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Nova Scotia Cap and Trade Design Options Comments
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To whom it may concern:

Climate change threatens Atlantic Canada's quality of life, security and capacity to prosper economically through coastal sea level rise and erosion, extreme weather events, and changes to ecosystem function affecting fisheries, forestry, and public health. The need to put our regional, national and global economies on track to net zero greenhouse gas emissions in less than two decades is urgent. We cannot afford to backslide on progress or to undermine our capacity for a smooth transition to low and non-emitting energy sources to fuel our lives.

Sadly, the Nova Scotia cap and trade proposal threatens to do all these things. If implemented as proposed, the cap and trade proposal could lead to increased greenhouse gas emissions in Nova Scotia, compared to the 2017 reference case. It could slow real and exciting progress toward decarbonizing the economy. It could put at risk the province's capacity to contribute to regional greenhouse gas reduction targets for 2030, as well as 2050. Worse, it could undermine regional progress as provinces like New Brunswick look to get the same deal as Nova Scotia. Let's take each of these concerns in turn.

Increasing rather than decreasing emissions

Nova Scotia, like all Atlantic provinces, has based its greenhouse gas reduction targets on 1990 levels. Atlantic Canada Premiers and New England Governors have a long history of collaboration on climate change solutions, including recent commitments to reduce regional emissions by 35% to 45% below 1990 levels by 2030. Canada switched from a 1990 to a 2005 base year in 2009, essentially wishing away emissions growth that had occurred since 1990.

Nova Scotia's greenhouse gas emissions in 1990 were 20 million tonnes (Mt); in 2005 they were 23 Mt. The same pattern holds true for New Brunswick. In that province, emissions in 1990 were 17 Mt and in 2005, 20 Mt. The difference in base years matters because while Atlantic provinces have 2030 goals based on 1990, federal policy is set based on 2005 levels. This difference is particularly important when it comes to carbon pricing policy. The federal Government's carbon pricing backstop policy requires that a province choosing cap and trade must, at minimum,



achieve a 30% reduction below 2005 levels by 2030 AND that the declining annual cap achieve at least as much as would have occurred if a carbon tax following the federal schedule of \$10 tonne/year starting in 2018 were implemented (<http://news.gc.ca/web/article-en.do?nid=1132149>). This two-part design (total cap and annual declines) unfortunately, is quickly becoming a ceiling, rather than a floor, as demonstrated by Nova Scotia's cap and trade proposal. Here's how the Conservation Council of New Brunswick sees the situation.

First let's recap Nova Scotia's emissions trajectory: 1990 = 20 Mt; 2005 = 23 Mt and 2014 = 17 Mt. In January 2017, the federal Government (Environment Climate Change Canada) released its new reference case (<http://www.ec.gc.ca/GES-GHG/default.asp?lang=En&n=1F24D9EE-1&offset=3&toc=show#tab24>). A greenhouse gas reference case projects into the future the effects of measures already taken by a jurisdiction(s) and assuming no further actions are taken. In the case of the January 2017 reference case, all provincial actions taken up to November 2016 are included. The reference case shows Nova Scotia's is on track to 12 Mt of greenhouse gas emissions in 2030.

What do these numbers suggest when compared to the province's cap and trade proposal? The math is simple, if unsettling. The trajectory for the province, based on the reference case suggests the following:

Reference case reductions from:

1990 = 40% by 2030

2005 = 48% by 2030

2014 = 30% by 2030

As indicated by Nova Scotia's Premier and Environment Minister, the province exceeds the federal minimum standard for carbon pricing under a cap and trade scenario regardless of base year. Congratulations certainly are in order. The provincial electricity cap (55% emissions reduction by 2030 and 40% renewables by 2020) is working. The 2005 base year, however, is a concern. It means Nova Scotia's emissions could INCREASE under cap and trade by 18% or almost 4Mt and still meet the minimum standard set by the federal Government. It is impossible to know the full impact of the proposed approach because federal modeling of how much the cap would decline annually based on a carbon tax schedule is not public (and it needs to be). But it is not a stretch to highlight the concern that it appears Nova Scotia, in compliance with federal minimum standards, could increase its emissions between now and 2030 under its cap and trade proposal.

Slow progress toward decarbonization

Depending on how industry allocations are determined, we are concerned that Nova Scotia's proposal implies an industry cap that essentially requires little to no action by industrial polluters before 2030 in the best case, and potentially growing emissions in the worst case (particularly depending on how new entrants are handled). Combined with free allowances for an undetermined period, the province risks backsliding on progress toward decarbonization and puts at serious risks its ability to get on track toward at least an 80 percent reduction by 2050 (Which we now know is inadequate. We need to be a net zero by 2050).

Put regional greenhouse gas commitments at risk

Carbon pricing is not the only action governments must take to resolve climate change. As we know from experience in other jurisdictions like California that cap and trade is responsible for up to one-quarter of the state's overall reductions. In Nova Scotia, the risk is that the province undermines its contribution to the regional greenhouse gas reduction target because of the carbon pricing program.

To increase the integrity of Nova Scotia's proposed cap and trade program, we recommend the following:

1. No backsliding. Nova Scotia's initial cap must be set to levels at least as stringent as projected in the reference case. We need to remember that reductions of at least 50% by 2030 are now considered essential to meeting 2050 decarbonization goals. Given the province is on track to 48% below 2005 by 2030 with current measures, a provincial target for cap and trade of 50% below 2005 levels by 2030 would keep up momentum toward a low-carbon economy. It would also ensure Nova Scotia exceeds the regional goal of 35% to 45% below 1990 levels by 2030. Annual year over year declines in the cap must keep the province on track to 50% below 2005 levels by 2030 target. These targets should be established in legislation (for the province and for the contribution from cap and trade).
2. Entities emitting 25,000 tonnes a year should be included in the cap and trade program, rather than the proposed 100,000 tonnes/year benchmark to increase market liquidity.
3. Allowances should be auctioned, at minimum, for fuel distributors, as in Quebec, Ontario and California. Free allowances could be provided to emissions intensive-trade exposed firms IF the case can be established through independent review that carbon pricing puts the firm at competitive risk. Issuing free allowances to emissions intensive-trade exposed industries should be for a limited period, with a schedule set for the phase-out of free allowances. Auctioning revenue should be allocated as a priority to programming to assist low-income households to lower energy bills.
4. To decrease competitiveness risks, Nova Scotia should link its cap and trade system with the Western Climate Initiative (WCI), and it should pursue regional trading through expanding WCI to Atlantic Canada and New England or by building province-by-province and state-by-state linkages so that over time carbon pricing converges in North America.
5. The province should commit to full transparency and to independent review of its cap and trade program, including making public all federal and provincial modeling establishing reference cases, cap and trade schedules, and industry allocations, including claims for free allowances. Where the province raises revenue from carbon pricing there should be full transparency relating to financial flows and allocations whether to greenhouse gas reduction programs or tax reform. We also require modelling and analysis, released publicly exploring claims that cap and trade implies outflows from Nova Scotia. It could be that inflows occur because jurisdictions like Ontario and Quebec have higher marginal costs of reductions given electricity is already significantly non-emitting. Offsets purchases could also flow into our region given our forests, for example, are less fire exposed even with climate change than will be the Prairies.
6. The use of offsets from non-capped sectors like agriculture and forestry should be encouraged, but be limited in ways consistent with other cap and trade jurisdictions. Under WCI, for example, offsets can contribute up to 8 percent of the total compliance obligation.

7. To maintain the option of linking to other cap and trade systems in future, Nova Scotia should ensure its approach is consistent with rules established in California (<https://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>), including for banking (limited); borrowing (not allowed); auctioning; offset protocols (including the framework under development by the Canadian Council of Ministers of the Environment); use of a strategic reserve to manage price volatility; voluntary participation for entities over 10,000 tonnes/year but under 25,000 tonnes/year; consistent floor price; accommodations for new entrants (strategic reserve for emissions intensive-trade exposed industries; auctions for other new entrants); and hefty fines/purchase prices for non-compliant entities.
8. Taking the time to design the cap and trade program for environmental effectiveness, economic efficiency, and long-term decarbonization.

Nova Scotia, as an historical leader on climate change, has an opportunity to lead the region. Instead, the current cap and trade proposal could move the region backward. New Brunswick, based on the federal reference case, could see greenhouse gas emissions in 2030 at 30 percent below 2005 levels (14Mt). The province, however, announced in December 2016 a target for 2030 of 35 percent below 1990 levels (this goal is equal to 40% below 2005). Were New Brunswick to follow Nova Scotia's lead on cap and trade our provincial target could be at risk. We could also see a situation where industry received free allowances with little requirement to innovate or modernize because there would be little pressure to reduce emissions. The electricity sector could even be outside cap and trade and handled separately through federal coal phase-out regulation. If New Brunswick required only those entities emitting more than 100,000 tonnes/year there would be five companies in the cap and trade system if electricity is included (Belledune, Coleson Cove, Bayside) and only three if not (Irving Refinery, Irving Paper, Brunswick Smelter), hardly the makings of a vibrant carbon market.

(http://logixml.ghgregistries.ca/New%20Brunswick%20Dashboard%20Solo/rdPage.aspx?rdReport=Dashboard_Industrial)

The Conservation Council of New Brunswick urges Nova Scotia to rethink its cap and trade proposal and to work with the spirit of the federal carbon pricing backstop, rather than doing the minimum. The federal carbon pricing backstop are not based on ceilings and should not be used to undermine progress already made or threaten our trajectory toward a decarbonized economy. Thank you for the opportunity to comment on the Nova Scotia cap and trade proposal. The Conservation Council looks forward to engaging regionally with all governments to advance our objective of keeping our communities safe from climate change.

Sincerely,



Louise Comeau, Director of Energy and Climate Change Solutions

cc. Hon. Brian Gallant, Hon. Serge Rousselle
Hon. Stephen McNeil, Hon. Margaret Miller