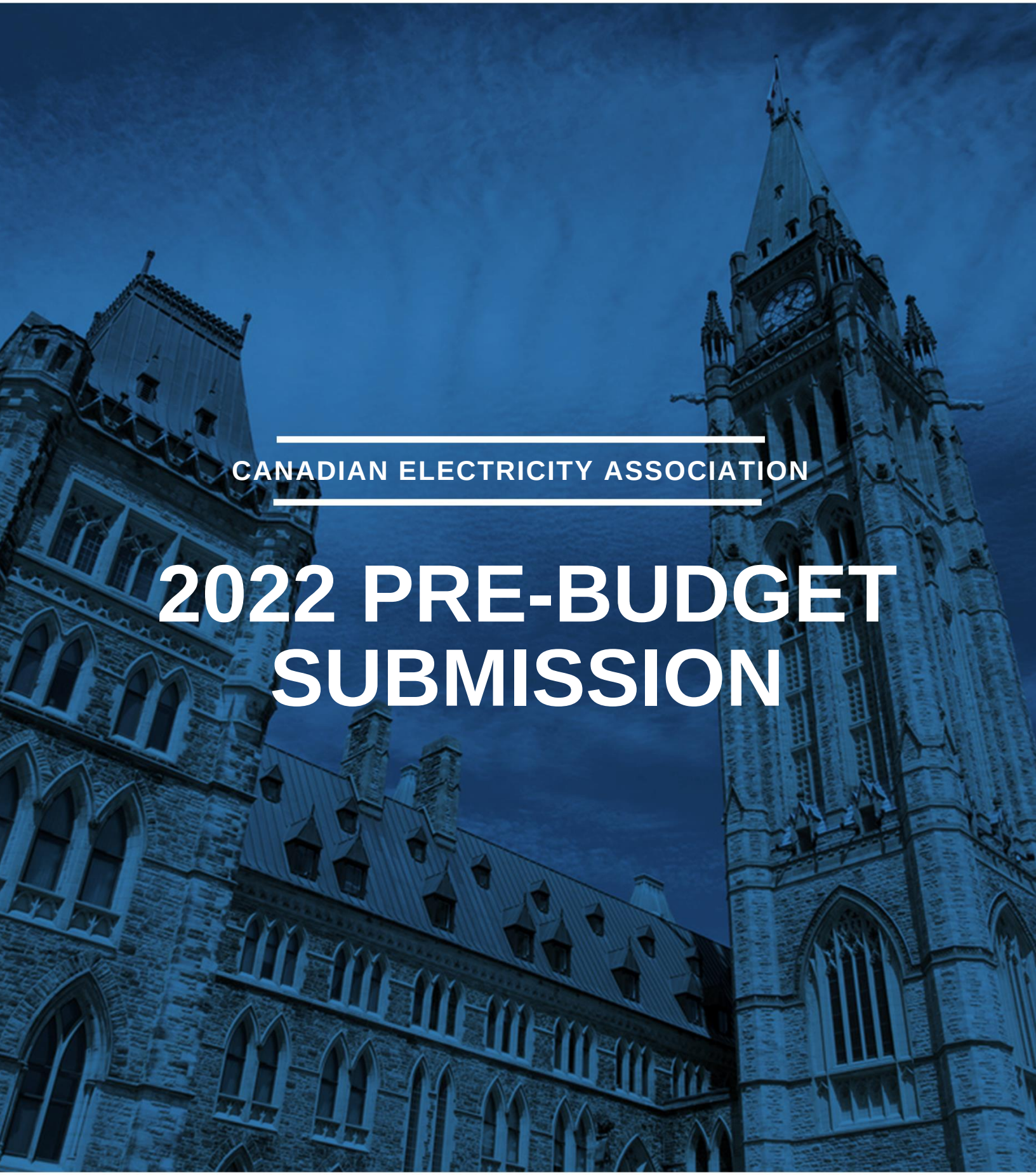

CANADIAN ELECTRICITY ASSOCIATION

2022 PRE-BUDGET SUBMISSION

Canadian Electricity Association | Association canadienne de l'électricité

Recommendation 1: That the government develop and implement a national electrification framework to help Canada reach its decarbonization targets.

Recommendation 2: That the government assess Canada's climate change adaption needs in the energy sector and establish an Energy Climate Adaptation Fund.

Recommendation 3: That the government modernize the Electricity & Gas Inspection Act and its attendant regulations.

Recommendation 4: That the government prioritize discussions on modernizing electricity regulatory frameworks with provinces and territories.

Recommendation 5: That the government coordinate and complement energy efficiency financing and incentive programs.

Recommendation 6: That the government expand funding for cyber security programs that improve the electricity sector's cyber posture.

Recommendation 7: That the government exempt regulated utilities from planned changes to interest deductibility limits.

Recommendation 8: That the government expand Accelerated Capital Cost Allowance Class 43.1/43.2 to further incentivize investments in clean energy.

Recommendation 9: That the government prioritize the recommendations of Electricity Alliance Canada.

Canadian Electricity Association | Association canadienne de l'électricité

ABOUT CEA

The Canadian Electricity Association (CEA) is the National Voice of Electricity in Canada. CEA members generate, transmit and distribute electricity to industrial, commercial, and residential customers across Canada. Electricity is a key economic, environmental, and social enabler essential to Canadian prosperity.

Electricity companies in Canada provide safe, reliable, and sustainable electricity from coast to coast to coast. This has remained true even through COVID-19: Electricity companies pivoted operations to ensure Canadians have been able to depend on reliable power and that employees have remained safe.

Our electricity sector is among the most sustainable in the world, with more than 80% of electricity produced in Canada already non-emitting. Since 2005, the sector has reduced GHG emissions by almost 50% and will further do so as Canada's remaining coal-fired power plants are retired.

Electricity will power Canada's growth into the future and will be part of the long-term solution to achieving a greener and more sustainable economy. Safe, reliable, and sustainable electricity can substitute emitting forms of energy and can be leveraged to reduce emissions in other sectors, including transportation, heating, and industrial processes. It is not a question of if electricity will be a part of this evolution, but how.

Electricity is a critically important industry to Canadians. As Government looks beyond COVID-19, it should work with the electricity sector to support and modernize the electricity system to meet the evolving needs of customers sustainably, affordably, reliably, and safely.

Together, we can ensure clean, affordable, and reliable electricity to all Canadians, advance economic growth and achieve net-zero by 2050.

RECOMMENDATIONS

That the government develop and implement a national electrification framework to help Canada reach its decarbonization targets.

According to recent polling commissioned by Electricity Alliance Canada, there is broad support in Canada for reducing the country's GHG emissions through electrification. CEA recommends that the government develop a national electrification framework outlining all the work necessary for Canada to reach its climate goals.

Its development and implementation should be made in conjunction with the government's emissions reduction plans set out in the net-zero legislation. On this point, CEA recommends that the government release emissions reduction plans for 2030, 2040, and 2050 ahead of what is scheduled in the legislation. The sooner those plans are published, the sooner the private sector can plan and attract investments in clean energy.

The electrification framework should:

- Reflect regions and the diversity of electricity systems and markets in Canada, ensure customer affordability, and promote efficient use of energy.

- Access future electricity and infrastructure needs, as achieving net-zero is expected to require two to three times as much clean power as Canada currently produces.
- Provide guidance, clarity, and certainty to all sectors of our economy to enable private sector investments in low emission technologies and infrastructure.
- Create an electrification advisory committee with industry representation.
- Fund studies on potential impacts to customers.

Government should continue to support and implement strategies that accelerate and promote the development and commercial deployment of new and nascent technologies. While electricity will help Canada reach its short to mid-term goals, new technologies will play a bigger role in reaching long-term emission reductions. Government should support and implement the SMR roadmap, the hydrogen strategy, and similar initiatives. We encourage government to establish partnerships with industry partners to invest in utility-scale battery storage pilots, SMRs, hydrogen fuel, CCUS technologies, microgrids, and other distributed energy resources. Policies, including carbon pricing, should be calibrated to support a "leapfrog" to novel technologies, avoiding the expensive locking-in of reference technologies that offer only incremental emissions reductions. We also encourage government to support research, development, and commercialization by expanding the role for grants, tax credits, and investments in emerging low-emissions technologies.

That the government assess Canada's climate change adaption needs in the energy sector and establish an Energy Climate Adaptation Fund.

As Canada relies more on electricity for its energy needs, it must ensure the system remains cost-effective and reliable. The federal government should work with local governments and stakeholders to accelerate current efforts to understand long-term climate variability projections and facilitate utility investments in climate change adaptation and grid resiliency.

In the government's recently published *Canada in a Changing Climate: National Issues Report*, increased awareness and technological innovation are identified as critical first steps in developing a climate-resilient energy sector. A national assessment of Canada's climate change adaption needs in the energy sector, accompanied by an Energy Climate Adaptation Fund, would work towards achieving those goals. CEA also recommends that codes and standards development be funded to help utilities assess their adaption needs and better protect critical assets.

Budget 2021 provided funding to Parks Canada to enhance wildfire preparedness in national parks. CEA recommends this and similar funding be used for vegetation management on federal land. When transmission and distribution lines rights-of-way (ROW) go through national parks, the government should remove deadfall 150 to 200 meters into the forest from the edge of the ROW. This would be an effective climate change adaptation measure and would help slow down forest fires and assist in the protection of transmission lines.

That the government modernize the Electricity & Gas Inspection Act and its attendant regulations.

CEA has developed 20 specific recommendations pertaining to the modernization of the Electricity & Gas Inspection Act and its attendant regulations, with a specific focus on the legal framework pertaining to *contractors*. Those recommendations would allow the use of new technologies that are key to Canada's decarbonization goals and the growth of its economy. All recommendations can be found in CEA's report.

CEA recognizes that funding in Budget 2021 was allocated to Measurement Canada to develop codes and standards for retail ZEV charging and fueling stations and ensuring accurate measurement of low-carbon fuels. However, changes to the legislation and regulations are still required.

Of particular importance is the need to modernize the definition of *contractor*. The Electricity Contractor Framework was initially designed to capture sophisticated electrical utilities and deems all entities or persons who sell measured electricity as "contractors". This is problematic as it imposes undue burden and costs on Casual Participants. This puts non-utility actors at a significant disadvantage in deploying technology to supply electricity and help decarbonize Canada's economy.

That the government prioritize discussions on modernizing electricity regulatory frameworks with provinces and territories.

The provincial and territorial electricity regulatory frameworks must be updated to allow for electricity industry innovation and diversification of activities in support of efficient electrification. Modernizing the current regulatory construct is necessary to address the evolving expectations around decarbonization, decentralization, digitalization, and democratization (4Ds) of the electricity system. Government can do this by using one of the lowest costs and highest impact tools available to it: the power to convene. To this end, CEA recommends that the government convene various stakeholders at the Energy and Mines Ministers' Conference and similar forums to increase dialogue amongst policy makers, regulators, and utilities.

Additionally, the government should create a Smart Grid Commercialization Fund to help scale up the commercialization and deployment of smart grid investments, electric vehicles infrastructure, energy storage solutions, and non-traditional generation. This would enable widespread deployment of new technologies beyond pilot testing.

That the government coordinate and complement energy efficiency financing and incentive programs.

There is now a multitude of various energy efficiency financing programs and incentives from governments across Canada. However, new programs risk to compete and claim credit for savings achieved. This is problematic as utilities need to accurately report energy efficiency savings to provincial regulators. Moreover, application processes to claim energy efficiency savings and rebates are becoming complicated and onerous, and risk wasting ratepayer and

taxpayer money due to duplication and program staking. Coordinating and complimenting energy efficiency financing and incentive programs would address those issues and help the sector meet Canada's net-zero targets, all while optimizing the use of ratepayer and taxpayer funds and ensuring customer affordability.

That the government expand funding for cyber security programs that improve the electricity sector's cyber posture.

Canada's National Cyber Threat Assessment identified a growing threat to critical infrastructure, including electricity, from state and non-state actors. We've seen recent examples of this, including the SolarWinds compromise and the Colonial Pipeline attack. The risk will only grow as more distributed assets are added to the grid and as threat actors become more sophisticated. Ongoing investments make the grid safer and more reliable. CEA recommends that the government provide continued funding to ensure tools are available to meet the needs of critical infrastructure providers, such as by supporting the expansion of Project Lighthouse. The government should also provide further funding for research, development, and deployment of cyber security programs and technologies for the electricity sector.

That the government exempt regulated utilities from planned changes to interest deductibility limits.

Budget 2021 signaled the government's intent to make changes to interest deductibility limits for corporations. Proposed changes would limit interest deductibility to a fixed ratio of 30%. CEA recommends that the government exempt regulated utilities from these planned changes, mirroring the approach taken by the United States. Electrical utilities are capital intensive and often must incur large amounts of debt. Limiting interest deductibility would adversely impact them and potentially lead to rate increases, which is not the goal of the proposed change. Electrical utilities are also unique in that they are highly regulated. CEA is concerned that potential measures to limit the impact of the proposed changes on utilities would be ineffective in a regulated environment and that an exemption would be more appropriate.

That the government expand Accelerated Capital Cost Allowance Class 43.1/43.2 to further incentivize investments in clean energy.

Because the smart grid is key to net-zero, the government should extend eligibility for accelerated capital cost allowance under Class 43.1 and 43.2 to smart grid technology. This would include but not be limited to smart meters, power quality filters, grid communication devices, grid-scale batteries/energy storage, and behind-the-meter devices such as hot water tank controls. The government should incentivize the adoption of such technology by making it more affordable through favourable rates of depreciation.

Furthermore, the government should extend the eligibility of Accelerated CCA Class 43.2 to include properties acquired before 2031. This class was introduced in 2005 to further incentivize investments in clean energy generation and energy conservation equipment. The accelerated

CCA rate of 50% should be extended to properties acquired before 2031, to reflect Canada's commitment to net-zero by 2050.

In addition, the government should provide low-carbon hydrogen production favorable CCA status, as already afforded to hydrogen-powered fuel cells.

That the government prioritize the recommendations of Electricity Alliance Canada.

CEA partnered with fellow leaders in Canada's electricity sector to form Electricity Alliance Canada, which submitted its own pre-budget recommendations to the committee. These recommendations would remove barriers to the increased use of clean electricity throughout the Canadian economy. They include:

- Continuing to recognize the critical importance of resilient infrastructure that delivers non-emitting electricity to energy users.
- Working to advance investment in infrastructure that enables the increased use of clean electricity throughout the Canadian economy (including electrification and low carbon hydrogen).