

# CARBON MARKET BUSINESS BRIEF

## NOVA SCOTIA

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

Years in operation	2019-21
Overall cap & trajectory	2019: 13,683,000 tCO <sub>2</sub> e 2020: 12,725,000 tCO <sub>2</sub> e 2021: 12,258,000 tCO <sub>2</sub> e 2022: 12,148,000 tCO <sub>2</sub> e
Target(s)	45-50% below 2005 emissions by 2030
Sectors covered	Facilities with annual emissions of 50,000 tCO <sub>2</sub> e and above; petroleum suppliers, natural gas distributors, electricity importers
GHGs covered	CO <sub>2</sub> , CH <sub>4</sub> , N <sub>2</sub> O, HFCs, PFCs, SF <sub>6</sub> , NF <sub>3</sub>
# 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 <sub>2</sub> e.
Use of revenues	All revenue from auctions and sale of reserve allowances will go into the Green Fund. Funds will be used for GHG mitigation, adaptation, encourage innovative technology, and reduce negative economic and social effects of mitigation actions.

A total of \$18 million will be invested into energy efficiency and renewable energy programmes including 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 \$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. The province held two auctions in 2020, the first of which took place 10 June and the second 2 December. Two auctions are scheduled for 2021: 9 June and 23 November.

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 tCO<sub>2e</sub> 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.

## MARKET COMMENTARY

Allowances are auctioned in lots of 1000. A minimum price is set each year, increasing by 5% plus inflation. The 2020 minimum price was \$20 per tCO<sub>2e</sub>.

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.

Reserve allowances were set at \$50 per tCO<sub>2e</sub> in 2020, rising annually by 5% plus inflation.

Nova Scotia's first auction took place on 10 June 2020. All 640,000 allowances offered were sold at a settlement price of \$24, \$4 above the 2020 auction floor price. Of the 26 eligible auction participants, 15 entities purchased allowances in the auction. The settlement price was in line with the WCI allowance price at the time, which was around \$23.

The second auction, on 2 December 2020, was oversubscribed. All 542,000 allowances offered were sold at a settlement price of \$24.70 apiece. Of the 26 eligible auction participants, 13 entities purchased allowances in the December auction. The settlement prices seen were below the 2020 federal carbon price of \$30 per tCO<sub>2e</sub>, a trend which is expected to continue in 2021 with a floor price of \$21.09 versus a federal carbon backstop price of \$40. At the first auction sale of 2021, Nova Scotia Environment and Climate Change will offer 767,000 allowances; a volume that has increased by over 40% since the December 2020 auction.

Nova Scotia's cap-and-trade programme, like Quebec's, has been deemed equivalent to the carbon pricing benchmark criteria set by the federal government, as Nova Scotia's 2030 emission reduction target is "equal to or greater than Canada's 30% reduction target and declining (more stringent) annual caps to at least 2022 that correspond, at a minimum, to the projected emissions reductions resulting from the carbon price that year in price-based systems."

## USEFUL LINKS

[ICAP ETS Nova Scotia Factsheet](#)

[Quantification reporting and verification regulation](#)

[June 2020 Auction Results Summary](#)

[December 2020 Auction Results Summary](#)

## REFERENCES

[Climate Change Nova Scotia Nova Scotia cap-and-trade regulation](#)

[Nova Scotia cap-and-trade framework](#)

[June 2020 Auction Notice](#)

[June 2021 Auction Notice](#)

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