



Canadian
Electricity
Association

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canadienne
de l'électricité



Electricity: A Indispensable Asset for Canada's Climate Strategy

Remarks by
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Opportunities and Impacts of Reducing Canadian GHG Emissions**
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Good Afternoon! Thank you Jacob for your introduction, and thanks to the organizers for their invite to address you this afternoon. It's a pleasure to join you all. I am also happy to see Kate, from Capital Power – one of our valued member companies.

This conference is timely, as governments are busy operationalizing Paris 2015. Going from the *poetry* of COP 21, to the *prose* of policy and politics. Moreover, one of the report's focuses – The Cost of a Cleaner Future – is hugely critical. For these reasons, CEA was pleased to be one of the funders of the Conference Board study. We believe that the results can help guide a frank climate conversation with Canadians, about where we stand, where we want to go, how we will get there, by when, and what the cost implications are. With this context in mind, let me touch on three issues which are important variables for our electricity industry.

First, it is clear that our globe is marching towards a cleaner, greener future.

Clean energy is the only option going forward. The alternative is being left behind. In fact, our Association has been calling for placing a price on carbon for years, as we thought this to be the appropriate, predictable public policy instrument to facilitate the kind of future we yearn for.

In this regard, the 2015 Paris agreement serves as a watershed moment in that journey. And while governments must remain mindful of protecting industry's competitiveness, our electricity sector is very much supportive of this clean energy shift. In fact, our sector is helping to lead it. Canada's electricity system is one of the cleanest in the world at over 80% GHG emissions free. Our industry has already reduced emissions by nearly 30% since 2005 and we will contribute an additional 30% by 2030 as we retire traditional coal-fired plants across the country. With respect, no other sector can claim this track record.

However, in relation to these numbers, a key question before us today is: can the electricity sector deliver more reductions? And here, we need to be frank. Canada will not meet its international climate objectives by squeezing a little bit more out of the electricity sector and the Conference Board of Canada confirmed this in their report. At the same time, they predict the federal carbon price will increase the cost of electricity, natural gas, and other fuels by at least 15 percent, by 2025. Though





this increase will not be evenly distributed across the country, the final bill could be higher as we fully implement the proposed clean fuel standard, natural gas performance standards and the accelerated coal phase-out requirements. According to the study, the commitments to cleaner energy comes with a hefty price tag; \$7.2 billion per year and some 20,000 direct and indirect job losses.

As we see from current public opinion on electricity rates across the country, it is crucial for policy makers to accompany their policy aspirations with an inclusive and comprehensive discussion, and an open and transparent costing. Canadians need to be informed about the details and their price tag at the front end of any policy journey, and not at the backend or mid course, when it can cause political complications and/or disruptions. In that same conversation, political leaders must also explain to consumers the consequences of *not* making those investments. In short, Canadians deserve all the facts, if governments are to successfully move forward. Besides costs, we must also account for what is technically feasible.

For example, by 2030, coal-fired electricity will effectively cease operations in Canada. This means that there will be a great deal of power generation capacity that needs to be replaced in several of our provinces. And what fills that vacuum? From a carbon standpoint, it would make sense to replace all that capacity with renewables but because these are intermittent sources, to maintain reliability, we have to back-up that renewable generation with constant power sources. That's a real, technical limitation we have to work with, and it will have a direct bearing on what we can realistically do in the short-term. We must therefore try to compensate where we can, and strive to do more with what we have. For example, we should look to inter-provincial trade arrangements, and inter-provincial transmission lines for interested provinces, while refraining from distorting the market place.

On this front, we saw some federal leadership through funding opportunities in Budget 2017. These kinds of initiatives provide our members with the regional flexibility they require in providing reliable and affordable power to Canadians. In the pursuit of balancing costs with results, flexibility is key. So is policy predictability. In the battle against climate change, governments must harness a broad consensus and do so, for the long term. Not only is climate change a long game, but power





companies plan decades ahead. Given these realities, policy predictability and stability and avoiding sharp political u-turns, are important prerequisites for an effective and successful climate plan.

Which brings me to my second point, the urgent need to renew and modernize our electricity infrastructure.

There's no getting around it, like our EU, American and Japanese friends, our critical infrastructure is approaching an end of life cycle. A few years ago, another Conference Board study estimated that renewing the existing electricity infrastructure would require an infusion of \$350B by 2030. However, as their latest study noted, this figure could be tripled and pushed out to 2050, under a deep decarbonization and electrification strategy. As an industry, we are meeting the first challenge head on. For the last several years, our members have been spending in the range of \$13 billion annually, just on infrastructure renewal and modernization. ReNew Magazine's 2017 compilation of Canada's top 100 infrastructure projects by value, note that 8 of the top 10 projects, including the top 3, come from the electricity sector. Together, they represent about \$67.5 billion worth of investment. Again, we need to be open and up front with Canadians about the cost and the benefits of this modernization, as well as about the risks and threats of indifference and inaction. New processes and technologies will no doubt be increasingly important in lowering emissions, promoting economic growth and propelling Canada to the forefront of a green, knowledge-based economy.

Fortunately, there is recent success on which to build. Often, people think that invention originates from brilliant young minds experimenting in their garages. And it does. But that is only part of the story. Our members, many of whom are big and have been around a long time, are also busy innovating, but they often come up against barriers. As you know, electricity is provincially wired and regulated. But when our members put forward innovation pilots to those regulators, they are for the most part, turned down, as regulators strive to keep electricity rates low. Yet, the federal and provincial governments are encouraging us to innovate more so, our companies are caught in this 'ping pong' governance "gap". Now, of course, our companies must be frugal. No one likes paying more for their electricity! Homeowners don't like it and neither do businesses.





We must also try to avoid a storm of quick fixes and short-term thinking and we must guard against the temptation of racing towards the bottom, and building the cheapest infrastructure. We cannot pass on to our children and our grandchildren a system that is any less strong and reliable than one we inherited. Which means that we need to marry the concern for costs, *with* the value that we place in electricity; that indispensable magic, which contributes to Canadians' quality of life and a competitive national economy. We can't just think about one or the other. It must be a blended version. And the ability to innovate plays a huge role. Accordingly, we have been working for the last year with five federal government departments, with the objective for the federal government to help bridge this innovation gap with their tax instruments and infrastructure program.

Finally, we cannot ignore that we are living through an unprecedented politicization of electricity rates and applications, in many jurisdictions of our country.

They have vaulted to top-of-mind status. Ontario epitomizes this phenomenon, where, at Queen's Park, electricity rates – rightly or wrongly – have become the political weapon of choice for Opposition Parties. This heightened attention on rates naturally places great pressure on the provincial governments, which then gets transferred down to the regulators, where the overwhelming battle cry becomes: **KEEP COSTS DOWN!**

If a price on carbon increases rates another 12 percent by 2022, and it is not properly explained and publicly accepted, then these pressures run the risk of boiling over. And then what happens to that national consensus? As noted, our industry plans for the long term. And so, squaring this with the immediacy of public opinion presents a dilemma for policy makers and our sector. There is another challenge that confronts us when it comes to public opinion.

In regards to large infrastructure builds, we are operating in a time of heightened public engagement and scrutiny – which is fine in and of itself. But with it, comes a good deal of pressure from those local communities closest to those projects, to make the final judgement call. The problem with this approach is that when it comes to major national energy projects and infrastructure, there are 35 million shareholders to account for.





The imperative for governments and regulators is to then find a healthy balance between local concerns *and* national interests, if we are to get this right. Again, it can't be either or. It must be a balance. Yes, the need to rebuild energy infrastructure happens locally and regionally. But make no mistake, it is a *national* undertaking. More than that, it's a continental one. As you know, our grid runs north-south, and is deeply integrated with the US. We enjoy over 35 points of connection, and we are in the process of building 6 *new* connection corridors. We therefore cannot just have local voices dictating the outcomes. Not if we are to live up to our obligations of nation building, *and* continental cooperation.

In closing, a successful climate change policy demands that we find the appropriate long term accommodation among Canadians.

As I said, Canadian governments must harness a broad consensus and do so for the long haul. We are undoubtedly at a transformative moment, where a very different future is coming at us fast. It will test our resolve, and it has high expectations of all of us. But the future is always worth investing in. And in the course of our 150-year history, Canadians have instinctively understood this. Think of the great railroads of the 19th century. The highway, seaway and national broadcast systems of the 20th. Or, the Canadian-made arm that extended mankind's reach into space.

In all these initiatives, we have understood the importance of looking ahead. And each time we did, it was transformative – uniting our country, facilitating the movement of people, goods and services, and laying the foundation for economic prosperity for generations to come. Today, we are again at one of those transformative moments. A moment to build something important. Something enduring. And in doing so, promoting and safeguarding Canada's tomorrows.

Thank you.

