

Direct Fiscal Impacts of the Federal Carbon Pricing Backstop on the City of Saskatoon (2019-2024)

ISSUE

In 2018, Parliament passed the *Greenhouse Gas Pollution Pricing Act (GGPPA)*, establishing a national carbon pricing framework that took effect in 2019. *The Act* introduced two pricing mechanisms: (1) regulatory fuel charge on fossil fuels such as gasoline, diesel, and natural gas; and (2) an Output-Based Pricing System (OBPS) for large industrial emitters. Saskatchewan did not meet the federal benchmark, resulting in the federal backstop being applied in full. From 2019 to 2024, the City of Saskatoon (the City) incurred approximately \$14.7 million in carbon pricing charges due to its consumption of these fuels and electricity.

BACKGROUND

At the February 26, 2025, Regular Business Meeting of Saskatoon City Council, the following inquiry was made by Councillor R. Pearce:

“Would the Administration report back on the estimated financial impact the Carbon Tax has had on the City of Saskatoon from 2020 to 2024.”

This report responds to that inquiry, with the analysis extended back to 2019 — the year when the federal backstop was first applied in Saskatchewan and registered fuel and electricity distributors began applying charges under the *GGPPA*.

CURRENT STATUS

Part one of the *GGPPA* applies a regulatory fuel charge in “listed” provinces — that is, provinces where the federal fuel charge applies because the provincial system does not meet the federal benchmark. As of 2024, this includes all provinces except Quebec and British Columbia, which have their own compliant carbon pricing systems. The fuel charge applies to a range of fuels such as gasoline, diesel, and natural gas, measured in cents per litre (or per cubic metre in the case of natural gas).¹ Notably, the federal fuel charge does not apply to electricity (explained later).

The Regulatory Fuel Charge

Since 2019, the federal fuel charge has applied in Saskatchewan. The charge increases annually on April 1, unless amended by the federal Cabinet. For example:

- From April 1, 2024, to March 31, 2025, the fuel charge on gasoline is 17.6 cents per litre.
- It was scheduled to increase to 20.9 cents per litre on April 1, 2025, before recent policy changes (see below).

¹ See for example Table 1, <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/fcrates/fuel-charge-rates.html>.

Because the City consumes various fuels in the delivery of municipal services — including gasoline, diesel, and natural gas — it is subject to these charges.

Revenue Recycling

All revenue generated by the fuel charge in a backstop province is returned to that province through various federal programs²:

- Approximately 93% is returned to households through the Canada Carbon Rebate.
- The remaining 7% is allocated to small and medium-sized businesses, farmers, and Indigenous communities.
- Public sector bodies, including municipalities, do not receive any rebate or direct compensation.

Fuel Charge Set to Zero

On March 15, 2025, the Federal Cabinet issued an Order-in-Council amending Schedule 2 of the *GGPPA*, setting the fuel charge rate to zero for all fuels in listed provinces.³

This means that effective April 1, 2025, there will be no federal fuel charge on gasoline, diesel, natural gas, or other listed fuels in Saskatchewan, and other backstop provinces.⁴ Municipalities, and other fuel consumers, will no longer incur carbon-related fuel charges.

OBPS for Industrial Emitters

Part two of the *GGPPA* establishes an OBPS which applies to industrial facilities in backstop jurisdictions.⁵ In Saskatchewan, this includes SaskPower, the Province's main electricity provider, which relies heavily on coal and natural gas to generate electricity. As a result, SaskPower was subject to the federal OBPS beginning in 2019.

Under the OBPS, large emitters must make compliance payments to either the federal or provincial government for greenhouse gas emissions (measured in CO₂ equivalent) that exceed a set performance threshold. These thresholds are designed to encourage reductions in emissions intensity without compromising competitiveness.⁶

SaskPower Rate Rider

To recover these costs, SaskPower implemented a carbon charge rate rider effective April 1, 2019.⁷ This rider is reviewed and typically adjusted annually on January 1 to reflect changes in estimated compliance obligations. The revenue collected through the rider is used to fund SaskPower's carbon pricing compliance payments.

² See <https://www.canada.ca/en/revenue-agency/services/child-family-benefits/canada-carbon-rebate/how-much.html>.

³ <https://orders-in-council.canada.ca/attachment.php?attach=47114&lang=en>

⁴ See note 3.

⁵ <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system.html>

⁶ <https://laws-lois.justice.gc.ca/eng/regulations/SOR-2019-266/index.html>

⁷ <https://saskpower.com/federalcarbontax>

Between 2019 and 2022, SaskPower paid approximately \$496 million in OBPS compliance charges to the Government of Canada. These funds were subsequently returned to Saskatchewan through the Future Electricity Fund (FEF), administered via grant agreements to support current and future clean electricity initiatives.⁸

Saskatchewan Establishes its own OBPS – Payments to Government of Saskatchewan
In July 2023, the federal government approved the Saskatchewan Output-Based Performance Standards (OBPS) Program as a replacement for the federal system, retroactive to January 1, 2023.⁹ As a result, SaskPower's compliance payments for 2023 and beyond are now made to the Government of Saskatchewan rather than to the federal government.

While electricity is not directly subject to the federal fuel charge, it is subject to the national carbon price, which on April 1, 2025, rose to \$95/tonne of CO₂e. In March 2025, the Premier of Saskatchewan announced that the Government of Saskatchewan was suspending Saskatchewan's OBPS, effective April 1, 2025.¹⁰ This meant that the rate rider applied to SaskPower bills to make compliance payments to Saskatchewan's OBPS was (temporarily) removed.

DISCUSSION/ANALYSIS

Table 1 in Appendix 1 provides a breakdown of gross annual and cumulative Carbon-related charges by fuel type, paid by the City to fuel and electricity distributors between 2019 and 2024. The total gross fiscal cost was \$14.7 million, equivalent to 0.27% of total City expenditures during the period. This includes:

- \$3.99 million for electricity consumption;
- \$4.76 million for natural gas consumption;
- \$4.57 million for diesel fuel consumption; and
- \$1.42 million for gasoline consumption.

The term “gross” is used because these figures do not net out the small fiscal benefit the City receives from its 10% municipal surcharge on electricity, which is applied to the final billing amount — including the rate rider added by SaskPower.¹¹ Cumulatively, the fiscal benefit to the City was approximately \$400,000.

⁸ <https://www.canada.ca/en/environment-climate-change/services/climate-change/carbon-pollution-pricing-proceeds-programming/output-based-pricing-system-proceeds-fund.html>

⁹ <https://www.saskatchewan.ca/business/environmental-protection-and-sustainability/a-made-in-saskatchewan-climate-change-strategy/obps-and-saskatchewan-technology-fund#output-based-performance-standards-program>

¹⁰ <https://www.saskatchewan.ca/government/news-and-media/2025/march/27/saskatchewan-is-the-first-province-in-canada-to-be-carbon-tax-free>.

¹¹ The municipal surcharge was put in place to compensate urban municipalities for giving up the right to establish their own power distribution systems. This is termed a “franchise fee”. Authority is provided under section 44 of *The Power Corporation Act*.

IMPLICATIONS

Starting April 1, 2025, the City will no longer incur fuel charges under the *GGPPA*, resulting in lower prices for gasoline, diesel, and natural gas. However, there is uncertainty over how electricity will be treated. As noted, Saskatchewan paused the collection of the SaskPower rate rider effective April 1, 2025, so the City did not incur the additional compliance charges on its electricity bills for April 2025.

NEXT STEPS

Once Parliament resumes, the federal Minister of Finance intends to introduce legislation to formally repeal Part 1 of the *GGPPA* and eliminate the federal fuel charge.¹² However, there is ongoing political uncertainty regarding Part 2 of the *Act* (the OBPS framework). The newly-elected Liberal Government is expected to maintain the OBPS, which could mean that Saskatchewan will need to re-instate the Sask Power rate-rider on electricity consumption.¹³

APPENDICES

1. Direct Fiscal Impact Calculations by Fuel Types and Year, 2019-2024.

REPORT APPROVAL

Written by: Mike Jordan, Chief Public Policy and Government Relations Officer
Reviewed by: Clae Hack, Chief Financial Officer.
Approved by: Jeff Jorgenson, City Manager

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¹² <https://gazette.gc.ca/rp-pr/p2/2025/2025-03-15-x2/html/sor-dors107-eng.html>

¹³ See <https://liberal.ca/wp-content/uploads/sites/292/2025/04/Canada-Strong.pdf>, p. 38.