

Inventory Reduction Program: Closure Quotas 2022 Highlights

- **Over \$1 billion in closure spend reported by industry.**
- **\$685 million funded by licensees.**
- **11 746 licences were abandoned (also known as decommissioned).**
- **4 461 licences received reclamation certification.**
- **35 078 licences reported spend for remediation and reclamation activities.**



As part of the implementation of the new *Liability Management Framework (LMF)*, the Alberta Energy Regulator (AER) introduced the Inventory Reduction Program, which includes an industry-wide spend requirement and licensee-specific mandatory closure spend quotas (the licensee's portion of the industry-wide spend requirement). The purpose of inventory reduction is to increase the amount of closure work, reduce inactive liability, and increase the amount of land returned to equivalent capabilities. Mandatory closure spend quotas specify the minimum amount of money that licensees are required to spend on closure work each year. The Inventory Reduction Program, with its mandatory closure spend quotas, replaced the voluntary Area-Based Closure (ABC) Program, which some licensees participated in from 2019 to 2021. The closure work completed by licensees in the ABC program can be found in the [ABC Program Highlights Reports on the AER website](#) and summarized in the figures below.

The requirement for closure spending allows licensees to focus on aspects of closure work that fit their inactive liability reduction goals rather than the AER directing specific closure work. A significant benefit of closure spending is that licensees can direct spending towards large-scale, efficient, area-based closure projects.

The industry-wide spend requirement for 2022 was \$422 million. A significant factor in the overall closure spend and activity for 2022 was the additional funding



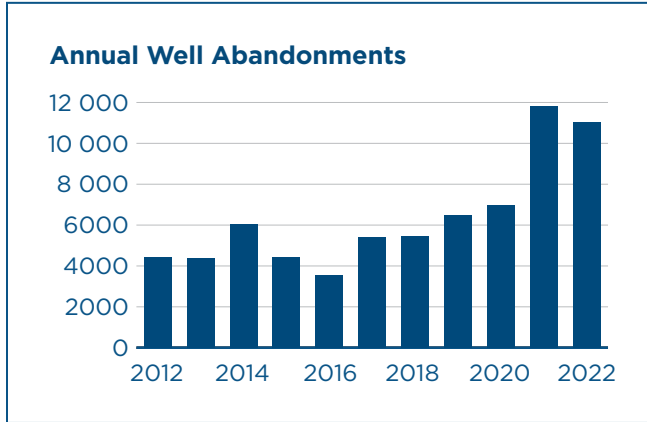
from the Government of Alberta Site Rehabilitation Program (SRP). It is important to note that the SRP funding did not count towards a licensee's closure quota.

Closure Activity Summary

Closure consists of activities to abandon, remediate, and reclaim the infrastructure and site. The following section highlights the different closure activities taking place in Alberta.

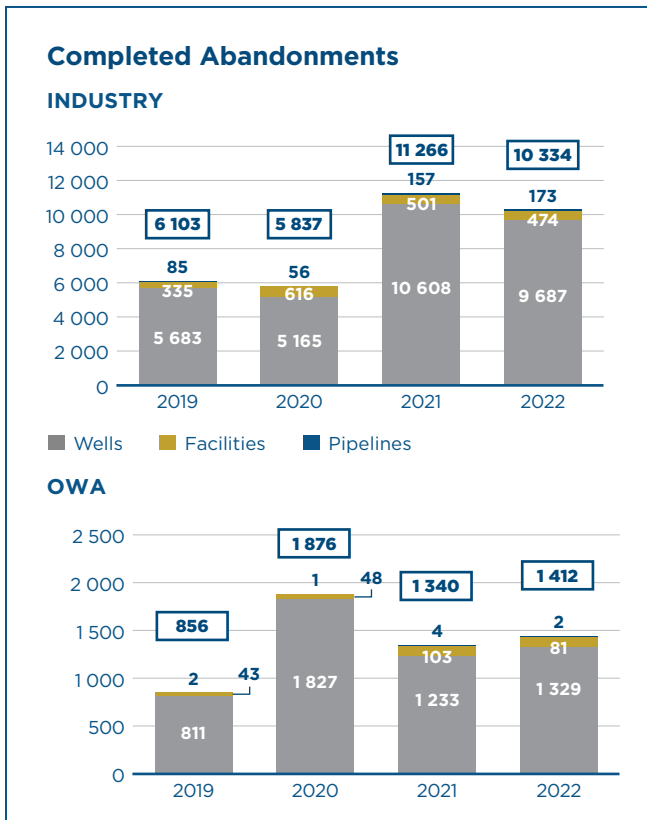
Well Abandonment Trend

The figure below shows the number of wells abandoned in the past decade. There has been a notable increase in closure work completed by industry in the last two years. We expect this trend to continue with further implementation of the LMF and the Inventory Reduction Program.



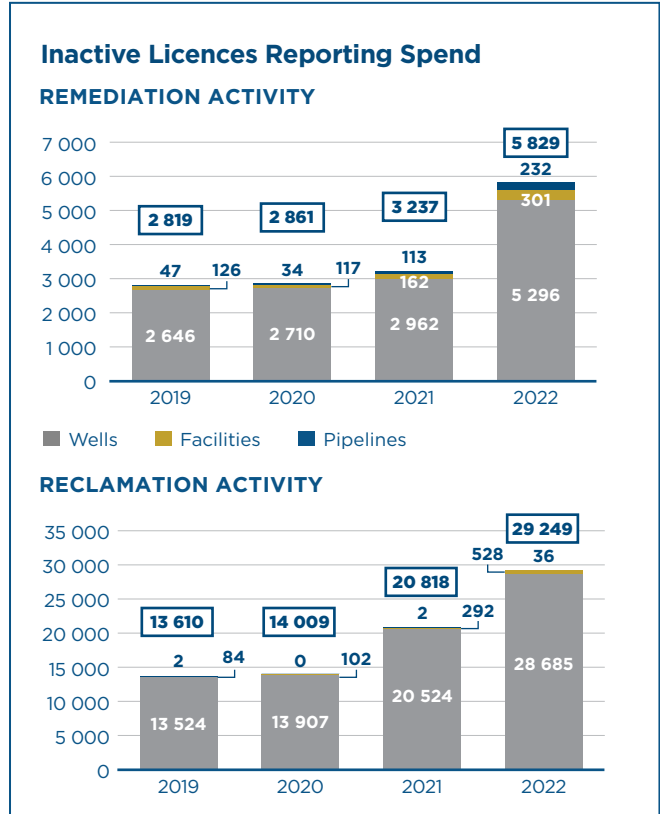
Closure work by Licence Type

The following figures show the number of abandonments by industry and the Orphan Well Association (OWA). While the number of abandonments completed by



industry dropped slightly in 2022, it is still almost double the numbers in 2020 and 2019.

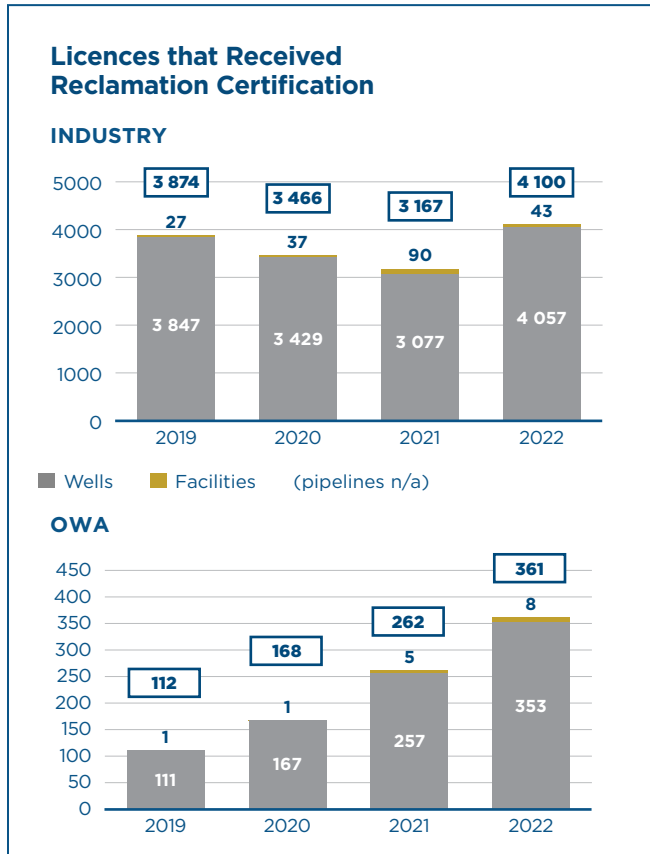
The figures below show the number of licences that have reported remediation or reclamation work by industry. Please note the 2019 to 2021 data only includes companies that participated in the ABC program.



As shown in the following figures, the number of licences that received a reclamation certificate increased by a third. Reclamation is a multiyear process that is com-



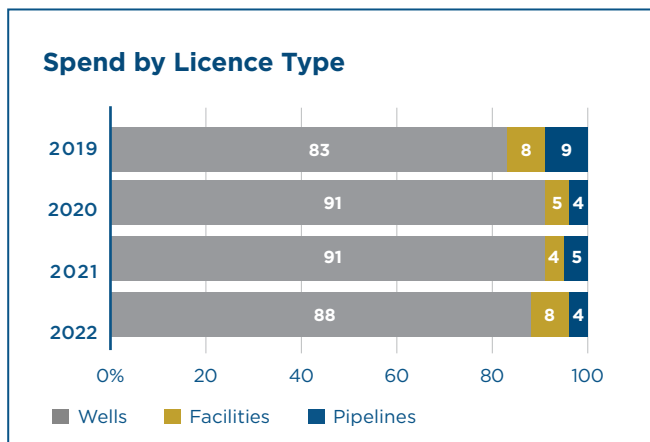
pleted with the submission and approval of a reclamation certificate.



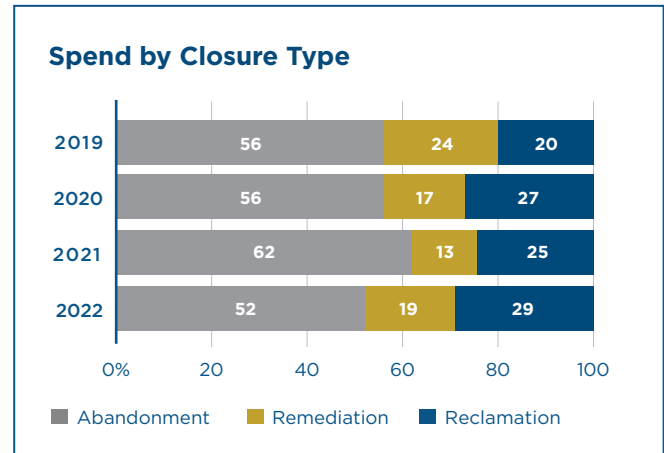
Closure Spend Summary

Closure spend is the money spent on different closure activity on infrastructure and sites. The 2019 to 2021 data only includes companies that participated in the ABC program.

While licensees can report on closure spend for wells, facilities, and pipelines, closure spend is still primarily focused on wells (88% of spend).



When we look at this breakdown based on type of closure activities, 52% is focused on abandonment of infrastructure, 19% on remediation, and 29% on reclamation activities.



Closure Spend Quota Requirement

While SRP grant funding contributed to increased closure spending, the government-funded portion does not count towards a licensee’s mandatory closure spend quota. In 2022, licensees reported a total closure spend of over \$1 billion. Licensees contributed \$685 million in spend, while the industry closure requirement was \$422 million.

Licensees achieve compliance with the mandatory closure spend quotas in three ways:

- Licensees spend sufficient money to meet or exceed their mandatory closure spend quota.
- Licensees opt to provided security in lieu of closure spend.
- Licensees provide security for the difference between their mandatory closure spend quota and their closure spend reported.

Approximately \$9 million, or 2 per cent of the \$422 million mandatory closure spend is outstanding. The AER will undertake compliance assurance activities against licensees who remain noncompliant with their mandatory closure spend quota. Further enforcement information will be posted on the AER Compliance Dashboard as it becomes available.