Conservation Council of New Brunswick
Conseil de conservation du Nouveau-Brunswick
www.conservationcouncil.ca

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**Re: Inclusion of the electricity sector in the proposal federal Output-Based Pricing System**

Dear Paola:

The Conservation Council of New Brunswick (CCNB) is collaborating with non-governmental organizations across Canada to support effective implementation of Canada's Pan-Canadian Framework. We endorse the recommendations by civil society groups, including Équiterre and the Pembina Institute and the Canadian Wind Energy Association, the Canadian Solar Industries Association, and Canadian Hydro Association calling on the federal government to exclude the electricity sector from the proposed Output-Based Pricing System (OBS).

Two different rationales have been suggested by federal officials in consultations and webinars relating to the inclusion of the electricity sector in the OBS. The first suggested rationale is that including the electricity sector in the OBS makes sense because it decreases the regulatory requirement for the electricity sector, which in turn, lowers costs and further dampens the burden for energy-intensive, trade exposed industries that depend on electricity for their industrial processes. The second rationale provided for including electricity in the OBS is that it protects consumers from rate hikes which, in turn, could place an excessive burden on cost of living. Neither rationale for including the electricity sector in the OBS stands up to scrutiny.

There are 14 sectors characterized as emission-intensive, trade-exposed (EITE) included in the OBS and each sector is working hard to ensure that the benchmark applied to its sector is weaker than the proposed 70% of the national greenhouse gas emissions average for a sector. Industry will, at minimum, have the right to emit greenhouse gas emissions for free up to at least 70% of their emissions and then pay the carbon charge or provide equivalent credits (saved or purchased, or offsets) for only that portion of their emissions exceeding the national threshold for that sector. A company may, if its operations are at the 70% average benchmark, pay no carbon charge. If its operations are above the benchmark, it will pay only on the portion above the benchmark. Companies in the OBS pay no carbon charge at the time of purchase on fuels used in the production of their products. So, each company gets two breaks: one on fuels purchased and one on all emissions below 70% of the benchmark.

Is the proposed OBS an appropriate response to industry competitiveness and leakage concerns? The Ecofiscal Commission thinks so. It endorsed the OBS as an appropriate response to reduce leakage and competitiveness risks associated with regulating greenhouse gases from EITE sectors/companies.[1] We also know from Ecofiscal Commission analysis[2] that EITE industries contribute about 5% to Canada's gross domestic product and that this economic contribution varies by region. The Commission and federal officials noted in a recent webinar hosted by the Atlantic Canada Economics Council, that Nova Scotia and New Brunswick are more trade exposed than the national average and that trade exposed sectors like base metals, pulp and paper and refining have few plants.[3] Federal officials noted at this March 2017 webinar that there is an interest in responding to local circumstances and to coordinating regulatory approaches on a regional basis.

Targeted relief, based on transparent and data-driven analysis, are three principles the Ecofiscal Commission believes are important to designing a carbon pricing system that addresses competitiveness and leakage concerns. Relief, according to the Commission, should also be temporary. Independent evaluations should determine the timeframe for transitioning to a system with a stronger price signal.[4] We see no evidence that the proposed federal OBS system will abide by these principles. There remains a lack of transparency in terms of data and every company's claim for special treatment. There is no promise to make the OBS temporary. It remains difficult to objectively assess whether the relief already proposed is not enough to address any real competitiveness or cost burdens.

The point of carbon pricing is to provide a marginal price signal that influences business decisions in ways that lower greenhouse gases. The signal should be significant enough to stimulate process and product innovations and to stimulate competition among companies to outperform on greenhouse gas reductions relative to their competitors. The Conservation Council

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[1] https://www.apec-econ.ca/files/documents/Beugin%20(CEFC)%20Carbon%20pricing%20and%20competitiveness%20(27Mar2018).pdf

[2] http://www.ecofiscal.ca/wp-content/uploads/2015/11/Ecofiscal-Commission-Carbon-Pricing-Competitiveness-Report-November-2015.pdf

[3] https://www.apec-econ.ca/files/documents/Moffet%20(ECCC)%20-%20federal%20backstop-ATL%20(27Mar2018).pdf

[4] https://ecofiscal.ca/wp-content/uploads/2015/11/Ecofiscal-Commission-Carbon-Pricing-Competitiveness-Report-November-2015.pdf

endorses the need to coordinate greenhouse gas management regionally and recommends that where an excessive burden can be independently demonstrated, that regulators address issues specific to that plant through financial or other supports that support the transition to lower greenhouse gas production processes (i.e., modernized lead smelting techniques: i.e., hydrometallurgical processes instead of pyrometallurgical process). The OBS benchmark should remain at 70%, but accommodations can be made with respect to support and perhaps to implementation schedule. Critically, again endorsing Ecofiscal Commission 2015 recommendations, the OBS should be temporary and any support provided to sectors/companies should be targeted.

The second rationale discussed by government officials is that including electricity in the OBS protects consumers from higher rates. Preliminary analysis completed for the Canadian Wind Energy Association, Canadian Solar Industries Association and Canadian Hydro Association suggests that the OBS would have extremely small impacts on rates (personal communication, report forthcoming). If the electricity sector is excluded from the OBS, concerns will be raised that combined with coal and natural gas power plant regulations, charging the electricity sector for remaining emissions would create an excessive burden on industry and households.

The key is to ensure that consumers, businesses and industry have access to resources to invest in energy efficiency and changes to business and industrial processes that reduce greenhouse gas emissions. There is progress on this front. New Brunswick received $51 million from the federal Low-Carbon Economy Fund to invest in non-electricity efficiency and NB Power also has proposed to increase spending on efficiency programs. It is not yet clear whether the Energy Utilities Board will approve these new expenditures. Table 1 below summarizes efficiency investments in New Brunswick relative to near-by jurisdictions. These amounts are based on a 2016 analysis but provide a baseline from which assess the potential for demand-side investments to offset any increase in electricity costs resulting from regulation and carbon pricing. Current proposals from NB Power for its 2018 to 2020 demand-side management plan would increase investments in efficiency relative to sales compared to these figures, increasing from .4% to potentially closer to 1 to 1.5%, which is comparable to Nova Scotia, but still leaving these provinces well below sector leaders that aim for 2.5% to 3% of sales revenue invested in efficiency. There is significant potential, therefore, to offset any increase in rates due to carbon pricing with investments in efficiency, particularly in New Brunswick. What’s required is coordinated implementation to ensure that efficiency programs are in place or expanded to deliver new and additional electricity demand reductions as carbon pricing takes effect and that there is a strategic approach to embedding renewable energy into regional supply as fossil-fuel power generation is phased out.

Table 1

| Jurisdiction | Energy Efficiency |
|---|---|
| | *% of Annual Sales* |
| New Brunswick | ****.4 to .6% to 2018 |
| Nova Scotia | 1.3 to 1.5%, last 4 years |
| Prince Edward Island | .65% to 2020, under review |
| Newfoundland/Labrador | Programs, no target |
| New York | 1.3% to 2030 in buildings |
| Massachusetts | *2.94% to 2.95 2016 to 2.95% |
| Rhode Island | *2.5% to 2.6% 2015 to 2017 |
| Vermont | **2.5% 2015 to 2017 |
| Maine | *2.2% 2015 to 2017 |
| Connecticut | 1.5% by 2018 |
| Delaware | Voluntary, 2% potential |
| New Hampshire | Voluntary .98% potential |
| Maryland | 2% by 2020 |

The point of the OBS and the Pan-Canadian Framework is to execute a plan that delivers 30% reductions in greenhouse gases below 2005 by 2030 and to set Canada on the path toward net zero emissions 2050. We know from Canada's recent submission to the United Nations that the country is falling short of its greenhouse gas objectives with a gap of at least 66 million tonnes based on current modeling. Recent analysis by the Pembina Institute suggests the gap could be as large as 118 Mt (forthcoming based on updates to its recent modeling[5] (personal communication). What's lacking from the proposal to include electricity in the OBS and the proposed coal and natural gas plant regulations is an integrated vision and approach to managing the electricity sector. The Government of Canada is committed to having a 90% emissions-free electricity system by 2030. To achieve this goal, the country needs a national electricity strategy covering all aspects of supply, demand and transmission and that includes regional coordination and implementation where warranted. The upshot of the coal and natural-gas regulations will be a dash to gas especially in Alberta and Saskatchewan and pressure in Nova Scotia and New Brunswick to utilize gas where no supply exists today. Pressure on New Brunswick to lift its hydraulic fracturing moratorium to accommodate this pressure is unacceptable.

In summary, our recommendations are:

1. Exclude the electricity sector from the proposed Output-Based Pricing System (OBS).
2. Maintain the OBS benchmark at 70%.
3. Target accommodations on a case-by-case level through financial or other supports
4. Make clear that the OBS is temporary

[5] http://energyinnovation.org/wp-content/uploads/2018/03/Canada-Energy-Policy-Simulator-Research-Note-FINAL.pdf

5. Commit to maximum transparency and regular, independent, data-driven evaluations to determine the timeline for phasing out the OBS.
6. Commit to launching a strategic planning process for the electricity sector.

Canada needs a coordinated and strategic response to electricity that keeps the 90% emissions free goal by 2030 front and centre. The goal will not be supported by including electricity in the OBS, especially if the proposed system is not a temporary solution. Electrification of the economy is the pathway to a low-carbon economy[6]. We need to move from an ad hoc approach to a strategic and fully coordinated approach that delivers the 2030 goal.

Sincerely,

Lois Corbett

Lois Corbett
Executive Director

[6] http://deepdecarbonization.org/wp-content/uploads/2015/09/DDPP_CAN.pdf