

January 2023 Electrical Rate Change – Federal Carbon Charge

ISSUE

On December 9, 2022, SaskPower announced a new Carbon Charge rate on electricity that will become effective January 1, 2023. This is an increase from the previous rate that came into effect on January 1, 2021, and will be used to offset costs resulting from the Federal Government's Pollution Pricing System.

The purpose of this report is to request approval of the new rates for the Carbon Charge within each of the residential and general service categories, and an equivalent percentage increase for street lighting and miscellaneous rates.

This report presents Bylaw No. 9857, *The Electric Light and Power Amendment Bylaw, 2022 (No. 2)*, for City Council's consideration.

RECOMMENDATION

1. That the proposed January 1, 2023, rate changes be approved for Saskatoon Light & Power's rates, as outlined in this report; and
2. That City Council consider Bylaw No. 9857, *The Electric Light and Power Amendment Bylaw, 2022 (No. 2)*.

BACKGROUND

In 2019, the Federal Government implemented a carbon price on electricity generation with increasing stringency in those provinces which did not comply with a federal benchmark price and coverage model. The price per tonne of carbon dioxide equivalent emissions (CO₂e) has escalated as follows:

- \$20 per tonne CO₂e (2019)
- \$30 per tonne CO₂e (2020)
- \$40 per tonne CO₂e (2021)
- \$50 per tonne CO₂e (2022)
- \$65 per tonne CO₂e (2023)

According to federal legislation, the new prices come into effect on April 1 each year.¹

Canada's pricing system was applied in two parts: one as charge on fuels and two as a price on industrial emitters that exceed a threshold, known as the Output Based Pricing System (OBPS). From 2019 to 2022, SaskPower was subject to federal OBPS carbon charges. Unlike the fuel charge, which is applied to every litre of gas pumped at the gas station, OBPS charges are not applied to every unit of electricity produced. OBPS charges are applied only above a certain level of CO₂e emitted per unit of electricity generated, known as "emissions intensity". Thus, the federal OBPS carbon charge

¹ SaskPower is charged the carbon price on an output based on the calendar year and not fiscal year.

differs from that charged on gasoline in that it only applies to the “excess emissions” produced above an allowed threshold at each electricity generating plant.

SaskPower annually calculates the CO₂e emissions resulting from its generating stations and determines the amount that it will need to pay for in for carbon pricing. SaskPower then sets a Carbon Charge rate, through a rate rider, that it recovers from its customers to offset this cost. The rate rider is based on an estimate of carbon charge for the upcoming calendar year, and the difference between the amount collected and actual payment due is factored into the following year’s rate rider. The carbon price is applied on a kilowatt per hour (kWh) basis.

SaskPower has established Carbon Charge rates in 2019, 2020, and 2021, but determined that an increase was not required in 2022.

On November 22, 2022, the Governments of Canada and Saskatchewan announced an agreement to remove Saskatchewan from Canada’s OBPS in favour of establishing the Saskatchewan Output-Based Performance Standards (OBPS) Program, effective January 1, 2023. This is because Saskatchewan’s OBPS meets the requirements for the 2023-2030 federal carbon pricing benchmark, including the addition of the electricity generation and natural gas transmission pipeline sectors. Future revenue generated from Saskatchewan’s OBPS will not be remitted to Federal Government, but stay in Saskatchewan as regulated emitters will pay into the Saskatchewan Technology Fund, aimed at creating incentives for industry to develop and implement technologies that contribute to meaningful reductions in greenhouse gas emissions intensity.

Despite this, on December 9, 2022, SaskPower announced that the Carbon charge will increase on average three percent system wide effective January 1, 2023. It is an additional charge separate from SaskPower’s previously announced rate increase of four percent, which was effective September 1, 2022.

The City of Saskatoon (City) has historically set its Saskatoon Light & Power (SL&P) rates to match those established by SaskPower to ensure there are no inequities between customers regardless of whether they are located within the City’s or SaskPower’s franchise areas.

DISCUSSION/ANALYSIS

The Federal Carbon charge is applied through customer billings and the amount charged varies depending on power consumption and customer class as shown in the table below.

Customer Class	Annual Increase
Residential	1.9%
Farm	2.4%
Commercial	2.4%
Power Class	4.4%
Oil Fields	2.7%
Resellers	3.7%

The proposed rate increase will have an estimated overall 1.9% impact on residential rates, resulting in an average increase of \$2.56 per month. Street lighting and other miscellaneous rates will increase 1.8% and 4.6% respectively. The table below shows the new rates that will be applied to each of the residential and commercial rate categories.

<u>Rate Category</u>	<u>Cost per kWh</u>
Residential	\$0.0111
General Service II	\$0.0111
General Service III	\$0.0111
General Service IV	\$0.0111
General Service V	\$0.0111
General Service VI	\$0.0104

FINANCIAL IMPLICATIONS

The City’s approved 2022 and 2023 budget was based on estimated overall rate increases specific to carbon tax of 0.75% in 2022 and 0.75% in 2023. The proposed carbon charge rate increase will have a positive financial impact to SL&P of \$108,200 in 2023, and will have a positive financial impact of \$271,800 on mill rate operations. The positive impact on the mill rate is a result of increased electrical costs for civic operations, offset by increased Grants-in-Lieu provided by SL&P to the City. Saskatoon Water’s utility will have a negative financial impact of \$190,500. The overall net corporate impact is a positive financial impact of \$189,500.

If the recommended rate increase is not approved, there would be a significant financial impact since the cost of purchasing bulk power from SaskPower will still go up. The financial implication would negatively impact SL&P by \$2,815,700 annually, along with a negative impact of \$574,000 on mill rate operations and a \$54,600 negative impact on Saskatoon Water.

OTHER IMPLICATIONS

There are no public and/or stakeholder involvement, policy, environment, privacy or CPTED considerations or implications.

NEXT STEPS

Upon approval of the electrical rate change and bylaw amendment, the rate change will be communicated within the 2023 Rates and Fees Public Service Announcement and on the City’s social media channels to help notify customers. The City’s website will also be updated to reflect the new electrical rates.

APPENDIX

1. Proposed Bylaw No. 9857, *The Electric Light and Power Amendment Bylaw, 2022 (No. 2)*

Report Approval

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