (e) Requesting for the rationale used to determine the emissions caps.

Many of the concerns regarding the Strategic Attack on Air Pollution were repeated in this correspondence. In particular, the conclusion that “fine-tuning the rules and regulations of the program will be required on an ongoing basis to ensure that overall emissions do not increase in the airshed”, should be noted.

6. Comments to the Ministry of the Environment regarding their Emission Trading and NO_x and SO₂ Emission Limits for the Electricity Sector (August 2001)

Environmental Services staff from WES submitted written comments on this discussion paper in a letter dated August 29, 2001 to the Ministry of the Environment. Some of the key points include:

- (a) Recommending the establishment of a process that monitors, reports and fine-tunes the initial rules of the program as it evolves and matures;
- (b) Ensuring a “level playing field” and fair rules of competition between OPG and non-utility generators not covered under the cap with respect to creating ERCs;
- (c) Recommending that inter-jurisdictional trades be monitored as a result of the MOE’s program rules such as the use of Set Asides and 5-year life for ERCs; and
- (d) Recommending that ownership criteria for ERCs be included in the regulation based on the City’s experience with several emission reducing projects.

At the time of this writing, the MOE still intends to introduce its trading program for NO_x and SO₂ in December 2001.

Conclusions:

1. The City should continue to cooperate with PERT and use their methodology for calculating and registering ERCs for CO₂ projects in the absence of a provincial regulation or international protocol;
2. The City should investigate options under the Province's emissions trading program for NO_x and SO₂. This investigation should not however, limit the City’s options to execute a pilot trade for CO₂ as approved in principle in the WES report dated August 30, 2000;
3. Project funding from partner sources can be a barrier to ERC registration if ownership is not negotiated between the parties from the outset;
4. Work is proceeding on emissions trading at the City in advance of a corporate policy and the Province’s regulation. This emphasizes the need for a corporate emissions trading policy to be developed using a consultative process with the full co-operation of all stakeholders;
5. The Environmental Services section of WES will monitor and report on its analysis of the Province’s draft trading regulation as it is developed; and

6. Current work being carried out by WES staff will inform the development of a corporate emissions trading policy.

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List of Attachments:

None