Energy firms prepare for cap-and-trade hikes on heating bills, gasoline prices

February 23, 2016
QP Briefing
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New projections prepared for some of Ontario's largest energy companies estimate the province's cap-and-trade system will set the average household back an extra $85 for natural gas and $80 for gasoline in the first year of the program.

By 2030, the added annual cost for natural gas would reach $450 for an average home, as the price of carbon credits will grow when the government lowers the emissions cap and allowances become more scarce and valuable. Households would pay another $405 at the pump.

Natural gas is the primary heating fuel for about 76 per cent of the province's homes.

Small manufacturers, meanwhile, would see their annual natural gas bills leap by an average of $170,000 in 2017/18 and $900,000 in 2030, the research shows.

The findings, informed by work done for the province's natural gas distributors, industrial-strength energy users, and other firms who will be hit hardest by the cap-and-trade system, were presented last week at an Ontario Energy Association event.

"For the natural gas utilities, they will be passing the entire cost of carbon on to the small energy end user, just like they pass the cost of natural gas along," said **Duncan Rotherham**, vice-president at ICF International, the professional services firm that conducted the studies. "It will be the same for the transport fuel sector."

Among other factors, Rotherham and ICFI's consumer cost estimates take into consideration greenhouse gas reduction targets, the sources and size of the province's cap-able emissions and the rising cost of carbon credits under the Western Climate Initiative, the cap-and-trade system run by California and Quebec that Ontario will join.

The province's cap-and-trade program is scheduled to start in 2017, part of the government's climate change and greenhouse gas reduction strategy.

To achieve its hoped-for emission cuts, Ontario will have to address two of its largest sources of GHGs: the transportation and building sectors, the latter of which is warmed by natural gas.

The two natural gas companies that supply 99 per cent of the province's residential customers – Enbridge Gas Distribution Inc. and Union Gas Ltd. – will be the two largest purchasers of emissions allowances under the cap-and-trade system. At an estimated price of $18 a pop, Rotherham says the two gas companies would have to buy $700 million in carbon credits in 2017/18. The government is expecting to raise a total of $1.3 billion from cap-and-trade that same year.

And the gas companies will likely try to have their customers help them bear those extra expenses, as they do with other business-related costs.

Union Gas has applied to the Ontario Energy Board for a "Greenhouse Gas Emissions Impact Deferral Account" to tally up the costs of consultants and the purchase and sale of carbon credits, among other measures. The OEB has already approved a similar GHG account for Enbridge.

In a Dec. 18 letter to the OEB, Union Gas said it intends "to seek any recovery of costs [from the GHG account] in a future deferral disposition proceeding." However, the OEB, the province's natural gas sector regulator, will have the final say over whether those expenses will be recouped through rates charged to customers.

The government is also currently considering what sectors will receive emissions allowances without charge. On distributing any free carbon credits, Environment and Climate Change Minister **Glen Murray** said last week that Ontario's program will be "very similar" to California's and Quebec's.

"We are looking to ensure that we're harmonized with those ... carbon markets next to us, so that we don't have leakage issues, which means that we don't see carbon emissions moving somewhere else," Murray told reporters.

"Natural gas distribution" is listed among the sectors Quebec targets with its system, according to its regulations. Gasoline retailers in Quebec also put a cap-and-trade surcharge on their pump prices that cover the cost of carbon credits.

"The transport fuel distributors ... and the natural gas distributors ... likely won't be entertained for free allowance on behalf of their customers," Rotherham said. "The goal is that they pass the cost along, and that's the goal of the cap-and-trade system, is that the price is felt by the energy end user."

During Tuesday's question period, NDP energy critic **Peter Tabuns** accused the government of handing out "free passes" to large industrial emitters, but not for families, who "will start paying right away, whether they can afford to or not."

Murray fired back that the government is projecting that more than 85 per cent of big emitters will be paying nearly the same price as they do in Quebec. "A price on pollution ... is a price on pollution, and we will have an equitable and fair distribution of the costs," he told the legislature.

The government is planning to table new climate change legislation and regulation in the coming weeks that will contain more concrete details about the province's carbon pricing system. An environment ministry spokesperson said the government is "sensitive to potential impacts" the cap-and-trade program could have on households.

A spokesperson for the Ontario Natural Gas Alliance, a partnership made up of Enbridge and Union Gas, said it "looks forward to the government releasing further details about the implementation of a cap-and-trade regime here in Ontario, mindful of the impact on residential and small business natural gas consumers."

But for natural gas users, Rotherham said, the only greener option they really have is to install an electric furnace – a pricey proposition. "You'd probably need over a $1,000-a-tonne carbon price to drive people to electrify their furnace," he told *QP Briefing*.

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