# **Energy Regulation Options for Building Standards**

# ISSUE

The City of Saskatoon is facing a decision on whether to regulate building energy standards to Tier 1 or Tier 2, due to recent provincial changes that impact the ability for the City to meet its Low Emissions Community Plan targets for housing and small buildings.

# BACKGROUND

# Construction Codes

In the Province of Saskatchewan (Province), the design, construction and renovation of buildings is regulated through the *Construction Codes Act* (Act) and Building Code Regulations (Regulations). Building owners are responsible for compliance with the Act, the National Building Code of Canada (NBC) and the National Energy Code for Buildings. Municipalities are responsible for the administration and enforcement of the Act and associated regulations.

Minimum building and energy regulations are adopted through the Act and implemented at the municipal level through a building bylaw. Property owners and builders retain the ability to build to higher standards voluntarily. The Act includes a provision granting municipalities general power to pass bylaws in relation to the administration and enforcement of the Act. It prescribes the minimum provisions that are required in any building bylaw. As these are minimum provisions, there is the ability for municipalities to include additional requirements, as long as what is included in the bylaw does not conflict with the Act or Regulations.

On February 19, 2025, the Province announced the reversion of energy regulations to Tier 1 of the NBC pending amendments to the Act. Key reasons for the change were cited as rising costs, the demand for affordable housing and alignment with energy regulations in Manitoba and Alberta. The amendments to the Act were approved April 16, 2025.

The purpose of energy tiers is to provide a clear pathway for improving the energy efficiency of buildings over time. By setting progressively higher standards, the NBC aims to reduce the environmental impact of buildings, lower energy costs for occupants and contribute to broader climate action goals. Tier 2 represents a 10% energy performance improvement over Tier 1. From January 1, 2024, to April 15, 2025, Tier 2 was the minimum energy standard for Saskatchewan.

# Low Emissions Community Plan (LEC Plan)

The City of Saskatoon (City) has set a long-term target to reduce greenhouse gas emissions to net-zero by 2050. In alignment with this target is the <u>2022-2025 Strategic Plan</u>, which

includes the priority of Environmental Sustainability and the outcome that:

"greenhouse gases are reduced in a way that maximizes co-benefits and doesn't leave anyone behind";

A key action to meeting this outcome is to:

"implement climate actions in the Low Emissions Community (LEC) Plan".

The LEC Plan, adopted in 2019, outlines the City's strategy to achieve net-zero ready new homes by 2036. The plan anticipates that the housing stock will grow by approximately 70% by 2050, which could increase community emissions by 10% under the business-as-planned scenario.

The LEC Plan includes an action to implement a step-code with the following targets for energy use intensity (EUI) reductions:

- Step 1 achieve 10% EUI by 2025; aligns with Tier 2;
- Step 2 achieve 20% EUI by 2030; aligns with Tier 3;
- Step 3 achieve 40% EUI by 2035; aligns with Tier 4; and
- Step 4 achieve 80% EUI after 2036; slightly above Tier 5.

#### Committee Resolution

Administration provided an update to the Standing Policy Committee on Planning, Development, and Community Services at its Regular Business <u>meeting</u> on March 5, 2025, regarding the pending changes to the energy regulations. This update included notification of the discontinuation of the Code Accelerator Fund project and identified challenges that these changes would impact the ability to achieve the City's LEC Plan targets. The Standing Policy on Planning, Development and Community Services resolved that Administration report back on options to support regulating to Tier 2 through the Building Bylaw.

#### Current Status

As of April 16, 2025, all building permit applications are being reviewed and inspected to Tier 1 of the NBC, resulting in the Step 1 LEC Plan target no longer being achieved.

#### Public Engagement

Administration held two engagement sessions with stakeholders to gather their preferences on regulating to Tier 1 or Tier 2 of the NBC. These sessions provided a platform for diverse stakeholders to share their perspectives and concerns, as well as to gather feedback on the implications for long-term sustainability and housing affordability. Stakeholder feedback has been provided in more detail in the discussion/analysis section.

#### City of Saskatoon's Current Approach

The City's current approach is to follow provincial building regulations while making minor local changes to provide clarity and ensure alignment with the NBC. The City

aims to align its building construction requirements with the Province to provide consistency for builders.

Until the recent provincial changes, the current approach to adopting building regulations has maintained alignment with the LEC plan target for 2025.

The City is currently involved, in collaboration with the City of Regina in a Building to Net-zero initiative with ICLEI Canada. The outcome of this initiative is for both cities to jointly develop a Building to net-zero Roadmap, which will be presented to both City Councils for review and approval. This roadmap aims to align our approaches to energy efficiency standards.

## Approaches in Other Jurisdictions

Municipalities of Warman, Martensville and Prince Albert have indicated their intention to maintain alignment with the Act and regulate to Tier 1, citing home affordability and consistent regulations throughout the prairie provinces as key reasons.

The City of Regina is considering regulating to Tier 2 and has reached out to surrounding municipalities for feedback. The City of Regina is also engaging with stakeholders around regulating to Tier 2. The City of Regina has committed to reducing emissions to net-zero by 2050, through actions laid out in the Energy & Sustainability Framework, including a target for all new construction to be net-zero by 2030.

Most (10 out of 13) provinces and territories in Canada have adopted Tier 1 of the NBC. British Columbia has adopted Tier 3, with the expectation that they will move to Step 4 of the BC Step Code in 2027, and Ontario has adopted the equivalent of Tier 2 to 3 through the Ontario Building Code. Cities in BC, Ontario, Northwest Territories (Yellowknife) and the Yukon (Whitehorse) are also adopting higher standards than those adopted by their respective Province/Territory. The City of St. John's, Newfoundland has received funding from the Code Acceleration Fund to identify an accelerated adoption schedule for the NBC tiers<sup>1</sup>.

SaskEnergy's <u>Homes Beyond Code Program</u> encourages new home construction to exceed the energy efficiency requirements of the NBC. This program offers rebates to homeowners and builders who achieve Tier 3 or higher of the NBC. Rebates are available for different tiers of energy efficiency, with the highest tier offering the largest rebate and are available to builders and homeowners in Saskatoon.

## DISSCUSSION/ANALYSIS

This section discusses the implications and benefits associated with each energy tier and stakeholder preferences in regulating to a specific energy tier.

## Application of energy efficiency tiers

The energy efficiency tiers of the NBC only apply to housing and small buildings. This includes, one- and two-unit dwellings, row housing, townhomes and small buildings that are less than 3 storeys in building height and under 600m<sup>2</sup> in area.

<sup>&</sup>lt;sup>1</sup> ICLEI Canada (2025). <u>Building for Sustainable Communities</u>.

## Energy Performance and Co-benefits

Tier 2 represents a 10 % energy performance improvement over Tier 1. Technical provisions set out in the tiers aim to improve energy use efficiency, which directly impacts utility savings. Improving energy performance has additional benefits including improvements to the home's comfort due to less drafts and more consistent temperatures, cleaner indoor air quality due to better filtration and ventilation, reduced costs and greenhouse gases and greater resiliency to climate changes (i.e. better able to withstand extreme heat).

## Cost of Construction

Achieving Tier 2 is possible through improved insulation, efficiency heating and cooling systems and high-quality windows and doors. There is the ability to trade off design components providing flexibility in costing to achieve performance. This means market conditions, material and labour costs and building design choices can be used to minimize some of the costs of building to a higher Tier.

According to the <u>Tiered Energy Code Roadmap</u> developed by BILD Alberta in 2022, the cost to build from Tier 1 to Tier 2 of the NBC can range between \$1,100 to \$3,300, depending on the compliance path chosen by the builder. In Saskatoon, most of the builds, use the performance compliance path which results in approximately \$1,100 in additional construction costs based on 2022 data. Builders and homeowners achieving Tier 3 or higher are also eligible for a \$3,500 rebate from SaskEnergy (BILD Alberta estimates the Tier 3 premium to be \$3,300 to \$4,400).

## Homeowner Affordability and Energy Poverty

Higher energy tiers are aimed at improving energy use efficiency, which correlates to utility savings and contributes to overall home affordability. According to Efficiency Canada, building to Tier 3 (20% energy savings) instead of Tier 1 would be an annual savings of \$624, which is approximately half the amount for achieving Tier 1 (10% energy savings).

Assuming an upfront cost of \$1,100 to \$3,300 and savings of \$300 per year; homeowners can expect a payback of 3.7 to 11 years. Building to Tier 3, and accessing the rebate from SaskEnergy (\$3,800), would result in a payback of 0 to 1.4 years.

These savings can have long-term benefits for households, especially for those experiencing energy poverty. A household experiencing energy poverty is defined by whether they spend a disproportionate amount of their income on household energy needs, typically 6% or more of their after-tax income<sup>2</sup>. In Saskatoon, 16% of households have been estimated to be experiencing energy poverty<sup>3</sup>.

<sup>&</sup>lt;sup>2</sup> Canadian Urban Sustainability Practitioners (2019). Energy Poverty in Canada: a CUSP Backgrounder. <u>https://energypoverty.ca/backgrounder.pdf</u>

<sup>&</sup>lt;sup>3</sup> City of Saskatoon (2021). <u>Equity Toolkit for Projects</u>.

#### Permit Timelines

Although requirements of each tier are different, the time it takes to review a permit application for either tier is the same.

Regulations apply at the time of application; therefore, a change in the regulations may result in an increase in applications being submitted before the new regulations come into effect. This increase in volume may impact permit timelines as customers seek to take advantage of the current regulations before they change. These are managed by working with applicants to prioritize applications and supported with additional resources, if necessary.

#### GHG Emissions and LEC Plan Targets

Meeting the LEC targets of achieving an 80% reduction in EUI (approximately Tier 5) was estimated (through the LEC model) to reduce emissions by 6.66M tonnes of CO<sub>2</sub>e compared to the business-as-planned scenario.

Achieving Tier 2 would result in a 10% energy reduction savings for each household compared to Tier 1. This would result in about 0.8 tonne of CO<sub>2</sub>e savings per household per year or a total of 1175 tCO<sub>2</sub>e/year; equivalent to taking 274 cars off the road<sup>4</sup>.

Further modeling of GHG and energy savings of achieving energy tiers will be modelled in the revised Climate Action Plan currently under development.

#### Stakeholder Engagement

A stakeholder session was held by the Saskatoon & Region Home Builders Association (SRHBA), targeting its builder members. The results, as well as additional input gathered by the SRHBA, indicated mixed opinions in this stakeholder group on preferences to regulate to Tier 1 or Tier 2.

Survey Results:

• 53% of builders surveyed are in support of Tier 1, 42% preferred Tier 2 and 5% were unsure.

Summary of Feedback:

- Those preferring Tier 1 noted benefits such as cost savings and increased harmonization and consistent regulation across the province.
- Some builders shared concerns about home comfort and performance, noting Tier 1 is a step backwards, as they are already meeting Tier 2 with some able to meet Tier 3.
- Many builders were concerned about the increased uncertainty and regulatory burden related to Saskatoon having higher standards than other jurisdictions.

<sup>&</sup>lt;sup>4</sup> Stats Canada's <u>Household energy consumption, Canada and provinces</u> reports that SK homes used 84.7GJ of natural and 25.2 GJ of electricity in 2021. According to Building Standards records, an average of 1439 units were built per year in 2024/2025 that comply with Schedule 9 of the NBC.

These builders are not expressly concerned around the challenge of achieving the standards, but rather the confusion caused by the change and the differences.

- Some builders noted that the cost savings when reverting to Tier 1 may not be significant.
- Some builders anticipate increased costs in reverting to Tier 1 related to design changes.
- Other builders indicated they plan to continue building to Tier 2 voluntarily; according to an SRHBA survey from 2023, 42% were building to Tier 2 before Tier 2 was implemented in 2024 and 26% were building to Tier 3.

A stakeholder session was hosted by the City and attended by 48 participants with representatives from the building industry (31 participants), environmental organizations (8 participants), housing-related organizations (4 participants) and a utility provider. Feedback received during this session, as well as through follow up emails after the session, included:

Survey Results:

- 72% are in support of Tier 2, 14% for Tier 1 and 14% were unsure; these results can be further broken down:
  - Supporters of Tier 2 included 100% of environmental and housing organizations and those identified as anonymous. Many of this group also expressed support for Tier 3 by 2026.
  - Of those identified as part of the building industry, 53% supported Tier 2, 21% supported Tier 1 and 26% were unsure.

In support of Tier 2:

- Benefits of building homes to higher tiers expressed by participants included:
  - Reduced heating/cooling loads resulting in annual energy and utility savings and contributing to improved affordability;
  - Setting high minimum standards that ensure safe, healthy and resilient housing to benefit vulnerable populations; and
  - Alignment with climate action targets and reducing greenhouse gases.
- Members of the building industry noted:
  - Standards already differ between jurisdictions, including safety and fire measures;
  - Builders have already been meeting Tier 2 requirements for the last year, indicating industry readiness and that builders are voluntarily meeting higher tiers and using this to market their homes; and
  - Education and financial incentives may be another or complementary option to improve energy efficiency.

## In support of Tier 1:

• Participants echoed many of the comments heard in the builder engagement, including the need to reduce red-tape, the potential for increased construction costs and most importantly the need to align with other cities in Saskatchewan.

## OPTIONS

#### **Option 1: Maintain alignment with LEC Plan – Regulate to Tier 2**

This option would maintain alignment with the LEC Plan targets to meet GHG reduction targets. It would result in lower long-term costs for homeowners, promoting long-term sustainability and affordability. An amendment to <u>Bylaw No. 9958, Building Bylaw, 2024</u> (<u>Building Bylaw</u>) is required. As a result, energy regulations will revert to Tier 1 for a period until the amendments to Building Bylaw are completed.

Advantages:

- Results in reduced greenhouse gas emissions and aligns with the LEC Plan;
- Remaining at Tier 2 offers stability for builders as they have already been meeting these requirements for over a year;
- Provides long-term net cost reductions for residents (estimated at \$300/year), contributing to overall affordability, especially for vulnerable populations;
- Improves building quality and contributes to improved air quality, home comfort and resiliency; and
- Establishes Saskatoon as a leader in meeting environmental and climate change goals.

Disadvantages:

- Contributes to higher upfront construction costs; and
- Results in variability in energy requirements between jurisdictions.

Option 2: Maintain alignment with Construction Codes – Regulate to Tier 1

This option maintains alignment with the Provincial Regulations, contributing to lower up-front costs, which may accelerate new housing and supports consistent regulation across the provinces. In this option, energy regulations will remain at Tier 1. Builders have the option to voluntarily build to a higher Tier.

## Advantages:

- Provides consistent energy regulations throughout Saskatchewan and the prairie provinces; and
- Contributes to lower upfront construction costs, estimated at \$1,100 to \$3,300 per home.

Disadvantages:

 Tier 1 would result in new homes being built 10% less efficiently than Tier 2, missing out on GHG reductions of 1175 tCO<sub>2</sub>e/year;

- Lower contributions to improved air quality, home comfort and resiliency in comparison to Option 1;
- Other initiatives will need to be identified if LEC Plan action No. 6 (build new homes to net-zero by 2036) is not met, in alignment with the net-zero by 2050 GHG reduction target; and
- Higher home utility costs than in Option 1.

#### RECOMMENDATION

That the Standing Policy Committee on Planning Development and Community Services recommend to City Council that:

- 1. Option 1 Maintain alignment with LEC Plan Regulate to Tier 2, be approved, and
- 2. That City Solicitors be requested to prepare the necessary amendments to Bylaw No. 9958, Building Bylaw, 2024.

## RATIONALE

In consideration of the factors and stakeholder feedback, Administration is recommending Option 1 as it aligns with the City's commitment to reduce greenhouse gases to net-zero by 2050, and the milestone target for all new builds to be net-zero by 2036, as outlined in the LEC Plan, providing long-term benefits to homeowners and the environment. While the initial construction costs may be slightly higher, the long-term savings and environmental impact make Tier 2 the preferred option for promoting sustainable development and achieving the City's climate targets.

This option was highly supported by the environmental and housing community citing social, economic and environmental benefits associated with higher standards. Builders and the building industry had mixed opinions citing concerns with costs, harmonization between jurisdictions and red tape. However, given the costs are offset by the long-term energy savings, builders have been achieving these standards for over a year, and because many builders and industry professionals were in support, the option is still preferred.

## ADDITIONAL IMPLICATIONS/CONSIDERATIONS

An amendment to the Building Bylaw is required to regulate to Tier 2. Upon approval by City Council of the proposed recommendation, the City Solicitor will draft the necessary amendments, which will be brought forward to City Council for approval. Following the passing of the amendments, the Building Bylaw will be submitted to the Government of Saskatchewan for Ministerial approval. The amendments would come into force on the date of the Province's approval.

#### Triple Bottom Line Implications

In compliance with the City's <u>Triple Bottom Line (TBL) Policy</u>, a TBL assessment was completed to understand the environmental, social and economic benefits and risks of the recommendation. These are summarized below:

- Environmental benefits include improved energy conservation, GHG reduction, LEC Plan alignment, promotion of higher-performance building practises and better climate resiliency.
- Social and economic benefits include reduced long-term costs and other housing quality, benefiting low-income occupants and renters that may not have choice in the design of the house without regulation and cannot access financing to cover utility costs (as can be done with construction costs).

Risks:

- Increased up-front cost could reduce housing starts; however, 2024 was a record year for housing starts with Tier 2 in place; and
- Higher standards in Saskatoon driving business to surrounding communities and posing challenges for builders.

## **COMMUNICATION ACTIVITIES**

Appropriate communications will be developed to inform and support industry.

#### **REPORT APPROVAL**

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