Well Drilling Equipment Tax Removal

This is week two of RMA's campaign to demonstrate the ongoing subsidization of the oil and gas industry by the Government of Alberta at the expense of municipal revenue.

What is it?

Section 388 of the *Municipal Government Act* allows for municipal councils to pass a bylaw imposing a well drilling equipment tax (WDET) to be assessed on the equipment used to drill a well for which a license is required under the *Oil and Gas Conservation Act*. The rules for calculating the WDET are established through regulation by the Minister of Municipal Affairs. This regulation allows municipalities to collect a one-time WDET from companies based on the depth of wells drilled. The intent of the WDET is to allow municipalities to fund infrastructure maintenance to offset the impact of increased industrial traffic associated with drilling oil and gas wells.

Prior to 2020, Alberta Regulation 218/2014 established annual WDET rates calculated by well depths, with progressive taxation tiers, and increasing corresponding taxes in subsequent taxation years of the regulation. Alberta Regulation 293/2020 came into force December 2020, repealing Well Drilling Equipment Tax Rate Regulation AR 218/2014 and setting the tax under Division 6 of Part 10 at $0. This measure removed the WDET as a revenue option for municipalities impacted by drilling operations.

What does it mean for rural municipalities and industry?

Rural municipalities maintain a vast infrastructure network of roads and bridges that provides access to Alberta's natural resources. In fact, RMA members are responsible for 173,000 kilometres of roads, 6,900 bridges, and 7,500 culverts.

Maintaining this extensive transportation network is a major budget consideration for rural municipalities. Industrial traffic places significant strain on municipal transportation infrastructure, and therefore, areas experiencing drilling activity will require additional funding to maintain the infrastructure to keep it safe and efficient. The WDET was first implemented in 1948, and has been reviewed by the GOA several times since then. Each review provided recommendations on ways to improve the methodology of the WDET, but none recommended the complete removal. Without the WDET, municipalities are left with the costs associated with drilling activity without offsetting revenue to maintain the degraded infrastructure.

When did it happen?

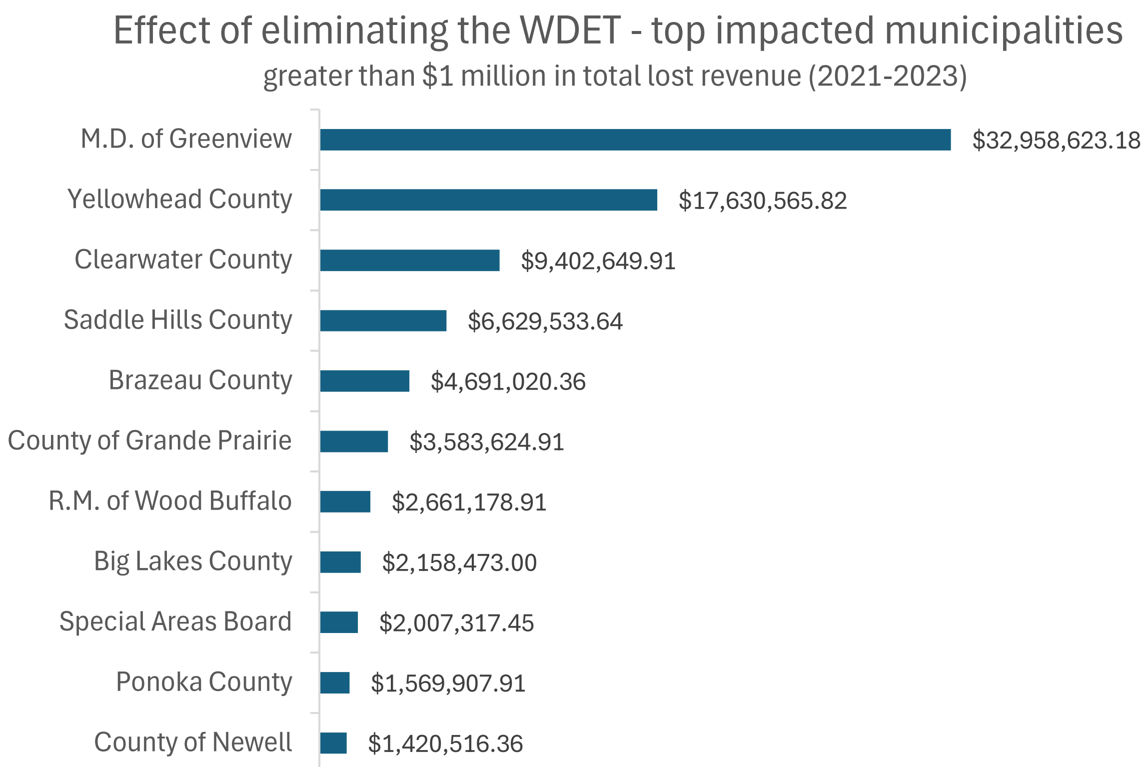
The removal of the WDET happened in 2020 during a period of significant economic uncertainty and low commodity prices. In 2020, only 2,236 wells had been drilled in the province. The removal of the WDET was an initiative by the Government of Alberta (GOA) to provide economic relief to the oil and gas industry. However, in 2023 8,294 wells were drilled, indicating that the industry sees a profitable future in Alberta.

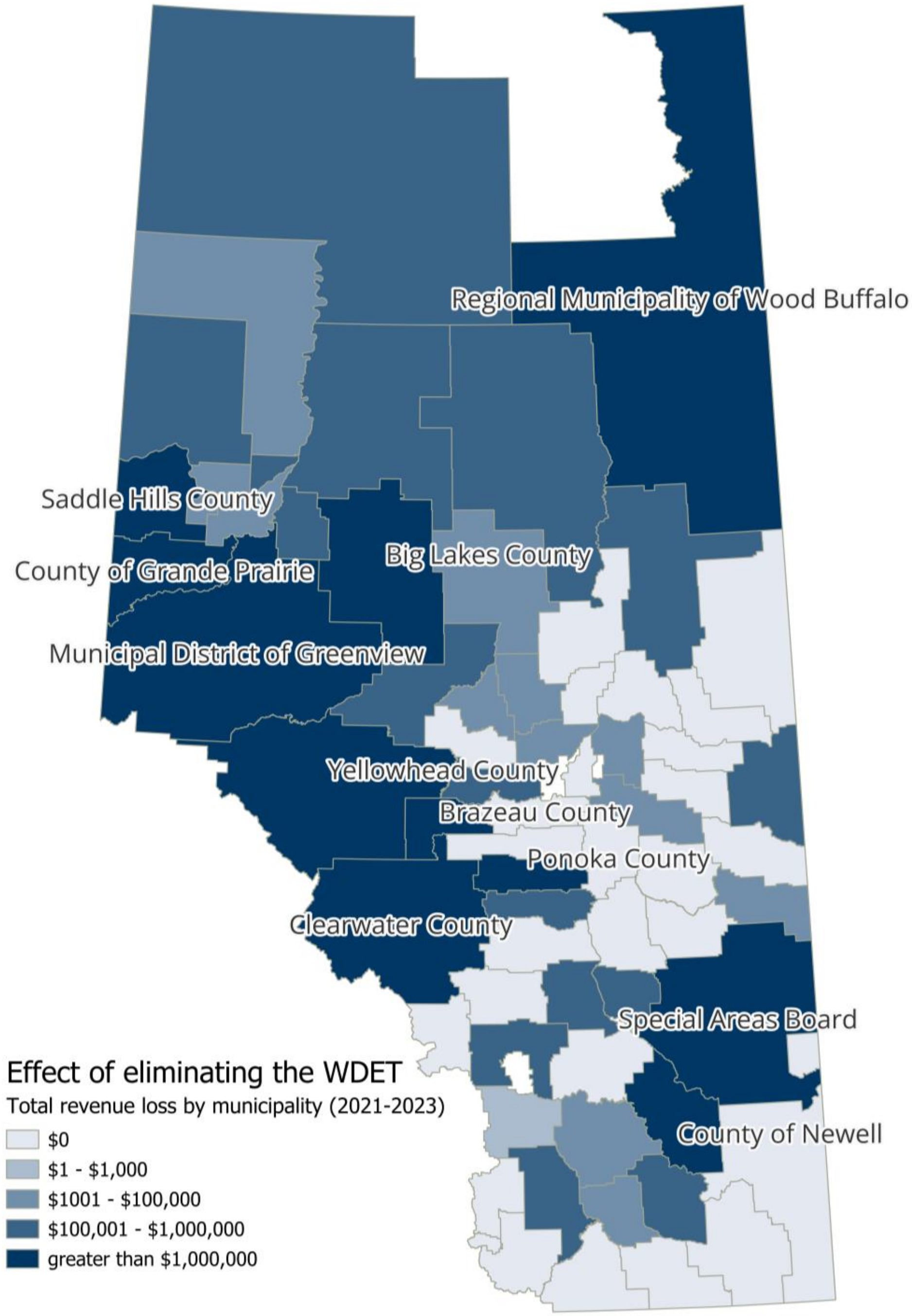
What are the impacts?

- $91.74 million from the elimination of the Well Drilling Equipment Tax provincewide from 2021-2023.

Where are the impacts?

Because the WDET is linked to newly drilled wells and to the depth of individual wells, the impacts of lost WDET revenue are highest in areas of the province linked to continued industry growth in which deep wells are more common (mainly northwestern Alberta). However, significant losses in some municipalities in central and southern Alberta suggest that the WDET was an important source of support for municipalities across Alberta.





Our methodology

To calculate the amount of WDET revenue lost by municipalities from 2021 to 2023, RMA retrieved the amount of WDET collected by each municipality from 2010 to 2020 from the Municipal Financial and Statistical Data page on the province's Open Data site. RMA then calculated the average WDET revenue collected by each municipality for that ten-year period. 2020 is the end point for WDET data, as that is when the WDET regulation was amended to set the tax to $0. Therefore, each municipality's ten-year average is carried forward for each of 2021, 2022, and 2023 and then totaled for all three of those years for each municipality and the whole of the province.

Watch next week for an issue on unpaid municipal taxes by the oil and gas sector.