



ALBERTA

ENVIRONMENT AND PROTECTED AREAS

*Office of the Minister*

Dear Minister Steven Guilbeault,

The federal government's draft Regulatory Framework to Cap Oil and Gas Sector Greenhouse Gas Emissions represents a de facto production cap on Alberta's oil and gas sector. This cap is not realistic or effective, will not achieve its grandiose emissions targets, and will not be tolerated in Alberta.

Today, Alberta is efficiently and effectively regulating and driving emissions from all industrial sectors, including oil and gas, and has been doing so successfully for decades. Our technical submission outlines how your proposed oil and gas emissions cap will undercut this work, and the severe consequences that it will impose on Albertans and all Canadians.

In no way does Alberta's technical submission alter our province's position that the proposed emissions cap is unconstitutional. As set out in Section 92A of the *Constitution Act, 1867*, Alberta has exclusive jurisdiction to manage the rate of non-renewable natural resources production and operational aspects of their development in our province.

If implemented, this cap would have a devastating impact on the economies of Alberta and all of Canada. Analysis from the Conference Board of Canada shows that it would reduce Canada's GDP by up to \$1 trillion between 2030 and 2040 and create up to 151,000 lost jobs across Canada by 2030. Oil and gas production would be curtailed, tens of thousands could be out of work, and the economic impact would be felt from coast to coast.

We have identified an overwhelming number of flaws in your government's proposed framework. For example, your assumed production forecasts – which form the basis of the cap – are from 2019. Alberta's total oil and natural gas production has already risen past 2019 levels, and multiple forecasts project oil sands production to increase significantly by 2030. Similarly, the technologies needed to massively abate emissions in the oil and gas sector either don't yet exist or aren't being developed at the rate and scale that your modelling requires. Many of these technologies and investments are supported by Alberta and will eventually deliver real and sustained reductions, but not by 2030. As well, our submission clearly demonstrates that:

- The proposed cap would violate Section 92A of the Constitution, and result in oil and gas production cuts and shut-ins in Alberta.
- It is based on a flawed regulatory framework and policy design that is ineffective, inefficient and will not produce the intended emission reductions.
- The proposed cap will negatively impact Alberta's economy, as well as the economies of provinces and territories across the country, including the Canadian economy overall.
- It will undercut Canada's competitiveness and drastically reduce investments in clean technologies like carbon capture, which are critical to meaningfully reducing emissions in the coming years.
- It is unnecessary and will undermine effective provincial-led decarbonizing approaches and initiatives already underway or proposed in Alberta and across Canada.
- It will lead to carbon leakage, with oil and gas production and greenhouse gas emissions increasing in other countries with less robust environmental and human rights standards.

Alberta is confident that the many of issues raised in this document are shared by other provinces and industry leaders, both within the oil and gas sector and beyond.

All greenhouse gas emissions have the same global impact, regardless of the sector or region in which they are produced. Instead of pursuing this unconstitutional cap, we are calling on your government to immediately halt further development and begin meaningful collaboration within established provincial regulatory regimes on oil and gas regulation and emissions reductions. Alberta would welcome federal investment to help the oil and gas industry – and other industries – advance and adopt technology to reduce emissions to support our goals of carbon neutrality by 2050.

Alberta aspires to achieve a carbon neutral economy without compromising affordable, reliable, and secure energy for Alberta, Canada and the world. We know this relies on and requires investment to advance clean technology solutions.

We invite you to join us in implementing our Emissions Reduction and Energy Development Plan to achieve carbon neutrality while continuing the development of Alberta's world-class natural energy resources for Canada and the world.

Sincerely,

A handwritten signature in black ink, reading "Rebecca Schulz". The signature is written in a cursive style with a large, prominent 'R' and 'S'.

Rebecca Schulz  
Minister of Environment and Protected Areas

Attachment

cc: Honourable Brian Jean, Minister of Energy and Minerals  
Honourable Matt Jones, Minister of Jobs, Economy and Trade

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# Proposed Federal Oil and Gas Emissions Cap Regulatory Framework

Government of Alberta Technical Submission



*Alberta* 

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# Federal Regulatory Framework for and Oil and Gas Emissions Cap – Government of Alberta Technical Submission

This submission supplements the letter provided by the Premier of Alberta to the Prime Minister regarding the proposed federal oil and gas emissions cap regulatory framework and earlier communications by the Government of Alberta.

In no way does this technical submission alter Alberta's position that the proposed policy is unconstitutional. Legislating and regulating natural resource exploration, development, conservation and management, including the rate of primary production, falls within the exclusive jurisdiction of the provinces as per Section 92 of the *Constitution Act, 1867*.

The October 2023 Supreme Court of Canada ruling on the federal *Impact Assessment Act* (IAA) confirms the unconstitutionality of the federal government's ongoing efforts to interfere with natural resource and electricity sectors of all provinces. The November 2023 Federal Court decision on the federal designation of plastic manufactured items as toxic confirms the federal government continues to unconstitutionally interfere in matters that are within provincial jurisdiction.

We continue to call on the federal government to learn the lessons from the IAA decision and to abandon their ongoing unconstitutional actions. We invite the federal government to support Alberta's responsible approach to energy development and emission reductions in the oil and gas sector.

Alberta has established one of the world's most stringent environmental regulatory and policy systems in support of responsible oil, gas and bitumen production. Alberta has established thresholds to minimize the impact of oil, natural gas and bitumen development on air, land and water while reducing greenhouse gas emissions.

Alberta's comprehensive Emissions Reduction and Energy Development Plan (ERED) outlines our approach to achieve carbon neutrality by 2050, while maintaining energy security, reliability and affordability. Alberta's first climate plan was established in 1998, and the ERED sets a course to reduce emissions in support of energy production.

Alberta's actions and deliverables demonstrate our ability to collaborate with industry and deliver our plan, our way. For example, Alberta established North America's first industrial carbon pricing and emissions trading system, and from 2007 to 2022 it has resulted in over 234 Mt in reduction requirements beyond on-site reductions. Alberta was the first regional government in North America to set a methane emissions reduction target - 45 percent below 2014 by 2025 for upstream conventional oil and gas – which we met years early in 2022. Alberta is a global leader in carbon capture, utilization and storage, with a well-established regulatory system, proven geological advantage, and two of the world's commercial-scale projects that have already captured and permanently stored over 11.5 Mt of emissions. Alberta's oil and gas industry has well-defined decarbonization plans. For example, the Pathways Alliance partnership of the six largest oil sands companies representing 95 percent of oil sands production are aligned and collaborating with a goal to achieve net zero by 2050.

Alberta's practical approach is demonstrable. Alberta understands the importance of an evidence-based, holistic and logical emission reduction plan that has all key sectors and industries engaged and committed. Comprehensive assessment of clean technology opportunities across all sectors of the economy is fundamental to setting technologically and economically achievable pathways to decarbonization. Alberta's leadership approach recognizes the need to continue to aggressively reduce emissions, but also that it must be done at a pace that can leverage innovation and technology, some of which are not commercially available or scalable today or in the near future.

No engagement and no cooperative federalism. We cannot afford to take blunt, inefficient and one-size-fits-all approaches to reduce emissions, as such policies do more harm than good. The federal government's proposed Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap represents a de facto production cap on Alberta's and Canada's oil and gas sector. The proposed cap framework could devastate the economy, lead to massive job losses and hurt the financial well-being of millions of Canadians – all without yielding the intended emissions reductions. The proposed federal cap adds complexity and costs onto Canadian oil and gas producers at a time when North American energy is paramount to supporting global energy security,

reliability and affordability needs. The cap will not result in a global greenhouse gas emission reduction, but rather result in carbon leakage along with a transfer of production, wealth and jobs to other less reliable and less environmentally responsible countries.

The federal government's proposed cap is ineffective, unconstitutional and unacceptable. Instead of managing emissions consistently across all regions and sectors, the federal government is targeting a single sector and proposing a cap that will overwhelmingly hurt Alberta and have negative impacts across Canada. Albertans will not accept this cap or the attack on its constitutional jurisdiction, economy and citizens that the cap represents.

Many issues raised in this technical submission are shared by other provinces, the oil and gas industry, and the services, construction, manufacturing and many other sectors and businesses across the Canadian economy that are affected by the proposed cap. The federal government must respond to the weight of evidence with the only reasonable course: immediately halt further development of the proposed oil and gas emissions cap and begin meaningful collaboration within established provincial systems to support our shared objective of carbon neutrality by 2050.

## **Part 1: The proposed cap violates the Canadian Constitution**

**The proposed federal oil and gas emissions cap is not reconcilable with the constitutional division of powers and unduly trenches upon provincial jurisdiction. It clearly violates Section 92A of the *Constitution Act, 1867*.**

Section 92A of the *Constitution Act, 1867* assigns the regulation of natural resource production and development to the exclusive jurisdiction of the provinces. Alberta, not the federal government, is the manager of its natural resources on behalf of their owners – Albertans.

There is express provincial jurisdiction over natural resources including exploration for, and development, conservation and management of, oil and gas. The proposed oil and gas cap aims to eviscerate this area of exclusive provincial jurisdiction.

The proposed oil and gas cap is not reconcilable with the constitutional division of powers and unduly violates provincial jurisdiction. Affected oil and gas producing provinces, individually and/or in concert with each other, are best able to efficiently and effectively regulate emissions from all industrial sources in the provinces, including the oil and gas and other natural resource-producing sectors. Alberta has clearly demonstrated the leadership, action and results in support of our plan to 2050.

Affected oil and gas producing provinces have effective and efficient greenhouse gas reduction policies in place for the oil and gas sector that are consistent with, and amenable to, the goals of the Paris Agreement. They continue to work together to enhance the pace and outcomes of those systems in a manner that is reconcilable with the constitutional division of powers.

### **The proposed federal cap is a clear cap on production**

**The federal government's plans to establish a cap on a single sector that is emissions-intensive and trade-exposed would result in production cuts, carbon leakage, and clean technology investment flight.**

Other countries are focused on cost-effective reductions through economy-wide solutions, international cooperation, and enhanced investment in clean technology.

**The federal government's proposed emission cap represents a de facto production cap on Alberta's and Canada's oil and gas sector.**

- The proposed cap increases the costs of production and relies on federal assumptions that are not likely to come to fruition. Aside from assessing technical viability, the federal government must also understand the competitive environment our producers are competing in and the investment potential of each marginal dollar. Not accurately accounting for these factors could almost certainly result in the shut-in of production. The proposed cap is based on unsupported assumptions and data not shared with Alberta. The flawed data assumptions from ECCC incorporates a pace of decarbonization that is not aligned with due process, science, technology availability, availability of labour and implementation, nor the basis of the Paris Agreement for a just and orderly transition.

- The effect of these foundational data errors in federal policy design is at odds with the achievable emission reduction technologies that will be operational in the next decade (mid-2030). The proposed 2030 and future caps are therefore only achievable through decreasing existing production of oil and gas in Alberta and Canada. The pace proposed by the Federal government is unrealistic, unachievable and costly.
- As expressed by the Explorers and Producers Association of Canada<sup>1</sup>, the federal government has chosen a policy mechanism that sets an upper bound on production and therefore serves as a production cap, limiting the ability of the provinces to regulate and develop their resources beyond the production scenario that has been used to develop the level of permissible emissions under the cap in 2030.

The cap negatively impacts Canada's ability to compete with other oil and gas producing jurisdictions, without impacting global market demand for oil or gas, leading to production losses in Alberta and Canada to those jurisdictions, likely resulting in impaired emissions outcomes.

The cap will create significant uncertainty, driving away critical investments, including in critical and impactful decarbonization technologies like carbon capture, utilization and storage. This scarcity will increase prices and reliability factors for Canadians.

- The proposed federal cap will slow and halt investment in clean technology in the sector. The cost impacts of the cap affect sector competitiveness and liquidity and deter investment in clean technologies.
- The lack of consistent and reliable policies continues to impede Canada's ability to attract the sort of private capital needed to finance the energy transition. Curtailing oil production in Canada would put at risk our existing competitive advantages, especially if demand remains strong for some time, and it could undermine our ability to study and develop other energy innovations, including blue hydrogen, small nuclear reactors, and electricity storage.<sup>2</sup>

**This uncertainty is causing a deleterious effect to attracting investment in the sector, driving investment out of Alberta and Canada.**

- The United States is Canada's largest trading partner, remaining competitive with the United States requires a competitive and comparable investment environment for industry. The federal government should simplify regulations, eliminate uncertainty and provide incentives to attract investment so provinces and industry will be able compete with the massive subsidies pulling capital and talent to the United States.
- A 2023 Fraser Institute survey on barriers to investment in oil and gas exploration and production in Canada affirms the need for a level playing field with the United States. The survey found that investors are concerned by uncertainty about the environmental regulations and regulatory duplication and inconsistencies in Canadian provinces.<sup>3</sup>

**The proposed federal cap is inefficient, ineffective, and unfair. The cap targets and penalizes one sector and one region of the country disproportionately.**

Instead of managing emissions consistently across all regions and sectors, the federal government is targeting the oil and gas sector, Alberta and western provinces. As noted by international and Canadian experts, **this federal cap approach is among the most restrictive, least flexible means to achieve greenhouse gas emission reductions.**

- This policy is the most significant departure from efficient climate policy yet as it effectively invites Canadians to place blame upstream, which reinforces the erroneous idea that some emissions are more damaging than others. That goes against the entire rationale for carbon pricing, which is to effectively and efficiently lower greenhouse gas emissions through consistent treatment of emissions across all regions and sectors.<sup>4</sup>
- Policy solutions require going beyond efforts to minimize the overall costs of reducing emissions or preserving the competitiveness of the Canadian economy. It means getting creative to design policy that achieves Canada's emissions targets in a way that is cost-effective, protects competitiveness, and is fair.<sup>5</sup>
- Carbon Counts, a UK-based consulting firm with extensive expertise in international climate policy, states "singling-out one sector as per the OGEC proposal therefore appears to run counter to the carbon pricing guiding principles in Canada's 2030 Emissions Reduction Plan (ERP), which establishes the importance of

<sup>1</sup> The Explorers and Producers Association of Canada, January 2024, A Regulatory Framework to Cap Oil and Gas Sector Greenhouse Gas Emissions.

<sup>2</sup> RBC Special Reports, October 20, 2021, The \$2 Trillion Transition: Canada's Road to Net Zero.

<sup>3</sup> Fraser Institute, January 9, 2024, Canada-US Energy Sector Competitiveness Survey 2023.

<sup>4</sup> Trevor Tombe, December 14, 2023, The Hub, Careful – an oil and gas emissions cap won't just hurt Alberta.

<sup>5</sup> Canadian Climate Institute, September 20, 2023, Canada's oil and gas sector, the road to net zero and regional fairness.



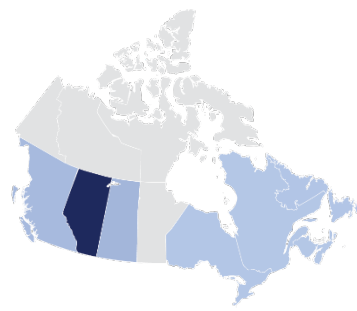
economy-wide strategies to reduce emissions, like carbon pricing, to enable Canada to reduce emissions in the most flexible and cost-effective way.” Furthermore, “No country or region is currently placing emissions caps on specific sectors”, especially not sectors that are emission intense and trade exposed. No major oil and gas producing and exporting countries have proposed to cap sector emissions. Even in the EU, oil and gas presently falls outside of the scope of the Carbon Border Adjustment regime.<sup>6</sup>

**The proposed federal oil and gas cap and the proposed federal Clean Electricity Regulations make it clear that certain provinces are being targeted by risky federal policies.**

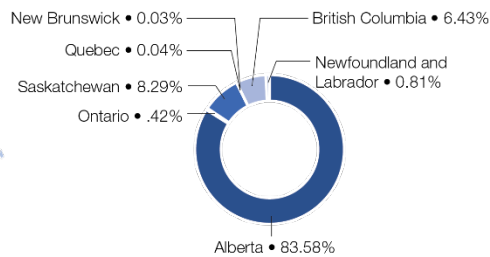
**Alberta bears the largest emissions reduction burden under the proposed oil and gas cap.** Over 80% of Canada’s 2019 upstream emissions from natural gas, conventional oil and oil sands sectors originated from Alberta.<sup>7</sup> This increased to 84% in 2021.<sup>8</sup>

**Unfair: The proposed cap purposely targets emissions that have the greatest impact to Alberta and fails to capture emissions that would impact other provinces**

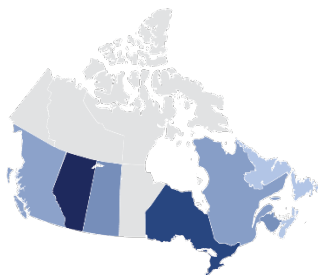
**Covered by proposed cap**



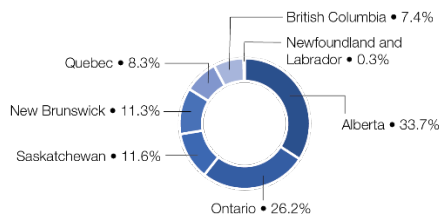
2021 Proportion of Upstream Emissions (%)  
0% 84%



**Not covered by proposed cap**



2021 Proportion of Midstream and Downstream Emissions (%)  
0% 34%



It is not just through this proposed oil and gas emissions cap that the federal government has sought to reduce oil and gas resource development.

- The overlap and cumulative impacts of the proposed federal cap with proposed federal Clean Electricity Regulations (CER) and methane regulations creates unneeded complexity and inefficiency.
- The overlap exacerbates Alberta’s previously voiced concerns over the CER’s potential impacts to Alberta.

<sup>6</sup> Carbon Counts Company (UK) Ltd, January 17, 2024, Federal oil and gas emissions cap (OGEC) proposal, A rapid assessment.

<sup>7</sup> ECCC, 2023, 2021 National Inventory Report.

<sup>8</sup> Ibid.

- The draft federal Clean Electricity Regulations would only result in an overall 3-5% increase in non-emitting generation across the country, with a disproportionate 60% of costs of implementing the regulations borne by Albertans.
- Cogeneration is an important component of Alberta's electricity system, accounting for approximately 40% of all generation in Alberta. Cogeneration is driven by the demand for industrial heat, which will remain. Alberta's open market principles support industry and support Alberta's grid. These compounded federal policies will decrease natural gas electricity and cogeneration construction in Alberta. The loss of dispatchable generation at this rate would result in reduced reliability, security and affordability of electricity in Alberta.
- The federal Clean Electricity Regulation penalizes one sector in Alberta in particular by proposing to regulate emissions only from hydrocarbon fuel electricity generation, while ignoring the emission of methane emissions from hydro-electric dams.
- The federal government is also establishing new regulations to reduce methane emissions from oil and gas.
  - The methane reductions sought by the federal government from the oil and gas sector are significantly greater than other sources. The federal government is using prescriptive regulations to achieve at least a 75% reduction of methane from the sector by 2030; Alberta's assessment shows the regulations closer to requiring an 85% reduction from the upstream conventional oil and gas sector.
  - The level of and the approach to methane reductions sought from other sectors is significantly lighter. For example, reductions from the waste sector are targeted to be 45% driven through a combination of regulations and other policies and that for agriculture is 1% and driven through incentives.
- The Clean Fuels Regulation, which took effect in July 2023 is yet another example of overlap of climate policy that creates uncertainty for investors while resulting in increased costs to Canadians.<sup>9</sup>
  - This policy was amended at the last minute to severely restrict crediting opportunities for carbon capture and storage projects in the oil and gas industry. The exclusion of foreign oil exports not being eligible under the CFR is another example of singling out one sector and region. The CFR penalizes Alberta's oil exports.
- Enhanced oil recovery with carbon dioxide flooding has potential to be the lowest emission profile oil production in Canada, yet again is another example of penalizing one sector and jurisdiction through the design of the federal policies such as the federal Clean Fuel Regulations and Investment Tax Credit for CCUS.
- While some provinces are getting a break from the federal carbon tax, Alberta is penalized and singled-out as an oil-and-gas-producing province. The Atlantic provinces have received a tax exemption for home heating oil as well as federal investment dollars to purchase heat pumps. For the average household in Atlantic Canada, the federal carbon tax adds approximately \$272 extra to heat a home in winter. In Alberta, the carbon tax adds approximately \$337 extra to heat their home in the winter. Albertans are subject to higher costs from the carbon tax, but Atlantic provinces are the ones who receive an exemption.<sup>10</sup>

**The provinces most affected by the proposed federal cap – Alberta and Saskatchewan – have effective and efficient greenhouse gas emission limits in place for the oil and gas sector that are consistent with and amenable to the goals of the Paris Agreement.**

Alberta continues to work with other provinces to enhance the pace and outcomes of emissions management systems in a manner that is reconcilable with the constitutional division of powers, and demonstrative of the ability of provinces to manage their emissions, alone or among affected provinces.

Alberta is efficiently and effectively regulating emissions from all industrial sectors, including oil and gas, and has been doing so successfully for decades, starting with the establishment of Alberta's *Climate Change and Emissions Management Act* in 2003.

- Alberta's Emissions Reduction and Energy Development Plan includes our aspiration to achieve carbon neutrality by 2050 while maintaining energy security, reliability and affordability. Alberta is actively advancing policies and programs, including working with other provinces, to reduce emissions – and not production – from oil and gas and other sectors, while abating the related costs to Canadians.
- This proposed cap eliminates opportunities for provincial to collaborate on harmonized or linked systems.

This cap will hurt Newfoundland and Labrador's offshore oil and gas sector which is a vital component of their economy.

<sup>9</sup> Office of the Parliamentary Budget Officer, May 18, 2023, A Distributional Analysis of the Clean Fuel Regulations.

<sup>10</sup> EnergyNow Media, October 31, 2023, Trudeau Blinks, Gives Atlantic Canada Carbon Tax Relief on Home Heating.

Alberta estimates skilled trades and labour workers from across every province in Canada working in the oil sands and energy sector will be directly impacted by this cap.

## No attempt at cooperative federalism

Rather than working cooperatively with oil and gas producing provinces like Alberta to develop an evidence-based, holistic and logical emission reduction plan that operates across all sectors of the economy, **Canada is dictating an unconstitutional, sector-specific policy that applies disproportionately to one region of the country. This approach is contrary to the ideals of intergovernmental cooperation that the Supreme Court of Canada has expressly advocated for in its recent jurisprudence on cooperative federalism.**

After agreeing to equivalency with Alberta's TIER system, the federal government is proposing to introduce a cap-and-trade system with no consultation and no discussion on the impacts this will have to provincial credit trading. More concerning, Canada's refusal to cooperate with the provinces in developing policies that are acceptable to both orders of government demonstrates an intention to attempt to ignore the constitutional division of powers entirely.

Alberta has more experience than the federal government at cost-effectively driving emissions reductions down and supporting clean technology adoption. **The proposed federal cap encroaches upon, and impedes the operation of Alberta's legislation, industrial carbon pricing and carbon market system, industry supports and achievements under our Emissions Reduction and Energy Development plan.**

**Alberta asks the federal government to focus on supporting Alberta's responsible development approach to achieving emissions reductions across the economy, including the oil and gas sector, in alignment with Alberta's Emissions Reduction and Energy Development Plan.**

## Part 2: Global implications of the proposed federal cap

**No other countries are proposing emission caps on oil and gas production, let alone other major oil and gas producing and exporting countries.<sup>11</sup>**

This federal government has chosen an "all stick" approach to intrusion of jurisdiction, pancaking, punitive policies and regulatory confusion that is unique to any G20 country. Many producer-nations are opting to offer financial incentives to develop decarbonization infrastructure through tax systems and grant supports. For example, Norway has invested in its Northern Lights/Longship CCS hub and the United States is investing significantly in decarbonization technology through its *Inflation Reduction Act*.

## Destroying the balance of trade and energy security

**The proposed federal cap weakens Canada's exports and trade balance.**

- The Business Council of Canada notes that implementing a cap would reduce energy product exports and create an era of structural trade deficits by as much as \$13 billion per year.<sup>12</sup>
  - The cap would increase Canada's inflation and affordability problems, resulting in a broad shock to the economy, reducing tax revenue to all levels of governments, adding pressure to the federal deficit and increasing the costs of goods and services across Canada.
  - Strong corporate earnings are needed to pay for decarbonization technologies, and the proposed federal cap reduces the competitiveness and tax revenues of governments, the oil and gas and other sectors of the economy to make such clean technology investments.

Along with investment being driven out of Canada, so too would production. The global demand for oil and gas continues. **The market share currently held by Canadian production would be taken up, in part, by nations that do not prioritize environmental, social and governance matters, resulting in carbon leakage<sup>13</sup>, ultimately negatively impacting Canadians and failing to reduce global emissions.**

<sup>11</sup> Carbon Counts Company (UK) Ltd, January 17, 2024, Federal oil and gas emissions cap (OGEC) proposal, A rapid assessment.

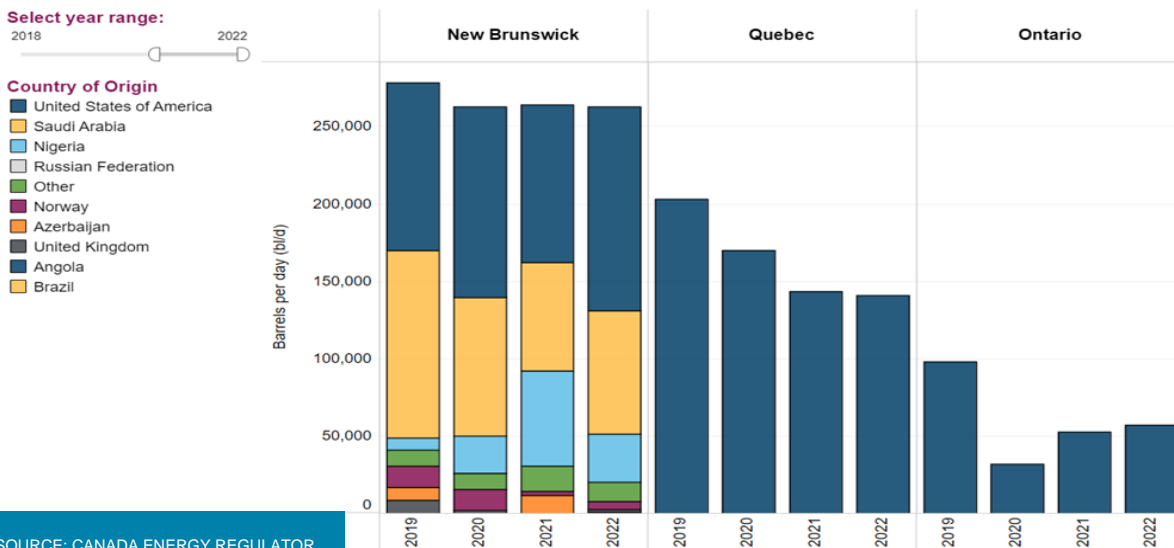
<sup>12</sup> Business Council of Canada, November 2023, Rethinking an oil and gas cap.

<sup>13</sup> BMO Capital Markets, December 8, 2023, Follow-Up Thoughts on the O&G Cap-and-Trade Proposal.

- Federal Minister of Environment and Climate Change Canada, Steven Guilbeault, stated in his speech at the 2023 United Nations Climate Change Conference in December 2023 that Canada is proposing the first national sector-specific oil and gas cap from a major oil and gas producing nation in the world. What he failed to mention is that this poses first-mover disadvantages for Canada and the Canadian energy sector, reducing competitiveness and creating policy uncertainty for the sector, with the end result being possibly shifting production out of Canada.
- Over time, the market strength of the Organization of the Petroleum Exporting Countries (OPEC) and OPEC+, could increase if climate measures such as the cap trim output in response to pressure from financial backers or in anticipation of a decline in demand.<sup>14</sup>
  - The risk if western producers underinvest is that the only producers that already invested enough to sustain long-term production are Saudi Aramco (Saudi Arabia) and ADNOC (United Arab Emirates), which shifts the balance to OPEC.<sup>15</sup>
- The proposed federal cap is likely to increase Canadian reliance on low cost and low transparency foreign oil from countries such as Saudi Arabia, Iraq and Nigeria, with overall negative global climate impacts.
  - Central and Eastern Canada already support foreign sources of oil and natural gas, including supporting production in countries with lesser environmental and human rights standards.
  - In 2021, the total cost of all imported crude was \$14.7 billion, an increase of 30% of costs in 2020. Saudi Arabia was the second largest supplier of imported crude in 2021 at 15% of Canada's total, and Nigeria was the third largest at 13%.<sup>16</sup>

**The proposed federal cap will increase Canada's reliance on foreign oil, resulting in carbon leakage (increased greenhouse gas emissions outside of Canada)**

**Origin of Crude Oil Imported to Certain Provinces**



**With energy security as a top priority for many countries, Alberta and Canada can continue to provide clean, reasonably priced, responsibly produced energy to insulate global partners from geopolitical risk and economic hardship.** To propose a federal policy that puts that responsible supply at risk and adds complexity and cost to production is short-sighted.

<sup>14</sup> CNN Business, December 2, 2021, OPEC's power was waning. Soon it may have more sway than ever.

<sup>15</sup> Ibid.

<sup>16</sup> Canada Energy Regulator, March 2022, Market Snapshot: Crude oil imports declined in 2021, while refined petroleum product imports rose modestly.

## **Damaging Canadian competitiveness and disadvantaging Canadian LNG – all while creating carbon leakage**

**The proposed federal cap creates uncertainty, hampering investment, driving capital away from Alberta and Canada, and resulting in carbon leakage.**

The proposed emissions cap will significantly hurt the competitiveness of Canada's oil and gas sector, when other jurisdictions with lower environmental and social standards will replace Canada's production. This will result in carbon leakage, where emissions reductions from shutting down Canadian production are offset by emissions from increased production in other countries.

- Industry and investors are looking for greater policy certainty. Instead, ECCC is increasing policy uncertainty with the release of the federal framework.
- If the goal is reducing emissions, it is imperative to look beyond Alberta's and Canada's borders to consider the role our energy plays in the global context. In particular, the expansion of Canada's abundant natural gas resources could help contribute to reducing global emissions.
- A recent study found that building out liquefied natural gas (LNG) capacity on the west coast of Canada to its full potential could reduce net global emissions by as much as 221 million tonnes and attract more than \$200 billion in investment, but this would raise Canada's energy sector emissions by 66%.<sup>17</sup> As the federal oil and gas cap includes LNG, it makes a build out like this unattainable without significantly impacting other oil and gas sectors.
  - While the federal government questions the business case of Canadian LNG,<sup>18,19</sup> South Korea will now include LNG as part of its "green classification system" to promote investment in carbon-reducing projects and technologies.<sup>20</sup>
- S&P Global estimates that if just 20% of Asia's coal-fired power plants were converted to natural gas, global emissions would be reduced by more than Canada's annual emissions.<sup>21</sup>
- Propane serves as a crucial energy source for billions of people worldwide for cooking, heating, generating power, cleaning and drying clothes, and powering automobiles and equipment such as forklifts. Propane can reduce global greenhouse gas emissions as a cleaner burning alternative to coal.
  - According to the Canadian Propane Association, Canada currently exports over 50% of its propane production, which can reduce global GHG emissions and increase air quality as a cleaner burning alternative to coal.<sup>22</sup>
- The federal framework lacks details of impacts and on post-2030 stringency and policy interactions, and it creates uncertainty, drives investment away from Alberta and Canada, and results in carbon leakage.
  - The International Energy Agency continues to forecast global growth in oil and natural gas demand, and the global demand for petrochemical and plastics products (fertilizers, rubbers, detergents, packaging, etc.) also continues to grow.<sup>23,24</sup>
  - The Fraser Institute found that any emission reductions achieved through Canada's net zero regulations would be negated by about 30% increase emissions elsewhere in the world.<sup>25</sup>

Alberta has developed one of the most comprehensive environmental policy frameworks in North America, winning awards and recognition for our approach. Alberta is attracting emissions reduction investments.

**This federal cap and its unintended consequences will support businesses transferring their business and emissions to more lenient jurisdictions thereby taking jobs, labour, intellectual property and capital with them. Under this punitive policy, the global emissions order will not change, and Albertans and Canadians will be significantly negatively impacted.**

<sup>17</sup> RBC Climate, April 24, 2023, Canada's Conundrum: Three Ways To Address The World's Gas & Climate Crises.

<sup>18</sup> Calgary Herald, December 9, 2022, Varcoe: 'Painful to watch' - Canada stuck in neutral as U.S. and Qatar accelerate LNG deals with Europe.

<sup>19</sup> CTV News, August 22, 2022, Touting clean energy, PM Trudeau questions 'business case' for exporting liquefied natural gas to Europe.

<sup>20</sup> Canadian Energy Centre, December 16, 2020, New US LNG project required to use natural gas from Canada to lower GHGs.

<sup>21</sup> IHS Markit, August 3, 2021, A Sustainable Flame: The role of gas in net zero.

<sup>22</sup> Canadian Propane Association, January 2024, Exporting Canadian Propane.

<sup>23</sup> International Energy Agency, October 2023, World Energy Outlook 2023.

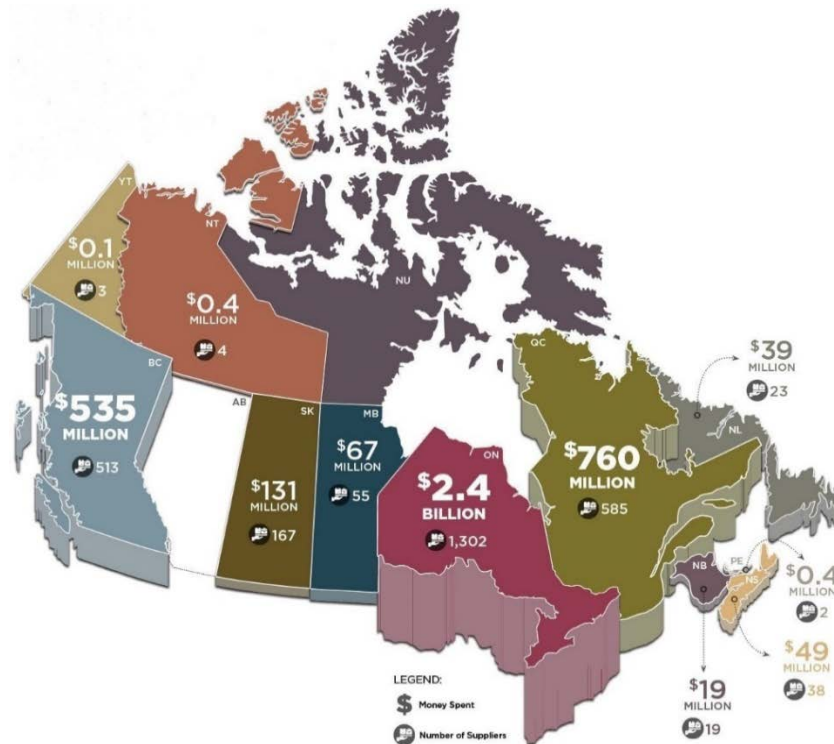
<sup>24</sup> International Energy Agency, October 2018, The Future of Petrochemicals.

<sup>25</sup> Fraser Institute, June 1, 2023, Canada's GHG Cap Imposed on the Oil and Gas Industry Is All Pain With No Gain.

## Part 3: Impacts to Canadians from the proposed federal cap

The proposed federal cap will lead to significant negative impacts for Alberta and Canada, affecting businesses well beyond the oil and gas sector. The cap will put many Canadians out of work, lower the incomes of everyday Canadians, weaken Canada's trade balance, reduce Indigenous economic reconciliation, and exacerbate affordability pressures across Canada - all without environmental benefit.

### Alberta's oil sands production contributes to provincial and territorial economies across Canada



(SOURCE: CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS)

Business across Canada will be affected by the oil and gas emissions cap, including, but not limited to the following sectors:

- Construction
- Chemicals and Solvents
- Vehicle and Vehicle Parts
- Manufacturing/Service
- Restaurants and Hospitality
- Fertilizers
- Financial Services

## Importance of the oil and gas industry to Canadians

The development of Alberta's oil and gas resources is a key component of the provincial and national economies, generating thousands of jobs and contributing to government revenues, which support a high quality of life in the province and the rest of Canada. Operating in one of the world's most stringent regulatory environments, Alberta sets requirements to minimize the impact of oil and natural gas developments on air, land, water and greenhouse gas emissions.

- The natural gas and oil industry contributed \$110.5 billion to Canada's gross domestic product (GDP) and supported approximately 800,000 direct, indirect and induced Canadian jobs in 2022.<sup>26</sup> The industry paid over \$30 billion in oil and gas royalties to the provincial governments in 2022<sup>27</sup>; this revenue helps pay for things like roads, schools and hospitals in every part of Canada.
- Oil and natural gas development relies on and supports diverse businesses across Canada - steel and parts to build plants and pipelines, manufactured goods ranging from drill bits to vehicles, and services such as financial services and environmental consulting. The existing supply chain creates major economic boosts like jobs, growth and tax revenues, benefitting communities Canada-wide.
- According to data collected by the Canadian Association of Petroleum Producers, oil sands facilities spent in excess of \$4 billion on supplies and services from more than 2,700 companies across Canada in 2019.<sup>28</sup>

## Severe negative impacts to other sectors, all provinces and territories, and Canadian households

### Canada's proposed cap will bring significant negative socio-economic impacts not only to Alberta, but across Canada.

The impacts of the cap on jobs and households, GDP, inter-provincial and international trade – as outlined in this submission – are cause for significant concern.

Canada has proposed a regulatory emissions cap to Canadians without presenting any assessment of expected associated socio-economic impacts. Because of the economic importance of Alberta's oil and gas sector and its offshoot industries to the provincial and national economies, it is incumbent upon the federal government to release its assessment of the socio-economic impacts of the cap (from 2030 forward) to Canadians, and for Canadians to apply rigorous scrutiny and critically investigate the negative impacts stemming from the federal proposal. The failure of Environment and Climate Change Canada to share the national and regional economic, social and environmental impacts of the proposal is irresponsible.

Canadians need more information to enable important discussions about the potential impacts of a cap and how it might impact their jobs and income and their taxes or level of government services. **The negative impact of the federal cap is not limited to the oil and gas sector, and it will affect every province and territory.**

The Government of Alberta is providing preliminary analysis based on the information available, in hopes that others continue to refine and improve upon this important work, to ensure Canadians have the information needed to understand the impact of the proposed federal cap. The information presented is based on the analysis conducted within the short timeline federal government allowed for feedback, and with the design details the federal government has provided.

### Imposing an emissions cap harms various Canadians and businesses, including Indigenous communities, and is expected to result in tens of thousands of job cuts across all sectors of the economy.

- It will negatively impact the construction, manufacturing, and service sectors – including residential, industrial and infrastructure construction, manufacture of oilfield equipment, vehicles and consumer products, and financial, restaurant and hospitality sectors.
- Impacts to the oil and gas sector have knock on effects to petrochemicals and plastics, and the cap will have resultant impacts to the production of synthetic fibers, plastic bottles and bags, cables, diapers, windows, pipes, carpets, car parts, bank notes, food packaging and disposable utensils, solvents, fertilizers and tires.<sup>29</sup>
- The proposed federal cap could impact socio-economic wellbeing in Indigenous communities and to put at risk the progress made in reconciling Indigenous communities' ownership of resource development projects.
  - Justin Bourque, President of Athabasca Indigenous Investments, notes the lack of consultation with Indigenous communities on the emissions cap, emphasizing the unique challenges faced by Indigenous communities in the oil and gas sector. He highlights the importance of Indigenous communities having a say in their economic prosperity and criticizes the emissions cap for potentially hindering their ability to participate in resource development. Bourque also notes the positive impacts of Indigenous-owned equity

<sup>26</sup> Canadian Association of Petroleum Producers, December 7, 2023, The Economic Impact of Canadian Oil and Gas.

<sup>27</sup> Ibid.

<sup>28</sup> Canadian Association of Petroleum Producers, December 7, 2023, The Economic Impact of Canadian Oil and Gas.

<sup>29</sup> Fraser Institute, June 1, 2023, Canada's GHG Cap Imposed on the Oil and Gas Industry Is All Pain With No Gain.

transactions, such as the Athabasca Indigenous Investments' ownership of pipelines, on community development and prosperity.<sup>30</sup>

- The Business Council of Canada identified that Indigenous organizations have acquired \$4 billion in equity in oil and gas projects of the past 11 years, supporting economic reconciliation.<sup>31</sup>

**Canadian provinces are closely linked economically, and a cap that targets Alberta's oil and gas sector will also negatively impact Canada as a whole – including negative impacts to each province and territory.**

- Analysis by Dr. Trevor Tombe indicates productivity declines in the oil and gas sector shrink the Canadian economy.
- Though much of the decline is in Alberta and Saskatchewan, it is estimated that **over 40% of the economic costs are borne by other provinces** – with the biggest negative impact to Ontario. All provinces in Canada are negatively affected by the capped reduction in oil and gas extraction.<sup>32</sup>
  - Dr. Tombe estimates the oil and gas extraction and refining sectors bought \$13 billion in goods and services from other provinces in 2019 (for comparison, Ontario's auto sector bought \$2.7 billion).<sup>33</sup>
  - Canada's productivity will suffer as a result of the cap. Dr. Tombe estimates that a 10% decrease in productivity in the oil and gas extraction sector would shrink Canada's economy by approximately 1.2% or roughly \$35 billion per year or nearly \$900 per person per year. A 10% productivity reduction to oil and gas lowers Ontario's overall productivity by over 0.6% and shrinks the Atlantic Provinces by about 0.5%.
- The Business Council of Canada noted that implementing a cap could reduce Canadian GDP by 1 to 7%, in a permanent and ongoing manner, with the most significant reductions occurring in Alberta in the range of 15 to 30% by 2050.<sup>34</sup>

**The proposed federal cap will have severe negative socio-economic consequences, including affecting Canadians' income and household affordability. While all Canadians are impacted, Albertans can expect to feel the socio-economic impacts more than the Canadian average.**

- A cap would exacerbate the country's inflation and affordability problems and would apply a broad-based shock to the Canadian economy, reducing tax revenue and adding pressure to the federal deficit.<sup>35</sup>
- Canadians are experiencing a substantial affordability crisis, in parallel with record budget deficits. This policy risks impacting energy affordability and availability, along with jobs and government revenues the energy sector contributes to Canada. Any impact to production is likely to result in rising costs to consumers, so affordability must be a forefront consideration in any climate-based policies.<sup>36</sup>

**New analysis from the Conference Board of Canada  
found severe negative impacts for Alberta and all of Canada**

Analysis from the Conference Board of Canada on the proposed cap found:

**Lost jobs** 82,000 to 151,300 jobs lost by 2030 across Canada  
Of this, between 54,000 to 91,500 jobs are forecast to be lost in Alberta  
Jobs lost are not limited to the oil and gas sector – includes impacts to construction, manufacturing, and service sectors (including, but not limited to, residential, industrial and infrastructure construction, manufacture of oilfield equipment, vehicles and consumer products, and financial, restaurants and hospitality sector)

<sup>30</sup> Justin Bourque, President of the Athabasca Indigenous Investment, December 8, 2023.

<sup>31</sup> Business Council of Canada, November 2023, Rethinking an oil and gas cap.

<sup>32</sup> Trevor Tombe, the HUB, December 14, 2023, Careful - an oil and gas emissions cap won't just hurt Alberta.

<sup>33</sup> Ibid.

<sup>34</sup> Business Council of Canada, November 2023, Rethinking an oil and gas cap.

<sup>35</sup> Business Council of Canada, November 2023, Rethinking an oil and gas cap.

<sup>36</sup> Canadian Association of Petroleum Producers, December 7, 2023, Statement from the Canadian Association of Petroleum Producers (CAPP) on the federal government emissions cap framework.



<b>Lost income</b>	Employee earnings will decline as much as \$460 billion across Canada cumulatively between 2030 and 2040  Wages will be reduced between \$10.2 and 18.7 billion by 2030
<b>Lost GDP</b>	Nominal GDP reduced between \$600 billion and \$1 trillion across Canada cumulatively between 2030 and 2040
<b>Reduced federal programs or increased taxes on Canadians</b>	Federal government revenue reduced between \$84 and \$151 billion across Canada cumulatively between 2030 and 2040  Alberta government revenue reduced between \$73 and \$127 billion in the same period  Severely impeding the governments' abilities to provide services (resulting in reduced programs or increased taxes)

## Broad economic uncertainty and loss of innovation across Canada

Alberta and Canada share the common decarbonization goal of achieving carbon neutrality by 2050. This requires acceleration of low-carbon technology, especially for high impact projects like carbon capture and storage (CCS). **Instead of capping emissions and penalizing responsible producers, Canada should be providing greater and higher incentives to facilitate the technology development and adoption needed decarbonize our economy.**

- The Business Council of Canada noted that depriving the oil and gas sector the ability to generate strong export earnings and attract investment will create downward pressure on the Canadian dollar and increase the costs of goods and services for Canadians, whereas strong earnings are needed to pay for the technologies and innovation necessary to decarbonize oil and gas operations and invest in new energy forms such as hydrogen, alternative fuels, LNG and renewable natural gas.<sup>37</sup>
- Canada's oil and gas industry, led by Alberta, is the largest contributor to clean technology spending in Canada at 75% of the approximately \$1.4 billion spent annually.<sup>38</sup>
- The International Energy Agency has advised that emergent technologies, like CCS, require dedicated, supportive policies that guide them from demonstration to technical maturity.
- Existing cap-and-trade schemes internationally have proven ineffective at CCS and other significant mitigation technology deployment.
  - The European Union's emissions trading system has allowed CCS as a mitigation option since 2010; however, it has not yet supported the delivery of any projects.
  - Alberta's climate policies and programs are delivering CCS. To date, Alberta's two large-scale projects, Quest and Alberta Carbon Trunk Line, have captured and safely stored more than 11.5 million tonnes.
  - Alberta is continuing to support CCUS, including establishing carbon storage hubs, incenting investment with carbon credits, and offering the Alberta Carbon Capture Incentive Program, which will provide a grant of 12% for new eligible capital costs. A portion of funding for this new incentive program is from the TIER fund.
  - The ACCIP program is designed to align with a federal carbon capture investment credit. Together, the federal and provincial governments have an opportunity to cooperate in establishing the clear competitive advantage in CCS that Albertan and Canadian businesses have demonstrated to the world.

## Compounding and knock on negative effects of policy layering

**The proposed federal cap framework will create unnecessary and excessive regulatory duplication and inefficiencies in Canada, adding complexity and uncertainty for industry and investors.** Further emissions reductions can be achieved more effectively without layering on new policies.

- Creating multiple policies to address the same emission reductions adds regulatory complexity and uncertainty for industry, investors and government by duplicating reporting, increasing compliance costs and resulting in conflicting design.

<sup>37</sup> Business Council of Canada, November 2, 2023, Rethinking an oil and gas cap.

<sup>38</sup> World Biz, October 18, 2022, More than Canada's energy powerhouse – how Alberta is winning with innovation.

- Proposed regulated entities are currently covered by Alberta’s industrial carbon pricing and emissions trading system (the TIER Regulation) and provincial methane regulations. The federal government is proposing to add additional regulatory layers to these facilities and emissions through its proposed oil and gas cap, proposed updated methane regulations and electricity regulations.
- Multiple policies and markets impact emission reduction costs and distort credit prices across sectors. This could negatively impact industry emission reduction investments<sup>39</sup>, generating uncertainty for investors.
- The overlap of the proposed federal cap with proposed federal Clean Electricity Regulations (CER) exacerbates Alberta’s previously voiced concerns over the CER’s potential impacts to Alberta. The loss of dispatchable generation at this rate would result in reduced reliability, security and affordability of electricity in Alberta.
- The federal Clean Fuels Regulation (CFR) overlaps with existing provincial industrial emission reduction and clean transportation fuels policies.
  - The CFR came into force with reduction requirements in July 2023 and no data from the CFR has been released to help inform analyses on interaction with provincial policy.
  - With the proposed offset market for proposed federal cap, along with Alberta’s existing TIER market and the CFR credit market, there would be three siloed carbon markets.

**The federal government is developing numerous climate and energy policies concurrently, with little or no analysis of their impacts, including cumulatively by sector, region and nationally.** The significant distinct and cumulative impacts of the proposed federal cap and the proposed federal Clean Electricity Regulations must be defined and communicated. The federal government is not committed to ensuring policies are complementary, efficient and effective.

- Exempting some oil and gas demand sources (e.g., heating oil) from the federal carbon tax while simultaneously restricting oil and gas sector production through a cap creates additional incentives for Canada to import oil and gas from other areas of the world, exacerbating the carbon leakage issue described above.
- The federal government’s decision to unilaterally label plastic consumer products as toxic has wide-ranging consequences for Alberta’s and Canada’s economic interests and has put thousands of jobs and billions of investments at risk.
- The October 2023 Supreme Court of Canada ruling on the federal Impact Assessment Act confirms the unconstitutionality of the federal government’s ongoing efforts to interfere with natural resource and electricity sectors of all provinces. The uncertainty surrounding Canada’s intentions to revive the *Impact Assessment Act* continues to undermine investment decision-makings across Canada.
- The November 2023 Federal Court decision on the federal designation of plastic manufactured items as toxic confirms the federal government continues to unconstitutionally interfere in matters that are within provincial jurisdiction.
- The zero emitting vehicle mandate from the federal government will force increased demand on the electricity grid, while simultaneously weakening Alberta’s and other provinces’ grid through federal electricity regulations. At the same time, millions of consumers in need of combustion engine vehicles, primarily those living in rural communities that commute long distances and those living in northern communities where electric vehicles are less effective will be unable to find an appropriate vehicle for their circumstances.

## Part 4: Technical and practical flaws in the proposed framework

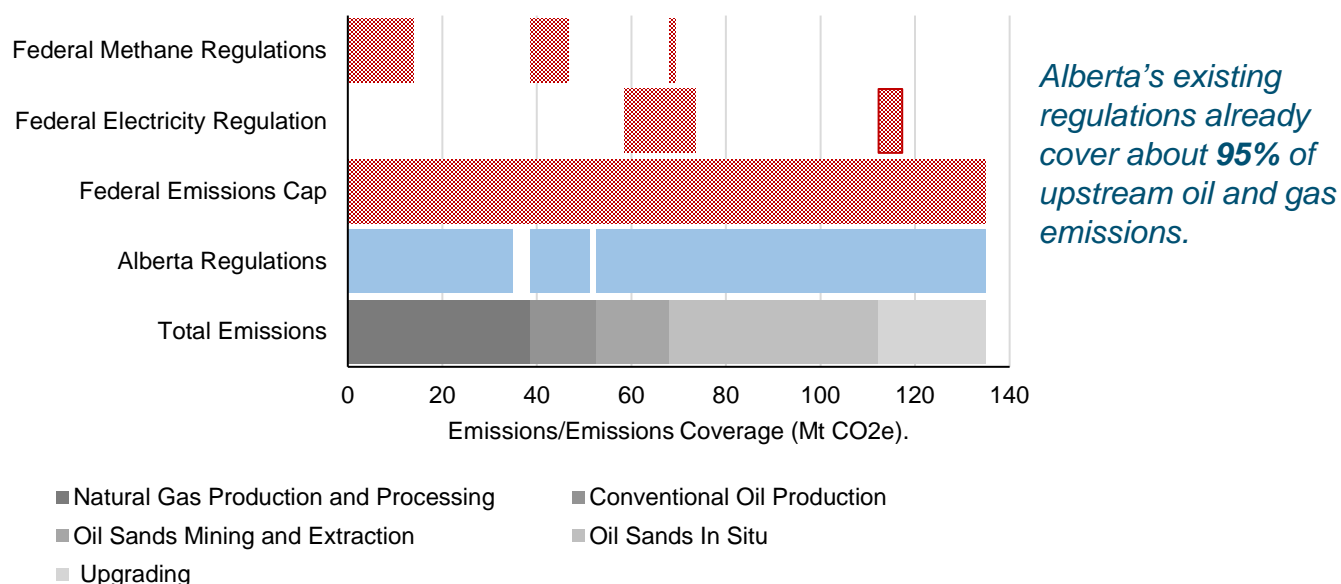
### Regulatory duplication and inefficiency

**The proposed federal cap will create unnecessary and excessive duplication and inefficiencies in Canada, while Alberta’s analysis shows that further emissions reductions can be achieved more effectively without layering on new policies.**

Alberta’s industrial carbon pricing – or TIER – regulatory system covers emissions from oil and gas production and is complemented by provincial methane regulations and provincial clean technology investment programs. Unlike the proposed federal cap, the TIER system is a long-established, well-understood regulatory framework that has systematically increased in stringency over time and that provides forward price certainty for investment planning.

<sup>39</sup> BMO Capital Markets, December 8, 2023, The Cap-and-Trade Proposal and TIER.

## The federal government is adding multiple layers of regulations to the same oil and gas emissions



## Flawed production data and assumptions

The proposed federal cap is based on incorrect, inaccurate and flawed baselines and assumptions.

The proposed federal cap is not based on a forecast of oil and gas production. Faulty assumptions used by the federal government will result in a cap on production.

It is important to highlight the incorrect, inaccurate and flawed baselines and assumptions that underlie the proposed federal oil and gas emissions cap.

- The federal cap is established based on 2019 production levels – that Alberta has already significantly exceeded – and is therefore not an appropriate baseline.
  - Data from the Alberta Energy Regulator<sup>40</sup> for 2022 shows Alberta's total oil production has already increased 2.0% from 2019, while natural gas production has increased 2.4%.
  - In November 2023, Alberta's total oil production rose to 4.16 million barrels per day (bbls/d) – levels not seen since before 2010, as oilsands companies increase production in preparation the Trans Mountain pipeline start up, which will give them 590,000 bbls of new export capacity.<sup>41</sup>
- Inappropriately, the federal government used a single scenario and applied it to 2019 baseline – with unrealistic assumptions about future production growth and technological feasibility – to determine emissions levels in 2030 and set the legal upper bound of the cap.
- The single scenario chosen – the Canada Energy Regulator 2023 Energy Futures Canada Net-Zero scenario (CNZ) – assumes low: global oil demand and price, Canada maintaining a consistent proportion of global production, no supply chain issues, full labour availability, no regulatory barriers, and availability of capital needed to reach net zero emissions.
  - As stated by the Canadian Energy Regulator, the CNZ is a scenario of possible future oil and gas production, it is not a production forecast.<sup>42</sup>
  - CNZ is one of a set of scenarios used by the Canada Energy Regulator to explore how the rate at which different regions move toward net zero in 2050 (a predetermined outcome that is also not guaranteed) could affect Canada's energy future.

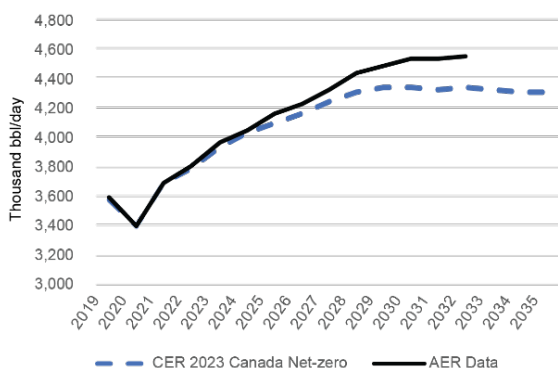
<sup>40</sup>Alberta Energy Regulator, June 2023, ST98.

<sup>41</sup>Daily Oil Bulletin, January 12, 2024, Alberta Oil Production Rises to Record.

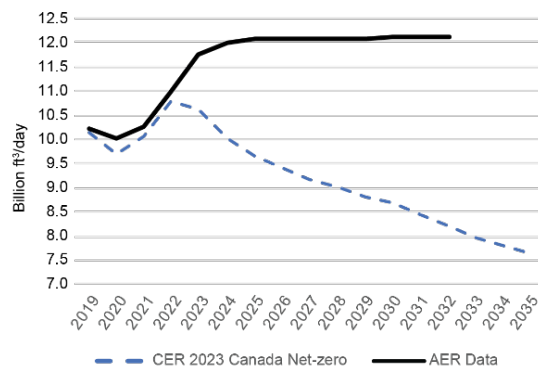
<sup>42</sup>ARC Energy Research Institute, November 14, 2023, Podcast on Canada Energy Regulator's Chief Economist: What Could Canada's Energy Future Look Like?

- The CNZ is based on a scenario where Canada and all other parties to the Paris Agreement achieve their interim and net zero targets. However, the recent United Nations Global Stocktake on progress shows the nations are not on track to achieve targets, making this near-term scenario unlikely.
- The federal government’s proposal to regulate sector emissions by a cap under a regulation endowed with criminal prosecution powers is concerning, particularly since most of the factors that influence the CNZ scenario outcomes occur outside the control and authority of Canadian-based oil and gas operators and Canadian governments.
- There are numerous future world oil and natural gas demand scenarios with varying assumptions of future oil demand and price that must be considered when establishing policies for emissions-intensive and trade-exposed sectors like oil and gas. The federal government’s choice to pick a low Canadian oil and gas production scenario – the CNZ – is not supported by existing price and production trends.
  - Scotiabank Global Equity Research notes the production scenario used to develop the federal cap uses about a 1% Compound Annual Growth Rate (CAGR) until 2030 for the oil and gas sector, which is much lower than the expected 2% CAGR industry likely uses in their long-term production. The federal government’s use of a lower growth rate to establish its emissions cap implies a cap on production. Without the proposed federal cap, analysts predict closer to 2% growth for the sector (and 3 to 4% growth for small to mid-sized producers).<sup>43</sup>
  - In 2050, the CNZ scenario projects that Canadian oil production would drop from current levels of approximately 5.5 million bbls/d to 3.9 million bbls/d, which is about a 22% drop from 2022 oil production. The CNZ also projects that natural gas production would fall to 11 billion cubic feet per day, which is 37% lower than in 2022.
  - This incorrectly assumes that Canadian production will decline. As a responsible, clean and stable producer, it is more likely that Canada would maintain or grow our market share as a preferred supplier to support energy transition and energy security across the globe.
- The Alberta Energy Regulator’s annual forecast – which includes supply and demand data, and a ten-year supply and demand forecast using base, high and low price scenarios and capital expenditures forecast for new and expansion projects as well as the forecast for sustaining capital expenditures for existing projects – projects that oil and gas production in Alberta will increase at a greater rate out to 2030.
  - A comparison of production growth rates 2019 to 2030 under CNZ and the Alberta Energy Regulator indicates oil production under the Canada Energy Regulator’s CNZ scenario to be 1.8%, which is 0.3% lower than Alberta Energy Regulator forecast of 2.1%.<sup>44</sup>
  - Even more concerning is the declining 2019 to 2030 growth rate of natural gas production under the Canada Energy Regulator’s CNZ scenario at -1.4%, which is the opposite of forecasts from the Alberta Energy Regulator that project production growth over the same period of 1.6%.
- In the longer-term, production of Alberta’s oil and gas could also increase as demand for non-combustion purposes grows. Heavier crudes from Alberta’s oil sands could have a comparative advantage in a net-zero future as demand is expected to shift away from combustibles like gasoline and diesel, yet demand for asphalts and lubricants remain.<sup>45</sup>

**The proposed federal cap is based on incorrect baseline that will result in capping production in 2030**



Alberta Oil Production



Alberta Natural Gas Production

<sup>43</sup> Scotiabank Global Equity Research, December 8, 2023, GHG Emissions Cap in Canada’s Oil and Gas Sector – Overview and Implications.

<sup>44</sup> Alberta Energy Regulator, 2023, Alberta Energy Outlook ST98 Executive Summary.

<sup>45</sup> Alberta Innovates, 2023, Impacts and Opportunities in Alberta’s Net Zero Energy System, prepared by Navius Research.

# Flawed assumptions on reductions are not technically achievable by 2030

The emission reductions from clean technology uptake assumed by the federal government are not based on published or verifiable evidence and are not achievable by 2030. The federal government is assuming impractical and unachievable timelines to deploy clean technology.

The proposed federal cap is not based on feasible uptake of technologies by 2030. Faulty assumptions used by the federal government will result in a cap on production.

Alberta’s review of the proposed emissions cap has found that the reductions proposed by the federal government are not based on any published or verifiable evidence, and largely do not appear rational or technically achievable by 2030.

- The federal government set the legal upper bound of the cap assuming that covered sources achieve all emissions reductions that they consider technically achievable by 2030. The federal government states the levels of emission reductions outlined in its regulatory framework are based on a bottom-up analysis of abatement technologies that can be deployed, but they have provided no details or evidence of this or of the expected costs.
  - No cost or uptake levels were presented by subsector or region, nor for many decarbonization technologies including methane abatement, small modular nuclear reactors, steam displacement technologies, mining equipment electrification, process temperature lowering.
  - This lack of transparency regarding technically achievable emissions reductions extends to unpublished information from unknown and unverifiable sources about the status of available technologies, the availability of equipment and labour, as well as approval and construction timeline.
  - Timelines for developing decarbonization projects vary significantly based on project type, regulatory approval processes, technology readiness, public engagement, funding availability, global and national policies, project complexity, supply chain challenges, and financing mechanisms. Smaller, localized projects like energy efficiency improvements may have shorter timelines compared to larger infrastructure projects such as CCS, which undergo a multi-phase development process.<sup>46</sup>
- The federal assumption that these “technically feasible” reductions will be achieved by 2030 poses a significant risk for operators to be forced into compliance failure or a risk to Canadians in the form of production cuts.
- The following table summarizes just two of the federal government’s technically achievable reduction assumptions and the on-the-ground realities impacting the reasonableness and accuracy of these reduction assumptions.

Proposed federal cap assumption	Reality for technology uptake
Oil Sands – assumes 20 million tonnes reduction by 2030 from new CCS and efficiency technologies	<p>CCS is a critical decarbonization technology for the oil sands industry, but it requires sizeable investment and time to be built at scale. The Government of Alberta is advancing its Alberta Carbon Capture Incentive Program to further support CCS uptake, and the federal government continues to establish its investment tax credit.</p> <p>The costs and timelines assumed by the federal government in setting the emissions cap are not in accordance with on-the-ground realities for major projects, which is a concern Alberta has previously expressed. For example, the Quest project took approximately 8 years for the regulatory process and construction, and IHS Markit has estimated approximately 8 to 10 years as standard for large-scale CCS projects.<sup>47</sup></p>
Methane – assumes 33 million tonnes reduction by 2030 from the	Alberta is a leader in methane emissions reductions, including having reduced upstream conventional oil and gas levels by 45% from 2014 levels by 2022.

<sup>46</sup> CCUS projects often need to go through the following phases: feasibility studies assess technical and economic viability, permitting phase that involves regulatory approvals, which can take a year or more. Detailed engineering and design work follows, spanning one to two years. Securing financing is a critical step, influencing the overall timeline. Construction, involving the build-out of capture facilities, pipelines, and storage sites, can take several years for large projects. Testing, commissioning, and ongoing operational optimization follow, ensuring system efficiency.

<sup>47</sup> IHS Markit, 2021, Pathways to Oil Sands Net Zero, A CCUS Project Proposal.

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emergent federal regulations

Alberta's analysis of the draft federal methane regulations indicates they underestimate the magnitude of reductions imposed by the stringency of the regulations (driving reductions beyond 2030 Emissions Reduction Plan goals and looking to yield as much as an 85% reduction in 2014 levels from conventional oil and gas) as well as significantly underestimating the cost of reductions in Alberta. This overly ambitious and prescriptive federal regulatory approach is too costly, and is expected to impact production of natural gas, conventional oil and bitumen.

The Alberta methane mitigation approach includes outcome-based regulations, incentives and investment programs. The proposed federal regulations are prescriptive and lack accompanying federal investment supports for clean technology uptake.

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**The federal government must consider the practical and achievable uptake of abatement technologies in a real-world setting** - supply chain constraints, labour availability, technological readiness, project collisions (multiple projects simultaneously competing for resources, including but not limited to, other nations like the United States providing more significant investment incentives), insufficient federal investment supports, and competing access to limited capital.

## Undermining Alberta's established emission mitigation policies

**The proposed federal cap will erode Alberta's industrial carbon pricing and emissions trading system, and systems established in other provinces, which undermines the federal government's own carbon policy goals. With this emissions cap, the federal government is undermining its own policy.**

- The addition of a federal oil and gas cap and federal electricity regulations undermines established provincial policies and programs, such as carbon pricing, which are intended to achieve the most economically efficient emissions reductions.
  - Alberta has maintained an industrial carbon pricing system since 2007, with the intent of enabling market-driven reductions, with credit values incentivizing the most efficient emissions reductions across the economy.
  - Imposing a sector-specific cap distorts the provincial market and increases mitigation costs.
- In contrast to Alberta's approach, the federal oil and gas emissions cap creates inter-sector inequity by focusing on one sector. This focus is misplaced and should instead be redirected towards the overall objective of reducing emissions as efficiently as possible.
  - Regardless of where or by whom emissions are produced, they have the same environmental impact. Enabling emission reductions from the sectors and sources that are most easily able to do so achieves timely and lower cost results.
  - Dr. Trevor Tombe notes that climate policy is costly, and the cheapest approach for emissions reductions is a uniform one, where all regions and sectors are treated equally. Increasing the costs for a single sector, concentrated in Alberta, will impact Canada's productivity.<sup>48</sup>
- Focus should be on supporting existing provincial measures, like the TIER regulatory system, which achieves meaningful results.
- There is little overlap between the compliance mechanisms established for TIER and those of the proposed federal cap. Where some overlap does exist, the utility or function of these compliance mechanisms may differ, which can have severe implications such as greatly increasing compliance costs.
  - For example, the transferability of credits in the TIER system supports investment in CCS, but under the proposed federal cap such credits are only usable as direct reductions to the capturing facility's overall emissions. Therefore, if a facility relies on buying fund credits under the TIER system, it may also need to purchase fund credits under the federal cap, meaning a facility must pay into two systems for the same emission tonne, thereby pricing the same tonne twice.<sup>49</sup>
- Maintaining a balanced market within the TIER a design feature and serves to meet Environment and Climate Change Canada's benchmark criteria for carbon pricing.
  - The proposed federal could potentially disrupt this balance and distort the TIER market.
  - This would damage investment and regulatory certainty, which is the federal government touted as a key policy design feature in the 2023 to 2030 benchmark criteria for carbon pricing.
  - The proposed federal cap system will not drive investments or results.

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<sup>48</sup> Trevor Tombe, the HUB, December 14, 2023, Careful - an oil and gas emissions cap won't just hurt Alberta.

<sup>49</sup> Rystad Energy, December 21, 2023, Is cap-and-trade a viable approach to Canada's upstream decarbonization?

## Lower cost emission reductions

The proposed federal cap has limited compliance flexibility, which will impact production.

- The proposed federal cap is positioned under the *Canadian Environmental Protection Act, 1999* where facilities must not emit over the cap or they could face criminal penalties, which including the possibility of incarceration.
- Collaborative federal policies and international initiatives with allies and trading partners, particularly related to Article 6 of the Paris Agreement, are needed to promote cost effective and timely global emission reduction efforts.
  - Article 6 would enable companies and governments from different countries to cooperate to achieve emissions reductions in a cost-effective and timely manner. This could help Canada not only attract international investment, but help reduce global emissions by displacing other, higher-polluting energy sources.
  - As noted by the Explorers and Producers Association of Canada<sup>50</sup>, Article 6 measures are promising but unlikely to be in place by 2030 given the reluctance of both the federal Canada and its international partners to advance conversations.
  - Canada must act to fully operationalize Article 6 and enable provinces to proceed with projects that would be recognized federally under Article 6 and used as part of Canada's Paris Agreement commitments.
  - The federal government can, and should, implement the approvals, mechanisms and accounting frameworks to fully operationalize Article 6.2 of the Paris Agreement and give the provinces the flexibility to participate in such mechanisms.

**The federal government must consider achievability of innovation, especially by the year 2030.**

**Technology gaps and costs must be addressed.** The federal government should focus on the measures to support Alberta's approach to achieving significant emission reductions, including clean technology development and adoption.

- While the provincial government holds exclusive jurisdiction, the federal government plays a crucial role in supporting provincial regulatory measures to reduce emissions from the oil and gas sector. This involves fostering an attractive investment climate, ensuring efficient regulatory systems for domestic production and imports to support construction of decarbonization and clean technology projects, removing barriers to skilled labor immigration, providing timely federal incentives for clean technology projects, and funding advanced education in critical skills.
- The federal government's support to the business environment is pivotal in competing for global investments, especially in the context of the clean economy. With an estimated \$2 trillion required for Canada to achieve net-zero emissions by 2050, it is essential to create a consistent and stable regulatory and policy landscape.<sup>51</sup> This stability is crucial for encouraging large-scale reduction projects like CCS and direct air capture but should extend to support all clean technologies to decarbonize industrial emissions.
- Despite successful investments into CCS projects before 2015, there has been a stagnation in new CCS projects investments in Canada, putting the nation at a disadvantage. Globally, as of September 2022, there are 196 projects in the CCS facilities pipeline.

## Part 5: Alberta's plan and platform

**The provinces most directly affected by the proposed federal cap – Alberta, Saskatchewan, British Columbia – have effective and efficient greenhouse gas emission mitigation policies and programs in place for the oil and gas and other sectors that are consistent with and amenable to the goals of the Paris Agreement.**

**The proposed federal oil and gas emission cap is unnecessary and interferes with important established and planned provincial measures that are achieving, and will continue to achieve, emission reductions.**

Alberta is efficiently and effectively regulating emissions from all industrial sectors, including oil and gas, and has been doing so successfully for decades. Alberta's robust and long-standing policies are already driving emissions

<sup>50</sup> The Explorers and Producers Association of Canada, January 2024, A Regulatory Framework to Cap Oil and Gas Sector Greenhouse Gas Emissions.

<sup>51</sup> RBC Special Reports, October 20, 2021, The \$2 Trillion Transition: Canada's Road to Net Zero.

reductions across the economy and within the oil and gas sector. In proposing this framework, the federal government is interfering and impeding this work.

## Alberta's Emissions Reduction and Energy Development Plan

**Alberta is decarbonizing the oil and gas sector and other sectors to significantly reduce emissions while balancing energy affordability, reliability and economic growth.** Alberta's Emissions Reduction and Energy Development Plan outlines existing and new initiatives that will meet the Paris-aligned goal of carbon neutrality by 2050 in a just, orderly and equitable manner.

Alberta's plan is based on strategic directions and principles to guide Alberta's approach to drive emissions reductions.

- **An Alberta plan based on practical, achievable pathways.** Alberta is taking a systems-based approach to identify achievable pathways to reduce emissions; opportunities to reduce emissions by sector; the associated costs and technology; timelines required; and the programs and policies needed to further accelerate reductions.
- **Delivering Alberta energy to the world while reducing emissions.** Emissions reduction policies and targets must be viewed with both a domestic and global lens.
- **Affordability and reliability.** The plan must be practical and not compromise the affordability and reliability of energy for Albertans and Canadians.
- **Energy security.** Climate policies must also consider energy security, geopolitical insecurity, and a global move to a low-emissions future. Alberta energy resources can and should displace energy from less democratic global energy producers.
- **Partnership with Indigenous communities and organizations.** We will encourage joint participation in emissions reduction plans and resource development.
- **Industrial policy and systems approach.** The technological innovation needed will require all levels of government to be responsive to industry and investor requirements, especially for de-risking and policy certainty. This will require collaboration between the province, industry and Indigenous communities and organizations, labour, finance and others.
- **Sustainable finance.** Decarbonization will require continued large-scale financing. Alberta will work to ensure that policy and funding support are in place to attract investment into the province.
- **Conservation protection and enhancing our nature-based solutions.** Alberta's world-class environmental management systems ensure our natural resources and human and ecosystem health are protected.

Decarbonizing the production of oil and gas along with other sectors of the economy is a shared goal between the province and federal government. Transitioning to lower emission energy requires policy certainty, substantial investment, and finding cost-effective solutions crucial for widespread adoption, sustainability and affordable energy. Alberta has implemented substantial policy and program measures that will continue driving emission reductions from the oil and gas sector over time.

## Highlights of effective Alberta measures

Alberta's policies include industrial carbon pricing and emissions trading, methane emission reduction regulatory frameworks and carbon offset protocols for the upstream conventional oil and gas sector, oil sands sector emissions limit, and investments in clean technology. Here are some examples to highlight this effective approach.

**Alberta's industrial carbon pricing and emissions trading system – the Technology Innovation and Emissions Reduction (TIER) Regulation – is the longest standing system in North America and has continued to increase in stringency over time.** It is an economy-wide approach that drives cost-effective, timely and sustained emission reductions, supports investment in clean technology, and protects industry competitiveness.

- Alberta's industrial carbon pricing system, established in 2007, has driven significant emission reductions across its economy. It has resulted in over 215 million tonnes of compliance requirements beyond on-site reductions, and has supported investment of over \$2.5 billion in innovative technology and projects.
- The TIER Regulation was amended in 2023, continuing to increase the overall system stringency, including setting a carbon price schedule that will reach \$170 per tonne by 2030.
- The TIER system has enabled emission reductions through providing the policy certainty and right signals to encourage investment into technology and projects that reduce emissions.



- Alberta will leverage the past success and leadership with the TIER system to ensure the right policy approach and conditions are in play to drive reductions across the economy at the lowest cost.
- Alberta's Emission Reduction and Energy Development affirms ongoing commitment to continue our pricing and market approach, serving to harness the economic benefits and efficiencies that result from multi-sectoral emissions trading in line with the Paris Agreement.

**Alberta set a target to reduce methane emissions by 45% from 2014 levels by 2025 from the upstream conventional oil and gas sector. The province achieved this goal in 2022, three years early,** through implementation of an Alberta-tailored policy approach that leverages regulatory requirements, market-based mechanisms, and program supports.

- Alberta's system will continue to drive deeper methane emission reductions.
- Alberta's approach is achieving the same outcome as the 2025 federal methane policy, but at approximately half the cost of the prescriptive federal approach.
- As per the Emissions Reduction and Energy Development Plan, Alberta will engage stakeholders, Albertans, and Indigenous organizations to assess potential pathways to achieve a provincial 75 to 80% methane emission reduction target from the conventional oil and gas sector by 2030 (from 2014 levels). The pathways will use a combination of regulations, market-based incentives and programs, complemented by continuous improvement in measurement and reporting. It will focus on cost-effective, outcome-based approaches.

**Alberta has an established regulatory process and geological capacity for substantial carbon dioxide storage, aligning with carbon neutrality goals by 2050.**

- Alberta has the ideal geology for CCUS. We are one of only a few jurisdictions that have the geology to store enough carbon dioxide to reach carbon neutrality by 2050.
- Over a decade ago, Alberta started to invest billions into CCUS projects and programs, established robust regulatory system and committed to knowledge sharing partnerships.
- Alberta is one of the few jurisdictions in the world with a pore space tenure framework.
- There are numerous CCS projects proposed, and 25 hubs selected in 2022 that include a spectrum of industries such as oil sands, power, hydrogen, and petrochemicals. Valued at billions of dollars, these projects aim to lower domestic emissions and enhance Alberta's global competitiveness.
- Alberta has advanced some of the largest CCUS investments in the world. The Alberta Carbon Trunk Line and Quest projects have already captured and permanently stored over 11.5 million tonnes of emissions. Alberta is further driving CCUS adoption in the oil and gas and other sectors through a new incentive programs as well as credit incentives in the TIER system.
- The new Alberta Carbon Capture Incentive Program will support and accelerate the development of new CCUS infrastructure by providing incentives for facilities to adopt the technology.
  - The program is expected to provide between \$3.2 to \$5.3 billion of support between 2024 and 2035. The actual cost is dependent on the development timelines of these large capital-intensive projects that are still to be determined. Over the next decade, the government estimates that these incentives will support \$35 billion in new investment and create up to 21,000 good paying jobs.
- The established Alberta Petrochemicals Incentive Program helps companies invest in new or expanded market-driven petrochemical facilities for hydrogen projects. Grants worth 12% of a project's eligible capital costs, including clean technology, will be issued to companies after projects are operational. The program has supported:
  - \$408 million grant to Inter Pipeline's \$4-billion propane-to-polypropylene plastic facility.
  - \$161 million grant to Air Products' natural gas to hydrogen production facility.
  - \$32 million grant to Dow Canada's expansion of its ethylene production facility.

**Alberta has shown that it has the technology, the innovation and the expertise to achieve significant emissions reductions, and it will continue this proven approach on our road to carbon neutrality by 2050.**

- Alberta continues to work with industry and the province's dedicated clean technology organizations to overcome barriers and advance technology. These collaborations span all stages of technology development, addressing barriers and supporting innovations.
- More than \$1.5 billion in TIER fund investments have been made since 2019, reducing around 70 million tonnes of emissions by 2030 and supporting 21,000 jobs.
- Alberta is committed to investing \$225 million over the next four years in Emissions Reduction Alberta to facilitate the adoption of clean technology and address implementation challenges.
  - To date, Emissions Reduction Alberta has invested approximately \$937 million of industrial carbon price revenues in 279 projects worth \$8 billion. These projects are expected to generate 35,000 person-year jobs in Alberta by 2027 and contribute to 42 million tonnes of emission reductions by 2030, and 105

million tonnes by 2050. For every dollar invested by Emissions Reduction Alberta, seven dollars are invested by industry, innovators, and other project funders, resulting in an anticipated gross domestic product impact of \$4.9 billion to Alberta by 2025.

- Alberta Innovates, the province's major research and innovation agency, supports the innovation ecosystem from funding to commercialization, aiming to create opportunities for Alberta's future prosperity. In the Clean Resources sector, the agency focuses on applied research and innovation programs to sustain, grow, and diversify energy and resource industries, develop clean technology, reduce greenhouse gas emissions, and safeguard the environment. Alberta Innovates is leading the Hydrogen Centre of Excellence, supporting innovation from production to end use.
- As committed in our Emissions Reduction and Energy Development Plan, Alberta will complete comprehensive assessments of technology pathways and barriers with industry and experts for each sector. This work is well underway in the oil and gas sector and will inform policy development and Alberta's path to enabling significant emission reductions through technological advancement on our way to our 2050 goal.

**Alberta will continue to implement policy and invest in clean technology and innovation for continuous improvement in the oil sands, heavy and conventional oil and gas sectors, while also diversifying energy and other end products including hydrogen, biofuels, critical minerals for batteries and bitumen beyond combustion opportunities.**

## Industry leadership

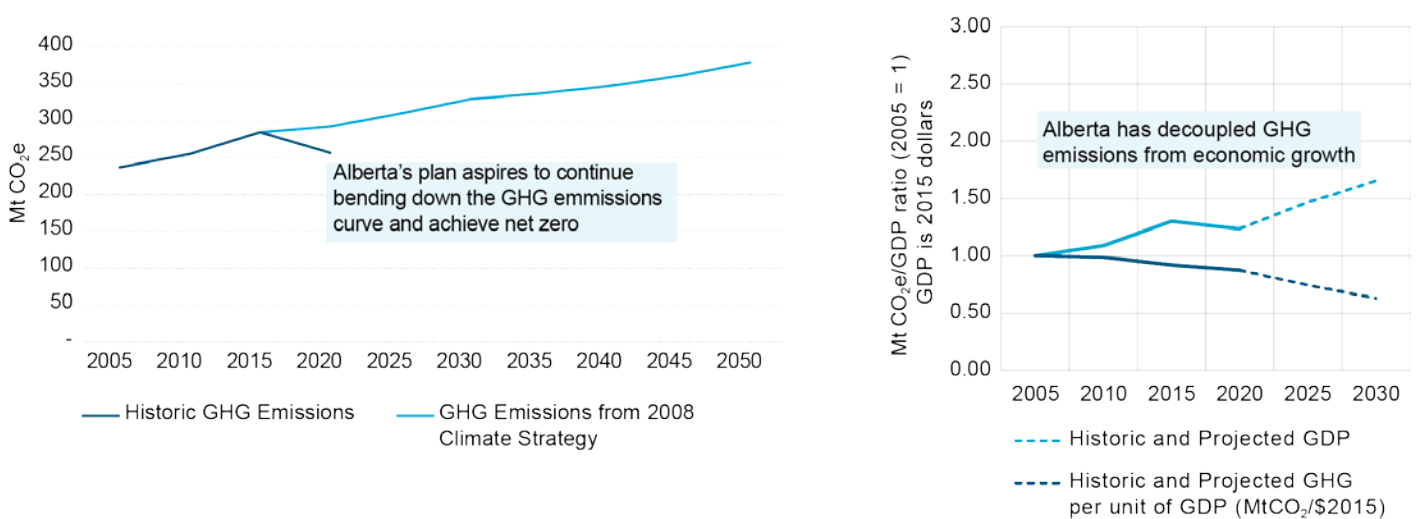
In addition to provincial policies, industry and business across the province have committed to carbon neutrality and area advancing plans to reduce emissions.

For example, the Pathways Alliance initiative: the Pathways Alliance, a partnership representing 95 per cent of oil sands production, is committed to collaborating to achieve net zero by 2050, with interim reduction measures. The Pathways Alliance plan includes working to advance the largest CCUS project in North America, aiming to sequester 12 million tonnes per year (or 1.7 per cent of Canada's total annual emissions). The plan includes a range of technology, including solvents, small modular reactions, hydrogen, electrification, and direct air capture.

## Results of Alberta's measures

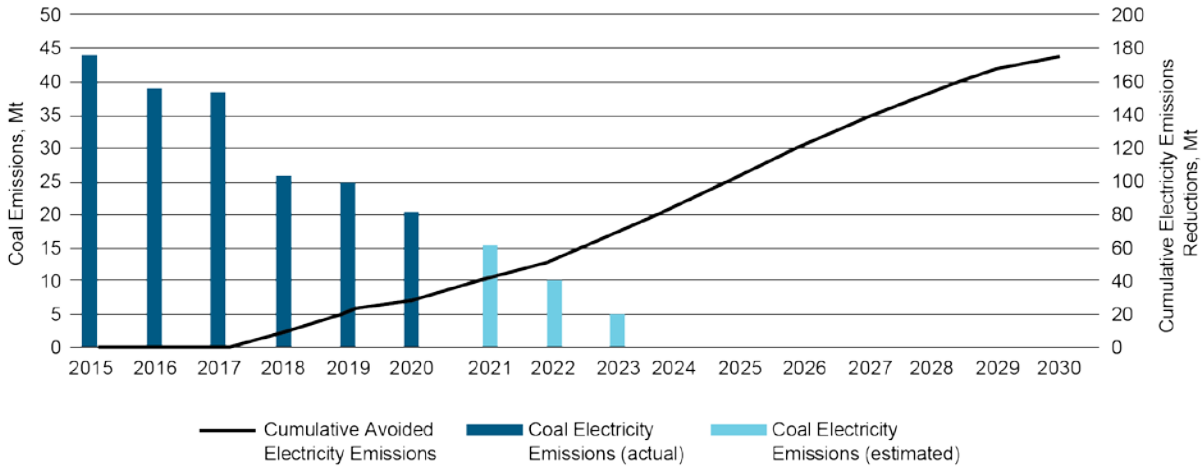
Alberta's policies have decoupled emissions growth from economic growth. The province's annual emissions declined from 281 million tonnes in 2015 to 256 million tonnes in 2021, while our economy grew.

**Alberta's Emissions Reduction and Energy Development Plan implementation will continue to reduce emissions and achieve carbon neutrality by 2050**



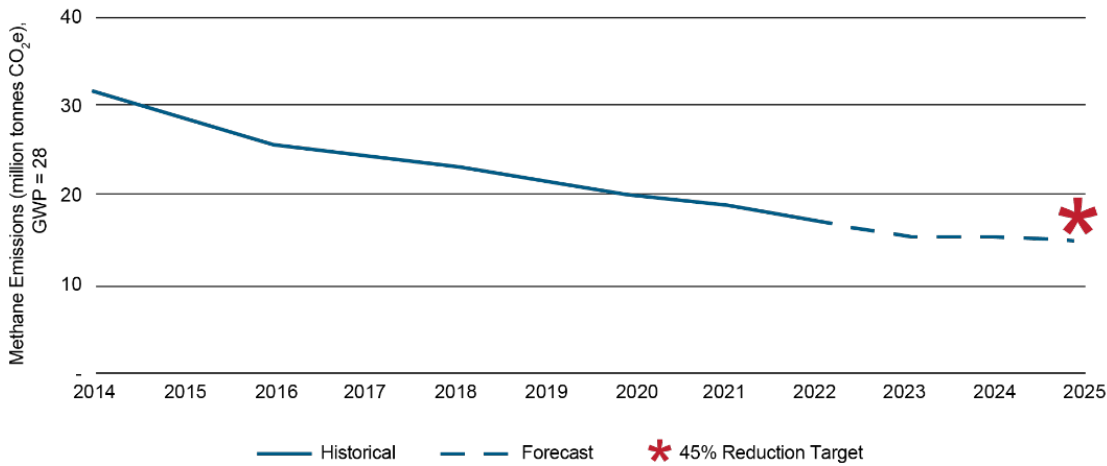
**Alberta has already reduced electricity emissions by 53% from 2005 to 2021.**<sup>52</sup> Alberta expects to be off coal by mid-2024, six years ahead of our target of 2030. Alberta has also emerged as the leading jurisdiction in Canada for renewable electricity investment.

**Cumulatively between 2017 and 2030 Alberta has avoided 175 Mt of carbon dioxide equivalent emission by getting off coal early**



Alberta has achieved our upstream oil and gas methane emissions reduction target of 45% below 2014 levels in 2022 – three years ahead of our 2025 target.

**Alberta's methane reduction approach is achieving reductions faster and deeper than expected**



**The emissions intensity of Alberta's bitumen production has fallen by 23% per barrel since 2009.**<sup>53</sup> Trends indicate that further intensity reductions of 20-28% are expected by 2035 from 2020 levels, ongoing intensity reduction will be followed with a decline in absolute emissions. The pace and scale of the decline is based on deployment of key technologies like CCUS and solvents.<sup>54</sup>

According to the Clean Air Task Force, a barrel of oil produced through enhanced oil recovery processes emits 37% fewer emissions on a life cycle basis compared to conventional production.

<sup>52</sup> Environment and Climate Change Canada, 2023, National Inventory Report.

<sup>53</sup> S&P Global Commodity Insights, August 8, 2023, Canadian oil sands continue their trend of GHG intensity reductions in 2022 - Down 23% since 2009.

<sup>54</sup> IHS Markit, April 2022, The Trajectory of Oil Sands Emissions: 2009-35.

Environmental stewardship and responsible development requirements in Alberta are not limited to greenhouse gas mitigation. Air, land and water health is maintained through a framework of legislation and policies that mitigate the cumulative effects of development.

**Alberta's leadership in emissions reductions will continue.**

**Our Emissions Reduction and Energy Development Plan outlines several new commitments that include both economy-wide actions to reduce emissions and actions that represent and uphold Alberta's jurisdiction in managing oil and gas sector emissions.**

