Closure Quotas and Spend Requirements

Alberta Energy Regulator

The AER has introduced closure quotas as a part of the inventory reduction program to ensure that every licensee is prioritizing closure of their inactive oil and gas infrastructure.

What are closure quotas?

Closure quotas specify the minimum annual dollar amount licensees are required to spend on closure activities like decommissioning, remediation, and reclamation of a well, facility, or pipeline.

Why were closure quotas developed?

As part of the inventory reduction program, closure quotas are essential for ensuring the timely and efficient closure of energy development sites. This also requires all licensees with inactive liability to conduct a minimum amount of closure work annually or provide security. This minimizes the environmental and financial liabilities associated with inactive or decommissioned infrastructure where the land has not yet been reclaimed. Closure quotas allow licensees to close energy sites in ways that best meet their business needs and find efficiencies by conducting closure activities using an area-based approach.

How is the industry-wide closure spend requirement determined each year?

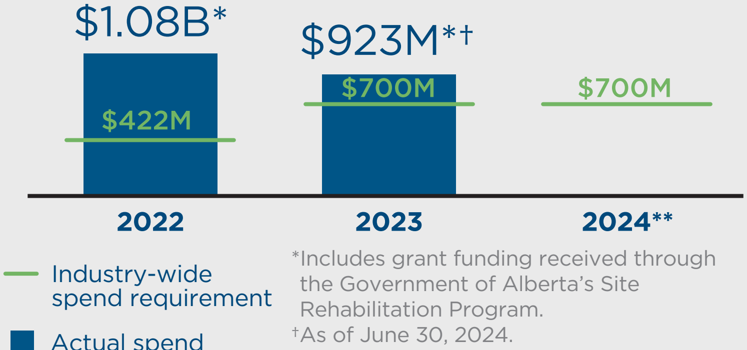
Each year, the AER evaluates factors like market conditions and the results of the previous year's closure spend to ensure licensees are meeting their spend quota and continuing to close oil and gas infrastructure. Based on this, the AER first determines what amount of closure across the entire industry is required. Licensees are then assigned their individual quotas to meet the industry-wide closure spend amount.

In 2022, the AER industry-wide closure spend requirement was first introduced and set at $422 million. For 2023 and 2024, the industry-wide closure spend requirement was set at $700 million each year.

How do you calculate a licensee's share of this industry-wide spend requirement?

The intent of mandatory closure spend quota is for all licensees with inactive liability to conduct closure work annually. A licensee's quota is proportional to its relative share of their inactive industry liability and considers their level of financial distress as determined by the licensee capability assessment (LCA). The mandatory closure spend quota is the value of a licensee's inactive liability multiplied by the spend rate. Spend rates are reviewed annually. A lower spend rate will be applied to licensees with a high level of financial distress.

INDUSTRY-WIDE CLOSURE SPEND REQUIREMENT



*Includes grant funding received through the Government of Alberta's Site Rehabilitation Program.
†As of June 30, 2024.
** 2024 spend reporting is due March 31, 2025.

MANDATORY SPEND QUOTA

Value of a licensee's inactive liability x Spend rate

= Mandatory spend quota

How are closure quotas enforced?

Licensees must report all money spent on closure by March 31 of the following year. If a licensee fails to meet its quota, the licensee may be required to provide a security deposit for the difference between their spend and the quota. The AER may also take other regulatory actions.

Where can licensees view their annual mandatory closure spend quota?

Licensees can view their annual mandatory closure spend quota in OneStop through the Closure Activity & Spend report found in the top-right-hand corner. More details on closure spend calculations can be found in *Directive 088: Licensee Life-Cycle Management* and its associated *Manual 023: Licensee Life-Cycle Management*.

QUESTIONS?

Contact us at **inquiries@aer.ca** or **1-855-297-8311 (toll-free)**