

September 8, 2026



The Honourable François-Philippe Champagne
Minister of Finance and National Revenue
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5

Re: 2026 Pre-Budget Consultations – Supporting Canadian e-Fuels Investment and Competitiveness

Dear Minister Champagne,

On behalf of the Electric Natural Gas Coalition (eNG Coalition), I am writing to provide comments as part of the Government of Canada's 2026 Pre-Budget Consultations. Canada has significant natural and industrial advantages that can support a globally competitive e-fuels industry, but targeted improvements to existing federal policy are needed to translate those advantages into commercial-scale investment.

eNG Coalition is a global platform dedicated to raising awareness of e-methane, also known as electric natural gas or e-NG, promoting its tradability, fostering policy support, and driving harmonization of applicable regulations and standards. eNG Coalition's members include energy producers and end-users with substantial industrial expertise and investment capacity across energy technologies. We believe that e-NG, as part of the broader energy economy, can play a critical role in reducing greenhouse gas (GHG) emissions, supporting energy security, creating employment opportunities and economic growth, diversifying Canada's energy mix, and strengthening export competitiveness.

Our recommendations focus on five areas where relatively targeted changes can improve the economics and policy treatment of e-NG and other e-fuels while building on frameworks that Canada has already established:

- Generally speaking, develop consistent life cycle carbon accounting rules that recognize the emissions benefits of combining low-carbon hydrogen with captured or recycled CO₂ that is biogenic, non-biogenic, and/or sourced from direct air capture (DAC).
- Expand the Clean Hydrogen Investment Tax Credit (CH ITC) to include equipment used to produce e-fuel derivatives, including e-NG.
- Update the carbon intensity methodology under the CH ITC to appropriately recognize electricity sourced from low-carbon provincial grids.

- Expand the Carbon Capture, Utilization and Storage Investment Tax Credit (CCUS ITC) to include eligible carbon utilization pathways, including where captured CO₂ that is biogenic, non-biogenic, and/or sourced from DAC is used as a feedstock for e-fuel production.
- Recognize low-carbon hydrogen produced as a by-product of existing industrial processes, including brine electrolysis, as an eligible clean hydrogen pathway under the CH ITC and relevant federal clean fuel policies, including when used as a feedstock for e-NG and other e-fuels.

Background: Electric Natural Gas and e-Fuels

e-NG is a synthetic form of natural gas produced using electricity, carbon dioxide (CO₂), and water. First, through a process called electrolysis, electricity is used to produce hydrogen by splitting the water molecule. This hydrogen is then combined with CO₂ in a chemical reaction known as the Sabatier process to produce methane (CH₄), which can be stored, transported, and used in existing natural gas infrastructure. The resulting e-NG has the same chemical properties as geologic natural gas, making it compatible with current energy systems and applications. While hydrogen production from electrolysis is the most common production pathway, eNG Coalition supports the use of all clean hydrogen production pathways as a feedstock for creating e-NG.

Importantly, captured CO₂ serves as a crucial feedstock for e-NG; this process transforms CO₂ that would otherwise be emitted or treated as a waste stream into a valuable commodity. This CO₂ can be obtained from biogenic sources, industrial processes, direct air capture, or other captured carbon sources. The same basic building blocks—low-carbon hydrogen and captured carbon—can also be used to produce other e-fuels, including e-methanol and synthetic aviation fuels.

The Role of e-NG and e-Fuels in Canada

Canada is particularly well-positioned to develop an e-fuels industry. Several provinces have abundant low-carbon electricity resources, Canada has significant hydrogen and carbon management expertise, and its existing gas, industrial, rail, port, and marine infrastructure can support both domestic consumption and exports. The development of e-NG also supports innovation across several key areas in energy production, storage, and infrastructure, including advancements in e-fuels production technologies, improved hydrogen production efficiency, and enhanced carbon capture and utilization (CCU) methods.

One of the key advantages of e-NG is its compatibility with existing natural gas infrastructure. e-NG can be injected into natural gas pipelines and used in existing industrial facilities, power generation, buildings, transportation, and feedstock applications without requiring significant changes to infrastructure. It can also serve as an energy storage solution by converting low-carbon electricity into storable methane, which can be kept in existing pipelines or underground storage and used when and where energy is needed.

More broadly, the critical components of e-NG production—clean hydrogen production and CO₂ capture infrastructure—are common to e-fuels production generally. Federal policy that enables e-NG therefore supports an interconnected Canadian value chain for hydrogen, carbon capture and utilization, e-methanol, SAF, and other clean fuels and feedstocks. This is increasingly important as international markets, particularly in Europe, create demand for low-carbon fuels in sectors such as maritime transport and aviation.

Recommendation 1 (General): Establish Consistent Life cycle Carbon Accounting Rules for e-Fuels

The Government of Canada should develop consistent life cycle carbon accounting rules that recognize the emissions benefits of combining low-carbon hydrogen with eligible captured or recycled carbon to produce e-fuels. A clear and predictable life cycle framework is foundational to the policies that will determine whether Canadian e-fuel projects are commercially viable.

eNG Coalition supports the use of life cycle carbon intensity (CI) analysis to assess the GHG impact of energy resources in a standardized and technology-neutral manner. Life cycle analysis creates transparency regarding the emissions associated with each production pathway and provides a consistent way to differentiate among fuels based on performance rather than technology type. The methodology should appropriately account for the origin of carbon feedstocks, the CI of hydrogen and electricity inputs, upstream emissions, transport, and the emissions consequences of fuel use.

In particular, the accounting framework must recognize that carbon contained in e-fuels can have fundamentally different life cycle implications depending on its origin. Where biogenic CO₂ or CO₂ captured from the atmosphere is used as a feedstock, combustion emissions should be treated consistently with established life cycle treatment of those carbon sources. Where eligible recycled carbon is used, the methodology should appropriately recognize the avoided release and reuse of a carbon stream that would otherwise be emitted, subject to robust system boundaries and safeguards against double counting.

Consistent life cycle accounting should also ensure that low-carbon hydrogen is evaluated based on its demonstrated emissions profile rather than solely on the production configuration from which it originates. This includes hydrogen generated as a by-product of existing industrial processes, such as brine electrolysis, where the hydrogen meets applicable carbon intensity requirements and can be productively used as a feedstock for e-NG and other e-fuels.

Consistency is especially important because e-fuel projects interact with multiple federal programs. Carbon accounting rules used for the CH ITC, CCUS ITC, Clean Fuel Regulations, hydrogen policy, and future clean fuels measures should be aligned to the greatest extent practicable. Divergent treatment of the same hydrogen, electricity, or carbon inputs across programs creates unnecessary uncertainty and can prevent projects from converting Canada's low-carbon resources into globally tradable fuels.

A harmonized life cycle framework would also improve the export competitiveness of Canadian fuels. Canada should seek alignment, where appropriate, with established international life cycle methodologies so that fuels produced domestically can demonstrate their environmental attributes in major destination markets without facing duplicative or contradictory accounting requirements.

Recommendation 2: Expand the Clean Hydrogen ITC to Include e-Fuel Derivatives

The Government should expand the CH ITC to include equipment used to produce hydrogen-derived e-fuels, including e-methane. The current CH ITC supports hydrogen production equipment and certain downstream applications, including specified ammonia equipment, but does not provide comparable treatment for other major hydrogen derivatives. This creates a gap in the policy framework precisely where clean hydrogen is converted into fuels that can be transported, stored, exported, and used in difficult-to-electrify sectors.

For many applications, hydrogen will be most valuable when converted into another molecule. Methanation allows clean hydrogen to be combined with captured CO₂ to produce e-NG that can use existing gas infrastructure. Similarly, clean hydrogen and captured carbon can be converted into e-methanol or synthetic aviation fuels for maritime and aviation markets. Supporting hydrogen production without adequately supporting the equipment required to convert hydrogen into these products can leave Canadian projects at a competitive disadvantage.

eNG Coalition therefore supports a suite of amendments to the CH ITC that would: (1) define “clean methane” and “clean methane equipment”; (2) define “production facility” for clean hydrogen derivative equipment; (3) amend the definition of “eligible clean hydrogen property;” and (4) amend the definition of “clean hydrogen project.” Derivative equipment should receive treatment comparable to eligible clean ammonia equipment, including an investment tax credit rate of 15 percent for qualifying equipment. Suggested amendment language is provided in the Annex.

This is a targeted extension of an existing policy rather than the creation of new subsidy architecture. It would improve the commercial viability of Canadian projects, support domestic manufacturing and construction activity, and help convert Canada’s clean electricity and hydrogen resources into higher-value products for domestic and export markets.

Recommendation 3: Recognize Low-Carbon Provincial Grids under the Clean Hydrogen ITC

The Government should update the CH ITC carbon intensity methodology so that projects using electricity from very low-carbon provincial grids are appropriately recognized. Canada’s clean electricity systems are a major competitive advantage for hydrogen and e-fuels production, but the current methodology can result in projects connected to highly renewable grids receiving less favorable treatment than their real-world electricity mix would suggest.

This issue is particularly important in provinces such as Quebec, British Columbia, and Manitoba, where hydroelectricity and other non-emitting resources represent a very high share of electricity generation. Policy should encourage developers to locate hydrogen and e-fuel projects where low-carbon electricity is abundant rather than create an accounting outcome that diminishes this advantage.

eNG Coalition supports a straightforward threshold under which projects connected to provincial grids with at least 90 percent non-emitting generation automatically qualify for the highest CH ITC carbon intensity tier, provided applicable verification requirements are satisfied. This approach would create predictability for developers, recognize provinces that have already substantially decarbonized their electricity systems, and align the incentive more closely with the actual environmental characteristics of the electricity being consumed. Suggested amendment language is provided in the annex.

Recognizing low-carbon grids would also strengthen the interaction between federal and provincial policy. Provinces that have invested over decades in low-emission electricity infrastructure should be able to leverage that resource to attract new industrial facilities and clean fuel investment. Doing so would support a more geographically diverse Canadian hydrogen economy and improve the competitiveness of fuels intended for export.

Recommendation 4: Add Carbon Utilization Pathways to the CCUS ITC

The Government should expand the CCUS ITC to include eligible carbon utilization pathways, including where captured CO₂ is used as a feedstock for e-fuel production. Canada's carbon management policy currently places significant emphasis on geological sequestration. Permanent storage will remain an important decarbonization pathway, but it should not be the only pathway supported where captured carbon can instead be used productively to produce fuels and other products.

For e-NG and other e-fuels, CO₂ is an essential feedstock. In e-fuels applications, carbon capture is not ancillary to the project—it is part of the clean fuel production process. A policy framework that supports the capture of CO₂ for storage but not comparable capture for eligible utilization creates an artificial preference between carbon management pathways.

Carbon utilization is also particularly relevant in regions where access to geological sequestration is limited or uneconomic. Allowing qualifying captured CO₂ to receive CCUS ITC treatment when used to produce low-carbon e-fuels would create additional economic value from industrial carbon streams, expand the geographic reach of Canada's carbon management strategy, and support clean fuel production in provinces where storage opportunities are constrained.

Eligibility should be paired with robust life cycle accounting so that supported utilization pathways demonstrate a verifiable emissions benefit and avoid double counting. This approach would complement, rather than weaken, the integrity of the CCUS ITC while

recognizing that carbon can function as a valuable circular feedstock in a low-carbon economy.

Recommendation 5: Recognize Low-Carbon By-Product Hydrogen as an Eligible Clean Hydrogen Feedstock

The Government of Canada should recognize hydrogen produced as a by-product of existing industrial processes, including brine electrolysis, as an eligible low-carbon hydrogen pathway under the Clean Hydrogen Investment Tax Credit and relevant federal clean fuel policies where the hydrogen meets applicable life cycle carbon intensity requirements.

Brine electrolysis facilities already produce hydrogen as part of established industrial operations. In many cases, this hydrogen is underutilized, vented, or directed toward relatively low-value applications. Where life cycle analysis demonstrates that this hydrogen has a sufficiently low carbon intensity, federal policy should enable its productive use as a clean hydrogen feedstock rather than exclude it based on the configuration or primary purpose of the facility in which it is produced. Allowing qualifying by-product hydrogen to serve as an eligible feedstock for e-NG would create additional value from an existing industrial stream while reducing the need to construct incremental hydrogen production capacity solely to satisfy policy eligibility requirements.

Eligibility should be based on the life cycle carbon intensity and verifiable environmental attributes of the hydrogen, rather than on whether hydrogen production is the primary purpose of the underlying industrial facility. This approach would be consistent with a technology-neutral life cycle accounting framework and would reward the productive use of low-carbon resources that are already available within Canada's industrial economy.

Conclusion: A Coordinated Federal Framework Can Unlock Canadian e-Fuels Investment

Canada has the resources, infrastructure, technical expertise, and project pipeline necessary to become a global leader in e-NG and other e-fuels. The next step is ensuring that federal policy consistently recognizes how these fuels are produced and the value they can provide.

The targeted changes outlined above would improve policy coherence, unlock private investment, and strengthen Canada's competitiveness in rapidly growing global markets for low-carbon fuels without requiring the creation of an entirely new federal program.

Thank you for your consideration of these comments. eNG Coalition and our members remain available to provide further information or engage in discussions on these important matters.

Sincerely,

/s/

Rafik Ammar
Policy Director
eNG Coalition
Email: rafik.ammar@eng-coalition.org

Annex: Suggested Amendments to the Clean Hydrogen Investment Tax Credit

Hydrogen Derivative Eligibility

1. New Definitions:

- “clean methane” means methane produced from clean hydrogen and captured carbon through a methanation process. (méthane propre)
- “clean methane equipment” means equipment (other than carbon capture equipment as described in Class 57 of Schedule II to the Income Tax Regulations) that is used solely for the purpose of producing clean methane, including equipment for
 - (a) converting clean hydrogen and captured carbon into methane through methanation at the point where the carbon feedstock enters the reaction process;
 - (b) reaction heat recovery and conversion;
 - (c) feed compression, purification, and conditioning of hydrogen and captured carbon downstream of capture; and
 - (d) on-site purification, compression, and storage of clean methane. (matériel pour méthane propre)
- “production facility” means, in respect of clean methane equipment, clean methanol equipment, or sustainable aviation fuel equipment, the site where the applicable product is synthesized from clean hydrogen and captured carbon, including all structures, equipment, and systems that are directly connected to and functionally integrated with the synthesis process, but excluding any separate facilities used solely for bulk storage, transportation, or distribution of the product after the synthesis and initial purification process is complete. (installation de production)

2. Amendment to the definition of “eligible clean hydrogen property” in subsection 127.48(1)(c)(iii):

Replace:

“(C) dual-use hydrogen and ammonia equipment, or (D) project support equipment,”

With:

“(C) dual-use hydrogen and ammonia equipment, (D) project support equipment, (E) clean methane equipment, (F) clean methanol equipment, or (G) sustainable aviation fuel equipment.

3. Amendment to the definition of “clean hydrogen project” in subsection 127.48(1)(c):

Replace:

“the production of clean ammonia that uses a feedstock of clean hydrogen produced by the project”

With:

“the production of clean ammonia, clean methane, clean methanol or sustainable aviation fuel that uses a feedstock of clean hydrogen produced by the project.”

Electricity Sourcing from Low-Carbon Provincial Grids

1. Addition to subparagraph 127.48(6)(e)(iii) the following proposed amendment:

(iii) (A) If, in respect of an operating year, the qualified clean hydrogen project sourced electricity from a provincial grid where the average proportion of renewable electricity exceeded 90% in the previous calendar year then for the purposes of determining the specified percentage, the expected carbon intensity of the derivative fuel to be produced by the eligible clean hydrogen property is deemed to be less than 0.75 kilograms of carbon dioxide equivalent per kilogram of hydrogen used as feedstock.