# Pausing the fuel charge on heating oil and doubling the rural top-up rate for fuel charge rebates

Legislative Costing Note

**Published on November 17, 2023**

On October 26, the Government announced the following measures:

- A temporary pause in the fuel charge on heating oil deliveries, in all jurisdictions where it currently applies, starting on November 9 and ending on March 31, 2027.

- A doubling of the rural top-up rate (also known as the rural supplement) for fuel charge rebates (Climate Action Incentive payments) from 10 per cent to 20 per cent starting in April 2024.

The temporary exemption of the fuel charge applies to light fuel oil used exclusively for providing heat to a home, building or similar structure, but not for generating heat in an industrial process.

To be eligible for the rural top-up, an individual must reside outside a Census Metropolitan Area (CMA) in a jurisdiction where the federal fuel charge currently applies based on the most recent Census published by Statistics Canada before the taxation year. The Government intends to continue using the CMA determinations based on the 2016 Census for fiscal years 2024-25 and 2025-26.

PBO estimates that pausing the fuel charge on heating oil would reduce fuel charge proceeds by $208 million in 2023-24, increasing to $327 million in 2026-27 (Table 1). PBO assumes that the Government will correspondingly reduce fuel charge proceeds returned such that there is no budgetary impact (that is, there would be no net cost) over this period.

Taking into account the temporary pause of the fuel charge on heating oil, PBO estimates that doubling the rural top-up rate for fuel charge rebates from 10 per cent to 20 per cent would result in an increase in rural supplement payments amounting to $304 million in 2024-25, rising to $536 million in 2030-31 (Table 2).

## Table 1: Impacts of pausing the fuel charge on heating oil, millions of dollars

| Fiscal year | 2023-2024 | 2024-2025 | 2025-2026 | 2026-2027 | 2027-2028 | 2028-2029 | 2029-2030 | 2030-2031 |
|---|---|---|---|---|---|---|---|---|
| NL | -37 | -43 | -50 | -55 | - | - | - | - |
| PE | -12 | -15 | -17 | -19 | - | - | - | - |
| NS | -73 | -87 | -100 | -112 | - | - | - | - |
| NB | -27 | -32 | -36 | -40 | - | - | - | - |
| ON | -55 | -67 | -80 | -93 | - | - | - | - |
| MB | -2 | -2 | -3 | -3 | - | - | - | - |
| SK | -1 | -1 | -2 | -2 | - | - | - | - |
| AB | 0 | -1 | -1 | -1 | - | - | - | - |
| YT | -1 | -1 | -1 | -1 | - | - | - | - |
| NU | 0 | 0 | 0 | 0 | - | - | - | - |
| Total fuel charge proceeds | -208 | -250 | -290 | -327 | - | - | - | - |
| Total fuel charge proceeds returned | -208 | -250 | -290 | -327 | - | - | - | - |
| Total cost | - | - | - | - | - | - | - | - |

## Table 2: Impacts of doubling the rural supplement top-up rate, millions of dollars

| Fiscal year | 2023-2024 | 2024-2025 | 2025-2026 | 2026-2027 | 2027-2028 | 2028-2029 | 2029-2030 | 2030-2031 |
|---|---|---|---|---|---|---|---|---|
| NL | - | 15 | 18 | 20 | 24 | 26 | 28 | 30 |
| PE | - | - | - | - | - | - | - | - |
| NS | - | 17 | 19 | 22 | 29 | 32 | 34 | 36 |
| NB | - | 11 | 13 | 14 | 17 | 19 | 20 | 21 |
| ON | - | 102 | 116 | 130 | 145 | 157 | 172 | 183 |
| MB | - | 25 | 29 | 32 | 35 | 38 | 41 | 43 |
| SK | - | 47 | 53 | 59 | 64 | 69 | 76 | 81 |
| AB | - | 87 | 98 | 109 | 116 | 125 | 135 | 141 |
| YT | - | - | - | - | - | - | - | - |
| NU | - | - | - | - | - | - | - | - |
| Change in rural supplement | - | 304 | 346 | 386 | 430 | 465 | 507 | 536 |

### Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- Estimates are based on the assumption that there are no timing differences between when proceeds are received and when they are returned.
- The value of “0” means that the cost is not material (that is, less than 500 thousand dollars).

· The "-" symbol represents a value of zero.
· Totals may not add due to rounding.

## Estimation and Projection Method

PBO projected heating oil in all jurisdictions where the federal fuel charge currently applies based on projections of light fuel oil used by households and by the service sector (for example, offices, retail and wholesale trade, and educational services) provided by Environment and Climate Change Canada (ECCC). PBO converted ECCC projections of heating oil into carbon dioxide equivalents based on ECCC emission factors and then applied the per tonne federal fuel charge of $65 in 2023-24, rising to $110 in 2026-27.

Under the current structure, 90 per cent of federal fuel charge proceeds collected in a jurisdiction are returned to households—including the rural supplement— in that jurisdiction; the remaining 10 per cent of proceeds are returned through federal programming (amounts disbursed to small- and medium-sized businesses, farmers and Indigenous groups). The rural supplement is a 10 per cent top up to the "base" fuel charge rebate (that is, the rebate that individuals residing within a CMA receive).

In the absence of information related to the treatment of the base fuel charge rebate and federal programming, PBO assumed that all base rebates and federal programming amounts would not be affected by the increase in the rural top-up rate (Table 2). Further, PBO assumed that fuel charge rebates and federal programming in Prince Edward Island[1] would not be impacted by the increase in the rural top-up rate. Fuel charge rebates in Yukon and Nunavut are administered by the territorial governments.

## Sources of Uncertainty

Small amounts of light fuel oil in the service sector could be used for purposes other than heating buildings. Heating oil data are not filtered by purpose.

The Government has not yet specified if there will be changes to the base fuel charge rebates or federal programming amounts. The net cost to the Government of increasing the rural top-up to 20 per cent will depend on how this increase is funded. In PBO's view, there are three potential funding scenarios.

Under the first scenario, the envelope for the fuel charge rebate within a jurisdiction would be maintained (that is, 90 per cent of fuel charge proceeds would be returned) and the base rebate would be lowered to accommodate the increase in the rural top-up rate to 20 per cent.[2] This would result in individuals in CMAs seeing their rebates reduced relative to the rebates they would have received under the existing structure. Given that the increase in the rural supplement is funded within the existing rebate envelope, the net cost would be zero.

Under the second scenario, the base rebate within a jurisdiction would be maintained and the increase in the rural top-up rate would be funded by reducing an equivalent amount in federal programming (amounts disbursed to small and medium-sized businesses, farmers and Indigenous groups). Given that the increase in the rural supplement is funded within existing fuel charge proceeds, the net cost would be zero.

Under the third scenario, the base rebate and federal programming within a jurisdiction would be maintained and the increase in the rural top-up rate would not be funded through fuel charge proceeds, resulting in a net cost to the Government equal to the amounts shown in Table 2. To offset this cost, the Government could decide to increase revenues and or reduce spending on other programs.

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## Data Sources

**Light fuel oil used by sector by province**

Environment and Climate Change Canada

**Fuel emission intensity**
PBO calculations

**GHG emissions under fuel charge by sector and by province**
Environment and Climate Change Canada

**Share of population residing outside a CMA by province**
Statistics Canada. Table 98-10-0005-01


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[1] Technically there is no rural supplement in Prince Edward Island because it does not have a CMA. All households receive the same fuel charge rebates.

[2] In this scenario where the rebate envelope (including the rural supplement) remains at 90 per cent of fuel charge proceeds, the incremental rural supplement resulting from the increased rural top-up rate would vary slightly from the estimates shown in Table 2.