



Canadian  
Electricity  
Association

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canadienne  
de l'électricité

# Infrastructure Renewal; Sustaining Reliable Electricity & Nation-Building

Panel Remarks by  
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Good Morning! Buenos Dias!

First off, I would like to thank the CCA for their kind invitation to address you this morning, and for hosting us here in sunny Mexico. More than a few of CEA's members – electricity companies from across Canada – own assets in warm places, Mexico included.

In fact, last month, I and 7 of our Members participated in Minister Carr's successful energy trade mission to Mexico City where, after some 80 years of a "command-and-control-state-run energy system, the government is four years into a policy of reform and privatization, which is creating foreign investment opportunities. There are the natural 'growing pains' that accompany such fundamental renewal, but that should not overwhelm the longer term opportunities for our companies.

This morning, I would like to touch on a critical and timely issue: namely, **electricity infrastructure investments**. It may not be as sexy as a Tesla; or as familiar as the appliances in your home; or – dare I say – as *appreciated* as air conditioning on a hot day in Mexico. But Canada's electricity system is indispensable to powering all three, and so much more. Let me share with you a number of related thoughts on this front.

### **First up, the politicization of electricity rates.**

We have seen a dramatic and unprecedented increase in the politicization of electricity markets and rates, across most jurisdictions in Canada. They have poll vaulted to top-of-mind status. Ontario epitomizes this phenomenon, where, at Queen's Park, electricity rates - rightly or wrongly - have become one of the chief political weapons for the Official Opposition. And where the government has introduced a number of recent measures, all in an effort to address irate consumers. This heightened public attention on rates naturally places great pressure on Provincial governments, who then transfer these soundings down to the regulators, where the overwhelming battle cry at rate hearings becomes almost uni-dimensional. In other words: **KEEP COSTS DOWN!**

Now, of course, our utilities must be frugal and keep rates as low as possible. No one, whether you are a homeowner or a business owner, likes paying more for their electricity. But, I also believe that we should try to avoid a storm of quick fixes, short-term thinking, or sharp policy u-turns, because the fundamental drivers behind higher electricity rates are both real and relevant. Drivers like government intervention in the market, carbon reduction, or the utilities' need for investment in infrastructure, remain.

Moreover, ours is a long-term industry. Our members make plans decades ahead. Therefore, policy stability and predictability become critical assets in getting our plans right, and building the kind of innovation and infrastructure that Canadians requires.





While electricity is provincially regulated, the federal government has a significant role to play. There are some 34 federal departments and agencies that touch on electricity policy in some way. Furthermore, the national government has innovation as a central component of their overarching agenda.

And speaking about innovation, CEA has had a year-long Dialogue with senior federal officials from 5 departments on the "innovation gap" that our sector faces. In other words, when our members take innovation pilots to provincial regulators for support, they are essentially turned down, in an effort to keep those rates low. Yet, the federal and provincial governments are encouraging us and our members to innovate more. So, utilities are stuck in the middle of this governance 'ping pong'.

During that Dialogue, we have asked the federal government to use their tax base instruments to bridge that innovation gap, by introducing policy programs that are available to US industry, and by supporting transformative projects using the federal infrastructure program.

Therefore, we await today's budget and moving forward, subsequent budgets and announcements, in order to determine if the federal government is prepared to assume this important role.

### **Secondly, and very much related to the first, is the need to renew and modernize that electricity infrastructure**

As you know better than I, infrastructure assets are critical to economic growth and competitiveness. And in the big picture, the Advisory Council on Economic Growth has estimated that Canada faces an infrastructure gap that ranges from \$150B-\$1 Trillion. For our sector, there's no getting around it --- like our EU, American and Japanese friends, our infrastructure is approaching an end of life cycle. According to a recent Conference Board of Canada study, this will require an investment infusion of some \$350B by 2030, just to maintain what we enjoy. Toronto Hydro, for example, estimates that one-third of its electricity distribution assets, are currently past their expected useful life. Similarly, BC Hydro recognizes that many of its assets were built before 1970 and must be replaced. We have accepted the study's recommendation, and in recent years, our members have been investing at a rate of between \$13-15B annually. This is an impressive sum – which is, of course, an opportunity for companies in this room.

As you will know, ReNew Magazine publishes an annual list of Canada's top 100 infrastructure projects by value, and our sector has consistently been a leader in this area. In fact, for 2017, 8 of the top 10 projects, including the top 3, will come from the electricity





sector, representing about \$67.5 billion worth of investment. As I mentioned, we need to play the long game. But to sustain these level of investments long term, we must be able to keep the customer on-side. This requires that we and governments be open and up-front about these investments, and to stress that we need to make these down payments today, in an effort to ensure a well-functioning system tomorrow, and into the future.

However, given the obsession with costs across the country, our members face a real and significant political and regulatory risk, since they need to get every cent of this \$350B price tag, approved by regulators. Moreover, how do we guard against the temptation of racing towards the bottom, and building the cheapest infrastructure? If we are to pass on to our children and our grandchildren a system that is at least as strong and reliable as the one we inherited, then we must build the best and strongest system. 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' high quality of life, and to a competitive national economy. We can't just think about one or the other. We must have a blended solution, if we are to have and build a system that will serve Canadians well into the future.

We also require the strongest systems because Mother Nature imposes this on us. Extreme weather and climate change are making an appreciable difference. The annual cost of disasters around the globe has increased by more than five times since the 1980's, climbing from \$25B a years to some \$130B in the 2000's. So the quality and resilience of our infrastructure is more crucial than ever.

**Third, getting the social license to build and operate this new infrastructure is not getting any easier.**

Not only is there much more public engagement and scrutiny --- which is fine in and of itself --- but with it, comes a good deal of pressure for those local communities closest to those projects, to make the final judgement call. To have, in effect, a local veto. There's just one problem with that proposition: when it comes to national energy projects and infrastructure, there are 35 million shareholders to account for. Accordingly, governments, regulators and environmental assessment processes need to balance local concerns with national interests. Again, it can't be one or the other; it must be both.

For our electricity sector, the need to rebuild 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 currently have 35 points of connection, and we are in the process of building 6 *new* additional connection corridors. Our integrated and shared systems, therefore, cannot afford for just local voices to dictate the outcomes, not if we are to live up to our obligations of ongoing,





nation building, and effective continental cooperation. Decision-makers must find the appropriate accommodation if we are to get this right.

### **Finally, the Paris Climate Agreement represents a watershed moment.**

Our governments are now moving from the “poetry” of the Paris Agreement, to the “prose” of implementing the Pan-Canadian Framework on Clean Growth and Climate Change, announced last December. As an industry, we are supporting this shift. Indeed, we have long called for placing a price on carbon, as long as it is economy and North American wide. Canada’s electricity system is also a clean energy partner for governments. Indeed, we are one of the cleanest electricity systems in the world, at over 80% GHG emissions free. Our sector has reduced emissions by nearly 30% since 2005, and will likely do a further 30% by 2030 as we retire existing traditional coal-fired plants. With respect, no other sector can claim such results. So, electricity stands ready to power Canada’s low-carbon future.

However, as they implement their international obligations, Canadian governments must be mindful to harness a broad consensus among Canadians, and to do so for the long term. Because the battle against climate change is a long haul. Industry thus requires a realistic, stable and predictable policy plan; a plan which also maps out a series of closer-term transparent mileposts, which will serve to keep us on track, over this long journey and avoid heavy lifts and turns at the back end. As well, governments must be sensitive in protecting the competitive position of Canadian companies. The issue is important, and its economic impact on Canadian families and business are real. That’s why CEA encourages the federal and provincial governments to continue to work together to deliver the outcomes that Canadians want, with the least cost and disruption to their lives and livelihoods. In this regard, we believe that flexibility is the key.

### **In Closing**

The power industry is undoubtedly at a transformative moment. Whether it is achieving carbon reductions, or building the power system of tomorrow, the future is coming at us very fast. It also has high expectations. But the future is always worth investing in. A time to build, with you, something important. Something enduring. And to leverage one of our critical assets --- reliable electrical power --- to build a brighter, cleaner and better tomorrow for all Canadians, regardless of where they call home. Thanks for your attention, and I look forward to our discussion.

