



**Utilities Kingston
Report to Council
Report Number 19-043**

To: Mayor and Members of Council
From: Jim Keech, President and CEO, Utilities Kingston
Resource Staff: Sherry Gibson, Senior Advisor, Rates and Regulatory Affairs
Date of Meeting: January 28, 2019
Subject: Approval of Local Distribution Rate Change and Federal Carbon Charge for Natural Gas

Executive Summary:

This report is requesting an adjustment to local distribution rates for the natural gas utility for March 1, 2019 and January 1, 2020 and the addition of a Federal Carbon Charge rate commencing April 1, 2019, to cover the cost of the federal government's Carbon Levy that the gas utility will be required to collect and remit.

The annualized total bill impact of the local distribution rate adjustment for a typical residential customer utilizing an average of 2,300 m³ of natural gas total per year is an increase of \$11.65 in 2019 and \$9.53 in 2020.

A typical residential customer utilizing an average annual amount of 2,300 m³ of natural gas per year will additionally see an initial annualized increase of \$93.38 plus HST for the Federal Carbon Charge.

Recommendation:

That Council approve:

1. The proposed gas local distribution rate change effective March 1, 2019 and January 1, 2020 as detailed in this report; and
2. The proposed Federal Carbon Charge rate effective April 1, 2019; and
3. Representatives of Utilities Kingston be authorized to act, on behalf of the Corporation of the City of Kingston, to comply with the legislated requirements of the Greenhouse Gas

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Pollution Pricing Act and the Federal Carbon Pricing Backstop as it relates to the natural gas utility; and

4. Utilities Kingston be authorized to execute any required operational documents that falls within the provisions of the Greenhouse Gas Pollution Pricing Act and the Federal Carbon Pricing Backstop; and
5. By-Law Number 2019-XX A By-Law to Amend By-Law Number 2010-17 "A By-Law to Impose Gas Rates, as amended by By-Laws 2013-18, 2015-28, 2017-21, and 2018-17. (Exhibit A to Report Number 19-043).

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Authorizing Signatures:

ORIGINAL SIGNED BY PRESIDENT & CEO, UTILITIES KINGSTON

**J.A. Keech, President and CEO,
Utilities Kingston**

Consultation with the following Members of the Corporate Management Team:

| | |
|---|--------------|
| Peter Huigenbos, Acting Commissioner, Community Services | Not required |
| Lanie Hurdle, Acting Chief Administrative Officer | Not required |
| Desirée Kennedy, Chief Financial Officer & City Treasurer | Not required |
| Deanne Roberge, Acting Commissioner, Corporate & Emergency Services | Not required |

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Options/Discussion:

This report details:

- a) the proposed local distribution rate changes for the natural gas utility, and
- b) the addition of the Federal Carbon Charge.

a) Local Distribution Rate Changes

Gas local distribution costs consist of fixed and volumetric charge components for the operation, repair and maintenance of the distribution gas works.

The current gas local distribution costs charge portion has been in effect since January 1, 2018. The local distribution costs are proposed to increase by 2.5% effective March 1, 2019 and an additional 2.0% effective January 1, 2020.

The commodity and transportation & storage charges are pass-through charges and are not affected by the proposed changes.

The following chart summarizes the current and the proposed March 1, 2019 Local Distribution Costs:

| Local Distribution Costs | | | |
|---|--------------------------|----------------------|--------------------------|
| | January 1, 2018 | March 1, 2019 | Change |
| A. Monthly Service Charge: | | | |
| Residential | \$21.00 | \$21.53 | \$0.53 |
| Commercial | \$70.00 | \$71.75 | \$1.75 |
| B. Delivery Charges: | | | |
| i. Local Distribution Volumetric | per m³ | | per m³ |
| 1st 1500 m ³ | \$0.0909 | \$0.0932 | \$.0023 |
| Next 3500 m ³ | \$0.0544 | \$0.0558 | \$.0014 |
| Next 70,000 m ³ | \$0.0313 | \$0.0321 | \$.0008 |
| Over 75,000 m ³ | \$0.0182 | \$0.0187 | \$.0005 |
| | | | |

For a typical residential customer with 2300 m³ per year consumption, the annualized total bill impact is \$11.65.

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The following chart summarizes the proposed March 1, 2019 and the proposed January 1, 2020 Local Distribution Costs:

| Local Distribution Costs | | | |
|--|--------------------------|------------------------|--------------------------|
| | March 1, 2019 | January 1, 2020 | Change |
| C. Monthly Service Charge: | | | |
| Residential | \$21.53 | \$21.96 | \$0.43 |
| Commercial | \$71.75 | \$73.19 | \$1.44 |
| D. Delivery Charges: | | | |
| ii. Local Distribution Volumetric | per m³ | | per m³ |
| 1st 1500 m ³ | \$0.0932 | \$0.0951 | \$0.0019 |
| Next 3500 m ³ | \$0.0558 | \$0.0569 | \$0.0011 |
| Next 70,000 m ³ | \$0.0321 | \$0.0327 | \$0.0006 |
| Over 75,000 m ³ | \$0.0187 | \$0.0191 | \$0.0004 |

b) Federal Carbon Charge

On October 23, 2018, it was officially announced that the Federal Carbon Pricing Backstop will be implemented in whole in Ontario (along with Manitoba, New Brunswick, Yukon, Nunavut and in part in Saskatchewan and PEI). Under the Federal Backstop, the Output-Based Pricing System (OBPS) for large industrial emitters will begin on January 1, 2019 and the Carbon Levy ("Levy") on fossil fuels will take effect April 2019. The Levy will be collected by fuel producers and distributors in Backstop Jurisdictions who will then pass down the costs to their customers. Registered Fuel Distributors consist of fuel producers, large wholesale fuel distributors and natural gas retailers. As a Registered Fuel Distributor, Kingston will pass through the cost of carbon to its customers and the Levy will not be payable on the natural gas until it is delivered to the end users.

The carbon price under the Federal Backstop will begin at \$20/tonne of CO₂e in 2019 and increase by \$10/tonne annually until it reaches \$50/tonne in 2022. This will result in an initial carbon cost of \$.0391/m³ on marketable natural gas for 2019. In addition, administrative expenses of \$.0015/m³ are estimated to be incurred to administer the levy resulting in a total carbon charge of \$.0406/m³. As a natural gas distributor in Ontario, the Corporation of the City of Kingston ("Kingston") will be required to register as a Registered Fuel Distributor with Canada Revenue Agency (CRA) and will be responsible for reporting and paying the Levy on fuel delivered to its customers on a monthly basis.

Application of the Levy

The Levy is only applied when a Registered Fuel Distributor 1) uses fuel in a Backstop jurisdiction or 2) delivers fuel to the end-user that has not provided an Exemption Certificate to Kingston. Therefore, Kingston has the obligation to pay the Levy once it has been delivered to

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its customers that have not provided an Exemption Certificate to Kingston. According to the Greenhouse Gas Pollution Pricing Act 'delivery' is defined as when the fuel is made available.

Since the Levy is only payable once delivered to the final user, Registered Fuel Distributors are able to transact with other Registered Fuel Distributors without the Levy being payable. As a Registered Fuel Distributor, Kingston is eligible for an Exemption Certificate and therefore will be able to purchase gas (commodity) from suppliers without being charged the Levy. The Exemption Certification will contain a declaration that Kingston is a registered natural gas distributor and therefore Kingston will be responsible for providing suppliers with the certificate. The details regarding the information on the Exemption Certificate will be provided by CRA, which are currently being developed. Therefore, customers will only pay the Levy costs passed through from Kingston on the gas they are consuming. There will not be any Levy costs passed to Kingston's customers from Kingston's suppliers.

Consistent with other gas distributors in the province, Utilities Kingston proposes to present these charges as a separate line item on customers' bills.

For presentation on customers' bills, Utilities Kingston will separately identify the "Federal Carbon Charge", including applicable administrative costs, as a new line item.

The annualized bill impact of the carbon tax charge for a typical residential customer with consumption of 2,300 m³ is an increase of \$93.38 per year commencing April 1, 2019.

Existing Policy/By-Law:

By-Law No. 2010-17 "A By-Law to Impose Gas Rates (1425445 Ontario Limited operating as Utilities Kingston)", as amended.

Notice Provisions:

Not applicable.

Accessibility Considerations:

Not applicable.

Financial Considerations:

As discussed in the report.

Contacts:

Jim Keech, President and CEO, Utilities Kingston, 613-546-1181 X2217

Randy Murphy, Chief Financial Officer, Utilities Kingston, 613-546-1181 X2317

Sherry Gibson, Senior Advisor Rates & Regulatory Affairs, Utilities Kingston 613-546-1181 X2383

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Other City of Kingston Staff Consulted:

Not applicable.

Exhibits Attached:

Exhibit A - By-Law No. 2019-XXX A By-law to Amend By-Law No. 2010-17 "A By-Law to Impose Gas Rates (1425445 Ontario Limited operating as Utilities Kingston)", as amended.

BY- LAW NO. 2019-XXX

A By-Law to Amend By-law Number 2010-17, “A By-Law to Impose Gas Rates (1425445 Ontario Limited operating as Utilities Kingston)”

PASSED: Meeting date, 2019

The Council of The Corporation of the City of Kingston hereby enacts as follows:

- 1. By-Law No. 2010-17 of the Corporation of the City of Kingston entitled, “A By-Law to Impose Gas Rates (1425445 Ontario Limited operating as Utilities Kingston)”, as amended, is hereby further amended as follows:
 - a. Appendix “A” is hereby deleted in its entirety and replaced with the new Appendix “A” attached hereto and marked as Schedule ‘A’.
 - b. The Federal Carbon Charge rate component of the natural gas rates is based on the requirements of the Greenhouse Gas Pollution Pricing Act and the Federal Carbon Pricing Backstop, including administrative costs, and may be adjusted by Utilities Kingston from time to time as needed, without amending this by-law.

- 2. This By-Law shall come into force and take effect on March 1, 2019.

GIVEN ALL THREE READINGS AND PASSED Meeting date, 2019

CITY CLERK

MAYOR

JOHN BOLOGNONE

BRYAN PATERSON

SCHEDULE A

Appendix "A"

Gas Rate - Effective March 01, 2019

| Local Distribution Costs | | Effective March 1, 2019 |
|--|------------------------------------|--|
| Local Distribution Costs include (a) a monthly service charge and (b) common monthly block rate delivery volumetric charges. These rates apply to all gas customers as applicable. | | |
| (a) Monthly Service Charge | | Service Charge Rate |
| | Residential | \$21.53 |
| | Commercial | \$71.75 |
| (b) Monthly Block Rate | Delivery Volumetric Charges | Total Delivery Rate per m³ |
| | 1st 1500 m ³ | \$0.0932 |
| | Next 3500 m ³ | \$0.0558 |
| | Next 70000 m ³ | \$0.0321 |
| | All over 75000 m ³ | \$0.0187 |

Federal Carbon Charge

Effective April 1, 2019

This volumetric rate applies to all customers except in the case where the customer has provided Utilities Kingston a valid carbon tax levy Exemption Certificate.

| | |
|-------------------|-------------------------|
| | Rate per m ³ |
| Carbon Tax Charge | \$0.0406 |

Note: (1) Carbon tax rate may be adjusted by Utilities Kingston from time to time without amending the rates by-law.

Gas Rate - Effective January 01, 2020**Local Distribution Costs**

Effective January 1, 2020

Local Distribution Costs include (a) a monthly service charge and (b) common monthly block rate delivery volumetric charges. These rates apply to all gas customers as applicable.

| (a) Monthly Service Charge | | Service Charge Rate |
|----------------------------|-------------------------------|-------------------------|
| Residential | | \$21.96 |
| Commercial | | \$73.19 |
| (b) Monthly Block Rate | | Total Delivery |
| | Delivery Volumetric Charges | Rate per m ³ |
| | 1st 1500 m ³ | \$0.0951 |
| | Next 3500 m ³ | \$0.0569 |
| | Next 70000 m ³ | \$0.0327 |
| | All over 75000 m ³ | \$0.0191 |

Transportation and Storage

January 1, 2019

This volumetric rate applies to all gas customers including System Gas, Direct Purchase (Retailer), and Interruptible customers.

| | Rate per m ³ |
|-------------------------------|-------------------------|
| Transportation & Storage Rate | \$0.1049 |

Note: (2) The Transportation & Storage rate price shown above is for informational purposes only and was the price in effect on the date shown above.

The Transportation & Storage rate may be adjusted by Utilities Kingston from time to time without amending the rates by-law.

Commodity

January 1, 2019

This volumetric rate applies to all System Gas customers only. The commodity rate applicable to a Direct Purchase gas customer (Retailer) is per their retailer contract.

| | Rate per m ³ |
|----------------|-------------------------|
| Commodity Rate | \$0.1617 |

Note: (3) The Commodity rate price shown above is for informational purposes only and was the price in effect on the date shown above.

The Commodity rate may be adjusted by Utilities Kingston from time to time without amending the rates by-law.