

October 16, 2018

Cap and Trade:
A Financial Review of the Decision to Cancel the Cap
and Trade Program - Media Statement

Good morning and welcome.

My name is Peter Weltman. I was appointed as Ontario's Financial Accountability Officer on May 7, 2018. Sitting with me today is Jeffrey Novak, our Chief Financial Analyst. We will both be available to answer your questions following this brief statement. Si vous avez des question en francais, n'hesitez pas a les poser. Nous allons faire de notre mieux de vous repondre en francais.

Today, I provided to the Speaker, for tabling in the Legislature, a report that estimates the financial impacts of cancelling the cap and trade program. Our analysis looks at this impact from two perspectives. The first is the budgetary impact to the Province from ending the cap and trade program. The second is the financial impact on households and businesses under Ontario's cancelled cap and trade program compared to the federal government's proposed carbon pricing plan.

This report does NOT seek to:

- Assess the economic costs or benefits associated with carbon pricing programs, including the economic impact of government spending in connection with carbon pricing;
- Assess the potential environmental or public health benefits associated with the reduction in GHG

emissions or other co-pollutants in connection with carbon pricing; or

- Comment on the ability of the Province to meet its current or future GHG emission targets.

The cap and trade program began on January 1, 2017. The emission allowances, (which are effectively permits to emit GHGs), sold at auction raised revenue for the Province. The Province used the auction revenue to fund initiatives that were reasonably likely to reduce GHG emissions. In the 2018 Ontario Budget, the Province projected \$2.0 billion in auction revenue in 2018-19 and an equal amount of spending on cap and trade related initiatives.

On July 3, 2018, the Province revoked the cap and trade regulation and prohibited all trading in allowances, effectively ending the cap and trade program. As part of the cap and trade wind down process, the Province also announced that it would end the related spending programs that were funded by the proceeds raised from the auction of allowances.

On July 25, 2018 the Province introduced Bill 4, the Cap and Trade Cancellation Act, 2018. If passed, Bill 4 would officially end the cap and trade program.

Under the federal government's Pan-Canadian Framework on Clean Growth and Climate Change, all provinces and territories are required to have carbon pricing in place by 2018. By ending the cap and trade program, and barring a successful legal challenge, Ontario will become subject to the federal carbon pricing backstop beginning in 2019.

The first main insight from our report is that, by cancelling the cap and trade program, the Province's annual budget balance will worsen by a cumulative total of \$3.0 billion

over the next four years (from fiscal years 2018 through fiscal year 2021).

Overall, the Province's budget balance worsens because the loss of cap and trade revenue from ending the auction of emission allowances is greater than the savings achieved from cancelling cap and trade related spending programs.

The difference occurs for two reasons. First, a number of the cancelled spending programs funded infrastructure projects will not provide immediate savings to the Province's budget balance.

Second, not all of the cap and trade related spending programs have been cancelled by the Province. The remaining programs account for about \$500 million (or 25%) of planned cap and trade related program spending in 2018-19.

In addition, we estimate that the Province will incur about \$600 million in one-time costs to wind down some cap and trade related spending programs and another \$5 million to cover expected compensation costs as set out in the proposed Bill 4.

The second main insight from our report is that beginning in 2020, the federal carbon pricing backstop will result in increased costs to Ontario households and businesses but will also generate more carbon pricing revenue.

To illustrate, under the cancelled cap and trade program, the FAO estimates that a typical Ontario household would pay additional costs of \$264 in 2019, rising to \$312 by 2022.

Under the federal backstop, a typical Ontario household would pay additional costs of \$258 in 2019, rising to \$648 in 2022.

The Province is challenging the federal government's ability to impose carbon pricing and the federal government has not yet indicated how revenue from non-compliant provinces would be recycled. How the backstop revenue is used will determine the net impact to households.

Thank you.

Jeff and I are happy to take questions.

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