



Canadian Electricity Association
Association canadienne de l'électricité

September 25, 2002

The Honourable David Anderson, M.P.
Minister
Environment Canada
10 Wellington Street
Hull, QC K1A 0H3

FAX: 953-0279

The Honourable Herb Dhaliwal, M.P.
Minister
Natural Resources Canada
580 Booth Street, 21st Floor
Ottawa, ON K1A 0E4

FAX: 996-4516

Dear Ministers:

In light of recent announcements with respect to the possible ratification of the Kyoto protocol, I am writing to provide you with an update on the views of the Canadian Electricity Association.

As you know CEA and its members are actively engaged with the federal and provincial governments in the development of an environmentally and economically responsible approach to greenhouse gas management in the electricity sector. We have based our approach on our Emissions Performance Equivalent Standard (EPES) proposal which would establish a set of mutually agreed undertakings between governments and the industry including a contractually binding commitment to meet the specified emissions standard. This is a far-reaching proposal that offers Canada a practical way forward on emissions from electricity. The CEA proposal and the concepts embodied in it have been under active discussion for two years and this work was explicitly acknowledged by Joint Ministers of Energy and Environment at their meeting last May.

CEA has expressed the view throughout the Kyoto debate that it is essential that any approach taken on greenhouse gases from electricity be done in a way that is consistent with our industry's core mission – to provide affordable, reliable supplies of electricity for Canadians while acting responsibly across a wide spectrum of environmental issues. Any such approach needs to respect the diverse regional circumstances in Canada and meet the test set by First Ministers in 1997 of ensuring that no region is asked to bear an unreasonable burden. However, as we stated in our comments on the federal discussion paper released last May and at several of the consultation sessions in June, we are concerned that expectations within the federal government for what might be achieved by electricity are inconsistent with these requirements.

With that in mind, at the initiative of Natural Resources Canada, we have recently met at senior levels with federal officials to review the analysis. Several key areas were identified for more detailed follow-up and the

work is now underway. That work, undertaken expeditiously and in conjunction with the ongoing discussions around the EPES proposal could provide the foundation for a realistic plan on electricity.

We are unsure how the discussions with federal and provincial governments and the more recent analytical work can be reconciled the federal government's recent initiative to develop a plan for emissions management from all industrial sectors. We have agreed to work with the government and other industrial sectors to examine the most recent proposals. However, we are of the view that there remains a considerable gap between our understanding of what is practically achievable in the Kyoto time frame and what is either assumed or explicitly set out in federal documents including those made available as part of the most recent initiative. It would seem that the government is still a considerable distance from having a meaningful and workable overall plan.

A meaningful plan for reducing emissions from electricity will need to be placed in a longer time frame and will require a firm commitment from governments to create and sustain the policy conditions needed to lead to a low emission electricity future. For example, it is clear that there are considerable near and longer-term opportunities for new hydro development but to achieve results in the Kyoto time frame will require significant changes in environmental approval processes. New wind power holds some promise over the next few years and is part of the development plans of most CEA members but it is unrealistic to believe that wind will make a significant contribution until well into the next decade. CEA members are fully committed to investing in new coal technologies including carbon dioxide capture and sequestration and such technologies will likely start to make important contributions by the middle of the next decade. However, this requires a concerted program of government and private investment in R and D and an improved fiscal regime. Over the longer run new nuclear power has the potential to contribute significantly to emissions reduction provided that the right policy conditions are in place.

Together with new power generation options and steady application of efforts on energy efficiency, Canada can slow emissions growth starting now and can reasonably expect to see substantial emissions reductions over the next 20 to 25 years. It is probable that the United States will by then be on a similar track even though it will likely remain outside the Kyoto framework.

The difficulty created by divergent Canadian and US approaches in the near term will be the unbalancing of our competitive circumstances as either producers or consumers of power and in all likelihood, the displacement of Canadian emissions thereby cancelling out any environmental benefit. Very few of the changes needed to move to a low GHG future can be achieved by 2010; the investment needed to secure our long term future should not be needlessly diverted to short term fixes that will leave us competitively disadvantaged and still with no long term solution.

Ultimately, the federal government has to make its own determination as to whether or not to ratify Kyoto and when to do so. However, it is vital that the decision be made with a clear understanding of the emission reduction potentials and risks. With respect to electricity it is apparent to CEA and its members that neither the potential nor the risks are as yet well understood. For these reasons, we caution against a precipitate decision on ratification.

In closing, let me underscore again the electricity industry's firm commitment to work with you and your colleagues in the federal and provincial governments to develop an approach to greenhouse gas management that is effective and sustainable.

Yours sincerely,

CANADIAN ELECTRICITY ASSOCIATION

A handwritten signature in black ink, appearing to read "Hans R. Konow". The signature is fluid and cursive, with a long horizontal stroke at the end.

Hans R. Konow
President and Chief Executive Officer

Copy: Mr. George Anderson, Deputy Minister, Natural Resources Canada
Mr. Alan Nymark, Deputy Minister, Environment Canada