

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

By: Electricity Canada



List of recommendations

Recommendation 1: Streamline and clarify the Clean Economy Investment Tax Credits and extend eligibility to 2040 to reflect major project timelines

Recommendation 2: Move quickly to extend the Clean Electricity Investment Tax Credit to major high-voltage intra-provincial transmission projects

Recommendation 3: Provide targeted funding for distribution infrastructure and grid modernization to support electrification goals

Recommendation 4: Revise the EIFEL rules to remove competitiveness barriers for attracting investment into capital intensive electricity infrastructure

Recommendation 5: Explore financing tools that encourage building long-life electricity infrastructure affordably

Recommendation 6: Partner with provinces, system operators, and utilities to advance interregional electricity planning that prioritizes optimization of existing transmission infrastructure

Recommendation 7: Apply Electricity Canada's Benefit Accrual Framework to jurisdictions with opportunities to expand interprovincial transmission

Recommendation 8: Partner with electricity companies and suppliers to develop a Canadian Electricity Supply Chain Roadmap to identify opportunities to expand domestic production by leveraging existing federal tools

Recommendation 9: Tariffs and "Buy Canadian" policies should only target products with direct substitutes already available at scale in Canada that can be procured in compliance with existing domestic and international trade agreements and procurement obligations

Recommendation 10: Introduce a resiliency tax credit and/or targeted funding program to support weather hardening of electricity infrastructure and to protect the system from growing exposure to extreme weather events including wildfires



Making Canada an energy superpower

Electricity Canada is the national voice for electricity in Canada. Our members generate, transmit, and distribute power to homes and businesses across Canada. We represent integrated electric utilities, independent power producers, transmission and distribution companies, power marketers, and system operators. Our members deliver electricity to all Canadians, in every province and territory.

To make Canada an energy superpower, Canada must translate *ambition* into *execution*. Growing and modernizing Canada's electricity system is a nation-building scale endeavour. The task ahead is to build big again, decisively and ambitiously, while providing the affordable, reliable and clean electricity that is at the heart of Canada's energy future.

The upcoming budget is an opportunity to implement measures announced in *Powering Canada Strong: A National Strategy for an Electrified Canadian Economy*, which seeks to ensure Canada can build new infrastructure to double our electricity supply to meet growing demand and to accelerate electrification across the economy to support competitiveness and address climate change.

To grow and modernize our electricity system there must be an aggressive build-out of power infrastructure over the next 25 years. This will require new generation across all technologies, expanded transmission to connect communities, and significant upgrades to distribution systems. At the same time, aging, weather-worn infrastructure must be replaced and the system protected from extreme weather events and other threats. Electricity companies will need to compete globally for a constrained supply of components, creating opportunities for domestic manufacturers but adding complexity and costs to projects. And the sector will need to train, hire and retain up to 130,000 Canadians for in-demand jobs by 2050.

With Canadians already concerned about their electricity bills, which are expected to rise faster than inflation over the near-term, Canadians cannot afford to finance the build-out through their bills alone. To realize the National Electricity Strategy's goal of delivering up to \$15 billion in total energy savings for Canadian households by 2050, affordability concerns must be met. The federal government must play a sustained role in sharing risk, lowering the cost of capital, directly funding and financing the build-out, and ensuring policy decisions don't contribute to cost pressures.



Mobilizing capital: Financing Canada's electricity future

Recommendation 1: Streamline and clarify the Clean Economy Investment Tax Credits and extend eligibility to 2040 to reflect major project timelines.

Electricity Canada supports the recommendations in Electricity Alliance Canada's pre-budget submission.

Recommendation 2: Move quickly to extend the Clean Electricity Investment Tax Credit to major high-voltage intra-provincial transmission projects.

The government's intention to extend the Clean Electricity ITC to support certain major high-voltage intra-provincial transmission projects is a welcome announcement that reflects the essential role of intra-provincial transmission in connect generation to communities, supporting economic development, facilitating inter-provincial interties, and maintaining system reliability. We encourage the government to act swiftly to implement the extension in consultation with electricity companies.

Recommendation 3: Provide targeted funding for distribution and grid modernization infrastructure to support electrification goals.

There are critical funding gaps for grid modernization and distribution infrastructure due to customer affordability challenges. Systemic underinvestment in distribution infrastructure will hinder electricity companies' ability to manage load growth and electrify the Canadian economy.

The Strategic Renewables Electrification Pathways Program (SREPs) is the only federal funding stream available to support grid modernization. The funding available through SREPs helps bridge the funding gap and enables investments that support reliability and affordability. SREPs, particularly the Utility Support Stream, should be recapitalized at scale to help meet the challenge of building a "last mile" capable of supporting growth. The government should look for opportunities to the program is efficient, accessible and aligned with the sector's needs.

Recommendation 4: Revise the EIFEL rules to remove competitiveness barriers for attracting investment into capital-intensive electricity infrastructure.

The application of EIFEL to Canadian energy and public-benefit infrastructure businesses impedes their ability to make competitive investments in critical infrastructure.



Regulated utilities and energy infrastructure providers operate under capital structures that are established or approved by independent regulators to minimize customer costs and ensure reliable service. These businesses are capital-intensive, rely on long-term debt financing to spread-out the cost of multi-decade infrastructure investments, and have limited ability to alter leverage or pricing without regulatory approval. Any increases in tax costs caused by denied interest deductions is ultimately borne by Canadian customers resulting in higher consumer energy costs. Moreover, increasing the costs of capital undermines the government's objective of attracting large-scale private capital into electricity infrastructure investments, particularly from Canadian companies.

The sector requires an immediate set of necessary relief measures including transitional measures and carve outs for critical energy providers, including large infrastructure projects and regulated utilities.

Recommendation 5: Explore financing tools that support the affordable development of long-life electricity infrastructure.

The traditional ratepayer-based funding model is not equipped to finance the scale of investment that is needed to grow and modernize Canada's electricity systems. According to Electricity Canada's annual customer survey, 84% of Canadians say they would be impacted if their electricity bills increased by 20%. With provinces forecasting the need to potentially double their electricity systems over the next 25 years, while making investments to decarbonize, upgrade and protect existing infrastructure, Canada must think differently about financing long-life infrastructure that will serve multiple generations.

Growing and modernizing our electricity system is a nation-building scale endeavour. Its too big for today's ratepayers or any one electricity company or jurisdiction to finance independently. National leadership is needed. Only the federal government has the fiscal capacity and convening power to rise to this challenge.

Towards an integrated Canadian electricity system

Recommendation 6: Partner with provinces, system operators, and electricity companies to advance interregional electricity planning that prioritizes optimization of existing transmission infrastructure.





Optimizing Canada's electricity system East-West-North through enhanced interprovincial transmission will help meet rising electricity demand while enhancing reliability, affordability and energy security. Interprovincial transmission plays a vital role in supporting reliability and market outcomes in Canada, with most connections operating at high utilization rates during peak periods.

Electricity Canada commissioned Deloitte to study [Canada's inertia network](#). Using data from provincial system operators and utilities, the research identified opportunities to optimize existing interprovincial transmission lines. To enhance Canada's East-West-North electricity system, the government should partner with provinces, system operators and electricity companies to prioritize regionally coordinated transmission planning with a focus on optimizing existing transmission and generation infrastructure before committing to new infrastructure.

Recommendation 7: Apply Electricity Canada's Benefit Accrual Framework to jurisdictions with opportunities to expand interprovincial transmission.

The primary barrier to expanded East-West-North electricity trade is the lack of clearly defined shared benefits for participating jurisdictions. Interprovincial transmission projects are capital-intensive, and in practice, their costs and benefits do not naturally accrue in a way that is fair or sufficiently attractive to both parties.

To address this challenge, Electricity Canada developed a [Benefits Accrual Framework](#) to clarify how the costs and benefits of interprovincial transmission projects can be transparently identified and equitably allocated, and how the federal government can play a role in bridging gaps during project development. The federal government should apply the Benefits Accrual Framework to the regions with strong potential for increased interprovincial transmission to support pre-development activities and help advance new interprovincial transmission projects.

Given the significant cost of expanding transmission infrastructure, the government should look for opportunities to unlock private capital.

Building system capacity

Recommendation 8: Partner with electricity companies and suppliers to develop a Canadian Electricity Supply Chain Roadmap to identify opportunities to expand domestic production by leveraging existing federal tools.





Supply chains are straining under geopolitical uncertainty and increasing global demand for electricity. Delivery times for critical equipment have increased, increasing project risk. Securing Canada's electricity supply chain is an economic and security opportunity for Canada. Domestic manufacturers could serve more of the \$30 billion domestic market for critical equipment while expanding export opportunities.

The global supply chain for electrical components is a complex network that has evolved over decades. Reorienting Canada's electricity supply chains will take years, not months. Electricity Canada supports the long-term goals of providing greater market opportunities for domestic manufacturers, sourcing domestic content where feasible, and working with suppliers to build new capacity.

The National Electricity Strategy committed to publishing a more comprehensive understanding of Canada's electricity component supply chain. A Canadian Electricity Supply Chain Roadmap should help clarify future demand and connect suppliers to existing federal tools. It should identify opportunities for trade-impacted industries to support growth. The Roadmap should outline strategies for mitigating trade risks, costs and timeline risks, and building resilient, value-added supply chains that support Canada's critical electricity infrastructure. It should recognize that electricity infrastructure depends on global supply chains.

Recommendation 9: Tariffs and “Buy Canadian” policies should only target products with direct substitutes already available at scale in Canada and can be procured in compliance with existing domestic and international trade agreements and procurement obligations.

Electricity Canada and its members support the objective of developing domestic supply chains for electricity components and are already working with Canadian manufacturers of steel and electrical equipment to increase capacity. However, there are cost implications associated with procuring some products from Canadian suppliers. Electricity companies cannot absorb additional costs without consequence. Increasing costs or timelines for critical materials will delay necessary infrastructure projects, increasing risks to reliability and electricity rates for Canadians.

Electricity companies are typically subject to domestic and international trade agreements which bind them to competitive bidding processes, preventing them from simply awarding contracts or redirecting procurements to specific Canadian suppliers.



Non-substitutable inputs, as well as products where Canadian suppliers have limited capacity, should be excluded from restrictive measures. Prior to any final policy decisions that will impact procurement, the government should engage directly with electricity companies to determine the feasibility of shifting to domestic suppliers.

Resilience in a changing climate: Wildfires and system protection

Recommendation 10: Introduce a resiliency tax credit and/or targeted funding program to support weather hardening of electricity infrastructure and to protect the system from growing exposure to extreme weather events including wildfires.

Wildfire risks are a significant and persistent threat to Canada's electricity system. Under extreme wildfire conditions, power lines can also increase the risk of utility-caused ignitions. Contacts with vegetation, conductor slap or damaged equipment can spark a larger fire, especially in hotter, drier conditions. The interaction of wildfires and electrical infrastructure can impact communities and public safety, damage electrical equipment, extend customer outages, and impose legal liabilities on the sector.

Consistent government action is needed to scale investments in wildfire prevention, harden electricity assets, enable timely vegetation management, and provide legal protections for utility-caused wildfires.

