

Role of Carbon Markets Across North America

Canada Carbon Market Landscape

April 22, 2021



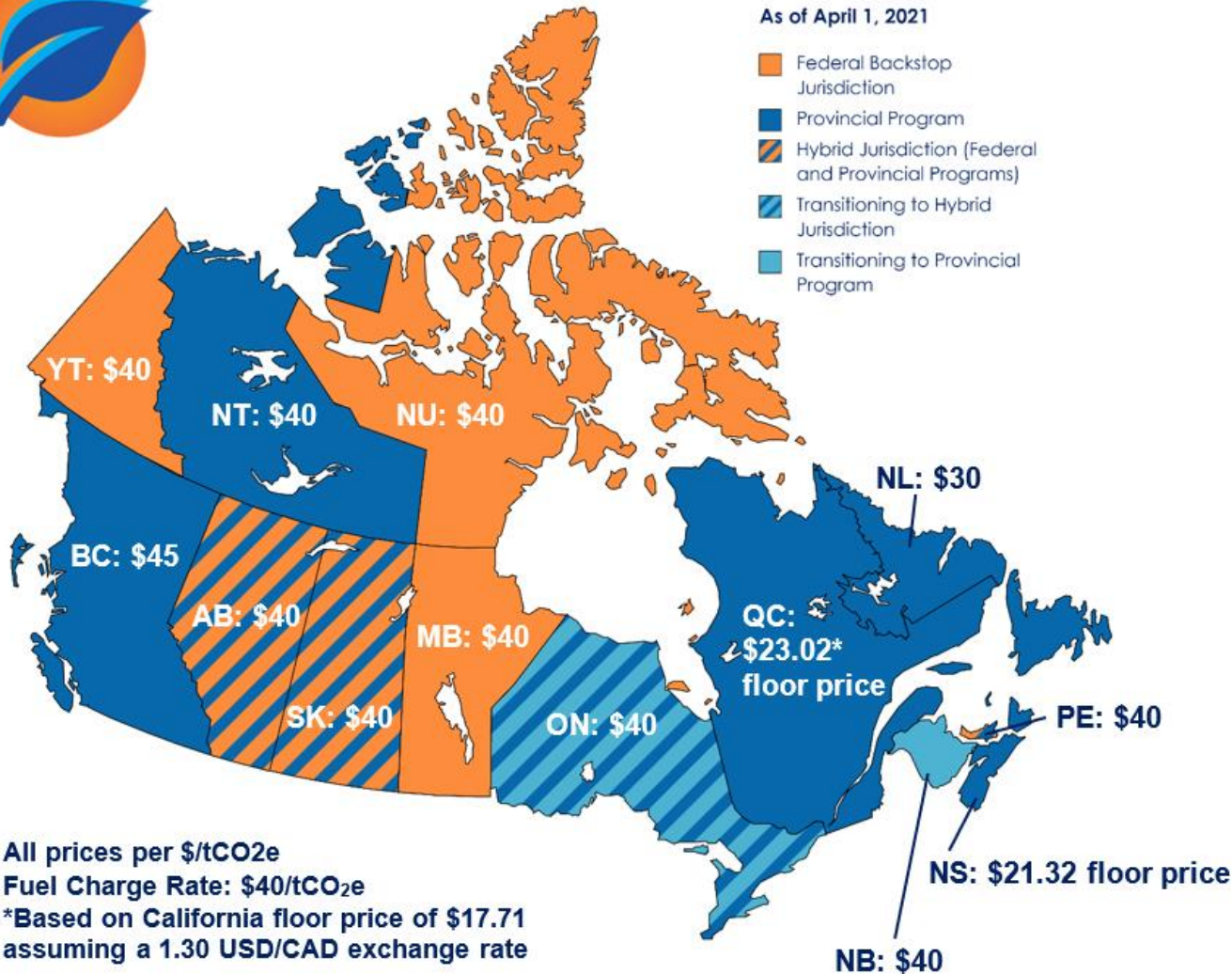
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2021 Canadian Carbon Pricing

A Patchwork of Pricing and Programs



	Saskatchewan	Ontario	Alberta
Provincial Appeals Court Decisions	3-2 in favour of Federal government GGPPA is Constitutional	4-1 in favour of Federal government GGPPA is Constitutional	4-1 in favour of Alberta provincial government GGPPA is Unconstitutional
Supreme Court Hearing Decision	On March 25th, the Supreme Court of Canada (SCC) ruled that federal carbon pricing is constitutional in a 6-3 decision GGPPA is Constitutional		

Outcome:

- Confirms the federal government has the authority to set minimum prices for GHG emissions
- Supports new Federal Climate Plan
- Provinces have flexibility in meeting the standard
- Carbon pricing in Canada still faces political uncertainty
- Ontario will continue to move forward with its EPS program for industrial emitters.



Canada's Enhanced Climate Ambition

Increasing Carbon Price and New NDC

Year	Carbon Price	Natural Gas (per m3)	Propane (per L)	Gasoline (per L)	Diesel (per L)
2019	\$20	\$0.0391	\$0.0310	\$0.0442	\$0.0537
2020	\$30	\$0.0587	\$0.0464	\$0.0663	\$0.0805
2021	\$40	\$0.0783	\$0.0619	\$0.0884	\$0.1073
2022	\$50	\$0.0979	\$0.0774	\$0.1105	\$0.1341
2023	\$65	\$0.1273	\$0.1007	\$0.1437	\$0.1743
2024	\$80	\$0.1567	\$0.1240	\$0.1768	\$0.2145
2025	\$95	\$0.1861	\$0.1473	\$0.2100	\$0.2547
2026	\$110	\$0.2155	\$0.1706	\$0.2431	\$0.2949
2027	\$125	\$0.2449	\$0.1939	\$0.2763	\$0.3351
2028	\$140	\$0.2743	\$0.2172	\$0.3094	\$0.3753
2029	\$155	\$0.3037	\$0.2405	\$0.3426	\$0.4155
2030	\$170	\$0.3331	\$0.2638	\$0.3757	\$0.4557

Strengthened Climate Plan

- On December 11, 2020, the federal government published '[A Healthy Environment and A Healthy Economy](#)'
- 64 new and updated measures and \$15 billion in new funding initiatives support Canada's Net-Zero by 2050 target.
- Proposal to increase the annual carbon price will increase by \$15/tCO₂e, reaching \$170/tCO₂e in 2030.
- Provincial systems with an explicit carbon price are expected to follow this pricing schedule – based on current federal stringency criteria

Enhanced NDC

- April 22, 2021, Canada announced it will enhance emissions reduction target under the Paris Agreement - Nationally Determined Contribution (NDC)
- Reduce emissions by 40-45% below 2005 levels, by 2030



The Ontario Experience

Stroke of Pen Risk and Market Uncertainty

Cap & Trade

- **Introduced January 2017 and linked with WCI Cap & Trade market January 2018**
- June 2018 Ford government announces, 'End to Ontario's Cap-and-Trade Carbon Tax' and an 'orderly wind down'
- Ontario no longer participating in joint auctions, ban on allowance trading, accounts blocked
- "Orderly wind down" led to market and investment uncertainty.

Federal Backstop/OBPS

- **Enforced January 1, 2019 due to the removal of Cap & Trade in Ontario – First carbon pricing payment ever last week**
- Federal Backstop was expected to remain in whole (Fuel Charge and OBPS) in Ontario until 2022 based on ECCC commitments to provide market and regulatory certainty
- September 2020 Federal Ontario governments announced removal of Federal OBPS to be replaced with Ontario EPS

Emissions Performance Standards

- **The EPS will come into effect on January 1, 2022**
- EPS will only replace the Federal OBPS stream, Federal Fuel Charge will remain in Ontario



Regulatory and Political Risks

More Changes Ahead?

Regulatory Risk

- Stroke-of-pen risk: Ontario has been subject to two carbon pricing programs in past three years, and is currently transitioning to a third one
- Delayed program development - the federal offset system for the OBPS has not been implemented yet, and we are in the third compliance period
- What will the federal carbon pollution stringency benchmark look like post-2022?
- **Cap & Trade** in more jurisdictions?

Political Risk

- New Federal Conservative climate plan includes carbon pricing
- Should federal Liberals lose next election, what will carbon pricing in Canada look like in 2030?
- Ontario NDP have promised to bring back Cap & Trade
- Uncertainty doesn't lead to emission reductions!



Federal GHG Offset System

Development and Key Updates

Federal GHG Offset System Timeline

- Draft offset regulations published March 2021
- Final regulations expected fall 2021

Priority Protocols

To be developed throughout 2021

- Advanced Refrigeration Systems
- Improved Forest Management
- Landfill Methane Management – in early stages of development
- Enhanced Soil Organic Carbon

