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**Heather Taylor**  
Chief Financial Officer and Treasurer

**Financial Planning Division**  
City Hall, 7<sup>th</sup> Floor, East Tower  
100 Queen St. West]  
Toronto, ON M5H 2N2

**Josie La Vita**  
Executive Director  
Tel: 416-397-4229  
Fax: 416-397-4465  
Josie.lavita@toronto.ca  
www.toronto.ca

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## **BRIEFING NOTE**

### **Impact of Federal Carbon Tax**

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#### **Issue/Background:**

- On April 1, 2019 the Federal Carbon Tax went into effect in Ontario
- Preliminary estimates suggest the City will pay an additional \$18.5 million in fuel costs from 2019-2022 (cumulatively) attributable to the Federal Carbon Tax Backstop (see Table #1).
- During the 2019 Budget process, consideration was given to the 2019 economic factor estimates to mitigate the impact of the Federal Gas Tax.

#### **Key Points:**

##### **Expected Impact of Federal Carbon Tax:**

In July 2018, the Government of Ontario ended its climate plan including the cap and trade carbon pricing system without introducing any new plan to address climate change.

As a result, the Government of Canada has imposed in Ontario the Federal Backstop. The Backstop will have two components:

- A fuel charge to be applied to fossil-fuel consumption based on greenhouse gas intensity, starting at \$20 per tonne of carbon emission in April 2019 and rising by \$10 per tonne annually to \$50 per tonne in 2022.
  - Fuel rate premiums start at \$0.04/cubic meter of natural gas, \$0.05/litre for diesel and \$0.04/litre for gasoline.
- Effective January 2019, an output based pricing system applies to select emissions-intensive industrial facilities who emit more than 50,000 tonnes per year.
  - Under the output based pricing system, municipal industrial facilities – like landfills and water treatment plants – are not covered by the legislation. Staff will continue to monitor this as stricter emissions thresholds and facility types are anticipated for inclusion in future years.

Estimates suggest the City will pay an additional \$18.5 million in fuel costs from 2019-2022 (cumulatively) attributable to the introduction of Federal Carbon Tax (see Table #1).

Table #1 below applies the fossil-fuel levies based on fuel consumption<sup>1</sup> across City Agencies and Divisions<sup>2</sup> to estimate the total annual cost from incorporating the federal carbon pricing:

The impact of the new carbon tax is estimated to have the impact quantified in table #1. The 2019 Budget was developed based on rates experienced during 2018 when the Provincial Cap and Trade program was in effect. These rates were used in the absence of knowing what the Federal Carbon Tax program would be.

The cost reduction of \$410,000 in 2019 is due to the gap from January to March 2019 before the implementation of the Federal Carbon Tax on April 1, 2019. These estimates are not budget figures, rather they are estimates taking projected volumes and applying the Federal Carbon Tax rates (and for 2019, the Cap and Trade program rates)

	2019	Estimated Incremental Impact			Total
	(Apr-Dec)	2020	2021	2022	
Gasoline	\$450,000	\$350,000	\$300,000	\$300,000	\$1,400,000
Diesel/Light fuel	\$4,300,000	\$3,700,000	\$2,800,000	\$2,900,000	\$13,700,000
Natural Gas	\$3,000,000	\$2,900,000	\$2,200,000	\$2,200,000	\$10,300,000
Steam	\$100,000	\$350,000	\$450,000	\$400,000	\$1,300,000
Total	\$7,850,000	\$7,300,000	\$5,750,000	\$5,800,000	\$26,700,000
<b>Annual Cost Increase</b>	<b>-\$410,000</b>	<b>\$7,300,000</b>	<b>\$5,750,000</b>	<b>\$5,800,000</b>	<b>\$18,440,000</b>

When comparing the previous Ontario carbon pricing to the federal plan, the difference between programs becomes more evident in future years as the price of carbon is expected to increase more sharply. City incremental projections of costs under the federal system are \$7.3 million (2020), \$5.8 million (2021) and \$5.8 million (2022).

By 2022, the City of Toronto is projected to pay \$18.4 million more in fuel costs.

<sup>1</sup> Consumption is estimated based on latest available data and is assumed to remain constant in future years.

<sup>2</sup> Covers transportation fuels and building energy use (i.e. natural gas) for City Divisions and Agencies, including TTC, Police Services and TCHC.

## Budget Provisions to Mitigate impact of Federal Carbon Tax

As part of the 2019 Budget, economic factors related to Ontario's Cap and Trade pricing were maintained with the understanding that a Federal Carbon Tax would come into effect in 2019 to replace the Cap and Trade program.

<b>Table 2</b>	<b>2019 Budget Rate</b>	<b>2019 Carbon Tax Rates</b>	<b>Difference</b>
Gasoline	4.30 Cents / Litres	4.42 Cents / Litres	0.12 Cents / Litres
Diesel / Light Fuels	5.37 Cents / Litres	5.37 Cents / Litres	No change
Natural Gas	3.35 Cents / M <sup>3</sup>	3.91 Cents / M <sup>3</sup>	0.56 Cents / Litres

As a result, the Table 2 above provides a comparison of the rates being used in the 2019 Budget and the actual carbon tax rates that went into effect April 1, 2019. Subject to validation of volumes which would be included in the report back in September, exposure will be limited to the difference on gasoline and natural gas from April to December. Exposure will also be mitigated by full year provision of Cap and Trade rates in the 2019 Budget; whereas the Federal Carbon Tax rates will only apply from April 1, 2019 to December 31, 2019. This is especially evident in the case of natural gas where consumption in the first quarter of 2019 is higher due to weather and need for heating.

The Budgeted rates above apply to:

- City Fleet (includes all City Divisions and TCHC)
- TTC

*Does not include Police or small agencies.*

Next steps:

- Confirmation of rates for all City Divisions and Agencies
- Confirmation of volumes for all City Divisions and Agencies

Please note the figures above only relate to direct costs to the City. The City will also face indirect impacts related to contracted services (i.e. cost related to towing, tire services, snow clearing, etc.) due to higher gas prices.

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**Prepared by:** Erik Franc, Senior Financial Planning Analyst, Financial Planning Division,  
(416)-397-4556, erik.franc@toronto.ca

**Further information:** Josie LaVita, Executive Director, Financial Planning Division  
(416) 397-4229, josie.lavita@toronto.ca

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