

The Honourable Stéphane Dion
Minister of the Environment
By FAX: (819) 953-0279

September 21, 2005

The Honourable John Efford
Minister of Natural Resources Canada
By FAX: (613) 996-4516

The Honourable Reg Alcock
President of the Treasury Board
By FAX: (613) 990-2806

4 pages including this one

RE: Climate Change Program Review

Dear Ministers,

The federal government committed in the 2005 Budget to review “all existing climate change programs” prior to releasing new funding for 2006-07, to determine which existing or new programs should be reallocated resources based on “the relative success of each in achieving cost-effective emission reductions over the short and long term”. We are writing to state our concerns on the review process of federal climate change programs, with the hope that our recommendations and views on these programs will be taken into account in the current review and subsequent budget allocations.

We would like to draw your attention to the fact that the climate change programs covered by the review include both those designed principally to reduce GHG emissions as well as others designed with the intention both of reducing GHG emissions and providing other benefits to Canadians, such as reduced energy costs, new economic development and clean air. Some of these programs did not necessarily have GHG emission reduction as their principal motivation, but are contributing to moving Canada closer towards a low-carbon economy. We urge the federal government to use extreme care when reviewing existing climate change programs so that programs that leverage future or indirect actions, contribute to long term GHG reductions and have multiple co-benefits are not ended because they do not produce immediate high GHG reductions.

The Pembina Institute is a member of the National Advisory Council on Energy Efficiency (NACEE) which was given a briefing at its June 2005 meeting on the program review. NACEE members and other stakeholders have not, to date, been given an opportunity to consult with the federal government on the program review, and we ask that this be remedied as soon as possible.

Review Criteria

According to the presentation made to NACEE, the criteria to be used in the review include:

- Balance among sectors and regions
- Competitiveness of Canadian industries
- Partnership – degree of stakeholder and other government involvement
- Innovation – new approaches to mitigation



- ❑ Cost effectiveness – total benefits versus cost to government

Other factors used in the review will include:

- ❑ Harnessing market forces
- ❑ Targeting actions of individual Canadians
- ❑ Delivery by all levels of government and private sector
- ❑ Fairness and equity
- ❑ Effectiveness
- ❑ Other compelling policy reasons

We believe that three additional criteria should be used – co-benefits, market transformation impact, and long term value.

Co-Benefits: Programs should not be assessed only on their GHG reduction benefits. Many energy efficiency and renewable energy programs also have multiple co-benefits including reduction of energy costs for businesses and households, reduction in air pollutants and resulting health benefits, new economic opportunities in all parts of the country instead of conventional resource areas, and peak power reduction.

Market transformation is the ultimate goal of any policy to change behaviour and technology usage. A program should be judged not on what it can deliver this year, but what it can ultimately leverage in the way of market transformation.

Long-term value is an essential criterion if the goal is to put in place an economy that is based on efficient use of renewable sources of energy and allows a stabilization of GHG concentrations in the atmosphere. Programs to support solar electricity for example would not fare well if tested on a strict cost per tonne basis, but it is important to start building a solar PV industry now that can deliver large reductions in the future.

The criteria being used for the review might also tend to favour programs that have been in place for some years. It will be more difficult to justify a new program (particularly in such a short time frame) that might fill some of the programming gaps identified below. Although it is important to support the implementation of mature emission reduction opportunities, it is also important to support the development of new emission reduction opportunities, particularly those with the potential to achieve substantial reductions in GHG emissions.

Program Type

Experience over the past 25 years has shown that many non-price market barriers exist that prevent energy users from making cost effective choices that improve efficiency. This means that simple solutions such as raising prices or providing unconditional grants do not have the market transformation effect needed. While the new Climate Fund will provide additional financing for energy efficiency and renewable energy actions based on tonnes produced, it cannot be used to replace current programs designed to remove these non-price barriers. Simply offering this incentive will not result in uptake unless the ground is prepared by well-designed programs. For example, trucking companies will not apply to have their reduced idling savings registered to receive offset credits unless a program exists to make them aware and to provide them the means¹.

¹ A simple protocol is also needed to make registration with the offsets system possible.

Financial incentive programs like EnerGuide for Houses or WPPI also have the advantage over the Climate Fund in that they can provide a financial incentive that reflects both GHG reduction and other benefits, and is therefore larger than the financial incentive that would be provided by the Climate Fund, which would reflect only GHG benefits.

In other words, programs offered by the federal government must provide more than just incentives and grants; they must provide technical and market information, financing options and forums for integrated design and discussion. Programs currently under review provide these multiple services must be preserved and expanded to provide the base for the major changes needed to meet and exceed our Kyoto commitments.

Programs such as home heating rebate programs should be explicitly avoided. The recently proposed rebates for low income households to compensate for high energy bills would actually increase GHG emissions. The funds should be spent instead on a fast track building improvement program targeting the same people.

Gaps in Current Climate Change Programming

Distributed Energy

Current federal energy efficiency and renewable energy programs do not include any programs directed specifically at distributed energy systems such as solar water heaters, solar walls, solar electricity, and earth energy systems. REDI excludes all energy sources not used to produce a product and RPPI will provide incentives only to grid scale renewable power sources. Even the Class 43.1 tax provision that allows accelerated write off of renewable energy and energy efficiency equipment excludes certain distributed energy technologies.

Green heat sources such as solar thermal and earth energy are close to commercially viable in Canada and already in widespread use in other countries. Canada lags behind others in supporting these technologies that could play a major role in reducing GHG emissions from electric power use (e.g. water heating) and thermal fuel use (gas and oil). It is less easy to quantify reductions from green heat technologies, but new innovations such as those used in Florida to issue renewable energy certificates for solar heated water make it much simpler to measure reductions and incent them.

Solar PV is admittedly still expensive, but so is the cost of meeting peak power demand in provinces such as Ontario which can be close to the cost of PV during the summer. Providing support to a new solar PV industry in Canada would provide the infrastructure for helping with this peak demand and setting the stage for universal use of PV in buildings later this century – a measure that will be essential to achieve deep cuts in GHG emissions.

The proposed domestic offset system includes reference to “micro-projects” such as distributed energy and energy efficient activities implemented by individuals and small businesses. It might be preferable to use more direct programming to target these small projects. The offset system could be used for large aggregations of actions by utilities (DSM programs) and municipalities, but is not really well suited for individual use. A major country wide incentive program for solar water heaters, solar walls and solar PV systems would make a positive addition to federal climate change programming.

Such a program could provide renewable energy certificates to all those that produce heat and/or power from solar water heaters, solar walls and solar PV systems. The program would allow manufacturers, municipalities and utilities to act as agents, buying back the certificates from consumers and businesses.

These agents could then register blocks of these projects as conventional domestic offsets or be compensated directly by the program on a per tonne basis.

Alternatively, the distributed energy systems could receive a top-up incentive under the Energuide for Houses and Energy Innovators programs if a home or business chose to include these systems in a renovation.

Energy Efficiency and Renewable Energy Strategy

The Pembina Institute is a member of the new Canadian Renewable Energy Alliance of environmental NGOs calling for a comprehensive national renewable energy strategy (see attached framework). In reviewing existing energy efficiency and renewable energy programs, the design of such a long term strategy needs to be taken into account. Federal programs provide the enabling cornerstones that allow Provinces to maximize energy efficiency and renewable energy usage. The climate change program review, while properly focusing on achieving near-term GHG reductions, should nonetheless not sacrifice progress towards a long term renewable energy transition.

The review should also give significant weight to the need for Canada to make deep cuts in GHG emissions in the post Kyoto period. Today's programs need to set the stage for the market transformations needed away from fossil fuels post 2012.

Conclusions

Extreme care must be taken when reviewing existing climate change programs so that programs that leverage future or indirect actions, contribute to long term GHG reductions, and have multiple co-benefits are not ended because they do not produce immediate high GHG reductions.

The Climate Fund should be seen as an additional source of financing for GHG reductions that complements programs designed to reduce non-price barriers. The Fund will be ineffective if those programs are not left in place.

New programs are needed to support green heat, solar PV and other distributed energy systems. Green heat can play a major role in GHG reduction now, while deep future GHG cuts will require the establishment of a mature national solar PV infrastructure that is ready to take advantage of the future mass production of low cost solar cells.

The program review should be carried out within the framework of a long term energy efficiency and renewable energy strategy, and the deep cuts in GHG emissions that will be needed after 2012.

We would be happy to meet with you or your staff to discuss these issues further. In any case we look forward to your response.

Sincerely,



Dr. Marlo Raynolds
Executive Director
The Pembina Institute