

To: Standing Committee on Natural Resources
c/o Clerk of the Committee, Hilary Jane Powell

From: Christopher Smillie, Director of Government Relations, CGA
Paul Cheliak, Vice President Strategy and Delivery, CGA

Date: 1 March 2022

Subject: **Oil and Gas emissions caps – Recommendation that scope 3 natural gas emissions
from Canadians’ use of Natural Gas be excluded**

Background

For 115 years, the Canadian Gas Association has been the voice of the gaseous energy delivery industry in Canada representing distribution and transmission companies, equipment manufacturers and suppliers, and ultimately millions of energy consumers of Canada. Our membership is a mixture of private sector public companies, crown corporations and private enterprises from across the country. These organizations all perform to the highest standards in meeting their obligations to shareholders, to the communities in which they operate, and ultimately to the Canadians whose energy needs they serve with the most affordable, reliable energy available.

Part of that performance is an ongoing commitment to emissions reductions, including commitments by gas companies across the sector to Government of Canada 2050 net zero targets. Utilities undertake significant efforts to reduce consumer emissions via a range of activities including energy efficiency programs (totaling over \$250 million in consumer equipment rebates in 2021 alone), renewable natural gas and hydrogen blending projects, and the deployment of a host of new gas-end use technologies. On the latter point, the industry has developed over the last several years a world-leading innovation agenda that has seen grants to over 50 new technology companies. Most recently, the industry created an equity fund through which it is building on those grants to make investments in companies that will contribute to the emission reduction agenda.

It is with this as background that CGA noted the Government of Canada's intention to cap oil and gas emissions as indicated in [Canada Gazette \(Part 1 Volume 155 Number 50\)](#). The notification offers very limited detail available on the approach, breadth, and implication for the downstream natural gas delivery industry and its customers, and comes on top of a whole series of other legislation, regulation and policy targeted at emission reduction, including:

- The regulation of scope 1 and scope 2 emissions for downstream natural gas delivery companies, such as utilities and transmission pipeline operators, which is already significant. In some instances, transmission pipeline methane emissions are covered by federal regulation and in others by provincial regulation or equivalency agreements. Transmission operators also are subject, in some cases, to federal output-based pricing systems.
- The existing management of Scope 3 emissions by carbon pricing regimes either by provincial government plans, or in the case of jurisdictions under the federal backstop, Schedule 2 of the *Greenhouse Gas Pricing Act*. In federal backstop jurisdictions like Ontario, Alberta, Manitoba and Saskatchewan, customers pay a carbon price on their volumetric natural gas use as laid out in the *Greenhouse Gas Pricing Act (Schedule 2)*.¹

In addition to complying with the above, utilities are working on proposals to update Utility Acts to permit more activities to reduce emissions – critical if utilities are going to meet the more aggressive emission reduction targets that have been established. Public officials often don't appreciate that regulated utilities in Canada are not able, due to these provincial regimes, to invest in and recover costs from consumers in large scale emission reduction projects. Utilities are actively working with provinces in many, but not all, jurisdictions, to update legislation to allow them to invest GHG emission reduction

¹ <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/fcrates/fuel-charge-rates.html>



projects like hydrogen, CCUS, renewable natural gas.

In all of Canada, natural gas consumers benefit from access to natural gas based on open market fundamentals. This market reality has delivered consistently improving environmental performance, including a steady improvement in energy intensity and decrease in emissions per unit of energy in natural gas use.

This has all been accomplished without natural gas usage caps. Adding these caps now - with all the implementation challenges associated with them – represents an added regulatory burden to the many initiatives noted above, and would only add cost and hardship for customers, at a time when the cost of energy is a growing national concern. It would also create regulatory uncertainty, given the complicated regimes in place governing emissions now, which would somehow need to be incorporated into any new cap regime.

Proposal

CGA recommends the exclusion of scope 3 (downstream customers) natural gas emissions from the proposed federal emissions cap. As an alternative, CGA recommends that the Government of Canada work with industry, provincial and territorial governments, and economic regulators to pursue cooperatively a range of initiatives building on current efforts to reduce emissions in an effort by companies to meet the 2050 targets. This approach will avoid the additional price increases and market uncertainty that will come with a cap regime. In addition, by excluding scope 3 natural gas emissions from an emissions cap, the threat of product shortages for downstream customers – a growing concern given the range of factors affecting energy markets today - will be reduced.

Next Steps

CGA is working across government to talk about the issues at stake and would be happy to engage more directly with members of the RNNR Standing Committee. We recommend the Government of Canada support industry by convening the provinces and territories to discuss a pan-Canadian process to amend provincial/territorial legislation to ensure Utility Acts are fit for purpose to enable utilities to respond to and invest in necessary projects to reduce consumers' emissions.

As a final point, the current global situation as it pertains to energy is worthy of mention here. The world currently faces the challenge of responding to energy security challenges and the role of foreign influence. The importance of access to energy is more evident than ever. People around the world need access to affordable, reliable energy that delivers environmental improvements. Canada is ideally positioned to provide such energy, and Canada's natural gas is perhaps the best example of what we can deliver. Now is not the time for the Government of Canada to be sending signals that it seeks to impose restrictions on Canada's natural gas sector - it should be doing all it can to promote it for the benefit of Canadians and citizens around the world.

Yours Truly,

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