

## Read the Series



## SERIES ARTICLES

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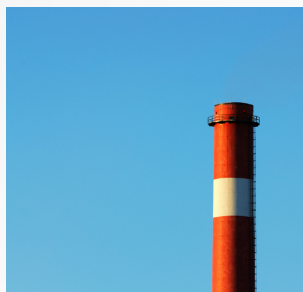
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## A Canadian energy strategy should be robust and sustainable under many possible futures

Experience from many decades past is that forecasts of energy supply and demand, prices and emergent technologies are more often wrong than right in magnitude, timing and even direction. However, many forces such as international agreements, public and media expectations and everyone's understandable desire for certainty tend to push us toward strategies and policies that depend on specific economic or supply/demand forecasts or bets on currently popular technologies.

### There are several ways that a Canadian strategy can avoid these traps:

- Quantitative goals should take the form of plausibly challenging aspirations and not binding commitments unless the major variables are actually in our control. Greenhouse gas emissions are driven mainly by factors that no government really controls and the lamentable greenhouse gas emission performance since Rio in 1992 is in many ways a testament to this. Goals are good if they inspire; they are harmful if they lead to perverse policy or if they breed cynicism.
- Be wary of what models tell us. A good understanding of history and a common sense view of human behaviour often tell us at least as much. Models have many important purposes such as the ability to make complex relationships comprehensible or allow exploration of future scenarios, disciplined by the need to make the numbers add up. But they also reflect the biases and assumptions of their creators and advocates, and they can bury common sense under expertise. Sometimes the back of the envelope is a more important tool for the policy maker.
- Don't limit the diversity of options—increase them. The long history of energy is one of growing diversity of fuels and technologies—the surest guarantee we have of security, reasonable prices and high environmental performance. The next two decades promise an explosion of new possibilities unless our strategies stand in the way by trying to force change faster than it can occur, by making policy bewildering, by trying to pick winners or by setting goals that generate perverse behaviour.
- Avoid measures that are highly prescriptive when less prescriptive approaches will do the job. The best choice of instrument is prices that reflect all real costs including that of carbon. Where regulations and programs are necessary—as they often are—they should be built around performance and outcomes, not specific fuels or technologies.



## Does Anyone Remember...

The anticipated expansion of nuclear power following the Second World War prompted many energy industry figures to predict significant cost reductions for electricity. Infamously, United States Atomic Energy Commission chairman Lewis Strauss declared in 1954 that

“Our children will enjoy in their homes electrical energy too cheap to meter.”

In the early 1980s, with oil prices just under \$40 per barrel (\$110 adjusted for inflation), analysts boldly predicted that prices would be steadily increasing for years to come.

A Stanford University study noted that “uncertainty concerns not whether real prices will rise during the next several decades but rather how rapidly they will rise.” The price tumbled downwards, settling in between \$25 and \$30 per barrel (adjusted for inflation) for the next two decades.

For decades, fusion power was thought to be just around the corner.

In the late 1960s, British technology minister Tony Benn noted that a Soviet scientist had said to him, “Well, 10 years ago we said it would take us 20 years to make fusion work and we still say that it will take 20 years to make fusion work, so we haven’t altered our view in any way.”



- Exploit the genius of federalism by experimenting in different jurisdictions and taking the lessons to the national level. In some instances (such as a carbon price) national harmonization may be more important than experimentation. But harmonization can be achieved either top down or—more slowly and by degrees—bottom up. The choice should be suited not only to the legal jurisdiction but also to the opportunity and the need.
- Keep the dialogue open. Famously it has been said that the first casualty of every battle is the plan, but by the same token no sensible soldier goes into battle without a plan and a guiding strategy. Many of the precise details of strategies will not outlast the cycle from one budget or intergovernmental meeting to the next. The framework, if it’s robust, will last much longer, and therefore should enable policy makers and regulators to be responsive to changing conditions.

## Flexibility and strategy go together

All of the above ideas have been deployed at times in Canadian energy policies and strategies just as all have often been ignored. When they have been ignored it has usually been to our detriment. Flexibility and a great deal of modesty about our predictive abilities are highly desirable attributes for policy makers. But flexibility does not mean only reacting *ad hoc* to events as they transpire; flexibility is integral to good strategy and good strategy makes flexibility a positive attribute not a source of greater risk. Flexibility within strategic boundaries is the goal.

