List of Recommendations

Recommendation 1: Develop a Canadian Electricity Strategy to guide and advance Canada's work to build a clean, reliable, and affordable electricity grid to support net zero.

Recommendation 2: Expand the Investment Tax Credit for Clean Technologies program to ensure necessary support for non-emitting electricity.

Recommendation 3: Exempt regulated utilities from planned changes to Excessive Interest and Financing Expenses Limitation (EIFEL).

Recommendation 4: Establish a dedicated fund to support Indigenous capacity building on clean energy development and operations.

Recommendation 5: Work with provinces and territories to align utility legislation, policies, and regulations with emissions reduction goals, including through the work of the Regional Energy and Resource Tables and the Pan-Canadian Grid Council.

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Electricity Canada
Pre-Budget Submission

About Electricity Canada

Electricity Canada is the national voice of Canada's evolving and innovative electricity business. Our members generate, transmit, and distribute electrical energy to industrial, commercial, residential, and institutional customers across Canada. Members include integrated electric utilities, independent power producers, transmission and distribution companies, power marketers, and system operators, who deliver electricity to all Canadians in every province and territory.

Canada's electricity sector is among the cleanest in the world, with more than 80% of electricity produced in Canada already non-emitting. Since 2005, the electricity sector has reduced greenhouse gas emissions have been reduced by almost 50%-- more than virtually any other sector.

Affordable, Reliable, Clean: Powering our Net Zero Future

Canada has made aggressive commitments to reach net zero emissions. These include building a net zero electricity grid, shifting to zero-emission vehicles by 2035, greening buildings, and decarbonizing industrial processes.

Electricity will power this transition. Affordable, reliable, and clean electricity can substitute emitting forms of energy and can be leveraged to reduce emissions in other sectors, including transportation, heating, and industrial processes. But Canada is going to need more clean electricity, and soon.

Building this net zero grid by 2035 is the most pressing challenge for the electricity sector - and time is of the essence. Electricity projects take years to complete. In 2021, when the pledge was included in the Speech from the Throne, there were 14 years to decarbonize the grid. By the 2023 budget, there will be just over 12 years. As of February 10th, when this was submitted, there will be just 4,708 days left till 2035.

The world has not remained static over this time. Supply chain challenges, rising materials prices, and labour shortages affect the electricity sector like every other. The passage of the U.S. Inflation Reduction Act, which commits more than US $300 million to support clean energy projects, creates competitiveness challenges for Canada. A dramatic rise in energy prices in Europe, driven partly by the war in Ukraine, has placed a renewed focus on energy security.

Record inflation has put pressure on already tight household budgets and businesses' bottom line, underscoring the need to keep electricity costs affordable.

In the Fall Economic Statement, the federal government demonstrated its understanding of the challenges that lie ahead and committed to investing in non-emitting technologies, while also supporting the workforce needed to advance these projects. This is a welcome first step and one that should be built upon.

As the government prepares the 2023 budget, it must prioritize actions to facilitate and accelerate decarbonization while simultaneously expanding the grid to achieve net zero. All actions should be measured against whether they enable a net zero future. In this document, we highlight recommendations that support the expansion of clean, reliable, and affordable electricity.

Recommendation 1: Develop a Canadian Electricity Strategy to guide and advance Canada's work to build a clean, reliable, and affordable electricity grid to support net zero.

Decarbonizing the Canadian economy and the electricity sector are herculean tasks. Industry and government understand what future demand will be, but action must be taken to ensure all provinces and territories are coordinated and equipped with the tools necessary to meet that demand. Similar to the recently released Critical Minerals Strategy, a Canadian Electricity Strategy would outline the federal government's ongoing work and identify the key actionable objectives towards net zero. This should include funding programs (new and existing), regulatory clarity, and a clear path for getting projects built faster. **To triple our electricity supply, ensure that it is non-emitting by 2035, and maintain affordability for Canadians, funding and coordination from all levels of government are essential.**

Funding

Since 2015, the federal government has introduced mechanisms and funding programs to incentivize the clean energy transition. These are necessary to empower innovation, and even more critically, to keep bills affordable for Canadians. The strategy should identify ways in which the federal government can provide funding to support the affordable expansion of non-emitting electricity.

To meet the needs of 2035 – and beyond to 2050 - it will take hundreds of billions of dollars of capital investment to build out the generation, transmission, and distribution necessary to power our homes and businesses. Programs that predictably and quickly deliver funds are vital to assist electricity businesses in meeting this growth.

This includes at the distribution level; government should continue to work with electricity companies to fund pilot projects and programs that reduce customer costs and emissions. This could include further expanding and recapitalizing the Smart Renewables and Electrification Pathways Program (SREPs) that supports local utilities as they mobilize clean, customer-owned Distributed Energy Resources (DERs). DERs will mitigate the need for system-scale generation, transmission, and distribution infrastructure, in support of affordable and customer-focused electrification.

Regulatory Clarity

One of the biggest challenges facing the sector is the lack of clarity on the federal government's future regulatory direction. Electricity infrastructure is capital-intensive and requires long planning, approval and construction timelines. Electricity companies need to know what the rules will be for the lifetime of their assets built today—often more than 25 years hence—to avoid stranded assets, keep costs affordable for customers, and ensure reliability.

In addition to federal regulatory clarity, there need to be efforts to align federal and provincial priorities, to ensure net zero goals are taken into consideration by subnational regulators. A federal goal is insufficient on its own; there must be real efforts to coordinate objectives between levels of government.

A Clear Path

Permitting and approvals for electricity projects in Canada can take up to a decade or more. This is too long if we plan to meet our emission reduction targets. The federal government must work to establish a streamlined, focused regulatory process to get infrastructure projects ready for construction faster. As a start, the federal government must also ensure that bodies such as the Impact Assessment Agency of Canada, Canada Energy Regulator, and Canadian Nuclear Safety Commission have sufficient resources to consider projects as expeditiously as possible. We were pleased to see commitments to this effect in the Fall Economic Statement. The federal government should also continue to explore ways in which it can simplify or streamline other regulatory processes that impact major projects, including those related to fisheries and environmental stewardship. **Unless we take action on all these fronts, Canada's decarbonization goals will be unattainable.**

Recommendation 2: Expand the Investment Tax Credit for Clean Technologies program to ensure maximum support for non-emitting electricity.

Electricity Canada supports the Clean Energy ITCs as a step towards scaling up reliable and affordable clean energy sources in Canada, which is essential to meeting Canada's net zero goals by 2050. However, it is essential the scope of these measures be expanded for these incentives to have meaningful impact in Canada achieving its net zero commitments, support growth and competitiveness of Canada's clean energy industry; and help decarbonize other economic sectors.

By virtue of using an investment tax credit regime, only taxable entities benefit from this program, and tax-exempt entities, such as Crown corporations and Indigenous groups are excluded. The focus of the Clean Energy ITCs must be on supporting the development of clean electricity sources and making those sources affordable to consumers. Crown corporations, pension funds, and Indigenous groups are significant participants in Canada's electricity sector and are crucial drivers of clean technology innovation and development. The taxable status of the owner should not be a factor when deploying the incentives that promote the growth of clean electricity in Canada. Given that some jurisdictions rely on Crown corporations for clean energy development more than others, the exclusion would hinder their ability to compete and reach net zero objectives.

The Investment Tax Credit regime should also be expanded by:

- **Including eligibility for large-scale hydro and conventional nuclear projects**, which are major Canadian sources of clean and reliable baseload power and will be essential to the transition.
- **Including eligibility for transmission and distribution infrastructure**, to connect remote generation facilities to the grid, enable electrification of industrial facilities/buildings, and meet distribution network capacity requirements for electric vehicle integration.
- **Including zero-emission vehicle infrastructure**, which is essential to meeting the demand of Canada's large-scale vehicle transition.
- **Raising the rate of Clean Energy ITCs to match the CCUS ITC (50%)**, to maximize benefit in different regions and between companies that require flexibility in selecting the technology they are most capable of adopting.

Recommendation 3: Exempt regulated utilities from planned changes to Excessive Interest and Financing Expenses Limitation (EIFEL).

Electricity Canada is concerned with the draft legislation on Excessive Interest and Financing Expenses Limitation (EIFEL), which could directly and drastically increase costs to Canadians. Utilities are highly regulated, capital intensive, and must maintain high levels of long-term debt to ensure that costs to Canadian consumers are staggered over the life of a project. Every dollar of denied interest will be passed on to customers or increase the cost of capital. Both outcomes are harmful, raising the cost of energy for Canadians or impacting the feasibility of the significant capital projects required to enable Canada to reach net zero by 2050.

We recommend that the legislation recognize and reflect the unique situation of regulated energy utilities and provide a targeted exemption. Excluding the regulated utility industry from the proposed EIFEL rules is a straightforward solution. Making energy less affordable will make a net zero electricity grid by 2035 an even greater challenge.

Recommendation 4: Establish a dedicated fund to support Indigenous capacity building on clean energy development and operations.

Indigenous communities face unique challenges as they work to reduce their reliance on fossil fuels or participate more generally in the clean energy sector. While funding is valuable to develop renewable electricity generation, it must be coupled with additional support to reduce deep emissions. Dedicated funding to support Indigenous capacity building on clean energy development and operations will enable Indigenous communities to fully participate in clean energy projects, from planning to operation and then maintenance.

Recommendation 5: Work with provinces and territories to align utility legislation, policies, and regulations with emissions reduction goals, including through the work of the Regional Energy and Resource Tables and the Pan-Canadian Grid Council.

Utility legislation – which sets out what a utility can invest in – has not adapted to a net zero future. Currently, environmental benefits, including greenhouse gas reductions, are not actively considered in the decision-making process of many utility regulators. Each interprets and follows the utility legislation in their province or territory.

This is a critical barrier to emissions reductions in Canada. While the federal government has made several climate commitments that impact the sector, electricity is provincially regulated. Federal and provincial priorities must be aligned for the electricity sector to reduce its emissions further and help the rest of the country decarbonize.

As part of the Canadian Electricity Strategy, the federal government should use its convening and spending powers to support economic regulatory pathways at the subnational level to support utility net zero projects. We recommend that the Regional Energy and Resource Tables and the Pan-Canadian Grid Council be utilized as engines for this work.