

Legislative Costing Note

Publication date:	2020-03-25												
Short title:	Cost Estimate of Bill C-221, An Act to amend the Income Tax Act (oil and gas wells)												
Description:	<p>The bill establishes an income tax credit for qualifying corporations equal to the corporation's general rate reduction percentage for the taxation year multiplied by the total of all expenses incurred by the corporation in that taxation year for the closure of an oil or gas well. This tax credit applies to expenses incurred after 2019 and before 2026.</p> <p>A qualifying corporation is defined as a corporation that owns one or more oil or gas wells in Canada which, for a taxation year, produced on average a total quantity of oil or gas that is less than 100,000 barrels of oil equivalent per day. To be considered for this tax credit the oil or gas well must be plugged and capped, surface structures and associated infrastructure dismantled, and the surface restored to its previous condition.</p>												
Data sources:	<table><tr><th><u>Variable</u></th><th><u>Source</u></th></tr><tr><td>Well License List Report</td><td>Alberta Energy Regulator (AER)</td></tr><tr><td>Oil and Gas Well Reclamation Costs</td><td>Alberta Liabilities Disclosure Project (ALDP)/AER Licensee Liability Rating (LLR) Program</td></tr><tr><td>Top Canadian Oil and Gas Companies by Production</td><td>KPMG</td></tr><tr><td>Well Production by Operator</td><td>Canadian Association of Petroleum Producers (CAPP)</td></tr><tr><td>Oil and Gas Production by Province</td><td>Natural Resources Canada</td></tr></table>	<u>Variable</u>	<u>Source</u>	Well License List Report	Alberta Energy Regulator (AER)	Oil and Gas Well Reclamation Costs	Alberta Liabilities Disclosure Project (ALDP)/AER Licensee Liability Rating (LLR) Program	Top Canadian Oil and Gas Companies by Production	KPMG	Well Production by Operator	Canadian Association of Petroleum Producers (CAPP)	Oil and Gas Production by Province	Natural Resources Canada
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Estimation and projection method:	<p>Future well closures were estimated using historical data on the license status of oil and gas wells in Alberta. This historical data was projected forward using the average growth in reclaimed oil and gas wells between 2010 and 2018/2019. This growth was then used to estimate well reclamation in 2026 and reduced backwards by the average annual growth rate until 2020. Ineligible corporations were determined based on production levels from KPMG and CAPP for the 2017 and 2018 calendar years and were excluded from the calculation.</p> <p>Oil and gas well reclamation costs were used from the ALDP and AER LLR Program. The general rate reduction percentage was held constant at its 2020 value of 13% which was applied to the total cost of closing and reclaiming wells in Alberta.</p>												

The Alberta estimate was then grossed-up for other provinces with material oil and gas production in Canada based on their oil production ratio with Alberta. Newfoundland and Labrador were excluded based on the structure of their oil sector.

It was assumed that all qualifying corporations would have taxable income in the current or another taxation year to utilize the full amount of the credit.

Aggregate Results:

PBO estimates the cost of this tax credit to be \$264 million over its lifespan. The cost per year will depend on the total number of wells fully reclaimed in a given year.

Sources of Uncertainty:

The number of oil and gas wells closed and reclaimed in future years will impact the cost estimate, and the number of closures will be impacted by the state of the oil and gas sector in Canada. The estimate is sensitive to the costs incurred by a qualifying corporation when closing oil and gas wells. A behavioural response was not included in the estimate as it is not expected.

Cost of proposed measure

\$ millions	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	42	43	45	47	49	38

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost

