PEMBINA Institute

SUBMISSION

Pre-Budget Consultation 2025

Pembina Institute comments and recommendations

Submitted to Department of Finance

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Recommendation summary

- Advance a zero-emissions national electricity grid
- Retrofit for affordability and resiliency
- Drive Zero Emissions Vehicles infrastructure
- Prioritize Indigenous energy opportunities
- Take the lead on carbon removal and sequestration
- Create jobs for today and tomorrow
- Maintain industrial accountability
- Build market capacity through government procurement

Context

- The threat of U.S. tariffs has already disrupted the Canadian economy, and modeling projections show significant potential job and economic losses.
- Policy and regulatory stability are critical elements of both maintaining investor security and unlocking the private capital required to achieve clean economy targets.
- Among Canada's 10 largest non-U.S. trade partners, all have net-zero commitments and carbon pricing systems, and roughly half apply carbon border adjustments on imports.[i]
- By 2025, climate change is expected to reduce Canada's GDP by $25 billion annually.[ii]

Discussion Questions

How can the government build one strong economy today and for the future?

- The priority of the federal government should be to support long-term, legacy initiatives that have multigenerational opportunities and benefits. This can be achieved by avoiding

short-term thinking and reactionary investments in projects that only aim to fix issues we face today.

- Canada is still facing systemic challenges like climate change, access to appropriate and affordable housing, the cost of living, and being able to lead in the global clean energy economy. Investments, financial mechanisms, and policy frameworks must aim to multi-solve these challenges while creating domestic and international markets for Canadian skills and products.
- We must avoid investing in or fast-tracking legacy industries that won't provide long-term benefit or expand local job and economic growth opportunities.

What are the most important ways the Government of Canada can help Canadians in their day to day lives?

- The Government of Canada must continue to demonstrate leadership in addressing the significant challenges of this time, specifically climate change and economic instability, by not only setting policy priorities but also through the convening and collaboration with provinces and territories, local governments, and Indigenous communities and governments. This will ensure that both efforts and public funds are efficient and effective in assisting meeting the basic needs of Canadians while creating new opportunities.
- Investments in industrial projects and market development must prioritize decreasing climate and economic risk, while recognizing the relationship between major project expansion and the impacts of household costs. For example, the prioritization of an efficiency-first approach to the energy system will avoid unnecessary and costly supply build out while ensuring household energy bills remain affordable.
- Reconciliation and the assertion of the rights and title of Indigenous people must remain fundamental to all actions by the Government of Canada.

Priority Recommendations

Advance a zero-emissions national electricity grid

Electrification is the only overarching policy that simultaneously supports economic prosperity, creates jobs, improves health outcomes, provides affordable energy, and reduces carbon emissions. The federal government should lead the acceleration of a national, east, west and north, build out of the electricity grid to increase resiliency, reliability and economic opportunity. It should also strengthen the Output Based Pricing System and ensure that provinces continue to maintain their carbon markets, so they continue to be Canada's most efficient policy driver of clean growth.

The federal government should invest **$4 billion in 2025 and $20 billion over five years** to support provinces that are seeking to increase interprovincial trade of electricity and are advancing strategic interprovincial interties that will begin to systematically develop an **East-West transmission grid** to give system operators more options to share resources across provincial borders that will reduce costs and increase reliability for consumers.

To maximize energy efficiency, reduce peak demand, and improve affordability to ratepayers, **$1.3 billion** should be invested **in 2025**, and **$6.5 billion over five years**, to augment provincial funding enabling all ratepayers – including moderate to low income households and small businesses - access to utility **Demand-Side Management** (DSM) programs and offerings.

An additional **$960 million in 2025 and $5 billion over five years** should be allocated to increasing the commitment to **Indigenous-led clean energy** through expanded loan guarantees, unlocking capital for Indigenous groups to lead clean energy projects and programs specifically targeted to benefit Indigenous, low-income, and vulnerable communities.

Clean Electricity Investment Tax Credit (ITC) must be expanded and finalized, to include a broader range of clean energy technologies and project types, such as emerging non-wires solutions, to further accelerate deployment and ensure tax credits are directed to initiatives that can break ground quickly and deliver economic, reliability, and decarbonization benefits.

Housing and retrofits for affordability and resiliency

While the rapid expansion of housing supply continues to be a priority across all levels of government, we must ensure all homes are affordable to heat and cool and keep all Canadians safe from the impacts of climate change. New housing construction and a rapid expansion of the retrofit market will be fundamental in creating in-community, long-term skilled jobs and local GDP growth.

Allocate **$250 million in 2025**, as part of a **$10 billion over five years** investment in **retrofit loan and incentive programs**, prioritizing programs established through Provincial and Territorial contribution agreements and those targeting non-market multi-unit housing. This investment should be considered an opportunity to create long-term market certainty for the expansion of Canadian retrofit skills and manufacturing capacity, supply both domestic and international markets with HVAC equipment, windows, insulation, and other made-in-Canada products.

Building retrofits with resiliency considerations offers the opportunity to improve a building's capacity to withstand extreme weather events and protect both occupants and communities against human and financial loss. Critical improvements include improved insulation, high-performance windows, efficient heating and cooling systems and wildfire and storm-resistant cladding materials, leading to lower energy costs, healthier indoor environments, and reduced climate risk. To support the highest level of building upgrades, regulatory actions should be completed as soon as possible, including the **Energy Efficiency Act** and **Alterations to Existing Building Code**.

Build Canada Homes presents an opportunity to provide Canadians with affordable housing, but we can only achieve this if homes are highly efficient and affordable to heat and cool. Building faster, better and smarter goes hand in hand with climate resilient and high performance through meeting the highest tier of the National Building Code and design principles that decrease climate risk. NRCan should continue to support these efforts and initiatives to retrofit existing buildings through the Codes Accelerator Fund and advancing a national building performance standard.

Zero Emissions Vehicles infrastructure

A reliable charging network is just as critical as EV production to prevent market stagnation and reassure vehicle owners that accessible, reliable charging is available. The federal government should support public charger deployment by increasing ZEVIP funding.

Expanding charging infrastructure is critical to EV adoption; the current number of chargers needs to grow 5 times by 2035, and medium- and heavy-duty vehicles are projected to grow to 414,000 by 2030 and 2.4 million by 2040. Canada needs a robust national plan to scale up charging infrastructure with EV adoption.

Allocate **$405.8 million over four years** to renew the as-yet unspent portion of the **Incentives for Medium and Heavy-Duty Vehicles** (iMHZEV) program, with an increased vehicle cap and tailored support by vehicle class. iMHZEV is seeing growing momentum as more

vehicles become available. However, the program is scheduled to end by 2025. The momentum should be encouraged **by extending the program**.

Allocate **$212 million over three years** to the **Zero-Emission Vehicle Infrastructure Program**, for MHDV charging (public, shared and depot sites), with a focus on cost-effective investments through identifying and prioritizing high-impact locations. The funding should include support for Electric Vehicle Energy Management Systems. This MHDV charging funding stream should be additional to, and complement, funding the light-duty vehicle charging network.

Earmark **$1 billion over the next four years** from the upcoming Canada Public Transit Fund (CPTF) for school bus electrification, with an accelerated process that provides certainty and reduces approval times, such as a point-of-sale rebate. Electric school buses support the local economy and provide cleaner, healthier and quieter rides for our children. Many fleet operators have wanted to electrify but have been stymied by the lengthy approvals process in the previous Zero Emissions Transit Fund. The federal government has an opportunity to move quickly by specifically earmarking these funds from the CPTF.

Supporting Recommendations

Prioritize Indigenous energy opportunities

As Canada increases its ambition for a secure, sovereign and nation-building future, it cannot leave northern and remote jurisdictions behind. With this in mind, the federal government must take a collaborative and inclusive approach with northern and Indigenous leaders to prioritize funding that supports energy security, economic opportunity, and the implementation of UNDRIP within energy policy. The federal government should prioritize:

- Top up **Wah-ila-toos** and associated programs (Northern Responsible Energy Approach for Community Heat and Electricity; Clean Energy for Rural and Remote Communities) with **$300 million.**
- **$86 million** for the Atlin hydro expansion project.
- **$20 million** for Nunavut Nukkiksautit Corporation for the Iqaluit hydro project.
- **$150 million** for utilities in Nunavut, the Northwest Territories and the Yukon to upgrade power plants and modernize electricity grids.
- **$66 million** for building, renovating and repairing homes.

Indigenous and northern resource and energy development will require targeted skills and labour training to support the creation of in-community jobs and local economic benefits.

Take the lead on carbon removal and sequestration

For Canada to be the world leader in carbon dioxide removal, the federal government needs to expand both demand and supply-side support through technology-agnostic tax credits, compliance market recognition and voluntary demand signaling.

To become a world leader in carbon removal and sequestration, Canada should:

- Create a **separate carbon dioxide removal (CDR) investment tax credit (ITC)** that is distinct from the Carbon Capture Utilization and Storage Investment Tax Credit (CCUS ITC). The CDR ITC should be technology agnostic and support smaller scale projects. Currently, only a few types of CDR can access the CCUS ITC: direct air capture, bioenergy and carbon capture and storage, and in-situ mineralization.
- Increase the allotment for CDR within the Greening Government Strategy from $10 million to **$50 million** to provide an appropriate demand signal and sufficient incentive for suppliers to participate.

There is a time-sensitive opportunity for Canada to establish itself as a global leader in CDR, a high-tech industry that is poised to generate over $400 billion globally by 2050. This is a once-in-a-generation economic opportunity.

Create jobs for today and tomorrow

The Government of Canada should continue to engage with labour, postsecondary institutions, and employers to make strategic investments in training programs that increase the number of skilled trades workers and youth in careers that support the energy transition.

Increasing the number of skilled trades workers is essential to achieving economic objectives and enable the success of the transition to the age of electrification. As all levels of government work together to invest in and facilitate projects of national significance, agreements and contracts must respect existing labour agreements and include apprenticeship hiring quotes and established prevailing wages. Nation building projects are an opportunity to create the economy and workforce of the future founded on the creation of decent work.

Federal government supportive actions include:

- Top up the **Sustainable Jobs Training Fund (SJTF) and Union Training Innovation Program (UTIP) with $200 million** for the additional training

capacity required for the increase in jobs needed for the rapid development of clean energy infrastructure. Funding should be prioritized for public training institutions and union training centres, and the most in-demand occupations and highest growth sectors in the clean energy transition.

- Invest **$28 million** to stand up a **Youth Climate Corps** in 2025 and build the internal coordination and program administration capacity required to launch the YCC in 2026, with potential to scale to an **annual investment of up to $1 billion**. The program should ensure that the principles of decent work and inclusion are upheld, skills and experience gained lead to real career opportunities (e.g., jobs in the skilled trades), a living wage is provided, and opportunities are prioritized for Indigenous peoples, people of colour, people with disabilities, and others facing labour market barriers.
- Incentivize **employer sponsored training & on the job upskilling** programs by investing **$125 million** in a new 25% training credit.

Maintaining industrial accountability

Large industry will continue to play a significant role in both the future of the economy and Canada's ability to meet emissions reduction targets. In particular, oil and gas continues to be the highest-emitting sector in the country, and implementing regulations to catalyze innovation and investment—and backstop industry commitments— in decarbonization remains a priority. Electricity sector investments also need a price on carbon to level the playing field for non-emitting power now and the future-ready grid we want for tomorrow. Significant public support is already on offer to the oil and gas sector via the Carbon Capture Incentive Tax Credit; as such public funding should not be allocated to subsidizing the construction of new oil and gas infrastructure, including pipelines.

The **Output Based Pricing System** (OBPS) and benchmark criteria **should be tightened** on a trajectory that ensures meaningful emissions reductions by 2030, and to incentivize investment in decarbonization by industrial emitters. Harmonization between provincial systems should be pursued where possible. Certainty on carbon prices post-2030 are also needed.

Proposed federal **methane regulations should be finalized** as soon as possible. This is a key low-cost opportunity to create high-quality jobs in the flourishing methane mitigation industry and reduce emissions in Canada's high-emitting oil and gas sector. Over the last few years, a thriving methane mitigation industry has been established in Canada with 136 firms across the country manufacturing methane mitigation technologies, providing leak detection services to oil and gas companies, or performing associated tasks (such as sales, equipment

repair, and warehouses). Canadian companies are also seeing international demand for their products and expertise, signalling that Canada's methane mitigation industry has strong prospects as a source of export revenue in the years ahead.

Carbon contracts for difference can work in conjunction with other mechanisms like OBPS to prompt investment in decarbonization other than methane. It is essential that industrial pricing systems are tightened to ensure the value of carbon credits predictably increases over time to support carbon contracts for difference.

Build market capacity through government procurement

Public procurement, estimated at $200 billion each year across all levels of government, presents a significant opportunity to leverage investment in a manner that ensures the highest value across social, environmental and economic metrics.

The **Standard on Embodied Carbon**, which exists under the Greening Government Strategy, is a best in class and thoroughly researched standard that has had significant industry and stakeholder input. It is critical for expanding the market for lower carbon concrete materials and other lower carbon building materials and must remain in place

The Federal government should seek opportunities to work with Provinces and Territories to support them in their **adoption of embodied carbon targets** for their infrastructure projects to ensure the greatest harmonization of standards possible across the country. Programs such as the Standard on Embodied Carbon present a significant opportunity to support Canadian producers and manufacturers, while increasing the resiliency of our supply chains.

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[i] Clean Energy Canada, 2025, *The World Next Door*. https://cleanenergycanada.org/wp-content/uploads/2025/04/Report_2025_CanadasCleanEconomicOpportunity-V3.pdf

[ii] Climate Institute, 2022, *The GDP costs of climate change for Canada*. https://climateinstitute.ca/the-gdp-costs-of-climate-change-for-canada/