CNGVA Federal Pre-Budget Submission

Background

The Canadian Natural Gas Vehicle Alliance (CNGVA) is a the national not-for-profit trade association that advocates for the use of natural gas as a primary transportation fuel providing economic and environmental benefits for Canadians. With 45 corporate members including all of Canada's major natural gas distribution companies as well as leading Canadian natural gas producers and technology providers, the CNGVA represents an aligned private sector perspective seeking to invest to create access for natural gas in the heavy truck and bus, passenger vehicle, marine, and rail transportation sectors.

Recommendation

That the federal government, in order to ensure that Canada remains competitive in the North American market and continues to align with the U.S. on heavy vehicle emissions regulations, act to provide tax and fiscal incentives to stimulate private sector investment in natural gas vehicles and related infrastructure.

New Private Sector Investment Benefits

Extending the current policy of no excise tax on natural gas used as a transportation fuel to 2020 would help create the certainty needed to generate more than $820 million in private sector investments. Assuming a 12% share of new vehicle sales for natural gas by 2020, new investments could include:

- 3 new liquefied natural gas (LNG) production facilities;
- 2 expanded LNG production facilities;
- 28 new truck corridor refueling stations;
- 102 new private fleet refueling stations; and
- 15,000 new heavy compressed natural gas (CNG) and LNG vehicles.

These investments would create access for Canada's abundant natural gas resources to a new market. Transportation demand would increase by 37 billion cubic feet (Bcf), equivalent to the amount of energy needed to heat half a million Canadian homes.

Federal Action Required

An extension of the existing policy of no federal excise tax on natural gas to 2020 is needed. This tax policy guarantee would only apply to natural gas that is used in place of diesel fuel on which excise tax is levied at a rate of $.04/litre. The recommended action will help create the confidence needed among fleet owners to invest in new natural gas trucks. This action will also support related infrastructure investment as detailed above, providing benefits for Canada and for a broad range of stakeholders.

The estimated cost related to foregone excise tax revenue to 2020 is $42 million which equals 1/20th of the $820 million in direct potential private sector investment to 2020.

Increased Canadian Competitiveness

With an estimated 70% of Canada's exports going to the U.S. market, Canada's competitive position in the North American market relies, in part, on integrated infrastructure for the movement of commercial goods by truck, by ship or by rail. A new network of more than 150 natural gas truck corridor refueling stations is being built in the U.S. which will reduce fuel costs and improve the competitive position of American trucking fleets. By comparison, Canadian trucking fleets have only limited access to natural gas with nine natural gas refueling stations built to date. Stimulating private sector investments in new natural gas refueling infrastructure is important to ensure Canada's ongoing competitiveness in the integrated North American market for goods movement.

Another benefit of extending the current policy of no excise tax on natural gas to 2020 is the ability to ensure continued alignment with the U.S. on heavy vehicle emissions regulations. Harmonized regulations are a priority of the Government of Canada as they ensure there is a level playing field between Canada and the U.S. It is not yet known what the requirements of the next phase of the heavy vehicle regulations will be. Given the greenhouse gas (GHG)-focus of these regulations, the ability for natural gas vehicles to reduce GHG emissions by up to 20%, and plans for a nationwide network of natural gas refueling stations in the U.S., there is a possibility that U.S. EPA could incorporate a natural gas factor into the next phase of the heavy vehicle regulations. If this happens, Canada would be at a disadvantage without its own network of natural gas refueling stations. This situation could introduce a regulatory harmonization risk. According to the Canadian Trucking Alliance,

> *"This existence of this US network will no doubt create environmental regulatory advantages for the US over Canada regarding post 2018 heavy truck GHG regulations. These advantages could create competitive issues between the US and Canadian trucking markets."*

Stephen Laskowski, Senior Vice President
Canadian Trucking Alliance

Prosperous Canadian Communities

Encouraging private sector investments in natural gas for transportation infrastructure can also provide benefits to Canadian communities. In the past two years, 15 new natural gas refueling stations have been built in five different provinces for return-to-base urban fleets including transit bus and refuse truck fleets. Each of these stations has entailed upfront investments exceeding $1 million per station with new community construction projects involving local contractors, local engineering firms, and other local experts who provide approval-related assistance. Once operational, stations require maintenance from local service contractors.

Natural gas vehicle fleets offer environmental benefits for communities. Natural gas trucks and buses are quieter than their diesel counterparts and they have lower levels of greenhouse gas and air pollutant emissions. There is no risk of contaminating groundwater or soil with natural gas. And, once a natural gas refueling station is in place, municipalities and fleets have the option of using renewable natural gas which can be produced from local waste resources, providing even greater environmental benefits.

Jobs for Canadians

Having access to natural gas through a new network of stations, would allow fleets to reduce their fuel costs by at least 25% or $180 million between 2015 and 2020 based on 12% of new trucks and buses being natural gas by 2020. Affordable energy costs are critical for trucking fleets in order to ensure job retention in an industry that operates on small profit margins, and that employs 260,000 Canadians as truck drivers and another 140,000 Canadians in related jobs.

New jobs will also be created in equipment manufacturing, installation, and maintenance as well as in fuel delivery. Canada is already a global leader in the development and manufacture of natural gas vehicle-related equipment. For example:

- Chilliwack, BC-based IMW Industries is one of the world's leading suppliers of natural gas refueling stations;
- Winnipeg, MB-based Kraus Global manufactures fuel dispensers for stations; and
- Vancouver, BC-based companies Westport and Cummins Westport are the North American market leaders in heavy natural gas engine technologies.

There is also potential for job creation associated with new infrastructure installation for natural gas refueling for trucks, buses, cars, trains, and ships, as well as for LNG production and LNG fuel delivery.

Opening up a new market for Canada's abundant natural gas resources would also benefit Canada's natural gas producers. If 12% of trucks and buses sold by 2020 were natural gas, this would create new demand of 37 Bcf. According to the Canadian Energy Research Institute, the estimated number of new direct, indirect, and induced jobs associated with this increase of 37 Bcf would exceed 7,500 new jobs.

Risks of Not Acting

The main risks to Canada of not acting to encourage private sector investment in natural gas for transportation are as follows:

1. Without investment certainty, Canada will <u>lose or slow private sector investments</u> which support federal policy priorities related to North American competitiveness, aligned vehicle regulations, increasing demand for Canada's natural gas resources, emission reductions, and job creation benefits for Canadian communities. To date, an estimated $350 million in private sector investments have been lost in Canada due to the current lack of investment certainty.

2. With no clear federal signal, there is a <u>risk that the provinces will prematurely tax natural gas</u> for transportation at the early adoption stage, creating further drag on private sector investments.

Both of these risks can be addressed by acting now to provide excise tax certainty and, to further accelerate adoption, by providing fiscal incentives that lower the barrier to adoption for fleet end users.

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