

Written Submission for the Consultation on the Legislative Proposals to the Income Tax Act – Clean Technology Manufacturing Investment Tax Credit

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Summary of Recommendation

The Canadian Association of Energy Contractors can help the Government of Canada achieve three key policy goals:

- (a) Further Indigenous economic reconciliation,
- (b) accelerate a domestic critical mineral industry; and
- (c) reduce carbon emissions on our path to net zero.

The Canadian Association of Energy Contractors recommends that the Government of Canada expand the criteria for 'Property and Uses' within the "Legislative Proposals to the Income Tax Act – Clean Technology Manufacturing Investment Tax Credit," ensuring drilling rig and service rig companies can fully utilize the tax credit to invest in the carbon abatement technologies needed for the extraction of critical minerals and diverse resource streams across Canada's energy landscape.

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 for healthcare equipment, hydrogen for industrial processes, geothermal heat for electricity, or carbon dioxide underground storage, 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 abatement technology in the energy services sector, specifically for broader resource extraction.

The energy industry's future runs through our people; the energy services sector is at the epicentre of sustainable jobs and Canada's energy transformation. 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 decarbonizing our sector is to move our technology off diesel to electricity, hydrogen, and lower-emitting natural gas technologies as viable in the remote locations where we operate. Fortunately, the sector already has identified proven technologies, like high-line power, battery energy storage systems (BESS), and alternative fuel sources, to power our equipment and accelerate Canada's net-zero journey. **These technologies could reduce our GHG emissions by as much as 85 – 95 percent**, but the cost of deploying some of these units is currently over \$1,000/tonne CO₂eq.

Our Association has engaged the federal government in good faith over the past two years to develop pragmatic policies that would help accelerate the deployment of carbon abatement technology. Unfortunately, as of today, our members have received no support from the federal government, and no federal fiscal tools are available. Furthermore, the federal government's proposed emission cap on the oil and gas sector, without sufficient fiscal incentives to support decarbonization, will hinder Canada's ability to attract capital and, ironically, negatively impact our decarbonization efforts.

The myriad of clean energy programs introduced by the government has failed to address policy gaps in the energy services sector, thus making fiscal incentives for a sustainable energy transition largely inaccessible to these small-to-medium and Indigenous companies.

The future of Canada's workforce, the energy security of communities across the country, the production of critical minerals, and the success of Indigenous economic participation within our industry will depend on the government dramatically changing its approach. We are ready to do

our part and position Canada as a world leader in carbon efficiency, but we need the government to partner with us.

CAOEC has been advocating to the federal and provincial governments to rectify this gap and include the sector within existing strategic financial tools, such as the federal investment tax credits (ITCs). To read our white paper on the topic, click [here](#).

Policy Gap

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 the industry fits into the Canadian energy tapestry. The *Legislative Proposals to the Income Tax Act – Clean Technology Manufacturing Investment Tax Credit* (the “Regulations”) details what property and uses qualify for the CTMI. Moreover, the *Budget 2023 Tax Measurers: Supplementary Information* (the “Budget Annex”) provides additional details.

The energy services sector’s decarbonization rig technology meets the qualifications listed under **uses and activities** in the following areas:

- “Extraction and certain processing activities related to six critical minerals essential for clean technology supply chains.” (Budget Annex)
- “Manufacturing of certain renewable energy equipment (geothermal).” (Budget Annex)
- “CTM use means:
 - (b) the use of a property in a qualifying mineral activity producing ... qualifying material ...”
 - qualifying material (a) lithium ... qualifying mineral activity (a) the extraction of resources from a mineral deposit.” (Regulations)

The energy services sector’s decarbonization rig technology meets the qualifications listed under **property** in the following areas:

- “...machinery and equipment... used in manufacturing, processing, or critical mineral extraction.” (Budget Annex)
- “CTM property means property of a taxpayer ...
 - (d) described in Schedule II to the Income Tax Regulations that is
 - (i) included in (B) paragraph (a) of Class 43, (c) Class 53,
 - (iii) included in (C), (v) included in (A).” (Regulations)

However, the requirement also details that the property be “used all or substantially all for eligible activities [to] qualify for the credit” (Budget Annex) or “CTM uses means the use of a property in a qualifying mineral activity producing all or substantially all qualifying materials” (Regulations).

While CAOEC’s drilling rig and service rig technologies extract lithium, geothermal heat, 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 federal resources for a sustainable energy transformation inaccessible to our small-to-medium and Indigenous companies.

Under current conditions, it is not feasible to have rig technology solely used for the activity listed in the Budget Annex or the Regulations without severely impacting our ability to develop resources. Moreover, this would also impact field workers’ wages and employment, our member company revenues, and the communities in which we operate. There are not 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.**

Recommended Solution

Our industry is motivated to accelerate the deployment of decarbonization technologies as soon as possible to ensure Canada reaches its 2030 emissions reduction goals. See Appendix A for a complete list of the technologies our sector seeks to get in our fields.

We recommend that the Government of Canada expand the *property and use* criteria in the Regulations to ensure that clean drilling rig and service rig technologies can fully utilize the tax credit.

Furthermore, the Association recommends exempting drilling and service rig technologies from the “substantially all” requirements to ensure critical mineral and geothermal resource extraction is not negatively impacted.

The expanded tax credit will allow energy service companies to make the necessary investments in carbon abatement technologies, providing Canada with the tools to develop emerging energy and mineral resources while delivering on its international targets.

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*¹ 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, helium, 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 abatement technology, Canada can establish a sustainable drilling rig and service rig industry through the energy transformation, continue actively advancing 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 officials across multiple departments such as Labour, Environment and Climate Change, Privy Council’s Office, Natural Resources Canada, and Finance were in agreement with the need to address the energy service sector in federal policy. However, the move to act within the 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 depends 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 carbon efficiency. However, we need the proper tools and resources to accomplish our decarbonization goals.

¹ 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)

About the Canadian Association of Energy Contractors (CAOEC)

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, and southwest Manitoba, as well as offshore drilling rigs operating off the coast of Newfoundland.

CAOEC's members are varied and diverse. Many of our members are small-to-medium companies 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, Onion Lake Cree Nation Well Servicing and Indigena Drilling to business partnership ventures, ownership stakes, and Indigenous training programs, CAOEC members create meaningful work in remote communities to promote a more inclusive energy services sector.

Appendix A – Rig Technology

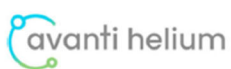
Technology	Cost To Deploy (\$ Million)	GHG Emissions Reduction (Tonnes Co₂eq/Year) *	\$/Tonne Co₂eq Reduction
High-line Power	\$0.5 - \$1	622 - 3,829 (depending on location)	\$131 - \$1,608
Crown Lighting	\$0.08	69	\$1,159
Natural Gas Generator + Battery	\$5.4	1,226	\$4,405
Bi-fuel + Battery	\$2.1	939	\$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
CO₂ Capture + Storage**	\$2.0 - \$3.0	3,459	\$578
Hydrogen Blending***	-	1,471	
Biodiesel****	-	784	
Combustion Catalyst****	-	235	

* Annual GHG emissions reductions compared to the diesel baseline assuming 250 operating days per year.

** No costs for transporting and sequestering the CO₂ are shown as these costs are site-specific.

*** Not a capital cost; variable operating cost based on volume.

Appendix B – Letter of Support from the Lithium, Helium, and Geothermal Industry



November 20, 2023

The Honourable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister
Minister of Finance
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Minister Freeland,

As the leaders of some of Western Canada’s most dynamic companies active in the emerging energy transformation space, we were greatly encouraged by your recent comments that the Government of Canada’s Clean Growth Strategy was designed with Western Canada’s future at its heart. Our companies are at the leading edge of this transformation as we seek to develop Canada’s lithium, helium, and geothermal opportunities.

We are committed to helping diversify Western Canada’s economies by developing new clean energy sources using and leveraging the knowledge, experience, methodologies and technologies that have enabled over a century of resource development. We have deep connections to the traditional oil and natural gas industries, which will help advance the Canadian supply of critical inputs to the clean energy of the future. Our success will depend heavily on a healthy and innovative drilling and service rig sector to achieve the clean resource development objectives your government has set for the country.

Consider the following examples:

- The lithium industry will drill hundreds of new wells over the next decade.
- Saskatchewan has a target of annual helium exports in excess of \$500 million per year, and Alberta has similarly prioritized helium development.
- Borealis Geothermal and Shell Canada have invested in the M’Deek Reservoir in British Columbia as part of the Kitselas First Nation’s Fuel for Reconciliation geothermal project.
- Eavor Technologies Inc. has received \$90 million from Canada’s Clean Growth Fund to scale up its geothermal operations in Alberta.

We require a fleet of modern, safe, and flexible drilling and service rigs and the numerous skilled professionals who deploy and operate them. A rig may drill and service a lithium well one part of the year, a geothermal or helium well the next, and a natural gas well afterward. To compete on the global stage and establish our industry as a leader, Canadian rig contractors must be state-of-the-art and have highly skilled crews capable of running their equipment in rural and remote parts of the country. We have attached photos from several of our project sites as examples.

Accordingly, we are writing to you in support of the Canadian Association of Energy Contractors' (CAOEC) proposal outlined in its Pre-Budget Submission to the Standing Committee on Finance (attached) that investment into emissions reduction technologies deployed on drilling and service rig equipment be included in the Clean Technology Manufacturing Investment Tax Credit (CTMI) currently under development by your government.

The benefits of extending the investment tax credit to the Canadian economy and western Canadian communities are numerous, such as:

- Support of clean and renewable energy.
- Development of critical minerals essential to the emerging green and digital economy.
- Provision of essential energy services to rural and remote communities.
- Support of Indigenous participation in the emerging sustainable energy economy.
- Utilization of carbon abatement technology helping Canada meet its emission reduction targets.

The current design of the CTMI should, in our view, recognize the contributions that drilling and service rigs will increasingly make to the transition to a cleaner energy mix in Canada and beyond. Although the energy services sector's decarbonization rig technology meets the qualifications listed under the 'eligible activities' and 'eligible property' requirements for the CTMI, they cannot utilize the program as the drilling and service rig sector, by design and operation, cannot fulfill the "substantially all" obligation as the technologies used to drill for helium, lithium, and geothermal are also the very same equipment used to drill for oil and gas.

The drilling and service rig sector's adaptability is already in action, with contractors providing seamless services to our emerging sector and quickly providing new and increasingly diversified sub-surface extraction technologies and methods without retraining people on the ground or having to switch out or strand existing equipment.

As you recently said in Calgary on October 25, 2023, "Canada has to keep up. And we have to not just keep up, we have to be in the lead." We agree. To that end, please accept this letter as our support for the CAOEC's recommendations. We look forward to discussing this further with you and your colleagues.

Sincerely,



Chris Bakker
Avanti Helium Inc.
Helium Developers Association of Canada



London Hillyer
Canadian Geothermal Energy Association
(CanGEA)



Leigh Clarke
E3 Lithium



Jeanine Vavy
Eavor Technologies Inc.



Ed Bereznicki
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