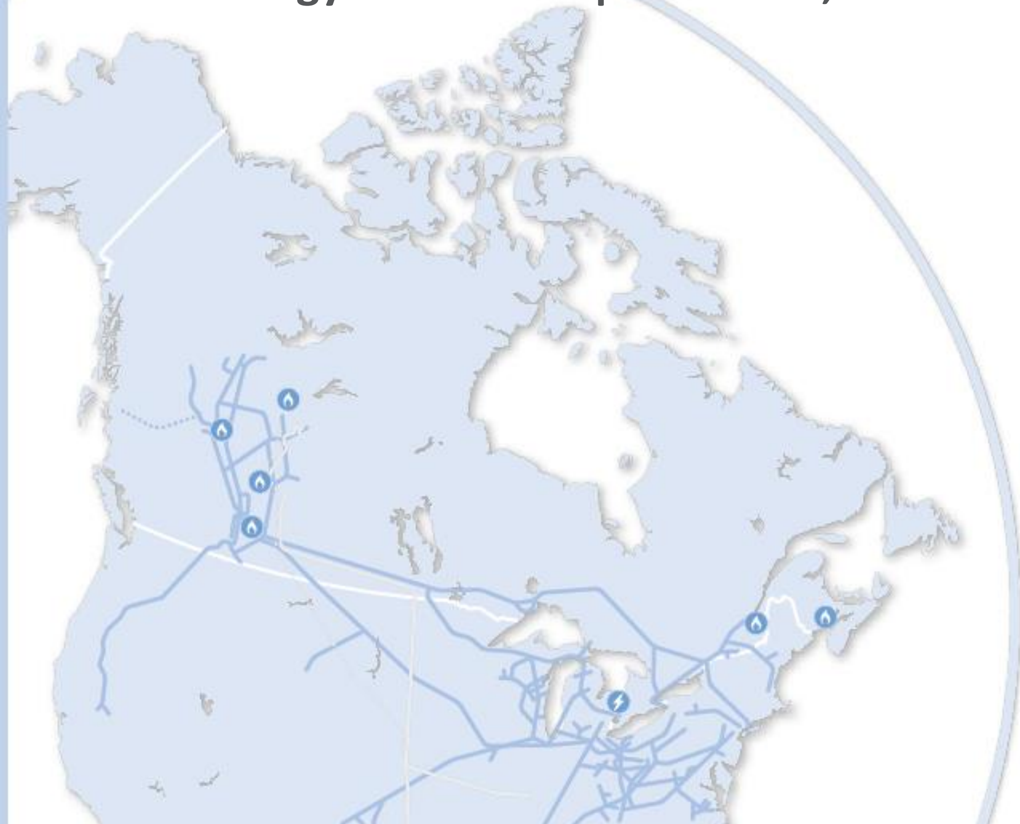
TC Energy Recommendations – Standing Committee on Finance Pre-Budget Consultations in Advance of the 2023 Budget

TC Energy Submission | October 8, 2022



Natural gas pipelines

25% of North America's demand

Our 93,300 km network of natural gas pipelines supplies clean-burning natural gas demand across North America, strategically connecting growing supply on the continent to markets across Canada, the U.S., and Mexico. We also operate one of the continent's largest natural gas storage business, with 653 billion cubic feet of storage capacity.

Liquids pipelines

nearly **3 billion+** barrels delivered safely

Our 4,900 km liquids pipeline system connects growing continental oil supplies to key markets and refineries, carrying approximately 20 per cent of western Canadian exports to the U.S. Midwest and Gulf Coast.

Power and storage

4 million+ homes powered

We own or have interests in seven power generation facilities with combined capacity of approximately 4,200 megawatts, roughly 75 per cent is emission-less energy.

TC Energy

TC Energy is evolving to support the world's future energy demands. We continue to advance investments in initiatives that displace coal-fired electricity generation, reduce methane and GHG emissions, expand renewable energy opportunities and support critical research.

TC Energy Recommendations

1: That the Government of Canada support opportunities for Indigenous communities to buy ownership stakes in resource development either through the Canada Infrastructure Bank or through a new federal Indigenous loan guarantee program.

2: That the Government of Canada enhance federal funding for innovative and novel technologies by implementing its 2022 Federal Budget commitment to create a federal investment tax credit for low-carbon energy and storage solutions.

3: That the Government of Canada amend the proposed Excessive Interest and Financing Expenses Limitation (EIFEL) rules to: provide exemptions for large domestic infrastructure projects, including low-carbon energy and rate-regulated projects; extend carry forward provisions; grandfather existing debt; and, postpone the implementation date.

Overview

TC Energy is a leader in the development and reliable operation of North American energy infrastructure, including natural gas and liquids pipelines, power generation and storage facilities. We're a team of 7,000+ energy problem solvers working to move, generate and store the energy North America relies on. Today, we're taking action to make that energy more sustainable and more secure. We're innovating and modernizing to reduce emissions from our business. And we're delivering new energy solutions – from natural gas and renewables to carbon capture and hydrogen – to help other businesses and industries decarbonize as well.

We recognize the importance of addressing climate change and the significant undertaking to transition to a prosperous lower-carbon economy. In 2021, we released our roadmap to 2050, which includes our targets to reduce GHG emissions intensity from our operations by 30 per cent by 2030 and position the company to achieve net-zero by 2050.

Beyond reducing emissions on our current systems, our strategy includes investments in lower-carbon energy and infrastructure to build the energy grid of the future.

Achieving these targets will require significant capital investment, much of which will be funded with long-term debt in the Canadian debt capital market. TC Energy is currently advancing its $33 billion capital program, the majority of which is allocated to Canada and aligned with domestic and global decarbonization objectives.

Sincerely,

François Poirier

President and Chief Executive Officer

Context on our recommendations

Recommendation 1: That the Government of Canada support opportunities for Indigenous communities to buy ownership stakes in resource development either through the Canada Infrastructure Bank or through a new federal Indigenous loan guarantee program.

Background:

In June 2021, the United Nations Declaration on the Rights of Indigenous Peoples Act (UNDRIP), was implemented into Canadian law, providing a framework for Canada's journey to reconciliation. In early 2022, the Standing Committee on Indigenous and Northern Affairs, in consultation with Indigenous individuals and organizations, studied barriers to Indigenous economic development and presented a series of recommendations to the Government.[1] Among these recommendations:

"That the Government of Canada increase ways to support those Indigenous peoples who want to actively seize opportunities arising from the natural resources extraction industry; and that the Government of Canada explore with Indigenous partners how to best reconcile the need to act on climate change with the need to ensure Indigenous peoples can pursue economic opportunities in the energy sector while ensuring a transition toward a low emitting future."[2]

Despite the recommendation above, existing federal funding programs delivered to Indigenous communities contain limitations imposed by government, undermining Indigenous Peoples' right to self-administration and self-determination. While the Canada Infrastructure Bank (CIB) provides loans through the Indigenous Community Infrastructure Fund that support Indigenous participation in energy projects, the CIB program is restricted by the priority sectors dictated by the Government of Canada and enforced in the CIB Act: green infrastructure, clean power, public transit, trade and transportation and broadband infrastructure.[3] Additionally, the CIB program does not, at present, make available loan guarantees.

Many Indigenous Nations are located in remote and rural areas where resource development represents the best opportunity for economic development and economic reconciliation. We believe that self-determination is advanced when Indigenous Nations can invest in resource development. The Government of Canada should not limit support to specific types of energy projects. Communities

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[1] Standing Committee on Indigenous and Northern Affairs. *Barriers to Economic Development in Indigenous Communities.* April 2022 Link: https://www.ourcommons.ca/Content/Committee/441/INAN/Reports/RP11714230/inanrp02/inanrp02-e.pdf

[2] Ibid., Pg 7.

[3] Government of Canada. *Statement of Priorities and Accountabilities – Canada Infrastructure Bank.* February 3, 2021. Link: https://www.infrastructure.gc.ca/CIB-BIC/letter2-lettre2-eng.html

ought to be able to decide what is right for their Nation to invest in. For example, Canadian LNG, developed in partnership with Indigenous Peoples, can support global climate ambitions by moving the world off coal.

Government can help advance partnership opportunities between industry and Indigenous communities by amending existing federal loan programs (such as the Indigenous Community Infrastructure Fund) or establishing a new federal Indigenous financing program that:

- increases the upper limit of financing options, thereby enabling meaningful participation in major infrastructure development;
- incorporates the provisions of UNDRIP by alleviating constraints on funding allocation, allowing Indigenous Communities to exercise their right to self-determination; and,
- provides flexibility of financing options.

A new Indigenous loan guarantee program would expand opportunities for Indigenous communities to invest in infrastructure projects. It would make specific terms attractive to equity participation in larger, multi-billion projects, such as TC Energy's Ontario Pumped Storage Project, Coastal GasLink, the Alberta Carbon Grid, or the Prince Rupert Gas Transmission project.

Recommendation 2: That the Government of Canada enhance federal funding for innovative and novel technologies by moving forward expeditiously on its 2022 Federal Budget commitment to create a federal investment tax credit for low-carbon energy and storage solutions.

TC Energy appreciates the Government of Canada's commitment to support deployment of net-zero technologies, battery storage solutions, and clean hydrogen. **TC Energy supports a balance between required compliance and market-based policies that provide fiscal incentives to help drive renewable deployment**. While considering the composition of this tax credit, we recommend it be repositioned as a tax credit for low-carbon energy and storage solutions and account for the following considerations to maximize cost-effective emission reductions:

- **Broad credit eligibility:** Low-carbon power options should include solar, wind, hydro, geothermal, tidal, nuclear (including Small Modular Reactors), hydrogen, and similar low–carbon power. Low-carbon feedstock and fuel sources such as hydrogen, renewable natural gas, and alternative low-carbon feedstocks should be similarly considered. Finally, low-carbon energy storage options should be expanded to include pumped hydro storage, hydrogen, battery storage and other similar low-carbon storage initiatives.

- **Direct pay is essential:** Direct pay will provide value for Indigenous groups, pension funds and Crown Corporations who may not otherwise benefit from a tax credits, increasing program uptake.

- **Stackability:** Credit effectiveness can be maximized by allowing "stackability" with the Clean Fuel Regulations, Output Based Pricing System, and other federal and provincial government programs.

- **Cost inclusion:** Eligible project costs should include those directly and indirectly associated with the project (e.g., capital, labour, contractors, overhead, etc.) to reflect the breadth of modern capital projects. Costs incurred prior to a final investment decision should also be eligible.

To maximize decarbonization efforts, **Canada needs to provide stable support for low-carbon energy and storage solutions that is internationally competitive, specifically with the U.S., to foster desired domestic emission reductions and advance nascent, high-value opportunities.** In the U.S., renewable electricity investment and production tax credits have played a significant part in helping renewables provide over 20 percent of the country's electricity generation in 2021, with wind and solar providing 9.2 percent and 2.8 percent of total generation, respectively. On August 16, 2022, the U.S. signed the *Inflation Reduction Act of 2022* into law providing an example of legislation that looks to continue enhancing U.S. leadership in this space. Canada's policy environment needs to match U.S. policy support to facilitate domestic investment and ensure Canada remains an international leader in clean electricity deployment.

Recommendation 3: That the Government of Canada amend the proposed Excessive Interest and Financing Expenses Limitation (EIFEL) rules to: provide exemptions for large domestic infrastructure projects, including low-carbon energy and rate-regulated projects; extend carry forward provisions; grandfather existing debt; and, postpone the implementation date.

On February 4, 2022, the Department of Finance released a draft of the EIFEL proposal. Our analysis found that the recommended interest limitation rules contained in the EIFEL proposal will constrain the ability for Canadian companies to raise capital and compete effectively with other similar jurisdictions. The proposed rules will disproportionately impact the development of large infrastructure and low-carbon energy projects in Canada, increasing costs to consumers and impeding the transition to net-zero.

Anticipated negative impacts include:

- **Financing issues**: Canadian companies will be further constrained in their ability to raise capital and need to restructure pre-existing debt obligations and re-finance in foreign jurisdictions to limit tax impacts.
- **Hindrances to capital investments**: The EIFEL proposal is particularly difficult for companies with large capital programs, rate-regulated projects, and energy transition projects. The proposed rules will hinder capital investment economics and create another impediment to investing in large-scale infrastructure projects. Cost increases to rate-regulated energy infrastructure will be passed on to consumers, causing price increases that will hit Canadian households and businesses.
- **Reduced global competitiveness**: Canada is an open economy with extensive trade relationships and dynamic capital markets. The draft EIFEL rules are counter-productive to the well-established foreign affiliate rules which ensure competitiveness and a Canadian advantage for Canadian multinationals with global operations.

These challenges directly impact TC Energy, other Canadian companies, and Canadian projects that are critical to achieving Canada's 2030 and 2050 GHG emissions reduction targets while also meeting the nation's rising need for reliable, sustainable, and affordable energy.

To ensure the EIFEL proposal does not diminish international competitiveness and Canada's ability to finance energy transition projects in a capital-efficient manner, we recommend the following amendments:

- **Provide exemptions** for large domestic infrastructure projects, including low-carbon energy and rate-regulated projects, to cap costs that are passed on to consumers and would exacerbate inflationary pressures. This is in-line with measures that other OECD countries, including the U.S., have implemented.
- **Extend carry forward provisions** indefinitely to ensure that non-deductible interest can be utilized and not lost over time. This is consistent with measures that other OECD countries, including the U.S., have implemented.

- **Grandfather existing debt** on commercial financings and refinancing of that debt for projects not covered by the above proposed exemptions.
- **Extend the implementation date** by a minimum of twelve (12) months. This will allow time for affected companies to navigate the administrative complexity associated with complying with these proposed rules and the difficulty and cost of refinancing existing debt.