Alberta Election 2019: How the Repeal of Alberta's Carbon Levy would affect the Electricity Sector

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Alberta Premier Rachel Notley announced this week that Alberta will hold a provincial election on April 16th. AlbertaPowerMarket.com is often asked by stakeholders how we think a change in government will impact the Alberta electricity sector. At the risk of being criticized for weighing in on political issues, in this first of a multi-part series on the Alberta election we shed some light on Alberta's Carbon Levy, something that the official opposition (the United Conservative Party) has promised, in unequivocal terms, to repeal if it is elected in April.

What is the Carbon Levy?

According to the current government, the Carbon Levy, or price-on-carbon or tax or whatever you choose to call it, encourages Albertans to reduce carbon pollution from their vehicles and homes. It does this by imposing a charge on transportation and heating fuels, like gasoline, diesel and natural gas.

The Carbon Levy is calculated based on a $30/tonne carbon-equivalent emissions basis. In real terms, this means that Albertans currently pay a Carbon Levy of 6.73 cents on a litre of gasoline, 8.03 cents on a litre of diesel, and about a buck and a half on a gigajoule of natural gas that they use to heat their homes.

It is important to note that the carbon levy we are talking about here is different from the carbon levy that large industrial emitters (e.g. coal and gas-fired power plants) pay in Alberta. We will deal with that large industrial emitter carbon levy in a separate post as part of our Alberta election series, though its repeal is less likely and it may remain a source of revenue for the province.

How much money are we talking about?

Alberta expects to collect about $1.35 billion dollars from the Carbon Levy this year. That is about 6% of the provincial government's total revenues.

How would the repeal of the Carbon Levy affect the electricity sector?

A repeal of the Carbon Levy would mean the loss of a significant source of revenue. According to the most recent Alberta budget, that Carbon Levy revenue funds a number of climate leadership initiatives that touch the electricity sector:

1. $214 million is used to pay for a number of programs that support Alberta's transition away from coal-fired electricity, including payments for (i) the $97 million a year (PV over 14 years) settlement that Alberta negotiated with coal generators in this province to compensate them for the phase out of coal by 2030, (ii) support for coal workers in Alberta who are losing their jobs, (iii) community generation programs, (iv) the Renewable Electricity Program or REP as it is known in the industry[i], and (v) the 6.8 cent per kWh cap that Alberta has set on the electricity prices paid by residential and small commercial consumers in this province;
2. Another $214 million pays for energy efficiency programs, which include the solar installation subsidies provided in Alberta to residential, commercial, agriculture and municipal consumers of electricity. This amount also funds the programs that are being administered by Energy Efficiency Alberta, the public agency set up by the current government to deliver programs to encourage energy efficiency, energy conservation, and the development of microgeneration and other small-scale energy systems; and
3. Another $145 million helps indigenous communities retrofit buildings, install solar panels and perform energy audits, and funds capacity building and employment programs for these communities.

What is the bottom line on the Carbon Levy?

If the United Conservative Party wins the April election, the Carbon Levy will certainly be repealed. When that money dries up, so will the programs that it funds. For the electricity sector, that will likely mean the end of solar subsidies, community generation subsidies, subsidized home energy audits and retrofits, indigenous community building retrofits and electricity projects, and the end of the 6.8 cent per kWh cap on electricity prices for residential and small commercial customers.

We do not believe that a United Conservative Party will terminate contracts unless, perhaps, those contracts have termination rights built into them. As a result, we do not see a new government trying to force the coal generators to undo the coal phase out settlement agreements. Likewise, if there is a binding legal agreement in place for any of the programs funded by the Carbon Levy they should be fine.

The future of the Renewable Electricity Program or REP is a bit more complicated to predict. However, we will endeavour to tell you in our next post in this Alberta election series what our crystal ball is telling us about the future of that important program for the electricity sector.

We are always looking for ideas. So please let us know if you have any other Alberta electricity issues that you would like to read about, including any that might turn on the results of the upcoming Alberta election.

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[i] The Renewable Electricity Program or REP refers to the competitive procurements that have occurred in Alberta in 2017 and 2018 where the Alberta Electric System Operator has encouraged the development of new renewable electricity generation in the province by entering into long term contracts to acquire renewable attributes from the successful bidders in those procurements. The future of REP will be the subject of a separate post by AlbertaPowerMarket.com in this Alberta election series.

By

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