Submission by the Clean Air Renewable Energy Coalition to the House of Commons Standing Committee on Finance Pre-Budget Consultations

August 14, 2009

Executive Summary:

The Coalition urges the federal government to continue its support by increasing the *ecoENERGY for Renewable Power (eERP)* program budget, which will run out this fall. This request comes in light of the very strong support for renewable energy in the United States. The consequences of letting support for eERP end now would be detrimental for the Canadian renewable power industry and for the country itself. The federal government should therefore make a clear commitment in a Fall Economic Statement (and no later than a 2010 federal budget) to support the deployment of an additional 8,000 MW of new renewable power capacity in Canada by March 31, 2014.

Background:

The Clean Air Renewable Energy Coalition (the Coalition) is a group of industrial, utility and non-governmental organizations, banding together to promote the entire range of renewable power generation technologies in Canada. (Please see the bottom of this page for the current membership composition.)

The Coalition applauds the role the federal government has played in stimulating the development of the renewable power industry in Canada through the very successful *ecoENERGY for Renewable Power* program. This incentive was designed to stimulate the deployment of 4,000 MW of renewable power in Canada by March 31, 2011. Natural Resources Minister Lisa Raitt has now confirmed that the program will meet its objectives and fully allocate all of its funding by fall 2009 - 1.5 years ahead of schedule.

The Coalition is very concerned that without additional support from the federal government, this situation will draw significant renewable power investment south of the Canadian border since the US government has taken decisive measures to support this industry and is currently outspending Canada by a factor of seven. While the 2009 Federal Budget of January 27, 2009 failed to provide any additional funds to support the *ecoENERGY for Renewable Power* program, the stimulus package implemented by the Obama Administration in the United States included significant new support for renewable power deployment. For example, renewable power investors in the United States have access to a US Federal Production Tax Credit for renewable power that has more than three times the value of the ecoENERGY incentive. The US stimulus package extended this incentive to the end of 2012 and also allowed it to be received as a grant toward capital expenditures.

The uncertainty about whether and how long the ecoENERGY incentive will continue is already adversely affecting the industry. This is happening at a point in history, when the employment created by clean energy investment is badly needed in Canada. A renewed and intensified commitment by the federal government is needed in order to maintain the momentum of the renewable power industry that has developed over recent years in Canada. The benefits of such a commitment would be manifold:

- It would create certainty for the clean energy industry and channel more investment into Canada.
- It would create new employment – particularly in rural areas - and grow a sustainable industry (manufacturing, construction and operation/servicing) across the nation.
- It would help to retain and develop expertise in renewable power in Canada and avoid the emigration of these capacities to countries with more favourable policies.
- It would support provinces in their effort to increase the share of renewable power generation.
- It would aid the country in achieving its GHG emission reduction goals.
- It would reduce Canada's dependence on energy imports while increasing opportunities to export clean energy.

Given that more than 11,000 MW of renewable power projects have already subscribed to the ecoENERGY incentive program, the Coalition recommends that the federal government expand the program from currently 4,000 MW by 2011 by another 8,000 MW to a total of 12,000 MW by 2014. These numbers are in line with the Coalition target to provide a minimum of 15% of Canadian electricity needs from new renewable resources by 2020. The federal government could deliver this support through either of two policy options.

Option # 1 – Expand and Extend the Existing ecoENERGY for Renewable Power Program

The Coalition had advocated that both the 2008 and 2009 Federal Budgets include a commitment to expand and extend the eERP program to support the deployment of an additional 8,000 MW of renewable power by March 31, 2014. **Between now and 2014, the total cost to the Federal Government would be $600 million ($150 million per year). Over that same time period, $7 billion of private sector investment in Canada would take place. In other words, for every dollar invested by the Federal Government between now and 2014, the private sector would invest a minimum of ten dollars in Canada in that time period.** Beyond 2014, the Federal Government would make annual expenditures of $230 million from 2015 – 2024. This makes the total cost to the Federal Government $2.9 billion over 14 years. It should be noted, however, that eERP payments are taxable so the net cost to the Federal Government is less.

The benefits of this approach include: (a) simplicity of implementation (the program already exists and an extension / expansion is straightforward to implement), (b) the incentive is easily accessible by all renewable energy developers, and (c) only a small portion of the total funding required would be expended in the first five years – but all of the expenditures it would leverage would occur in the first five years.

Option # 2 – Replace the ecoENERGY for Renewable Power Program with a Capital Grant Program that Would Provide Equivalent Economic Value

Renewable energy projects are extremely capital intensive. Up to seventy percent of total project costs can be for energy generating equipment. Under this proposal, the federal government would provide a capital grant of between $200,000 and $500,000 per MW for commissioned new renewable energy capacity (depending on per-MW costs, which can range from $2 million for wind turbines to $5 million for some biomass and small hydro projects) – providing equivalent value to the ecoENERGY incentive at an assumed discount rate of 8%. Such a capital grant would be roughly equivalent to 10% of total capital costs. The United States has put in place an option whereby wind energy projects can elect to take the Production Tax Credit as a 30% capital grant for projects commissioned by the end of 2011. The capital grant figures would be somewhat different for other renewable power technologies.

If this approach was used to support the deployment of 8,000 MW of renewable power by March 31, 2014, the total cost to the Federal Government would be $1.8 billion between now and 2014 ($450 million per year). There would, however, be no additional costs to the Federal Government beyond the year 2014. It is likely that such a grant would be "taxable" in Canada, although this would be implemented through a reduction in the amount of CCA (Class 43.2) that can be claimed by the amount of the grant. Accordingly, the net costs to the Federal Government would likely be somewhat less than described above.

The benefits of this approach include: (a) such an incentive would be easily accessible by all renewable energy developers, (b) all funding associated with the program would be expended in five years, and (c) while it is a new program, it should be relatively straightforward to design.

Potential Complementary Tax Measures and Offsets

In addition to the above-noted policy options, and in co-operation with other renewable energy groups in Canada, the Coalition has examined the possibility of using new tax incentives to stimulate the deployment of renewable power in the country. This exercise was undertaken in light of the fact that the ecoENERGY program will have allocated all its funding by this fall. The key element used in the examination was to insure that the tax mechanism be broadly applicable across the full range of renewable power companies – whether they were taxable or non-taxable, large or small, domestic or foreign, and no matter what type of renewable technology they utilized. It is our understanding that to be broadly applicable, a tax incentive would have to be fully refundable.

A measure the federal government may take to complement an expansion of the ecoENERGY program or a new capital grants program, would be to broaden the applicability of an existing tax measure the federal government has already put in place to encourage renewable energy deployment, that being Class 43.2 of the Income Tax Act. At this time, most renewable power developers in Canada cannot make immediate use of this incentive to support their renewable power investments.

The Clean Air Renewable Energy Coalition strongly encourages the federal government to examine ways to increase the immediate applicability of this tax incentive to the full diversity of companies investing in renewable power in Canada. Furthermore, the Coalition would be pleased to work with the federal government in this important endeavour.

Finally, we are pleased that the federal government is moving to implement a greenhouse gas emissions regulatory framework that will allow wind energy (and we assume, all other forms of renewable power) to create greenhouse gas offsets. We must stress, however, that this in no way represents a substitute for the federal government taking action at this time to support the deployment of renewable energy through either an expanded ecoENERGY program or a new capital grant program as outlined above.

Conclusion:

Given the current state of the economy and specifically the potential role of the clean energy industry, it is essential that the federal government act immediately and not let its support for renewable power deployment run out in the fall of this year. Allowing this to happen would harm Canada through lost investment, curtailed employment opportunities and a slowdown in the nation's progress toward its GHG emission reduction targets.

Sincerely yours

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