

Energy Issues

**A Report to Western Premiers
And Western Governors**

June 2002

Introduction

Western Canada has historically traded a large share of its oil and natural gas production, and an important amount of its electricity production, with its US neighbours. Growth in energy trade since the mid-1980s has been based upon a commitment to market based principles for the energy sector between Canada and the US at the federal, provincial and state levels.

Given Western Canada's status as a reliable partner in North American energy markets, and the probability of increasing this role in coming years, the objective of Premiers-Governors energy discussions at their 2002 annual meeting should be to reinvigorate joint energy cooperation between provinces and states at the WGA-WPC level. The focus on Mexican energy issues at the forthcoming WGA meeting in Phoenix reflects a growing continental focus to North American energy markets, a focus which has been adopted by the federal governments of Canada, Mexico, and the US and which has led to ongoing continental market discussions by these federal governments.

These federal efforts, and the role which provinces and states should undertake within these continental market discussions, merit review and direction by Premiers and Governors at their annual 2002 meeting. With the WGA's Chair shifting this year to the Governor of Montana, there arises an opportunity to gain WGA attention to northern energy issues and pursue WPC/WGA energy cooperation.

Last year, there was no specific direction given by Western Premiers and Governors on future co-operation on energy issues. Topics discussed last year included sharing information on resources and energy demand, regulatory approvals and permitting process, and climate change concerns.

This report highlights several potential areas of cooperation between states and provinces where Premiers may decide that their Energy Ministers could work with their US and Mexican colleagues and which the representatives of the Western Governors' Association could agree to discuss with their Western Governor colleagues. These potential areas of cooperation include:

- 1. Sharing Information on Supply-Demand, Infrastructure, and Emerging Resources**
- 2. Approvals and Permitting of New Projects**
- 3. Greenhouse Gas Co-operation**

Federal Initiatives

At their meeting in Quebec City in April 2001, the Prime Minister of Canada and the Presidents of the United States and Mexico announced the formation of the North American Energy Working Group (NAEWG), chaired by each nation's federal government department responsible for energy. The purpose of the NAEWG is to foster communication and co-operation among the three nations' governments and energy sectors to enhance North American energy trade and interconnections for mutual benefit, consistent with the principle of long-term sustainable development and respective of domestic policies and jurisdictional authority in each nation.

The NAEWG has met three times to date and established a number of subgroups focussing on: electricity; energy efficiency; environment; science and technology; natural gas; and critical infrastructure protection. The NAEWG anticipates releasing its first report, "North America: The Energy Picture" on June 7, 2002. The report will provide a brief economic and energy overview (supply, demand, trade and infrastructure), and a summary of the jurisdictional responsibilities and divisions in each nation.

Most of the sub-groups are in their initial stages, however the electricity sub-group expects to release its paper this summer. Provinces have been advised that the electricity subgroup is proposing development of a "clearinghouse" on electricity permitting announcements. It has been noted that this appears consistent with the WGA's proposal to develop a real-time permitting database, and it would be prudent to co-ordinate the efforts of western states and provinces in this regard to not duplicate efforts.

The Canadian government has also recently entered bilateral energy co-operation arrangements with its NAFTA partners, including: The Joint Energy Statement of the U.S. Department of Energy (March 19, 2002), and the Canada/Mexico Memorandum of Understanding on Energy (April, 12, 2002). While climate change is not yet officially on the agenda for the NAEWG, the Canada/U.S. Climate Change Co-operation Agreement, signed March 7, 2002 indicates the interests of both governments in co-operating to address greenhouse gas emissions, and may become another area of trilateral energy co-operation – potentially under the NAEWG's environment subgroup.

Potential Areas of Co-Operation between States and Provinces

1. Sharing Information on Supply-Demand, Infrastructure, and Emerging Resources

The 2001 energy discussions between Western Premiers and Governors in Coeur d'Alene focused on improving discussion and cooperative action between states and provinces to address regional energy priorities. It was agreed that, although the western Canadian and U.S. energy systems are highly integrated, improving the timeliness and quality of energy information can be enhanced by cooperative effort. Premiers and Governors recognized that increased sharing of information between jurisdictions would result in better decisions regarding long term expansion of the interconnected capacity of the region, thereby promoting both greater access to a wider variety energy resources, as well as greater reliability of supplies. Therefore they agreed that initially the following areas should be pursued:

Supply-Demand

Development of real-time, quality information on western energy demand is the key first step to sound decision-making respecting needed infrastructure projects, development initiatives/incentives, and conservation programs. Understanding the underlying causes of demand for specific energy services (heat, light, motive power) is a crucial first step to meeting consumer demands through access to appropriate energy supplies. There would be benefits to cooperative provincial/state efforts to share information on: state and provincial actions that send consumers more accurate price signals; technologies that will enable consumers to respond to such price signals; and evaluations of consumers' responses to more accurate price signals.

An initial step in sharing information on demand response programs was taken at the April 29-30, 2002 meeting of the Western Interstate Energy Board's (WIEB) Committee on Regional Electric Power Cooperation (CREPC), which was attended by representatives of Alberta, B.C. and Saskatchewan. WIEB established a team of officials, to further explore effective demand response programs. Member provinces are part of this ongoing effort.

Energy Infrastructure

Comprehensive regional information on existing energy infrastructure and proposed additions (e.g., power plants, transmission, pipelines) would benefit policy makers and market participants. It was agreed that:

- A cooperative project would involve the identification of: existing information; gaps in available information; and ways to integrate information.
- A first product of this effort would be the analysis of information on western energy supplies and deliverability infrastructure.
- A key component for consideration in developing information for energy infrastructure should include considerations of accessibility to renewable energy forms and emerging resource technologies, to enhance energy security and reliability for the region.

Emerging Resources/Technology

Following the 2001 Premiers/Governors meeting Alberta and Wyoming initiated bilateral cooperation on coal bed methane resource potential assessment and development. Montana, Saskatchewan and B.C. have indicated preliminary interest in cooperation and information-sharing in this area. Other opportunities for energy-related information sharing, including the undeveloped hydro-electric export potential of Western Canada, as well as clean energy technologies (such as ethanol, hydrogen, wind and clean coal), remain as opportunities to be pursued.

2. Approvals and Permitting of New Projects

Premiers and Governors recognize the significant need to upgrade the energy infrastructure (pipelines, electricity transmission lines and generating facilities) in the West. One of the key issues is expeditious permitting of needed new transmission facilities. Improvements to Western North America's energy transmission infrastructure could benefit from a cooperative effort to share information among states and provinces on the "best practices" for improving the quality and timeliness of environmental reviews of proposed energy projects.

This project could be incorporated into follow up to the WGA's environmental initiative, and should include an examination of promising new technologies, such as computer visualization and Internet-based public review and input during agency review processes. A draft protocol among the Western states on the collaborative review of proposed interstate transmission projects was submitted to regional stakeholders at the WGA Environmental Summit, April 24-26, 2002. The Governors expect to sign the protocol at the WGA Annual Meeting in June. Provincial participation in the protocol will be sought.

Following the publication of NAEWG reports on federal energy and environmental regulatory processes within Canada, Mexico and the US, western provinces and states could determine whether the addition of state and provincial processes to the database of federal processes would serve a useful purpose to facilitate the development of a continental energy market.

At the April 2002 meeting of the Western Interstate Energy Board (WIEB), British Columbia indicated its interest in working with western state energy agencies to identify “best practices” that can be used in siting energy facilities, including facilities with trans-boundary impacts.

3. Greenhouse Gas Co-Operation

The potential for province-state cooperation on greenhouse gas issues was discussed at the 2001 Premiers’/Governors’ meeting. An overview was provided of mechanisms to address greenhouse gas emissions, which was built on work done in Alberta and British Columbia, and on discussions between the WGA and industry in its air quality initiative.

Governors and Premiers recognized that in addition to developing and providing increased access to low greenhouse gas emitting, sustainable and renewable energy sources, the lowest-cost ways to reduce greenhouse gas emissions are likely to involve some type of emission trading system and the development of new technology. British Columbia and Alberta have been leaders in exploring such trading systems, and are interested in sharing their experience and insights into greenhouse gas management, including registering emissions, conservation, technology, and trading systems, to reduce greenhouse gas emissions and improve air quality. Manitoba joins with these provinces in support of these initiatives, and offers to share its expertise in providing clean energy resources to facilitate reductions in greenhouse gas emissions to the region.

The development of new technology has significant potential to reduce greenhouse gas emissions and improve air quality. Potential technology areas that may be of interest to western states and provinces may include:

- carbon dioxide separation technology, which captures carbon dioxide emissions to provide a low cost source of carbon dioxide for other uses;**
- carbon dioxide enhanced oil recovery, which makes use of carbon dioxide as a means of stimulating oil production while disposing of the carbon dioxide;**
- biomass energy systems to utilise agricultural and forestry biomass either in the production of ethanol or as fuel source in electricity generation.**

Western Premiers and Governors recognize the need to address climate change in an effective manner that is both environmentally and economically responsible. Provinces believe that cooperative regional efforts with U.S. and Mexican states to create a mutually acceptable framework to implement a greenhouse gas mitigation strategy that would make Western North America a leader in developed-developing world cooperation on this issue.

Last year, Eastern Canadian Premiers and New England governors directed pursuit of joint action on greenhouse gases. A report outlining how the action plan on this initiative should be implemented will be presented to Eastern Premiers and Governors at their annual meeting in August, 2002. Consistent with a focus on continental energy markets, the Eastern action plan and report could be discussed by Western Premiers and Governors as part of the development of a framework for regional cooperation on climate change strategies.

RECOMMENDATION:

It is recommended that the Western Premiers suggest to their Western Governor invited guests that they pursue with their colleagues at the Western Governors' Association Annual Meeting in Phoenix, Arizona, June 23-25 2002 the following recommendations on strengthening areas of co-operation between U.S. and Mexican states and Canadian provinces:

- **sharing information on energy resource development and energy demand management initiatives;**
- **regulatory approvals and permitting;**
- **a framework for regional co-operation on climate change strategies, focussing initially on information sharing in greenhouse gas management**
- **sharing information and best practices on emerging energy technologies, such as ethanol, hydrogen, wind, coal bed methane and clean coal.**

It is further recommended that Premier Klein as the designated lead on energy issues for the Western Premiers, and the Chair of the Energy Committee of the Western Governors' Association, be tasked with reporting progress on these recommendations at the 2003 WPC/WGA meeting.