



March 30, 2023

Minister Piccini
Ontario Minister of the Environment, Conservation and Parks
5th Floor
777 Bay Street
Toronto, ON M5B 2H7
Via Email: david.piccini@pc.ola.org

Re: Emissions Performance Standards (EPS) Program

Dear Minister Piccini,

Congratulations on your success in creating Ontario's EPS program to address greenhouse gas emissions from large industrial facilities. The Industrial Gas Users Association (IGUA) represents the largest industrial natural gas consumers from the chemicals, steel, forest products, mining and manufacturing sectors in Ontario and Quebec. IGUA members are committed to environmental stewardship and take pride in having lower emissions intensity than many of their competitors. All IGUA members have aggressive carbon reduction plans for 2030, and most have committed to net-zero by 2050. IGUA members have publicly committed to decarbonization, while ensuring that Canada's industries are globally competitive throughout the transformation of our energy system.

We recently had a productive meeting with ministry staff to discuss the EPS program, which addresses greenhouse gas emissions from large industrial emitters. We raised concerns regarding revenue recycling and emissions offsets, specifically, which we see as crucial to ensuring that the EPS program supports Ontario's industrial competitiveness.

Ministry staff reassured us that the intention is to implement revenue recycling of funds raised by the EPS program, but that the messages the Ministry, and possibly yourself, are hearing from industry are not consistent enough to settle on the specifics of how revenue recycling would work. From our perspective, delays in committing to a revenue recycling program is sending the wrong signal to investors, many of whom operate in multiple jurisdictions across North America and around the world.

To aid in expeditiously implementing the EPS' revenue recycling mechanism, we invite you and your staff to meet with IGUA members through one of our existing committees. This would be an efficient way for you and the Ministry to receive responses from a cross-section of Ontario's energy-intensive industries, instead of one by one.

In absence of such a meeting, we emphasize that the Ministry of the Environment, Conservation and Parks should commit to an expedited timeline for announcing the revenue recycling mechanism for the EPS program. The program should, to the greatest extent possible under federal requirements, set aside all revenues on behalf of each company to enhance those individual company's investments in emissions reductions projects. The funds set aside from each business should only be accessible by that same business for at least seven years, to allow for investment planning timelines.

The seven-year timeline is important for two reasons. First, the stringency factors and rising carbon price signals will backend the collection of EPS funds, with funds not accruing at levels to support major projects until the late 2020s. Second, major projects could take up to five years to implement and must be aligned with critical maintenance schedules to ensure operational continuity and maximum environmental performance. This timeline ensures enough time to move a project from FEED (Front End Engineering Design) studies to capital expenditure. The revenue recycling program should also consider possible extensions beyond seven years to allow for construction delays, or more complex, long-term projects, such as those applying new technologies.

After seven years, plus any extension, the funds could move to a general industrial account, available to any company with emissions regulated by the EPS program. Granting funds for a given emissions reduction project should be based on a continuous intake model, instead of periodic calls for proposals, in order to accommodate the varying investment planning timeframes of each participant. The granting program should be simple, with minimal requirements beyond reducing greenhouse gas emissions, given that corporate capital spending oversight already ensures financial accountability. Rather than an onerous application process, the focus should be on engagement with industry to understand the issues. Industry needs help with navigating the regulatory environment, and there is an opportunity for the Ministry to provide value here, improving the rate at which projects can be delivered and improving overall investment success.

Once approved, the funding should be binding, so that participants can count on the funds in their project economics. Revenues should also be available for a variety of technology maturities -- some businesses have market-ready technologies to invest in, while others need to develop new technologies.

Finally, regarding offsets, they are a useful mechanism that allow investors to reduce emissions outside the EPS program, in order to create emissions credits that can be sold to EPS participants.

We understand that developing offsets rules will take time, and encourage the Ministry to not reinvent the wheel. Instead, Ontario could allow existing federal and provincial offsets into the EPS, and use existing provincial protocols to develop Ontario-based offsets. The existing work of, for example, British Columbia and Alberta, can be leveraged to accelerate development of

Ontario's offset rules. Furthermore, the risk of individual offsets later being deemed invalid should not be a liability for the offset buyer, otherwise Ontario could end up with a complicated offset market like California has developed.

Offsets, in addition to aiding industrial competitiveness, also create opportunities for new investments in other sectors, such as agriculture, where many of the greenhouse gas emissions are not from combusting fossil fuels. Offsets investors can work with farmers to invest in projects to reduce such emissions, and sell the reductions to EPS participants.

The above two components, revenue recycling and offsets, would help to ensure that the EPS program does not do undue harm to Ontario's industrial competitiveness, while also significantly incentivizing investments into Ontario's economy.

We look forward to your future refinements to the EPS program. IGUA and its members are available to assist and advise yourself and ministry staff, as needed. Do not hesitate to contact me if you require clarification or additional information. For any questions, or to discuss this input, please contact me.

Regards,



Shahrzad Rahbar, PhD
President, Industrial Gas Users Association