



EXPENSE MANAGEMENT



Alberta's New Carbon Tax
What you need to know.



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New Carbon Tax Takes Effect January 2017

Alberta's new carbon tax takes effect on January 1, 2017. This tax is part of the NDP Government's Alberta Climate Leadership Plan (ACLP) and is designed to encourage Albertans to change their energy consumption habits in an effort to reduce their carbon footprint. There are multiple facets to the ACLP and many details are yet to be revealed.

What we know as it relates to electricity and natural gas energy usage:

- The carbon tax will be \$20/tonne of CO₂ emissions starting on Jan.1, 2017 and will move to \$30/tonne of CO₂ emissions on Jan.1, 2018.
- The carbon tax as applied to natural gas equates to an additional cost of \$1.01/GJ in 2017 and \$1.52/GJ in 2018. This will be applied on all consumption, irrespective of whether you are on a regulated rate or a competitive rate, and will be a separate line item on the bill.

What else we know about the ACLP:

- The Alberta government has mandated that coal-fired power generation will be eliminated by 2030.
- The government will be looking to add 5000 MW of power generation to the grid by 2030 through the addition of renewable energies such as wind, solar and hydro to replace the lower cost coal-fired generation.
- In addition, up to 5000 MW of natural-gas fired power generation will also be needed for both replacement base-load generation and to back-stop the intermittent nature of the desired renewable generation.
- The government has announced that it will replace the current energy-only model with a capacity market structure which pays generators for available capacity even if that capacity is not utilized. This shift in market structure is alleged to be necessary to attract the investment needed to build the new renewable power sources and the required natural gas base-load/back-stop generation.
- Because of these aforementioned changes, the overall cost of electricity is expected to increase over time compared to the current market structure.
- The Government has implemented a cap on power prices of 6.8 cents/kWh from mid-2017 until mid-2021 but it is unclear as to whether this cap applies to just residential customers or to commercial clients as well. In all likelihood, this cap will only apply to residential customers. Regardless, it does give some indicative direction of where the government sees pricing heading in the future.
- Power prices are currently at their lowest level in the last 16 years and are actually below the cost of producing that power and are, therefore, not sustainable over the long-term.



What This Means to You

- Many details regarding the government's full plan are yet to be revealed. This will lead to continued speculation and continued uncertainty regarding the medium to long-term impacts on power prices.
- The new carbon tax will result in additional costs to your business as a result of higher electricity prices and through a direct cost related to your natural gas usage.
- Today represents a tremendous buying opportunity for clients to lock in very favorable electricity prices for the long term as prices have never been lower. Prices over the medium to long term are expected to rise as a result of the changing market structure, demand and supply fundamentals, and the unsustainability of current prices, which are below the cost of production. **The time to act is now.**

How 8760 Can Help

There are a number of areas where **8760 can help your business save money** which can help to partially **offset your carbon tax expenses**:

- Commodity procurement – 8760's uses a unique RFP process that aggregates a number of customers' energy needs together into a pool of business and then takes that pool to market where the various energy suppliers bid on it. This approach helps reduce the suppliers' margins and results in direct savings for our clients. Various strategies are available that focus on cost savings, cost certainty or both.
- Product Strategy - 8760 works with clients to understand how they consume their electricity and natural gas. 8760 will provide product recommendations and hedging strategies that will help minimize costs and/or maximize savings based on the expense management goals of the customer. And, 8760 provides ongoing strategy recommendations to customers to help customer save or hedge against changing market conditions.
- Distribution and transmission reviews – Everyone has to pay distribution and transmission (D&T) charges for the delivery of electricity and natural gas to their facilities. Although these charges are regulated, these costs have been increasing steadily and now make up a significant portion of your energy bill – sometimes as high as 60% of the final bill. 8760 provides a service where we will review your D&T charges to determine any potential cost savings in this complex part of your bill. Our experience is such that there are often opportunities to reduce D&T charges anywhere from 10-20%.
- Energy Efficiency reviews – 8760 works with a number of partners who can conduct energy audits to determine efficiency levels with respect to your consumption of electricity and natural gas. Based on this review, strategies can be developed to decrease your consumption levels or expenses, including the implementation of new, energy efficient equipment, power factor improvement, changing operational approaches, to name a few.