

# Intelligence MEMOS



From: Ben Brunnen  
To: Natural Resources Minister Jonathan Wilkinson  
Date: June 26, 2024  
Re: ENERGY SCENARIOS SHOULDN'T DRIVE POLICY – ESPECIALLY IN CANADA

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Policymakers around the world are trying to strike the right balance between keeping energy secure, affordable, and reliable, while reducing emissions and promoting economic growth.

Energy forecasts and scenarios from agencies such as the International Energy Agency (IEA) can help inform governments' energy policies and regulations. However, due to issues with the nature of scenarios and forecasts, accuracy and independence – policies and regulations should not be directly tied to their government policy and regulation. This is especially true in Canada.

Let's look at the relationship between Ottawa and the Canadian Energy Regulator (CER), the federal agency responsible for energy forecasting and scenario modelling at a national level.

In 2021, the natural resources minister requested the regulator undertake a scenario analysis consistent with Canada achieving net zero emissions by 2050. This marked the CER's first long-term [outlook](#) modeling net zero by 2050, and its Canadian net zero scenario was subsequently tied to the federal government's proposed Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap. This is problematic for several reasons.

First, energy scenarios are hypothetical, and are designed to help decision-makers understand what would be required to achieve a desired outcome, such as net zero emissions. Their use as a tool to direct macro-level energy investment policies and regulations can create country-level exposure to significant energy supply, affordability and security disruptions.

Second, the assumptions used for the CER's net zero scenarios rely heavily on the IEA's policy scenarios. For instance, the IEA's scenarios predict distinctly lower total energy and oil and gas consumption than other agencies, conceivably a result of the shift in the IEA's mandate from energy security and affordability to "leading the global energy sector's fight against climate change." Over-reliance on IEA scenario modelling risks relying on an agency that is increasingly an advocate for an emissions reduction agenda.

Third, using the CER's Canadian net zero scenarios as a regulatory instrument is a reliability concern. Looking at the CER's oil and gas production levels in its 2023 Canada Energy Futures [report](#), levels differ depending on whether the dataset draws from the charts or appendix. While the CER has acknowledged this with the addition of an errata on its website, the broader issue is the presence of errors and omissions in scenarios that governments rely on to regulate industry and direct investment decisions.

Finally, and perhaps the most significant: The federal government requested that the CER produce a Canada net-zero scenario in 2021, and then immediately adopted that scenario in its proposed regulatory framework.

This suggests that the relationship between the government and its national energy information agency is not sufficiently arm's length. While the CER, to its credit, has been transparent in how it responded, greater structural autonomy of its energy information function would only help strengthen its independence and institutionalize its objectivity.

We need to remember that forecasts and scenarios should not be used as regulatory instruments, and that we need to fundamentally strengthen their development and use if we are to consider them in Canada's energy policy decision-making.

Looking at the CER and Ottawa, key steps need to be taken to strengthen the CER.

Most notably, the structural independence of the CER's energy information function needs to be strengthened by establishing the function as an arms-length information sharing agency, similar to the US Energy Information Agency. And rather than directing the CER's work, the federal government should create its own publicly available energy scenarios that are used to inform energy policy discussions, but not as binding policy and regulatory instruments. Further, detailed, realistic and practically applied analysis of lowest cost pathways needs to be conducted to reduce emissions while maximizing economic value for emissions policy decisions.

On the CER side, forecasts and scenarios need to be developed incorporating assumptions from a breadth of sources; the regulator should continue consistently producing a reference case energy futures scenario as a comparative forecast benchmark for any additional policy scenarios it develops; and a breadth of assumptions of energy supply and demand across multiple sources needs to be applied in the development of lower emissions scenarios, including the prospect of higher oil and gas prices and Canadian production.

Objectivity in energy forecasting and scenario modelling is critically important to sound energy policy decision-making. These tools need to be robustly developed and applied judiciously. They need to be used as context to inform policy and regulatory decisions, rather than as policy or regulatory instruments in and of themselves.

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