

CARBON PRICING: A DRIVER OF INNOVATION & RISK MANAGEMENT

EVENT MATERIAL & DISCUSSION HIGHLIGHTS

Embassy of Canada, Washington D.C.
19 March 2019

OVERVIEW & OBJECTIVES

The full-day forum, “[Carbon Pricing: A Driver of Innovation & Risk Management](#)”, was hosted by the Embassy of Canada, in partnership with Capital Power and the Province of Quebec, and in collaboration with the International Emissions Trading Association (IETA) and the Business Council for Sustainable Energy (BCSE). The event brought together carbon pricing experts from Canada and the US, from government and industry, to exchange experiences and best practices from various carbon pricing programs.

AGENDA & SLIDE DECKS

- [Forum Agenda](#)
 - **Panel 1**
 - [Mountford \(WRI\) Slides](#)
 - [Jacobson \(BCSE\) Slides](#)
 - **Panel 2**
 - [Meltzer \(ECCC\) Slides](#)
 - [Théroux \(MDDELCC\) Slides](#)
 - [Girod \(ClearBlue Markets\) Slides](#)
 - [Lunchtime Keynote Slides](#)
 - **Panel 3**
 - [Grumbles \(RGGI Inc.\) Slides](#)
 - **Panel 4**
 - [Vaasjo \(Capital Power\) Slides](#)
 - [Picard \(Rio Tinto\) Slides](#)

PANEL 1: THE CASE FOR CARBON PRICING – VIEWS FROM US THOUGHT LEADERS

- **Carbon pricing is the least-cost, most efficient way to decarbonize economies**
- Reality: near-term prospects for carbon pricing under current Federal Administration are near zero
- **Any negative impact of the [Green New Deal \(GND\)](#) on carbon pricing conversation?**
 - GND has no explicit call for carbon pricing whatsoever – not necessarily a bad thing
- **Merits of carbon pricing are best seen when contrasted against alternative scenarios:**
 1. No new climate policy and unchecked emissions – and related costs of climate inaction
 2. Subsidize our way out of climate change
 3. Full-on command and control and direct regulations
- Continuing to observe fragility of existing regulatory authority
 - Ex: Stroke of pen dismantlement of Clean Power Plan by Trump administration
- Lots of momentum at sub-national levels and at corporate and investor levels (disclosure, TCFD)
 - But we also see real challenges with socio-economic and low-income concerns
 - Messaging and approach must be “pro-equity”
- Carbon pricing revenue can be equally an advantage and disadvantage of carbon pricing
 - If revenue is not used transparently and with co-benefits, action can backfire
 - Can also transform into a costlier method of decarbonizing (devil in the details...)

How do we see this GND discussion evolving?

- Challenge for proponents of the GND to meet goals without a carbon price
- Some feel that the GND is not really about climate – and are concerned that will not change
 - Addresses universal basic income, universal healthcare, and guaranteed housing
 - Allegedly, to get the “left” on board, they need more than simply climate
- GND does force opposition to the deal to decide where they stand, and what they stand for
- Recognize challenge to undertake climate action when you have a flimsy social safety net
- Pro-GND groups are inadvertently echoing Republican critiques of climate action
 - By including federal guaranteed jobs due to ‘radical economic transition’ to decarbonize
- Neither the Washington (WA) state example nor the yellow vest movement indicts the case for a federal carbon price in the US
 - Opposition to the price in both of those cases is legitimate
 - WA – companies were opposed to disparate proliferation of carbon taxes at state-level
 - “Yellow Vesters” – already super-expensive gas/fuel prices and policy ignored communities who relied on fossil fuels

PANEL 2: THE CANADIAN EXPERIENCE

Canada General Overview

- Canada is “Fragmentation Nation” when it comes to carbon pricing
- Seven different sub-national and federal carbon pricing systems across Canada, including fuel levy, output based pricing system for large emitters and cap and trade
 - Adds to complexity – challenging for industry and investors
 - But lots of corporate sophistication based on deep, long-term compliance experience
- Interest in Article 6 and international “cooperation” on ITMOs in Canada
- Interactions between Clean Fuel Standard (CFS) and carbon pricing
 - Need to clearly understand what you actually want to incentivize
 - Don’t want systems to compete with each other or double-counting

Pan-Canadian Framework Overview

- Carbon pricing is one of the pillars of the 2016 [Pan-Canadian Framework \(PCF\)](#)
 - But carbon pricing is not the only policy in Canada’s federal climate plan!
- Federal approach enables GHG coordination and flexibility of provinces, backstop vs benchmark
- Climate Action Incentive payments
 - Federal Government return 90% of revenue from federal fuel charge to households
 - 10% going to municipalities, universities, school boards and hospitals (MUSH sectors), indigenous communities, SMEs
- Canadian Council of Ministers of the Environment (CCME) – looking at PCF approach to offsets

Quebec Overview

- Quebec has an integrated approach to GHG reductions
- Cap and trade system covers 83% of emissions in Quebec
- By 2020, CA\$4.5 billion will have been generated through Quebec cap and trade program
- All the revenue goes into Quebec Green Fund and supports measures of the [Climate Action Plan](#)
 - Green technology, transportation, energy efficiency, adaptation
 - By law, 2/3 of funds must go to transportation
 - International climate action, targeted at Francophonie developing countries
- Joined the Zero-Emission Vehicle (ZEV) alliance, first jurisdiction in Canada

General Discussion Highlights

- Looming uncertainty for industry in Canada, especially with 2019 elections (Alberta, Federal)
- Conservative party in Ontario made carbon pricing the #1 issue in June 2018

- First order of business was Ontario Government dismantling of cap and trade
- Ontario now a federal carbon pricing backstop jurisdiction
- Should look more towards a continental approach to carbon pricing (harmonization, links)
- Transparency on revenue is critical
 - Clear that many Canadians view provincial and federal programs as tax grab
- Need to talk about ways of de-politicizing revenue
- Must change the carbon pricing narrative to something positive
 - Focus on opportunities
 - Focus on risks of failing to tackle climate and price carbon (e.g. competitiveness risks)
 - Focus on local and community benefits
- Important to give Canadians credit where credit is due, not fight them on pipelines

PANEL 3: US SUB-NATIONAL ACTION

Regional Greenhouse Gas Initiative (RGGI)

- 10 years since RGGI cap and trade program launch (2009)
- 43 quarterly cap and trade allowance auctions have been held to date
- Total of US\$3 billion in auction revenue generated for state investment
- 50% regional reduction in GHG emissions in the utility sector
- Altogether, including New Jersey and Virginia, the RGGI economy is the size of Germany

California Cap and Trade Program

- Maturing economy-wide cap and trade program, linked to Quebec
- Covers 85% of the state's emissions, including transportation
- "California is RGGI's younger, bigger brother"
- Future potentially bright for new linkage partners, including Oregon
- Major climate leadership role not only in California but globally
- Other states, provinces and countries are watching and replicating WCI
- **Numerous lessons learned from California/WCI, such as:** cost-containment, linkage, offsets, transport coverage, interaction with "complementary" measures, revenue use, approaches to co-benefits, treatment of disadvantaged communities, opportunities on tribal lands etc.
- Cautionary tale: culture eats strategy for lunch!
 - Must be aware while implementing and communicating
- **Affordability is always at the forefront for politicians when it comes to energy**
 - Important to consider in energy policymaking

PANEL 4: INDUSTRY AND FINANCIAL SECTOR PERSPECTIVES

Industry Views - Highlights

- **Capital Power leadership across North American carbon markets**
 - Over a decade of experience across Alberta and all other compliance carbon markets in North America
 - Looks at carbon pricing through lens of risk mitigation, commercial opportunities and innovation
 - Leadership in Alberta offset protocols & project development and investment
 - 2030 federal coal phase-out and Alberta Climate Leadership Plan – compliance flexibilities
 - Capital Power's coal facilities will now be converted to natural gas by no later than 2030
 - Steps currently being taken to increase gas co-firing capability
 - Capital Power supporting development and deployment of carbon capture, utilization and storage (CCUS)
 - Predictability around carbon pricing frameworks supports investor confidence and ability to commit to investments in innovation

- **Rio Tinto Alcan (RTA) leadership in Canada and globally**
 - Quebec and BC pricing programs have sparked deeper clean innovation and investment by RTA
 - Canada's aluminum production = 2tCO₂e/T, China's aluminium production = 17 tCO₂e/T
 - China has gone from 5% to 55% of global aluminum production in 20 years
 - Global aluminum production is clearly becoming increasingly carbon intensive

General Discussion Highlights

- Policy certainty and stability means investor certainty and confidence
 - This is what drives *efficient* reductions over mid and longer-term
 - If you build it, they (private sector and capital) will come...
- Communications matters – pro-market and pricing community must become better story-tellers
- What drives investments is economics (including low carbon investment)
 - Low carbon investment can be increased *dramatically* by signals like carbon pricing
- Significant influence of Task Force on Climate-related Financial Disclosures (TCFD) in driving the market
- Value of TCFD has been starting a better dialogue between companies and investors

ARMCHAIR DISCUSSION WITH CONGRESSMAN PAUL TONKO (D-NY)

- Must illuminate to freshman Democrats the market tools in the toolbox to combat climate
- Leverage learnings from the past 5-10 years, including US sub-national leadership (WCI, RGGI)
- Millions of Americans in jurisdictions with a carbon price, and reaping the benefits
- Don't be too dogmatic about preferred approach to carbon pricing
 - That debate is ultimately not productive
- Impossible to have climate hearings without carbon pricing weaving itself into the conversation
- See Congressman [Tonko's Climate Principles & Framework to Inform US Congressional Climate Action](#)