

Frequently Asked Questions

Area-Based Closure

August 2019

Q1. Can the Orphan Well Association (OWA) access OneStop and participate in area-based closure?

A1. The OWA has complete access to participate in the program. The AER encourages companies to contact the OWA if they see an opportunity for collaboration.

Q2. What constitutes an “area”?

A2. There is no regulatory definition. It simply means any area where licensees have infrastructure that they want to close.

Participation and Collaboration

Q3. What happens if a licensee opts-in one year but not the next?

A3. The area-based closure steering committee will evaluate options for licensees that choose to opt-out of the program in future years. If a licensee opts-out of the program without having met their closure reduction target, they will no longer be permitted to use any of the new suspension options under *Directive 013* for medium-risk type 6 wells.

Q4. Are there situations where a licensee will not be allowed to participate in area-based closure?

A4. While there are currently no such restrictions, the AER reserves the right to disallow participation at any time. If specific criteria are developed, we will communicate them.

Area-Based Closure Plan Submission

Q5. Once we submit a plan, how long will it take the AER to approve it?

A5. If licensees are submitting closure plans and are not requesting an alternative suspension activity, no approval is required. Area-based closure plans that include a request for an alternative suspension activity and a commitment from the licensee to comply with the conditions provided by the AER in OneStop are automatically approved. If a licensee does

not commit to the conditions, the submitted plan is reviewed by AER staff and will require additional time.

Q6. Will submitted area-based closure polygon areas and associated map elements be downloadable from the interactive map for in-house use?

A6. Yes, licensees and service providers can download their shapefiles when they are logged into OneStop.

Information and Reporting

Q7. What information will be available for OneStop users?

A7. OneStop will show each company's planned areas of work, the type of closure work to be done in that area for a given year (e.g., well abandonments, wellsite reclamation, pipeline abandonments, etc.), and company contact information.

Q8. Is updating OneStop mandatory?

A8. Yes. Licensees choosing to participate in area-based closure must input planned closure activities and confirmed projects at least once per year. To get the most out of the program, licensees are encouraged to update their closure activities as soon as possible.

Q9. When do I have to report my completed closure activities and associated costs?

A9. Closure activity is already reported under existing AER requirements. Where a licensee has obtained an approval for alternative suspension activity in conjunction with an area-based closure plan, additional reporting will be required that includes closure activity costs and milestones. This additional reporting must be submitted in the same calendar year as when the closure activity was completed.

Performance Monitoring

Q10. Is reported closure spending done on a gross or net basis?

A10. Closure spend information is to be reported on a gross basis.

Closure Spending and Inactive Liability Reduction Target

Q11. What is the inactive liability reduction target and how do I meet it?

A11. Each participant will be assigned through OneStop an inactive liability reduction target, which is an amount of money the participant must commit to spending on closure activities.

The inactive liability reduction target for the 2019 program year is four per cent of the licensee's *Directive 011* deemed inactive liability.

All well, pipeline, and facility abandonment, remediation, and reclamation closure work performed on inactive infrastructure and reported by a licensee will contribute towards meeting its liability reduction target. This includes *all* closure work conducted, whether performed under an area-based closure program or not. Spending on abandoning infrastructure that has not yet been classified as inactive (shut-in less than one year) will also contribute towards meeting the inactive liability reduction target.

Suspension and discontinuation costs do not contribute towards the target.

Q12. When will the AER provide us our inactive liability reduction target?

A12. For the 2019 calendar year, the AER will make available to each licensee their inactive liability reduction target in September 2018 via OneStop. In subsequent years, the target will be made available by June 30th of the prior year to allow adequate planning time to incorporate the target into corporate plans and budgets.

Q13. How is the inactive liability reduction target determined?

A13. The four per cent inactive liability reduction target for 2019 was based on the average historical industry expenditures on closure activities over the last several years. The area-based closure steering committee will evaluate and set this target annually. To stop the growth of inactive liabilities, the target will have to be increased over time.

Q14. How does a working interest participant (WIP) get credit for their closure spend?

A14. For the first year of the program, recognition of WIP closure spending will be done manually on an exception basis when requested by a licensee in situations where accounting for those WIP expenditures will result in a licensee meeting its target, or where WIP expenditures make up the majority of a licensee's closure spending.

In subsequent years, the AER OneStop system will incorporate WIP reporting on all closure activities.

Q15. How does a licensee get credit for dollars spent on remediation and reclamation expenditures in cases where a reclamation certificate is not obtained?

A15. Stage-gate reporting has been established via OneStop to allow licensees to report and gain credit for expenditures on closure activities that have not yet reached a major milestone (i.e., reclamation certificate). For remediation and reclamation, licensees can report milestone dates and associated expenditures pertaining to phase 1, initial phase 2, remediation,

reclamation, and post-reclamation monitoring. With stage-gate reporting, licensees will be allowed to report and be given credit for closure expenditures regardless of whether a reclamation certificate was obtained.

Q16. If a significant acquisition or divestiture is made after the target has been determined, does the licensee's target remain the same?

A16. Yes. Licensee targets are only set annually. Disposition of inactive liabilities does not count towards achieving the spend target.

Q17. If acquisition or divestiture efforts result in inactive infrastructure being transferred, who gets credit for closure work performed during the year?

A17. If a licensee reports their closure activities and expenditures before transferring the licences to another licensee, they will receive credit for those expenditures. The AER will not retroactively adjust closure expenditure after a transfer. The responsibility falls on the licensee to report in a timely manner.

Q18. What happens if I participate in area-based closure but don't make my target at year end?

A18. We have a whole suite of enforcement options available if a licensee fails to meet a condition of its approvals. Two options are denying the participant further access to the program or requiring from them an additional security deposit.

Q19. Will the closure activity spend reported need to be certified by our CFO/CEO?

A19. Licensee reported closure activity spend does not require certification. However, we do reserve the right to audit reported closure activity spending.

Regulatory Closure Requirements

Q20. Why is the AER not implementing timelines for abandonment and reclamation?

A20. We cannot implement timelines. The decision to implement timelines for closure is a policy decision of the Government of Alberta. Several liability management options for the oil and gas industry are currently being evaluated by the Government of Alberta through its liability management review.

Q21. Will you refund my LLR security so that I can participate in area-based closure?

A21. No. The area-based closure program is separate from the LLR program. Refund of security occurs as outlined in *Directive 011*.

Mineral Lease Extensions

Q22. Is the AER currently willing to entertain a longer extension for the mineral lease expiries than the current three-year time frame?

A22. At this time, the AER will not consider extensions of longer than three years and will not be considering additional extensions.