# Evaluating NB Government Proposal for regulating industrial emissions

Louise Comeau

Conservation Council of NB

July 2019

# Attention: Complex story ahead

- Federal carbon levy system
- Proposed provincial industrial output-based pricing system
- Comparison of federal and provincial systems
- Comparison to other Atlantic provinces
- Summary
- Next steps

# Federal carbon pricing applies today in NB

- Federal carbon levy currently applies to:
  - Transportation fuels: Paid by fuel distributors, passed along to consumers
  - Industrial emissions for industries with plants exceeding 50,000 tonnes/year (output based pricing system, OBPS)

- Industrial emissions standards
  - Charge applied to all emissions, but rebated on 80 to 95% of emissions
  - An intensity standard with a marginal price signal
  - Applies to electricity

# Federal carbon pricing applies today in NB: Part 1 is the levy on transportation fuels

- Levy (or carbon price, carbon tax) backstop applies as follows:
  - $20/tonne in 2019 rising $10/year to $50/tonne by 2022 (review year)
    - Revenue returned to province where it was raised
    - 90% of levy rebated to households, with rebate supposed to exceed cost to average household; 10% top up for rural households
    - 10% of levy redirected through grants municipalities, universities, schools, hospitals, SMEs
  - Applies to all transportation liquid fuel emissions

# Federal carbon pricing applies today in NB: Part 2 is the levy on industry

- Industrial levy charged on emissions but rebated
- In the end a levy is applied to only
  - 5% (lime),
  - 10% (iron and steel)
  - or 20% of emissions (all other industry) t/per unit production; 1/GWh = intensity standard
- Application depends on trade exposure, fixed emissions
- Use of funds raised: not clear, countervail concerns, feds consulting on options
- Electricity included because it is used by trade-exposed industries
- Backstop operating in full or in part in (NB, ON, MN) or partially (AB, SK, PEI)
- October election could change again

# New Brunswick: a pattern of weakening commitment

- Step 1: Province lowered greenhouse gas reduction target to federal target: 30% below 2005 by 2030 from 40% (10.7 megatonnes, Mt)
  - 10.7 Mt is an important milestone and remains in Climate Act and Climate Plan
- Step 2: Supports court challenges by SK, ON and AB on consumer facing carbon levy (Federal government won two cases, will go to Supreme Court, December 5, 2019)

# New Brunswick’s industry proposal: continues this pattern of weakening commitment

- Step 3: New Brunswick proposes its own industrial pricing system, but not on transportation fuels
  - Industrial proposal needs federal Government approval
    - Won’t happen until after federal election
- Until approved, federal system on transportation and industry applies until 2022
- New Brunswick proposal is weaker than current federal system and some provinces

# New Brunswick rationale for proposal is that is okay and common sense to race to the bottom

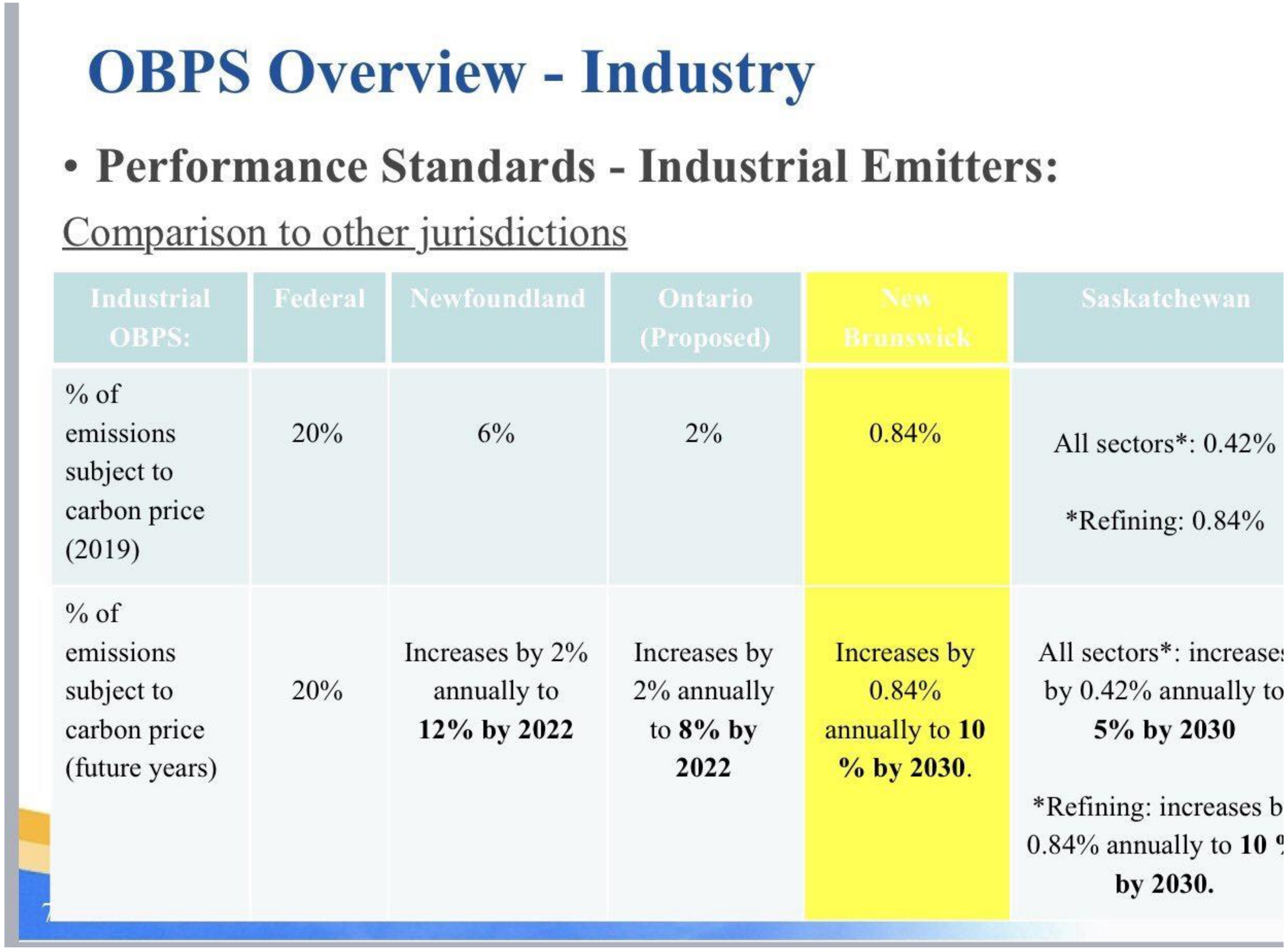
- Province claims federal pricing system is unfair to NB because:
  - It does not account for high trade exposure in NB (80% or more for refinery, pulp and paper)
  - Stronger than systems feds approved in other provinces (i.e., Saskatchewan)

# Province’s rationale does not stand up to scrutiny

- Facts:
  - Federal industrial pricing system is based on trade exposure (if more than 30% of production is exported)
    - NB rationale is that its performance standard of less than 1% reduction/year recognizes higher trade exposure in NB (80% or more) and the fact that funds raised cannot be recycled to companies given trade sanction concerns (i.e. softwood lumber subsidy)
  - NB asked federal government to apply its OBPS in the province
    - Could have negotiated on liquid fuels but did not
    - Federal system does not make consumers worse off, compared to other Atlantic provinces because of rebate
  - NB risking capacity to reach 10.7 Mt target let alone science-based targets
  - Could focus on Atlantic parity

# New Brunswick’s proposal: The details

- Sets annual emissions performance standard
- Carbon levy applies to emissions above 2015-2017 baseline (may vary by sector): requires emissions to be 0.84% below baseline per year (SK rate for refining)
- Above this level: pay levy
- Annual decreases of 0.84%
- 10% of emission reduction from baseline by 2030



## OBPS Overview - Industry

- **Performance Standards - Industrial Emitters:**

Comparison to other jurisdictions

| Industrial OBPS: | Federal | Newfoundland | Ontario (Proposed) | New Brunswick | Saskatchewan |
|---|---|---|---|---|---|
| % of emissions subject to carbon price (2019) | 20% | 6% | 2% | 0.84% | All sectors*: 0.42%<br>*Refining: 0.84% |
| % of emissions subject to carbon price (future years) | 20% | Increases by 2% annually to **12% by 2022** | Increases by 2% annually to **8% by 2022** | Increases by 0.84% annually to **10 % by 2030**. | All sectors*: increases by 0.42% annually to **5% by 2030**<br>*Refining: increases b 0.84% annually to **10** **by 2030.** |

# Industries not being asked to do their fair share or prepare for clean energy future

2017:

| | |
|---|---|
| • Irving Oil Refining: | 3.1 Mt |
| • NB Power: Belledune: | 2.4Mt |
| • NB Power: Coleson Cove: | .352 Mt |
| • NB Power: Bayside: | .243 Mt |
| • Glencore Smelter: | .225 Mt |
| • AV Group Nackawic: | .105 Mt |
| • Irving Pulp and Paper: | .97 Mt |
| • Irving Paper: | .90 Mt |
| • Graymont Havelock Plant: | .76 Mt |

- Two firms responsible for half the province's emissions

- NB Power: 31%
- Irving Oil: 22%
- 53% of province's emissions

- The future is electricity
- Industrial standard should drive preparation for coal phase-out on or before 2030 (as per federal regulation)

# NB Electricity Proposal does not prepare electricity system for 2030

- New Brunswick: OBPS schedule: Solid fuel (tCO2/GWh):
- 2019: 820
- 2020: 811
- 2021: 802
- 2022: 793
- No schedule post 2022

- Gas: 420 (tCO2e/GWh)
- Liquid (oil) standard: 2019, 800; 2020: 795; 2021, 790; 2022, 785

- Federal: OBPS schedule: Solid fuel (tCO2/GWh):
  - 2019: 800
  - 2020: 650
  - 2021: 622
  - 2022: 594
  - 2023: 566; 2024: 538; 2025: 510; 2026: 482; 2027: 454; 2028: 426; 2029: 398; 2030 and after: 370

  - Gas: 0 (tCO2e/GWh)
  - Liquid fuel: 550 tCO2e/GWh

# NB Brunswick’s motivation is to keep power rates low which undermines behavior change

- NB OBPS:
  - 2019: $2.1M; 0.1%
  - 2020: $2.7M; 0.2%
  - 2021: 2.8M; 0.2%
  - 2022: 6.2M; 0.4%
  - Total cumulative: $14M; 1%

  - Claim: reduced schedule recognizes past efforts by NB Power: emissions down since 2005 due to closure of two coal plants that could not meet new Sulphur dioxide standards (Dalhousie in 2012; Grand Lake 2010)

- Federal OBPS”
  - 2019: $8M; 0.6%
  - 2020: $23M; 1.6%
  - 2021: $28M; 2.0%
  - 2022: $32M; 2.2%
  - Total cumulative: $91M; 6.5%

  - No mention of household rebates which cover cost of fuel/electricity, rural top up or farmer/fisher exemptions
  - No mention of energy efficiency programs to cut costs

# Federal system standards based on sector performance: NB sets facility standard: plant average emissions 2015 to 2017

- Refinery
  - Federal standards vary:
    - 0.00370 per complexity-weighted barrel of crude oil, including bitumen, heavy crude oil, light crude oil and synthetic crude oil
    - 0.652 per tonne of high-value chemicals (Production of hydrogen gas, ethylene, propylene, butadiene and pyrolysis gas that are produced from steam cracking (“high-value chemicals”)
    - 0.694 per tonne of production of aromatic cyclic hydrocarbons, including benzene produced from catalytic reforming)
  - Province: Says it will use Solomon’s complexity weighted barrel standard but not stated
  - Goal is to move refinery from top third global performer to top 10 global performer

# NB proposing similar accommodations to the federal system, but goes further

- Pulp and paper
  - Federal standard: 0.203 tonnes CO2 per tonne of finished product
    - Province will credit early action on use of biomass for energy, not clear by how much
- Fixed (process) and non-fixed (combustion) emissions BUT 100% rebate for fixed (lime)
- Electricity: cumulative rate increase 1% (this is a theme)

# Federal criteria: Is there an incremental price?

- Incremental price:
  - Has approved as little as 1 cent incremental transportation increases for 2019 in PEI, NS, NFLD/Lab
  - 2020 and beyond will rise to federal level (expect)
  - SK .46% annual decline approved; NB says doing better by taking on SK refinery target of 0.84% annual decline for all NB industry
  - Electricity weakest: goal to keep cumulative rate low, hence 1%

# Federal criteria: What is the coverage?

- Coverage:
  - At least 70% of provincial emissions (BC minimum standard)
    - NB proposal covers 50% of provincial emissions because transportation fuel not yet covered by its plan
  - NB proposal does cover same:
    - Sectors as the federal industrial OBPS, greenhouse gases, threshold of 50,000 tonnes; industrial cogeneration
    - Fixed (process) and non-fixed (combustion) emissions BUT 100% rebate for fixed (lime)
    - Compliance flexibility: beat standard: can bank or sell credits; exceed standard: buy from Climate Change fund at federal carbon levy rates. Buy from other companies, or offsets at market rates: Unlikely to raise significant funds to invest in innovation, community protection (maybe around $14 million)

# Federal government has approved weak systems elsewhere in Atlantic Canada

- PEI:
  - Federal transportation fuel charge applies BUT it reduced excise tax on fuel so incremental price increase in 2019 is 1 cent
  - Federal industrial standard applies: Only one plant Cavendish
  - Can’t keep reducing excise tax so expect federal schedule to apply in 2020
- Nova Scotia
  - Opted for cap and trade covers industry, electricity, transportation fuels
  - Applied past reductions from electricity sector to industry: annual reductions of 1.4% to 2030 (650,000 tonnes)
  - Annual incremental price: 1 cent fuel, 1% electricity, 1.3% heating fuel
- NFLD
  - Industrial standard: per cent of emissions with levy: 6% in 2019 declining 2%/year
  - Reduced excise taxes in 2019 on transportation fuels

# Summary

- Federal system for industry and consumers applies until 2022, or government changes policy or approves provincial proposal
- Provincial proposal is weaker than federal system (and it is not that strong) and looks weaker than other Atlantic provinces
- Largest polluters are not being held accountable
- BUT federal Output Based Pricing System (OBPS) never designed to get significant reductions: Regulations doing the heavy lifting
    - Goal: marginal price signal, push innovation, but not damage competitiveness
    - Industry must do more, BUT the focus should be electricity
        - Need electricity reform. Increase provincial renewable target, electrification of transportation, coal phase-out by 2030, efficiency: Target is NB Power

# Summary: Key messages:

- Emissions reductions must accelerate to maximize the health and well-being benefits of solving climate change.
  - The New Brunswick proposal for regulating industry is too weak
  - It lets big polluters off the hook. Polluters need to pay their fair share
  - We call on the federal government to NOT approve the NB output-based pricing system proposal
  - We call on the province to step up, do its fair share
  - New Brunswick should meet or exceed the federal pricing standard for industry and consumers
  - New Brunswick must reform the electricity system to meet and exceed the provincial 10.7 Mt target by 2030
    - Increase provincial renewable target (60% by 2030), electrify transportation (at least 20,000 electric vehicles by 2030), commit to full coal phase-out by 2030, expand investment in efficiency (aim for at least 2% reduction in electricity demand/year)

# Next steps

- Provincial consultation open to July 12th
- CCNB will prepare a submission
- Will share with NBEN if others want to refer to it
- Encourage as many people as possible to make a submission and to release to media

# Thank you
# Questions
# Discussion

louise27comeau@gmail.com

# Atlantic provinces: Nova Scotia

- Cap and trade for 50,000 tonne of CO2e/year emitters starting January 1, 2019 covering industry and electricity.
- 75% of allowances allocated free for industry; 80% for fuel suppliers, and 90% for electricity. Minimal 650,000 additional greenhouse gas reductions by 2030 (about 1.4% annual decline rate).
  - New entrants can access reserve. Using Western Climate Initiative infrastructure and rules. Ceiling and floor prices match federal pricing: $20/floor and $50/ceiling. No banking, borrowing.
- Estimated cost over four years to 2022: 1 cent per litre; 1 percent electricity; heating fuels covered, 1.3 cent average increase
- Target of 45 to 50% below 2005 by 2030
- Expect revenue of $25 to $30-million to go into provincial Climate Fund
- Develop offsets rules in 2019

# Atlantic provinces: Prince Edward Island

- Two-year agreement with Government of Canada
- Exempts home heating fuels
- Will reduce provincial excise tax in
- Federal carbon pricing schedule to apply ($10/tonne 2019 (4.4 cents) rising to $50/tonne (11 cents) in 2022). Province will reduce excise tax on fuels so that consumers see a 1 cent increase in 2019 and another cent in 2020). Assume this means excise taxes reduced 3.4 cents in 2019 and 5.6 cents in 2020).
- Revenues raised from consumers returned to consumers. Not details on how.
- Federal backstop for industry applies. Captures one company Cavendish
- Adopted federal greenhouse gas target

# Atlantic provinces: Newfoundland and Labrador

- Home heating fuels exempt
- Eliminates 4 cent temporary gas tax, which is replaced by federal system starting at 4.42 cents/litre
- Eliminates 5 cent tax on diesel, which is replaced by federal system starting at 5.37 cent/litre
- Applies performance-based system (similar to Alberta/federal systems) to offshore and onshore industries and electricity that emit more than 25,000 tonnes annually
  - Targets range from 6% below 2016-2017 historical average emissions-to-output ratio for 2019 for onshore facilities rising 2% year to 2022). Three-year grace period for new entrants, phased in over 8 years. Credits to overachievers, debits underachievers. Credits bankable and tradeable.
  - Develop offsets rules in 2019
  - Purchased credits can equal no more than 90% of target in 2020, 85% in 2021 and 80% in 2022
- Exemptions for agriculture, fishing, forestry, offshore and mineral exploration, with methane gases from venting and fugitive emissions in the oil and gas sector, gasoline burning for electricity (covered by federal and/or industrial regulation)