

Hon. Wally Schumann
Chair, Ministerial Committee on Energy and Climate Change
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September 15, 2017

RE: Comments on “Implementing Pan-Canadian Carbon Pricing in the Northwest Territories”

Dear Minister Schumann,

Thank-you for the opportunity to comment on the discussion paper “Implementing Pan-Canadian Carbon Pricing in the Northwest Territories”. We address this response to you in your role as chair of the Cabinet Committee on Energy and Climate Change as this discussion paper and our response have implications for energy and climate change policy as a whole, and are not just limited to the Department of Finance.

We have updated our paper on climate and energy policy to include a more detailed section on carbon pricing (attached) and respond directly to the discussion paper with this letter.

Alternatives North supports the GNWT’s objective as stated in the executive summary:

“...the over-riding objective to introduce the carbon tax in such a way that it provides a price incentive to reduce carbon-based fuel use while as much as possible not affecting the local cost of living for Northwest Territories residents or creating further barriers to economic development.”

We note that the above objective is not consistently stated or applied in the discussion paper (for example statements on p.5 & p.11 put more emphasis on cost of living and economic development).

Specific responses to questions from the discussion paper:

- *How much, if any, of the carbon tax revenue should be recycled to NWT households, businesses and industry through direct transfers?*

We suggest that 10% of over-all carbon tax revenues be recycled to low-income NWT households through a mechanism similar to the GST rebate. At a carbon price of \$10/t, we estimate this would allow \$100 per person to be returned to the 10,000 lowest income residents.

- *How much, if any, of the carbon tax revenue should be used for any direct GNWT spending for initiatives to reduce greenhouse gas emissions?*

We suggest that the remaining 90% of available carbon revenues generated by non-GNWT carbon tax-payers should be made available in the form of rebates and financial incentives to encourage investment in renewable energy and energy efficiency in the sectors that paid the carbon price. The GNWT itself (and municipal governments) should also pay the carbon price (either directly or through an internal mechanism) and direct that money towards investing in their own infrastructure through mechanisms like the GNWT's capital asset retrofit fund.

The GNWT is also negotiating additional funding from the Government of Canada and a skilled negotiation could result in matching funding to double the impact of carbon tax revenues that are directed towards renewable energy and energy efficiency.

Rebates and other funded programs should all be evaluated to show they provide the “most bang for the buck” (including salaries paid to administer the programs) in terms of reducing greenhouse gas emissions. The evaluation results should be publicly reported.

- *Should carbon tax revenue recycling be tied to carbon consumption?*

No. This approach obviously works against the stated intention and policy objective of the carbon tax to reduce carbon emissions.

- *Is it reasonable to mix carbon revenue recycling with broader policy objectives?*

The carbon revenues should be focused on enabling the transition to renewable energy and energy efficiency. Ensuring that lower income residents are not impacted is also important. Beyond that, revenues should not be considered as general revenue and not used to fund unrelated GNWT services, programs or infrastructure. Carbon pricing revenues should not be considered as the only way to fund the transition away from fossil fuels. As currently proposed the carbon revenues will not be enough on their own to facilitate the required reduction in greenhouse gas emissions (see final question).

- *What should be considered when proposing revenue recycling options for business and industry?*

Business and industry should be viewed through a lens of “stimulating investment” in a transition away from fossil fuels. The “analysis” on p.5 of the discussion paper - that a business or industry will only have the two options of either absorbing the increased cost or passing it on to customers is incomplete. Well managed businesses and industries constantly evaluate opportunities to invest in more efficient business methods and means of production. All businesses and industries have renewable energy and energy efficient investment options that would reduce and eventually eliminate the impact of the carbon price. After 10% is directed to low-income households, the carbon revenues paid by business and industry should be returned in a way that stimulates investment in renewable energy and efficiency. Existing funding provided to smaller businesses by the Arctic Energy Alliance could be

increased, while industry could compete for funding on a proposal basis as proposed on p. 10 of the discussion paper.

- *How should increasing revenues be incorporated into the recycling program? Should the recycling approaches grow as revenues increase or should new approaches be introduced as revenues grow?*

As we demonstrate in our revised Climate Change and Energy Policy Paper (dated September 15, 2017), the current 5-year plan raising the price on carbon to \$50/t does not send a strong enough price signal, nor is it long-term enough. In order to play our part in keeping global temperature rise below 2 deg C, carbon emissions need to be reduced by half over each of the coming decades. We suggest that the carbon price continue to increase to \$200/t over the next 10 years and be adjusted thereafter to ensure the NWT reaches 100% renewable energy by 2050. We estimate that this would generate \$1.75 billion in revenue for reinvestment over the first 20 years.

We agree that it is essential to monitor and publicly report on the impacts of the carbon tax, and the effectiveness of efforts to transition to renewable energy. This process should be clearly laid out.

Naturally, revenues will change depending on how quickly NWT society shifts away from fossil fuels, but the revenue recycling principles we outlined above (10% to low income, remainder returned to each sector to stimulate investment in renewable energy and efficiency) should be applied consistently.

Further comments:

We agree that “Implementing a Northwest Territories carbon tax can be accomplished by amending the *NWT Petroleum Products Tax Act* to have separate fuel and carbon tax rates.”

We agree that “The main effect of the carbon tax on the Northwest Territories economy will be through this (fossil fuels) increase in costs”. The size of this effect will depend upon the success in ensuring that alternatives are available and that the shift is made to happen, such as was done when GNWT required retailers to stop providing plastic bags to customers throughout the NWT. Although initially regarded by consumers as an unfair imposition, within weeks, concern literally disappeared as the public adopted a new routine. We note too the recently imposed Air Improvement Fees on airline tickets have increased the cost of living but raised little public concern. A similar example can be seen in the newly-adopted culture within Government infrastructure projects to always aim for biomass heating first instead of the previously routine implementation of fossil fuel infrastructure.

Regarding recycling carbon tax revenue, we note the concern about the “cost of living increases caused by the tax on households, businesses and industry.” This requires a shift in perspectives. The real concern, given the realities of the required shift away from fossil fuels, is how to support all sectors in dealing with front-end costs of adopting renewable

energy sources. Here there needs to be a suite of solutions using 90% of the revenues with both support for renewable energy alternatives AND financing tools to deal with the challenges of front-end costs. Such tools include guaranteed loans, Local Improvement Charges, requiring NWT Power Corporation to provide programs that assist residents in shifting to alternatives that have lower monthly costs so that stable monthly bills can be used to both pay monthly consumption and principals, and so on. We believe that if properly posed, there would be federal support for such initiatives.

In closing, Alternatives North is pleased to see progress towards a carbon price in the NWT and thanks the Department of Finance for providing the opportunity to comment on the discussion paper.

Regards,

Bob Bromley
For Alternatives North

Att: Alternatives North Policy Paper on Energy and Climate Change

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