DOSSIER: Canadian federal, provincial, and territorial carbon pricing initiatives

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On Oct. 23, 2018, the Canadian federal government announced which provinces and territories submitted carbon pricing plans that comply with Ottawa's pan-Canadian Framework and those who would face either a full or partial imposition of the 'backstop' pricing plan. The following is a summary of all the carbon pricing actions currently implemented or set forth by Canadian provinces, territories, and the federal government.

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FEDERAL 'BACKSTOP'

As part of the Pan-Canadian Framework on Clean Growth and Climate Change crafted between Prime Minister Justin Trudeau's Liberal government and the provinces and territories (minus Saskatchewan) in 2016, jurisdictions were required to develop economy-wide carbon pricing plans of sufficient stringency, a plan codified in the 2018 Greenhouse Gas Pollution Pricing Act (GGPPA). Otherwise, they would be subject to Ottawa's 'backstop' CO2 pricing strategy, consisting of a rising carbon levy on fossil fuels and an output-based pricing system (OBPS) for large industrial and power sector emitters.

Jurisdictions were given until Sep. 1, 2018 to submit plans to the federal government to comply with the pan-Canadian mandate, otherwise they would be subjected to the backstop either in full or in part. On Oct. 23, 2018, the Trudeau administration announced which provinces and territories had met the requirements and those that did not, with further alterations implemented in Dec. 2019. They are as follows:

- Full implementation of backstop:
  Ontario, Manitoba, Nunavut, Yukon
- Partial implementation of backstop:
  - Alberta: CO2 levy
  - New Brunswick: full OBPS coverage
  - Prince Edward Island: full OBPS coverage
  - Saskatchewan: CO2 levy and partial OBPS coverage
- Jurisdictional carbon pricing schemes approved by Ottawa:
  - Alberta: Technology Innovation and Emission Reduction (TIER) regime
  - British Columbia: CO2 tax and CleanBC Program for Industry
  - New Brunswick: CO2 tax
  - Newfoundland and Labrador: CO2 tax and OBPS
  - Northwest Territories: CO2 tax and dividend programme
  - Nova Scotia: independent carbon market
  - Prince Edward Island: CO2 tax
  - Quebec: WCI-linked carbon market
  - Saskatchewan: Emissions Performance Standard for all sectors except electricity generation and natural gas transmissions pipelines, which are covered by the federal OBPS

Details of the backstop carbon pricing plan:

CO2 levy

- Carbon levy on fossil fuels including gasoline, diesel, natural gas, coal, and more
- The carbon tax rate started at C$20/tonne on Apr. 1, 2019 in Ontario, Saskatchewan, Manitoba, and New Brunswick, and on July 1 in Nunavut and Yukon. The rate as of Apr. 1, 2020 stands at C$30, and will rise by C$10 annually until hitting C$50 in 2022.
  - The C$30/tonne price amounts to a cost of 6.6 cents/litre on gasoline, 8.1 cents/L on diesel, and 5.9 cents/cubic metre on marketable natural gas.
  - Previous Canadian environment minister Catherine McKenna said that subsequent rises in the carbon tax price after 2022 would be subject to further negotiations

        - Keeping with the revenue-neutral tax structure, all proceeds from the carbon levy are returned to residents in the jurisdiction of origin. Individuals receive the full amount of the "Climate Action Incentive" payment for the year after filing their tax returns.
            - The federal government has estimated that a family of four in Ontario in 2020 (claimed through 2019 income tax returns) will receive C$448 through the Climate Action Incentive payment
            - Residents of small communities and rural areas can claim a supplementary amount equal to 10% of this baseline amount, in recognition of their specific needs.
        - Due to their remote location, harsh climate, and reliance on fossil fuels, the territories of Nunavut and Yukon receive a number of exemptions from the carbon levy. Here, the CO2 price does not apply to aviation fuel on intra-jurisdictional flights, diesel and natural gas for electricity generation in remote areas, and gasoline and diesel used in fishing activities and vessels. All proceeds from the federal carbon price for the territories are returned to their jurisdictional governments.

OBPS

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    - Entities covered by the OBPS are eligible to receive an exemption certificate from the Canada Revenue Agency regarding the fuel levy component of the backstop.
    - Threshold
        - Applies to facilities with over 50,000 tonnes of CO2e in annual output on a mandatory basis, based on emissions from 2014 or later. The scheme also allows facilities with over 10,000 tonnes of emissions that are either covered under an existing output-based standard (OBS) or emissions-intensive and trade-exposed (EITE) to opt in to the system.
        - Recently commissioned, expanded, or retrofitted facilities in backstop jurisdictions with emissions currently under 10,000 tonnes can also opt in if they forecast GHGs will exceed that mark within three years.
    - According to the federal government's estimates, some 290 facilities are expected to be covered by the OBPS across seven jurisdictions.
    - That accounts for 27% of emissions regulated by the federal carbon pricing scheme, and 10% of Canada's total emissions, according to Environment and Climate Change Canada (ECCC)

        The large emitter trading system is expected to reduce emissions by 3.6 Mt in 2022, compared to 5.7 Mt if regulated entities were instead subject to the fuel levy component of the backstop carbon price.
    - Output-based standards
        - The final OBPS regulations lay out nearly 80 output-based standards for almost 30 sectors and sub-sectors.
        - The OBS for most industrial activities is set at 80% of a sector-specific standard, meaning entities must pay the carbon price on the 20% of their emissions that exceeds the industry production benchmark. However, more lenient benchmarks are given to the following industries:
            - The EITE sectors of iron and steel manufacturing, petrochemicals, and nitrogen fertilising are given industry production benchmarks of 90%, while cement and lime manufacturing are given a GHG reduction factor for their OBS of 95%
            - Sectors that have over 30% of their GHG output stemming from process emissions receive an OBS of 90%, while those that were already set at 90% prior to June 2019 will see theirs' bumped to 95%
        - For electricity generation, the following benchmarks apply based on fuel type:
            - Solid fuels (coal): Declining standard of 800 tCO2e/GWh in 2019 to 370 tCO2e/GWh in 2030
            - Liquid fuels (oil): Flat standard of 550 tCO2e/GWh through 2030
            - Gaseous fuels (natural gas):
                - For plants built and operating prior to 2021, a flat standard of 370 tCO2e/GWh
                - For plants built and operating after Jan. 1, 2021, with a generation capacity of 50 MW or greater, and a thermal energy to electricity ratio of less than 0.9, a linearly declining standard of 370 tCO2e/GWh in 2021 to zero tCO2e/GWh in 2030

- Compliance Options
  Under the OBPS, emitters have several options to comply with the programme
  - Lower their emissions beneath the assigned OBS
  - Pay an excess emissions charge in line with the yearly 'backstop' carbon price rate, which rises annually by C$10/tonne through 2022 from C$20/tonne in 2019. The rate is C$30/tonne for 2020 compliance.
    Regulated entities must pay the excess emissions charge for a minimum of 25% of their excess output beginning in 2022
  - Surrender tradable, bankable surplus credits for meeting their industry production benchmarks
    Surplus credits may be banked up to five years from the calendar year in which they were generated
  - Utilise offsets
    - The federal government released a white paper in June 2019 as it undertakes consultation on the development of a federal offset system, with draft regulations targeted for spring 2020. All offset projects must have started no earlier than Jan. 1, 2017, and aggregated projects may be considered.
    - The Canadian Council of Environmental Ministers (CCME) in Oct. 2019 also released the Pan-Canadian Greenhouse Gas Offsets Framework. While it is a non-binding document, it provides several guidelines on encouraging programme harmonisation and credit fungibility.
    - ECCC is also working on a list of eligible provincial offset protocols and programmes that to generate credits under the 'recognised unit' category of OBPS compliance options. Ottawa has stated a preference for offsets from the agriculture, waste, and land-use, land-use change, and forestry sectors.
    - Federal offsets and recognised units may be banked up to eight years after the calendar year in which they were generated
- Compliance Deadline and Coronavirus Impact
  - A true-up deadline is imposed for Dec. 15 in the year following a compliance period (e.g. Dec. 15, 2020 deadline for 2019 compliance)
    If that deadline is missed, compensation is due at an increased rate of 4:1 by Feb. 15 of the second year following the compliance period.
  - However, ECCC announced in Apr. 2020 that it will seek to move the true-up date for 2019 compliance to Apr. 15, 2021 and the increased rate deadline to June 15, 2021 to account for the impacts of the COVID-19 pandemic.
    The federal government also postponed the the cut-off date to submit verified emissions reports for 2019 compliance to Oct. 1, 2020 from June 1.
- Revenue
  ECCC in June 2019 asked for feedback on how to use the revenue raised by the OBPS.
- Supply-Demand Balance
  Toronto-based analysts ClearBlue Markets in Oct. 2019 estimated the federal OBPS would face a 7.3 mln-tonne shortfall in its inaugural year in 2019. Additionally, ClearBlue predicted emitters would only be short 4.9 Mt in 2022.

- **Provincial Lawsuits**
  - The conservative-led provinces of Saskatchewan, Ontario, Alberta, and Manitoba have all filed various challenges to the federal government's legal ability to impose the backstop CO2 pricing regime on jurisdictions that do not have plans that meet Ottawa's minimum pricing and coverage standards. The results of those cases so far include:
    - May 2019: The Saskatchewan Court of Appeal ruled by a 3-2 margin that Parliament has the authority under the "Peace, Order, and Good Government" (POGG) provision of the Canadian Constitution to establish minimum national standards of price stringency for GHG emissions.
    - June 2019: The Ontario Court of Appeal issued a 4-1 decision that upheld the POGG provision and also ruled the federal government may adopt "minimum national standards to reduce GHG emissions", an argument put forth in the Saskatchewan and Ontario lawsuits by representatives for British Columbia's attorney general.
    - Feb. 2020: Bucking the two previous rulings, the Alberta Court of Appeal by a 4-1 margin said the federal government does not have the Constitutional authority to implement its CO2 levy or OBPS on provinces through the POGG provision, as the carbon pricing plan would give Ottawa the authority to intrude into every aspect of Canadians' lives.
  - Saskatchewan and Ontario subsequently appealed their cases to the Supreme Court of Canada, which will also provide clarity for Alberta's path moving forward.
    However, the coronavirus pandemic caused the nation's highest court to postpone oral arguments originally scheduled for March to Sep. 2020.

ALBERTA

Type of Carbon Pricing
Backstop CO2 levy:

- After winning a parliamentary majority in May 2019, Alberta United Conservative Party (UCP) Premier Jason Kenney eliminated his NDP predecessor's C$30/t carbon tax on diesel, gasoline, natural gas, and propane for heating and transportation
- In response, Ottawa imposed its backstop carbon levy of C$20/t on the province beginning Jan. 1, 2020, rising to C$30 on Apr. 1 in line with the scheduled federal rate increase.

Technology Innovation and Emission Reduction (TIER) regime

- The Alberta UCP in Mar. 2019 proposed to overhaul the NDP's previous large emitter programme, the Carbon Competitiveness Incentive Regulation (CCIR), into the TIER regime after winning the provincial election. In Dec. 2019, the federal government accepted the TIER programme for 2020 operation under the GGPPA.
    - Although the Alberta government initially said it would look to "negotiate" future carbon price increases under the TIER regime with the federal government, Kenney revealed in Mar. 2020 that the provincial policy's excess emissions charge will rise in line with Ottawa's 'backstop' rate through 2022. The rate for 2020 compliance is C$30/tonne.
- The TIER programme applies to industrial facilities and power generators with annual emissions exceeding 100,000 tCO2e, with opt-ins for facilities releasing over 10,000 Mt that compete with mandatory regulated facilities, or that are emissions-intensive, trade-exposed (EITE).
        - By opting in to TIER, those facilities avoid paying the C$30/tonne 'backstop' fuel levy imposed by Ottawa.
- Benchmark methodology:
    - Electricity:
        - "Good as best gas" output-based standard of 370 tCO2e/GWh, the same as CCIR
            - Analysts have viewed Alberta's electricity sector approach as more stringent than the backstop OBPS, which assigns weaker standards to coal and oil-based generation.
    - Industrials
        - The less stringent of either facility-performance benchmarks or high-performance benchmarks, which are both based on 2013-2015 emission levels.
        - The facility-based benchmarks in 2020 start at a 10% GHG reduction below the three-year rolling average, and tighten annually by one percentage point through 2030, while the high-performance benchmarks remain static at the average emissions intensity of the top 10% performing facilities located in Alberta.
            - Economists have warned the facility-based benchmarks would provide "windfall benefits" to dirtier firms by incentivising the production of high-emitting new facilities. Both benchmarks for industry have been viewed by environmental groups as less stringent than the sector-based standards of the federal OBPS, which was largely based on the production-based benchmarks of the CCIR.
            - Previously, the CCIR set standards for oil sands in-situ and mining of "top-quartile performance or better", while all industries were subject to benchmarks of 80% of production-weighted average emissions intensity, with some exceptions.
- Compliance options/coronavirus impact
    - Reducing emissions below the assigned benchmark
    - Fund credit, priced at the excess emissions rate of C$30/tonne
        - The first C$100 mln in TIER monies and remaining 50% of revenues is used for technologies to improve oil sands extraction and carbon capture, utilisation, and storage (CCUS).
        - A further C$20 mln of TIER revenues supports the establishment of the Canadian Energy Centre corporation, previously known as the UCP's 'energy war room', which sets out "a proactive and assertive strategy in defending our critical energy industry".
    - Emissions performance credits (EPCs) earned from reducing GHG output below assigned benchmarks
    - Provincially generated offsets
        - Adhering to rules adopted by the NDP, emitters are allowed to surrender offsets or EPCs against 55% of their emissions for 2019 CCIR compliance and 60% for 2020 TIER compliance
        - 15% of surrendered EPCs or offsets for the 2019 CCIR true-up date can be "new" ones, meaning those that have been issued since 2017, with the remaining 40% coming from either new units or "old" pre-2017 ones
        - The usage limits then rise annually as follows:
            - 2020 and 2021: 20% new/40% new or old (60% total)
            - 2022 onwards: 60% new
        - Credits from 2014 and earlier will expire after 2020 compliance deadline, while those from 2015 and 2016 will expire after 2021 compliance. New credits from 2017 and after will expire after eight years
        - Alberta emitters under the CCIR turned in 8 Mt worth of offsets against their compliance obligations of 29.7 Mt in 2018, government data showed. The Ministry of Environment and Parks projected similar usage for the 2019 compliance year.
    - Due to the coronavirus pandemic, Alberta environment minister Jason Nixon in Mar. 2020 moved back the final CCIR compliance deadline to June 30 from Mar. 31. That aligns with the yearly true-up date for TIER compliance beginning in 2021.

GHG Cap/Emissions Target

- Although there is no overall GHG target for Alberta, the NDP government set supplementary targets to reduce methane emissions by 45% from 2014 levels by 2045, and cap on oil-sands emissions at 100 Mt a year starting in 2017. However, those goals are not legislated, and the UCP has not chosen not to install that goal into law.
- Alberta's GHG output held steady at 273 Mt in 2018, accounting for 37% of Canada's overall total, according to the country's National Inventory Report. The province's emissions have also increased 18% since 2005.

Approval Status/Lawsuit

While the federal government has accepted the TIER programme under the GGPPA, the province has challenged Ottawa's imposition of the 'backstop' carbon levy on the province.

- In Feb. 2020, the Alberta Court of Appeal ruled 4-1 that the federal government does not have the Constitutional authority to implement its carbon pricing programme in subnational jurisdictions. That decision marked the only time a province has won its case against the GGPPA, with Saskatchewan and Ontario both losing their challenges in their respective courts of appeal.
- Alberta subsequently moved to have greater standing in Saskatchewan and Ontario's appeal of their cases before the Supreme Court of Canada. However, the coronavirus pandemic has suspended oral arguments on the case, originally scheduled for Mar. 2020, until June or later.

BRITISH COLUMBIA (BC)

- **Type of Carbon Pricing**
  - Carbon Tax
    - C$40/tonne, covering the purchase and use of fossil fuels in 70% of the economy. After the previous Liberal government froze the tax at C$30 in 2012, the new NDP-Green coalition raised the tax to C$35 in Apr. 2018.
    - While the rate was scheduled to increase to C$45/tonne in Apr. 2020, the coronavirus pandemic led the province to postpone that move. A decision on how to proceed will be made by Sep. 30, 2020.
    - Prior to that move, BC had sought to increase the price by C$5/year until hitting C$50 in 2021, one year before the federal CO2 levy will attain that mark.
  - CleanBC Program for Industry

    This policy directs a portion of the CO2 tax paid by regulated large industrial operators such as pulp and paper mills, natural gas operations, refineries, and large mines above C$30/tonne into incentives for cleaner operations. It consists of two parts:
    - CleanBC Industrial Incentive Program (CIIP)
      - Since the 2018 transition year, the CIIP has set initial output-based standards at 75% of an economic sector's average emissions intensity, with the standard only applying to price increases beyond C$30/tonne.

        The benchmark coverage translates into BC industrial and electricity sector emitters paying the CIIP's C$30/tonne excess emissions charge on greater than 25% of their GHG output, stronger than the federal backstop OBPS or provincial alternatives.
      - By the May 31, 2020 reporting deadline for 2019 emissions, the BC Ministry of Environment has said permanent benchmarks will be in place that consider assessments of world-leading emission performance for a given product or activity. The agency will also set an eligibility threshold for each product or activity.
    - CleanBC Industry Fund

      Invests a portion of carbon tax revenues into businesses working on innovative projects to reduce industrial emissions. More than C$12 million in funding has been committed to the programme in its first year with initial projects identified and underway.
- **GHG Target/Emissions Cap**
  - As laid out by 2019 updates to the province's Climate Change Accountability Act, the BC environment minister by Dec. 31, 2020 must set an interim GHG target for a year prior to 2030. The minister must also set interim targets for individual sectors by Mar. 31, 2021, and review those goals by 2025 and at least every five years thereafter. The other goals are:
    - 40% below 2007 levels by 2030
    - 60% below 2007 levels by 2040
    - 80% below 2007 levels by 2050
  - The province's emissions totalled 66 Mt in 2018, or 5.6% above 2005 levels, according to Canada's National Inventory Report.

Review

- In Aug. 2019, British Columbia's cross-party Select Standing Committee on Finance and Government Services recommended that the legislature should review the carbon price as part of comprehensive evaluation of the province's taxation system.
- The government will also decide by Sep. 30, 2020 on next steps for increasing the carbon tax, after freezing the scheduled increase at C$40/tonne in March to blunt the impacts from the coronavirus fallout.

Approval Status

In Oct. 2018, the federal government announced that BC's carbon pricing programme complies with Ottawa's requirement under the pan-Canadian Framework

MANITOBA

Type of Carbon Pricing

Full implementation of federal backstop

- Carbon Tax

  C$30 fuel levy rate as of Apr. 1, 2020, rising by C$10 annually until reaching C$50 in 2022.

- OBPS

  Output-based pricing system for entities with emissions over 50,000 tonnes/yr since Jan. 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt in over time.

Background/Coronavirus Impact

- Originally, Manitoba proposed a flat C$25/tonne tax on fossil fuels, with exemptions from fuels used in farm operations. However, according to former Canadian Environment Minister Catherine McKenna, Manitoba would comply with the pan-Canadian Framework during the first year of operation, but the province would "need to up their game" in 2020 when the federal carbon tax rate rises to C$30 from C$20. Instead, Manitoba's programme would stay flat at the C$25 rate.
- In response, Progressive Conservative Premier Brian Pallister made a surprise announcement on Oct. 3, 2018 that the province would scrap its planned carbon tax and OBPS, after failing to get assurances from Ottawa that it wouldn't impose an escalating tax in line with the pan-Canadian Framework.
- Then in a subsequent about face, Pallister revealed in Mar. 2020 that Manitoba would resurrect its shelved plan for a flat C$25 CO2 levy and OBPS after all starting July 1, even though new Canadian Environment Minister Jonathan Wilkinson told Carbon Pulse at the time that the federal government had not received a formal proposal from the province.

  However, the COVID-19 pandemic led Pallister weeks later to once again scrap the carbon pricing plan, saying the province may revisit it in 2021.

Emissions Cap/GHG Target

- Manitoba signed up to the Western Climate Initiative (WCI) in 2007, informally adopting the scheme's objective of reducing emissions by 15% below 2005 levels by 2020

  The former NDP government in 2015 also set GHG targets, based on a 2005 baseline, of a 33% reduction by 2030, 50% by 2050, and carbon neutrality by 2080
- Manitoba's emissions reached 22 Mt in 2018, or 8.3% above 2005 levels, according to Canada's National Inventory Report.

Approval Status/Lawsuit

- In Oct. 2018, the federal government announced Manitoba would face full implementation of the backstop plan.
- Pallister in Apr. 2019 also announced that the province would pursue a legal challenge against Ottawa's imposition of the backstop CO2 levy and OBPS.

NEW BRUNSWICK

- **Type of Carbon Pricing**

  Partial implementation of federal backstop

  - Carbon Tax
    - New Brunswick was regulated by the Ottawa's backstop C$20 fuel levy from Apr. 2019 – Mar. 2020.
    - However, in Dec. 2019 the federal government accepted Progressive Conservative Premier Blaine Higgs' proposal for New Brunswick to implement a C$30/tonne carbon tax from Apr. 2020, with other measures designed to blunt the cost of the levy on ratepayers.
      - By lowering provincial gasoline excise taxes by 4.6 cents/L and diesel taxes by 6.1 cents, New Brunswickers will only pay an effective carbon price of 2 cents/L on those products, even at the C$30/tonne rate. Environment Minister Jeff Carr has also said the province will continue dropping the excise taxes in future years to keep the effective carbon price on gasoline and diesel at 2 cents/L.
      - The New Brunswick government will also invest C$9 mln in a funding mechanism for the province's natural gas distributor Liberty Utilities. Carr said the provision is designed to completely credit residential customers' natural gas costs from the CO2 tax. Experts have expressed surprise that ECCC accepted the natural gas provision.
  - OBPS

    Output-based pricing system for entities with emissions over 50,000 tonnes/yr since Jan. 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt-in over time.
- **Emissions Cap/GHG Target**

  - After taking office in 2018, the Higgs government endorsed the previous New Brunswick Liberals' 2016 Climate Change Action Plan, which calls for the GHG reduction targets laid out in the Climate Change Act.
    - 14.8 Mt by 2020
    - 10.7 Mt by 2030
    - 5 Mt by 2050
  - The province's emissions totalled 13 Mt in 2018, a 34% drop below 2005 levels, according to Canada's National Inventory Report.

Alternative Plan

- In June 2019, New Brunswick proposed its own weaker OBPS-style programme as an alternative to the federal backstop.
  - Under the New Brunswick plan, large electricity and industrial installations emitting more than 50,000 tonnes of CO2e annually would reduce their GHG intensity by 10% below their 2015-2017 average by 2030.
  - However, the scheme would feature facility-level benchmarks for industry, different than the sector-level standards under the backstop OBPS, along with weaker output-based standards for electricity generation than the federal programme.
- Ottawa has not yet revealed a decision on the eligibility of New Brunswick's OBPS proposal.

Approval Status/Lawsuit

- On Oct. 23, 2018, the federal government announced New Brunswick would face full implementation of the backstop plan. However, Ottawa accepted the province's CO2 levy strategy in Dec. 2019, which took effect at a nominal rate of C$30/tonne in Apr. 2020.
- New Brunswick in July 2019 dropped its plan to sue the federal government over the GGPPA, following the failure of Ontario and Saskatchewan to successfully argue their similar challenges.

NEWFOUNDLAND AND LABRADOR (NL)

- **Type of Carbon Pricing**
  - Made-in-Newfoundland Carbon Tax

    C$20 on fossil fuels beginning Jan. 1, 2019, with a corresponding 4 cent temporary gas tax and additional 5 cent additional gas tax on diesel phased out as a result.
      - However, the rate will only increase on gasoline and diesel beyond 2019 if fuel taxes increase in all four Atlantic provinces.

        New Brunswick and Prince Edward Island both dropped their fuel excise taxes to make the carbon taxes' effective rate 2 cents/L in 2020, while prices in Nova Scotia will be determined by the allowance settlement prices at upcoming quarterly auctions, inflation, and other factors as determined by the Petroleum Products Pricing Regulations.
      - Exemptions to the NL carbon tax apply to home heating fuels, off-grid diesel electricity, aviation fuel, interprovincial marine transportation, agriculture, fishing, forestry, municipalities, and methane gas from venting and fugitive emissions from the oil and gas sector
      - The provincial Liberal government has said it reserves the right to revoke its plan if any other Canadian jurisdiction successfully gets out of carbon pricing, alluding to the ongoing lawsuits filed by Ontario, Saskatchewan, and Alberta against the federal backstop plan.
  - Made-in-Newfoundland large industry performance standards
    - Applies to large industrial facilities and large-scale electricity generation that emit more than 25,000 tCO2e per year, with the government exploring an opt-in provision for facilities between 15,000 and 25,000 tonnes annually.
    - Benchmark methodology
      - Onshore facilities will be assigned an annual GHG reduction target equal to 6% below their 2016-2017 historical average emissions-to-output ratio for 2019, rising by 2% each year based on a ratio for the 2016-2018 period.
      - Offshore facilities will be assigned the same percentage reductions to their average emissions level, excluding federally regulated emissions from methane venting and facilities.
      - Industrial facilities will also have the option of using an industry-wide performance benchmark where available instead of the historical emissions approach.
    - Compliance options
      - Reducing emissions below the assigned benchmarks.
      - Greenhouse Gas Reduction Fund credits, which would be priced at the federal carbon tax rate.
      - Performance credits for reducing emissions below the assigned threshold, which are bankable, tradable, and priced at a market rate.
      - Offsets could be used for compliance after 2019, with the NL government to undertake the development of its own offsets system post-2019.
        - Under the plan, GHG Reduction Fund credits purchased by a facility, except for performance credits generated in-house, cannot be used to meet more than 90% of its GHG obligation in 2020. The rate would decline 5% annually to 85% in 2021 and 80% in 2022.
        - Facilities that fail to comply must fulfill their remaining obligation at a rate equal to four times the federal carbon price.
- **Emissions Cap/GHG Target**
  - NL has an existing emissions reduction goal of 10% below 1990 levels by 2020, and the government predicted the Made-in-Newfoundland and Labrador Plan will yield direct on-site GHG reductions of up to 1.7 MtCO2e below BAU between 2019 and 2030.
  - The province emitted 10 Mt in 2018, according to Canada's National Inventory Report.

Approval Status

In Oct. 2018, the federal government announced the Made-in-Newfoundland and Labrador Plan complied with the pan-Canadian Framework.

NORTHWEST TERRITORIES (NWT)

- **Type of Carbon Pricing**
  Carbon Tax
  - C$20 tax on carbon-based fuels began Sep. 2019, rising in line with the pan-Canadian Framework to C$50 in 2022.
  - Numerous exemptions and rebates apply to shield residents of the territory, who are disproportionately reliant on fossil fuels due to the jurisdiction's remote location and harsh climate. These include:
    - Full exemption for aviation fuel (applied to all three of Canada's territories)
    - Rebates for all NWT residents and businesses emitting under 50,000 Mt per year, and government operations of up to 100% of the carbon tax charges at the point of purchase, except for gasoline
    - A separate rebate programme for emitters over the 50,000 Mt threshold will refund 75% of the tax collected on non-motive diesel and heating fuel, while the remaining 25% will be held in individualised trust accounts for investments in emissions reductions
    - The Northwest Territories Power Corporation will receive an annual rebate for non-motive diesel purchased for electricity production
    - A new Cost of Living Offset (COLO) to provide yearly rebates of up to C$260 for each adult, C$300 for each child in the territory
- **Emissions Cap/GHG Target**
  - None, though a previous ECCC study concluded the similarly-priced federal backstop scheme would lower the NWT's BAU emissions by 3.4 Mt.
  - The province emitted 1.2 Mt of Canada's total GHG output in 2018, according to Canada's National Inventory Report.

Approval Status
In Oct. 2018, Ottawa announced NWT's plan complies with the pan-Canadian Framework.

NOVA SCOTIA

- **Type of Carbon Pricing**
  Cap-and-trade programme with no linkages, which began in 2019.
    - Covering 26 entities in the province with:
      - Annual emissions over 50,000 tCO_2e, double the threshold of Quebec's WCI-linked ETS
      - Petroleum product suppliers that first place or produce 200 litres of fuel or more per year for consumption into the Nova Scotia market
      - Natural gas distributors that deliver gas for consumption in Nova Scotia that when combusted, produces 10,000 tCO_2e or more of emissions annually
      - Electricity importers with 10,000 tCO_2e or more emissions per year

- Programme design
    - Although the province had initially intended to distribute all allowances for free, a move that both environmental critics and market stakeholders panned, Nova Scotia Environment announced in Oct. 2018 that it would conduct between two and four auctions per year. For 2020, those sales will take place on June 10 and Dec. 2, with the first offering 640,000 allowances.
        - A floor price of C$20 is in place for 2020, which rises by 5% annually plus inflation.
        - For those auctions, the following limitations apply:
            - Fuel suppliers: purchase limit of no more than 15% of their prior year's verified GHG report per auction, and no more than 25% of their prior year's verified GHG report per calendar year
            - Facilities emitting greater than 50,000 tCO2e: purchase limit of no more than 3% of their prior year's verified GHG report per auction, and no more than 25% of their prior year's verified GHG report per calendar year
            - Nova Scotia Power: purchasing limit of no more than 5% of the emission allowances available at each sale
    - Even with the auctions, multiple entities will receive either all or a majority of their allowances for free through direct allocation
        - 100%: emissions-intensive, trade-exposed (EITE) industries, subject to an intensity-based benchmark stemming from historical emissions
        - 90%: utility Nova Scotia Power, based on BAU emissions projections

          Both EITE industries and Nova Scotia Power received their first batch of free allowances in Apr. 2019, kicking off the start of the ETS
        - 80%: fuel suppliers

          Those entities will receive their allowances once they submit GHG reports by May 1 of the following compliance year (May 1, 2020 for 2019 compliance)
    - The holding limit is 500,000 allowances, and two or more related participants, such as subsidiaries, will be considered a single entity for this limit. However, a limited exemption for large emitters is available to acquire emissions equal to the previous year's GHG report that exceeds the holding limit.
    - Voluntary participants are not allowed in the market.
- Cost containment
    - The province will create a soft price ceiling to make allowances available if other options are exhausted

      In the first year of the compliance period, the government will place 3% of emission allowances available under yearly caps into a reserve. Up to four reserve sales can occur in a calendar year starting in 2020, and the minimum price for those sales would be C$50 rising by 5% plus inflation annually.
    - Offsets

      The government in Sep. 2019 issued a request for proposals to identify the potential for compliance offset generation in the Maritime province. According to the proposal's tentative timeline, a final report may be completed in spring 2020, well ahead of the market's only compliance deadline for the 2019-2022 period of Dec. 2023 to surrender allowances or offsets.
    - Revenue

      Revenues generated through the programme will flow into the province's Green Fund, which will also see a framework document published in the future.

- **Emissions Cap/GHG Target**
    - The yearly emissions caps are as follows:
        - 2019: 13.68 million tonnes, compared to 13.77 Mt projected without cap-and-trade
        - 2020: 12.72 Mt (12.89 Mt BAU)
        - 2021: 12.26 Mt (12.45 Mt BAU)
        - 2022: 12.14 Mt (12.37 Mt BAU)

        Emitters regulated by the Maritime province's carbon market emitted 13.41 million tonnes of CO2e in 2018, the year prior to compliance obligations starting, according to a report from government agency Nova Scotia Environment.
    - The Liberal government in 2019 announced will set a new GHG reduction target across the province of 45-50% below 2005 levels by 2030, amounting to between 11.6-12.7 Mt, having already reached its 30% target.

      According to a study by Canadian consulting firm Navius Research, the Nova Scotia ETS would reduce emissions by 600,000 tonnes of CO2e in 2022. The electricity sector would be responsible for nearly all of these reductions at 570,000 tonnes.

Approval Status

In Oct. 2018, the federal government announced Nova Scotia's carbon market complies with the pan-Canadian Framework.

NUNAVUT

- **Type of Carbon Pricing**
  Scaled-down full implementation of federal backstop
  - Carbon Tax
    - C$20 fuel levy beginning in July 2019
    - Exemptions would apply to aviation fuel used in the territory and diesel-fired electricity generation
  - OBPS
    Output-based pricing system for entities with emissions over 50,000 tonnes/yr in July 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt in.
- **Emissions Cap/GHG Target**
  - Although Nunavut does not have a formal GHG target, an ECCC study found implementing the backstop carbon levy in 2018 and OBPS in 2019 would reduce emissions by 29,600, or 2% below BAU, by 2020, and 50,700 tonnes, or 3.4%, by 2022.
  - The territory is one of Canada's lowest-emitting jurisdictions, releasing 700,000 tonnes of GHGs in 2018, according to the National Inventory Report.

Approval Status

In Oct. 2018, the federal government announced it would apply a scaled-down version of the backstop carbon pricing plan on Nunavut in alignment with Canada's three remote northern territories.

ONTARIO

Type of Carbon Pricing

Full implementation of federal backstop
- Carbon Tax
  C$30 fuel levy as of Apr. 2020, rising by C$10 annually until reaching C$50 in 2022.
- OBPS
  Output-based pricing system for entities with emissions over 50,000 tonnes annually from Jan. 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt in over time.

Background

- After winning the province's June 2018 election, Premier Doug Ford and his Progressive Conservative party abruptly announced they were cancelling Ontario's cap-and-trade programme and participation in the linked WCI market. The government formally revoked the ETS regulation in July, and later introduced a bill to repeal the 2016 Climate Change Mitigation and Low-carbon Economy Act underpinning the programme. That bill passed in fall 2018.
- The government then introduced the 'Made-in-Ontario' climate plan in Nov. 2018, which lacked an economy-wide form of carbon pricing.

Alternative Plan

- The Ontario conservatives' climate plan also included an Industrial Emissions Performance Standard (EPS), featuring weaker benchmarks for the industrial and electricity generation sectors than the federal OBPS. However, since the province missed the Sep. 2018 deadline to submit a carbon pricing plan to Ottawa, the programme did not immediately take effect.
  - Ontario would use a mixture of sector and facility-based "total annual emissions limits" (TAEL). Critics have warned that facility-based limits would undermine the environmental performance of the programme, citing Alberta's previous OBPS, the Specified Gas Emitters Regulation (SGER), that ran from 2007-2017.
  - The province's electricity sector benchmark would be set at a flat, fuel-neutral 420 tonnes of CO_2e/GWh. That is less stringent than the federal OBPS' flat benchmark of 370 tCO_2e/GWh
  - While the compliance charge would be set in harmony with the backstop carbon price, the Ontario government is not presently considering offsets as a compliance option.
- The federal government has not given a decision as of spring 2020 regarding the status of Ontario's EPS proposal, with the backstop OBPS remaining in effect.

Emissions Cap/GHG Target

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  - The Progressive Conservative government revoked their Liberal predecessor's GHG targets of 37% beneath 1990 levels by 2030, in favour of 30% below 2005 levels by 2030, in line with Canada's Paris Agreement target.
    - However, past emission reductions in the province, due in large part to the phase-out of coal power, mean that Ontario's GHG output is already 19% below 2005 levels.
    - Additionally, Ontario Auditor General Bonnie Lysyk found that the Progressive Conservatives' (PCs) climate plan will reduce emissions between 6.3 Mt and 13 Mt below business-as-usual by 2030, or only 36-74% of the Ford government's 17.6-Mt projection. That Dec. 2019 report added the Ford plan was not supported by "sound evidence", with Ontario environment minister Jeff Yurek saying the province would evolve the plan over time.
  - However, Ontario's GHG output increased by 10 Mt, or 6.5%, in 2018, according to Canada's National Inventory Report. That coincided with Ford pulling the plug on the WCI-linked carbon market in July.
- **Approval Status/Lawsuit**
  - In Oct. 2018, Ottawa announced Ontario would face both the fuel levy and OBPS component of the federal backstop.
  - Additionally, Ford's government lost its legal challenge against the GGPPA in the province's Court of Appeal in June 2019. The province is appealing that decision to the Supreme Court of Canada.

PRINCE EDWARD ISLAND (PEI)

- **Type of Carbon Pricing**
  Partial implementation of federal backstop
    - Provincial Carbon Tax
      - As part of the agreement between PEI and Ottawa, the small island province reduced its excise taxes on gasoline and diesel. That means at a C$30/tonne tax rate in 2020, the carbon levy on gasoline and diesel is only 2 cent/L, mirroring New Brunswick's approach.
      - Home heating fuels will also be exempt from the tax through 2020.
    - Federal OBPS
      Output-based pricing system for entities with emissions over 50,000 tonnes/yr in Jan. 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt in over time.
- **Emissions Cap/GHG Target**
  - As part of the province's climate change plan released in May 2018, PEI said it would reduce emissions by 30% below 2005 levels by 2030, in line with Canada's Paris Agreement pledge
    The plan also contained 32 action points for incentives and other measures to accomplish its mitigation and adaptation objectives instead.
  - PEI's emissions totalled 1.7 Mt in 2018, according to Canada's National Inventory Report.

Approval Status
In Oct. 2018, Ottawa announced it would impose the federal OBPS on PEI while forging an agreement on the fuel levy component of the carbon tax.

QUEBEC

- **Type of Carbon Pricing**
  WCI-linked cap-and-trade programme
    - Covering the industrial, power, and transportation sectors (85% of province's GHGs)
    - 2020 floor price of ~C$23.26 ($16.68), rising by 5% a year plus inflation, based on the California-set price and US consumer price index
- **Emissions Cap/GHG Target**
  ETS Emissions Cap
    - 2020: 54.74 Mt
    - 2030: 44.14 Mt

  GHG Target
    - 20% below 1990 levels by 2020
    - 37.5% below 1990 levels by 2030
      Overall, the province's WCI-capped emissions stood at 60.4 Mt in 2018.

Approval Status/Lawsuit

  - In Oct. 2018, the federal government confirmed Quebec's ETS complies with the pan-Canadian Framework.
    However, Quebec in July 2019 also intervened on behalf of fellow conservative province Saskatchewan's lawsuit against Ottawa's backstop carbon pricing mechanism. Quebec's ruling CAQ party said it wants to guard its position by arguing for the autonomy of all provinces and territories to implement their own carbon pricing plans.
  - For more info on Quebec's ETS, see Carbon Pulse's WCI dossier.

SASKATCHEWAN

- **Type of Carbon Pricing**
  Partial implementation of federal backstop
    - Carbon Tax
      C$30 fuel levy as of Apr. 2020, rising by C$10 annually until reaching C$50 in 2022.
    - Blended OBPS
        - The majority of facilities regulated by an OBPS will come from Saskatchewan's own emissions performance standard that started in Jan. 2019
          Applies to facilities with emissions exceeding 25,000 MtCO2e
        - Benchmark methodology:
          Saskatchewan said regulated sectors are expected to achieve a total average emissions intensity reduction of 10% by 2030 based on facility-specific benchmarks, broken down by the following:
            - 15%: upstream oil and gas stationary fuel combustion
            - 10%: refining and upgrading
            - 5%: potash, coal and uranium mining; iron and steel mills; fertiliser manufacturing; pulp mills; ethanol manufacturing; light manufacturing
        - Compliance options:
            - Submitting payments into a provincial technological fund at C$30/tonne in 2020
            - Acquiring 'performance credits' through in-house emissions reductions or from other installations cutting GHGs below what is required under the standard
            - Offsets
                - Additionally, the government said that purchasing Internationally Transferred Mitigation Outcomes (ITMOs) outlined in the Paris Agreement would also be eligible, suggesting that Saskatchewan entities will be allowed to import internationally-tradeable carbon units that meet the UN's still-to-be-agreed rules under the 2015 climate pact.
                - The Saskatchewan government is also developing a provincial offset system that it expects to deploy in 2020 for the first compliance deadline in 2021, and is considering possible federal offset criteria in the process.
    - The remaining sectors, electricity generation and natural gas transmission pipeline, are subject to the federal OBPS for entities with emissions over 50,000 tonnes/yr since Jan. 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt in over time.
- **Emissions Cap/GHG Target**
    - Though the province does not have a GHG target set in statute, the government said actions taken on electricity generation are expected to result in a 40% annual reduction from 2005 levels by 2030. It also predicts the EPS will reduce emissions 1 Mt by 2030.
    - Saskatchewan's emissions reached 76 Mt in 2018, 12% above 2005 levels, according to Canada's National Inventory Report.

Approval Status

In Oct. 2018 the federal government announced it will impose its CO2 levy in full and OBPS in part on Saskatchewan.
Conservative Premier Scott Moe's government lost its court challenge of the GGPPA in the provincial Court of Appeal in May 2019. The province has since appealed its case to the Supreme Court of Canada, with a trial expected in Sep. 2020

YUKON

- **Type of Carbon Pricing**
  Scaled-down full implementation of federal backstop
    - Carbon Tax
        - C$20 fuel levy beginning in July 2019, three months later than scheduled to align with Northwest Territories' plan
        - Exemptions would apply to aviation fuel used in the territory and diesel-fired electricity generation
    - OBPS
      Output-based pricing system for entities with emissions over 50,000 tonnes/yr since July 2019, with the ability of smaller emissions-intensive, trade-exposed (EITE) industries that emit 10,000 tonnes or more to opt-i
- **GHG goal/Emissions target**
    - Although Yukon does not have an overall statutory GHG target, a study commissioned by ECCC found implementing a federal C$10 carbon price in 2018 would reduce emissions by 6,800 tonnes that year and 32,000 tonnes by 2022, a 1% and 5.4% drop below BAU emissions respectively.
      However, these figures don't reflect that the C$20 federal tax didn't start until mid-2019 in the territory, and that the OBPS will also apply to large emitters.
    - Emissions in the territory totaled 600,000 tonnes in 2018, according to the Canada's National Inventory Report.

Approval Status

In Oct. 2018, the federal government announced it would apply a scaled-down version of the backstop carbon pricing plan on Nunavut in alignment with Canada's three remote northern territories.

Carbon Pulse