

## ONTARIO POWER AUTHORITY ANNOUNCES INTENTION TO SELL ENVIRONMENTAL ATTRIBUTES

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In the last week of January the Ontario Power Authority (OPA) initiated stakeholder consultation regarding an initiative to explore the sale of Environmental Attributes (EAs) that it holds pursuant to the contracts it has with suppliers of electricity. This rather sudden policy development appears to be the result of direction from the provincial government that will likely be reflected in a formal "Direction" from the Minister of Energy to the OPA in the near future.

The OPA has, through its various agreements with suppliers of renewable and other power, been gathering EAs over the last several years. In fact, until this recent change in direction it has taken the general position that it would not negotiate the terms related to EAs in its contracts nor would it consider divesting itself of the EAs or any rights related to them. While there are a number of reasons for the OPA's position, principle among them has likely been the inability to determine a reliable value of attribution to EAs.

"Environmental Attribute" is defined in OPA contracts for the purchase of power in Ontario.

The definition includes interests or rights related arising out of attributes or characteristics relating to the environmental impacts associated with the generation facility in question. It includes, but is not limited to, carbon offsets, renewable energy certificates and other credits related to emissions from facilities.

In reaching out to stakeholders in January the OPA began a conversation with those with interests and experience with EAs in Ontario in order to more completely understand market dynamics related to the definition and value of EAs as well as to gather feedback on the concept of using, and procurement of, a Program Manager in order to enter the EA market as a vendor.

Numerous issues need to be considered by the OPA in embarking on this initiative. There is little understanding at this point of time what exactly the OPA owns as well as the quantity and quality of those "things". Additionally, thought will need to be given to what mechanism to use for the sale of the products as well how they are registered, tracked and audited.

One of the most significant limitations described by the OPA is the current position of the Government that EAs sold must be retired within the province of Ontario. Specifically, the OPA has advised stakeholders that EAs shall not be traded into other markets or used to offset emissions. The OPA is seeking information from stakeholders on how it is expected that such a limitation would impact the value of the EAs being sold. Stakeholders have pointed out that value would be negatively effected by such restrictions. It remains to be seen whether such input will result in a change of this position.

It appears that the approach currently favoured by the OPA is to competitively procure a Program Manager to sell EAs on its behalf into the voluntary market over a time limited pilot period (proposed as being 18 months). Under this approach a single entity would procure a certain volume of EAs (a small portion of those held by the OPA) and share revenues for any EAs sold above the original bid/purchase price.

The OPA is seeking comments on this proposal by February 7th, 2011.

What has changed to motivate the development of this program is not entirely clear. The sale of EAs is not required as a result of the FIT or other programs any more than it was before, nor are market conditions so favourable as to make this a commercial imperative (to maximize value for the ratepayers of the province). There are those who are suggesting that the coming provincial fall election and the rising price of power may have had a role in the timing of the initiative.

### **IMPLICATIONS FOR INDUSTRY**

While it is unclear exactly what all the impacts of the sale of EAs will be for power suppliers with

contracts with the OPA, there may be requirements for additional information to support the OPAs quantification and quality management of the EAs it plans to sell. The power sector will need to watch the developments related to this initiative carefully as it proceeds.

The other group stakeholders that will have a keen interest in the outcome of the OPAs deliberations will be the potential purchasers of EAs. Given the absence of a compliance regime in Ontario for most EAs, and the stated mandate of the OPA to sell into the voluntary market, it is anticipated that most interested buyers will be motivated by Corporate Social Responsibility (CSR) commitments or programs.

One challenge for the OPA will be the fact that CSR motivated purchasers are already buying carbon offsets, renewable energy certificates and similar instruments across North America. The existence of a geographically unconstrained and competitive market (from a price point of view) will have an impact on the OPAs ability to maximize value of the EAs it owns and to generate interest in the products it looks to sell.

### **NEXT STEPS**

It will be important for interested stakeholders to ensure that the OPA is aware of their thoughts and concerns as matters develop and to follow developments in the near future.

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