

# Design Changes to the Investment Tax Credit for Carbon Capture, Utilization and Storage

Pembina Institute comments

Submitted to: Department of Finance Canada | October 7, 2022

Regarding: *Additional Design Features of the Investment Tax Credit for Carbon Capture, Utilization and Storage: Recovery Mechanism, Climate Risk Disclosure, and Knowledge Sharing*

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## Comment summary

- Corporations should produce an annual Climate Risk Disclosure (CRD) report to help Canadian investors better assess the risk of corporate ventures.
- The CRD should cover the four criteria set out by the Task Force on Climate-Related Financial
- The Investment Tax Credit (ITC) should have clear definitions for eligible and ineligible uses of captured CO<sub>2</sub>, and actual data should be used in calculations.
- Multi-use assets should be assessed on their support of a CCUS system, and be eligible for a proportion of ITC.
- Knowledge-sharing requirements should build on existing reports while filling in critical gaps determined through stakeholder consultation.
- Projects should be required to publish their FEED studies within a year of first receiving ITC funding.
- The federal government should release design details of the ITCs for net-zero technologies in the 2022 fall economic and fiscal update.

## Context

The Pembina Institute appreciates the opportunity to comment on the federal government's *Additional Design Features of the Investment Tax Credit for Carbon Capture, Utilization and Storage: Recovery Mechanism, Climate Risk Disclosure, and Knowledge Sharing*.

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Public investments in carbon capture, utilization and storage must be weighed against other opportunities to drive emissions reductions in Canada on a tonne (of carbon dioxide equivalent not emitted) per dollar invested basis.

As such, we support the current level of the investment tax credit (ITC) for carbon capture, but not increasing it. It is our considered opinion that the ITC, in addition to credits available under carbon pricing systems and through the clean fuel regulations, provides sufficient financial support for CCUS projects.

Preference for future public funding should be given to other projects that are more likely to result in full decarbonization of Canada's economy by 2050 in a manner that is consistent with limiting warming to 1.5 degrees Celsius. This would include, for example, technologies that will enable the shift to clean energy, as well as sectors and technologies that will have higher potential for export growth as oil demand declines by 2030. Public investment in these areas would also unlock significant economic opportunities for workers and communities.

## Discussion

### Climate Risk Disclosure

We are pleased to see the requirement that corporations produce an annual Climate Risk Disclosure (CRD) report. Pembina Institute research has indicated that Canadian investors wish to make climate-conscious investments but feel they are being hampered by insufficient information. Half of Canadian shareholders, for example, feel they need more information to be able to effectively make climate-friendly investments, while 80% of Canadians want to learn more about how companies are trying to be more socially and environmentally responsible.<sup>1</sup>

Corporate reporting on climate-related risks and opportunities is a key element of the information required by Canadian investors. Assessing risk is one of the core actions that investors undertake before making a financial decision, and typically, higher-risk ventures must promise higher rewards to attract investment. As such, perceptions of risk play a significant role in the availability and cost of capital for industrial sectors, which in turn drives their potential for growth.<sup>2</sup> Requiring Climate Risk Disclosure reports will help Canadian investors better assess the risk of corporate ventures.

We support requiring that the CRD cover the four criteria set out by the Task Force on Climate-Related Financial Disclosures (TCFD). Consistency in climate risk disclosures among Canadian ventures will make comparisons between ventures smoother for investors. At the time of writing, TCFD has 3,400 supporters in nearly 100 jurisdictions around the world.<sup>3</sup> Requiring disclosures in line with the TCFD is consistent with the Government of Canada's support for the TCFD standards, as announced in Budget 2019.<sup>4</sup> It is also consistent with the Canadian

Securities Administrators proposed National Instrument 51-107, which aligns with the TCFD in a number of areas.

A requirement for climate-related disclosures has precedent in Canada: the Large Employer Emergency Financing Facility (LEEFF), a program to help large Canadian employers impacted by the COVID-19 pandemic, required that borrowers produce an annual climate-related financial disclosure report.<sup>5</sup> As well, the federal government has taken steps to ensure it is practicing what it preaches: large and small Crown corporations will be required to make climate-related financial disclosures as of 2022 and 2024, respectively, as announced in Budget 2021.<sup>6</sup>

As the world transitions to net-zero emissions, demand for oil will decline, with more oil production facilities therefore at a greater risk of becoming stranded assets. As such, Scope 3 emission reporting should be considered, to provide transparency about the extent to which ITC investments are at risk. CRDs should set out how corporate governance, strategies, policies and practices contribute to achieving Canada's commitments under the Paris Agreement and goal of net-zero by 2050, and limit global warming to 1.5 degrees Celsius. This is an important opportunity to secure mandatory, robust reporting from companies, at least those availing themselves of the CCUS tax credit.

## Recovery mechanism and determining ITC amounts

We support that the CCUS ITC will have clear definitions for eligible and ineligible uses of captured CO<sub>2</sub>, and that not only forecasts, but actual data on those uses be part of the calculation of the tax credit's eligible use factor, and to recover credits paid to projects that divert more CO<sub>2</sub> than intended to ineligible uses. This is an important accountability mechanism that helps ensure the ITC will support Canada's climate targets, and will not become an inefficient fossil fuel subsidy, which Canada committed to end by 2023.

We support the intent to limit the ITC to equipment and facilities that are used for CCUS, but are concerned that the proposed approach will disqualify assets that are potentially dual or multi-use. An example would be combined heat and power or emission control units built primarily to support CCUS operations, but also used to support production. The current proposed ITC approach would mean those assets are ineligible for the ITC, and would either incent a less capital- and energy-efficient design (such as two smaller cogeneration systems), or might render the CCUS project uneconomic. We recommend an approach that ascertains whether the dual-use assets are substantially supporting the CCUS system, and scales how much of those costs are eligible based on the proportion of their throughput or output used for CCUS, similar to the recovery mechanism proposed for ineligible uses of captured CO<sub>2</sub>.

## Knowledge-sharing

We welcome requirements for knowledge-sharing, which is important for early deployments of any major decarbonization technologies, like CCUS. We would like to ensure that knowledge-sharing requirements build on the knowledge-sharing reports done by Quest and Boundary Dam projects, and fill critical gaps in engineering, business, operations, policy, and public knowledge about these projects. The Department of Finance should engage with stakeholders to determine those gaps, and should include detailed financial, operations, and engineering information and reports that will be critical to ensure future projects and policies benefit from earlier CCUS projects. One near-term specific requirement should be that projects must publish their FEED studies within a year of first receiving ITC funding. This will be critical to help inform other projects urgently being developed in parallel, and to inform Canada's net-zero policies.

## Conclusion

In conclusion, we are grateful for the opportunity to engage with the Department of Finance on the development of the CCUS Investment Tax Credit. This is a crucial piece of support for CCUS, a technology that the United Nations has identified as critical in the race to keep global warming below 1.5 degrees Celsius. We encourage the Government of Canada to move quickly to implement ITCs for other net-zero solutions, including battery storage and green hydrogen, that were promised in Budget 2022.<sup>7</sup>

In conjunction with Canada's robust carbon pricing systems, credits available through the clean fuel regulation and existing incentives for decarbonization (like funds available through Emissions Reduction Alberta, the Emissions Reduction Fund, and the Net-Zero Accelerator Initiative), this ITC has the potential to unlock significant carbon capture potential in Canada, setting our economy up for success in the energy transition.

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<sup>1</sup> Cedric Smith and Murrigan Simpson-Marran, *Sustainable Finance for a Safe Climate* (Pembina Institute, 2021), 5. <https://www.pembina.org/pub/sustainable-finance-safe-climate>

<sup>2</sup> *Sustainable Finance for a Safe Climate*, 8.

<sup>3</sup> Task Force on Climate-Related Financial Disclosures, "Support the TCFD." <https://www.fsb-tcfd.org/support-tcfd/>

<sup>4</sup> Environment and Climate Change Canada, *2030 Emissions Reduction Plan* (2022), 82. <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/climate-plan-overview/emissions-reduction-2030.html>

<sup>5</sup> Government of Canada, "Large Employer Emergency Financing Facility Factsheet." <https://www.cdev.gc.ca/leeff-factsheet/>

<sup>6</sup> *2030 Emissions Reduction Plan*, 82.

<sup>7</sup> Government of Canada, *Budget 2022*, Chapter 3. <https://budget.gc.ca/2022/report-rapport/chap3-en.html>