



CARBON PRICING 101 FOR LARGE POWER USERS IN ONTARIO

An overview of the carbon pricing systems used in Ontario, along with their implications and forecasted price schedules.

WHAT IS CARBON PRICING?

Carbon pricing is an economic policy and accounting strategy used to recognize and reduce greenhouse gas (GHG) emissions. This is achieved by assigning a cost to emissions of carbon dioxide (CO₂) and other GHGs, converted to CO₂ equivalent (CO₂e). The science, economics and politics of GHG reductions are complex and based on international agreements, as well as federal and provincial policies. Despite this complexity, it is widely recognized that putting prices on carbon-based fuels and other sources of CO₂e is one of the most effective, transparent and efficient policy approaches to reduce emissions while also driving innovation.

TYPES OF CARBON PRICING

There are two basic forms of carbon pricing, both of which are used in Ontario:

1 Carbon taxes

2 Emissions trading systems

The 2018 federal Greenhouse Gas Pollution Pricing Act established minimum national standards for carbon pricing to help Canada meet its emissions reduction targets under the Paris Agreement. The act has two carbon-pricing mechanisms: fuel charges, a form of carbon tax, and the Output-Based Pricing System (OBPS), a form of emissions-trading system. The latter was superseded by the Emissions Performance Standards (EPS) program in 2022.

CARBON TAX FOR ONTARIO

The carbon tax on fossil fuels is administered by the Canada Revenue Agency and applied to fossil fuel producers and distributors, who then pass on the charges to their customers.

Applies to 21 fossil fuels, including coal, coke, oil, gasoline, light fuel oil (e.g., diesel), natural gas and propane, as well as combustible waste, such as tires and asphalt shingles (where permitted for burning).

Approximately 90% of fuel charge proceeds are returned to individuals and families through the quarterly Canada Carbon Rebate (formerly known as Climate Action Incentive payments).

FEDERAL FUEL CHARGES RATES ON SELECT FUELS (STARTING APRIL 1 OF EVERY YEAR)

Type	Unit (\$CAD per)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CO ₂ e	tonne	40	50	65	80	95	110	125	140	155	170
Gasoline	litre	0.0884	0.1105	0.1431	0.1761	0.2091	0.2422	0.2752	0.3082	0.3412	0.3743
Diesel	litre	0.1073	0.1341	0.1738	0.2139	0.2540	0.2941	0.3342	0.3743	0.4144	0.4545
Propane	litre	0.0619	0.0774	0.1006	0.1238	0.1470	0.1703	0.1935	0.2167	0.2399	0.2631
Natural gas	cubic metre	0.0783	0.0979	0.1239	0.1525	0.1811	0.2097	0.2383	0.2669	0.2954	0.324

EMISSIONS TRADING SYSTEMS

Emissions Trading Systems (ETS) are market-based policies designed to reduce emissions in the most feasible and cost-effective ways. Emitters can invest in reducing their own emissions or buy/trade excess emission allowances. There are two types of ETS: cap-and-trade and baseline-and-credit systems. As of 2022, Ontario only uses a baseline-and-credit system known as the Emissions Performance Standards (EPS) program, which is managed by the Ontario Ministry of the Environment, Conservation and Parks (MECP).

HOW THE EPS PROGRAM WORKS

The program is mandatory for the approximately 100 Ontario facilities with annual emissions over 50,000 tCO₂e.

The program is optional for the approximately 200 Ontario facilities with annual emissions between 10,000 tCO₂e and 50,000 tCO₂e.

Facilities enrolled in the EPS program are exempt from federal fuel charges.

Most Ontario facilities are not eligible for the EPS program, as they are not large enough emitters. Instead they pay for their carbon emissions through the federal fuel charge.

Special rules apply for new or expanding facilities expected to exceed the 10,000 tCO₂e or 50,000 tCO₂e in annual emissions.

EPS PERFORMANCE CALCULATIONS AND REPORTING

The total annual emissions limit for a facility is calculated using consumption and production data, as well as facility-specific, sectoral or historical baseline emissions (typically 2015–2017 or a similar period) as described in the MECP’s March 2024 GHG Emissions Performance Standards methodology.

Stringency factors are applied every year to adjust the limits downward, to encourage facility owners and managers to make annual improvements.

PRICING OF EXCESS EMISSIONS

Facilities enrolled in the EPS program can purchase and surrender excess emission compliance units (EEUs) at the fixed cost set annually, which is harmonized with the federal minimum carbon price but trails by nine months (i.e., fuel charge changes April 1, 2024; EEU matches fuel charge Jan. 1, 2025).

EEU PRICE SCHEDULE (AS OF JANUARY 1 EACH YEAR)

Period	2022	2023	2024	2025	2026	2027	2028	2029	2030
\$CAD/tCO ₂ e	40	50	65	80	95	110	125	140	155

If emissions exceed the benchmark (e.g., the facility’s annual emissions limit), payment is in \$/tCO₂e **only on emissions over the limit** and is due by Dec. 15 of the following year.

HOW CARBON PRICING IMPACTS ONTARIO INDUSTRY

For many EPS participants, the value of compliance payments or credits is already in the millions of dollars annually or will be in this range. On June 28, 2024, the MECP launched the new Emissions Performance Program (EPP), which is funded by EPS proceeds. The EPP will support projects to reduce GHG emissions at eligible industrial facilities. For more information, please contact EPPIInfo@ontario.ca and or visit the [Government of Ontario’s funding opportunities site](#).

Sources

[World Bank Group Compliance Fact Sheet](#)

[World Bank Group Carbon Pricing](#)

[Canadian Climate Institute](#)

[David Suzuki Foundation](#)

[A Distributional Analysis of the Federal Fuel Charge under the 2030 Emissions Reduction Plan](#)

[International Carbon Action Partnership](#)

[Justice Laws Website](#)

[2024 State and Trends of Carbon Pricing](#)

[GHG EPS and Methodology for Determination of TAEI](#)

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[Government of Canada How Carbon Pricing Works](#)

[Government of Canada Fuel Charge Rates](#)

[CDP Carbon Pricing](#)

[Financial Accountability Office of Ontario](#)

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[Ontario.ca Laws](#)

[Ontario.ca Emissions Performance Standards Program](#)

[Sierra Club Fact Sheet Carbon Pricing](#)

[World Bank Group Press Release May 2024](#)

[Ontario.ca Available Funding Opportunities](#)