



Environment and  
Climate Change Canada

Environnement et  
Changement climatique Canada

Policy regarding  
voluntary participation in

# THE OUTPUT-BASED PRICING SYSTEM



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## Purpose

Under section 172 of the Greenhouse Gas Pollution Pricing Act (GGPPA) a person responsible for a facility may request that the facility be designated as a covered facility under the Act. Each application will be assessed on its merits and on a case-by-case basis. This policy outlines the considerations the Minister will take into account when making such a designation. It also outlines the procedures that the person responsible for such facilities is to follow when requesting such a designation. Finally, the policy also lays out the considerations that the Minister would take into account when cancelling a designation made under section 172 of the GGPPA.

This policy does not apply to facilities that meet the criteria in the Notice Establishing Criteria Respecting Facilities and Persons and Publishing Measures (the Notice). Those facilities are required to register as covered facilities.

The aim of this policy is to minimize competitiveness and carbon leakage risks from the exposure of a sector to the federal fuel charge (under Part 1 of the GGPPA), while retaining a price signal on carbon pollution that creates an incentive to reduce greenhouse gas emissions.

Part 1 of this policy applies to facilities that carry out an activity for which an output-based standard (OBS) has been established under the *Regulatory Proposal for the Output-based Pricing System regulations under the Greenhouse Gas Pollution Pricing Act* (a covered activity). Part 2 enables additional facilities to apply to be included in the Output-Based Pricing System

## Definitions

For the purposes of this policy, facility has the same meaning as under the Notice<sup>1</sup>.

Covered activity means a covered activity listed in section 3 of the Notice.

Eligible activity means an activity identified in Appendix B of this policy, other than a covered activity.

The date of commissioning means either:

- a) the date on which the facility first produces a product resulting from carrying out a covered activity or an eligible activity; or
- b) the date on which the facility starts producing a product resulting from carrying out a covered activity or an eligible activity after a major retrofit has occurred; or
- c) the date on which a facility resumes producing a product resulting from carrying out a covered activity or an eligible activity after an expansion has occurred.

A major retrofit has occurred if the facility has made an investment equal to or greater than 25% of the original capital required for the facility, adjusted for inflation, and the facility no longer carries out a previous covered or eligible activity and instead carries out a new covered or eligible activity.

An expansion has occurred when a facility has increased its production of a covered or eligible activity by 25% or more.

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<sup>1</sup> Available at <http://gazette.gc.ca/rp-pr/p2/2018/2018-10-31/html/sor-dors213-eng.html>

## **Designation as a covered facility**

### **Part 1:**

#### **Existing facilities**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. The facility is used to carry out any of the covered activities listed in section 3 of the Notice, or in the case of Saskatchewan the activity listed in section 3(c)(x) or 3(a) of the Notice;
3. A report was made, in accordance with a Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, in respect of that facility indicating that that facility emitted a quantity of greenhouse gases equal to 10 kt of CO<sub>2</sub>e or more, as one or more facilities as defined in such a notice, during the 2017 calendar years or after; and
4. A complete application for registration in the Output-based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must be made by a person responsible for that facility. For the purpose of section 172 of the Act, the organization or individual that is the owner or operator is the person responsible for that facility.

#### **Recently commissioned, retrofitted or expanded facilities**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. The facility is used to carry out any of the covered activities listed in section 3 of the Notice, or in the case of Saskatchewan the activity listed in section 3(c)(x) or 3(a) of the Notice;
3. The facility was not required to report greenhouse gas emissions under a previous Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, and:
  - a) was first commissioned in the past three years but no earlier than 2017,
  - b) has undergone a major retrofit in the past three years, or
  - c) has undergone an expansion in the past three years;
4. The facility submits as part of its application for registration in the Output-based Pricing System estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrate the facility is projected to emit 10 kt of CO<sub>2</sub>e or more per year within 3 years from the date of commissioning. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions; and
5. A complete application for registration in the Output-based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must be made by a person responsible for that facility. For the purpose of section 172 of the Act, the

organization or individual that is the owner or operator of the facility is the person responsible for the facility.

## **Part 2:**

### **Existing facilities**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA, except Saskatchewan;
2. A report was made, in accordance with a Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, in respect of that facility indicating that that facility emitted a quantity of greenhouse gases equal to 10 kt of CO<sub>2</sub>e or more, as one or more facilities as defined in such a notice, during the 2017 calendar years or after;
3. The facility is in a sector listed in Appendix A, or successfully applies for its sector to be added to Appendix A by demonstrating that the sector faces significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing;
4. The facility does not carry out a covered activity as its primary activity ; and
5. A complete application for registration in the Output-Based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must include the information set out in Appendix B. The application must be made by a person responsible for that facility. For the purpose of section 172 of the Act, the organization or individual that is the owner or operator is the person responsible for that facility.

### **Recently commissioned, retrofitted or expanded facilities**

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA, except Saskatchewan;
2. The facility was not required to report greenhouse gas emissions under a previous Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, and:
  - a) Was first commissioned in the past three years but no earlier than 2017,
  - b) Has undergone a major retrofit in the past three years, or
  - c) Has undergone an expansion in the past three years;
3. The facility submits as part of its application for registration in the Output-based Pricing System estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrate the facility is projected to emit 10 kt CO<sub>2</sub>e or more per year within 3 years from the date of commissioning. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions;

4. The facility is in a sector listed in Appendix A, or successfully applies for its sector to be added to Appendix A by demonstrating that the sector faces significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing;
5. The facility does not carry out a covered activity as its primary activity; and
6. A complete application for registration in the Output-Based Pricing System is submitted in respect of the facility in the form and manner determined by the Minister. The application must include the information set out in Appendix B. The application must be made by a person responsible for that facility. For the purpose of section 172 of the Act, the organization or individual that is the owner or operator of the facility is the person responsible for the facility.

### **Timing**

A responsible person for a facility may request that it be designated as a covered facility at any time. A responsible person for a facility that makes an application under this policy will receive a notification indicating the decision regarding their request to have their facility designated as a covered facility.

### **Cancellation of Designation**

A responsible person for a facility that has been designated as a covered facility under section 172 (1) of the GGPPA may apply to have the designation of the facility cancelled. An application to cancel a designation must be made in the form and manner prescribed by the Minister.

If a cancellation request is granted, it will generally take effect at the end of the compliance period in which the application is made.

This policy may be amended from time to time.

## Appendix A: Sectors at risk of carbon leakage from carbon pollution pricing

Table 1 includes sectors that have facilities that are located in jurisdictions where the GGPPA applies and that:

- have greenhouse gas (GHG) emissions of 10 kt CO<sub>2</sub>e or more per year,
- carry out as their primary activity, an activity for which an OBS has not yet been specified under the Regulatory Proposal for the Output-based Pricing System regulations under the Greenhouse Gas Pollution Pricing Act; and
- where the application of carbon pollution pricing may create a significant competitiveness and carbon leakage risk.

Sectors where the application of carbon pollution pricing may create a significant competitiveness and carbon leakage risk include sectors that are in a medium or higher EITE risk category based on the following criteria:

Sectors with EITE risk of medium or higher are sectors where

- the emissions intensity equals or exceeds 1% and trade exposure equals or exceeds 10%, or
- the emissions intensity equals or exceeds 3% and a trade exposure of any level is achieved.

Where

Emissions Intensity = Direct Carbon Cost / Gross Value Added (GVA)

Trade Exposure = (Imports + Exports) / (Imports + Sales)

Direct carbon costs are the costs the sector would face if exposed to the federal fuel charge under Part 1 of the GGPPA at \$50 per tonne of CO<sub>2</sub>e in 2022. GVA is a measure of the contribution of an industry to the economy. Imports (or exports) by industry are equal to the sum of imports (or exports) of products produced by that industry.

These sectors also include sectors that are more than 80% trade exposed, where Trade Exposure = (Imports + Exports) / (Imports + Sales).

Facilities and sectors may apply to add other sectors to Table 1 in the following circumstances:

- a) The applicant demonstrates that using credible data, the sector or subsector is in a medium EITE risk category or higher, or are more than 80% trade exposed using the above criteria.
- b) The applicant demonstrates that when other metrics or factors are considered the sector is at significant risk of carbon leakage due to carbon pollution pricing. These other factors include:
  - i. Competitors are included under the OBPS - i.e., the facility produces products already captured under the OBPS;
  - ii. Carbon costs are large relative to revenue – i.e., facilities that make up 10% or more of the sector's revenue face carbon costs that exceed 3% of revenue;
  - iii. The sector is unable to pass on carbon costs to consumers as indicated by the sector having a trade exposure level that exceeds 60%;
  - iv. The estimated indirect carbon costs for the sector result in the sector being in the medium or high EITE risk category when both direct and indirect costs are included in determining the carbon costs of the sector.

Where factor b) (i) is met, this will be considered a sufficient condition for eligibility under part 2 of the policy. For sectors that meet factors (b) (ii) – (iv), sectors must meet at least two out of the three factors to qualify.

**Table 1: Sectors where the application of carbon pollution pricing may create a significant competitiveness and carbon leakage risk**

NAICS	Name
2123	Non-metallic mineral mining and quarrying
3112, 3118, 3119	Miscellaneous food manufacturing
3113	Sugar and confectionery product manufacturing
321	Wood product manufacturing
324	Petroleum and coal product manufacturing
3251, 3252, 3259	Other chemical manufacturing
3254	Pharmaceutical and medicine manufacturing
3271, 3272, 3274, 3279	Non-metallic mineral product manufacturing (except cement and concrete products)
331	Primary metal manufacturing
33633	Motor vehicle steering and suspension components (except spring) manufacturing
33639	Other motor vehicle parts manufacturing

Environment and Climate Change Canada may update the list in the table from time to time.

### **Appendix B – Supplementary information to support applications from EITE sectors**

The responsible person for a facility to which the Part 2 of the Policy Regarding Voluntary Participation in the Output-Based Pricing System applies must provide the following information as part of their application.

#### 1. Reference years:

The reference years for a facility are:

- a) 2017 and 2018 for a facility for which the responsible person requests the designation as a covered facility in 2019.
- b) The three most recent full years of commercial operation for a facility for which the responsible person requests the designation as a covered facility in 2020 or later.

For a recently commissioned, retrofitted or expanded facility the information under section 3 of Appendix B can be estimated for the three first years from the date of commissioning. These estimates should be based on engineering estimates, bearing a valid engineering stamp in accordance with the law of a province or territory that governs the practice of professional engineering.

The facility must indicate the reference years that will be used, or in the case of engineering estimates provide details on the methods used to perform the calculations.



## 2. Eligible activity

The eligible activities for a facility will be determined as follows:

- a) For a facility that produces only one product that is not the result of carrying out a covered activity, the eligible activity is the production of this product.
- b) For all other facilities, the products to be included in the eligible activities must represent the majority of production at the facility, measured either in terms of its contribution to revenue from the facility or facility emissions. Wherever possible, the production of multiple products should be aggregated. This should be done in cases where the products identified can be measured using the same units and the proportion of the production of these products does not vary significantly from one year to the next.

The facility must report all eligible activities at the facility, and provide information to support the determination of the eligible activities.

## 3. Information on emissions, production and transfers of industrial heat

The following information on emissions, production and transfers of industrial heat.

- a) The total GHG emissions for the facility;
- b) The total GHG emissions associated with all covered activities undertaken at the facility;
- c) The total GHG emissions associated with the generation of fossil fuel electricity at the facility;
- d) The total GHG emissions associated with each eligible activity undertaken at the facility;
- e) The total purchases of thermal energy that are purchased from covered facilities. The ratio of heat from the combustion of fossil fuels of the seller, where available;
- f) The total sales of thermal energy to all covered facilities whose main activity is a covered or eligible activity. The ratio of heat from the combustion of fossil fuels for the facility; and
- g) The production associated with each eligible activity.

This information must be provided for each of the reference years identified under section 1. The person responsible for the facility should use the same method to quantify the information for each of the reference years and detail this method in the application.

## 4. Quantification of emissions, production and transfers of industrial heat

The information under section 3a) for the reference years should be provided based on the information submitted to the Greenhouse Gas Reporting Program where available. Specifically, for a facility for which a report was made, in accordance with a Notice with respect to reporting of greenhouse gases (GHGs) published under section 46 of the Canadian Environmental Protection Act, 1999, in respect of that facility as one or more facilities as defined in such a notice, during the reference years, the emissions for that facility should be provided as reported under the notice for each of the reference years.

The information under b), c), d), e), f) and g) should be quantified in accordance with industry best practices. The Greenhouse Gas Emissions Information Production Order<sup>2</sup> provides acceptable methods for quantifying this information.

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<sup>2</sup> Available at [\*Greenhouse Gas Emissions Information Production Order\*](#)

The information under 3 g) should include the quantity of each type of product produced by carrying out the eligible activity for each of the reference years in mass, volume or number of units, according to the units of measure currently used by the industrial sector in question.

## 5. Third Party Review

An independent third party reviewer should review the information detailed in this section. The third party reviewer must:

- a) be a professional engineer certified in accordance with the law of a province or territory that governs the practice of professional engineering, or a chartered professional accountant certified in accordance with the law of a province or territory that governs the practice of professional accounting;
- b) have technical knowledge and expertise of greenhouse gas emission quantification methodologies for the sector, and audit practices; and
- c) is not the person responsible for the facility or a director, officer or employee of the person responsible for the facility or of an affiliate, or an employee or agent of the Government.

The third party reviewer should attest that the information in the application is complete, the information submitted under section 3 of Appendix B is free of material errors and omissions and the application has been prepared in a manner that is consistent with the policy on voluntary participation. Appropriate materiality thresholds can be found in section 20 (2) of the Greenhouse Gas Emissions Information Production Order.