

Oil Substitution Act

We in the Ministry of Energy, Mines and Resources have received a number of representations proposing that three or four or five extra months be allowed to complete conversions in respect of commitments signed by applicants before March 31 of this year. It has been argued that it is impossible to convert to natural gas between November and April, or in any event more costly to do so than during warm-weather months. Both gas and electrical utilities have expressed concern that the pressure to get the work done by March 31 may adversely affect work quality. In some cases, because of limited inventories of equipment, less than optimal systems may be installed.

We were sympathetic to these concerns and gave serious consideration to an extension of the period for eligible conversions into the summer. The Minister concluded, however, that a general extension could not be permitted in view of the additional program costs involved. For example, a minimum useful extension of three months only, to June 30, would increase cost outlays in the 1985-86 year by up to \$35 million. I think that is a relatively conservative estimate. This would reduce by more than one-third the program savings that the Minister has pledged in respect of COSP toward the deficit reductions announced by the Minister of Finance and President of the Treasury Board.

I would now like to comment on the CHIP program. That program provided taxable contributions of up to \$500 towards insulating and draft-proofing measures in existing homes. It was announced in 1977 and the Act provided for its termination date at the end of 1987. The amending Bill provides for a two-stage phase-out under which the Government's share of eligible costs is reduced to 33½ per cent from 60 per cent effective January 1, 1985, and the program comes to an end on March 31, 1986. I emphasize that in these final 15 months of CHIP, the maximum contribution is unchanged at \$500. The Minister has provided an extra year for CHIP beyond the termination date for COSP, in recognition of the fact that suppliers and installers of residential conservation materials across Canada need the time to prepare for the withdrawal of CHIP.

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The end of the program has been anticipated for some time by industry and government. For example, the reduction of the contribution rate to 33½ per cent is a natural and important step which follows an earlier reduction of the rate for materials to 60 per cent from 100 per cent.

Moreover, homes have been admitted to the program sequentially on the basis of their date of construction. The process is now in its final stage. The last group to become eligible, the 1.3 million homes built between 1971 and 1977, will have had two years to use the program by the time it concludes next year. That further period will also be helpful to the many small contractors across Canada who are working in trade that is still relatively young. They have rarely had notice of changes in CHIP and this phase-out period gives them some time to expand scope of the conservation work they can do and

improve their ability to explain the advantages of conservation to householders.

In this respect we are indebted to the National Insulation and Energy Conservation Contractors Association, which represents insulation installers across Canada, for its advice and support. The Association recognized early last fall that CHIP might have to be discontinued and volunteered options for an orderly conclusion of the program. Its suggestions were very helpful to the Minister in preparing recommendations to her Cabinet colleagues. The Association was later able to identify the likelihood that backlogs of orders for work and material would arise in advance of the change in the contribution rate on December 31. The Minister was pleased to accept the modification which permits applicants to sign for the work by December 31 but have it performed in the first three months of 1985 at the 60 per cent rate. More than 80,000 applicants have taken advantage of this provision.

Let us look at the budgetary savings because this is important. We estimate that CHIP and COSP expenditures in the current fiscal year will total almost \$350 million. The termination of COSP and phasing out of CHIP will provide continued savings from the appropriation levels for the two programs of \$180 million in 1985-86 and \$315 million in 1986-87. These are major and necessary contributions towards reduction of the federal deficit. Our decisions have been made not just because we must address the deficit. Our decisions recognize that the market-place has changed and that the Government's role with respect to oil substitution and energy conservation must change with it.

COSP was introduced in October, 1980. We all remember that at that time OPEC dominated the world's view of the future for oil. It was expected to control world supply and push world prices much higher. Almost 40 per cent of Canadian homes were heated with oil. Most of those home owners had little knowledge of oil substitution. Residential oil substitution was identified as a priority and a large consumer grant was introduced as the instrument to make it happen.

It is difficult to establish how much of the activity which has taken place since 1980 can be credited to COSP. Almost one million units have been converted under the program representing oil displacement of some 32,000 barrels a day, which is a very significant amount. Over this period the financial benefits of oil substitution have become more familiar to home owners. A trend has been established toward installation of medium and high-efficiency natural gas furnaces which are being made available at steadily declining and more competitive prices. Dual energy systems such as plenum heaters and heat pumps are offering savings and comfort to home owners and advantages in load management to the utilities.

A broad range of controlled combustion wood-burning systems are now available. Hundreds of thousands of homes across rural Canada use wood as their only source of space heating and obtain their supplies at a very low cost. To preserve a share of the residential market, oil dealers and manufacturers of oil heating equipment are marketing new high-efficiency oil furnaces and retrofit packages for existing