



Media Package

GNWT Approach to Carbon Pricing

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YELLOWKNIFE (July 11, 2018) – The Government of the Northwest Territories (GNWT) is releasing its planned approach to implementing carbon pricing in the Northwest Territories (NWT). The made in the North approach balances implementing carbon pricing as a tool to incent behaviors to reduce greenhouse gas emissions (GHG), with investments in initiatives and programs that lead to greater use of renewable and cleaners fuels, while ensuring that we minimize impacts on the cost of living and doing business in the NWT.

The GNWT is a signatory to the Pan-Canadian Framework on Clean Growth and Climate Change. That framework included introduction of carbon pricing along with a series of commitments to other actions related to reducing emissions and advancing projects in partnership with Canada. The GNWT continues to work with the federal government on other aspects of implementing the Pan-Canadian Framework.

The planned approach recognizes that there is already considerable incentive for residents and businesses to minimize energy use due to the high costs. Our large distances between communities and cold climate contribute to the high cost of living and doing business in the NWT. A broad based approach that includes carbon pricing, investments to reduce emissions, and advancing transformational energy projects like the Taltson hydro expansion are needed to support our climate change goals.

Quotes:

“The approach to carbon pricing planned for the NWT balances managing the high cost of living and doing business in the NWT and the need to do our part to address climate change. Carbon pricing is just one of the components of our overall approach and we are implementing it in a way that reflects our northern realities.”

- **Robert C. McLeod**, Minister of Finance

Quick facts:

Some of the key components of the NWT approach to carbon pricing include:

- Introducing a NWT carbon tax on fuels effective July 1, 2019 based on \$20/tonne of GHG emissions. This would increase annually to \$50/tonne.
- Excluding aviation fuel from carbon pricing.
- Rebating 100% of the carbon tax for heating fuel for most residents, businesses, and governments.



- Enhancing benefit programs to offset the impact of carbon pricing on NWT families through benefits that will be delivered through the Canada Revenue Agency on behalf of the GNWT.
- Rebating the NWT Power Corporation for carbon tax payments related to fuel needed to produce electricity, in order to ensure electricity rates do not increase.
- Establishing rebate program for large GHG emitters to partly offset the impact of carbon pricing and to incent investments to reduce GHG emissions.
- Investing in GNWT initiatives that reduce emissions and address climate change as identified in the 2030 Energy Plan and NWT Climate Change Strategic Framework.

Links:

The results of the federal-territorial analysis of the impact on carbon pricing in the NWT and the results of the public engagement on carbon pricing completed by the GNWT can be found at:

<http://www.fin.gov.nt.ca/carbon-pricing>

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NWT Carbon Tax – Backgrounder

Fuel Use in the NWT

- Overall, 465.3 million liters of fuel were used in the NWT in 2016-17. Gasoline and motive diesel fuel accounted for 43% of this total. Non-motive diesel, diesel for heating and propane for heating accounted for 46% of the total fuel. The remaining fuel use was for aviation and rail.

GNWT Fuel Use, by Type 2016-17

	Fuel Used In Litres
Total	465,255,771
Gasoline	53,276,151
Motive Diesel	146,884,998
Non-Motive Diesel	114,719,317
Heating Diesel	80,461,651
Aviation	51,730,905
Propane	18,022,909
Rail	159,841

- Fuel for 2016-17 was relatively typical, with the average fuel use 473.4 million over the last six years. Fuel use fluctuates with environmental conditions, as well as economic changes.

Greenhouse Gas (GHG) Emissions

- According to the 2018 National Inventory Report produced by Environment and Climate Change Canada (ECCC), the NWT produced 1,611 kilotonnes of greenhouse gas emission in 2016. Approximately 97% of these emissions were related to energy.
- About 39% of NWT emissions can be attributed to electricity production and heating. Some 57% of emissions are transportation related, comprised of 7% for aviation, 25% for road transportation, 24% for off-road primarily mining related activities, and 1% for navigation and railways.
- ECCC has estimated that implementing the federal backstop for carbon pricing would reduce NWT emissions by 3.4%.

Large Emitters

- In the NWT, large emitters are defined as those private sector establishments that emit more than 50 kilotonnes of GHG on an annual basis. For 2016, large emitters would have included operating diamond mines and the Norman Wells oil facility.
- More than 500 kilotonnes of GHG emissions in the NWT were produced in these facilities.

Aviation Fuel in the North

- Aviation is critical in the NWT. Information from Statistics Canada indicates a much greater reliance on air travel for residents and for transporting cargo than in the rest of Canada. For example, the average amount of air cargo per resident is ten times higher in the NWT compared with the rest of Canada.
- Air transportation is also important part of economic development and a significant cost driver for businesses.
- Exempting aviation fuel will save residents, governments and businesses approximately \$6.4 million annually when the NWT Carbon Tax is fully implemented.

Approach to Heating Fuel

- Climate and price differences result in heating costs that are two or three times higher in NWT communities compared with the rest of Canada.
- Heating for a single detached dwelling is estimated to cost more than \$7,000 annually in some NWT communities compared with about \$2,000 annually in southern cities for a similar dwelling.
- There are also significant differences within the NWT between amounts paid for heating by residents whether they are a homeowner, private market renter, or public housing tenant.
- Typical small businesses in the NWT are estimated to be paying between approximately \$5,000 and \$35,000 annually for heating fuel depending on the nature of their establishment.
- The NWT Carbon Tax for heating fuel will be 100% rebated at the point of purchase for all except large emitters.

This is expected to save homeowners approximately \$500 annually and private market renters approximately \$300 annually depending on location and size of dwelling.

The impact of the NWT Carbon Tax on municipal governments will also be reduced by rebating heating fuel. As examples, this is estimated to save Yellowknife and Inuvik more than \$100,000 annually and about \$30,000 annually for smaller communities based on reported heating fuel expenses.

For small business, rebated amounts for heating fuel could range annually from about \$1,000 to more than \$5,000 depending on the nature of the business.

Offsetting Other Household Impacts

- Cost of living continues to present challenges for NWT residents. The exemption on aviation fuel and the rebate on heating will mitigate some of the impact of introducing a carbon tax.
- Additional impacts will be offset with the Cost of Living Offset benefit (COLO). As noted, these benefits will increase as the NWT Carbon Tax amounts increase. When fully implemented, the

COLO will provide each adult in the NWT \$260 to offset carbon tax impacts and \$300 for each child.

For a couple with two children, this will provide \$1,120 of benefits on an annual basis.

These benefits will be delivered through the Canadian Revenue Agency (CRA). Similar to the existing NWT Child Benefit, Canada Child Benefit, Old Age Security, and the GST Rebate, residents will need to file their annual personal income tax return to access these benefits.

In total, these new benefits will cost the GNWT \$12.0 million annually when fully implemented.

Fuel and Electricity Generation

- NTPC purchased approximately 19.6 million liters of fuel in 2016-17 for the production of electricity. This is primarily used in smaller NWT communities with diesel powered generators.
- The GNWT subsidizes residential electricity rates for residents in communities with rates higher than Yellowknife through the Territorial Power Subsidy Program (TPSP). Adding the NWT Carbon Tax to diesel purchased for electricity production, will simply increase the amount of subsidy provided.

For businesses and governments operations within the thermal zone, adding the carbon tax on fuel for producing electricity will simply add to the cost of doing business in communities' dependent non-motive fuel for electricity generation.

- The GNWT will rebate the NWT Carbon Tax paid by NTPC for electricity production on an annual basis. Based on 2016-17 fuel consumption, this will amount to \$3.0 million when the carbon tax is fully implemented.

Investing in Green Initiatives

- The GNWT has outlined a series of energy projects that will reduce GHG emissions as part of the 2030 NWT Energy Plan. These are just a portion of the actions identified as part of the energy plan.
- Many of these action will be completed in partnership with the federal government under programs that require 25% of the funding be provided by the GNWT and 75% by the federal government.
- Specific initiatives planned over the next five years include:
 - Inuvik Wind
 - Fort Providence/Kakisa Transmission
 - Norman Wells Wind/Diesel
 - Whati Transmission
 - Fort Simpson LNG
 - Sachs Harbour Wind/Diesel
 - Aklavik Additional Solar for VSG Trial
 - Fort McPherson Conventional Solar
 - Tulita Solar for Advanced Inverter Trial
 - Ulukhaktok Conventional Solar
 - Paulatuk Conventional Solar
 - Wekweeti Conventional Solar
 - Tsiigehtchic Conventional Solar

- These projects are being advanced through federal programs, but initial estimates indicate the GNWT share for these projects will be approximately \$39.4 million over the next five years, with total project costs expected to be about \$157.4 million.
- Revenues from the NWT Carbon Tax that are targeted for investing in green initiatives are expected to total \$38.7 million over the next five years and will be the main source of resources used to advance actions approved through the 2030 Energy Plan.
- Annual NWT Carbon Tax revenue and related expenditures will be approved by the Legislative Assembly as part of the operational and capital appropriations.



Implementing the NWT Carbon Tax

- The GNWT will introduce changes to the *Petroleum Products Tax Act* to implement the NWT Carbon Tax that will become effective July 1, 2019.
- The NWT Carbon Tax introduced in 2019 will reflect \$20/tonne of greenhouse gas emissions (GHG) for the various types of fuel. The rates will increase annually until 2022 when it will reach \$50/tonne.

Proposed NWT Carbon Tax Rates, by Fuel Type

	Jul-19	Jul-20	Jul-21	Jul-22
	(cents/litre)			
Gasoline	4.7	7.0	9.4	11.7
Motive diesel	5.5	8.2	10.9	13.7
Non-Motive diesel	5.5	8.2	10.9	13.7
Railway	5.5	8.2	10.9	13.7
Heating fuel	5.5	8.2	10.9	13.7
Propane	3.1	4.6	6.2	7.7
Natural gas	3.8	5.8	7.7	9.6
Naphtha	5.1	7.7	10.2	12.8

- Administration of the NWT Carbon Tax will be done in a similar manner as the current NWT fuel tax. Tax collectors are typically fuel wholesalers and the process related to tax collection is described in the legislation and related regulations.
- The NWT Carbon Tax will not apply to aviation fuel. This is expected to provide an offset of \$6.4 million annually for residents, governments and businesses when the carbon tax is fully implemented.
- To estimate potential revenues from the NWT Carbon Tax, 2016-17 fuel consumption information is used. For 2019-20 revenue estimates reflect a partial year as the NWT Carbon Tax will become effective July 1. Revenue and expenditures related to the NWT Carbon Tax will be reflected in annual budget documents.
- The NWT Carbon Tax will generate an estimated \$16.3 million in 2019-20, increasing to \$54.5 million when fully implemented.
- The GNWT expects to directly invest \$3.8 million of carbon tax revenue in 2019-20 into initiatives that will reduce GHG emissions, increasing to \$13.9 million annually when fully implemented.

- GNWT initiatives will initially be related to items identified in the 2030 Energy Plan and the Climate Change Strategic Framework. Specific investments will be identified as part of the annual budget process.
- For residents, governments and business entities with less than 50,000 kilotonnes of annual GHG emissions the following offsets for the NWT Carbon Tax will apply.
 - NWT Carbon Tax for heating fuel will be 100% rebated at the point of purchase. This is expected to provide an offset of \$9.4 million annually from the carbon tax for residents, governments and small businesses when the carbon tax is fully implemented.
 - The GNWT will introduce changes to the Income Tax Act to introduce the new Cost of Living Offset (COLO) benefit that will provide benefits to all residents in order to reduce the impact of the NWT Carbon Tax on cost of living.
 - These benefit programs will be administered by the Canada Revenue Agency on behalf of the GNWT. Benefit levels will increase annually as the NWT Carbon Tax rates increase to 2023.
 - When fully implemented, the COLO benefit will provide \$260 annually for each NWT resident 18 years of age or older and \$300 annually for each child when fully implemented.
 - These additions to the benefit programs are expected to cost \$3.6 million in 2019-20 increasing to \$12.0 million when fully implemented.
 - The Northwest Territories Power Corporation (NTPC) will be provided with an annual rebate for non-motive diesel purchased for producing electricity. This is expected to amount to \$3.0 million when the NWT Carbon Tax is fully implemented. Not offsetting this additional cost for NTPC would have meant increased costs for electricity.
- For large emitters (50,000 kilotonnes or more of annual GHG emissions) the following approach will apply for the NWT Carbon Tax.
 - NWT Carbon Tax will be applied on all types of fuel.
 - An annual rebate will be provided for 75% of their carbon tax collected on non-motive diesel and heating fuel. The other 25% will be held in individualized trust accounts that will be able to be accessed for investments by each entity that reduce GHG emissions.
 - The annual rebated portion for non-motive diesel and heating fuel is estimated to be \$11.7 million when fully implemented. The amount retained in trust is expected to be \$3.9 million annually.