Canada Launches New OBPS Funding System

Does your company qualify for Output Based Pricing System funding'

Last February 14, the federal government offered a Valentine's Day present to business by launching the Output-Based Pricing System Proceeds Fund (OBPS Proceeds Fund) supporting industrial initiatives to reduce greenhouse gas (GHG) emissions and deploy clean technology and green energy. Here's a quick briefing.

The OBPS

The OBPS and federal fuel charge are key elements of the federal carbon pricing system created under the Greenhouse Gas Pollution Pricing Act (GGPPA). The GGPPA is a backstop. Provinces and territories may adopt their own carbon pricing schemes. But those local systems must be at least as stringent. If not, the OBPS, federal fuel charge or both apply. Jurisdictions can also opt in to the OBPS, federal fuel charge or both. The federal OBPS currently applies in Manitoba, Nunavut, PEI, Saskatchewan and Yukon; it also used to apply in Ontario and New Brunswick until recently.

The OBPS itself applies to larger industrial facilities that emit 50,000 tonnes or more of CO2e annually. Smaller facilities can also opt into the OBPS. In either case, so called 'Covered Facilities' must meet federal emission reduction requirements, based on their production from specified industrial activities. Covered Facilities that exceed their set emissions limit must provide some form of compensation by paying an excessive emissions charge, submitting compliance units (surplus credits, recognized credits, and federal offset credits), or a combination of both.

The OBPS Proceeds Fund

The compensation that facilities that exceed emission targets pay goes into the OBPS Proceeds Fund and ultimately returned to the jurisdiction in which they're collected. Jurisdictions that voluntarily opt into the OBPS qualify for a direct transfer of funds; jurisdictions where the OBPS is mandated to apply (Mandated Jurisdictions) receive their OBPS Proceed Funds via two streams: the Future Electricity Fund (FEF) and Decarbonization Incentive Program (DIP).

The FEF

Funding for the FEF comes from the proceeds paid by electricity generating Covered Facilities, i.e., utilities, in Mandated Jurisdictions. The proceeds are then used to promote production and delivery of clean electricity in support of Canada's efforts to reach its national GHG emission reduction targets. It's up to each Mandated Jurisdiction to work out the details of their particular FEF funding arrangements.

The DIP

The DIP is funded by proceeds paid by non-electricity generating Covered Facilities in Mandated Jurisdictions and used to support projects to accelerate the development of low carbon technologies within those jurisdictions. Covered Facilities (other than utilities) must apply for DIP funding, which is then awarded based on the merits of the proposed project in materially reducing GHG emissions by 2030. Examples of eligible projects include:

- Carbon capture storage and utilization;
- Heat recovery;
- Stationary and mobile equipment retrofits for energy efficiency or fuel switching;
- Diversion of organics;
- Building envelope upgrades (insulation, windows, doors);
- Clean electricity and low-carbon fuel production for own use;
- Cogeneration or combined heat and power production;
- District energy and/or heating; and
- Industrial process changes and product use changes (e.g., refrigerants).

Takeaway

While the details still have to be worked out, particularly with regard to the FEF, financial support via the OBPS Proceeds Fund represents a potentially significant strategic opportunity for companies in Mandated Jurisdictions. Accordingly, it’s worth considering whether current or future projects of your own company meet OBPS eligibility requirements.