Canada's path to net zero: The latest on clean electricity regulations and oil & gas emissions

March 15, 2024

On Dec.7, 2023, the Government of Canada introduced the latest update to its 2030 Emissions Reduction Plan (ERP). This update, documented in the 2023 Progress Report on the 2030 ERP (the 2023 Progress Report), serves as the first of three reports mandated by the *Canadian Net-Zero Emissions Accountability Act* - national legislation that aims to align policy commitments with tangible climate action. Subsequent biennial reports are scheduled for 2025 and 2027.

Canada's 2023 Progress Report is timely given recent initiatives, including the publication of an Oil and Gas Emissions Cap framework, draft *Clean Electricity Regulations*, and participation in the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 28).

The government's news release on the 2023 Progress Report highlights a comprehensive strategy to accelerate emissions reduction ahead of the 2030 milestone. This strategy includes:

- Updating regulations to cut oil and gas methane emissions by at least 75 per cent by 2030,
- Finalizing an emissions cap for the oil and gas sector,
- Launching a Green Buildings Strategy, and
- Crafting climate plans for marine, rail, and aviation sectors.

Collectively, these efforts are expected to achieve a reduction of 40 per cent below 2005 levels by 2030, with an interim goal of 20 per cent by 2026.

Since BLG's previous comments on the initial announcement of the ERP and the financial tools introduced in Budget 2023, the Federal Government's progress on the oil and gas emissions cap and *Clean Electricity Regulations* are perhaps its most notable steps toward its 2050 net-zero goal, impacting industries broadly.

Oil and gas emissions cap

Following the release of its 2022 discussion paper outlining two regulatory options to cap greenhouse gas (GHG) emissions from the upstream oil and gas sector, the

Government of Canada introduced the Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap (the Framework) in December 2023. Opting for the "cap-and-trade system" approach, the Government of Canada intends to enact the Framework through regulations made under the *Canadian Environmental Protection Act, 1999* (CEPA).

The Framework aims to reduce production-level emissions by 35-38 per cent below 2019 levels by 2030. To introduce some flexibility, the Government proposes a "legal upper bound" concept allowing 2030 emissions to reach up to 131-137 megatons of carbon dioxide equivalent (CO_2e), marking a 20-23 per cent reduction from baseline emissions. To facilitate the legal upper bound, the Government plans to employ compliance credits via mechanisms like allowance trading, multi-year compliance periods, credit banking, and various permissible offsets. Nonetheless, the emissions allowances will be unique to this program, non-transferable with other carbon pricing systems or regulatory frameworks, and are designed to gradually decrease to achieve net-zero GHG emissions by 2050.

The regulation will cover oil producers, upgraders, natural gas production and processing plants, and liquefied natural gas facilities, while refining and downstream operations will continue to be regulated under Canada's *Clean Fuel Regulation*. The Framework is currently in development and is slated for enactment through regulations by 2025, with full implementation by 2030.

Clean Electricity Regulations

Also expected to be enacted under the CEPA in 2025, Canada's *Clean Electricity Regulations* will prohibit most electricity generation facilities from emitting more than 30 tonnes of CO_2 per gigawatt hour (GWh) by 2035 (the Performance Standard). The Performance Standard will impose differential costs on businesses operating in provinces heavily reliant on fossil fuel-generated electricity compared to those with established clean energy portfolios.

The Government of Canada has outlined that creating a net-zero power grid involves balancing decarbonization, reliability, and affordability. However, achieving these aims simultaneously presents challenges due to existing technologies and associated costs. Provinces heavily reliant on fossil fuels, such as Alberta, Saskatchewan, and Nova Scotia, face substantial costs related to investments in clean energy infrastructure and emerging clean technology. These costs could strain the profitability and competitiveness of companies within these regions as electricity generation costs are expected to be passed on to the rate payers.

Recent federal initiatives, like the Investment Tax Credits in the 2023 budget, aim to support clean energy investments. However, these initiatives could tie financial assistance to provincial commitments to cooperate with Parliament's energy policies. Conversely, provinces with established hydro and nuclear assets, like Ontario, Québec, British Columbia, Manitoba, and Newfoundland and Labrador, may experience lower costs and potentially gain a competitive edge due to their cleaner energy profiles.

Conclusion

Despite signs of progress, Canada is at risk of not meeting its 2030 emissions reduction target. Current policies, even with enhancements, may be insufficient to achieve a minimum 40 per cent reduction in emissions from 2005 levels by 2030. Moreover, while Canada's commitment marks a significant step towards a net-zero economy, it is crucial for industry stakeholders to monitor the Government's formal legislative actions, response to potential legal challenges, and evolving initiatives to reach the net-zero emissions goal by 2050.

The introduction of the *Clean Electricity Regulations* and the proposed cap on oil and gas emissions signify a major transformation in Canada's energy policy, affecting businesses nationwide. Achieving the collective goals of reducing emissions, ensuring energy security, and fostering economic growth requires clear emissions policies, incentives, and regulatory frameworks. Given the investment decisions, regulatory obstacles, and construction efforts needed for emissions mitigation and abatement, the year 2030 is approaching quickly. If the Federal Government's stated intentions do not waver, it will be imperative for businesses to finalize their emissions reduction approaches without delay to ensure they are not left behind.

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