

Restarting the Economy by Supporting Canadian Communities in the Transition to Net-Zero



Submission for Pre-Budget Consultations in
Advance of the Upcoming Federal Budget

PREPARED FOR:
The Standing Committee on Finance

CONTACT DETAILS:
Tonja Leach, Executive Director, QUEST
E: tleach@questcanada.org
T: 866-494-2770 e.706

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QUEST

350 rue Albert St. Suite / bureau 1220

Ottawa, ON K1R 1A4

www.questcanada.org

List of Recommendations

Recommendation 1. Invest \$20M over 3 years to engage Canada's diverse communities in the net-zero transition to deepen understanding of the implications and opportunities of a net-zero economy and lay the foundation to accelerate local action.

Recommendation 2. Invest \$50M over 5 years to strengthen the capacity of small and medium-size communities to establish frameworks and sound governance structures to implement climate mitigation and adaptation solutions.

Recommendation 3. Scale up innovative financial tools for local governments to develop greater financial capability and effectively contribute to the net-zero objective.

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Introduction

QUEST is a national non-government organization that works to accelerate the adoption of efficient and integrated community-scale energy systems in Canada by informing, inspiring, and connecting decision-makers. The organization commissions research, communicates best practices, convenes government, utility, and private-sector leaders, and works directly with local authorities across the country to implement on-the-ground solutions.

Communities, our local businesses, organizations, governments, and institutions, have felt and will continue to feel the impacts of COVID-19. They are also on the front lines when it comes to the impacts from climate change. While communities are facing multiple challenges, we also face a unique opportunity that cannot be missed — blending together the need to restart our economy with the objective of achieving net-zero by 2050 by empowering our Communities to lead the way.

Canadian communities are responsible for over 60% of energy end-use and 50% of GHG emissions (mostly Scope 3 emissions) in Canada. Therefore, communities have a significant role to play in helping Canada meet its' net-zero by 2050 target and the Federal Government needs their buy-in and support.

There are significant barriers that communities face on enabling the pathways to net-zero. Most notably:

- The unique role that community stakeholders need to play is not well defined.
- The majority of local stakeholders are lacking the human capacity to deliver the outcomes needed.
- Innovative social and financial mechanisms are lacking.
- There is a disconnect in the risk tolerance between local stakeholders.
- Some legacy policy and regulatory structures, especially in the energy and building sectors, are still in place, impeding progress and slowing momentum.

The recommendations that follow for Canada's upcoming Federal Budget reflect our experience working nation-wide with utilities, industry, non-profits, academic institutions, and communities. While constitutionally municipalities are the responsibility of the province, the successes of the Pan-Canadian Framework, the Green Municipal Fund, and many other innovative and important federal programs shows the importance of Federal support for local action.

We strongly believe there is a pressing need to establish a program that supports collective community action on climate and energy in addition to sectoral action alone.

Recommendation 1

Invest \$20M over three years to engage Canada's diverse communities in the net-zero transition to deepen understanding of the implications and opportunities of a net-zero economy and lay the foundation to accelerate local action.

A multitude of research reports and modelling studies have been conducted that articulate various pathways to reaching net-zero emissions. While useful in identifying high-level opportunities for emissions reductions, these studies often focus on narrow technology pathways and take a “top-down” approach to modelling that do not consider the diversity of regions and communities across Canada, nor do they take into account implications for communities (which are responsible for more than half of GHG emissions in Canada), or the importance of corporate and public behaviour.

Acknowledged by the International Energy Association's Net-Zero by 2050¹ report and the U.K. Energy Research Partnership's How Behaviour Change Will Unlock Net-Zero² report – achieving net-zero by 2050 cannot be achieved without the sustained support and participation from citizens. Behavioural changes, particularly in advanced economies – such as replacing car trips with walking, cycling or public transport, or improving energy efficiency of buildings – are critical to addressing Scope 3 emissions and require better community design.

As communities are the ecosystem in which our society functions they are the ones that must be empowered to drive the behaviour change that we need to achieve the net-zero target.

There is no one-size-fits-all approach to net-zero for our communities - some can and will fully electrify while others will opt for emission-free options like hydrogen, biomass, renewable natural gas and waste heat capture and usage. Others still will need to deploy or leverage alternative solutions implemented by others to offset emissions from their industries.

There is an urgency to ensure that our diverse communities have clarity on the impacts, potential unintended consequences, and the benefits that net-zero by 2050 will offer them. To be part of the solution and investors and benefactors of the evolution of the energy system, they need to understand how they fit in the broader energy system. They need knowledge of what is transpiring beyond the ‘municipal gate’ that will contribute to their local emission reduction objectives and what their unique role is as opposed to striving to eliminate every emission that is produced in a community by themselves.

With top-down and technological modelling only, the Canadian market is operating with a limited grasp of the solutions which is increasingly becoming an impediment to finding and implementing efficient, effective and sustainable solutions.

Budget 2022 must invest in engaging with and bringing communities onside with the net-zero by 2050 target.

¹ International Energy Agency Net-Zero by 2050: A Roadmap for the Global Energy Sector, 2021
<https://www.iea.org/reports/net-zero-by-2050>

² Energy Research Partnership How Behaviour Change Will Unlock Net-Zero, 2020
<https://erpuuk.org/project/how-behaviour-change-will-unlock-net-zero/>

Recommendation 2

Invest \$50M over 5 years to strengthen the capacity of small and medium-size communities to establish frameworks and sound governance structures to implement climate mitigation and adaptation solutions.

Community Energy Plans and Community Mitigation & Adaptation Plans are essential tools for local governments seeking to contribute their part to the net-zero by 2050 target by reducing local emissions while also mitigating against present and future climate impacts. Developing and implementing these plans over the long-term, requires not only up-front capital investment, but also sustainable and predictable sources of funding, new governance structures, and supportive policy and regulation.

Based on QUEST's extensive experience, one of the most important aspects for the successful development and implementation of these plans is staff capacity and logistical support for all local stakeholders.

Through programs such as Low Carbon Cities Canada and the Green Municipal Fund, the Federal Government has made great progress in supporting municipalities. These programs, however, focus on providing capital support for one-time projects through competitive applications, putting resource-limited, small and medium sized communities at a distinct disadvantage.

These programs also fall short of supporting local governments in building and maintaining the human capacity needed to execute on Community Energy Plans and Community Mitigation & Adaptation Plans, in providing ongoing training, and in supporting the establishment of the governance structures needed to realize the broader goal of community action on climate.

Without the expertise, local governments lack the capacity to develop beneficial projects, apply to funding opportunities, and carry out plans that increase the health, affordability, resilience and prosperity of their community.

The Government of Canada has an opportunity to support capacity building at the local level that is essential to climate mitigation and adaptation solutions.

Recommendation 3

Scale up innovative financial tools for municipalities to develop greater financial autonomy and effectively contribute to the net-zero objective.

Meeting the goal of net-zero emissions by 2050 will require the mobilization of a staggering amount of capital investment, estimated globally to be \$6.9 trillion annually according to the OECD, The World Bank, and UN Environment in their 2018 Financing Climate Futures report³.

It is clear that public and private funds are going to need to work together to achieve this outcome, and while the Federal and Provincial governments are, and need to continue leading the way, local governments who often own and are responsible for many of these infrastructure assets, need innovative tools to change the elements in their control but for which they do not have the fiscal capacity to address.

Local governments have traditionally raised revenues through property taxes, development charges and by-law enforcement, but for small to medium size communities this is not a viable option and insufficient for the scale of the changes needed. They need a mechanism to enable private funding in public assets such as green municipal bonds.

The green bond market has been identified globally as having a significant part to play in achieving net-zero as they channel capital to environmentally beneficial projects. But according to the Climate Bonds Initiative,⁴ as of 2020 only two cities (Ottawa & Toronto) and two provinces (Quebec & Ontario) have issued green bonds in Canada.

Establishing a framework for green bond issuance and other innovative financial tools that enable public and private investment in local climate action is imperative to realize the scale of investment needed to achieve the net-zero by 2050 target.

In addition to establishing frameworks, the Bank of Canada can and should play a role in supporting municipalities with resources, expertise, and logistics to further expedite the uptake of new financial tools and instruments by local governments. Recent investments made by the Canadian Infrastructure Bank (CIB) in zero emission buses in large municipalities are a promising approach. But the CIB's investment threshold is often too high for local governments, and additional programming for smaller low-carbon energy projects (such as district heating, smart grid, and distributed generation) and retrofit projects in social housing are also needed.

Lastly, while the Federal Government has offered support through the establishment of the Low Carbon Cities Canada Fund, there is a pressing need to offer more financial support to small and medium sized communities. And to help local governments and community borrowers become "project aggregators" to access large investors to fund their low-carbon energy projects.

³ OECD/The World Bank/UN Environment, Financing Climate Futures: Rethinking Infrastructure - Policy Highlights, 2018, <https://www.oecd.org/environment/cc/climate-futures/policy-highlights-financing-climate-futures.pdf>

⁴ Climate Bonds Initiative, North American State of the Market 2020 - issued February 2019, https://www.climatebonds.net/files/reports/north_america_sotm_final.pdf

The logo for QUEST, featuring the word "QUEST" in a bold, black, sans-serif font. A small, light blue wave-like graphic is positioned under the letter "Q".

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