



**Alberta  
Energy  
Regulator**

# Estimated Liabilities

## Ongoing Implementation of Liability Management Framework

June 13, 2024

**We will begin at 9:05 am**

# Land Acknowledgement



# Session Format

## 》 Information session

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

## 》 Submit feedback and questions by survey

- QR code or link



# Agenda

- 》 Liability Management Framework (LMF)
- 》 Liability Management Rating (LMR)  
Replacement
- 》 Estimated Liabilities (Directive 001 & D011)
- 》 Next Steps

A photograph of an oil pumpjack in a field of tall, dry grass. The pumpjack is silhouetted against a blue sky with light clouds. The grass is in the foreground, slightly out of focus, creating a sense of depth. The overall scene is a typical oil field landscape.

# LIABILITY MANAGEMENT FRAMEWORK (LMF)

# Strategic Management of Liability

## 》 AER Strategy: Long term net reduction in liabilities

- Mitigating the magnitude and likelihood of *potential liability exposure* to Albertans.

1

Reduce liability through closure work

2

Minimize liability exposure through security collection and with current backstop for oil and gas (Orphan Fund Levy)

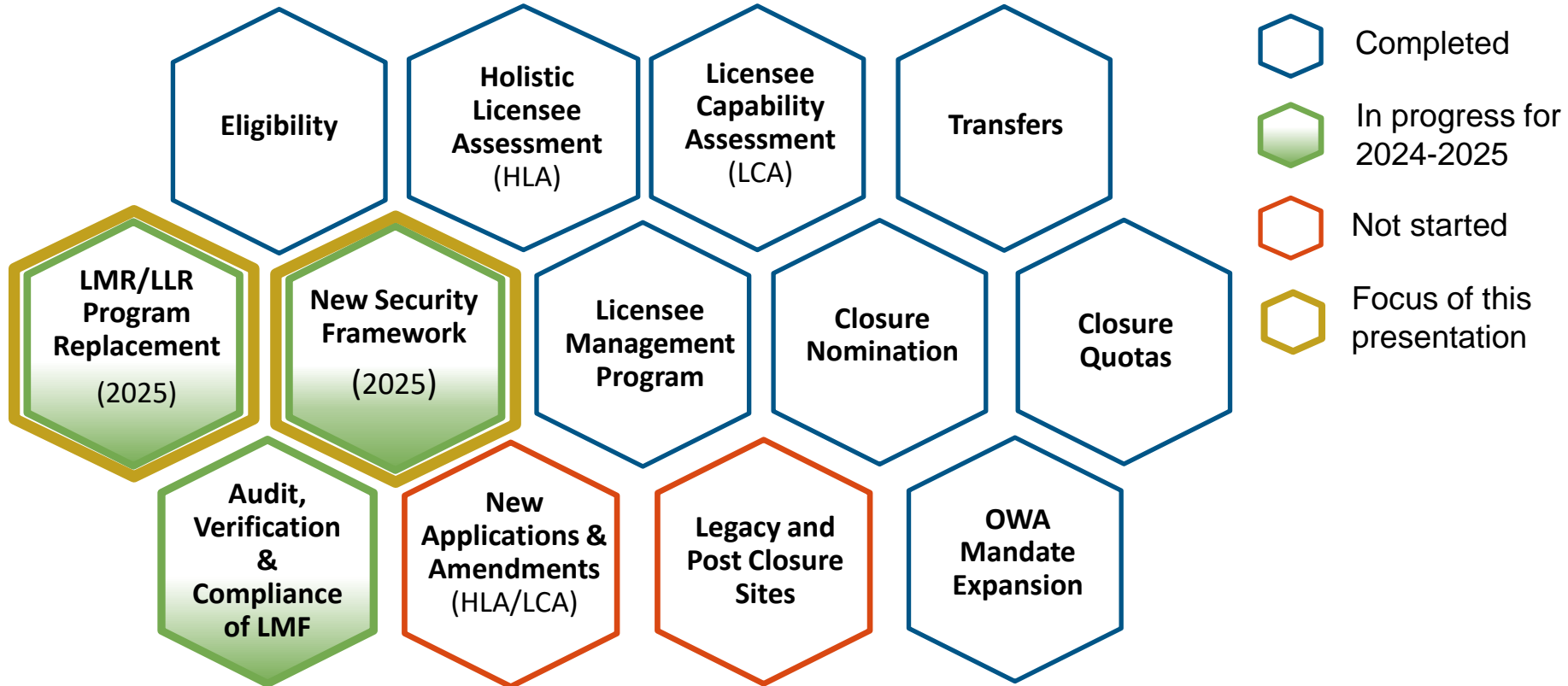
3

Address unfunded liability (remaining liability exposure) through a Legacy Fund

# Liability Management Framework (LMF)

- 》 GoA policy announcement July 2020
- 》 Directed the AER to develop new programs to
  - Assess licensees' ability to meet obligations
  - Reduce the inventory of aging infrastructure
- 》 OAG March 2023 report recommendation
  - Replace LMR and develop a new security framework

# AER Programs Impacted by LMF





# LIABILITY MANAGEMENT RATING (LMR) REPLACEMENT



# Liability Management Rating (LMR)

» Established in 2002

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



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

# Purpose of LMR Programs

- 》 Remains applicable as we replace LMR
  - 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

# LMR Program Directive Topics

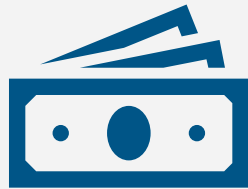
Directives

**D006 (LLR)**  
Wells and Facilities

**D024 (LFP)**  
Large Facilities

**D075 (OWL)**  
Oilfield Waste

Topics



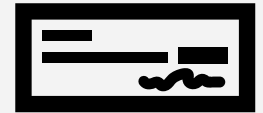
Deemed Liabilities  
(Liability  
Estimates)



Security  
Collection























Assets



Orphan Fund  
Levies

# Duplication of Requirements

Directive	Program Administration	LMR Description	Deemed Asset Calculation	Deemed Liability Estimates	LMR Security Deposits	Facility Dedicated Security	Orphan Program and Fund
D006							
D024							
D075							



# Regulatory Changes - Delete



LMR

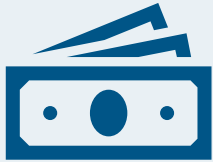
- Liability Management Framework (LMF) and new security framework will replace LMR.
- Government of Alberta (GoA) direction and Office of Auditor General (OAG) recommendations to replace LMR.



ASSETS

- Deemed assets have been replaced with Licensee Capability Assessment (LCA) factors (e.g., level of financial distress and licensee crossover calculations).

# Regulatory Changes – Amend & Add



## Deemed Liabilities (Estimated Liabilities)

- Estimated liabilities continue to be an important consideration in the LMF as they are widely used.
- Terminology change to replace deemed liabilities.



## Orphan Fund Levies

- The Orphan Fund Levy calculation will not change.

# Regulatory Changes – NEW



## Security Collection

- GoA and OAG recommendation to replace LMR Security, including determining how much security to collect, when to collect, and how to enforce.
- Keep, amend, and add to existing requirements.
- Details on the new security framework, including requirements will be covered in the next session.

# LMR Replacement Target Timeline

## 》 October 2024 Regulatory Changes Issued

- Oil and Gas Conservation Rule Updates
- Directive Changes
  - Updates to D001, D011, D068, D088, M023
  - Rescind D006, D024, D075

*NOTE: these changes are Administrative and will not go for public comment.*

A photograph of an oil pumpjack in a field of white flowers under a blue sky. The pumpjack is in the background, slightly out of focus, and the flowers are in the foreground, also slightly out of focus. The sky is a clear, bright blue with a few wispy clouds. The overall scene is a rural, agricultural landscape.

# ESTIMATED LIABILITIES

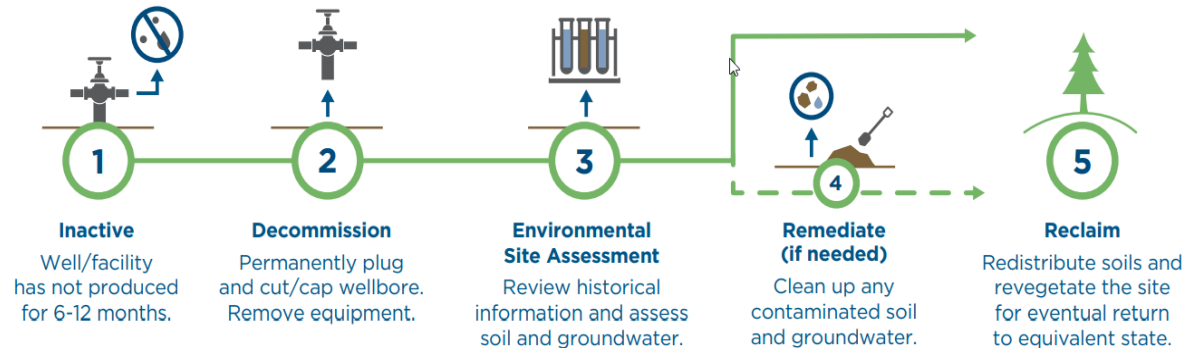


# Estimated Liability: Definition



› Estimated cost to safely close and clean up energy sites (Directive 011 and 001)

## Stages of Closure



# Estimated Liability: Calculations

**D011**

Parameter  
and Liability  
Costs

Determined by the AER

Estimates the cost to abandon and reclaim based on parameters defined in Directive 011 (D011)

**D001**

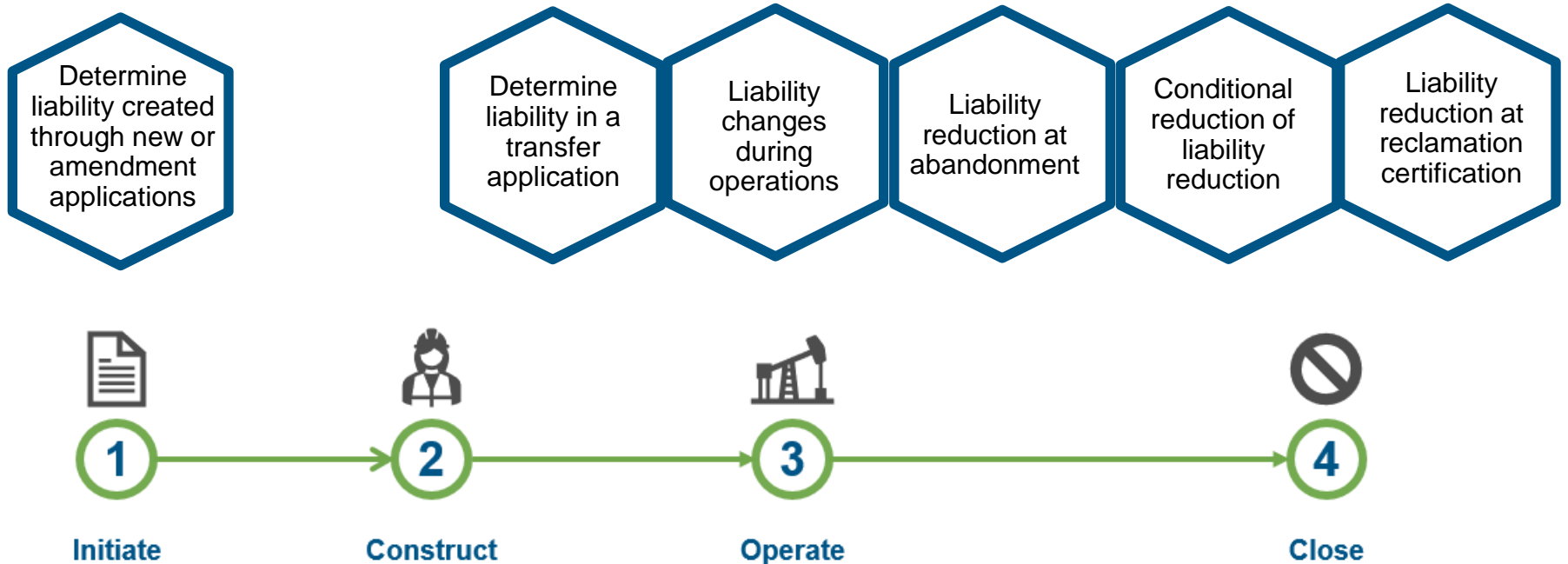
Site-Specific  
Liability  
Assessment

Conducted by the licensee

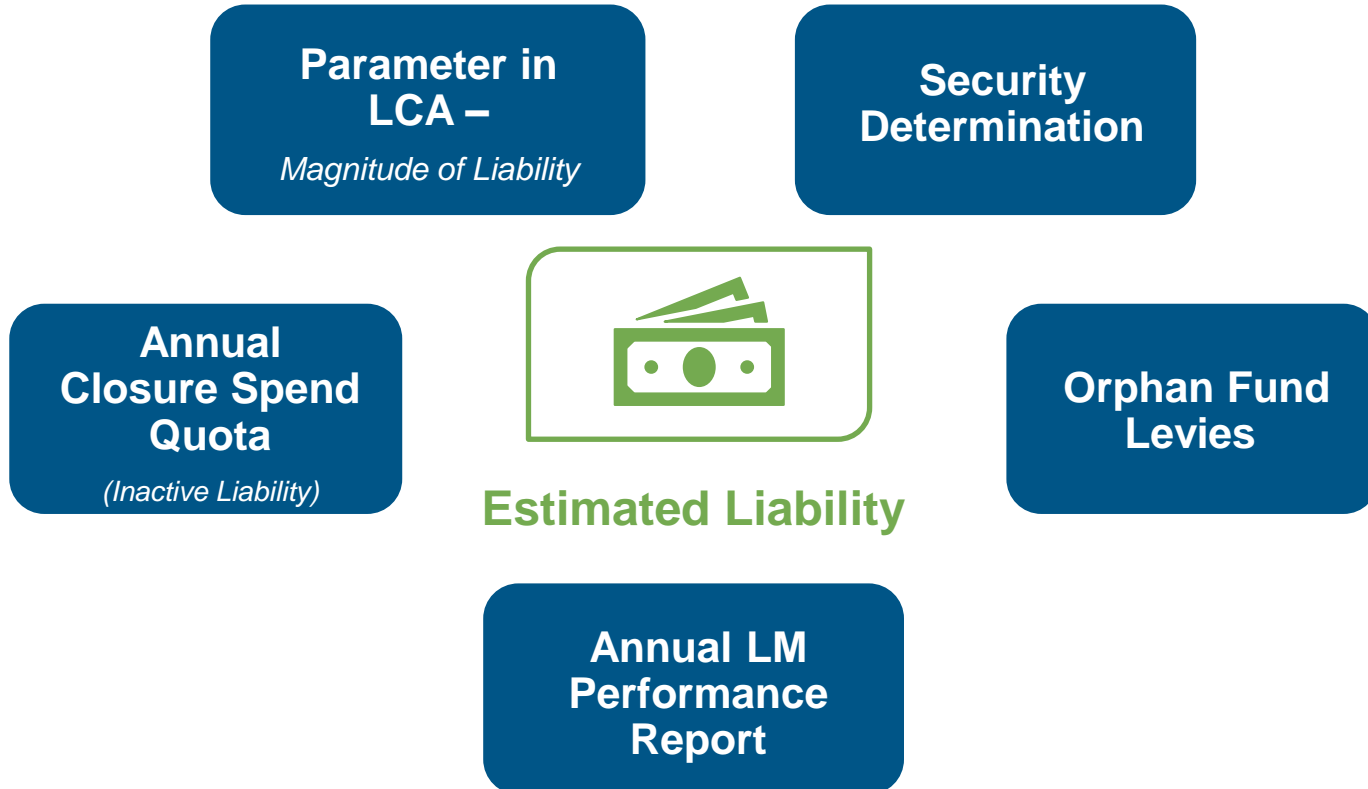
Estimates the costs to provide care and custody, suspend, abandon, remediate, and reclaim a site

A site where an SSLA estimates the abandonment or reclamation liability to be equal to or greater than 4 times the regional liability

# Estimated Liability: When it Changes



# Estimated Liability: What it's Used For



# Estimated Liability: Systems

- 》 A new system to store and access estimated liability information
  - Not using Digital Data Submission (DDS) System (legacy system)
- 》 Information sharing and reporting
  - Liability Management Industry Performance Report

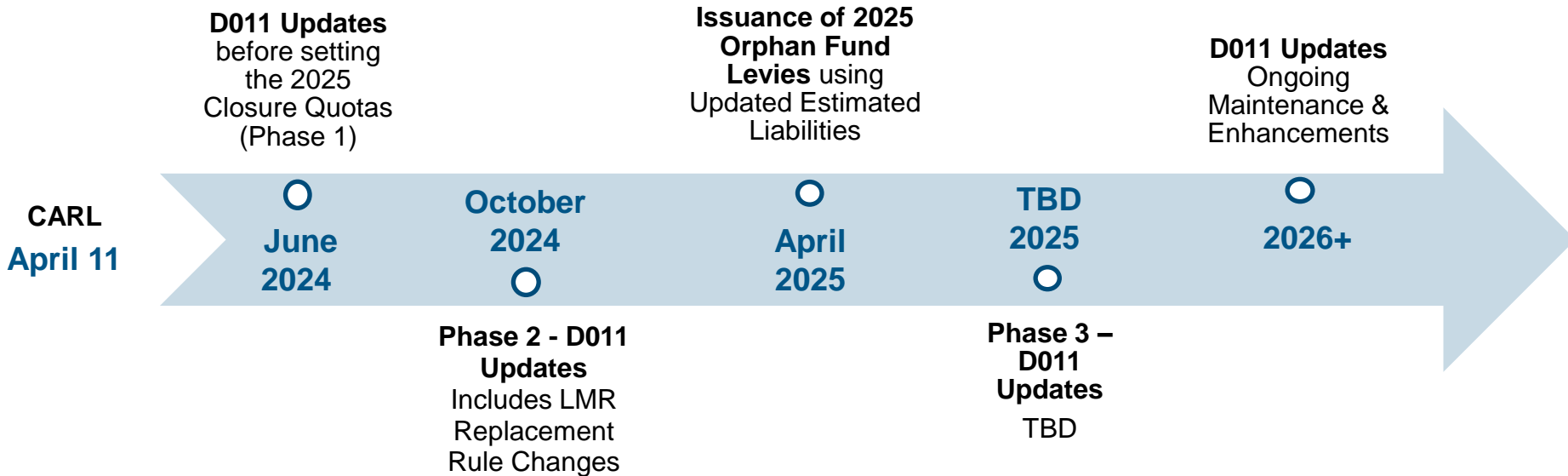


# Approach to Update Liability Costs

- 》 Updates will be data driven using submitted closure spend data
  - Industry closure spend
  - Orphan well association spend
- 》 Evaluation of well abandonment liability cost parameters

*NOTE: these changes are data driven and will not go for public comment.*

# Estimated Liability: Timelines



*Plan to update Estimated Liability on regular cadence using actual industry-reported closure spend, where available*

# Estimated Liability: Gaps

- » Examples of liability not currently included
  - Pipelines
  - Pipeline installations
  - Single well batteries
  - Waste management components

# SSLA Enhancements

## Regulatory

- › Increase clarity
- › Align requirements
- › Improve estimated liabilities

## Systems & Processes

- › Improve efficiency
- › Support LM performance metrics

*Note: SSLA – Site Specific Liability Assessment*

# SSLA Changes being considered

## » All SSLA

- Meet D001 requirements
- Are updated at a consistent interval, or when costs estimates increase by a certain amount
- Cannot exceed a certain age at time of transfer
- Must be included in a new facility licence application

# Summary of Presentation

## 》 Estimated Liability Updates

- D011
- D001

## 》 LMR Replacement

## 》 Orphan Fund Levy Formula is not changing

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 tag with the number '66' on its ear. The text 'NEXT STEPS' is overlaid in white, bold, sans-serif font.

# NEXT STEPS

# Upcoming Session

Title	Date & Time	Description
<b>Session 3:</b> Security Framework	June 20, 2024 9:00am MST	Explain why a new framework is needed and the risk we are working to address. Describe our design principles and factors used to determine when to collect security.

- › Register for this session through [AER Events](https://aer.ca) (aer.ca)
- › Session recordings will be posted on AER website



# Reference Materials

- 》 [Liability Management](#)
- 》 [Liability Management Programs](#)
- 》 [Bulletin 2023-41 Ongoing Implementation of LMF](#)
- 》 [Liability Management Performance Report](#)

# Post-Session Survey



- › Open until July 15
- › Recording posted to [aer.ca](http://aer.ca)
- › Survey will also be sent by email and includes link to session recording

# Connect with us



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