

Assessment of the operating parameters of the Cap-and-Trade System

Kick-off webinar

June 14, 2023





Webinar Logistics

- The presentation and web form for submitting comments are available online
 - <https://www.environnement.gouv.qc.ca/changementsclimatiques/evaluation-parametres-fonctionnement-spede-en.htm>
- Written comments must be submitted using the web form
 - Web form available
- Questions period during the webinar
 - Submit question in writing
 - Questions will be posted in the “Q&A section” and read by the moderator

Agenda

- Linked market retrospective
- An integrated approach to fighting climate change
- Cap-and-Trade System overview
- Joint assessment process and public pre-consultations
- California-specific topics
- Timeline for completion
- Questions period

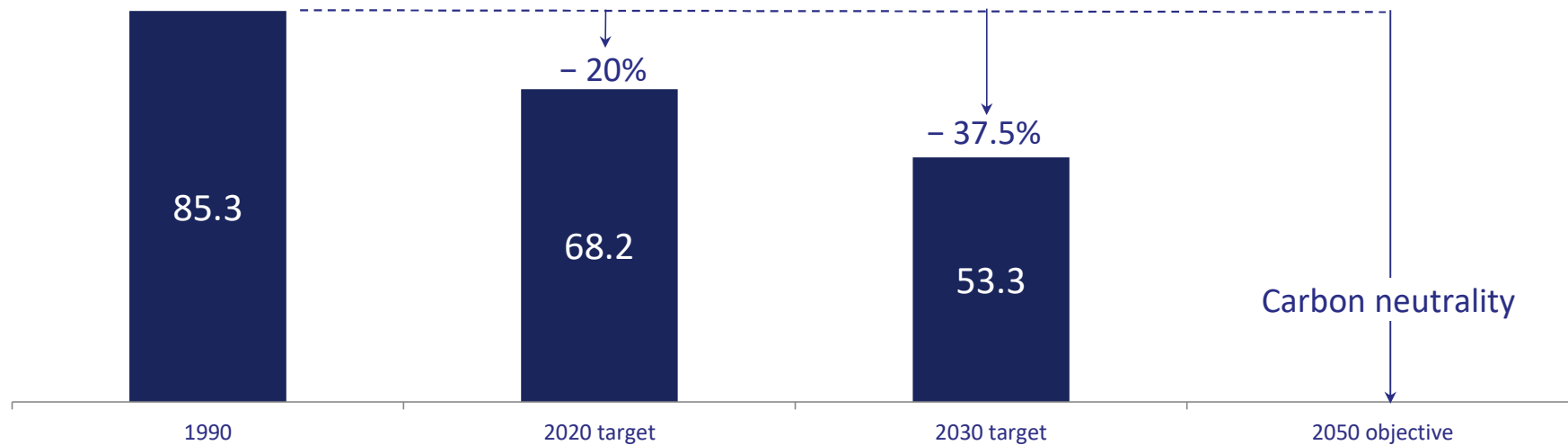
Linked market retrospective

- Implementation of the Québec carbon market in 2013
- Linked Québec-California market since 2014
 - 35 joint allowance auctions
 - Consistent market rules
 - Mutual recognition emission allowances issued by the other jurisdiction
 - Accounting mechanism of compliance instrument net trade flows
- Western Climate Initiative, Inc. (WCI, Inc.)
 - Non-profit organization that provides technical and administrative solutions
 - Single market registry
 - Single auction platform
 - Third party market monitoring
 - Lower cost and better efficiency

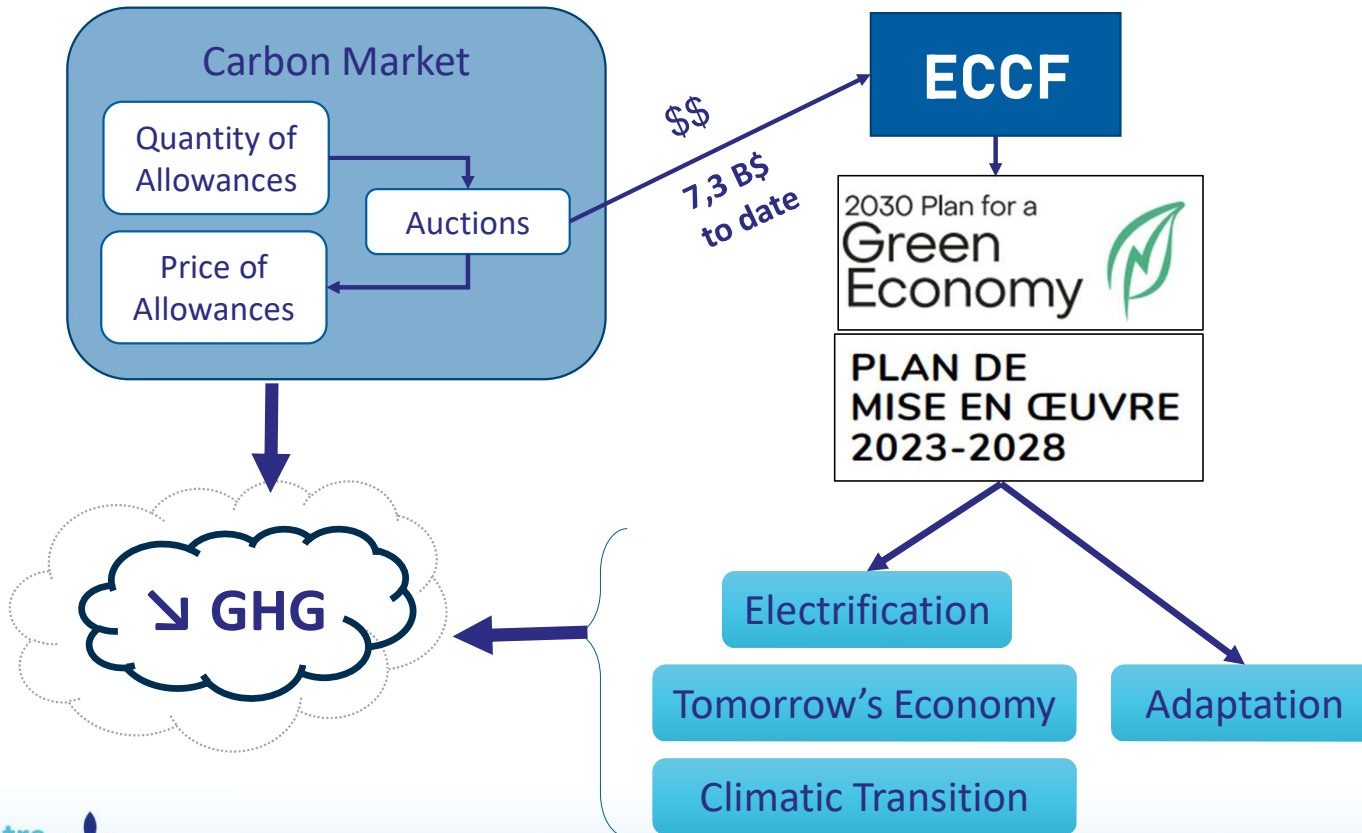


Québec's GHG emission reduction targets

- 1990 emissions, reduction targets and objectives (in millions of tons of CO₂ equivalent)



Integrated approach to fighting climate change



Complementary policies



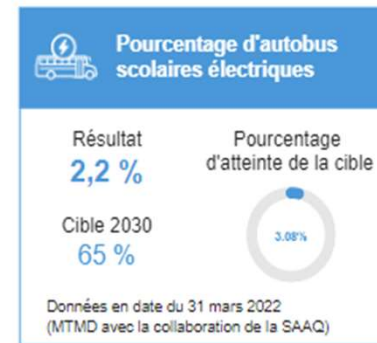
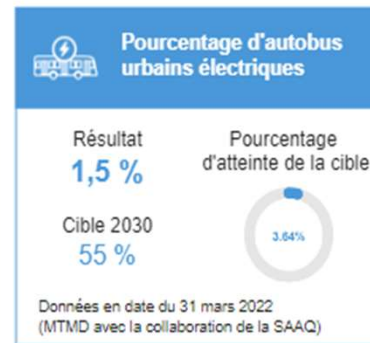
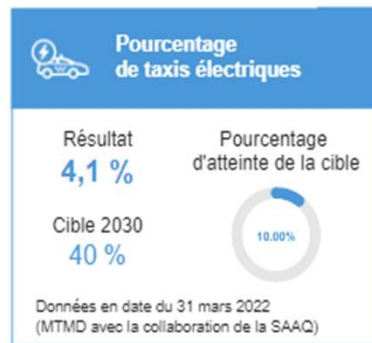


2030 Plan for a Green Economy

- Québec's first electrification and climate change policy framework
- Annual update: Implementation Plan covering the next 5 years
 - [2023-2028 Implementation Plan](#)
 - Highlights:
 - 9 billion \$ budget
 - 5 main axes, 180 actions
 - 60% of the effort required to reach the 2030 target
- Progress of government climate action
 - [Government of Québec 2021-2022 climate action report](#) (in French only)
 - [Climate action dashboard](#) (in French only)

Climate action dashboard

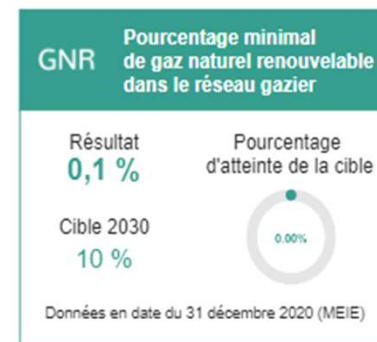
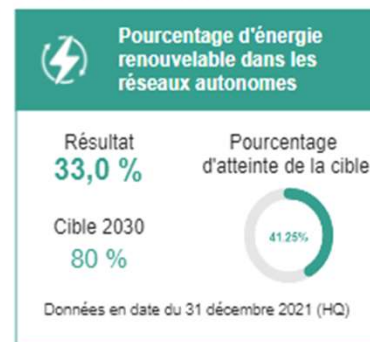
Véhicules électriques sur les routes du Québec



Bornes de recharge publiques



Énergie verte



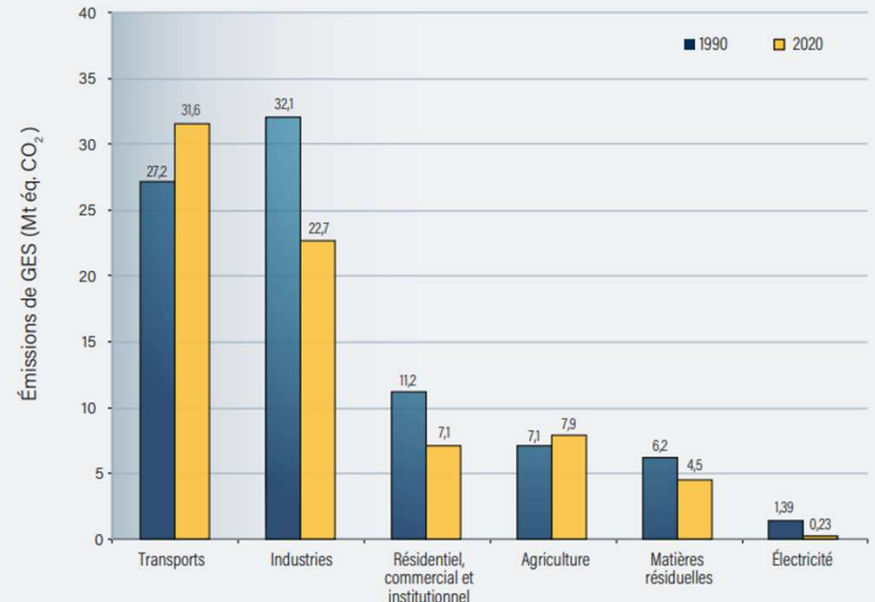
2020 GHG Inventory – Overview of Québec's GHG emissions

- 74 Mt CO₂ eq. in 2020
- 8.6 t CO₂ eq. per capita
- 13.2% below 1990 level

Figure 1
Répartition des émissions de GES au Québec,
en 2020, par secteur d'activité

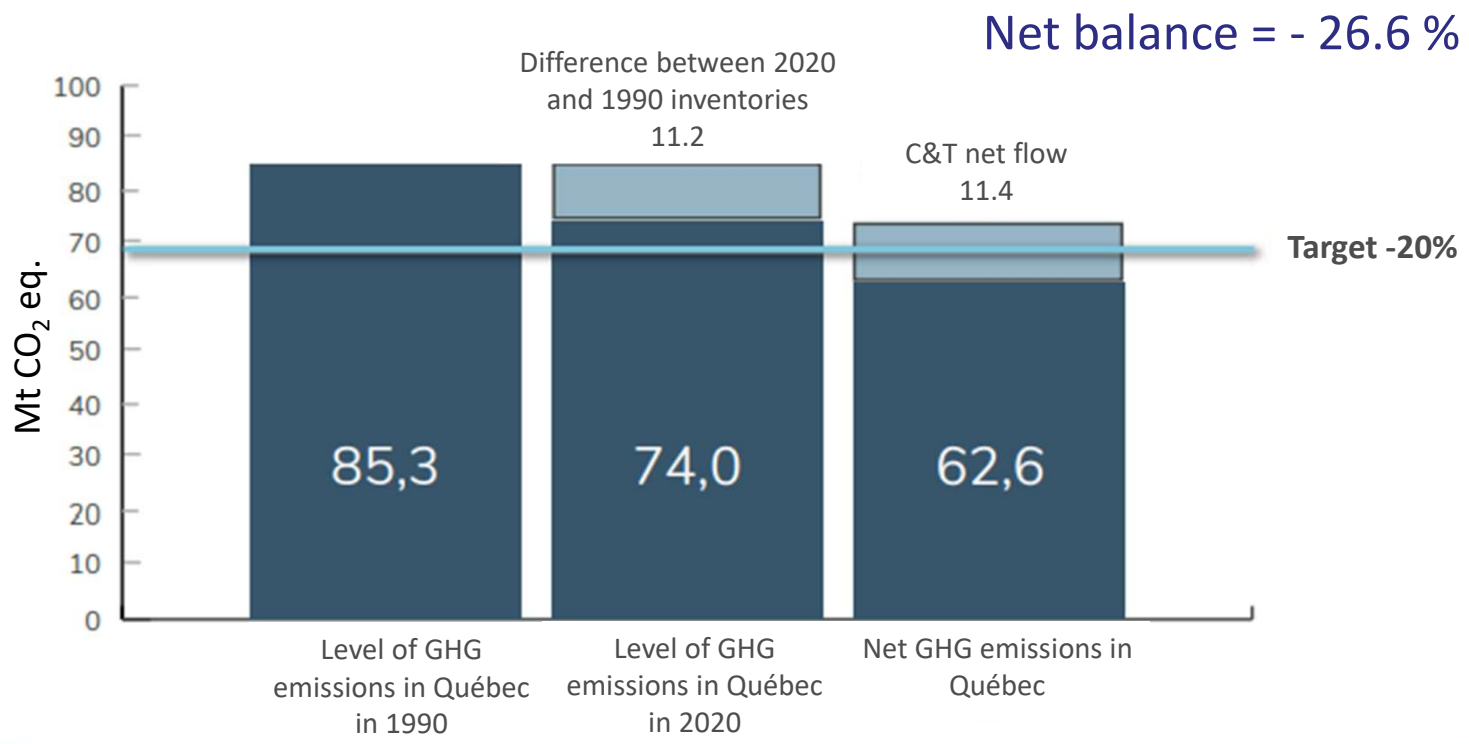


Figure 7
Émissions de GES au Québec
par secteur d'activité en 1990 et en 2020





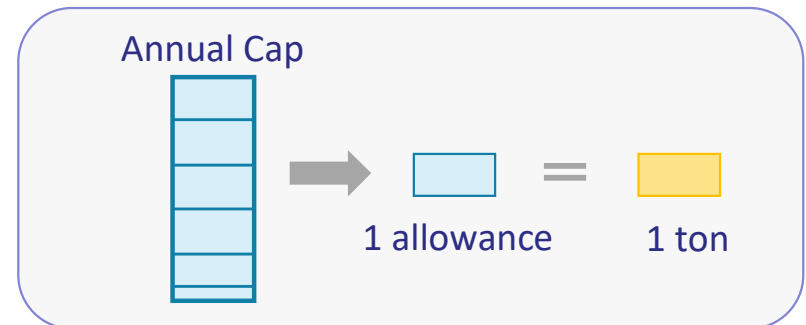
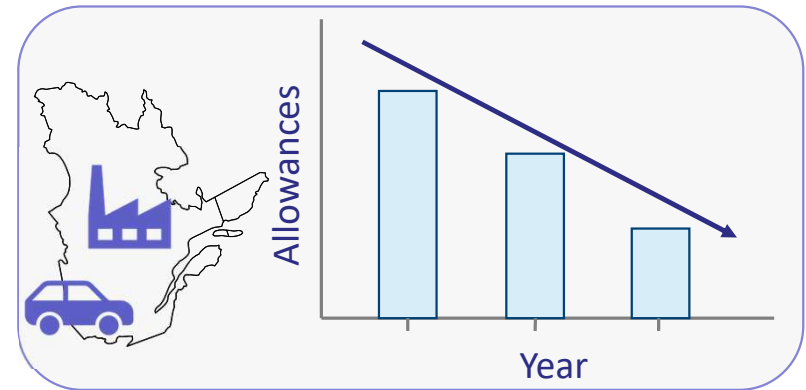
2020 mitigation goal achieved





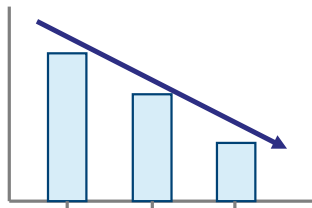
Cap-and-Trade System Overview

- Covers close to 80% of the Québec economy
- Annual caps determine the quantity of emission allowances issued
- Compliance obligation
 - Covered entities must surrender compliance instruments equal to emissions
 - 1 allowance = 1 offset credit = 1 ton of GHG
 - Compliance instruments are tradable





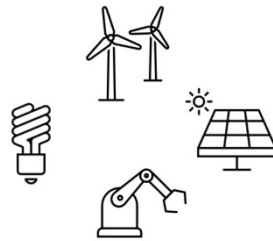
Cap-and-Trade System Overview



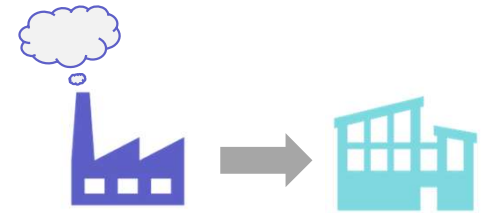
Declining Caps



Increasing Price Signal



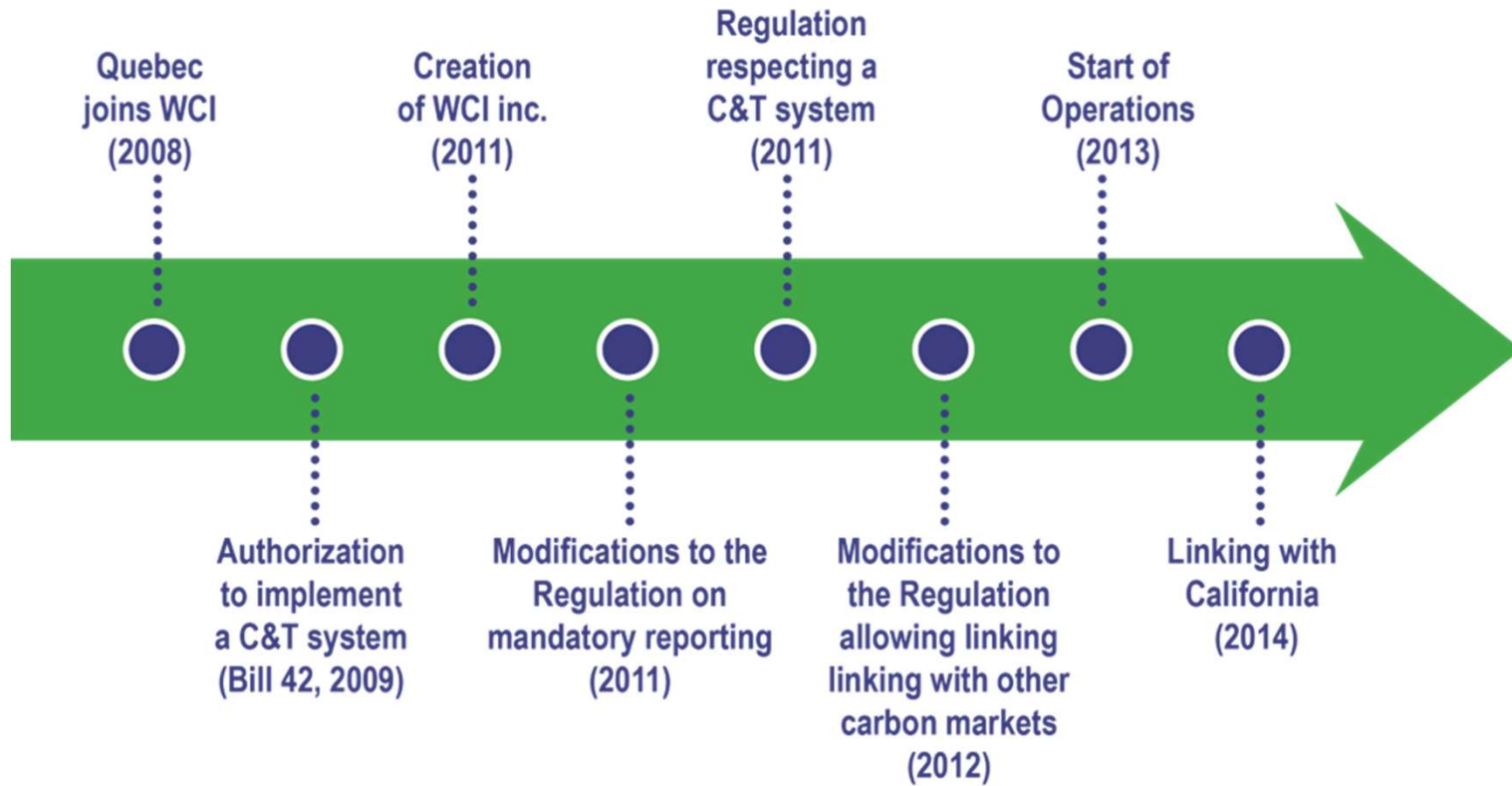
Targets Lowest Cost Reductions First



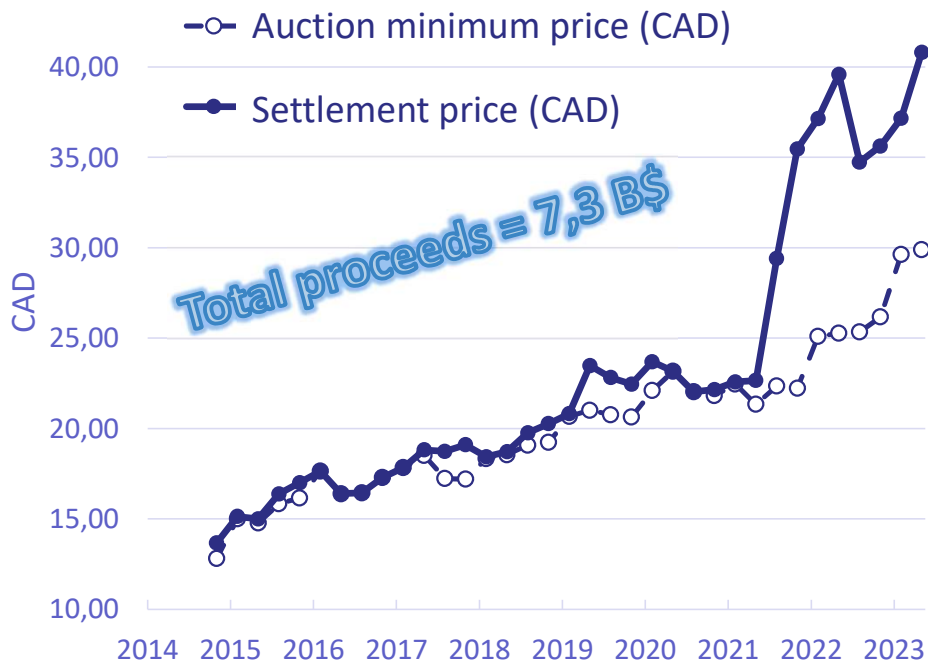
Long-Term Price Signal for Clean Technology Investments



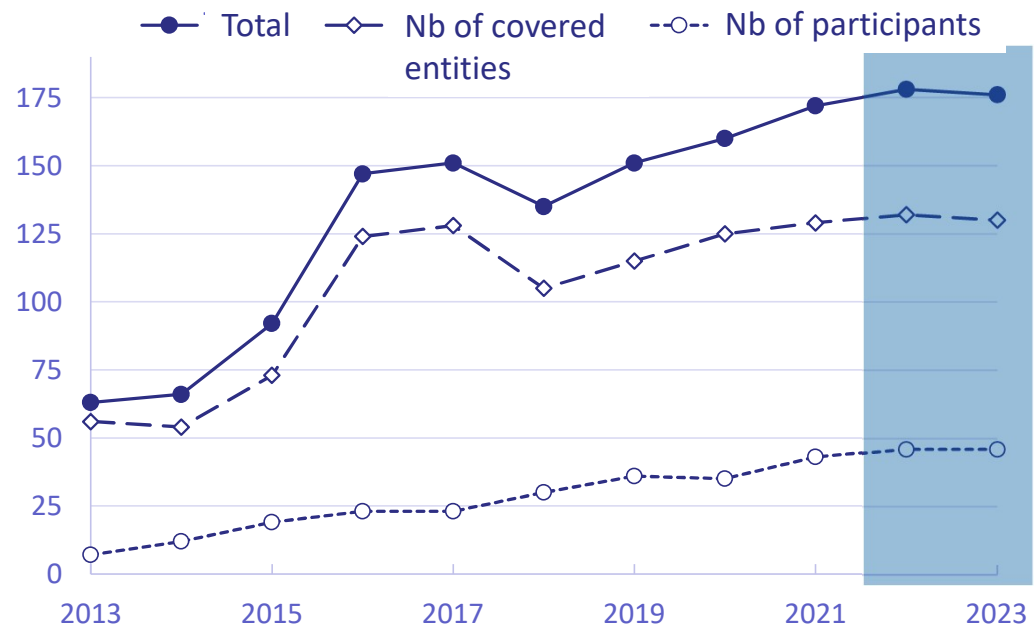
Timeline of the Québec Cap-and-Trade System



Market evolution (Québec only)



Rise of derivative products
 Exchange-traded funds



Fuel Distributors
 Lowering the distributors threshold
 Opt-ins



Objective of the approach

- Ensuring efficient operation of the carbon market to reduce GHG emissions in Québec
- Contribute to achieving the greenhouse gas emissions reduction target by 2030
- Contribute to achieving carbon neutrality by 2050

Modelling work to support the pre-consultation process

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- Two coordinated modeling efforts
 - Québec and California independently model allowance supply and demand scenarios for the joint market
 - Every model has uncertainty, structural differences, and different inputs
 - Allows for cross-checks and validation of directional outputs
- Allowance price estimates
- Evaluate potential impact of 5% of overall allowances being unused in context of modeled scenarios



Topics that will be addressed

Public pre-consultations

- 4 sessions in the fall
- Topics covered
 - Annual caps and issued emission allowances in the market
 - Price control mechanisms
 - Offsets, carbon sequestration and new technologies
 - Québec specific elements
 - California specific elements

Caps and issued emission allowances in the market

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- Assessment of the volume of issued emission allowances in the market
 - Québec's GHG emission reduction target of 37.5% in 2030 and carbon neutrality objective in 2050
 - California's enhanced target for 2030 (48% below 1990) and carbon neutrality (2045)
- Assessment of the implementation of an automatic mechanism for adjusting the supply of emission allowances
- Contribution to the process of setting a reduction target to achieve carbon neutrality by 2050



Price control mechanisms

- Price control mechanisms in place
 - Reserve price (ceiling price)
 - Auction minimum price
- Efficiency of existing market control mechanisms
 - Holding limit and purchase limit
 - Corporate association

Any changes need to be coordinated across linked jurisdictions

Offsets, carbon sequestration and new technologies

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- Limit on the use of offset credits for compliance
- The role of offset credits for the post-2030 period in the context of carbon neutrality for 2050
- Treatment of biofuels and carbon capture and sequestration in a carbon market context



Québec specific elements

- Publication of market data
- Reporting GHG transfers between facilities
- Most recent GHGs Global warming potential (GWP)
- Compliance frequency and partial compliance

California specific elements

- Retrospective electricity sector leakage study
- Industrial sector leakage study
- Coordination with CAISO on Extended Day Ahead Market (EDAM)
- Updates to offset protocols based on the latest science



Timeline

June 14, 2023	Kick-off webinar: presentation of covered topics, timetable and modus operandi for pre-consultation webinars
Late August to late November 2023	Pre-consultations webinars by topic to receive feedback from stakeholders
Winter 2024	If applicable, publication of a draft regulation or other legislative instrument (e.g. Order in council)
Summer 2024	If necessary, issue regulations, order in council, or other



Questions period