

BY E-MAIL ONLY

July 11, 2018

Orest Kotelko

**Canadian Natural Resources Limited**

**Re: SCOLLARD ENERGY LTD. TO AVILA EXPLORATION &  
DEVELOPMENT CANADA LTD. (AVILA)  
APPLICATION NO. 1908764  
STATEMENT OF CONCERN NO. 31157 (SOC)**

Dear Mr. Kotelko:

You are receiving this letter because you filed the SOC on behalf of Canadian Natural Resources Limited (CNRL) in response to Application No. 1908764 (Application).

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

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 Application.

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, the AER considered the following:

- The AER has discretion to grant relief under Bulletin 2016-21 in relation to licensees with a post-transaction liability management rating (LMR) below 2.0

where it believes the transferee can, and has tangible and demonstrable plans to, meet its end of life obligations despite having an LMR below 2.0.

- In this instance, the subject licenses are currently held by a licensee that appears to be insolvent (i.e., a receiver has been appointed under the *Bankruptcy and Insolvency Act*).
- Approval of the Application directly and explicitly addresses the concerns raised in the SOC regarding the risk of sites being designated as orphans if not transferred. If the assets are not transferred from the insolvent licensee's estate, the sites will likely be designated as orphans.
- In this regard 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.
- In the AER's opinion, the asset to liability ratio of the five AER licences involved in the Application, and the written plan submitted by Avila and approved by the AER on May 10, 2018 (Plan) have demonstrated to the AER Avila's ability to achieve an LMR of 2.0 and/or its ability to satisfy end of life obligations associated with its AER licensed assets within a reasonable timeframe following approval of the Application.
- To mitigate risk associated with Avila not achieving the Plan, the AER has imposed conditions on its approval of the Application that are specifically designed to i) facilitate the transfer of AER licensed assets to a responsible party; ii) ensure Avila fulfils its commitments under the Plan; and iii) mitigate the risk of unfunded end of liabilities falling to the Orphan Well Association should Avila prove incapable of doing so.
- Beyond making broad and sweeping criticisms of the LMR program as a whole, the AER's application of same, and the AER's exercise of discretion under Bulletin 2016-21, CNRL has not demonstrated it is or will be directly and adversely affected by approval of the Application. The impact to CNRL is indirect at best and assumes the licences sought to be transferred in the Application will be orphaned if the Application is approved.
- The AER and the Government of Alberta are currently examining the LMR program as a whole and will consider CNRL's suggestions regarding reforms of the LMR program in the context of that broader policy review. CNRL's concerns regarding the perceived flaws in the policy and methodology underlying

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the LMR program and its application to AER licensees (including CNRL) do not constitute or demonstrate a direct and adverse impact to CNRL.

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

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The AER is satisfied the transferee has taken, or has 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 and has imposed approval conditions designed to ensure those risks are mitigated. As such, the AER has approved the Application subject to conditions and this is your notice of that decision. A copy of the transfer approval decision is 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](mailto:Valeria.Silva@aer.ca).

Sincerely,

<Original signed by>

Tania de Silva  
Director, Oil, Gas & Pipeline, Closure & Liability  
Enclosure (1): **(Approval Transfer)**

cc: Karen Turner, Scollard Energy Ltd.  
Leonard Van Betuw, Avila Exploration & Development Canada Ltd.  
Marnie Wildeman, AER Application Processor  
AER SOC Coordinator  
AER Edmonton Centre