

Advisory Services
Climate Change

the forecast*

Evolving Canadian Business Regulations and
Incentives Regarding Climate Change
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PRICEWATERHOUSECOOPERS 

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Evolving Canadian Business Regulations and Incentives Regarding Climate Change

In the last issue of the Forecast, we looked at the Federal Government's Regulatory Framework for Air Emissions and estimated the potential cost of compliance to industrial facilities. In this issue, we review recent government budgets, initiatives, and regulatory developments in Alberta, British Columbia, Ontario, and Quebec¹. We believe that these developments have implications to the effectiveness and efficiency of the compliance mechanisms, in particular, emission trading systems.

Alberta

In March 2007, the Alberta government introduced its "Specified Gas Emitters Regulation" as part of the province's *Climate Change and Emissions Management Amendment Act*. This new regulation applies to facilities that release more than 100,000 tonnes of carbon dioxide equivalents (CO₂e) per year. The regulation requires that existing facilities first measure and report their baseline emissions intensity based on the average emissions and production data over the period 2003 to 2005, then reduce their net emissions intensity by 12% from the baseline by the end of 2007. Facilities can meet the intensity reduction targets either by internal reductions, purchasing Alberta based offsets, or by contributing to a Carbon Research Fund at \$15 per tonne of CO₂e.

British Columbia

In the 2007 throne speech, BC committed to reducing provincial GHG emissions by 33% below 2007 levels by 2020, and to a carbon-neutral public sector by 2010. BC's budget, announced February 19, 2008, included a broad-based revenue-neutral carbon tax on the purchase of fossil fuels such as gasoline. The initial rate of tax for fuel will be based on \$10 per tonne of CO₂e (increasing to \$30 per tonne of CO₂e by 2012), emissions released into the atmosphere from the burning of the fuel. For gasoline, this is estimated to increase fuel cost by 2.4 cents per litre. All revenue generated by the carbon tax will be returned to individuals and businesses through reductions in other taxes. The budget also included \$1 billion over four years to fund various climate change research and investment projects which are mainly focused around transportation, energy efficiency, and clean technology.

BC is participating with Manitoba and seven US states (e.g. California) in the Western Climate Initiative (WCI) to implement a market-based, multi-sector "cap and trade" system to reduce Greenhouse Gas (GHG). Design of the system is underway and scheduled for completion by August 2008.

Ontario

In August 2007, Ontario released its climate change plan titled "Go Green". In this plan, Ontario commits to reducing greenhouse gas emissions by 6% below 1990 levels by 2014, 15% by 2020, and 80% by 2050. The plan includes a wide variety of strategies. Associated regulations relate to the closing of coal powered electricity generation and mandatory methane capture systems for new, expanding, and existing operating landfills larger than 1.5 million cubic metres.

Ontario has not joined the Regional Greenhouse Gas Initiative (RGGI) or the Western Climate Initiative (WCI) although it publicly supports emission trading system initiatives. RGGI is a group of nine Northeast and Mid-Atlantic states that have established a regional cap-and-trade system to limit emissions to current levels beginning in 2009.

1. Please note that this is a rapidly evolving field and the information presented in this document is current as of February 29, 2008.

Quebec

In October 2007, the Province of Quebec implemented Canada's first carbon tax. This tax applies to petroleum products such as heavy oil, gasoline, natural gas, and propane that are sold in bulk to retailers. The value of the tax is set annually by dividing the budget requirements of the Green Fund (created to finance climate change initiatives in Quebec) by the province's total CO₂ emissions from fossil use. Revenues are expected to reach \$1.2 billion between 2007 and 2012.

Implications for Industry

As governments struggle with the best mechanisms to curb greenhouse gas emissions, a patchwork of systems is emerging. Alberta and Ontario are clearly advocating different emissions trading systems, while Quebec has implemented a carbon tax approach, and B.C. is implementing a combination of carbon tax and emissions trading programs. Other provinces have been relatively silent on their climate change approach, likely in anticipation of the Federal climate change regulations. Generally speaking, the emission trading system approach appears to be the most popular mechanism but it is essential to have certain characteristics for an effective and efficient market. These characteristics include:

- adequate volume or critical mass of available credits;
- good communication of the quality of credits;
- clear signals for supply and demand;
- a registry to track credits;
- clear and transparent rules for trading and reporting; and
- enforcement processes to ensure compliance with the rules.

The intended and existing carbon trading systems are not harmonized with one another and each on their own will not likely contain sufficient carbon credits to create a liquid market. Consequently, the liquidity and fungibility of individual carbon markets may suffer, limiting the ability of multi-jurisdictional companies to efficiently and effectively address their climate change obligations and opportunities.

We find the movement on the Provincial regulatory front interesting as action or inaction does not necessarily correspond to greenhouse gas emissions risk. Alberta, Quebec, and Ontario have the greatest risk from a pure greenhouse gas emissions magnitude perspective. We see regulations in Alberta and Quebec but Ontario has yet to release climate change regulations. If GDP is a measure of economic ability, Saskatchewan, Alberta, and New Brunswick have the least ability to manoeuvre given their emissions and GDP; yet, only Alberta has stepped forward with climate change regulations. Consequently, we can only conclude that much of the action or inaction on climate change is also due to social and political pressures rather than actual greenhouse gas emissions risk. From either risk perspective, we hope that an aligned and harmonized system develops, for the benefit of our clients and the environment.

Contacts

PricewaterhouseCoopers' Climate Change practice provides services in strategic assessment of climate change risks and opportunities; due diligence for greenhouse gas credits; green technology feasibility assessments; climate change project documentation development for credit application; corporate inventories and greenhouse gas data management systems; and validation and verification of corporate inventories and project emission reductions or removal enhancements. PwC had a key role in developing the ISO 14064 standard on greenhouse gases and the GHG Protocol. Our practice extends to a variety of industries including the electricity, oil and gas, mining, forestry, chemical processing and telecommunications fields at a local, national and international level.

We anticipate more Canadian and international developments related to climate change in the months ahead. Our goal is to provide you with timely synopses and analyses of these developments as they occur.

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