

Budget 2026

Pembina Institute comments and
recommendations

Submitted to Finance Canada

Regarding: Budget 2026

Contacts:

Chris Severson-Baker | Executive Director

Jessica McIlroy | Director, Government Relations

September 2026

Budget 2026

Pembina Institute comments and recommendations

Priority recommendations

1. **Establish a national retrofit program for multi-unit residential buildings**
2. **Develop strategic grid connections that benefit all Canadians**
3. **Modernize electricity systems through demand-side management**

Supporting recommendations

4. Fund Indigenous-led and northern clean energy
5. Reaffirm the industrial carbon price
6. Embed workforce development into the national electrification strategy
7. Ensure electric vehicle targets can be met
8. Ensure accurate, measurement-based methane emissions data

Context

Canada currently faces numerous, interconnected challenges. Budget 2026 presents a critical opportunity to demonstrate the country's commitment to becoming a clean energy superpower through ambition and investment that exceeds the public support given to the conventional energy sector. The *Powering Canada Strong* electrification strategy is central to Canada's pathway to clean energy and economic prosperity. It can serve as the cornerstone of the Climate Competitiveness Strategy and support our legislated commitment to reach net-zero emissions by 2050. It can also advance our recent international commitments under the Montreal Action Plan (doubling the global average rate of energy efficiency by 2030) and the Electrify Now initiative (raising the global rate of electrification to 35% by 2035).

As stated by the prime minister in his *Canada's energy future* address, the path to affordability, competitiveness and sustainability is electrification. To make life more affordable for Canadians, investments in expanding our energy system must align with the changing ways Canadians use energy.

The additional goal stated by the Prime Minister is for Canada to become a clean energy superpower. This would provide Canadians with far greater direct benefits than the continued export of commodities primarily owned by non-Canadian companies. These benefits include growth in domestic supply chains and workforces, lowered household energy bills, improved air quality and health outcomes, and reduced GHG emissions. They also include increased resilience to the climate impacts that Canadians are already experiencing and greater access to technologies such as heat pumps and electric vehicles (EVs), ensuring that Canada is not left behind in the global energy transition.

To meet our climate and economic goals, Canada must complement *Powering Canada Strong*'s goal of doubling electricity supply with two equally ambitious goals for 2050:

- Double electrification — doubling the share of Canada's final energy consumption supplied by electricity.
- Double energy productivity — doubling the economic value Canadians generate from each unit of energy consumed.

Together, these three goals form a coherent national mission to improve prosperity for all Canadians. To achieve this mission, we offer the following recommendations for Budget 2026.

Priority recommendations

1. Establish a national retrofit program for multi-unit residential buildings

A modern energy system requires recognizing buildings as energy infrastructure, not just energy consumers. They are central to grid stability, energy efficiency, the integration of new generation, household electrification, and the adoption of distributed energy resources (DERs). These DER technologies include rooftop and balcony solar, energy storage, electric heat pumps, and EVs that are integrated into the distribution grid.

Buildings are the largest scalable lever for turning clean electricity into emissions reductions, cost savings, and grid flexibility. They are where the electrification strategy meets implementation. Retrofitting existing buildings, particularly multi-unit residential buildings (MURBs), is essential to fully realizing this potential. MURBs represent the majority of the affordable housing stock across Canada, and more likely to be in need of upgrades, and have typically been left out of retrofit programs.

Canada does not currently have an overarching national MURB retrofit plan, and developing one requires four key actions from the federal government:

- Maintain existing retrofit programs for market stability.
- Support green building leadership at all levels of government.
- Develop enhanced market supports for MURB building and portfolio owners.
- Leverage buildings as an enabler of the national electrification strategy.

The federal government has a critical role to play in creating a robust retrofit sector across Canada, ensuring that existing building stock is climate-resilient and affordable. Existing retrofit programs should be maintained and strengthened to act as long-term market transformation tools, demonstrating the commitment to enabling a durable and self-sustaining retrofit industry.

The electrification strategy included a goal to retrofit one million homes, to achieve this we recommend prioritizing MURBs and investing \$5 billion over five years, as follows:

- \$1 billion in additional funding for affordability-based consumer incentive programs (such as the Canadian Green Affordable Homes Program) that target low-income multi-unit residential housing
- \$2.5 billion for a renewed Canada Greener Affordable Housing Program loan
- \$927.5 million for the Deep Retrofit Accelerator Initiative
- \$500 million for the Codes Acceleration Fund
- \$72.5 million for the Greener Neighbourhoods Pilot Program

In addition, the federal government should commit \$750 million per year for five years for retrofits and energy efficiency upgrades for housing projects in Indigenous communities, as identified by Indigenous Clean Energy.

While most building codes and policies are determined at the provincial or territorial level, federal government guidance and tools to support national alignment are important means to scaling up a national retrofit industry. These could include creating national templates for Commercial Property Assessed Clean Energy (C-PACE) programs, Building Performance Standards (BPS), and procurement guidelines for publicly funding retrofits.

2. Develop strategic grid connections that benefit all Canadians

Connecting our isolated provincial and territorial grids through interregional and intraregional interties is vital to building an electricity grid that is affordable, clean, reliable, and secure for all Canadians. Done well, this nation-building initiative could expand grid capacity and access while enabling Indigenous communities to meaningfully participate and hold an equity stake in projects.

Following the Energy and Mines Ministers' Conference in June, the federal government announced that it will prioritize financial and regulatory support for [five priority transmission projects](#), investing \$40 million in the British Columbia–Yukon Grid Connect line, and \$5.9 million in the Prince Edward Island–New Brunswick Interconnection Expansion.

Earlier, in September 2025, the Atlantic Energy Strategy was referred to the Major Projects Office, covering the Wind West offshore wind power project, transmission interties between Atlantic provinces, and collaboration between Quebec and Newfoundland and Labrador on further development of Churchill Falls and Gull Island. In May 2026, the Transmission InterConnect Investment Strategy was referred to the Major Projects Office.

As part of the electrification strategy, the federal government announced plans to extend the Clean Electricity Investment Tax Credit to major high-voltage intraregional transmission projects, complementing existing support for interprovincial and territorial interties. These intraregional connections are equally as important as interregional connections, and will require federal government leadership and coordination.

Canada should provide financial incentives and lead coordination through the measures below:

- Allocate \$500 million to develop:
 - regional plans and cost-allocation frameworks, including new federal–provincial–territorial collaboration potentially led by the Canada Energy Regulator
 - a standard cost-allocation mechanism
 - data sharing and regional grid modelling
 - the Transmission InterConnect Investment Strategy
- Confirm the doubling of the Indigenous Loan Guarantee Program from \$5 billion to \$10 billion to support Indigenous-led and community-led clean energy projects.
- Actively investing in intra- and interregional transmission projects that support scaling up electrification and expanding low-cost clean supply to serve growing demand. Southern Alberta illustrates the risks of inaction: a lack of intraprovincial transmission investment has led to significant curtailment of renewable energy, with cost and emission implications.

- Shift some of the risk and investment burden of the transition from ratepayers to taxpayers. The Pembina Institute supports the Powering Canada Forward Fund proposed by the Canadian Climate Institute. Deferring expansion costs to a larger base of future ratepayers, backed by federally underwritten funding, can accelerate the grid buildout needed to attract investment and drive economic growth. It can also mitigate the risk to the provinces, territories, and ratepayers of future electricity demand growing more slowly than expected.

3. Modernize electricity systems through demand-side management

Constructing new power plants, transmission lines and distribution infrastructure is expensive. As Canada seeks to expand its electricity system, the lowest-cost starting point is to use existing infrastructure more efficiently. New investment should then be sized and located based on the demand that remains after cost-effective efficiency and flexibility measures have been implemented. Investing in these demand-side measures would help minimize overbuild and protect Canadians from excessive rate increases.

Demand-side management (DSM) includes energy efficiency and demand response, as well as other measures that reduce or shift electricity demand. Distributed energy resources — including customer batteries, managed EV charging, smart thermostats and solar-plus-storage — can also provide demand-side value when they are integrated into utility planning, programs and operations.

Provinces and utilities are beginning to move in this direction. B.C. released its Power Smart 2.0 plan earlier this year, committing \$1 billion over three years to DSM, while Ontario launched a 12-year, \$10.9-billion electricity DSM framework in 2025. However, Canada continues to underuse DSM compared to leading jurisdictions in the United States and elsewhere.

Unlocking these distributed energy resources at scale will require widespread customer adoption, which depends on modernized distribution utilities and government leadership and support. The federal government has three key roles to play in advancing electrification and energy productivity through utility-led DSM:

1. Using public buildings and fleets as first customers, building trust in technologies and systems while creating a reliable customer for growing supply chains.
2. Convening provinces, territories, utilities, and industry to develop national standards and frameworks that enable DSM advancement and expansion across the country.

3. Investing directly in distribution — the customer gateway to electricity services — to the same extent as transmission.

To support efficient and resilience electricity system use through demand-side measures, the federal government should:

- Implement the DSM recommendations detailed in the Canada Electricity Advisory Council's final report, *Powering Canada: A blueprint for success*. This includes:
 - creating an energy efficiency accountability framework
 - linking federal investments in housing to the highest energy-saving standards
 - prioritizing demand management in federal programs
 - updating appliance and equipment standards
 - advancing building code modernization
 - expanding the Greening Government Strategy
- Require federally supported electricity planning and infrastructure investment to include an assessment of cost-effective demand-side and non-wires alternatives before committing to major conventional infrastructure expansion.
- Support regulatory and utility capacity building by developing national guidance and templates on each of the following:
 - integrated resource and distribution planning
 - standardized cost-benefit analysis
 - measurement and verification
 - access to granular interval meter data for utilities, customers, and customer-authorized service providers
 - utility performance incentives that reward the use of lower-cost customer-side solutions
- Tie federal DSM matching funds to measurable outcomes, including peak-demand reductions, avoided or deferred infrastructure costs, customer bill savings, emissions reductions, and improved access for low- and moderate-income households.
- Provide \$6.5 billion over five years to match provincial and territorial investment in utility DSM, including managed charging, flexible loads and aggregated distributed energy resources. Focus federal investment on expanding eligibility for emerging technologies and hard-to-serve markets, such as limited income households, small- to medium-sized businesses and community-scale initiatives.

- Expand the Clean Technology Manufacturing Investment Tax Credit to support Canadian manufacturing of strategic distribution equipment and enabling technologies, including advanced metering infrastructure, transformers, switchgear, circuit breakers, advanced conductors, power-control systems and networked demand-flexibility technologies.
- Provide low-cost financing through the Canada Infrastructure Bank and other federal financing institutions for customer-side investments in energy efficiency, electrification and distributed energy resources. Balance ratepayer and taxpayer investments in distribution system modernization, including advanced metering infrastructure, communications and data management platforms, and grid visibility and control systems. These investments would give utilities and customers greater visibility into energy use and enable the timely integration and operation of distributed resources and flexible loads. Federal support should match that provided to transmission system modernization initiatives.

Supporting recommendations

4. Fund Indigenous-led and northern clean energy

The federal government has a critical role in supporting effective and much-needed projects in remote communities that strengthen nation-building, Arctic sovereignty, self-sufficiency, and connectivity. Between 2016 and 2025, the federal government invested approximately \$600 million in for clean energy projects in northern and remote communities, and along with local Indigenous leadership, this reduced diesel use by 142 million litres. This is more diesel than all three territories combined use annually to generate electricity. However, this progress is fragile and requires renewed focus and commitment, especially now as Canada reorients around a new security and economic agenda.

The Pembina Institute projects that diesel use could be reduced by an additional 90 million litres per year if critical federal initiatives and programs are continued. However, the federal programs that enabled recent progress have yet to be renewed or recapitalized despite clear demand for further diesel cuts and modern, reliable energy infrastructure.

As the federal government looks to strengthen Canada through reinforcing Arctic sovereignty and investing in northern infrastructure, policies and funding that empower local and Indigenous leaders to advance community-led clean energy will be crucial. These are the surest ways to build and maintain resilient, energy-secure, and thriving remote communities.

Remote communities cannot be an afterthought in modernizing Canada's energy systems. Investing in northern communities and multi-purpose infrastructure is essential to achieving the goals of *Powering Canada Strong* to strengthen national security and "position the North as the economic engine of the future." Communities cannot achieve these goals without the partnership and leadership of the federal government.

The federal government should strengthen the clean energy transition in remote and Indigenous communities through targeted investments, renewed programming, and collaborative policy development, such as the following:

- Commit \$650 million over eight years for clean energy in remote and Indigenous communities.
- Convene Indigenous partners, utilities, provincial and territorial governments, and key federal bodies (NRCan, CIRNAC, CIB, CanNor) to co-design the next generation of programming and recommend how funding and financing can best support the energy transition in remote diesel communities. New programming for clean energy in remote communities should advance Canadian sovereignty in the North, economic development, job creation, and climate action.

Funding needs to encompass early-stage development, capacity building, and infrastructure capital costs. Capacity-building programs need long-term, reliable funding to ensure that communities have the skills, workforce, resources, and networks to develop and lead clean energy projects.

4. Reaffirm the industrial carbon price

The federal government should reaffirm the role of industrial carbon pricing as a key national tool for economic resilience and climate action. Industrial carbon pricing can serve as a foundation for Canada's climate commitments and clean energy transition, encouraging investment in low-carbon industries while minimizing costs to emissions-intensive sectors. However, the federal–Alberta MOU and the subsequent agreement on carbon pricing, which lowered the price trajectory across the country, have curtailed the policy's ability to drive substantive near-term investment in emissions reductions. Other provinces are likely to follow suit and weaken their own pricing systems, further reducing the effectiveness of the carbon pricing policy.

A less stringent carbon price signal reduces incentives for low-carbon investment in heavy industry and increases the risk that capital investments will lock in higher-carbon production for decades to come. Alternative policy tools to achieve decarbonization in emissions-intensive sectors, such as subsidies and regulations, are less effective and more costly.

To unlock the full potential of Canada's low-carbon economy and spur sufficient emissions reductions, the federal government should prioritize strengthening industrial carbon pricing to align emissions reductions with Canada's international climate obligations.

The 2026 pricing review provides an opportunity to establish a benchmark for equivalency that requires provincial and territorial systems to achieve a minimum effective carbon price in credit markets.

Such a floor price, 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.

5. Embed workforce development into the national electrification strategy

Canada must develop the workforce needed to embrace the global energy transition and decarbonize our economy through electrification. Workers and communities need to be at the core of our national electrification strategy.

Employment in the electricity sector now exceeds 110,000 workers (2022), and the sector will require 28,000 new workers by 2028. Up to 130,000 job openings will emerge in the sector between now and 2050 under a net-zero scenario. But labour shortages, an aging workforce, and misaligned training pathways put potential growth in the sector at risk.

Workforce development efforts are critical to delivering the skills needed to implement Canada's electrification strategy, while creating high-quality jobs and benefits for local communities.

The principles under Canada's Sustainable Jobs Act can be used to guide implementation of the electrification strategy and related industrial sector strategies. The federal government should:

- Establish and require set labour conditions on federally funded or supported projects introduced through the electrification strategy to promote high-quality job opportunities for local and equity-deserving workers.
- Prioritize domestic content for project procurement on federally funded or supported clean electricity projects to support and grow domestic manufacturing capacity and value chains.
- Dedicate resources from the Team Canada Strong fund to support recruitment, training and hiring of essential workers for clean electricity projects.

- Commit \$10 million over five years for regional analysis and modelling to help decision-makers, employers, and individuals better understand the potential workforce and economic impacts of the clean economy transition and make informed decisions.

6. Ensure electric vehicle targets can be met

The global shift to EVs is well underway, with EV sales projected to reach 23 million in 2026, representing nearly 30% of all new car sales worldwide. Europe is expected to see the fastest growth among major markets, with one in three new vehicles sold next year projected to be electric.

With federal consumer incentives reinstated earlier this year, combined with climbing gas prices and more affordable EVs reaching dealerships, EV demand in Canada has rebounded sharply. Statistics Canada reports a 75% year-over-year increase in EV sales in March 2026 alone.

Canada is at a pivotal junction. The federal automotive strategy released in February dedicated funding to charging infrastructure and domestic EV manufacturing, introduced protections for Canadian auto workers, and committed to stronger vehicle emissions standards to meet the government's targets of 75% EV sales by 2035 and 90% by 2040.

A vehicle emissions standard sets a ceiling on emissions new cars can emit per mile driven. Automakers can comply in different ways in the near term, including improving gas vehicle efficiency, selling more hybrids, and increasing zero-emission vehicle sales. But over time, stronger standards increasingly require a larger share of EV sales to meet compliance. The stringency of the standard will ultimately determine whether Canada hits its EV sales targets.

A strong vehicle emissions standard of 40 g/mile (25 g/km) is needed to achieve 75% EV sales by 2035 and 90% by 2040.

EV adoption also depends on a reliable national charging infrastructure. A recent national report confirms a serious shortage of public charging stations. EV owners' dissatisfaction with the availability of public chargers ranges from 54% in Quebec to as high as 79% in other parts of Canada. NRCan's successful Zero Emission Vehicle Infrastructure Program (ZEVIP) model, leveraging substantial private sector investment, has been particularly effective, according to the Environment and Sustainable Development Commissioner.

The federal government should expand ZEVIP. This includes:

- maintaining the announced funding increase from the Canada Infrastructure Bank for public fast-charging projects over \$25 million
- providing cost-shared funding that targets under-served and non-urban regions across Canada
- increasing implementation support for multi-unit residential buildings, small to medium-sized businesses and municipalities located beyond major cities

7. Ensure accurate, measurement-based methane emissions data

Methane is a potent greenhouse gas with over 80 times the warming impact of carbon dioxide. Rapid reductions are essential, and methane mitigation remains one of the lowest-cost opportunities in the oil and gas sector. Canada has finalized regulations to achieve a 72% reduction in methane emissions by 2030.

Despite this, methane emissions continue to be significantly underestimated. Research from Carleton University's Energy & Emissions Research Lab (EERL) shows that actual measured emissions are 1.5–2 times higher than industry's bottom-up estimates.

Accurate, measurement-based inventories are critical for federal–provincial equivalency negotiations and for validating outcomes under Canada's updated methane regulations, which include a performance-based compliance pathway. Independent measurement is required to confirm reported methane intensities and to ensure that this pathway aligns with 2030 targets.

To address these gaps, EERL has launched MethaneNet, a multi-stakeholder initiative supported by NRCan and the Government of British Columbia to measure, report, and verify oil and gas methane emissions. EERL has secured just under \$3 million in funding to begin this work from NRCan, the B.C. government, a private foundation, and an industry partner.

Sustained federal investment is urgently needed to expand MethaneNet's work in order to provide the technical foundation for equivalency negotiations and verification of methane reductions through 2030.

The federal government should commit \$26 million over five years to MethaneNet for measuring and tracking emissions at oil and gas facilities across Alberta, Saskatchewan, and B.C.

Conclusion

Thank you for the opportunity to share these comments and recommendations for Budget 2026. This is a critical time for strengthening the Canadian economy, improving the well-being of Canadians and doing our share to tackle the global climate crisis. We hope that you receive these recommendations as ways to bolster Canada's approach to all three. We look forward to continued engagement with you on these critical issues.