



What we heard

Output-Based Pricing System Rebate Design

Results of stakeholder engagement
August 17 to October 3, 2022

**Yukon**

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Background

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 to 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. Between August 17 and October 3, 2022, the Government of Yukon sought input from large industrial facilities to identify options for such a program.

Federal carbon pricing

The federal carbon pricing system has two distinct but related components:

- a levy on fossil fuels, known as the carbon levy or fuel charge; and
- a trading system for large emitters, known as the Output-Based Pricing System (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 opted into the federal system.

Carbon levy

The federal carbon levy applies to a broad range of fuels that emit greenhouse gases. The levy in the 2023-24 fiscal year is \$65 per tonne of carbon dioxide equivalent (CO₂e). This levy translates to:

- 10.06 cents for a litre of propane;
- 14.31 cents for a litre of gasoline; and
- 17.38 cents for a litre of diesel.

The federal government has committed to increase the carbon levy by \$15 each year until it reaches \$170 per tonne of CO₂e in 2030. At that point, the carbon levy would translate to approximately 26 cents for a litre 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.

Output-Based Pricing System (OBPS)

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 incentivize 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 CO₂e per year can voluntarily register in the OBPS. Registration is mandatory for facilities emitting over 50 kilotonnes of CO₂e per year. There is currently only one facility in the Yukon registered in the OBPS at the time of writing.

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 CO₂e per kilogram of gold. A facility that produces 100 kilograms of gold in a year would have an emissions limit of 771 tonnes of CO₂e 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.

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 opted to voluntarily accept 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 to fund new programs that help large industrial facilities reduce their emissions.

Timing of engagement

The Government of Yukon engaged stakeholders in the fall of 2022 to incorporate their feedback in determining how to use the proceeds that the OBPS could one day generate in the Yukon. Engaging early 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 conducted this engagement at the same time that it engaged stakeholders on developing intensity-based emissions targets for the mining sector. Coordinating these engagements provided an opportunity for the mining sector to identify potential solutions that would help it to achieve these proposed targets while recognizing the time commitment involved for organizations who wish to provide feedback on several government programs.

Engagement process

From August 17 to October 3, 2022, the Department of Finance asked for stakeholder input on how to use proceeds from the federal OBPS to reduce greenhouse gas emissions in the Yukon. We reached out to large industrial facilities, including quartz mines, who could one day be subject to the federal OBPS. This engagement was conducted alongside the Department of Energy Mines and Resources' engagement on proposed mining-intensity targets.

We engaged with stakeholders through:

- direct outreach;
- meetings;
- a news release;
- content on Yukon.ca; and
- social media posts on the Government of Yukon Twitter and Facebook pages.

What we asked

We provided stakeholders with an engagement discussion paper that supplied background information on federal carbon pricing, the carbon levy and the OBPS. We also provided stakeholders with a list of questions to highlight important considerations for designing a program to fund projects to reduce emissions. The questions provided were intended to guide responses, but other stakeholder feedback was also encouraged.

See the Appendix for the discussion paper and the list of questions provided to stakeholders.

Who responded to the survey?

We received feedback from the following stakeholders through meetings:

- Hecla Mining Company – Keno Hill Project;
- Newmont Corporation – Coffee Gold Project;
- Victoria Gold Corporation – Eagle Gold Mine;
- Yukon Chamber of Mines, with representatives from Minto Metals Corp., Newmont Corporation and BMC Minerals; and
- Yukon Energy Corporation.

We received written submissions from the following stakeholders:

- Casino Mining Corporation – Casino Project;
- Yukon Chamber of Mines;
- Yukon Conservation Society; and
- Yukon Prospectors Association.

What we heard

Eligible facilities and projects

Respondents shared their thoughts on what facilities and projects should be eligible to apply for funding under a new OBPS rebate program.

There was broad consensus among respondents that funds should be available to registered OBPS facilities to help reduce greenhouse gas emissions.

Multiple stakeholders suggested that territorial infrastructure improvement projects that result in a reduction to emissions should also be eligible for funding, for example: grid expansion, dam expansion, run of the river hydroelectric systems, and road improvements.

Evaluating and ranking projects

We sought stakeholders' ideas on how we should evaluate and rank various projects to determine which ones should receive funding.

There was consensus among stakeholders that projects should be evaluated based on their ability to reduce greenhouse gas emissions.

We also heard that we should focus on the overall impact of a project on reducing emissions for the territory. Projects that increase the supply of clean energy during the winter months could have a significant impact by displacing diesel-generated electricity. Projects that generate clean energy during the summer could have a smaller overall impact, especially on grid-connected facilities that receive energy from hydroelectricity.

Many respondents also recommended that other factors, such as community benefits and socio-economic impacts, should be considered in evaluating and ranking projects.

Location of projects

All respondents recommended that eligible projects should be located anywhere in the Yukon, or anywhere that benefits the Yukon.

We heard that limiting the location of eligible projects to the facility location only could decrease the opportunities to reduce greenhouse gas emissions. Stakeholders suggested that projects that are offsite, but are part of a facility's supply chain, such as roads or staging areas, should be eligible for funding.

Incremental reductions

As clean technology becomes more affordable, we asked how we should evaluate projects that businesses might already undertake for the financial benefits alone. How could we ensure that funding is not a windfall for facilities that would undertake projects with or without funding?

All respondents cautioned that it is rarely possible to draw clear distinctions between emission reducing projects that may be conducted in the normal course of business and those that a facility would only pursue with access to external funding. There was consensus that projects should not be excluded or given lower priority simply because they provide financial benefits to the facility in addition to reducing emissions.

Many respondents also stated that projects should not be excluded solely on the grounds that they contribute to achieving outcomes required under existing laws. For example, a project that contributes to site remediation should not be excluded simply because remediation is already required under existing mining laws and regulations.

Respondents recommended that any project that reduces emissions should be considered for funding under the OBPS rebate program.

Minimum or maximum funding

Funding programs often have minimum or maximum funding amounts for each project. We asked stakeholders about including minimums or maximums in the OBPS rebate program.

Several stakeholders suggested that minimum and maximum funding amounts could be appropriate in certain circumstances and should vary based on factors such as facility size, project type, and the likelihood of successfully reducing emissions.

We also heard that minimum and maximum funding amounts should consider the current inflationary environment and be responsive to price volatilities.

Some stakeholders suggested that minimum and maximum funding amounts would narrow the range of viable applications. Small and effective projects should not be excluded, especially if there is a surplus of funds. Conversely, large projects can benefit from returns-to-scale and can “move the needle” on emissions, but they require significant upfront investment.

Cost sharing

Many funding programs require applicants to cover a portion of the project costs.

Multiple stakeholders noted that cost sharing makes sense. Cost sharing could be beneficial, as it requires proponents to be invested in the project, to have some “skin in the game.”

Other stakeholders advised that there should not be a one size fits all approach for cost sharing; small projects may need a smaller cost sharing percentage.

Certainty of funding

Many stakeholders emphasized that certainty of funding is extremely important for long-term capital projects. We heard that a high level of certainty in the planning phase for multi-year projects is key so that the funding can be incorporated into the project plans. Certainty of funding is needed well in advance of spending, possibly three or four years in advance, in order to “move the needle” on emissions reductions.

OBPS rebate program

We received various recommendations regarding the OBPS program in general. The recommendations were that the rebate program should:

- be simple;
- allow stacking of benefits with other federal and territorial funding programs;
- be linked to the *Clean Energy Act*;
- include application deadlines that are outside of the mining industry’s busiest times, i.e., summer and fall; and
- not be politicized (funds should be provided fairly so that all stakeholders have an opportunity to benefit; evaluation should be done by a non-partisan public service to avoid perception that funds are being provided unfairly).

What's next?

The Government of Yukon is now considering stakeholder input in the development of the OBPS carbon rebate program. An OBPS rebate regulation will be developed in 2024. Proceeds from the operation of the federal OBPS in the Yukon are not expected to be transferred to the Yukon until fiscal year 2024-25 at the earliest.

Despite the official engagement being closed, we continue to welcome any additional feedback you may have. We value your input in the development of an OBPS carbon rebate program and we want to make it easy for you to provide it at any time. You can send questions or additional comments to carbonrebate@yukon.ca.

Appendix

Discussion paper

See: [Yukon.ca/en/canadas-output-based-pricing-system-discussion-document](https://yukon.ca/en/canadas-output-based-pricing-system-discussion-document)

Stakeholder Questions

The following questions are intended to highlight some important considerations for designing a program to fund projects that will reduce emissions in the Yukon. The examples provided beneath each question are not exhaustive. They are provided to help guide your response and other opinions will be considered and are encouraged.

Q1. *What facilities should be eligible to apply for funding?*

- Facilities registered in the OBPS only?
- Facilities eligible to register in the OBPS, including on a voluntary basis?
- Energy-intensive and trade-exposed facilities, including those not eligible for OBPS?
- Should any other facilities or groups be eligible to apply for funding?

Q2. *How should we evaluate and rank multiple projects?*

- Based on only the total expected reductions of greenhouse gas emissions?
- Based on reductions of greenhouse gas emissions per dollar of funding provided?
- Based on other factors in addition to emissions reductions? If so, what other factors?
- Based on a first-in-first-served model, subject to certain minimum requirements?
- Can you identify any other methods for evaluating and ranking projects?

Q3. *Where should projects take place?*

- Projects should take place at the eligible facility only?
- Projects should take place anywhere in the Yukon?
- Should there be other restrictions on where projects should take place?

Q4. *How should we ensure that greenhouse gas emissions reductions are incremental to “business-as-usual” (i.e., that reductions would only occur if the project is funded)?*

- Exclude projects required under existing regulatory obligations (e.g., reclamation)?
- Exclude projects related to necessary maintenance, repairs, and equipment upgrades?
- Require third-party confirmation reductions are incremental to business-as-usual?
- Are there other methods to ensure reductions are incremental to business-as-usual?

Q5. *Should there be minimum or maximum funding amounts for each project?*

- What should the minimum or maximum amounts be?
- Should these amounts be the same for all applicants and projects?
- Can you identify any other considerations related to minimum or maximum funding?

Q6. *Should applicants be required to cover a portion of the project costs?*

- What should be the cost-sharing ratio for applicants and the Government of Yukon?
- Should the cost-sharing ratio be the same for all applicants and projects?
- Can you identify any other considerations related to cost-sharing?