CANADIAN WIND ENERGY ASSOCIATION (CANWEA)

&

CANADIAN SOLAR INDUSTRIES ASSOCIATION (CANSIA)

JOINT SUBMISSION TO THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

PRE-BUDGET CONSULTATIONS - AUGUST 2017

EXECUTIVE SUMMARY

CanWEA, the **Canadian Wind Energy Association**, is the voice of Canada's wind energy industry, actively promoting the responsible and sustainable growth of wind energy. A national non-profit association, CanWEA serves as Canada's leading source of credible information about wind energy and its social, economic and environmental benefits.

The **Canadian Solar Industries Association** (CanSIA) is a national trade association that represents the solar energy industry throughout Canada. Since 1992, CanSIA has worked to develop a strong, efficient, ethical and professional Canadian solar energy industry with capacity to provide innovative solar energy solutions and to play a major role in the global transition to a sustainable, clean-energy future.

Solar and wind electricity generation capacity exceeds 15,000 MW (20% solar, 80% wind) in Canada today. The sectors made capital investments exceeding $25 billion between 2010 and 2016 and both have well-established supply chains including component manufacturing in several provinces. In the coming decade, solar and wind energy will be the most cost competitive options for new electricity supply.

We welcome the opportunity to share with the committee our recommendations for Budget 2018. The recommendations included in this submission are designed to adjust the tax treatment applicable to our industries in order to ensure that the incentives provided by the Accelerated Capital Cost Allowance (ACCA) for Class 43.2 Property effectively spur investment in equipment that conserve or displace fossil fuels, thereby lowering Canada's overall greenhouse gas emissions and mitigating climate impacts.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATON 1

> **Provide policy certainty on the depreciation of Class 43.2, particularly for the benefit of the Proponents participating in Alberta and Saskatchewan's utility-scale renewable electricity competitive procurements.**

RECOMMENDATION 2

> **Enact an extension such that properties acquired before 2030 qualify for Class 43.2 to align with Canada's national target of 90% non-emitting electricity by 2030.**

RECOMMENDATION 3

> **Exempt corporate tax-payers who invest in the solar assets from Class 43.2 from the "Specified Energy Property" Rules or that the Federal Government increase the immediate applicability of this incentive to the full diversity of companies investing in Class 43.2 Property in Canada.**

RECOMMENDATION 4

> **Grant an exemption to the "Half-Year Rule" for Class 43.2 Property applying to electricity investors in non-utility-scale assets.**

INTRODUCTION

Accelerated Depreciation for Renewable Electricity in Meeting Canada's Climate and Clean Growth

The recommendations below concern the Accelerated Capital Cost Allowance (ACCA) for Class 43.2 Property which governs how solar and wind energy equipment that generates or conserves energy may be depreciated.

Depreciation is a method of allocating a tangible asset's cost over its useful life. Businesses depreciate assets for two purposes: financial accounting (i.e. to indicate how much of an asset's value remains); and tax (i.e. to deduct the cost of tangible assets as business expenses). There are several methods to depreciate an asset defined by a jurisdiction's administrator of tax law: straight-line (i.e. spreads cost evenly over the life of an asset); or "declining balance" (i.e. allows greater deductions earlier in an asset's life).

Declining Balance is referred to as "Accelerated Depreciation" (AD). AD is a common incentive provided to industry to invest in tangible assets in support of policy goals or during economic downturns. AD provides a tax-shield in the early years of the asset's lifetime and postpones higher taxes. As a result, the incentive is due to the "time-value-of-money". In Canada, the "Accelerated Capital Cost Allowance" (ACCA) was first introduced in Canada following the 1973 oil crisis to incent investment in equipment that conserved or displaced fossil fuels. ACCA enables depreciation with "50% Declining Balance" for renewable assets, resulting in up to 80% depreciation within the first 3 years of asset life.

Class 43.2 was introduced in 2005 and is currently available for properties acquired after February 22, 2005 and before 2020. Class 43.2 is due to sunset in 2020 which would see the rate of depreciation reduced from 50 to 30%.

RECOMMENDATON 1

> **Provide policy certainty on the depreciation of Class 43.2, particularly for the benefit of the Proponents participating in Alberta and Saskatchewan's utility-scale renewable electricity competitive procurements.**

It is uncertain whether Class 43.2 Property will be depreciated at 50 or 30% post-2020. This uncertainty will affect Proponents submitting bids to on-going renewable electricity competitive procurements (see Table 1) for projects that may have a commercial operation date (COD) post-January 1, 2020 (i.e. SaskPower wind procurement and Alberta Infrastructure supply of solar power) or that may experience

delays such that their COD becomes post-January 1, 2020 (i.e. Alberta Electric System Operator Renewable Electricity Program).

Table 1. Current Utility-Scale Renewable Electricity Procurements in Canada

Contracting Body	**Program**	**RFP Issuance Date**	**RFP Response Deadline**	**Commercial Operation Date**	**Eligible Technology & Size**
SaskPower	Solar Procurement	Dec., 2016	Dec., 2017	Q4, 2018	Solar (10 MW)
SaskPower	Wind Procurement	May, 2017	Dec., 2017	Q2, 2020	Wind (200 MW)
Alberta Infrastructure	Supply of Solar Power	Sep. 8, 2017	Dec. 8, 2017	Mar. 2021	Solar (100 MW)
Alberta Electric System Operator	Renewable Electricity Program	Sep. 15, 2017	Oct. 13, 2017	Dec. 2019	Solar & Wind (400 MW)

Furthermore, the Canadian Renewable and Conservation Expense (CRCE) is directly related to Class 43.2.

RECOMMENDATION 2

Enact an extension such that properties acquired before 2030 qualify for Class 43.2 to align with Canada's national target of 90% non-emitting electricity by 2030.

Canada has a national target of 90% non-emitting electricity by 2030. In order to meet this ambitious target, policy, regulation and investment will be required from the Federal Government to attract and grow private sector investment in renewable energy. Accelerated Depreciation is a simple and effective incentive with which both the Federal Government and the renewable energy industry have experience.

RECOMMENDATION 3

Exempt corporate tax-payers who invest in the solar assets from Class 43.2 from the "Specified Energy Property" Rules or that the Federal Government increase the immediate applicability of this incentive to the full diversity of companies investing in Class 43.2 Property in Canada.

"Specified Energy Property" (SEP) rules limit a taxpayer's ability to access Accelerated Depreciation for Class 43.2 Assets to a maximum of the income from such property (or from the business of selling the product of such property) unless:

I. The tax-payer is a corporation whose principal business throughout the year was either: (1) mining; (2) manufacturing or processing; or (3) the sale, distribution, or production of electricity, natural gas, oil, steam, heat or any other form of energy or potential energy;
II. The tax-payer is a large industrial company that currently generates electricity for their own use and sells the surplus to public utilities; or
III. The property is leased by a qualified leasing company to a corporation that satisfies the principal business test described in I. or to a user described in II.

The net-effect of the SEP rules is that the vast majority of corporate tax-payers are ineligible to benefit from federal tax incentives to invest in or adopt renewable energy (including small and medium businesses whose principal business is not mining, manufacturing or processing, energy or industrial etc).

RECOMMENDATION 4

Grant an exemption to the "Half-Year Rule" for Class 43.2 Property applying to electricity investors in non-utility-scale assets.

The "Half-Year Rule" generally permits taxpayers to claim only 50% of the otherwise available CCA in the year in which it is acquired thus limiting the rate of accelerated depreciation. An exemption to the Half-Year Rule for Class 43.2 Property would be beneficial for all renewable electricity investors in non-utility-scale assets (i.e. small and medium-sized businesses) as they could fully depreciate the asset within two years. This incentive would be less beneficial to utility-scale assets owned by Limited Partnerships that are typically depreciated over long time periods due to limited taxable profits in the early years of a project.