The Hon. Rosa Galvez, Senator.
Chair of the Committee
Standing Senate Committee on Energy, the Environment and Natural Resources

Dear Senator Galvez:

Thank you for your request to Premier Ball to provide input to the Standing Senate Committee on Energy, the Environment and Natural Resources as it relates to the Committee's review of Part 5 of Bill C-74. The Premier has asked me to respond on his behalf.

As you are aware, Newfoundland and Labrador endorsed the December 2016 Pan-Canadian Framework on Clean Growth and Climate Change (PCF). In the PCF, the Province committed to developing a made-in-Newfoundland and Labrador approach to carbon pricing that protects the competitiveness of export-oriented large industrial sectors, recognizes investments being made in the province to decarbonize the electricity sector, minimizes the impacts on consumers, reduces GHG emissions, and meets federal requirements (known as the Federal benchmark). The Province continues to work on developing its made-in-Newfoundland and Labrador approach to carbon pricing and will submit its approach to the Federal Government by September 1, 2018.

The Province is committed to taking action to tackle climate change. However, action to reduce greenhouse gas emissions must be informed by local circumstances, including geographic constraints (i.e., the Province is remote with an island portion not connected to the mainland and an isolated northern area), an aging, small, dispersed and rural population, reliance on large industry and resource extraction (together accounting for over a third of provincial emissions) to generate jobs and economic wealth, and very serious fiscal challenges. Given this important context, I would like to identify four issues at this time for consideration in your review.

First, regulations pursuant to Bill C-74 must protect the competitiveness of industrial facilities in the mining, oil and gas and manufacturing sectors and not result in carbon leakage. It is important that any approach to carbon pricing does not deter future investment opportunities in these sectors. In particular, the Province notes that:

- Maintaining competitiveness requires being aware of the circumstances of different industries and the markets in which they operate. It requires the implementation of long
term and flexible regulatory approaches that are tailored to the needs of each province and territory and take account of other variables that may also affect competitiveness. For example, in Newfoundland and Labrador, investments already in place to significantly accelerate the shift toward low carbon and renewable electricity will increase the cost of electricity due to the costs associated with the Muskrat Falls hydroelectric development.

- The cumulative effects of multiple and potentially overlapping regulatory initiatives in a short timeframe is of serious concern and is generating considerable uncertainty. For example, at the same time that carbon pricing is being implemented, the Federal Government is considering how to develop a new Clean Fuels Standard, starting implementation of new methane regulations for the oil and gas sector, and is changing how environmental assessments must be done in the offshore area. This presents real risks that could result in adverse competitiveness implications and foregone investments, adversely impacting growth and employment.

- While federal funding to support transitional assistance to a lower carbon economy and to accelerate technology development and deployment is critical, it will have limited short term benefits given the need to align with multi-year capital planning cycles of companies and will need to be structured in a manner that respects trade law.

Second, Bill C-74 must be structured in a manner that respects the province’s reliance on interprovincial transportation and its limited opportunity for investments in public transit to reduce greenhouse gas emissions. In particular, the Province notes that:

- Given its remoteness, Newfoundland and Labrador is reliant on interprovincial marine, aviation and rail transportation for virtually all goods consumed in the province as well as for virtually all fuels consumed in the province.

- Given geographic constraints, widely dispersed and rural population, and existing transportation capital stock, networks and infrastructure, there are limited short term opportunities for the Province to enhance capital stock in the transportation sector, invest in multi-modal shifts or invest in new public transit infrastructure. As an example, interprovincial passenger transportation is provided by a federal Crown Corporation (Marine Atlantic) that uses four vessels that are 15 years old or less, and most interprovincial goods transportation is handled by a private company (Oceanex) that uses three vessels of which two are 12 years old or less.

- There are two public transit systems in the province (St. John’s and Corner Brook) and no urban area has a population of sufficient size to support the development of new public transit infrastructure. This means that citizens living in rural and remote areas will be subject to the carbon tax but will have very limited means to reduce their emissions,
as they will not have access to public transit and will be unable to make practical use of electric vehicles given range issues.

- This means that a carbon tax on interprovincial transportation will, to a large extent, be passed on from transportation service providers to end users with limited environmental benefits. The end result is increased cost of living for residents of the province with limited alternatives available to reduce their carbon footprint and offset those costs.

Third, Bill C-74 must be structured in a manner that respects the province’s reliance on home heating fuel for space heating and the limited accessibility to alternative sources.

- Given its remoteness, the Province does not have access to natural gas as a cleaner and cheaper space heating alternative for consumers.

- As well, investments already in place to significantly accelerate the shift toward low carbon and renewable electricity will, in fact, increase costs to consumers for electricity due to the costs associated with the Muskrat Falls hydroelectric development. This makes conversion to hydroelectricity as a space heating alternative a more expensive alternative.

- This means that a carbon tax on home heating fuel will simply result in an increased cost of living for residents of the province with limited alternatives available to reduce their carbon footprint and offset those costs.

Fourth, Bill C-74 must be structured in a manner that respects structural constraints in off-grid remote, northern and Indigenous communities, particularly as it relates to electricity generation. In particular, the Province notes that:

- The Province’s Crown utility, Newfoundland and Labrador Hydro, operates 6 isolated diesel systems on the island of Newfoundland and 14 isolated diesel community systems in Labrador that service a combined population of about 7,000 people. Eleven of these systems, including over 4,000 people, are located in Indigenous communities.

- For off-grid communities, diesel electricity is a mature, technically feasible and reliable, and cost effective technology that is widely used across the world, particularly in harsh northern locations with limited transportation access during extended winter months.

- Given the high cost of electricity provision and the fact that it is an essential service, electricity rates in these communities are cross-subsidized (i.e., local residents do not pay the full cost of service provision). In Newfoundland and Labrador, this will mean that electricity customers consuming renewable electricity will pay a portion of the carbon tax for remote communities.

- Other forms of energy such as fuel oil are, however, not cross-subsidized (i.e., local residents pay the full cost). This means that the cost associated with a carbon tax on
fuel oil will be fully incurred by end users. This cost differential may incent customers to switch to diesel electricity which will result in a worse environmental outcome as electricity generation is less efficient than oil furnaces.

I look forward to reviewing the report of the Standing Senate Committee when it is released and to continuing to engage with the Committee as it continues to review Bill C-74.

Thank you for this opportunity to share some of our Province’s perspective on this important issue.

ANDREW PARSONS, QC
Minister of Municipal Affairs and Environment

cc. Hon. Dwight Ball, Premier and Minister for Intergovernmental and Indigenous Affairs
Hon. Seamus O’Regan, Minister of Veterans Affairs and Associate Minister of National Defence