

March 26, 2024

Louise Levonian
Business Income Tax Division
Tax Policy Branch
Finance Canada

Dear Ms. Levonian,

Subject: Follow up from discussion of Canadian Hydrogen Association's feedback to the Clean Hydrogen Investment Tax Credit.

Thank you and your team for taking the time to meet with my colleagues and me last Thursday, March 21. I would like to highlight and follow up on some of the points we discussed.

At a high level, the overarching concern of our approximately 200 members is that, by being overly prescriptive, the CH ITC is inadvertently distorting the market and preventing the decarbonization of hard to abate sectors. The analogy used in the meeting, which seemed to resonate, was that at the tail pipe, hydrogen use is zero emissions. As the industry advances and we incentivize low carbon hydrogen production, upstream emissions will also approach zero. However, at this early stage, an over-prescriptive CH ITC may overly constrain this nascent industry, preventing it from emerging as a viable pathway to support Canada's decarbonization goals.

The CHITC could potentially outperform the US IRA 45V legislation in several aspects, offering a more conducive environment for hydrogen investment and development. The Canadian and US landscapes are considerably different with two unique made-in-Canada advantages that must be underscored:

- **Clean Grids today:** Canada's cleaner energy grids contribute to a sustainable energy ecosystem, reducing carbon footprint, and setting a global standard for clean energy practices.
- **Net Zero Grids tomorrow:** The Clean Electricity Regulation (CER) ensures the transition of all Canadian grids to net-zero emissions by 2035. Canada should rely on the impact that the CER will have on cleaning our grids, and remove any hurdles to companies accessing the CH ITC, which have already been addressed by the CER.

I am enclosing a more detailed explanation of how Canada can become competitive vis-à-vis the IRA.

At a more detailed level, I am highlighting some of the topics we discussed below.¹

1. De-Risking Investments

It will be crucial to ensure that 100% of eligible project costs can be claimed by one of the project's partnering entities. To this end, CHA requested that the CH ITC:

- Make all partnership forms and governance structures eligible for the full CH ITC amount so that projects receive equivalent financing support regardless of their taxable status.
- Remove the limited partner restrictions or provide a mechanism to re-allocate restricted Clean Economy ITCs to general partners of the partnership.

¹ Please refer to our full submission to Finance Canada dated February 05, 2024.

I am enclosing some of the work that our Tax Partner, Deloitte, has done in this area and others that we didn't have the time to discuss. We would be happy to continue the conversation on this front.

2. Inclusions

The hydrogen industry is nascent and developing at a very fast rate. At this stage, it is crucial to stimulate the emergence of low carbon hydrogen in a simple, non-prescriptive way. Some key asks:

- Make all viable low-carbon hydrogen production pathways and carriers CH ITC eligible.
- Make liquefaction and on-site transportation machinery and equipment CH ITC eligible.
- Establish a broader alignment between the CH ITC and the CCUS ITC to better ensure the inclusion of capital assets from hydrogen from natural gas and CCUS pathways.

Environment and Climate Change Canada (ECCC) is already tasked with developing a model to estimate lifecycle carbon emissions from the different pathways and carriers. There is no need for the CH ITC to, again, prescribe which pathways or carriers should or should not be eligible.

3. Supporting taxpayer projects with power purchase agreements (PPAs)

Hydrogen projects take longer to develop, so it is crucial to capitalize on Canada's existing predominantly clean grids, and the impact of the Clean Electricity Regulation in driving them to net zero by 2035. Imposing extra hurdles will result in the failure to launch the industry, and investments moving to other jurisdictions. Some key asks:

- Ensure that it is well communicated that renewable energy credits (RECs) and clean energy credits (CECs) remain eligible and clarify their eligibility. We understand this was the intent of the legislation write-up, but this is not the interpretation of the broad hydrogen sector.
- Change the 1-year look-back date to 36 months and include a transitional period to gradually introduce an "in-production date" for renewable generation (e.g., 2030 for early projects).
- Allow the use of imported power as provincial grid interconnections improve.

Developing a CH ITC with consistent, clear, and inclusive design features will be crucial to catalyzing taxpayers' diverse low-carbon hydrogen investments.

We would like to offer that we remain working closely with you and your team as you work through the feedback to the incentive, to ensure that this is to the benefit of the industry.

Time is our biggest enemy. We need to act fast, and we need to ensure that there is enough stimulus to make the Canadian hydrogen industry competitive with the US and the rest of the world.

We thank you for taking the time to meet us today and kindly request a follow-up meeting to continue our discussion on better leveraging the CH ITC.

Please do not hesitate to contact me at your earliest convenience to schedule a time to discuss further.

Sincerely,



Ivette Vera-Perez,
President and CEO