

MAY 20, 2016

Ontario's Cap-and-Trade Regime

Authors: [Sarah V. Powell](#), [Alexandria J. Pike](#) and Diana R. Lyrintzis

Ontario's *Climate Change Mitigation and Low-carbon Economy Act, 2016*, which provides for the initial distribution of free allowances at levels comparable to current emissions, passed on May 18, 2016, and its companion regulation ([O. Reg. 144/16](#)) was adopted on May 19, 2016. The legislation is very similar to that proposed in February, with more favourable treatment of particular industries such as cogeneration and biomass facilities.

The regime provides for the initial distribution of free allowances at levels comparable to current emissions. Regulated entities (industries with more than 25,000 tonnes of CO₂-equivalent emissions, natural gas distributors, electricity importers and petroleum suppliers) are required to gradually reduce emissions, purchase allowances from the government or seek allowances or credits in the carbon market. Compliance obligations start on January 1, 2017, with the first compliance period running until December 31, 2020. The first Ontario-only auction of emission allowances is slated for March 2017, and Ontario is expected to link shortly thereafter with the Québec-California carbon market.

Separate regulations regarding administrative monetary penalties and First Nations impact mitigation are expected to be released later this year. Rules regarding offsets and credits for early action are also expected. The ministry intends to continue consultation with respect to offsets and facility shutdowns.

With Alberta announcing details regarding its carbon tax in April and British Columbia's amendments to its carbon tax legislation earlier this year, the provincial governments have been making strides in establishing a price on carbon and thus implementing programs to meet their carbon emissions-reduction targets. However, Canada will have difficulty meeting its international carbon emissions-reduction commitments without a more coordinated framework for carbon pricing.

Read Davies' communications on the background to this legislation: [Ontario and Québec Collaborate to Reduce Carbon Emissions](#); [Carbon Pricing: Provincial Action Ahead of the Paris Climate Conference](#); and [Ontario's Carbon Market Revealed](#).

Key Contacts: [Sarah V. Powell](#) and [Alexandria J. Pike](#)

This information and comments herein are for the general information of the reader and are not intended as advice or opinions to be relied upon in relation to any particular circumstances. For particular applications of the law to specific situations the reader should seek professional advice.