www.utilitysource.ca
1-888-515-5455
info@utilitysource.ca

The Impact of The Carbon Levy on Condominium Corporations in Alberta

By Scott Flory, President, Utility Source Inc.

The Carbon Levy is a complex issue. It is not our intention to comment on the merits of the provincial and federal carbon policies. Due to the role we play to condominium corporations as an analyst and advisor on energy contracts, we are in a good position to speak to the financial impacts on condominium boards and their individual unit occupants/owners. The comments below are also predicated on the assumption that current policies and proposals will be implemented as recently outlined by the federal and provincial governments.

Background:

The **Climate Leadership Report To the Minster** was submitted to the Alberta Government in November 2015. Recommendations for a provincial carbon levy were subsequently adopted in the April 2016 Alberta Budget with implementation of the levy commencing in January 2017. Based on commitments made in the Paris Agreement, a Federal Carbon Levy initiative was also announced in October 2016 to be applied across all provinces/territories, starting in January 2018.

The carbon levy is a key component of the Alberta climate plan which also includes a number of other initiatives including shutting down coal-powered electricity by 2030.

The intention of the levy is to address the problems attributed to greenhouse gasses, encourage a greener and more diversified economy, and dis-incent fossil fuel consumption. It is expected to generate a $9.6 billion dollar revenue of which two thirds will be directed into renewable energy initiatives and one third into a rebate program.

The Carbon Levy:

- $20 per tonne ($1.01 per GJ) commencing Jan 1 2017 *(provincial - definite)*
- $30 per tonne ($1.52 per GJ) commencing Jan 1 2018 *(provincial - definite)*
- $50 per tonne ($2.50 per GJ) commencing Jan 1 2022 *(federal/provincial combined - predicted - with potential incremental annual rises between 2018 and 2022 and assuming Alberta falls in line with the federal requirements)*

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The levy will only be applied to natural gas and at the point of purchase, not electricity, although indirect effects may also be felt on electricity pricing (transmission, generation, and distribution costs).

A distinction needs to be made regarding how natural gas is consumed and paid for by condominium corporations. Since residents in townhome complexes and single unit dwellings generally have their own meter and pay their own bills directly, those residents will be impacted by the levy directly at point of purchase (their natural gas bill). For residents of apartment style condominiums, because natural gas is typically paid through a common meter, the impact will be born initially by the condominium corporation and then presumably passed on through condominium fees. This is where a small benefit emerges for apartment residents as apartment-style buildings are generally more energy efficient, consuming less than homes with individual meters. (See Fig. 2). Apartment residents will be favoured by the rebate program.

Rebate Program:

Individual residents will be entitled to an income-based rebate, however, corporations will not. According to government projections, 60% of households will be entitled to a full rebate and an additional 6% to a partial rebate in accordance with the following parameters:

Fig. 1:

Climate Leadership Adjustment Rebate Parameters

	2017	2018
Benefit Amounts		
First adult	$ 200	$ 300
Spouse/Equivalent to spouse	$ 100	$ 150
Child (max. 4)	$ 30	$ 45
Phase-out Thresholds (Family Net Income)		
Single	$ 47,500	$ 47,500
Couple	$ 95,000	$ 95,000
Families	$ 95,000	$ 95,000
Income at which Rebate is Fully Phased Out (Family Net Income)		
Single	$ 51,250	$ 55,000
Couple	$ 100,000	$ 103,750
Couple with 2 children	$ 101,500	$ 106,000
Couple with 4 children	$ 103,000	$ 108,250

Rebates will be based on average household consumption figures with no distinction between apartments, townhomes, and single family homes. Since average consumption is typically lower for apartments-style housing, the rebates will tend to favour apartment residents. The exception will be those properties that consume in excess of 100 GJs per unit, per year.

Impact:

The following chart (Fig. 2) is a sample of consumption profiles for apartment-style condominiums. Note there is significant variation in per-unit consumption:

Fig. 2

Customer	Units per Property	Floors per Property	Consumption Estimate (GJs/year)	Average Consumption per Unit Est. (GJs/year)	Projected Impact on Annual Energy ($1.011/GJ) 2017	($1.517/GJ) 2018	Potential Impact per Average Unit ($1.011/GJ) 2017	($1.517/GJ) 2018
Sample Condo 1	57	4	3,519	62	$3,558	$5,338	$62	$94
Sample Condo 2	82	4	5,795	71	$5,859	$8,791	$71	$107
Sample Condo 3	139	4	9,600	69	$9,706	$14,563	$70	$105
Sample Condo 4	51	4	9,663	189	$9,769	$14,659	$192	$287
Sample Condo 5	41	4	13,339	325	$13,486	$20,235	$329	$494
Sample Condo 6	297	18	25,950	87	$26,235	$39,366	$88	$133
Sample Condo 7	347	21	31,808	92	$32,158	$48,253	$93	$139
							* Before GST	

Putting the impact of the carbon levy into perspective and in terms of impact on a corporation's finances, it could be argued that the impact will not be felt as strongly as intended because natural gas prices have been near twenty year lows. (See Fig. 3). In other words, since natural gas prices have been in the $2.50 G/J range, the addition of $1.00 G/J to the price will keep the price under the average for the past 10 years. Our general guidance for condominium corporations would be to consider setting their budgets where they were around five years ago.

While the impact may not be as strong in the short term, we believe there can only be upward pressure on energy prices, both from the transmission and commodity sides (i.e. generation of electricity). Consumers may experience a 3 to 4 year working notice before a significant impact is felt. The government has, in effect, ended the "low price party" enjoyed by consumers with the goal of funding greener initiatives and directing consumption away from fossil fuels.

Because of this upward pressure and the lack of rebate relief for corporations, the long-term focus should be on achieving energy efficiency and reduced consumption. More news is expected from the Alberta government on more energy efficiency programs, but as of today, the message seems to be focused on dis-incenting consumption.

Among other notable items in the climate report, there was a discussion of an energy rating system for apartment-style buildings, similar to the EnerGuide program for appliances. Buildings consume differently, giving consumers the opportunity to make smarter purchasing decisions when choosing a building. If the government follows through on a rating system condominium corporations will want to start the process of improving energy efficiency sooner rather than later.

Corporations will be looking to efficiency proposals such as lighting or boiler retrofits. USI does caution them to carefully analyse the payback calculations claims. Given the often-significant capital outlay of such initiatives, USI offers to scrutinize them to ensure the integrity of the calculations and, as always, remains available to assist you with your energy contracting requirements.

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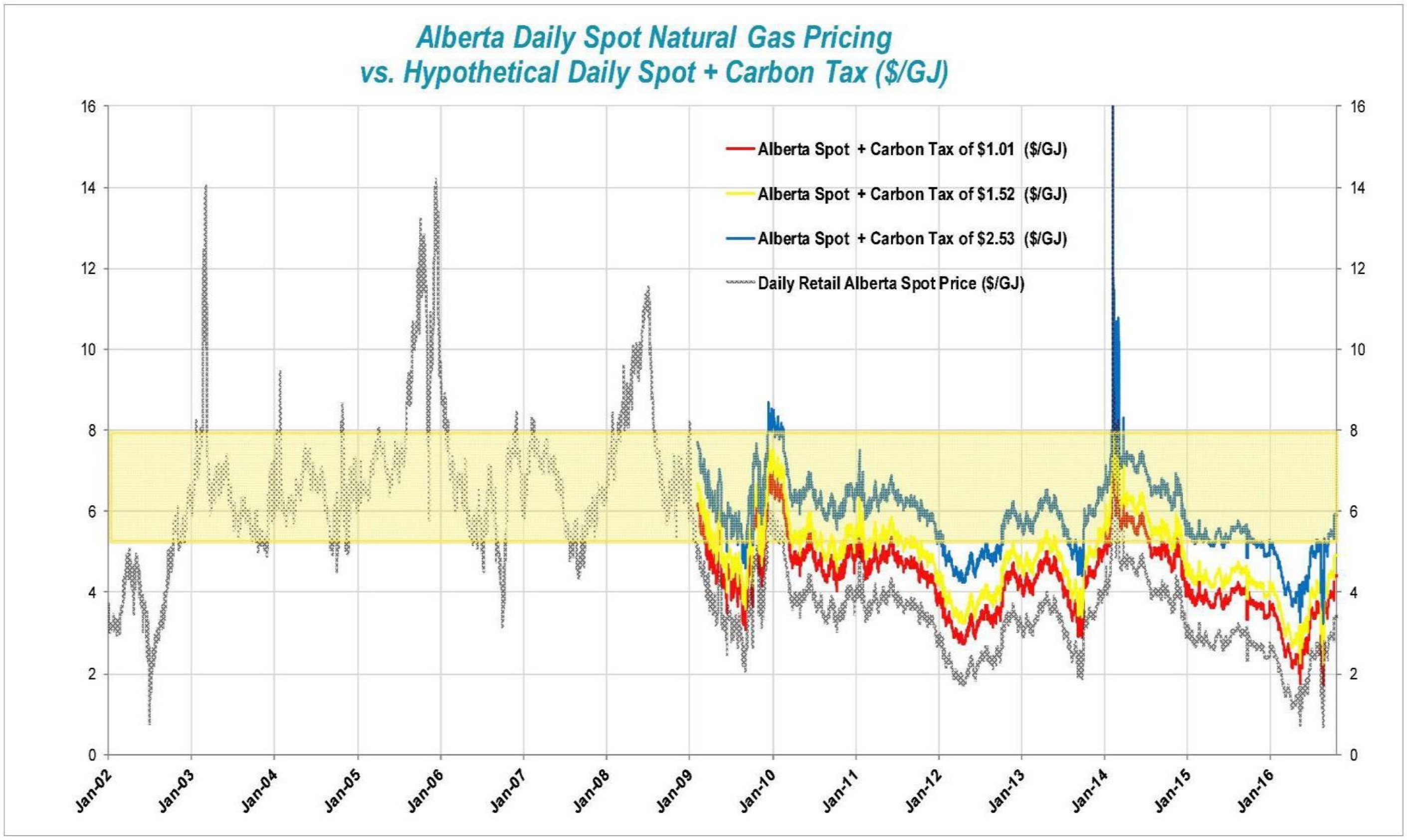
Fig. 3:


Alberta Daily Spot Natural Gas Pricing
vs. Hypothetical Daily Spot + Carbon Tax ($/GJ)
Alberta Spot + Carbon Tax of $1.01 ($/GJ)
Alberta Spot + Carbon Tax of $1.52 ($/GJ)
Alberta Spot + Carbon Tax of $2.53 ($/GJ)
Daily Retail Alberta Spot Price ($/GJ)
16
14
12
10
8
6
4
2
0
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
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Jan-15
Jan-16