

July 27, 2021

The AER's Mandatory Closure Spend Targets are Deficient

By: Drew Yewchuk

Legislation Commented On: [AER Bulletin 2021-23 'Mandatory Closure Spend Targets'](#)

This is a follow up post to my [June 24, 2021 post](#) on the changes the Alberta Energy Regulator (AER) is making to the [Liability Management Framework](#) and specifically Draft [Directive XXX: Licensee Life-Cycle Management \(Draft Directive\)](#) meant to replace the current Directive 006 once finalized. Readers are encouraged to check that post for background context.

How Were the Industry-Wide Mandatory Targets Set?

I complained in my earlier blog that the Draft Directive is missing an explanation of how the industry-wide mandatory targets were calculated. On 15 June 2021, I sent the AER an e-mail asking for that information, and on July 23, 2021, I received a somewhat vague answer (and an apology for the delay):

The industry wide mandatory spend target are set based on historical closure activity spent by industry. The increase from year to year is to account for the estimated growth rate of inactive liability. As more closure data is collected and Directive 011 liability is refined these targets will be subject to change.

I did my best to figure out how the industry wide mandatory spend target was designed to work based on this answer. If my understanding is off - I blame the AER.

[Bulletin 2021-23](#) sets the industry-wide mandatory targets for 2022 at \$422 million and 2023 at \$443 million (it appears 2021 will not have a mandatory target) and forecasts the mandatory targets for 2024 to 2026. The approach was to use \$422 million (which seems to be derived from the historical average amount licenses spend relative to deemed inactive liabilities), and then increase the amount by 5% each year – the amount the AER anticipates deemed inactive liabilities to rise.

With this information on how the industry wide mandatory spend target was set, it is possible to assess how it impacts the inactive well problem and whether this is a sufficient inventory reduction program. The answer is that the industry wide mandatory spend targets have been set far too low and in a bizarre manner. Historical closure activity has been too small, as the number of orphan and inactive wells have climbed year over year until at least 2019 (see Figure 1, below). The strategy of setting the industry wide mandatory spend target by reference to historical closure activity and the estimated growth rate of inactive liability is a strategy to slow, stabilize, and then gradually shrink the relative size of the orphan and inactive well problem over an undefined timeline – possibly decades.

Figure 1: Historic Drilled, Abandoned, and Inactive Well Inventory

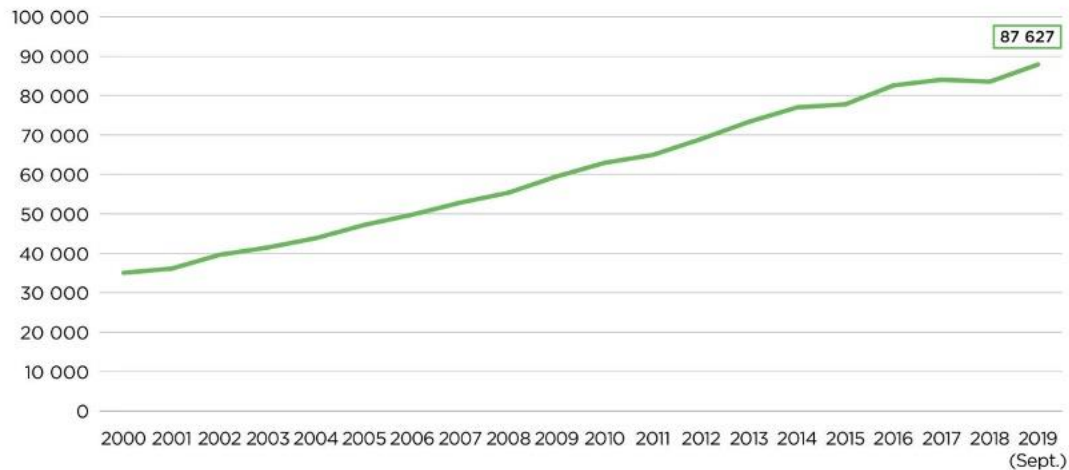


Figure 2—Alberta’s inactive wells: 2000 to September 2019

Source: Alberta Energy Regulator, [Inactive Well Compliance Program Year Three and Four Final Report, January 2020](#)

The industry wide mandatory spend targets should not have been set based on industry’s current inactive liability, but instead should have been set based on industry’s total clean-up liabilities. Instead of having the inactive wells problem stabilized and solved in some distant and uncertain year, the inventory reduction program should have been designed to make sure all wells will be closed within a time frame that will be protective of Albertans. The longer inactive and orphan wells persist on the landscape, the more likely they are to become the taxpayer’s problem. As but one example of why currently (and unexpectedly) high oil prices will eventually decrease again, the federal government – like an increasing number of jurisdictions around the world – intends to [require 100% of car and passenger truck sales be zero-emission by 2035](#). Alberta should make sure to have no inactive or marginally active wells at that point. The AER’s current plan for orphan and inactive wells totally fails to appreciate the combined urgency that climate change and decarbonization present for the oil and gas industry.

Once again, the AER has put certainty for industry ahead of the interest of Albertans. A 5% increase in industry clean-up spending each year is not going to cut it.

This post may be cited as: Drew Yewchuk, “The AER’s Mandatory Closure Spend Targets are Deficient” (July 27, 2021), online: ABLawg, http://ablawg.ca/wp-content/uploads/2021/07/Blog_DY_The_Amounts_Mandatory_Closure_Targets.pdf

To subscribe to ABLawg by email or RSS feed, please go to <http://ablawg.ca>

Follow us on Twitter [@ABLAWG](#)

