

Liability Management Rating (LMR) Removal and Replacement

October 8, 2024

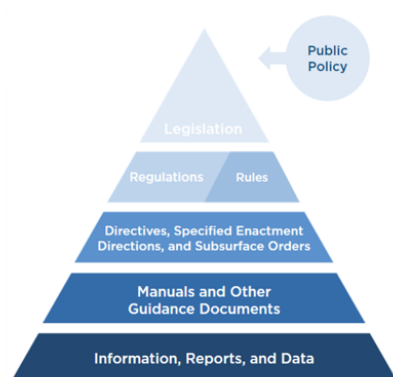
Drivers for Change

Government of Alberta [Liability Management Framework \(LMF\)](#): The *LMF* was introduced in July 2020 to improve the liability programs, “which includes a series of mechanisms and requirements to improve and expedite reclamation efforts – to enable industry to better manage clean-up of oil and gas wells, pipelines and facilities at every step of the process, from exploration and licensing, through operations, reclamation, and post-closure.” The framework improvements comprised several components, including replacing the licensee liability rating program, where the foundational element is the liability management rating (LMR).

Replacing the LMR involves three components:

- **Estimated liabilities:** Update liability costs based on closure spend reported (*Directive 011: Licensee Liability Rating (LLR) Program; Updated Industry Parameters and Liability Costs*) and requirements for site-specific liability assessments (*Directive 001: Requirements for Site-Specific Liability Assessments*).
- **Regulatory changes:** Remove all references to LMR and its associated programs in the rules, directives, and manuals, including consolidating and reorganizing content to clarify requirements.
- **Security approach:** Develop a new approach for upstream oil and gas to replace security based on the LMR.

Regulatory Context



Government of Alberta (Government) sets policy direction and provides oversight, while the Alberta Energy Regulator (AER) is responsible for administration.

- Government sets policy and created legislation to implement policy
- Government or AER created regulations and rules (as set out in legislation)
- AER created regulatory instruments to operationalize, such as Directives, Subsurface Orders, Manuals, etc.

Rule Changes

LMR is integrated throughout the *Oil and Gas Conservation Rules (OGCR)* and *Pipeline Rules* and must be removed. Other changes are being made to streamline requirements. Table 1 summarizes the rule changes.

Table 1. Summary of rule changes

Remove references to liability program components	Update security requirements	Transfer provisions for approval holders	Reduce overall requirements
Liability management rating (LMR)	Referencing <i>Directive 068</i>	Adding provisions for oilfield waste management facilities to align with <i>Oil and Gas Conservation Act</i> licences	Combining section 1.1 (wells and facilities) and 16.6 (security)
Licensee liability rating (LLR)	Maintaining “may” requirements (discretion for AER to require security)		
Large facility program (LFP)	Adding when security must be provided		
Oilfield waste liability program (OWL)			

The confidentiality clauses in the *OGCR* and *Pipeline Rules* will be revised to clarify what information the AER may make public. These rule changes will improve transparency of information available to the public and industry concerning liability.

Currently, the rules are very broad concerning confidentiality. Financial information provided to the AER by a licensee must be kept confidential for 5 years, and reserves information for 15 years.

The AER plans to clarify what information remains confidential and what may be released. While financial and reserve information submitted by a licensee to the AER will remain confidential, the AER would like to improve liability management reporting and transparency by proposing that the findings or results from AER assessments based on financial and reserve information be made available to the public. The AER also proposes to share licensee-reported closure spend.

The details on the information shared is provided in the updated directives for review.

Directive Changes for LMR Replacement

Several directives will be affected by the removal and replacement of the LMR. The AER will rescind those directives concerning LMR and move any relevant requirements to other directives. The presentation on the AER website identifies what information will be retained and in which directive.

Directives to be Rescinded		
D006	D024	D075
LLR (Licensee Liability Rating)	LFP (Large Facility Program)	OWL (Oilfield Waste Program)

Directives to be Updated			
D001	D011	D068	D088
Requirements for Site Specific Liability Assessment	Estimated Liability	Security Deposits	Licensee Life-Cycle Management

Directive 006: Licensee Liability Rating (LLR) Program, Directive 024: Large Facility Management Program, and Directive 075: Oilfield Waste Liability Program will be rescinded. The following tables summarize the requirements that will move to other directives and what requirements will be removed.

Table 2. Requirements being moved

From directive	To directive or manual
Directive 006, Directive 024, and Directive 075	<p>Directive 011:</p> <ul style="list-style-type: none"> Define and calculate liability Licence types protected by the orphan fund Regional abandonment and reclamation cost maps
Directive 006	<p>Manual 023:</p> <ul style="list-style-type: none"> Linking of licences to understand active and inactive infrastructure
Directive 024	<p>Directive 088:</p> <ul style="list-style-type: none"> Large facility licence transfer process
Directive 075	<p>Directive 088:</p> <ul style="list-style-type: none"> Oilfield waste approval transfer process <p>Directive 068:</p> <ul style="list-style-type: none"> Oilfield waste landfills full security

Table 3. Requirements being removed

<p><i>Directive 006</i></p>	<p>LMR and its use for security determination:</p> <ul style="list-style-type: none"> • monthly LMR determination • liability delay based on new wells and facilities <p>LLR, LFP, and OWL programs:</p> <ul style="list-style-type: none"> • Deemed assets, including netbacks and associated language <p>Orphan fund calculation:</p> <ul style="list-style-type: none"> • removed duplication with <i>OGCR</i> <p>Requirement for some facilities to meet Canadian Institute of Charter Accountant standards</p> <p>Ability to provide information resulting in variance of deemed liability and deemed assets</p>
<p><i>Directive 024</i></p>	<p>LMR and its use for security determination</p> <p>Deemed assets:</p> <ul style="list-style-type: none"> • including netbacks • including associated language <p>Orphan fund calculation:</p> <ul style="list-style-type: none"> • removed duplication with <i>OGCR</i> <p>Voluntary facility dedicated security</p> <p>Ability for a working interest partner to request securitization of a large facility:</p> <ul style="list-style-type: none"> • removed duplication with <i>Oil and Gas Conservation Act</i>
<p><i>Directive 075</i></p>	<p>LMR and its use for security determination</p> <p>Deemed assets:</p> <ul style="list-style-type: none"> • including netbacks • including associated language <p>Facility dedicated security</p> <p>Orphan fund calculation:</p> <ul style="list-style-type: none"> • removed duplication with <i>OGCR</i>