

# Budget Recommendations 2026

Written submission in advance of the  
upcoming federal budget

Submitted by the Pembina Institute

Contact: Jessica McIlroy, Director of Government Relations

May 22, 2026

# Recommendations

## **Recommendation 1: Enable a modern, resilient east–west electricity grid based on renewables**

Amend the Clean Electricity Tax Credit to provide an enhanced 50% credit for interprovincial and interregional transmission projects and a 10% adder for projects using Canadian content, and invest \$25.5 billion over 5 years.

## **Recommendation 2: Invest in climate-resilient housing**

Invest \$1 billion per year for five years to support the advancement and scaling of the Canadian building retrofit market through the continuation and enhancement of existing programs.

## **Recommendation 3: Invest in energy demand-side management infrastructure**

Provide funding in the amount of \$6.5 billion over five years to match provincial or territorial investment into demand-side management.

## **Recommendation 4: Fund Indigenous-led and northern clean energy**

Allocate \$2 billion over five years to advance Indigenous-owned and Indigenous-led clean energy projects through grants and loans.

## **Recommendation 5: Establish labour conditions for fast-tracked projects**

Direct the Major Projects Office to establish labour conditions for any approved and fast-tracked projects.

## **Recommendation 6: Reaffirm the industrial carbon price**

Reaffirm the industrial carbon price at a level that will drive near-term investment in emissions reductions.

# Context

## Recommendation 1: Enable a modern, resilient east-west electricity grid based on renewables

Electricity is the foundation of a modern economy as the world shifts decisively into the “age of electricity.” With evolving trade relationships with the United States and surging domestic demand for clean electricity, Canada urgently needs a strong, modern, and resilient east–west electricity grid.

We recommend a total investment of \$25.5 billion over five years, allocated as follows:

- \$20 billion to create a Clean Electricity Investment Tax Credit
- enhanced 50% ITC for interprovincial transmission projects using Canadian content
- \$500 million to develop regional plans and cost-allocation frameworks
- \$5 billion to support Indigenous-led and community-led clean energy projects

These recommendations will help attract the necessary investments needed to kickstart strategic intertie projects and build out the east–west grid, which has the potential to generate high-quality jobs, improve health outcomes, increase affordability, and strengthen Canada’s national security for communities and businesses. Additionally, this funding will build capacity, enhance access, and enable Indigenous communities to meaningfully participate and hold a vested financial equity in large-scale nation-building projects.

## Recommendation 2: Invest in climate-resilient housing

Successfully addressing the housing crisis requires addressing the creation of new units of housing and the preservation of existing buildings. This combined approach, in a strategy to ensure all Canadians have a climate-resilient home, provides the greatest opportunity to multi-solve for our current interconnected challenges. Retrofitting existing buildings and ensuring new construction meets the highest level of the National Energy Building Code can lower household energy costs, greenhouse gas emissions, and health care costs.

To achieve the goal of supporting the retrofitting of 1 million homes, we recommend investing \$1 billion per year for five years (\$5 billion total), allocated as follows:

- An additional annual \$200 million for the Canadian Greener Homes Affordability Program (inclusive of the Oil to Heat Pump Program)
- \$500 million annually for the CMHC Canada Greener Affordable Housing Program
- \$14.5 million annually for the Greener Neighbourhoods Pilot Program (GNPP)
- \$185.5 million annually for the Deep Retrofit Accelerator Initiative (DRAI)

- \$100 million annually for the Codes Acceleration Fund

DRAI and GNPP are in the early stages of building program capacity and retrofit leadership, and attracting private interest and capital. Providing a clear signal of recapitalization prior to the 2026 Budget will ensure these programs can act as long-term market transformation tools, demonstrating the commitment to enabling a durable and self-sustaining retrofit industry. Recapitalization should ensure the programs can continue to 2030.

The Greener Affordable Housing program, previously administered by CMHC, has been an important and effective method of improving the energy efficiency and livability of non-market housing, while reducing emissions. The program should be recapitalized with a continued combination of grants and forgivable and repayable loans that support both pre-retrofit and retrofit activities.

### Recommendation 3: Invest in energy demand-side management infrastructure

Optimizing the use of existing electricity transmission and distribution infrastructure through energy efficiency, distributed energy resources, local energy storage, and demand response will be foundational to balancing load growth requirements in a timely and affordable manner. Prioritizing demand-side management (DSM) can improve energy and system productivity, allow customers to participate in the market, and enable greater efficiency and electrification of buildings, vehicles and industry. Federal support for electricity expansion should include support for utility regulatory modernization. This includes integrated planning models, non-wires solutions, advanced metering and data management systems, and transparent valuation methods for local grid services.

Federal funding should prioritize provinces and utilities that integrate efficiency and demand-side resources into electricity planning, procurement and system operation. Matching funds for provincial and territorial DSM investments should be tied to measurable outcomes, including peak demand reduction, avoided infrastructure costs, bill savings, emissions reductions and improved access for low- and moderate-income customers.

We recommend the government provide funding in the amount of \$6.5 billion over five years to match provincial or territorial investment into demand-side management.

### Recommendation 4: Fund Indigenous-led and northern clean energy

The federal government plays a critical role in supporting effective and much-needed projects that help achieve its goals around nation-building, Arctic sovereignty, self-sufficiency, and interconnectivity. The federal government invested approximately \$600 million from 2016-

2025 via 450 funding disbursements for clean energy projects to achieve 29 million litres in diesel reduction. The Pembina Institute projects an additional reduction of 90 million litres of diesel per year is possible, if critical federal initiatives and programs continue.

We recommend the federal government collaborate with and continue to support Wah-ila-toos and the Indigenous Council through the following actions:

- Commit \$400 million over five years for clean energy in remote and Indigenous communities.
- Convene, collaborate, and codesign the next iteration of programming with representation from Indigenous partners, utilities, provincial and territorial governments, and key federal bodies (NRCan, CIRNAC, CIB) to recommend how funding and financing can best support the energy transition in remote diesel communities.
- Design new programming for clean energy in remote communities to support Canadian sovereignty in the North, economic development and job creation, and climate action to support healthy communities.

This funding will build capacity, enhance access, and enable Indigenous communities to meaningfully participate and hold a vested financial equity in large-scale nation-building projects such as the Iqaluit Nukkiksautiit Hydroelectric Project, and other major renewable electricity generation and cutting-edge battery storage projects. Federal support must also include programs for providing communities the necessary resources to engage effectively in consultation processes.

## Recommendation 5: Establish labour conditions for fast-tracked projects

In February 2026, the Government of Canada released the 2026-2030 Sustainable Jobs Action Plan outlining how it will support workers and communities through Canada's transition to a net-zero emissions economy. While the plan identifies both demand- and supply-side measures that support job creation and worker training, it outlines only previously announced actions with no new funding and provides limited implementation details. The Pembina Institute urges the Government of Canada to provide additional resources that transform words into action, showcasing Canada as a leader in ensuring workers are at the centre of nation-building and climate action.

The Major Projects Office identified two tranches of projects eligible for fast-tracked approval, which could create over 100,000 jobs, but an expedited project timeline should not supersede the creation of decent work. Labour conditions attached to these projects would leverage billions in new investment to create high quality jobs, securing greater social and economic benefits for

workers and communities. Conditions should include training provisions, prevailing wage standards, collective bargaining rights, and apprenticeship quotas.

We recommend that the MPO work with labour organizations and employers to establish conditions for these key job creating activities.

## Recommendation 6: Reaffirm the industrial carbon price

Industrial carbon pricing has the potential to be a foundational piece of Canada's climate goals and clean energy transition, driving investment toward low-carbon industries at minimal cost to heavy emitters. However, recent changes to industrial pricing — notably, the deal struck with Alberta via the federal–Alberta MOU, and the subsequent lowering of the price trajectory across the country — mean that the ability of this policy to drive substantive near-term investment in emissions reductions has been significantly curtailed.

As a consequence of this step down in stringency, the signal for low-carbon investment in heavy industry is weaker, and capital investments made under this regime will lock in higher-carbon production for decades to come. Alternative policy tools — subsidies and regulations — to achieve decarbonization in these key sectors are less efficient and more costly.

To unlock the full potential of Canada's low-carbon economy, and prompt sufficient emissions reductions, we recommend that the federal government prioritize making industrial carbon pricing work to a standard that is aligned with Canada's international climate obligations.

We recommend that the federal government use the 2026 pricing review to strengthen industrial carbon pricing, elaborating a benchmark for equivalence that requires provincial and territorial regimes to achieve a minimum (effective) price in credit markets.

Floor prices, working with other policy mechanisms, can remedy inadequate policy stringency that threatens the long-term integrity of credit markets and undermines business cases for low-carbon projects.