Written Submission for the Pre-Budget Consultation in Advance of the Upcoming Federal Budget

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Summary of Recommendations

Recommendation: Government of Canada should expand the criteria for 'eligible property' within the Clean Technology Manufacturing investment tax credit to specifically include clean drilling rig and service rig technologies.

Sector Overview

The Canadian Association of Energy Contractors' (CAOEC) drilling rig and service rig members, made up of small-to-medium and Indigenous companies, are a critical piece of the supply chain for Canada's energy transition and net-zero future. The sub-surface extraction of Canada's diverse energy and critical mineral resources, such as lithium for EV batteries, helium, geothermal heat to generate electricity, potash, or storage for carbon dioxide or hydrogen, will always require energy services and contractors, specifically drilling rigs and service rigs. CAOEC believes a multi-lateral approach with provincial and federal collaboration is needed to further our decarbonization and net-zero goals. However, more must be done to accelerate the deployment of carbon-abating technology in the energy services sector, specifically for broader resource extraction.

The future of the energy industry runs through our people; the energy services sector is at the very center of the sustainable jobs energy transition. Our members and their people already possess the skillset necessary to be the industry's front-line for emissions reduction. However, the next step to decarbonize our sector is to move our technology off diesel to electricity, wind and solar, hydrogen, and lower-emitting natural gas technologies as viable in the areas we operate. Fortunately, the sector already has these proven technologies, like high-line power, battery energy storage systems, and alternative fuel sources, to power our equipment and accelerate Canada's net-zero journey. **These technologies could reduce our GHG sector emissions by as much as 85 – 95 per cent**, but the cost of deploying some of these units is currently over $1,000/ tonne CO2eq. For a full list of technologies, see Appendix A.

However, at present, there are no financial tools that are appropriate for accelerating the long-term deployment of proven carbon abatement technologies waiting to be utilized across the sector. The myriad of government solutions offered to our industry have failed to address the policy gap in the energy services sector, thus making the resources for a sustainable energy transition inaccessible to these small-to-medium and Indigenous companies. To read our white paper on the topic, click here. CAOEC has been advocating both federally and provincially to rectify this gap and bring about the inclusion of the sector within existing strategic financial tools, such as the investment tax credits (ITCs).

Policy Gap

While the Government of Canada made commendable strides to further decarbonization and attract investments in the energy industry through Budget 2023, it is simply not enough. **The design of the Clean Technology Manufacturing investment tax credit (CTMI) fails to recognize the real-life applications of drilling rigs and service rigs, and how it fits into the Canadian energy tapestry.** Current design language within the Budget Annex details what 'eligible activity' and 'eligible

property' qualifies companies to access the CTMI[1]. The energy services sector's decarbonization rig technology meets the qualifications listed under 'eligible activities' for the following:

- "Extraction and certain processing activities related to six critical minerals essential for clean technology supply chains."[2]
- "Manufacturing of certain renewable energy equipment (solar, wind, water, or geothermal)."[3]

CAOEC also fulfills a portion of the 'eligible property' requirement within the Budget Annex as its decarbonization rig technology qualifies as "…machinery and equipment… used in manufacturing, processing, or critical mineral extraction."[4] However, the requirement also details that the property be "used all or substantially all for eligible activities [to] qualify for the credit."[5]

While CAOEC's drilling rig and service rig technologies are used in the extraction of lithium, geothermal, helium, and more, our members also use the same equipment to drill for oil and gas to meet the country's current and future demand for these products. It is one of the reasons why the energy services sector is able to advance a seamless, sustainable energy transition for our workforce and equipment. This business model enables us to accelerate diverse sub-surface extraction projects without retraining our people on the ground or switching out expensive equipment. The ability to be agnostic on what we drill for is pivotal to the success of Canada's energy transition and journey to net-zero. However, this also renders us unable to access various funding streams, such as the CTMI, making the resources for a sustainable energy transition inaccessible to our small-to-medium and Indigenous companies.

Under current conditions, it is not possible to have rig technology that is solely used for the activity listed in the Budget Annex without severely impacting our ability to develop resources. This would also impact field workers' wages and employment, our member company revenues, and the communities in which we operate. There simply aren't enough critical mineral extraction projects underway in Canada right now to offset the revenues our members derive from oil and gas drilling projects. The current definition of the 'eligible property' for the CTMI would halt our progress for a sustainable jobs transition and disrupt the extraction of critical minerals and diverse resource streams across Canada's energy landscape. **The failure to recognize the importance of carbon abatement activities in Canada's oil and gas extraction activities will impact the pace of emissions reduction in the energy services sector.**

[1] Government of Canada, Department of Finance. *Tax Measures: Supplementary Information - Budget 2023.* (Ottawa: Department of Finance, 2023)
[2] Ibid.
[3] Ibid.
[4] Ibid.
[5] Ibid.

Recommended Solution

CAOEC is motivated to decarbonize its technologies as soon as possible to ensure Canada reaches its 2030 emissions reduction goals. **Thus, the Association proposes that the Government of Canada expand the criteria for 'eligible property' under the CTMI to specifically include clean drilling rig and service rig technologies.** The tax credit will allow energy service companies to make necessary investments for carbon abating technologies, providing Canada with the tools to develop emerging energy and mineral resources while delivering on its international targets. See Appendix A for a complete list of the technologies our sector seeks to get in our fields.

Further, these listed clean drilling rig and service rig technologies are all either net zero sufficient or utilize limited fossil fuel, thus labelling it as "fossil fuel efficient" as defined by the parameters set out in the *Inefficient Fossil Fuel Subsidies Government of Canada Guidelines*[6] since it (a) supports clean energy and renewable energy, (b) helps provide essential energy services to remote communities, (c) supports Indigenous participation in energy activities, or (d) would utilize carbon abatement technology like CCUS.

Creating this world-leading fleet of drilling rigs and service rigs for the energy transition will also sustain the careers of our existing workforce and create opportunities for thousands of new workers. On average, one active drilling rig, regardless of what it is being drilled for (i.e. lithium, geothermal, or natural gas), creates 220 direct and indirect jobs, $1 million in taxes, and supports 38 related subcontractors for each wellsite drilled. With the acceleration of proven carbon-abating technology, Canada can establish a drilling and service rig industry that is sustainable through the energy transition, continue to actively advance Indigenous participation in the energy industry, and provide secure careers for front-line workers.

Over the last few months, CAOEC has engaged with various officials in Ottawa on the importance of technology deployment and decarbonization. While we have identified a policy gap in the government's current response to the Canadian energy transition, we were encouraged to see that officials across multiple departments such as Labour, Environment and Climate Change, Privy Council's Office, and Finance were in agreement with the need to address the energy service sector in federal policy. However, the move to act within government is too slow and risks Canada's net zero goals, the future of the energy services workforce, the energy security of communities across the country, and the success of Indigenous economic participation within our industry. The future of Canada's energy services workforce and the pace at which we can accelerate the energy transition is dependent on immediate policies that recognize the real-life applications of drilling rigs and service rigs. Our sector is ready to do its part and position Canada as a world leader in

[6] Government of Canada, Department of Environment and Natural Resources. *Inefficient Fossil Fuel Subsidies Government of Canada – Guidelines*. (Ottawa: Department of Environment and Climate Change, 2023)

carbon efficiency. However, we need the proper tools and resources to bring about the work entailed.

About CAOEC

The CAOEC represents 95 drilling rig and service rig member companies (nearly 100% of the industry) on the front lines of energy security and transition. The membership operates a fleet of 460 land drilling rigs and 748 service rigs in northeast British Columbia, Alberta, Saskatchewan, southwest Manitoba, and offshore drilling rigs operating off the coast of Newfoundland.

CAOEC's members are varied and diverse. Many of our members are small and medium-sized enterprises that have been leaders in creating opportunities for young people, Indigenous communities, and middle-class workers to access the energy we need in Canada and around the world.

For decades, our membership has included Indigenous representation. From Indigenous-owned companies such as Pimee Well Servicing, Homeland Well Servicing, and Onion Lake Cree Nation Well Servicing, to business partnership ventures, ownership stakes, and Indigenous training programs, CAOEC members create meaningful work in remote communities and exemplify an inclusive transformation in the energy services sector.

Appendix A

Technology	Cost To Deploy ($ Million)	GHG Emissions Reduction (Tonnes Co_2eq/Year) *	$/Tonne Co_2eq Reduction
High-line Power	$0.5 - $1	622 – 3,829 (depending on location)	$131 - $1,608
Crown Lighting	$0.08	69	$1,159
Natural Gas Generator + Battery	$5.4	1,226	$4,405
Bi-fuel + Battery	$2.1	939	$2,236
Natural Gas Generator	$4.0	858	$4,662
Battery Energy Storage System (BESS)	$1.4	549	$2,550
Bi-fuel Conversion (DGB)	$0.7	472	$1,483
Fuel Cell	$6.0	3,922 (green H_2)	$1,530
CO_2 Capture + Storage**	$2.0 - $3.0	3,459	$578
Hydrogen Blending***	-	1,471	
Biodiesel***	-	784	
Combustion Catalyst***	-	235	