

GETTING ON TRACK FOR CANADA'S CLIMATE TARGET: DESIGNING A TECHNOLOGY FUND THAT WORKS FOR 2020

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Recommendation Summary

If the government gives oil and gas companies access to a technology fund as part of its sector-by-sector regulatory approach for greenhouse gas pollution, the regulation should require that some or all of the revenues raised be invested in near-term emission reductions. Support for deploying clean energy and more efficient technologies – rather than an exclusive emphasis on research and development in the oil and gas sector – is needed to help get Canada on track for its national emission reduction target for 2020.⁶⁹

Revenue Implications

A technology fund like Alberta's is essentially revenue-neutral for the government, as the funds collected from emitters are re-invested in technology projects. The size of the fund depends on the design of the regulation, including the technology fund price, the stringency of the target, and the other compliance options companies have access to.

Background and Rationale

The federal government has chosen sector-by-sector regulations as its main tool to work towards its national greenhouse gas (GHG) reduction target. That target, adopted in early 2010, is to cut Canada's national emissions to 607 million tonnes (Mt) by 2020 – a goal chosen because it matches the commitment that the United States made after international climate negotiations in Copenhagen in 2009.

Environment Canada's most recent public projections conclude that under current conditions, Canada's emissions will instead reach 734 Mt by 2020. Canada would therefore miss its 2020 target by 122 Mt, which is more than the current emissions from all passenger transportation in Canada.

Because the government has already enacted GHG regulations in the transportation sector, and adopted measures for coal-fired electricity generation that take effect in 2015, the oil and gas sector is by far the largest "piece of the puzzle" that remains to be

regulated. The sector accounted for 23 per cent of Canada's total emissions in 2011, and the oilsands in particular are Canada's fastest-growing source of GHG emissions.

Thus, it is no exaggeration to say that the design of these regulations could make or break Canada's ability to achieve its national 2020 target. A weak approach risks locking in "business as usual," while a strong and effective regulation could make a significant difference in the environmental footprint of Canada's oil and gas sector. Improved GHG performance in the oilsands – a sector under intense public scrutiny – would give oilsands companies better answers to their critics and help provide the "social license" they need to operate successfully. Strong regulations would also help the oilsands improve its long-term competitive position as the world makes a transition to lower-carbon sources of energy.

The federal and Alberta governments, as well as the oil and gas industry, have been considering Alberta's approach as they design the upcoming federal oil and gas regulation. Under Alberta's regulation, companies have the option of meeting their target by making payments into a technology fund rather than actually reducing the emissions intensity of their operations. There is no limit on companies' access to this option. As a result, the technology fund effectively caps the price that companies pay per tonne.

Since Alberta's system went into effect in July 2007, the Government of Alberta had collected \$312 million

⁶⁹ Canada's target, adopted in early 2010, is to cut Canada's national GHG emissions to 612 million tonnes (Mt) by 2020.

from companies in technology fund payments at a rate of \$15 per tonne. The funds are turned over to an arms-length agency, which invests them in a portfolio of projects chosen through a competitive application process. As of May 2012, the fund had invested in 43 clean technology projects, with “six projects in the research and development stage, 11 projects in commercialization, 20 projects in market demonstration, and six projects in technology design and development.”

Technology development takes time. Alberta’s fund acknowledges that some of the projects it supports will generate few or no emission reductions over the period where it provides funding; instead, the GHG benefits are expected to occur farther into the future.

Ottawa’s oil and gas sector regulations are not expected to take effect until 2016. If the federal proposal enables companies to comply by contributing to a technology fund (or a number of provincial/territorial funds) structured like Alberta’s, with the same emphasis on longer-term technology development, the fund(s) may not generate significant reductions in time for Canada’s 2020 deadline. Indeed, if it takes time for such funds to be established (Alberta’s fund issued its first call for proposals over two years after its regulation came into effect) and then to decide where to invest, it is even possible that a federal or provincial/territorial technology fund proposal would not generate a single tonne of reductions before 2020.

The technology fund has been a popular compliance option in Alberta. Initial results for 2012 indicate that it was companies’ top choice for attaining their targets that year, accounting for more than three times as much compliance as actual reductions in emission intensity at facilities.⁷⁰

If the federal government adopts Alberta’s model wholesale, companies will likely use the technology fund for a significant fraction of their efforts to meet their targets. Even in a best-case scenario, the fund would generate the vast majority of its emission reductions far into the future. While longer-term technology investments are worthwhile, this specific model has serious implications for Canada’s emissions target, making it even more difficult for Ottawa to meet its 2020 obligations.

Recommendation

To improve its chances of hitting the 2020 target, the federal government should require that some or all of any technology fund revenues be invested in near-term, real and verifiable emission reductions.

For example, the federal government has ended its support for production incentives for new renewable energy projects and its energy efficiency retrofit programs targeting Canadian homeowners due to fiscal pressures. Contributions from oil and gas companies under the sectoral regulation could support these kinds of initiatives, which, if properly designed, stand a far better chance of generating emission reductions before 2020 than an investment in longer-term research and development in the oil and gas sector. The federal government may also wish to consider investing a portion of technology fund revenues to support emission reduction activities in developing countries, as Canada committed to do under the 2009 Copenhagen Accord.

While the Green Budget Coalition understands that the government is currently not considering adopting economy-wide carbon pricing, we continue to believe that a price on GHG pollution is a powerful and effective tool to cut Canada’s emissions. Adopting a well-designed carbon price would help spur Canada’s transition towards a competitive, low-carbon economy and make an important contribution to closing the gap to our national 2020 target.

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For further recommendations about the design of oil and gas sector GHG regulations, please see “Getting on Track for 2020” at <http://www.pembina.org/pub/2427> and “Key Issues to Watch in Federal Oil and Gas Climate Regulations” at <http://www.pembina.org/pub/2456>.

The Green Budget Coalition made detailed recommendations on carbon pricing for Budgets 2008, 2009, and 2011, which are available from <http://greenbudget.ca/prop.html> or http://greenbudget.ca/main_e.html.

⁷⁰ Initial 2012 results show 1.66 million tonnes (Mt) of compliance from improvements to companies’ operations and about 5.7 Mt of compliance through technology fund contributions. See <http://environment.alberta.ca/04220.html> for more information.