

ONTARIO EPS AT A GLANCE

September 2025

Years in operation	Came into effect on January 1, 2022 and establishes annual compliance periods.
Overall cap and trajectory	<p>The Ontario EPS applies to facilities that emit over 50,000 tCO₂e per year. Facilities that emit over 10,000 tCO₂e per year in regulated sectors can opt in to the EPS at any time.</p> <p>Emission reduction obligations are determined using a Baseline Emissions Intensity (BEI). Depending on the industrial sector, facilities may have a sector-wide BEI or a facility-specific BEI. BEIs are divided between fixed and non-fixed process emissions BEIs.</p>
Target(s)	30% below 2005 emissions by 2030.
Emissions reduced to date	No data is available
Sectors covered	<p>The industrial activities currently covered by the EPS program, set out in Schedule 2 of O. Reg. 241/19, were previously determined to be at either a medium or high risk of carbon leakage and competitiveness impacts from carbon pollution pricing, based on MECP's assessment approach.</p> <p>The MECP published a process for adding industrial activities to the EPS program, for which unregulated sectors can submit data for the MECP's consideration.</p> <p>Through a regulatory amendment published in April 2024, three additional sectors were assessed as being high risk and subsequently added to the list of NAICS codes in Schedule 2 of O.Reg 241/19:</p> <ul style="list-style-type: none"> • NAICS 3273 (Cement and concrete product manufacturing) • NAICS 3328 (Coating, engraving, cold and heat treating and allied activities) • NAICS 33591 (Battery manufacturing)
GHGs covered	Greenhouse gases listed in Schedule 1 of the O. Reg. 390/18
Number of covered entities	Covers approximately 200 facilities.
Allocation method	Depending on the industrial activity engaged in, there are two main types of Baseline Emission Intensity (BEI). The Sector-wide BEI is an average greenhouse gas emissions standard based on weighted average emission intensity for historical years. The facility-specific BEI is based on recent historical emissions and production information, if readily available, for the facility. Allocation methods are also provided for electricity generation and cogeneration thermal energy.
Trading rules	A facility may comply through any combination of payment of the Excess Emissions Units (EEU) (non-tradable) or use of Emission Performance Units (EPU) (tradable). EPUs expire on the 15 th of December in the year that is five years after the compliance period in respect of which they were distributed. There is no usage limit applied to EPUs, and therefore, regulated facilities can cover 100% of their compliance obligations through EPUs.
Use of offsets and linking	Offsets are not an eligible compliance unit under the Ontario EPS.

Penalties for non-compliance	If a compliance obligation is not satisfied by December 15th in the year following the compliance period, the facility will be subject to a penalty of 3:1 of the compliance obligation shortfall that must be submitted by February 15th two years following the compliance period. Note, regulated facilities must request EEU from the Minister no later than December 1st following the compliance period.
Use of revenue	EEU payments are redistributed through the Emissions Performance Program (EPP). The EPP is a non-competitive program that provides 1:1 funding based on the amount of compliance paid into the EPS program through the purchase of EEUs. Only facilities that comply with EEUs are eligible for EPP funding. Eligible facilities will be notified annually of the allocation of funds available for use. Facilities that generate electricity as their primary industrial activity are eligible for a separate funding stream.

PROGRAMME DETAILS

The Ontario Ministry of Environment, Conservation, and Parks (MECP) created the Emissions Performance Standards (EPS) program to regulate the GHG emissions of industrial facilities in Ontario as an alternative to the federal Output-Based Pricing System (OBPS), which was enforced in the province from 2019-2021. In October 2021, MECP published two amendments (Reg 730/21 and Reg 729/21) to align the EPS program to the federal OBPS, to ensure a smooth transition on 1 January 2022. The program follows the same pricing schedule as the federal OBPS, which was set at \$50 per tCO₂e in 2022 and is increasing by \$15 until it reaches a price of \$170 in 2030. It also functions similarly to the federal OBPS. An emission performance standard establishes a limit on the amount of GHGs emitted from a facility, process, or equipment. Emitters are required to either reduce their emissions or pay for exceeding the limits by purchasing Excess Emissions Units (EEUs) from the government. Facilities that emit below their limit generate Emissions Performance Units (EPUs). One EPU is generated for each tonne below the limit.

Industrial activities regulated by the program are listed in Schedule 2 of O.Reg 241/19. In 2024, the EPS program assessed the following four additional sectors as being high risk of competitive and leakage risks and included them in the list of eligible industrial activities under the program:

- NAICS 3273 (Cement and concrete product manufacturing)
- NAICS 3328 (Coating, engraving, cold and heat treating and allied activities)
- NAICS 33591 (Battery manufacturing)

In order to calculate the Total Annual Emissions Limit (TAEL), facilities use the sum of different methodologies that are based on sector-wide as well as facility-specific Performance Standards (PS). These methodologies are:

- Method A: Sector Performance Standard
- Method B: Electricity Generation Sector Performance Standard
- Method C: Cogeneration Thermal Energy Sector Performance Standard
- Method D: Facility Specific Performance Standard (Facilities Not Subject to Method E)
- Method E: Facility Specific Performance Standard
- Method F: Historical Facility Emissions Limit Standard

In the calculation of the Performance Standards (PS), stringency factors (reduction factors) are applied to Baseline Emission Intensities (BEI) to account for competitiveness and carbon leakage risks. Separate stringency factors are applied to fixed process emissions (FPEs) and non-fixed process emissions (non-

FPEs). The 2023-2030 updated program design applies an annual tightening rate on the stringencies. There will be a 2.4% reduction in 2023 and a 1.5% reduction in each preceding year.

Facilities will evaluate their compliance position by comparing their regulated emissions with the Total Annual Emissions Limit (TAEL). Facilities emitting less than their TAEL will generate Emission Performance Units (EPUs) that can be banked for up to 5 years. EPUs can be used to cover the compliance position in future years or monetized based on a discount to the year's carbon cost. Facilities emitting more than their TAEL, will be subject to a compliance obligation equivalent to the difference between their emissions and TAEL. To fulfil their compliance obligation, facilities can either purchase credits from MECP known as Excess Emissions Units (EEUs) or use banked EPUs from previous years. Alternatively, facilities can purchase EPUs from the market. Offsets are not an eligible compliance unit under the Ontario EPS program.

MAJOR DEVELOPMENTS

The MECP published [regulatory amendments](#) under the program in April 2024 to address certain gaps in the regulatory framework. Notably, the amendments revised how renewable natural gas (RNG) is treated within the program. Previously, RNG qualified as biomass if its production aligned with regulatory definitions. This allowed CO₂ emissions from biomass to be deducted from reported emissions, reducing compliance costs for regulated entities. However, limitations existed where RNG was only recognized if combusted on-site, limiting its impact. The amendments now recognize off-site combusted RNG in Ontario through an administrative process with Enbridge. This aligns with other Canadian carbon pricing programs where biomass, including RNG, is excluded from regulated emissions. Additionally, the MECP acknowledged sectors investing in decarbonization efforts, focusing on the steel industry. The MECP approved a reduced stringency for the steel sector for facilities transitioning to cleaner production processes.

The MECP also launched the Emissions Performance Program (EPP) in 2024, recycling compliance payments from the EPS program to fund GHG emission reduction projects. Regulated facilities purchasing EEUs will have access to their annual compliance payments at a 1:1 ratio for capital projects that reduce emissions or for studies. Therefore, emitters may consider purchasing EEUs as a form of financial savings for GHG emission reduction projects. Facilities under the EPS must choose between paying into the program and receiving equivalent funding for emission reduction projects or purchasing EPUs to reduce compliance costs.

On June 20, 2025, the MECP [proposed amendments](#) to offer greater flexibility for voluntary participants to exit the Ontario Emissions Performance System (EPS) program as a response to the removal of the federal fuel charge by the federal government. The proposed amendments also aim to broaden the scope of mandatory industrial activities to include additional petroleum-based product manufacturing.

The current regulatory framework states that voluntary participants in the EPS program can only exit the program if they cease operations entirely or if their annual emissions drop below 10,000 tCO₂e for three consecutive years. The proposed amendment would allow any voluntary facility to request to leave the program at any time. Facilities that exit the program would still have compliance obligations under the EPS program for the portion of the year they were regulated. Additionally, they would be unable to re-register for the program for five years, unless they subsequently meet the criteria for mandatory participation. The exit from the program would be effective:

- April 1, 2025, if the request is made on or before December 31, 2025

- December 31 in the year the request is approved by the Director, if the request is made after December 31, 2025

For facilities that initially opted into the EPS program to primarily gain an exemption from the federal fuel charge, this amendment offers the flexibility to exit the program as early as 2025. Facilities that exit the program before December 31, 2025, will have a shortened 2025 compliance period (January 1 - March 31, 2025), which aligns with the removal of the fuel charge. Exiting the program will lead to reduced administrative burden and compliance costs associated with the EPS program. However, voluntary facilities consistently generating EPU's may choose to remain in the program to monetize the credits by selling them into the market and gaining additional revenue.

Therefore, these proposed amendments are expected to lower compliance costs for facilities that choose to exit the program. According to the MECP, voluntary participants accounted for just 7% of total emissions covered under the EPS in 2023. As a result, the voluntary exit of smaller industrial emitters is not expected to significantly impact overall provincial GHG emissions.

Additionally, as part of the proposed amendments, the MECP is seeking to broaden the scope of mandatory participants in the program. The proposed change adds petroleum and coal product manufacturers to the list of mandatory industrial activities in Schedule 2 of the EPS regulation. This will shift manufacturers of petroleum-based products in this category (for example, lubricants, oils and coke) with significant GHG emissions equal to or greater than 50,000 tCO_{2e} from voluntary participants to mandatory participants in the EPS program. Currently, facilities engaging in petroleum and coal product manufacturing do not meet the definition of a mandatory facility under the EPS regulation.

The commenting period closed on 20 July 2025. The MECP stated that they endeavour to publish the regulatory amendments as soon as possible to provide voluntary participants with the flexibility to exit the program.

MARKET COMMENTARY

The results of the federal election brought a degree of policy certainty that is driving increased market activity in the Ontario EPS. Prior to the election, many regulated facilities were taking a 'wait and see approach'. However, the Ontario EPS market remains nascent and highly opaque, with limited publicly available market information. Trading of EPU's is restricted to regulated emitters, and trading activity in this market typically occurs once per year, aligned with the compliance cycle. Facilities that generate EPU's receive them by November 15th at the latest, while the compliance deadline is December 1st of the same year. To ensure adequate time for transaction processes, buyers and sellers often enter into agreements earlier in the year, even before the completion of reporting, verification, and credit issuance. In 2025, EPU's are transacting at a 15–20% discount to the annual compliance price.

Ontario's EPS Program offers a direct compliance payment option, where payments are returned to emitters on a 1:1 basis through the EPP. As a result, some facilities prefer to pay into the system and receive funding, rather than transacting EPU's, particularly if the savings from credit purchases are marginal. However, for emitters without eligible projects or where funding value is limited, cost savings become a priority, and they may seek to acquire EPU's.

USEFUL LINKS

[Emissions Performance Standards Program](#)

[Update to the Pan-Canadian Approach to Carbon Pollution Pricing 2023-2030](#)

[Guidance for Using Carbon Pollution Pricing Proceeds to Support Canadian and Drive Climate Ambition](#)

REFERENCES

Ontario Regulation 241/19: Greenhouse Gas Emissions Performance Standards (EPS Regulation).
<https://www.ontario.ca/laws/regulation/190241>

Ontario Regulation 390/18: Greenhouse Gas Emissions: Quantification, Reporting and Verification.
<https://www.ontario.ca/laws/regulation/180390>

O. Reg. 562/22: Greenhouse Gas Emissions Performance Standards.
<https://www.ontario.ca/laws/regulation/220562>

Guideline for Quantification, Reporting and Verification of Greenhouse Gas Emissions (October 2021; updated August 2025).
<https://ero.ontario.ca/public/2025-08/Guideline%20for%20QVRV%20of%20GHG%20Emissions%20August%202025.pdf>

GHG Emissions Performance Standards and Methodology for the Determination of the Total Annual Emissions Limit.
<https://ero.ontario.ca/public/2025-08/GHG%20EPS%20and%20Methodology%20for%20TAEL%20August%202025.pdf>

ERO Notice #019-7649: Regulatory amendments to clarify program requirements and improve program efficiency for EPS and GHG Reporting Programs.
<https://ero.ontario.ca/notice/019-7649>

ERO Notice #025-0394: Expanding criteria for Voluntary Participants to exit the EPS program.
<https://ero.ontario.ca/notice/025-0394>

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