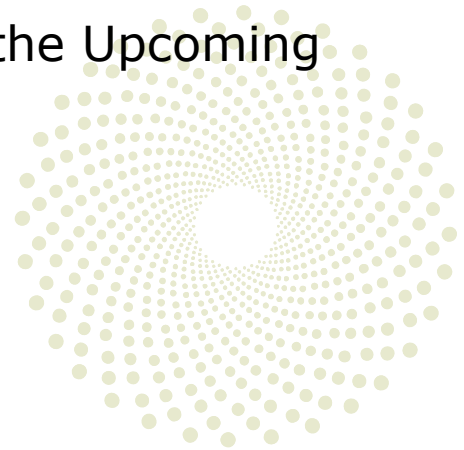


Cenovus Energy Inc.

Written Submission for the Pre-Budget
Consultations in Advance of the Upcoming
Federal Budget

August 6, 2020



List of Recommendations

- **Recommendation 1: Introduce a Carbon Capture Tax Credit**
- **Recommendation 2: Build a Northern Alberta Carbon Trunk Line**
- **Recommendation 3: Support Investment in Emissions Reductions Technology**

Cenovus Energy Inc.'s 2021 Pre-Budget Consultation Submission

August 6, 2020

The upcoming federal budget will be critical to fostering the recovery of the Canadian economy and ensuring its resilience through future waves of COVID-19. To ensure the prosperity and well-being of Canadians going forward, it is important that Government develop policies that encourage growth and job creation while spurring investment in the green technology that will allow Canada to meet its emissions reductions targets.

Government's decisive response to the COVID-19 pandemic resulted in a substantial budget deficit and the accumulation of considerable debt. By choosing to work with the energy sector to build a greener future, Budget 2021 is an opportunity to ensure the continuation of the tremendous financial contributions made by Canada's largest economic engine: the oil and gas industry.

Canada's hydrocarbon industry is uniquely positioned to play a key role in the energy transition. We have among the world's largest oil and natural gas reserves and our regulatory and environmental frameworks are far more stringent than most oil producing nations. We have leading greenhouse gas (GHG) emissions reporting and transparency, and we're the largest oil-producing jurisdiction in the world with a national price on carbon. We have a proven track record for technology development and leveraging these strengths to reduce our carbon emissions, with the goal of being the global supplier of choice for cleaner oil and natural gas. We believe Canada has earned that position over other oil and gas producing countries that have far less transparency and lower environmental and social standards than ours.

The energy industry is also critical to Canada's prosperity. It Canada's most productive industry, employing hundreds of thousands of Canadians while deploying billions of dollars in investment. Oil and natural gas are Canada's largest exports by far. The energy sector's contributions to the Canadian economy reach far beyond its own activities – its investment and job creating activities generate further demand for other goods and services across the economy.

Cenovus Energy Inc. is committed to doing our part in assisting the transition to lower GHG intensity energy sources; We believe striking the right balance among environmental, economic and social considerations creates long-term value and business resilience. We are already one of the lowest emissions producers of oil in Canada, but early this year [we established ambitious emissions reductions targets](#) that reflect the company's continued integration of sustainability into its strategy and business plan. Building on this, our GHG emissions targets are among the most ambitious in the world for an upstream exploration and production company.

In the upcoming Budget, Government has the opportunity to create the right incentives for the development and deployment of emissions-reducing technologies that can create jobs and help improve Canada's fiscal position. In this submission, Cenovus offers recommendations that, when taken together, will allow Canada to align its climate strategies with its immediate and long-term economic prosperity.

Recommendation 1: A Carbon Capture Tax Credit

Carbon capture, storage and utilization (CCUS) is widely viewed as a necessary component to achieving net-zero by 2050 emissions targets. Pathways to emissions reductions such as Canada's national hydrogen strategy are critically dependent on the deployment of CCUS technology. Such technology is also critical to allow carbon-intensive industries to continue to operate into the future while preserving jobs, protecting the planet, and maintaining Canadians' high standard of living.

Government is well-positioned to help encourage CCUS investment and meet its emissions reduction targets while maintaining the oil sector's competitiveness internationally. The US has a popular tax credit program ("45Q") that provides a tax credit on a per-tonne basis for CO₂ that is captured and sequestered or utilized. The 45Q enjoys bi-partisan support and has been credited as the driver of CCUS deployment; the US boasts over half of the world's currently operational carbon capture facilities despite a lack of national carbon pricing. The introduction of a similar tax credit in Canada would attract critical investment dollars to the development of CCUS facilities.

While current emissions policies in Canada are expected to provide some support for CCUS development, they rely heavily on placing additional costs on businesses (i.e.: carbon taxes, the upcoming Clean Fuel Standard). An overreliance on such measures can constrain businesses' ability to invest in green technology by eroding cash flow. In its current proposed form, the upcoming Clean Fuel Standard (CFS) will not provide sufficient credit price stability or adequate credit duration to incent investment in costly projects such as CCUS facilities. Taken with the Canadian price on carbon, which is set to top out at \$50/tonne, there is simply no economic justification for making investments in CCUS. By allowing the stacking of carbon credits and adding a CCUS tax credit, Canada could reach a tipping point where investing in CCUS makes good business sense. A well-thought-out design could make Canada one of the most attractive jurisdictions for these kinds of investments.

Recommendation 2: A Northern Alberta Carbon Trunk Line

Government's plan to invest in infrastructure to support the economic recovery should include the construction of a northern portion of the Alberta Carbon Trunk line that connects with major mines and in situ oil sands projects. This critical piece of infrastructure, coupled with a CCUS tax credit, would enable the eventual decarbonization of oil sands production. Because this project was contemplated over a decade ago, the Alberta government has the preliminary work available, increasing the shovel-readiness of this initiative. This would create short-term engineering and construction work that aligns with the long-term emissions reduction objectives of government.

Recommendation 3: Support Investment in Emissions Reductions Technology

Budget 2021 could provide funding support for low carbon initiatives such as solvent-based oil sands recovery, which would significantly reduce the combustion of natural gas for steam generation for in situ oil sands projects. This technology could yield substantial emissions

reductions but is economically challenged in the current environment; advancing these projects would require major investment dollars and an extended time horizon over which costs can be recovered. Government should allow a 100 per cent accelerated capital cost allowance for emissions-reducing oil and gas capital investments.

Small modular reactors (SMRs) are another promising technology that could provide zero emissions power to remote communities as well as emissions-free steam generation for thermal oil sands operations. Before these projects can become commercially viable, government funding will be required to pilot this costly technology and produce a repeatable lower cost design. The regulatory approval process will also need to be de-risked to provide investors with confidence that projects can go forward. Budget 2021 should earmark immediate funding for pilot projects so that it can be ready for commercial-scale deployment by industry towards the end of the decade.

Projects such as these can inject jobs and capital investment into the economy. Budget 2021 could help provide the certainty required to attract investment and move these projects forward.