Submissions on transitioning to a low carbon economy

Presentation to the Senate EE&NR Committee
May 12, 2016
Association of Major Power Customers of BC (AMPC)

- AMPC is an association of forestry, pulp and paper, electro-chemicals, and mining companies operating in BC
- AMPC members represent 20% of BC Hydro load
- Generally accepted as energy intensive and trade exposed (“EITE”) industries
- These industries have reduced carbon emissions and continue to implement additional initiatives.
Energy Intensive Industries

- Electricity as a percent of total operating costs
  - Electro Chemicals 50 to 70%
  - Mechanical Pulp & Paper 30%
  - Mining 15%
Trade Exposed Industries

• Global commodity prices are currently low, forcing production at the margin to shut down

• Carbon price related costs cannot be passed to customers unless world competitors experience similar costs, i.e. there is a level playing field

• When our industries become uncompetitive they close down or shift production to other locations
  – Multiple mines have closed
  – 1 paper mill has closed, another TMP mill has indefinitely postponed its restart

• The Province of BC and BC Hydro have responded
  – Some mines can defer payment of BC Hydro bills up to 5 years
  – $100M incentive program for mechanical pulp and paper producers to reduce energy consumption.
Carbon Reduction Contributions

• Achieved reductions – Forestry, Pulp and Paper
  – Reduced absolute carbon emissions by 62% since 1990
  – Reduced carbon intensity by 57% since 1990

• Achieved Reductions – Electro-chemicals
  – CIAC members have reduced GHGs by 65% since 1992

• Achieved Reductions – Mining
  – Mining companies have also achieved significant reductions and sector results are being assessed
Why we are here

• To share the BC experience from industrial customers’ perspective
  – Each jurisdiction involves different considerations

• To caution against unnecessary increased costs and unintended consequences as government policy focuses on reducing carbon

• To confirm AMPC’s support for thoughtful and sustainable policy making
What we want you to consider

• The need for federal programs to take into account existing provincial programs – Industry cannot afford layering on

• The need to consider the possibility of unintended adverse consequences in carbon pricing scenarios – including increased GHGs

• The need to consider “revenue neutrality” claims and plans
BC Hydro Industrial Rates

• Years of rapid rate increases have resulted in the erosion or elimination of BC Hydro rates as a competitive advantage
  – BC Hydro industrial rates are now similar to those where competitors are located

• There is serious pressure for future rate increases
  – Aging Assets – the average age of hydro-electric facilities is 45 years – 3yr. Planned capital spend $8 Billion
  – Major renewable IPP purchases
  – New facilities – Site C’s projected cost is $9 Billion
  – Existing regulatory deferral accounts - $ 5.5 Billion
  – Potential increase in debt and interest rate risk
BC Carbon Tax Impacts

• Important to understand programs in place and their cost to customers
• The provincial carbon tax is $30/MT CO2e
  – $1.49/GJ on Natural Gas
    • Presently greater than the cost of natural gas in Station 2 in Northeast BC
  – Consumption tax that is paid regardless of profitability
  – Forest sector paid $108 million in 2015
  – Mining sector figures are not available but the impact is substantial - one company reports paying over $50 million over several operations
  – Electro-Chemicals paid approx. $1.5 million
  – Is often passed on to members by their suppliers, but normally cannot be passed on by members to their customers
BC GHG Reduction Efforts

- BC Government has imposed a 93% minimum Clean Generation requirement on BC Hydro

- BC Hydro:
  - Purchased 14,092,000 MWh of IPP Electricity in 2015
    - Portfolio cost of >$90/MWh vs $35/MWh projected market price at Mid C
    - ~ $770M annual premium over market
  - Maintains a world class energy efficiency & conservation program in Power Smart
  - Continues to invest in clean energy infrastructure
Potential Unintended Consequences of Higher Carbon Prices

• When a BC plant is closed, or reduces output, that production is likely to be made in another jurisdiction
  – An example of transfer of production due to electricity pricing is a reduction of Alberta electrochemical production resulting in an increase of production in the US Southeast

• Almost all jurisdictions have Renewable Portfolio Standards that are much lower than BC’s 93% Clean Energy standard

• A shift in production to a “less clean” jurisdiction can potentially increase GHG intensity by a factor of 10 or more
Revenue Neutrality

• Carbon Taxes should be revenue neutral to government and focus on GHG related factors
• These revenues should advance GHG reduction measures such as:
  – Funding investments that reduce GHGs
  – Reducing the cost of clean electricity
    – e.g., funding the removal of the PST in BC
  – Supporting the replacement of diesel with LNG or renewable fuels in trucks and other mobile equipment
Summary of Recommendations

• Any Federal Carbon Pricing measures must appropriately take into account existing provincial carbon taxes and measures. There should not be any layering on of federal and provincial measures.

• The Federal Government should recognize the costs associated with existing electric utility generation renewable portfolio standards, but not get involved in setting them. The provincial governments are in the best position to direct local resources and consequences.

• Revenues from any carbon tax are best used to advance GHG reduction measures and help businesses and individuals adapt to the transition to a low carbon economy.
Witnesses

• Brian Wallace, Q.C.: Bull, Housser & Tupper
  Legal Counsel to AMPC

• Carlo Dal Monte: Catalyst Paper,
  Chair of the AMPC Executive

• Karina Briño:
  President and CEO - Mining Association of BC