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Legislative Costing Note

Publication Date:	2021-06-23	
Short Title:	Update: Bill C-206 - Extension of the exemption for qualifying farming fuel to marketable natural gas and propane	
Description:	<p>Bill C-206 amends the <i>Greenhouse Gas Pollution Pricing Act</i> to extend the exemption for qualifying farming fuel to marketable natural gas and propane.¹ This note updates a prior PBO costing to account for the federal carbon pricing backstop rising to \$170/Gt by 2030.²</p> <p>The exemption will cover marketable natural gas and propane used for all farm operations. Currently, carbon charge exemptions for these fuels apply only to greenhouse operations.³ The exemption applies only to provinces and territories that are subject to federal carbon pricing because they do not have climate pricing plans that meet federal standards.</p> <p>We assume that only fuel used for eligible farming activities in eligible farming machinery is eligible for the exemption.</p>	
Data Sources:	Variable	Source
	Industrial energy use by province	National Energy Board
	Energy conversion by fuel type	Canada Energy Regulator
	Demand of primary and secondary energy by sector and by province	Statistics Canada
	Farm fuel expenses by province	Statistics Canada
	On-farm energy use in Canada	Natural Resources Canada
Estimation and Projection Method:	<p>PBO projected total marketable natural gas and the propane use in the agricultural sector in Alberta, Saskatchewan, Manitoba and Ontario based on:</p> <ul style="list-style-type: none">• Projections of natural gas and the refined petroleum product (RPP) use in the industrial sector (by province) in Canada's Energy Future (EF2020) by the Canada Energy Regulator.⁴• The historical share of industrial natural gas and propane energy use in the agricultural sector, from Statistics Canada. <p>PBO's estimate accounts for personal fuel use (ineligible for the exemption) and fuel used in greenhouse operations (already exempted under the Act).</p> <p>PBO assumed that propane and natural gas are mainly used for heating for the operation of greenhouses, the heating of farm houses and barns, crop drying and the irrigation of field</p>	

¹ Parliament of Canada, *Bill C-206*, accessed June 21, 2021, <https://parl.ca/DocumentViewer/en/43-2/bill/C-206/first-reading>

² https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/climate-plan/healthy_environment_healthy_economy_plan.pdf.

³ Canada Revenue Agency (2019). Fuel Charge Exemption Certificate for Greenhouse Operators. Retrieved from <https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/404/404-12-19e.pdf>

⁴ EF2020 considered the COVID-19 pandemic impact on the sectoral energy demand and assumed that the effect will slowly dissipate over the next two to three years.

crops, while diesel and motor gasoline are specifically used for machinery, motor vehicles, and personal use of trucks and vans. These assumptions are based on the descriptive analysis of the On-farm energy use in Canada provided by Natural Resources Canada. We assume these are eligible machinery for the purposes of this cost estimate.

Based on these assumptions, the total projected natural gas and propane used by farmers are categorized as eligible fuels for carbon pricing exemption since a very small portion of these fuels were assigned for personal use.

The biggest portion of the carbon charges for natural gas and propane used in greenhouse operations were already exempted under the Act and were subtracted from PBO's projections for total fuel eligible for the new exemption.⁵

The energy used by greenhouse operators was projected by multiplying the share of the greenhouse fuel expenses in the total heating and curing fuel expense by the projected natural gas and propane use in the agricultural sector.

The historical greenhouse fuel and the total farm heating and curing fuel expenses by province are provided by Statistics Canada.

Input data has been updated to reflect new information, when available.

Sources of Uncertainty: Uncertainty is inherent in the shares of the natural gas and propane uses in the agricultural sector relative to the uses in the industrial sector.

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⁵ A greenhouse operator is eligible to obtain relief of 80% of the fuel charge when it receives propane or marketable natural gas and an exemption certificate applies.

Cost of proposed measure

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	42	53	69	85	101

Supplementary information

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Alberta	10	13	17	21	25
Manitoba	0	1	1	1	1
Ontario	25	32	41	51	60
Saskatchewan	6	8	10	13	15
Total cost	42	53	69	85	101
Price per tonne (\$/t)	40	50	65	80	95

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.

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