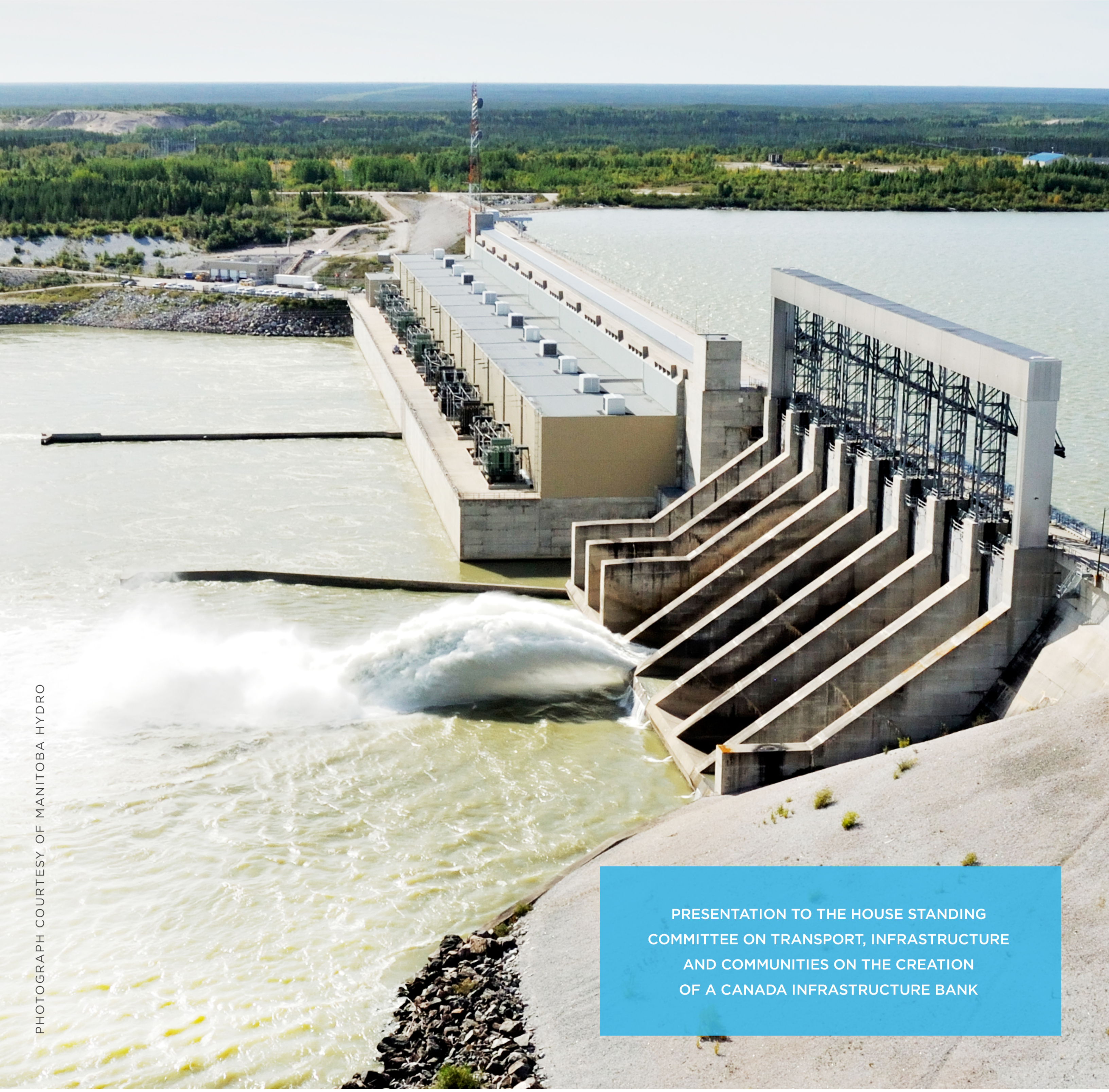
INVESTING TODAY IN THE INFRASTRUCTURE OF TOMORROW



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PRESENTATION TO THE HOUSE STANDING COMMITTEE ON TRANSPORT, INFRASTRUCTURE AND COMMUNITIES ON THE CREATION OF A CANADA INFRASTRUCTURE BANK

Canadian Electricity Association | Association canadienne de l'électricité

SUBMITTED BY HON. SERGIO MARCHI, PRESIDENT AND CHIEF EXECUTIVE OFFICER

CANADIAN ELECTRICITY ASSOCIATION (CEA) | MAY 16, 2017

INTRODUCTION

The Canadian Electricity Association (CEA) thanks the House Committee on Transportation, Infrastructure, and Communities for the invitation to provide our views regarding the establishment of a Canada Infrastructure Bank (CIB). We value this opportunity, and hope that our proposals will be helpful to your deliberations.

Founded in 1891, CEA is the national forum and voice of the electricity business in Canada. The Association contributes to the regional, national and international success of its members through the delivery of quality value-added services.

CEA members generate, transmit and distribute electrical energy to industrial, commercial, residential and institutional customers across Canada every day. Members include integrated electric utilities, independent power producers, transmission and distribution companies, power marketers and the manufacturers and suppliers of materials, technology and services required by the sector.

WE MUST INVEST TODAY IN THE INFRASTRUCTURE OF TOMORROW

CEA supports the creation of the CIB. If well designed and well implemented, it could prove to be a critical enabler of electricity sector investments.

Moreover, across Canada almost every sector and municipality is struggling under the weight of the massive investment programs required to renew, expand and modernize Canada's aging infrastructure, which in turn places upward pressure on rates, tolls, fees and municipal taxes. Canada needs a coordinated federal approach to encouraging, facilitating and de-risking the infrastructure investments Canada so desperately needs.

Now is the time to build Canada's infrastructure for tomorrow. In addition to replacing 'like-for-like' components that are now beyond their expected useful life, Canada has a generational opportunity to build the urban environments, energy networks, transportation systems and ‘anchor projects’, that will spur inclusive economic growth in an increasingly clean, knowledge-based world.

The electricity sector supports this vision. Electricity is indispensable to Canada’s prosperity and our Canadian way of life. Moreover, Canada’s electricity companies are investing nearly $20 billion per year to replace aging assets and to expand the system to meet demand. Indeed, the electricity sector is positioning itself for the future.

Renew Magazine recently reported that seven of Canada’s top ten infrastructure projects (ranked by capital investment) for 2017, are in the electricity sector. The total capital investment of these projects equals $61.5 billion. Of note, all seven are tied to the generation or transmission of clean electricity. For the last decade, at least 3 of the top 5 infrastructure projects annually, have come from our industry.

The electricity sector, however, faces an acute challenge. The current slate of projects is simply not enough. Canada’s electricity systems are approaching the end of their lifecycle. Despite investing at a current pace of about $20 billion per year, our sector must do more to address this reality – which the Conference Board of Canada has estimated to be about $350 billion over twenty years – while keeping electricity rates affordable for businesses and families. And in doing so, we must also enable Canada’s future, including supporting Canada’s 2030 climate targets through sector emissions reductions and the electrification of transportation, buildings and industrial processes.

In this context, we view the CIB as an instrument that can strategically facilitate this level of needed investments.

RECOMMENDATIONS IN SUPPORT OF ESTABLISHING THE CANADA INFRASTRUCTURE BANK.

As referenced above, to replace and modernize aging components of the existing grid and to facilitate the electrification of other sectors, significant capital investment will be required. It is in regards to reducing capital costs and rate pressures that CEA welcomes the establishment of the CIB. We are hopeful that our members will be able to access CIB funding and support mechanisms in a timely and transparent manner.

In this regard, CEA respectfully submits the following recommendations that we believe would usefully guide the successful development and operation of the CIB and its associated programs and activities.

1. The CIB should prioritize projects that align with Canada’s clean energy future

A key objective of the CIB should be to use its various mechanisms to help create an underlying value proposition that supports both equity and debt investments to facilitate capital allocation into transformational projects, grid modernization (smart grid), distributed energy resources, transportation electrification, emissions-free generation and electricity supply for indigenous and remote communities, among others.

The CIB should remain technology neutral, and it should recognize that ‘facts on the ground’ will guide the decisions of which clean energy projects are put forward by proponents. The CIB could allocate specific amounts of its aggregate capital (i.e. earmarked funds), for sectors - like electricity - that align with national clean growth objectives.

In line with this, it is recommended that a more holistic evaluation method be adopted for clean energy projects, one that moves beyond assessing only the economic return on capital.

i. Green infrastructure projects that reduce Canada’s greenhouse gas (GHG) emissions footprint, as well as those that make us more resilient to a changing climate, should be prioritized by the CIB for funding and support.

Pursuant to the Pan-Canadian Framework for Clean Growth and Climate Change, climate change mitigation and adaptation remain key focuses of Canada’s federal, provincial, territorial and municipal governments, as well as the Canadian public.

CEA recommends that projects that result in GHG emissions reductions and/or climate resilience should be prioritized for funding.

CEA stresses the importance of the CIB considering projects on aspects broader than economic return criteria or where some benefit of a project is collateral to others (i.e. the general public) rather than the project proponent. For example, meeting GHG objectives should be considered a positive even though emission reductions may not be easily translated into a return on investment criteria. Regional transmission investments are perhaps one example.

2. **Full and equal consideration should be given to the needs of Crown, Private, Hybrid and Regulated Corporations.**

Public-Private Partnerships (P3s) have repeatedly been signaled as a focus for the CIB. CEA would like to reiterate to the government the importance of considering the varied corporate structures of electricity sector participants, which may be public, private or hybrid entities. Most are also answerable to provincial regulators: independent bodies that set the rates by which capital, operating, maintenance and administrative costs are recovered. This reality must be considered in the funding and de-risking models devised by the CIB.

3. **The Governor in Council should consider reserving a CIB board position for an individual with experience in the electricity sector.**

Given the electricity sector's critical role in the Canadian economy, its infrastructure investment needs, and that the government has repeatedly identified electricity sector projects as being a focus-area of the CIB, CEA urges the government to ensure that an individual with a background in the electricity industry is included on the CIB Board. A CIB Board Member with electricity sector experience will prove crucial in evaluating proposals from our sector.

4. **Equity, debt, direct investments and other de-risking mechanisms all have a place in the CIB 'tool-box'.**

The CIB should remain open to all financing strategies and revenue streams. Each project is unique, and will present different ways in which the CIB can add value or reduce risk.

CEA welcomes the CIB's focus on equity investments and direct investments. Also important is the inclusion of de-risking mechanisms such as loan guarantees, which are sometimes preferable to equity or direct investment because they do not impact the ownership structure of a project and may have less impact on the taxpayer. The CIB should publish guidelines to explain how each mechanism may be used, but should not limit itself to a narrow set of options.

5. Early and ongoing consultation and engagement should be established throughout the CIB development process.

The CIB will require careful attention and oversight, particularly at the front-end of its mandate. The CIB will need a steady, strong hand guiding its development, and would do well to partner with global investment experts with a proven track record of attracting capital.

Equally important will be the need for early and ongoing consultation with stakeholders, including relevant industry players, to gather feedback regarding the effectiveness of the CIB. Advice should be sought on a continuous basis regarding operational and governance improvements, in the spirit of assisting the Bank's further development. In particular:

i. Under Section 8(4) of the CIB Act, CEA encourages the government to create an Advisory Committee, and include representatives from industry.

CEA believes this would be a helpful tool for the designated Minister. Moreover, we believe that this committee would be much more effective if it were to include representatives from industry and the private sector.

ii. Under Section 27(1) of the CIB Act, CEA asks that the government consider a review before the first five-year

threshold.

While an appropriate operational period is necessary for conducting effective reviews, CEA believes that for the *first* review of this new entity, five years is too long. Three years is a more reasonable timeframe.

iii. **Under Section 6 or 7 of the CIB Act, the principle of producing an efficient and transparent application process for projects seeking funding should be codified in the purpose and/or functions of the Bank.**

CEA has repeatedly heard from its members that a common obstacle to obtaining federal funding for projects is application processes that are onerous and unclear, and the inability of proponents to get timely and predictable decisions. CEA asserts that the principle of establishing an efficient and transparent application process should be included in the CIB Act. This would be best incorporated in Sections 6 or 7 of the CIB Act, which codify the purpose and functions of the Bank.

While accountability and transparency must be paramount, project proponents should be ensured timely, accessible, and efficient processes. These priorities are not incompatible. Funds should be readily accessible without unnecessary delays.

6. **The CIB should serve as an advisory body within the federal government for projects that it supports.**

CEA recommends that the CIB serve as the focal point for coordinating and expediting supported projects on an intra-governmental basis. Effectively, projects undertaken by the CIB should be prioritized within departmental permitting and approval processes. This project support will in turn attract institutional and corporate capital.

7. **Special consideration should be given to ensuring regional balance in the CIB; how infrastructure projects could help address the economic uniqueness of Northern Canada; and participation by Canada's Indigenous people.**

   i. The principal of regional representation and balance should be a guiding factor of investment decisions. That is, the CIB should actively seek projects from all regions of Canada, and should factor in how these projects could be a positive and significant catalyst for regional economic development.

ii. North of the 60th parallel, economic development is limited by small populations, a lack of economic diversification, inadequate infrastructure (the Territories are not connected to the North American grid), generally higher costs of living and 'doing business' -including much higher costs of electricity-, and harsh climate conditions. A particular focus of the CIB should be to stimulate economic development in Canada's North through enabling "anchor projects" that attract additional investments over time.

iii. CEA understands and accepts the importance of engaging indigenous peoples in infrastructure development. We believe that it is critically important for these communities to have a voice in the CIB process.

8. The CIB should attract private sector financing for new innovative technologies.

Innovation, including new processes and technologies, is critical to lowering emissions, promoting economic growth and propelling Canada to the forefront of a green, knowledge-based economy. Innovation will modernize the grid, enable new forms of energy generation and storage, support electrification, and help contain costs.

A major challenge for the electricity sector is the ongoing "innovation gap" where government policy aspirations are misaligned with local regulatory expectations. Provincial and territorial regulators are mandated to focus on keeping electricity costs low, and often refuse requests for innovative utility projects, including proposals to extend services to northern communities with low critical mass.

The Canada Infrastructure Bank has a crucial role to play in facilitating these innovative projects, even if they may mean low returns in the short-term. True innovation takes time to mature, and cannot be measured by short-term revenue potential.

Accordingly, CEA asks the CIB to consider this matter, given the critical importance of innovation to Canada's continued prosperity.

9. Canada-U.S. cross-border infrastructure projects, and specifically cross-border transmission lines, should be eligible for CIB funding and support.

The Canada Infrastructure Bank Act currently states: "The purpose of the Bank is to invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects <u>in Canada or partly in Canada</u> that will generate revenue and that will be in the public interest by, for example, supporting conditions that foster economic growth or by contributing to the sustainability of infrastructure in Canada."

In keeping with this intent, CEA proposes that the CIB expressly identify cross-border transmission projects as eligible for CIB funding. Canada possesses abundant clean energy resources, a healthy electricity trade surplus with the U.S., and additional export capacity. Revenues from electricity exports could be used to improve the economics of Canadian clean energy projects, resulting in the completion of projects that otherwise might not have proceeded. Additionally, these projects would further deepen domestic and continental GHG reductions.

10. Canada need not reinvent the wheel.

CEA notes that there are many examples of countries and jurisdictions (including Canadian provinces/territories) that have set up infrastructure financing facilities that work.

To name only a few, Infrastructure Ontario has developed a project management and delivery structure that has built more than 30 hospitals on-budget and on-time; Partnerships BC has created a pipeline of projects and processes to support public private partnerships for a wide range of public infrastructure; and Banobras, a Mexican-government-owned infrastructure bank, has supported a wide range of traditional projects (highways, transit, airports, etc.) and also non-traditional infrastructure investments such as social housing, clean water projects, and municipal waste projects.

The federal government, and the CIB, should study ideas and best practices from other jurisdictions, and then adjust and improve as needed for a pan-Canadian application.

CONCLUSION

In closing, Canada's electricity sector operates at the nexus of environmental protection and economic prosperity. The electricity sector is one of the cleanest in the world, at over 80% GHG emissions free. We have reduced emissions by nearly 30% since 2005 and will likely cut a further 30% by 2030. This is more than any other industrial sector.

With the proper investments --- investments that drive innovation, that capitalize on Canada's diversity and that help Canadian companies adapt to our changing climate --- Canada can be a leader in building the green infrastructure that will power our clean growth future.

Throughout our history, Canadians have well-understood the importance of looking ahead.

And each time we did, it was transformative – uniting our country, facilitating the movement of people, goods and services, and laying the foundation for economic prosperity for generations to come.

Think of our great railroads of the 19th century. Or, the highway, seaway and broadcasting systems of the 20th. Or, of the Canadian arm that extended mankind's reach into space.

We are again at one of those transformative moments. A time to build something important.

Something enduring.

The Canada Infrastructure Bank could be another key national tool, which can help build a brighter, cleaner, and better tomorrow for all Canadians.