CEA SUBMISSION

2019 PRE-BUDGET CONSULTATIONS

Canadian Electricity Association | Association canadienne de l'électricité

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RECOMMENDATIONS FOR BUDGET 2019:

Specific Programs

1. Recapitalize oversubscribed NRCan funding programs: Smart Grid, Emerging Renewable Power, Electric Vehicle Infrastructure Demonstration and Clean Energy for Rural and Remote Communities.

2. Allocate funding for a Zero Emissions Vehicle Strategy.

3. Expand investments in northern energy infrastructure.

4. Allocate funding for the development of a National Electrification Strategy.

Broad Policies

i. To attract clean energy investment Canada must ensure a competitive fiscal environment.

ii. Canada's burdensome regulatory environment must be addressed.

Electricity is Canada's "Comparative Advantage" in tackling climate change.

CEA's members have been preparing for a carbon constrained future. Since 2000, our sector has reduced emissions by over 30% and will likely cut emissions by a further 30% by 2030. This is more than any other industrial sector. We are now over 80% GHG free, making our sector one of the cleanest in the world. Electricity can help further power Canada's clean energy transition via the electrification of other industrial sectors.

Clean electricity and its use in electrifying the economy is recognized by the Generation Energy Council in their report *Canada's Energy Transition*, as the key to a nearly carbon free electricity grid and meeting our 2050 targets. The report notes that "There is a bigger challenge and substantial opportunity – in growing our supply of clean electricity by switching more of our heating systems, transportation and industrial processes to electricity."

However, electrifying the Canadian economy will be neither easy, nor cheap. In 2018, 7 of the top 10 largest infrastructure projects are in the electricity sector, totaling $68.125 billion in capital investment. Moreover, the Conference Board of Canada estimates that approximately $350 billion will need to be invested until 2030, just to renew existing electricity infrastructure. It should be noted that these investments are solely for the renewal of their assets and will not get us to the government's goal of 90% non-emitting generation.

Nor does it include infrastructure needed to support electric vehicles, or for the near elimination of fossil fuel-fired baseload generation. This is problematic, as ECCC notes, because a doubling or tripling of clean electricity generation will be needed just to meet 2050 targets. Furthermore, if the electricity sector is to meet more near-term targets, such as the government's PCFCGCC goals, we will require immediate, targeted and sustained federal support, led by a national strategy to ensure our country meets the mission.

Absent a well-thought-out strategy, underpinned by federal support, a ratepayer backlash could arise from increasing rates, and could be directed against the GoC's climate policies and embolden provincial government leaders. This would truly be a lose-lose.

CEA is asking the Federal Government to play a leading role in Canada's clean electricity future.

Innovative and clean energy projects carry risk, including increased financial cost over existing alternatives, despite producing significant economic and social benefits.

Exacerbating this risk, is the fact that provincial and territorial regulators overwhelmingly focus on the need to keep electricity rates as low as possible. CEA recognizes that utilities must be frugal, but we cannot and should not build tomorrows electricity system on the cheap. Instead, we must build the strongest infrastructure possible.

Concentrating on the costs has led to a reluctance by regulators to support pilot projects, innovative technologies, renewable and/or green technologies and the extension of grid-connected service to areas without sufficient ratepayer critical mass such as Northern Canada. In fact, these pilots get routinely denied. This lack of incentives for innovation tends to hinder progress towards increased electrification and muffles the competitive spirit of our members, as they try to find the most cost-competitive innovative technologies to power the electricity grids of the future. It also creates a governance "innovation gap,' where the regulatory and legislative bodies are not aligned.

Enabling the electricity sector to overcome regulatory distortions could enable profound innovation for the benefit of the country and allow Canada to compete as a provider of the clean energy solutions that will underpin the economy of the future. CEA's Center of Excellence (www.electricity.ca/centerofexcellence) showcases some of the success stories that can occur when our sector is given the mandate to innovate.

Only the GoC can provide the broad, inclusive, and pan-Canadian leadership necessary to spur the development of parallel innovation mechanisms across the country that will enable our clean growth future, and lead to thoughtful, strategic, and coordinated progress towards electrification. Developing a dynamic innovation culture in Canada is the task of any federal government.

CEA RECOMMENDATIONS:

We encourage you to focus on four priority program areas:

1. Recapitalize four oversubscribed NRCan Funding Programs.

   Previous Budgets included a down-payment on Canada's energy future. However, the transition to cleaner sources of energy will require sustained investments in both infrastructure and innovation support mechanisms. Four innovation and clean energy infrastructure support programs will expire when their allocated funding runs out: Smart Grid ($100M), Emerging Renewable Power ($200M), Electric Vehicle Infrastructure Demonstrations ($46.1M), and Clean Energy for Rural and Remote Communities ($220M).

   NRCan has confirmed that all these programs were vastly over-subscribed with quality proposals and are expected to deliver the policy outcomes intended. This is very good news.

   We therefore ask that each of these programs be recapitalized, and that expansions of the funding allotments be considered.

2. Allocate funding for a Zero Emissions Vehicle Strategy.

   The electrification of transportation is considered by leading experts and Government officials to be the most significant opportunity for achieving Canada's 2030 and 2050 GHG emission targets. The transportation sector is responsible for roughly 25% of our country's

carbon footprint. The development of a National ZEV Strategy is currently being overseen by your Government.

The advice from the ZEV Strategy Advisory Council was clear. The implementation of the National ZEV Strategy must include expanded public infrastructure support, rebates for home charging systems, and money for public education and awareness.

Canada simply will not bend the EV adoption curve without public investments. ***As a result, we ask that funding for a ZEV Strategy be allocated in Budget 2019.***

3. Expand Investments in Northern Energy Infrastructure.

Access to affordable, reliable electricity must be a basic right for all Canadians. Furthermore, electricity-sector investments enable economic growth. Sparse Northern populations, limited economic diversity, and a high cost of living require unique and innovative approaches. Northern Canadians pay ten times the cost for their energy. This is not fair and must change.

CEA calls on the Government to:

- *expand the Northern REACHE Program to provide seed funding to support the development of energy projects;*
- *recapitalize the NRCan Clean Energy for Rural and Remote Communities ($220M), as discussed above; and,*
- *expand the $400 million Arctic Energy Fund for energy infrastructure.*

4. Allocate funding in Budget 2019 for the development of a National Electrification Strategy.

In order to electrify our economy, the Canadian Conference Board of Canada, estimates that $1.7 trillion will need to be invested by 2050 in national electric power generation.

Considering the sizable investment needed, only the GoC can provide the broad, inclusive, and pan-Canadian leadership necessary to spur the development of innovation mechanisms across the country that will enable our clean growth future, and champion the development of strategic and coordinated national progress towards electrification.

The Government should therefore develop a National Electrification Strategy, and earmark appropriate funding for such an initiative.

Additionally, we propose that the government act on two broad policy fronts:

i. To attract clean energy investment Canada must ensure a competitive fiscal environment.

Federal support for our clean energy transition will not be enough. We will also need private sector investment in innovative clean energy projects. In this regard, Canada's business sectors, from banking

and manufacturing, to energy and natural resources, are united in expressing concerns regarding the current Canadian investment climate.

These concerns stem, in part, from a growing divide with our biggest competitor for investment dollars, the United States, and specifically two increasing competitive gaps: a less attractive tax environment in Canada, and an increasingly complex and uncertain regulatory process for approving large capital projects in the country. This climate is also exacerbated by the uncertainty surrounding the NAFTA negotiations, and the imposition of various U.S. trade protectionist measures.

On the tax front, last year, the U.S. passed legislation enacting various tax reform provisions. Two of the most consequential were a reduction of the federal corporate income tax rate to 21%, and the implementation of full expensing (100%) deductions for qualifying property.

Prior to these changes, the weighted U.S. federal-state combined corporate tax rate averaged 39.1%. This compared with Canada's average federal-provincial rate of 26.7%. In the past, this incentivized corporate profits to remain in Canada and facilitated investments. Now, with the average U.S. rate falling to 26%, Canada's former corporate tax advantage, coupled with economic uncertainty, has now become a disadvantage.

This shift of capital and profits, poses a serious risk. Indeed, at the time of writing, early signs indicate that investment in Canada is beginning to slow. In May, Statistics Canada reported that Canada's FDI rate dropped 26% in 2017, marking the second consecutive year of decline, and bringing FDI to the lowest level since 2010.

A similar situation prevails with Canada's accelerated Capital Cost Allowance (CCA) deductions, which in the past have attracted investments in targeted sectors such as clean energy. However, with the federal corporate tax-rate cut stateside, and the implementation of an even more attractive full deduction for various investments, Canada will soon find its ability to attract capital investment severely undercut.

Thus, to promote Canada's economic competitiveness, the GoC should as an immediate priority consider:

- *A reduction of corporate tax rates;*
- *Increases in the rates of, and equipment covered by, accelerated Capital Cost Allowance rate schedules; and,*
- *Mirroring U.S. moves towards the full immediate deductibility of various capital investments.*

ii. Canada's increasingly burdensome regulatory environment must be addressed with urgency.

Recent federal regulatory developments that increase the regulatory burden facing the electricity sector include: climate regulations such as federal carbon pricing legislation, the Clean Fuel Standard, coal and natural gas regulations; and legislative changes to the project approval process proposed in Bills C-68 (Fisheries Act) and C-69 (IA, CER, NPA).

Moreover, when one factors in provincial and territorial legislative and regulatory actions, this burden becomes dangerously heavy. Indeed, no single government is accountable or responsible for this "cumulative pancaking" of measures. Every jurisdiction is only concerned with its respective layers.

This must change. Led by the federal government, all jurisdictions must work in closer cooperation, in an effort to rationalize and streamline the overall regulatory oversight imposed on the private sector.

All of this comes at a time when the U.S. is moving in the opposite direction. In fact, President Trump declared in the the New York Times that: "To help launch the next phase of growth, prosperity and freedom, I am challenging my cabinet to find and remove every single outdated, unlawful and excessive regulation currently on the books."

Accordingly, this Administration has cut regulatory burden at a record pace. We are not suggesting that regulations should be cut blindly or ideologically. ***Instead, the GoC must review unnecessary and unrealistic regulations that hold our industry back and makes operations more expensive. We urge the GoC to launch an immediate review of Canada's regulatory system.***

CONCLUSION

The bottom line is that progress towards our short and long-term climate goals will require us to utilize our country's comparative advantage in clean electricity generation.

We require a national strategy, and federal support to get us there in a responsible, realistic and coordinated manner. Towards this end, we have proposed four specific program actions, and two critical broad policy proposals for your next budget and to launch an immediate review of Canada's regulatory system.

Combined, these measures should help to ensure our progress towards a clean growth future at the lowest cost to Canadians.

Thank you for your consideration and let us know if we can be of further assistance.

Regards,

Hon. Sergio Marchi
President and Chief Executive Officer