

List of Recommendations

Maximize Budget 2023 Tools

Recommendation 1: Strengthen and quickly deliver the Investment Tax Credit regime to support Canada's decarbonization and electrification goals to make the electricity grid carbon-neutral by 2035.

Recommendation 2: Create and invest in a multi-jurisdictional benefit allocation framework to promote a healthy inter-provincial transmission system enabling net zero.

Build Things Faster

Recommendation 3: Implement the primary recommendations from the [Build Things Faster report](#) to simplify, streamline and strengthen federal capacity for the regulation and approval of net zero projects within net zero timelines.

Eliminate Barriers to Net Zero

Recommendation 4: Exempt regulated utilities from planned changes to Excessive Interest and Financing Expenses Limitation (EIFEL).

Plan for the Future

Recommendation 5: Develop a Canadian Electricity Strategy to guide and advance Canada's work to build a clean, reliable, and affordable electricity grid to achieve net zero.



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 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. As we advance, electricity will be the foundation of a net zero future as all other sectors of the economy seek to decarbonize.

Affordable, Reliable, Clean: Powering our Net Zero Future

Canada has made aggressive commitments to achieve a net zero electricity grid by 2035 and an entirely net zero economy by 2050. To meet this monumental challenge, 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. We will need to build more generation, transmission, and distribution capacity in the next 27 years than in the last 100.

Building a net zero grid by 2035 is the most immediate challenge, and time is of the essence. Building the infrastructure we need to power a net zero future will be costly and constrained by real-world factors.

- Electricity projects take years to complete. Under current regulatory and permitting rules, there will not be enough time to build the infrastructure we need to meet 2035 net zero goals. Meaningful regulatory and permitting reform is urgently needed.
- A [report released by RBC](#) in 2021 estimated that the total cost to achieve net zero by 2050 is \$2 trillion (\$50 billion annually). The scale of the investment needed is greater than what can be borne by customers alone.
- [Current projections estimate \(RBC\)](#) there will be a deficit of 400,000 skilled jobs that will need to be filled to build the infrastructure required to achieve net zero by 2050. Supply chain challenges and rising materials prices will make building more unpredictable and costly.
- Escalating extreme weather events will continue to test the resiliency of our infrastructure and demonstrate the need for urgent action.





Maximizing the tools announced in Budget 2023, meaningful regulatory and permitting reform, systematically eliminating barriers to net zero, and an overarching plan for the sector will benefit our communities, economy, and planet significantly.

By enabling the decarbonization of transportation, industry, buildings and more, affordable, reliable, and clean electricity will be the foundation upon which Canada reaches net zero. To make this a reality, Canada is going to need a lot more clean electricity, and soon. In 2021, when the pledge was included in the Speech from the Throne, there were 14 years to decarbonize the grid. By Budget 2024, there will be just over 11 years. As of August 4th, when these recommendations were submitted to the Committee, there were just 4,533 [days left until 2035](#). We need to get moving.

Maximize Budget 2023 Tools

Recommendation 1: Strengthen and quickly deliver the Investment Tax Credit regime to support Canada's decarbonization and electrification goals to make the electricity grid carbon-neutral by 2035.

Budget 2023 announced critical investments that will support the expansion of Canada's electricity grids to meet the sector's net zero by 2035 targets. The proposed ITCs are essential supports that, if implemented quickly and effectively, will accelerate investment in net zero projects across the country in a manner that reduces the financial burden on customers. We must get the design of the ITCs right, and get them right quickly, to fully deliver on our decarbonization and electrification goals.

Electricity Canada recommends the following measures to strengthen the ITCs:

- 1) Prioritize the goal of accelerating investments in projects that will help achieve a net zero grid by 2035 in negotiations with provincial and territorial authorities. The negotiations must not hinder the rapid deployment of the ITCs to otherwise eligible net zero projects.
- 2) Expand the Clean Electricity Investment Tax Credit to include support for intra-provincial transmission and upgrades to distribution infrastructure so that clean electricity already supported by the ITC can be effectively delivered to Canadian homes and businesses that will use that power to decarbonize the economy.
- 3) Design the labour requirements to be flexible enough to be achieved within the current and projected labour market realities.

Electricity Canada will submit a detailed brief to Finance Canada outlining our recommendations to strengthen the ITCs regime. We would be happy to provide this brief to the Committee.





Recommendation 2: Create and invest in a multi-jurisdictional benefit allocation framework to promote a healthy inter-provincial transmission system enabling net zero.

A priority of Budget 2023 was to utilize the ITC regime to promote inter-provincial transmission. The Clean Electricity ITC supports inter-provincial transmission to help connect provinces and territories that are more abundant in clean electricity with those that are less so. This is a step in a positive direction, but inter-provincial transmission is complicated. Different planning jurisdictions will have different operational ways of conducting cost-benefit decisions on inter-provincial transmission lines. Jurisdictional agencies may delay or reject permits if there is disagreement on cost-benefit analysis.

The shared benefits of transmission lines are nuanced and not easily allocated among participants, especially between jurisdictions with different market structures and regulations. Therefore, more thought is required on how to distribute those benefits appropriately.

Early engagement of all stakeholders will streamline inter-jurisdictional planning processes. With proper planning and benefit categorization within an established framework, benefits can be realized by each jurisdiction throughout the asset's lifespan. With a multi-jurisdictional benefit framework, the federal government could act as an investor in the inter-provincial transmission line. Federal involvement would reduce the barriers to creating inter-provincial transmission projects and allocate benefits fairly across jurisdictions.

Build Things Faster

Recommendation 3: Implement the primary recommendations from the [Build Things Faster report](#) to simplify, streamline and strengthen federal capacity for the regulation and approval of net zero projects within net zero timelines.

Put simply, the infrastructure required to power the energy transition does not exist today. Electricity Canada members will be responsible for building the generating plants, transmission lines and distribution systems needed to electrify the economy.

To do this, we must build faster than we ever have before.

Electricity Canada partnered with Dunsky Energy + Climate Advisors on a study examining the barriers standing in the way of building a net zero electricity system by 2035 and a net zero economy by 2050. Dunsky interviewed experts and scanned best practices in seven jurisdictions with distinctive regulatory approaches, and identified the following barriers to net zero:

- 1) Over-reliance on traditional deterministic planning processes.
- 2) The existing regulatory and approvals process involving both federal and provincial agencies.
- 3) The limited capacity of permitting and regulatory bodies to assess and approve applications.





- 4) A persistent shortage of skilled labour.
- 5) Limited access to capital for projects and project competitiveness.

The report identified areas to simplify, streamline and strengthen our regulatory regime to fall in line with net zero timelines. Electricity Canada recommends the federal government adopt the following primary recommendations from [Build Things Faster report](#):

- 1) Implement the "One Project, One Assessment" framework described in Budget 2023.
- 2) Establish a single central federal office to coordinate federal permitting and approvals for net zero projects.
- 3) Invest in regulators' capacity to deliver on net zero goals promptly and effectively in their decision-making.

Eliminate Barriers to Net Zero

Recommendation 4: Exempt regulated utilities from planned changes to Excessive Interest and Financing Expenses Limitation (EIFEL).

Electricity Canada and our members are committed to ensuring that electricity bills remain affordable as we invest hundreds of billions of dollars in electrification and decarbonization projects over the coming decades.

Electricity Canada remains concerned with the recently published draft legislation on Excessive Interest and Financing Expenses Limitation (EIFEL). The draft rules will limit the amount of interest expense that can be deducted from taxable income for existing and new borrowings. Every dollar of denied interest will be passed on to customers and/or increase the cost of capital. To avoid these unnecessary costs, the final legislation must include a targeted exemption for regulated utilities.

Regulated utilities are unique and should not be captured by the proposed EIFEL rules. They are highly regulated, capital intensive, and must maintain high levels of long-term debt to ensure costs to customers are staggered over the life of a project. Increasing the cost of electricity and reducing the feasibility of capital projects needed to reach net zero are harmful outcomes that work against the government's larger policy objectives. The ITC regime clearly demonstrates the government's desire to accelerate investment in clean electricity in a manner that preserves affordability for Canadians. Increasing the cost of electricity will undermine efforts to electrify the economy - the foundation of Canada's net zero by 2050 plan.

The surest way to avoid passing on unnecessary costs to customers from the EIFEL rules is to provide a targeted exemption for regulated utilities. Additionally, we recommended that, for the sake of consistency across





policies, specific investments in clean technologies eligible for the new ITCs should also be exempted from the EIFEL rules to avoid reducing the benefit of the ITCs.

Electricity Canada has submitted a letter to the Minister of Finance's office outlining detailed recommendations on a targeted exemption. We would be happy to provide this letter to the Committee.

Plan for the Future

Recommendation 5: Develop a Canadian Electricity Strategy to guide and advance Canada's work to build a clean, reliable, and affordable electricity grid to achieve net zero.

Decarbonizing Canada's economy and the electricity sector are herculean tasks. This will require a doubling-to-tripling of the grid by 2050. We will need to build more generation, transmission, and distribution capacity in the next 27 years than in the last 100. This action must be taken to ensure all provinces and territories are coordinated and equipped with the tools necessary to meet that demand.

Tax-based financial support, addressing barriers, and regulatory reform are critical components of the net zero puzzle. However, **these pieces must fit together in a clear and coherent strategy to define where we are going by 2035 and 2050, and how we plan to get there.**

Establishing the Canadian Electricity Advisory Council was an important step in initiating a pan-Canadian conversation on what is needed across the electricity sector. With the focus and momentum centered on delivering clean electricity, now is the time to build and execute a Canadian Electricity Strategy that answers three fundamental questions:

- 1) How are we clearing the path for the industry to build the necessary clean electricity infrastructure?
- 2) How are we providing regulatory clarity for the industry to understand the rules and timelines they will be governed by?
- 3) How will we financially support the push for an affordable, reliable, and clean electricity grid in 2035, 2050 and beyond?

