

Torlys on Climate Change

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Ontario Joins the Western Climate Initiative

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On July 18, 2008, the Western Climate Initiative (WCI) announced its intention to admit Ontario as its newest partner, one day after the province made its formal membership request. With the addition of Ontario, the WCI comprises seven U.S. states and four Canadian provinces that have undertaken to establish a regional cap-and-trade program for reducing greenhouse gas (GHG) emissions. Ontario has been participating in the WCI as an observer since August 2007 and will now become a full partner with British Columbia, Manitoba, Quebec, Arizona, California, Montana, New Mexico, Oregon, Utah and Washington.

The WCI plans to establish an absolute cap on regional GHG emissions, effective January 1, 2012, which would initially target reductions of 15% below 2005 emissions by 2020. This target is consistent with Ontario's goal of reducing the province's emissions by 6% below 1990 levels by 2014, and 15% below 1990 levels by 2020. Details of the proposed WCI regime are described in the Draft Design Recommendations on Elements of the Cap-and-Trade Program (May 16, 2008) and the Draft Design of the Regional Cap-and-Trade Program ("Draft Design" July 23, 2008). The WCI is expected to release more details on the design of the proposed cap-and-trade regime in mid-September 2008.

According to the Draft Design, each WCI partner will receive an allocation of emissions allowances (allowance budget), calculated with reference to the state or province's population growth, economic activity, electricity consumption and other factors. WCI partners would then have significant flexibility in distributing these allowances to regulated entities within their jurisdictions, although the WCI is currently considering whether to require partners to auction between 25% and 75% of these allowances. Other cap-and-trade regimes – such as the Regional Greenhouse Gas Initiative (RGGI, comprising 10 eastern U.S. states) and the European Union Emission Trading System (EU ETS, the world's largest emissions trading scheme) – also provide for the auctioning of a certain percentage of allowances rather than distributing these licences for free. Over time, the WCI plans to standardize the allocation of allowances and may assess whether allocations to a particular sector should be treated uniformly by all WCI partners to avoid leakages (the movement of emission sources from one jurisdiction to another to circumvent restrictions). In this way, the WCI's growth will mirror the EU ETS's shift toward more centralized allocation.

As currently envisioned, the proposed cap-and-trade regime would have the following features:

Emissions Caps. Although allowance budgets for WCI partners have not yet been set, the regional cap would be lowered between 2012 and 2020, in three-year compliance periods, so that by 2020 regional emissions would have been reduced by 15% below 2005 levels. After 2020, the regional cap would be reduced incrementally. WCI partners would set individual caps for regulated emitters after receiving their allowance budgets.

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Regulated Entities. The regime would initially cap GHG emissions from electricity generators and industrial process and combustion sources that emit over 25,000 tonnes of carbon dioxide equivalent (CO₂e) per year. At the start of the second compliance period (January 1, 2015), the regime would also cap emissions from residential, commercial and industrial fuel combustion at facilities that emit less than the 25,000 tonne threshold and from transportation fuel combustion. For the sectors added in this second period, emissions would be capped at the point where the fuel enters the particular WCI jurisdiction, the precise point to be set by each partner. The WCI regime has a much broader application than RGGI, which will set caps only on CO₂ emissions from electricity generators.

Compliance Mechanisms. Besides making actual reductions to their own GHG emissions, regulated entities could use a variety of mechanisms to achieve their compliance obligations:

- They could purchase allowances from other capped entities in the WCI region and use these allowances toward their own compliance obligations in current or future compliance periods.
- Regulated entities could purchase credits earned by projects shown to have reduced GHG emissions when not required to do so under the WCI cap-and-trade or any other legal regime (offset credits). The WCI has proposed allowing regulated entities to use offset credits for no more than 10% of their compliance obligation. The WCI plans to develop details of this offset system, including protocols for eligible offset project types, in 2009.
- WCI partners could allocate allowances to parties within their jurisdictions that took early action to reduce GHG emissions, but these allowances would have to come from the member's allowance budget.
- At a later date, the WCI may establish criteria that would allow regulated entities to use Kyoto-recognized credits – for example, those earned by Clean Development Mechanism or Joint Implementation projects – to meet their emissions-reduction obligations. The Draft Design also suggests that WCI members may in the future allow regulated entities to use the allowances of other cap-and-trade systems toward a certain percentage of their WCI compliance obligation.

Reporting. To ensure that emissions are quantified and reported accurately and transparently, the WCI would adopt a stringent reporting system, such as [The Climate Registry](#), a non-profit partnership developing a GHG emissions measurement protocol to support various voluntary and mandatory GHG emission reporting policies.

Enforcement. If a capped entity has insufficient allowances to cover its emissions for the previous compliance period, it would be required to surrender three allowances for every tonne of CO₂e emissions not covered, in addition to facing any penalties established by state or provincial law.

The proposed regime would clearly provide WCI members with significant regulatory flexibility. Given this discretion, B.C. recently brought into force its *Greenhouse Gas Reduction (Emissions Standards) Statutes Amendment Act, 2008*, which provides a legislative framework for future WCI-compliant cap-and-trade regulations. Ontario expressed the way it may exercise its discretion in the June 2, 2008, Memorandum of Understanding (MOU) between Ontario and Quebec, in which the two provinces committed to establish a joint cap-and-trade regime by as early as January 1, 2010. The MOU indicated that this regime would use absolute emissions caps, adopt 1990 as a year for baseline emissions and pursue linkages with other emissions trading regimes – all features that are consistent with the WCI proposals.

For further information, please see

www.premier.gov.on.ca/news/Product.asp?ProductID=2363&Lang=EN,
www.westernclimateinitiative.org/ewebeditpro/items/O104F18808.PDF, and
www.westernclimateinitiative.org/ewebeditpro/items/O104F17390.PDF. 