

360 CLOSURE COMMUNICATION

CC 22-07: Saskatchewan Inactive Liability Reduction Program begins January 2023

Thursday, August 18th, 2022

Beginning in January 2023, Saskatchewan will be introducing a new mandatory spend for operators with inactive wells and their associated sites. This new program is called the Inactive Liability Reduction Plan (ILRP).

Background & Implications

The plan stipulates that a fixed percentage of an operator's inactive wells and sites must be abandoned each year, as determined by the Honourable Jim Reiter, Minister of Energy and Resources. An operator's annual abandonment obligation will be determined by the Liability Reduction Percentage (LRP), based on a percentage of an operators total inactive liabilities. The LRP is set for 2023 and is planned to escalate for the next two years as follows:

Year	LRP
2023	5% (set)
2024	6% (estimate)
2025	7% (estimate)

The forecasted LRP for years subsequent to 2023 is an estimate only and may be subject to change based on economic conditions, with a goal to allow operators to plan accordingly. A licensee's overall financial spend obligation will be calculated and communicated by the Minister on September 30, 2022, but the information will be available on the Integrated Resource Information System (IRIS).

Here are some considerations for site closure planning with respect to the new program:

- Prioritizing ARO order
 - What wells and sites would be considered minimal complexity/low capital risk vs potentially complexity/higher capital risk?
 - With the number of inactive wells requiring closure increasing through 2024 and 2025, try to balance the type of abandonment (complex vs non-complex) in 2023
 - Abandoning and reclaiming the low-cost sites first could lead to a significantly higher costs in subsequent years
- Utilizing Closure Companies
 - Offloading liability to satisfy all or a portion of the LRP and reduce OPEX
 - Front loading the transfer of liability in 2023 while prices are strong and carrying over a spending credit in to 2024

We are awaiting more details on the program but would expect as commodity prices remain elevated, local regulatory agencies will continue to push operators to increase well abandonment and site reclamation. The ability to raise capital and corporate ESG scores are also becoming increasingly intertwined, and we would expect this process to become more formalized in the years to come.