

September 5, 2023

Via email: Department of Finance Canada Consultation-Legislation@fin.gc.ca

Re: Carbon Capture, Utilization, and Storage (CCS/CCUS) Investment Tax Credit Consultation

We acknowledge and appreciate the Government of Canada's exemplary commitment towards curtailing emissions across various industries, notably underscored by investment in Carbon Capture, Utilization, and Storage (CCS/CCUS) project development through the Investment Tax Credit for CCUS (CCUS-ITC). The International CCS Knowledge Centre greatly values the opportunity to contribute our insights on the consultation for the CCUS Investment Tax Credit – Proposed Legislation & Regulations.

We have created a [review](#) of the proposed legislation and regulations with key messages for consultation that we would encourage you to read. It contains greater detail on particular sections of interest. In addition to this document, we wanted to provide a letter as our response to consultation on several key topics we feel require clarification or additional information.

Government and Non-Government Assistance:

Policy certainty on how provincial and federal government programs affect the value of the CCUS-ITC is needed for projects to reach a final investment decision. We feel that clearer guidance will reduce ambiguity for CCUS project proponents regarding how tax credits would be affected by support from non-government and government entities.

The Knowledge Centre is concerned with how government and non-government assistance, as defined in the Income Tax Act, will interact with the CCUS-ITC. The draft ITC legislation explicitly states non-government support lowers the cost for CCA class 57 and 58 property. However, if such support is repaid, or no longer anticipated, the cost is reinstated. The text does not straightforwardly address how any assistance, whether from the government or other sources, affects the CCUS-ITC.

Further, the Clean Technology ITC does define both government and non-government assistance, and explicitly states that when these assistances are re-paid, they may once again be eligible for the Clean Technology ITC. If at the front end of a project the ITC is reduced because of assistance, there is concern that the net present value of project benefits will be reduced. The reduction creates a greater opportunity cost of dollars invested in the project. This would then reduce the likelihood of projects being approved by corporations.

It would be helpful to understand why, in plain language, government assistance is only relevant to the clean electricity ITC, and how government program supports, such as repayable contributions or crown corporation loans, impact the CCUS-ITC. A lack of clarity in the draft legislation makes it unclear if projects should pursue support from application-based programs or government financing and how future programs may affect recipients of the ITC. Before the legislation and regulations are passed, we would value the opportunity to speak with you on this matter to better understand its implications.

Labour provisions:

We support the inclusion of fair labour practices and wages. Upon review, it appears that the Labour & Apprenticeship Requirements involve consideration for external factors beyond the control of CCUS proponents. Even with reasonable efforts provisions included for meeting apprenticeship requirements, our interpretation is that there may still be impacts that can substantially reduce the value of ITCs or result in tangible penalties. This creates risks and reduces the viability of projects, especially in rural and remote areas beyond the control of taxpayers-. The risk of competing resources increases with more projects looking to be deployed closer to 2030 with the incentive of the CCUS-ITC, not to mention other large-scale projects expected to be developed in the coming years. Additionally, greater clarity on what constitutes reasonable efforts would provide taxpayers more certainty in understanding the parameters of project execution.

Depreciation rates:

The CCA Class 57 rate of eight percent reflects a depreciation for CCUS equipment that is slower than most other comparable capital. The CCUS projects have an expected operating life of 20 years, as per the legislation. Despite the accelerated CCA for Class 57 for the first year, we have heard from companies that this depreciation rate is not substantive enough to achieve its intended goal.

Qualifying taxpayers:

A “qualifying taxpayer” for the CCUS-ITC is a taxable Canadian corporation that, in essence, is not exempt from tax. Canadian municipalities, Indigenous-owned businesses, and crown corporations may be exempt from some or all taxation but have expressed explicit interest in pursuing CCUS projects. Potential support from these non-qualifying CCUS proponents, which typically do not have a profit motive, deserves consideration for government support. We have heard that there may be consideration provided to these non-qualifying taxpayers in other forms to make up for the inability to consider them under a tax provision. This is important information for our stakeholders to understand and transparency around any potential for accommodation would be appreciated.

Carbon Dioxide Removals:

Bioenergy with CCS (BECCS) is a set of technologies that can produce electricity and other products while removing overall carbon from the atmosphere. The CCUS-ITC provides no explicit additional support for BECCS projects that generally have higher input costs than other CCUS projects and provide removal benefits equivalent to Direct Air Capture with CCS that receives higher CCUS-ITC rates. We would like to understand why the two technologies with similar negative emission impacts have different treatments.

Storage Jurisdictions:

Transparency on the requirements for Environment and Climate Change Canada (ECCC) to expand designated jurisdictions beyond Canada’s western provinces would be beneficial for project proponents. Direction to ECCC to provide this information in guidelines, for example, would benefit potential projects and provincial policy makers in locations currently ineligible for the CCUS-ITC.

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Project Timelines:

Our stakeholders have noted concern for the timelines for the higher value of the CCUS-ITC not recognizing practical challenges in the CCS industry. The tight window and international programs are increasing demand on limited labour and supply chains. This will have the effect of delays in procurement and/or increased costs for projects. We recommend, which has been our stance throughout the consultation period for the CCUS-ITS, that 2030 should be the date of Final Investment Decision as opposed to construction timeline to ensure that projects will have made substantial commitments, locked in contracts, can have staggered state dates to deal with labour and supply chain considerations, and ensure that benefits are maximized while not eroding the essence of the legislation.

Guidance documents:

Finally, we look forward to receiving the guidance promised by Finance and NRCan for prospective CCUS project proponents relating to the process for applying for the CCUS-ITC, information required in a project plan, components for knowledge sharing requirements and property verification. Understanding what is necessary, and having clear and efficient parameters, will result in projects that commence sooner – which means a faster realization of achieving Canada’s emission reduction goals.

We would welcome the opportunity to discuss the above, or any other matters relating to CCUS with you.

Sincerely,



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