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In 2024, energy transition policy, government incentive programs, consolidation, and diversifying market access continued to provoke change in the Canadian energy industry. BLG's Energy lawyers continuously review the policies, issues, cases and developments affecting the Canadian energy industry. The following is our list of the most compelling energy issues of 2024 that will influence trends, business decisions and the future growth of Canada's energy industry in 2025 and beyond.

Key takeways

While the Canadian energy industry continued to encounter structural change in 2024, heavily influenced by provincial and federal government policies and regulations (which are expected to continue) we anticipate that the Canadian energy industry will be increasingly impacted by external factors (trade policies; geopolitical events; market access; and foreign exchange) into 2025. The major themes and energy issues in 2024 that BLG noted include the significant and ongoing influence of government programs (tax incentives, carbon tax, and funding stimulus); continuing consolidation, the advent of greater global market diversification; and a continuing focus on carbon reduction projects. As 2025 begins, however, we anticipate a return to fundamentals of the traditional oil and gas industry and greater impact on the Canadian energy industry from external variables rather than domestic policies.

Federal government incentive, investments and intervention programs

In 2024, evolving energy transition policy, efforts to promote investment in clean technologies, and uncertainty over future government direction have continued to shape the landscape of the Canadian energy sector.

Set out below is a summary of some of the legislative and policy developments that could impact the Canadian energy sector in the year ahead.

a. *Inflation Reduction Act* and Clean Economy ITCs

In response to the United States' *Inflation Reduction Act*, Canada introduced clean economy investment tax credits (ITCs) as a core element of its climate policy throughout 2024. These ITCs offer financial incentives to businesses to make capital investments that will reduce carbon intensity. In June of 2024, four ITCs were enacted into law as sections 127.44-49 of the *Income Tax Act*: the Clean Technology ITC, Clean Technology Manufacturing ITC, Clean Hydrogen ITC, and Carbon Capture Utilization and Storage (CCUS) ITC.[1] In addition, two more ITCs are expected in 2025 (the Clean Electricity ITC and the Electric Vehicle Supply Chain ITC) with draft legislation having been released for comment. These ITCs can be claimed by businesses that acquire eligible property and incur expenditures on activities specific to each ITC. In general, eligible activities for ITCs include investment in equipment used in generating wind, solar, water and geothermal energy, machinery for processing key critical minerals, and equipment used to capture, transport and store CO2 in an eligible project. Each ITC has its own specific eligibility requirements.

The long-term stability of Canada's clean economy ITCs is uncertain. A potential change in federal leadership in 2025 presents a "change-of-law" risk for businesses making long term investments in large-scale energy infrastructure projects and sudden changes in tax law expose businesses to significant financial risk. However, it is expected that, following any government changes, coming-into-force rules would include "grandfathering" provisions to preserve ITC eligibility for qualifying expenditures on projects that were the subject of binding legal commitments at the time the change in law was announced.

Read more here: Change-of-law risk for Canada's clean economy ITCs | BLG and Update on Canada's clean economy ITCs | BLG

b. New Clean Electricity Regulations

Canada's new *Clean Electricity Regulations* came into force on Jan. 1, 2025 as part of the federal government's strategy to achieve a net-zero electricity sector by 2050. The *Clean Electricity Regulations* set out a framework to reduce CO_2 emissions from electricity generation through emissions caps and emissions intensity limits. These regulations apply to energy-generating units with a capacity of at least 25 MW that are connected to the North American electricity grid. Exemptions exist for smaller units, remote communities and co-generation facilities. Energy generation facilities can use Canadian offset credits such as those recognized under the *Output-Based Pricing System Regulations* to reduce the CO_2 emissions attributed to their units and help achieve compliance with the *Clean Electricity Regulations*.

In contrast to the initial draft *Clean Electricity Regulations*, which mandated a net-zero grid by 2035, the finalized regulations extend the timeline to 2050 in response to political and industry concerns. Nevertheless, provinces such as Alberta and Saskatchewan maintain that the *Clean Electricity Regulations* encroach on the province's jurisdiction over electricity systems within their borders.

With a federal election in 2025, the future of the *Clean Electricity Regulations* remains uncertain. A new federal government could repeal them in favor of stronger provincial control over the electricity sector, which may reduce such constitutional concerns.

Read more here: Canada's new Clean Electricity Regulations | BLG

c. Greenwashing

In June 2024, the federal government implemented amendments to the *Competition Act* targeting deceptive environmental claims, often referred to as greenwashing. The amendments place a burden on businesses to prove that their environmental claims are supported by adequate and proper testing. In December 2024, the Competition Bureau published proposed guidelines on how it will implement the amendments to the *Competition Act*. The proposed guidelines outline six key compliance principles, emphasizing that environmental claims must be truthful, adequately substantiated through proper testing, and clearly communicated.

In addition, beginning June 20, 2025, private parties will be able to bring actions for deceptive advertising directly to the Competition Tribunal if they demonstrate that it is in the "public interest." This means that individuals and businesses will no longer need to rely on the Competition Bureau to take action on greenwashing complaints.

These greenwashing amendments are impactful to industry across Canada, particularly the energy sector, as businesses are now faced with greater risk of legal challenges if their environmental claims are not in compliance with these, arguably ambiguous, provisions of the *Competition Act*. As a result, companies are becoming increasingly hesitant to communicate publicly about the work they are doing to improve their environmental performance, including their actions to address climate change. Until further clarity and guidance is provided by the Competition Bureau, uncertainty will continue to loom over the energy sector.

Read more here: Canada's Competition Bureau: Public consultation for environmental claims guidelines | BLG and False advertising and greenwashing: Bill C-59 changes to Competition Act | BLG

d. Carbon tax

Canada's carbon tax regime, set out under the *Greenhouse Gas Pollution Pricing Act*, combines a fuel charge with a parallel Output Based Pricing System for industrial emitters. Under this system, a consumption-based carbon tax, called the fuel charge, is applied at the first delivery of carbon-intensive products. The tax is calculated based on the projected emissions from combustion and is built into the cost of goods and services, encouraging consumers to choose alternatives with a lower carbon footprint. Under the Output-Based Pricing System, registered industrial emitters are exempt from the consumption-based fuel charge but are required to account for actual CO_2 emissions. Industrial emitters are assigned an emissions benchmark for their facilities. If the facility's actual emissions exceed this benchmark, they must pay the prevailing rate for every tonne of CO_2 above the limit or retire carbon credits against the liability. Facilities that emit less than their benchmark earn credits that can be retained to counteract future excess emissions or sold in the open market. The federal carbon pricing system acts as a backstop to ensure the provinces adhere to a minimum carbon price that increases every year.

As international measures evolve, like Border Carbon Adjustments, Canada's carbon tax regime is key to balancing domestic climate goals with global trade. Through Border Carbon Adjustments, trading partners impose additional costs on imports from countries with lower carbon pricing. Maintaining a robust carbon price helps ensure that Canada's domestic industries, such as oil and gas, iron and steel, are not disadvantaged in global markets.

While there have not been any significant changes to Canada's carbon tax regime throughout 2024, it remains a critical consideration for businesses in the energy sector. The future of the carbon tax will also likely be a central issue in the 2025 federal election.

Read more here: Carbon measures in Canada | BLG

e. Canada Growth Fund

Canada Growth Fund (CGF) is a 15 billion dollar fund first introduced in the federal government's budget for 2022. CGF promotes infrastructure investment by focusing on attracting the private capital required to scale up clean energy projects and deploy low-carbon and carbon capture technologies. To achieve this, CGF employs financial tools that help de-risk investments in strategic projects, technologies, and supply chains. One key tool is contracts for difference, which lock in future carbon prices and give businesses more predictability for their emission reducing projects.

Since its introduction in 2023, CGF has completed 11 transactions across 5 provinces, which includes the recently announced investments in Hydrostor's advanced compressed air energy storage projects and Longbow Capital's Energy Transition Fund II. In 2025, those in the carbon capture space are positioned best to benefit from the CGF and its strategic investments.

Diversifying markets

In 2024 several significant milestones were reached which will diversify markets for Canadian oil and gas producers in the coming years. Following the explicit requests for Canadian energy (particularly LNG and hydrogen) from countries such as Germany, Japan, and South Korea, and considering the change in energy and trading policies in the United States starting in 2025, we expect these 2024 market diversification trends to accelerate and gain greater prominence in the coming years.

In May of 2024, the TransMountain Pipeline expansion officially went into service, creating a significant shift in the Canadian crude export markets. The 590,000 barrel per day expansion to the Canadian west coast gives Canadian producers new access to markets in Asia. According to the Canadian Energy Regulator, exports to non-U.S. locations more than doubled following commencement of service of the TransMountain expansion, averaging approximately 400,000 barrels per day compared to 130,000 barrels per day in 2023, increasing non-U.S. oil exports from about 2.5 per cent of total exports to about 6.5 per cent of total exports. About half of the shipments to the TransMountain terminal were sent to countries other than the United States. Market participants also expect that this additional egress capacity will help to stabilize and narrow the WTI-WCS differential. This new access to Asian markets may provide additional incentive to develop new egress to international markets outside the United States in future years.

Similarly, on the natural gas side, the 670 kilometer, 2.1bcf/d Coastal GasLink Pipeline entered commercial service in December of 2024. Coastal GasLink supports the 1.8 bcf/d LNG Canada export project which neared commissioning and completion in 2024 and is expecting to ship the first commercial cargoes from the LNG export plant by July 2025. This milestone will mark the first time that Canada has had a customer for natural gas other than the United States. LNG Canada will have the effect of enhancing Canada's supply to the LNG global market and reducing long-standing bottlenecks. It is expected that about 10 per cent of production will go to new markets in Asia. We expect this diversification of LNG markets to continue through 2025. For example, the 0.28 bcf/d Woodfibre LNG project, which commenced construction in late 2023 is expected to be substantially complete by 2027. It is expected to largely supply Asian markets through its long term LNG supply agreement with BP Gas Marketing. Also, the floating Cedar LNG export project, which commenced construction in July 2024, is expected to export approximately 0.42 bcf/d of LNG to Asian markets when it commences service in late 2028. As the global trade of LNG evolves, we expect increasing demand for export markets for Canadian natural gas.

In addition, there were significant advancements in liquefied petroleum gas export projects off the west coast of British Columbia. In May, AltaGas and Royal Vopak announced a final investment decision on the Ridley Island Energy Export Facility, an LPG and bulk liquids terminal expected to come online at the end of 2026, with capacity to export approximately 55,000 bbl/d of LPG destined mainly for Japan and South Korea. In addition, in January, Trigon

Pacific Terminals Ltd completed the project description and submitted it to the Prince Rupert Port Authority, for its proposed 2.5 mt/a LPG export project. In addition to existing LPG export facilities nearby, such as Pembina's Watson Island propane export facility and AltaGas' 600,000 bbl/d Ridley Island Propane Export Terminal, this additional capacity is expected to encourage exports to Asia in the coming years.

Consolidation and major transactions

In 2024, we witnessed continuing consolidation in the upstream sector, which we expect to continue into early 2025, as exploration and production companies seek to acquire, rather than discover, new reserves and continue to return focus to pure petroleum-based energy portfolios in key geographic target areas.

In 2024, we noted strategic acquirors continued opportunistic consolidation of their interests in key areas of interest, including:

a. Canadian Natural Resources acquired the Alberta assets of Chevron Canada which included:
   i. 20 per cent interest in the Athabasca Oil Sands Project (AOSP), including a further interest in the Scotford upgrader and the Quest Carbon Capture and Storage project it previously acquired from Shell. This raised CNRL's interest in AOSP to 90 per cent; and
   ii. its 70 per cent operated interest in the Duvernay light crude and liquids-rich gas play, representing 60,000 boe/d.

   CNRL's oil sands concentration has led it to be Canada's largest oil producer and the Chevron acquisition makes it the "900 lb gorilla" in the Canadian market.
b. Tourmaline Oil Limited continued its assembly of interests in BC's Montney fairway through its acquisition of Crew Energy in an all-stock transaction. This complements Tourmaline's Alberta Deep Basin production, and cemented its position as Canada's largest natural gas producer.
c. Alberta's Deep Basin was the focus of the acquisition by Vermilion Energy of Westbrick Energy from KKR. The acquisition represents a significant investment in Canada for Vermilion, which had spent time and capital on its European gas assets.

We note the conditions for these consolidations and major transaction in 2024 are expected to continue into 2025, although there may be renewed interest from outside of Canada. The weak Canadian dollar means that U.S.-based buyers can take advantage of the foreign exchange discrepancy – they produce oil in U.S. dollars, but buy Canadian assets in Canadian dollars. The arbitrage opportunities are clearly very attractive.

The first of what may be a flurry of these transactions is a return to Canada by Ovintiv (formerly Encana), which had been focused on its U.S. operations in Oklahoma and Texas. It acquired 70,000 boe/d of production and significant reserves in the Montney play from Paramount Resources; combined with its existing Montney production and reserves, it has vaulted to being one of Montney's major players.

The uncertainty resulting from the post-election Trump administration tariff threats appears to have placed a temporary hold on northbound transactions. However, once the dust settles, we foresee other entities, including U.S. private equity, viewing Canada as a safe and relatively inexpensive place to invest, especially given U.S. dollars / Canadian dollars foreign exchange. "Watch this space", as they say.

Carbon capture and storage

According to the Intergovernmental Panel on Climate Change and the International Energy Agency, there is currently no viable path to net-zero emissions without the aggressive implementation of carbon management technologies. In fact, to achieve targets, the deployment of these technologies must scale up by nearly 200 times before 2050.

Carbon Capture, Utilization, and Storage (CCUS) is a leader amongst innovative strategies in the transition to a low-carbon economy. In Canada, the promise of CCUS continued to gain momentum in 2024, supported by substantial investment and strategic initiatives aimed at transforming the nation's approach to sustainable energy and environmental stewardship.

CCUS technologies have the potential to significantly cut emissions from traditionally carbon-heavy industries. Canada has some of the most advanced CCUS projects in the world, including the Boundary Dam project in Saskatchewan and the Alberta Carbon Trunk Line. Grounded in these innovative projects, Canada's capture capacity is projected to grow from the current 4.4 Mt of CO2 mitigation per year to 16.3 Mt of CO2 per year by 2030. Significant further scaling will be required to help reach net zero by 2050.

With continued investment in 2025, CCUS technology can become more cost-effective and scalable, enabling industries to meet stringent emissions targets in competitive markets. Widespread CCUS adoption does create challenges, however - high capital costs, technological risks, and the need for supportive policy frameworks threaten development. This is where strategic public investment, including that provided by the Canada Growth Fund (CGF), will be relevant in 2025.

The CGF, a C$15 billion independent public investment vehicle, will play a pivotal role in accelerating the deployment of technologies essential for emission reduction. Created to de-risk private sector investments in low-carbon technology and infrastructure, this arms-length public investment fund aims to unlock investment in innovative projects that can significantly reduce emissions. The CGF is dedicated to supporting projects that align with Canada's ambitious climate objectives and long-term prosperity. According to the CGF's Corporate Plan Summary for 2024–2028, the fund is committed to catalyzing private sector investment in Canadian businesses and projects that contribute to the nation's clean economy. This includes a focus on CCUS initiatives.[2]

In July 2024, the CGF announced a partnership with Strathcona Resources, committing up to C$2 billion to develop carbon capture and sequestration infrastructure at Strathcona's SAGD oil sands facilities. This collaboration aims to capture and permanently store up to 2M tonnes of CO_2 annually.

Furthering its commitment to CCUS, in August 2024, the CGF invested up to US$100 million in Svante, a British Columbia-based company specializing in carbon capture technology. This investment is intended to accelerate the development and construction of Svante's commercial carbon capture and removal projects in Canada and the United States, targeting emissions from hard-to-abate industries.

CCUS can play a transformative role in Canada's economy by ensuring industrial competitiveness in a carbon-constrained world. If deployed at scale, CCUS can help Canada meet its climate goals, support decarbonization, and create high-value jobs in engineering, construction, and clean technology. As Canada seeks to position itself as a global leader in CCUS, albeit in a potentially changing policy environments, strategic investments through initiatives like the CGF will be ones to watch in 2025.

The future for bio fuels

While hydrogen was a very popular story in Canada over 2024 (Canada is one of the largest producers of Hydrogen and there was news of new hydrogen projects and technologies being announced nearly every month), biofuels continue to represent most of the alternative fuel consumption. We expect biofuels to continue to maintain a robust growth into 2025.

In 2024, Canada continued the momentum of prior years making greater investment in biofuels such as ethanol, biodiesel and renewable diesel. Renewable fuel consumption in Canada increased by 20per cent from 2021 to 2022 and by another 25 per cent from 2022 to 2023. From 2022 to 2023, consumption of ethanol increased by 13per cent, and consumption for biomass-based diesel increased by 68 per cent.

In 2023, Canadian production of ethanol (CO_2 emissions on the combustion of Ethanol is lower than gasoline, 0.3g/MJ vs. 73g/MJ) was 29.6 MB/d, but demand was 68.1 MB/d. Much of Canada's ethanol is imported from the United States and Canada is currently only meeting 40per cent of its domestic demand. We expect domestic production will continue to increase.

Similarly there is increasing demand for biodiesel and renewable diesel in the Canadian marketplace. In 2023 demand was 19.5 MB/d of biodiesel whereby Canada only produced 8.3 MB/d domestically. Accordingly, we expect biodiesel and renewable diesel production to increase in 2025 and beyond.

The market for these products was stimulated in 2024 by the carbon pricing initiatives and renewable fuel standards set out under Canada's *Clean Fuel Regulations* and various other provincial regulations.

a. The legislative landscape

The push for alternative fuels in Canada is coming mainly from the Canadian *Net-Zero Emissions Accountability Act* and the 2030 Emissions Reduction Plan issued in 2022 under that Act. The 2030 Emissions Reduction Plan describes how Canada expects to meet its obligations under the Paris Agreement and COP26 to reduce emissions 40 to 45 per cent below 2005 levels by 2030 and achieve net zero emissions by 2050. A progress report was issued on that plan at the end of 2023 to demonstrate progress. To advance the goals set out in the 2030 Emissions Reduction Plan, several regulations were previously enacted that promote the use of alternative fuels.

i. Clean Fuel Regulation (CFR) issued under the Canadian *Environmental Protection Act*, contains minimum blending rates for low carbon intensity (CI) fuels in both the gasoline and diesel pools (5 per cent and 2 per cent by volume, respectively). The regulation mandates a reduction in the carbon intensity of transportation fuels, and one of the means by which a regulated party can comply is to supply renewable fuels and biofuels including ethanol, biodiesel, renewable diesel and sustainable aviation fuels.

ii. Provincial Clean Fuel Standards. Fuel standards regulations in various provinces have also stimulated demand for bio fuels:
    1. Alberta: the Renewable Fuels Standard requires a minimum annual average of 5 per cent renewable alcohol in gasoline and 2 per cent renewable diesel in diesel fuel sold in Alberta by fuel suppliers. To meet the Renewable Fuels Standard, renewable fuels must demonstrate 25 per cent fewer GHG emissions than the equivalent petroleum fuel.
    2. Manitoba: Manitoba's Ethanol Mandate requires fuel suppliers in Manitoba to blend at least 10per cent of ethanol in their gasoline. The Biodiesel Mandate requires fuel suppliers to blend 5 per cent renewable content in diesel fuel.
    3. Ontario: the Cleaner Transportation Fuels Regulation requires that fuel suppliers blend "bio-based content" (including ethyl alcohol) into gasoline at a minimum percentage of 11 per cent until 2028, 13 per cent from 2028 until 2030 and 15 per cent thereafter. It also requires fuel suppliers blend a minimum of 4per cent bio-based content into diesel.
    4. Saskatchewan: the *Renewable Diesel Act* requires fuel distributors to include 2 per cent renewable diesel content. The province also has a 7.5 per cent ethanol mandate under its *Ethanol Fuel Act* and Ethanol Fuel Regulations.
    5. British Columbia: the Renewable and Low Carbon Fuel Requirement mandates a 5 per cent ethanol content in gasoline and at 4 per cent in diesel fuel.
    6. Québec: Québec requires 10 per cent low-carbon fuel content in gasoline, to increase to 15 per cent by 2030. Low-carbon fuel content in diesel is set at 3 per cent to increase to 10 per cent by 2030.

There is also evidence to support a broader trend that the carbon intensity of these fuels is declining as new technologies are being adopted. Recent studies have concluded that the GHG impact of clean fuel consumption in Canada has grown in the past few years with 11.4MtCO_2 of emissions avoided in 2023. The avoided emissions in 2023 were roughly double what they were five years ago before the start of the Clean Fuels Regulation[3]. With evidence of positive performance, we expect the Government of Canada to continue to push for further investment and incentives for these biofuels.

In general, considering the evidence that the federal government policies on biofuel adoption seem to be working; the fact that demand for biofuels in Canada currently exceeds domestic supply; and the fact that Canada has sufficient feedstocks and supporting infrastructure we expect the growth of the biofuel market in Canada in 2024 to continue into 2025 and beyond. Our expectations may be tempered, however, if the costs of government incentives are moderated by a recessionary economic environment.

Footnotes

[1] *Ibed*, Page 22.

[2] Canada Growth Fund, "Corporate Plan Summary 2024-2028".

[3] *Ibed*, Page 22.

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