

Canadian Natural Gas Initiative

Submission to the Federal Budget Pre-Budget Consultations

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Submitted to:

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We are submitting this letter to the House of Commons Finance Committee on behalf of the Canadian Natural Gas Initiative (CNGI), a national communications, education and policy advocacy initiative dedicated to improving the understanding of the importance of natural gas in Canada's energy system and to encouraging supportive public policy in that regard. CNGI is led by industry associations representing the natural gas value chain in Canada: the Canadian Association of Petroleum Producers, the Canadian Energy Pipeline Association, the Canadian Gas Association, with support from the Canadian Society for Unconventional Gas, and the Canadian Natural Gas Vehicle Alliance. Our initiative demonstrates our commitment to help Canadians not only better understand how important natural gas is today - meeting approximately 30% of Canada's energy needs - but also how important it is for Canada's energy future. Canada's natural gas industry recognizes the need to develop, transport and use natural gas safely, reliably and in an environmentally responsible manner. We are focused on continuous performance improvement and on ensuring that natural gas plays a foundational role in Canada's lower carbon energy future.

As the recently released paper from the Canada West Foundation, *Seismic Shift: The Changing World of Natural Gas*, demonstrates, natural gas has been a key part of the Canadian economy for a long time. The sector has created jobs and generated significant revenue for Canadian industry and governments while providing secure and affordable energy for Canadian consumers across the country. But the industry has undergone fundamental changes in recent years, in large part because of the development of shale gas in both Canada and the US, which is forcing a re-examination of the public policies which have underpinned the industry's development for the last thirty years or more. The Canadian industry and governments alike must adjust to this new world reality.

Canada's natural gas resource is available now, with established transmission systems to move supply from producing regions to energy demand centres. As the *Seismic Shift* paper states, for consumers, "the news could hardly be better." Canada's natural gas is affordable. It is in abundant supply – estimated to meet demand for at least 100 years. It is the cleanest burning fossil fuel, burning 50% cleaner than coal in power generation. It is versatile too. Natural gas has a long and growing list of applications – from power generation, to transportation, to residential and commercial use – all of which will give consumers a wide range of choices in the future and create "the flexibility in the energy systems that will help Canada's economic competitiveness, provide us with an affordable and practical way forward to reduce greenhouse gas emissions" and provide a natural foundation in a progressively cleaner energy mix. Indeed, as our society transitions to greener forms of renewable energy, natural gas provides an ideal flexible base load to partner with and support wind and solar when the wind is not blowing and sun is not shining. Global demand for all forms of energy is growing. To meet this demand, all forms of energy will be needed, renewable and non-renewable alike.

Canada's oil and gas sector is the largest industry in the national economy. The natural gas sector alone is an important source of revenue for both federal and provincial governments and produces over \$29 billion in exports. With sound public policy, Canada's natural gas industry will continue to make a significant contribution well into the future. According to the Canadian Energy Research Institute, over the next 25 years and under the right circumstances, the Canadian natural gas sector has the potential to provide:

- 10 million person years in employment across Canada;
- \$1.5 trillion in overall economic activity (or \$58 billion per year);
- \$173 billion in federal tax revenues;
- \$132 billion in provincial tax revenues; and
- \$161 billion in royalties.

With current and future developments in British Columbia, Alberta, Saskatchewan, Quebec, New Brunswick and Nova Scotia, natural gas has the potential to become an even more fully national industry, creating jobs and tax revenue in all regions of the country.

To get there, the federal government must recognize the role that natural gas can play in moving Canada's energy system toward a clean, efficient, low-carbon future. The *Seismic Shift* paper said it well:

"For governments looking for realistic options to reduce carbon and create sustainable energy systems over the long-run, natural gas is the lynchpin. It is one of the most technically feasible and affordable short-term options and the foundation for making long-term options resilient and reliable." (page 35)

This potential should be recognized in policies and public discourse. Canada's natural gas sector is also facing increasing competitiveness and social license challenges, which call for competitive regulatory, fiscal and environmental policies while ensuring that emerging stakeholder concerns are addressed. Regulatory reform is critical to enable growth in the natural gas sector, which in turn supports economic growth and jobs for Canadians. Finally, the federal government should continue to be an active partner in support of the expanded use of natural gas in key markets segments – residential/commercial, power generation and transportation.

Growing energy literacy of Canadians is also an essential element of a long term energy plan for Canada. For informed debate it will be critical to understand the true costs, benefits, implications, timelines and challenges of all energy options. As identified in the Action Plan – Collaborative Approach to Energy resulting from the July 2011 Energy and Mines Ministers Conference, collaboration on increasing energy awareness and literacy must begin, and there is a significant role for the federal government in that undertaking.

From a natural gas value chain perspective, CNGI member associations have addressed in their respective pre-budget submissions each of these policy issues above, with the Canadian Association of Petroleum Producers focusing on the need for a competitive Canadian tax structure that can compete on a level playing field with the United States; the Canadian Energy Pipeline Association focusing its recommendations on regulatory reform; and the Canadian Gas Association, along with the Canadian Natural Gas Vehicle Alliance, highlighting what can be done to drive energy efficiency and technology and innovation that will advance use of this affordable, clean, and reliable source of energy, and what legitimate role there is for government in that exercise.

FISCAL POLICY

For Canadian producers, while our resources are enormous, there is currently only one export market – the United States. Weak continental demand in the face of strong US gas development has led to low commodity prices and a severe drop in Canada's share of the North American market. A systemic disadvantage in the total Canadian tax structure compared to the US exacerbates the Canadian decline in North American market share and directing investment south of the border. And while many Canadian natural gas developments are cost-competitive, they are disadvantaged by remote northern production and distance from the market. A key priority for Canada's natural gas upstream sector is addressing through the fiscal policies the disadvantage in Canada's tax structure compared to the US. In so doing, the industry could stem the decline in North American market share, diversify into new markets, and keep all of Canada supplied with Canadian gas while continuing to generate economic opportunities and fiscal returns to government.

REGULATORY POLICY

As it is for the federal government and Canada's energy ministers, regulatory reform is a top priority for Canada's natural gas value chain. The energy sector is and will likely continue to be Canada's primary economic engine for growth in the future. Enhancing the competitiveness of Canada's natural gas sector through a modern, streamlined and effective regulatory system while protecting the environment will be central to fulfilling the federal government's growth, job creation and deficit reduction objectives. CNGI maintains that regulatory reform must improve inter- and intra-governmental coordination, provide process timelines to ensure timely, effective regulatory decisions, while striking the necessary balance between economic and environmental objectives. Aboriginal consultation, while distinct from regulatory reform, must also be addressed in tandem with any overarching regulatory reform effort. We believe that Canada's aboriginal people are important partners in many resource projects in Canada. Making progress on these issues is critical to Canada's growth and prosperity.

INCREASING DEMAND FOR NATURAL GAS IN CANADA

Very often energy discussions focus on supply only – neglecting the fact that the other half of the system – demand – is equally important. Demand for energy by energy customers – Canadians in their homes and businesses every day across the country, and other energy consumers around the world is what sustains the development of our energy supplies. Natural gas is particularly well-suited to meet energy demands in Canada. Looking forward, natural gas and natural gas utilities can contribute to smarter energy use, to more innovative applications of energy technology in Canada, and to help keep the Canadian economy strong.

CNGI has focused its efforts on power generation, transportation and residential/commercial use when it comes to the role of natural gas in Canada's energy future. Indeed, federal policies have recognized the attributes of natural gas in power generation as the clean energy standard for future power generation. The federal government continues to support energy efficiency and technology innovation, as witnessed by its ongoing support for a range of energy efficiency and technology innovation programs. This support needs to continue, and the industry is intent on finding ways to deliver such programmes more effectively through cooperation with government.

As for natural gas in transportation, the federal government has been supportive through its work on the Natural Gas in Transportation Deployment Roadmap. CNGI would urge the federal government to continue to work with the natural gas vehicle industry in this area. There is a legitimate role for government to engage at the research, development and demonstration phase of natural gas vehicle technology. Our focus has been and continues to be medium and heavy-duty vehicles, but the obstacles require government support, much of which can be implemented at no cost using existing in-kind federal government resources.

Summary of recommendations:

Canadian Association of Petroleum Producers (CAPP)

- To ensure the continued viability of the Canadian natural gas supply as well as support the development of export capability, the federal government is urged to add to the fiscal competitiveness measures implemented in recent years by the provinces.
- CAPP proposes that the federal government allow Canadian natural gas development and completion costs to be deducted for a time-limited 24 months, at a 50% straight-line rate.

Canadian Energy Pipeline Association (CEPA)

- Continue reform of regulatory processes to ensure that our shared objective of environmental protection is achieved through timely, efficient, and predictable processes that allow investment to be made with confidence.
- Focus on efficiency but retain capacity within the Government to move private sector projects ahead through the regulatory process, thus enabling job creation and economic development to the benefit of all Canadians.
- Ensure regulatory capacity and tools are in place in order to safeguard critical infrastructure and communities, thus enabling the significant national economic interests of reliable energy security and trade, as well as safety and environmental protection.

Canadian Gas Association (CGA)

- **Providing energy cost savings solutions to northern and remote communities**
Reducing energy costs and improving environmental performance in northern and remote communities is a priority for the Government of Canada. To help realize that priority, the Government of Canada should work with industry to stimulate northern and remote communities energy initiatives

- **Driving efficiency and innovation across Canada**
The success of a drive for sustainable economic growth turns on the efficient use of inputs and a culture of innovation. This is particularly the case in respect to the energy system – a key component of our overall economic system.

A range of programs exist across governments to do this. CGA believes there is an opportunity to revisit these programs with an eye to having governments and industry work more closely together to better deliver them. In particular, the Government of Canada can:

- i. On innovation, identify ways to cooperate with industry on initiatives like CGA's "Energy Technology and Innovation Canada." ETIC is a venture of CGA member companies to mobilize strategic investment in the demonstration and commercialization of natural gas technologies.
 - ii. On efficiency, cooperate with CGA and other organizations like QUEST¹ who have a particular interest in the better delivery of energy solutions to Canadian consumers across the country.
- **Helping to provide more cost-effective transportation fuelling choice to Canadians**
CGA supports the recommendations being put forth by the Canadian Natural Gas Vehicle Alliance (CNGVA) pre-budget submission. These are noted below.

¹ QUEST stands for Quality Urban Energy Systems of Tomorrow, a recently incorporate not for profit enterprise, dedicated to helping build the integrated community energy systems that will improve community energy efficiency and environmental profiles.

Canadian Natural Gas Vehicle Alliance (CNGVA)

- Natural Resources Canada partner with the natural gas vehicle industry and convene an implementation group to act on the *Roadmap's* recommendations.
- Finance Canada partner with Canada's transportation industries to assess and define an appropriate fiscal measure that encourages sustainable transportation.

A proposed measure should diversify energy use, reduce carbon emissions, and require the use of factory-built vehicles. The measure should be performance-based, technology neutral, targeted, time-limited, and accessible.