

2025 08 13

The Honourable François-Philippe Champagne
Minister of Finance and National Revenue
Finance Canada
90 Elgin Street
Ottawa, ON K1A 0G5

By email: yourbudget-votrebudget@fin.gc.ca
minister-ministre@fin.gc.ca

Subject: Pre-budget consultations recommendations on Clean Electricity Tax Credits from the hydropower sector

Dear Minister Champagne:

Waterpower Canada (WPC) welcomes the opportunity to provide input as part of the 2025 Pre-Budget Consultation process.

As the national trade association representing Canada's hydropower industry—including 70 public and private power producers, equipment manufacturers, and engineering firms—WaterPower Canada and its members are pleased that energy security is a central pillar of your government's agenda. Our supply chain is over 90% Canadian, which means our industry is uniquely positioned to help make Canada an energy superpower. Demand for electricity is expected to double by 2050, and we look forward to supporting this expansion.

We are pleased to see that your government has doubled the funding allocated to the Indigenous Loan Guarantee Program in the recent months. This will directly benefit our Indigenous partners and facilitate overall project financing and development in our sector.

That said, we fear that significant financial hurdles remain that could significantly limit the success of the hydropower sector's efforts. In particular, the Clean Electricity Investment Tax Credit (ITC) announced in the 2024 Fall Economic Statement is essential to enabling the build-out of the clean electricity infrastructure Canada needs to achieve its ambitions.

Canada's Clean Economy Investment Tax Credits are critical tools to enable the development of clean energy infrastructure to meet net zero goals and support economic growth. They are fundamental in positioning Canada to be able to compete with other jurisdictions, such as the United States, where similar tax credits for hydroelectric facilities have been upheld by the Trump administration.

The Clean Electricity ITC is the last of these credits to be implemented in Canada. It will ensure that all electricity producers, including Indigenous groups and Crown corporations,

have access to affordability supports, and expands the program to other investments, including interprovincial transmission and refurbishments. Our associations appreciated the opportunity to provide our views and recommendations on draft legislation in 2024¹.

However, the implementation of this already delayed ITC has been seriously impacted by the prorogation of Parliament and the subsequent election. Our members are increasingly concerned that further delay will jeopardize their ability to make timely investment decisions, affecting project timelines and investor confidence. Moreover, the current draft contains unnecessary stipulations that limit the effectiveness of the proposed framework. We hope the Clean Electricity ITCs can be incorporated into the upcoming budget and promptly implemented to address the key outstanding issues noted in the present submission.

1. Eligible Province

ITCs should be available to clean electricity projects in all provinces and territories, whether or not they are designated.

The environmental benefits of a clean-energy project accrue from its development, regardless of whether its province commits to a net-zero target on a specific timeline. Meanwhile, other legislative tools can address net-zero targets.

2. Timing Issues and Eligibility Period

Given the long planning, approvals and construction intervals for large-scale projects, the current planned expiry of the ITC on December 31, 2034 reduces the utility of the ITC since it is unlikely that large hydro projects with the most GHG reduction potential could be completed within this time horizon, as this is under the average time required for permitting only. This is particularly true since ITCs have been delayed as a result of the last election.

To mitigate this, we urge you to consider adjusting the eligibility period for the tax credit in two ways:

- 2.1. By making the beginning of the eligibility period retroactive to July 1st, 2025.
- 2.2. By extending the eligibility period to include projects that *start* within the eligibility period, rather than setting the expiry date in 2034.

3. Financing Vehicles

In our view, the decision to limit availability of the ITC to the most common forms of business structures, with limitations on limited partnerships and commercial trusts,

¹ [WPC-ITC-legislation-comments.pdf](https://waterpowercanada.ca/wp-content/uploads/2023/10/WaterPower-Canada_ITC-Submission_Oct-23-2023.pdf)

https://waterpowercanada.ca/wp-content/uploads/2024/07/WaterPower-Canada_ITC-and-Labour-Requirements

[Consultation_Sept-8-2023.pdf](https://waterpowercanada.ca/wp-content/uploads/2024/07/WaterPower-Canada_ITC-and-Labour-Requirements)

https://waterpowercanada.ca/wp-content/uploads/2024/08/WPC-2025-Budget-Submission_FINA-Committee_August-2024
final_version.pdf

undermines the utility of the ITC. This is particularly the case for large energy projects, where flexibility is required to address financing and regulatory requirements, or to enable the participation of Indigenous groups in a project. While we understand the desire to avoid unintended tax planning consequences through the implementation of the ITC, we do not believe this is a sufficient reason to **prevent the participation of commercial trusts, project finance for a limited partnership, or leaseback arrangements, all of which are currently used in Canada for large scale projects.**

Given the diversity of potential financing structures that could be used for clean electricity developments, at a minimum we recommend **adding an exception to permit approval of bona fide entities as eligible for the ITC on a case-by-case basis if they don't conform to the most common structures contemplated for the ITC.**

4. Qualifying Corporations

As with the lack of flexibility provided for financing vehicles, a similar issue arises with tax exempt entities. **The ITC should be available to all levels of subsidiaries of Crown, municipal, or Indigenous corporations.**

We recommend also **providing an exception to permit approval of bona fide entities on a case-by-case basis** for unique situations involving qualifying corporations.

5. Preliminary Work

Preliminary work, including project planning, feasibility studies, and environmental assessment, are necessary parts of any project. **Such activities should be an eligible cost and not be excluded.**

6. Labour Requirements

We have commented extensively on the unnecessary complexity of the labour requirements, and reiterate that parties not involved with the ITC, notably contractors and unions, are the parties to construction collective agreements. Similarly, hiring of apprentices are also matters for contractors and unions, not project owners. The labour requirements represent an unnecessary distraction from the ITCs objective as an incentive to get clean electricity projects built and detract from the essential goal of establishing a productive and efficient worksite. **We recommend having labour requirements removed from the ITCs conditions.**

7. Transmission and Distribution

While large-scale upgrades to intra-provincial transmission and distribution systems will be required to achieve our net-zero aspirations, the current ITC is focused only on interprovincial transmission systems.

- i. **The definition of “qualified interprovincial transmission equipment” should be amended to specifically include high-voltage direct current (HVDC) transmission equipment,** as this equipment is frequently used between

provinces. Current examples already deployed in Canada include connections between:

- Alberta and Saskatchewan
- Québec and Ontario
- Québec and New Brunswick, and
- Newfoundland and Labrador and Nova Scotia.

- ii. **The availability of the ITC should also be confirmed for *intra-provincial transmission lines*** that are required to interconnect a generating facility to the transmission grid. These ‘generator leads’ may be either high voltage AC or HVDC transmission facilities.

8. Refurbishment

While we appreciate the complexity of concisely defining refurbishment compared to sustaining capital investments in an existing facility, this concept should be explained in greater detail in an interpretation bulletin or other policy document that provides additional guidance to project proponents and operators.

9. Definition of Hydroelectric Facilities

While the definition of hydroelectric facilities provided in Class 43.1 of Schedule II of the Income Tax Regulations is suitable for small facilities, it currently does not include essential features that are often found in larger facilities. For example, the current definition does not include gated spillways, diversion works, tunnels, geotechnical improvements, or mandated safety equipment.

The current definition also refers to assets in the singular, when practically all larger plants are multiple unit installations, with multiples of the items current listed in the definition. The definition of pumped hydroelectric energy storage facilities in Class 43.1 is more general, and in our view, more appropriate than the restrictive language in the current definition of small hydroelectric facilities.

We recommend that Class 43.1 be amended to include “a *hydroelectric generating facility, including turbines, generators, transmission equipment, powerhouses, dams, spillways, reservoirs, fishways and fish bypasses, and related structures required for the safe and reliable production of electric power and its transmission to the bulk electric system.*”

10. Amount of the Investment Tax Credit

Importantly, we respectfully request that the ITC rate for hydropower be increased to 30% from the currently proposed 15%.

This would ensure equitable treatment across clean technologies, especially given that hydropower is not currently eligible for support through the Canada Growth Fund. A rate

of 30% would also match the amount of the equivalent tax credit in the United States, and consequently make Canada competitive for new builds in the North American market.

For over a century, hydropower has been the silent backbone of Canada's energy security, currently supplying more than 60% of the country's electricity. While our potential is currently constrained by a regulatory framework and financing challenges that hinder the development of clean energy, we are confident that, with your government's leadership and the right tools in place, we can unlock the full potential of Canada's "big blue battery" and power future generations sustainably.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Patterson', followed by a long horizontal line extending to the right.

Lorena Patterson
President and CEO
WaterPower Canada | Hydroélectricité Canada