

Carrots and Sticks

OTTAWA'S APPROACH TO INDUCING INVESTMENTS
IN DECARBONIZATION



Canada's Premier Public Affairs Firm

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Since our founding in 1998, we have proudly remained Canadian-owned and independently operated. With offices in Toronto and Ottawa and a network of accomplished affiliates nationwide, Sussex possesses unparalleled knowledge of government affairs, strategic communications, and digital advocacy to help achieve your business goals.



Sussex's Capabilities

GOVERNMENT RELATIONS

Our dedicated team has an in-depth experience and knowledge base from which to address virtually every type of municipal, provincial or federal issue.

STRATEGIC COMMUNICATIONS

We have been providing strategic advice and execution for clients in sectors including healthcare, energy, financial services, not-for-profit and more.

DIGITAL ADVOCACY

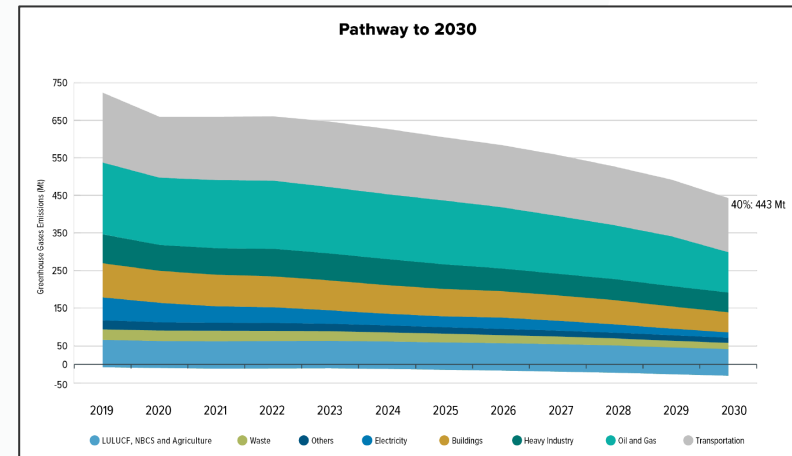
Sussex Strategy Group has experience running digital advocacy campaigns along with our digital campaign partner, Adrenaline Digital.



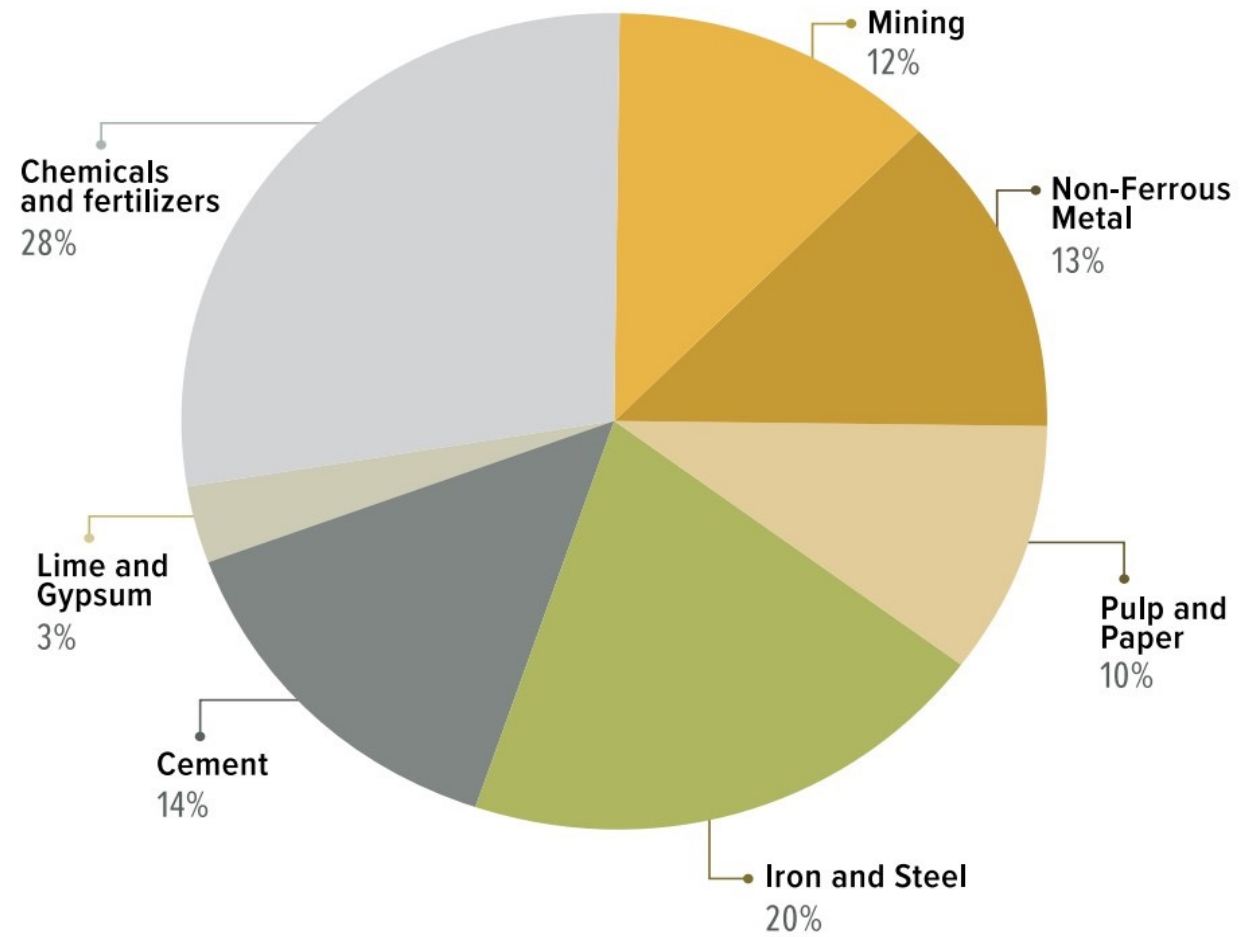
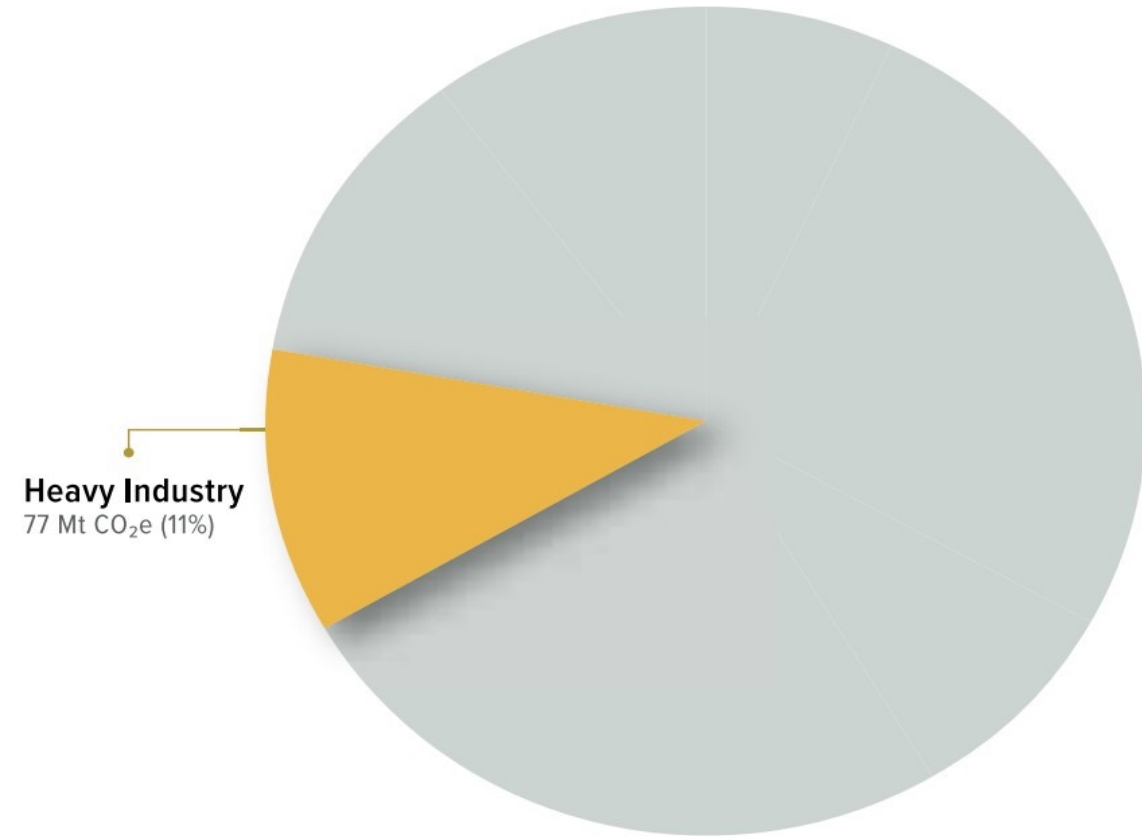
**Legislative and
Regulatory “Sticks”**

Federal Energy & Environment Policy

- Canada is committed to reducing emissions by 40 to 45% by 2030 and achieving carbon neutrality by 2050.
- After a busy summer which included a number of consultations, including on the draft Clean Electricity Regulation (CER) and the draft Clean Tech ITC legislation, focus this fall has centered on:
 - Negotiations with provinces regarding the CER
 - Preparing for the tabling of clean technology ITC and CCUS ITC legislation and the release of draft legislation of clean hydrogen and clean technology manufacturing ITCs
 - Budget 2024 considerations including biomass under ITC regimes and consideration of intra-provincial transmission
 - Design of the Smart Renewable Electrification Pathways Program 2.0 and other funding mechanisms including the Canada Growth Fund



Heavy Industry Emissions Profile



Policy “Sticks”



Key regulatory instruments include:

- Output Based Pricing System
- Clean Fuel Standard
- Clean Electricity Regulation
- Methane Regulations
- Oil & Gas Emissions Cap
- Impact Assessment Act

Clean Electricity Regulations

- Draft Federal Clean Electricity Regulations were formally published in Canada Gazette 1 (CG1) on August 19, 2023. The proposed Regulations are targeted to come into force on January 1, 2025.
- The Regulations would establish an emissions performance standard designed to reduce greenhouse gas emissions from electricity generating units beginning in 2035.
- Their objective is to achieve a significant transformation of the electricity generation sector in Canada by 2035 to support the Federal Government commitments to a net-zero grid by 2035 and net-zero greenhouse gas emissions across the economy by 2050.
- The formal publication of the Regulations kicked off a formal 75-day consultation period (comments due November 2nd).



The CER sets a technology-neutral, achievable emissions standard

- The performance standard will only apply to a unit with **net exports greater than 0 GWh to a NERC-regulated electricity system** during a given calendar year
- In any given year, a unit that falls within the scope of the regulation must produce electricity that meets a **30 tonnes CO₂ per gigawatt hour-gross (30 t/GWh) emissions standard** on an annual average basis
- CER comes into force **January 1, 2025**

Scope of Regulation

A unit falls within the scope of the regulation if:

- 1 It is connected to an electricity system that is subject to NERC standards
- 2 It has a capacity of **≥ 25 megawatts**
- 3 It burns any amount of **fossil fuel to generate electricity**

Units that meet all 3 criteria are covered under the proposed CER

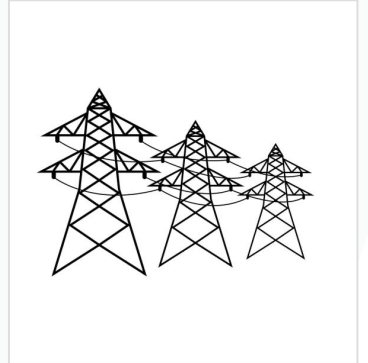
Units must register with ECCC by December 31st, 2023, or within 60 days of its commissioning date. It must then provide annual reports starting in 2035.

The Clean Electricity Regulations helps lay the groundwork for a net-zero economy

- A **net-zero emissions** electricity grid by 2035 is foundational for Canada to create green energy solutions across the economy.
- Access to **reliable** and **affordable** clean electricity for transportation, industrial activities and heating buildings is key to achieving a net-zero emission economy by 2050.

CER - Penalties for Non-Compliance / Units Not Covered

- The proposed Regulations are being promulgated under the Canadian Environmental Protection Act (CEPA).
- The draft regulations do not identify the use of greenhouse gas offsets as a potential compliance mechanism in the event of non-compliance with the requirements of the Regulation.
- The following electricity generating units are not covered by the regulation:
 1. Facilities not connected to a NERC-regulated grid such as those found in many remote Indigenous communities.
 2. Behind the fence electricity generating units that do not export to a NERC-regulated grid. The RIAS found that including covering all such facilities under the regulation would result in significant additional emission reductions but would also generate unacceptable costs.



CER – RIAS Highlights

- The RIAS reviewed the potential impacts of the CER in a scenario where electricity demand in 2050 was 1.4 times larger than today. Some of the key findings:
 1. The total incremental costs associated with implementation of the regs would be \$73.6 billion (baseline cost of \$400 billion).
 2. The total incremental savings associated with the regulation would be \$105.5 billion, which includes cost savings from reduced fossil fuel use and greenhouse gas emissions reductions as determined through use of a social cost of carbon.
 3. The result is a calculated net benefit to society of \$28.9 billion.
 4. National average residential electricity rates would be 0.26 cents/kwh higher in 2050 (0.89% increase) and national average annual residential electricity bills would be \$19 to \$33 higher per household in 2050 relative to the baseline scenario.
 - Important note: The national average figures do not reflect the variation in impacts by province. Impacts are higher than the national average in provinces reliant on fossil fuels for electricity generation (i.e., Alberta, Saskatchewan, Nova Scotia and New Brunswick).
 - The “Powering Canada Forward” vision recently released by NRCan notes that the Canadian Climate Institute found that average household spending on energy will decrease by 12% by 2050 even though electricity costs will increase.



CER – Points of Negotiation

- Canada has positioned the draft CER as the opening negotiation with provinces and stakeholders, indicating an openness to adjust the Regulation if necessary to ensure viability.
- The regulation itself is very simple in terms of design, but with very complex and potentially big implications for the sector and electricity users as it sets out a clear end date for wide-scale use of emitting electricity generating units.
- Key areas of negotiation include:
 - Setting an appropriate net-zero target date
 - Defining end of useful life for assets
 - Determining if 30t/GWh is appropriate/attainable
 - Determining if 450 hours for peakers is sufficient
 - Confirming the exclusion of behind-the-fence CHP that does not export to the grid
 - Defining emergency must-run parameters

**No one
wants
blackouts
in -30°.**

Ottawa's proposed regulations will make electricity unreliable.

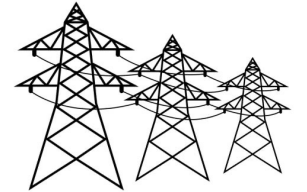
Tell the Feds.

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Alberta

Other “Sticks” of Note

- Oil & Gas Emission Cap
 - Either a cap and trade system or modifying the OBPS to provide further price-driven limits on emissions.
 - Draft expected by the end of the year.
- Impact Assessment Act
 - On October 13th Canada’s Supreme Court of Canada ruled that the Act is partially unconstitutional. Split decision, 5-2.
 - Too much oversight of projects that clearly fall within provincial jurisdiction: “intrudes more than incidentally into the province’s sphere.”
 - Reference case – ruling does not “strike down” the Act.
 - The Government of Canada must now modify the Act to bring it into constitutional compliance.
 - Implications for CER and the oil & gas cap?





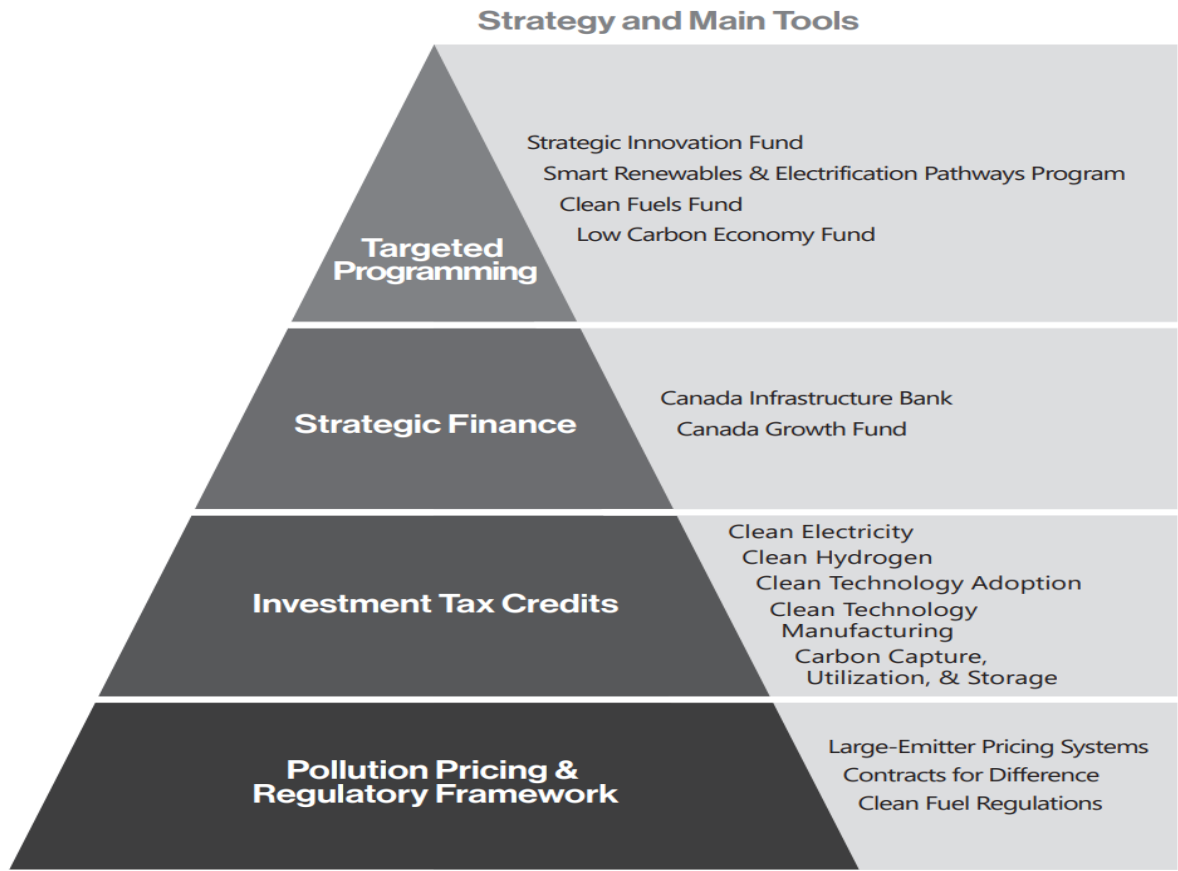
Funding Incentive “Carrots”

Funding Mechanisms



Priorities

- Electrification;
- Clean Energy;
- Clean Manufacturing;
- Emissions Reduction;
- Critical Minerals;
- Infrastructure;
- Electric Vehicles & Batteries; and,
- Major Projects



Investment Tax Credits

- A series of Investment Tax Credits (ITCs) are moving through the system including for clean technology, CCUS, clean hydrogen, clean electricity and clean tech manufacturing.
- Expecting Clean Tech and CCUS legislation to be tabled in the House of Commons in November.
- Expecting draft legislation for Clean Hydrogen and Clean Tech Manufacturing to be released before Christmas.
- Clean Electricity ITC draft legislation to follow next year.
- Big issues include:
 - Inclusion of various technology types
 - Treatment of project partnerships with non-taxed entities
 - Labour requirement details (prevailing wages and apprenticeship requirements)
 - Reciprocal treatment for Canadian content (comments due November 17th)

Other Programs of Note

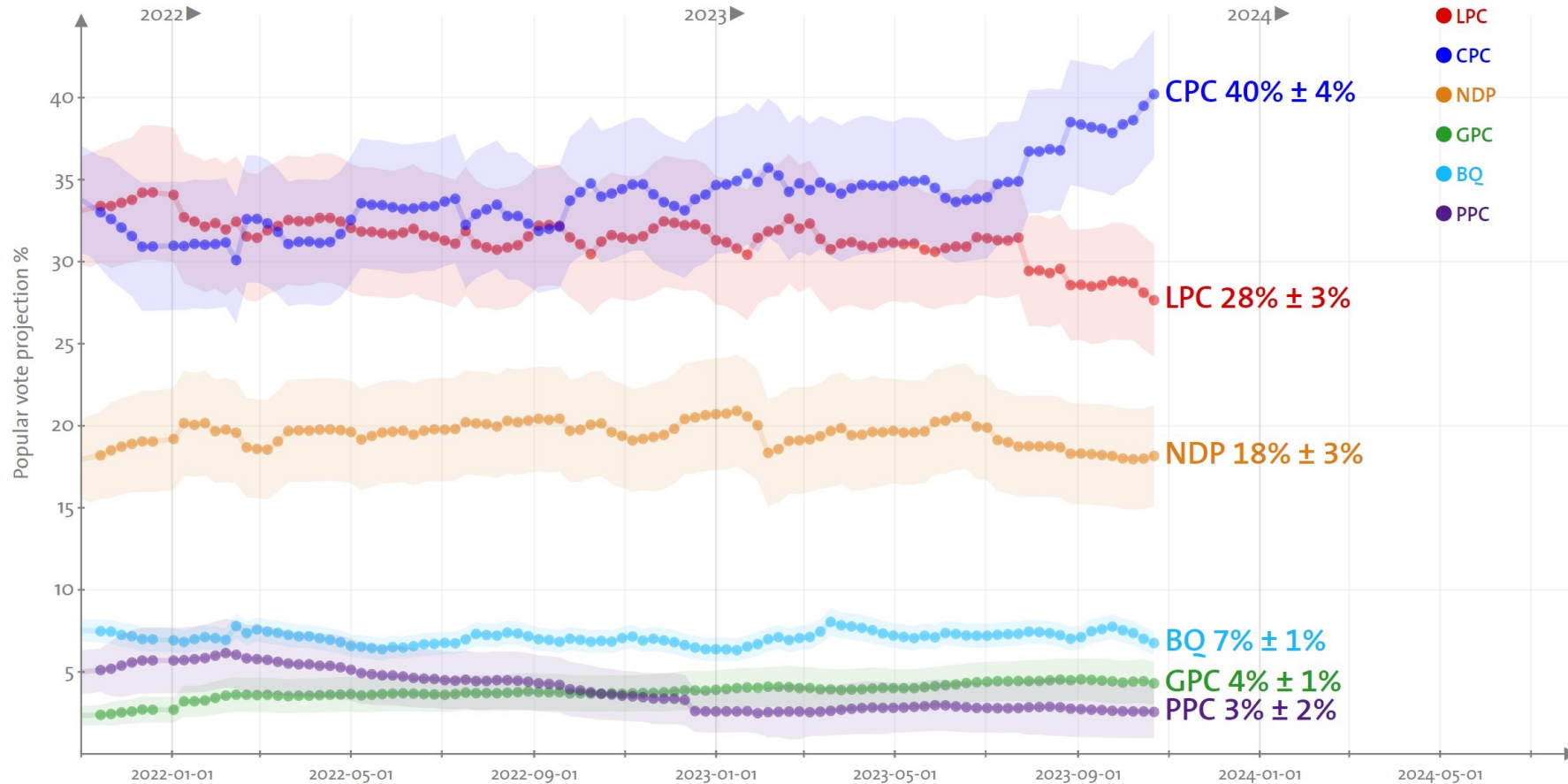
- Canada Growth Fund
 - Overseen by Finance Canada and the Canada Development Investment Corporation (CDEV)
 - Investments managed by the Public Sector Pension Investment Board
 - Targeting supports for specific projects (e.g. offtake arrangements)
 - Carbon contracts for difference is a major focus
- Strategic Innovation Fund – Net-Zero Accelerator
 - Multi-billion dollar funding stream for industrial decarbonization
- Smart Renewables and Electrifications Pathways Program (SREPS 2.0)
- Low Carbon Economy Fund
- Canada Infrastructure Bank



Policy Predictability and Stability

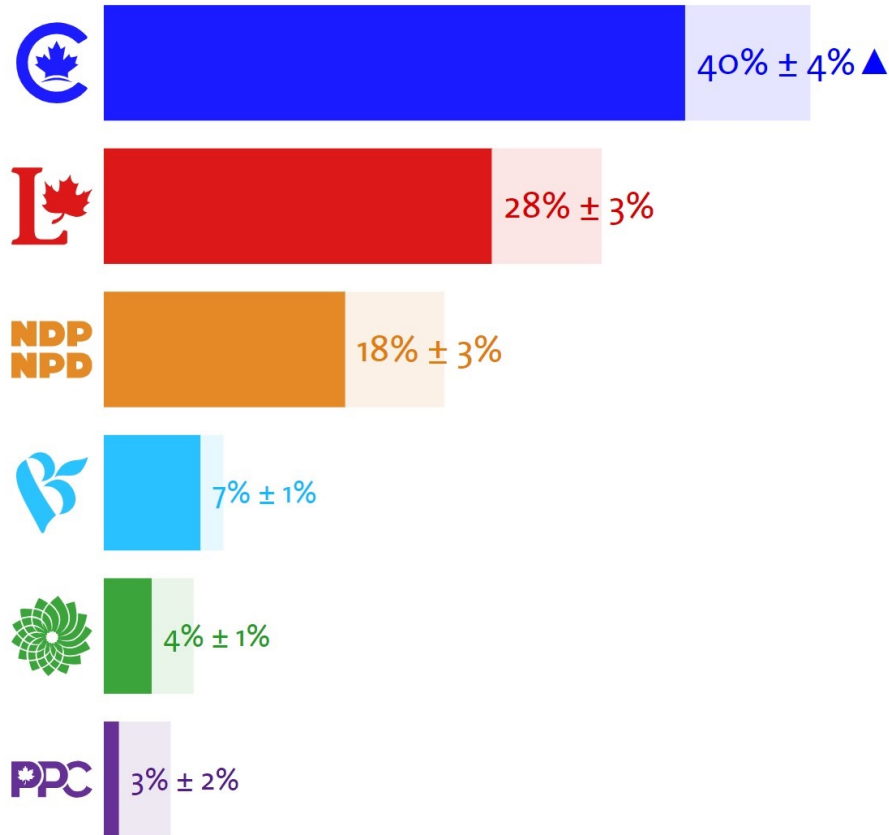
The Winds of Change

338Canada popular vote projection

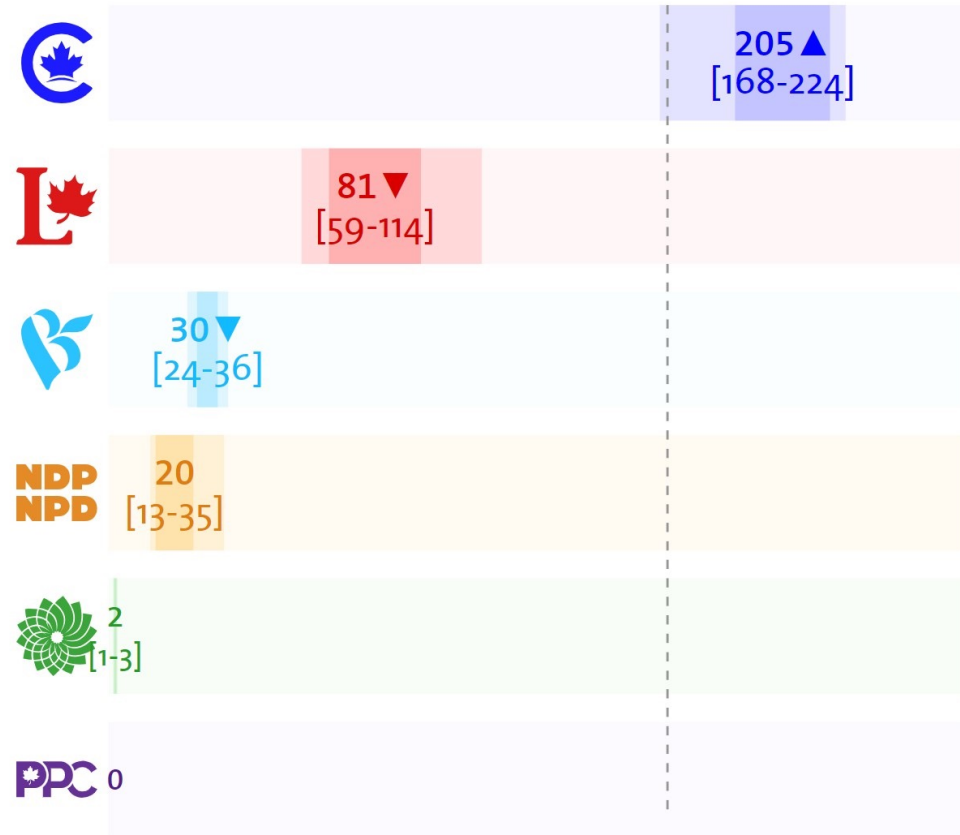


The Winds of Change

Popular vote projection



338Canada seat projection | 170 seats for a majority



338Canada Popular vote projection | October 22, 2023

338Canada seat projection | October 22, 2023

Prognostications

- The Liberal/NDP Supply and Confidence Agreement holds until late-2024 or well into 2025
- A Poilievre government:
 - Maintains the OBPS
 - “Axes” the consumer carbon price
 - Substantially revamps the Impact Assessment Act
 - Keeps ITCs but streamlines eligibility to make them technology agnostic and focused on outcomes
 - Takes a hard look at the Clean Electricity Regulation
 - Focusses on technology development and deployment, including internationally
 - Works to meet industry where it’s at

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