

2016 October 3

## CORPORATE BUDGET IMPACTS OF PROVINCIAL AND FEDERAL CARBON LEVY

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### Introduction

The Federal and Provincial Governments have both given clear indication of their intentions to set a price on carbon.

The Federal Government has announced that it will introduce a mandatory price on carbon. It will be imposed via either a carbon levy or cap-and-trade system. A price on carbon will be imposed on those provinces that either do not adopt a carbon pricing system or fail to meet the federal minimum price of carbon, which is not yet specified.

The Provincial Government's Climate Leadership Plan introduced a carbon levy in 2015 November that will be applied across the economy in 2017. Further details of the levy were provided in 2016 June with the approval of Bill 20 – the Climate Leadership Implementation Act. The purpose of the Act is to influence the choices of energy users by imposing a price on carbon.

The provincial carbon levy will impact the Corporation and citizens in numerous ways. While it will cause near-term increases in operational costs, it will also provide targeted capital investment opportunities for Alberta municipalities and industry. In addition, it serves as a driver for increasing efficiency and subsequent longer-term lower operational costs. The Alberta Government's carbon levy will begin in 2017 with the price of carbon set at \$20 per tonne CO<sub>2</sub> applied across all sectors. In 2018 the price will increase to \$30 per tonne of CO<sub>2</sub>. The government has not indicated any increase in future years.

At the May 2016 Strategic Council meeting, Administration advised that it estimated the potential additional operational costs related to the carbon levy impact in 2017 to be \$6 million. As there are still many unknowns at this time, the impact to The City is still being determined and will be refined as we learn more information from the Provincial Government. The City, through Intergovernmental Affairs, has taken several steps to advocate for fair and transparent processes and opportunities for collaboration with the Province.

This memo has been prepared in response to a request during Priorities & Finance Committee on 2016 September 20. It provides information on corporate budget impacts of the carbon levy for The City of Calgary, and the remaining questions about how the provincial carbon levy will be implemented and may affect The City.

### **A. Predicted costs and potential benefits from the Alberta Carbon Levy on City Operations**

As part of the Mid-Cycle Adjustment process, Administration estimated the corporate impacts of the Carbon Levy based on previous discussions with various corporate stakeholders. Currently, there are still many unknowns. The impact to The City is still being determined and will be refined as The City receives complete information from the Provincial Government.

Rough estimates indicate that the operating cost impact of the carbon levy on fuels (diesel, gasoline, natural gas and propane) and electricity will be approximately \$6 million in 2017. These estimates include all fuels and electricity used by all City fleet and transit (busses, trucks, cars, etc.) and facilities (buildings, bus barns, water/waste water treatment plants, waste treatment, etc.). These estimates exclude the impact of city partners and Calgary Housing Corporation.

*Several uncertainties were recognized as part of these estimates:*

- Timing – The Mid-Cycle Adjustment submissions to the Strategic Session of Council (2016 May) occurred prior to announcement of carbon levy details in 2016 June (through Bill 20) and therefore assumptions were necessary to include as part of the MCA submissions.
- Approach – Given the uncertainty about how the carbon levy would impact various elements of operations, different methods were used across the Corporation to anticipate the impact.
- Complexity – Application of the levy to diesel and gasoline appears to be straightforward, on a per liter basis. However, natural gas and electricity are more complex to forecast because of the market structure for delivery, billing, and real-time pricing.

Potential benefits due to the carbon levy have been identified. But at this time, regulatory impacts have not been clarified by the Province specifically in regards to electricity and natural gas, and therefore questions remain.

### **Electricity**

- The impact of the carbon levy and renewable energy targets on electricity prices is not predictable, as it will impact bidding behavior in the power pool, which will, in turn, affect the Regulated Rate Option, which impacts The City's franchise fee. Generators will not be affected uniformly by the policy changes, and offers made into the power pool are confidential.
- The government has not specified how it will apply the carbon levy to electricity generators beyond 2017, and has not committed to an announcement date.
- The franchise fee to The City from ENMAX will be impacted by several issues, including the return of Power Purchase Arrangements to the Balancing Pool, whether or not ratepayers will directly subsidize new renewable generation, how much transmission will be constructed to service new generation, and the shutdown schedule of coal-fired generation facilities. The franchise fee impact may be positive for The City depending on Provincial policy.
- The City has taken steps to reduce carbon in its electricity use in its operations by signing a long-term renewable electricity contract through ENMAX. Since 2012, 100 per cent of electricity supplied through the contract is from renewable sources (mostly wind power). It is uncertain whether ENMAX will pass along any impacts from the carbon levy back to The City, whether in savings or transmission/other costs.

### **Natural Gas**

- ATCO Gas is preparing their system to bill customers for the carbon levy. The carbon levy is not being included in the base on which the franchise fee is calculated.

## **B. Avoided Cost and Savings**

Opportunities to offset the impacts of the upcoming carbon levy have been announced by the Provincial and Federal Governments. In the case of the Province, funding will be directly linked to the income generated from the Carbon Levy. However, the Federal Government has not yet announced the structure of its programs. The Alberta Government has taken steps to provide some level of detail on the structure of the benefits. Policy development is underway, but details of funding and program implementation are not yet known, creating a challenge for municipalities to ready themselves.

## **Alberta Provincial Government**

The Alberta Provincial Government established several programs to reinvest the carbon levy into communities. Funds have been allocated for capital infrastructure projects as well as for energy efficiency projects.

Energy Efficiency Alberta: The Energy Efficiency Advisory Panel, which will advise the Minister of Environment and Parks in establishing the Energy Efficiency Alberta agency, is seeking advice and input from municipalities to structure the funding opportunities. The Climate Change Office in Environmental & Safety Management is coordinating the input on behalf of the Corporation in close collaboration with Intergovernmental Affairs, Regulatory Affairs and the Energy Management Office in Corporate Analytics & Innovation, with input from a wide array of business units. Revenues generated from the carbon levy will be used by the Province for various purposes (research, innovation, carbon reduction and energy efficiency initiatives). According to the Province there will be “an offset of potential cost increases for low to mid-income Albertans” but those offset benefits would accrue to individuals not municipalities as it stands.

- It is unknown how the estimated \$645 million in energy efficiency investment in Alberta will be applied to municipalities.
- It is unknown if opportunities exist to offset the operational impacts at the municipal level.
- Further information and details will be made available in 2016 November with implementation of first programs to commence in Q1 2017.

Infrastructure Funding: The Province committed to invest \$2.2 billion in green infrastructure through the Climate Leadership Plan. Planning, designing and building the new infrastructure in a way that ensures carbon reductions will provide further savings and avoided costs throughout the life of the infrastructure.

- It is unknown which principles and targets should be applied for program implementation.
- It is also unknown how projects will be evaluated by the funding agency.

## **Federal Government**

- It is unknown as to the Federal Government’s implementation plan.
- In preparation, The City has prepared an approach for negotiating for federal funds where carbon reductions were included as one of the pillars.

## **Advocacy**

The City of Calgary has reached out to the Province to advocate in relation to the Provincial Carbon Pricing and the Climate Change Leadership Plan. Calgary Mayor Naheed Nenshi repeatedly highlighted to the Government of Alberta that one order of government should not tax another order of government. As both municipalities and the province work for the same tax payer this should be considered in the way the Carbon Levy is set up and carried out. In a response to this criticism the Government of Alberta in the meantime has confirmed that no municipality will be exempted from the carbon levy.

Additionally, The City of Calgary included advocacy efforts in its submission to the province for the Provincial Transit Strategy. The City outlined that public transit is one of the key elements to enable the Government of Alberta's Climate Leadership Plan as providing transit service translates into community-wide carbon reductions. In its submission The City suggested to the Province that revenue from carbon pricing should be reinvested into on-going transit service hours to supplement the revenue transit receives from property taxes and customer fares. Revenue could also be used to invest in public transit initiatives that reduce greenhouse gas pollution, such as piloting electric or fuel cell vehicles and infrastructure upgrades for energy efficiency. The City also asked the province to consider the exemption of public transit agencies in Alberta from the Carbon Price, in order to keep transit service viable and competitive and able to support those vulnerable populations that rely on transit.

The Provincial Government is currently consulting municipalities with regards to programs and initiatives it seeks to establish to reinvest revenue from the Carbon Levy that will reduce energy consumption and support energy conservation. These consultations also align with negotiations The City of Calgary is having with regards to provisions in the City Charter. Ongoing consultation and collaboration with the Government of Alberta offer avenues for a strengthened, strategic Administrative advocacy strategy.

### **C. Conclusion**

1. Administration has, to the extent current information enables, considered and budgeted for the operational exposure of the Corporation to the Carbon Levy.
2. Administration is waiting for further information from the Provincial and Federal Government regarding distribution of funds and program details, in order to be well positioned to capitalize on redistribution of Provincial and Federal funds.
3. Administration is actively seeking ways to refine estimates and mitigate the impact of the Carbon Levy on operating budgets as well as positioning itself to maximize Federal funding.
4. Additional details will be required from the Province in order to fully estimate the costs and savings of the Carbon Levy on operational budgets and to balance those with the potential benefits from infrastructure investment funds resulting from the Carbon Levy.