

# Canada's Output-Based Pricing System

## Exploring how to use OBPS proceeds to reduce emissions in the Yukon – Discussion Paper

### Introduction

The Government of Yukon is committed to returning 100 per cent of federal carbon pricing proceeds back to Yukoners. The Yukon Government Carbon Price Rebate Act, established in the spring of 2019, provides carbon price rebates for households, businesses, municipal governments, and First Nations governments.

The Act also allows the Government of Yukon to create a new program that uses proceeds from the federal Output-Based Pricing System to help large industrial facilities in the Yukon reduce their greenhouse gas emissions. The Government of Yukon is currently seeking input from large industrial facilities to identify options for such a program.

This discussion paper provides background information about the federal Output-Based Pricing System and provides details about the Government of Yukon's planned engagement.

### Background

#### **Federal Carbon Pricing**

The federal carbon pricing system has two distinct but related components. The first is a levy on fossil fuels, known as the carbon levy or fuel charge. The second is a trading system for certain large emitters, known as the Output-Based Pricing System or the "OBPS". One or both parts can apply in provinces and territories that choose not to develop their own carbon pricing systems. Both parts apply in the Yukon, which voluntarily accepted the federal system.

#### **Carbon Levy**

The federal carbon levy applies to a broad range of fuels that emit greenhouse gases. The levy is currently \$50 per tonne of carbon-dioxide equivalent (CO<sub>2</sub>e). For example, this is roughly 7 cents for a liter of propane, 11 cents for a liter of gasoline, and 13 cents for a liter of diesel.

The federal government has committed to increase the carbon levy by \$15 each year until it reaches \$170 per tonne of CO<sub>2</sub>e in 2030. At that time, the carbon levy would be approximately 26 cents for a liter of propane, 37 cents for gasoline, and 45 cents for diesel.



The federal government provides exemptions from the carbon levy for most agricultural and fishing activities across Canada. In the territories, air transportation and electricity generation at power plants are also exempt from the federal carbon levy.

For more information about the federal carbon levy, please visit:

[www.canada.ca/en/revenue-agency/services/tax/excise-taxes-duties-levies/fuel-charge.html](http://www.canada.ca/en/revenue-agency/services/tax/excise-taxes-duties-levies/fuel-charge.html)

### **Output-Based Pricing System**

The OBPS is a federal program for certain large industrial facilities that are not subject to the regular carbon levy. The federal government designed the OBPS to encourage lowering emissions while maintaining competitiveness for energy-intensive and trade-exposed industries. Facilities operating under the OBPS pay less, on average, for their emissions compared to facilities that are subject to the regular carbon levy.

#### **Who can register?**

Facilities emitting 10 to 50 kilotonnes of CO<sub>2</sub>e per year can voluntarily register in the OBPS. Registration is mandatory for facilities emitting over 50 kilotonnes of CO<sub>2</sub>e emissions per year. There are currently no facilities in the Yukon registered in the OBPS.

#### **How does it work?**

Facilities registered in the OBPS pay the federal carbon levy for a portion of their emissions above a certain limit. Facilities calculate their limit by multiplying their annual production by the appropriate Output-Based Standards, which are set out in federal OBPS regulations.

For example, the current Output-Based Standard for gold production is 7.71 tonnes of CO<sub>2</sub>e per kilogram of gold. A facility that produces 100 kilograms of gold in a year would have an emissions limit of 771 tonnes of CO<sub>2</sub>e for that year. If the facility emits more than this limit in the year, it would pay the carbon levy on its emissions above the limit. If the facility emits less than the limit in the year, it would receive surplus credits for the difference between its limit and its emissions. The facility could use these surplus credits in future years when its emissions are above its limit. It could also sell the surplus credits to other facilities registered in the OBPS.

For more information about the federal Output-Based Pricing System, please visit:

[www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system/overview.html](http://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system/overview.html)

#### **Return of OBPS proceeds**

The federal government has committed to return all proceeds collected from OBPS facilities registered in the Yukon back to the territory. Because the Government of Yukon voluntarily accepted the federal carbon pricing system, it can choose to receive OBPS proceeds directly as a transfer from the federal government. The Government of Yukon can then use these proceeds for new programs to help large industrial facilities achieve their emissions reduction targets.



The federal government returns OBPS proceeds directly to facilities in provinces and territories that do not voluntarily adopt the federal carbon pricing system or develop their own systems that meet the minimum national stringency requirements. The main avenue for returning OBPS proceeds in these jurisdictions is the federal Decarbonization Incentive Program, administered by the Department of Environment and Climate Change Canada.

For more information about the federal Decarbonization Incentive Program, please visit: [www.canada.ca/en/environment-climate-change/services/climate-change/carbon-pollution-pricing-proceeds-programming/output-based-pricing-system-proceeds-fund/decarbonization-incentive-program/what-you-need-to-know.html](http://www.canada.ca/en/environment-climate-change/services/climate-change/carbon-pollution-pricing-proceeds-programming/output-based-pricing-system-proceeds-fund/decarbonization-incentive-program/what-you-need-to-know.html)

## Engagement

### **Why engage now?**

While there are currently no facilities in the Yukon registered in the OBPS, some facilities could voluntarily register. Some existing and some proposed new facilities may also one day exceed the emissions threshold for mandatory registration.

The Government of Yukon is engaging with stakeholders now so that it can incorporate their feedback when determining how to use the proceeds that the OBPS could one day generate in the Yukon. Engaging now will enable the Government of Yukon to provide greater certainty for impacted stakeholders so that they can incorporate potential new programming opportunities into their business planning decisions.

The Government of Yukon is conducting this engagement at the same time that it is engaging stakeholders to develop intensity-based emissions targets for the mining sector. Coordinating these engagements will provide an opportunity for the mining sector to identify potential solutions that would help it to achieve these intensity-based targets.

### **Constraints**

The Government of Yukon will have flexibility in determining how to use OBPS proceeds. However, there will be two significant constraints on the use of proceeds, as described below.

First, according to the *Yukon Government Carbon Price Rebate Act*, OBPS proceeds must be used “in a manner that supports the reduction of emissions of greenhouse gases by OBPS covered facilities in Yukon”. Second, in order to receive OBPS proceeds directly from the federal government, the Government of Yukon must not use these proceeds to weaken or eliminate the incentive to reduce greenhouse gas emissions that is created by the federal carbon levy and OBPS. For example, the Government of Yukon could not provide direct refunds to facilities for the amounts that they are required to pay under the OBPS.

Stakeholders should consider these constraints when responding to this engagement.