



TaxNewsFlash Canada

Federal Carbon Pricing Coming to Alberta on January 1, 2020

December 6, 2019
No. 2019-55

With the Federal Fuel Charge (FFC) coming into effect in Alberta starting January 1, 2020, affected businesses will have to act quickly to meet new fuel charge obligations. Alberta oil and gas producers, among others, will have to ensure they are properly registered and prepared to meet new monthly reporting requirements.

Background

The FFC is part of the federal carbon pollution pricing backstop that includes an Output-Based Pricing System (OBPS) for industrial facilities that emit greenhouse gases above a certain threshold. These rules, which were introduced in 2018, are intended to apply to businesses that produce, distribute and use fossil fuels in provinces/territories that did not implement carbon pricing systems that meet the benchmark set by the federal government by March 30, 2018.

Certain businesses that have activities in Ontario, Manitoba, Saskatchewan, New Brunswick, Nunavut and Yukon (Listed Provinces) were required to register for the FFC, prepare returns and remit the FFC as of April 1, 2019 (July 1, 2019 for the territories of Nunavut and Yukon). Alberta is scheduled to join these provinces as of January 1, 2020 as a result of its earlier repeal of the Alberta Carbon Levy, which governed a broad based levy on fossil fuel used, imported and delivered in Alberta, effective May 30, 2019.

Both the FFC and the OBPS are administered under the federal *Greenhouse Gas Pollution Pricing Act (GGPPA)*. Part I of the GGPPA deals with the FFC, which applies to fossil fuel produced, delivered or used in a Listed Province. Part II deals with the OBPS which applies to facilities that emit 50,000 tonnes of carbon dioxide equivalent (CO₂e) or more in 2014 or a subsequent year, are located in a backstop jurisdiction,

and are designated as a covered facility by Environment and Climate Change Canada. Facilities that emit between 10,000 tonnes and 50,000 tonnes of CO₂e and new facilities can apply to opt in to the system.

For more details, see *TaxNewsFlash-Canada* 2019-23, "[Federal Fuel Charge Reporting Starts May 31](#)".

Businesses with activities in Alberta — Prepare for changes to tax obligations

Certain businesses with activities in Alberta face new requirements starting January 1, 2020, when Alberta is scheduled to become a Listed Province. It is important that entities operating in Alberta understand how they may be affected by the FFC and proposed changes under Alberta's new *Technology Innovation and Emissions Reductions Regulation* (TIER). Although the federal government has not yet approved the TIER, these rules are intended to replace the OBPS component of the federal carbon pollution pricing backstop, and may further affect registration and compliance obligations before January 1, 2020.

Registration requirements and compliance

Certain businesses operating in Alberta will be required to register with the CRA under Part I of the GGPPA for purposes of the FFC effective January 1, 2020. This requirement applies to businesses that operate in Alberta, such as fuel producers, distributors, importers, or certain fuel users or users of combustible waste, as well as air, marine, rail or road carriers. Businesses that are not required to register may be able to voluntarily register under the FFC system as distributors, importers, emitters and registered users. A business not otherwise required to register may choose to register voluntarily to be eligible to issue an exemption certificate to purchase fuel exempt from the fuel charge under qualifying circumstances.

To register, businesses must complete Form L400, "Fuel Charge Registration" and Form L400-1, "Fuel Charge Registration Schedule", and persons registered as road carriers must use Form L400-2 "Fuel Charge Registration Schedule - Road Carrier". These forms can be submitted to the CRA electronically using the "Submit documents" function in *My Business Account*, or by mail.

Registered persons generally have monthly reporting requirements and, where applicable, must pay the FFC to the CRA. The deadline for the return and payment is the last day of the month following the reporting period of the person.

Businesses that hold fuel in Alberta on January 1, 2020

Subject to certain exceptions, businesses that hold fuel in Alberta on January 1, 2020 (the "adjustment day") that is subject to a fuel charge of \$1,000 or more, must pay the FFC. Further "adjustment days" will occur in Alberta and all other Listed Provinces on April 1, 2020, and in subsequent years until 2022, to account for the annual fuel charge increases.

Large emitters in Alberta

Alberta proposed the TIER to replace the *Carbon Competitiveness Incentive Regulation* (CCIR), which deals with large emitters, effective January 1, 2020. Alberta proposed TIER as an alternative to OBPS effective January 1, 2020, but these proposals have not yet been approved by the federal government. If they are not approved in time, large emitters will be subject to the OBPS rules.

Note that facilities that are already registered under Alberta's existing CCIR will automatically become TIER facilities starting January 1, 2020.

Changes for large emitters and others under the FFC

Facilities that have been granted large emitter status under OBPS, and have been designated as such by the federal government, will not be subject to the FFC on fuel that is used at a covered facility. To qualify for this exemption, the facility must be registered with CRA as a "registered emitter", and must purchase the fuel with an exemption certificate. These facilities will be subject to OBPS (or TIER, if approved) in respect of their emissions.

Facilities that are not granted a "registered emitter" status will be subject to FFC for fuel used at their facility (e.g., fuel used in the production process to power equipment or flared fuel). These facilities will not be subject to OBPS (or TIER, if approved) in respect of their emissions.

Any facilities that deliver fuel to its customers, will be required to remit the FFC to CRA at the time of sale, unless its customers (including registered emitters) provide a valid exemption certificate.

Certain oil and gas producers may be required to be registered as a "registered distributor" effective January 1, 2020. A "registered distributor" may qualify for full or partial relief of the FFC provided all exempting conditions have been met.

Note that the FFC does not include a transitional exemption for fuels used in a production process (whether or not they were flared or vented) before 2023, as was included under the now-repealed Alberta carbon levy rules. Therefore, the FFC will apply to these fuels starting January 1, 2020 unless a specific exemption is available.

Changes for large emitters under the TIER (if approved)

If TIER is approved by the federal government as a replacement for OBPS, Alberta facilities that emit more than 100,000 tonnes of CO₂e per year will become regulated facilities under TIER, and facilities that emit more than 10,000 tonnes of CO₂e per year may be eligible to opt in to become regulated facilities. Alberta is also proposing to allow entities to consolidate smaller facilities that in aggregate emit at least 10,000 tonnes of CO₂e per year to become a regulated aggregate facility.

Facilities that are registered under TIER and have obtained a “registered emitter” status under the federal OBPS program will be subject to the Alberta TIER.

Where registered facilities emit over a set baseline level, they will be required to buy credits from another facility, buy carbon offsets, or pay into a government fund at the applicable carbon price. A payment is only due in situations where the emission level exceeds the facility’s limit.

KPMG observations

In addition to having to make emission related payments, affected facilities will also face additional compliance costs that are associated with becoming a TIER facility. These compliance costs, which are similar to the cost associated with becoming an OBPS facility, include:

- Gathering information related to the levels of production and greenhouse gas emissions at each facility
- Quantification and reporting of the collected information
- Verification of the published emissions and production report, which must be performed by an accredited verification body and includes:
 - A site visit
 - A review of data collection and integrity for both emissions and production
 - A review of emissions calculations and reporting completeness and accuracy.

We can help


Your KPMG adviser can help you assess the effect of the FFC and TIER regime on your business. For more details on your obligations under these rules, contact your KPMG adviser.

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