

Incentivizing Abandoned Well Clean-up and Reinvestment in Alberta

Issue

Alberta has 97,000 inactive well sites that present challenges to the hosting landowners and the environment. The R* ("R-Star") Job Creation Program will join with current government programs to encourage the abandonment & reclamation of depleted oil & gas wells, as well as attract investment back into Alberta, restoring livelihoods and local economies.

Background

According to CTV News' investigative program *W5*, there are 97,000 "inactive" wells in Alberta¹. These many well sites across Alberta devalue and even harm land owned by private landowners. By law, companies are obligated to clean the wells up, but there are no deadlines in Alberta for when the work must be completed. In many cases, the company that created the well now no longer exists or has sold the asset to other energy companies. Alberta is one of the few jurisdictions with no deadlines for reclamation. The Alberta Government estimates that it will take \$18.5B to clean up wells, but an independent study performed by the Alberta Liabilities Disclosure Project, estimates it could be closer to \$70B¹. The Orphan Well Association is an essential government-operated organization that has taken on this massive clean-up challenge.

The Government of Alberta currently employs a Liability Management Ratio (LMR) program that determines the liability of well sites. The LMR program has allocated a deemed liability value to every oilfield site in Alberta and assigns a ratio to every energy company in Alberta based on the assets divided by the liabilities of that company; an LMR >1 means that the assets outweigh the liabilities, and <1 means that the company has more deemed liabilities than their assets can cover. This ratio can cause challenges for smaller players if they drill or buy a well that does not produce, and that "dud" well reduces or nullifies the company's valuation.

The Drilling and Completion Cost Allowance "C*" program was introduced as a part Alberta Modernized Royalty Framework (MRF) and came into general effect in 2017. This program allows newly drilled wells to produce a certain amount of revenue at a reduced royalty rate before paying full royalties to the province, which encourages further investment into Alberta.

1. <https://www.youtube.com/watch?v=UfpejieuOxs>
2. <https://www.canadianenergycentre.ca/big-oil-is-mainly-small-oil-in-canada/>

As a whole, the current royalty framework has its challenges and presents an opportunity to rethink the way that wells are considered on the balance sheet and provide a new incentive for investment in Alberta.

The Alberta Chambers of Commerce is proud to join in calls for the Province of Alberta to adopt and implement an R* (pronounced "R-Star") credit program. The R* credit will be issued to oil and gas companies that complete a well abandonment and achieve a reclamation certification. The value of each R* credit is based on the value already predetermined by the LMR Program and will be attached to the existing C* incentive program. Thus, companies that clean up a well site will receive a royalty credit to use on their newly drilled well projects, turning a liability into an investment opportunity in Alberta, and allowing them to retain employees and create new jobs. By making the credits transferable to other companies, R* will make well clean-up more attractive to companies not actively drilling new projects.

Sproule (a global energy consulting firm) estimates that if Alberta adopts the R* program it would encourage oil and gas companies to spend their own capital to clean up Alberta's liabilities while encouraging new drilling within Alberta without costing the Alberta taxpayer any additional money. Sproule estimates that nearly \$20 billion spent on cleaning up Alberta's liabilities could yield a total GDP of \$76.7 billion, creating 366,000 thousand jobs in Alberta and yielding \$2.66 billion in new taxes (not including personal income taxes & corporate taxes). It is estimated 2000-4000 new wells could be drilled in Alberta and that \$8.54 Billion could flow in new royalties for Albertans. By turning liabilities into investment opportunities, it will increase the value of every oil and gas asset in Alberta making Alberta's oil patch very attractive to foreign investment again.

While there are many large oil companies that are well known to Albertans, it is the local businesses that service the oil fields, supporting the local economies. In fact, on a national scale over 95 per cent of oil and gas sector companies are small businesses with less than 100 employees². The R* credit has the opportunity to not only support major reclamation, but to help rebuild local economies as well.

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With the right action, Alberta can become a world leader in environmental reclamation and remediation. Alberta holds a unique jurisdictional advantage in offering this program because the province owns over 80% of the mineral rights, which allows the government the ability to offer this program across most of the province. We believe the R* Job Creation Program is the right approach to help incentivize clean-up and promote drilling investment back in Alberta, restoring livelihoods.

Recommendation

The Alberta Chambers of Commerce recommends that the Government of Alberta

- Implement the R* Job Creation Program to incentivize companies to clean-up liabilities and invest in new drilling projects in the province of Alberta.
- Make the R* credit transferable to other companies to further incentivize action and investment into local economies.

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