Submission for the Pre-Budget Consultation in Advance of the 2025 Federal Budget

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Summary of Recommendations

Recommendation: Government of Canada should expand the eligibility criteria for the legislated Clean Technology Manufacturing Investment Tax Credit, to ensure 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 and service rig members and their workers are a prime example of the work the government is attempting to herald with its recently passed *Canadian Sustainable Jobs Act*. A news release on the legislation notes that the government is "**investing to ensure workers have the necessary skills and tools to seize this opportunity and build the industries of the future" while putting "workers' voices at the decision-making table."**

Therefore, it is ironic that the government continues to ignore the thousands of workers in Western Canada, who are on the frontlines of Canada's energy transition and net-zero future.

CAOEC members employ thousands of people in rural, remote, and Indigenous communities. The sub-surface extraction of Canada's diverse energy and critical mineral resources, such as lithium for EV batteries, helium for medical equipment and nuclear power, geothermal heat to generate electricity, potash, or storage for carbon dioxide or hydrogen, will always require their 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 efforts. However, the federal government has shown little appetite to work with the energy services sector to accelerate the deployment of carbon abatement technologies, specifically for broader resource extraction.

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, battery, hydrogen, and lower-emitting natural gas technologies as viable in the areas we operate. Through extensive innovation, the sector already has these proven technologies, like high-line power, battery energy storage systems, and alternative fuel sources, to power our equipment. **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.

At present, there are no governmental fiscal 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 the broad energy industry have excluded our members and failed to address the policy gap in the energy services sector, thus making the resources for a sustainable energy transformation inaccessible to these 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 Credit (ITC). However, the federal government has yet to deliver any meaningful progress to date, choosing to write off the sector rather than bring these voices to the table.

If the following amendments are made to the current Clean Technology Manufacturing (CTM) ITC, it would see an estimated investment of **$532MM in new carbon abatement technology over the next seven years for a cost to the government of $160MM, resulting in a commutative emissions reduction of almost 1MT.** Please see Appendix B for the GHG reduction and investment estimates breakdown.

Policy Gap

While the Government of Canada made strides to further decarbonization and attract investments in parts of the energy industry, such as carbon capture and storage, the current policy landscape excludes those on the frontlines of extracting Canada's diverse energy streams. **The design of the legislated CTM ITC fails to recognize the real-life applications of drilling rigs and service rigs, and how they fit into the Canadian energy tapestry.** Current design language details what 'eligible activity' and 'eligible property' qualifies companies to access the CTM ITC. 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." (Budget Annex 2023)
- "Manufacturing of certain renewable energy equipment (geothermal)." (Budget Annex 2023)
- "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)

CAOEC members' activities also meet 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." However, the requirement also details that the property be "used all or substantially all for eligible activities [to] qualify for the credit."

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 2023)
- "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)

While CAOEC members' 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 future. However, this also renders us unable to access various funding streams, such as the CTM ITC.

The paradox is that a drilling rig solely dedicated to critical mineral development would likely qualify for the credit. However, the reality is 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. Thus, penalizing technologies that decarbonize the extraction of oil and gas would also mean penalizing technologies that decarbonize the extraction of critical mineral resources. The current definition of the 'eligible property' for the CTM ITC 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.

Recommended Solution

Our industry is motivated to accelerate the deployment of decarbonization technologies as soon as possible. We recommend that the Government of Canada **expand the criteria for 'property and uses' in the CTM ITC regulations to ensure 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.**

These listed clean drilling rig and service rig technologies are all either net-zero sufficient or utilize limited fossil fuel, thus labelling them as "fossil fuel efficient" as defined by the parameters set out in the *Inefficient Fossil Fuel Subsidies Government of Canada Guideline* since they:

(a) support clean energy and renewable energy;
(b) help provide essential energy services to remote communities; and
(c) support Indigenous participation in energy activities.

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, $1MM in taxes, and supports 38 related subcontractors for each wellsite drilled.**

Over the last two years, CAOEC has engaged with various officials in Ottawa on the importance of technology deployment and decarbonization across multiple departments such as Labour, Environment

and Climate Change, Prime Minister's Office, Privy Council's Office, Natural Resources Canada, and Finance. All agreed with the need to address the energy service sector in federal policy. However, unlike what has been promised in *Canada's Sustainable Jobs Act*, we have yet to see our needs represented in policy and regulation. The lack of meaningful progress has risked Canada's climate goals, the future of the energy workforce, the energy security of communities across the country, and the success of emerging Indigenous economic participation within our industry. Simply put, the success of an inclusive and thriving energy future depends heavily on a healthy and thriving drilling rig and service rig sector.

About CAOEC

CAOEC represents 95 drilling rig and service rig member companies (nearly 100% of the industry) on the frontlines 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 rigs operating off the coast of Newfoundland.

CAOEC's members are varied and diverse. Many of our members are large, 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, 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 and exemplify an inclusive transformation in the energy services sector.

Appendix A: Technologies

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	

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

** *No costs for transporting and sequestering the CO_2 are shown as these costs are site-specific.*

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

Appendix B: GHG Reduction and Investment Estimates

Clean Technology	Per Unit Cost	Per Unit GHG Reduction*	% of Rig Fleet with Units	2030 % Target	Cumulative GHG Reduction to 2030**	Industry Investment	CTM ITC (30%)
1. Hi-line Power (Fully Electric Rig)	$ 1,000,000	2,000	10%	15%	150,000	$ 15,000,000	$ 4,500,000
2. Battery Energy Storage System (BESS)	$ 1,400,000	549	3%	20%	137,250	$ 70,000,000	$ 21,000,000
3. Hydrogen Blending	$ 250,000	1,471	1%	10%	198,585	$ 6,750,000	$ 2,025,000
4. Bi-fuel (Natural Gas + Diesel) Generator	$ 2,100,000	472	27%	70%	306,800	$ 273,000,000	$ 81,900,000
5. 100% Natural Gas Generator	$ 4,000,000	858	1%	15%	180,180	$ 168,000,000	$ 50,400,000
					972,815	$ 532,750,000	$ 159,825,000

* Tonnes Co2eq/year

** Tonnes Co2eq/year