

BY E-MAIL ONLY

August 28, 2018

Orest Kotelko
Canadian Natural Resources Limited

**Re: CENOVUS ENERGY INC. (CENOVUS) TO HARVEST OPERATIONS
CORP. (HARVEST) LICENCE TRANSFER APPLICATION NOS.
1908426 AND 1908427/ STATEMENT OF CONCERN NO. 31158
BONAVISTA ENERGY CORPORATION (BONAVISTA) TO HARVEST
LICENCE TRANSFER APPLICATION NO. 1908496/STATEMENT OF
CONCERN NO. 31165**

Dear Mr. Kotelko:

You are receiving this letter because you filed the above noted statements of concern (SOCs) on behalf of Canadian Natural Resources Limited (CNRL) in response to Application Nos. 1908426, 1908427 and 1908496 (Applications).

The Alberta Energy Regulator (AER) has reviewed the SOC's, the Applications, applicable requirements, and other submissions or information about the Applications. The AER has decided a hearing is not required and is not necessary to consider the concerns outlined in the SOC's.

The AER notes CNRL's concerns relate to the ability of the proposed transferee to address the end of life obligations associated with assets that are subject to the Applications.

The AER shares CNRL's concerns regarding the ability of the industry as a whole to address end of life of obligations. This very concern prompted the AER to, among other things, issue *Bulletin 2016-21: Revision and Clarification on Alberta Energy Regulator's Measures to Limit Environmental Impacts Pending Regulatory Changes to Address the Redwater Decision (Bulletin 2016-21)* and amend *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals*. Further, the AER continues to work with the Government of Alberta in this regard.

In its review of the SOC's, the AER considered the following:

- AER holds the statutory decision-making authority to approve or deny licence transfers and maintains discretion to approve transfers to licensees with a post transaction liability management rating (LMR) below 2.0.
- With regards to Application No. 1908496, Bonavista is transferring a single pipeline to Harvest and it will not result in a significant change to Harvest's circumstances or inventory and has no impact upon Harvest's LMR.
- With regards to Application Nos. 1908426 and 1908427, Cenovus is transferring seven active wells that will result in a positive impact to Harvest's LMR.
- Harvest's post transfer LMR is expected to approach 2.0 and this transfer has a net positive impact on its LMR.
- The AER has accepted the plan dated May 24, 2018 (Plan) submitted by Harvest which outlines projections to achieve an LMR of 2.0 within 12 months.
- The AER notes CNRL's submission regarding its proportionate liabilities in relation to the orphan fund. It bears noting that CNRL's end of life liabilities (which are directly related to its share of orphan levies) are a direct result of its own large inventory of inactive wells. Put another way, if CNRL wishes to reduce its exposure to paying increased orphan levies, it can do so by reducing its own inactive well inventory.
- CNRL's concerns relate to the underlying methodology used by the LMR program to calculate assets and end of life liabilities. The LMR program is applied broadly and equally to all AER licensees. These are policy concerns that relate to the LMR program as a whole and do not demonstrate a direct and adverse impact to CNRL caused by the AER approving the Application.
- The AER understands that these policy concerns have already been raised by CNRL as part of the Government of Alberta's liability management review. The AER believes that is the appropriate mechanism for CNRL to raise its concerns.

Also, the AER notes that on March 5, 2018, CNRL submitted Application No. 1907639 to transfer two of its own pipelines to Harvest, the same licensee which is the subject of its SOC's and did not request that the AER require security as part of that application.

Based on the above, the AER has concluded it is not necessary to hold a hearing before making its decision on the Applications.

The AER is satisfied the transferees have taken, or have plans to take, adequate steps to address and fund end of liabilities associated with its AER licensed assets. The AER also believes it has taken steps to appropriately mitigate the risks contemplated when it issued *Bulletin 2016-21*. As such, the AER has approved the Applications subject to conditions that require Harvest to comply with the terms of the Plan and this is your notice of that decision. Copies of the transfer approval decisions are attached.

Under the *Responsible Energy Development Act* (REDA) an eligible person may request a regulatory appeal in respect of an appealable decision. Eligible persons and appealable decisions are defined in section 36 of the REDA and section 3.1 of the Responsible Energy Development Act General Regulation. If you wish to file a request for regulatory appeal, you must submit your request in the form and manner and within the timeframe required by the AER. You can find filing requirements and forms on the AER website under Regulatory Appeal Process.

If you have any questions, contact Valeria Silva at 403-592-4157 or e-mail Valeria.Silva@aer.ca.

Sincerely,

<Original signed by>

Trevor Gosselin
Director, Asset & Liability Transition Management

Enclosure (3): **Approval Transfer**

(1): **Discretion Confirmation**

cc: Carmen Brown, Harvest Operations Corp.
Marcia Morgan, Harvest Operations Corp.
Ellen Russell, Cenovus Energy Inc.
Margaret Stafford, Bonavista Energy Corporation
Marnie Wildeman, AER Application Processor
AER SOC Coordinator
AER Grande Prairie Field Centre
AER Drayton Valley Field Centre