

## Evaluation of the Government of Canada's Greenhouse Gas Reduction Policies, Prepared for the Climate Change Performance Index 2008

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This evaluation was prepared by the Pembina Institute as input to the Climate Change Performance Index 2008. The index, published by Germanwatch, ranks countries' performance in controlling greenhouse gas (GHG) emissions. It covers 56 countries accounting for over 90% of global energy-related carbon dioxide (CO<sub>2</sub>) emissions. Full information on the index, including countries' rankings, is available at <http://www.germanwatch.org/ccpi.htm>.

This document consists of detailed responses to the standard questionnaire used to compile the national government policy component of the Climate Change Performance Index. Policies are rated as follows:

1= very good      2= good      3= neutral      4= poor      5= very poor

### Summary

Sector	Policy	Rating
Energy production	ecoENERGY for Renewable Power (incentive)	3
	Class 43.1/43.2 accelerated capital cost allowance rates and Canadian Renewable and Conservation Expenses	4
	Regulatory Framework for Air Emissions	5
	Overall	5
Manufacturing and construction	Canadian Industry Program for Energy Conservation (information)	4
	ecoENERGY for Industry (incentives)	3
	Regulatory Framework for Air Emissions	5
	Overall	4
Transport	Renewable fuel content targets and subsidies	3
	Mandatory targets for the automotive industry	4
	Vehicle Efficiency Incentive	3
	Overall	4
Buildings	ecoENERGY Retrofit — Homes (incentive)	3
	Energy Efficiency Regulations	2
	ecoENERGY Retrofit Incentive for Buildings	4
	Overall	4
Kyoto commitments	Chance to reach Kyoto target with current policies	5
International climate diplomacy	Performance at recent UNFCCC <sup>1</sup> conferences	5
	Performance at other recent international conferences	4

<sup>1</sup> United Nations Framework Convention on Climate Change.

## ***I. Energy production***

### **1. Does your country have any national policies and measures for the reduction of CO<sub>2</sub> in the energy sector?**

Yes

### **2. If yes, please list the most important national policies and measures (max three) for the reduction of CO<sub>2</sub> in the energy sector and rate them according to their effectiveness.**

#### **A. ecoENERGY for Renewable Power<sup>2</sup>**

The ecoENERGY for Renewable Power program, announced in January 2007, provides incentive payments of one cent per kilowatt-hour (kWh) for ten years to low-impact, renewable electricity generation projects (including wind, biomass, low-impact hydro, geothermal, solar photovoltaic and ocean energy) constructed over the next four years (April 1, 2007 to March 31, 2011). This initiative replaces the Wind Power Production Incentive (WPPI), originally announced in the 2001 federal Budget, which provided incentive payments for ten years to wind power generation facilities, and the similar Renewable Power Production Incentive (RPPI), which the previous government did not have time to implement.

The ecoENERGY for Renewable Power incentive is expected to encourage the production of 14.3 terawatt-hours of new electricity from renewable energy sources. Projects are receiving the incentive on a “first in construction, first served” basis, up to a total budget amount of C\$1.48 billion over 15 years, corresponding to up to 4,000 megawatts of new renewable electricity capacity by 2011.

The previous WPPI/RPPI and now the ecoENERGY for Renewable Power programs are an important factor in growing the low-impact renewable energy sector. However, the current program’s objective is quite modest given Canada’s vast renewable energy potential and the need for a massive scale-up of efforts to reduce GHG emissions.

Rate: 3 (good program but insufficient scale)

#### **B. Class 43.1/43.2 accelerated capital cost allowance rates and Canadian Renewable and Conservation Expenses**

The Class 43.1 accelerated capital cost allowance rate and Canadian Renewable and Conservation Expenses (CRCE) were introduced in the 1996 federal Budget to promote energy efficiency and small- to medium-scale renewable energy. Class 43.1 in Schedule II of the Income Tax Act allows taxpayers an accelerated write-off at up to 30% per year of equipment generating electricity from wind, small hydro, biomass, solar PV, geothermal and certain cogeneration systems. The 2005 federal Budget created a new Class 43.2 with an increased capital cost allowance rate of 50% for the full range of renewable energy generation equipment included in Class 43.1. The 2006 federal Budget expanded the scope of cogeneration systems included in Class 43.1/43.2.

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<sup>2</sup> The information presented in this document is mostly drawn from federal government publications. Information sources can be provided by the authors on request.

CRCE is a category of 100% tax-deductible expenditures associated with the start-up of projects for which at least 50% of the capital costs of the property would be described in Class 43.1. Expenses eligible under CRCE include, for example, service connection costs incurred to transmit power from the project to the electric utility and test wind turbines.

A number of small hydro facilities have been made economically viable by the Class 43.1 accelerated capital cost allowance rate alone, but Class 43.1 and CRCE do not appear, on their own, to have resulted in the installation of any other kinds of green power facilities. The effects of Class 43.2 have not yet been assessed, but they are unlikely to be dramatically different from those of Class 43.1.

Rate: 4 (incentives appear too weak to be effective on a large scale)

### **C. Regulatory Framework for Air Emissions**

In April 2007, the federal government announced a Regulatory Framework for Air Emissions containing the latest in a series of federal commitments to regulate GHG emissions from heavy industry (including energy producers) dating back to November 2002. The Framework proposes increasingly stringent regulated targets for heavy industry sectors, beginning in 2010 and extending to 2020. In theory the Framework will result in heavy industry emissions falling to 18% below the 2006 level in 2020 (this is still 12% above the 1990 level). In reality, its effect on emissions cannot be known with any certainty, because (i) its targets are expressed in terms of emissions intensity, not actual emissions; (ii) we do not yet know how targets will be defined for new facilities; (iii) “fixed process emissions” are exempted but have not been fully defined; and (iv) some of the “compliance options” that companies can use to meet targets (notably, payments into a Technology Fund) will not result in immediate emission reductions, and some may not result in any real emission reductions at all. The “backloading” of actual reductions towards the end of the period up to 2020 reduces environmental benefits and diminishes the likelihood of emissions actually being reduced in 2020 to the extent claimed, given that the Framework will be subject to a review in 2012. The Framework treats the oil and gas sector leniently in several respects relative to other industry sectors.

Rate: 5 (late implementation, weakness of targets, and many actual and potential loopholes)

### **3. Considering its current emission reduction (or limitation) requirements on the one side, and its potential to reduce emissions on the other, how do you rate the current national climate policy of your country in the energy sector?**

Rate: 5 (**very poor**; assessment dominated by inadequacy of proposed Regulatory Framework, especially in light of increases in energy producers’ emissions)

### **4. Please give an additional comment:**

The projected rapid development of Alberta’s oil sands over the next several years is set to add tens of megatonnes (Mt) to Canada’s annual GHG emissions. But the government has not yet responded to the federal Commissioner for Environment and Sustainable Development’s call, in her 2006 report, for the government to “clearly state how it intends to reconcile the need to reduce greenhouse gas emissions against expected growth in the oil and gas sector”.

## ***II. Manufacturing and construction***

### **1. Does your country have any national policies and measures for the reduction of CO<sub>2</sub> in the manufacturing and construction sector?**

Yes

### **2. If yes, please list the most important national policies and measures (max three) for the reduction of CO<sub>2</sub> in the manufacturing and construction sector and rate them according to their effectiveness.**

#### **A. Canadian Industry Program for Energy Conservation**

In 1975, the federal government launched the Canadian Industry Program for Energy Conservation (CIPEC), a voluntary partnership with industry to improve Canada's industrial energy efficiency. The program provided several tools to improve energy efficiency such as incentives for industrial energy audits, energy management workshops, and access to a knowledge-sharing and learning network for industrial energy management practitioners. The program was eventually extended to all sectors, including mining, manufacturing, construction, as well as electricity and oil and gas. However, according to the 2006 Report of the Commissioner of the Environment and Sustainable Development, total reductions in annual emissions by March 2006 as a result of CIPEC were only 1.3 Mt CO<sub>2</sub>e.

In January 2007, the federal government announced a C\$20 million (over four years) ecoENERGY for Industry program, to be delivered through CIPEC, with the aim of accelerating energy-saving investments by industry. The ecoENERGY for Industry budget includes two new financial incentives: the ecoENERGY Retrofit Incentive for Industry and the ecoENERGY Assessment Incentive for Industry (see following item).

Rate: 4 (helpful provision of information but very modest emission reductions)

#### **B. ecoENERGY for Industry: ecoENERGY Retrofit Incentive for Industry and ecoENERGY Assessment Incentive for Industry**

The ecoENERGY Industry program was announced in January 2007 with C\$20 million of funding over four years. It includes the ecoENERGY Retrofit Incentive, providing up to 25% of project costs to a maximum of C\$50,000 per application and C\$250,000 per corporate entity to help small- and medium-sized industrial facilities implement energy-saving projects. To be eligible for funding, a retrofit project must involve capital expenditures that modifies or upgrades an existing industrial building, equipment/systems or process, and have a net payback period of more than one year. Industrial facilities that are in a sector to be regulated under the Regulatory Framework for Air Emissions are not eligible for assistance.

The ecoENERGY Industry program also includes the ecoENERGY Assessment Incentive, which provides up to 50% of audit costs to a maximum of C\$50,000 to help industrial companies identify energy-saving opportunities in a large or moderately complex industrial process.

Rate: 3 (good program but insufficient scale)











