CARBON MARKET BUSINESS BRIEF

NOVA SCOTIA

NOVA SCOTIA'S CAP-AND-TRADE PROGRAMME AT A GLANCE

Years in operation	Since 2019
Overall cap & trajectory	2022: 12,148,000 tCO_2e
Target(s)	53% below 2005 emissions by 2030
Sectors covered	Facilities with annual emissions of 50,000 tCO2e and above; petroleum suppliers, natural gas distributors, electricity importers
GHGs covered	• CO_2 • CH_4 • N_2O • HFCs • PFCs • SF_6 • NF_3
# of covered entities	26
Allocation method	Mix of grandfathering for free allocation and 30% via auction
Trading rules	Trading is allowed between mandatory participants only, no voluntary participation. Allowances to be auctioned in lots of 1000.
Use of offsets and linking	No offsets currently. An offset system may be developed following consultations. No linking with other jurisdictions.
Other features	Free allowance allocation each year. Holding and purchasing limits on allowances. 3% of annual allowances are held in a reserve for sale by agreement or for adjustment of allocations free of charge. Using CITSS. 2-4 auctions per calendar year. Compliance deadline is 15 December in the following year.
Penalties for non-compliance	Administrative penalties to be determined. Participants short at compliance deadline will pay three times the latest auction settlement price per tCO_2e.

Use of revenues	All revenue from auctions and sale of reserve allowances will go into the Green Fund and be used for GHG mitigation, adaptation, encourage innovative technology, and reduce negative economic and social effects of mitigation actions. A total of C$18 million has been invested into energy efficiency and renewable energy programmes, with another C$44.3 million being raised into the fund from 2021 auctions. Funded programmes include the Solar Homes programme, Affordable Housing, Energy Solutions, and Clean Leadership. The Climate Change Mitigation Sub-Stream includes projects that increase the capacity to manage more renewable energy, increase access to clean energy transportation, and improve energy efficiency of buildings and generation of clean energy. Eligible projects should have a total cost of C$1 million or more, with completion by October 2027.

MAJOR DEVELOPMENTS

The cap-and-trade programme launched 1 January 2019. The first allocation of allowances took place in April 2019 and auctioning started in 2020. Two auctions are scheduled for 2022, on 8 June and 7 December.

The Nova Scotia cap-and-trade market remains relatively closed as there are no opt-in opportunities for facilities with annual emissions below the mandatory threshold of 50,000 tCO2e and as market speculators are not allowed to participate. Also, there are still no immediate plans for Nova Scotia to link with other markets such as the WCI cap-and-trade system, which includes the California and Quebec programmes. Nova Scotia, Quebec, and California are the only North American jurisdictions currently operating a cap-and-trade programme which covers industrial emissions.

Deputy Minister Lora MacEachern has said that an updated Nova Scotia Climate plan will be released in Spring 2022. Nova Scotia is also currently evaluating its existing cap-and-trade programme and considering the most appropriate carbon pricing system for the next eight years. In 2022, the Canadian federal government is conducting a federal programme assessment to review all provincial carbon pricing programmes using the updated Federal Carbon Pollution Pricing Benchmark. The Federal Benchmark aims to increase the stringency of all carbon pricing programs to support the national emissions reduction target of 40-45% below 2005 levels by 2030. For the purpose of regulatory certainty, all provincial programmes that are deemed ‘equivalent’ in stringency will be implemented for the 2023-26 period, and for jurisdictions without an approved programme, the Federal Backstop will be imposed.

Associate Deputy Minister Jason Hollett indicated on the Public Accounts Committee Proceedings on 2 February that the province is currently considering three options: 1) an explicit carbon pricing programme that matches the federal carbon pricing trajectory – reaching C$170 by 2030; 2) a cap-and-trade programme with a more stringent cap for the 2023-30 period that corresponds with, at a minimum, the projected emissions from a price-based system and in line with the national target; 3) a combination of federal fuel charge and a performance-based carbon pricing program for industrial emitters. Key to this consideration is the cost-effectiveness of emissions reduction and the impact on Nova Scotians. According to Hollett, since the implementation of Nova Scotia’s market-based programme, the cost impact for consumers of fossil fuel remained at an additional one cent per litre, versus the 8.8 cents impact under the federal fuel charge. Moving away from the cap-and-trade model will result in a significant price increase, though this also means that the revenue for the Green Fund can expand by collecting the tax from consumers and industrial emitters.

MARKET COMMENTARY

Allowances are auctioned in lots of 1000. A minimum price is set each year, increasing by 5% plus inflation. For auctions in 2022, the minimum price is C$22.92/tCO2e.

Mandatory participants with excess allowances can sell them via government auctions on a consignment basis. Allowances sold by consignment will be sold at the auction’s closing price. Consignment allowances are sold first, before the allowances offered by the province. Unsold consignment allowances are kept and sold at the next auction.

In 2021, Nova Scotia held its third cap-and-trade auction on 9 June, which saw prices leap from the December 2020 auction settlement of C$24.70 to C$36.71. This was the first auction after a series of significant developments in the

Canadian carbon pricing landscape, including the release of Canada's strengthened climate plan in December 2020 and a newly proposed carbon price increase to $170 per tCO2e by 2030; the Supreme Court ruling that federal carbon pricing is constitutional; the federal opposition Conservatives making carbon pricing a part of their climate plan for the first time; and the publication of Canada's enhanced NDC to cut emissions to 40-45% below 2005 levels by 2030. These developments have sent a strong signal in terms of carbon pricing certainty in Canada and likely contributed to the allowance price increase seen in Nova Scotia.

Nova Scotia's fourth auction of emission allowances took place on 23 November 2021. The total volume available for sale at the auction was 912,000 allowances, 18.9% more than in June. The auction was undersubscribed with a bid-to-cover ratio of 0.87, with the 790,000 units sold clearing at the 2021 floor price of C$21.09. This was the lowest settlement price to date. However, the mean bid price was C$45.53, and the median bid price was C$49.10, indicating that some bidders submitted much higher prices but in smaller orders above the floor price. The maximum bid price submitted was C$100.00.

For auctions in 2022, the minimum price is C$22.92. The next auction will be held on 8 June2022, offering 816,000 allowances from 2019-2021.

USEFUL LINKS

ICAP ETS Nova Scotia Factsheet

Quantification reporting and verification regulation

June 2021 Auction Results Summary

November 2021 Auction Results Summary

REFERENCES

Climate Change Nova Scotia Nova Scotia cap-and-trade regulation

Nova Scotia Cap and Trade Regulatory Framework

June 2022 Auction Notice

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