



BY MAIL AND FACSIMILE: 416-314-2979

March 3, 2009

Heather Pearson
Ministry of the Environment
Integrated Environmental Planning Division
Air Policy and Climate Change Branch
135 St. Clair Avenue West, Floor 4
Toronto ON M4V 1P5

Dear Ms Pearson:

**Re: Discussion Paper: A Greenhouse Gas Cap-and-Trade System For Ontario
EBR#: 010-5484**

Lake Ontario Waterkeeper ("LOW") is writing in response to the discussion paper entitled, "A Greenhouse Gas Cap-and-Trade System for Ontario" ("the discussion paper"), posted for comment on the Environmental Registry on January 27, 2009.

LOW understands the challenge that addressing climate change and industrial pollution represents for the provincial government. We respect the goals that are expressed in the first section of the discussion paper with regards to reducing Ontario's carbon footprint and the development of a comprehensive strategy to address climate change on a systemic level.

As the discussion paper notes, businesses that offer solutions to the climate change problem will thrive; in order to help them do so, Ontario's cap-and-trade system must be designed to create a level playing field, one on which no business can exploit loopholes to gain competitive advantage while harming the environment. We submit these comments in the hope that Ontario will use this opportunity to implement a flexible, well-designed system that reduces carbon emissions without creating new ecological degradation.

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Two standards are required to avoid ghettoization of certain areas: a cap and a maximum emissions limit.

On page eight of the discussion paper, the merits of linking emissions trading programs across regional and national boundaries are listed, including improved market liquidity, economic efficiency, and decreased compliance costs. While broadly linked emissions trading regimes may carry these economic benefits, they also create the risk of local emissions ghettoization. This occurs when companies purchasing emissions credits are not evenly distributed across the participating geographic area. If companies purchasing credits are clustered in one municipality or region, that area will suffer the effects of an increased pollution load. On the local or regional scale, these effects cannot be offset by credit-selling companies located in geographically distant areas. The result is significant harm to one ecosystem and the people who live there. This is an issue of environmental justice.

The problem can be addressed in part by creating two standards: the cap, which is set at a level below current emissions limits, and which forms the basis for the buying and selling of emissions credits; and the limit, which should be higher than the cap, but no higher than current regulatory emissions limits. This would ensure that, while companies may buy credits when their emissions exceed the cap, their emissions cannot exceed a certain standard, regardless of purchasing power. LOW submits that setting a regulatory limit to supplement the cap will protect vulnerable communities and ecosystems, and help ensure that no Ontario communities receive a disproportionate amount of pollution.

A cap-and-trade system must not cause disproportionate harm to sensitive habitat areas, including wetlands.

In addition to the ghettoization of a geographic area that has a greater than average number of credit purchasers, a cap-and-trade system has the potential to cause irreparable harm to sensitive environmental areas located close to one emission source. Consider the emissions trading example illustrated in the discussion paper at page 13. In that example, company A and company B are both emitting 1000 tonnes of greenhouse gases per year. The regulatory limit is set at 800 tonnes per year. Company A upgrades its equipment and reduces its emissions to 600 tonnes per year, allowing it to sell 200 emissions credits to company B. The result is an overall decrease of 400 tonnes per year, in accordance with the regulatory limit.

This example illustrates a key failing of the cap-and-trade system. It fails to account for the local ecosystem that receives the emissions from company B. Regulatory emissions limits are not set only

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to address climate change. Instead, they are set to protect local environmental features, like productive wetlands. If company B continues to produce 200 tonnes of emissions over the regulatory limit, it may well be polluting an adjacent lake, river or wetland with excess amounts of pollutants. In addition, the people who live close to company B will suffer from the effects of air pollution and smog.

If a cap-and-trade system is launched in Ontario, the system must include an overall limit, beyond the cap, that protects the health of local people and environments. The system should ensure that a company purchasing credits is not allowed to emit excess amounts of any other pollutant beyond the identified greenhouse gases, such as arsenic, mercury or lead. Additionally, permits should be granted on a facility basis rather than a corporate basis, to ensure that reductions apply to all facilities, despite being owned by one corporation.

Generators of nuclear energy and hydroelectric power must not receive allowances, or be allowed to sell offsets.

Nuclear Energy

On page 21 of the discussion paper, a list of potential sources of offsets includes renewable energy generation and other non-fossil fuel electricity generation. LOW submits that nuclear energy production cannot be a source of offsets and must not be included in the cap-and-trade system as a renewable energy source. The negative environmental effects of nuclear power and fuel generation are numerous and well-documented. They include the destruction of fish and fish habitat through impingement and entrainment, the emission of heavy metals, including arsenic, and the creation of radioactive waste. It cannot be shown that nuclear energy generation offers, “environmental benefits that would not have occurred in the absence of the project”, as per page 22 of the discussion paper. Therefore, these installations must not be included as a source of offsets for a cap-and-trade system in Ontario.

Additionally, nuclear power plants must not be granted allowances and allowed to trade permits in an emissions trading system. While the nuclear industry may not emit as high a volume of greenhouse gases as other forms of electricity generation, the other forms of pollution generated by nuclear plants and during the production of nuclear fuel are a significant threat to the health of communities and the environment. In its efforts to improve the environment and address climate change, Ontario must not create a financial reward for this dirty industry.

Hydroelectric Power

Like nuclear projects, hydroelectric projects must not be granted allowances or included as renewable energy generation for the purpose of crediting offsets. When dams are constructed, they are

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generally accompanied by reservoirs, which allow the installation to adapt to seasonal changes in flow rate. The construction of a reservoir involves the flooding of a large area. The vegetation that covered the flooded area is killed and the carbon it holds is released to the atmosphere. The partly-decayed vegetation then sinks to the bottom of the reservoir, where it decays in anaerobic conditions, producing methane gas. Methane, a gas that is 21 times more potent a greenhouse gas than carbon dioxide, is then released to the atmosphere. The effect is not limited to the period immediately following the construction of the dam, as seasonal fluctuations in water level allow new vegetation to grow on the banks of the reservoir, only to be submerged when water levels rise again.¹

Ontario's cap-and-trade system must not grant emissions credits to proponents of hydroelectric projects. Instead, they should exclude hydro projects from emissions trading calculations, or account for the emissions produced by dams in the emissions of the proponent.

Conclusion

Ontario has an opportunity to make changes that will benefit our environment, our economy and future generations. It is essential that the full potential of this chance be realized through the careful design and implementation of any cap-and-trade system. In order to do so, Ontario must ensure that any program includes mechanisms to avoid the clustering of dirty industry and the degradation of local environments. LOW recommends the implementation of a regulatory limit or maximum emissions level in addition to the cap. No cap-and-trade program can benefit the environment if it encourages or subsidizes polluting industries. A cap-and-trade program must not grant allowances to hydroelectric or nuclear power generators, or allow them to sell offsets to capped industries.

Lake Ontario Waterkeeper appreciates the opportunity to provide comments on the discussion paper and Ontario's potential cap-and-trade program. If you have any questions or comments, please do not hesitate to contact Joanna Bull, Articling Student, at (416) 861-1237 or joanna@waterkeeper.ca.

Yours truly,



Mark Mattson
Waterkeeper & President

¹ See Duncan Graham-Rowe, "Hydroelectric power's dirty secret revealed" New Scientist, February 24, 2005. Accessed online at: <<http://www.newscientist.com/article/dn7046>>.