

DRAFT Directive 067

Release date: [Month XX, 20XX]

Effective date: [Month XX, 20XX]

Replaces previous edition issued December 6, 2017

Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals

Contents

1	Introduction	1
2	Business Associate Codes	2
3	Licence Eligibility Types	2
4	Obtaining General Licence Eligibility	3
4.1	Residency Requirements	4
4.2	Insurance	5
4.3	Fee	5
4.4	Financial Information	5
4.5	Unreasonable Risk	6
5	Maintaining Eligibility	7
6	Restriction of Licence Eligibility	8
7	Application to Amend Eligibility	8

1 Introduction

Acquiring and holding a licence or approval for energy development in Alberta is a privilege, not a right. The *Oil and Gas Conservation Act*, *Pipeline Act*, *Oil and Gas Conservation Rules*, and *Pipeline Rules* contain requirements related to eligibility for acquiring and holding licences and approvals. This directive expands on those requirements.

This new edition increases the scrutiny the AER applies to ensure that this privilege is only granted to and maintained by responsible parties throughout the energy development life cycle. Changes include requiring additional information, particularly financial information, at the time of application and throughout the life cycle to enable the AER to

- assess licensee eligibility,
- assess the capabilities of licensees and approval holders to meet their regulatory and liability obligations throughout the energy development life cycle,
- administer our liability management programs, and
- ensure the safe, orderly, and environmentally responsible development of energy resources in Alberta throughout their life cycle.

2 Business Associate Codes

The *Oil and Gas Conservation Act* and *Pipeline Act* require that a person (which includes a corporation) must hold a subsisting identification code in order to apply to the AER for a licence or approval under those acts. The AER has referred to these as business associate (BA) codes. The AER no longer issues BA codes. These are issued through Petrinex.

Any party that seeks to apply for and hold AER licences or approvals must first apply for and obtain a BA code through Petrinex (www.petrinex.ca). Parties who hold a BA code are not permitted to hold AER licences or approvals unless the AER has determined they are eligible to do so.

3 Licence Eligibility Types

There are three eligibility types:

- 1) No Eligibility
 - Not eligible to acquire or hold licences or approvals for wells, facilities, or pipelines.
- 2) General Eligibility
 - Eligible to acquire or hold licences and approvals for all types of wells, facilities, and pipelines.
- 3) Limited Eligibility
 - Eligible to acquire or hold only certain types of licences and approvals, or eligibility is subject to certain terms and conditions.

The AER may grant licence eligibility with or without restrictions, terms, and conditions, or it may refuse to grant licence eligibility.

Restrictions, terms, and conditions may include

- the types of licences or approvals that may be held,
- the number of licences or approvals that may be held,
- additional scrutiny required at time of application for or transfer of a licence or approval,
- requirement to provide full or partial security,
- requirements regarding the minimum or maximum working interest percentage permitted,
- a requirement to address outstanding noncompliances of current or former AER licensees that are directly or indirectly associated with the applicant or its directors, officers, or shareholders, and
- anything else the AER considers appropriate in the circumstances.

4 Obtaining General Licence Eligibility

Once a person has a BA code, they may apply to the AER for licence eligibility by submitting schedules 1 and 3 (and 2, if applicable) through the designated information submission system. Upon review of the information provided, the AER may request additional information, including reserves information. The AER may audit the information provided for accuracy and completeness at any time before or after granting eligibility.

Requests for licence eligibility that do not contain all the information required will be summarily closed.

Basic requirements are as follows:

- Applicant must be an individual or a corporation that meets the requirements of section 20 of the *Oil and Gas Conservation Act* or section 21 of the *Pipeline Act*.
- Applicant must be a resident of Alberta or has appointed an AER-approved agent that is a resident of Alberta, unless exempt from this requirement (see section 4.1 below).
- Applicant must provide proof of adequate insurance (see section 4.2 below).
- Applicant must pay the required fee, unless waived (see section 4.3).
- Applicant must submit their financial summary (Schedule 3) and most recent financial statements, or in the case of an applicant that is a new company with no financial history, details of financing (Schedule 3; see section 4.4 below). If the applicant is a subsidiary of

another corporation, the financial summary (Schedule 3) and financial statements of the parent corporation must be submitted as well.

- Applicant must sign a declaration attesting to the truth and completeness of the application, consenting to the release and collection of compliance information regarding the applicant from other jurisdictions and regulators as applicable, and attorning to the jurisdiction of Alberta (Schedule 1).
- Applicant must not, in the AER's opinion, pose an unreasonable risk (see section 4.5).

The AER will assess the information provided in the application, along with any other relevant information, and will determine whether the applicant meets the eligibility requirements for acquiring and holding AER licences or approvals.

4.1 Residency Requirements

An applicant must

- be resident in Alberta, as defined in section 1.020(2.1) of the *Oil and Gas Conservation Rules* and section 1(6) of the *Pipeline Rules*; or
- appoint an agent that is resident in Alberta (schedule 2) and have that appointment approved by the AER, as required by section 91 of the *Oil and Gas Conservation Act* and section 19 of the *Pipeline Act*; or
- be exempt from the resident/agent requirement (granted under specific circumstances set out in section 1.030 of the *Oil and Gas Conservation Rules* and section 1.1 of the *Pipeline Rules*).

For these purposes, "resident" means,

- in the case of an individual, having his or her home in and being ordinarily present in Alberta or,
- in the case of a corporation, having a director, officer, or employee that has his or her home in and is ordinarily present in Alberta and is authorized to make decisions about the licensing and operating of the well, pipeline, or facility and about implementing the directions of the AER regarding the well, pipeline, or facility.

If an applicant does not meet this definition of resident, then the applicant must appoint an agent. Schedule 2 must be completed and submitted, and the appointment must be approved by the AER before it is in effect.

Both the applicant and the agent must meet all the licence eligibility requirements set out in this directive.

4.2 Insurance

At the time of applying for licence eligibility, applicants must have and maintain comprehensive general liability insurance with minimum coverage of \$1 000 000. Applicants must submit a certificate of proof of insurance or a statement of the insurer describing the coverage, effective date, and termination date of the insurance.

Should eligibility be granted, the licensee or approval holder must maintain reasonable and appropriate insurance coverage for the operations of the company. Such coverage must include pollution coverage sufficient to cover the cost of removal and cleanup operations required as a result of an incident. Sufficient coverage for loss or damage to property or bodily injury caused during operations must also be maintained.

Unless otherwise authorized, an applicant, licensee or approval holder must have insurance issued from a company registered in Alberta to provide insurance in Alberta.

Upon request, information regarding coverage and content of the insurance must be provided. The AER may require the licensee or approval holder to obtain additional insurance; at all times the licensee is solely responsible for maintaining appropriate levels of insurance given the nature and scope of operations.

4.3 Fee

For most licence eligibility types, a fee is required. The amount of the fee is prescribed in the *Oil and Gas Conservation Rules* and may be waived or varied by the AER if circumstances warrant (section 17.010).

Applications that do not include the required fee will be summarily closed.

4.4 Financial Information

Financial statements and financial summary (Schedule 3) will be used by the AER to

- assess licensee eligibility,
- assess the capabilities of licensees and approval holders to meet their regulatory and liability obligations throughout the energy development life cycle,
- administer our liability management programs, and
- ensure the safe, orderly, and environmentally responsible development of energy resources in Alberta, throughout their life cycle.

Full audited financial statements must be submitted when available, matching the totals in Schedule 3. If audited statements are not available, those prepared by management may be acceptable. Upon review of the information provided, the AER may request additional information.

In the case of an applicant that is a new company with no financial history, details of financing must be provided (Schedule 3).

If the applicant is a subsidiary of another corporation, the financial summary (Schedule 3) and financial statements of the parent corporation must be submitted as well.

Licensees and approval holders must submit financial statements (audited or management prepared) and the financial summary (Schedule 3) annually within 120 days of their fiscal year end, or as directed by the AER, in order to maintain eligibility (see section 5).

4.5 Unreasonable Risk

In assessing whether the applicant, licensee, or approval holder poses an unreasonable risk, the AER may consider any of the following factors:

- the compliance history of the applicant, licensee, or approval holder, including its directors, officers, and shareholders in Alberta and elsewhere
- the compliance history of entities currently or previously associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, and shareholders
- outstanding noncompliances of current or former AER licensees or approval holders that are directly or indirectly associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, or shareholders
- the experience of the applicant, licensee, or approval holder and its directors, officers, and shareholders
- corporate structure
- working interest participant arrangements, including participant information and proportionate shares
- the financial health of the applicant, licensee, or approval holder and entities currently associated or affiliated with the applicant, licensee, or approval holder or its directors, officers, and shareholders
- the assessed capability of the applicant, licensee, or approval holder to meet its regulatory and liability obligations throughout the energy development life cycle
- the assessed ability of the applicant, licensee, or approval holder to provide reasonable care and measures to prevent impairment or damage in respect of a pipeline, well, facility, well site, or facility site
- outstanding debts owed to AER or the Orphan Fund by the applicant, licensee, or approval holder, or by current or former AER licensees or approval holders that are directly or indirectly

associated or affiliated with the applicant, licensee, or approval holder, or its directors, officers, or shareholders

- involvement of the applicant, licensee, or approval holder’s directors, officers, or shareholders in entities that have initiated or are subject to insolvency proceedings (which includes bankruptcy proceedings, receivership, notice of intention to make a proposal under the *Bankruptcy and Insolvency Act*, proceedings under *Companies Creditors Arrangement Act*)
- cancellation of or significant reduction to insurance coverage
- naming of directors, officers, or shareholders of the applicant, licensee, or approval holder in a declaration made under section 106 of the *Oil and Gas Conservation Act* and section 51 of the *Pipeline Act*
- any other factor the AER considers appropriate in the circumstances.

5 Maintaining Eligibility

All existing licence or approval holders must meet licence eligibility requirements (section 4) on an ongoing basis and ensure that the information the AER has on file is kept accurate.

Licensee and approvals holders must have and maintain at all times an official regulatory email address that is frequently monitored for regulatory communication with the AER. Licensees and approval holders must also submit financial statements (audited or management-prepared) and a financial summary (Schedule 3) annually within 120 days of their fiscal year end, or as directed by the AER.

Licensees and approval holders must notify the AER immediately in any of the following cases:

- General or emergency contact information has changed (submit updated Schedule 1, sections A and B).
- They initiate or are subject to insolvency proceedings.
- Insurance coverage is cancelled or significantly reduced.

An updated Schedule 1 and any associated documents must be provided within 30 days of any material change, which includes the following:

- changes to legal status and corporate structure
- addition or removal of a related corporate entity
- amalgamation, merger, or acquisition
- changes to directors, officers, or shareholders directly or indirectly holding 20 per cent or more of the outstanding voting securities of the licensee or approval holder

- plan of arrangement or any other transaction that results in a significant change to the operations of the licensee
- the sale of all or substantially all of the licensee's assets
- a significant change to working interest participant arrangements, including participant information and proportionate shares
- the licensee or approval holder has initiated or is subject to insolvency proceedings
- cancellation of or significant reduction to insurance coverage

Before effecting a material change, a licensee or approval holder may request an advance determination on whether the AER would consider the proposed change to result in the licensee or approval holder posing an unreasonable risk (see section 4.5).

The AER may request additional information following a material change to assess whether a licensee or approval holder poses an unreasonable risk (see section 4.5).

6 Restriction of Licence Eligibility

There are three main circumstances in which the AER may revoke or restrict licence eligibility:

- 1) Failure to provide complete and accurate information, or to update that information, as required and within the prescribed timelines.
- 2) A finding by the AER that the licensee or approval holder poses an unreasonable risk.
- 3) The licensee fails to acquire or hold licences or approvals within one year following granting of licence eligibility.

If a party already holds licences or approvals, licence eligibility will be restricted. If the party had general eligibility, this will be changed to limited eligibility, and additional terms or conditions may be imposed. If the licensee or approval holder has limited eligibility, licensee eligibility may be further restricted to impose additional terms or conditions.

If a party does not hold licences or approvals, licence eligibility will be revoked. The party will have to reapply under this directive for licence eligibility.

7 Application to Amend Eligibility

Application to amend licence eligibility will require reapplication under this directive, which may include payment of an additional fee, and may result in the imposition of restrictions, terms, or conditions.