Clean Air Renewable Energy Coalition

Axor

BC Hydro

BP Canada Energy Company

Benign Energy Canada Inc.

Dofasco

Enbridge

Federation of Canadian Municipalities (FCM)

Friends of Earth (FOE)

International Institute for Sustainable Development

Ontario Power Generation Inc.

Pembina Institute

Pollution Probe

Shell Canada Ltd.

Suncor Energy Inc.

Toronto Environmental Alliance (TEA)

Toronto Hydro

TransAlta

WestCoast Energy

April 15, 2002

Mr. David Burpee
Director
c/o Mr. Florian Laberge
Renewable and Electrical Energy Division
Natural Resources Canada
580 Booth Street, 17th floor
Ottawa, Ontario K1A 0E4

Mr. Steve McCauley
Director
C/o Mr. Leslie Welsh
Oil, Gas and Energy Branch
Environment Canada
351 St. Joseph Blvd., PVM 10th floor
Hull, Quebec
K1A 0H3

Dear Mr. Laberge and Mr. Welsh:

Introduction

Thank you for the opportunity to comment on the Market Incentive Program (MIP) For Distributors of Emerging Renewable Electricity Sources. We share your objective of ensuring a successful program that works to promote the development of renewable energy sources in Canada. The Clean Air Renewable Energy Coalition was specifically established to accelerate the development of Canada's renewable energy industry. The group is comprised of 12 major corporations, five environmental organizations and the Federation of Canadian Municipalities.

Executive Summary

In general, the Coalition supports the intent of this program to develop market-based programs, and encourages you to set criteria that results in broader education and awareness aimed at changing consumer behaviour. We have a few key areas that we would like to highlight with proposed changes:

1. We would like to see a stronger emphasis in the program objectives on maximizing the development of renewable energy by setting targets for the magnitude of renewable energy that the MIP intends to support.
2. The evaluation criteria need to be more clearly set out and prioritized. We are also concerned about the geographic diversity criteria that, for a program with such limited funds, may water-down the program benefits. Also, we are concerned about assigning priority to distributors who are working with the federal government to achieve its 20% commitment to purchase renewable energy since this is a limited initiative.
3. We are concerned with the limitations on WPPI-facilities in participating in the MIP. We believe that WPPI and MIP must work together.
4. We would recommend adding some additional technologies to the mix of "Qualifying Electrical Energy" namely tidal and wave power, and strengthening criteria for biomass use.
5. We support the objective of targeting new renewable energy supplies through MIP, but believe that the "Incremental Power Requirements" should be more transparently defined.
6. We have some comments on the "Eligible Expenditures."

We have reviewed the document and provide the following specific comments and some recommendations for modifications to the existing draft.

Specific Comments

MIP Objectives

The document does not clearly identify the MIP's specific objectives. We suggest the following ideas for your consideration.

- We would like to see a stronger emphasis in the program objectives on maximizing the development of renewable energy by setting targets for the magnitude of renewable energy that the MIP intends to support.
- The central emphasis of the "Objective" listed on pg. 5 is an increase in sales of emerging renewable energy products. Following from that, several additional benefits will accrue, including GHG emission reductions, commercialization, and consumer engagement.
- We believe that these all call for maximizing the magnitude of renewable energy that is developed through direct consumer engagement. As such, it would be appropriate to set a target for what the program is trying to achieve, much as the WPPI set a target for its spending.
- We would recommend that the four-year MIP, with a total budget of $25million, effectively target the development of about 300,000 MWh of annual renewable energy supplies.[1] By setting a clear target, it will provide a signal to proponents of the level of program efficiency that you are looking for. This could be an alternative to suggesting that only 25% of the program cost would be covered by MIP.

Evaluation Criteria

- We believe that the best proposals for advancing renewable energy should be selected. They should not be constrained by arbitrary criteria that may limit competition.
- We would recommend that the following criteria be highlighted, along with others, and each criteria should be clearly indicated in this section of the document, along with a relative weighting to indicate its importance:

    (1) magnitude of renewable energy development anticipated;

    (2) minimization of administrative costs;

    (3) maximization of financial contributions from other sources;

    (4) maximization of the cost-effectiveness to the federal government in terms of $/MWh;

    (5) replication potential in other areas or to other consumers; and,

    (6) development of capacity among local renewable energy producers.
- The section entitled "Evaluation of Submissions" provides two criteria that we disagree with. First, it is not transparent. Second, it appears to miss the boat on the key criteria of cost-effectiveness and maximization of power development.
- We are concerned that the geographic diversity criteria may water-down the program benefits, for a program with such limited funds. The program should not attempt to develop renewable energy markets in every region of Canada.

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[1] The is based on a calculations of $25 million divided by 4 years of the program. This equals $6.25 million per year. Then, an assumption was made that approximately half of the money would be dedicated toward "incentives" to develop renewable energy = $3.1 million/year. Then, we assumed an "incentive" level of $10/MWh, which could be toward any number of types of incentives (e.g. rate buydown, investment in parkland, prizes, etc.). This results in 310,000 MWh of annual electricity supplies.

- Similarly, we are concerned about assigning priority to distributors who are working with the federal government to achieve its 20% commitment to purchase renewable energy since this is a limited initiative. We believe that a natural outcome of any renewable energy marketing initiative would be to provide opportunities for federal government purchases. However, that should not be the fundamental driver of the MIP.
- We believe that the Federal Government should select the proposals that offer the best opportunity of maximizing renewable energy development and minimizing administrative costs.

NRCan Contributions and the WPPI

- We believe that there should be eligibility for MIP no matter what federal incentives are being provided to the project, whether that is CRCE, S. 43.1, WPPI, etc.
- Fundamentally, we believe that the WPPI and MIP must work together to build a strong wind marketing capacity in Canada. Therefore, we request that limits on that cooperation be eliminated.
- The MIP and WPPI are trying to achieve different objectives and as such, should be introduced in concert. In this way, they would cover the existing gap in wholesale electricity prices for renewable producers, and also develop the retail side in order to ensure that there is a demand for renewable energy products. The MIP focus should be on supporting the winners and promising projects instead of penalizing them for receiving money under another program.
- The MIP excludes wind electricity by forcing proponents to include WPPI proceeds in the cap on the program (i.e., 25% of eligible costs). There will be an incentive for retailers to consider non-wind alternatives that are not subject to the same cap. However, wind power is the leading source of renewable energy marketing programs in Canada today. Of the 4 established programs – ENMAX, EPCOR, Sask Power, and Maritime Electric – all of them include wind generation, and three of them are exclusively wind. Wind power is widely regarded as one of the most environmentally benign sources of electricity available.
- The "non-arms length" relationship text is confusing. Are you trying to exclude the participation of vertically integrated utilities that both generate and market electricity who are interested in pursuing wind options?

Qualifying Electrical Energy Generation Sources

- We suggest that the list of generation sources should be primarily from renewables (i.e. zero emissions) and should be expanded to include wave or tidal technology forms.
- Any kind of bio-energy forms, (Gasification, Pyrolysis, Incineration, Esterification, Anaerobic Digestion, Fermentation) must ensure that the emissions are below that of natural gas co-generation.
- Photovoltaic should be for on-grid and distributed generation applications.

Third party certification

- A third-party certification and/or verification should ensure that the source is renewable or emissions are below natural gas co-generation facilities as above. Eligibility should not be limited to one certification program over another.
- Third-party certification should be simple and not add significant cost to the process.

Incremental power requirements

- As specified, a proponent's existing or projected increase of electricity from a renewable energy source would not be considered an eligible project under MIP. This is very difficult to ascertain since project economics would have to be sufficient to be planned.
- The definition of incremental is too narrow and arbitrary. As it stands right now, the definition will cut out some opportunities. "Planned or projected" can easily be defined as "emerging renewable electricity sources". Since the MIP will start and finish in a short time frame, additional mechanisms may be required to actually develop renewable energy facilities and maintain them for the entire project life.
- Several companies have made voluntary commitments to develop renewable energy (i.e., "planned" or "projected" renewable energy), but haven't yet identified specific projects or worked out business arrangements for developing them. The MIP could provide one mechanism for supporting or expanding upon those commitments.
- For example, a utility may have committed to develop or invest a particular budget into renewable energy. The MIP could be used to build upon those existing budgets, while at the same time, expanding the program so that the MIP is resulting in incremental generation of renewable energy.
- A re-definition of the incremental power requirement is needed to ensure that such mechanisms are not excluded.

Maximum Amounts Payable to any Recipient

- We agree with maximum of $5 million per recipient over the term of the program, except in cases where a program is achieving significant results and warrants an expansion with new federal money (above the $25 million budget).

Eligible Expenditures

- If this program is indeed aimed at awareness and education building, then evaluation criteria are needed to better examine the success (or rate) of changing consumer behaviour.
- Some guidelines should be provided to specify how the $5 million could be used. Although we support the notion of flexibility, some guidance in this regard would be appropriate.
- Customer rebates should be explicitly examined as part of the program along with other innovative marketing techniques such as environmental events, prizes, and public recognition for people's participation, among other options. There may be situations where a rebate is the most appropriate means of engaging consumers or to promote the deployment of a particular emerging technology. However the $5 million limit does not go far for a rebate. Thus, an extension of a particularly successful project above $5 million could be appropriate, albeit with new federal money over and above the existing $25 million budget.

Other Comments

- Power marketed through the MIP should ensure that the natural hedge provided by renewables is passed on to the consumer (i.e., power should not be marketed as a premium to fluctuating market prices, but rather as a fixed price).
- Canadian Environmental Assessment Act: Since the WPPI requires assessment under CEAA, will the MIP require the same assessment of generation source? And if a project receives money from both programs, will a single assessment suffice? Who will manage the assessment process?

- Interconnection: Will a separate interconnection be required for any part of a wind farm or generation facility that supplies power to a program that qualifies under MIP?
- We would like to expand the scope of the MIP to include initiatives of non-retailer entities, which support the development of renewable energy through citizen driven initiatives. This could be achieved through citizen-driven cooperatives, environmental non-governmental organizations, or other entities, working in collaboration with an electricity retailer.

Thank you in advance for the opportunity to provide our comments.

Sincerely,

(*Original Signed by)*

Mark S. Rudolph
Clean Air Renewable Eneregy Coalition Consultant Co-ordinator