PRE-BUDGET 2018 SUBMISSION TO THE HOUSE OF COMMONS

Canadian Electricity Association | Association canadienne de l'électricité

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EXECUTIVE SUMMARY

The Canadian electricity sector continues to contribute to Canada's international greenhouse gas (GHG) emission reduction commitments. It has reduced emissions by over 30% since 2005, and will likely reduce emissions by at least that again by 2030, as existing traditional coal-fired power plants are retired. This performance positions the electricity sector as a key to unlocking further emissions reductions via the electrification of industrial and consumer sectors currently reliant upon fossil fuels as a source of energy.

CEA recognizes and commends the significant funding that has been earmarked for clean energy projects in the past two federal budgets and 2016 Fall Economic Statement. However, to maximize the value of these investments – and indeed the clean energy transition - the government must enable an equitable phase-out of fossil fuel-based electricity generation assets, invest in a pipeline of concepts and projects that will shape Canada's energy future, and bolster Canadian competitiveness as we work towards a clean growth future.

THE "INNOVATION GAP" PERSISTS

CEA's recommendations ahead of Budget 2017 focused on what has been referred to as the "Innovation Gap". This gap arises from the fact that investment in electricity infrastructure and innovation is almost exclusively funded on a user-pay basis, with expenditures passed on to ratepayers after approval by arm's-length provincial regulators.

These provincial regulators tend to focus on immediate costs and needs in order to keep electricity rates as low as possible. This has, in practice, led to reluctance by regulators to support experimental pilot projects, innovative technologies, renewable and/or green technologies and extension of service to areas without sufficient ratepayer critical mass such as Northern Canada. CEA has recommended that funding mechanisms be developed to help overcome this Innovation Gap.

While CEA applauds the substantial financial support that has been directed towards clean technology and innovative pilot projects, the innovation gap persists in terms of developing a pipeline of projects for submission to the various federal funding mechanisms that are under development. Moreover, due to the rapid pace of change in our sector, including the shift away from traditional coal-based electricity generation, many electricity sector participants are faced with stranded and aging assets. This also stifles innovation.

CEA's 5 recommendations for Budget 2018 focus on areas where the federal government has responsibility for electricity policy. They would help ensure that the electricity sector can make use of the substantial funding programs that have been directed towards clean energy projects. They would also ensure that coal-based and other aging assets can be retired equitably, freeing up capital for investment into innovative clean energy projects. Doing so would do much to enable the electricity sector to serve as an agent of change by allowing other industrial sectors to utilize emissions-free electricity as an energy input. This aligns with Canada's progression towards a clean growth future.

CANADIAN COMPETITIVENESS VIS-À-VIS THE U.S.

If the U.S. federal government remains on its current trajectory of being unsupportive of climate mitigation efforts, while lowering tax rates, streamlining regulatory regimes, and potentially introducing other policies such as "Buy America", Canada faces a risk to its competitiveness. To help alleviate any short-to-medium term competitive challenges from transitioning to a clean energy future, the Government of Canada should consider employing new and innovative fiscal and regulatory tools. Some of these tools may include:

- lowering corporate tax rates;
- extending clean energy production incentives for emerging technologies;
- providing accelerated capital cost allowances (CCA);
- reducing barriers to clean energy project approvals;
- accelerating funding for innovation and infrastructure projects;
- helping Canadian firms market their clean energy expertise internationally;
- providing funding and/or loan guarantees for clean energy;
- incenting how provincial carbon tax revenues are used (i.e. matching funds), and;
- capitalizing on priority areas of the U.S., such as low cost energy integration and policy improvements to safety and security.

CEA recently released a paper on this subject available here. While some of the specific recommendations below will help to address these concerns, CEA encourages the Government of Canada to continue to engage with industry in regards to developing targeted policy remedies to what could become serious economic challenges from south of the border.

CEA's 5 RECOMMENDATIONS FOR BUDGET 2018:

I. Support electricity sector concept design and engineering studies;
II. Expand tax system support for electricity sector leadership in Canada's transition to a low-carbon economy;
III. Develop a national strategy to support communities and individuals impacted by Canada's energy transition;
IV. Enhance the protection of electricity Critical Infrastructure by increasing funding for Public Safety Canada's Canadian Cyber Incident Response Centre (CCIRC); and,
V. Establish a nonpartisan, single-purpose Canadian Energy Information Agency.

RECOMMENDATION 1: Support electricity sector concept design and engineering studies.

While the government has earmarked some funds for innovative clean energy projects and infrastructure there remains a gap in terms of the development of a pipeline of electricity projects to utilize these funding opportunities. CEA members are under intense pressures to minimize costs. These pressures often result in a laser-like focus on core business activities, which leaves little room for the funding of feasibility and conceptual studies, or for the front-end engineering and design of projects that can then be put forward to leverage federal funding mechanisms. Industry and government should work together to 'prime the pump'.

CEA recommends that the Government develop mechanisms, including tax incentives, to support the development of clean energy project concepts, including feasibility and engineering studies. This support should be extended to the development of infrastructure projects that enable clean energy opportunities.

✓ CEA recommends that Budget 2018 establish electricity-specific funding streams within announced clean energy funding mechanisms, to stimulate project proposals from the sector. Support mechanisms and tax incentives should also be established for activities aimed at developing clean energy project concepts, feasibility studies and engineering work.

RECOMMENDATION 2: Expand tax system support for electricity sector leadership in Canada's transition to a low-carbon economy.

To support the electricity sector's ongoing leadership on GHG emission reductions, enhanced tax system support through the Accelerated Capital Cost Allowance (ACCA) for all types of electricity infrastructure will enable electricity companies to retire aging assets, such as traditional coal-fired generation facilities, integrate new renewable technologies and enable transmission infrastructure in a more cost-effective way that will lessen impacts on customer rates.

Budgets 2016 and 2017 contained funding mechanisms to support off-diesel projects in remote, rural, northern and indigenous communities. While these mechanisms will support off-diesel projects in a select few communities, more must be done to ensure the transition proliferates nationally. CEA recommends that Budget 2018 extend ACCA to target equipment replacing diesel-fired generation. This would not only incentivize GHG emission reductions, but would render the economics of diesel alternatives more viable.

Similarly, ACCA should be extended to equipment used to electrify industrial processes previously fueled by fossil-fuels, and for equipment utilized in coal-to-gas conversions.

✓ CEA recommends that the federal government amend the Income Tax Act to enable the use of Accelerated Capital Cost Allowance (ACCA) for electricity infrastructure that supports Canada's transition to a low-carbon economy. CEA also recommends that the federal government specifically target equipment used to replace diesel-fired generation, equipment used for the electrification of previously fossil-fueled industrial processes, and for equipment utilized in coal-to-gas conversions.

RECOMMENDATION 3: Develop a national strategy to support communities and individuals impacted by Canada's energy transition.

As Canada transitions to a clean growth economy, and specifically, as we decarbonize our electricity generation, support will be required for communities reliant on 'sunset industries'. This is particularly true of the coal electricity generation industry, which has been targeted for phase-out if no carbon capture investments are made, and therefore carries a disproportionate burden in terms of Canada's clean energy transition.

In addition to Recommendation 2 above, which would incentivize the conversion of coal-fired power plants to lower emitting technologies, saving some of the employment associated with those projects, CEA also recommends that a national strategy be developed which would offset the social effects of Canada's transition to a clean growth economy.

Ideally, this strategy would focus on assisting communities, individuals and companies engaged in the coal industry. Focus areas could include repurposing coal-fired generation infrastructure by converting the coal boilers to use natural gas as a fuel, and on retraining workers for building, operating and maintaining natural gas fired generation and renewable generation.

✓ CEA calls for the development of a national strategy focused on offsetting the social effects of Canada's thrust towards a clean growth economy. This strategy would focus in part on assisting communities, individuals and companies engaged in the coal industry. Focus areas could include repurposing coal-fired generation infrastructure by converting the coal boilers to use natural gas as a fuel, and on retraining workers for building, operating and maintaining natural gas fired generation and renewable generation.

RECOMMENDATION 4: Enhance the protection of electricity Critical Infrastructure by increasing funding for Public Safety Canada's Canadian Cyber Incident Response Centre (CCIRC).

The electricity sector is one of Canada's ten Critical Infrastructure sectors as identified by Public Safety Canada (PSC). PSC works closely with all levels of government in Canada as well as international partners and the private sector to protect physical and cyber assets essential to Canada's national security and economic prosperity.

In its role as Canada's Cyber Emergency Response Team (CERT), PSC's Canadian Cyber Incident Response Centre (CCIRC) plays an integral role in the preparedness, prevention and response to cyber events through research, information sharing and partnerships. Increasing CCIRC's capacity and capability would enhance its ability to support the protection of CI facilities from growing cyber threats, in a threat environment the electricity sector sees as accelerating and becoming increasingly complex.

✓ CEA recommends that Budget 2018 increase funding for Public Safety Canada's Canadian Cyber Incident Response Centre (CCIRC).

RECOMMENDATION 5: Establish a nonpartisan and single-purpose Canadian Energy Information Agency.

Presently, the National Energy Board (NEB) has a mandate to collect, analyze and distribute national energy information. While a useful source of information, CEA endorses recommendation *1.3.1* of the NEB Modernization Expert Panel Report, which recommends the establishment of an independent, nonpartisan Canadian Energy Information Agency.

This agency would have as its sole purpose the collection, analysis and distribution of energy information, ideally via public reports on an annual or biannual basis. Such an agency would prove critical in informing energy policy and improving the quality of decision making as Canada progresses towards a clean growth future.

✓ Establish a nonpartisan, single-purpose, Canadian Energy Information Agency, with a mandate to collect, analyze and distribute energy information on an annual or biannual basis.

CONCLUSION

The Canadian electricity sector is well-positioned to be Canada's clean energy solution. With over 80% of the country's electricity derived from emissions-free sources, and with this number set to increase, the electricity sector can power Canada's clean energy transition via the electrification of other industrial sectors.

For these ambitions to be realized, Canada must invest in clean energy infrastructure and enable the equitable phase-out of infrastructure that powered the country's growth to this point. This will require investments in innovative technology and enabling infrastructure supported by measures that help to unlock the capital, ideas and know-how that will enable this transition.