

PRE-ELECTION POSITIONING: WILL THE CARBON TAX SUBSIDIZE BC HYDRO RATES?

Governments in Canada are finding that the public is becoming more resistant to the growing cost of de-carbonization policies. The carbon tax has been the main focus of the opposition, both at the federal level and in this province. A misplaced note, notionally drafted by energy minister Josie Osborne, makes it clear that the government is concerned that the carbon tax will be a major issue during the October 2024 general election.¹

A "Big and Shiny" Budget Initiative

In the note, Minister Osborne floats the idea that some of the planned increase in the carbon tax for 2024/25 be returned to BC Hydro users on their monthly bills. This would provide a "big and shiny" initiative to anchor the 2024/25 budget and the NDP's election platform. It would also deflect criticism of the impact of the rise in the tax on meeting the government's affordability objectives.

During questioning in the Legislature, Premier David Eby confirmed that the government was considering politicizing BC Hydro to provide such a monthly rebate. "I make no apology for searching for affordability options for British Columbia, especially as we prepare a budget...."²

What is the Carbon Tax Revenue and Expenditure?

The carbon tax is planned to increase from the current \$65/tonne of emissions to \$95/tonne by April 2025 (up 38%), with \$15/tonne annual increases until it reaches \$170/tonne by April 2030 (up 162%). It generates a significant amount of income for the government. The 2023/24 budget forecast revenue of \$2.8 billion, an increase of some \$600 million over the prior year due to the \$15/tonne rate increase effective 1

¹ <https://vancouversun.com/news/local-news/leaked-memo-shows-bc-energy-minister-looking-for-big-and-shiny-affordability-measure-linked-to-climate-plan>

² Ibid.

April 2023.³ It seems likely that the planned increase for April 2024 will produce the same \$600 million increase in revenue to the government.

The government has assigned a number of expenditure initiatives to be funded from the carbon tax revenue. The largest is the “Climate Action Tax Credit.” In July 2023, the government significantly increased the maximum annual tax credit for those who qualified based on a financial means test. The plan is to continue to increase the credit as the carbon tax takes a bigger bite of disposable income in the years to come.⁴ The annualized cost of the tax credit is \$549 million.⁵

Other expenditures or credits are also funded, including a new output pricing model for large industrial emitters. The effect of the new performance-based system is not clear, as many emitters will be exempt from paying the carbon tax up front.

Starting April 1, 2024, large emitters, such as pulp and paper mills, oil and gas operations, and large mines, will transition to a new carbon pricing model. This new, made-in-B.C. output-based pricing system (B.C. OBPS), will establish performance-based emissions limits and price operations’ emissions that exceed those limits. Rather than requiring emitters to pay the carbon tax up front and receiving industrial incentive payments under the CleanBC Program for Industry at the end of each year, this new system will exempt them from the carbon tax and instead evaluate emissions performance on the basis of required reporting at the end of each year and price their emissions under the OPBS accordingly.⁶

A summary of other expenditures from the carbon tax in 2022/23 can be found in the 2022 Climate Change Accountability Report. The operating expenditures of \$1.1 billion were well under the forecasted tax revenue of \$2.26 billion.⁷ The authors added \$781 million in capital expenditures to attempt to raise the total closer to the revenue. No similar report for 2023 has been released.

What a Monthly Rebate Might Total

Assuming that the government proceeds with a carbon tax funded rebate on monthly BC Hydro bills, what might the monthly rebate equal?

If the government devotes \$500 million of the \$600 million of new tax revenue in 2024/25, this could be apportioned with \$400 million to residential customers, and \$100 million to commercial customers. Last year, BC Hydro reported 1.96 million

³ https://www.bcbudget.gov.bc.ca/2023/pdf/2023_budget_and_fiscal_plan.pdf p. 35.

⁴ Ibid., p. 81.

⁵ Ibid., p. 71.

⁶ Ibid., p. 80.

⁷ https://www2.gov.bc.ca/assets/gov/environment/climate-change/action/cleanbc/2022-ccar/2022_climate_change_accountability_report.pdf pp. 12 and 13.

residential accounts, and 224,000 commercial accounts.⁸ For the 2024/25 estimate I assume 2.0 million residential and 225,000 commercial accounts. I have not assumed a rebate for the large industrial users.⁹

Dividing \$400 million by 2.0 million residential accounts results in an annual rebate of \$200, and a monthly rebate of \$16.66. Dividing \$100 million by 225,000 commercial accounts results in an annual rebate of \$445, or a monthly rebate of \$37.

Summary

Do such monthly rebate amounts achieve the “bright and shiny” political objective? Or will the rebate be subsumed within the total rate increase of approximately 2.3% that BC Hydro is proposing for the next few years (using Trade profits from recent years to smooth higher forecast Domestic rate increases).¹⁰

Some years ago, I had suggested that a portion of the carbon tax be transferred to BC Hydro to help fund the higher debt servicing cost of the Site C project.¹¹ Such a transfer would have helped reduce BC Hydro’s debt. This proposed transfer will use BC Hydro’s monthly billing system as a means to return some of the new carbon tax revenue in an obvious way. Perhaps there will be a note on each month’s bill highlighting the generosity of the current government?

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The writer is a retired senior BC government public servant whose paper describing the BC government’s manipulation of the finances of BC Hydro from 2008 to 2014 was published by BC Studies in November 2016. BC Studies published his paper on the 40-year financial history of ICBC in 2013. He is an intervener in the BC Utilities Commission’s reviews of ICBC’s and BC Hydro’s rate requests.

⁸ <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/2022-23-bc-hydro-annual-service-plan-report.pdf> Appendix D, pdf 134.

⁹ This group was excluded in the previous one-time 2022 rebate announced by Premier Eby on his first day as premier.

¹⁰ https://docs.bcuc.com/documents/proceedings/2023/doc_74756_b-1-bch-f2025-darr-tirr-application.pdf p. 6.

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https://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_33_cost_estimates_of_site_c_24_june_2017/pdf/occasional_paper_no_33_cost_estimates_of_site_c_24_june_2017.pdf