# GREENHOUSE GAS POLLUTION PRICING ACT

## ANNUAL REPORT FOR 2019

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# *GREENHOUSE GAS POLLUTION PRICING ACT*

## ANNUAL REPORT FOR 2019

# Table of Contents

# MINISTER'S MESSAGE

## First annual report on the *Greenhouse Gas Pollution Pricing Act* (GGPPA)

I am pleased to present this first Annual Report on the administration of the *Greenhouse Gas Pollution Pricing Act*.

The Government of Canada has remained focused on keeping Canadians safe and supporting families and businesses through the COVID-19 pandemic. At the same time, we know we need to do more in the fight against climate change. Canadians are experiencing the costs first hand, in the wildfires in BC, droughts in Alberta, heatwaves in Ontario, or floods in New Brunswick. They know that we need to take climate action now, for our kids and grandkids.

In 2018, the *Greenhouse Gas Pollution Pricing Act* came into effect, ensuring there is a price on carbon pollution across the country. A well-designed price on carbon pollution provides an incentive for climate action and clean innovation while protecting business competitiveness. It is efficient and cost effective because it allows businesses and households to decide for themselves how best to reduce the emissions that cause climate change.

The federal carbon pollution pricing system is not about raising revenues. It is about recognizing that pollution has a cost, empowering Canadians, and encouraging cleaner growth and a more sustainable future. As this Annual Report shows, all direct proceeds from pricing carbon pollution under the federal system are being returned to the jurisdiction in which they were collected. Returning proceeds from pricing carbon pollution helps with affordability, but it does not change the incentive to pollute less.

Climate change is the biggest challenge this generation is facing. It's also the biggest economic opportunity. The clean economy is worth $26 trillion. We are investing in the Canadian companies who are on the forefront of clean technologies. We are working with provinces and territories to provide more renewable and clean energy options for Canadians, and to phase out traditional coal. We are working with cities to improve public transit across Canada, from buses in Moose Jaw to subways in Montreal. We are doubling the amount of protected nature and oceans, preserving Canada's biodiversity and natural beauty. We are doing this for our kids and grandkids.

**The federal price on carbon pollution puts more money in the pockets of Canadian families, while encouraging people and businesses to cut emissions and promoting a cleaner environment and a stronger, more innovative economy.**

Jonathan Wilkinson
Minister of Environment and Climate Change

# 1. INTRODUCTION

This annual report fulfills the Minister of the Environment's obligation, under section 270 of the *Greenhouse Gas Pollution Pricing Act* (GGPPA), to report annually on the administration of the Act. This first annual report under GGPPA covers the general administration of the Act including the implementation of the federal fuel charge and the Output-Based Pricing System. For the purposes of this report, the "administrative period" is considered to be from the coming into force of the Act in 2018 up to the end of 2019. However, as the regulatory charge on fuel is administered on a fiscal year basis, this administrative period also includes fuel charge data up to the end of fiscal year 2019-2020 (March 31, 2020).

## 1.1 Pan-Canadian Approach to Pricing Carbon Pollution

On December 9, 2016, Canada's First Ministers adopted the Pan-Canadian Framework (PCF) on Climate Clean Growth and Climate Change to fight climate change, build resilience to the changing climate, and drive clean economic growth. The PCF is built on four pillars: pricing carbon pollution; complementary actions to reduce emissions across the economy; adaptation and climate resilience; and clean technology, innovation, and jobs. It includes more than fifty concrete actions that cover all sectors of the Canadian economy, and is designed to put Canada on a path towards meeting our Paris Agreement greenhouse gas (GHG) emissions reduction target of 30% below 2005 levels by 2030.

The Pan-Canadian Approach to Pricing Carbon Pollution, released in October 2016, implements the pillar of putting a price on carbon pollution. It gives provinces and territories the flexibility to develop their own carbon pollution pricing systems, while also outlining the criteria that all pricing systems must meet to ensure that they are stringent, fair, and efficient. The Approach also included a commitment to introduce legislation to apply a federal carbon pollution pricing system (federal backstop system) in any province or territory that requested it or that does not have a pollution pricing system in place that aligns with the federal benchmark that establishes the minimum national stringency standards for GHG emissions pricing. Guidance and supplemental guidance on the federal benchmark stringency standards were released in August and December 2017 respectively.

In May 2017, Environment and Climate Change Canada (ECCC) and Finance Canada released a technical paper outlining the proposed federal carbon pollution pricing backstop system consisting of two parts: a regulatory charge on fossil fuels, and a regulatory trading system for industry. In December 2017, in letters from the Ministers of Finance and the Environment to their provincial and territorial counterparts, the Government asked provinces and territories to provide information on their plans for pricing carbon pollution by September 1, 2018. ECCC reviewed these plans to ensure they aligned with the federal benchmark stringency standards. Based on this assessment, the Government of Canada announced in October 2018 where the federal pricing backstop system would apply.

## *1.2 Greenhouse Gas Pollution Pricing Act*

The GGPPA received Royal Assent on June 21, 2018. It establishes the framework for the federal carbon pollution pricing system. The federal system consists of two main parts, which can apply in whole or in part in a backstop jurisdiction:

- A regulatory charge on fossil fuels (fuel charge), administered by the Canada Revenue Agency (CRA), and
- A regulatory trading system for industry, known as the Output-Based Pricing System (OBPS), administered by ECCC through the *Output-Based Pricing System Regulations* (OBPS Regulations).

## 1.3 Where the Act applies

Provinces and territories had until September 1, 2018, to outline their carbon pollution pricing plans for 2019. At that time, the stringency of each of the provincial and territorial carbon pollution pricing plans were assessed against the federal benchmark stringency standards.

On October 23, 2018, after the review of each provincial and territorial system, the federal government announced its intention to implement the federal backstop system, in whole or in part, in 2019, in any province or territory that had requested it or that did not have a pollution pricing system in place that aligned with the benchmark. Jurisdictions in which the federal carbon pollution pricing system applies, in whole or in part, are known as "backstop jurisdictions."

With respect to the first administration year:

- The federal fuel charge came into force:
  - on April 1, 2019 in Ontario, New Brunswick[1], Manitoba, and Saskatchewan;
  - on July 1, 2019 in Yukon and Nunavut; and
  - on January 1, 2020 in Alberta.
- The federal OBPS came into force:
  - on January 1, 2019, in Ontario, New Brunswick, Prince Edward Island, Manitoba, and partially in Saskatchewan[2]; and
  - on July 1, 2019 in Yukon and Nunavut.

At the end of the first administration year for both the federal fuel charge and the OBPS, partial provincial systems were in place for Alberta, Saskatchewan, and Prince Edward Island, which met the federal benchmark stringency standards for the sources they covered. To ensure carbon pollution pricing applied broadly across the country in accordance with the benchmark, the federal backstop system only applied to the emission sources not covered by the partial provincial systems in Alberta, Saskatchewan, and Prince Edward Island (as described above).

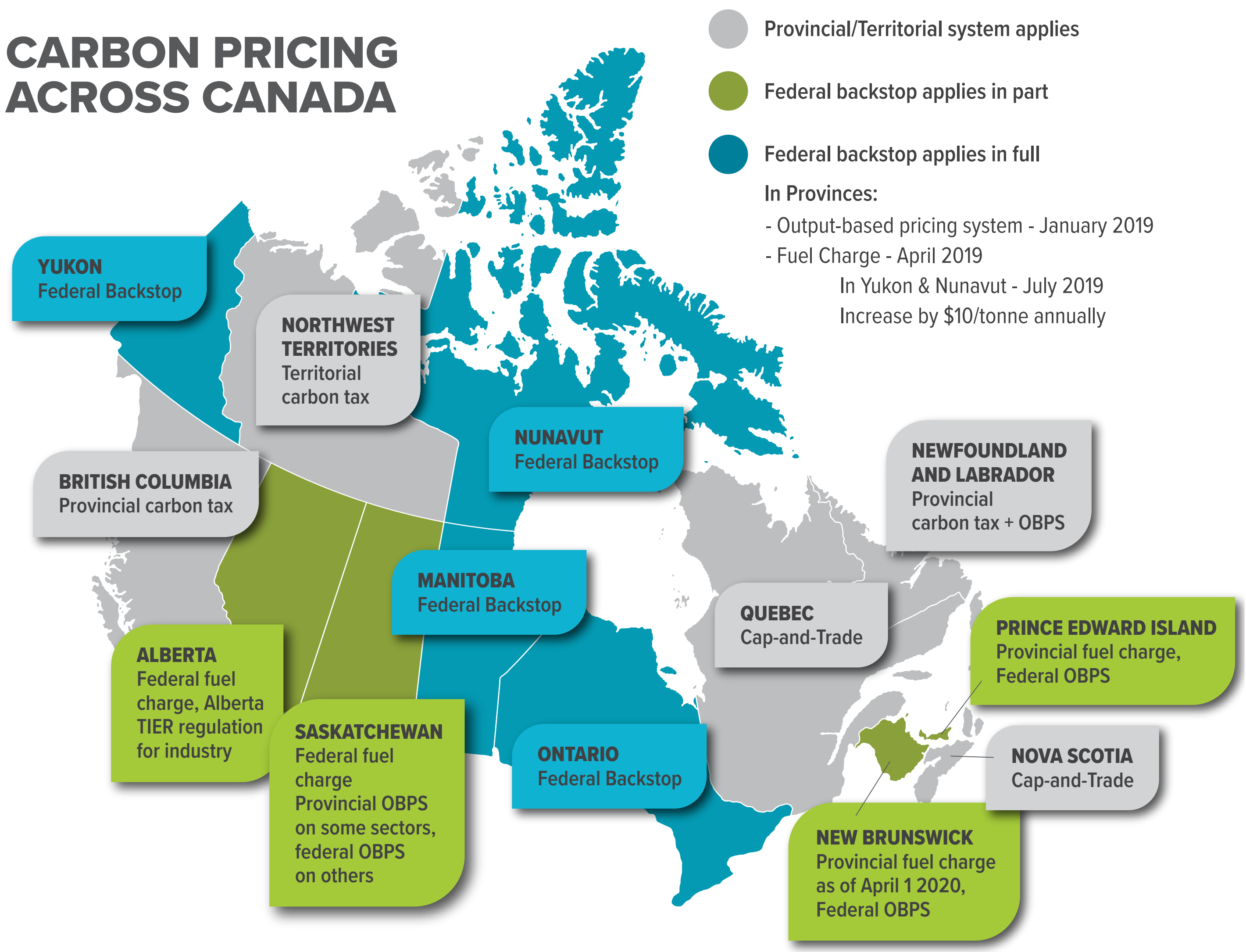
British Columbia, Quebec, Nova Scotia, Northwest Territories, and Newfoundland and Labrador have implemented their own carbon pollution pricing systems that meet the federal benchmark stringency standards for all sources (see Figure 1).

Provincial and territorial carbon pricing systems are subject to an annual assessment process to ensure that they continue to meet the stringency standards of the benchmark. The federal government also monitors major changes to provincial and territorial systems on an ongoing basis.

[1] The federal fuel charge was stood down in New Brunswick, effective April 1, 2020, when the province started to implement a provincial fuel charge that met the federal benchmark stringency standards.

[2] In Saskatchewan, the federal OBPS applies to electricity generation and natural gas transmission pipelines.

**Figure 1. Map of Federal, Provincial and Territorial pricing, including application in part, as of March 31, 2020**




## 1.4 Reviews

As committed to in the PCF, federal, provincial, and territorial governments will work together to establish the approach to the review of carbon pricing. This will include expert assessment and comparison of the stringency and effectiveness of carbon pricing systems across Canada. The review will be completed by early 2022 to provide certainty on the path forward. An interim report will be completed in 2020 for review and assessment by First Ministers. As an early deliverable, approaches and best practices were assessed to address the competitiveness of emissions-intensive trade-exposed sectors.

A commitment was made in the Regulatory Impact Analysis Statement (RIAS) for the OBPS Regulations to review the Regulations in 2022. The RIAS also indicated that the design of the OBPS may be adjusted in response to the reviews of carbon pricing committed to in the PCF.

# 2. PART 1 – FUEL CHARGE

## 2.1 Overview of the Federal Fuel Charge

Part 1 of GGPPA establishes a regulatory charge on fossil fuels (the “fuel charge”). It is generally paid by fuel producers and fuel distributors in backstop jurisdictions. The federal fuel charge is under the purview of the Minister of Finance and is administered by the Canada Revenue Agency (CRA).

The fuel charge applies to 21 fossil fuels including gasoline, light fuel oil (e.g., diesel), and natural gas. It also applies to combustible waste (e.g., tires). The fuel charge rates reflect a carbon pollution price of $20 per tonne of carbon dioxide equivalent ($CO_2e$) as of April 1, 2019, rising by $10 per tonne annually to $50 per tonne as of April 1, 2022. The rates are based on global warming potential factors and emission factors used to report Canada's emissions to the United Nations Framework Convention on Climate Change. Applying the fuel charge at higher rates over time will help to reduce greenhouse gas emissions and support clean growth, while keeping costs low for Canadians and Canadian businesses. It sends a signal to markets and provides an incentive to reduce energy use through conservation and efficiency measures.

Table 1 below indicates the rates of federal fuel charge on select fuels from 2019 to 2022. Future rate increases are effective as of April 1st of the year noted in the table. The rates for gasoline and light fuel oil take into account the average renewable content of these fuels.

**Table 1. Rates of Federal Fuel Charge on Select Fuels Over Time**

| Fuel Type | Unit ($ per) | 2019 ($20/tonne) | 2020 ($30/tonne) | 2021 ($40/tonne) | 2022 ($50/tonne) |
|---|---|---|---|---|---|
| **Aviation Turbo Fuel** | litre | 0.0498 | 0.0747 | 0.0995 | 0.1244 |
| **Gasoline** | litre | 0.0442 | 0.0663 | 0.0884 | 0.1105 |
| **Light Fuel Oil (Diesel)** | litre | 0.0537 | 0.0805 | 0.1073 | 0.1341 |
| **Propane** | litre | 0.0310 | 0.0464 | 0.0619 | 0.0774 |
| **Marketable Natural Gas** | cubic metre | 0.0391 | 0.0587 | 0.0783 | 0.0979 |

### 2.1.1 Where the Fuel Charge Applies

As of April 1, 2019, the federal fuel charge applied in Ontario, New Brunswick, Manitoba and Saskatchewan. And as of July 1, 2019, it also applied in Yukon and Nunavut.

After Alberta repealed its carbon levy on May 30, 2019, the Government of Canada announced that the federal fuel charge would be applied in that province as of January 1, 2020.

Immediately after the end of the first administration year, the federal fuel charge was stood down in New Brunswick, effective April 1, 2020, when the province started to implement a provincial fuel charge that met the federal benchmark stringency standards.

### 2.1.2 Registration and Timing of Payment

The GGPPA provides for 12 different types of registrations. Certain persons (e.g., fuel distributors and fuel producers that deliver fuel to other persons in a backstop jurisdiction) must register or may register with the CRA and pay the federal fuel charge to the CRA, as required. Registered persons are generally required to file a monthly return and pay net fuel charge amounts monthly.

There are also special rules for the transportation sector. For example, persons that are inter-jurisdictional air carriers, inter-jurisdictional marine carriers, inter-jurisdictional rail carriers and inter-jurisdictional road carriers (e.g., freight vehicles) that operate in a backstop jurisdiction are required to register with the CRA. These registered carriers must calculate fuel use in the backstop jurisdiction and file monthly returns (except for registered road carriers who file quarterly). Depending on where fuel is purchased and used by these carriers, these carriers will either have a net fuel charge owing or will be eligible for a refund.

### 2.1.3 Fuel Charge Relief

The purpose of the GGPPA is to reduce greenhouse gas emissions by ensuring that carbon pollution pricing applies broadly throughout Canada. At the same time, the Government recognizes that particular groups or sectors have a need for targeted relief from the fuel charge – in particular because of the small number of alternative options they may have in the face of carbon pollution pricing. Generally, relief is provided upfront through exemption certificates, when certain conditions are met.

- Farmers – the GGPPA provides that a registered distributor can generally deliver, without the fuel charge applying, gasoline or light fuel oil (e.g., diesel) to a farmer at a farm or at a cardlock fueling site, if the fuel is for use exclusively in the operation of eligible farming machinery and all or substantially all of the fuel is for use in the course of eligible farming activities. Farmers do not need to be registered for the purposes of this relief.

- Fishers – the GGPPA provides that a registered distributor can generally deliver, with the fuel charge not applying, gasoline and light fuel oil (e.g., diesel) to a fisher, if the fuel is for use exclusively in an eligible fishing vessel and all or substantially all of the fuel is for use in the course of eligible fishing activities. Fishers do not need to be registered for the purposes of this relief.

- Greenhouse Operators – relief of 80% of the fuel charge is provided on marketable natural gas and propane delivered by a registered distributor if the fuel is for use exclusively to heat an eligible greenhouse or to supplement carbon dioxide in an eligible greenhouse to grow or produce plants.

- Remote Power Plant Operators – the GGPPA provides relief from the fuel charge on light fuel oil (diesel) and marketable natural gas delivered by a registered distributor if the fuel is used exclusively at a remote power plant in the operation of the remote power plant to generate electricity for the public in remote communities.

- Aviation Fuel in the Territories – the fuel charge applies at a rate of $0 per litre to aviation gasoline and aviation turbo fuel for listed territories (Yukon and Nunavut), reflecting the high-reliance on air transportation in the territories.

## 2.2 Return of Pollution Pricing Fuel Charge Proceeds to Jurisdictions

For this administrative period, (2019-2020), the Government of Canada allocated the fuel charge proceeds to be returned as follows:

- Directly to the governments of those jurisdictions that chose to adopt the federal system (Yukon and Nunavut).
- In those jurisdictions that did not meet the federal stringency standards for reducing carbon pollution (Ontario, New Brunswick, Manitoba, and Saskatchewan):
  - The bulk of the fuel charge proceeds are returned directly to individuals and families through Climate Action Incentive payments, in order to ensure that the carbon pollution price signal is preserved.
  - The remainder of the fuel charge proceeds are returned through federal programming to support schools, hospitals, small and medium-sized businesses, colleges and universities, municipalities, not-for-profit organizations and Indigenous communities to offset additional costs as a result of carbon pollution pricing and improve their energy efficiency (see section 2.2.2 below).

Net fuel charge proceeds are recognized in the fuel charge reporting period[3] in which the fuel charge becomes payable. This report covers the fuel charge reporting periods April 2019 to March 2020 for Ontario, New Brunswick, Manitoba and Saskatchewan; fuel charge reporting periods July 2019 to March 2020 for Yukon and Nunavut; and fuel charge reporting periods January 2020 to March 2020 for Alberta. Net fuel charge proceeds are reported net of rebates claimed and assessed, and based on the best information available at the time of preparation of this report. The administrative period of this report relates to the fiscal year that ended March 31, 2020.

To ensure accountability, the Government of Canada is providing annual updates on the direct proceeds and disbursements realized from the federal carbon pollution pricing system in respect of each province and territory where it applies. Any variance between the actual proceeds originating in a given jurisdiction and the amount of proceeds returned to that jurisdiction will be addressed through changes in future payment amounts to that jurisdiction. This transparent process ensures that direct proceeds are fully returned to the jurisdiction of origin over time.

### 2.2.1 Climate Action Incentive Payments

For jurisdictions that did not meet the federal benchmark stringency standards - Ontario, New Brunswick, Manitoba, and Saskatchewan - the Government returns all direct proceeds from the fuel charge in the jurisdiction of origin, with the bulk of direct proceeds going to individuals and families residing in those provinces through Climate Action Incentive payments.

Climate Action Incentive payments are made available in advance of the related fuel charge year. For the 2019-20 fuel charge year, which began in April 2019, eligible residents of Ontario, New Brunswick, Manitoba and Saskatchewan could claim tax-free Climate Action Incentive payments for their family through their 2018 personal income tax returns, beginning in February 2019.

[3] A fuel charge reporting period refers to the period in which the fuel charge becomes payable and is not to be construed as the net amount in respect of a period fixed by the Minister of National Revenue.

Most households receive more in Climate Action Incentive payments than their increased costs resulting from the federal carbon pollution pricing system.

Climate Action Incentive payment amounts are based on family composition and province of residence. Table 2 below contains the Climate Action Incentive payment amounts for the payments made available in respect of the 2019-20 fuel charge year. A 10% supplement is available to eligible individuals and families residing in small or rural communities, in recognition of their increased energy needs and reduced access to clean transportation options.

Going forward, Climate Action Incentive payment amounts will be specified on an annual basis. These amounts will reflect increases in the price on carbon pollution under the federal backstop system and updated levels of proceeds being generated in each jurisdiction.

Because Climate Action Incentive payments are made available in advance of the related fuel charge year, the amounts being returned to individuals and families through these payments are based on estimated levels of proceeds. As actual proceeds and the total amount of proceeds returned in a specific jurisdiction through Climate Action Incentive payments may differ from estimates, adjustments will be made through changes in future Climate Action Incentive payment amounts. This will ensure that direct proceeds are fully returned to the jurisdiction of origin over time.

## SUPPORTING CANADIAN HOUSEHOLDS

**The federal carbon pollution pricing system is about recognizing that pollution has a cost, empowering Canadians, and driving innovation.** Putting a price on products that are more polluting, and returning the bulk of the direct proceeds to individuals and families in the jurisdiction of origin, enables households to make cleaner and more environmentally sustainable choices. A family that receives a Climate Action Incentive payment can spend the money any way it wants. If it invests in energy efficiency improvements, it will save money in the future.

**Table 2. Baseline Climate Action Incentive Payment Amounts in 2019**
(Through 2018 Personal Income Tax Returns)

| | Ontario | New Brunswick | Manitoba | Saskatchewan |
|---|---|---|---|---|
| **Single adult, or first adult in a couple** | $ 154 | $ 128 | $ 170 | $ 305 |
| **Second adult in a couple, or first child of a single parent** | $ 77 | $ 64 | $ 85 | $ 152 |
| **Each child under 18** (starting with the second child for single parents) | $ 38 | $ 32 | $ 42 | $ 76 |
| **Example: Total amount for family of four** | $ 307 | $ 256 | $ 339 | $ 609 |

Note: Payments made to individuals and families vary by province of residence given that different levels of proceeds are generated in each affected jurisdiction, and the impacts of carbon pollution pricing on households differ. These variations are an outcome of the different types and quantities of fuels consumed in different provinces. These amounts do not include the 10% supplement for eligible residents of small and rural communities.

### 2.2.2 Support for Small and Medium-Sized Enterprises, Municipalities, Schools, Colleges, Hospitals, Non-Profit Organizations and Indigenous Communities

The Government also returns a portion of direct proceeds from the fuel charge to schools, hospitals, small and medium-sized businesses, colleges and universities, municipalities, not-for-profit organizations and Indigenous communities to engage in activities that will lead to reductions in energy usage. This helps these entities save money and reduce carbon pollution, drive climate action, support innovation, further the adoption of clean technology, and transition to a low-carbon economy. Federal programming is being delivered through Environment and Climate Change Canada, Natural Resources Canada, Indigenous Services Canada, and Crown-Indigenous Relations and Northern Affairs Canada to return a portion of 2019-20 net direct fuel charge proceeds (approximately 10%) to Ontario, New Brunswick, Manitoba, and Saskatchewan. This programming is being delivered in 2019-20 and 2020-21.

#### 2.2.2.1 Climate Action Incentive Fund

Launched in May 2019, the Climate Action Incentive Fund (CAIF) allocated up to $218 million over two years in the eligible jurisdictions of Ontario, New Brunswick, Manitoba, and Saskatchewan (provinces that had not committed to their own carbon pollution pricing systems). Successful applicants receive funding for projects that decrease energy usage and/or reduce greenhouse gas emissions, thereby saving money and reducing carbon pollution.

CAIF was designed with three funding streams: the Small and Medium-sized Enterprises (SME) Project stream; the Municipalities, Universities, Schools, and Hospitals (MUSH) stream; and the Rebates stream for SMEs and non-profit organizations. Together these streams support projects and measures undertaken by these organizations. ECCC targeted SMEs and schools through intakes in the first year, 2019-2020. The Rebate stream, was announced in 2019 as part of the CAIF, but was not launched and no launch is currently planned. Plans for implementation of this stream were not finalized since a third party to deliver the program was not secured. The stream was placed under reassessment to consider options moving forward for ways to return fuel charge proceeds, including program and stream simplification. The Government of Canada is considering options to ensure the return of fuel charge proceeds to jurisdictions of origin can be done efficiently and effectively moving forward. All fuel charge proceeds, including funding earmarked for the Rebate stream of the CAIF, will be returned to the jurisdiction of origin. Table 3 sets out the notional allocations of proceeds by province and CAIF program stream for the 2019-2020 fiscal year.

**Table 3. Notional Allocations* by Province and Stream under CAIF 2019-2020**

| CAIF Stream | Ontario | Saskatchewan | Manitoba | New Brunswick |
|---|---|---|---|---|
| **SME Project stream** | $ 72 million | $ 21 million | $ 9 million | $ 4 million |
| **Rebate stream** | $ 35 million | $ 10 million | $ 4 million | $ 2 million |
| **MUSH stream (schools)** | $ 41 million | $ 12 million | $ 5 million | $ 2 million |
| **Total** | **$ 148 million** | **$ 43 million** | **$ 18 million** | **$ 7 million** |

* Numbers in this table have been rounded to the nearest million

### Small and Medium-sized Enterprises (SME) Project stream

The CAIF SME Project stream supports small and medium-sized businesses, which are private companies with 1-99 (small-sized) or 100-499 employees (medium-sized), by creating opportunities to reduce energy costs and GHG emissions. This support helps SMEs become more productive and competitive as well as promoting a healthy environment and economy.

Through the CAIF SME Project stream, SMEs in eligible provinces could apply for funding to help with projects in sectors such as building, transportation, industry, waste, energy, agriculture, etc. Projects eligible for funding in 2019-2020 included:

- agricultural retrofits,
- building retrofits,
- electricity,
- energy or fuel production,
- industrial process improvements,
- transportation retrofits,
- energy efficiency and waste management.

Approved applicants could claim up to 25% of their project's total eligible costs. Projects were required to claim no less than $20,000 and no more than $250,000 per project and per recipient. A $250,000 funding cap applied to the group of applicant franchisees who operate under the same franchise trade name in each eligible province. Project recipients could only claim eligible expenditures as of the date they received their approval-in-principle notification. Project expenditures prior to that date were not eligible for reimbursement (unless otherwise indicated in writing by ECCC).

The application period for the first CAIF SME intake was launched on July 17, 2019 and was planned to remain open for 90 days or until funding was exhausted. The application period was extended to November 22, 2019. ECCC continued to receive and assess applications for the CAIF SME project stream during this time. ECCC received 856 proposals and 730 of those were approved-in-principle, representing 60% of the notional funding allocation for the SME Project stream. The majority of successful proposals in each province were from either the manufacturing or agriculture, forestry, fishing and hunting sectors. Overall, 82% of successful applicants fell into the small business category. ECCC followed up with successful applicants to confirm project eligibility and conclude funding agreements. Prior to executing final funding agreements, ECCC conducted a final review of project details and projected outcomes to ensure that all the program eligibility criteria has been satisfied.

The two graphs below display the applications and approvals for each jurisdiction as well as the associated funding breakdowns.[4] Unallocated CAIF SME project stream funding will be returned to the jurisdictions of origin. Options on how to most effectively return fuel charge proceeds are under consideration.

**Figure 2. Number of CAIF SME Stream Proposals by Jurisdiction 2019-2020**

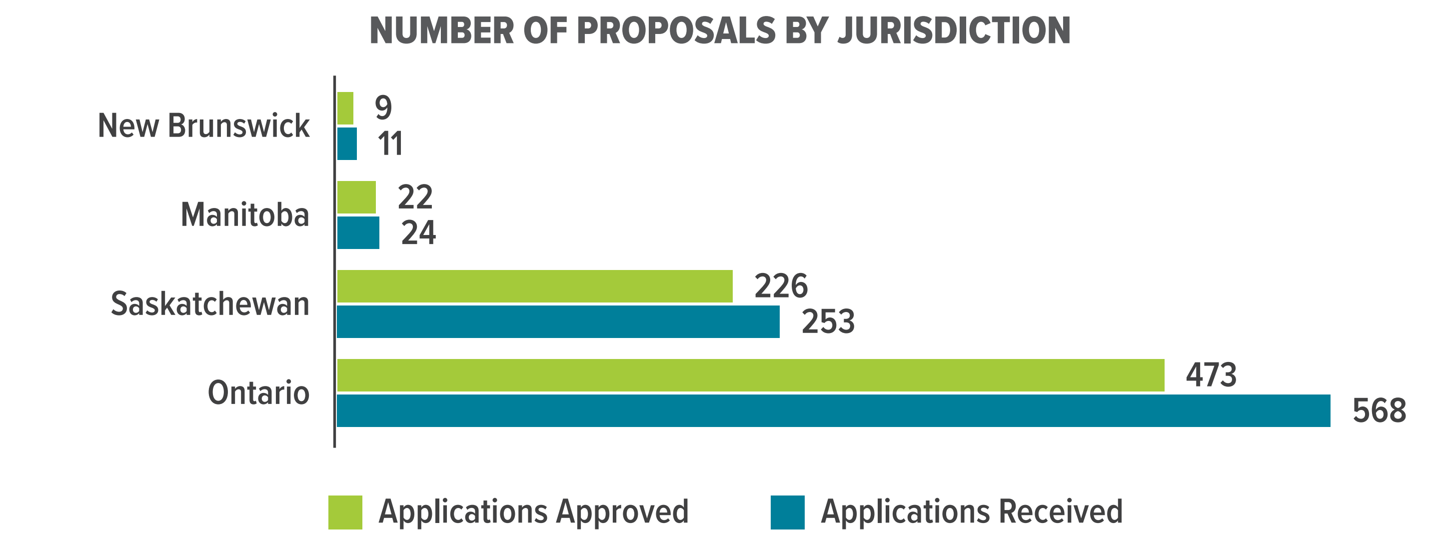
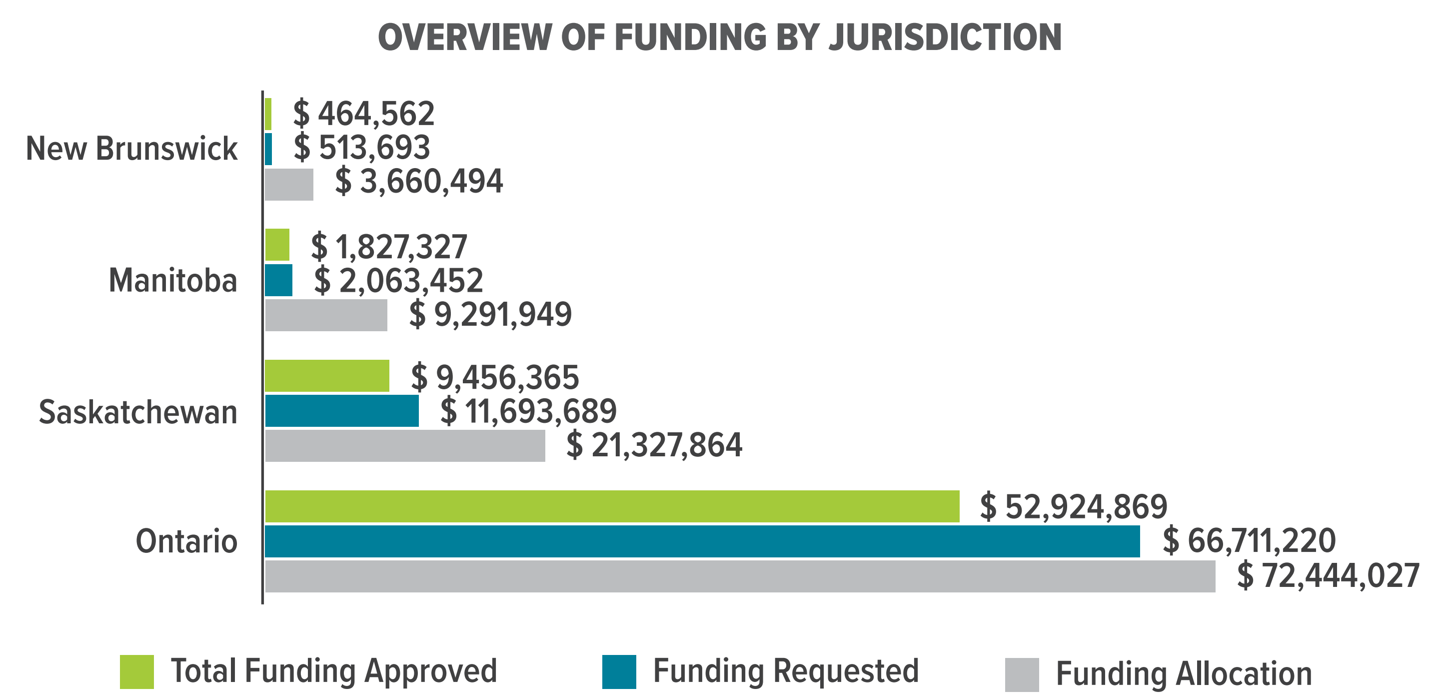



**Figure 3. Dollar Amount of CAIF SME Stream Funding by Jurisdiction 2019-2020**




[4] These figures are accurate as of March 31, 2020.

As of March 31, 2020, funding agreements for the majority of approved SME projects were still being negotiated. In the face of changing operational realities caused by COVID-19, ECCC remained committed to working with all successful applicants to help move through all aspects of the funding process under the SME Project stream.

#### MUSH Retrofit Stream

The MUSH Retrofit stream was designed to provide funding to municipalities, universities/colleges, schools, and hospitals (MUSH sector) to help them make energy efficiency improvements and retrofits to reduce energy use and carbon pollution. The MUSH Retrofit stream was announced, and discussions began with provinces on June 25, 2019. The first round of funding was targeted to support energy efficiency projects in schools.

Canada worked with the governments of Saskatchewan, Ontario, and New Brunswick, and had discussions with Manitoba to help deliver funding to schools for energy efficient projects that will allow children to have a better environment in which to learn, study and play. As of March 31, 2020, agreements with the Government of Saskatchewan ($12 million) and the Manitoba School Board Association ($5 million) had been signed.

### 2.2.2.2 Indigenous Community-Based Climate Monitoring Program

Funding for Métis Nation programming was provided through Crown-Indigenous Relations and Northern Affairs Canada's Indigenous Community-Based Climate Monitoring Program. This funding program responds to needs identified by Indigenous partners through the development of the Pan-Canadian Framework on Clean Growth and Climate Change and is focused on building Indigenous capacity to monitor climate change and co-apply Indigenous Knowledge and science to track changes in climate and the impacts of climate change. Funding of $1,192,455 from the fuel charge proceeds was delivered in 2019-2020 through a top-up to existing projects with Métis Nation Governing Members in Saskatchewan, Manitoba and Ontario. The funding extends and enhances support for these Métis Nation Governing Members to plan and implement monitoring of climate and climate impacts within their jurisdictions.

### 2.2.2.3 Capital Facilities and Maintenance Program (CFMP)/First Nations Infrastructure Fund (FNIF)

Indigenous Services Canada utilized the Capital Facilities and Maintenance Program (CFMP)/First Nations Infrastructure Fund (FNIF) to support First Nation communities located below the $60^{th}$ parallel. Fuel charge proceeds of $1.64 million were returned to New Brunswick, Manitoba and Saskatchewan to support First Nations recipients that are seeking to reduce energy costs and consumption, and reduce GHG emissions through alternative energy options.

### 2.2.2.4 Clean Energy for Rural and Remote Communities

Natural Resources Canada received $4.45 million to be spent over 2019-20 and 2020-21, for the purposes of returning fuel charge proceeds to jurisdictions, towards transitioning Indigenous communities onto clean energy through its Clean Energy for Rural and Remote Communities (CERRC) Program. Announced in Budget 2017, the CERRC program aims to increase renewable energy generating capacity in rural and remote communities and off-grid industrial sites to displace diesel and fossil fuel usage, while also building community capacity to pursue and operate these projects. The majority of Canada's communities that are reliant on diesel and fossil fuels for heat and power are Indigenous or have significant Indigenous populations. Many of the projects supported under the CERRC program are driven by the community or have considerable community involvement and engagement.

## HIGHLIGHTS

**Natural Resources Canada allocated the funding through Clean Energy for Rural and Remote Communities (CERRC) to support two Indigenous-led biomass projects in northern Ontario:**

- **$4.168 million to Sagatay Cogeneration LP, a limited partnership owned by Whitesand First Nation in Northern Ontario.** The funding will cover the engineering design work, procurement agreements and tendering for the subsequent construction of a biomass-fueled combined heat and power generation system to supply electricity to three communities and supply heat and electricity to a new wood pellet plant and a wood merchandising yard. Funding for this project will be dispersed in 2019-20 and continue in 2020-21.

- **$298,904 to support Nishnawbe Aski Nation's "Growing Bioheat in Nishnawbe Aski Nation" project.** The project exchanges woodstove heating appliances in six remote Nishnawbe Aski Nation communities with upgraded high efficiency woodstoves, which will reduce fossil fuel heating use by lowering demand on community electricity supply, currently provided by diesel generators. The project provides training opportunities and will increase capacity in each community to participate in the bio-economy. A total of 200 woodstoves will be upgraded through this project, leading to an estimated reduction in $CO_2$ emissions of 320 tonnes per year. Through CERRC, funding for this project will be dispersed in 2019-20 and supplemented with additional CERRC program funding in 2020-21.

### 2.2.2.5 Energy Manager Program

Natural Resources Canada also received $3.1 million to be spent over 2019-20 and 2020-21 for the purposes of returning fuel charge proceeds to jurisdictions through the Energy Manager Program which is focused on reducing energy-use, GHG emissions and operating costs in small and medium sized enterprises, municipalities, universities, schools, hospitals (MUSH), not-for-profit organizations, as well as Indigenous organizations. Launched in August 2019, the Energy Manager Program aims to help SMEs and MUSH sector organizations identify energy efficiency solutions by embedding energy managers in facilities and undertaking energy audits and fleet assessments to identify and provide details of energy saving and fuel switching opportunities.

## 2.3 Fuel Charge Compliance Promotion and Enforcement

The CRA introduced the fuel charge program that implements Part 1 of the GGPPA. The program includes the full spectrum of CRA activities which cover client support, registration, returns processing, revenue collections, audit and appeal functions. Approximately 10,000 persons are registered under the program.

During 2019, the first year of the program, the initial compliance strategy focussed on providing guidance on the legislative requirements. The CRA undertook a number of initiatives to inform and educate stakeholders about their obligations. A dedicated fuel charge webpage was added to the Government of Canada website, a series of technical information notices was published and an extensive outreach program was implemented. The outreach provided webinars and information sessions to industry associations and their members that represented key sectors of the Canadian economy impacted by the fuel charge.

# 3. PART 2 – OUTPUT-BASED PRICING SYSTEM

## 3.1 Overview of the Output-Based Pricing System

Part 2 of the GGPPA, administered by the Minister of the Environment, introduced the Output-Based Pricing System (OBPS), a regulatory trading system for emission-intensive, trade exposed industry in backstop jurisdictions. The federal OBPS is designed to put a price on carbon pollution from industry while minimizing risks to both competitiveness and carbon leakage from exposure to the federal fuel charge. The system creates a strong financial incentive for the least efficient facilities to reduce their emissions and for strong performers to continue to improve. The Output-Based Pricing System Regulations (OBPS Regulations) were published in the *Canada Gazette Part II* on July 10, 2019.

**CARBON LEAKAGE**

**Carbon leakage is the risk that industrial production activities shift from Canada to other jurisdictions with less stringent or no carbon pollution pricing policies or greenhouse gas measures. As a result, the decline in Canadian emissions does not reduce global emissions.**

The federal OBPS sets an emissions-intensity standard, or output-based standard, for industrial activities that is based on emissions per-unit of output for a given product or activity. The OBPS Regulations currently include 78 standards covering a wide range of industrial sectors and activities. Some additional output-based standards are calculated according to a prescribed methodology by voluntary (opt-in) participants undertaking an activity that is not listed in Schedule 1 of the Regulations.

Facilities that emit less than their annual limit earn surplus credits that they can sell. Facilities with emissions above their limit must provide compensation by a prescribed deadline for each tonne of greenhouse gas above the limit, by using one or more of the following options:

- Paying the carbon price to the Government via an excess emissions charge, or
- Remitting compliance units in an amount equivalent to their excess emissions.

By allowing facilities to generate and trade surplus credits for reducing their emissions below the limit, the OBPS ensures that the incentive to reduce emissions created by the carbon pollution price applies to every tonne of emissions from industrial facilities. By only applying a compliance obligation on emissions above a facility's annual limit, the OBPS also limits facilities' overall costs to help maintain their international competitiveness and minimize carbon leakage.

### 3.1.1 Where the OBPS Applies

The OBPS is mandatory for facilities in backstop jurisdictions that are primarily engaged in the industrial activities listed in Schedule 1 of the OBPS Regulations and that emit 50kt of $CO_2e$ per year or more. Persons responsible for facilities that meet the criteria in section 8 of the OBPS Regulations must apply to register within 30 days of the facility meeting those criteria.

In addition, persons responsible for facilities located in backstop jurisdictions may voluntarily apply for their facility to be a covered facility in the OBPS ("opt-in"). These applications are assessed on their merits on a case-by-case basis, taking into account the considerations in the policy regarding Voluntary Participation in the OBPS. To be considered, these facilities should emit or, in certain circumstances, expect to emit, 10kt of $CO_2e$ or more per year. Facilities should also either be carrying out an activity for which an output-based standard is prescribed in the OBPS Regulations or be from a sector at risk of carbon leakage and competitiveness impacts from carbon pollution pricing. Facilities may apply to opt-in at any time.

As of December 31, 2019, there were 233 facilities registered under the OBPS. This number includes 122 mandatory covered facilities and 111 opt-in facilities. Of the opt-in facilities, 77 opted in under Part 1 of the Voluntary Participation Policy; and 34 opted in under Part 2 of the Voluntary Participation Policy.

**Figure 4. Number of Registered Facilities by Type as of December 31, 2019**


### 3.1.2 Facility Reporting

Compliance with the OBPS Regulations is assessed on the basis of a compliance period (see Figure 5). The first OBPS compliance period for mandatory facilities started on January 1, 2019 and ended on December 31, 2019, except in Yukon and Nunavut, where it started on July 1, 2019 and ended on December 31, 2019. Subsequent compliance periods for facilities in Yukon and Nunavut will begin on January 1. For facilities that became covered facilities part way through a calendar year, the first compliance period starts on the effective date of registration as an emitter with the CRA, or if located in Prince Edward Island, on the date of registration as a covered facility under the GGPPA.

Persons responsible for a covered facility are required to quantify the facility's GHG emissions and production during each compliance period. Their report must include:

- the facility's emissions limit;
- the total greenhouse gas emissions and production; and
- the compensation the facility owes or the surplus credits the Government needs to give the facility.

The annual report must be verified by an independent third-party verifier. Verification requirements, including accreditation requirements, verification procedures, and the content of the verification report, are included in the OBPS Regulations.

Annual reports accompanied by verification reports are due June 1$^{st}$ of the year following the compliance period for which the annual report is prepared[5].

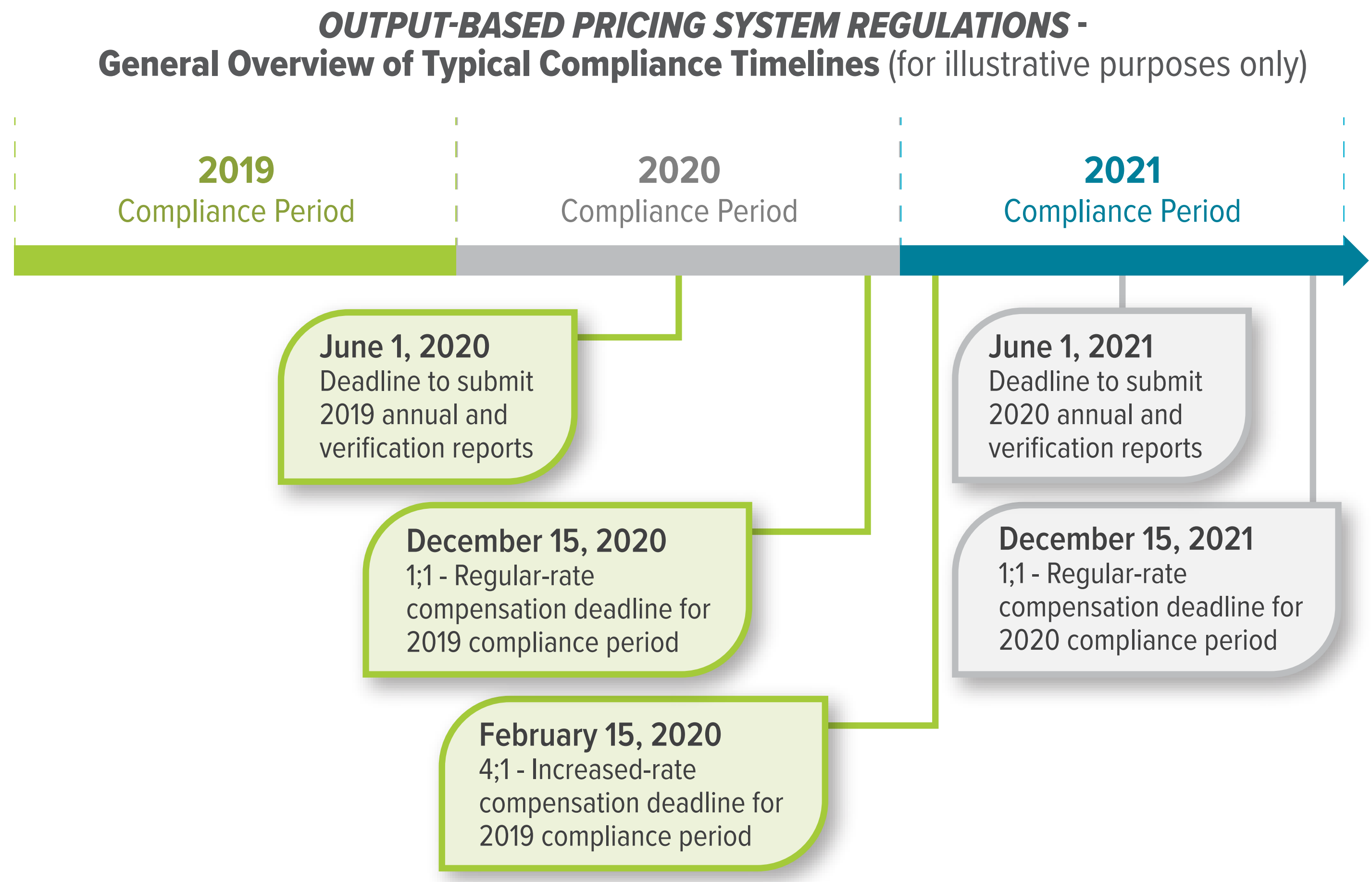
### 3.1.3 Compensation

Under the OBPS, persons responsible for covered facilities are required to compensate for GHG emissions that exceed the facility's annual emissions limit. Compensation is to be provided by the regular-rate compensation deadline of December 15 of the calendar year in which the related annual report must be submitted. It is provided at the regular rate of the excess emissions charge for the compliance period in question or by remitting one compliance unit for each tonne of $CO_2$e emitted in excess of the facility's emissions limit. The regular rate is set at the carbon price for the given year (i.e., \$20 per tonne of $CO_2$e for 2019, rising by \$10 per tonne annually to \$50 per tonne in 2022).

If compensation is not provided in full by the regular-rate compensation deadline, persons responsible for covered facilities must provide compensation by the increased-rate compensation deadline of February 15 of the calendar year following the regular-rate compensation deadline (i.e., the second year following the compliance period) at the increased rate. GGPPA sets the increased rate compensation at four times the regular rate. Failing to provide compensation by the increased-rate compensation deadline is an offence under the Act and is also a violation that can proceed under the *Environmental Violations Administrative Monetary Penalties Act* (EVAMPA).

[5] Given the extraordinary circumstances during the COVID-19 pandemic, Environment and Climate Change Canada amended the OBPS Regulations to postpone the deadline for submitting annual and verification reports related to the 2019 compliance period from June 1, 2020 to October 1, 2020. Information regarding compensation for the 2019 compliance period will be included in a subsequent GGPPA Annual Report to Parliament.

**Figure 5. *Output-Based Pricing System Regulations* - General Overview of Initial Compliance Timelines**[6]




**NOTES**

1. This graphic illustrates the typical reporting and compensation timelines for a given compliance year. However, in light of COVID-19, please note that ECCC proposed extending the deadlines for the 2019 compliance period. For more information please visit: www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system.html

2. Partial Compliance Period: For facilities becoming covered facilities part way through a compliance period (i.e. opt in facilities or newly covered facilities), the compliance period begins on:

   2.a. the effective date of registration as an emitter with the Canada Revenue Agency; or

   2.b. In PEI, the date of registration that is specified in the covered facility certificate issued under subsection 171(2) of the *Greenhouse Gas Pollution Pricing Act*.

3. Ceasing to be Covered: Compliance period may end early if a facility ceases to be a covered facility.

[6] Given the extraordinary circumstances during the COVID-19 pandemic, Environment and Climate Change Canada amended the OBPS Regulations to postpone the compensation dates for the 2019 compliance year. The regular-rate compensation deadline was extended from December 15, 2020 to April 15, 2021. The increased-rate compensation deadline was extended from February 15, 2021 to June 15, 2021. Information regarding compensation for the 2019 compliance period will be included in a subsequent GGPPA Annual Report to Parliament.

The methods for providing compensation are either paying the carbon price for the year in question through the excess emissions charge, remitting compliance units, or a combination of both. Compliance units include:

- surplus credits,
- eligible offset credits from an existing provincial system (recognized units), or
- federal offset credits (system under development).

### 3.1.4 Surplus Credits

In accordance with GGPPA and the OBPS Regulations, the Minister of the Environment will issue surplus credits to persons responsible for covered facilities whose emissions are lower than their facility emissions limit for a given compliance period. The persons responsible can sell their surplus credits or bank them for future use or sale.

For the 2019 compliance period, ECCC plans to issue surplus credits in early 2021, aligned with the planned opening of the department's on-line Credit and Tracking System. Information regarding ECCC's issuance of surplus credits and use of these credits by covered facilities will be included in a subsequent GGPPA annual report to Parliament.

### 3.1.5 Recognized Units

Recognized units are eligible offset credits issued by a provincial or territorial offset system that have been recognized by ECCC as eligible for use as compensation for excess emissions under the federal OBPS. Using recognized units is a substitute for direct emissions reductions by facilities covered by the OBPS Regulations and provides an opportunity to reduce the cost of compensation while still reducing GHG emissions in Canada.

Only provincial or territorial offset programs and protocols that meet the eligibility criteria in the OBPS Regulations will be included on the List of Recognized Offset Programs and Protocols for the Federal OBPS on the Government of Canada website. An arrangement for the tracking and use of provincial or territorial offset credits must be established between ECCC and the province or territory before the program or any of its protocols can be recognized and appear on the List. The List will be updated from time to time, as provinces and territories put in place new eligible protocols or update existing ones, and when new provincial or territorial systems are established.

### 3.1.6 Federal Offset Credits

As announced in Budget 2019, ECCC is developing a federal GHG offset system. This is expected to increase the supply of compliance units that are available for use under the federal OBPS. It will also expand the incentive to reduce emissions beyond regulated facilities to activities not covered by carbon pricing and will generate new economic opportunities in sectors such as agriculture, forestry and waste management activities.

A preliminary paper on the proposed design of the Federal GHG Offset System was published in June 2019. A second discussion paper was released in 2020 to provide additional information, including on protocol development. The design of the proposed federal GHG offset system is consistent with the Pan-Canadian GHG Offsets Framework, which was agreed on by the Canadian Council of Ministers of the Environment in November 2018.

Publication of draft regulations for the Federal GHG Offset System is targeted for winter 2021. The Federal GHG Offset System will not replace provincial or territorial offset systems. The OBPS Regulations will continue to allow eligible offset credits from existing provincial and territorial offset systems to be used for compliance by federal OBPS covered facilities as recognized units (see section 3.1.2) after the implementation of a federal GHG offset system.

The Government of Canada continues to engage with provinces and territories to help coordinate offset systems and avoid double-counting, double-use, or double-issuance of offsets credits for the same project activity.

## 3.2 OBPS Proceeds and Return of Proceeds

The Government of Canada has committed to return all direct proceeds from the federal carbon pollution pricing system to the jurisdictions of origin. The specific approach for returning proceeds from the OBPS is currently under development.

The amount of proceeds generated under the OBPS will fluctuate over time, depending on a number of factors, including how many eligible facilities opt to voluntarily participate in the system, how facilities react to the price signal, and which compensation options regulatees choose. In June 2019, the government released a discussion paper seeking views and input from interested stakeholders and the public on the use of OBPS proceeds.

## 3.3 OBPS Compliance Promotion and Enforcement

### 3.3.1 Compliance promotion

Since 2017, Environment and Climate Change Canada held over 800 hours of engagement sessions with stakeholders and provincial partners, including webinars, teleconferences, face-to-face meetings, technical discussions and bilateral meetings and released several technical documents to inform the development of the OBPS Regulations. Representatives from provinces, territories, organizations representing Indigenous peoples, industry, and environmental non-governmental organizations (ENGOs) participated in these sessions.

ECCC held a first webinar in November 2018 on how to register to the OBPS. Following the release of the OBPS Regulations in June 2019, ECCC a held a second webinar followed by a Question and Answer session in July 2019 providing a section-by-section walk through of the OBPS Regulations and the revised policy on voluntary participation. As part of these engagement sessions, ECCC also shared via email, new reference material and technical guidance regarding Third-Party Verification requirements in December 2019.

ECCC continues to proactively engage with OBPS regulatees, facilities wishing to opt-in to the OBPS, and representative industry associations to support awareness and understanding of the OBPS regulatory requirements, policy and guidance.

### 3.3.2 Enforcement activities

Up to the end of 2019, all mandatory covered facilities under the OBPS registered on time, which was the only legally enforceable obligation before October 1st, 2020. Therefore, there were no enforcement activities over the period covered by this report.

Work began on training enforcement officers who will enforce the system.

# 4. RECONCILIATION OF PROCEEDS AND RETURN OF PROCEEDS BY JURISDICTION

## 4.1 Jurisdictions that do not meet the federal benchmark standards

Table 4 summarizes the net direct fuel charge proceeds assessed, as well as the return of those proceeds, for the 2019-20 fuel charge year for Ontario, New Brunswick, Manitoba, Alberta and Saskatchewan. As the federal fuel charge came into effect in Alberta in January 2020, after the announcement of the return of proceeds amounts for the other provinces, financial reporting in respect of return of proceeds in Alberta will appear in next year's edition of this report.

**Table 4. Fuel Charge Proceeds and Return of Proceeds in Ontario, New Brunswick, Manitoba, Alberta and Saskatchewan (2019-20)**

| (millions $) | ON | NB | MB | AB* | SK | Total |
|---|---|---|---|---|---|---|
| **2019-20 Proceeds** | **1,866.6** | **92.0** | **193.3** | **210.5** | **270.0** | **2,632.3** |
| **Return of 2019-20 Proceeds** | | | | | | |
| *Climate Action Incentive Payments* | 1,493.4 | 72.8 | 157.0 | - | 244.6 | 1,967.7 |
| *Sector supported: SME*** | 103.5 | 5.2 | 13.3 | - | 30.5 | 152.5 |
| *Sector supported: MUSH**** | 51.7 | 2.6 | 6.6 | - | 15.2 | 76.2 |
| | **1,648.7** | **80.6** | **176.9** | **-** | **290.3** | **2,196.4** |
| **Difference to be Carried Forward to 2021 Climate Action Incentive payments******** | **217.9** | **11.4** | **16.4** | **N/A** | **(20.3)** | **225.4** |

Notes: Amounts are based on financial reporting as of July 2020 and are subject to change due to new assessments and reassessments of fuel charge or personal income tax returns. Totals may not add due to rounding.

*The three months of fuel charge proceeds generated in Alberta in 2019-20 have already been integrated in the specification of 2020 Climate Action Incentive payment amounts, based on projections.

**Amount paid out in 2019-20: nil. Balance of $152.5 million to be paid out in 2020-21.

***Amount paid out in 2019-20: $2.7 million. Balance of $73.6 million to be paid out in 2020-21.

****As the fuel charge no longer applies in New Brunswick, any final balance in that province will be returned as a payment to the provincial government.

## 4.2 Jurisdictions that requested the federal backstop system

Table 5 summarizes the net direct fuel charge proceeds assessed, as well as the return of those proceeds, for the 2019-20 fuel charge year for Yukon and Nunavut. All proceeds have been returned to the territorial governments.

**Table 5. Fuel Charge Proceeds and Return of Proceeds in Yukon and Nunavut (2019-20)**

| (thousands $) | Yukon | Nunavut | Total |
|---|---|---|---|
| **Proceeds Assessed** | 6,646.2 | 1,814.9 | 8,461.2 |
| **Less: Payments to Territorial Government** | 6,646.2 | 1,814.9 | 8,461.2 |
| **Net Balance** | - | - | - |

Notes: Amounts are based on financial reporting as of July 2020 and are subject to change due to reassessments of fuel charge returns.

# 5. ADDITIONAL INFORMATION

**For more information about GGPPA, please contact:**

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