

Woodrow Wilson Cross-Border Forum on Energy Issues
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- A Canadian Perspective –

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Check Against Delivery

Introduction

- Good morning and thank you for the opportunity to participate in this prestigious forum....
- I am pleased to be here today to offer some insights on this topic from a provincial government perspective.
- Although I may be a bit biased, I think this is an important perspective for three critical reasons...
- First – Alberta has stepped forward and has put a price on carbon...so right now we are charging our industry for the right to emit CO₂ when most of our competitors and trade partners are not
- Which connects to the second reason – we are an energy exporting province and nation – the number one supplier of oil imports in the US...so we have a unique relationship with the US
- Finally, we have admired this problem from many angles and in working through to actual implementation; we have been challenged by our elected officials and the public the represent to ensure we have a prudent approach to start.
- And while we are only a fraction of global emission and about a 10th of the US, we still share some common challenges
- This morning I hope to provide some insights into the logic of the Canadian approach on how we are addressing these challenges, but more importantly prompt a healthy and constructive dialogue on North American carbon policy that has been largely absent to-date.
- And by no means is this intended to justify why we are not focused on international offsets – instead, it will hopefully point to why a technology focus is more appropriate for how we can contribute to the global climate change effort over the longer-term.

Canadian Context

- Like the US, there is a similar story that has been advancing in Canada...
- Most provinces and territories have signaled and some have passed legislation to require emission reductions.
- In Alberta, we have put in place the first multi-industry regulatory system for North America, which requires a 12% reduction in emissions as of July 2007.
- Under this system we have provincial credit trading, and we have also introduced a unique compliance tool that is tied more specifically to supporting technology.
- International trading at this point is not included, and strong restrictions are being considered for the national policy.
- Our approach recognizes that in the short term, we are likely not able to feasibility put in place a price of carbon that will drive the mitigation we need to see.
- Yet, today is when we need to start seeing this type of investment.
- So through this mechanism, we pool the collective investment of industry through a technology fund.
- Serving essentially as an emissions permit and safety valve, companies can pay into this fund at a rate of \$15 per tonne to use against their compliance obligations.
- This accounts for about 60-70% of annual compliance and is generating in the order of \$100 million per year for investment into clean technology (remember, we are just 3 million people!).
- However, like our targets, this will likely increase over time.

The Story

- At its heart, climate change is an energy issue.
- Action on climate change will require fundamental shifts in the way we extract, produce, transport and consume energy.
- Driving this shift requires approaches that serve to effectively balance energy, environmental and economic interests.
- These are practical realities that serve to test good ideas and make them workable solutions.
- But my focus is not a story about 3Es
- Instead, it is a tail of 3Ts.

- Transition
 - Targets
 - Technology
- The premise is that we are working towards some form of integrated North American system – but this need not be achieved by putting a mirror on the 49th parallel – there are different circumstances and such, likely different approaches.
 - The challenge is to truly understand and accept these different realities.

Transition

- We have collectively admired that the demand for energy will only continue to increase over the foreseeable future
- We also acknowledge that much of this will be met through fossil fuels
- We are feeling it directly in Alberta!
- This does not diminish the need to aggressively develop sustainable alternatives.
- But it does suggest that our ability to see meaningful emission reductions will be as much influenced by the longer-term targets we commit to, as it is the timing of when we actually see the broad application of a price on carbon and begin to influence behavior.
- A smart policy will ease in over time, allowing for, perhaps, greater flexibility and diversity in approaches.
- We already have significant North/South progress through the various regional initiatives.
- We already have the advancement of common reporting infrastructure through the Climate Registry.
- We have decades of commodity trade experience – good, bad and ugly – but experience none-the-less.
- Looking at this as a transitional effort in the short term will help to facilitate a more collaborative and honest discussion about North American policy coherence.

Targets

- Climate change is complex.
- Unfortunately it is also what some describe as a simmering issue.

- As such, the public debate on acceptable action has zoned in on two key elements because they are perhaps the easiest to grasp:
 - Types and levels of targets (e.g. 20% from 1990)
 - Cap and Trade
- As result this has essentially become the starting point for the debate on what is comparable in the North American context.
- Unfortunately, these are not necessarily the best means to compare systems.
- Cap and trade is a policy tool
- Of course, it involves absolute cap on emissions, but in the regimes that are advancing, the ability to pay your way out through some form of offset essentially means that the cap is not just about domestic emissions but more the means to send the response signal – the carbon price...
- ...and there are different ways to do this.
- This is similar to the overall targets being pursued.
- The level of reduction a jurisdiction commits to is not an indicator of action and effort in and of itself.
- Those jurisdictions that have seen slow to no emissions growth since the late 1990s will prefer to have targets off of a historic baseline like 1990
- Those that are seeing growth – which is not so common in the developed world, outside of end use consumption like transportation, other than Canada – would prefer to see targets off of projected emission levels.
- Both can be equally stringent or lenient depending on how they are designed.
- What is most critical is that the level of effort is comparable.
- This could be set to price per tonne (factoring in targets and compliance options) or some other means.
- This is particularly important for Alberta and Canada because of the cost-curve we face where the likely emerging North American carbon prices will go to, it will be cheaper for our industry to pay their way out for the vast majority of their obligation.
- So it is not really a question of how much – though this is important, but if we are paying comparable costs across the border, it is not so much an issue – but a question of where best to send the money.
- For us, a dollar to technology pays more global dividends than a dollar to the international carbon market.

- This by no means suggests that support for international development is not a necessary part of the equation – it just means that there are perhaps more appropriate paths for that financing.

Technology

- Transforming our energy systems entails a massive technological and behavioral shift
- However, there is only a short list of actions that we know today that could be implemented at the scale and in the time frame necessary to keep emissions at acceptable levels
- For the world, this includes nuclear, carbon capture and storage and large scale energy efficiency enhancements
- For Alberta and Canada, carbon capture and storage is front and centre
- With a \$2 billion commitment from Alberta and a further \$1 billion from the government of Canada and other provincial governments, Canada has made one of the largest investments in this technology on the planet
- This is important because while nearly 75% of Canada's electricity already comes from low to non-emitting sources, coal is still used to provide reliable electricity to parts of the country, including Alberta.
- And of course there are the oil sands – a fuel supply that has gained almost mythical status.
- While at the end of the day it only accounts for about 5% of total emissions in Canada – and on a life-cycle basis it is comparable to other crudes in the US...
- ...it does represent an area of growth as we work to meet the needs of our North American energy customers.
- Technology, such as low extraction processes at the front and carbon capture integrated into throughout the development process, can serve to decarbonize this strategic energy supply
- The key piece being – investment in technology.
- On this, 2 projects have been announced and more are on the way in Alberta.

Knitting it together

- We share a desire to take action on the environment while ensuring we have jobs, a high quality of life and secure energy.

- In Alberta we have developed an approach that fits within this reality
- Given our mitigation potential, the social license to operate in Alberta expects reductions at source and the fact that in the short term, there is a competition for limited investment resources...
- ...Alberta has a system that puts a price on carbon that can be set at the North American price to ensure no leakage in any direction, but that also focuses the investment on transformative technology expected in Alberta but that can also be adopted in other parts of the world where emissions are more significant.
- The significance of ensuring that different approaches do not lead to an unlevel playing field is paramount in the short term.
- But serious consideration of the realistic pace and nature of the transition...
- ...clarity around the true degree of effort on targets...
- ... and a clear plan of action on accelerating the deployment of transformative technologies must be fundamental touchstones of this assessment
- So if the drivers for international credits are economics – our Technology Fund is marked to the market
- If it is about reductions, as the vast majority of compliance in Canada would require it, not only are there risks of assuring only incremental reductions in the short-term but diverting dollars into the carbon market may not be a sustainable over the long term.
- And if it is because US legislation says we need to invest in international credits – which could include the US treasury – lets talk seriously about why.
- And we cannot forget that our commitment to the environment is broader than just climate change – it is about clean air, water and land
- We have a history of environmental protection and stewardship that are proud of and our approaches to climate change need to be integrated and build on this extensive experience
- From progressive reclamation and managing tailing ponds to innovative water recycling we are working to meet the needs of Albertans for a clean environment and the expectations of our energy customers who expect the sustainable development of our energy supplies.
- I hope by offering some of our perspectives, people better understand the logic of Alberta's and Canada's approach and more importantly are better positioned to highlight areas of strength and weakness in terms of how this can work to our shared energy, environment and economic interests.
- Thank you