

BRIEFING

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Chief Financial Officer's Briefing to
Combined Meeting of Council
2019 December 16

ISC: UNRESTRICTED
C2019-1512

Significant Industry and Regulatory Developments in 2019

PURPOSE OF BRIEFING

The GPT committee monitors energy prices and markets, utility industry developments, and utility regulation. Implementation is through bimonthly Industry Update reports. The objective is to assess the need for interventions in utility regulatory proceedings to protect The City's interest.

Two significant developments have emerged from reporting in the second half of 2019. These developments do not lend themselves to standard regulatory interventions. Implications for the Calgary local government make it necessary to explore responses using other public policy tools.

Table 1: Significant Industry and Regulatory Developments in 2019

	Significant Developments	GPT Report Number	Reporting Period
1.	The direct financial impact on The City because of the switch from a provincial carbon tax to a federal carbon tax.	GPT2019-0887	2019 July
2.	The possibility that Calgary natural gas consumers could face cumulative rate increases exceeding 10 per cent approved through regulatory proceedings.	GPT2019-1920	2019 October

SUPPORTING INFORMATION

Impact of the switch from a provincial to a federal carbon tax

On 2019 June 4, Bill 1, the provincial *Carbon Tax Repeal Act* received Royal Assent. The Bill ended the tax the previous provincial government imposed on a variety of fuels at 12:01 a.m. on 2019 May 30. The Alberta government estimated that the average small business would save \$4,500 annually, and Alberta families would save \$1,150 per year.

The Alberta carbon tax was \$30 per tonne of CO₂ emissions. The carbon tax costs embedded in the price of associated fuels had a direct cost impact of \$6.4 million to The City of Calgary in 2018. Details by fuel, including the equivalent carbon tax rate, are available in Table 2. Indirect financial impacts embedded in goods and services purchased by The City is challenging to quantify.

Table 2: The Alberta Provincial Carbon Tax and Direct Cost Impact on The City in 2018

Type	Alberta Rate (\$ per unit)	Units Consumed	Impact on City Costs (\$)
Aviation turbo fuel	0.0775	273,954 litres	\$21,231.46
Gasoline	0.0673	9,366,954 litres	\$630,396.03
Diesel	0.0803	33,297,683 litres	\$2,673,803.98
Methanol	0.0326	94 litres	\$3.06
Propane	0.0462	251,401 litres	\$11,614.72
Natural Gas	0.0406	74,278,572 cubic metres	\$3,015,710.01
CNG	0.0458	97,092 cubic metres	\$4,446.80

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Type	Alberta Rate (\$ per unit)	Units Consumed	Impact on City Costs (\$)
Total			\$6,357,206.06

On 2019 June 13, the federal government released a public statement confirming that the federal carbon tax would be imposed on Alberta starting 2020 January 1. From 2020 January to March, the federal carbon tax rate is \$20 per tonne of CO₂ emissions. From 2020 April to December, the federal carbon tax rate is \$30 per tonne of CO₂ emissions. While this should ordinarily translate into \$0.5 million in savings relative to 2018 costs, the volatile nature of the prices for these fuels introduces uncertainty. Using expected changes to the federal carbon tax rate and assuming the same level of consumption for these fuels, the introduction of the federal carbon tax would increase direct cost impacts to \$10.6 million by 2022 (Table 3).

Table 3: Direct Costs of Carbon Taxes on The City for the One Calgary (2019 to 2022) period

Year	2018	2019F	2020F	2021F	2022F
Estimated direct carbon tax costs	\$6.4M	\$2.7M	\$6.4M	\$8.5M	\$10.6M

Earlier this year, the Alberta Premier Jason Kenny planned to respond by joining Saskatchewan and Ontario governments in seeking a constitutional challenge of the tax through the courts. Subsequently, the Saskatchewan Court of Appeal (2019 May 3) and the Ontario Court of Appeal (2019 July 2) ruled that the federal government has the constitutional authority to impose a federal carbon tax when there is no provincial carbon tax or when it is below the federal carbon tax.

Rate increases above 10 per cent for the natural gas distribution utility

Before the current Performance-Based Regulation (PBR) of energy distribution utilities, the Alberta Utilities Commission (AUC) used a cost of service methodology to determine just and reasonable customer rates for utility services in Alberta. By AUC policy, an increase greater than 10% would have been considered **rate shock** and harmful to customers.

In PBR, there is an annual utility rate increase set by a formula that calculates inflation minus an industry productivity factor along with updated billing determinants to account for growth. However, in PBR, there can also be several additional proceedings that may affect the rates customers pay, and each is considered a separate and distinct proceeding.

The approved rate increases for the year do not get evaluated on a cumulative basis, and the total annual increase to customer rates can be significant. For example, ATCO Gas has already received approval for a 10.5 per cent rate increase in 2019 and, if the rate increase applied for in their 2018 depreciation application is approved, customer rates for 2019 will have increased by a total of 13 per cent when compared with rates in 2018. For the typical residential customer, this represents an increase of approximately \$79 per year (ATCO Gas South has about 600,000 low volume customers).

Next steps

Administration recommends advocacy for an alternative fiscal tool or adjustment to an existing fiscal tool to offset the impact of provincial or federal carbon tax policy measures. It would safeguard The City's financial position and support the Council priority of a well-run city. To limit annual rate increases for the natural gas distribution utility below ten per cent, Administration recommends highlighting the concern to provincial executive authorities and regulatory agencies.

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Regulatory Affairs and Intergovernmental Affairs would work with the Mayor's Office to implement these action items.

Regulatory Affairs would continue to monitor these issues going forward and report back to the GPT Committee. Any significant developments will also be brought to Council.