Written Submission for the Pre-Budget Consultations in Advance of the 2021 Federal Budget

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Recommendation 1: That the government implement a cross-ministry, coordinated and consistent information program for Canadians and foreign investors in support of the continued clean development of Canada's hydrocarbon resources with a focus on environmental, social and governance (ESG) principles.

Recommendation 2: That the government expand supports for the cleanup of orphan and inactive oil and gas infrastructure to include the Northwest Territories' Office of the Regulator of Oil and Gas Operations' Well Watch Program and Manitoba's Abandonment Fund Reserve Account.

Recommendation 3: That the government convert the Emissions Reductions Fund from a federal loan to an optional grant conversion to a combination loan (70%) and grant (30%) program as many producers who want to invest in emissions reductions are limited in what they can implement in the current commodity price environment.

Recommendation 4: That the government create and enable new financial tools and business models to ensure Indigenous Peoples can fully benefit from resource development on traditional territories as equity participants through Income Trust-type entities. In addition, immediately allow Indigenous companies to "hedge" the oil and natural gas production as all private sector companies can do.

Recommendation 5: That the government allow the energy sector to issue flow-through shares for a period of three years as current capital markets are frozen and raising capital is both difficult and expensive.

Recommendation 6: That the government implement a tax credit modeled on the United States' Tax Code 45Q Section that provides a tax credit for CO_2 that is captured, sequestered or utilized.

Recommendation 7: That the government develop a mechanism to recognize the Canadian energy industry's contributions to global emissions reductions through the export of LNG used to displace coal.

Background

The Explorers and Producers Association of Canada (EPAC) represents over 100 small and large Canadian natural gas and non-oil sands producing companies. EPAC members employ tens of thousands of Canadians from coast-to-coast-to-coast, representing over $100 billion in market assets. Beyond direct employment, Canada's energy sector also supports demand for Canadian-based professional, manufacturing and corporate services in cities across the country, including in Montreal, Toronto and Vancouver.

As is now well understood by Canadians, the COVID-19 pandemic intensified longstanding domestic and international challenges facing the energy industry. Should the economic impacts of COVID-19, depressed global commodity prices and reduced foreign investment levels be prolonged, the cumulative effects could have severe economic ramifications for the entire country. As such, post-COVID recovery planning should enable a strong and vibrant Canadian energy sector to ensure economic activity and job creation across the country. It is incumbent on the Government of Canada to collaborate with industry to establish a vision for Canada's energy sector in a carbon-constrained world.

With the above context in mind, EPAC submits the following recommendations as part of the 2021 federal pre-budget consultation.

Recommendation 1: Voice Public Support for Canada's Energy Sector

Firstly, we would like to take this opportunity to applaud the Government of Canada again for its continued efforts to support Canada's energy industry through this unprecedented time. As we move towards economic recovery planning, **EPAC recommends that the Government of Canada implement a cross-ministry, coordinated and consistent information program targeted to Canadians and foreign investors in support of the clean development of Canada's hydrocarbon resources with a focus on environmental, social and governance (ESG) principles.** Canada's energy industry is innovative, adaptable and resilient. It can continue to provide a long-term competitive advantage to Canada's economy as we collectively work towards defining a new era in Canada's energy future, which recognises the need for meeting our Paris climate commitments while continuing to produce required hydrocarbons.

Recommendation 2: Expand Funding for the Rehabilitation of Inactive and Orphan Wells Throughout Canada

EPAC applauds the federal government's $1.72 billion commitment to the governments of Alberta, Saskatchewan, and British Columbia for the reclamation of inactive and orphan wells. With over 37,000 applications from the province of Alberta alone[1], the appetite for this program is evident. The program is estimated to create 5,200 jobs in Alberta alone and will indirectly lead to an increase in spending for financial and professional services across the country.

Given the program's early success, we recommend the Government of Canada expand the program to additional jurisdictions. The program would benefit the nearly 600 orphan wells identified by the Northwest Territory's Office of the Regulator of Oil and Gas Operations (OROGO)[2] and the 2,100 identified by Manitoba's Abandonment Fund Reserve Account[3]. The

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[1] Graney Emma, "*Alberta flooded with applications for grants to clean up inactive oil and gas wells",* The Globe and Mail, May 24, 2020.
[2] OROGO, "*Well Watch Program"*, Government of the Northwest Territories, 2020.
[3] Manitoba Petroleum Resources, "*Certificates of Abandonment Issued"*, 2020

remediation of these wells will put hundreds of Canadians back to work while supporting Canada's environmental targets.

Recommendation 3: Convert the Emissions Reductions Fund to a Grant Program for Debt-Straddled Producers

EPAC strongly supports the Government of Canada's $750 million Emissions Reductions Fund (ERF) program.

As the program is still being designed by Natural Resources Canada and the Treasury Board Secretariat, we urge the government to consider the recent economic volatility facing the energy industry. Based on currently available information, the ERF would provide repayable contributions to eligible conventional and offshore oil and gas companies to deploy emissions-reducing technology. However, given the circumstances, many producers simply cannot take on further debt.

EPAC recommends that until a certain level of market stability returns, the government should convert the Emissions Reductions Fund from a federal loan with an optional grant conversion to a combination loan (70%) and grant (30%) program as many producers who want to invest in emissions reductions are limited in what they can implement in the current commodity price environment. This conversion will ensure that a broader range of producers, particularly small producers, can access the program.

Recommendation 4: Support New Business Models That Advance Reconciliation

Canada's energy industry is among the largest employers of Indigenous Peoples in Canada. However, EPAC members strongly believe that more needs to be done to ensure that Indigenous Peoples share in our prosperity as equal partners. EPAC calls on the federal government to enable and support new business models and financial tools that will give Indigenous Peoples a means to benefit from the development of resources on their traditional territories.

EPAC recommends that the Government of Canada ensure effective lending and borrowing instruments are accessible to Indigenous businesses by allowing for income trusts for Canadian-based junior and mid-sized energy companies with significant indigenous equity participation. Similarly, EPAC recommends the government support the Indian Resource Council's proposal to enable Indigenous nations involved in oil and gas activities to function like normal businesses and undertake financial hedging.

Recommendation 5: Incentivize the Adoption of Clean Technology

Canada must do its part in the global fight against anthropogenic climate change, including taking further steps to ensure that Canada's energy industry is the cleanest in the world. This will only be possible through the deployment of clean technologies like carbon and capture and storage (CCS) at scale.

This clean technology deployment will require a significant outlay of capital by producers as key emissions-reducing technologies like CCS are still prohibitively expensive[4]. Prohibitive costs, coupled with depressed and volatile commodity prices, have significantly restricted access to conventional sources of capital for energy companies looking to meet environmental goals. In this context, financing CCS and related emissions reductions technology is out of reach for many companies. Producers need access to new avenues of liquidity to invest in and, ultimately, deploy these solutions.

To allow producers to raise the capital required to invest in emissions reductions technology, **EPAC recommends that the government allow producers to issue flow-through shares for a period of three years as current capital markets are frozen and raising capital is both difficult and expensive.** Flow-through shares are a financial mechanism that has been used for decades by the Canadian energy industry to fund exploration and development costs from private capital. This mechanism is widely understood by the industry, the Canada Revenue Agency, and the financial sector and would help the upfront cost of deploying clean technology.

Recommendation 6: Implement a Carbon Capture Tax Credit

To meet Canada's climate change commitments, CCS will be a major contributor to decreasing domestic and global GHG emissions. To incentivize and ensure all energy companies can move towards meeting Canada's Paris commitments, **EPAC recommends the Government of Canada implement a form of the bi-partisan United States Section 45Q tax credit.** The US 45Q credit was established in 2008 and provides a tax credit of US$35 per tonne of CO_2 for eligible projects that securely store captured CO_2 in geologic formations or utilize captured CO_2 as a feedstock. A 45Q tax credit in Canada could also support the implementation of the Clean Fuels Standard and net-zero aspirations.

Recommendation 7: Develop Mechanisms to Recognize Global Emissions Reductions

Canada's energy future will be shaped by the clean development of liquified natural gas (LNG). Canada's LNG industry will continue to serve as a competitive advantage, both domestically and globally. Currently, coal accounts for 30 per cent of global energy-related carbon dioxide emissions, with most of those emissions coming from coal-fired thermal power plants in China and India[5]. The conversion of these energy sources to Canadian LNG would represent a significant emissions reduction as Canada's LNG is 65 per cent cleaner than thermal coal[6].

EPAC recommends the Government of Canada formally establish a mechanism for Canadian companies to obtain credit for global emissions reductions, whether this be through Article 6 or bilaterally negotiated, contractual agreements. If the international community reaches an agreement on Article 6, Canada could claim overseas emissions reductions against our 2030 domestic emissions reductions targets. A strong agreement on Internationally Transferable Mitigation Outcomes (ITMOs) can help Canada grow its energy industry while reducing emissions around the world.

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[4] Sara Budinis, "*An assessment of CCS costs, barriers and potential*", Energy Strategy Reviews Volume 22, November 2018.
[5] International Energy Agency, "*Global Energy & CO2 Status Report 2019*", March 2019.
[6] Canadian Association of Petroleum Producers, "*How does Canadian LNG stack up versus coal for GHGs?"* March 15, 2019.