

Comments on the Federal Government's
"Four Options" Paper on Climate Change
From TransAlta Corporation for Calgary Session

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June 14, 2002

Calgary, Alberta

Introduction

We appreciate the efforts of Minister Anderson and his colleagues in bringing forward this paper for public consultation. TransAlta recognizes the public concerns and the need for action on climate change for a carbon constrained future. We have embarked on a comprehensive twenty-five year plan to improve our efficiency, build offset credits, finance renewable generation, and deliver clean coal technology for Canada. Coal is part of the Alberta cost advantage as hydro is for some other provinces. We are hard at work in addressing the environmental challenges and delivering on our goal of no NET GHG emissions from our Canadian operations by 2024, which is way beyond Kyoto. In return we hope we will get cooperation from government in meeting these ambitious goals.

Our Response to the Options Paper

1. Non-Kyoto Option

For a properly balanced discussion and decision on ratification, both Kyoto and non-Kyoto options should be defined, presented, analyzed, and discussed. By only considering Kyoto options, you are predetermining your answer on ratification.

2. The Four Options

We found the first three options carried heavy risks and costs for our company which were unacceptable. While we appreciate the innovative features in Option 4 (emissions intensity and partial grandfathering) this option is still in a very preliminary form and we still have fundamental concerns given the timeframe for Kyoto. We do not oppose further work being done on Option 4 or a modified Option 4 but we doubt it will address our basic concerns.

3. Equity in Burden Sharing

While we appreciate the government's commitment "to equitable sharing of benefits and burdens", we do not believe any of the four options properly addresses this principle. Equitable burden sharing involves three distinct areas.

1. Equitable burden sharing between regions.
2. Between sectors in the economy.
3. Between producers and consumers.

Our reading of the options paper sees partial consideration of the first and no consideration of the second and third areas.

4. The US Role in our Economy

When Canada signed the Kyoto Protocol in 1997, it was assumed that our principal trading partner, the US, would be part of this international regime. By rejecting Kyoto, the Bush Administration allows our US competitors to generate power at less carbon related cost. With the deregulated Alberta market, our company will be at a competitive disadvantage in domestic and export markets. Our economy, prosperity, and jobs are based upon our economic relations with our North American partners; Kyoto is a move away from the logic of the NAFTA trade agreement and involve obligations faced by no other nation in the Americas.

5. Electricity and "Clean Coal"

While we are active in hydro, gas, and renewables, coal is the foundation for our base load generation in Alberta. Coal is part of the Alberta advantage as hydro is for Manitoba or Quebec. In Alberta we have just over 10 years proven supply of conventional light crude and about 20 years for natural gas and 900 years supply for coal. Would we walk away from such an abundant and cost effective fuel source? With our partners in the Canadian Clean Power Coalition (including Natural Resources Canada), we believe that we should be given the opportunity to demonstrate this long term solution which both protects coal and recycles virtually all of the carbon back underground. The new technology would contribute significantly to Canada's emission reduction goals and provide a new hi-tech export for Canada.

6. The Timing of the Application of Clean Coal Technology

We are grateful to see reference on p. 27 to our Clean Coal Technology proposals, but there is a serious misunderstanding on the timing when these technologies will be available for installation in thermal plants across Canada. Your options report assumes that this breakthrough technology will be operational in existing thermal plants during the Kyoto period (2008-2012). While we hope to launch pilot retrofit and Greenfield plants during this period, the full application would be post 2012. However, once we begin this capital stock renewal, electricity would be making a very substantial contribution to Canadian climate change goals.

7. Emissions Trading

If we are to finance our new clean coal technology we must have full, open, market driven international emissions trading system. As Option 1 demonstrates there is a serious misunderstanding between the federal government and industry on the nature and the principles behind emissions trading. The options paper uses the term to include government auction of permits or credits. As this would involve a huge transfer of resources from private sector companies like TransAlta to governments, it is a direct levy or tax (A Carbon Tax!). If TransAlta had to purchase in 2010 government permits equal to 50% of our estimated CO₂ emission at \$10.00 a tonne for that year we would be paying governments a figure equal to our total profits for last year. Also when governments are devising new revenue for themselves, they are hardly disinterested and objective observers in the process. Emissions trading as practiced today is a private sector based, open market mechanism, operating internationally like a stock exchange under overall government supervision to ensure public credibility and accountability.

8. The Kyoto Gap and the Measures to Address It

The whole credibility of the four options report erodes when you begin to analyze the projected gap for 2008-2012 and the numbers which are presented to justify the measures needed to close gap. It is our opinion that the gap is underestimated and the results of the proposed measures overestimated. We believe that meeting Kyoto will be significantly more difficult for Canada and the proposed measures will not deliver the estimated results. We would question in particular the following estimates:

- The 50 MT for Action 2000
- The 24 MT from sinks
- The 38.5 MT and more from the electricity sector
- The 70 MT from Clean Energy Exports.

This constitutes 182.5 of the 240 MT needed to close the gap. We could go into details. Action 2000 is not delivering the predicted results; forest sinks will produce limited carbon credits before 2012; clean coal technology will be applied to existing plants after the Kyoto period; and no foreign country supports re-opening Kyoto to grant Canada clean energy export credits. If these estimates are not accurate, then the whole argument that Canada can meet Kyoto without undue economic dislocation or hardships is no longer credible.

9. The Electricity Sector and Burden Sharing

We believe that the thermal electricity sector is being asked to shoulder an unfair burden in terms of other industrial sectors. First the electricity sector cuts would be largely the responsibility of the thermal sector which is only 20% of the total industry. Secondly the proposed cuts of 38.5 MT is nearly 33% for the sector emissions for 2000 which is higher than any other sector in Canada. Thirdly at a recent meeting in Toronto, the AMG modelers admitted that they assumed coal plants were out under a number of their assumptions. This targeting of electricity is unfair to the thermal generators and the regions that they serve.

10. Competitiveness

Electricity is an industry in its own right, but it is also a key component in the operating costs of many other industries like oil and gas, petrochemicals, manufacturing, etc. Sharp increases in electricity prices in Alberta would have a broad macro-economic impact and weaken the international competitiveness of such products given that their main competitors are not facing Kyoto costs.

11. Transition to Kyoto

In the four options report, there is no provision to cover the transition period to 2008. The sudden imposition of the Kyoto mandatory measures in 2008 will maximize the negative impacts and economic dislocations. To avoid such impacts they need to be implemented gradually, with flexibility to respond to unforeseen circumstances.

12. Post Kyoto Planning (2013-)

Equally important the Kyoto measures have to be put in a longer strategic framework given the time required for technology development so it coincides with the timing of capital stock renewal. In the four options report one would almost think the world comes to an end in 2012. Climate change is a long term phenomenon over the next century and beyond.

Conclusion

The Canadian decision on Kyoto ratification is one of the most economically risky and politically divisive in recent years. Do we race to meet the Kyoto deadline or do we take the time to get it right? In our opinion the four options paper seriously underestimates the costs, the risks, and the consequences of the proposed actions. The numbers are not credible estimates and the allocated burden to thermal

electricity is inequitable. Currently we face the risk of a double tragedy of both disrupting our economy and failing to meet the Kyoto targets. Why does not Canada, as Australia did, turn back from Kyoto ratification until the circumstances are more appropriate with US involvement. Climate Change is a long term phenomenon as is technology change.

With a longer non-Kyoto timeframe we can achieve a number of policy goals in an orderly manner.

- We can plan rationally for the transition to the carbon constrained economy.
- We have the time to develop and deploy new clean coal technology.
- We can achieve in the long term much deeper GHG emission cuts than Kyoto.
- We can work in sync with our economic partners in the US.
- We can preserve Canadian competitiveness.

This seems to us the rational, logical approach which meets both the needs of the Canadian economy and the needs of the Canadian environment.