



**Alberta
Energy
Regulator**

Ongoing Implementation of Liability Management Framework

LMR Replacement and New Security Framework

May 30, 2024

www.aer.ca



LAND ACKNOWLEDGEMENT

Session Format

» Information session

- Pre-read materials provided
- Session will be recorded and posted

» Submit feedback and questions by survey

- QR code or link

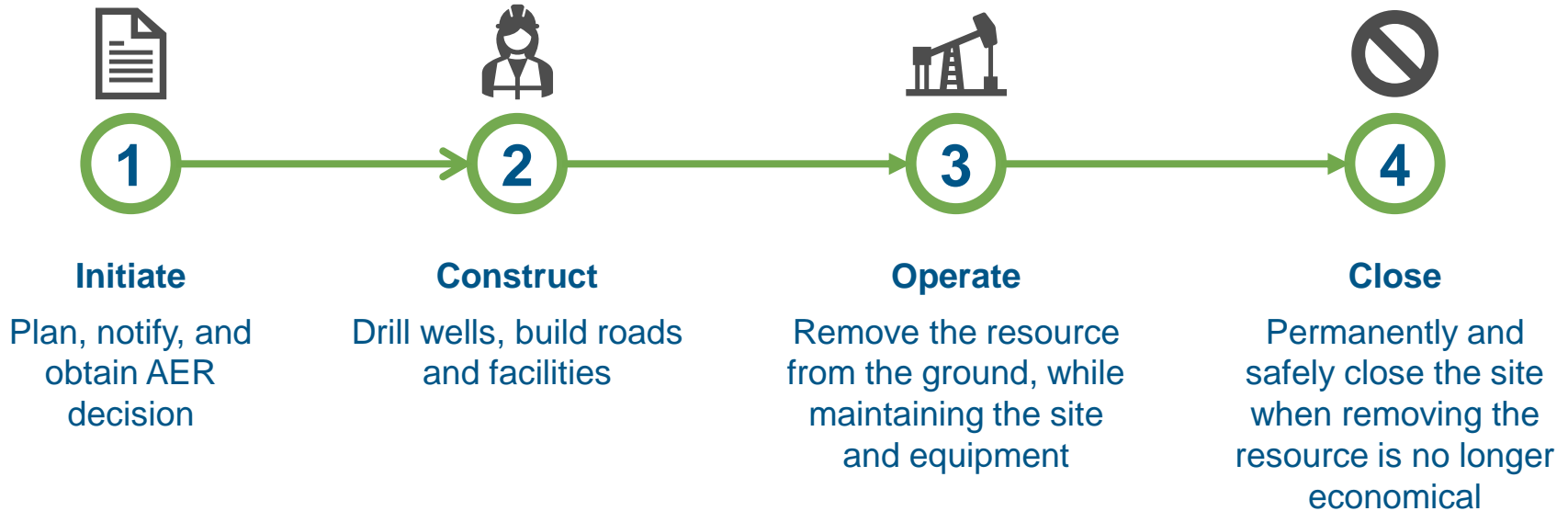
Agenda

- 》 Background and Context
- 》 Liability Management Rating (LMR)
- 》 Liability Management Framework (LMF)

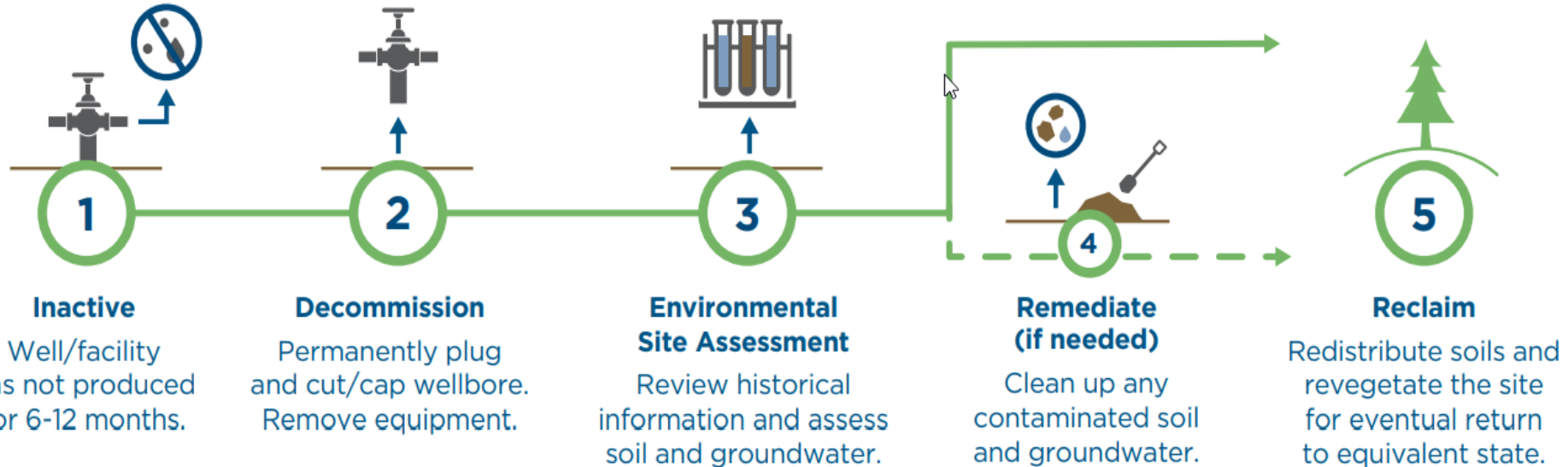


BACKGROUND AND CONTEXT

Energy Development Life Cycle

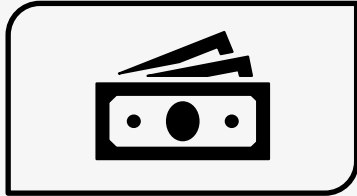


Stages of Closure



Liability and Security

Liability:



Estimated cost to safely close and clean up energy sites.

(Directive 011 and 001)

Security:



Offset the estimated cost to safely close and clean up energy sites



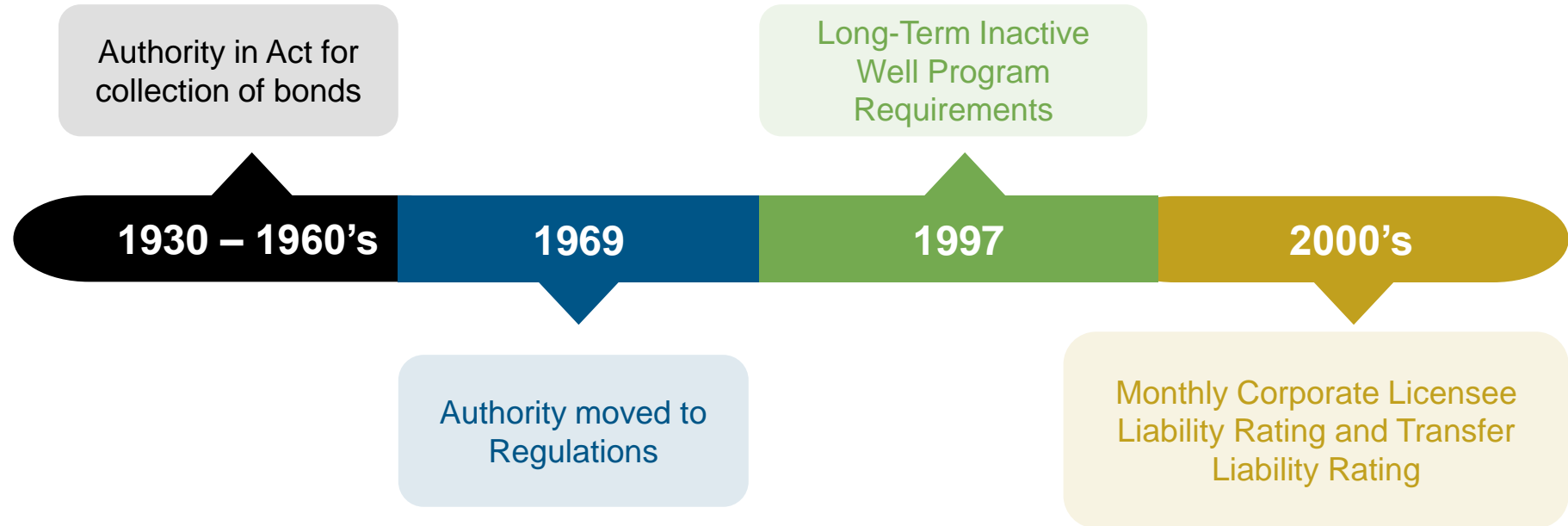
Offset the costs of carrying out activities to ensure the protection of the public and environment



Offset the cost of providing for care and custody of infrastructure or sites

Security Through the Years for Oil & Gas

» Security collection has always been enabled



Security Requirements for Oil & Gas

➤ AER has authority to collect security for conventional oil and gas activities through

RULES



Oil & Gas Conservation Rules

1.100 and 16.6

4 DIRECTIVES



Existing LM Programs:

Directive 006, 024 and 075

New LMF: Directive 088

Orphaned Infrastructure



ORPHAN

An **orphan** is a well, facility, or pipeline that does not have a legally responsible and/or financially viable party to fulfill closure responsibilities



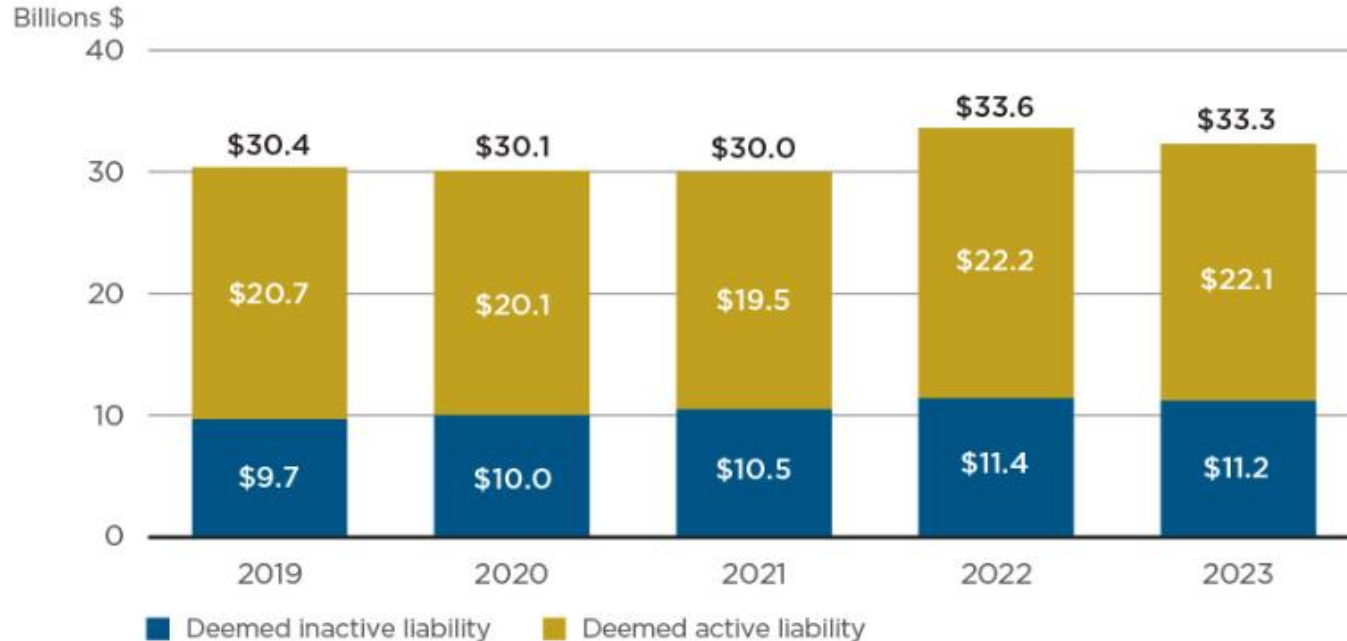
ORPHAN WELL ASSOCIATION (OWA)

Completes closure activities

Industry-funded (Orphan Fund Levy)

Separate from AER

Estimated Liability Trend



Note: Deemed liability estimates as of January of each year. The increase in 2022 was related to methodology updates to implement closure spend quotas.

LIABILITY MANAGEMENT RATING (LMR)



Purpose of LMR & Liability Programs

- 》 Prevent the costs to suspend, decommission, remediate, and reclaim a well, facility, or pipeline, from being borne by the public of Alberta should a licensee become defunct
- 》 Minimize the risk to the Orphan Fund posed by the unfunded liability of licenses in the program

Liability Management Rating (LMR)

》 Established in 2002 and calculated monthly

$$\text{LMR} = \frac{\text{Deemed Assets}}{\text{Deemed Liabilities}}$$

Deemed assets are the estimated value of a company's assets (e.g. value of oil, gas, bitumen production).

Deemed liabilities are the estimated costs of completing closure work.

Liability Management Rating (LMR)

$$\text{LMR} = \text{LLR} + \text{LFP} + \text{OWL}$$

Licensee Liability
Rating (LLR)

Directive 006
Wells and Facilities

+

Large Facility
Program (LFP)

Directive 024
Large Facilities

+

Oilfield Waste
Liability (OWL)

Directive 075
Oilfield Waste

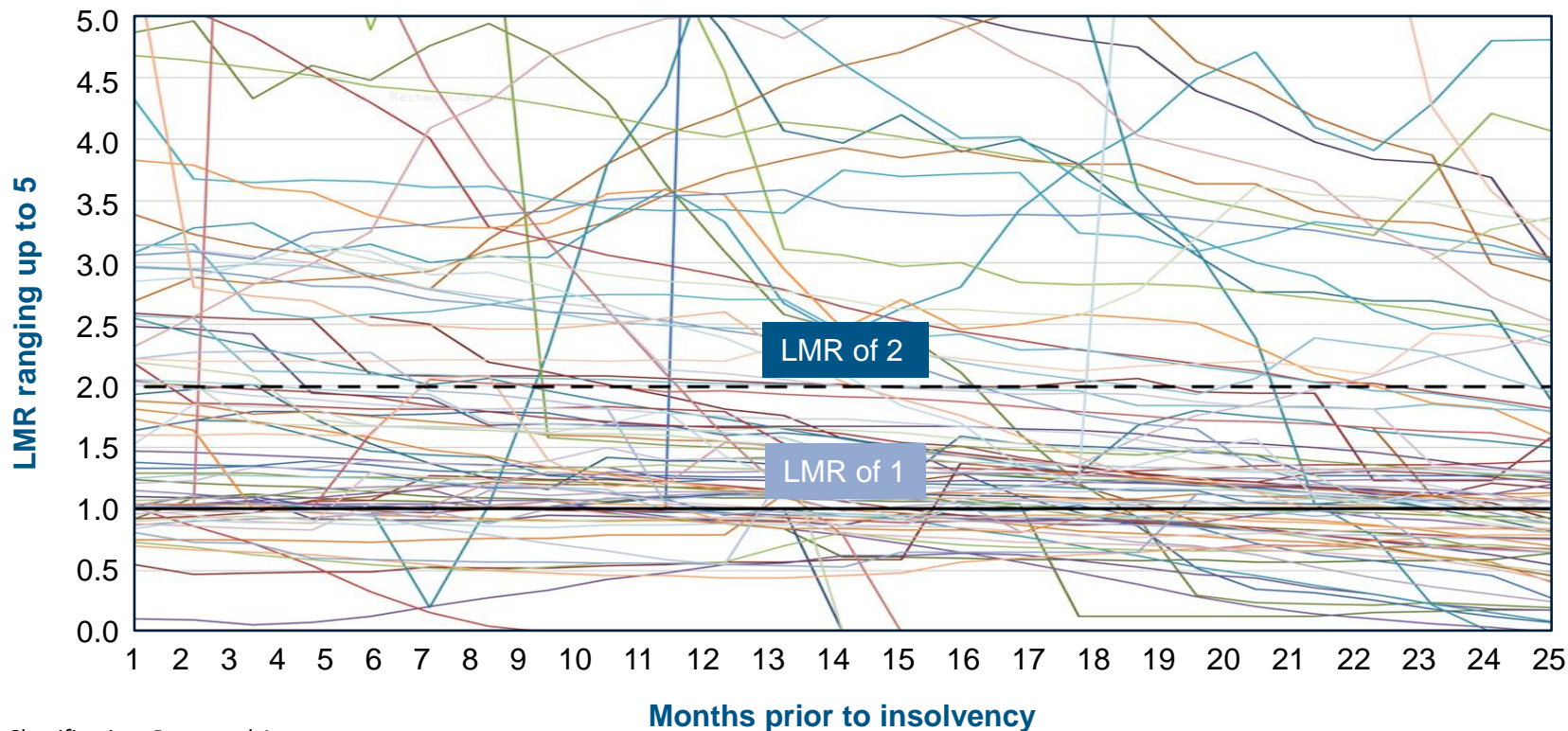
➤ At risk licensees identified when **LMR is less than 1** and triggers security collection through Directive 006.

Challenges with LMR

- 》 LMR did not adequately identify licensees who may be at risk of not meeting obligations
- 》 Security collection was too little when based on LMR
- 》 Security collection was too late in the lifecycle when licensees were already in financial distress

LMR of Insolvent Licensees

Graph shows insolvent companies with LMR numbers ranging up to 5.



A photograph of an oil pumpjack in a field of tall, dry grass. The pumpjack is a large, dark metal structure with a red counterweight, positioned in the upper right. The grass is in the foreground, slightly out of focus, and the sky is blue with some clouds. The text "LIABILITY MANAGEMENT FRAMEWORK (LMF)" is overlaid in white, bold, sans-serif font in the center-left.

LIABILITY MANAGEMENT FRAMEWORK (LMF)

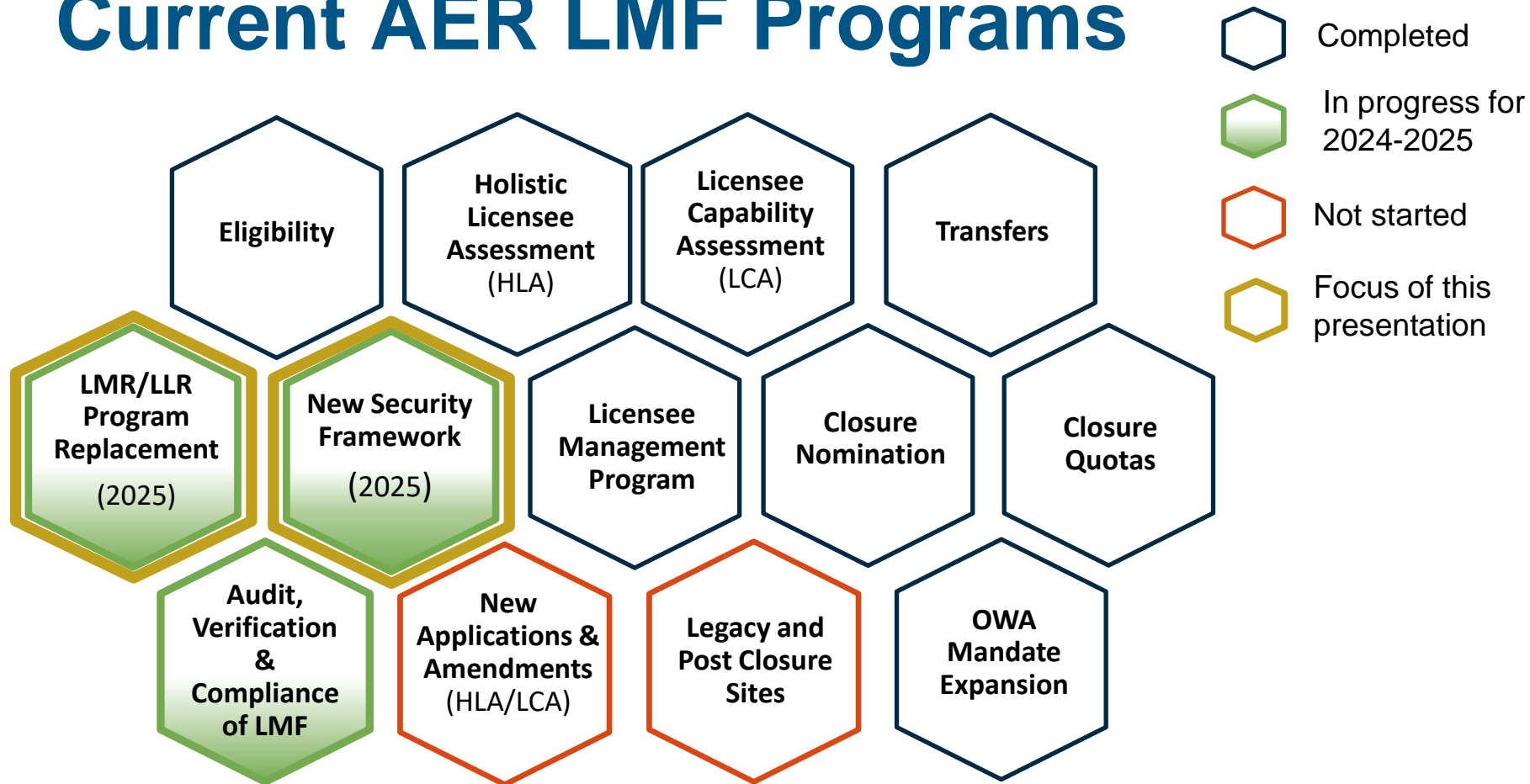
Liability Management Framework (LMF)

- » Government of Alberta LMF policy July 2020
 - Applies to the oil and gas sector
- » Directed the AER to develop new programs to
 - Assess licensees' ability to meet obligations
 - Proactively monitor licensees that may be at risk
 - Reduce the inventory of aging infrastructure
 - Replace LLR Program / LMR

Auditor General Recommendation

- 》 Office of Auditor General (OAG) Report released March 2023
- 》 Develop new security framework to determine
 - How much security needs to be collected;
 - When it will be collected; and
 - How it will get enforced.

Current AER LMF Programs



Replacing LMR



Regulatory Changes

Remove all references to LMR and its associated programs in the rules, directives, and manuals. Consolidate and reorganize content to make requirements clearer.



Estimated Liabilities

Updating liability costs based on closure spend reported (D011) and requirements for site specific liability assessments (D001).



Security Framework

Develop a new framework for upstream oil and gas to replace the LMR ratio and other components that form security deposit requirements across the energy development life cycle.

AER Regulatory Changes

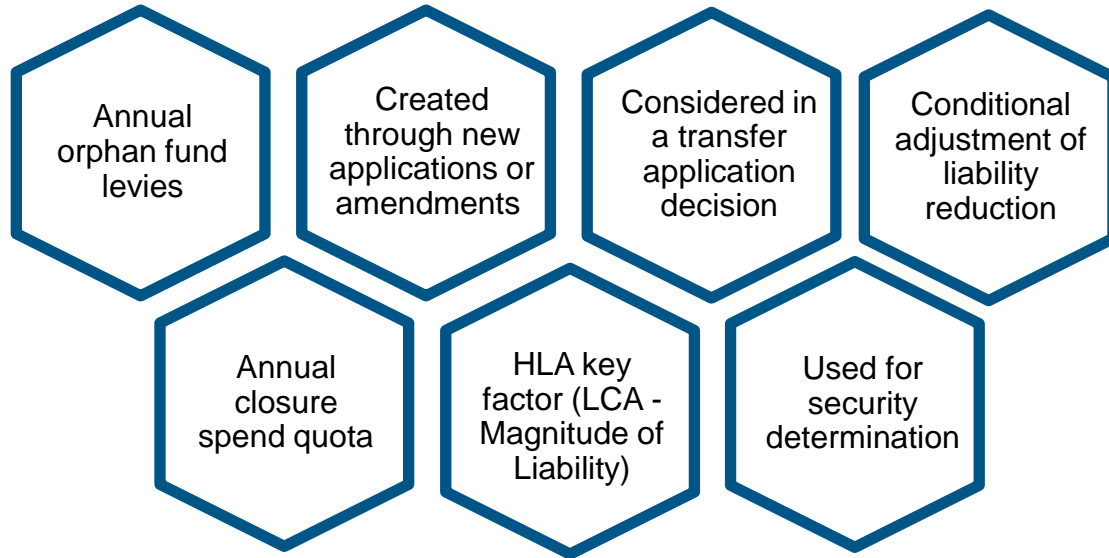
UNDER REVIEW						
D006	D024	D075	D011	D001	D088	M023
LLR (Licensee Liability Rating)	LPF (Large Facility Program)	OWL (Oilfield Waste Program)	Liability Estimates	SSLA (Site Specific Liability Assessment)	Licensee Life-Cycle Management	

CONSEQUENTIAL AMENDMENTS						
D056	M012	D067	D068	D089	D090	
Applications Wells, Facilities, Pipelines		Eligibility	Security Deposits	Geothermal	Minerals	

More regulatory instruments that require changes may be identified as regulatory changes are underway.

Estimated Liability Uses

- » Plan to update estimated liability using actual industry-reported closure spend, where available



A photograph of a herd of bison in a grassy field. The bison are dark brown with thick fur. One bison in the foreground is looking down, while another in the background has a red tag with the number '66' on its ear. The text 'NEXT STEPS' is overlaid in white, bold, sans-serif font.

NEXT STEPS

Upcoming Sessions

Title	Date & Time	Description
Session 2: Estimated Liabilities	June 13, 2024 09:00 am MST	<ul style="list-style-type: none">Describe high level proposed changes to our Liability Management Programs and regulatory instruments to replace the Liability Management Rating (LMR) and associated programs.The session will also outline the AER's approach to updating estimated liabilities, what is considered for Regional Liability and Site-Specific Liability Assessments, and how liabilities are used to making decisions.
Session 3: Security Framework	June 20, 2024 09:00 am MST	<ul style="list-style-type: none">Explain why a new framework is needed and the risks we are working to address. Describe our design principles and factors used to determine when to collect security.

- › Register for these sessions through [AER Events](https://aer.ca) (aer.ca)
- › Session recordings will be posted and shared by email

Reference Materials

- 》 Liability Management
- 》 Liability Management Programs
- 》 Bulletin 2023-41 Ongoing Implementation of LMF
- 》 Liability Management Performance Report

Survey

- 》 Open until July 15, 2024
- 》 Recording posted to aer.ca
- 》 Send survey link by email, plus a link to the session recording

Liability Management Framework Information Session 1: Liability & Security Overview



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