

New Security Framework

Ongoing Implementation of Liability Management Framework

June 20, 2024

We will begin at 9:05 am

www.aer.ca

Land Acknowledgement



Previous Sessions

Title	Date & Time	Description
Session 1: Liability and Security Overview	May 30, 2024	<ul style="list-style-type: none">• General background on liability and security and a high-level introduction to the Liability Management Rating (LMR) and new Liability Management Framework.
Session 2: General Liability and Estimated Liability	June 13, 2024	<ul style="list-style-type: none">• Proposed changes to our Liability Management Programs and regulatory instruments to replace LMR.• Approach to updating estimated liabilities.

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)

- AER 2023-2025 Strategic Plan
- Office of the Auditor General (OAG) report

New Security Framework

- Purpose
- Current state
- Future state approach

A photograph of an oil pumpjack in a field of tall, dry grass. The pumpjack is silhouetted against a blue sky with some clouds. The grass is in the foreground, slightly out of focus, and the pumpjack is in the background, slightly to the right. The overall tone is warm and industrial.

LIABILITY MANAGEMENT FRAMEWORK (LMF)

Government Direction to AER

In July 2020, the Government of Alberta announced a new Liability Management Framework for the oil and gas sector



Directed the AER to develop new programs to:

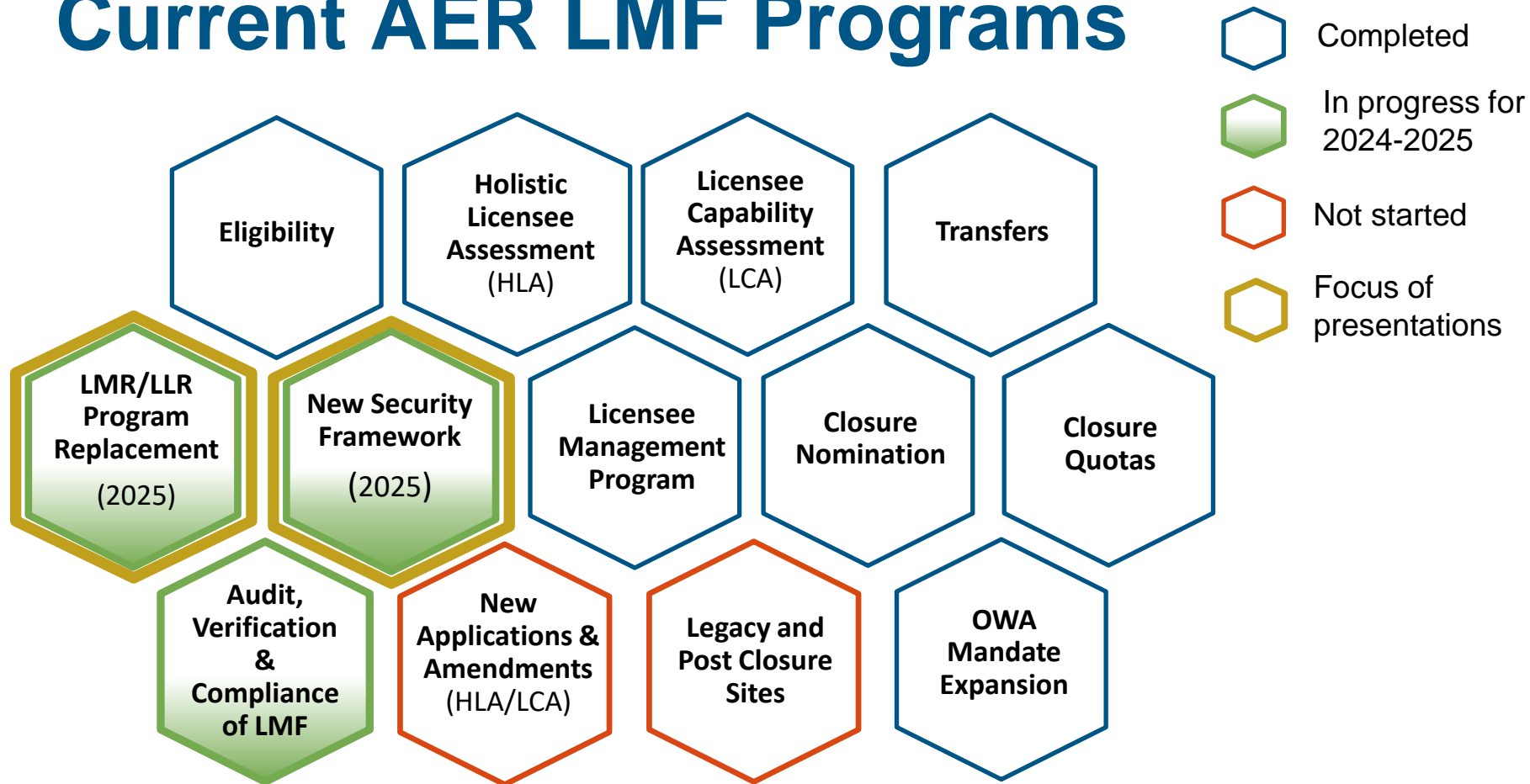
Assess licensees' ability to meet obligations

Proactively monitor licensees that may be at risk

Reduce the inventory of aging infrastructure

Replace Liability Management Rating (LMR)

Current AER LMF Programs



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

Auditor General Report

- 》 Office of Auditor General (OAG) Report released March 2023
- 》 Recommendation 5 - Develop new security framework to determine
 - How much security needs to be collected
 - When security will be collected
 - How collection will be enforced

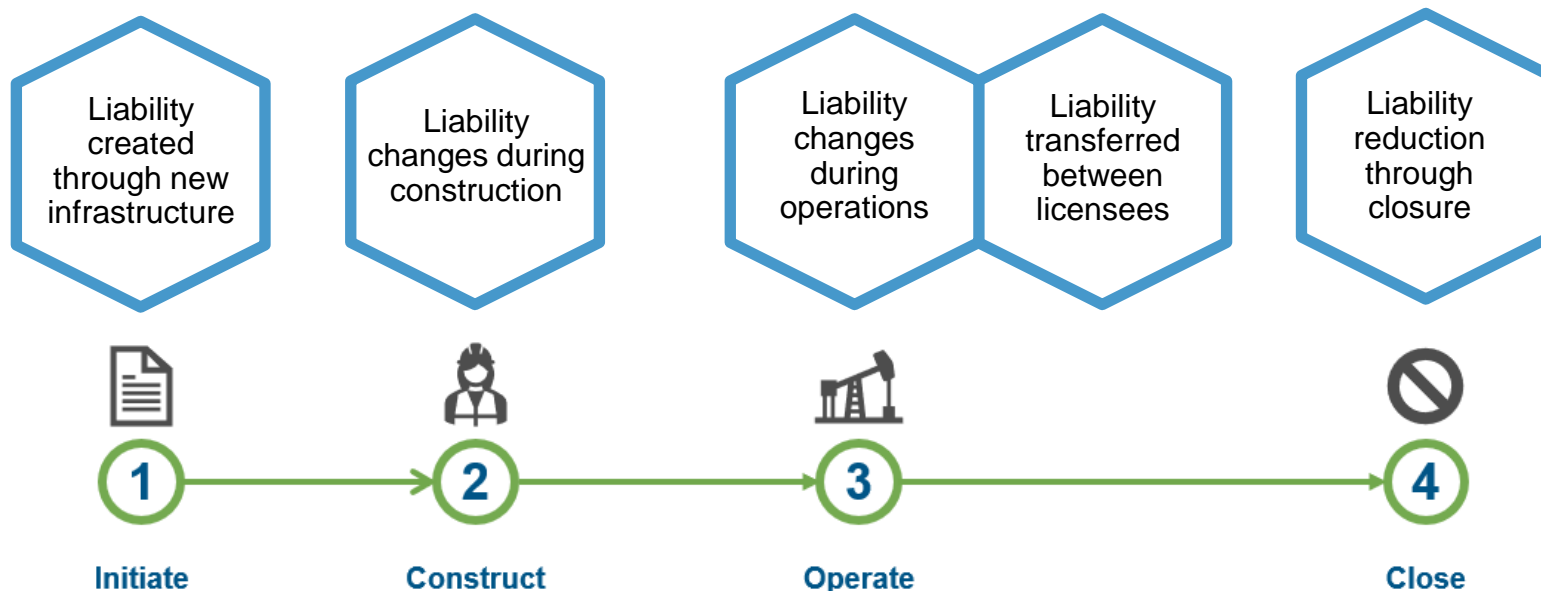
An aerial photograph of an industrial facility, possibly a power plant or refinery, situated in a clearing within a dense forest. The facility features a large, curved, light-brown earthen area in the foreground, a complex of metal structures and pipes in the middle ground, and several small buildings and storage tanks in the background. The surrounding forest is lush and green.

NEW SECURITY FRAMEWORK

Purpose of Liability Program

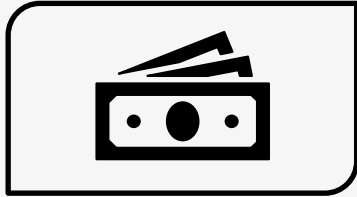
- 》 Prevent the costs to suspend, decommission, remediate, and reclaim a well, facility, or pipeline, from being borne by the public of Alberta should a licensee become insolvent
- 》 Minimize the risk to the Orphan Well Association posed by the unfunded liability of licenses

Liability Throughout the Lifecycle



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

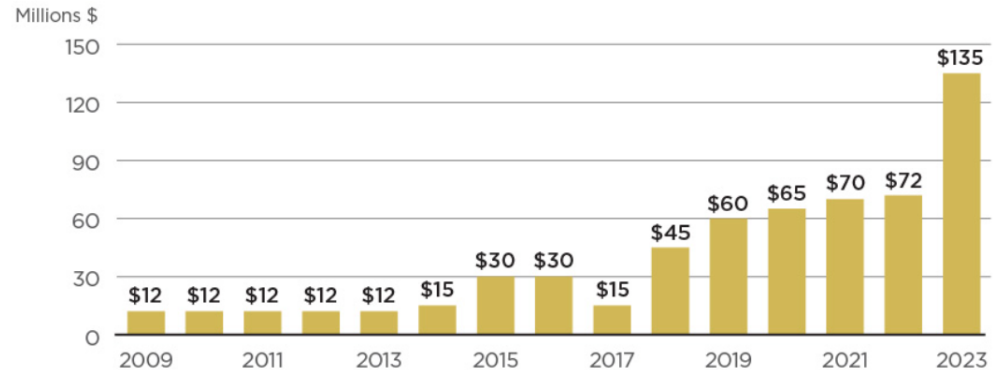


Offset the cost of providing for care and custody of infrastructure or sites

Orphan Well Association and Security

- › Orphan Fund Levy (OFL) has increased from \$12 million to \$135 million over a period of 15 years
- › The OFL is an annual payment by industry that is non-refundable
- › Security can be collected gradually over time and is used only where needed.
- › Security provided to the Orphan Well Association (OWA), when collected proactively, may help moderate the OFL.

Figure 10. Orphan fund levy by year, 2009–2023



Source: 2024 Liability Management Performance Report

Closure Quotas and Security

Closure Quotas

- » Actively reduces liability **now**
- » Annual minimum spend requirement for closure work

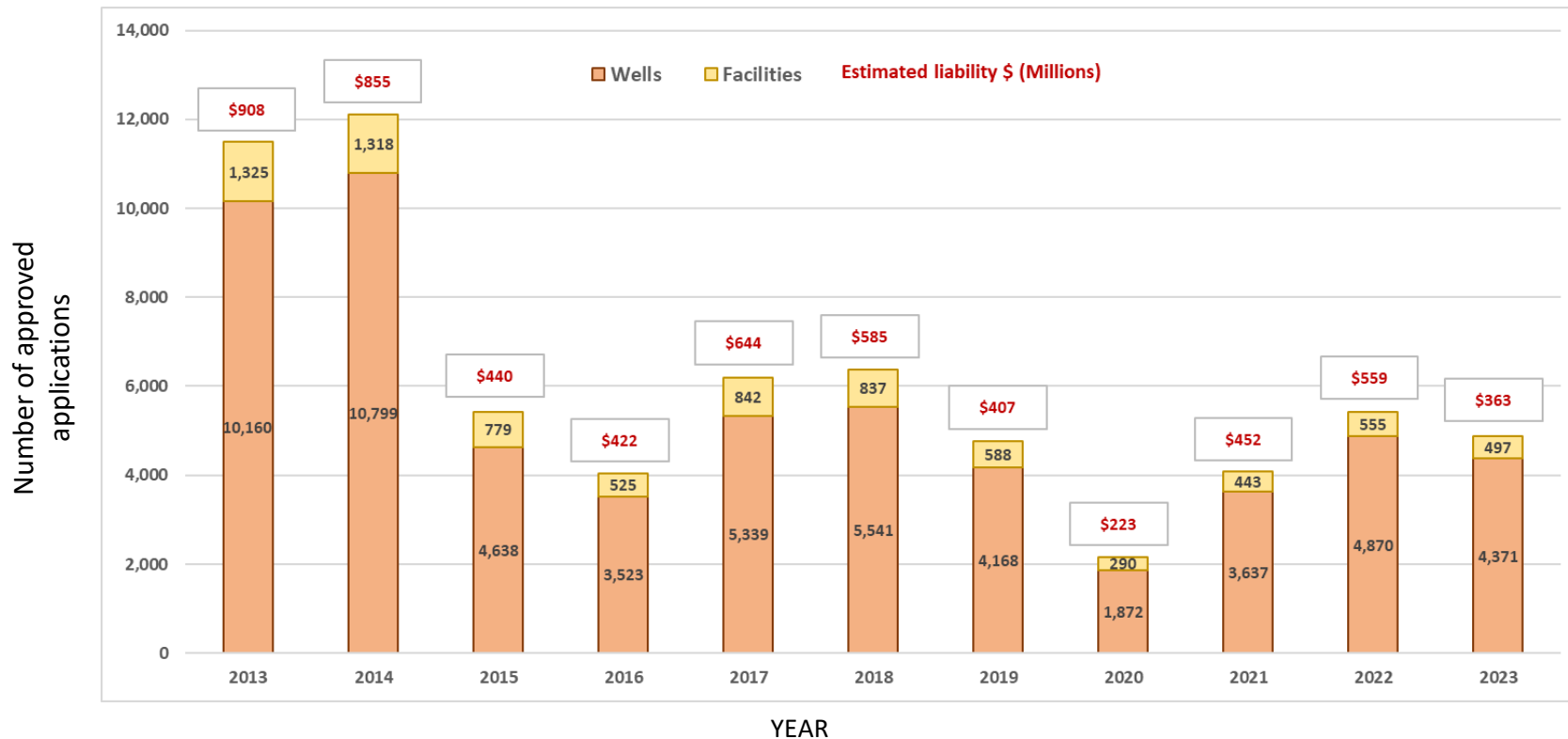
Security

- » Offsets **future** liability risk and finances closure work
- » Mitigates longer-term financial risk

CURRENT STATE: LMR

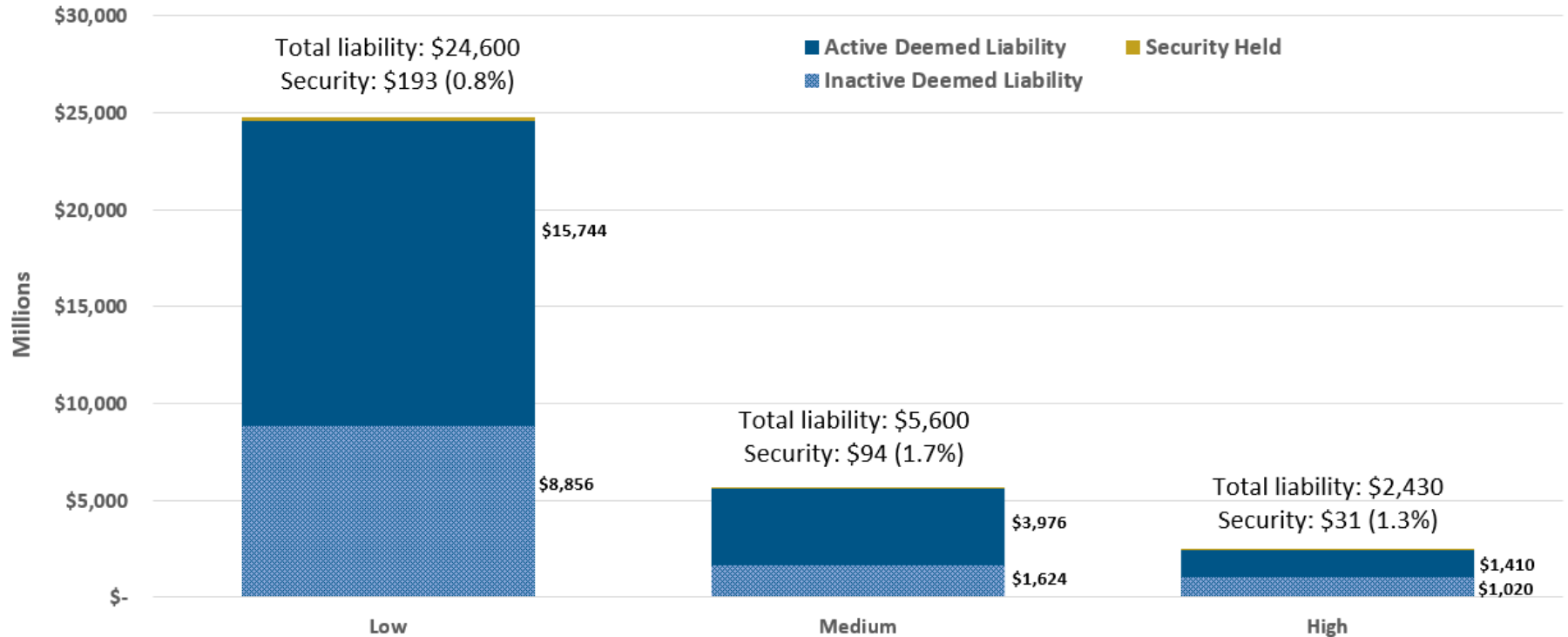


Applications Approved Each Year



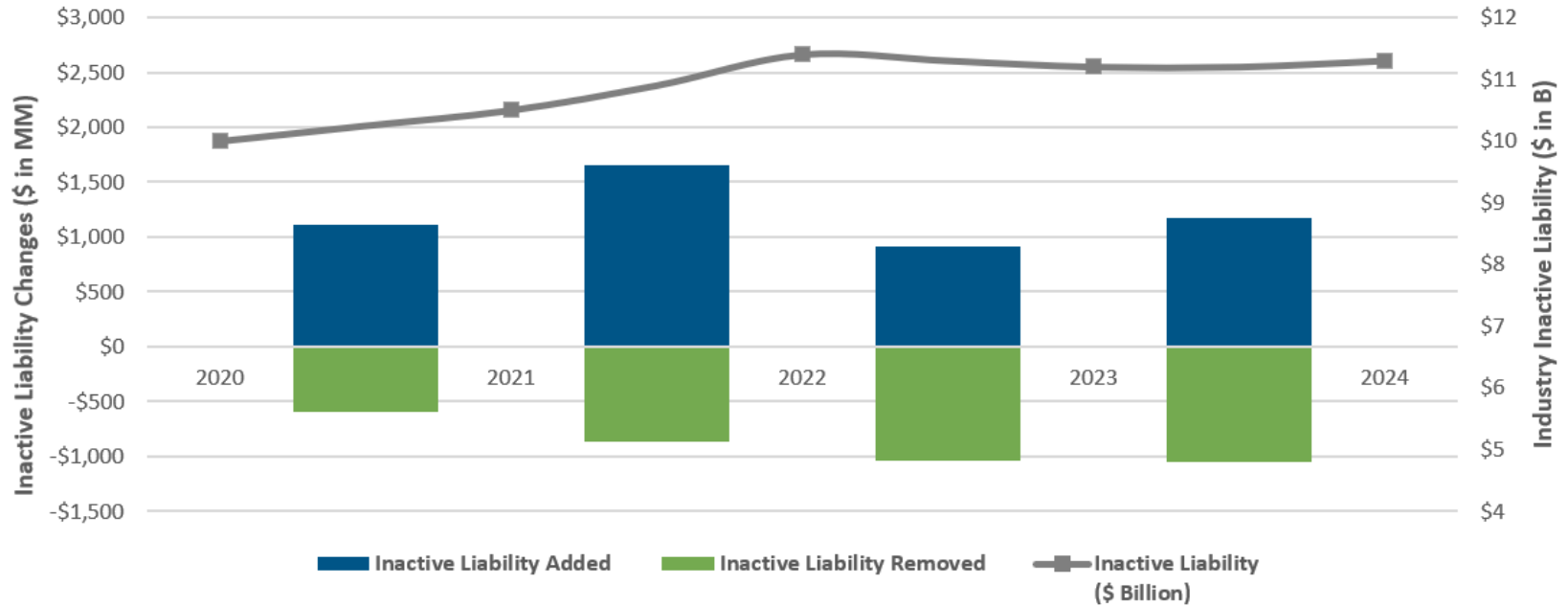
Note: Based on existing LMR Programs

LMR Security for Oil and Gas



Note: Based on existing LMR Programs

Impacts to Inactive Liability

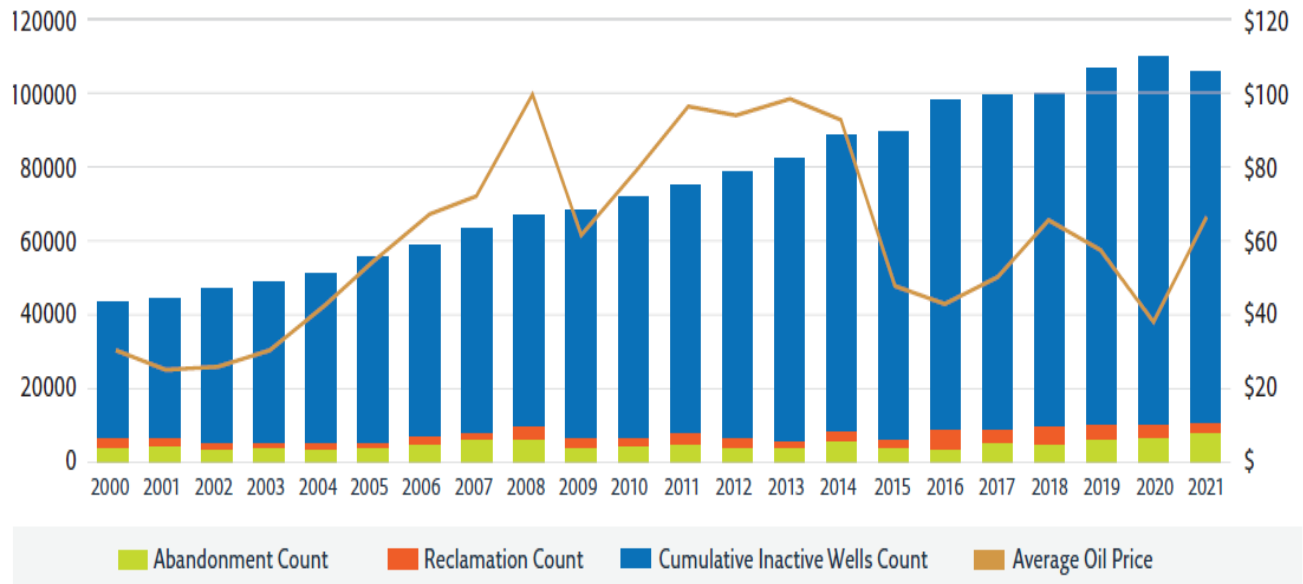


» While **inactive liability (green)** is reduced each year, **new inactive liability (blue)** is added, impacting the inactive liability trend

Inactive Infrastructure Trend

- Inactive infrastructure has grown over time
- Growth has not historically been impacted by commodity prices

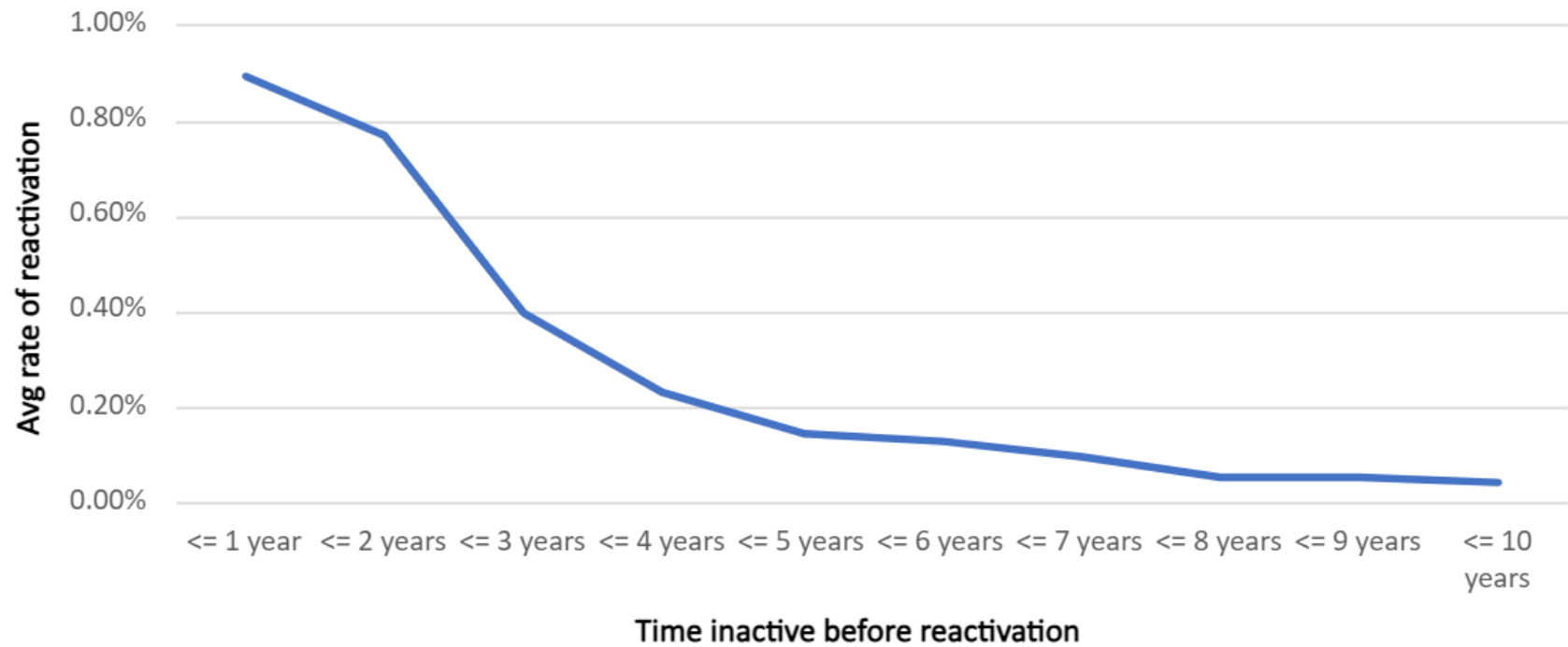
Closure Activity and Growth of Inactive Wells with Oil Price



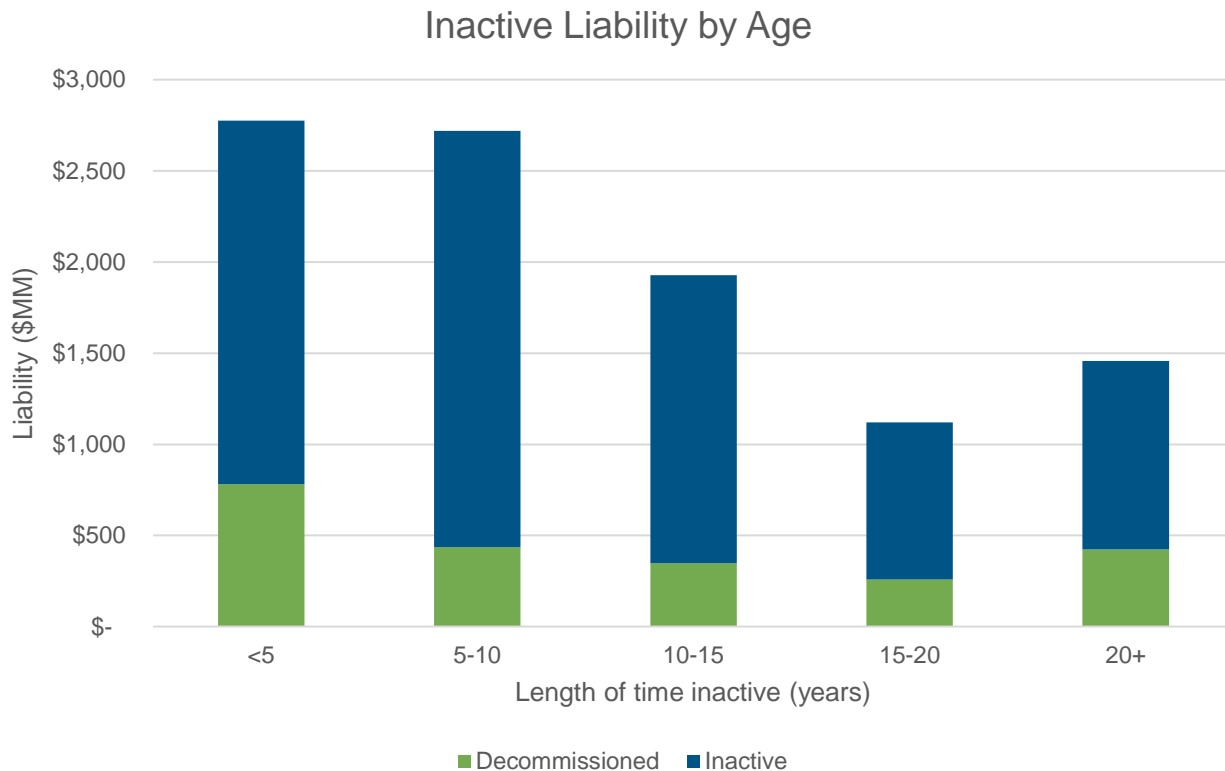
Source: March 2023 OAG Report

Well Reactivation Rates

Historical Reactivation Rates



Aging Infrastructure



» Total estimate liability of non-productive assets: \$10 billion

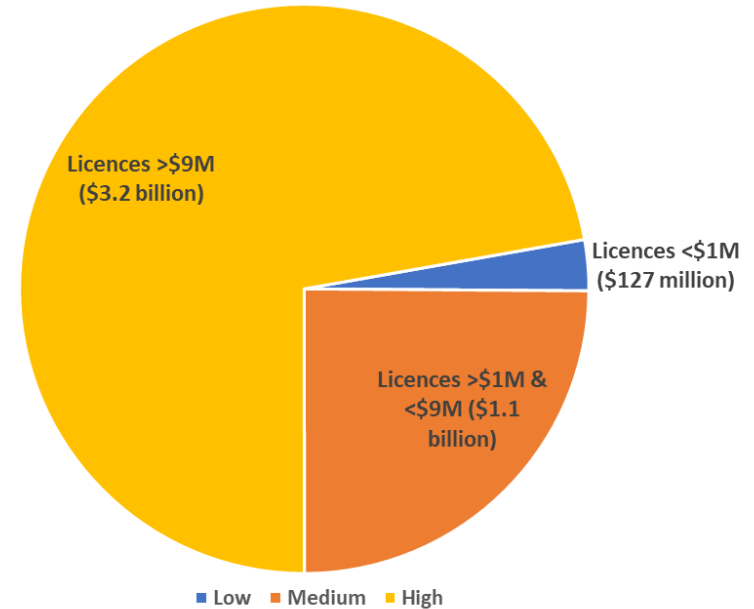
» Over 50% held by financially healthier companies

Infrastructure Types for SSLA

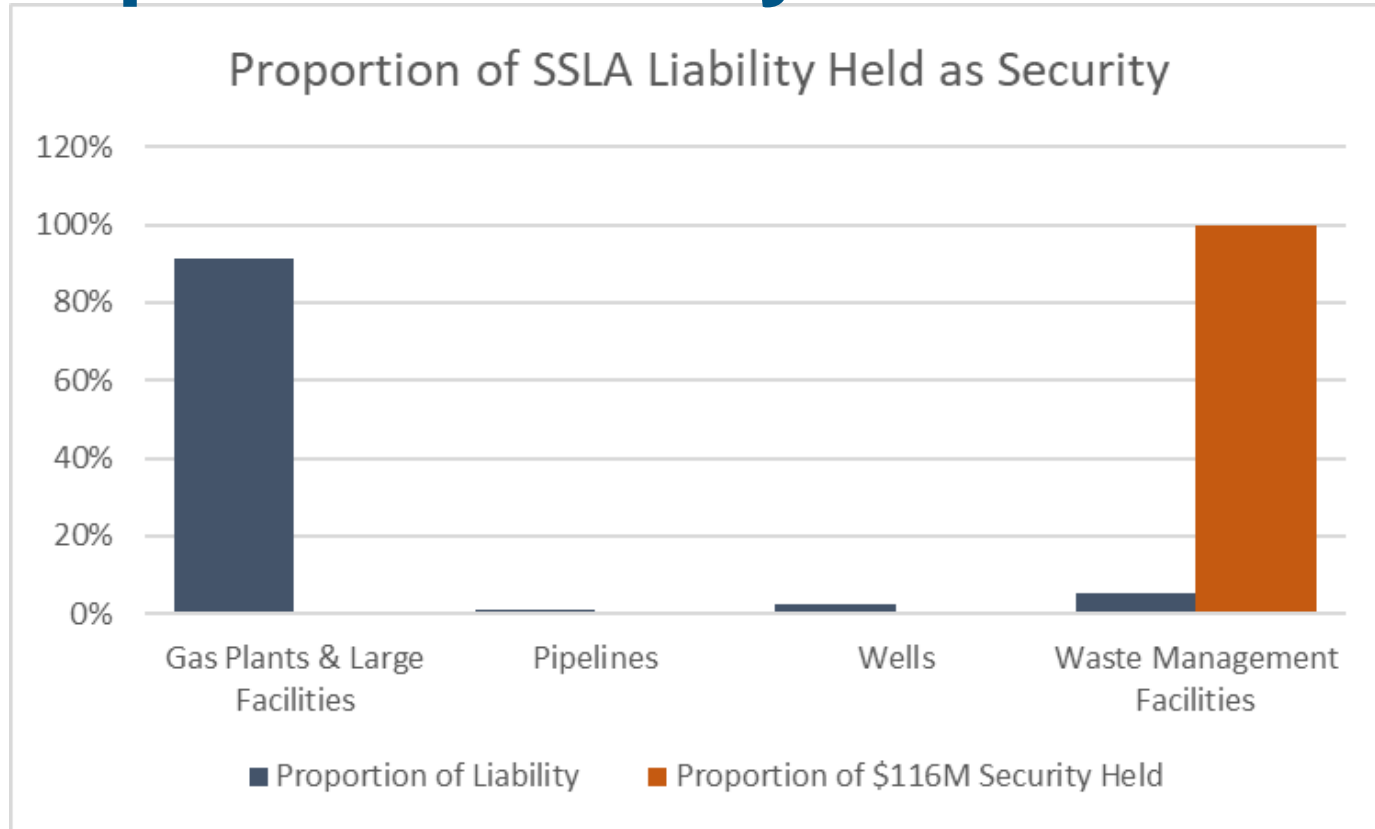
› Total estimated liability: \$5.6 billion

- Gas Plants & Large Facilities
- Oilfield waste management facilities holding a waste approval
 - Includes disposal wells as part of WM approval
 - Landfills
- Sites with liability 4X normally calculated for that type of site using regional costs

Liability Distribution



Site Specific Liability Assessments

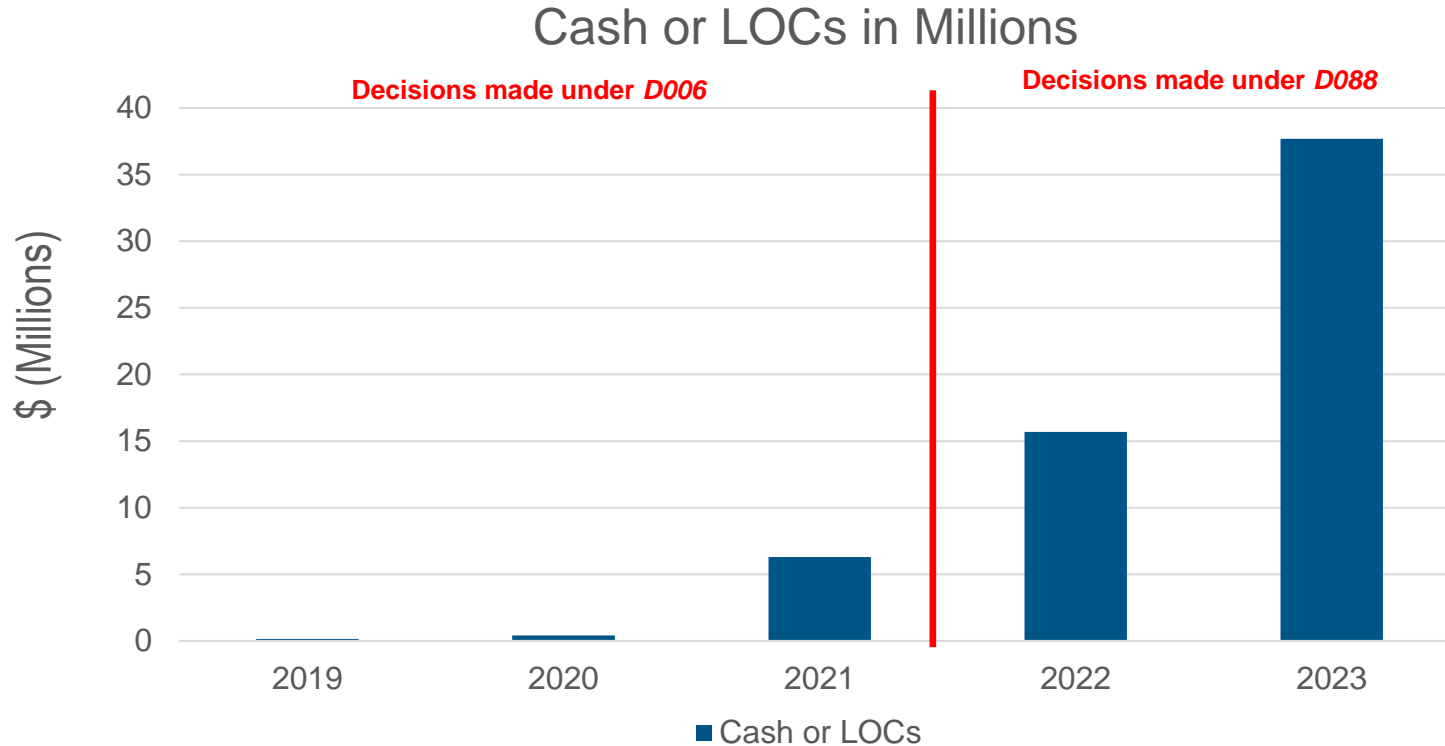


Note: Based on existing LMR Programs

TRANSITION TO LMF



Licence Transfer Security Collected



Closure Quotas Security Collected

» Through Directive 088, security deposit is collected in lieu closure work* or for noncompliance with the closure quota.

Year	Security deposit in lieu	Security for noncompliance	Industry-wide closure quota
2022	~\$240K	~\$3.4MM	\$422MM
2023	~\$160K	TBD	\$700MM

** Below a certain threshold, licensees may elect to provide a security deposit in the full amount of their mandatory spend instead of achieving the mandatory spend through closure work (security deposit in lieu)*

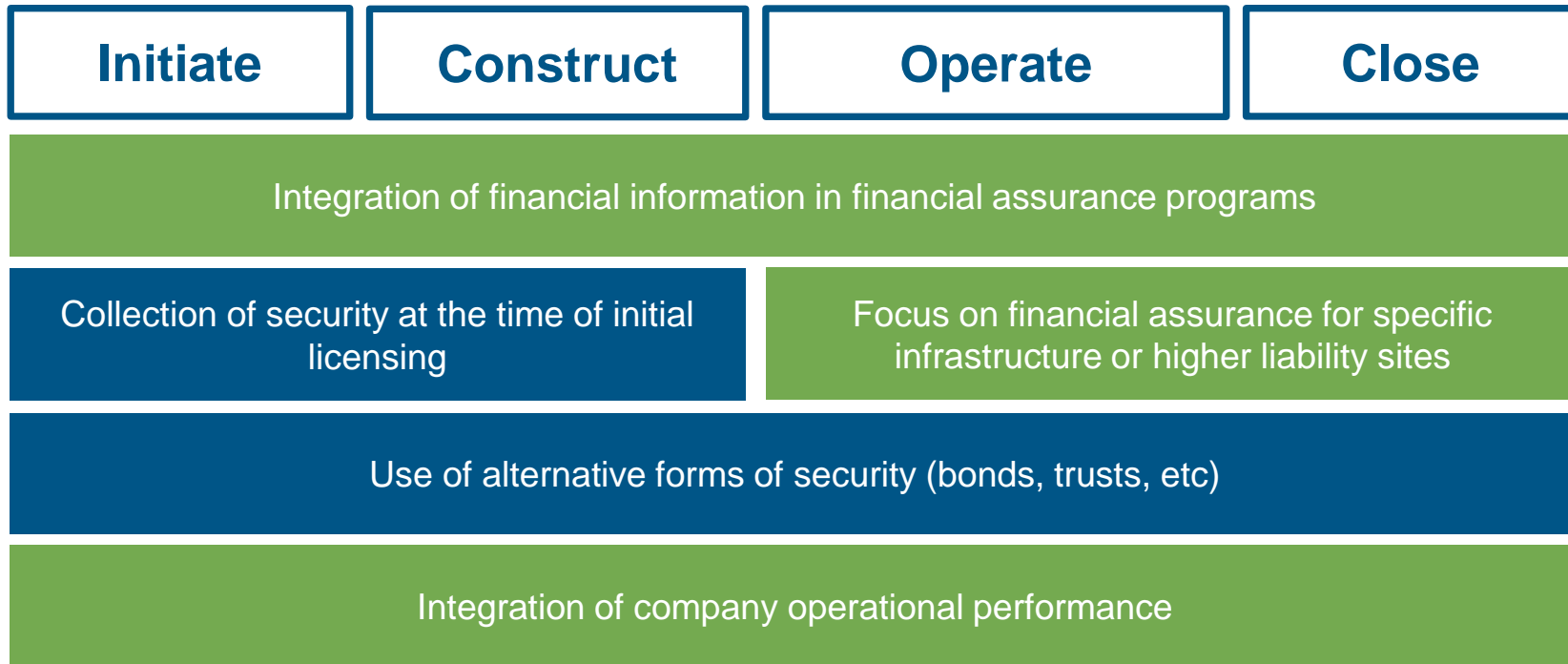
Considerations for Future State

- › Number of applications for new infrastructure fluctuates with commodity prices
- › Inactive liability is growing over time, with some very old inactive sites. Reactivation is infrequent
- › Majority of inactive liability has historically been held by financially healthier companies; however, closure has not kept pace with growth
- › AER currently holds very little security for sites with high liability
- › New LMF for transfers has resulted in significant security collection

The background of the slide features a blurred image of an oil pumpjack in a field of white flowers under a blue sky. The pumpjack is positioned on the right side of the frame, and the flowers are in the foreground. The sky is a clear blue with some light clouds.

FUTURE STATE APPROACH

Security: Jurisdictional Review



Security Framework Design Principles



Upholds the polluter-pay principle in a way that is fair and manageable.



Incentivizes licensees to perform efficient closure work, when appropriate, rather than pay security.



Collect security throughout the energy development life cycle.

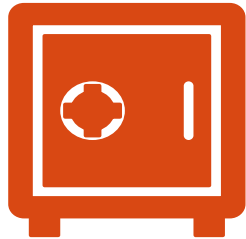


Performance and risk-informed security determination, calculation, and refund.



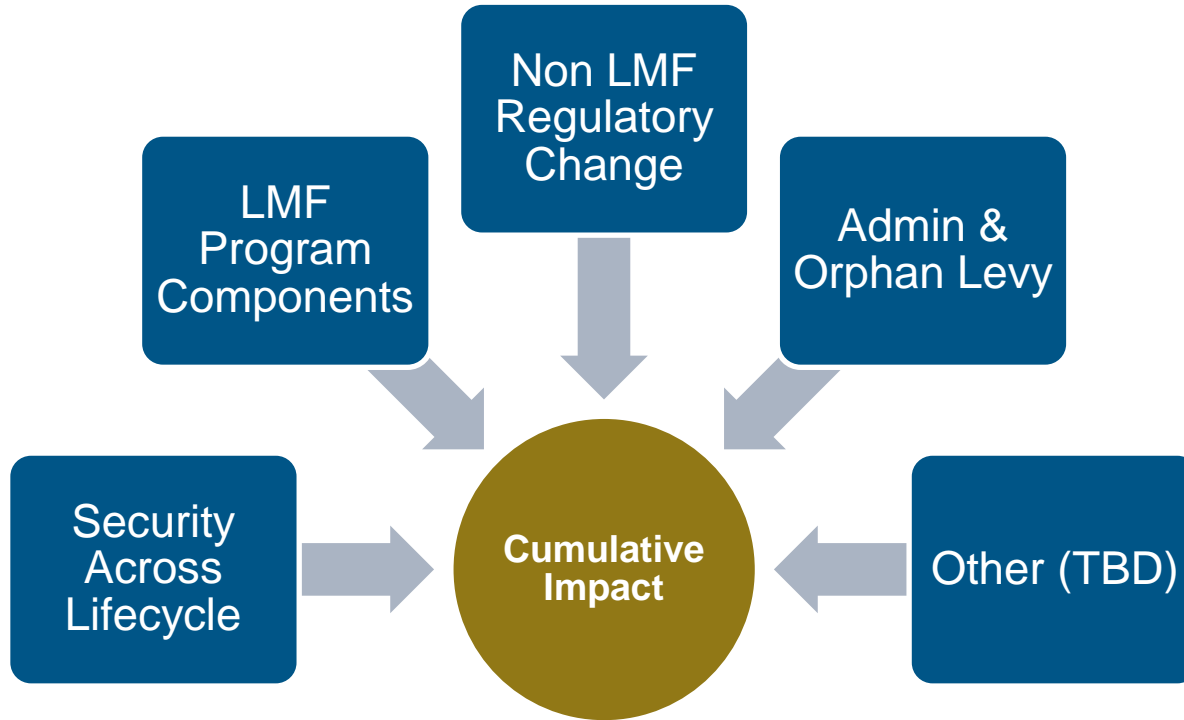
Administratively feasible for industry and AER, with requirements and processes that are explicit and defined.

Example of Risks Considered



- Poor financial performance
- New or increasing liability from applications / amendments
- Infrastructure with high liability
- Age of inactive infrastructure
- Pace of closure not keeping up with closure obligations
- Poor licensee behaviour and operational performance

Cumulative Impact



Summary

- › Security has always been required for oil and gas infrastructure in Alberta in some form
- › Government of Alberta provided policy direction to enhance security framework with removal of LMR
- › Key consideration is the collection security across the energy development lifecycle
- › Intent is to provide as much certainty as possible but certain circumstances will maintain discretion

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

Public Comment Period – Fall 2024

- » Feedback from information session surveys will be integrated into draft requirements
- » Revised directives posted to our website for public comment

Public Comment Period – Fall 2024

- All feedback will be reviewed and considered
 - Summarized in a “What We Heard” document
 - Published with the final version of the directives

Reference Materials

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

Liability Management Framework
Information Session 3: Security
Framework



Survey

- › Open until July 15
- › Survey will also be sent by email and includes link to session recording
- › Recording of presentation posted to aer.ca