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Province announces three-point incentive program for energy sector

Short-term initiative to stimulate new and continued economic activity

Edmonton... The Government of Alberta has announced a new three-point incentive program designed to help keep Albertans working in the province's energy sector during the current global economic slowdown.

"The oil and gas industry remains the lifeblood of Alberta's economy and communities throughout the province," said Premier Ed Stelmach. "We cannot directly influence the global economic climate. However, we can introduce measures to encourage new investment and help keep Albertans at work. This will benefit families and local businesses, while generating provincial revenues we can invest in programs that are important to Albertans."

The highlights of the province's three-point plan include the following.

- **A drilling royalty credit for new conventional oil and natural gas wells**. This one-year program will provide a $200-per-metre-drilled royalty credit to companies on a sliding scale based on their production levels from last year. This will ensure that the maximum benefits will be available for small and mid-sized producers, while freeing up available capital for all companies.
- **A new well incentive program, which offers a maximum five-per-cent royalty rate for the first year of production from new oil or gas wells.**This one-year program is intended to help free up cash flow, and in turn, help provide access to the capital necessary for reinvestment by Alberta's oil and gas industry.
- **To encourage the clean-up of inactive oil and gas wells, the province will invest $30 million in a fund committed to abandoning and reclaiming old well sites.** This will reduce the environmental footprint of the energy sector by returning well sites to their former states, while also helping to keep industry service crews at work.

"While we cannot make up for the impact that global financial markets are having on Alberta, we are doing what we can," said Energy Minister Mel Knight. "This short-term incentive program introduces innovative ways to help spur activity in our energy drilling and service sector during this economic downturn."

The introduction of the package follows consultation with representatives from the energy industry and the financial community about the current challenges facing investment and oil and gas activity in Alberta. The province will monitor the impact of the incentive program, and at the end of the year, assess whether it is necessary or appropriate for it to be continued.

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Backgrounder: Additional details on the three-point stimulus plan and drilling activity in Alberta

Media inquiries may be directed to:

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NOTE: Technical questions from industry or the financial community regarding these programs can be emailed to response.energy@gov.ab.ca

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Additional details on the three-point stimulus plan and drilling activity in Alberta

Drilling royalty credit

- Applies to new conventional oil and natural gas wells drilled between April 1, 2009 and March 31, 2010.
- Provides a $200 per meter royalty credit for new oil and gas wells.
- Credits will be available on the following sliding scale with the maximum benefit to be provided to small producers. The maximum credits available will be determined by a company's production levels from 2008 and its drilling activity in 2009-10.

2008 Production levels	**Maximum credit as a percentage of royalties owed for fiscal year 2009-10**
Less than 10,000 barrels of oil per day equivalent* (boe/day)	50%
10,001-15,000 boe/day	40%
15,001-20,000 boe/day	30%
20,001-25,000 boe/day	20%
Greater than 25,000	10%
* Barrels of oil equivalent is a measurement used by industry that is based on the amount of energy contained in a barrel of crude oil.	

- For example, consider a company which produced 8,000 boe/day in 2008. The total value of available credits would be based on the company's cumulative measured depth of new drilling in 2009-10. The company would then receive a credit of up to 50 per cent of the total royalties it owed in 2009-10.
- Based on forecasted drilling activity levels, the estimated potential royalty impact of the drilling royalty credit program is $466 million.

New well incentive program

- Applies to all new wells that begin producing conventional oil or natural gas between April 1, 2009 and March 31, 2010.
- Provides a maximum five-per-cent royalty rate for the first 12 months of production, up to a maximum of 50,000 barrels of oil or 500 million cubic feet of natural gas. For example, as long as production caps were not reached, a well producing on April 5, 2009 would be eligible through to April 5, 2010; a well producing on March 25, 2010 would be eligible through to March 25, 2011.
- Based on forecasted drilling activity levels, the estimated potential royalty impact of the drilling royalty credit program is $1.04 billion.

Orphan well fund

- When an oil or gas well has no legally responsible or financially able party to deal with abandonment and reclamation, it is considered an "orphan."

The province is providing $30 million to be invested by the Orphan Well Association in abandonment and reclamation projects with a focus on high-priority, very old "legacy" sites and on final reclamation efforts for abandoned sites—all of which pre-date the creation of the Orphan Well Association and the establishment of modern industry practices and regulatory standards. There are more than 600 estimated sites that fall into these categories.

Energy industry employment
A drilling rig drills holes to determine whether oil or gas is present in commercial quantities. A working drilling rig will usually employ up to four crews of four to six people. Once a viable pool has been reached, the drilling rig will usually be replaced with a service rig, which is specifically equipped to bring the well into production. Service rigs generally work on existing wells, including completing wells that have just been drilled, fixing wells that are not producing oil or gas, and abandoning wells that have stopped producing.

According to the Canadian Energy Research Institute (CERI):

- an average well drilled to a depth of 2,300 meters generates approximately $1.65 million in economic activity, mainly covering labour and supply costs;
- each new oil or gas well drilled supports approximately 120 jobs including those directly employed by the energy industry, supplies and service sector; indirectly in other support industries, including hotels and restaurants; and induced jobs including those that provide supplies and services to the support industries; and
- one job in the oil and gas sector is supported by two jobs in other support industries, and the support industries are supported by 1.7 jobs in other industries.

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