

BY EMAIL ONLY

October 1, 2018

Orest Kotelko
Canadian Natural Resources Limited**Re: SCOLLARD ENERGY LTD. (SCOLLARD) TO FIRENZE ENERGY LTD.
(FIRENZE)
TRANSFER APPLICATION NO. 1909126
STATEMENT OF CONCERN NO. 31184**

Dear Mr. Kotelko:

You are receiving this letter because you filed a statement of concern (SOC) on behalf of Canadian Natural Resources Limited (CNRL) in response to Application No. 1909126 (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:

- 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 LMR below 2.0.
- 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 Applications.
- 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.
- In this instance, the subject licences are currently held by a licensee that is in receivership, where the receiver has renounced assets that it has been unable to sell.
- Approval of the Application directly and explicitly addresses the concerns raised in the SOC regarding the risk of sites being designated as orphans. If the assets are not transferred from the insolvent licensee's estate, the sites will likely be designated as orphans.
- The AER accepted Firenze's plan outlining its actions in support of a request for discretion under *Bulletin 2016-21* (Plan). The Plan articulated actions for Firenze to exceed a LMR of 2.0 within 3 months. Firenze's progress on the Plan will be monitored by AER staff.

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

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*. As such, the AER has approved the Application 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 Bonni Pierce at 403-297-4206 or e-mail Bonni.Pierce@aer.ca.

Sincerely,

<Original signed by>

Trevor Gosselin
Director, Asset & Liability Transition Management, Closure & Liability

Enclosure (1): **(Approval Transfer)**

cc: Karen Turner, Scollard Energy Ltd.
Tina Walton, Firenze Energy Ltd.
Marnie Wildman, AER Application Processor
AER Drayton Valley Field Centre
AER SOC Coordinator