Power Advisory LLC

October 14, 2016

To: Clients and Colleagues

From: Alison Cumming and Carson Robers, Power Advisory LLC

RE: Update on Pan-Canadian and Provincial Carbon Pricing

On October 3, the Government of Canada proposed a pan-Canadian pricing benchmark for carbon pollution. The announcement came as Environment Minster Catherine McKenna met with provincial counterparts to discuss coordination of the Pan-Canadian Framework on Clean Growth and Climate Change, and the Paris climate agreement was officially ratified. According to the government's press release, the carbon pricing benchmark will be a key strategy for meeting the Framework's target of a 30% reduction in greenhouse gas (GHG) emissions from 2005 levels by 2030 in a way that minimizes abatement costs and supports low-carbon growth across Canada.

All provinces must implement either an explicit price (i.e. carbon tax) or cap-and-trade system by 2018, or the federal government will introduce a carbon price for those jurisdictions. Consistent with Canada's GHG reduction target, explicit price systems need to start at a minimum of $10/tonne and rise $10/year to $50/tonne in 2022. Cap-and-trade programs are required to have declining caps that are at least consistent with the emissions reductions projected for the incremental price minimums. Under these standards revenues will remain in the jurisdiction of origin even if the federal government implements the system. Along with regular progress reports and federal assistance to address provincial challenges, the pan-Canadian benchmark will be formally reviewed in 5 years (early 2022).

Announced Carbon Pricing Systems

Both Alberta and Ontario are on track to roll out their respective carbon pricing initiatives Jan 1, 2017. The programs are consistent with the pan-Canadian guidelines and will not be sustainably changed by the federal announcement.

Alberta has elected to adopt an economy wide carbon levy and rebate on fuels along with performance based standards for large industrial emitters. The levy will start at $20/tonne and rise to $30/tonne in 2018. The price impact on major fuels in 2017 is estimated to be 3-6 cent/liter of liquid fuel and $1.011/GJ of natural gas. To minimize the distributional effects of this levy, medium and low income households will be eligible for annual rebates and the small business income tax rate will be cut by a third to 2%. For the income eligibility requirements and industrial guidelines see Alberta's description of the carbon pricing plan here.

55 University Ave., Suite 605 • Toronto, Ontario, M5J 2H7
416-320-5128 • acumming@poweradvisoryllc.com

Ontario's cap-and-trade program applies to organizations emitting more than 25,000 tonnes of GHG emissions per year and other identified capped emitters such as natural gas distributers, fuel suppliers and electricity importers. Facilities generating more than 10,000 tonnes but less than 25,000 tonnes of GHG emissions per year may choose to opt in to the program. It will be synced with other Western Climate Initiative (WCI) jurisdictions (i.e. California and Quebec) and be run through the web based Compliance Instrument Tracking System Service (CITSS). A more detailed discussion can be found on the Ontario Ministry of the Environment and Climate Change's website here.

Existing Programs

BC's revenue neutral carbon fee, implemented in 2008, has been frozen at $30/tonne since 2012. Per the pan-Canadian plan BC will be required to raise the fee to at least $40/tonne in 2021, but it is expected that the fee will be raised earlier as other provinces implement carbon prices of a similar magnitude to the existing mechanism in the coming years. Quebec has had a cap-and-trade system since 2013 with auction and sales of offset credits by mutual agreement on the CITSS platform. The emission credit market price is expected to be around $19.40/tonne by 2020. Future caps will have to be lowered to stay on track with or above the national target of a 30% reduction by 2030.

Other Provincial Updates

Manitoba, Northwest Territories, Nunavut, Saskatchewan, Yukon, and the Maritime Provinces will face the most challenges complying with the proposed pan-Canadian benchmark as they do not have carbon pricing systems on the horizon and are relatively small. Manitoba has ruled out a cap-and-trade system given the low number of large emitters in the province, however it is considering its own explicit pricing system. Given its predominately hydroelectric generation mix, Manitoba's electricity sector will not be significantly affected. The Newfoundland and Labrador, Nova Scotia, and Saskatchewan Ministers all walked out of the meeting as Prime Minister Justin Trudeau announced the plan. Nova Scotia points out that it has already met the 2030 target by significantly reducing its coal-fired generation since the early 2000s, negotiated an Equivalence Agreement and secured power from Muskrat Falls and the Saskatchewan Minister claimed his province would be the hardest hit with average household costs of $1,250/year. As the 2018 deadline approaches it will become clearer how each jurisdiction will choose to adopt a pricing mechanism.

Power Advisory welcomes the opportunity to assist clients in understanding the changing landscape of carbon pricing in North America.

55 University Ave., Suite 605 • Toronto, Ontario, M5J 2H7
416-320-5128 • acumming@poweradvisoryllc.com