Understanding funding opportunities in Canada’s energy transition

May 10, 2021

In the heady days of 2020, foundational environmental and energy policies and programs were being regularly introduced by Canada’s federal government, such as the Strengthened Climate Plan, the Hydrogen Strategy for Canada and the Clean Fuel Standard. Considerable interest from the industry was paid to the promised financial incentives, viewed by many as a key impetus for true growth in Canada’s “energy transition” - but there remained limited visibility into tangible funding opportunities.

The federal budget is arguably the critical step in making many of these new spending initiatives tangible for industry stakeholders:

1. Net Zero Accelerator - Decarbonization

The federal Strategic Innovation Fund’s Net Zero Accelerator is designed, at a high level, to “spur Canada’s shift to innovative net-zero technologies and attract the large-scale investments needed to meet our goal of net-zero by 2050.”

The accelerator was launched in December 2020 with an initial $3 billion of investment funds, which the 2021 budget augments this to a total of **$8 billion**. The priorities under the accelerator are:

1. rapidly expedite decarbonization projects with large emitters;
2. scale-up clean technology; and
3. accelerate Canada's industrial transformation across all sectors.

The accelerator is not a start-up fund but appears to principally be designed to provide partial offset monies, provided as grants not loans, to existing industries and sectors, which may convert to lower emission technologies. Specifically mentioned as priorities in the accelerator are:

- steel;
- aluminum;
- cement;
- automotive; and
- aerospace.

Project/industry profiles receiving accelerator funding are not yet available.

2. "Clean Tech" startup funds

In contrast, the 2021 budget positions its **$1 billion** in "Clean Tech" funding (over five years starting in 2021) principally as seed monies, accessible to Canadian start-up companies prior to their commercial scale investment. Tied in aspiration to these grant monies is the existing International Business Development Strategy (IBDS) for Clean Technology, operated by Global Affairs Canada. In short, the clean tech funding is overtly export-oriented.

What is less clear is the scope of "Clean Tech". In its final report on the IDBS of June 3, 2020, however, Global Affairs Canada describes clean tech as including:

- Renewable Energy;
- biofuels and bio products;
- water and wastewater;
- transportation;
- clean technology in mining and oil/gas;
- waste and recycling;
- smart grid and energy storage; and
- agriculture, forestry and biodiversity.

These categories are likely indicative of the scope of eligible projects, but other technologies with linkage to lower emissions and potential for export will likely also be considered.

3. Tax rate reduction for zero-emission technology manufacturing

Much like similar environmental spending initiatives in the past, there is a corresponding **50 per cent corporate and small business tax rate reduction** opportunity for domestic manufacturing - specifically for zero-emission technologies. The reductions would be available from January 2022 with a proposed phase out starting in 2029.

The 2021 budget includes a list of zero-emissions technologies already approved for the tax rate reduction:

- manufacturing of wind turbines, solar panels, and equipment used in hydroelectric facilities;
- manufacturing of geothermal energy systems;
- manufacturing of electric cars, busses, trucks, and other vehicles;
- manufacturing of batteries and fuel cells for electric vehicles;
- production of biofuels from waste materials;
- production of green hydrogen;
- manufacturing of electric vehicle charging systems; and
- manufacturing of certain energy storage equipment.

This is a list of examples that the government undertakes to consider new technologies for this opportunity as they emerge over time.

4. Accelerating depreciation of clean energy equipment

Referencing the success of the 2018 federal budget, which provided for accelerated depreciation for certain specified equipment used in renewable energy, this program is now expanded to provide for **100 per cent depreciation opportunities** for qualifying "clean energy" equipment including:

- pumped hydroelectric energy storage;
- renewable fuel production;
- hydrogen production by electrolysis of water;
- hydrogen refueling;
- in water- current, wave and tidal energy;
- active solar heating; and
- geothermal energy technologies.

These depreciation opportunities are significant and align with the government's promotion of growth in these sectors.

5. Low Carbon and Zero-Emission Fuels Fund - Supports CFS

Launched as part of the federal Strengthened Climate Plan announced in 2020, the Low Carbon and Zero-Emission Fuels Fund has **$1.5 billion** specifically targeted at low-carbon alternatives and is described by the federal government as designed to:

"increase the production and use of low-carbon fuels (*e.g.*, hydrogen, biocrude, renewable natural gas and diesel, cellulosic ethanol) in a manner that complements federal carbon pollution pricing, regulatory efforts and other federal programming."

Details of the qualifications for funding have yet to appear, but this program appears to be the funding arm to support the low carbon intensity fuels supply market anticipated in the Clean Fuel Standard.

6. Other industry-specific Energy Transition Funds

Finally, there remain a number of other targeted programs designed to support energy-related initiatives in specific sectors of the economy, such as:

- Agricultural Clean Technology Fund;
- Low Carbon Economy Fund;
- Clean Energy for Rural and Remote Communities program;
- Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative;
- Clean Growth Program; and
- Green Municipal Fund (Federation of Canadian Municipalities).

Many of these programs are additional to the incentives newly announced in the 2021 budget and some can be "stacked" to enhance the development incentives.

While there are certainly other expenditures relating to sustainable growth in the 2021 budget, such as a reinvigoration of Carbon Capture, Utilization and Storage (CCUS), many industry stakeholders will now have the opportunity to better understand and appreciate how the federal government's lofty energy transition plans can translate into meaningful development funding.

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