

## Alberta's Petrochemicals Incentive Program

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### Overview

On October 30, 2020, the Alberta government announced the launch of the new [Alberta Petrochemicals Incentive Program](#) (the APIP)<sup>[1]</sup> as an integral part of the [Alberta Government's Recovery Plan](#)<sup>[2]</sup> [PDF] and the [Natural Gas Vision and Strategy](#)<sup>[3]</sup> [PDF]. The APIP offers funding to either new petrochemical or fertilizer facilities or expansions of existing operations as part of the government's strategy to encourage and support growth in the petrochemicals sector and capitalize on Alberta's bountiful natural gas reserves. The funding is directed at meeting the Alberta government's goal to make Alberta one of the top 10 global producers of petrochemicals. The Alberta Industrial Heartland Association predicts there is growth potential of more than \$30 billion in the petrochemical sector by 2030, which could create more than 90,000 job opportunities for Albertans and generate more than \$10 billion in income tax revenue for the Alberta government.<sup>[4]</sup>

The key features of the APIP include:

- Each project will be eligible to apply for a grant that is worth up to a maximum of 12% of the project's eligible capital costs.
- The APIP will run for 10 years from November 1, 2020, to November 1, 2030, although funding will continue to be dispensed to eligible projects for three years after the closure of the applications on November 1, 2030.
- Each project must be built and operational within a five- or 10-year program period to qualify for funding.
- Projects will only receive funding after the facility is built and operational to ensure only projects that have actually created new jobs for Albertans receive the grant.

### Eligible projects

The APIP [Program Guideline Document](#) [PDF] (the Program Guidelines)<sup>[5]</sup> outlines the requirements for a project to be eligible for the grant under APIP, which includes:

- The project must have capital investment of at least C\$50 million.
- The project must be physically located within Alberta.
- The project must meet the following feedstock requirements:
  - (1) The petrochemical project must process natural gas, natural gas liquids or

- petrochemical intermediates into different petrochemical intermediates, petrochemicals products, hydrogen, fertilizers or fuels; or
- (2) A portion of the petrochemical project may be eligible if it produces an ingredient not mentioned in (1) but is a core input to manufacture of the petrochemical products, fertilizers or fuels. In this case, the ingredient would be considered eligible feedstock. Projects using eligible feedstock to produce hydrogen are eligible.
- The project must create new and permanent jobs in Alberta.
  - The project must meet the federally set definition of a manufacturing and processing facility.

The Program Guidelines also provide a list of excluded activities that will be ineligible for the funding, which includes midstream oil and gas facilities, refining and upgrading facilities, LNG facilities and facilities that manufacture end user consumer products.

## Funding limitations

There is currently no cap on the amount of funding that will be made available through the APIP. A petrochemical project is still eligible for APIP funding even if it has received other government funding, but projects can only receive funding from either the APIP or the Petrochemicals Diversification Program (PDP), the former petrochemical facilities incentive program implemented by the Alberta government which granted royalty credits. The APIP is intended to improve on the PDP to create additional investor stability and certainty by using grants instead of credits. Projects that were previously approved under the PDP have six months from the November 1, 2020, launch date to determine whether to retain the PDP approval for royalty credits or transition to the APIP. Projects that transition to the APIP must surrender all existing PDP royalty credits and comply with the APIP rules and application process.

## Eligible capital costs

Only “eligible capital costs” associated with the project will be used to calculate the maximum grant available for each project. The eligible capital costs, as defined in section 13(21) of the Canada *Income Tax Act*<sup>[6]</sup>, are “undepreciated capital cost” of the property in respect of an eligible project, which are: (i) the costs of property described in clause (a)(i) of Class 29, of Schedule 11 of the Canada *Income Tax Regulations* (the Regulations)<sup>[7]</sup>; and (ii) the costs of property described in clause 1100(1)(a.1) of the Regulations.

## Application process

There is a three-stage submission process set out in the Program Guidelines. The Department of Energy is responsible for administration of the APIP and the Minister of Energy has the sole discretion to make any changes to the APIP or alter the terms of the grants if necessary.

### Step 1: Advance Notification

The project proponent will file an Advance Notification online intended to help investors determine whether the proposed project will be eligible for the grant and provide an estimate of funding available. The Advance Notification must include certain project

proponent information, a project summary and a minimum of a Class 5 capital cost estimate. The Department of Energy will provide a response as to whether the project is eligible for the APIP with an estimate of the funding available to the project based on eligible capital costs, but this does not guarantee the project will receive funding.

## Step 2: Qualification

Proponents must submit an application with all required information, including a Class 3 capital cost estimate. The APIP Committee will confirm whether the project qualifies and will be offered a grant agreement. The grant agreement will set out the terms and conditions for the project, including the maximum amount of the grant based on the Class 3 capital cost estimate or a more advanced estimate, the reporting requirements and the time period given for the project to achieve milestones. The maximum grant available to each project is 12% of the total eligible capital costs. If certain project information changes which results in a breach of the grant agreement, the project may be disqualified from the APIP. The project proponents may only apply for the APIP for each project once and each project can only qualify once for the APIP, so it is important that the information provided at this step is accurate.

Projects that already have a final investment decision prior to the launch of the APIP will be able to apply for the grants if they meet all the other eligibility requirements, but they must apply within three months from November 1, 2020, to be eligible.

## Step 3: Payment

A facility must be in-service and achieve commercial operations before the payment of the grant is received. The project proponents will be required to submit the validated Earned Grant Application, which outlines the volume of feedstock consumed or products produced and the permanent jobs that were created since the in-service date. To ensure the objectives of the APIP are met, payments are intentionally only made after the projects are operational and to be considered operational, the project must consume at least 60% of its design consumption of feedstock or produce at least 60% of its design capacity of product within a 12-month period from the in-service date.

For smaller projects with capital investment between \$50 million to \$150 million, the facilities must be constructed and in-service by November 1, 2025, to be eligible for the grant. This grant will be a one-time payment after the facility is operational and consumes eligible feedstock for a 12-month period.

For larger projects with capital investment of more than \$150 million, the facilities must be constructed and in-service by November 1, 2030, to be eligible for the grant. The grant will be paid in three equal instalments at the end of each year once the facility is operational. If a project cannot complete the requirement of 36 months of operations from the in-service date for any reason whatsoever, the project will receive prorated funding only for the months the project was operational.

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[1] <https://www.alberta.ca/alberta-petrochemicals-incentive-program.aspx#toc-0>

[2] The Government of Alberta launched Alberta's Recovery Plan in response to the unprecedented economic crisis that arose from the COVID-19 pandemic. The full text of the

Alberta's Recovery Plan can be found [here](#) [PDF].

[3] The Natural Gas Vision and Strategy outlines the government of Alberta's commitments to support the long-term growth of the natural gas sector, including the goal for Alberta to become a top 10 global producer of petrochemicals. The full text of the Natural Gas Vision can be found [here](#) [PDF].

[4] <https://www.alberta.ca/release.cfm?xID=74587C34A7805-EB41-F08F-8C845801CF54F1FE>

[5] Available online [here](#) [PDF].

[6] RSC, 1985 c 1 (5th Supp), as it stands on November 1, 2020.

[7] CRC c 945, as it stands on November 1, 2020.