

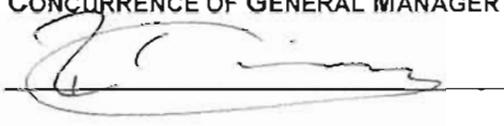


To: General Purposes Committee **Date:** January 30, 2013
From: John Irving, P.Eng. MPA **File:** 10-6600-10-01/2012-
Director, Engineering Vol 01
Re: **Provincial Sales Tax Legislation Impacts to Alexandra District Energy Utility Competitiveness**

Staff Recommendation

1. That a letter be sent to the Premier of the province of British Columbia; the Minister of Finance; with copies to the Minister of Environment, three Richmond MLA's, Expert Panel on BC's Business Tax Competitiveness, UBCM and municipalities operating district energy systems, conveying that:
 - a. The City of Richmond requests that the Provincial Sales Tax (PST) be implemented in a way that will ensure that all energy providers are treated equitably so that they may compete on the basis of their respective system efficiencies, technical merit and carbon emissions;
 - b. This goal be achieved by including provisions in the future PST that will:
 - i. Provide for the exemption or the reimbursement of PST charges on energy (gas, electricity) purchased for the purpose of generating energy for resale;
 - ii. Make available the former exemption on Production Machinery and Equipment to equipment purchased by district energy systems; and
 - iii. Maintain, as per the former PST regulation, the PST exemption on the sale of heat to residential district energy customers;
2. That staff continue to work with other district energy providers and provincial government officials on measures that will mitigate negative PST impacts to the competitiveness of district energy systems.

John Irving, P.Eng. MPA
Director, Engineering
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REPORT CONCURRENCE			
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER	
Intergovernmental Relations & Protocol Unit Finance Division	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>		
REVIEWED BY DIRECTORS	INITIALS: 	REVIEWED BY CAO	INITIALS: 

Staff Report

Origin

BC government has introduced legislation that will return the Provincial Sales Tax (PST) on April 1, 2013.

In 2010, Council adopted the Alexandra District Energy Utility Bylaw No. 8641 establishing the charges that constitute the rate for the service of delivering the energy for space heating and cooling and domestic hot water within the Alexandra District Energy Utility (ADEU) service area.

The purpose of this report is to outline the effects that the PST re-introduction will have on ADEU rates and competitiveness and to present recommendations for further action.

Background

The Province of BC has adopted a Greenhouse Gas reduction target of 33% from 2007 emissions by 2020 and 80% by 2050. Council adopted the provincial greenhouse gas reduction target and endorsed an energy reduction target of 10% from 2007 level by 2020. While most of the necessary action to meet these reduction targets is dependent upon Provincial action (e.g., Building Code changes, transit upgrades, etc.), development of district energy utility systems has been identified as one of the most effective initiatives that the City can implement to achieve these goals.

In summer 2012, phase 1 and 2 of the Alexandra District Energy Utility (ADEU) were completed. ADEU currently provides renewable geothermal energy for space heating and cooling and domestic hot water to over 400 units, with another 450 to be connected by the end of 2013. At full build out, ADEU will service 3.9M sq. ft. of residential (3,100 units) and commercial uses resulting in the reduction of 2,000 to 6,000 tonnes of GHG annually.

The ADEU service rate was established based on the Council's objective to provide end users with annual energy costs that are less than or equal to conventional system energy costs based on the same level of service.

The BC government introduced legislation on May 14, 2012, to meet the government's commitment to return to the Provincial Sales Tax on April 1, 2013. As the PST legislation is proposed, the PST will be re-implemented with all its former permanent exemptions and may impact the competitiveness of the ADEU when compared to the conventional in-building energy systems.

Analysis

Residential customers who acquire energy directly from Fortis BC or BC Hydro and create their own heat in building will not have to pay PST on the energy purchased. While the ADEU is based on a geo-exchange system, some electricity and gas are used for running equipment and provided back-up and peaking capacity. The City, as an energy provider, will have to provide a PST credit to ADEU residential customers, but will have to pay PST on the gas and electrical energy acquired to operate the ADEU. This will effectively increase the ADEU operational cost that may have to be transferred onto ADEU customers.

In a case of future commercial customers, the City will not only have to pay PST on the ADEU energy purchases, but will have to charge PST on the heating and cooling purchased by commercial users, resulting in a double taxation of commercial users.

In addition, under the PST legislation, the City will not receive exemption on the purchase of ADEU energy production machinery or equipment, while BC Hydro, Fortis BC and several other privately owned energy providers will. Without an exemption, PST applies to the purchase of boilers, distribution pipes, heat exchangers, etc., which will be required for future expansion of the ADEU.

Based on the ADEU financial model, after 2014, staff estimate that natural gas and electricity purchases will account between 30% and 35% of total costs invoiced to ADEU customers. A 7% tax on natural gas and electricity purchases implies that customers will be impacted by an amount of over 2% on their invoices. Depending on energy technologies used in the future ADEU phases, this impact may become even higher.

Application of the PST on the energy production machinery or equipment will also impact the future ADEU expansion cost which will reflect on the ADEU customers cost.

Staff have had initial meetings with the representatives of other district energy (DE) owners/operators in Lower Mainland (Lonsdale Energy Corp., City of Vancouver, City of Surrey, University of British Columbia, Central Heat Distribution Ltd. and River District Energy) to discuss their concerns on the re-introduction of the PST. These organizations are also taking action on this issue to bring their concerns to the Province.

Financial Impact

None at this time. However, if the PST legislation is implemented as proposed, the ADEU operating cost will increase by at least 2%.

Conclusion

Alexandra DEU and other sustainable district energy systems are contributing to the economic, social and environmental sustainability of British Columbia. Therefore, it is very important that all energy providers be compared on the basis of energy efficiency rather than the incentives or tax treatment that they receive. Failure to do so is detrimental to the long-term viability of alternative sustainable energy providers such as the ADEU. In addition, it will frustrate federal

and provincial green house gas reduction objectives, national and provincial energy efficiency objectives, and the development of a district energy industry in the Province of BC.

It is recommended that the City of Richmond requests from the Province that the PST be implemented in a way that will ensure that all energy providers are treated equitably so that they may compete on the basis of their respective system efficiencies, technical merit and carbon emissions.

A handwritten signature in blue ink, appearing to read 'Alen Postolka', is written over a horizontal line.

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