



August 5, 2016

Dear Members of the Federal Standing Committee on Finance,

**RE: Canadian Solar and Wind Energy Industries' priorities for the Federal Budget 2017**

The Canadian Wind Energy Association (CanWEA) and the Canadian Solar Industries Association (CanSIA) (referred to throughout this document as “we”) are pleased to take this opportunity to offer this executive summary of our recommendations to the Federal Standing Committee on Finance with respect to the 2017 pre-budgetary consultations.

The Federal Government has stated that Canada will work to reduce its GHG emissions by a minimum of 30% from 2005 levels by 2030. This is an ambitious target, but it is consistent with the level of initial effort required to meet the Paris Agreement commitment to hold the increase in average global temperatures to no more than 2 degrees from pre-industrial levels. Ultimately, significant additional action will be required as reflected in the commitment by some jurisdictions (e.g., Ontario) to reduce GHG emissions by 80% from baseline levels by 2050.

Numerous analyses (e.g., UN Deep Decarbonization Project, Trottier Energy Futures Project) have demonstrated that GHG emission reductions of this scale can only be achieved through the decarbonization of the electricity system and the subsequent use of that electricity to replace fossil fuels across a wide variety of end uses, including transportation, buildings and industrial processes. Solar heating and cooling technologies can also play an important role in reducing emissions from buildings and industrial processes.

Accordingly, we believe a focus on zero-carbon electricity production, increased electrification and fuel-switching to renewable resources must be at the core of Canada’s climate change strategy and that the Federal Government has a great opportunity, through its spending and fiscal measures, to transition Canada towards a low-carbon economy while ensuring that Canadians benefit from new jobs, economic diversification and a cleaner environment.

CanSIA and CanWEA's full set of recommendations to the Federal Government's Pan-Canadian Climate Change Framework consultation may be viewed by visiting the Ministry of Environment and Climate Change's "Let's Talk Climate Action" website<sup>1</sup>.

This transition to a low-carbon economy will require significant investment in renewable energy projects<sup>2</sup>. The amount of investment needed outweighs the available public funds and for this reason, it is critical that public policy seeks to leverage private sector investment to its maximum potential.

In order to attract the investment of private capital in renewable energy projects in Canada, CanSIA and CanWEA recommend that federal fiscal measures are introduced with the goals of:

1. Pricing Carbon to level the playing-field between low-carbon and emissions intensive energy resources;
2. Improving the investment case for low-carbon infrastructure by increasing returns and reducing the cost of capital;
3. Broadening the investor base to deepen the capital pool and to enable broader participation across society; and
4. Enhancing existing measures to maximize their impact.

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<sup>1</sup> [http://letstalkclimateaction.ca/index.php?option=com\\_publicideamodule&view=detail&layout=1page&lang=en&idea\\_id=2335#improv\\_6760](http://letstalkclimateaction.ca/index.php?option=com_publicideamodule&view=detail&layout=1page&lang=en&idea_id=2335#improv_6760)

<sup>2</sup> For the purpose of this submission, "renewable energy projects" are those that use the specified clean energy generation and energy conservation equipment that meet the requirements of Classes 43.1 and 43.2 of Schedule II to the Income Tax Regulations (the "Regulations"). These projects can be at the residential, commercial, community and utility-scales and generate electricity or thermal energy for heating or cooling.

## 1. Pricing Carbon to level the playing-field between low-carbon and emissions intensive energy resources

We believe that carbon should be priced in every Canadian province and territory. Carbon pricing is widely considered to be the most economically efficient policy to ensure economy-wide GHG emission reductions. A meaningful carbon price will help “level the playing field” between energy options that emit GHGs and those that do not.

We recommend that the Federal Government lead and convene the provinces and territories to ensure that by no later than 2020, each has: implemented a meaningful price on carbon; committed to a long-term transparent schedule of increases in the carbon price or strengthening of the regulatory frameworks that determine the price; and allocated a minimum percentage of revenues collected to be invested in GHG reducing initiatives while striving for significant revenue neutrality such that budgets are not balanced on the basis of carbon price income. including renewable energy projects (i.e. wind and solar energy) and projects that enable higher penetrations of renewable energy projects (i.e. grid modernization, smart-grid and storage).

Carbon pricing is a fundamental cornerstone of any climate change policy, but we are unaware of any jurisdiction that has used carbon pricing as the primary tool to enable the deployment of increased renewable energy. As a result, additional measures are required.

Renewable energy projects are capital intensive projects that require long- term financing. Currently, private financing is available for projects ( “Bankable Projects”) which have: (i) revenue certainty (a fixed, long-term stream of income from a creditworthy off-taker (evidenced by a fixed price contract with such off-taker), which supports the operating demands of the project as well as the principal and interest payments on the debt), (ii) proven and supported technologies (operating histories with developed performance curves, vendor performance guarantees and known maintenance costs) and (iii) a minimum “bite size” of \$10,000,000 (to address the lenders’ opportunity cost of performing the due diligence on the project, structuring the debt and other transaction costs).

Unfortunately, from a national perspective, many renewable energy projects which would otherwise support the greenhouse gas emission reduction and clean energy initiatives of the pan-Canadian Climate Change Framework either do not meet one or more of criteria (i) – (iii) above and, therefore, do not attract lenders willing to provide the leverage for long- term investment or only attract lenders willing to lend at high interest rates which, despite the significant leverage (80-90%) on most renewable energy projects, eliminate any reasonable return on equity to the project’s sponsor (“Unbankable Projects”).

For instance, this is especially the case for projects that are too small relative to transaction and diligence costs (e.g. residential, commercial and community-scale) or where long-term fixed price contracts may not be available (e.g. energy efficiency, solar heating and cooling and energy storage). Unbankable Projects, therefore, are subject to a “financing gap” which acts to prevent sponsors from pursuing these projects and, in turn, from fulfilling the public good aspects of the pan-Canadian Framework on Clean Growth and Climate Change.

Even with respect to bankable projects, however, it is important to recognize that these projects must compete for support from capital markets. Federal tax policies that improve the investment case for low carbon infrastructure by increasing returns and reducing the cost of capital enhance the capability of Canadian renewable energy projects to compete for capital with investments in other jurisdictions (e.g., the United States) or other energy sectors.

CanSIA and CanWEA recommend that the Federal Government introduce the following measures to achieve the aforementioned goals:

2. **Improving the investment case for low-carbon infrastructure by increasing returns and reducing the cost of capital**
  - a. Individual tax-payers who invest in the solar assets included in Class 43.2 should benefit from a refundable 30% federal Tax Credit (ITC) that applies to all residential renewable energy projects that commence construction before 2026. Corporate tax-payers who invest in the renewable energy assets included in Class 43.2 should also benefit from a 30% federal Investment Tax Credit (ITC) for all projects that commence construction before 2026. This measure is particularly important to enhance the competitiveness of renewable energy investments in Canada given existing investment and production tax credits in the United States designed to stimulate renewable energy investment. The United States has had an investment tax credit (“ITC”) in place since 2006 for residential and commercial solar energy, which has since been expanded to include a wide variety of renewable energy systems (e.g., wind, geothermal, etc.). Since the introduction of this renewable energy ITC, more than 170,000 jobs have been created and \$66 billion has been invested in renewable energy projects in the US. The US Production Tax Credit for Wind Energy was recently extended for five years and has a current value of 2.3 cents / kWh. These US tax policies create a competitive disadvantage for Canada as a destination for renewable energy investment in North America and for Canadian renewable energy producers attempting to break into the US energy market.
  - b. Investors who invest in flow-through shares should benefit from a 20% federal Investment Tax Credit (ITC) for CRCE expenses renounced to them in connection with renewable energy projects. The introduction of such a credit would be consistent with the stated aim of the CRCE rules, which is to level the playing field between the renewable and non-renewable energy industries.

### 3. Broadening the investor base to deepen the capital pool and to enable broader participation across society

Renewable energy projects can attract investment from a wide range of investors ranging from individuals, households, communities and the conventional energy sector investors including energy companies and institutional lenders. Existing requirements prevent some investors from benefiting from existing measures that are intended to encourage investment in renewable energy projects. To overcome this, we recommend that:

- a. Corporate tax-payers who invest in the renewable energy assets from Class 43.2 be exempt from the “Specified Energy Property” Rules.
- b. Corporate tax-payers who invest in renewable energy project partnerships be granted a legislative exemption from the application of the tax shelter rules and the rules that prevent the benefit of the tax incentives from being allocated disproportionately between the taxable and tax exempt partners.
- c. Taxpayers who invest in renewable energy project partnerships be exempted from the application of the at-risk rules. In addition, limited partners in renewable energy project partnerships be exempted from the negative ACB rules.
- d. Legislative amendments to permit transferees to claim amounts paid to non-arm’s length parties for qualifying assets as CRCE. And an exception from the rules that deny the deduction of expenses paid with shares or partnership interests be granted for renewable energy project entities.

The Federal Government should also address the “financing gap” for smaller renewable energy projects by:

- e. Creating a support structure or institution (such as a green investment bank or an arm of the proposed Canada Infrastructure Bank, a “Green Institution” ) which could be funded by issuing green bonds (utilizing the Federal Government’s low borrowing costs) in line with the Liberal Party’s platform as described in the New Plan for Canada’s Environment and Economy. Such an institution could then utilize the funds to, amongst other things, support the advancement of smaller renewable energy projects by: i) providing credit support (guarantees, subordinated loans) to projects thereby turning Unbankable Projects into Bankable Projects; and ii) providing

loan financing directly to Unbankable Projects (up to 50% of debt financing for projects beneath a specified threshold i.e. \$10,000,000).


#### 4. Enhance existing measures to maximize their impact

The current capital cost allowance provisions for renewable energy assets under Class 43.2 have been an important support for renewable energy investment in Canada. Unfortunately, these provisions are currently set to expire in 2019, just as we are looking to significantly increase investment in renewable energy in Canada. As a result, in addition to broadening access to this measure as proposed above, we recommend that:

- a. The renewable energy assets from Class 43.2: i) receive an extension to accelerated depreciation to 2025; ii) are exempted from the “Half-Year Rule”; and iii) are depreciated using a 50% Straight Line approach.

We hope that this submission will be of assistance to the Standing Committee on Finance in establishing priorities and measures to recommend for the next budget and we can make available more detailed documentation with respect to each of our proposed measures in response to the interest of Committee Members.

Best regards,



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