Alberta Energy Regulator

Annual Report 2019/20

OUR MANDATE

The Alberta Energy Regulator ensures the safe, efficient, orderly, and environmentally responsible development of hydrocarbon resources over their entire life cycle. This includes allocating and conserving water resources, managing public lands, and protecting the environment while providing economic benefits for all Albertans.

OUR MISSION

To regulate Alberta's energy resources by protecting what matters most to Albertans—public safety, the environment, and economic value.

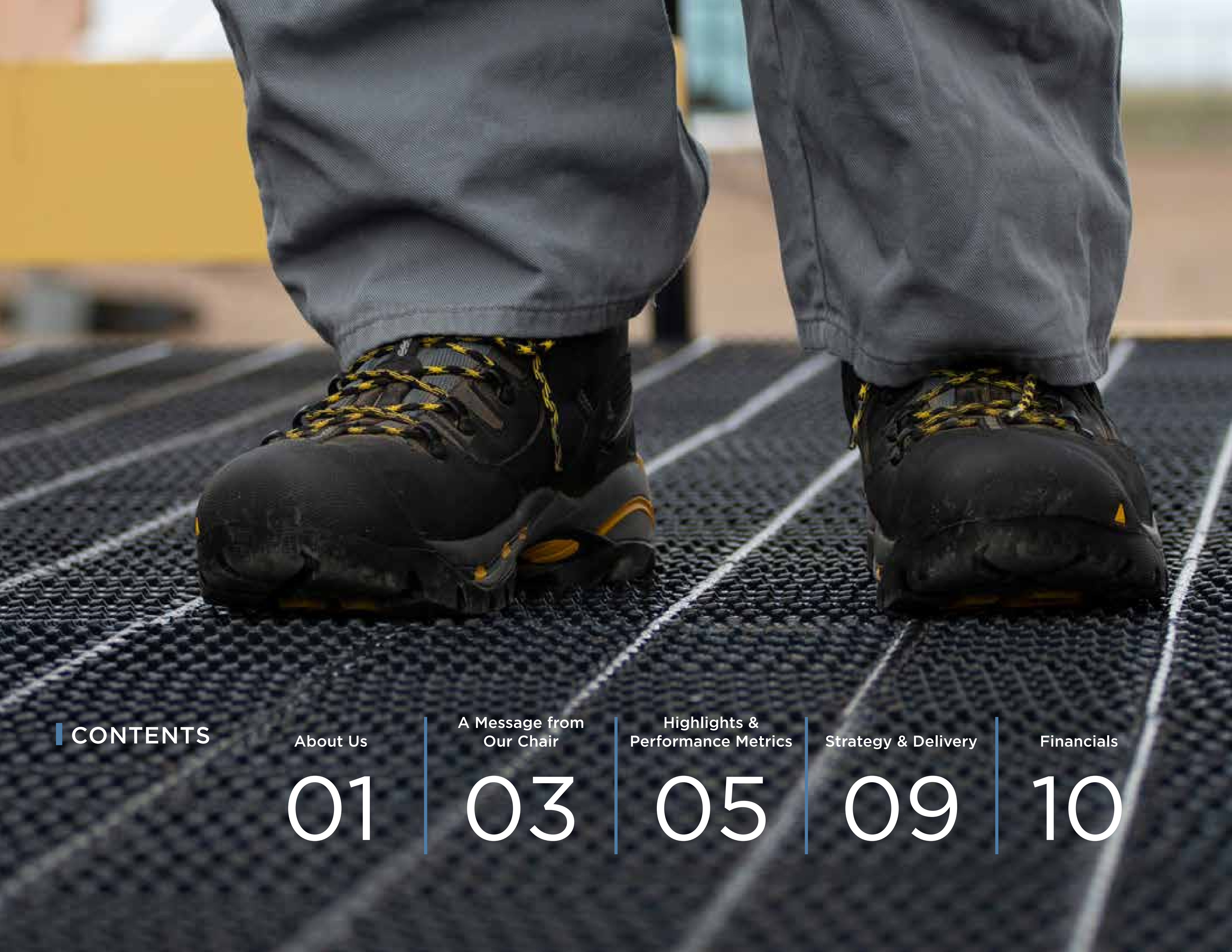
OUR VISION

The Alberta Energy Regulator is recognized for regulatory excellence, ensuring the safe, environmentally responsible development of energy resources for the benefit of all Albertans.

AN ACKNOWLEDGEMENT

In the spirit of reconciliation, the AER acknowledges that our head office is located on the Treaty 7 traditional territory of the Blackfoot Confederacy (Kainai, Piikani, and Siksika Nations), the Tsuu T'ina Nation, the Stoney Nakoda Nation, and the Métis Nation Region 3. We are situated on land where the Bow River meets the Elbow River, and the traditional name of this place is "Mohkinstsis," which we now call the City of Calgary.

We also have field centres located on the traditional territories of Treaty 6 and Treaty 8, and all other regions of the Métis Nation of Alberta.



CONTENTS

WHAT WE REGULATE

over
433 000
kilometres of pipelines*

over
146 000
operating natural gas & oil wells

over
30 000
oil facilities

over
490
active gas processing plants

over
21 000
gas facilities

16
experimental in situ projects

over
230
primary/enhanced recovery projects (in situ)

4
coal processing plants

36
thermal/enhanced in situ projects

8
operating oil sands mines

4
active bitumen upgraders

9
producing coal mines

WHAT WE DON'T

gasoline

pipelines that cross borders

electricity

regulated natural gas rate

renewables

*Operating, permitted, abandoned, and discontinued. In addition to inspection and incident response support for 12 000 kilometres of pipelines regulated by the Alberta Utilities Commission.

March 2020

ABOUT US

Alberta's energy sector is vast and complex. It includes crude oil, natural gas, oil sands, and coal resources, the production value of which totaled $81.2 billion in 2019. Ensuring that it operates in a safe, efficient, orderly, and environmentally responsible manner is no simple task: enter the AER, the single regulator for energy development in the province.

Few organizations anywhere are responsible for as large and varied a mix of energy resources. We oversee some very large established reserves:

- 1.7 billion barrels of conventional oil
- 162 billion barrels of bitumen
- 27.7 trillion cubic feet of natural gas
- 36.6 billion tons of coal

To produce and move this energy to market requires more than 146 000 natural gas and oil wells, over 433 000 kilometres of pipelines (about half of Canada's entire pipeline network), over 51 000 oil and gas facilities, 8 operating oil sands mines, over 230 in situ projects, 4 active bitumen upgraders, as well as 9 producing coal mines and 4 coal processing plants.

We are a full life-cycle regulator, responsible for all stages of development from exploration and production to closure and reclamation.

The AER is accountable to both the Ministers of Energy and Environment and Parks. Our regulatory framework ensures that government policy and legislation is carried out so that we achieve the environmental outcomes that Albertans expect.

The Government of Alberta created the AER in 2013 when it proclaimed the *Responsible Energy Development Act*. We took on regulatory functions related to energy development that were held by Alberta Environment and Parks, and we combined them with the regulatory functions of the AER's predecessor, the Energy Resources Conservation Board.

The AER works closely with government departments on regulatory and policy issues, including Alberta Energy, Alberta Environment and Parks, Alberta Health, and Alberta Indigenous Relations, and the Aboriginal Consultation Office.

Since 1938, Alberta has relied on strong regulation to ensure that our energy resources are developed responsibly. Today, the 970 talented and dedicated employees of the AER work to protect what matters to Albertans—public safety, the environment, orderly energy development, and economic benefit for Albertans and all Canadians.

AROUND THE PROVINCE

13
locations

970
employees

A MESSAGE

HELLO,

In September 2019, I joined the Alberta Energy Regulator as part of the organization's interim board. Reflecting on this past year, it has been a time of unprecedented change and uncertainty for the AER and its employees. From a reorganization, to investigations, to our current pandemic, the past 12 months have been especially stressful. On behalf of the board, I would like to thank every leader and employee for their patience, dedication, and commitment throughout this challenging time and for their support as we move forward in our journey of renewal.

Despite all of the challenges we have faced this past year, the critical work of the AER has never wavered, and we have made great progress in overcoming uncertainties and strengthening the foundation of the AER. This work has included significant emphasis on addressing the recommendations from the International Centre of Regulatory Excellence (ICORE) investigation reports. In particular, we have made improvements to a number of key policies, including those related to expenses, conflict of interest, whistleblowing, and maintaining a respectful workplace. We have also recovered funds previously spent on ICORE activities, and better defined the AER's mandate and what the board, CEO, and the AER's governing ministers are responsible for and how they interact with one another.

Earlier this year, the board helped guide the process to introduce new leadership and critically needed changes to the AER's structure. The goal of the reorganization was to improve efficiencies, increase collaboration, and help the AER operate more effectively within the constraints of a significantly reduced budget.

On the leadership front, we hired a new CEO, Laurie Pushor. Since taking on this role, Laurie has moved quickly to establish a new executive and senior leadership team, learn about the people of the AER, and develop relationships with both employees and external stakeholders.

Similarly, we announced a permanent board in April 2020. I was honored to accept the position of chair, and I look forward to continuing to work with my board colleagues and AER employees to continue to build on our progress and ensure the safe, environmentally responsible development of Alberta's energy resources.

DAVID GOLDIE,
CHAIR, AER BOARD OF DIRECTORS

David Goldie

HIGHLIGHTS & PERFORMANCE METRICS

Over the past year, the AER has focused heavily on regulatory change, with particular attention on the red tape reduction and the regulatory efficiency initiatives. The AER has also continued implementing the Integrated Decision Approach and addressing liability challenges in energy development during the worst economic downturn in the province's history.

Pipeline Safety

Despite the total length of pipelines in the province continuing to grow, the number of high-consequence pipeline incidents dropped by 17 per cent from the previous year. This decrease can be explained by

- lower activity in the oil and gas sector and
- the AER putting more focus on leak detection and educating industry on integrity management programs.

Inspections

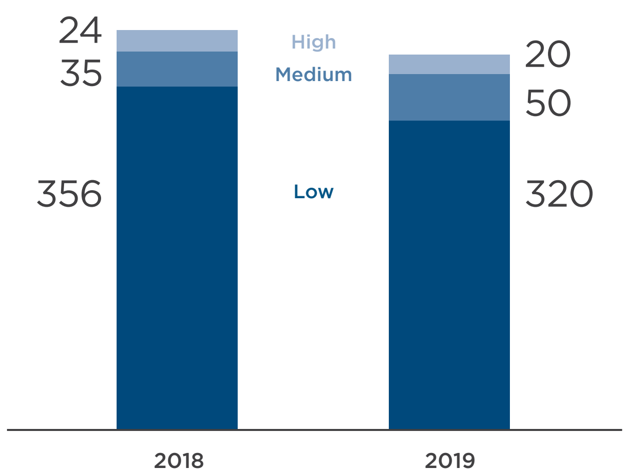
Inspections allow field inspectors to determine if regulatory requirements have been met and provide an opportunity to work directly with companies to bring them back into compliance. Noncompliant inspections are triaged to determine the significance or impact of the noncompliance. Based on the results of the triage assessment, an investigation may be warranted. The investigation may result in an enforcement action.

In 2019/20, the AER conducted 9625 inspections, of which 7451 resulted in a finding of compliance. The inspections resulted in the issuance of 42 enforcement actions:

- 25 orders
- 1 prosecution
- 16 warning letters

High-consequence pipeline incidents decreased.

INCIDENTS BY CONSEQUENCE RATING



About 82% of the incidents were low consequence.

High-consequence incidents decreased by 17% from the previous year.

High: Incidents that could have significant impact on the public, wildlife, or the environment, or that involve the release of a substance that affects a large area or water body.

Medium: Incidents that could have a moderate impact on the public, wildlife, or the environment, but have no impact on a flowing water body.

Low: Incidents that involve little to no substance release, have little to no impact on the public, wildlife, and the environment, and have no impact on a water body.

Liability Management

The prolonged economic downturn and historic low oil prices have resulted in a growing inventory of inactive infrastructure and increased insolvencies. The primary method of liability reduction of inactive infrastructure and sites is completion of closure activities. The AER tracks industry submitted decommissioning and reclamation data.

The total number of wells decommissioned in 2019 reached close to 6000—an increase of almost 700 more wells from 2018.

Area-Based Closure Program

The area-based closure (ABC) program developed by Canadian Association of Petroleum Producers, Explorers and Producers Association of Canada, Petroleum Services Association of Canada, and the AER encourages companies to work together to close oil and gas infrastructure and sites more efficiently and effectively. Pilot programs have shown that efficiencies gained through collaboration and economies of scale can have cost savings of up to 40 per cent. More closure work can be completed with the same closure budget using the program principles to help reduce liabilities associated with inactive sites.

For the 2019 calendar year, 56 companies participated in the ABC program using the mapping functionality available through the AER's OneStop system to find other licensees to collaborate with and plan closure work in the same area. Forty-four of the 56 companies—who combined hold more than half of the province's inactive oil and gas liability—committed to spend nearly $244 million, which represented four per cent of their deemed inactive liability as defined in *Directive 011 – Licensee Liability Rating (LLR) Program: Updated Industry Parameters and Liability Costs*. An additional 12 companies participated in the collaborative-only components of the program using the mapping functionality available through the AER's OneStop system to find other licensees planning closure work in the same area. These licensees did not commit to a closure spend target.

Red Tape Reduction

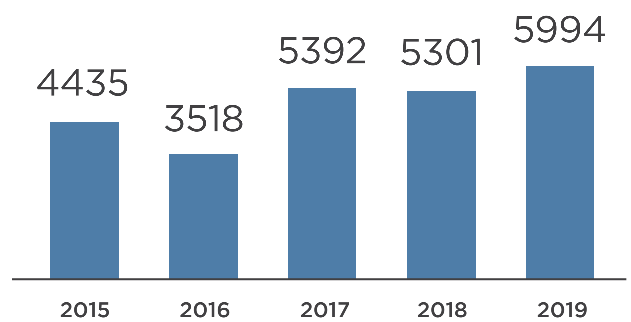
The AER's red tape reduction initiative was formed in May 2019 in response to the Government of Alberta's *Red Tape Reduction Act*. The government set a goal to reduce regulations by one-third, cut costs and inefficient processes, and speed up approvals.

To meet this goal, four reduction targets were set for every ministry and agency in Alberta:

- 5% of requirements were to be eliminated by March 2020
- 12% by March 2021
- 20% by March 2022
- 33% by March 2023

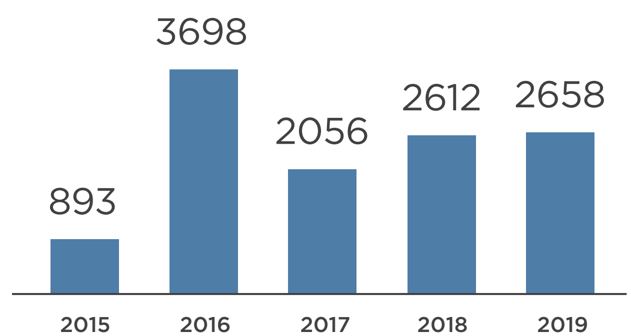
The AER has approximately 41 500 requirements across 210 regulatory instruments such as directives, forms, and manuals. In 2019/2020, the AER reduced the total number of requirements by 1069 (a 2.6 per cent net reduction). The majority of this work was the result of making minor or administrative regulatory changes, as well as eliminating duplication, redundancies, and obsolete requirements.

DECOMMISSIONED WELLS
LEFT IN A SAFE AND SECURE CONDITION



Note: Decommissioning data is based on the timeliness of industry submissions. Historical counts are subject to change as a licensee may complete decommissioning work in 2017 and not submit the data until 2019. Data pulled as of March 24, 2020.

RECLAMATION CERTIFICATES ISSUED



Note: Reclamation data as of October 19, 2020. Reclamation data from 2015 appears lower due to the backlog created during OneStop implementation with many certificates being processed in 2016.

Regulatory Efficiency

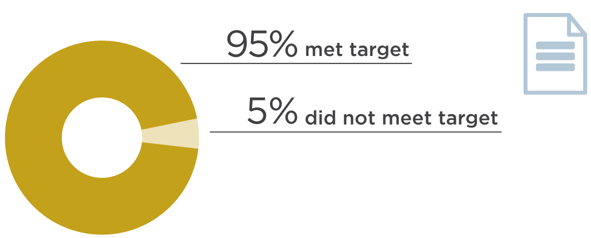
The regulatory efficiency initiative (REI) was launched in January 2018 to improve application timelines, ensure modern and effective regulations, and continue to transform how the AER operates.

The AER identified a number of projects for implementation under the REI within an 18 to 24-month period that are intended to reduce regulatory burden across the regulatory lifecycle using a risk-informed approach. As of March 31, 2020, the AER has completed 27 of these projects.

The AER is also working with other ministries to identify legislative reforms for government consideration based on internal AER analysis and feedback from key stakeholders.

In 2019/20, 95 per cent of AER applications met turnaround targets as a result of the REI work. Every application receives a turnaround target that reflects the complexity of the application process at the time the application is received.

APPLICATION TURNAROUND TARGETS



Directives were updated to provide efficiency and cost-saving opportunities to industry.

For example, updates made to *Directive 081: Water Disposal Limits and Reporting Requirements for Thermal In Situ Oil Sand Schemes* allows produced water recycling and the use of alternative fluids, removes a barrier to greenfield investments, and represents estimated capital cost savings of up to $200 million per greenfield project. Collectively, existing projects could yield cost savings of up to $273 million (according to the Canadian Association of Petroleum Producers) and annual incremental savings of approximately $3.75 million.

IDA/OneStop

The Integrated Decision Approach (IDA) has transformed the AER's regulatory delivery processes and systems to better protect public safety and the environment and to ensure the safe and responsible development of Alberta's energy resources across their full life cycle.

Within IDA, OneStop—a technology that uses a complex set of rules to automate routine (low-risk) applications, and forward nonroutine (high-risk and more complex) applications to technical experts for review—has helped the AER transform is processes.

Under IDA/OneStop, the AER has

- created assessment rules and a structured review process to increase focus on high-risk applications;
- created a consistent, risk-informed approach to audits and inspections across the organization; and
- incorporated empirical evidence during its decision-making process.

Since 2014, IDA and OneStop have increased regulatory certainty and reduced regulatory burden as evidenced by the following:

- an estimated cost savings of close to $300 million annually (provided by CAPP, based on 2017 data)
- over 55 000 applications submitted in OneStop since 2016
- a 76 per cent reduction in application timelines (2019/20)
- a 50 per cent reduction in application timelines (2018/19)
- automation of close to 31 000 routine applications
- the ability to collect life-cycle data
- increased decision/investment certainty and enhanced transparency
- the elimination of duplicated work
- increased access to data
- increased consistency in decision-making

We continue to move applications and submissions into OneStop. In 2019/20, the following were moved:

- applications for reclamation certificates
- new pipelines applications
- new and amended applications under the *Water Act*
- integrated applications for major projects
- area-based closure activities
- new well applications
- new, amended, and renewal applications under the *Public Lands Act*

Additional Actions Undertaken in 2019/20

While improving the efficiency of the regulatory process was a priority in 2019/20, and it will continue to be a focus. Work in other areas of the business also produced results worth noting:

- The Alberta Water Use Performance Report was released.
- The 2018 State of Fluid Tailing Management for Minable Oil Sands report was published.
- *Manual 19: Decommissioning, Closure, and Abandonment of Dams at Energy Projects* was released.
- E-learning tools to help industry understand Alberta's new requirements to reduce methane emissions went live.
- The report, *Wihtamâtotan* – Telling Each Other (Indigenous Knowledge Remediation, Reclamation and the AER: A Project with the Woodland Cree First Nation) was created and shared.

In the past year, the AER also received one disclosure of wrongdoing under the AER's Whistleblower Protection Policy, which did not proceed to the investigation stage. The matter is now closed.

STRATEGY & DELIVERY

Looking forward, we will be focusing on a number of priorities:

- Developing a new strategic plan for the AER that focuses on the organization's long-term priorities.
- Supporting the AER's efforts to develop a more collaborative and inclusive culture.
- Establishing a scoreboard of key performance metrics to measure how well the organization is functioning and to identify successes and areas for improvement. We anticipate sharing much of this information externally in the spirit of openness and accountability.
- Reviewing and providing guidance on the AER's stakeholder engagement processes so that we are engaging effectively and maintaining an appropriate balance among stakeholder priorities.
- Updating the AER's levy system under which we obtain our funding from industry to reflect our current regulatory work fairly.
- Supporting the AER's red tape reduction work through our review and approval of proposed regulatory changes.

FINANCIAL HIGHLIGHTS

SUMMARY ANNUAL HIGHLIGHTS	2020		2019
	Adjusted budget	Actual	Actual
	(in thousands)		
Revenues			
Administration fees	$ **232 722**	$ 233 393	$ 253 149
Orphan well abandonment levy and fees	**60 500**	61 039	45 959
Other revenue	**4 409**	5 248	8 112
ICORE		–	3 134
	297 631	299 680	310 354
Expenses			
Energy regulation	**263 831**	264 248	257 903
Orphan well abandonment	**60 500**	61 039	45 959
ICORE		–	1 548
	324 331	325 287	305 410
	(26 700)	(25 607)	4 944
Capital			
Capital investment	**12 300**	12 704	19 145
Less: Amortization of tangible capital assets	**(16 000)**	(15 947)	(15 329)
Loss on disposal and write-down of tangible capital assets		(67)	(119)
Net capital investment	**(3 700)**	(3 310)	3 697
(Deficit)/surplus	$ **(23 000)**	$ (22 297)	$ 1 247

All amounts are expressed in thousands of Canadian dollars.

All amounts are expressed in thousands of Canadian dollars.

The AER is an industry-funded regulator that is accountable to the Government of Alberta. The AER provides for its operating expenses and capital investment through two separate revenue sources: an administration levy and other revenue. The AER also collects an orphan well levy, which is paid directly to the Alberta Orphan Well Association (OWA).

The previous table summarizes the results of the AER's operations and net capital investment for the year ended March 31, 2020. The complete audited financial statements begin on the following page.

Administration fees

Alberta's *Responsible Energy Development Act* authorizes the AER to levy administration fees on the sectors that it regulates. The AER is responsible for regulating the province's oil and gas, oil sands, and coal sectors. The funds collected from industry levies are used to support the AER's operations and fulfil the AER's mandate to ensure the safe, efficient, orderly, and environmentally responsible development of hydrocarbon resources over their entire life cycle. The administration fees for the year ending March 31, 2020, decreased by $19 756 or 8%. This decrease is related to budget reductions directed by the Government of Alberta (GOA). In 2020, the AER collected 73% of industry levies from oil and gas, 25% from oil sands, and 2% from coal operations.

Orphan well abandonment levy and fees

Under Part 11 of the *Oil and Gas Conservation Act*, the AER is required to prescribe an orphan fund levy. This levy is based on the revenue requirements identified by the OWA board and approved by the GOA. In 2020, the AER collected an orphan well levy of $60 000, which is $15 000 more than in 2019. An increase in the orphan well levy was requested by the OWA and approved by the GOA to address the increasing volume of orphan wells. In addition, the AER issued $150 in penalties and $694 in application fees. All amounts collected were paid directly to the OWA.

Other revenue

Other revenue consists of data subscriptions, enforcement revenue, sales of electronic data and publications, revenue from projects performed on a cost recovery basis, and investment income. In 2020, other revenue decreased by $2864 or 35%. In 2020, the AER recognized $1126 less revenue than in 2019 as a result of completing a project performed on a cost recovery basis for Alberta Environment and Parks. In addition, the AER recognized $1726 less in investment income due to a decreased budget, and beginning the fiscal year with partial collection of administrative fees.

ICORE

In 2019, the AER recovered $3134 in revenue from ICORE Energy Services (NFP) for consulting services performed by the AER. The AER severed ties with ICORE Energy Services (NFP) in December 2018.

Energy regulation

Salaries, wages, and employee benefits accounted for 73 per cent of energy regulation expenses in 2020. During the year, the AER underwent a reorganization and reduced the number of employees to become more effective, efficient, and resilient in the delivery of its mandate. This resulted in significant staff reduction costs as the AER worked to achieve the fiscal 2020/21 budget. Offsetting staff reduction costs included lower expenditures in computer services, buildings, and administrative expenses.

Capital Investment

Developing and acquiring capital assets, most significantly investments in information technology, plays a critical role in helping the AER achieve outcomes at the lowest possible cost. Investments in information technology help the AER remain efficient, relevant, and responsive.

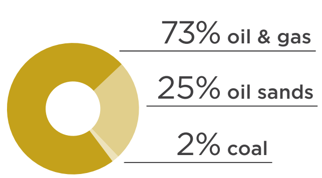
In 2020, the AER made capital investments of $12 704. Capital investment projects in 2020 were focused on the development and implementation of OneStop as part of the AER's Integrated Decision Approach program. OneStop allows companies to submit one integrated application which covers activities over the life of the project and to receive decisions in a single approval document. Capital investment reduced from 2019, as in 2019, the AER spent $6000 on one-time roof repairs to address integrity safety concerns at the AER's Core Research Centre.

Budget Management

During 2020, the AER continued to demonstrate its commitment to effective budget management by executing budget reductions in all non-staffing expenditure areas. These areas included IT, operations, buildings, and fleet. These cost-saving measures were offset by increased termination costs associated with required staff reductions in order to achieve the fiscal 2020/21 budget.

The AER completed the year within the GOA-approved deficit of $23 000. The AER will recover this deficit over the next two fiscal years.

ADMIN. FEE COLLECTION



Alberta Energy Regulator
Financial Statements
For the Year Ended March 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Alberta Energy Regulator and all other information relating to the AER contained in this annual report have been prepared and presented by management, who is responsible for the integrity and fair presentation of the information.

These financial statements are prepared in accordance with Canadian public sector accounting standards. The financial statements necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining an effective system of internal controls designed to provide reasonable assurance that financial information is reliable, transactions are properly authorized, assets are safeguarded and liabilities are recognized.

The Auditor General of Alberta, the AER's external auditor appointed under the *Auditor General Act*, performed an independent external audit of these financial statements in accordance with Canadian generally accepted auditing standards, and has expressed his opinion in the accompanying Independent Auditor's Report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Audit and Finance Committee, composed of Directors who are not employees of the regulator. The Audit and Finance Committee meets with the internal auditors and the external auditors-both in the presence and in the absence of management to discuss their audit, including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The internal and external auditors have full and unrestricted access to the Audit and Finance Committee.

[Original signed by Laurie Pushor]

President and Chief Executive Officer

[Original signed by Naren Makwana]

Vice-President Finance and Enterprise Performance (interim)

Date: June 18,2020

Auditor General OF ALBERTA

Independent Auditor’s Report

To the Board of Directors of the Alberta Energy Regulator

Report on the Financial Statements

Qualified Opinion

I have audited the financial statements of the Alberta Energy Regulator (the AER), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the effects of the matter described in the Basis for qualified opinion section of my report, the accompanying financial statements present fairly, in all material respects, the financial position of the AER as at March 31, 2020, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for qualified opinion

The AER has not appropriately presented and disclosed the nature of its relationship and its transactions with ICORE Energy Services (ICORE NFP), an organization created by the AER and incorporated under the *Canada Not-for-profit Corporations Act*. I examined the nature of the relationship between the AER and ICORE NFP, and the related transactions, and determined that under Canadian public sector accounting standards the AER controlled ICORE NFP from May 17, 2017 until December 19, 2018, when the AER resigned its membership and control of ICORE NFP.

The AER concluded that ICORE NFP is not controlled and presents the relationship and transactions with ICORE NFP as a related party in schedule 4 - related party transactions. Because the AER controlled ICORE NFP, its financial results up to December 19, 2018 should have been consolidated into the AER’s financial statements. Had the AER consolidated ICORE NFP, the AER’s statement of operations for the year ended March 31, 2019 would have additional ICORE Energy Services (NFP) revenue of $l.0 million and additional ICORE Energy Services (NFP) expense of $0.7 million. Further, expenses reported on the AER’s statement of operations for the year ended March 31, 2019 classified as Energy Regulation should be $2.3 million lower and expenses classified as ICORE Energy Services (NFP) should be $2.3 million higher. Schedule 4 – related party transactions does not accurately describe the nature of the relationship between the AER and ICORE NFP as a controlled entity. The statement of operations for the year ended March 31, 2020 is not misstated because the AER did not control ICORE NFP after December 19, 2018.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the AER in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the AER's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the AER's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AER's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the AER's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the AER to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

June 18, 2020
Edmonton, Alberta

ALBERTA ENERGY REGULATOR
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2020

	2020		2019
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Revenues			
Administration fees	$ 232,722	$ 233,393	$ 253,149
Orphan well abandonment levy and fees	55,813	61,039	45,959
Information, services and fees	3,542	4,693	5,831
ICORE Energy Services (NFP) (Schedule 4)		-	3,134
Investment income	867	555	2,281
	292,944	299,680	310,354
Expenses (Note 2 and Schedule 1)			
Energy regulation	236,331	264,248	257,903
Orphan well abandonment (Note 5)	55,813	61,039	45,959
ICORE Energy Services (NFP) (Schedule 4)		-	1,548
	292,144	325,287	305,410
Annual operating surplus (deficit)	800	(25,607)	4,944
Accumulated surplus at beginning of year	66,517	66,517	61,573
Accumulated surplus at end of year	$ 67,317	$ 40,910	$ 66,517

The accompanying notes and schedules are part of these financial statements.

ALBERTA ENERGY REGULATOR
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2020

	2020	2019
	(in thousands)	
Financial assets		
Cash and cash equivalents (Note 6)	$ -	$ 19,740
Accounts receivable (Note 7)	1,920	7,484
Pension assets (Note 12)	1,505	2,141
	3,425	29,365
Liabilities		
Bank indebtedness (Note 6)	812	-
Accounts payable and accrued liabilities (Note 8)	17,955	20,505
Payable to Orphan Well Association	609	1,928
Deferred lease incentives (Note 10)	15,949	17,568
	35,325	40,001
Net debt	(31,900)	(10,636)
Non-financial assets		
Tangible capital assets (Note 13)	63,105	66,415
Prepaid expenses and other assets	9,705	10,738
	72,810	77,153
Net assets		
Accumulated surplus (Note 14)	$ 40,910	$ 66,517

Contingent liabilities (Note 15)
Contractual obligations (Note 16)

The accompanying notes and schedules are part of these financial statements.

ALBERTA ENERGY REGULATOR
STATEMENT OF CHANGE IN NET DEBT
YEAR ENDED MARCH 31, 2020

	2020		2019
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Annual operating surplus (deficit)	$ 800	$ (25,607)	$ 4,944
Acquisition of tangible capital assets (Note 13)	(12,300)	(12,704)	(19,145)
Amortization of tangible capital assets (Note 13)	11,500	15,947	15,329
Loss on disposal and write-down of tangible capital assets		67	119
Decrease in prepaid expenses and other assets		1,033	1,048
(Increase)/decrease in net debt	-	(21,264)	2,295
Net debt at beginning of year	(10,636)	(10,636)	(12,931)
Net debt at end of year	$ (10,636)	$ (31,900)	$ (10,636)

The accompanying notes and schedules are part of these financial statements.

ALBERTA ENERGY REGULATOR
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2020

	2020	2019
	(in thousands)	
Operating transactions		
Annual operating (deficit) surplus	$ (25,607)	$ 4,944
Non-cash items included in annual operating (deficit) surplus:		
Amortization of tangible capital assets (Note 13)	15,947	15,329
Loss on disposal and write-down of tangible capital assets	67	119
Change in pension assets	636	(1,403)
Amortization of deferred lease incentives (Note 10)	(1,619)	(1,631)
	(10,576)	17,358
Decrease in accounts receivable	5,564	64
Decrease in prepaid expenses and other assets	1,033	1,048
(Decrease)/increase in accounts payable and accrued liabilities	(2,550)	3,482
(Decrease)/increase in payable to Orphan Well Association	(1,319)	1,122
Additions to deferred lease incentives (Note 10)	-	167
Cash (applied to) provided by operating transactions	(7,848)	23,241
Capital transactions		
Acquisition of tangible capital assets (Note 13)	(12,704)	(19,145)
Cash applied to capital transactions	(12,704)	(19,145)
Financing transactions		
Proceeds from line of credit	64,587	-
Debt repayment	(63,775)	-
Cash provided by financing transactions	812	-
(Decrease)/increase in cash and cash equivalents	(19,740)	4,096
Cash and cash equivalents at beginning of year	19,740	15,644
Cash and cash equivalents at end of year	$ -	$ 19,740

The accompanying notes and schedules are part of these financial statements.

Note 1 AUTHORITY

The Alberta Energy Regulator (AER) is an independent and quasi-judicial organization of the Government of Alberta. The AER operates under the *Responsible Energy Development Act.* The AER's mandate provides for the safe, efficient, orderly and environmentally responsible development of hydrocarbon resources over their entire life cycle. This includes allocating and conserving water resources, managing public lands, and protecting the environment while providing economic benefits for all Albertans. The AER is exempt from income taxes under the Income Tax Act.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of financial reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which services have not been provided by year end is recognized as unearned revenue and recorded in accounts payable and accrued liabilities.

<u>Investment Income</u>

Investment income includes interest income.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Employee future benefits

The AER maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

Pension assets represent the sum of the accumulated cash contributions less the sum of the current and prior years' pension expense.

Accrued benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels and retirement age of employees.

Accrued benefit obligations and pension benefit costs for the year are calculated using the expected rate of return on plan assets as the discount rate, which is determined using market values of plan assets.

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 10.9 years (2019 - 10.9 years).

Past service cost arising from plan amendments is accounted for in the period of the plan amendments.

Gains and losses determined upon a plan curtailment are accounted for in the period of curtailment.

The AER participates in the Government of Alberta's multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. Defined contribution plan accounting is applied to these plans as the AER has insufficient information to apply defined benefit plan accounting. Accordingly, pension expense comprises employer contributions to the plans that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plans' future benefits.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Basis of financial reporting (continued)

Valuation of financial assets and liabilities

The AER's financial assets and liabilities are generally measured as follows:

Financial Statement Component	Measurement
Cash and cash equivalents	Cost
Accounts receivable	Lower of cost or net recoverable value
Bank indebtedness	Cost
Accounts payable and accrued liabilities	Cost
Payable to the Orphan Well Association	Cost
Deferred lease incentives	Amortized cost

The AER has not designated any financial assets or liabilities in the fair value category, has no significant foreign currency transactions and does not hold any derivative contracts. The AER has no significant remeasurement gains or losses and consequently has not presented a statement of remeasurement gains and losses.

Financial assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets are the AER's financial claims on external organizations and individuals at the year end.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Accounts receivable

Accounts receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Liabilities

Liabilities are present obligations of the AER to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts. Liabilities include all financial claims payable by the AER at fiscal year end.

Bank indebtedness

Bank indebtedness comprises the amount outstanding for the revolving line of credit.

Deferred lease incentives

Deferred lease incentives, consisting of leasehold improvement costs, reduced rent benefits and rent-free periods, are amortized on a straight-line basis over the term of the leases.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Basis of financial reporting (continued)

Environmental Liabilities

Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment.

A liability for remediation of contaminated sites from an operation(s) that is no longer in productive use and may be due to unexpected events resulting in contamination, is recognized net of any expected recoveries, when all of the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the AER is directly responsible or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

Non-financial assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- are normally employed to deliver AER services;
- may be consumed in the normal course of operations; and
- are not for sale in the normal course of operations.

Non-financial assets of the AER include tangible capital assets, prepaid expenses and other assets.

Tangible capital assets

Tangible capital assets are recognized at cost less accumulated amortization, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development of the asset.

The cost of the tangible capital assets, excluding land, is amortized over their estimated useful lives as follows:

Leasehold improvements	Straight line	Term of the lease
Furniture and equipment	Straight line	5 - 12 years
Computer hardware	Straight line	4 years
Computer software - purchased	Straight line	4 years
Computer software - developed	Declining balance	5 years

Amortization is only expensed when the tangible capital asset is put into service.

Work-in-progress, which may include developed computer software and leasehold improvements, is not amortized until a project is complete and the asset is put into service.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the AER's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The net write-downs are accounted for as an expense in the Statement of Operations.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Basis of financial reporting (continued)

Prepaid expenses

Prepaid expenses are recognized at cost and amortized based on the terms of the agreements.

Measurement uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount, whenever estimates are used. The amounts recognized for amortization of tangible capital assets are based on estimates of the useful life of the related assets. Accrued defined benefit obligations are subject to measurement uncertainty due to the use of actuarial assumptions. The resulting estimates are within reasonable limits of materiality and are in accordance with the AER's significant accounting policies. In addition, estimates for contingent liabilities are subject to measurement uncertainty. These estimates are recorded when the contingency is determined to be likely and measurable however the actual amount of any settlement may vary from the estimate recorded.

Note 3 FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has approved the following accounting standards:

PS 3280 Asset Retirement Obligations (effective April 1, 2021)

This standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

PS 3400 Revenue (effective April 1, 2022)

This standard provides guidance on how to account for and report on revenue, and specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

Management is currently assessing the impact of these standards on the financial statements.

Note 4 BUDGET

The budget and budget adjustments reflected on Schedule 3 have been approved by the Government of Alberta.

Note 5 ORPHAN WELL ABANDONMENT

(in thousands)

The Government of Alberta has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The AER transfers orphan well abandonment levy and application fees to the Orphan Well Association. During the year ended March 31, 2020, the AER collected $60,345 (2019 - $45,379) in levies and $694 (2019 - $580) in application fees.

Note 6 CASH AND CASH EQUIVALENTS AND BANK INDEBTEDNESS

(in thousands, unless otherwise noted)

	2020	2019
Cash and cash equivalents	$ -	$ 19,740
Bank indebtedness	(812)	-
	$ (812)	$ 19,740

Cash and cash equivalents are held in an account with a Canadian chartered bank and earn interest calculated based on the average monthly cash balance. The funds are available to be withdrawn upon request. During the year ended March 31, 2020, the AER earned interest at an annual average rate of 2.1% (2019 - 2.1%).

The AER has an unsecured $75 million (2019 - $50 million) revolving line of credit. Amounts borrowed can only be applied to general corporate purposes and exclude the funding of capital expenditures.

Bank advances on the line of credit are payable on demand and bear interest at a rate of prime less 0.75% (2019 - prime less 0.5%). For the year ended March 31, 2020, interest expense on the revolving line of credit was $143 (2019 - $nil).

Note 7 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	2020			2019
	Gross amount	Allowance for doubtful accounts	Net recoverable value	Net recoverable value
Accounts receivable - general	$ 5,084	$ (3,164)	$ 1,920	$ 5,314
Accounts receivable - ICORE Energy Services (NFP)	-	-	-	2,170
	$ 5,084	$ (3,164)	$ 1,920	$ 7,484

Note 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)

	2020	2019
Accounts payable	$ 3,052	$ 3,823
Accrued liabilities	14,177	14,719
Unearned revenue	726	1,963
	$ 17,955	$ 20,505

Note 9 FINANCIAL INSTRUMENTS

(in thousands)

The AER has the following financial instruments: cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and payable to the Orphan Well Association.

Financial risk management

The AER has exposure to the following risks from its use of financial instruments:

(a) Liquidity risk

Liquidity risk is the risk that the AER will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the AER are met primarily through the collection of funding at the beginning of the year to fund operating expenses and capital expenditures throughout the year. The AER manages liquidity risk by having established budget processes and regularly monitoring cash flows to ensure the necessary funds are on hand to fulfill upcoming obligations. In addition, the AER maintains a revolving line of credit which provides financial flexibility to allow the AER to meet its obligations if funding cannot be collected on a timely basis. As at March 31, 2020, the AER had bank indebtedness of $812 (2019 - $nil).

(b) Credit risk

The AER is exposed to credit risk from potential non-payment of accounts receivable. A substantial portion of the AER's accounts receivable includes balances due from operators in the oil and gas industry, and is subject to normal industry credit risk. The AER regularly monitors the financial status of operators and assesses the collectability of accounts receivable. The AER's maximum exposure to credit risk is limited to the carrying amount of accounts receivable presented in the Statement of Financial Position at the reporting date. The AER established a valuation allowance that corresponds to the specific credit risk of operators, historical trends and economic circumstances.

Note 10 DEFERRED LEASE INCENTIVES

(in thousands)

The AER has entered into various lease agreements which provide for lease incentives comprising reduced rent benefits, rent-free periods and leasehold improvement costs. These amounts are included in deferred lease incentives in the Statement of Financial Position and are amortized on a straight-line basis over the term of the lease.

	2020			2019
	Leasehold improvement costs	Reduced rent benefits and rent-free periods	Total	Total
Balance at beginning of year	$ 14,143	$ 3,425	$ 17,568	$ 19,032
Additions	-	-	-	167
Amortization	(1,252)	(367)	(1,619)	(1,631)
Balance at end of year	$ 12,891	$ 3,058	$ 15,949	$ 17,568

Note 11 ENVIRONMENTAL LIABILITIES

(in thousands)

As at March 31, 2020, the AER is not responsible, nor has it accepted responsibility, for performing remediation work at contaminated sites. As at March 31, 2020, the AER's liability for contaminated sites was $nil (2019 - $nil).

Note 12 EMPLOYEE FUTURE BENEFITS

(in thousands, unless otherwise noted)

The AER participates in the Government of Alberta's multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. For the year ended March 31, 2020, the expense for these pension plans is equal to the contribution of $15,533 (2019 - $16,598). The AER is not responsible for future funding of the plan deficit other than through contribution increases.

In addition, the AER maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

All the information presented in the note below is related to the AER's defined benefit pension plans.

The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2018. The accrued benefit obligation as at March 31, 2020 is based on the extrapolation of the results of this valuation. The effective date of the next required funding valuation for SEPP is December 31, 2021.

Pension plan assets are valued at market values. During the year ended March 31, 2020, the weighted average actual return on plan assets was -3.7% (3.7% in 2019).

Significant weighted average actuarial and economic assumptions used to value accrued benefit obligations and pension benefit costs were as follows:

Accrued benefit obligations	2020	2019
Discount rate	4.8%	5.1%
Rate of compensation increase	0% until March 31, 2021, 3.5% thereafter	0% until Sep 30, 2019, 3.5% thereafter
Long-term inflation rate	2.0%	2.0%

Pension benefit costs for the year	2020	2019
Discount rate	5.1%	5.0%
Expected rate of return on plan assets	5.1%	5.0%
Rate of compensation increase	0% until Sep 30, 2019, 3.5% thereafter	0% until Sep 30, 2019, 3.5% thereafter

The funded status and amounts recognized in the Statement of Financial Position were as follows:

	2020	2019
Market value of plan assets	$ 65,442	$ 67,789
Accrued benefit obligations	(72,461)	(63,836)
Plan (deficit) surplus	(7,019)	3,953
Unamortized actuarial losses (gains)	8,524	(1,812)
Pension assets	$ 1,505	$ 2,141

Note 12 EMPLOYEE FUTURE BENEFITS (continued)

(in thousands, unless otherwise noted)

The pension benefit costs for the year included the following components:

	2020	2019
Current period benefit cost	$ 4,326	$ 4,123
Interest cost	3,382	3,097
Expected return on plan assets	(3,574)	(3,252)
Loss on curtailments	1,342	-
Unamortized (gains) recognized in curtailments	(172)	-
Amortization of actuarial (gains) losses	(53)	279
	$ 5,251	$ 4,247

Additional information about the defined benefit pension plans is as follows:

	2020	2019
AER contributions	$ 4,616	$ 5,649
Employees' contributions	839	898
Benefits paid	5,325	3,028

The asset allocation of the defined benefit pension plans' investments was as follows:

	2020	2019
Equity securities	42.3%	45.8%
Debt securities	24.7%	22.8%
Alternatives	19.6%	18.0%
Other	13.4%	13.4%
	100.0%	100.0%

During the year, the AER underwent a re-organization and reduced the number of employees to become more effective, efficient and resilient in the delivery of its mandate and to meet the reduced budget targets. This resulted in a curtailment due to the reduction in the number of active employees in the AER's maintained defined benefit pension plans. The curtailment impact is a $1,342 (2019 - $nil) increase in the accrued benefit obligations recognized immediately through pension expense.

Note 13 TANGIBLE CAPITAL ASSETS

(in thousands)

	2020					2019
	Land	Leasehold improvements	Furniture and equipment	Computer hardware and software	Total	Total
Estimated useful life	Indefinite	Term of the lease	5-12 years	4-5 years		
Historical cost[1]						
Beginning of year	$ 282	$ 45,724	$ 13,615	$ 137,253	$ 196,874	$ 186,834
Additions	-	11	3	12,690	12,704	19,145
Disposals, including write-downs	-	-	(506)	(6,523)	(7,029)	(9,105)
	282	45,735	13,112	143,420	202,549	196,874
Accumulated amortization						
Beginning of year	$ -	$ 17,444	$ 8,933	$ 104,082	$ 130,459	$ 124,116
Amortization expense	-	2,735	1,000	12,212	15,947	15,329
Effect of disposals, including write-downs	-	-	(506)	(6,456)	(6,962)	(8,986)
	-	20,179	9,427	109,838	139,444	130,459
Net book value at March 31, 2020	$ 282	$ 25,556	$ 3,685	$ 33,582	$ 63,105	
Net book value at March 31, 2019	$ 282	$ 28,280	$ 4,682	$ 33,171		$ 66,415

(1) As at March 31, 2020, historical cost of computer hardware and software includes work-in-progress totalling $76 (2019 - $5,726).

Note 14 ACCUMULATED SURPLUS

(in thousands)

The accumulated surplus of the AER is calculated as the sum of the AER's net debt and its non-financial assets. The accumulated surplus represents the net assets of the AER and comprises the following:

	2020			2019
	Investments in tangible capital assets[a]	Unrestricted net assets (debt)	Total	Total
Balance at beginning of year	$ 52,272	$ 14,245	$ 66,517	$ 61,573
Annual operating (deficit) surplus	-	(25,607)	(25,607)	4,944
Net investment in capital assets[a]	(2,058)	2,058	-	-
Balance at end of year	$ 50,214	$ (9,304)	$ 40,910	$ 66,517

(a) Excludes leasehold improvement costs received by the AER as a lease incentive and related amortization.

Note 15 CONTINGENT LIABILITIES

(in thousands)

The AER is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate. As at March 31, 2020, accruals totalling $630 (2019 - $91) have been recognized as a liability.

Note 16 CONTRACTUAL OBLIGATIONS

(in thousands)

As at March 31, 2020, the AER had contractual obligations totalling $171,894 (2019 - $194,921).

Contractual obligations are obligations of the AER to others that will become liabilities in the future when the terms of those contracts or agreements are met.

As at March 31, 2020, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2020-21	$ 43,405
2021-22	23,676
2022-23	18,387
2023-24	14,218
2024-25	11,629
Thereafter	60,579
	$ 171,894

Note 17 ASSETS UNDER ADMINISTRATION

(in thousands)

The AER administers security deposits in accordance with specified acts and regulations. Security deposits are held on behalf of depositors with no power of appropriation and therefore are not reported in these financial statements. The AER does not have any financial risk associated with security collected. Security, along with any interest earned, will be returned to the depositors upon meeting specified refund criteria.

As at March 31, 2020, assets under administration included the following types of security deposits:

	2020	2019	2020	2019
	Cash	Cash	Letters of credit	Letters of credit
Liability Management Rating programs and landfills	$ 98,812	$ 103,518	$ 220,667	$ 223,847
Mine Financial Security program	39,146	35,230	1,434,643	1,426,714
Other programs	6,834	6,958	7,778	7,689
	$ 144,792	$ 145,706	$ 1,663,088	$ 1,658,250

Note 18 COMPARATIVE FIGURES

Certain 2019 figures have been reclassified, where necessary, to conform to the 2020 presentation.

Note 19 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the AER Board of Directors on June 18, 2020.

ALBERTA ENERGY REGULATOR
EXPENSES - DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2020

Schedule 1

	2020	2019
	(in thousands)	
Salaries, wages and employee benefits	$ 192,271	$ 179,731
Orphan well abandonment	61,039	45,959
Buildings	20,577	21,219
Computer services	17,238	20,128
Amortization of tangible capital assets	15,947	15,329
Consulting services	12,429	13,715
Administrative	3,492	4,424
Travel and transportation	1,815	3,978
Equipment rent and maintenance	412	753
Loss on disposal and write-down of tangible capital assets	67	119
Abandonment and enforcement	-	55
	$ 325,287	$ 305,410

	2020				2019
	Base salary [(a)]	Other cash benefits [(b)]	Other non-cash benefits [(c)]	Total	Total
			(in thousands)		
Position					
Board of Directors					
Chair [(d)]	$ 75	$ -	$ 3	$ 78	$ 168
Members [(e)]	305	-	27	332	369
Executives					
President and Chief Executive Officer	367	134	10	511	183
Former President and Chief Executive Officer [(f)]	-	-	-	-	591
Chief Hearing Commissioner	219	19	58	296	309
Interim Executive Vice-President, Corporate Services [(g,o)]	107	12	38	157	-
Former Executive Vice-President, Corporate Services [(h)]	-	-	-	-	823
Executive Vice-President, Stakeholder & Government Engagement [(i,o)]	155	199	53	407	275
Former Executive Vice-President, Stakeholder & Government Engagement [(j)]	-	-	-	-	737
Executive Vice-President, Strategy & Regulatory [(k,o)]	155	480	51	686	434
Interim Executive Vice-President, Operations [(l,o)]	107	9	32	148	-
Former Executive Vice-President, Operations [(m,o)]	155	199	40	394	384
Executive Vice-President and General Counsel	275	14	74	363	218
Former Executive Vice-President and General Counsel [(n)]	-	-	-	-	358

(a) Includes retainers and per diems for Board Directors and regular salary and acting pay for Executives.

(b) Includes payments in lieu of vacation, pension and health benefits, as well as severance, vehicle allowances and other cash reimbursements. There were no bonuses paid in 2020.

(c) Includes contributions to all benefits as applicable, including employer's share of Employment Insurance, Canada Pension Plan, Government of Alberta and AER pension plans, health benefits, and payments made for professional memberships, tuition fees, fair market value of parking and other taxable benefits.

(d) Two individuals occupied this position during 2020. The current Chair was appointed on September 6, 2019 with remuneration set at $nil. Amounts disclosed are for the former Chair while she occupied the position until September 6, 2019.

(e) Board members are remunerated with monthly honoraria, based on rates prescribed in the Orders in Council. The former Board of Directors consisted of four members until April 28, 2019 and three members from April 28, 2019 until September 6, 2019, at which time their appointments were rescinded. For the remainder of the fiscal year the Board of Directors consisted of four members appointed effective September 6, 2019. Remuneration for one Board member is set at $nil.

(f) The incumbent left the position effective November 30, 2018 and retired effective January 31, 2019. An automobile was provided to the incumbent, but no dollar amount was included in other non-cash benefits for 2019.

(g) Two individuals occupied this position during 2020. The position was vacant from April 1, 2019 to June 24, 2019, at which time the Executive Vice-President, Strategy & Regulatory was appointed Interim Executive Vice-President, Corporate Services and held both positions until October 23, 2019 with no increase in base salary. The position was filled on October 28, 2019. Amounts disclosed are for the current Interim Executive Vice-President, Corporate Services appointed to the position on October 28, 2019.

(h) The incumbent held the position until April 1, 2019, at which time the incumbent was terminated. Severance pay of $334 was expensed in 2019.

(i) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. Other cash benefits include $168 of severance pay. The Executive Vice-President, Stakeholder & Government Engagement position was eliminated effective October 28, 2019.

(j) On June 1, 2018, the incumbent was appointed to the position of Executive Lead for the International Centre of Regulatory Excellence development project, continuing to report directly to the President and Chief Executive Officer. The incumbent was terminated effective January 31, 2019. Severance pay of $335 was included in other cash benefits for 2019. The 2019 figure has been restated by $5 to include taxable benefits to conform to the 2020 presentation.

(k) On June 24, 2019, the incumbent was appointed Interim Executive Vice-President, Corporate Services and held both this position and that of Executive Vice-President, Strategy & Regulatory until the incumbent was terminated on October 23, 2019. The incumbent did not receive an increase in base salary for holding both positions. Other cash benefits include $449 of severance pay. The Executive Vice-President, Strategy & Regulatory position was eliminated effective October 28, 2019.

(l) The incumbent held the position effective October 28, 2019.

(m) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. Other cash benefits include $171 of severance pay.

(n) The incumbent left the position effective September 2, 2018, at which time the incumbent was appointed to the position of Executive Counsel, continuing to report directly to the Former President and Chief Executive Officer. The incumbent left the position of Executive Counsel effective January 4, 2019.

(o) Under the terms of the AER's defined benefit SEPP and two supplementary retirement plans (SRP), employees may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The SEPP and SRP provide future pension benefits to participants based on years of service and remuneration. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service, a market interest rate and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

SEPP AND SRP RETIREMENT BENEFITS

(in thousands)

The costs detailed below are only for those employees, included in Schedule 2, who were employed during the year ended March 31, 2020 and participated in the SEPP and SRP maintained by the AER. The SEPP and SRP provide retirement benefits to compensate senior staff who do not participate in the government management pension plans.

	2020			2019
Position	Current service cost	Prior service and other costs	Total	Total
Interim Executive Vice-President, Corporate Services [g,p]	$ 33	$ -	$ 33	$ 35
Executive Vice-President, Stakeholder & Government Engagement [i,q]	28	-	28	40
Executive Vice-President, Strategy & Regulatory[k,q]	14	1	15	23
Former Executive Vice-President, Operations[m,q]	7	-	7	11

The SEPP and SRP accrued obligation for each executive employed by the AER during the year ended March 31, 2020 is outlined in the following table:

Position	Accrued obligation April 1, 2019	Changes in accrued obligation	Accrued obligation March 31, 2020	Accrued obligation March 31, 2019
Interim Executive Vice-President, Corporate Services [g,p]	$ 85	$ 43	$ 128	$ 85
Executive Vice-President, Stakeholder & Government Engagement [i,q]	40	(24)	16	40
Executive Vice-President, Strategy & Regulatory[k,q]	466	252	718	466
Former Executive Vice-President, Operations[m,q]	55	(55)	-	55

(p) The 2019 figures have been restated as the incumbent was a member of the pension plans prior to his appointment in 2020. The 2020 figures include all amounts for the year ended March 31, 2020.

(q) Includes service to October 23, 2019.

ALBERTA ENERGY REGULATOR

ACTUAL RESULTS COMPARED WITH BUDGET

YEAR ENDED MARCH 31, 2020

Schedule 3

	Budget (Note 4)	Adjustments[(a)]	Adjusted budget	Actual
	(in thousands)			
Revenues				
Administration fees	$ 232,722	$ -	$ 232,722	$ 233,393
Orphan well abandonment levy and fees	55,813	4,687	60,500	61,039
Information, services and fees	3,542	-	3,542	4,693
Investment income	867	-	867	555
	292,944	4,687	297,631	299,680
Expenses				
Energy regulation	236,331	27,500	263,831	264,248
Orphan well abandonment	55,813	4,687	60,500	61,039
	292,144	32,187	324,331	325,287
	800	(27,500)	(26,700)	(25,607)
Capital				
Capital investment	12,300	-	12,300	12,704
Less: Amortization of tangible capital assets	(11,500)	(4,500)	(16,000)	(15,947)
Loss on disposal and write-down of tangible capital		-		(67)
Net capital investment	800	(4,500)	(3,700)	(3,310)
(Deficit) [(b)]	$ -	$ (23,000)	$ (23,000)	$ (22,297)

(a) The Adjustments include an increase for severance costs associated with staff reductions to meet multi-year Government of Alberta targets, an increase in orphan well levy required to re-align with the previously approved three-year business plan and an increase in amortization expense related to the implementation of various streams of OneStop technology solutions that support the AER's Integrated Decision Approach.

(b) The AER has been approved by the Government of Alberta to recover the current year deficit over the next two years.

ALBERTA ENERGY REGULATOR
RELATED PARTY TRANSACTIONS
YEAR ENDED MARCH 31, 2020

Schedule 4

The AER, in the normal course of business, entered into various transactions with entities consolidated or accounted for on the modified equity basis in the Government of Alberta's Consolidated Financial Statements. These entities are considered to be related parties of the AER. Related parties also include key management personnel and close family members of those individuals. In 2020, there were no amounts or transactions, other than compensation, between the AER and its key management personnel. Key management personnel compensation is disclosed in Schedule 2.

Related Party Transactions with Government of Alberta Entities

The AER recognized the following transactions with Government of Alberta entities in the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry of Energy		Other entities	
	2020	2019	2020	2019
	(in thousands)		*(in thousands)*	
Revenues				
Information, services and fees	$ 96	$ 54	$ 618	$ 1,397

	Entities in the Ministry of Energy		Other entities	
	2020	2019	2020	2019
	(in thousands)		*(in thousands)*	
Expenses				
Computer services	$ 454	$ 2,050	$ 3,635	$ 2,896
Administrative	-	-	561	714
Buildings	-	-	509	612
Consulting services	-	-	470	625
	$ 454	$ 2,050	$ 5,175	$ 4,847
Receivable from	$ 119	$ 69	$ 4	$ 113
Payable to	$ 94	$ 373	$ 89	$ 2,277
Contractual obligations [(a)]	$ -	$ -	$ 10,390	$ 7,326

(a) Contractual obligations are obligations of the AER to related parties that will become liabilities in the future when the terms of those contracts or agreements are met.

ICORE Energy Services (NFP)

(in thousands)

The AER was the operating and governing member of a not-for-profit (NFP) corporation, ICORE Energy Services (NFP), from May 17, 2017 to December 19, 2018, when the AER resigned its membership. The AER was a related party with ICORE Energy Services (NFP) from May 17, 2017 to November 30, 2018 as the President and Chief Executive Officer of the AER was also the President and Director of ICORE Energy Services (NFP) during that period.

During this time, the AER incurred in-kind costs for salaries of AER employees and third-party costs for travel and consulting expenses to provide services to ICORE Energy Services (NFP). In 2019, the AER invoiced ICORE Energy Services (NFP) for costs incurred on a cost-recovery basis.

The Statement of Operations for the year ended March 31, 2019 included $3,134 in revenues for amounts invoiced to ICORE Energy Services (NFP) and $1,548 in expenses. These expenses included in-kind costs of $1,103 and third-party costs of $445.

At March 31, 2019, accounts receivable in the Statement of Financial Position included $2,693 due from ICORE Energy Services (NFP), of which $523 was provided for in the allowance for doubtful accounts. In June 2019, the AER received $2,681 from ICORE Energy Services (NFP) for these accounts receivable.

The AER concluded that it did not exercise control over ICORE Energy Services (NFP) as this control was exercised by the Directors and officers of ICORE Energy Services (NFP) in their personal capacity. These individuals directed ICORE Energy Services (NFP) and undertook its activities without the required authorization of the AER, its Board, or the Government of Alberta, in particular the incorporation of ICORE Energy Services (NFP) and causing the AER to become a member of ICORE Energy Services (NFP) in contravention of the Financial Administration Act. As a result, ICORE Energy Services (NFP) financial results were not consolidated into the AER's financial statements for the year ended March 31, 2019. This conclusion is also supported by other facts and relevant guidance under the Public Sector Accounting Standards, including the fact that ICORE Energy Services (NFP) was not carrying out AER operations, functions, or mandate, and that despite temporary reliance on AER resources, ICORE Energy Services (NFP) was intended to operate outside and independently of the AER.

LET'S CONNECT

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