

Written Submission for the Pre-Budget Consultations in Advance of the 2024-2025 Federal Budget

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August 3, 2023

RECOMMENDATIONS

Recommendation 1: Make a legislative change to *Part IX of the Excise Tax Act* that would categorize residential heating fuels, such as propane, as zero-rated for purposes of the GST. In Canada, heating homes is not a choice and should not be taxed.

Recommendation 2: Support propane as a companion energy source for heat pumps under the Canada Greener Homes Grant. Mini split heat pumps require a primary heat source for insurance purposes. Propane is a cleaner and more affordable energy choice than heating oil.

Recommendation 3: Ensure propane is part of the energy choice for Indigenous communities looking to transition from diesel/heating oil to lower-carbon energy sources.

Recommendation 4: Ensure propane receives the same carbon tax exemptions as diesel and natural gas for remote power generation under the *Greenhouse Gas Pollution Pricing Act*.

Recommendation 5: Make tax credits available for converting fleets from gasoline to propane. This would yield a 26% reduction in GHGs compared to gasoline and save 28 cents per litre in carbon taxes.

Recommendation 6: With Industry, develop a suite of biofuel incentives to ensure investment parity with the U.S.

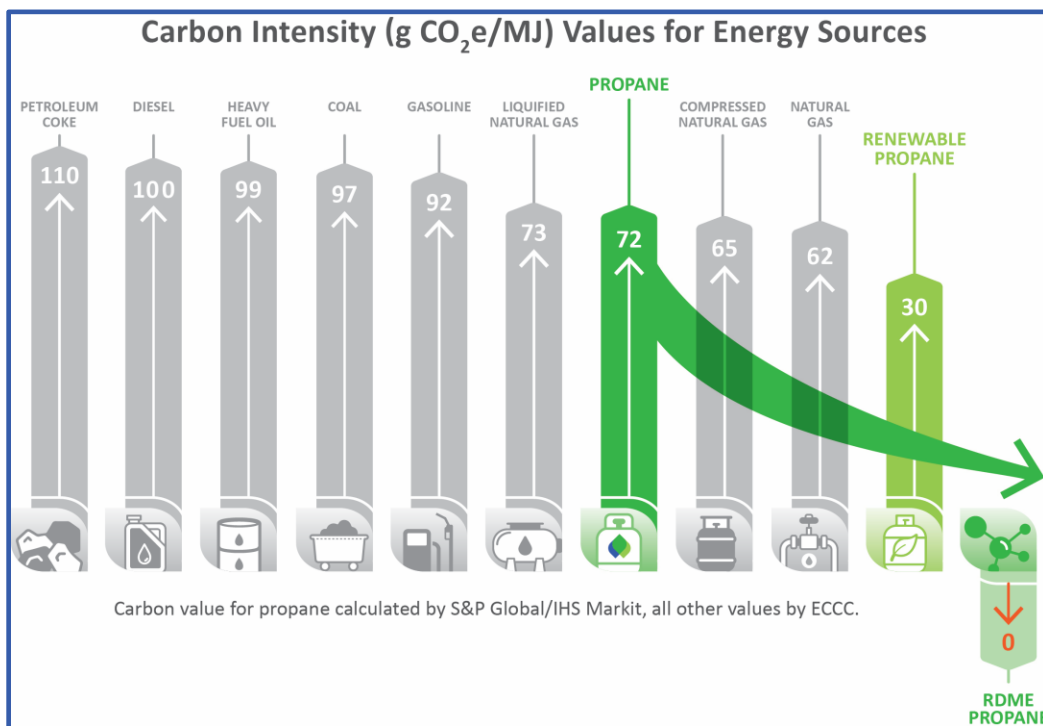
Dear Mr. Chair,

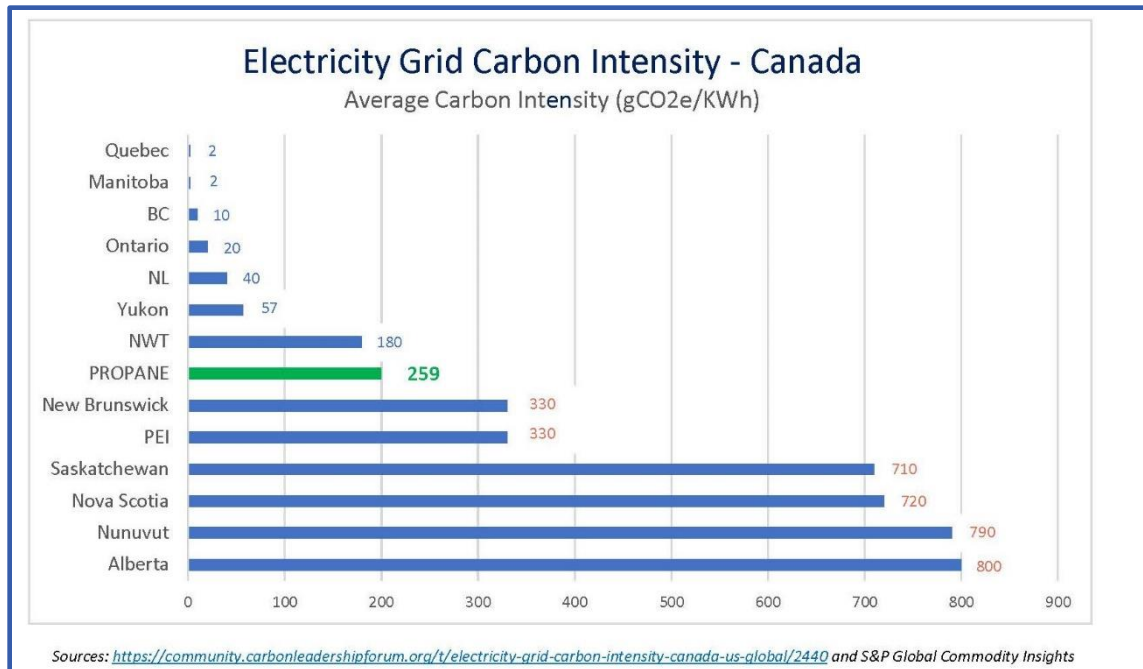
On behalf of members of the Canadian Propane Association (CPA) across Canada, I welcome the opportunity to submit our recommendations to your committee.

Decarbonization, done fairly, is a *dial*, not a switch that can be flipped. It will take time for technologies to develop, resources to be available and communities to accept change. In addition, Canada's vast and often remote landscape, coupled with a cold northern climate, requires a flexible approach to energy policy that considers the needs and potential challenges in all parts of the country while ensuring affordability and energy choice.

We cannot penalize Canadians, especially those in Indigenous, rural, and remote communities, whose access to cleaner energy options is limited compared to those who live in urban communities. The transition to a green future requires fairness and an all-hands-on-deck approach that offers a range of low-carbon, affordable, dependable, and secure energy choices that meet the needs of all Canadians.

As the following graphs show, propane is cleaner energy than heating oil, diesel, gasoline and, in some cases, electricity. It is a vital part of Canada's energy portfolio as we transition to a low-carbon economy.





The environmental benefits for consumers switching to propane will be even greater through increased investments in **renewable propane**.

In addition, blending propane with renewable dimethyl ether (rDME) provides even cleaner solutions for such applications as heating and transportation.

Unlike natural gas or electricity, propane energy is available in all corners of the country, from coast to coast to coast. Its unique national distribution system can also deliver hydrogen to all Canadians when that clean energy technology is fully developed and commercially viable.

In providing Canada's *Energy for All*, the propane industry helps more Canadians meet their energy needs while also helping to achieve the shared goal of a greener future.

Propane offers immediate opportunities to reduce emissions and provides an affordable energy choice to Canadians. That is why a truly comprehensive approach to GHG reductions in Canada must include propane as part of our country's energy portfolio.

Recommendation 1: Make a legislative change to Part IX of the Excise Tax Act that would categorize residential heating fuels, such as propane, as zero-rated for purposes of the GST. In Canada, heating homes is not a choice and should not be taxed.

Currently, residential energy is subject to the GST.

The winter of 2022-2023 showed the challenges of energy affordability in many parts of Canada. Our members report that at one point last winter, the cost of a litre of heating oil was \$1 dollar *more* than a litre of propane.

Factoring in inflation at 30- and 40-year highs followed by increases in interest rates, many Canadians experienced financial stress during last year's winter.

Our 400 members from across the country heard loud and clear from their customers that home energy affordability was a big concern. After all, heating homes is not a choice, it's as essential as the food we eat.

Once again, the CPA recommends the federal government introduce changes to the *Excise Tax Act* as part of its legislative package addressing affordability and make the GST zero-rated for residential energy.

The zero rates could apply to residential houses, condominiums, and other similar dwellings. The change would see low-emission propane and other heating fuels marketed exclusively to domestic consumers for residential purposes zero-rated. The application would be similar for goods such as most groceries, agricultural and fish products, among others that are zero-rated under the *Act*.

While government coffers benefit from higher energy prices, this cannot be on the backs of hard-working Canadians. Making residential heating GST zero-tax rated must be a priority.

Recommendation 2: Support propane as a companion energy source for heat pumps under the Canada Greener Homes Grant. Mini split heat pumps require a primary heat source for insurance purposes. Propane is a cleaner and more affordable energy choice than heating oil.

Electric heat pumps have become a very popular energy option for Canadians. The increased uptake is due to the substantive support the federal government provides through the Canada Greener Homes Grant (CGHG), which in many cases is blended with similar provincial low-carbon programs.

The intended purpose of the CGHG is to lower emissions in an affordable manner, with the federal government offering \$5,000 for people to remove their oil furnaces.

However, because mini-split heat pumps, for example, are not considered a prime source of energy for insurance purposes, the hundreds of thousands of Canadians who are using heating oil and mini-splits will continue to do so. Most Canadians are not going to incur the costs of tens of thousands of dollars for converting their homes exclusively to electricity, even with government loans. They will opt to keep their oil furnace.

The efficiency of most heat pumps begins to drop at about -5°C and significantly by -20°C, which is when the primary source of heat (e.g., heating oil) kicks in.

Since heat pumps (e.g., mini splits) are not primary sources of heat, the question then becomes, what is a cleaner primary source of energy than heating oil? The answer is low-emission propane, especially in areas where there is no access to natural gas.

Consumers want heat pumps to lower their heating bills, and to feel good about their environmental impact. In most cases, their best option is a dual-fuel system.

Incorporating the option of a propane/electric heat pump dual fuel system within the CGHG would reduce home heating emissions by **30%** with little to no additional investment in electrical infrastructure.

Recommendation 3: Ensure propane is part of the energy choice for Indigenous communities looking to transition from diesel/heating oil to lower-carbon energy sources.

Many Indigenous and remote communities in Canada continue to rely on diesel for heating and power generation. This presents a variety of health, environmental, economic, technical, and social challenges, including air and noise pollution, the risks of fuel spills/leaks, high cost of energy, supply issues and capacity constraints.

Programs such as the *Contaminated Sites on Reserve Program* spend millions each year on remediation. In the unlikely event of a spill, propane does not cause harm to air, land, or water.

There is an immediate opportunity to reduce GHG emissions and avoid soil contamination in Indigenous and remote communities by replacing heating oil and diesel with low-emission propane. In addition, for those communities looking at renewable energy, propane is the most affordable, reliable and cleaner backup fuel for any remote communities off the electricity grid.

Recommendation 4: Ensure propane receives the same carbon tax exemptions as diesel and natural gas for remote power generation under the *Greenhouse Gas Pollution Pricing Act*.

Many remote communities rely on diesel for power generation. Propane can also provide power to remote communities with the important benefit of reducing GHGs and criteria air contaminants as well as completely removing the risk of spills.

Presently, diesel and natural gas are provided fuel charge relief for plant operators that generate electricity for remote communities, but low-emission propane is not. Considering that propane is scalable and can provide electricity to remote communities, the expanded use of propane provides a significant opportunity for cleaner, healthier, and more affordable energy for remote communities.

As with Private Member’s Bill C-234 (Lobb) that will exempt propane in agriculture applications, the same principle should apply to remote power generation. Changes to the *Greenhouse Gas Pollution Pricing Act* as it applies to propane and remote power generation should be a priority.

Recommendation 5: Make tax credits available for converting fleets from gasoline to propane. This would yield a 26% reduction in GHGs compared to gasoline and save 28 cents per litre in carbon taxes.

Lower emissions mean lower taxes. Under the **federal fuel charge**, propane has a lower carbon intensity than diesel and gasoline and is taxed less. The federal fuel charge on a litre of diesel as of July 1 is 17.43 cents. For gasoline it’s 14.37 cents and for propane it’s 10.06 cents.

Fast forward to 2030 and that same litre of diesel will include a carbon tax of 45.57 cents, for gasoline it will be 37.61 cents and 26.30 cents for a litre of propane.

Price per tonne	\$20.00	\$30.00	\$40.00	\$50.00	\$65.00	\$80.00	\$95.00	\$110.00	\$125.00	\$140.00	\$155.00	\$170.00
FUEL	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Diesel	5.37	8.05	10.73	13.41	17.43	21.45	25.47	29.49	33.51	37.53	41.55	45.57
Gasoline	4.42	6.63	8.84	11.05	14.37	17.69	21.01	24.33	27.65	30.97	34.29	37.61
Propane	3.10	4.64	6.19	7.74	10.06	12.38	14.70	17.02	19.34	21.66	23.98	26.30

According to the federal Parliamentary Budget Officer, the impact of the Clean Fuel Regulations on the price of a litre of diesel by 2030 will be an extra 16 cents for a total of 62.57 cents per litre and an extra 17 cents per litre for gasoline, which brings the carbon tax total to 54.61 cents per litre.

Propane is a gaseous fuel and is not subject to the Clean Fuel Regulations. By 2030, the savings on carbon taxes for a litre of propane for transportation compared to diesel will be approximately 35 cents. The savings for propane compared to gasoline will be approximately 28 cents per litre.

Propane is already used in transportation across Canada. Couriers, taxis, police, and other service vehicles use propane every day. Providing incentives for fleets to convert to propane means lower emissions and lower transportation costs.

Recommendation 6: With Industry, develop a suite of biofuel incentives to ensure investment parity with the U.S.

For the propane industry to take the next step in reaching the goal of net zero, there must be a level playing field. That includes the government embracing an all-hands-on-deck approach to reducing emissions as opposed to picking winners and losers. And for the propane industry to be successful in scaling up proven biofuel technologies such as renewable propane and propane blended with renewable dimethyl ether, there must be incentives in Canada that are on par with those offered in the United States.

Conclusion

Thank you for providing an opportunity to put forward recommendations that we believe demonstrate the important role the expanded use of propane can play in transitioning to a low-carbon economy.

Canada's propane industry

Canada's propane industry supports about **21,000 well-paying jobs** in every region of the country. Canadians are employed in the propane industry in many roles, including extraction, production and refining, transportation and distribution, equipment manufacturing, sales, and marketing. Find out more: www.propane.ca