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I. Executive Summary – Suncor's input on the CER Public Update

Background

Suncor's recommendations are specific to the Public Update released on February 16, 2024, from Environment and Climate Change Canada (ECCC). The CER are impactful for Suncor as, once our latest 800 MW cogeneration project is commissioned, the company will be the third largest power generator in Alberta. All of Suncor's power generation is based in Alberta and operates as cogeneration, a technology that supplies both heat and power within industrial facilities. Surplus power is exported to Alberta's power grid.

We share the ambition to accelerate progress towards Canada meeting its global commitments to reduce greenhouse gas (GHG) emissions on a path to net zero by 2050. Given that electricity use is expected to grow in a net-zero economy, additional power should be generated at a low GHG intensity to ensure low-life-cycle emissions and to avoid constructing higher GHG-intensive assets within the sector as we approach 2050.

While Canada already has a low GHG-emitting power sector overall, there are provincial differences, with some provinces not having access to significant hydroelectric capacity or legacy nuclear capacity. These provinces rely on natural gas-fired power to provide baseload and dispatchable power. The CER need to accommodate current demand and ongoing electrification by balancing ambition with maintaining power reliability and affordability. It also needs to incorporate the sequencing of decarbonization investments for a net zero by 2050 trajectory, supported by the right fiscal environment.

Key Considerations

While we are still of the view that cogeneration should be exempted from the CER as it is aligned with industrial net zero targets by 2050, we appreciate the efforts of officials to consider input on the draft regulations. We have noted some proposed improvements in the Public Update that could reduce unintended impacts to Suncor. These include:

- Treatment of Units under Development: New units under construction will be treated as existing units even if they are commissioned after January 1, 2025. This should ensure that Suncor's Coke Boiler Replacement (CBR) cogeneration project is not put at risk of being faced with "new" generation status under the CER.

- Pooling: Enabling multiple existing units to combine the emission limits of individual units into a pooled limit could be a welcome flexibility. To be effective and non-discriminatory, pooling should include flexibilities in terms of jurisdictions for some generators and a wider range of eligible participants to avoid discriminating against provinces with private sector electricity generators like Alberta.

Proposed changes like the examples above could help to protect reliability and affordability for consumers. The Public Update also includes proposals to add flexibility for cogeneration and adjust the values for the Emissions Performance Standard (EPS) and the End of Prescribed Life (EoPL). However, the document does not provide enough detail or alternative values, so Suncor has been unable to model the impacts of an updated CER. In addition, there have been three major events since the draft CER were released that highlight the need for ECCC to reassess the approach of the CER and its potential impacts.

1) In September 2023, the Alberta Electric System Operator (AESO) provided a detailed review of the impact of the CER on the Alberta grid. The AESO cited Alberta's reliance on natural gas generation to balance intermittent renewable assets like wind and solar and that the CER is an impediment to the orderly transition of retiring and commissioning units. In their Technical Briefing[1], the AESO cited costs of decarbonization of over $5000 for each tonne abated in a 2035 target vs. a 2050 target. This cost is about 10 times more expensive than direct air carbon capture and would ultimately be borne by either taxpayers or ratepayers in the province.

2) On December 7, 2023, the federal government released its Proposed Oil and Gas Emissions Cap Regulatory Framework. This framework covers the upstream sector, including all cogeneration units within the oil and gas sector. Both the proposed Emissions Cap and the CER are designed to target cogeneration emissions, adding unnecessary climate policy layers to a sector that is already covered by carbon pricing.

3) On January 13, 2024, an Emergency Alert was issued by the province of Alberta asking citizens to reduce electricity demand immediately. This was the first time an alert for the electricity grid was issued via the Alberta Emergency Alert System. The alert was intended to avoid rolling blackouts due to extremely cold evening temperatures, resulting in power demand almost exceeding supply. As expected during peak demand in Alberta, there was no solar or wind generation at the time. Even with interties, the Alberta system needed backup natural gas to not only keep the lights on but to keep people warm and safe. It was only the voluntary curtailment response from Albertans as a result of the Alert that kept the power system operating in Alberta. This event represents a real-world example of the potential negative impacts of regulations that restrict natural gas-fired dispatchable capacity before other low carbon baseload and dispatchable capacity can be developed and deployed.

[1] Technical Briefing on Proposed Clean Electricity Regulations, AESO, September 28, 2023.

Suncor's Recommendations

Given the potential impact of the CER on provincial electricity grids, we believe it will be challenging for the government to go from this Public Update with its limited detail to final regulations. There are too many unknowns to consider based on these extensive considerations. Suncor recommends that **ECCC work directly with regulated parties and provinces to update elements of the CER** like the EPS and EoPL, along with developing details on emissions allocations, pooling, and cogeneration treatment. It is important to ensure that the CER do not negatively impact any one province or region, making engagement and alignment with provinces and territories critical.

While draft and final regulations in Canada are typically not materially different, we expect the considerations raised in the Public Update to be far reaching, leading to a much different version of the CER if fully implemented. As a result, Suncor further recommends that **ECCC update and re-publish the CER and the regulatory impact analysis statement (RIAS)[2] as draft regulations (CG1),** providing an opportunity for public comment on significantly updated regulations. This RIAS should include the expected cost of the CER from 2035 to 2050, including the implied carbon price to meet net-zero power generation in 2035 vs. 2050, by province. This metric will be important to ensure no one province is unduly disadvantaged by the CER compared to others. It will also indicate whether the CER is seeking diminishing returns compared to possible reductions within other sectors. This risk always exists in sector-specific regulations, which is why Suncor supports more balanced and durable policies to reduce emissions, like economy-wide industrial carbon pricing aligned with the principles endorsed by the Carbon Pricing Leadership Coalition.

Finally, Suncor continues to recommend that **cogeneration be exempt from the CER and remains on an industrial net zero trajectory by 2050**, as it is designed to deliver industrial process heat with efficient power exports being a byproduct.

Closing

Thank you for the opportunity to provide input on the Public Update. Suncor officials would like to continue their engagement with federal counterparts during further developments of the CER.

[2] Section 3.3.7.1.1 of the Treasury Board Secretariat's 2024 Guide to Regulatory Development and RIAS Writing states that " … in some cases, comments received as a result of prepublication may alert regulatory organizations to considerations that did not initially factor into the cost benefit analysis for the proposed regulatory measure. This may result in a substantial change to the regulatory proposal. In these circumstances, it may be necessary to pre-publish for a second time before proceeding to the Canada Gazette, Part II".