

Potential Pilot Details for Engagement

A concept for a royalty credit pilot program to incent accelerated oil and gas site closure



The Opportunity

Incentivize oil and gas companies to accelerate site closure on very old inactive oil and gas sites in Alberta by offering royalty credits. Applying royalty credits to new production will further encourage exploration and production, spurring jobs and economic investment across the province while addressing oil and gas liabilities. The program is still in development and no final decisions have been made.

How will eligible pilot sites be selected?

Eligible Sites selected for the pilot will be determined based on the criteria below. This criteria will be applied to all well sites in the province and the orphan well site inventory.

- Petroleum and natural gas well sites
- Inactive, suspended, or partially abandoned wells
- Sites with wells that have been inactive (no production or injection) for at least 20 years
- Sites with wells drilled prior to January 1, 1980
- Well sites that have not received Site Rehabilitation Program grant funding
- Sites with wells that were brought into production
- Sites with wells tied to Crown minerals, not freehold minerals

Ineligible Sites

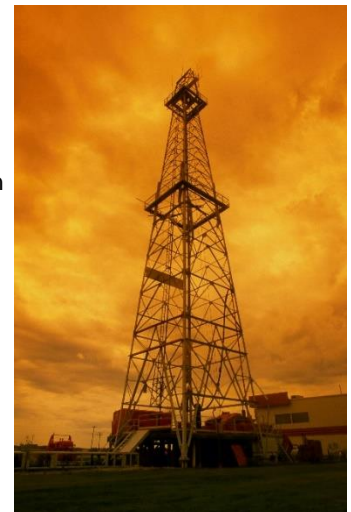
- Large facilities are not eligible
- Test holes and evaluation wells are not eligible

What are the pilot eligibility requirements?

- Licensees with eligible sites and licensees that acquire eligible orphan sites or eligible sites through transfer
- To be eligible to use the royalty credits, licensees must provide proof of the following:
 - A clear record with the AER and be compliant with the new Liability Management Framework requirements;
 - No funds owing to the province or the AER;
 - No unpaid municipal, First Nations, and Metis Settlements taxes; and,
 - No unpaid surface lease rentals on private land.
- Applicants must agree to show the geographic location of pilot work proposed, underway, and completed on a public-facing Government of Alberta website
- All sizes of oil and gas companies are eligible
- An Environmental Site Assessment must be conducted on the sites to be able to gain royalty credits

What are the details for the royalty credits?

- Maximum of \$100 million cumulative royalty credits across the pilot
- Royalty credits are non-transferrable (subject to engagement feedback)
- Earned royalty credits can only be applied to production from new wells
- Royalty credits applied to Crown-owned royalties, or the proportionate amount (i.e. not applicable to freehold)



What are the details for administering the pilot?

- Pilot duration of 3 years
- All credits must be applied for and applicable phases of closure work completed within the pilot timeframe
- Benchmarking will not be applied and licensees are required to submit a closure cost estimate in their application
- All applications and final cost submissions will be validated by Alberta Energy
- Eligible closure costs will align, where appropriate, with those accepted by the AER as part of the mandatory closure spend targets

What other pilot design elements require input from stakeholders?

- Whether the pilot closure spend is part of or above-and-beyond the annual mandatory spend targets under the AER's Inventory Reduction Program
- Whether only certain stages/phases of closure work will be eligible to earn credits
- How credits should be applied to reduce royalty
- Whether royalty credits should be provided dollar-for-dollar for site closure costs
- Input on allocating the credits based on review of submissions in the order they are received
- Perspectives on the design for accepting and prioritizing applications
- Input on the timeframe for when wells need to be drilled to be able to get royalty credits applied
- Whether royalty credits should expire and if so, after how long

