
2008 Long Term Acquisition Plan



APPENDIX G2

Natsource Addendum to Address B.C. Carbon Tax

ADDENDUM TO SECTION 2 (b) (i) OF NATSOURCE'S "2007 GREENHOUSE GAS OFFSET FORECAST REPORT FOR BC HYDRO" DATED DECEMBER 1, 2007.

FEBRUARY 25, 2008

Introduction of a broad-based revenue-neutral carbon tax in British Columbia

On February 19, 2008, the Government of British Columbia, in its 2008 provincial budget, announced its intention, subject to approval by the legislature, to introduce a revenue-neutral carbon tax.¹ The tax will apply to the purchase or use of virtually all fossil fuels within the Province of B.C., including gasoline, diesel, natural gas, coal, propane and home heating fuel. The Province's *Budget and Fiscal Plan: 2008/09 – 2010/11* notes that the carbon tax base will include fossil fuels used for transportation by individuals and in all industries, including the combustion of natural gas to operate pipelines, as well as road, rail, marine and air transportation. The carbon tax will apply to fuel used to create heat for households and industrial processes, such as drying coal.² The only fuel types not included in the tax base are those that are generally referred to as biomass fuels or biofuels, which include firewood, wood waste, ethanol, bio-diesel, and bio-heating oil.

The fossil fuels included in the tax base account for about 70% of British Columbia's total current greenhouse gas (GHG) emissions. GHG emissions resulting from industrial processes such as production of oil, gas, aluminum and cement, as well as emissions from landfills and other similar sources, will not be subject to the tax initially. It is anticipated that many of these industrial process emissions will be subject to the cap and trade system or other GHG reduction measures under development.

The Government has explicitly recognized that the carbon tax is one of several key building blocks to help the province reach its goal of reducing British Columbia's greenhouse gas emissions by 33 percent below 2007 levels by 2020. The Provincial Government has indicated that the carbon tax and complementary measures such as the cap and trade system will be integrated to avoid unfairness or double taxation. Further details on how this will be accomplished will be forthcoming when cap and trade legislation is introduced later in 2008.

The level of the carbon tax has been set at \$10 per tonne of associated CO₂, or CO₂-equivalent, emissions, starting July 1, 2008, and increasing annually by increments of \$5 to reach \$30 per tonne of CO₂ or CO₂-equivalent, on July 1, 2012.

Implications of the Introduction of the Carbon Tax for BC Hydro and Natsource's 2007 Greenhouse Gas Offset Forecast Report

Natsource's 2007 Greenhouse Gas Offset Forecast Report concluded that "the WCI/WECC sensitivity case represents the most likely scenario for estimating GHG prices in BC in 2012-2015" while for the period of 2020 onwards, the Linked Markets scenario is most likely. Both of these scenarios assumed that the prime driver for emissions reductions in the power generation sector in BC would be legislation and accompanying regulation associated with GHG trading programs.

¹ B.C. Ministry of Finance, *Budget and Fiscal Plan: 2008/09 – 2010/11*, available at http://www.bcbudget.gov.bc.ca/2008/bfp/2008_Budget_Fiscal_Plan.pdf.

² Ibid, page 13.

This assumption remains valid since:

- The carbon tax price signals of \$10 per tonne of associated CO₂ and subsequent increase of \$5 a year to \$30 per tonne of associated CO₂ are for purposes of setting the rate of the carbon tax within B.C.; and
- In its 12 February 2008 Throne Speech, the Provincial Government clearly signaled its intention to introduce legislation to facilitate B.C.'s participation in the regional cap and trade system being developed for large industrial emitters under the WCI.³ The Government has noted that the WCI has set a date of August 2008 to come to an agreement on a workable system for carbon trading for large emitters and indicated "the government intends to introduce legislation in 2008 to enable adoption of this system."⁴

³ Speech from the Throne, 12 February 2008 page 13, available at www.gov.bc.ca/premier/2008_throne_speech/index.html.

⁴ Section 1.5, pg 36 of the "Budget and Fiscal Plan -2008/09 to 2010/2011"