MINISTER’S MESSAGE

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

A price on carbon pollution, coupled with an approach that returns all proceeds back to their jurisdiction of origin, provides an affordable incentive to reduce greenhouse gas emissions; stimulate investments in clean innovation; and encourage a competitive, prosperous, and resilient economy. It creates a financial incentive for businesses and households to decide for themselves how best to reduce their emissions.

I have heard directly from CEOs who say that pollution pricing is foundational to major job-creating investments in clean energy projects in Canada. And with many Canadian households now receiving direct, quarterly Climate Action Incentive payments, the federal pollution pricing system is actually making life more affordable by putting more money back into the pockets of eight out of ten individuals.

Canada’s approach to pollution pricing is simple—it ensures it is no longer free to pollute anywhere in Canada. Provinces and territories have the flexibility to design and implement carbon pollution pricing systems that best meet their circumstances while aligning with minimum national stringency standards—the federal benchmark—to ensure systems are comparable and effective at reducing emissions across the country.

Canada strengthened the benchmark criteria in 2021 to ensure all carbon pollution pricing systems will be fair and effective from 2023 onwards. This includes ensuring that carbon markets are functioning well, so that they effectively create an incentive for industries to reduce emissions and innovate, sending a clear carbon price signal across all covered emissions in Canada.

Canada's carbon pricing system for industry—the Output-Based Pricing System—is designed to ensure there is a price incentive for large industrial emitters to reduce their greenhouse gas emissions and spur innovation while maintaining international competitiveness and minimizing carbon leakage.

Proceeds from the Output-Based Pricing System are being returned through the Output-Based Pricing System Proceeds Fund, which is a program to support greenhouse gas emissions reductions through long-term decarbonization and clean growth within Canada’s heavy industries.

With a focus on industrial decarbonization and clean electricity production, this program will help make Canada’s heavy industries cleaner, and more efficient, as we advance to a low-carbon world.

The Honourable Steven Guilbeault
Minister of Environment and Climate Change
# Table of Contents

## 1. INTRODUCTION

1.1 Pan-Canadian Approach to Pricing Carbon Pollution .......................................................... 1

1.2 Greenhouse Gas Pollution Pricing Act .................................................................................... 2

1.3 Where the Act applied during the reporting period ............................................................... 2

## 2. PART 1 – FUEL CHARGE

2.1 Overview of the federal fuel charge ........................................................................................ 4

2.1.1 Where the fuel charge applied in 2021-2022 ........................................................................ 4

2.1.2 Registration and timing of payment ......................................................................................... 4

2.1.3 Fuel charge relief ...................................................................................................................... 5

2.2 Return of fuel charge proceeds .............................................................................................. 5

2.2.1 Climate Action Incentive payments ......................................................................................... 5

2.3 Fuel charge proceeds assessed and returned by jurisdiction .................................................... 6

2.3.1 Jurisdictions with proceeds returned via CAI payments and federal programming ........... 7

2.3.2 Jurisdictions with proceeds returned directly to government ................................................ 10

2.4 Return of fuel charge proceeds through federal programming .............................................. 11

2.4.1 Climate Action Incentive Fund ............................................................................................... 11

2.4.2 Energy Manager Program ...................................................................................................... 12

2.5 Fuel charge compliance promotion and enforcement ............................................................ 13

## 3. PART 2 – OUTPUT-BASED PRICING SYSTEM

3.1 Overview of the Output-Based Pricing System .................................................................... 14

3.1.1 Where the OBPS applied in 2022 ......................................................................................... 14

3.1.2 Facility reporting ...................................................................................................................... 16

3.1.3 Compensation ........................................................................................................................ 17

3.1.4 Surplus credits ........................................................................................................................ 17

3.1.5 Recognized units ..................................................................................................................... 18

3.1.6 Federal GHG offset credits ..................................................................................................... 18

3.1.7 Compensation amounts .......................................................................................................... 19
3.2 OBPS proceeds and return of proceeds

3.3 OBPS compliance promotion and enforcement
  3.3.1 Compliance promotion
  3.3.2 Enforcement activities

4. Additional information
1. INTRODUCTION

This third 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, 2021. However, as Part 1 of the Act is administered on a fiscal year basis, this report includes fuel charge data for fiscal year 2021-2022 (i.e. April 1, 2021 to March 31, 2022).

1.1 Pan-Canadian Approach to Pricing Carbon Pollution

On December 9, 2016, Canada’s First Ministers adopted the Pan-Canadian Framework on Climate Clean Growth and Climate Change (PCF) 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.

The Pan-Canadian Approach to Pricing Carbon Pollution (Pan-Canadian Approach), released in October 2016, implements the PCF’s first pillar by giving 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 pollution pricing applies to a broad set of greenhouse gas (GHG) emission sources throughout Canada with increasing stringency over time to reduce GHG emissions at the lowest cost to business and consumers. As part of the Pan-Canadian Approach, the GGPPA enables a federal carbon pollution pricing backstop system to be applied in jurisdictions that request it or do not implement a system aligned with this benchmark.

The Government of Canada published “The Update to the Pan-Canadian Approach to Carbon Pollution Pricing 2023-2030” in August 2021. It confirms the national minimum price on carbon pollution to 2030. Starting in 2023, Canada’s minimum national price on carbon pollution will be set at $65 per tonne of carbon dioxide equivalent (CO₂e) and will increase by $15 per year to $170 per tonne of CO₂e in 2030.

<table>
<thead>
<tr>
<th>Year</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Carbon Pollution Price ($CAD/tonne CO₂e)</td>
<td>$65</td>
<td>$80</td>
<td>$95</td>
<td>$110</td>
<td>$125</td>
<td>$140</td>
<td>$155</td>
<td>$170</td>
</tr>
</tbody>
</table>

The updated benchmark replaces the 2018-2022 benchmark, strengthening the criteria that all pricing systems must meet in order to ensure that carbon pollution pricing drives efficient low-cost emission reductions across Canada. Provincial and territorial submissions were assessed in 2022 to ensure that all proposed systems align with the strengthened requirements for the 2023-2030 period. The federal government will monitor the implementation of provincial and territorial systems in 2023-2030 to confirm that they continue to meet the benchmark criteria. Any future changes to provincial and territorial systems will also be assessed against the benchmark criteria. The federal government will also engage provinces, territories and Indigenous organizations in an interim review of the updated benchmark by 2026, to continue to ensure that pricing stringency is aligned across all carbon pricing systems in Canada.
1.2 **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 two 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 Environment and Climate Change Canada (ECCC) through the *Output-Based Pricing System Regulations* (OBPS Regulations), under Part 2 of the Act.

Part 2 of the Act also includes an offset credit system, known as *Canada’s Greenhouse Gas Offset Credit System*, administered by ECCC through the *Greenhouse Gas Offset Credit System Regulations* for projects that prevent greenhouse gases from being emitted or that remove greenhouse gases from the atmosphere.

1.3 **Where the Act applied during the reporting period**

The GGPPA applied in the 2019-2020, 2020-2021, and 2021-2022 fiscal years for the fuel charge and in the 2019, 2020 and 2021 calendar years 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 referred to as “backstop jurisdictions.”

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

- **The federal fuel charge** applied throughout the 2021-2022 fiscal year in:
  - Alberta, Saskatchewan, Manitoba, Ontario, Yukon, and Nunavut.

- **The federal OBPS** applied throughout 2021 in:
  - Manitoba, Ontario, Prince Edward Island, Yukon, Nunavut, and partially in Saskatchewan.

British Columbia, Quebec, Nova Scotia, New Brunswick, Newfoundland and Labrador, and Northwest Territories applied their own *carbon pollution pricing systems* that met the federal benchmark for 2021-2022.

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

For the 2019-2022 period, provincial and territorial carbon pollution pricing systems were subject to an annual assessment process to ensure that they continued to meet the federal benchmark. The federal government 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 2023-2030 period. The Government announced the results of that assessment in late fall 2022, resulting in some changes to the **jurisdictions in which the GGPPA will apply as of 2023**. The details about that assessment and the application of the GGPPA in future years will be described in the 2022 GGPPA Annual Report.

---

1 In Saskatchewan, the federal OBPS applied only to electricity generation and natural gas transmission pipelines in 2021.
Figure 1. Map of federal, provincial and territorial pricing, including application in part, as of January 1, 2022

CARBON PRICING ACROSS CANADA

- **Federal backstop applies**: Includes Federal Backstop in full, Federal backstop applies in part, and Provinces and Territories system applies.
- **Federal backstop applies in full**: Federal Backstop applies fully.
- **Provincial/Territorial system applies**: Includes Provinces and Territories system applies.
- **Output-based pricing system (OBPS)**: A regulatory trading system for industry.
- **Fuel charge**: Includes Federal fuel charge, provincial OBPS, and federal OBPS on some sectors, federal OBPS on others.

- **Yukon**: Federal Backstop
- **Northwest Territories**: Territorial carbon tax
- **British Columbia**: Provincial carbon tax
- **Alberta**: Federal fuel charge, provincial OBPS
- **Saskatchewan**: Federal fuel charge, provincial OBPS on some sectors, federal OBPS on others
- **Manitoba**: Federal Backstop
- **Ontario**: Federal fuel charge, transition from federal OBPS to provincial OBPS as of January 1, 2022
- **Quebec**: Cap-and-Trade
- **Prince Edward Island**: Provinces and Territories system applies
- **New Brunswick**: Provincial fuel charge, provincial OBPS as of January 1, 2021
- **Newfoundland and Labrador**: Provincial carbon tax and OBPS
- **Nova Scotia**: Cap-and-Trade
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 (e.g., diesel), and natural gas. It also applies to combustible waste, which includes tires and asphalt shingles. On April 1, 2021, the fuel charge rates were updated for the 2021-2022 fiscal year to reflect a carbon pollution price of $40 per tonne of CO$_2$e. As of April 1, 2022, the rates increased to reflect a carbon pollution price of $50 per tonne, and will subsequently increase by $15 per tonne annually from 2023 to 2030, reaching a price of $170 per tonne in 2030. Applying the fuel charge at higher rates over time will help to reduce GHG emissions and support clean growth. It sends a signal to markets and provides an incentive to reduce energy use through conservation and efficiency measures.

Table 2 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 1 of the fuel charge year noted in the table. The rates for gasoline and light fuel oil take into account the average renewable content of these fuels.

### Table 2. Rates of the federal fuel charge on select fuels from 2019-2020 to 2022-2023

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Unit ($) per</th>
<th>2019-2020 ($20/tonne)</th>
<th>2020-2021 ($30/tonne)</th>
<th>2021-2022 ($40/tonne)</th>
<th>2022-2023 ($50/tonne)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline</td>
<td>litre</td>
<td>0.0442</td>
<td>0.0663</td>
<td>0.0884</td>
<td>0.1105</td>
</tr>
<tr>
<td>Light fuel oil (e.g., diesel)</td>
<td>litre</td>
<td>0.0537</td>
<td>0.0805</td>
<td>0.1073</td>
<td>0.1341</td>
</tr>
<tr>
<td>Propane</td>
<td>litre</td>
<td>0.0310</td>
<td>0.0464</td>
<td>0.0619</td>
<td>0.0774</td>
</tr>
<tr>
<td>Marketable natural gas</td>
<td>cubic metre</td>
<td>0.0391</td>
<td>0.0587</td>
<td>0.0783</td>
<td>0.0979</td>
</tr>
</tbody>
</table>

2.1.1 **Where the fuel charge applied in 2021-2022**

During 2021-2022, the federal fuel charge applied in Ontario, Manitoba, Saskatchewan, Alberta, Yukon and Nunavut, as listed in Part 1 of Schedule 1 to the Act.

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, such as 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](https://www.canada.ca/en/services/business/personal-finance-fuel-charges.html) on the Government of Canada website.
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, fuel charge 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 (2021-2022), 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 (Alberta, Saskatchewan, Manitoba, and Ontario):
  - The bulk of the fuel charge proceeds were 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 was returned through federal programming (see 2.3).
  - A portion of the remainder was returned to farming businesses operating in these jurisdictions via a refundable tax credit, starting for the 2021-2022 fuel charge year. It is estimated that farmers would receive $100 million in the first year with this amount expected to increase as the price on carbon pollution rises. Information on actual proceeds returned in respect of 2021-2022 is expected to be included in the 2022 annual report.

2.2.1 Climate Action Incentive payments

For the 2021-2022 fuel charge year, which began in April 2021, 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 2020 personal income tax returns (typically filed in early 2021). The announcement in Budget 2021: A Recovery Plan for Jobs, Growth, and Resilience, and further details provided in the Economic and Fiscal Update 2021, indicated the Government would deliver CAI payments on a quarterly basis starting in July 2022. This approach returns fuel charge proceeds to individuals and families on a regular basis throughout the year.

CAI payment amounts are based on family composition and province of residence. Table 3 below contains the CAI payment amounts for the payments made available in respect of the 2021-2022 fuel charge year. Although not included in these amounts, a 10% supplement was 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 3. Baseline CAI payment amounts in 2021
(through 2020 personal income tax returns)

<table>
<thead>
<tr>
<th>Category</th>
<th>Ontario</th>
<th>Manitoba</th>
<th>Saskatchewan</th>
<th>Alberta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single adult, or first adult in a couple</td>
<td>$300</td>
<td>$360</td>
<td>$500</td>
<td>$490</td>
</tr>
<tr>
<td>Second adult in a couple, or first child of a single parent</td>
<td>$150</td>
<td>$180</td>
<td>$250</td>
<td>$245</td>
</tr>
<tr>
<td>Each child under 18 (starting with the second child for single parents)</td>
<td>$75</td>
<td>$90</td>
<td>$125</td>
<td>$123</td>
</tr>
<tr>
<td>Example: Total amount for family of four</td>
<td>$600</td>
<td>$720</td>
<td>$1000</td>
<td>$981</td>
</tr>
</tbody>
</table>

Notes: 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 percent 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 2021, the estimated average cost impact per household of the federal system in Ontario was $439, while the average CAI payment per household was $592. In Alberta, the average cost per household was $598 and the average CAI payment was $953. In Manitoba, these amounts were $462 and $705, respectively, and in Saskatchewan, they were $720 and $969.

Independent analyses have confirmed that most households received more in payments than they face in direct costs due to carbon pollution pricing, including a 2021 analysis by the Smart Prosperity Institute, and 2022 analyses by the Parliamentary Budget Officer (A Distributional Analysis of Federal Carbon Pricing under a Healthy Environment and a Healthy Economy).

CAI payment amounts are specified in advance of the fuel charge year, and reflect increases in the price on carbon pollution under the federal backstop system, updated estimates of proceeds being generated in each jurisdiction, and adjustments from previous years.

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 proceeds. As actual proceeds and the total amount of proceeds returned in a specific jurisdiction through CAI payments may differ from estimated levels, adjustments are made through changes in future CAI payment amounts. This ensures 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, 2021 to March 31, 2022 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 4 summarizes fuel charge proceeds assessed and returned in each of the four provinces (Alberta, Saskatchewan, Manitoba, and Ontario) that did not meet the federal benchmark during the 2021-2022 fuel charge year.

The bulk of the proceeds assessed in 2021-2022 was returned through CAI payments, which were claimed by individuals filing their 2020 personal income tax returns. For example, in Ontario, while $3.49 billion in proceeds was assessed in 2021-2022, $3.05 billion was also returned to residents of Ontario through CAI payments.

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 4. Fuel charge proceeds and return of proceeds in Ontario, Manitoba, Alberta and Saskatchewan in 2021-2022 (carbon pollution price of $40/tonne of CO$_2$e)

<table>
<thead>
<tr>
<th>(millions $)</th>
<th>Ontario</th>
<th>Manitoba</th>
<th>Saskatchewan</th>
<th>Alberta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proceeds assessed</strong></td>
<td>3,487</td>
<td>369</td>
<td>462</td>
<td>1,688</td>
</tr>
<tr>
<td><strong>CAI payments</strong></td>
<td>(3,053)</td>
<td>(342)</td>
<td>(408)</td>
<td>(1,456)</td>
</tr>
<tr>
<td><strong>Adjustment for prior year over/underpayments included in 2021 CAIP</strong></td>
<td>218</td>
<td>16</td>
<td>20</td>
<td>—</td>
</tr>
<tr>
<td><strong>Federal programming</strong>$^1$</td>
<td>(306)</td>
<td>(39)</td>
<td>(90)</td>
<td>(195)</td>
</tr>
<tr>
<td><strong>Net proceeds from 2021-2022</strong></td>
<td>345</td>
<td>5</td>
<td>(57)</td>
<td>36</td>
</tr>
<tr>
<td><strong>Net carry-forward from prior years</strong>$^2$</td>
<td>(91)</td>
<td>(6)</td>
<td>(8)</td>
<td>26</td>
</tr>
<tr>
<td><strong>To be carried forward to 2023 CAI payments</strong>$^3$</td>
<td>254</td>
<td>(1)</td>
<td>(66)</td>
<td>62</td>
</tr>
</tbody>
</table>

Notes: Totals may not add up due to rounding.

1 These amounts for small- and medium-sized businesses, farmers and Indigenous groups are expected to be disbursed through federal mechanisms. The amounts in respect of 2021-2022 include the Return of Fuel Charge Proceeds to Farmers Tax Credit; actual amounts will only be known following the first full year of implementation and will be included in a future report.

2 Net carry-forward amounts are adjustments to prior years’ net amounts, due to late filings for those years, and reassessments pertaining to those years, which affect both fuel charges collected and CAI payment amounts. For Ontario, net carry-forward amounts are -$14 million (2019-20) and -$77 million (2020-2021). For Manitoba, net carry-forward amounts are $0 million (2019-2020) and -$6 million (2020-2021). For Saskatchewan, net carry-forward amounts are -$1 million (2019-2020) and -$7 million (2020-2021). For Alberta, net carry-forward amounts are $2 million (2019-2020) and $24 million (2020-2021).

3 Computed by adding together the net carry-forward amounts for 2021-2022 and the net carry-forward amounts from prior years in each province. These balances were used in the setting of quarterly CAI benefit payments for 2023-2024.
Beginning in 2020-2021, the federal fuel charge no longer applied in New Brunswick, and is therefore not reported in Table 4 above. With respect to the previous fuel charge year (2019-2020), the remaining balance is an over-distribution of $0.12 million, based on financial information as of May 31, 2022 (see Table 5). This negative balance is due to revised financial information reassessments of CAI payments and fuel charge proceeds for the 2019-2020 fuel charge year.

Table 5. Fuel charge proceeds and return of proceeds in New Brunswick, 2019-2020 (revised)

<table>
<thead>
<tr>
<th>(millions $)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds collected</td>
<td>93.07</td>
</tr>
<tr>
<td>CAI payments</td>
<td>(74.42)</td>
</tr>
<tr>
<td>Returned through federal programming</td>
<td>(2.57)</td>
</tr>
<tr>
<td>Returned to Government of New Brunswick</td>
<td>(16.20)</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>0.12</td>
</tr>
</tbody>
</table>

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 6 summarizes proceeds returned through federal programming that are described in detail in section 2.4. 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 6. Total return of 2019-2020 proceeds through federal programming up to March 31, 2022

<table>
<thead>
<tr>
<th>(millions $)</th>
<th>Ontario</th>
<th>Manitoba</th>
<th>Saskatchewan</th>
<th>Alberta</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minister of Environment and Climate Change</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified</td>
<td>148.1</td>
<td>19.1</td>
<td>43.6</td>
<td>0</td>
<td>210.9</td>
</tr>
<tr>
<td>Returned</td>
<td>(69.8)</td>
<td>(6.0)</td>
<td>(16.6)</td>
<td>0</td>
<td>(89.3)</td>
</tr>
<tr>
<td>Outstanding</td>
<td>81.4</td>
<td>13.2</td>
<td>27</td>
<td>0</td>
<td>121.6</td>
</tr>
<tr>
<td><strong>Minister of Natural Resources</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified</td>
<td>6.6</td>
<td>0.3</td>
<td>0.6</td>
<td>0</td>
<td>7.5</td>
</tr>
<tr>
<td>Returned</td>
<td>(6.2)</td>
<td>(0.2)</td>
<td>(0.5)</td>
<td>0</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Outstanding</td>
<td>0.4</td>
<td>0.0</td>
<td>0.1</td>
<td>0</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Minister of Crown-Indigenous Relations</strong>&lt;sup&gt;3&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified</td>
<td>0.5</td>
<td>0.2</td>
<td>0.5</td>
<td>0</td>
<td>1.2</td>
</tr>
<tr>
<td>Returned</td>
<td>(0.5)</td>
<td>(0.2)</td>
<td>(0.5)</td>
<td>0</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Outstanding</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Minister of Indigenous Services</strong>&lt;sup&gt;4&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified</td>
<td>0.0</td>
<td>0.3</td>
<td>1.0</td>
<td>0</td>
<td>1.3</td>
</tr>
<tr>
<td>Returned</td>
<td>0.0</td>
<td>(0.3)</td>
<td>(1.0)</td>
<td>0</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Outstanding</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified</td>
<td>155.2</td>
<td>19.9</td>
<td>45.7</td>
<td>0</td>
<td>220.9</td>
</tr>
<tr>
<td>Returned</td>
<td>(73.5)</td>
<td>(6.7)</td>
<td>(18.6)</td>
<td>0</td>
<td>(98.8)</td>
</tr>
<tr>
<td>Outstanding</td>
<td>81.7</td>
<td>13.2</td>
<td>27.1</td>
<td>0</td>
<td>122.1</td>
</tr>
</tbody>
</table>

Notes: The Returned row indicates total spending that occurred in 2019-2020 and 2020-2021. The Specified row reflects the 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.
Not all 2019-2020 fuel charge proceeds allocated to be returned through federal programming have been returned to jurisdictions (see bottom of Table 6, approximately $122 million). These outstanding proceeds, as well as a portion of those from 2020-2021 onward, will be returned through ECCC’s Fuel Charge Proceeds Return Program (FCPRP) to support small- and medium-sized enterprises in emission-intensive, trade-exposed sectors (see Table 7).

The table below sets out the specified amounts available to be returned to small- and medium-sized businesses through the FCPRP.

**Table 7. Amounts to be returned to small-and medium-sized enterprises through the FCPRP, by jurisdiction (2019-2020 to 2023-2024) ($million)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>n/a</td>
<td>159.2</td>
<td>142.1</td>
<td>179.5</td>
<td>237.4</td>
<td>718.2</td>
</tr>
<tr>
<td>Manitoba</td>
<td>13.2</td>
<td>27.0</td>
<td>22.4</td>
<td>28.3</td>
<td>53.0</td>
<td>143.9</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>28.5</td>
<td>28.5</td>
</tr>
<tr>
<td>Newfoundland and Labrador</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>201.0</td>
<td>20.1</td>
</tr>
<tr>
<td>Ontario</td>
<td>81.4</td>
<td>205.9</td>
<td>239.7</td>
<td>299.9</td>
<td>509.3</td>
<td>1,336.2</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>27.0</td>
<td>64.7</td>
<td>61.9</td>
<td>82.3</td>
<td>64.7</td>
<td>300.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>121.6</strong></td>
<td><strong>456.8</strong></td>
<td><strong>466.1</strong></td>
<td><strong>590.0</strong></td>
<td><strong>917.4</strong></td>
<td><strong>2,551.9</strong></td>
</tr>
</tbody>
</table>

Notes: The table reflects the specification of the Minister of Finance announced on November 22, 2022. Totals may not add up due to rounding.

1 This column includes the remaining 2019-2020 proceeds that have not yet been disbursed through previous federal programming.

In 2020, the Government of Canada committed to return 1% of federal fuel charge proceeds to Indigenous communities in jurisdictions where federal programming is in effect. Environment and Climate Change Canada is currently working with Indigenous partners in Alberta, Manitoba, Ontario, and Saskatchewan to co-develop solutions for returning 1% of proceeds collected from 2020-2021 to 2022-2023. The proceeds will be returned once co-development activities have concluded.

### 2.3.2 Jurisdictions with proceeds returned directly to government

Table 8 summarizes the net fuel charge proceeds assessed and returned to the territorial governments of Yukon and Nunavut for the 2021-2022 fuel charge year.
Table 8. Fuel charge proceeds and return of proceeds in Yukon and Nunavut, 2021-2022 (carbon pollution price of $40/tonne of CO$_2$ e)

<table>
<thead>
<tr>
<th>($ thousands)</th>
<th>Yukon</th>
<th>Nunavut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds assessed</td>
<td>16,417</td>
<td>21,899</td>
</tr>
<tr>
<td>Distributions</td>
<td>(16,417)</td>
<td>(21,899)</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: Amounts of proceeds assessed are based on financial reporting as of May 31, 2022.

2.4 Return of fuel charge proceeds through federal programming

As noted in section 2.3.1, in 2019-2020 and 2020-2021, the Government returned a portion of the direct proceeds from the 2019-2020 federal fuel charge proceeds through federal programming to eligible recipients in Ontario, New Brunswick, Manitoba, and Saskatchewan. Federal programming to return fuel charge proceeds helped these eligible program recipients save money and reduce carbon pollution, drive climate action, support innovation, further the adoption of clean technology, and transition to a low-carbon economy. Final payments of the 2019-2020 fuel charge proceeds were delivered through the following departmental programs in 2021-2022:

- Environment and Climate Change Canada’s Climate Action Incentive Fund
- Natural Resources Canada’s 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 $218 million$^2$ over two years, sourced from 2019-2020 fuel charge proceeds, to be delivered in the eligible backstop jurisdictions of Ontario, New Brunswick, Manitoba, and Saskatchewan.

As of March 31, 2022 approximately $91 million of the adjusted allocation of $213 million was returned through the CAIF to support eligible recipients in adopting clean technologies that help reduce carbon pollution, energy usage and achieve cost savings. Funding authorities for the CAIF ended in 2020-2021 and program recipients had until March 31, 2021 to incur eligible expenses. No further intakes are planned under the CAIF. In 2021-2022, ECCC continued to close out the program, including processing final claims. The majority of program close out was completed in 2021-2022; however, there are some recipient audits that are being conducted and possible future adjustments may be required which relate to open audits and reimbursements for overpayments. As was announced in Budget 2022, all unspent CAIF fuel charge proceeds from 2019-2020 will be returned to jurisdictions of origin through the FCPRP, as noted in section 2.3.1.

Table 9 provides details relating to fuel charge proceeds that were returned through the CAIF as of March 31, 2022, which supported the implementation of approved projects under its two program streams, the Small-and Medium-sized Enterprises (SME) Project Stream and the Municipalities, Universities, Schools, and Hospitals (MUSH) Retrofit Stream.

---

$^2$ This amount was adjusted to $213 million after $5 million was reallocated and returned directly to New Brunswick by the Minister of National Revenue.
Table 9. Return of fuel charge proceeds through the CAIF in 2020-2021 and 2021-2022

<table>
<thead>
<tr>
<th>CAIF stream</th>
<th>Ontario</th>
<th>Saskatchewan</th>
<th>Manitoba</th>
<th>New Brunswick</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Project stream</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed funding</td>
<td>$25.98M</td>
<td>$4.72M</td>
<td>$0.57M</td>
<td>$0.24M</td>
</tr>
<tr>
<td>Number of funding agreements</td>
<td>266</td>
<td>127</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>MUSH Retrofit stream (schools)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed funding</td>
<td>$40.8M</td>
<td>$11.84M</td>
<td>$5.38M</td>
<td>$2.02M</td>
</tr>
<tr>
<td>Number of schools funded</td>
<td>162</td>
<td>132</td>
<td>101</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$66.78M</td>
<td>$16.56M</td>
<td>$5.95M</td>
<td>$2.26M</td>
</tr>
</tbody>
</table>

Notes: CAIF recipients had until March 31, 2021 to incur eligible expenses. The majority of program close-out work was completed in 2021-2022, though future adjustments are expected related to open audits and reimbursements for overpayments.

Small and Medium-sized Enterprises (SME) Project stream

Overall, the CAIF SME Project Stream supported the implementation of 405 projects led by SMEs, resulting in approximately 31,000 tonnes CO₂e of GHG emissions reductions, 465,000 GJ of annual energy savings and $15.4 million of annual energy cost savings. The majority of approved projects were from the agriculture, forestry, fishing and hunting; manufacturing; real estate, rental and leasing; or construction sectors. In total, almost 90% of successful applicants belonged to the small business category.

MUSH Retrofit stream

The MUSH Retrofit stream provided funding to the MUSH sector to help eligible recipients undertake energy efficiency improvements and retrofits to reduce their energy use, energy costs and carbon pollution. Funding under this stream supported energy efficiency projects in schools, through funding agreements with the Government of Ontario, Government of New Brunswick, Government of Saskatchewan and Manitoba School Boards Association. As a result of MUSH Retrofit stream funding, students in approximately 390 schools in Canada are benefitting from cleaner air, better insulation, newer heating and cooling systems, and other energy-efficiency improvements. Projects resulted in approximately 52,000 tonnes CO₂e of GHG emissions reductions, 760,000 GJ of annual energy savings and $10.6 million of annual energy cost savings.

2.4.2 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 four eligible provinces as follows: Ontario ($2,100,000), Saskatchewan ($620,000), Manitoba ($270,000), and New Brunswick ($110,000).
As of March 31, 2022, NRCan has returned over $2 million to fund 21 projects in the 4 jurisdictions involving 18 energy managers and 16 energy and fleet assessments. Due to logistical challenges presented by the COVID-19 pandemic, the program was extended by one year for all project funding to be disbursed by March 31, 2022.

The remaining proceeds not returned through the Energy Manager Program will be returned at a later date to the jurisdictions from which they were collected.

### 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 11,000 persons, as defined in section 3 of the Act, are registered under the program.

During 2021, the CRA enhanced compliance efforts to address high risk issues while maintaining registration compliance and outreach efforts. The goal of the outreach effort continues to be the promotion of early intervention to enhance future compliance, with a focus on new registrants and persons that have fuel-related business activities but are not yet registered. While CRA’s audit activities continued to be restricted in 2021 as a result of challenges presented by the pandemic, the use of virtual meetings and electronic transmission to exchange correspondence allowed for expanded audit coverage of fuel charge accounts.
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 mitigating carbon leakage and adverse competitiveness impacts risks. The system creates a strong financial incentive for all covered industrial facilities to improve their performance and reduce their emissions intensity 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 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 sell, transfer, or hold for future use. 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 pollution 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 reduce the risk of carbon leakage.

3.1.1 Where the OBPS applied in 2022

During 2021, the OBPS applied in the backstop jurisdictions of Manitoba, Ontario, Prince Edward Island, Yukon, Nunavut and partially in Saskatchewan. New Brunswick was removed from Part 2 of Schedule 1 as of January 1, 2021, and Ontario as of January 1, 2022 because they had a carbon pollution pricing system in place that aligned with the benchmark. The OBPS is mandatory for facilities in backstop jurisdictions that are primarily engaged in the industrial activities listed in Schedule 1 to the OBPS Regulations and that emit 50kt or more of CO₂e 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 CO₂e 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 and are then covered by Part 2 of the Act, may apply to be exempted from the fuel charge under Part 1.

As of December 31, 2021, there were 246 facilities registered under the OBPS, which includes 123 mandatory covered facilities and 123 opt in facilities. Of the opt in facilities, 84 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 to 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 OBPS Regulations.

**Figure 2. Number of registered facilities by type as of December 31, 2021**

<table>
<thead>
<tr>
<th>Mandatory Covered Facilities</th>
<th>Voluntary Participation - Part 1</th>
<th>Voluntary Participation - Part 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>123</td>
<td>84</td>
<td>39</td>
</tr>
<tr>
<td>50%</td>
<td>34%</td>
<td>16%</td>
</tr>
</tbody>
</table>

**Regulatory amendments**

On September 1, 2021, the Regulations Amending the Output-Based Pricing System Regulations were published in the Canada Gazette, Part II. These amendments improve clarity and implementation of the OBPS Regulations and prepare the federal OBPS for transitions to provincial carbon pollution pricing systems.

Also on September 1, 2021, the Order Amending Part 2 of Schedule 1 to the Greenhouse Gas Pollution Pricing Act was published in the Canada Gazette, Part II. This Order removes the name of New Brunswick from Part 2 of Schedule 1 to the GGPPA retroactively to January 1, 2021 and of Ontario as of January 1, 2022.

In February 2021, the 2022 Review of the OBPS Regulations was launched with the release of a scoping paper describing the principles and scope for the review. A consultation paper was published in December 2021 to describe and engage stakeholders on ECCC’s key proposed amendments to the OBPS Regulations.
3.1.2 Facility reporting

Compliance with the OBPS Regulations is assessed on the basis of a compliance period. Section 173 of the GGPPA requires persons responsible for mandatory facilities to submit an annual report to the Minister for each compliance period. This annual report includes the OBPS compliance period for mandatory facilities that started on January 1, 2021 and ended on December 31, 2021. 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, 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. Their 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.

Annual reports must be verified by an independent third-party verifier and accompanied by a verification report. 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.

There was a 75% compliance rate by OBPS facilities for reporting by the annual reporting deadline in the first compliance period (2019), 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.

There was an 82% compliance rate by OBPS facilities for reporting by the annual reporting deadline in the second compliance period (2020), based on those received by the regular deadline of June 1, 2021. ECCC engaged with persons responsible for covered facilities to promote compliance with the reporting requirements.

Under section 176 of the GGPPA, if a person responsible for a covered facility becomes aware of an error or omission within five years after submitting an annual report, they must notify the Minister. Under section 62 of the OBPS Regulations, they must then submit a corrected report within 60 days (if the error or omission would not have constituted a material discrepancy if it had been identified during the verification of the annual report) or a corrected report and a verification report within 90 days (if the error or omission would have constituted a material discrepancy).

Section 177 of the GGPPA also gives the Minister the discretionary authority to request a corrected report within five years after the submission of an annual report if he is of the opinion that there is an error or omission. The Minister may also require verification of the corrected report. The OBPS Regulations set out timelines of 60 or 90 days, depending on whether the Minister requests the verification of the corrected report. As of March 31, 2022, the Minister has requested corrections to seven annual reports for the 2019 compliance period, zero reports for the 2020 compliance period and zero for the 2021 compliance period.

---

3 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.
Corrections to reports will result in revisions to OBPS reported statistics over time, including total compensation owed, surplus credits issued, and how compensation is provided.

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, using the on-line Credit and Tracking System (CATS). 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 one compliance unit for each tonne of CO$_2$e emitted in excess of the facility’s annual emissions limit. The regular rate is set at the carbon pollution price for the given year.

If compensation is not provided in full by the regular-rate compensation deadline of December 15, 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. The 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).

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. The regular-rate compensation deadline for the 2020 compliance period was December 15, 2021 and the increased-rate compensation deadline was February 15, 2022. For the 2020 compliance period, the total compensation owed represented 8,526,373 tonnes of CO$_2$e from 199 covered facilities. (Table 12)

Compliance units can include:

- surplus credits,
- eligible offset credits from an existing provincial system (recognized units), or
- federal offset credits (Canada’s Greenhouse Gas Offset Credit System launched June 8, 2022 – further information provided in section 3.1.6).

3.1.4 Surplus credits

In accordance with the GGPPA and the OBPS Regulations, the Minister of the Environment will issue surplus credits, in the department’s on-line 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 2020 compliance period, ECCC issued in January 2021 a total of 1,102,363 CO$_2$e tonnes of surplus credits to 43 covered facilities with the quantity of surplus credits issued per facility ranging from 50 tonnes of CO$_2$e to 169,752 tonnes of CO$_2$e. (Table 11)

---

4 As of January 6, 2023.
5 As of January 6, 2023.
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). 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 and 5 of its 18 protocols, and the British Columbia Greenhouse Gas Emission Offset System.

No recognized units were used as compensation for the 2020 compliance year.

3.1.6 Federal GHG offset credits

Canada’s GHG Offset Credit System encourages cost-effective, voluntary emissions reductions and removals in Canada from activities not covered by legal requirements or carbon pollution pricing. It provides expanded 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.

The GHG Offset Credit System pursuant to Part 2 of GGPPA consists of three 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.

Federal offset protocols set out requirements for project implementation and methods for quantifying the GHG emissions reduced or removed from the atmosphere. Only eligible project activities included in a published federal offset protocol will be able to generate federal offset credits in Canada’s GHG Offset Credit System.

Work to develop federal offset protocols proceeded in parallel, beginning in spring 2021. Two draft protocols were published for a 30-day public consultation period in January 2022, including Landfill Methane Recovery and Destruction and Reducing GHG Emissions from Refrigeration Systems. The Landfill Methane Recovery and Destruction Protocol (final version was published June 2022) will provide opportunities for landfill operators to generate offset credits through the capture and destruction of methane that is not already required. The Reducing GHG Emissions from Refrigeration Systems Protocol provides an incentive to transition away from refrigerants containing hydrofluorocarbons (HFCs) with high global warming potentials (GWPs) in commercial and industrial refrigeration and air conditioning systems.
Once finalized, the federal offset protocols will be listed in the Compendium of Federal Offset Protocols. Other federal offset protocols under development are: Improved Forest Management on Private Lands, Direct Air Carbon Capture and Sequestration, Livestock Feed 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 federal offset protocols and other aspects of Canada’s GHG Offset Credit System.

### 3.1.7 Compensation amounts

The compensation required and received under the OBPS is summarized below for each compliance period. For the 2019 and 2020 compliance periods, more than 90% of compensation was provided in the form of excess emissions charge (EEC) payments. The amount of surplus credits used for compensation was only 3% for the first compliance period of the OBPS but tripled to 9% for the 2020 compliance period.

**Table 10. Compensation received under the OBPS during a given compliance period**

<table>
<thead>
<tr>
<th>Compliance period</th>
<th>Total emissions reported (CO₂ e Mt)</th>
<th>Excess emissions (CO₂ e Mt)</th>
<th>Surplus credits issued (CO₂ e Mt)</th>
<th>Compensation as EEC payments (CO₂ e Mt)</th>
<th>Compensation by surplus credits (CO₂ e Mt)</th>
<th>Compensation by recognized units (CO₂ e Mt)</th>
<th>Compensation by Federal GHG Offset Credits (CO₂ e Mt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>62.29</td>
<td>8.429</td>
<td>0.909</td>
<td>8.180 (97%)</td>
<td>0.249 (3%)</td>
<td>0 (0%)</td>
<td>—</td>
</tr>
<tr>
<td>2020</td>
<td>56.50</td>
<td>8.526</td>
<td>1.102</td>
<td>7.786 (91%)</td>
<td>0.741 (9%)</td>
<td>0 (0%)</td>
<td>—</td>
</tr>
</tbody>
</table>

### 3.2 OBPS proceeds and return of proceeds

The Government of Canada has committed to returning all proceeds collected under the federal carbon pollution pricing system, including the federal OBPS, back to the jurisdictions of origin. As was first announced in Canada’s December 2020 strengthened climate plan, *A Healthy Environment and a Healthy Economy*, proceeds collected under the federal OBPS are to be returned to jurisdictions to support the implementation of industrial projects, clean technologies and processes that reduce emissions in industrial sectors.

The amount of proceeds received by the federal government in excess emissions charge payments under the OBPS for the 2019 and 2020 compliance periods was approximately $164 million⁷ and $236 million⁸ respectively.

---

⁶ As of January 6, 2023.
⁷ As of January 6, 2023.
⁸ As of January 6, 2023.
Table 11. Proceeds collected from payments of the EEC\(^9\)

<table>
<thead>
<tr>
<th>Compliance period</th>
<th>EEC rate</th>
<th>EEC payments at regular rate</th>
<th>EEC payments at Increased Rate (4x regular rate)</th>
<th>Total EEC payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$20/CO_2e$ tonne</td>
<td>$164$ million</td>
<td>—</td>
<td>$164$ million</td>
</tr>
<tr>
<td>2020</td>
<td>$30/CO_2e$ tonne</td>
<td>$232$ million</td>
<td>$4$ million</td>
<td>$236$ million</td>
</tr>
</tbody>
</table>

Notes: Numbers are rounded to the nearest million.

Throughout 2021-2022, the federal government engaged with industry stakeholders and with provinces and territories on the approach to return the proceeds collected under the OBPS to jurisdictions of origin.

On February 14, 2022, the Minister of Environment and Climate Change announced the launch of the new Output-Based Pricing System (OBPS) Proceeds Fund. The OBPS Proceeds Fund is comprised of two program streams: the Decarbonization Incentive Program (DIP) and the Future Electricity Fund (FEF).

The DIP is a merit-based application program that incentivizes the long-term decarbonization of Canada’s industrial sectors by supporting clean technology projects that result in material GHG emissions reductions within most facilities regulated by the OBPS.

The FEF stream is designed to support clean electricity projects and/or programs. Proceeds collected from OBPS covered electricity generating facilities (i.e., utilities) are expected to be returned through funding agreements with governments of backstop jurisdictions. An open call for project proposals is not anticipated under the FEF.

With a focus on industrial decarbonization and clean energy production, the OBPS Proceeds Fund as a whole supports making Canada’s heavy industries cleaner and more efficient as it transitions to a low-carbon economy. Approximately $161.1 million collected from the OBPS for the 2019 compliance period, as well as approximately $230.9 million collected for the 2020 compliance period, are being returned through the new OBPS Proceeds Fund. The amount of proceeds generated under the federal OBPS, and subsequently available through the OBPS Proceeds Fund, will fluctuate over time, and are dependent upon a number of factors, including:

- jurisdictions exiting the federal system by establishing a similar pricing regime;
- how many eligible facilities within backstop jurisdictions opt to voluntarily participate in the system;
- how facilities react to the price signal; and
- which compensation mechanisms regulatees choose.

The following table shows the estimated funding available in each OBPS backstop jurisdiction based on proceeds collected from the 2019 and 2020 compliance years.

\(^9\) As of January 6, 2023.
Table 12. Funding available to OBPS backstop jurisdictions based on proceeds collected

<table>
<thead>
<tr>
<th>Province</th>
<th>Estimated Funding Available (in millions) for 2019</th>
<th>Estimated Funding Available (in millions) for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manitoba</td>
<td>$5.1</td>
<td>$7.0</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>$2.7</td>
<td>$3.1</td>
</tr>
<tr>
<td>Ontario</td>
<td>$68.1</td>
<td>$97.8</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>$6.9</td>
<td>$6.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Province</th>
<th>Estimated Funding Available (in millions) for 2019</th>
<th>Estimated Funding Available (in millions) for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manitoba</td>
<td>$0.3</td>
<td>$0.2</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>$5.9</td>
<td>$14.2</td>
</tr>
<tr>
<td>Ontario</td>
<td>$17.0</td>
<td>$19.9</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>$56.3</td>
<td>$84.9</td>
</tr>
</tbody>
</table>

Notes: Proceeds collected and reported for any given compliance year are subject to change and may be adjusted to allow for the correction of reporting errors under the OBPS (if any).

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

In 2021, ECCC updated relevant web pages and directly emailed regulated entities regarding:

- the launch of the CATS and process for registration;
- compensation deadlines for both the 2019 and 2020 compliance periods;
- the opening of the reporting module for the 2020 compliance period in ECCC’s Single Window System (spring);
- the 2020 compliance period reporting deadline;
- deadlines and processes related to the use of Alberta offset emission credits as recognized units;

10 As of November 15, 2022.
In addition to website and email outreach, ECCC contacted specific regulated entities directly by phone regarding the impact of standing down the federal OBPS on surplus credit validity.

3.3.2 Enforcement activities
For the time period covered by this report, no enforcement activities were conducted. In 2021, Enforcement Branch designated and trained enforcement officers under GGPPA.

4. ADDITIONAL INFORMATION
For more information about GGPPA, please contact:

Environment and Climate Change Canada
Ottawa, ON K1A 0H3
Email: tarificationducarbone-carbonpricing@ec.gc.ca