

# Submission by the Canadian Wind Energy Association (CanWEA) to the Pre-Budget Consultations of the House of Commons Standing Committee on Finance

## Executive Summary

The federal government has played a critical role in stimulating the development of the wind energy industry in Canada, most recently through the ecoENERGY for Renewable Power program. This enormously successful program was designed to stimulate the deployment of 4,000 MW of renewable energy in Canada by March 31, 2011 and will meet its objectives and fully allocate all of its funding by fall 2009, 1.5 years ahead of schedule. Unfortunately, the federal government has not yet made a commitment to expand or extend the program, or to establish any alternative support mechanism for wind energy deployment. In other words, federal government support for new renewable power projects in Canada will end in fall 2009.

An end to federal support for wind energy deployment in fall 2009 has serious implications for Canada's wind energy industry at this time of economic crisis. It will lead to delays and cancellations for many of the 2,000 MW of "shovel ready" wind energy projects that are contracted to be built in Canada by the end of 2011. It will also reduce Canada's ability to compete for investment with the United States, which has taken aggressive actions in 2009 to stimulate investment in renewable power, and will cause investment dollars to leave Canada for the U.S.

CanWEA is asking the federal government to take action in a Fall economic statement (and certainly no later than a 2010 federal budget) to support the deployment of an additional 8,000 MW of new renewable power capacity in Canada by March 31, 2014. This would result in \$22 billion of private sector investment (a minimum of \$7 billion of it invested in Canada), 8,000 new Canadian jobs, and \$24 million in annual lease payments to rural landowners across Canada. The federal government could deliver this support through either of two policy options:

- **Expand and Extend the Existing ecoENERGY for Renewable Power (eERP) Program.** Between now and 2014, the total cost to the Federal Government would be \$600 million (\$150 million / year) and would leverage the full \$7 billion of private sector investment in Canada in that period. Beyond 2014, the Federal Government would make annual expenditures of \$230 million for 10 years.
- **Replace the ecoENERGY for Renewable Power Program with a Capital Grant Program that Would Provide Equivalent Economic Value.** The total cost to the Federal Government of this approach would be \$1.8 billion between now and 2014 (\$450 million/ year) and would leverage the full \$7 billion of private sector investment in Canada in that period. There would, however, be no additional costs to the Federal Government beyond the year 2014.

It is important that any actions taken by the federal government, like the options proposed above, are broadly applicable across the full diversity of the wind energy industry in Canada, including: large traditional Canadian energy companies, wind energy project developers from outside of Canada, small renewable energy companies, and organizations as diverse as community groups, First Nations, and municipal governments.

**In this regard, one important additional measure the federal government could take to complement an expansion of the ecoENERGY program or a new capital grants program would be to broaden the applicability of Class 43.2 of the Income Tax Act.** At this time, the design of this tax measure ensures that most wind energy developers in Canada (e.g., foreign companies, smaller Canadian companies) cannot make immediate use of this incentive to support their wind energy investments.

## Full Submission

### Background

The Canadian Wind Energy Association (CanWEA) is a national, not-for-profit association that works on behalf of its members to promote the responsible and sustainable growth of wind energy in Canada. Our more than 420 members include wind turbine manufacturers and component suppliers, wind energy project developers, owners and operators, and a broad range of service providers to the industry.

Wind energy production in Canada is growing rapidly. At the end of 2003, Canada had 322 MW of installed wind energy capacity. We will surpass 3,000 MW of installed capacity by the end of 2009 and provincial governments have now established policy objectives that would, if fully implemented, lead Canada to have a minimum of 12,000 MW of installed wind energy capacity by 2015. These provincial governments have expressed a strong desire for the federal government to continue to provide support for renewable power deployment that would assist them in meeting these objectives.

**Every 1,000 MW of new installed wind energy capacity represents approximately \$2.75 billion in private sector investment, 1,000 jobs, and enough electricity to power 300,000 Canadian homes. It also provides a minimum of \$3 million in annual lease payments for rural landowners as well as a similar amount in new taxes for rural municipalities.**

The federal government has played a critical role in stimulating the development of the wind energy industry in Canada, most recently through the ecoENERGY for Renewable Power program. This program provides a production incentive (1 cent / kwh produced for 10 years) that helps to close the gap between the cost of wind energy and the cost of conventional electricity generation. By providing a clear and certain revenue stream, ecoENERGY can help secure project financing (particularly important in today's credit markets) and provide some compensation for the failure of most electricity markets to value wind energy's environmental attributes. Importantly, it has also encouraged more aggressive provincial government procurement of wind energy by lowering costs for ratepayers.

This enormously successful program was designed to stimulate the deployment of 4,000 MW of renewable energy in Canada by March 31, 2011. **In fact, Natural Resources Minister Lisa Raitt has now confirmed that the program will meet its objectives and fully allocate all of its funding by fall 2009, 1.5 years ahead of schedule. It is worth noting that every dollar invested by the program has leveraged approximately nine dollars of new private sector investment in wind energy projects.**

**Unfortunately, the federal government has not yet made a commitment to expand or extend the program, or to establish any alternative support mechanism for wind energy deployment. In other words, federal government support for new renewable power projects in Canada will end in fall 2009.**

Approximately 2,000 MW of power purchase agreements (PPAs) have been executed by provincial utilities with wind energy projects that have scheduled construction starts in 2010 and 2011. These projects alone represent almost \$5.5 billion in investment and about 2,000 jobs. **The current uncertainty over future federal support for renewable power makes the economics of all of these projects more challenging and is making it impossible for some of these projects to secure financing and proceed in today's credit markets. Without a renewed commitment from the federal government, numerous "shovel ready" renewable power projects that would help provide stimulus to the economy will at a minimum be delayed, and quite possibly, cancelled.**

While the 2009 federal budget did not provide any additional funds to support the ecoENERGY for Renewable Power program, the stimulus package implemented by the Obama Administration in the United States included significant new support for wind energy deployment. For example, wind energy investors in the United States have access to a US Federal Production Tax Credit for wind energy that has more than three times the value of the ecoENERGY incentive. The US stimulus package extended this incentive to the end of 2012 and also allowed it to be received as a grant toward capital expenditures – making the incentive available to Canadian companies for the first time.

**The current uncertainty over future federal support for renewable power has accelerated investment capital flow from Canada to the United States as investors move to take advantage of more certain wind energy investment opportunities in the United States created by the Obama Administration’s economic stimulus package. While Canada may not be able to match new and expanded US initiatives to support wind energy on a dollar for dollar basis, an end to federal government support is a move in the opposite direction that will send a strong negative signal to potential investors and significantly reduce Canada’s ability to compete for wind energy investment capital.**

With more than \$1 trillion projected to be invested in new wind energy projects worldwide between now and 2020, Canada should be working to improve its ability to compete for investment capital, not to weaken it.

#### **CanWEA Budget Request**

**CanWEA believes that the federal government should make a clear commitment in a fall economic statement (and certainly no later than a 2010 federal budget) to renew its support for wind energy deployment in Canada. Specifically, the federal government should make a commitment to support the deployment of an additional 8,000 MW of new renewable power capacity in Canada by March 31, 2014. A small portion of this commitment should be targeted at supporting wind energy deployment in remote and northern communities that currently rely on expensive and polluting diesel fuel for their power needs.**

**This would result in \$22 billion of private sector investment (a minimum of \$7 billion would be invested in Canada), 8,000 new Canadian jobs, and \$24 million in annual lease payments to rural landowners across Canada. An extension of support until 2014 would also provide investor certainty for a longer period than is currently found in the United States, enhancing our ability to compete for wind energy investment capital.**

The federal government could deliver this support through either of two policy options.

#### **Option # 1 – Expand and Extend the Existing ecoENERGY for Renewable Power (eERP) Program**

CanWEA had advocated that the 2009 federal budget include a commitment to expand and extend the eERP program to support the deployment of an additional 8,000 MW of renewable power by March 31, 2014. **Between now and 2014, the total cost to the Federal Government would be \$600 million (\$150 million / year). Over that same time period, all \$7 billion of private sector investment in Canada would take place. In other words, for every dollar invested by the Federal Government between now and 2014, the private sector would invest a minimum of ten dollars in Canada in that time period.** Beyond 2014, the Federal Government would make annual expenditures of \$230 million from 2015 – 2024. This makes the total cost to the Federal Government \$2.9 billion over 14 years. It should be noted, however, that eERP payments are taxable so the net cost to the Federal Government is less.

The benefits of this approach include: (a) simplicity of implementation (the program already exists and an extension / expansion is straightforward to implement), (b) the incentive is easily accessible by all wind energy developers, and (c) only a small portion of the total funding required would be expended in the first five years – but all of the expenditures it would leverage would occur in the first five years.

### **Option # 2 – Replace the ecoENERGY for Renewable Power Program with a Capital Grant Program that Would Provide Equivalent Economic Value**

Wind energy projects are extremely capital intensive. Approximately seventy percent of total project costs are the costs of the turbines themselves. Under this proposal, the federal government would provide a capital grant of \$200,000 / MW for commissioned new wind energy capacity – providing equivalent value to the ecoENERGY incentive at an assumed discount rate of 8%. Such a capital grant would be roughly equivalent to 10-12% of total capital costs. The United States has put in place an option whereby wind energy projects can elect to take the Production Tax Credit as a 30% capital grant for projects commissioned by the end of 2011. The capital grant figures would be somewhat different for other renewable power technologies.

**If this approach was used to support the deployment of 8,000 MW of renewable power by March 31, 2014, the total cost to the Federal Government would be \$1.8 billion between now and 2014 (\$450 million/ year). There would, however, be no additional costs to the Federal Government beyond the year 2014.** It is likely that such a grant would be "taxable" in Canada, although this would be implemented through a reduction in the amount of CCA (Class 43.2) that can be claimed by the amount of the grant. Accordingly, the net costs to the Federal Government would likely be somewhat less than described above. The benefits of this approach include: (a) such an incentive would be easily accessible by all wind energy developers, (b) all funding associated with the program would be expended in 5 years, and (c) while a new program, it should be relatively straightforward to design.

**The one clear option that is unacceptable is for the federal government to do nothing and simply end its support for wind energy deployment in fall 2009. Under such a scenario, Canada will lose investment, jobs and economic development opportunities for rural communities to the United States.**

### **Other Potential Options**

In addition to these two policy options, CanWEA has also examined the possibility of using new tax incentives to stimulate the deployment of renewable energy in Canada in light of the fact that the ecoENERGY program will have allocated all of its funding this Fall. **When considering such options, CanWEA's primary criterion is that any incentive must be broadly applicable across the full diversity of the wind energy industry in Canada: large traditional Canadian energy companies, wind energy project developers from outside of Canada, small renewable energy companies, and organizations as diverse as community groups, First Nations, and municipal governments.**

**It is our understanding that the only way to guarantee broad applicability is to make any such tax incentive fully refundable (i.e., one can receive the incentive as either a cash payment or a tax benefit).** In essence, this is what the Obama Administration has done by allowing an option for the US Production Tax Credit to be taken as a capital grant. Fully refundable tax incentives are relatively rare in Canada (e.g., they were used to stimulate development of the film industry). If, however, the federal government is willing and interested in pursuing fully refundable tax

incentives as a means to stimulate renewable energy deployment in Canada during the current economic crisis, CanWEA would be willing to consider these options as well.

### **Broadening the Applicability of Class 43.2**

**One measure the federal government could take to complement an expansion of the ecoENERGY program or a new capital grants program would be to broaden the applicability of an existing tax measure the federal government has already put in place to encourage renewable energy deployment: Class 43.2 of the Income Tax Act. At this time, most wind energy developers in Canada (e.g., foreign companies, smaller Canadian companies) cannot make immediate use of this incentive to support their wind energy investments.**

There are many barriers to broad applicability of Class 43.2. Provisions that would more easily facilitate the transfer of this tax benefit would be one way to increase its applicability. For example, an elimination or significant loosening of the Specified Energy Property Rules would allow the deduction of Class 43.2 assets such that they could be utilized against any income subject to tax. While this is only one example and more actions would be required, CanWEA strongly encourages the federal government to examine ways to increase the immediate applicability of this incentive to the full diversity of companies investing in wind energy in Canada.

### **Greenhouse Gas Offsets**

**Finally, while we are pleased that the federal government is moving to implement a greenhouse gas (GHG) emissions regulatory framework that will allow wind energy to create GHG offsets, we must stress that this in no way represents a substitute for the federal government taking action at this time to support the deployment of renewable energy through either an expanded ecoENERGY program or a new capital grant program as outlined above.** A fully functional carbon market will reduce, and ultimately eliminate, the need for direct financial support from the federal government. We do not believe, however, that the initial implementation of a GHG offset system, as currently proposed, will allow this objective to be met.

There are four reasons for this: (a) GHG offsets will not be credited until 2011 and ecoENERGY will allocate all of its funding this fall, (b) GHG offset prices will be limited by the existence of “safety valves” for emitters like the proposed “technology fund”, (c) most power purchase agreements require wind project developers to transfer GHG benefits to provincial utilities, and (d) the potential use of a national grid intensity factor to calculate the GHG emission reductions associated with offsets will undervalue GHG offsets in precisely those provinces where they are making the largest contribution to GHG emissions reduction.

### **Conclusion**

**An end to federal support for wind energy deployment in fall 2009 will lead to delays and cancellations of “shovel ready” wind energy projects and will reduce Canada’s ability to compete for investment – leading to an accelerating flow of investment dollars from Canada to the United States. The federal government must take action now to support the deployment of an additional 8,000 MW of new renewable power capacity in Canada by March 31, 2014 through either: (a) an expansion and extension of the ecoENERGY for Renewable Power program, or (b) creation of a new capital grant program that would provide equivalent value to ecoENERGY. Actions should also be taken to broaden the applicability of Class 43.2 of the Income Tax Act.**

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