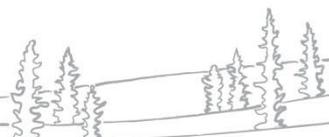




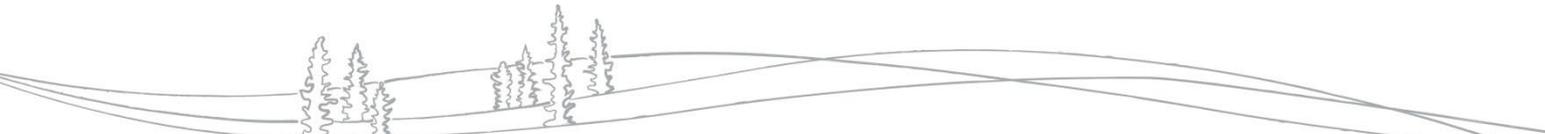
# Proposed Carbon Pricing

Starting April 1, 2023

November 2022

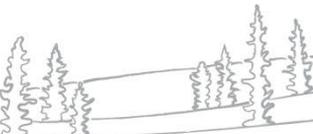


# Background



# Changes to federal carbon pricing

- In 2018, the federal government passed the Greenhouse Gas Pollution Pricing Act (“GGPPA”) that applies in jurisdictions where the carbon pricing does not meet the federal benchmarks.
- Canada revised the national carbon pricing benchmarks for 2023 to 2030:
  - Carbon price will increase annually by \$15 a tonne of GHG (greenhouse gas) equivalent emissions starting at \$65 a tonne April 1, 2023 rising to \$170 per tonne by 2030.
  - Jurisdictions may keep own systems but must have same coverage as the federal system, and revenue recycling cannot negate the carbon price signal.



# CARBON PRICING ACROSS CANADA



# Carbon tax rate schedule

Carbon price increases \$15 a tonne of GHG emissions on April 1 of each year, starting at \$65 a tonne April 1, 2023.

Fuel	Unit	2023	2024	2025	2026	2027	2028	2029	2030
<b>Aviation fuels</b>	\$/litre	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Butane</b>	\$/litre	0.1157	0.1424	0.1691	0.1958	0.2225	0.2492	0.2759	0.3026
<b>Diesel</b>	\$/litre	0.1738	0.2139	0.2540	0.2941	0.3342	0.3743	0.4144	0.4545
<b>Gasoline</b>	\$/litre	0.1431	0.1761	0.2091	0.2422	0.2752	0.3082	0.3412	0.3743
<b>Naptha</b>	\$/litre	0.1465	0.1803	0.2142	0.2480	0.2818	0.3156	0.3494	0.3832
<b>Natural gas</b>	\$/m <sup>3</sup>	0.1239	0.1525	0.1811	0.2097	0.2383	0.2669	0.2954	0.3240
<b>Propane</b>	\$/litre	0.1006	0.1238	0.1470	0.1703	0.1935	0.2167	0.2399	0.2631

# Carbon Tax Effectiveness Reducing Emissions

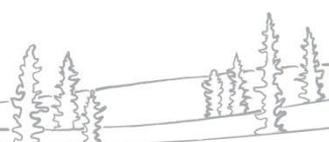
**The annually increasing carbon tax will provide incentives to reduce carbon-based fuel use by encouraging:**

## Conservation:

- Building renovations, lowering thermostats, driving less

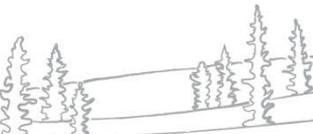
## Substitution:

- Wind/solar/hydro electricity for space and water heating
- Electric vehicles where recharging infrastructure exists
- Untaxed biomass such as wood pellets (may marginally reduce emissions but increase other pollutants)



# GNWT response

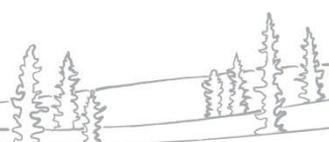
- On April 1, 2022 the GNWT advised ECCC that it was keeping the NWT carbon tax system to provide more flexibility in carbon recycling programs.
- To meet the 2023-2030 benchmarks while retaining the NWT system, the GNWT must:
  - Amend the *Petroleum Products and Carbon Tax Act* to add the new tax rates
  - Amend regulations and policy to:
    - Eliminate rebates on heating fuel and for Large Emitters
    - Eliminate or revise the Large Emitter Grant Program
- On September 1, 2022 the GNWT provided ECCC with proposed carbon revenue recycling programs that do not negate the carbon pricing signal.



# Proposed changes

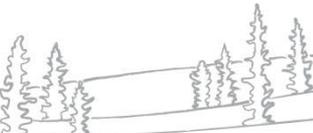
## **In order to meet the new federal benchmarks, the GNWT has proposed:**

1. Replacing the at-source carbon tax rebate on heating fuel with increased Cost of Living Offset (COLO) payments
2. Eliminating the Large Emitter Grant Program
3. Replacing the 72% Large Emitter Rebate (previously measured against emissions) with a rebate measured against a baseline average of three consecutive years' fuel consumption



Proposal #1

# Replacing the carbon tax rebate for heating fuel



# Current NWT system

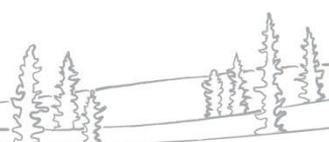
## The current NWT Carbon Tax rebate for heating fuel recognizes:

- that an economically-viable alternative is currently unavailable;
- that high fuel prices already provide residents with an incentive to reduce;
- that a large proportion of people in public housing do not incur heating costs; and
- a desire to also mitigate the carbon tax cost for business and municipal governments.

# Proposed change

**The GNWT's proposed carbon revenue recycling program will replace the existing heating fuel rebate with an increase in COLO payments equal to the average annual heating cost increase due to the carbon tax, starting April 2023.**

- Carbon tax rate of \$65 a tonne is expected to cost NWT households an extra \$400 for heating, per year
- Increased COLO amounts per resident will increase \$135
- Business, municipal governments and other organizations will pay full carbon tax



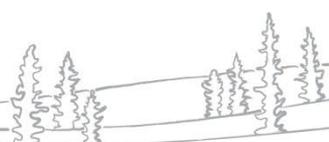
# Advantages and drawbacks

## Advantages

- complies with original COLO objectives to return carbon tax to residents without negating the price signal
- will not create additional administrative costs; the Canada Revenue Agency administers COLO
- increases to annual COLO payments are done through regulations

## Drawbacks

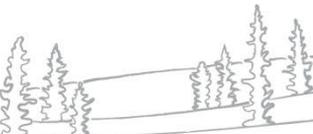
- Does not distinguish between residents who are incurring the carbon tax for heat and those who do not
- Does not distinguish between households with high heating cost due to family size, region, house type and/or heating fuel source, and households with low or no heating costs
- Does not address additional heating costs for businesses, local governments and other organizations



# Proposed COLO payments

**A family of 2 adults and 2 children would receive quarterly payments of \$499 from July 2023 to June 2024 (\$1,996 total)**

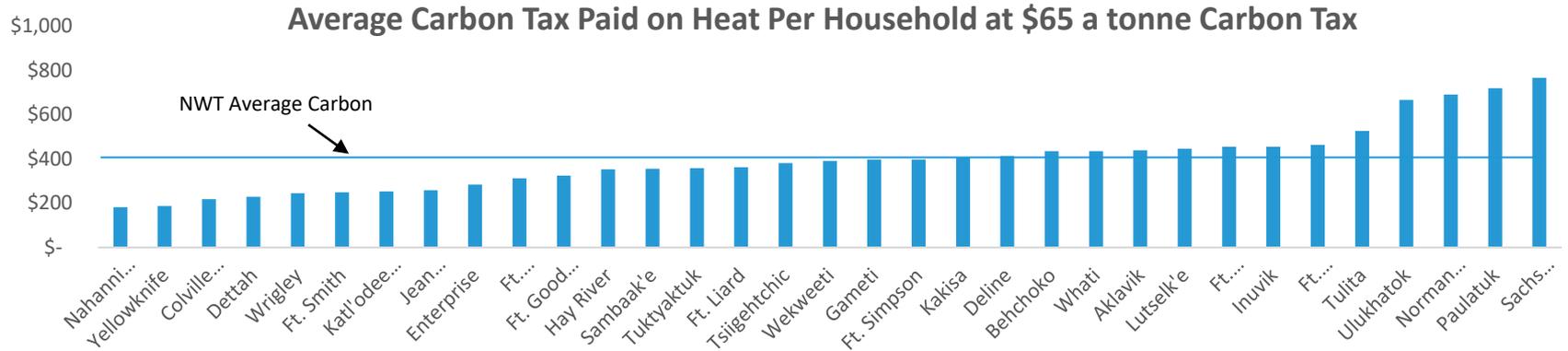
- COLO payments made quarterly starting July 1 of each year
- COLO amounts increase as carbon tax rates increase
- the proposal adds an amount for heating fuel to the already established adult and dependent COLO amounts



# COLO rates with Tax Rate Increases (\$/person)

	COLO Rates	2022	2023	2024	2025	2026	2027	2028	2029	2030
		- 2023	- 2024	- 2025	- 2026	- 2027	- 2028	- 2029	- 2030	- 2031
<b>With heating fuel rebate</b> <small>(ends March 2023)</small>	<b>Adult</b>	260	338	416	494	572	650	728	806	884
	<b>Person under 18 years</b>	300	390	480	570	660	750	840	930	1,020
<b>Without heating fuel rebate</b> <small>(starts April 2023)</small>	<b>COLO Heating fuel increase</b>	-	135	166	197	228	260	291	322	353
	<b>Total COLO Adult</b>	260	473	582	691	800	910	1,019	1,128	1,237
	<b>Total COLO</b>	300	525	646	767	888	1,010	1,131	1,252	1,373

# Home heating costs vary across the NWT



- The effect of the carbon tax on average 2023-24 home heating bills will range from less than \$200 per household in Nahanni Butte to over \$750 in Sachs Harbour.
- Increased COLO payments by \$135 per resident may over-offset carbon tax paid on heat by some households and under-offset other households.

# Impact on households

- 7,990 households<sup>1</sup> with owned homes will pay the carbon tax on heat; these household will have an incentive to reduce emissions through reduced heating fuel use (as much as feasible, given lack of alternatives);
- 4,000 households in market rentals. These household will pay the carbon tax on heat if landlords will pass on the carbon tax through higher rents, resulting in no direct link between heating fuel use and carbon tax paid.
- 4,000 households in social and affordable housing. These households will not pay the carbon tax on heat; these households will not have an incentive to reduce emissions.

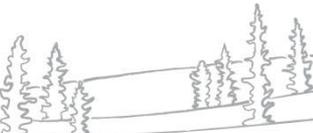
<sup>1</sup> Estimated numbers of households (owned, rented, social) from NWT Bureau of Statistics

# Impact on households

(cont)

**Households living in owned homes and market rentals will be disproportionately affected by the removal of the at-source carbon tax rebate on heating fuel.**

- Increasing COLO payments will not target households disproportionately affected



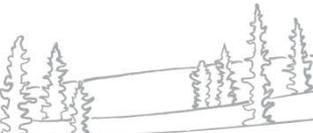
# Impact on businesses

- Operating costs for NWT businesses increase after the carbon tax rebate on heating fuel is removed.
- Whether the increased heating costs are passed to consumers depends on factors such as business size, community, industry competition, market demand and government support to offset the carbon tax paid.
- Some pass through of higher heating costs by businesses is expected.



Proposal #2

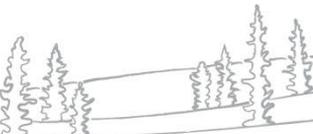
# Eliminating large emitter grants



# Current NWT System

**The current Large Emitters Grant Program is tied to a facility's emissions and does not meet Canada's new carbon pricing benchmarks. To comply with federal benchmarks, the Large Emitter Grant program would need to:**

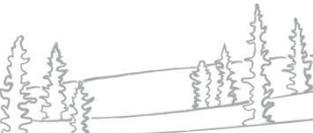
- be based on a non-emissions metric such as output, assets, or floor space;
- guarantee that the grants would not be paid out largely based on emissions; and
- add administration burden with minimal value in meeting emission reduction.



# Proposed change

## **Discontinue the Large Emitter Grant after March 31, 2023.**

- Revenue already accrued in each mine's fund to March 31, 2023 will remain available for five years (until March 31, 2028), after which any unused funds will flow back to the GNWT.



# Advantages and drawbacks

## Advantages

- Satisfies the ECCC criteria of not negating the carbon price signal
- Allows the existing large emitters to retain access to the funds for another five years

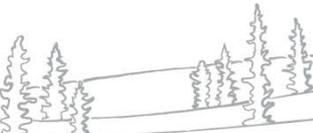
## Drawbacks

- Elimination of a program that returned tax revenue as an incentive to reduce GHG emissions



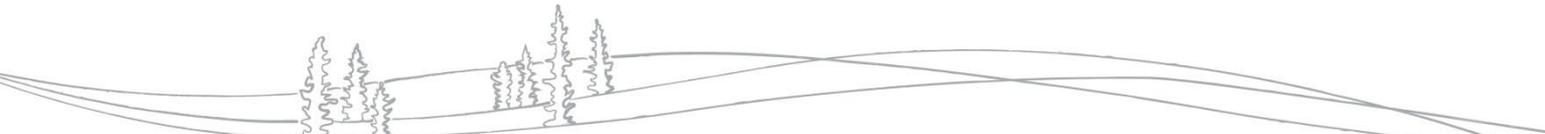
Proposal #3

# Replacing large emitter rebates



# Current NWT System

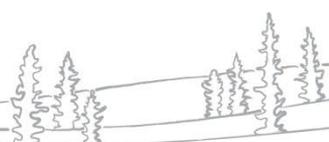
**The current 72% Large Emitter Rebate is tied to a facility's actual emissions and does not meet Canada's new carbon pricing benchmarks.**



# Proposed change

## **Rebate 72% of carbon tax to a pre-determined, facility-specific fixed baseline (measured in litres) for each mine.**

- The 72% rebate is set to help mitigate the risk that a mine could receive more in rebates than paid in carbon tax
- The 72% rebate will be reviewed when a mine is closing to ensure that mine does not receive a higher rebate than carbon tax paid



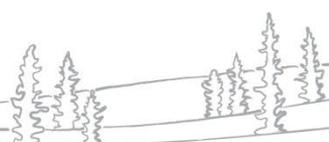
# Advantages and drawbacks

## Advantages

- Helps mitigate the penalty for being under the NWT carbon tax instead of the federal OBPS
- Keeps the system simple by using fuel volume data already collected in tax system
- Allows same treatment regardless of mine size (OBPS has an opt-in provision for emitters with greater than 10 kt of emissions but new NWT mines may emit less than 10 kt)
- Allows flexibility for special treatment during mine construction and closure (not covered under OBPS)
- Ensures that the large emitters share a similar tax burden to Northwest Territories residents

## Drawbacks

- Risk that large emitter can reduce consumption so far below the baseline that the rebate is greater than the carbon tax paid. This risk is mitigated by only rebating a percentage of carbon tax below the baseline.



# Facility-specific baselines

**Facility-specific baselines would be set as the average fuel consumption for three years of operation:**

## Existing Mines

average fuel consumption is measured from 2018-19 to 2021-22 or any 3 consecutive years if there were production disruptions (shutdowns) at mine between 2018-19 and 2021-22

## New Mines

will receive 72% rebate of carbon tax paid for 36 months of operation until a baseline is established

## Mine Construction

A special intensity baseline for mine construction is under review



# Modified large emitter rebate (example)

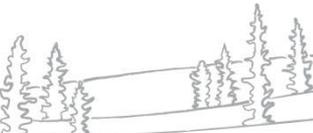
Tax rate (cents/litre)	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031
<b>Tax Rate (cents/litre)</b>	17.38	21.39	25.40	29.41	33.42	37.43	41.44	45.45
<b>Rebate rate (%)</b>	72%	72%	72%	72%	72%	72%	72%	72%
<b>Fuel consumption (millions of litres)</b>	59.2	62.1	55.9	65.1	59.2	53.3	26.6	0
<b>Fixed baseline (millions of litres)</b>	48.5	48.5	48.5	48.5	48.5	48.5	48.5	48.5
<b>Carbon tax paid (\$ millions)</b>	10.3	13.3	14.2	19.1	19.8	19.9	11.0	-
<b>Rebate under current system (\$ millions)</b>	7.4	9.6	10.2	13.8	14.2	14.4	7.9	-
<b>Rebate with fixed baseline (\$ millions)</b>	6.1	7.5	8.9	10.3	11.7	13.1	10.0	-
<b>Net carbon tax paid (\$ millions)</b>	4.2	5.8	5.3	8.9	8.1	6.9	1.0	-
<b>Effective tax rate (%)</b>	41%	44%	38%	46%	41%	34%	9%	-

## Notes:

- Fixed baseline of GHG emissions derived from the average volumes from 2019-20 to 2021-22
- Mine closes in 2029-30
- Effective tax rate changes as actual consumption changes

# Carbon tax revenues and expenditures

- Rebates will decline over time due to existing mines closing
- Total carbon tax offset program budget will also decline
- Net carbon tax revenue remaining will go into general revenues but can be applied notionally to specific GHG reducing investments to mitigate the effects of the carbon tax on business and community governments



# Carbon tax revenues and expenditures

Carbon tax per tonne of emissions	\$50	\$65	\$80	\$95	\$110	\$125	\$140	\$155	\$170
	2023-24		2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Budget	Actual	(\$ millions)						
<b>Total carbon tax revenue</b>	48.9	62.7	68.5	71.0	82.3	93.6	93.0	81.3	77.2
<b>Carbon tax offsets</b>									
Cost of Living Offset (COLO)	11.5	14.1	17.5	21.0	24.4	27.9	31.3	34.8	38.2
COLO heating fuel enhancements	-	5.8	7.0	8.3	9.8	11.1	12.4	13.6	15.1
Rebate on community electricity generation	3.4	3.2	3.9	4.6	5.4	6.1	6.8	7.5	8.3
Heating fuel rebate	9.3	-	-	-	-	-	-	-	-
Large emitter rebate (72%)	12.5	24.1	23.4	20.3	23.5	26.7	21.3	7.9	-
Large emitter grant program (12%)		-	-	-	-	-	-	-	-
<b>Total carbon tax offsets</b>	40.9	47.2	51.8	54.2	63.1	71.7	71.8	63.8	61.6
<b>Remaining carbon tax revenue</b>	8.0	15.5	16.7	16.8	19.2	21.8	21.2	17.5	15.7

# Next steps

## Approval Process for Changing Carbon Pricing Rates and Coverage:

- Bill 60 introduced to amend carbon tax rates– completed in October 2022 Session
- Pass the Bill in the Legislative Assembly – February 2023 Session
- Bill comes into Force – April 1st, 2023

## Approval Process for Changing Carbon Tax Expenditures

- Continue to refine carbon expenditure proposals to reflect public concerns and confirm with ECCC that revisions still meet federal benchmarks
- Change Regulations for carbon expenditures after 2023-24 Budget approval (Mar 2023)

