GREENHOUSE GAS POLLUTION PRICING ACT

Annual Report to Parliament for 2020

Environment and Climate Change Canada
Environnement et Changement climatique Canada

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MINISTER'S MESSAGE

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

A price on carbon pollution is widely recognized as one of the most effective, transparent, and efficient policy approaches to reduce greenhouse gas emissions and stimulate clean growth. Carbon pricing is a foundational element of Canada's climate plan.

The urgency to act against the threat posed by climate change has never been clearer. Canadians are seeing the devastating impacts of extreme weather events across the country.

In March 2021, the Supreme Court of Canada confirmed that Parliament has the authority to apply a price on carbon pollution in jurisdictions that do not have their own system that meets minimum national stringency standards.

A price on carbon pollution provides an incentive to reduce greenhouse gas emissions, stimulates investments in clean innovation, and encourages a competitive and prosperous economy as we transition to a low-carbon world. It creates a financial incentive for businesses and households to decide for themselves how best to reduce their emissions.

Pricing carbon pollution is working. Industries are investing in energy efficiency and adopting clean technologies. And a growing number of households are switching to clean electricity for heating and cooling and purchasing low or zero emission vehicles.

The Government of Canada returns all direct proceeds from the federal carbon pollution pricing system to the jurisdictions of origin. The federal carbon pollution pricing system is not about raising revenues. It is about acknowledging the cost of pollution, empowering Canadians to take climate action, and encouraging cleaner growth for a more sustainable future.

The Honourable Steven Guilbeault
Minister of Environment and Climate Change

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1. INTRODUCTION

This second annual report fulfills the Minister of the Environment's obligation, under section 270 of the *Greenhouse Gas Pollution Pricing Act* (GGPPA), to report on the administration of the Act for the previous calendar year.

- For the purposes of this report, the "administrative period" is considered to be from January 1 to December 31, 2020. However, as Part 1 of the Act is administered on a fiscal year basis, this administrative period also includes fuel charge data up to the end of fiscal year 2020-2021 (March 31, 2021).

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 4 pillars: pricing carbon pollution; complementary actions to reduce emissions across the economy; adaptation and climate resilience; and clean technology, innovation, and jobs.

The Pan-Canadian Approach to Pricing Carbon Pollution (Pan-Canadian Approach), released in October 2016, implements the pillar under the PCF of putting a price on carbon pollution. It gives provinces and territories the flexibility they need to develop their own carbon pollution pricing systems, while also outlining a set of minimum national stringency standards, known as the 'federal benchmark' that all pricing systems must meet. The goal is to ensure that carbon pricing applies to a broad set of emission sources throughout Canada with increasing stringency over time to reduce greenhouse gas (GHG) emissions at the lowest cost to business and consumers. The Pan-Canadian Approach also indicated that a federal backstop would apply in jurisdictions that do not meet the benchmark. The GGPPA allows for a federal carbon pollution pricing system (federal backstop system) to apply in any province or territory that requests it or that does not have a pollution pricing system in place that aligns with the federal benchmark.

A commitment was made in the PCF to review the overall approach to carbon pricing by 2022 in order to confirm the path forward. To deliver on this commitment, federal, provincial, and territorial governments worked together in 2020 to establish the approach for the review of carbon pricing. This included an independent expert assessment, the 2020 Expert Assessment of Carbon Pricing Systems, which was conducted in 2020 and completed in early 2021 by the Canadian Institute for Climate Choices. The assessment compares the stringency and effectiveness of carbon pricing systems across Canada. In addition, the Pan-Canadian Approach to Pricing Carbon Pollution: Interim Report 2020 was prepared jointly by federal, provincial, and territorial officials and submitted in February 2021 for review and assessment by First Ministers. The Interim Report, published in March 2021, provides a comprehensive factual overview of the carbon pricing systems in place in Canada in 2020. As an early deliverable, the Interim Report also included an overview of the approaches and best practices to mitigate the risks to competitiveness and carbon leakage from carbon pricing for emissions-intensive trade-exposed sectors.

1.2 Strengthened climate plan

In December 2020, the Government of Canada introduced a strengthened climate plan, *A Healthy Environment and a Healthy Economy*, building on the 2016 *Pan-Canadian Framework on Clean Growth and Climate Change*. The strengthened plan confirmed that the federal government will continue to put a price on carbon pollution that will rise through to 2030. Canada's strengthened climate plan proposed to increase the carbon price by $15 per year starting in 2023 and rise to $170 per tonne of CO_2 equivalent (CO_2e) in 2030[1].

[1] This increasing price trajectory was confirmed in July 2021, in Canada's Climate Actions for a Healthy Environment and a Healthy Economy.

Going forward as the price on carbon pollution increases, the federal system will continue to be revenue neutral, with all direct proceeds remaining in the jurisdiction of origin. Provincial and territorial governments that request the federal system receive all the proceeds back to decide how to reinvest them. In other jurisdictions, the federal government will continue to return all fuel charge proceeds back to Canadian families and their communities, ensuring that the majority of households receive more in payments than they face in costs from the carbon price. Proceeds collected from the Output-Based Pricing System for industry will support Canada's plan to decarbonize industrial sectors.

In the strengthened climate plan the federal government also committed to reviewing the minimum national stringency standards it uses to assess provincial and territorial carbon pollution pricing systems, also known as the federal "benchmark," and to engage provinces, territories and Indigenous peoples on the proposals. The strengthened federal benchmark[2] will help ensure all carbon pollution pricing systems in Canada are sufficiently stringent to help meet Canada's climate goals. This includes applying a carbon price with increasing stringency over time to a broad set of emission sources. The goal is to send a consistent price signal across Canada and provide certainty so that businesses and individuals can plan for the future.

1.3 *Greenhouse Gas Pollution Pricing Act*

The GGPPA came into effect on June 21, 2018. It establishes the framework for the federal carbon pollution pricing system. The federal system consists of 2 main parts, which can apply in whole or in part in a province or territory:

- a regulatory charge on fossil fuels (fuel charge), administered by the Canada Revenue Agency (CRA) under Part 1 of the Act, 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), under Part 2 of the Act.

1.4 Where the Act applies

Provinces and territories had until July 31, 2019 to outline their carbon pollution pricing plans for 2020. At that time, the stringency of each of the provincial and territorial carbon pollution pricing plans were assessed against the federal benchmark. All existing provincial and territorial systems that were already in place for 2019 were found to meet the federal benchmark for 2020. The GGPPA applied in the 2020-2021 fiscal year for the fuel charge and in 2020 for the OBPS, in any province or territory that had requested it or that did not have a carbon 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."

The GGPPA applied in the following backstop jurisdictions during the second administration year:

- The **federal fuel charge** applied throughout the 2020-2021 fiscal year in:
  - Ontario, Manitoba, Saskatchewan, Alberta, Yukon and Nunavut
- The **federal OBPS** applied throughout 2020 in:
  - Manitoba, Ontario, New Brunswick, Prince Edward Island, Yukon, Nunavut, and partially in Saskatchewan[3].

[2] The update of the federal benchmark was published August 5, 2021.

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

British Columbia, Quebec, Nova Scotia, Northwest Territories, and Newfoundland and Labrador implemented their own carbon pollution pricing systems that meet the federal benchmark.

Three provinces proposed new systems in 2020. New Brunswick proposed systems to meet the federal benchmark for both the fuel charge and the OBPS, while Alberta and Ontario proposed systems to meet the federal benchmark for the OBPS.

- New Brunswick proposed a provincial tax on carbon emitting products under the *Gasoline and Motive Fuel Tax Act* to replace the federal fuel charge, which was found to meet the federal benchmark for 2020-2021. The province and the federal government worked together to transition to the provincial system as of April 1, 2020.
- Alberta replaced its existing system for large industry (the *Carbon Competitiveness Incentive Regulation*) with a new carbon pricing system for large industry (the *Technology Innovation and Emissions Reduction Regulation*), which was found to meet the federal benchmark for 2020.
- Finally, Ontario and New Brunswick each proposed new carbon pricing systems for large industry and requested that these replace the federal OBPS in their jurisdictions. On September 20, 2020, the federal government announced that these systems met the federal benchmark and that it would work with these provincial governments to determine a transition date to the provincial systems. In New Brunswick the provincial system for large industry applied as of January 1, 2021, and in Ontario the provincial system will apply as of January 1, 2022.

It should be noted that at the end of the second administration year partial provincial systems which met the federal benchmark for the sources they covered were in place for Alberta, Saskatchewan, New Brunswick and Prince Edward Island. The federal backstop system only applied to the emission sources not covered by the partial provincial systems in these provinces.

Provincial and territorial carbon pollution pricing systems are currently subject to an annual assessment process to ensure that they continue to meet the federal benchmark. The federal government also monitors major changes to provincial and territorial systems on an ongoing basis. As indicated in the Update to the Pan-Canadian Approach to Carbon Pollution Pricing 2023-2030, a multi-year assessment will replace the current annual assessment of provincial and territorial carbon pollution pricing systems, for the 2023 to 2030 period.

2. PART 1 – FUEL CHARGE

2.1 Overview of the federal fuel charge

Part 1 of GGPPA establishes a fuel charge, which is a regulatory charge on fossil fuels. 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 (such as diesel), and natural gas. It also applies to combustible waste, which includes tires and asphalt shingles. The fuel charge rates reflect a carbon pollution price of $30 per tonne of carbon dioxide equivalent (CO_2e) as of April 1, 2020 rising by $10 per tonne annually to $50 per tonne as of April 1, 2022. Applying the fuel charge at higher rates over time will help to reduce GHG 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 fiscal years 2019-2020 to 2022-2023. Future rate increases are effective as of April 1st of the fuel charge year noted in the table. The rates for gasoline and light fuel oil ("diesel") 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)	2019-2020 ($20/tonne)	2020-2021 ($30/tonne)	2021-2022 ($40/tonne)	2022-2023 ($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

During 2020-2021, the federal fuel charge applied in Ontario, Manitoba, Saskatchewan, Alberta, Yukon and Nunavut, as listed in Part 1 of Schedule 1 to the Act.

The federal fuel charge no longer applied in New Brunswick as of April 1, 2020, when the province implemented a tax on carbon emitting products that met the federal benchmark.

2.1.2 Registration and timing of payment

The Act provides for 12 different types of registrations for the application of the fuel charge. Certain persons (for example, 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 (for example, freight vehicles) that operate in a jurisdiction where the federal backstop applies, are required to register with the CRA. 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 carriers, they will either have a net fuel charge owing or will be eligible for a refund.

Additional information on registration is available on the fuel charge webpage on the Government of Canada website, Canada.ca.

2.1.3 Fuel charge relief

The purpose of the GGPPA is to reduce GHG 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. Groups eligible for targeted relief include farmers, fishers, greenhouse operators, remote power plant operators, and users of aviation fuel in the territories.

2.2 Return of fuel charge proceeds

For this administrative period, (2020-2021), the Government of Canada returned fuel charge proceeds 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 benchmark (Ontario, Manitoba, Saskatchewan, and Alberta):
  - The bulk of the fuel charge proceeds are returned directly to individuals and families through Climate Action Incentive payments (see 2.2.1).
  - A portion of the remainder of the fuel charge proceeds for 2019-2020 were returned through federal programming to support schools, small and medium-sized businesses, and Indigenous communities to offset additional costs as a result of carbon pollution pricing and improve their energy efficiency (see 2.3).

2.2.1 Climate Action Incentive payments

For the 2020-2021 fuel charge year, which began in April 2020, eligible residents of Ontario, Manitoba, Saskatchewan and Alberta could claim a refundable tax credit known as a Climate Action Incentive (CAI) payment for their family through their 2019 personal income tax returns (typically filed in early 2020). In the case of Alberta, these first CAI payments claimed by eligible Albertans reflect projected fuel charge proceeds to be generated over a 15-month period. This consists of 3 months (January–March 2020) with a carbon price of $20 per tonne of CO_2e, plus 12 months (April 2020–March 2021) with a carbon price of $30 per tonne of CO_2e.

CAI payment amounts are based on family composition and province of residence. Table 2 below contains the CAI payment amounts for the payments made available in respect of the 2020-2021 fuel charge year. A 10-per-cent 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.

Table 2. Baseline CAI payment amounts in 2020

(Through 2019 personal income tax returns)

	Ontario	Manitoba	Saskatchewan	Alberta*
Single adult, or first adult in a couple	$224	$243	$405	$444
Second adult in a couple, or first child of a single parent	$112	$121	$202	$222
Each child under 18 (starting with the second child for single parents)	$56	$61	$101	$111
Example: Total amount for family of 4	$448	$486	$809	$888

Notes: * The 2020 CAI payment claimed by eligible Albertans will reflect fuel charge proceeds generated over a 15-month period. This consists of 3 months (January–March 2020) with a carbon price of $20, plus 12 months (April 2020–March 2021) with a carbon price of $30.

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-per-cent supplement for eligible residents of small and rural communities.

Most households receive more in CAI payments than their increased costs resulting from the federal carbon pollution pricing system. For example, in 2020, the estimated average cost impact per household of the federal system in Ontario was $362, while the average CAI payment per household was $436. In Alberta, the average cost per household was $534 and the average CAI payment was $880. In Manitoba, these amounts were $358 and $486, respectively, and in Saskatchewan, they were $641 and $792.

The Parliamentary Budget Officer's 2020 report Reviewing the Fiscal and Distributional Analysis of the Federal Carbon Pricing System independently confirmed that most households receive more in payments than they face in costs.

Going forward, CAI 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 CAI payments are specified 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 CAI payments may differ from estimated levels, adjustments will be made through changes in future CAI payment amounts. This will ensure that direct proceeds are fully returned to the jurisdiction of origin over time.

2.3 Fuel charge proceeds assessed and returned by jurisdiction

This report covers the fuel charge reporting periods from April 1, 2020 to March 31, 2021 for Ontario, Manitoba, Saskatchewan, Alberta, Yukon and Nunavut. Fuel charge proceeds are reported on a net basis to account for rebates claimed and returned to persons registered under Division 4 of the Act.

To ensure accountability, the Government of Canada includes annual updates in this report 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.

2.3.1 Jurisdictions with proceeds returned via CAI payments and federal programming

Table 3 summarizes fuel charge proceeds assessed and returned in each of the 4 provinces (Ontario, Manitoba, Saskatchewan, Alberta) that did not meet the federal benchmark during the 2020-2021 fuel charge year. Revised financial information for the 2019-2020 fuel charge year is also shown, reflecting an additional year of processing assessments and reassessments of fuel charge and personal income tax returns.

The bulk of the proceeds assessed in 2020-2021 were returned through CAI payments, which were claimed by individuals filing their 2019 personal income tax returns. For example, in Ontario, while $2.49 billion in proceeds were assessed in 2020-2021, $2.24 billion was also returned to residents of Ontario through CAI payments. In the case of Alberta, CAI payments also account for the proceeds generated during the prior fuel charge year ($259.6 million in the January 1 – March 31, 2020 period) for which no CAI payments had yet been specified. The remaining proceeds are returned through federal programming measures, described in more detail in Table 5 below and section 2.4.

Net proceeds in each province represent the difference between proceeds assessed and proceeds returned (or to be returned). Over time, these differences are corrected through adjustments to future CAI payment amounts in each province, such that all proceeds are returned to the jurisdiction of origin.

Table 3. Fuel charge proceeds and return of proceeds in Ontario, Manitoba, Alberta and Saskatchewan, 2019-2020 (revised) and 2020-2021

(millions $)	Ontario		Manitoba		Saskatchewan		Alberta[1]	
Fuel charge year	**2019-2020**	**2020-2021**	**2019-2020**	**2020-2021**	**2019-2020**	**2020-2021**	**2019-2020**	**2020-2021**
Carbon price	$20	$30	$20	$30	$20	$30	$20	$30
Proceeds assessed	1,830.6	2,491.2	190.9	262.8	264.5	335.3	259.6	1,110.8
Less: CAI payments	(1,539.9)	(2,236.8)	(160.7)	(228.3)	(249.5)	(328.4)	—	(1,301.4)
Less: Federal programming[2]	(155.2)	(230.8)	(19.9)	(29.7)	(45.7)	(68.1)	—	(170.4)
Net proceeds	135.5	23.6	10.3	4.8	(30.6)	(61.1)	259.6	(360.9)
Carried forward to 2021 CAI payments[3]	217.9	—	16.4	—	(20.3)	—	—	—
Net carry forward	(82.4)	23.6	(6.2)	4.8	(10.3)	(61.1)	259.6	(360.9)
Carried forward to 2022 CAI payments[4]		**(58.9)**		**(1.4)**		**(71.5)**		**(101.3)**

Notes: Amounts of proceeds assessed and CAI payments are based on financial reporting as of May 31, 2021 and are subject to further adjustments due to reassessments of fuel charge or personal income tax returns. Totals may not add up due to rounding.

[1] CAI payments and program spending in Alberta in 2020-2021 relate to proceeds assessed in both 2019-2020 and 2020-2021 over a fifteen-month period.

[2] For the 2019-2020 fuel charge year, with the exception of Alberta, the federal programming amounts shown reflect the original specifications of the Minister of Finance as announced on July 12, 2019. For the 2020-2021 fuel charge year in all provinces, these amounts have not yet been allocated to specific programming.

[3] These are the amounts carried forward from the 2019-2020 fuel charge year as they appeared in last year's edition of this report (i.e. the excess of total proceeds over disbursements, which were distributed through Climate Action Incentive payments in 2021). They are based on assessment information available at the time of last year's report.

[4] Computed by adding together the net carry forward amounts for 2019-2020 and 2020-2021 in each province. These balances will be used to adjust quarterly CAI benefit payments in 2022.

Beginning in 2020-2021, the federal fuel charge no longer applied in New Brunswick, and is therefore not reported upon in Table 3 above. With respect to the previous fuel charge year (2019-2020), only $0.1 million remains to be returned, based on financial information as of May 31, 2021 (see Table 4). This balance is due to a federal programming specification for the Minster of Natural Resources that had not been spent as of May 31, 2021, but is expected to be spent by March 31, 2022 (see Table 5 for more detail).

Table 4. Fuel charge proceeds and return of proceeds in New Brunswick, 2019-2020 (revised)

(millions $)	
Proceeds collected	**92.86**
Less: CAI payments	(73.98)
Less: Returned through federal programming	(2.58)
Less: Returned to Government of New Brunswick	(16.20)
Net proceeds to be returned	**0.10**

Notes: Amounts of proceeds assessed and CAI payments are based on financial reporting as of May 31, 2021 and are subject to further change in the future due to reassessments of fuel charge or personal income tax returns. All amounts relate to proceeds collected and returned in respect of the 2019-2020 fuel charge year. Totals may not add up due to rounding.

Table 5 summarizes proceeds returned through federal programming that are described in detail in section 2.4. Table 5 shows that $104.5 million of 2019-2020 proceeds was returned through federal programs in each province, with $119.1 million still to be returned. In the case of Alberta, the fuel charge was not in place for most of the 2019-2020 year, so 2019-2020 proceeds were not returned to Alberta under this suite of programs.

Table 5. Total return of proceeds through federal programming up to March 31, 2021

(millions $)	Ontario	Manitoba	Saskatchewan	Alberta[5]	New Brunswick[6]	Total
Minister of Environment and Climate Change[1]						
Specified	148.1	19.1	43.6	0	2.3	**213.3**
Returned	(69.7)	(6.1)	(17.2)	0	(2.3)	**(95.2)**
Outstanding	78.4	13.1	26.4	0	0.0	**118.1**
Minister of Natural Resources[2]						
Specified	6.6	0.3	0.6	0	0.1	**7.6**
Returned	(6.0)	(0.1)	(0.4)	0	(0.0)	**(6.5)**
Outstanding	0.6	0.1	0.2	0	0.1	**1.0**
Minister of Crown-Indigenous Relations[3]						
Specified	0.5	0.2	0.5	0	0.0	**1.2**
Returned	(0.5)	(0.2)	(0.5)	0	0.0	**(1.2)**
Outstanding	0.0	0.0	0.0	0	0.0	**0.0**
Minister of Indigenous Services[4]						
Specified	0.0	0.3	1.0	0	0.3	**1.6**
Returned	0.0	(0.3)	(1.0)	0	(0.3)	**(1.6)**
Outstanding	0.0	0.0	0.0	0	0.0	**0.0**
Total						
Specified	155.2	19.9	45.7	0	2.8	**223.7**
Returned	(76.2)	(6.7)	(19.1)	0	(2.6)	**(104.5)**
Outstanding	79.1	13.2	26.6	0	0.1	**119.1**

Notes: The Returned row indicates total spending that occurred in 2019-2020 and 2020-2021. The specified row reflects the latest specifications of the Minister of Finance announced on May 21, 2021. Totals may not add up due to rounding.

[1] Returned under the Climate Action Incentive Fund program.

[2] Returned under the Energy Manager Program and the Clean Energy for Rural and Remote Communities Program.

[3] Returned under the Indigenous Community-Based Climate Monitoring Program.

[4] Returned under the Indigenous Capital Facilities and Maintenance Program and the First Nations Infrastructure Fund.

[5] The fuel charge was not in place in Alberta for most of the 2019-2020 year, so 2019-2020 proceeds were not returned to Alberta under this suite of programs.

[6] The specification for the Minister of Environment and Climate Change in New Brunswick as announced on May 21, 2021 has been reduced by $0.1 million, as this amount was included in payments by the Minister of National Revenue to the Government of New Brunswick, as shown in Table 4.

2.3.2 Jurisdictions with proceeds returned directly to government

Table 6 summarizes the net fuel charge proceeds assessed and returned to the territorial governments of Yukon and Nunavut for the 2020-2021 fuel charge year. Updated financial information for the 2019-2020 fuel charge year is also shown.

Table 6. Fuel charge proceeds and return of proceeds in Yukon and Nunavut, 2019-2020 (revised) and 2020-2021

(thousands $)	Yukon		Nunavut	
Fuel charge year	**2019-2020**	**2020-2021**	**2019-2020**	**2020-2021**
Carbon price	$20	$30	$20	$30
Proceeds collected	**7,564**	**15,142**	**4,430**	**8,243**
Less: Distributions	(7,564)	(15,142)	(4,430)	(8,243)
Net proceeds	0	0	0	0

Notes: Amounts of proceeds assessed and CAI payments are based on financial reporting as of May 31, 2021 and are subject to further adjustments due to reassessments of fuel charge returns. The fuel charge only applied for 9 months in these 2 territories, from July 1, 2019 to March 31, 2020. Totals may not add up due to rounding.

2.4 Return of fuel charge proceeds through federal programming

As noted in section 2.3.1, the Government returned a portion of direct proceeds from the 2019-2020 fuel charge to schools, small and medium-sized businesses, and Indigenous communities in Ontario, New Brunswick, Manitoba, and Saskatchewan, through federal programming in 2019-2020 and 2020-2021. This helped 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. Proceeds were delivered through the following departmental programs:

- Environment and Climate Change Canada's
  - Climate Action Incentive Fund
- Crown-Indigenous Relations and Northern Affairs Canada's
  - Indigenous Community-Based Climate Monitoring Program
- Indigenous Services Canada's
  - Capital Facilities and Maintenance Program (CFMP)
  - First Nations Infrastructure Fund (FNIF)
- Natural Resources Canada's
  - Clean Energy for Rural and Remote Communities (CERRC) Program
  - Energy Manager Program

2.4.1 Climate Action Incentive Fund

Launched in May 2019, the Climate Action Incentive Fund (CAIF) was originally allocated up to $218[4] million over 2 years, sourced from 2019-2020 fuel charge proceeds, to be delivered in the eligible backstop jurisdictions of Ontario, New Brunswick, Manitoba, and Saskatchewan.

[4] This amount was adjusted to $213M after $5M was reallocated and returned directly to New Brunswick by the Minister of National Revenue.

As of March 31, 2021 approximately $95 million of the adjusted allocation of $213 million was committed to deliver support for eligible recipients to adopt clean technologies that will help reduce carbon pollution, energy usage and achieve cost savings (see Table 7). All unspent CAIF fuel charge proceeds will be returned to jurisdictions of origin through alternative means as part of future federal government programs.

- The process of returning 2019-2020 proceeds through the CAIF was slowed by a number of factors, including the federal election in fall 2019 and delays as a result of the COVID-19 pandemic. CAIF recipients, in many cases, faced project implementation delays due to limited access to goods and services during the pandemic. In addition, numerous projects that were to be supported by the CAIF were cancelled or modified by applicants.

Funds were distributed through the following 2 streams.

- Small and Medium-sized Enterprises (SME) Project stream
- Municipalities, Universities, Schools, and Hospitals (MUSH) Retrofit stream

CAIF was originally designed with a third funding stream, however the Rebate stream was never launched due to difficulty in securing a third party delivery mechanism within the time constraints. As with any other unspent CAIF fuel charge proceeds, the $51 million of proceeds notionally allocated through the Rebate stream will be returned through alternative means as part of future federal government programs.

Table 7 provides details of the funds committed as of March 31, 2021 for return to approved recipients under the SME Project stream and the MUSH Retrofit stream.

Table 7. Distribution of 2019-2020 fuel charge proceeds through the CAIF in 2020-2021

CAIF stream	Ontario	Saskatchewan	Manitoba	New Brunswick
SME Project stream				
Committed funding	$28.8M	$5.2M	$0.7M	$0.3M
Number of funding agreements	279	127	8	5
MUSH Retrofit stream (schools)				
Committed funding	$40.9M	$12M	$5.4M	$2M
Number of schools funded	162	132	101	5
TOTAL	**$69.7M**	**$17.2M**	**$6.1M**	**$2.3M**

Small and Medium-sized Enterprises (SME) Project stream

Through the CAIF SME Project stream, the Government of Canada committed to help small and medium-sized businesses decrease energy use, save money and reduce carbon pollution.

In eligible provinces SMEs could have applied for funding under the CAIF SME Project stream to help with projects in sectors such as building, transportation, industry, waste, energy, agriculture, etc. Projects eligible for funding included agricultural, building and transportation retrofits; and energy efficiency and waste management.

Approved applicants could receive up to 25% of their project's total eligible costs. Projects were required to request no less than $20,000 and no more than $250,000 per project and per recipient. A $250,000 funding cap applied across a franchise within each eligible province. Successful recipients could claim eligible expenditures retroactively to the date of their application.

ECCC received 856 proposals during the application period for the CAIF SME Project stream from July 17, 2019 to November 22, 2019. Of the proposals received, 732 of those were approved in principle, representing around 60% of the notional funding allocation for the SME Project stream. The majority of successful proposals were from either the agriculture, forestry, fishing and hunting; manufacturing; real estate, rental and leasing; or construction sectors. Overall, almost 90% of successful applicants fell into the small business category.

- As of March 31, 2021, under the CAIF SME Project stream, $35 million out of a possible $106 million was committed for 419 executed funding agreements to support energy efficiency projects led by SMEs. The transfer of funds to recipients began in spring 2021 and is ongoing, as additional claims are expected to be submitted throughout 2021. Table 7 above displays information on executed funding agreements under the CAIF SME Project stream for each jurisdiction.[5]
- This $35 million is approximately 50% of the $64.7 million in funding that was reported in the 2019 annual report as being approved for SME project proposals. Not all of the SME Project stream funds were able to be committed to recipients due to the impact of the COVID-19 pandemic.
  - Of the projects approved in principle, not all were able to proceed to signing funding agreements due to changes to planned projects resulting from the COVID-19 pandemic.
  - Recipients have, in many cases, faced project implementation delays due to limited access to goods and services during the pandemic, and some projects were cancelled or reduced in scope by recipients.
  - In the face of changing operational realities caused by COVID-19, ECCC has remained committed to working with all successful recipients to help them move through all aspects of the funding process.

MUSH Retrofit stream

The MUSH Retrofit stream was designed to provide funding to municipalities, universities/colleges, schools, and hospitals (MUSH sector) to help them undertake energy efficiency improvements and retrofits to reduce energy use, energy costs and carbon pollution. The initial round of funding available through this stream was selected to support energy efficiency projects in schools. As a result of MUSH Retrofit stream funding, students in approximately 400 schools in Canada will benefit from cleaner air, better insulation, newer heating and cooling systems, and other energy-efficiency projects.

- As of March 31, 2021, approximately $60.3 million under the MUSH stream was committed through agreements signed with the Government of Ontario ($40.9 million), Government of New Brunswick ($2 million), Government of Saskatchewan ($12 million) and the Manitoba School Boards Association ($5.4 million). Table 7 above displays the number of schools funded in each jurisdiction, as well as the associated funding.

2.4.2 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.

[5] These figures are accurate as of March 31, 2021.

- As indicated in the 2019 annual report, funding of $1,192,455 from 2019-2020 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.

As an example of how funding was used, in 2020, the Manitoba Métis Federation, with the support of the Indigenous Community-Based Climate Monitoring Program, engaged with the Métis citizens within Manitoba on climate change and environmental initiatives while following COVID-19 restrictions. An online survey was used to collect information about climate change impacts and identify priorities for monitoring. In addition, climate monitoring equipment that will be essential for data collection and mobilization in the upcoming years was procured.

2.4.3 Capital Facilities and Maintenance Program / First Nations Infrastructure Fund

Indigenous Services Canada utilized the Capital Facilities and Maintenance Program (CFMP)/First Nations Infrastructure Fund (FNIF) to support First Nation communities located south of the 60th parallel. 2019-2020 fuel charge proceeds of $1.64 million were returned to First Nations in New Brunswick, Manitoba and Saskatchewan to support recipients that are seeking to reduce energy costs and consumption, and reduce GHG emissions through alternative energy options. Funding for First Nations projects in Ontario was distributed under the Clean Energy for Rural and Remote Communities (CERRC) Program managed by Natural Resources Canada.

The Indigenous-led projects in First Nation communities were supported in 2019-2020 and 2020-2021 as follows:

- $300,000 supported Eel Ground First Nation in rural New Brunswick to complete energy efficiency upgrade and retrofitting of their band office building
- $310,000 supported several First Nation communities in northern Manitoba to make much needed energy efficiency upgrades to band homes, 2 youth centres and a healing lodge
- $1,030,641 supported the First Nations Power Authority (FNPA), a 100% Indigenous governed non-profit with the mandate of supporting Indigenous participation in the renewable energy sector, for the 40 MW worth of utility-scale and community-scale renewable energy projects in First Nations communities in Saskatchewan.

2.4.4 Clean Energy for Rural and Remote Communities

Natural Resources Canada received $4.45M, sourced from 2019-2020 fuel charge proceeds, to be spent over 2019-2020 and 2020-2021, for the purposes of returning fuel charge proceeds to jurisdictions by supporting Indigenous communities transition to 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.

As reported in the 2019 GGPPA Annual Report, Natural Resources Canada allocated the funding through Clean Energy for Rural and Remote Communities (CERRC) to support 2 Indigenous-led biomass projects in northern Ontario:

- $4.168M to Sagatay Cogeneration LP, a limited partnership owned by Whitesand First Nation in Northern Ontario for design and construction of a biomass-fueled combined heat and power generation system to supply electricity to 3 communities and supply heat and electricity to a new wood pellet plant and a wood merchandising yard. Funding for this project was dispersed in 2019-2020 and 2020-2021.

- $298,904 to support Nishnawbe Aski Nation's "Growing Bioheat in Nishnawbe Aski Nation" project. Through CERRC, funding for this project was dispersed in 2019-2020 and is being supplemented with additional CERRC program funding in 2020-2021 and 2021-2022.

2.4.5 Energy Manager Program

Natural Resources Canada (NRCan) also received $3.1M from the 2019-2020 fuel charge proceeds to be spent from 2019-2020 to 2021-2022 for the purposes of returning these proceeds to jurisdictions through the Energy Manager Program.

This program is focused on reducing energy use, operating costs and GHG emissions in small and medium sized enterprises; municipalities, universities, schools, hospitals and non-profit organizations. The funds were allocated across the 4 eligible provinces as follows: Ontario ($2,100,000), Saskatchewan ($620,000), Manitoba ($270,000), and New Brunswick ($110,000).

- As of March 31, 2021, NRCan had committed about $2.8 million to fund 30 projects involving 15 energy managers and at least 24 energy and fleet assessments. Due to logistical challenges presented by the COVID-19 pandemic, the program was extended by 1 year for all projects to conclude by March 31, 2022.

2.5 Fuel charge compliance promotion and enforcement

The CRA fuel charge program includes the full spectrum of CRA activities, which cover client support, registration, returns processing, proceeds collections, audit, and appeal functions. Approximately 10,000 persons, as defined in section 3 of the Act, are registered under the program.

During 2020, the CRA maintained its focus on registration compliance and outreach efforts. The goal of the outreach effort continues to be the promotion of early intervention to enhance future compliance and a focus on new registrants and persons that have fuel-related business activities, but are not yet registered. While CRA's audit activities were restricted in 2020 as a result of challenges presented by the pandemic, it began the review of fuel charge returns, identifying those of high risk and performing desk audits.

3. PART 2 – OUTPUT-BASED PRICING SYSTEM

Part 2 of the GGPPA, administered by the Minister of the Environment, establishes the framework for the Output-Based Pricing System (OBPS), a regulatory trading system for emission-intensive, trade exposed industries in backstop jurisdictions.

3.1 Overview of the Output-Based Pricing System

The federal OBPS is designed to put a price on carbon pollution from industry while minimizing risks to both competitiveness and carbon leakage. The system creates a strong financial incentive for all industrial facilities to improve their performance and reduce their emissions and for strong performers to continue to improve. The *Output-Based Pricing System Regulations* (OBPS Regulations), which establish the OBPS, were published in the Canada Gazette Part II on July 10, 2019.

The federal OBPS sets emissions-intensity standards, known as output-based standards, for a wide range of industrial activities on an emissions per-unit of output basis.

Covered facilities are those facilities located in provinces and territories where the federal OBPS applies and that meet the criteria in the OBPS Regulations or have been designated upon request as a covered facility by the Minister. Each covered facility calculates an annual emissions limit based on its level of production and the relevant output-based standard(s). Facilities that emit less than their annual limit earn surplus credits that they can remit, sell, transfer, or hold. Facilities with emissions above their annual limit must provide compensation by a prescribed deadline for each tonne of GHG emissions above their limit, by using one or a combination of the following options:

- paying the carbon price to the government via an excess emissions charge; or
- remitting compliance units that may either be surplus credits, federal offset credits (see section 3.1.6), or recognized units.

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 limits overall costs to help facilities maintain their international competitiveness and minimize carbon leakage.

3.1.1 Where the OBPS applies

During 2020, the OBPS applied in the backstop jurisdictions of Ontario, New Brunswick, Prince Edward Island, Manitoba, Yukon, Nunavut and partially in Saskatchewan.

- On December 23, 2020, the Minister of Environment and Climate Change issued a Notice of Intent to make regulations in response to the stated intention to transition from the federal *Output-Based Pricing System* (OBPS) to provincial output-based performance standards systems in Ontario and New Brunswick and in order to improve the implementation of the OBPS Regulations.

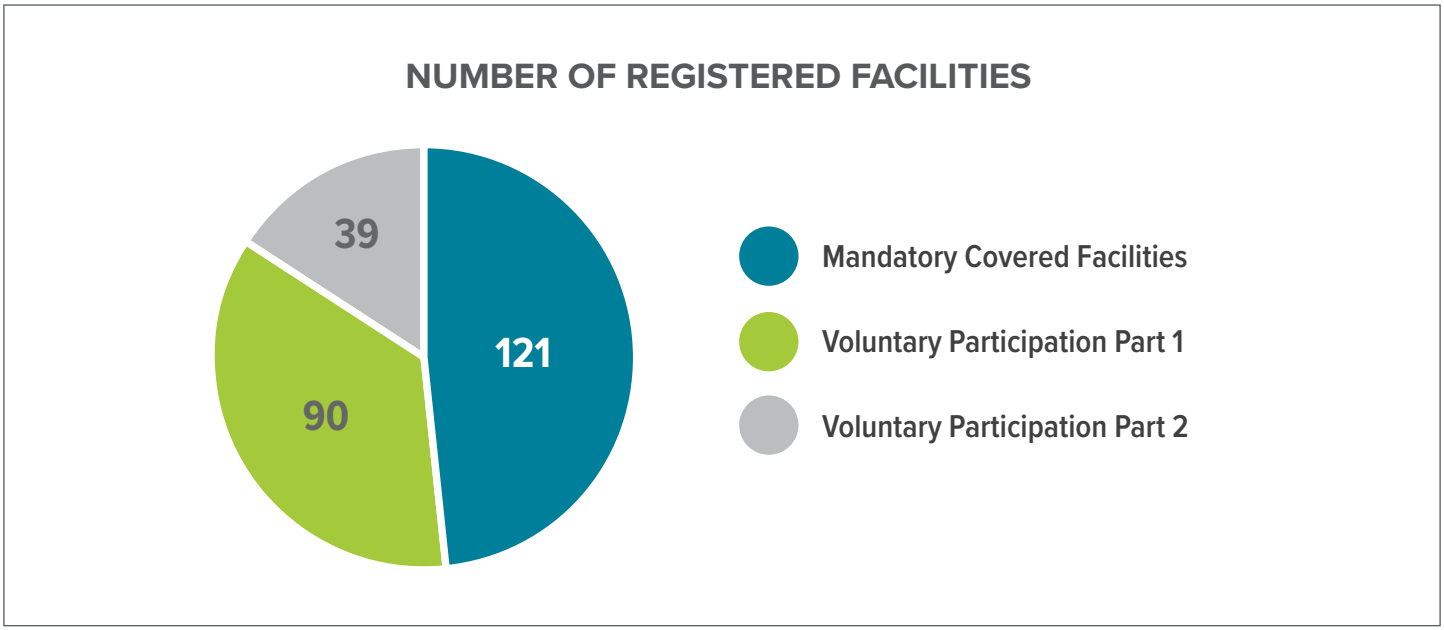
The OBPS is mandatory for facilities in backstop jurisdictions that are primarily engaged in the industrial activities listed in Schedule 1 of the OBPS Regulations and that emit 50kt or more of CO_2e per year.

Persons responsible for facilities located in a backstop jurisdiction that do not meet the criteria outlined in the OBPS Regulations may apply to have the facility designated as a covered facility under the OBPS (that is "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 or more of CO_2e 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 that voluntarily opt-in to be covered by Part 2 of the Act, may apply to be exempted from the fuel charges under Part 1.

As of December 31, 2020, there were 250 facilities registered under the OBPS, which includes 121 mandatory covered facilities and 129 opt-in facilities. Of the opt-in facilities, 90 opted in under Part 1 of the Voluntary Participation Policy; and 39 opted in under Part 2 of the Voluntary Participation Policy (see Figure 1). Part 1 of this policy applies to facilities that carry out an activity for which an output-based standard (OBS) has been set out in Column 1 of Schedule 1 of the OBPS Regulations. Part 2 enables additional facilities to apply to be included in the OBPS if they are in sectors at risk of competitiveness impacts and carbon leakage from the carbon pollution price. For these facilities the OBS is calculated in accordance with section 37 of the Regulations.

Figure 1. Number of registered facilities by type as of December 31, 2020



Regulatory amendments

Given the extraordinary circumstances during the COVID-19 pandemic, the OBPS regulations were amended to revise reporting and compensation deadlines for the 2019 compliance period. A Notice of intent to amend the *Output-Based Pricing System Regulations* was published in April 2020, and the Regulations Amending the *Output-Based Pricing System Regulations* were published in May 2020. Specifically, the regulatory amendments postponed the:

- annual report and verification reports deadline from June 1, 2020 to October 1, 2020 (see section 3.1.2),
- regular-rate compensation deadline from December 15, 2020 to April 15, 2021[6] and
- increased-rate compensation deadline from February 15, 2021 to June 15, 2021.

These revised deadlines were only applicable to the 2019 compliance period.

[6] As a result, a full accounting of OBPS compensation for the 2019 OBPS compliance period will be reflected in the 2021 GGPPA Annual Report

3.1.2 Facility reporting

Compliance with the OBPS Regulations is assessed on the basis of a compliance period. This annual report includes the OBPS compliance period for mandatory facilities that started on January 1, 2020 and ended on December 31, 2020. For facilities that became covered facilities part way through a calendar year, the compliance period starts on the effective date of registration as an emitter with the CRA[7], or if located in Prince Edward Island, on the date of registration as a covered facility under the GGPPA.

A person responsible for a covered facility is required to quantify the facility's GHG emissions and production during each compliance period. The annual report must include:

- the facility's annual emissions limit,
- the total GHG emissions and production, and
- the compensation the facility owes or the number of surplus credits the facility has generated.

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 on or before June 1 of the calendar year following the compliance period for which the annual report is prepared, but as noted above, this deadline was postponed until October 1, 2020 for the 2019 compliance period.

- There was a 75% compliance rate by OBPS facilities for reporting obligations in the first compliance period, based on those received by the amended deadline of October 1, 2020. ECCC engaged with persons responsible for covered facilities to promote compliance with the reporting requirements. As a result of these efforts all 2019 annual reports were received before the amended regular-rate compensation deadline of April 15, 2021.

3.1.3 Compensation

Under the OBPS, persons responsible for covered facilities are required to provide compensation for GHG emissions that exceed the facility's annual emissions limit.

Compensation is to be provided by December 15 of the calendar year in which the related annual report must be submitted. This is the regular-rate compensation deadline. Compensation is to be provided at the regular rate of the excess emissions charge for the compliance period in question or by remitting 1 compliance unit for each tonne of CO_2e emitted in excess of the facility's annual emissions limit.

The regular rate is set at the carbon price for the given year (i.e., $30 per tonne of CO_2e for 2020, 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 (that is, the second calendar year following the compliance period) at the increased rate. GGPPA sets the increased-rate compensation at 4 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).

[7] Registration with the CRA as an emitter allows the person to use an exemption certificate to receive relief from the fuel charge for fuel delivered at the person's covered facility for use at the covered facility.

As indicated above the regular-rate compensation deadline for the 2019 compliance period was postponed to April 15, 2021 and the increased-rate compensation deadline postponed to June 15, 2021.

- For the 2019 compliance period, the total compensation owed represented 8,305,488 tonnes of CO_2e from 189 covered facilities.
- Results of how the facilities provided compensation for GHG emissions that exceeded the facility's annual emissions limit will be included in the GGPPA annual report for 2021.

Compliance units can include:

- surplus credits,
- eligible offset credits from an existing provincial system (recognized units), or
- federal offset credits (system under development – further information provided in section 3.1.6).

3.1.4 Surplus credits

In accordance with GGPPA and the OBPS Regulations, the Minister of the Environment will issue surplus credits, in the department's on-line Credit and Tracking System (CATS) to persons responsible for covered facilities whose GHG emissions are lower than their facility's 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 issued in January 2021 a total of 910,174 CO_2e tonnes of surplus credits to 37 covered facilities with the quantity of surplus credits issued per facility ranging from 83 tonnes of CO_2e to 183,803 tonnes of CO_2e.

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 (the List) 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 was released in August 2020 and 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. The list currently includes the Alberta Emission Offset System with its 5 Protocols, and the British Columbia Greenhouse Gas Emission Offset System.

3.1.6 Federal GHG offset credits

ECCC is developing the Federal GHG Offset System to encourage cost-effective, voluntary emissions reductions and removals in Canada from activities not covered by legal requirements or carbon pollution pricing. It is expected to expand the financial incentives to reduce carbon pollution across the economy. It will generate new economic opportunities in sectors such as agriculture, forestry and waste. Federal offset credits can be used by persons responsible for covered facilities under the OBPS as compensation for excess emissions, increasing compliance flexibility and potentially reducing the cost of compliance. In addition, other groups, including governments and businesses, can use offset credits to meet internal climate objectives.

In 2020, a second discussion paper, titled *Carbon Pollution Pricing: Consideration for Protocol Development in the Federal Greenhouse Gas Offset System*, was released to further inform the development of the proposed Federal GHG Offset System. This paper follows the 2019 *Carbon Pollution Pricing: Options for a Federal GHG Offset System*. The design of the proposed Federal GHG Offset System will be aligned with the *Pan-Canadian GHG Offsets Framework*, which was agreed to by the Canadian Council of Ministers of the Environment in November 2018.

The Federal GHG Offset System being developed pursuant to Part 2 of GGPPA will consist of 3 main elements:

- regulations to implement the operational aspects of the system;
- federal offset protocols to establish the methods for quantifying GHG reductions for given project types; and
- a tracking system to register offset projects, issue and track offset credits, and share key information through a public registry.

The proposed *Greenhouse Gas Offset Credit System Regulations (Canada)* were published in the Canada Gazette Part I on March 6, 2021 and final regulations, if approved, are targeted for publication in Part II of the Canada Gazette in mid-2022.

Work to develop federal offset protocols is proceeding in parallel, beginning in spring 2021. The first 4 federal offset protocols will be: Advanced Refrigeration Systems, Improved Forest Management, Landfill Methane Management, and Enhanced Soil Organic Carbon. The development of protocols for additional project types will be considered as more information and data become available and as their potential evolves.

ECCC will continue to engage with provinces, territories, Indigenous organizations and communities and other stakeholders on the development of the Federal GHG Offset System.

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. As announced in the December 2020 strengthened climate plan for Canada, *A Healthy Environment and a Healthy Economy*, proceeds collected under the Output-Based Pricing System (OBPS) will be used to further support industrial projects to cut emissions and use new cleaner technologies and processes, as part of the plan to decarbonize industrial sectors.

Since the government received the first set of proceeds by the first amended regular-rate compensation deadline in April 2021, these amounts will be reported in the 2021 annual report.

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.

- The specific approach for returning proceeds from the OBPS was still under development as of March 31, 2021. The federal government will continue to engage with industry stakeholders, as well as with provinces and territories on this approach.

3.3 OBPS compliance promotion and enforcement

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.

3.3.1 Compliance promotion

Compliance promotion occurs through regular updates to the Output-Based Pricing System - Canada.ca website, emails, and responses to inquiries made through the program's 1-800 number and generic e-mail address.

In 2020, ECCC informed OBPS regulatees that reporting and compensation deadlines for the 2019 compliance period had been revised through regulatory amendments to account for the extraordinary circumstances during the COVID-19 pandemic.

In April 2020, ECCC released a video demonstration on YouTube for the new OBPS Reporting System and provided the link by email to regulatees. ECCC also sent several emails to regulatees providing reminders of the reporting deadline. As mentioned above, ECCC engaged with persons responsible for covered facilities to ensure all 2019 annual reports were received before the compensation deadline.

In October 2020, ECCC proactively engaged with regulatees and stakeholders to inform them of the extended deadline for those intending to remit Alberta emission offset credits as recognized units for compensation under the federal OBPS. The request to change the status of emission offset credits held in their Alberta Emission Offset Registry (AEOR) account from Active to Pending Retire-Federal OBPS was to be received by June 30, 2021.

In December 2020, ECCC informed regulatees via email and a website update of the Government of Canada's intention to transition from the federal OBPS to provincial carbon pricing systems for industry in the provinces of Ontario and New Brunswick.

3.3.2 Enforcement activities

No enforcement activities were taken over the period covered by this report, however, work continued on training enforcement officers to enforce the system.

4. ADDITIONAL INFORMATION

For more information about GGPPA, please contact:

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