

The Honourable Catherine McKenna, P.C., M.P.
Minister of Environment and Climate Change
House of Commons
Ottawa, Ontario K1A 0A6
via email: ec.ministre-minister.ec@canada.ca

March 6, 2019

Dear Minister McKenna,

We applaud your government's leadership on implementing a national price on pollution. Economists and institutions such as the OECD and the World Bank concur that pricing emissions is a cost-effective and essential part of the solution to tackle climate change.^{i,ii,iii} In recent years, Canadians have experienced an increase in extreme weather events and other impacts of climate change that have demonstrated the urgent need for action. Applying a price on pollution will reduce emissions by 50 to 60 million tonnes in 2022, a significant contribution toward meeting Canada's greenhouse gas (GHG) reduction target under the Paris Agreement.^{iv} In addition, this measure will stimulate innovation and investments in clean technology, which support long-term growth.

We support the application of an output-based pricing system (OBPS) where the aim is to "minimize competitiveness and carbon leakage risks for activities for which those risks are high, while retaining the incentives to reduce emissions created by the carbon pricing signal."^v We are concerned, however, with the treatment of electricity generation, which neither meets the requirements for inclusion in an OBPS nor respects the principle of applying one standard per product, under the *Regulatory Proposal for the Output-Based Pricing System Regulations under the Greenhouse Gas Pollution Pricing Act*^{vi} (herein the draft regulations). If enacted, the draft regulations, which apply a standard of 800 tonnes of carbon dioxide per gigawatt hour of electricity produced (t of CO₂e/GWh) for coal in 2019 (gradually declining to 370 t of CO₂e/GWh in 2030) and a fixed standard of 370 t of CO₂e/GWh for natural gas, would not represent the low carbon nature of renewable energy generation and would miss a significant opportunity to incentivize early retirement of coal plants and reduce electricity generation from coal, as well as represent a significant barrier to deployment of new renewable energy generation.

Aligning electricity treatment with the dual goal of abating emissions and driving innovation

Our preferred mechanism is a 370 t of CO₂e/GWh standard for existing facilities and a 0 standard for new facilities for all fuel types. A compromise solution could require a ratcheting mechanism be applied to the current proposal in the draft regulations whereby the coal and natural gas standards converge to the same value by 2021 and reach 0 by 2030. In either case, the government should make significant complementary investments in energy efficiency and renewable energy. For example, in the case of renewable energy, by providing a subsidy/tax credit that represents the higher carbon cost of the coal or gas standard. The final proposal should strive to incentivize the rapid transition to a grid with the lowest carbon intensity possible. Towards this objective, the proposal should:

- Lead to a scenario where non-emitting sources and cleaner fuels generate more power than dirtier fuels.
 - o In Alberta the price signal on emissions from the electricity sector has influenced the merit order. The resulting dramatic decrease in coal generation led to a net decline in GHG emissions of 7 Mt in 2018 compared with the previous year.^{vii} We estimated that

avoided pollution from coal translates to 29-36 avoided premature mortalities for that year.^{viii}

- Drive capital investments that support early conversion of coal units.
- Incentivize coal conversions to natural gas to minimize new gas builds while promoting renewables and ensuring sufficient supply.
- Incentivize the construction and production of electricity from zero-emission sources.
- Ensure that subsidies to emitters are phased out over time.

Protecting Canada's leadership as co-founder of the Powering Past Coal Alliance

We are concerned that if enacted, the draft regulations would undermine Canada's leadership as co-founder in the Powering Past Coal Alliance, which calls for a "rapid phase-out of unabated coal power." With this proposal the government is subsidizing the coal industry by protecting it from a fair cost on its carbon emissions and disincentivizing earlier retirement. While coal generation is 2.25 times as emission intensive as gas generation, coal plants would pay only 0.49 to 0.58 (between 2019 and 2030) as much as gas plants under proposed treatment.

Ensuring an effective price signal while protecting consumers

A price signal is key to promoting innovation investments and can be implemented while mitigating competitiveness risks for emissions-intensive and trade-exposed (EITE) sectors and protecting Canadian consumers. Your government's generous approach in setting product output-based standards sufficiently protects EITE sectors and allows them to manage second order carbon cost increases resulting from the carbon pricing system applied to the electricity sector. Importantly, carbon pricing and switching to zero-emission electricity shields EITE sectors (and other consumers) from future electricity price increases that may be triggered by a variety of factors including fuel price volatility. Potential additional costs to consumers can be mitigated by implementing measures to incentivize renewables (which will reduce electricity prices) and energy efficiency (which will reduce the energy used and hence the total cost to consumers). Importantly, we highlight that a carbon price does not have a linear impact on the electricity price. In jurisdictions with a deregulated electricity market, the impact of carbon pricing on electricity prices is a function of how often carbon-intensive units are the marginal producers. A similar consideration applies to regulated utilities as they try to minimize their costs. Finally, we note that the Climate Action Incentive already accounts for the direct and indirect costs of a price on pollution to avoid undue financial burden on Canadian families and is based on the assumption that the electricity standards would be set at 800 t of CO₂e/GWh for coal, 370 t of CO₂e/GWh for natural gas, and 550 t of CO₂e/GWh for diesel.^{ix} We put forward that the Climate Action Incentive could be increased to provide appropriate protection for more stringent electricity standards.

We strongly support your government's determination to ensure pollution is no longer free across the country and agree that this will contribute significantly towards building a strong, competitive low-carbon economy. Accordingly, we urge you to ensure that the treatment of electricity generation under the OBPS upholds the government's target of 90% generation from non-emitting sources by 2030^x and the Powering Past Coal Alliance's goal — and hence Canada's goal — of accelerating "clean growth and climate protection through the rapid phase-out of traditional coal-fired electricity."^{xi}

Sincerely,

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Dale Marshall	National Program Manager	Environmental Defense
Dan Woynillowicz	Policy Director	Clean Energy Canada
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ⁱ OECD, *Effective Carbon Rates: Pricing CO2 through Taxes and Emissions Trading Systems – Carbon pricing: reducing emissions in a cost-effective manner*, https://read.oecd-ilibrary.org/taxation/effective-carbon-rates/carbon-pricing-reducing-emissions-in-a-cost-effective-manner_9789264260115-6-en#page2, p.28

ⁱⁱ World Bank Group, *State and Trends of Carbon Pricing 2018* (May 2018), <https://openknowledge.worldbank.org/bitstream/handle/10986/29687/9781464812927.pdf?sequence=5&isAllowed=y>, p.12

ⁱⁱⁱ OECD, *Effective Carbon Rates – Pricing CO2 through Taxes and Emissions Trading*, https://read.oecd-ilibrary.org/taxation/effective-carbon-rates_9789264260115-en#page24, p.22

^{iv} <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/fall-2018-update-estimated-impacts-federal-pollution-pricing-system.html>

^v Government of Canada, *Technical paper: federal carbon pricing backstop* (January 5, 2018) <https://www.canada.ca/en/services/environment/weather/climatechange/technical-paper-federal-carbon-pricing-backstop.html>

^{vi} Environment and Climate Change Canada, *Regulatory Proposal for the Output-Based Pricing System Regulations under the Greenhouse Gas Pollution Pricing Act*.

<https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/obps-regulatory-proposal-en.pdf>

^{vii} Clare Clancy, *Less than half of Alberta's electricity was coal-powered in 2018, says Province*, Calgary Herald, (February 13, 2019). https://calgaryherald.com/news/politics/extraordinary-less-than-half-of-albertas-electricity-was-coal-powered-in-2018-says-province/wcm/7fda8597-fd8b-4897-940d-dbf38882933d?utm_term=Autofeed&utm_medium=Social&utm_source=Facebook&fbclid=IwAR0-jC444KrnlOlaagz34g9vkw4IU_RpOhjMej6uBFFEwFb4U8AsSojlxxhk

^{viii} According to an extrapolation of the health impact data provided in the *Regulations Amending the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations*. <http://gazette.gc.ca/rp-pr/p1/2018/2018-02-17/html/reg3-eng.html>

^{ix} Government of Canada, *Fall 2018 update: Estimated impacts of the federal pollution pricing system* (last modified January 31, 2019). <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/fall-2018-update-estimated-impacts-federal-pollution-pricing-system.html>

^x Government of Canada, *Powering our future with clean energy*, <https://www.canada.ca/en/services/environment/weather/climatechange/pan-canadian-framework/clean-energy.html>

^{xi} Government of Canada, *Coal phase-out: the Powering Past Coal Alliance*, 2018. <https://www.canada.ca/en/services/environment/weather/climatechange/canada-international-action/coal-phase-out.html>