

September 6, 2023

Submitted via email to: [cleangrowthITC-Cllcroissancepropre@fin.gc.ca](mailto:cleangrowthITC-Cllcroissancepropre@fin.gc.ca)

## ***RE: Clean Electricity Investment Tax Credit Consultation***

Electricity Canada is pleased to submit comments to the Department of Finance's consultations on the suite of investment tax credits (ITCs) that are intended to support the growth of Canada's clean economy, namely:

- The new Clean Electricity Investment Tax Credit,
- The new Clean Technology Manufacturing Investment Tax Credit,
- The Clean Hydrogen Investment Tax Credit,
- The Clean Technology Investment Tax Credit,
- The Carbon Capture, Utilization, and Storage Investment Tax Credit (CCUS ITC) and
- The related labour requirements.

Comments on the Clean Technology ITC, the CCUS ITC, and the labour requirements will primarily be reserved for a separate submission on the draft legislation released on August 4. The bulk of this submission will be focused on the Clean Electricity ITC. It should be noted that we have considered the ITC regime as a whole system. Therefore, this submission on the Clean Electricity ITC consultation should be considered in tandem with our submission on the Clean Technology ITC, CCUS ITC, and associated labour requirements.

## **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 Canadians in every province and territory.

Canada's electricity sector is among the cleanest in the world. Today, 84% of the electricity produced in Canada is already non-emitting. Since 2005, the electricity sector has reduced greenhouse gas emissions by almost 50% - more than any other sector. Electricity will be the foundation of a net zero future as all other sectors of the economy seek to decarbonize.



## Our Recommendations

Electricity Canada appreciates the Clean Electricity ITC as a critical support for scaling up clean electricity in Canada while helping to maintain reliability and affordability. Expanding the electricity grid with clean, affordable, and reliable electricity is essential to meeting Canada's net zero goals by 2050. Electricity Canada supports the ITCs and other measures announced in Budget 2023. The announced supports are a positive signal that the Federal Government will actively support the sector's efforts to decarbonize and enable the electrification of the broader economy.

Canada has made aggressive commitments to achieve a net zero electricity grid by 2035 and a net zero economy by 2050. By enabling the decarbonization of transportation, industry, buildings and more, electricity will be the foundation upon which Canada reaches net zero. To realize these objectives, the Public Policy Forum estimates that we must grow our electricity supply capacity by 2.2 to 3.4 times today's volume to meet demand by 2050.<sup>1</sup> We will need to build more generation, transmission, and distribution capacity in the next 27 years than we have in the last 100. To meet the electricity needs of a decarbonized economy, unprecedented levels of investment in the whole electricity grid, from generation through to distribution, will be required.

The scale of the investment needed is too great for ratepayers to bear alone, and the timeframe in which to build is short. If designed well and implemented quickly, the ITCs can effectively support the build-out of clean electricity while helping preserve affordability for Canadians. However, if the ITCs cannot be used effectively by the sector or if their rollout is delayed, there will be too much uncertainty for them to be factored into an electricity company's decision-making. Electricity companies from coast to coast to coast are making decisions today on how to build the clean, affordable, and reliable grid of the future.

Electricity Canada encourages the Government of Canada to consider the following recommendations to enhance the clarity, predictability and, ultimately, the effectiveness of the ITC regime.

- 1. Amend the design of the Clean Electricity ITC and Clean Technology ITC to avoid creating inequities. To achieve this, Electricity Canada recommends the Federal Government amend the Clean Technology ITC's draft legislation to include eligibility for tax-exempt entities. The technologies that are presently covered by both the Clean Electricity ITC and the Clean**

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<sup>1</sup> Annesley, J., Campbell, D., Golshan, A., & Greenspon, E. (2023, July 19). *Project of the Century: A Blueprint for Growing Canada's Clean Electricity Supply - and Fast*. Energy Future Forum.



Technology ITC should then be covered exclusively by the Clean Technology ITC at the 30% rate. The remaining technologies should then be covered by the Clean Electricity ITC.

2. **Requiring jurisdictional commitments to a net zero electricity grid risks delaying access to the Clean Electricity ITC for electricity companies interested in making investments in clean power now and may create inequitable access to federal supports for consumers. To ensure that the ITC is as effective as possible, the Federal Government should not require a net zero grid commitment from provincial and territorial competent authorities to activate the ITC.**
3. **Expand the list of equipment eligible for the Clean Electricity ITC to support a fuller complement of capital investments needed to meet net zero goals and increase the uptake of electrification.**
  - 3.1. **Expand eligibility for the Clean Electricity ITC to include both inter- and intra-provincial transmission projects.**
  - 3.2. **Define transmission as a standalone qualifying system for the Clean Electricity ITC rather than including it as eligible equipment required to connect new qualifying renewable generation, as is currently the case for purposes of Class 43.1 and 43.2.**
  - 3.3. **To maximize the effectiveness of the Clean Electricity ITC for refurbishments, the Federal Government should not limit eligibility to investments that increase output or efficiency, but also allow for life extensions and upgrades.**
  - 3.4. **Hydrogen combustion equipment, such as hydrogen-fired turbines, should also be considered eligible for the Clean Electricity ITC if it is used exclusively for the purpose of generating electrical energy.**
  - 3.5. **Include High Voltage Direct Current (HVDC) converter stations and the related power lines (biopole lines) as part of the eligible equipment associated with generation qualifying for the ITCs to help reduce electricity lost while being transmitted from remote generation sites.**
  - 3.6. **The Clean Electricity ITC should be expanded to include targeted expenditures that improve the capacity of the distribution systems and support the adoption of distributed energy systems.**



- 3.7. Expand the Clean Electricity ITC to include expenditures for upgrades from single-phase distribution grids to three-phase distribution grids to support electrification in remote and Indigenous communities.**
- 4. Specify in the *Income Tax Act* that low-interest loans are not captured as government assistance and will not reduce the base on which the ITCs are calculated.**
- 5. Reduce uncertainty by publishing clear administrative guidance that is consistent with the policy intent.**
  - 5.1. The CRA should publish clear administrative guidelines around its views of the eligible amount and the level of documentation expected to be maintained.**
  - 5.2. Clarify the details of partnerships between tax-exempt and taxable entities on projects eligible for the ITCs.**
  - 5.3. The ITCs should be granted in line with investments made, based on the costs incurred, rather than depending on available-for-use dates.**
  - 5.4. The ITCs should be established in accordance with generally accepted accounting principles for consistency and to reduce administrative burden.**
- 6. Expand the eligible activities related to the Investment Tax Credit for Clean Technologies and the Investment Tax Credit for Clean Technology Manufacturing and Processing to include the goods necessary to manufacture, transform and assemble the materials required for zero carbon aluminum production. This would include the anodic and cathodic materials in the former, and the manufacturing of materials and equipment intended to produce aluminum by a process that eliminates substantially all of the greenhouse gases resulting directly from the electrolysis of alumina in the later.**





## Details of Recommendations

### Enhancing the Equity of the ITC Regime

*"The government believes a clear and predictable incentive that is available to this range of asset owners is needed to accelerate our progress toward a net-zero grid. By extending support to a broad base of clean electricity technologies and proponents, we can accelerate the investments needed to expand the capacity of our clean electricity grid and ensure it delivers more sustainable, more secure, and more affordable electricity across Canada." - Budget 2023*

Electricity Canada members appreciate the expansion of the ITC regime to include entities not subject to federal tax who would otherwise be ineligible for any Federal Government support through the ITC regime. A large portion of clean electricity proponents in Canada are tax-exempt entities, such as Crown Corporations, Indigenous groups, and federally tax-exempt (but provincially tax-paying) entities such as municipally owned utilities. The announcement of the Clean Electricity ITC is an essential step in creating a more equitable and effective ITC regime.

However, because the Clean Electricity ITC (15%) and Clean Technology ITC (30%) have different rates, some overlapping eligible technologies and differential rules for tax-exempt and taxable entities have created inequities and inefficiencies within the broader ITC regime.

Although it seems that the lower benefit of the 15% Clean Electricity ITC rate could be made up by the benefit of not paying federal tax, it is important to note that in some jurisdictions, municipally owned utilities and other federally tax-exempt groups pay an equivalent corporate tax to provincial tax authorities at the same tax rate as a federally taxable corporation. The differential rates between the Clean Electricity ITC and the Clean Technology ITC favour certain proponents over others and some technologies over others. Under the current proposal, projects that include federally tax-exempt entities will receive less support from the ITC regime than projects led by taxable entities. This has two major consequences.

First, some jurisdictions (i.e., Quebec, Manitoba, Saskatchewan, BC, New Brunswick, etc.) will receive less support from the ITC regime than other jurisdictions solely because of their market structure. This means Canadians in those jurisdictions will be left funding a larger portion of the transition to clean electricity and therefore will see less of an affordability benefit from the ITC regime because of where they live. This is fundamentally inequitable.



Second, Indigenous groups, as tax-exempt entities, can be put at a disadvantage when bidding on clean electricity projects. For example, a utility issues a request for a proposal for a project that is eligible for both the Clean Electricity ITC and Clean Technology ITC, such as a wind energy project. A taxable entity would be able to factor the 30% Clean Technology ITC into their bid (assuming they could meet the labour requirements), while an Indigenous bidder would only be able to factor in the 15% Clean Electricity ITC. Given the Federal Government's commitment to reconciliation and building strong Indigenous communities through meaningful economic partnerships, this inequity should be resolved.

**Recommendation 1: Amend the design of the Clean Electricity ITC and Clean Technology ITC to avoid creating inequities. To achieve this, Electricity Canada recommends the Federal Government amend the Clean Technology ITC's draft legislation to include eligibility for tax-exempt entities. The technologies that are presently covered by both the Clean Electricity ITC and the Clean Technology ITC should then be covered exclusively by the Clean Technology ITC at the 30% rate. The remaining technologies should then be covered by the Clean Electricity ITC.**

Including all recommendations contained in this submission, the Clean Electricity ITC would then cover large hydro, conventional nuclear, transmission infrastructure, certain distribution infrastructure, hydrogen combustion equipment, and refurbishments.

We note that the first part of this recommendation is critical, as only making the ITCs non-overlapping would not be an equitable solution for tax-exempt proponents, thus shutting them out of the ITC benefit for several important technologies. Our proposed model for the ITC regime eliminates inequities between taxable and tax-exempt entities without significantly raising the overall cost of the ITC regime. We recognize that the Government of Canada is constrained by a challenging fiscal reality and wish to put forward practical recommendations that will help us realize a net zero grid at a cost Canadians can afford. We believe that federal investments in clean electricity will generate even greater returns through economic growth, job creation, emissions reductions, and affordability benefits for Canadians.

It should also be noted that maintaining a differential benefit rate between the Clean Electricity ITC and Clean Technology ITC will continue to favour some technologies over others. This creates a situation where a technology could be selected because of its relative tax benefit rather than what is most beneficial to the grid and to customers. If the Federal Government chooses to rectify this situation by equalizing the Clean Electricity ITC and Clean Technology ITC rate at 30%, Electricity Canada would also be supportive of this direction.





## Maximizing the Impact of the Clean Electricity ITC

*"Put simply, Canada's economic prosperity depends on significant investments today in building a sustainable, secure, and affordable electricity grid. Abundant and low-cost clean electricity will underpin investments needed to create middle class jobs, provide the energy that will power our daily lives and the entire Canadian economy, and provide more affordable energy to millions upon millions of Canadian homes." - Budget 2023*

Canada has made aggressive net zero commitments which rely on electricity as the foundation for decarbonization. To enable a net zero economy, we will need to rapidly grow and reinforce our electricity generation, transmission, and distribution infrastructure. The expansion of the grid will be costly. A report released by RBC in 2021 estimated that the total cost to achieve net zero by 2050 is \$2 trillion (or \$50 billion per year).<sup>2</sup> The scale of the needed investment is greater than what can be borne by customers alone. The ITCs and other financial supports from the Federal Government are imperative to accelerating investment in clean electricity while reducing the burden on Canadian families and businesses.

If implemented quickly and effectively, the suite of announced ITCs will accelerate investment in net zero electricity projects in every region of the country while helping to address affordability impacts for customers. However, it is imperative that the Federal Government get the design of the ITCs right and implement them expeditiously to be effectively utilized by the sector in meeting net zero objectives. Electricity Canada members are concerned that the requirement that relevant competent authorities in each province or territory commit to achieving a net-zero electricity sector by 2035 will delay the implementation of the Clean Electricity ITC. This will deny access to vital funding for an entire jurisdiction and will ultimately undermine the policy objective of the Clean Electricity ITC.

A slow rollout of the Clean Electricity ITC (or any ITC) will reduce the overall impact of the ITC regime as electricity companies cannot factor the benefit into their decision-making until the design details are finalized. Denying a jurisdiction access to the ITC will not only fail to accelerate investment in clean electricity projects in that region, but it would also unfairly burden households and businesses in those jurisdictions who would be required to foot the entire bill of the energy transition without the support of a federal partner.

The Government of Canada has not yet finalized the Clean Electricity Regulations, which will establish the rules for a net zero electricity grid by 2035. Given this uncertainty, it will be challenging for a competent authority to commit to achieving a grid that has not yet been definitively defined. It is also unclear what this

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<sup>2</sup> RBC. (2021, October 20). *The \$2 Trillion Transition: Canada's Road to Net Zero*.



commitment will achieve that will not be achieved by the coming into force of the Clean Electricity Regulations. The limited advantage such a commitment would offer is not worth the risk of delaying or denying access to the Clean Electricity ITC for entities willing to make clean electricity investments today.

**Recommendation 2: Requiring jurisdictional commitments to a net zero electricity grid risks delaying access to the Clean Electricity ITC for electricity companies interested in making investments in clean power now and could create inequitable access to federal supports for consumers. To ensure that the ITC is as effective as possible, the Federal Government should not require a net zero grid commitment from provincial and territorial competent authorities to activate the ITC.**

### Expanding the Clean Electricity ITC to Technologies Needed to Reduce Emissions

Unprecedented levels of investment will be needed in every part of the grid to accelerate progress towards a net zero electricity grid. Any new non-emitting generation will need to be connected to the electricity grid through new or upgraded transmission lines and associated infrastructure. Upgrades to distribution infrastructure will be required to bring clean electricity into homes and businesses. These upgrades will also enable the desired shifts in the ways Canadians use electricity, from charging electric vehicles at home to generating their own electricity through rooftop solar panels. Achieving a net zero grid is about more than generating clean electricity – it will require a transformation of every part of the electricity grid.

**Recommendation 3: Expand the list of equipment eligible for the Clean Electricity ITC to support a fuller complement of capital investments needed to meet net zero goals and increase the uptake of electrification.**

#### *Transmission Equipment*

*"As electricity becomes the main source of energy, daily and seasonal demand peaks will become more pronounced. Canada will need to invest heavily in renewable generation, to meet this demand. At the same time, some renewable energy generation, such as solar and wind, can vary with the weather and season. This will necessitate larger generation capacity and enhanced transmission networks to ensure the reliability of our electrical grid." - Budget 2023*

Electricity Canada members appreciate that Budget 2023 recognized the central importance of transmission infrastructure through the inclusion of inter-provincial transmission in the Clean Electricity ITC and the commitment to consult on the best means to support and accelerate investment in intra-provincial





transmission infrastructure. We believe that the Clean Electricity ITC is an effective tool to support and accelerate these necessary investments.

Transmission plays a crucial role in our ability to achieve net zero. Clean generation is often not located geographically close to the areas where electricity is consumed and needs transmission infrastructure to connect to customers. Intra-provincial transmission will be particularly important for the electrification of industry. Manufacturing facilities like the new Volkswagen plant, net zero critical mineral producers, agricultural businesses and more will need new transmission lines or upgrades to existing lines to meet their increased need for electricity. Moreover, as Canada increases our dependence on electricity, we become more vulnerable when there are power outages. Investments in transmission infrastructure reduce that vulnerability by creating redundancies in the system and increasing overall reliability.

Today, most transmission lines are intra-provincial, connecting generation to customers in urban centres. While inter-provincial transmission will be important to help balance load and demand, intra-provincial transmission is where the bulk of investment is needed. Transmission represents an obligatory and variable portion of most generation projects. Without transmission corridors electricity goes nowhere. Transmission costs vary by project but can be a significant portion of any new clean generation project. For example:

- **The Micoua-Saguenay and Wataynikaneyap transmission line projects** that together establish over 2,000 km of lines are connecting remote communities to a clean grid or improving reliability for existing generation plants. The combined cost of the transmission lines is \$3.1 billion, with \$1.9 billion for Wataynikaneyap and \$1.2 billion for Micoua-Saguenay.
- **BC Hydro** has estimated that over the next 10 years, it expects its capital investment in its intra-provincial transmission projects to be in the range of \$4 billion - \$6 billion.

Not all new generation projects will require new transmission lines to be built. Some projects will necessitate upgrades to existing lines to prevent capacity overloads (which could lead to line failure) and accommodate higher volumes of electricity.

Proponents of generation projects must factor in the costs and risks of building or upgrading transmission infrastructure into the overall cost of the project. These costs and risks can fundamentally change the viability of a project. Therefore, to accelerate investment in clean electricity projects, both inter- and intra-provincial transmission infrastructure projects should be eligible for the Clean Electricity ITC. This would greatly enhance the effectiveness of the Clean Electricity ITC to support the affordable transition to a net zero grid.



### **Recommendation 3.1: Expand eligibility for the Clean Electricity ITC to include both inter- and intra-provincial transmission projects.**

The definition of eligible transmission equipment should include:

- Lines and structures,
- DC Converters,
- Substation equipment,
- Telecommunication equipment,
- Upgrades for storm hardening, and
- Upgrades to meet new system demand (load capacity upgrades)

There is precedent in existing income tax regulations, namely class 43.1 and 43.2 accelerated capital cost allowance (ACCA), where transmission infrastructure is recognized as required infrastructure for new clean energy technologies and is therefore an eligible expense for that clean energy infrastructure tax incentive. For example, the transmission infrastructure required to connect new renewable generation (such as small-scale hydroelectric installations and photovoltaic electrical generation equipment) to a provincial electricity network commonly qualifies for ACCA.

However, this method for defining transmission expenditures as eligible for ACCA excludes the majority of the transmission system, allowing only for new transmission that is directly linked to specific generation sources.<sup>3</sup> When electricity is transmitted, it is, for the most part, transmitted in bulk throughout the province, with multiple electricity sources feeding into this bulk transmission system. Parts of this bulk system, beyond transmission tied directly with new energy sources, will need to be expanded and upgraded to meet the demands of electrification. These critical broader upgrades to the transmission system are less likely to occur if transmission is not classified as a stand alone system, instead of as an eligible property for a new renewable generation project. Unless amended, this would be akin to asking more people to drive down a road without enabling the road to be upgraded to meet the new demand.

While transmission equipment is currently included as eligible property for some qualifying systems, it will be critical for transmission (both inter- and intra-provincial) to be further defined in the *Income Tax Act* so that proponents know what properties are eligible for the credit. Existing references to transmission in the *Income*

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<sup>3</sup> For example, the eligible transmission equipment for small-scale hydro-electric generating equipment for ACCA is defined as “transmission lines and related equipment from the electrical energy generating equipment up to the interface with the electrical grid or the isolation switch of the local electrical utility, or up to the point where, on an annual basis, more than 75 percent of the electrical energy transmitted by the transmission equipment is electrical energy generated by the small-scale hydro-electric generating equipment.” Natural Resources Canada. (2019). *Technical Guide to Class 43.1 and 43.2, 2019 Edition*.





*Tax Act* are not defined beyond "transmission equipment," which can lead to uncertainty about which expenditures will be considered eligible.

For these reasons, we make the following recommendation.

**Recommendation 3.2: Define transmission as a standalone qualifying system for the Clean Electricity ITC rather than including it as eligible equipment required to connect new qualifying renewable generation, as is currently the case for purposes of Class 43.1 and 43.2.**

### ***Refurbishments***

Electricity Canada is pleased to see that refurbishments are eligible for the Clean Electricity ITC. Refurbishments and upgrades can help us reach a net zero grid faster by delivering cost-effective and timely capacity improvements, often with reduced environmental impacts.

**Recommendation 3.3: To maximize the effectiveness of the Clean Electricity ITC for refurbishments, the Federal Government should not limit eligibility to investments that increase output or efficiency but also allow for life extensions and upgrades.**

Specifically, the Government of Canada should consider including the following costs:

- Capital costs for life extensions of non-emitting generation sources,
- System upgrades that improve efficiencies of generating units,
- Replacement or reconditioning of components,
- Plant rehabilitation and renovation,
- Turbine update projects,
- Decommissioning costs,
- Refurbishment of generating units, and
- Transmission refurbishments to avoid bottlenecks with increased generation.

### ***Hydrogen Combustion Equipment***

**Recommendation 3.4: Hydrogen combustion equipment, such as hydrogen-fired turbines, should also be considered eligible for the Clean Electricity ITC if it is used exclusively for the purpose of generating electrical energy.**



The purpose of the Clean Electricity ITC is to accelerate investment in clean electricity projects needed for a net zero grid. A form of non-to-low emitting generation that will be important for the net zero future should not be excluded from the ITC regime. It is important to note that hydrogen combustion equipment used exclusively for the purposes of generating electricity is not covered by the Clean Hydrogen ITC and is therefore excluded from the ITC regime.

### ***High Voltage Direct Current Converter Stations***

High Voltage Direct Current (HVDC) converter stations are integral to providing clean electricity in instances where power is generated far away from where most of the usage of the power is located. Large generation stations in northern and remote parts of Canada produce electricity which needs to be converted from alternate current (AC) to direct current (DC) to reduce electricity lost while being transmitted long distances to the south. From there, the electricity needs to again be converted from DC to AC so it is usable for customers. The electricity then enters the networked transmission system and is brought to a distribution system and finally to customers.

Additionally, HVDC is critical to the integration of offshore wind and to strengthen the Canadian grid. HVDC is needed to strengthen the bridge between the Eastern Interconnection (Saskatchewan to the east coast) and the Western Interconnection (between Alberta and British-Columbia).

Because an HVDC station and associated bipole lines cannot exist without a specific generation site, while a transmission line can exist irrespective of specific generation sites, it is logically proper to include HVDC converters as part of the eligible equipment associated with a qualifying generation system, while transmission is included as a standalone qualifying system (see recommendation 3.2 in our Clean Electricity ITC submission).

Some jurisdictions have debated whether HVDC should be considered a part of generation equipment or transmission equipment. We believe it belongs with Generation, as was decided by the Manitoba Public Utilities Board (PUB). On December 20, 2016, the PUB issued an “Order in Respect of a Review of Manitoba Hydro’s Cost of Service Study Methodology” in which the Board found that the costs associated with HVDC systems (HVDC converters and bipole lines) should be functionalized as a generation cost.

**Recommendation 3.5: Include High Voltage Direct Current (HVDC) converter stations and the related power lines (bipole lines) as part of the eligible equipment associated with generation qualifying for the ITCs to help reduce electricity lost while being transmitted from remote generation sites.**





## ***Distribution Equipment***

Distribution infrastructure brings electricity into homes and businesses across Canada for end use. It is the final step that connects customers to electricity, and, like transmission infrastructure, electricity cannot get to customers without suitable distribution infrastructure. Canada's total emissions from electricity stand at 52 MT, which is 7.8% of Canada's total 670 MT emission total. The entire electricity generation fleet can be net zero emissions, but unless homes and businesses can get that clean electricity for uses such as charging vehicles and heating, Canada will not be able to maximize total emissions reductions across the whole economy.

Canada's electricity demand is expected to double by 2050, which will require electricity capacity to increase by 2.2 to 3.4 times.<sup>4</sup> Electricity Canada members estimate that a significant portion of electrification-induced load growth will be from distribution-connected customers who fuel switch by transitioning from internal combustion vehicles to electric vehicles and from natural gas or oil furnaces to electric heat pumps. That growth will require upgrades to distribution infrastructure to handle higher capacity needs. Moreover, distribution infrastructure is often the linchpin for enabling the kinds of changes the Canadian economy needs to see from end users, such as the adoption of electric vehicles. Without these upgrades, Canada will not fully realize the emissions reduction benefits of electrification.

As currently formulated, the Clean Electricity ITC takes too narrow a view of the electricity grid, focusing on generation and some transmission projects. A holistic plan is needed to achieve net zero. For example, the Clean Electricity ITC and Clean Technology ITC both support the costs associated with the installation of rooftop solar and other sources of distributed energy generation. However, upgrades to distribution infrastructure needed to enable the adoption of rooftop solar, including transformer, conductor, metering, and substation equipment, are excluded from the ITC regime.

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<sup>4</sup> Canada, Department of Finance. (2023). *A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future*.



**Recommendation 3.6: The Clean Electricity ITC should be expanded to include targeted expenditures that improve the capacity of the distribution systems and support the adoption of distributed energy systems.**

Examples of such expenditures include:

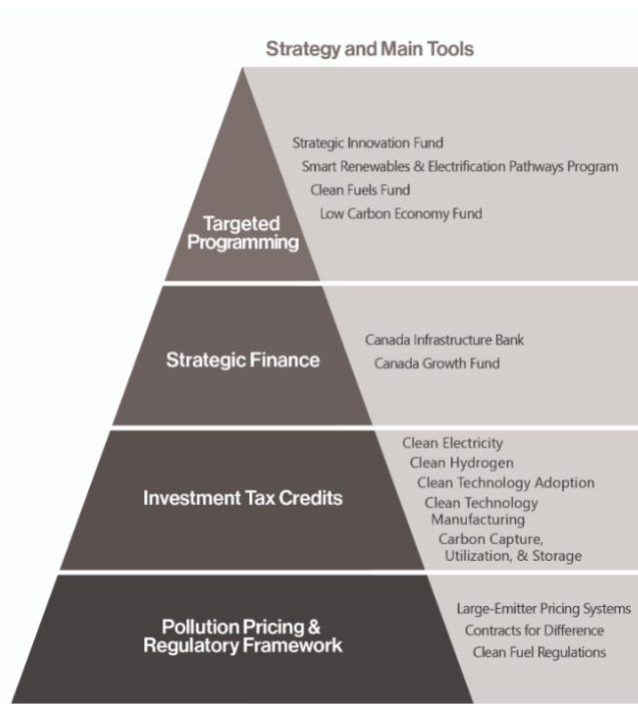
- Conductor (wire) upgrades for higher capacity,
- Transformer upgrades for higher capacity,
- Substation upgrades both for higher capacity as well as the management of bi-directional power flow,
- Remote command and control switching gear needed to improve the resiliency of the grid in the face of extreme weather as well as manage bi-directional flow,
- Telecommunication systems needed to improve the resiliency of the grid in the face of extreme weather as well as manage the bi-directional flow of distributed renewables,
- Metering systems needed to manage the bi-directional grid

Finally, three-phase power is required to operate all commercial or industrial-grade equipment, such as pumps and refrigerators. Many Indigenous communities have not been upgraded to accommodate three-phase power, prohibiting the use of industrial equipment. The lack of three-phase power in Indigenous communities directly impacts their ability to drink clean water and store food because it is impossible to install commercial/industrial-grade water purification equipment, refrigerators, and freezers without upgrading.

**Recommendation 3.7: Expand the Clean Electricity ITC to include expenditures for upgrades from single-phase distribution grids to three-phase distribution grids to support electrification in remote and Indigenous communities.**

### **Improving the Interaction between ITCs and Other Forms of Government Assistance**

As demonstrated by the pyramid below, Budget 2023 articulates the Federal Government's framework for supporting a net zero electricity grid. The strategy envisions proponents of clean electricity projects to be able to rely primarily on the ITCs, with strategic financing and targeted programming as additional measures to support the transition. Electricity Canada is broadly supportive of the framework put forward in Budget 2023 and wishes to work in partnership with the Government of Canada to advance this vision for the sector. While we are grateful for the range of supports the Federal Government has announced to support the electricity sector, some improvements can be made to better realize the framework as proposed in the Budget.



### ***Treatment of Low-Interest Loans***

Low-interest loans are an important source of capital in large, long-term and capital-intensive projects such as nuclear and conventional hydroelectric generation. Indigenous communities often require low-cost financing from government entities, such as the Canada Infrastructure Bank (CIB), in order to invest and participate in energy projects. This financing is not a grant. While it has the benefit of low interest rates, it is repayable.

Recently, the Supreme Court of Canada denied leave to appeal the decision in *CAE Inc. vs. Canada* 2022 FCA 178, whereby the FCA upheld the Tax Court ruling that the low-interest government loan constituted "government assistance," which reduces the qualifying scientific research & experimental development expenditures (SR&ED) for SR&ED ITCs.

As a result, the principal of a low-interest loan from any arm of the Federal Government could reduce the amount eligible for ITCs. This interpretation also reduces the amount eligible for capital cost allowance purposes that would otherwise be eligible under the available-for-use rules in paragraph 13(28)I and sub-





section 13(29) of the *Income Tax Act*. This decision must be specifically addressed and negated in the drafting of the ITCs' legislation to specify that low-interest loans will not be captured as government assistance and reduce the base on which they are calculated.<sup>5</sup> This is to ensure the decision does not impact funding and run counter to the Federal Government's framework that intends the ITCs to be compatible with strategic financing. If not remedied, the reduction of expenditures eligible for an ITC by the approved amount of low-interest loans will limit the effectiveness of the ITC regime and the entire support framework for the sector.

**Recommendation 4: Specify in the *Income Tax Act* that low-interest loans are not captured as government assistance and will not reduce the base on which the ITCs are calculated.**

### **Government Funding Programs**

The electricity sector intends to leverage each tool outlined in the pyramid to support the transition to clean electricity while reducing the financial impacts on their customers. These tools are most impactful if they can be used together as a holistic framework of supports for the sector. However, under the current proposal these tools can not be fully combined with each other in the way that was envisioned by the framework announced in Budget 2023.

The Department of Finance, in partnership with other government departments delivering key assistance to the electricity sector, should consider how programming like the Strategic Innovation Fund or the Smart Renewables & Electrification Pathways Program can be paired with the ITCs, so as to maintain the intent of the framework for the sector.

### **Greater Clarity and Predictability**

*"Canada's electrical system includes a mix of private, public, and Indigenous-owned assets. The government believe a clear and predictable incentive that is available to this range of asset owners is needed to accelerate our progress toward a net-zero grid." –  
Budget 2023*

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<sup>5</sup> For more information, see the Joint Committee on Taxation of the CBA and CPA Canada response paper on the Impact of CAE case, whose recommendations are supported by Electricity Canada: <https://www.cpacanada.ca/en/the-cpa-profession/about-cpa-canada/volunteer-with-cpa-canada/volunteer-committees/tax-committees/59>.







### ***Administrative Guidance***

The policy intent of the ITC regime is to deliver clear and predictable financial supports for clean electricity projects. To achieve this, the design of the ITCs must not be overly complicated or administratively burdensome for proponents or the Canada Revenue Agency (CRA).

**Recommendation 5.1: The CRA should publish clear administrative guidelines around its views of the eligible amount and the level of documentation expected to be maintained.**

### ***Clarify Partnership Rules***

**Recommendation 5.2: Clarify the details of partnerships between tax-exempt and taxable entities on projects eligible for the ITCs.**

With respect to the allocation of the ITCs to parties in a partnership, we understand that the intent is for each party to be able to claim the highest value ITC that they are eligible for based on their ownership share of the partnership. Electricity Canada supports this approach. However, we request that Finance provide clear guidance and a worked example to show how a tax-exempt and taxable partner will maximize their ITC entitlement on a project eligible for both the Clean Technology ITC and the Clean Electricity ITC.

We note that if the ITC regime is designed to enhance equity in the manner we have recommended (see recommendation 1), partnership rules would be greatly simplified, as both taxable and tax-exempt entities would be eligible for the same ITCs when making investments in the same equipment.

### ***Costs Incurred***

**Recommendation 5.3: The ITCs should be granted in line with investments made, based on the costs incurred, rather than depending on the available for-use date.**

This strategy will encourage an acceleration of investments and will simplify the process of obtaining the credit. It would reduce complications and provide efficiencies for the sector and the CRA.

### ***Using Accounting Rules***

**Recommendation 5.4: The ITCs should be established in accordance with generally accepted accounting principles for consistency and to reduce administrative burden.**



Under this model, the costs capitalized of a project for accounting purposes would be the same as for tax purposes, greatly reducing administrative burden and inconsistency. In addition, the audit burden for the ITCs would be reduced as eligible costs would include all costs capitalized for accounting purposes, which are usually audited in the normal course of business.

## Recognize Aluminium as a Key Clean Electricity Input in the Clean Technology Manufacturing ITC

**Recommendation 6: Expand the eligible activities related to the Investment Tax Credit for Clean Technologies and the Investment Tax Credit for Clean Technology Manufacturing and processing to include the goods necessary to manufacture, transform and assemble the materials required for zero carbon aluminum production. This would include the anodic and cathodic materials in the former, and the manufacturing of materials and equipment intended to produce aluminum by a process that eliminates substantially all of the greenhouse gases resulting directly from the electrolysis of alumina in the later.**

Aluminum is a fundamental and indispensable electrification material. Beyond being a core input into renewable generation technologies such as wind, solar and hydropower, it is the predominant choice of material for transmission and distribution wires and cables globally. With its higher strength-to-weight ratio and attractive market price relative to copper, aluminum wires allow for greater span lengths between transmission and distribution towers while reducing total construction costs compared to copper wires.



## Conclusion

We thank you for this opportunity to provide comment on the ITC regime and for your consideration of our submission. We would be pleased to discuss any aspect of this submission at your convenience. Should you have any questions or require additional information about our submission, please contact Michael Powell, Vice President of Government Relations, at [powell@electricity.ca](mailto:powell@electricity.ca).

Sincerely,

Francis Bradley  
President & CEO  
Electricity Canada

copy: The Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance  
The Honourable Jonathan Wilkinson, Minister of Energy and Natural Resources  
The Honourable Steven Guilbeault, Minister of Environment and Climate Change  
Miodrag Jovanovic, Assistant Deputy Minister of the Department of Finance  
Chris Forbes, Deputy Minister of Environment and Climate Change  
Michael Vandergrift, Deputy Minister of Energy and Natural Resources Canada  
Leslie Church, Chief of Staff, Department of Finance