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Honourable Steven Guilbeault
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**RE: Discussion Paper: A clean electricity standard in support
of a net-zero electricity sector (CES Paper)**

The Business Council of British Columbia (the Business Council) appreciates the opportunity to provide input on the CES Paper. The Business Council recognizes the importance of well-designed public policy to manage and reduce greenhouse gas emissions to respond to the challenges posed by global climate change. How we deal with the issue is critical to all sectors of the economy and to the future well-being of Canadians.

In this context, the CES Paper raises serious concerns about the policy direction and options the federal government intends to pursue for Canada's electricity sector. Although the CES paper emphasizes the importance of collaboration, including with provinces and territories, the paper signals that the federal government will continue to extend its regulatory reach into areas that are within provincial jurisdiction — in this case, the generation and distribution of electricity. The Business Council opposes this and any overreach of federal regulatory authority.

A strong economy is the best way to equip ourselves with the resources required to manage the increasing pressures on the environment. Canada's success in reaching the ambitious GHG reduction goals adopted by Parliament depends heavily on the vitality of our energy intensive, and trade exposed (EITE) industries — the ones most affected by regulations and policies that target GHG emissions.

The pivotal role played by a thriving Canadian economy is at best a secondary consideration in policy documents like the CES Paper. Yet, it is increasingly clear that an efficient and modern regulatory system is essential to grow our economy. Canada needs a suite of competitive export-oriented industries that can generate the resources necessary to pay for imports, public services, and the innovation necessary to help meet our GHG goals. But as Canada adds more costs, increases the complexity of regulatory processes, and largely overlooks basic elements of energy

systems like energy density and physics, we run the risk of crippling important parts of our economy and, ultimately, making it harder to solve GHG related issues.

Canada's primary global comparative advantages lie in natural resources and downstream industries that transform these inputs into manufactured and finished goods. These resources and products are a critical part of global supply chains. Our country has what the rest of the world wants and needs — energy, minerals, metals, fertilizers, agriculture, forestry products, and manufactured components — the building blocks for all things, including in an economy destined to become focused on cleaner technologies, lower-GHG energy sources, and products with lower embedded GHGs.

Canada's large geographic size and low population density also constrain the range of feasible options available to policymakers looking to tackle climate change. Vast distances must be travelled to deliver good and services to their intended markets and for individual Canadians to conduct business and visit family and friends within the country. Our climate is hugely variable. Between long distances and often extreme temperatures, Canadians use lots of energy for basic heating, cooling, and mobility. Canada is not Norway, which is just 3% of our size, nor do we resemble any of the other Nordic countries that often are referenced as comparators (with a combined land area only 11% of Canada's).

Moreover, Canada is a small open economy and a price taker in the global markets where we trade. Nonetheless, Canada's EITE industries and manufactured products are among the world's most productive and innovative. They are also produced by industries and firms that score highly on key metrics measuring environmental, social, and governance. These sectors will continue to be a crucial source of Canada's export revenues and provide many hundreds of thousands of well-paying jobs in every region of the country.

In a competitive world where costs matter to consumers and businesses, electricity is a key input for the industrial sector in Canada and, arguably, one of our few remaining reasonably priced inputs. For example, as of 2020, the average industrial rate in North America (Canada and U.S.) was about ~US\$0.07 per kWh.¹ European industrial power prices are about 70% higher. Any move that shifts this balance to increase costs in Canada can turn advantage to disadvantage, quickly. Against that backdrop, the proposed CES in our view is problematic for a few reasons.

Current emissions from the Canadian electric sector are relatively small compared to almost all other advanced economies. As noted in the CES paper, electricity represents only a modest amount of total economy wide GHG emissions. Further, Canada has already implemented performance standards for coal-fired generation and “has already passed regulations to accelerate the phase out of coal-fired electricity by 2030.” (Emissions Reduction Plan, p. 40), as well as regulations limiting

¹ US Energy Information Agency, Electric Power Annual 2020 Table 2.4. Average Price of Electricity to Ultimate Customers; Hydro Quebec, 2020 Comparison of Electricity Prices in Major North American Cities.

GHG emissions from the use of natural gas in electricity. Further, Canada has carbon pricing in place across the country – in striking contrast to our major trading partner, the United States.

The proposed CES is inconsistent with the Supreme Court of Canada (SCC) decision on the *Greenhouse Gas Pollution Pricing Act* reference. The SCC reviewed the “rarely applied” *national concern* doctrine and cautioned that it must be strictly limited to maintain the autonomy of the provinces and respect the diversity of confederation.

The SCC concluded that Canada had “... established [that] minimum national standards [for] GHG price stringency to reduce GHG emissions is of concern to Canada as a whole.” The SCC was equally clear that “the regulatory mechanism of GHG pricing is specific and limited and does not amount to the regulation of GHG emissions generally.” The federal GHG pricing measure was only a backstop, not a leading regulatory intervention like the CES.

The Business Council recognizes the broad taxation authority of the federal government. However, the coal and natural gas fired generation regulations mentioned above extend beyond the cautions and boundaries established by the SCC. The federal trend to expand the use of the *Canadian Environmental Protection Act* to regulate in the provincial sphere is troubling and will lead to provincial and federal policy initiatives that conflict rather than work together under a co-operative federalism model.

Furthermore, most provinces today either do not have fossil fuel generation or have robust plans to achieve cleaner electricity generation – both the transition of existing generation and the development of new projects. Thus, the proposed CES, via additional regulation that restates and overlaps with provincial regulation, and is duplicative and unnecessary. Ultimately, it will add costs to project development and to the overall cost for running existing electric systems.

Federal jurisdiction in the electricity sector includes international and designated interprovincial transmission facilities and the export of electricity, under the *Canadian Energy Regulator Act*. Under the *Impact Assessment Act*, the federal regime seeks to avoid duplication by coordinating with provincial review processes for any electricity project. Otherwise, the provinces regulate all aspects of electricity generation and trade within the province, including the approval of facilities, the setting of rates and terms, and operations, resource planning, and market oversight.

The CES is an unnecessary layer of federal regulation that will:

- constrain and frustrate provincial regulation of electric utilities, including Crown-owned public utilities in many provinces;
- drive up electricity rates not only for industrial customers but also for households who face cost of living challenges driven in part by escalating energy costs and overall inflation; and,

- limit options for new generation where renewables may not be feasible (e.g., remote communities).

Accordingly, the Business Council questions the need for new federal regulatory restrictions in a sector that is comprehensively regulated under provincial jurisdiction and where the lower carbon transition process is well advanced.

While there is no need for a federal CES, we see a need for collaboration and funding support for transmission solutions — especially among provinces within the same reliability regions (e.g., B.C. and Alberta in the west). These regions developed logically because of geography, the physical characteristics of North American transmission systems, and the development of north-south transmission interconnections reflective of winter- and summer-peak electricity requirements. Primary interconnections, coordination, and reliability (e.g., reserve sharing) and trading patterns likely will remain mostly regional and north to south.

Federal funding, as well as streamlining of interprovincial transmission line approval processes, would assist efforts to forge closer regional interprovincial connectivity in the electric sector to drive down emissions while respecting the division of federal and provincial powers. Some of the conversations could be facilitated through the NRCan Regional Electric Cooperation and Strategic Investments group, which includes utilities that know how electricity systems work and understand the unique characteristics of provincial regulation.

We also support an ongoing role for natural gas in electricity generation. Every country that has materially reduced GHG emissions from the electric sector has done so via fuel switching, mainly by transitioning from coal to natural gas generation. Natural gas is a strategic resource for many reasons, especially in the electric sector. Unfortunately, Canada is in the process of enacting barriers to the use of natural gas and thus forcing choices on the margin that are more expensive and will not necessarily deliver the reliable, low-cost energy (watt-hours) and peak reliability demanded by consumers. We are also concerned that Canada has paid little attention to the spatial, embedded energy, quantum of materials, and regulatory process implications of the CES proposal.² These are serious oversights that are not addressed in the CES or other federal policies.

We suggest supply diversification is a better approach. FortisBC's 2020 report entitled *Pathways for British Columbia to Achieve its GHG Reduction Goals*³ offers a helpful analysis acknowledging that “electricity and gas are complements — both are needed and can reinforce each other.” This is especially true in electric generation where reliability, especially during peak demand periods, is critical and variable resources such as wind and solar cannot, alone, meet this central criterion. In eastern

² <https://bcbc.com/insights-and-opinions/energy-transitions-and-the-things-we-never-talk-about>, <https://bcbc.com/insights-and-opinions/opinion-the-unintended-consequences-of-clean-and-green>.

³ [https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/guidehouse-report.pdf?#:text=\(FortisBC\)%20developed%20its%20Clean%20Growth,BC's%20electricity%20and%20gas%20infrastructure](https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/guidehouse-report.pdf?#:text=(FortisBC)%20developed%20its%20Clean%20Growth,BC's%20electricity%20and%20gas%20infrastructure).

Canada, the Hydro Quebec – Energir partnership⁴ provides an example that could work in most regions of Canada. A blind focus on replacing all fossil fuel generation in Canada and restricting incremental generation to renewables is neither rational nor efficient – and indeed is technically unachievable according to recent research conducted at both Simon Fraser University and the University of British Columbia in the B.C. context.⁵

On the topic of targets, the CES paper notes that “the electricity sector must achieve net zero emissions” (p. 13). This is an absolute statement, equivalent to setting a sectoral target, and thus is inconsistent with wording in the March 2022 Emissions Reduction Plan (ERP). The ERP notes it is a “comprehensive roadmap that reflects levels of ambition to guide emissions reduction efforts in each sector.” It references the use of “strategies that apply to the entire economy,” with a stated sub-objective of “working towards net-zero electricity by 2035.” There is no must. Given the complicated interplay of issues and the primary authority of the provinces in this domain, the Business Council suggests that progress in curtailing emissions in the electricity sector will need to be more nuanced, requiring both a high level of collaboration and deference to provinces.

Instead of heavy-handed regulation, Canada has other important tools it can use to facilitate the development of clean electricity resources. One of the most important is the federal regulatory approval process for large projects. Current processes are complex, costly, and uncertain, acting as deterrents to investment. Our poor regulatory performance means investors may in many cases consider but ultimately walk away from Canada. The Business Council and our members are aware of many potential projects where proponents have chosen to invest elsewhere because of process uncertainty, high and hard-to-predict regulatory costs, and low return on investment. This frequently results in both carbon leakage (meaning higher global emissions than if a project had been developed in Canada) to jurisdictions with lower abatement costs that often produce higher emission intensity goods, as well as foregone opportunities for the types of investments needed to meet both the net-zero economy-wide and electric sector goals.

Changes to regulatory processes are one way to accelerate much-needed investment in the pursuit of GHG reductions in the power sector. Yet, the approval processes in Canada for even modest sized projects can take many years — and often more than a decade. Canada (and the provinces) can make substantial contributions to speeding the energy transition by adjusting regulatory processes to align better with the country’s increasingly aggressive GHG policy goals. Australia offers a helpful model in this regard. It recently implemented a FastTrack⁶ project review process for

⁴ <https://www.energir.com/en/about/media/news/partenariat-inedit-hydro-quebec-et-energir/>.

⁵ Want, Haoqi. Clift, Ronald. Bi, Xiaotao. *Clean Energy Pathways to meet British Columbia Decarbonization Targets*. Part 1 and 2. January 2022. Dr Taco Niet, School of Sustainable Energy Engineering. https://www.cbc.ca/news/politics/iea-report-canada-net-zero-1.6313190?cmp=newsletter_CBC%20News%20Morning%20Brief_5616_381957.

⁶ https://treasury.gov.au/sites/default/files/2020-09/115786_BEYOND_ZERO_EMISSIONS_-_SUPPORTING_DOCUMENTATION.pdf.

investments consistent with the government's net zero aspirations, including development of renewable generation projects and transmission lines. The European Union is considering something similar. We conclude that focussing on regulatory efficiency along with funding critical infrastructure are the best ways federal policymakers can make a real difference in advancing toward a cleaner electric sector.

Taxation and accelerated depreciation are also powerful tools available to the federal government. There is historical precedent in Canada for managing reductions of NOx and SO2 emissions in the 1980s. Today's corollary are GHGs. Innovation is expensive and risky but also essential. Canada currently has an Accelerated Investment Incentive. It allows businesses to immediately write off the full cost of acquiring machinery and equipment used for the manufacturing or processing of goods and of specified clean energy equipment. This fiscal approach could be updated and broadened to encourage owners of existing Canadian electric and industrial facilities to invest in preventing, reducing, or eliminating of air pollution and GHGs. Adjustments to the incentive structure should be equipment-, technology-, and process-neutral. Electric and industrial facility owners/operators would qualify if they can demonstrate reduced discharges and/or improved energy intensity. The template exists, and this issue falls within federal authority.

One further area where the federal government can act is by facilitating access to capital for Indigenous companies and organizations to enable Indigenous people to invest in the electric sector. This is an area where the federal government can show leadership and make a tangible commitment to reconciliation.

For the reasons outlined in this submission, the Business Council does not support a CEPA-based CES. However, we are prepared to collaborate with your government on identifying different approaches that yield practical and cost-effective outcomes that respect the roles and responsibilities of various levels of government as well as Indigenous nations.

Yours sincerely,

*Original signed by
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DM/vjc

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