

BEYOND GAS

Financing a Net-Zero Electricity Grid
with a Paris-Aligned Taxonomy



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INTRODUCTION

Canada stands at a pivotal moment. Geopolitical shifts and technological advancements are rapidly transforming the global energy landscape. Electricity consumption is rising around the world and, in 2025, renewable sources of power met 100 per cent of new electricity demand.¹ For Canada, emerging demand is expected to require a doubling of the country's electricity system and its infrastructure, at minimum. This expansion and modernization is forecast to require over \$1 trillion of investment.^{2,3} Financing this transition is a critical challenge for the country.

Canada is in the midst of developing a sustainable finance taxonomy to help attract climate-aligned investments across key sectors of its economy. The purpose of Canada's taxonomy is to categorize investments that are consistent with "the goal of reaching net-zero emissions by 2050 and limiting global temperature rise to 1.5°C above pre-industrial levels"⁴, a goal that is reflected in Canada's commitment to the 2015 Paris Agreement.⁵ Similar to other global examples, it would apply science-based criteria to ensure it credibly defines what counts as an environmentally sustainable or transition-aligned investment.

1 Ember, [Global Electricity Review 2026](#).

2 Government of Canada (2026). [Powering Canada Strong: A National Strategy for an Electrified Canadian Economy](#).

3 Dollar amounts are in Canadian dollars unless indicated otherwise.

4 Government of Canada, [Government advances Made-in-Canada sustainable investment guidelines to accelerate progress to net-zero emissions by 2050 \(2024\)](#); Government of Canada, [Government announces next steps toward made-in-Canada sustainable investment guidelines \(2025\)](#).

5 United Nations Framework Convention on Climate Change. [The Paris Agreement](#).

The Taxonomy and Transition Planning Council, the taxonomy's governing body, has identified the electricity sector as a top priority for completion. By clarifying for investors what counts as a sustainable investment in the electricity sector, the taxonomy can help finance the strategic build-out of Canada's electricity system. Institutional investors, like pension funds, insurers, and asset managers, increasingly rely on sustainability labels to guide investment decisions. A clear, credible taxonomy could help an electric utility looking to expand its system to attract institutional capital for a transmission upgrade or renewable generation project, rather than that capital defaulting to a comparable gas investment.

According to the Taxonomy Methodology Report, natural gas use is currently being considered for eligibility in the taxonomy's electricity sector activities - meaning it would receive a green or transition label.⁶ This paper argues that the electricity sector must move beyond gas to achieve net-zero, outlining three reasons why the taxonomy's electricity sector guidance should reflect this. Giving gas-powered electricity a taxonomy label would:

1. Contradict Canada's climate goals, even when combined with carbon capture and storage (CCS)
2. Impose a significant opportunity cost on Canada's decarbonization efforts, and
3. Conflict with net-zero progress and planning already underway, potentially reducing benefits for Canadians

Ensuring that the electricity sector activities included in the taxonomy are science-based and aligned with the Paris Agreement means excluding fossil fuel-related investments

Existing Canadian policies and regulations are already guiding the development of Canada's electricity system, including Canada's national electricity strategy and Clean Electricity Regulations. Through these policies, Canada is aiming to expand, modernize, and decarbonize its electricity system by increasing non-emitting electricity generation, such as hydro, solar, wind, and geothermal, paired with energy

storage.⁷ Canada's electricity strategy acknowledges that some jurisdictions, particularly in Western Canada, would prefer natural gas to generate electricity and that natural gas may play a role in backing up Canada's electricity system as it transitions to renewables.⁸ While these policies seek to balance Canada's federal climate commitments with competing provincial interests, the role of the taxonomy is simply to clarify the kinds of investments that are aligned with Canada's climate and net-zero commitments.

Ensuring that the electricity sector activities included in the taxonomy are science-based and aligned with the Paris Agreement means excluding

6 Business Future Pathways (2026). [Sustainable Finance Taxonomy: Methodology Report Draft for Public Comment](#). Page 56, footnote 43.

7 Government of Canada (2026). [Powering Canada Strong: A National Strategy for an Electrified Canadian Economy](#).

8 Ibid.

fossil fuel-related investments. Including fossil fuel investments anywhere in Canada's taxonomy would risk opening the door to strategic misuse and greenwashing, and result in an unworkable, unenforceable system.⁹ While natural gas paired with carbon capture and storage (CCS) may play a marginal role in backing up the electricity sector as the energy transition progresses, it remains part of the legacy system from which Canada is transitioning away. It therefore does not belong under the electricity sector guidance in the taxonomy.

I. CANADA'S NET-ZERO ELECTRICITY FUTURE REQUIRES A SHIFT AWAY FROM NATURAL GAS

First, achieving a net-zero electricity grid requires shifting away from natural gas use for power generation. This has been made evident by The International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC); global expert bodies that produce energy projections aligned with the Paris Agreement. Both are clear that substantial reductions in fossil fuel consumption are necessary to limit global temperature warming to 1.5°C.^{10,11} Similarly, the Canada Energy Regulator (CER) publishes the official federal projections for Canada's energy futures, based on Canadian policies, energy demand, and technology developments.¹² The CER projects multiple scenarios, including a Net-Zero Scenario that predicts how Canada's electricity generation and capacity will evolve as we progress towards net-zero by 2050. This is the pathway that the taxonomy is meant to enable.

The CER's Current Measures and Net-Zero Scenarios both show that the role of natural gas-powered electricity generation will decline over the next two decades as it is largely replaced by renewable energy.¹³ This is true even as Canada's electricity demand is expected to grow substantially due to the rapid expansion of AI and data centre infrastructure, alongside electrification in transportation, buildings, and heavy industry. Currently, natural gas accounts for about 16 per cent of all electricity generated in 2026. In the Net Zero Scenario it will drop down to around 2 per cent in 2050 and in the Current

9 Credible Taxonomy Canada, (2026). [The Taxonomy Fossil Fuel Conflict: Why Oil and Gas Inclusion Would be Counterproductive](#).

10 IPCC. (2022). [Mitigation Pathways Compatible with Long-term Goals](#). Chapter 3.; IEA. (2021). [Net Zero by 2050. A Roadmap for the Global Energy Sector](#).

11 The UN Environment Programme (UNEP) 2026 Limiting Overshoot report shows that, under current policies and near-term trajectories, exceedance of 1.5°C is widely assessed as unavoidable. The report puts best-case scenario peak temperature rise at 1.8°C, with a decline to 1.5°C possible if emissions are rapidly reduced. (See: UN Environment Programme (2026). [Limiting Overshoot - Navigating exceedance of 1.5°C and pathways towards return](#).)

12 Canada Energy Regulator, (2026). [Canada's Energy Future 2026: Energy Supply and Demand Projections to 2050](#).

13 Canada Energy Regulator, (2026). [Exploring Canada's Energy Future](#).

Measures scenario it will decline to 3 per cent.¹⁴ In both scenarios, the CER projects that the future role of natural gas in Canada's electricity system will decline to a marginal role of ensuring system reliability, instead of providing on-demand power like it does currently.¹⁵ For example, gas will be needed during extreme cold winter periods when wind production may be low and heating demand peaks, but it will largely be inactive otherwise. Meanwhile, Canada's electricity generated from wind power will grow from 7 per cent to 40 per cent in 2050 under the Net-Zero Scenario and electricity generated from other clean sources will make up the rest.¹⁶ This transition away from natural gas is central to reducing emissions while continuing to meet Canada's electricity demands.

New natural gas plants are not needed for this future net-zero electricity grid, according to federal modelling. Independent analysis from Environment and Climate Change Canada (ECCC), utilizing federal models and verified by third-party modelling firms, shows that a near-zero emissions grid is technically achievable by 2035 across most of Canada without supply issues.¹⁷ ECCC's models demonstrate that grids can meet all reliability requirements, including planning reserve margins, operational reserves, and full-year energy supply, without building new natural gas plants.¹⁸ This is made possible through investments in renewable sources of power, modernized grid infrastructure, and battery storage, enabled by Canada's Clean Electricity Regulations.¹⁹ While natural gas capacity may remain near current levels, new natural gas plants aren't needed because existing plants can play the rare back-up role needed during high-impact weather events.²⁰ While these models predate the recent acceleration in electricity demand from AI and data centre growth, this uncertainty is better addressed through the taxonomy's built-in review mechanisms in response to updated federal modelling over time, rather than by pre-emptively including natural gas in the electricity sector guidance. Instead of investing in new natural gas plants, investment is needed in renewable energy and grid infrastructure, which can be facilitated by the taxonomy.

The declining role of natural gas use is particularly important to Canada's net-zero progress due to how carbon-intensive natural gas actually is. Natural gas is responsible for 64 per cent of electricity sector emissions in Canada.²¹ It creates carbon dioxide when combusted, and releases potent global warming

14 Canada Energy Regulator, (2026). [Canada's Energy Future 2026: Results from the Current Measures Scenario](#); [Canada's Energy Futures 2026 Fact Sheet: Net-Zero Scenario](#)

15 Canada Energy Regulator, (2026). [Canada's Energy Future 2026](#).

16 Ibid.

17 Environment and Climate Change Canada, (2024). [Regulatory Impact Analysis Statement - Clean Electricity Regulations: SOR/2024-263](#).

18 Ibid.

19 Ibid.

20 Canada Energy Regulator, (2026). [Canada's Energy Future 2026](#).

21 Environment and Climate Change Canada (2026) National Inventory Report 1990-2024: Greenhouse Gas Sources and Sinks in Canada.

methane emissions during its production and transportation.²² Natural gas is responsible for at least 30 per cent of global temperature rise to date and natural gas use is now the primary driver for continued growth in greenhouse gas emission levels globally.²³ In Canada, increased use of gas-fired electricity is driving up emissions in the electricity sector so that it is less green than it was five years ago.²⁴ Natural gas power plants can be decarbonized to a certain extent through costly technologies, such as carbon capture and storage (CCS), but are still more carbon intensive than renewable powered electricity.²⁵ By reducing our dependence on natural gas to power our electricity system, Canada will be more likely to achieve a net-zero electricity grid.

NATURAL GAS USE FOR ELECTRICITY IN THE AUSTRALIAN TAXONOMY.

The Australian taxonomy, which is cited as a key reference point for Canada, does not give a green or transition label to fossil gas-powered electricity generation due to its high emissions intensity and declining strategic role. Because gas-powered generation is too emissions-intensive to be classified as an aligned “green” or “transition” activity, the Australian taxonomy provides a voluntary framework in an appendix, which can be used to assess the credibility of entity-level transition plans that include gas assets specifically for enabling renewables.²⁶ Entities must provide concrete evidence in their transition plans that their gas assets are actively enabling further renewable energy penetration rather than locking in fossil fuels, and lenders must be able to verify that the share of renewables in the portfolio is growing while fossil-based capacity is being phased down. Canada could consider replicating this approach for its own transition plan guidance, rather than incorporating natural gas use into its taxonomy.

Even when combined with CCS to reduce emissions, natural gas use for electric power generation still fails to achieve the emissions performance necessary to credibly qualify as a sustainable or transition-enabling activity. The evidence base shows that capture rates on gas-plus-CCS facilities remain consistently weak, with CCS typically failing to meaningfully reduce a gas plant’s life cycle emissions.²⁷ There are currently no examples of any gas-fired

22 Environmental Defence (2024). [Gas is Not Green](#).

23 IEA, (2025). [Global Energy Review 2025](#).

24 440 Megatonnes (2026). [Early estimate finds that Canada’s emissions increased in 2025 as clean electrification lagged](#).

25 Sobczuk, S., Jaroń, A., Mazur, M., & Borucka, A. (2025). [Renewable Energy and CO₂ Emissions: Analysis of the Life Cycle and Impact on the Ecosystem in the Context of Energy Mix Changes](#). *Energies*, 18(13), 3332.

26 Australian Sustainable Finance Institute, (2025). [Australian Sustainable Finance Taxonomy](#).

27 World Resources Institute (2025). [7 Things to Know About Carbon Capture, Utilization and Sequestration](#); Jacobson, M.Z. (2026). [Carbon capture does not reduce emissions: these three case studies prove it](#).

power plants with CCS installed that are as low-emitting as renewables. The Glacier Gas Plant in Alberta is described as the world's first decarbonized gas plant, with CCS installed by Entropy Inc. Entropy's website states that Glacier produces 45 MWe of baseload power at a carbon intensity of 84 kg/MWh.²⁸ This surpasses the Annual Emissions Limit of 65kg/MWh under Canada's Clean Electricity Regulations.²⁹ In comparison, the carbon intensity of wind power is estimated to be between 7 and 38 kg/MWh (depending on location, type of turbine, etc).³⁰ According to the IPCC, there are no Paris-aligned scenarios in which CCS would permit continued use of fossil fuels at current levels.³¹ While CCS installed on natural gas power plants can reduce emissions to a certain extent, emissions from gas-plus-CCS facilities are too high to justify inclusion in the taxonomy's electricity sector guidance.

This performance gap is compounded by a technical and economic mismatch: with natural gas playing an intermittent, back-up role in a net-zero grid, there is a weak business case for installing CCS at new or existing gas facilities. CCS plants are capital intensive and the owners of retrofitted gas power plants may not be able to recover their costs if the plants only operate at very low levels.³² In the Canadian context, research on CCS has largely focused on steady-state operation rather than intermittent use conditions.³³ CCS performance on natural gas power plants that reflects the realities of Canada's energy transition (e.g. fluctuating rather than constant gas flows, coordination with intermittent renewables and demand-side strategies) remains unproven and understudied.³⁴

CCS can tackle emissions in sectors where the product does not have viable replacements such as in the production of cement, iron, steel, or chemicals.³⁵ By contrast, as evaluated, gas can be replaced by renewable energies. Taxonomy eligibility for CCS should be reserved for sectors where it is a credible decarbonization tool, rather than extended to back-up gas-fired electricity generation on the basis of unproven assumptions.

In sum, natural gas use is fundamentally misaligned with achieving net-zero in Canada's electricity sector. This alone should preclude its inclusion under the electricity sector guidance in Canada's taxonomy, as it has for other taxonomies in similar jurisdictions like Australia.

28 Entropy Inc (2026). [Home Page](#).

29 At the time of writing, a court decision has not yet been made that will determine whether the Clean Electricity Regulations will apply in Alberta. See: Prime Minister of Canada, (2026). [Implementation Agreement for the Canada-Alberta Memorandum of Understanding](#).

30 Sobczuk, S., Jaroń, A., Mazur, M., & Borucka, A. (2025). [Renewable Energy and CO2 Emissions: Analysis of the Life Cycle and Impact on the Ecosystem in the Context of Energy Mix Changes](#). *Energies*, 18(13), 3332.

31 World Resources Institute (2025). [7 Things to Know About Carbon Capture, Utilization and Sequestration](#).

32 International Energy Agency, (2020). [The role of CCUS in low-carbon power systems](#). Page 27.

33 Seyyedattar, M., Zendeboudi, S. (2026). [Carbon capture and storage: A comprehensive review on current trends, techniques, and future prospects in North America](#).

34 Ibid.

35 International Energy Agency (2020). [CCUS in Clean Energy Transitions: A new era for CCUS](#).

II. NATURAL GAS IN THE TAXONOMY: THE OPPORTUNITY COST FOR CANADA

The taxonomy's purpose is to define Paris-aligned investments in order to help steer capital towards those activities. Because new investments in natural gas power generation are not aligned with Canada's decarbonization efforts, including natural gas-fuelled power generation in the taxonomy risks creating a significant opportunity cost: driving capital away from the projects which truly contribute to net-zero. Namely, it may misdirect some of the \$1 trillion in investment that is needed, as estimated by the federal government,³⁶ to develop Canada's net-zero electricity grid by 2050.

Through its role in directing capital towards priority activities for decarbonization, the taxonomy can reinforce existing market trends towards non-emitting electricity generation. Between 2018 and 2024, capital investment in electricity generation facilities in Canada increased by 32 per cent.³⁷ The majority of this investment went towards non-emitting energy sources (e.g., wind, solar, hydro) and transmission and distribution networks.³⁸ In recent public procurements for new electricity generation, renewables are outcompeting gas projects on price - Ontario awarded contracts to only renewable energy projects in an April 2026 procurement.³⁹ Investment in natural gas, coal, and oil has stagnated since 2018 at an annual average of around 6% of total electricity infrastructure investment.⁴⁰ While maintenance capital expenditures may continue at this rate as natural gas plants are kept online to provide back-up power, growth capital expenditures face the risks of value erosion and stranded assets.⁴¹ As capital shifts away from natural gas towards renewables in the electricity sector, any sustainable finance policy in Canada should support this trend rather than reverse it.

A particularly critical outcome for the taxonomy is to help drive investment in electricity transmission and grid modernization. Compared to electricity generation projects like wind, solar, or natural gas, large-scale transmission lines are less 'investable' - they take longer to complete, are more capital intensive, and offer less immediate, reliable returns.⁴² However,

36 Government of Canada (2026). [Powering Canada Strong: A National Strategy for an Electrified Canadian Economy](#).

37 Government of Canada (2026). [Investment in non-emitting electricity generation rises as demand grows in Canada](#).

38 Statistics Canada, Table: 34-10-0039-01. [Capital expenditures, non-residential tangible assets, by industry and type of asset \(x 1,000,000\)](#).

39 IESO (2026). [IESO Selects 14 Projects Through the Long-Term 2 Request for Proposal Energy Stream](#). Pembina Institute, (2026). [New wind and solar projects outcompete all other electricity options in Ontario energy auction](#).

40 Statistics Canada, Table: 34-10-0039-01. [Capital expenditures, non-residential tangible assets, by industry and type of asset \(x 1,000,000\)](#).

41 Bisel, O. and Prince, G. (2025). [Fading Fortunes: True Oil & Gas Value in Canada and Beyond](#). Carbon Tracker Initiative.

42 EDF Renewables, (2022). [Congestion-Driven Basis Risk, A Challenge for the Development of Clean Energy Projects](#). Institute for Environment and Sustainability, Lee Kuan Yew School of Public Policy, NUS (2026). [Powering Asean: Why grid ambition needs bankable transmission](#).

interprovincial transmission capacity needs to increase by 70% by 2050.⁴³ The majority of global transmission lines are over 25 years old, resulting in new renewable projects facing long waits for interconnection.⁴⁴ Private investment opportunities in grid modernization and transmission upgrades are emerging, such as utility-led capex programs with regulated, inflation-linked returns.⁴⁵ With transmission predominantly financed through public investment in Canada, opportunities for private capital to support electricity system modernization are important to prioritize.⁴⁶ Including natural gas in the taxonomy risks drawing capital away from these critical areas for investment.

With the enormous scale of capital required to achieve a net-zero electricity grid by 2050 across a relatively short timeframe, every new investment in clean electric power generation is critical. When new investments are made

When new investments are made in fossil fuel infrastructure, it delays the transition to clean alternatives and works against the outcome the taxonomy is meant to accelerate

in fossil fuel infrastructure, it delays the transition to clean alternatives and works against the outcome the taxonomy is meant to accelerate. Known as carbon-lock-in, this dynamic has been highlighted as a key consideration in the development of Canada's taxonomy.⁴⁷ Any level of carbon lock-in created by the taxonomy threatens its credibility. Carbon lock-in is a particularly salient risk in the Canadian context as Canadian financial institutions have historically provided significant levels of finance for fossil fuel projects.⁴⁸ With long-established private market

models that generate steady cash flows, natural gas production continues to grow annually in Canada.⁴⁹ The Canadian Association of Petroleum Producers reports that over \$38 billion worth of oil and gas-related major projects are currently under construction, with an additional \$151 billion in the planning stages.⁵⁰ This scale of fossil fuel investment represents capital that could otherwise be directed toward clean alternatives and it assumes high levels of oil and gas demand well into the future, which is not compatible with a Paris-aligned transition.⁵¹ Excluding natural gas use from the taxonomy's eligible electricity sector activities means that more capital won't be diverted away from clean alternatives towards projects that are not compatible with a net-zero grid.

43 Canada Energy Regulator, (2026). [Canada's Energy Future 2026 Scenario Results](#).

44 Brookfield, [2026 Investment Outlook](#).

45 Ibid.

46 Statistics Canada. Table 36-10-0608-01. Infrastructure Economic Accounts, investment and net stock by asset, industry, and asset function (x 1,000,000).

47 Business Future Pathways (2026). [Sustainable Finance Taxonomy: Methodology Report Draft for Public Comment](#).

48 Dewage, N. (2026). [Canadian banks rank among world's top fossil fuel financiers](#). *National Observer*.

49 Canada Energy Regulator, (2026). [Market Snapshot: Canada's natural gas production kept climbing in 2025](#).

50 Canadian Association of Petroleum Producers, (2026). [Canada Builds on Oil and Natural Gas](#).

51 International Energy Agency, (2023). [The Oil and Gas Industry in Net Zero Transitions: Executive summary](#).

As taxonomy-eligible projects will likely gain access to preferential financing, ensuring this smaller pool of capital flows towards clean electricity projects is key to reducing opportunity costs for the taxonomy. For example, the Canadian government has already announced its intention to issue green and transition bonds aligned with the taxonomy.⁵² Every dollar of preferential, taxonomy-aligned capital that flows towards natural gas use is a dollar that

Every dollar of preferential, taxonomy-aligned capital that flows towards natural gas use is a dollar that does not go towards renewable energy, transmission, or grid modernization

does not go towards renewable energy, transmission, or grid modernization. Making natural gas use eligible under the taxonomy would mean that clean electricity projects have to compete against it to receive investment, even though natural gas is already receiving sufficient capital to continue growing production. A taxonomy label for natural gas risks diverting preferential capital away from clean electricity projects, whereas excluding it avoids this cost.

III. MAXIMIZING THE SOCIO-ECONOMIC BENEFITS OF A PARIS-ALIGNED TAXONOMY

To the extent that the taxonomy influences the flow of capital, its broader societal impacts are relevant for consideration in the design phase. Including natural gas in the electricity sector guidance would effectively label certain fossil fuel activities as sustainable, opening the door for more capital to flow to them. The resulting impact is that the taxonomy's potential for reducing emissions may be decreased.

Electrification is a crucial economy-wide tool for reducing emissions. Clean electrification, meaning the process of replacing fossil-fueled technologies with electrified ones while generating electricity from non-emitting sources, has been identified as "the linchpin of climate progress" in Canada.⁵³ Major sectors of the economy, including buildings, transportation, heavy industry, and mining, are all moving towards electrification to reduce the environmental impact of their sectors. However, mass electrification only succeeds in driving down economy-wide emissions if Canada's underlying electricity supply is decarbonized through renewables and made more efficient through technology and planning.⁵⁴ Currently, Canada is not electrifying fast enough to make progress on reducing emissions.⁵⁵ The taxonomy's electricity sector guidance, if aligned with net-zero, can be a powerful enabler of clean electrification across the broader economy.

52 Government of Canada, [Budget 2025](#); Government of Canada, [Government announces next steps toward made-in-Canada sustainable investment guidelines](#) (2025).

53 440 Megatonnes (2026). Early estimate finds that Canada's emissions increased in 2025 as clean electrification lagged.

54 IPCC. (2022). [Mitigation Pathways Compatible with Long-term Goals](#). Chapter 3.

55 440 Megatonnes (2026). Early estimate finds that Canada's emissions increased in 2025 as clean electrification lagged.

The taxonomy can also help drive a more cost-effective transition to a net-zero grid if it leaves natural gas out of the electricity sector guidance. Expanding Canada's electricity system with renewable power will not only reduce emissions across the economy, it is also one of the most cost-effective ways to add new electricity generation capacity.⁵⁶ The cost of building new renewable energy is now lower than other forms of generation, making it a central pillar of an affordable transition.⁵⁷ On cost competitiveness alone, natural gas is already more expensive than renewable energy on a levelized cost of energy basis (i.e. per unit of energy delivered), even when renewables are paired with battery storage.⁵⁸ Natural gas prices are also inherently volatile as they are subject to global commodity markets, geopolitical shocks, and inflationary pressures that renewables don't face.⁵⁹ Adding abatement technology such as CCS drives up the cost of gas-powered electricity even further.⁶⁰ This translates to rising electricity bills for Canadians. In comparison, a net-zero electricity grid requires significant infrastructure investment but the resulting impact on Canadian's electricity bills is projected to be minimal.⁶¹ While delivering a fossil-fuel-free, Paris-aligned taxonomy is essential for credibility, the resulting cost reduction impacts are a direct outcome of prioritizing renewable, non-emitting electricity sources over higher-cost fossil fuel alternatives.

Canada's existing net-zero-aligned electricity regulations are projected to deliver socio-economic benefits for Canadians. Canada's Clean Electricity Regulations were designed to regulate pollution from fossil-fuel based electricity and limit new fossil fuelled generation.⁶² By phasing natural gas down to a marginal role centred around grid reliability and peaking power, the Regulations are designed to enable a smooth transition to a low-carbon grid.⁶³ Prime Minister Carney has announced that the regulations may be adjusted to allow ongoing natural gas use, however the original Regulations were projected to deliver a net benefit to Canadians of \$14.6 billion between 2024 and 2050 through health benefits and reduced household energy costs.⁶⁴ They are also projected to drive a massive buildout of non-emitting electricity capacity. By excluding natural gas use, Canada's taxonomy can be designed to complement and accelerate the trajectory of the regulatory framework, increasing the likelihood that the transition to a net-zero grid comes with the projected socio-economic benefits.

56 Pembina Institute, (2026). [Canadian solar and wind project costs plummet](#).

57 Ibid.

58 Lazard (2026) [2026 Levelized Cost of Energy+ Report](#).

59 Kelly, J. (2024). [How Fossil Fuels Drive Inflation and Make Life Less Affordable for Canadians](#).

60 International Institute for Sustainable Development, (2023). [Why the Cost of Carbon Capture and Storage Remains Persistently High](#).

61 Environment and Climate Change Canada, (2024). [Regulatory Impact Analysis Statement - Clean Electricity Regulations: SOR/2024-263](#).

62 Government of Canada, (2024). [Clean Electricity Regulations](#).

63 Environment and Climate Change Canada, (2024) [Regulatory Impact Analysis Statement - Clean Electricity Regulations: SOR/2024-263](#).

64 Environment and Climate Change Canada, (2024) [Regulatory Impact Analysis Statement - Clean Electricity Regulations: SOR/2024-263](#). Prime Minister of Canada, (2026). [Implementation Agreement for the Canada-Alberta Memorandum of Understanding](#).

CONCLUSION

Canada has a narrow but consequential window to direct capital towards building a resilient, low-emissions electricity grid that meets growing demand. The role of the taxonomy is to identify what counts as a net-zero aligned investment within Canada's electricity sector. As this paper has shown, including natural gas use in the taxonomy's electricity sector guidance cannot be reconciled with Canada's climate and net-zero goals. Even when combined with CCS, natural gas-powered electricity fails to meet the emissions performance of a credible Paris-aligned activity, and the technical and economic case for retrofitting Canadian gas plants with CCS for intermittent use remains unproven.

Excluding natural gas from the taxonomy does not prevent gas from continuing to exist in Canada's electricity system, it simply reflects the reality that gas is not a climate solution within a science-based energy transition and should therefore not be misleadingly labelled as 'sustainable'. Its inclusion in the taxonomy would impose a real opportunity cost on Canada, diverting a limited pool of preferential capital away from the renewable generation, transmission, and grid modernization projects that are already outcompeting gas on price and that the net-zero transition depends on. Rather than reinforcing the potential socio-economic benefits that can be gained from a transition to a net-zero electricity grid, including natural gas in the taxonomy would undermine both the economy-wide emissions reductions and household savings that a fossil-fuel-free electricity sector is projected to deliver.

A taxonomy that includes natural gas, even under strict conditions, risks the technical credibility that makes sustainable finance taxonomies effective in the first place. To fulfill its purpose, Canada's taxonomy should exclude natural gas use from the electricity sector guidance and direct capital towards the non-emitting generation and infrastructure that a net-zero grid requires.

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