Alberta Energy Regulator

Annual Report 2020|21

OUR MANDATE

To ensure the safe, efficient, orderly and environmentally responsible development of oil, oil sands, natural gas, and coal 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

Ensure the safe and responsible development of Alberta's energy resources throughout the lifecycle.

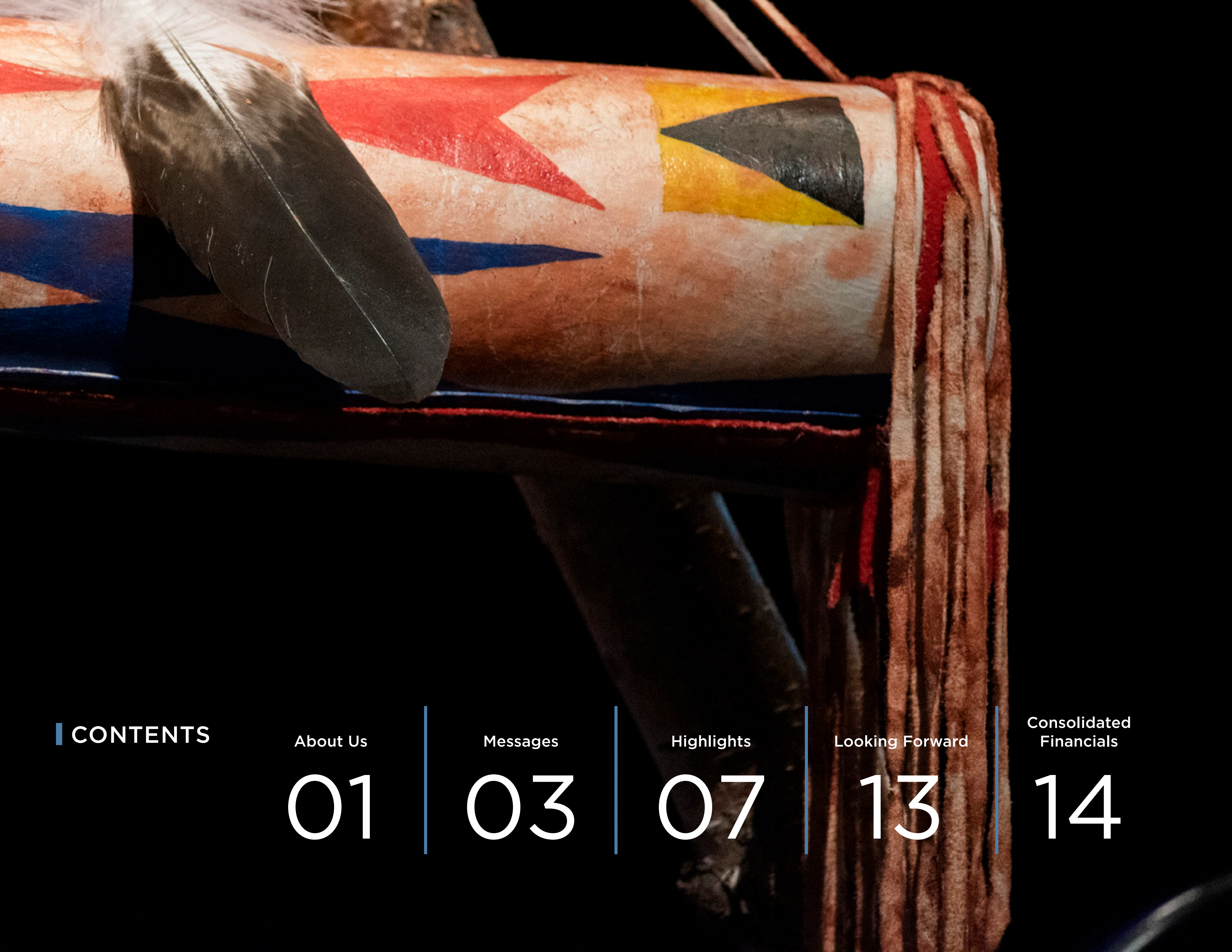
OUR VISION

To be Alberta's trusted regulator of energy resource development.

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.



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WHAT WE REGULATE

over
433 000
kilometres of pipelines*

over
146 000
operating natural gas & oil wells

over
30 000
oil facilities

over
490
operating gas processing plants

over
21 000
gas facilities

over
230
operating oilfield waste management facilities

over
135
primary/enhanced recovery in situ projects

27
thermal/enhanced recovery in situ projects

8
operating oil sands mines

4
operating bitumen upgraders

6
operating coal mines

2
suspended coal mines

5
decomissioning coal mines

2
suspended coal processing plants

1
decomissioning coal processing plant

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

WHAT WE DON'T

gasoline

pipelines that cross borders

electricity

regulated natural gas rate

renewables

April 2021

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 $55.7 billion in 2020. 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 extensive established reserves:

- 1.7 billion barrels of conventional oil
- 161 billion barrels of bitumen
- 26.8 trillion cubic feet of natural gas
- 36 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, 162 active in situ projects, 4 active bitumen upgraders, as well as 6 operating coal mines.

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

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 the Government of Alberta, and we combined them with the regulatory functions of the AER's predecessor, the Energy Resources Conservation Board.

We are accountable to both the minister of Energy and the minister of Environment and Parks and work closely with a number of government departments on regulatory and policy issues, including Alberta Health, Alberta Indigenous Relations, and the Aboriginal Consultation Office.

Our role is to take the policy direction set by government and apply it to how we regulate energy development in a way that is modern and efficient, while protecting the environment and keeping Albertans safe. We also assist government during the policy development process, providing analysis, advice, and technical expertise.

Since 1938, Alberta has relied on strong regulation to ensure that our energy resources are developed responsibly. The AER's regulatory decisions are always based on evidence supported by science, and we strive to balance the needs of a multitude of diverse stakeholders. The 904 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

11 locations

904 employees

MESSAGES

HELLO,

This past year was like no other. Few would have expected the toll that a global pandemic would have on everyone and the challenges it would bring. I am extremely proud of how the AER responded to this situation and the way its leaders and employees remained, and continue to remain, steadfast in ensuring that Alberta's energy resources are developed safely and responsibly during this difficult time. It is because of their dedication, passion, and adaptability that we were able to accomplish a great deal of work and achieve success this past year, and on behalf of the board of directors, I would like to thank all employees for their efforts.

Aside from the pandemic, the AER experienced changes from a corporate-wide restructuring. The new executive leadership team, established in spring 2020, has brought stability to the organization and established a new vision and mission, as well as four focus areas that will guide us over this next year while the 2022–25 strategic plan is being developed. These focus areas include streamlining our processes and modernizing our regulatory system, enabling innovation, empowering our people and building our culture, and improving our reputation and engagement efforts. These focus areas are the foundation of the 2022–25 strategic plan that is currently under development.

Last year we also marked the full implementation of the recommendations from the investigations into our relationship with the International Centre of Regulatory Excellence (ICORE). Our response to the recommendations, which is being reviewed by the Office of the Auditor General of Alberta, included strengthening our policies and controls related to travel, expenses, and improving the working environment and culture at the AER.

Looking forward, I'm excited to see what the next year will bring as we strengthen, streamline, and modernize our regulatory system while maintaining our focus on protecting the public and the environment.

DAVID GOLDIE
CHAIR, AER BOARD OF DIRECTORS

GREETINGS,

The global pandemic cast a shadow over us all in 2020. At the AER, this, on top of a major reorganization and a new board of directors and leadership team, resulted in a remarkable amount of change last year. While it created some challenges, it also created opportunities—opportunities to try new things, to figure out how to do things differently and more efficiently, and to ensure we're delivering on our mandate effectively.

From transitioning our staff to working remotely, establishing virtual hearing processes, and adjusting field work to comply with pandemic-related health orders, we adapted quickly and changed the way we worked.

Our staff demonstrated a tremendous amount of resiliency and remained dedicated to delivering on our mandate despite the challenges from the pandemic. In fact, a recent employee engagement survey indicated that a high level of staff are engaged, enthusiastic, and committed to their work and the AER. Being new to the organization, I am incredibly inspired by the passion our employees have demonstrated day in and day out.

It is because of the calibre of our employees that we were able to accomplish a significant amount of work to strengthen our regulatory system and make it more efficient over the past year. We updated 35 regulatory documents and reduced 1451 requirements to remove duplication, streamline processes, and ensure our regulatory system is modern and in line with today's technology, without compromising environmental protection and public safety. We continued to reach milestones in implementing the integrated decision approach and the supporting technology to help reduce application processing times and allow us to focus more of our efforts on high-risk and more complex applications. We also began to work on new liability management programs as part of our drive to address the inventory of inactive oil and gas infrastructure.

In addition to the work we accomplished to improve our regulatory system, we found new ways to connect with and strengthen our relationships with stakeholders in spite of not being able to meet in person. We also established a new executive leadership team to lead us into the future and together determined four focus areas: taking care of our people, enabling operational effectiveness and innovation, enhancing regulatory modernization, and strengthening our reputation and engagement. These focus areas will drive our work over the next year as we develop a new multiyear strategic plan.

Energy development is constantly evolving to face new challenges, align with new policies, and make use of new technology, and the AER is following suit. Establishing a more efficient way of regulating while strengthening the AER's culture and ensuring we're meeting Albertans' expectations is an exciting challenge, and we are up for it.

LAURIE PUSHOR
PRESIDENT & CEO

HIGHLIGHTS

Like every organization around the world, the AER was faced with the impacts of COVID-19 on our workforce and operations. Despite the challenges from the pandemic, we stayed focused on delivering our mandate and ensuring that the companies we regulate continue to follow the rules to develop our energy resources in a safe and environmentally responsible way. Under the guidance of a new executive leadership team, we established a number of focus areas to guide our work and inform the development of a new, multiyear strategic plan. These focus areas include taking care of our people, enabling operational effectiveness and innovation, enhancing regulatory modernization, and strengthening our reputation.

Industry Compliance

Inspections and Audits

The AER regularly monitors and inspects thousands of Alberta's wells, production and processing facilities, pipelines, and coal and oil sands mines each year to ensure that companies are following our requirements and developing energy resources in a manner that is safe and protects the environment. We do this by visiting energy sites to inspect a company's activities and by auditing information they provide.

In 2020/21, we adjusted our programs and processes as a result of a reduction in staff and to adapt to the impacts of COVID-19. Throughout, we were able to maintain our focus on ensuring that companies are developing energy resources responsibly and that the environment and public remain protected. We conducted 9048 inspections (6 per cent decrease from last year) and 6497 audits (32 per cent increase from last year).

Investigations

Major investigations are formal processes that must withstand a court challenge. Investigations can take anywhere from three months to two years to complete. Our investigators are law enforcement officers who gather evidence to piece together the facts and have the authority to apply for search warrants, lay charges, and serve court summonses.

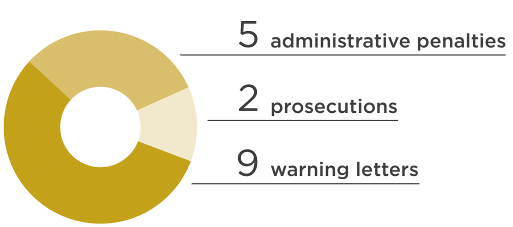
If we find that a company isn't following the rules, we can take a number of compliance and enforcement actions ranging from issuing notices of noncompliance to prosecutions. Compliance and enforcement action is taken to notify a company that we've identified noncompliance with our requirements, to provide the company with the opportunity to correct a noncompliance or to compel compliance if a company fails to correct their actions, and to deter future noncompliance.

In 2020/21, we opened 30 investigations, which resulted in 16 compliance and enforcement actions taken, including 9 warning letters, 5 administrative penalties, and 2 prosecutions.

Regardless of the compliance and enforcement action that we take, our goal is to work with companies to bring them back into compliance.

INVESTIGATION RESULTS

Out of the 30 investigations, 16 actions were taken.



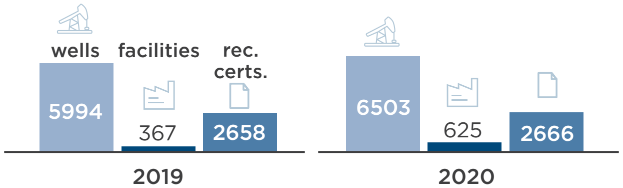
Liability Management

Over the past few years, Alberta has experienced a growing inventory of inactive infrastructure due to the prolonged economic downturn, low oil prices, and increased insolvencies. We are developing innovative approaches to manage these risks while supporting economic development and balancing multiple interests, including environmental protection, public safety, landowner interests, investment, and market volatility.

The primary method of reducing the liability from inactive infrastructure is by completing closure activities, which involves decommissioning or reclamation activities. In the 2020 calendar year, 6503 wells were decommissioned—an increase of more than 500 wells from 2019; 625 facilities were decommissioned last year compared to 367 in 2019; and approximately 2666 reclamation certificates were issued, which is fairly consistent with 2019 where 2658 reclamation certificates were issued.

CLOSURE ACTIVITIES

Infrastructure decomissioning increased while reclamation certificates issued remained fairly consistent.



Area-Based Closure Program

The area-based closure (ABC) program developed by the AER, the Canadian Association of Petroleum Producers, the Explorers and Producers Association of Canada, and the Petroleum Services Association of Canada, encourages companies to work together in project areas to close oil and gas infrastructure and sites more efficiently and effectively. Through the voluntary program, participants may commit to spending a certain amount of money on closure activities in a given calendar year, known as a closure spend target. Participants can complete more closure work for the same cost by finding opportunities to collaborate with other companies. For the 2020 calendar year, 61 companies participated in the ABC program and committed to spend nearly $332 million. An additional 10 companies collaborated to find other licensees planning closure work in the same area but did not commit to a closure spend target. Despite the challenges of the pandemic and the precipitous fall in oil prices in 2020, the ABC program resulted in $295 million in closure work.

CLOSURE SPENDING

Through the voluntary ABC program, participants may commit to spending a certain amount of money on closure activities in a given calendar year.

61 **companies participated in the ABC program**

$295 million
in closure work completed

Additional Work Underway

Through ongoing consultation with industry and other stakeholders, the Government of Alberta and the AER have identified gaps in how liability is managed in the province. In July 2020, the Government of Alberta updated their liability management policy and directed the AER to revise and create new liability programs, including the following:

- Incorporate public feedback received on proposed changes to *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals*, which include requiring companies to submit additional information, particularly financial information, at the time of application and throughout the life cycle of energy development.
- Develop a licensee capability assessment that gives us better insight into a company's ability to deal with their end-of-life obligations.
- Introduce an inventory reduction program to establish mandatory spend targets for closure work while continuing to leverage the voluntary spend target through the ABC program.
- Create a process to allow landowners and other eligible requestors to nominate inactive or abandoned wells and facilities for closure work.
- Establish a licensee special action function to proactively identify, assess, and work with distressed licensees earlier in the life cycle of energy development to ensure that they are addressing their regulatory and liability obligations.
- Implement a liability management program for large facilities to help protect Albertans from the costs to abandon and reclaim large upstream oil and gas facilities, such as gas plants and in situ oil sands plants.
- Work with the Government of Alberta to implement changes associated with the Orphan Well Association's expanded authority to better manage and accelerate the clean up of sites that do not have a responsible owner.
- Support the Government of Alberta's work to determine potential solutions to manage legacy sites (i.e., sites that were abandoned, remediated, or reclaimed before current requirements were introduced) and post-closure sites (i.e., sites that have received reclamation certificates and the operator's liability period has lapsed) that do not fall within the mandate of the Orphan Well Association.

These initiatives will ensure liability management is applied throughout the entire life cycle of development rather than at the end, and will allow us to proactively identify potential issues, develop timely solutions, and increase the amount of closure work done by companies—all of which will further strengthen our ability to help industry reduce their liabilities.

Modernization

As Alberta's energy regulator, we contribute to Alberta's competitiveness by ensuring that our system is modern and efficient, while protecting the environment and keeping Albertans safe. Our work to modernize the regulatory system involves making sure that the systems, tools, and requirements we have in place are current with today's technology. It also involves removing duplication, making our processes more efficient, ensuring that the regulator effectively minimizes risks to the public and environment, and contributing to the Government of Alberta's red tape reduction initiative.

Updating Our Requirements

In 2020/21, we updated 35 regulatory documents, such as directives, to reduce duplication and modernize our regulatory system, which includes updates to

- allow applications for new incinerator technology to contribute to reducing emissions (*Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting*);
- allow companies to abandon together multiple zones producing from multiple oil and gas pools through a single wellbore, enabling them to plan abandonment work more efficiently and start work sooner

(*Directive 020: Well Abandonment - Commingled Abandonment*); and
- the testing, reporting, and repair of isolation packers, surface casing vent flows, gas migration, and casing failures (*Directive 087: Well Integrity Management*).

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 regulatory requirements by one-third, cut costs and inefficient processes, and speed up approvals.

When the initiative launched, the AER had approximately 41 500 requirements across 210 regulatory instruments such as directives, forms, and manuals. In 2020/21, we reduced the total number of our requirements by 1451. Combined with the 2019/20 reduction of 1069 requirements, we have reduced our requirements by six per cent to date. The majority of this work was the result of making minor or administrative regulatory changes, as well as reducing duplication, redundancies, and obsolete requirements.

REGULATORY REQUIREMENT REDUCTION

To date, we have reduced by 6 per cent.

2520
requirements

IDA/OneStop

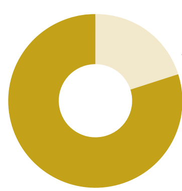
In 2014, we introduced an integrated decision approach (IDA) and the OneStop platform to make our application review process more efficient while ensuring the public and environment remain protected. OneStop uses a complex set of rules to automate routine (low-risk) applications and forward nonroutine (high-risk and more complex) applications to technical experts for review.

Since we introduced IDA and OneStop, we have
- moved 14 application types into OneStop;
- reduced the time it takes for an application to be reviewed manually by an AER technical expert by 68 per cent;
- created a consistent, risk-informed approach to audits and inspections across the organization;
- enhanced the use of empirical evidence in our application review process, leading to greater consistency in decision-making; and
- improved our ability to collect data throughout the life cycle of energy developments.

While work continues to fully integrate IDA and Onestop into our regulatory system, in 2020/21
- 22 000 applications were submitted through OneStop, with 80 per cent being routine applications that were automated;
- new well applications were moved into OneStop, including well licence amendments, re-entry, and cancellations; and
- enhancements were made to the public lands system, pipeline licensing, and user interface.

ONESTOP APPLICATION SUBMISSIONS

We recieved 22 000 applications through OneStop.



20% **manually reviewed**

80% **routine and automated**

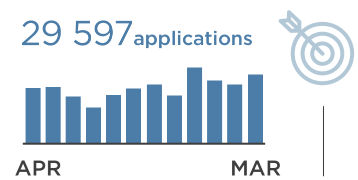
Application Processing Times

The AER has established application processing targets to ensure we review applications in a timely manner. There are more than 100 different types of energy development applications that we review, and each application type receives a target that reflects the complexity of the application process.

Of the 29 597 applications processed in 2020/21, we were able to meet our targets almost 99 per cent of the time for routine applications (low risk) and almost 98 per cent of the time for nonroutine applications (high risk and more complex).

APPLICATIONS MEETING TARGETS

99% of the time for routine (low risk) and 98% of the time for nonroutine (high risk and more complex).



99% **of the time for routine**

98% **of the time for nonroutine**

Administrative Levy Review

The AER is 100 per cent funded by industry and is authorized to collect funds through an administrative fee levied on energy development projects and activities. For the first time since 2006, we launched a review of the methodology used to calculate the levy. The review has been divided into two phases: changes that are possible in the near term, and more substantial changes in the long term. The first phase was completed in spring 2020 and resulted in a fee reduction for service wells and wells producing less than 600 cubic metres of oil or gas per year. The second phase of our review began in October 2020, and involved collecting feedback from stakeholders on the current methodology for calculating the levy, which identified a number of areas for change. We are now in the process of building a revised model based on the feedback we received and expect to implement the revised methodology later this year.

Connecting with Albertans

Stakeholder Engagement

The AER connects with our stakeholders and the public in a number of different ways to provide information, build relationships, and obtain feedback. We participate in multistakeholder committees, invite the public to provide feedback on proposed changes to our requirements, and have staff present in communities across the province to answer questions about energy development.

In 2020/21, we participated in more than 100 multistakeholder committees, ranging from technical committees, to synergy groups, to interagency advisory committees. They include the following:

- Drilling and Completions Committee hosted by the energy industry
- Fort McKay Air Quality and Odours Advisory Committee
- Forum of chief geoscientists hosted by the Canadian Society of Petroleum Geologists
- Government of Alberta's Red Tape Reduction Panel for Oil and Gas
- Inter-Agency Advisory Committee (IAAC) hosted by the Canadian Association of Petroleum Producers
- Multi-Stakeholder Engagement Advisory Committee hosted by the AER
- Land Matters Advisory Group hosted by the Canada Energy Regulator
- Oil Sands Mine Water Science Team hosted by Alberta Environment and Parks
- Oil Sands Monitoring Program Oversight Committee hosted by Alberta Environment and Parks and Environment and Climate Change Canada
- Synergy Alberta Board
- Tight Oil Consortium hosted by the University of Calgary
- Western Regulators Forum hosted by the AER

In addition, we proposed major changes to five regulatory instruments and invited Albertans to provide feedback each time:

- Revisions to *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals*
- Proposed changes to the *Pipeline Rules*
- Revisions to *Directive 020: Well Abandonment*
- Updating the AER's levy methodology
- Creation of a directive on well integrity management

AER staff also meet with members of the public, landowners, elected officials, indigenous communities, environmental nongovernmental organizations, and other stakeholders on a regular basis throughout the year.

Hearings

The AER may hold a hearing to gather information before making a decision on an energy development project, which includes everything from gas or oil wells and pipelines to sour gas processing plants, coal developments, and major oil sands projects. A hearing is a public forum where Albertans who may be directly and adversely affected by a decision may participate.

Hearings are conducted by a panel of one or more hearing commissioners, assigned by the chief hearing commissioner. Hearing commissioners are appointed to their positions by the Government of Alberta through an Order in Council. As independent decision makers, the hearing panel makes an informed decision about an application or regulatory appeal based on the documents filed and evidence provided at a hearing.

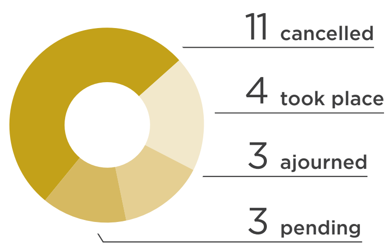
Last year, 9 files were referred to the chief hearing commissioner for a hearing. In addition, 12 files were carried over from previous years. Out of these 21 files, the following occurred:

- 4 hearings took place: one was for a proposed project to develop a metallurgical coal mine, and three were regulatory appeals related to a reclamation certificate, a decision to amend an approval related to an in situ oil sands development, and a declaration issued under section 106(1) of the *Oil and Gas Conservation Act*.
- 3 hearings were adjourned at the parties' request.
- 11 hearings were cancelled—four of which were resolved through hearing-commissioner-facilitated alternative dispute resolution
  - 5 were cancelled due to the statement of concern being withdrawn.
  - 6 were cancelled due to the regulatory appeal being withdrawn.
- 3 files are pending a hearing.

The health orders associated with COVID-19 prevented holding in-person hearings during this period, so commissioners and staff developed procedures for electronic hearings and conducted the four hearings successfully in a fully online format.

HEARING FILES

12 files were carried over from previous years and 9 files were added.

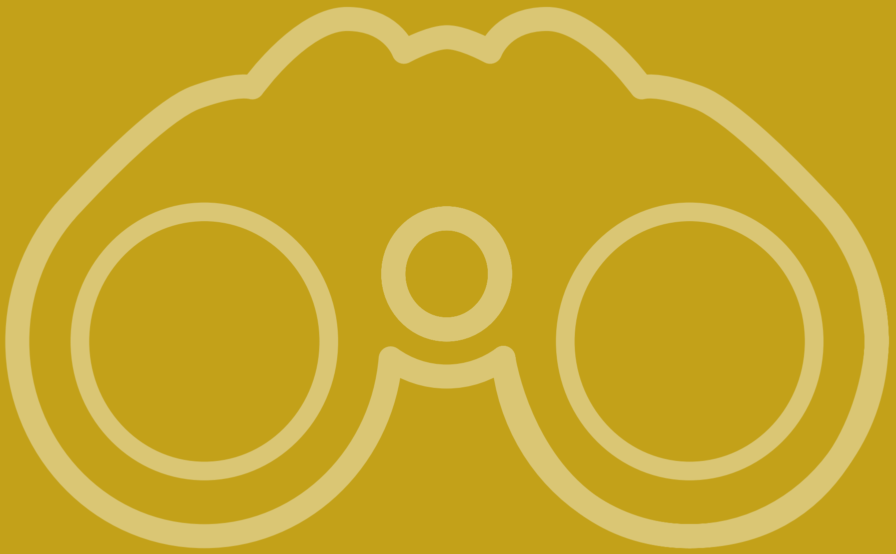


AER Whistleblower Protection Policy

The AER is committed to the highest standards of ethical and accountable conduct and complies with the laws and regulations that protect the AER's funds, assets, and resources from mismanagement. Our *Whistleblower Protection Policy* helps to ensure this commitment is upheld by providing our employees with guidance on how to deter, detect, and disclose wrongdoing within the organization in accordance with the *Public Interest Disclosure Whistleblower Protection Act*. Under this act, the AER is required to report annually on the number of disclosures reported under our *Whistleblower Protection Policy* and the outcome of any investigations that are conducted.

In 2020/21, the AER did not receive any disclosures, nor were any disclosures referred to the AER's designated officer. As such, there were no investigations conducted under this policy.

LOOKING FORWARD



Over the coming year, we will continue to modernize our regulatory system while protecting what matters to Albertans: public safety and the environment. We will also focus on supporting policy changes made by the Government of Alberta to address the changing economic, environmental, and resource development realities in the province and adapt our requirements to implement those changes. To do this, we will focus on a number of priorities:

- Developing a new strategic plan to guide the work that we do over the next few years, which will focus on four areas: taking care of our people, enabling operational effectiveness and innovation, enhancing regulatory modernization, and strengthening our reputation.
- Revising and creating new liability programs to support the Government of Alberta's policy changes on how liability will be managed.
- Supporting the Government of Alberta as they introduce new policy. This includes developing a regulatory framework (i.e., rules, directives, manuals) to support the development of geothermal energy.

CONSOLIDATED FINANCIAL HIGHLIGHTS

CONSOLIDATED SUMMARY OF ANNUAL HIGHLIGHTS	2021		2020
	Adjusted budget	Actual	Actual
	(in thousands)		
Revenues			
Administration fees	$ **113 450**	$ 114 240	$ 233 393
Government of Alberta grant	**113 000**	113 000	-
Orphan fund levy and fees	**65 500**	65 698	61 039
Other revenue	**2 706**	3 090	5 248
	294 656	296 028	299 680
Expenses			
Energy regulation	**214 156**	203 753	264 248
Orphan well abandonment	**65 500**	65 698	61 039
	279 656	269 451	325 287
	15 000	26 577	(25 607)
Capital			
Capital investment	**14 500**	13 697	12 704
Less: Amortization of tangible capital assets	**(16 000)**	(15 686)	(15 947)
Loss on disposal and write-down of tangible capital assets		(983)	(67)
Net capital investment	**(1 500)**	(2 972)	(3 310)
Surplus (Deficit)	$ **16 500**	$ 29 549	$ (22 297)

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 (GoA). The AER provides for its operating expenses and capital investment through two separate revenue sources: administration fees, also referred to as the administrative levy, and other revenue. The AER also collects an orphan fund levy, which is paid directly to the 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, 2021. The complete audited consolidated financial statements begin on the following page.

Administration fees

Alberta's *Responsible Energy Development Act* authorizes the AER to levy an administration fee 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 administration fees are used to support the AER's operation and fulfil the AER's mandate to ensure the safe, efficient, orderly, and environmentally responsible development of hydrocarbon resources over their entire life cycle. For the year ended March 31, 2021, administration fees decreased by $119 153, or 51%. The decrease was offset by a government grant of $113 000. The remainder of the administration fees decrease of $6153, is related to budget reductions directed by the GoA. In 2021, the AER collected 73% of industry levies from oil and gas, 25% from oil sands and 2% from coal operations in the form of administration fees. Administration fees for 2021 include $125 (2020 – $150) collected in late payment penalties.

Government of Alberta grant

On March 20, 2020, the GoA committed to provide relief for the energy sector by funding the AER's administration fees for the first six months of 2021. The AER received the grant in six monthly installments between April and September 2020 for a total of $113 million.

Orphan fund 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 2021, the AER issued and collected an orphan fund levy of $65 000, which is $5000 more than 2020. The increase in orphan fund levy was required to address the increasing volume of orphan wells. In addition, the AER collected $225 in penalties and $473 in first time licensee 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 2021, other revenue decreased by $2158 or 41%. In 2021, the AER recognized reduced revenue from creative sentencing, jointly funded projects and lower revenue from the Core Research Centre due to restrictions imposed to prevent the spread of COVID-19. In addition, the AER recognized $196 less in investment income earned on cash and cash equivalents held with a Canadian chartered bank.

Energy regulation

Expenses decreased significantly in 2021, mainly as a result of a reduction of $60 673 for salaries, wages and employee benefits. In 2020, the AER underwent a re-organization reducing the number of employees, which resulted in the significant decrease in salaries and benefits. In addition, the AER reviewed and reduced its administrative expenditures, partially offset by an increase in consulting services related to migrating AER information technology infrastructure to cloud environments.

Capital investment

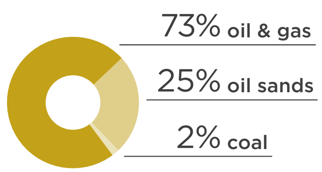
Developing and acquiring tangible capital assets, predominately investments in information technology, plays a critical role in helping the AER achieve outcomes at the lowest possible cost. Investments in information technology enable the AER remain relevant and responsive.

In 2021, the AER made capital investments of $13 697. Capital investment projects in 2021 focused on the continued development and implementation of the AER's integrated decision approach (IDA). IDA allows companies to submit one integrated application that covers activities over the life of the project and to receive decisions in a single approval document.

Budget management

During 2021, the AER continued to demonstrate its commitment to effective budget management by executing budget reductions in all non-staffing expenditure areas, including administrative expenses, buildings and fleet. The AER completed the year with a surplus of $29 549. A significant portion of the surplus is related to the GoA approving the AER to recover $16 500 of the $22 297 deficit incurred in 2020. As the year progressed, the GoA requested the AER to achieve in-year savings of $1703 and indicated that future budget cuts were likely. As a result of the economic downturn and COVID-19, the AER identified and actioned additional cost-saving opportunities while exercising prudent expenditure decisions, including not hiring to its planned staffing level in anticipation of 2021–22 budget reductions which resulted in additional surplus being realized.

ADMINISTRATION FEE COLLECTION



Alberta Energy Regulator
Consolidated Financial Statements
For the Year Ended March 31, 2021

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated 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 consolidated 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 Mike Dalton]

Vice-President Finance and Chief Financial Officer

Date: May 13, 2021

Independent Auditor's Report

Auditor General OF ALBERTA

To the Board of Directors of the Alberta Energy Regulator

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of the Alberta Energy Regulator (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of operations, change in net debt, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, 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 opinion

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 Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated 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 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

May 13, 2021
Edmonton, Alberta

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2021

	2021		2020
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Revenues			
Administration fees	$ 226,450	$ 114,240	$ 233,393
Government of Alberta grant		113,000	-
Orphan fund levy and fees (Note 5)	69,000	65,698	61,039
Information, services and fees	3,542	2,731	4,693
Investment income	867	359	555
	299,859	296,028	299,680
Expenses			
Energy regulation (Schedule 1)	215,859	203,753	264,248
Orphan well abandonment (Note 5)	69,000	65,698	61,039
	284,859	269,451	325,287
Annual operating surplus (deficit)	15,000	26,577	(25,607)
Accumulated surplus at beginning of year	40,910	40,910	66,517
Accumulated surplus at end of year	$ 55,910	$ 67,487	$ 40,910

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2021

	2021	2020
	(in thousands)	
Financial assets		
Cash and cash equivalents (Note 6)	$ 26,226	$ -
Accounts receivable (Note 7)	1,456	1,920
Pension assets (Note 12)	4,923	1,505
	32,605	3,425
Liabilities		
Bank indebtedness (Note 6)	-	812
Accounts payable and other accrued liabilities (Note 8)	18,362	17,955
Payable to Orphan Well Association	1,942	609
Deferred lease incentives (Note 10)	14,332	15,949
	34,636	35,325
Net debt	(2,031)	(31,900)
Non-financial assets		
Tangible capital assets (Note 13)	60,133	63,105
Prepaid expenses and other assets	9,385	9,705
	69,518	72,810
Net assets		
Accumulated surplus (Note 14)	$ 67,487	$ 40,910

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

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
YEAR ENDED MARCH 31, 2021

	2021		2020
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Annual operating surplus (deficit)	$ 15,000	$ 26,577	$ (25,607)
Acquisition of tangible capital assets (Note 13)	(14,500)	(13,697)	(12,704)
Amortization of tangible capital assets (Note 13)	16,000	15,686	15,947
Loss on disposal and write-down of tangible capital assets		983	67
Decrease in prepaid expenses and other assets		320	1,033
Decrease/(increase) in net debt	16,500	29,869	(21,264)
Net debt at beginning of year	(31,900)	(31,900)	(10,636)
Net debt at end of year	$ (15,400)	$ (2,031)	$ (31,900)

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2021

	2021	2020
	(in thousands)	
Operating transactions		
Annual operating surplus (deficit)	$ 26,577	$ (25,607)
Non-cash items included in annual operating surplus (deficit):		
Amortization of tangible capital assets (Note 13)	15,686	15,947
Loss on disposal and write-down of tangible capital assets	983	67
(Increase)/decrease in pension assets	(3,418)	636
Amortization of deferred lease incentives (Note 10)	(1,617)	(1,619)
	38,211	(10,576)
Decrease in accounts receivable	464	5,564
Decrease in prepaid expenses and other assets	320	1,033
Increase/(decrease) in accounts payable and other accrued liabilities	407	(2,550)
Increase/(decrease) in payable to Orphan Well Association	1,333	(1,319)
Cash provided by (applied to) operating transactions	40,735	(7,848)
Capital transactions		
Acquisition of tangible capital assets (Note 13)	(13,697)	(12,704)
Cash applied to capital transactions	(13,697)	(12,704)
Financing transactions		
Proceeds from line of credit	9,855	64,587
Debt repayment	(10,667)	(63,775)
Cash (applied to) provided by financing transactions	(812)	812
Increase/(decrease) in cash and cash equivalents	26,226	(19,740)
Cash and cash equivalents at beginning of year	-	19,740
Cash and cash equivalents at end of year	$ 26,226	$ -

The accompanying notes and schedules are part of these consolidated 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 consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Reporting Entity and Method of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the AER, which is composed of all components controlled by the AER. The Orphan Fund is a fund retained and administered by the AER. The AER collects the orphan fund levy and first time licensee application fees, and transfers the funds to the Orphan Well Association. The AER and the Orphan Fund are consolidated using the line-by-line method.

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 other accrued liabilities.

Government of Alberta Grant

Transfers from the Government of Alberta are referred to as provincial grants.

Provincial grants, without stipulations for the use of the transfer, are recognized as revenue when the transfer is authorized and the AER meets the eligibility criteria (if any).

Investment Income

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.

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

Basis of Financial Reporting (continued)

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 11.2 years (2020 - 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.

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 other 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, does not have any 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.

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

Basis of Financial Reporting (continued)

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 a 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.

Environmental Liabilities

Liability for Contaminated Sites:

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 a contaminated site may arise from an operation that is either in productive use or no longer in productive use and may also arise from an unexpected event resulting in contamination. The resulting liability is recognized net of any expected recoveries, when all of the following criteria are met:

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

Contingent Liabilities

Contingent Liabilities:

A contingent liability is recognized when:

i. there is an existing condition or situation;
ii. there is an expected future event that will resolve the uncertainty as to whether a present obligation to sacrifice economic benefits exists;
iii. it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and
iv. 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.

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

Basis of Financial Reporting (continued)

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 Consolidated Statement of Operations.

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.

Estimates of contingent liabilities for contaminated sites are subject to measurement uncertainty because the existence and extent of contamination, the responsibility for clean-up, and the timing and costs of remediation cannot be reasonably estimated in all circumstances. The degree of measurement uncertainty cannot be reasonably determined.

Note 3 FUTURE CHANGES IN ACCOUNTING STANDARDS

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

PS 3280 Asset Retirement Obligations (effective April 1, 2022)

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

PS 3400 Revenue (effective April 1, 2023)

This standard provides guidance on how to account for and report on revenue, and specifically, it differentiates between revenue arising from exchange and non-exchange transactions.

The AER has not yet adopted these standards. 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 Orphan Well Association. The AER collects the orphan levy and first time licensee application fees through the Orphan Fund and transfers the funds to the Orphan Well Association. During the year ended March 31, 2021, the AER collected $65,225 (2020 - $60,345) in levies and $473 (2020 - $694) in application fees.

Note 6 CASH AND CASH EQUIVALENTS AND BANK INDEBTEDNESS

(in thousands, unless otherwise noted)

	2021	2020
Cash and cash equivalents	$ 26,226	$ -
Bank indebtedness	-	(812)
	$ 26,226	$ (812)

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, 2021, the AER earned interest at an annual average rate of 0.7% (2020 - 2.1%).

The AER has an unsecured $75 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%. For the year ended March 31, 2021, interest expense on the revolving line of credit was $4 (2020 - $143).

Note 7 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	2021			2020
	Gross amount	Allowance for doubtful accounts	Net recoverable value	Net recoverable value
Accounts receivable	$ 3,127	$ (1,671)	$ 1,456	$ 1,920

Note 8 ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

(in thousands)

	2021	2020
Accrued liabilities	$ 15,722	$ 14,177
Accounts payable	2,315	3,052
Unearned revenue	325	726
	$ 18,362	$ 17,955

Note 9 FINANCIAL INSTRUMENTS

(in thousands)

The AER has the following financial instruments: cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and other 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, 2021, the AER had bank indebtedness of $nil (2020 - $812).

(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 Consolidated 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 amortized on a straight-line basis over the term of the lease.

	2021			2020
	Leasehold improvement costs	Reduced rent benefits and rent-free periods	Total	Total
Balance at beginning of year	$ 12,891	$ 3,058	$ 15,949	$ 17,568
Amortization	(1,252)	(365)	(1,617)	(1,619)
Balance at end of year	$ 11,639	$ 2,693	$ 14,332	$ 15,949

Note 11 ENVIRONMENTAL LIABILITIES

(in thousands, unless otherwise noted)

The AER has a mandate to protect public safety and the environment. As at March 31, 2021, the AER is not responsible, nor has it accepted responsibility, for performing remediation and reclamation work at contaminated sites. The AER has $nil (2020 - $nil) environmental liabilities recorded.

As at March 31, 2021, the AER is administering 28 (2020 – 28) legacy sites. Of these sites, the AER identified 5 (2020 – 3) sites as having immediate public safety and environmental risk, and the AER needed to take appropriate action to mitigate these risks. During the year ended March 31, 2021, the AER incurred $906 (2020 - $460) in costs to mitigate immediate public safety and environmental risks. Costs to mitigate immediate public safety or environmental risks are costs where the AER has completed protective or remediation work at legacy sites. Costs for ongoing assessment and monitoring are not reported.

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, 2021, the expense for these pension plans is equal to the contributions of $12,539 (2020 - $15,533) and is included in salaries, wages and employee benefits on Schedule 1. 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, 2021, 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, 2021, the weighted average actual return on plan assets was 14.7% (-3.7% in 2020).

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

Accrued benefit obligations	**2021**	**2020**
Discount rate	4.4%	4.8%
Rate of compensation increase	0% until March 31, 2022, 3.0% thereafter	0% until March 31, 2021, 3.5% thereafter
Long-term inflation rate	2.0%	2.0%

Pension benefit costs for the year	**2021**	**2020**
Discount rate	4.8%	5.1%
Expected rate of return on plan assets	4.8%	5.1%
Rate of compensation increase	0% until March 31, 2021, 3.5% thereafter	0% until Sep 30, 2019, 3.5% thereafter

Note 12 EMPLOYEE FUTURE BENEFITS (continued)

(in thousands, unless otherwise noted)

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

	2021	2020
Market value of plan assets	$ 74,119	$ 65,442
Accrued benefit obligations	(70,954)	(72,461)
Plan surplus (deficit)	3,165	(7,019)
Unamortized actuarial losses	1,758	8,524
Pension assets	$ 4,923	$ 1,505

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

	2021	2020
Current period benefit cost	$ 3,976	$ 4,326
Interest cost	3,442	3,382
Expected return on plan assets	(3,039)	(3,574)
Amortization of actuarial losses (gains)	804	(53)
Loss on curtailments [a]	-	1,342
Unamortized gains recognized in curtailments	-	(172)
	$ 5,183	$ 5,251

[a] For the year ended March 31, 2020, the AER underwent a re-organization and decreased the number of employees. This resulted in a curtailment due to a reduced number of active employees in the AER's defined benefit pension plans. The curtailment impact was a $1,342 increase in the accrued benefit obligations recognized through pension expense for the year ended March 31, 2020.

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

	2021	2020
Benefits paid	$ 10,171	$ 5,325
AER contributions	8,600	4,616
Employees' contributions	683	839

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

	2021	2020
Equity securities	48.2%	42.3%
Debt securities	22.2%	24.7%
Alternatives	17.3%	19.6%
Other	12.3%	13.4%
	100.0%	100.0%

Note 13 TANGIBLE CAPITAL ASSETS

(in thousands)

	2021					2020
	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	$ 45,735	$ 13,112	$ 143,420	$ 202,549	$ 196,874
Additions	-	765	396	12,536	13,697	12,704
Disposals, including write-downs	-	-	(448)	(7,394)	(7,842)	(7,029)
	282	46,500	13,060	148,562	208,404	202,549
Accumulated amortization						
Beginning of year	$ -	$ 20,179	$ 9,427	$ 109,838	$ 139,444	$ 130,459
Amortization expense	-	2,734	905	12,047	15,686	15,947
Effect of disposals, including write-downs	-	-	(426)	(6,433)	(6,859)	(6,962)
	-	22,913	9,906	115,452	148,271	139,444
Net book value at March 31, 2021	$ 282	$ 23,587	$ 3,154	$ 33,110	$ 60,133	
Net book value at March 31, 2020	$ 282	$ 25,556	$ 3,685	$ 33,582		$ 63,105

(1) As at March 31, 2021, historical cost of computer hardware and software includes work-in-progress totalling $6,630 (2020 - $76).

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:

	2021			2020
	Investments in tangible capital assets [a]	**Unrestricted net assets (debt)**	**Total**	**Total**
Balance at beginning of year	$ 50,214	$ (9,304)	$ 40,910	$ 66,517
Annual operating surplus (deficit)	-	26,577	26,577	(25,607)
Net investment in capital assets [a]	(1,720)	1,720	-	-
Balance at end of year	$ 48,494	$ 18,993	$ 67,487	$ 40,910

(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, 2021, accruals totalling $125 (2020 - $630) have been recognized as a liability.

The AER has identified various sites where contamination exists and the level of contamination is either known or unknown at this time. As at March 31, 2021, no liability has been recognized for these sites as further testing and evaluation is required to determine the extent of immediate actions necessary. No liability for remediation on other sites has been recognized as the AER becoming responsible for these sites is not determinable; the AER does not expect to give up any future economic benefits; no reasonable estimate of the amount can be made; or a combination of these factors. The AER's ongoing efforts to assess contaminated sites may result in environmental liabilities related to newly identified sites, or change in the assessment or intended use of existing sites. Any change to the environmental liabilities will be accrued in the year in which they are assessed as likely and measurable.

Note 16 CONTRACTUAL OBLIGATIONS

(in thousands)

As at March 31, 2021, the AER had contractual obligations totalling $162,248 (2020 - $171,894).

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, 2021, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2021-22	$	43,059
2022-23		29,634
2023-24		17,497
2024-25		11,662
2025-26		10,464
Thereafter		49,932
	$	162,248

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 consolidated 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, 2021, assets under administration included the following types of security deposits:

	2021 Cash	2020 Cash	2021 Letters of credit	2020 Letters of credit
Liability Management Rating programs and landfills	$ 90,431	$ 98,812	$ 225,418	$ 220,667
Mine Financial Security program	39,342	39,146	1,447,447	1,434,643
Other programs	10,446	6,834	7,714	7,778
	$ 140,219	$ 144,792	$ 1,680,579	$ 1,663,088

Note 18 COVID-19 IMPACT

On March 11, 2020, the World Health Organization declared the COVID-19 disease to be a global pandemic and on March 17, 2020, the Government of Alberta declared a state of public health emergency. These declarations have impacted the AER in the following ways:

Revenues

On March 20, 2020, the Government of Alberta committed to provide relief for the energy sector by funding the AER's administration fees for the first six months of fiscal 2020-21. The AER received the grant in six monthly installments between April and September 2020 for a total of $113 million.

Operations

The AER maintained core regulatory functions as most staff transitioned to working remotely during the COVID-19 pandemic. The AER's operations were not significantly impacted by COVID-19.

Note 19 COMPARATIVE FIGURES

Certain 2020 figures have been reclassified, where necessary, to conform to the 2021 presentation.

Note 20 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the AER Board of Directors on May 13, 2021.

ALBERTA ENERGY REGULATOR **Schedule 1**

ENERGY REGULATION EXPENSES - DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2021

	2021	2020
	(in thousands)	
Salaries, wages and employee benefits	$ 131,598	$ 192,271
Buildings	20,354	20,577
Computer services	17,112	17,238
Amortization of tangible capital assets	15,686	15,947
Consulting services	14,634	12,429
Travel and transportation	1,382	1,815
Loss on disposal and write-down of tangible capital assets	983	67
Administrative	915	3,492
Abandonment and enforcement	766	-
Equipment rent and maintenance	323	412
	$ 203,753	$ 264,248

ALBERTA ENERGY REGULATOR **Schedule 2**

SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2021

	2021				2020
	Base salary [a]	Other cash benefits [b]	Other non-cash benefits [c]	Total	Total
			(in thousands)		
Position					
Board of Directors					
Chair [d]	$ 131	$ -	$ 7	138	$ 78
Members [e]	334	-	20	354	332
Executives					
President and Chief Executive Officer [f]	319	30	73	422	-
Chief Hearing Commissioner	218	24	47	289	296
Chief Operations Officer [g]	259	17	64	340	148
Executive Vice-President, Law and General Counsel	274	9	60	343	363
Executive Vice-President, Corporate Services [h,n]	231	196	77	504	157
Vice-President of Finance and Chief Financial Officer [i,n]	130	7	54	191	-
Former President and Chief Executive Officer [j]	17	6	-	23	511
Former Executive Vice-President, Operations [k,n]	-	-	-	-	394
Executive Vice-President, Strategy & Regulatory [l,n]	-	-	-	-	686
Executive Vice-President, Stakeholder & Government Engagement [m,n]	-	-	-	-	407

(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 2021.

(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 the position of Chair during 2021. The current Chair was appointed on April 15, 2020, and is remunerated with a monthly honorarium as per rates prescribed in the Orders in Council. Prior to the current Chair's appointment, the previous Chair's remuneration was set at $nil while this individual occupied the position from September 6, 2019 until April 15, 2020. Prior to the previous Chair, a former Chair occupied the position until September 6, 2019, at which time the individual's appointment was rescinded; the amount in 2020 reflects remuneration paid to the individual until September 6, 2019.

(e) The incumbent Board of Directors consists of six members. Five Board members are remunerated with monthly honoraria as per rates prescribed in the Orders in Council. Remuneration for one Board member is set at $nil. As at March 31, 2020, the Board of Directors consisted of four members. On April 15, 2020, one member resigned and four new members were appointed. On June 5, 2020, one member was rescinded. The 2020 amount reflects four members until April 28, 2019 and three members from April 28, 2019 until September 6, 2019. For the remainder of the 2020 fiscal year, the Board of Directors consisted of four members.

(f) The incumbent held the position effective April 15, 2020.

(g) The incumbent held the position of Executive Vice- President, Operations until February 24, 2021, at which time the incumbent was appointed to the position of Chief Operations Officer.

(h) The incumbent held the position until February 24, 2021, at which time the position was eliminated and the incumbent was terminated. Other cash benefits include $170 of severance pay.

(i) The incumbent held the position effective September 8, 2020, at this time the position became a voting member of the Executive Leadership Team. Prior to this appointment, the position was a non-voting member of the Executive Leadership Team.

(j) The incumbent held the position until April 15, 2020, at which time the incumbent's contract ended.

(k) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. Severance pay of $171 was expensed in 2020.

(l) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. The position was eliminated effective October 28, 2019. Severance pay of $449 was expensed in 2020.

(m) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. The position was eliminated effective October 28, 2019. Severance pay of $168 was expensed in 2020.

(n) 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 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, 2021 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.

	2021			2020
Position	**Current service cost**	**Prior service and other costs**	**Total**	**Total**
Executive Vice-President, Corporate Services	$ 32	$ 2	$ 34	$ 33
Vice-President of Finance and Chief Financial Officer	23	-	23	-
Former Executive Vice-President, Operations [o]	-	-	-	7
Executive Vice-President, Strategy & Regulatory	-	-	-	15
Executive Vice-President, Stakeholder & Government Engagement	-	-	-	28

The SEPP and SRP accrued obligation for each executive employed by the AER during the year ended March 31, 2021 is outlined in the following table:

Position	Accrued obligation April 1, 2020	Changes in accrued obligation	Accrued obligation March 31, 2021	Accrued obligation March 31, 2020
Executive Vice-President, Corporate Services	$ 128	$ 59	$ 187	$ 128
Vice-President of Finance and Chief Financial Officer	-	25	25	-
Executive Vice-President, Strategy & Regulatory	718	1	719	718
Executive Vice-President, Stakeholder & Government Engagement	16	1	17	16

(o) The pension obligation for the former Executive Vice-President, Operations was paid out during the year ended March 31, 2020.

ALBERTA ENERGY REGULATOR **Schedule 3**

CONSOLIDATED ACTUAL RESULTS COMPARED WITH BUDGET

YEAR ENDED MARCH 31, 2021

	Budget (Note 4)	Adjustments [a]	Adjusted budget	Actual
		(in thousands)		
Revenues				
Administration fees	$ 226,450	$ (113,000)	$ 113,450	$ 114,240
Government of Alberta grant		113,000	113,000	113,000
Orphan fund levy and fees	69,000	(3,500)	65,500	65,698
Information, services and fees	3,542	(1,703)	1,839	2,731
Investment income	867	-	867	359
	299,859	(5,203)	294,656	296,028
Expenses				
Energy regulation	215,859	(1,703)	214,156	203,753
Orphan well abandonment	69,000	(3,500)	65,500	65,698
	284,859	(5,203)	279,656	269,451
	15,000	-	15,000	26,577
Capital				
Capital investment	14,500	-	14,500	13,697
Less: Amortization of tangible capital assets	(16,000)	-	(16,000)	(15,686)
Loss on disposal and write-down of tangible capital assets		-		(983)
Net capital investment	(1,500)	-	(1,500)	(2,972)
Surplus	$ 16,500	$ -	$ 16,500	$ 29,549

(a) Adjustments reflect a provincial grant announced by the Government of Alberta (GoA), a decrease in revenues collected from information sales, a GoA-mandated in-year savings request, and a GoA request to delay issuing the large facility levy. Adjustments are related to the economic impacts of COVID-19 and low commodity prices.

ALBERTA ENERGY REGULATOR **Schedule 4**

RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2021

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 the AER. In 2021, 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 Consolidated Statement of Operations and the Consolidated Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry of Energy		Other entities	
	2021	2020	2021	2020
	(in thousands)		*(in thousands)*	
Revenues				
Government of Alberta grant	$ 113,000	$ -	$ -	$ -
Information, services and fees	366	96	361	618
	$ 113,366	$ 96	$ 361	$ 618

	Entities in the Ministry of Energy		Other entities	
	2021	2020	2021	2020 [(a)]
	(in thousands)		*(in thousands)*	
Expenses				
Computer services	$ 418	$ 454	$ 2,975	$ 4,270
Buildings	-	-	528	509
Administrative	-	-	396	430
Consulting services	-	-	310	573
	$ 418	$ 454	$ 4,209	$ 5,782
Receivable from	$ 108	$ 119	$ 33	$ 4
Prepaid expenses and other assets	$ -	$ -	$ 36	$ 40
Payable to	$ 209	$ 94	$ 641	$ 724
Unearned revenue	$ 1	$ -	$ -	$ -
Contractual obligations [(a)]	$ -	$ -	$ 7,069	$ 10,390

(a) Certain 2020 amounts have been restated to ensure completeness of 2020 related party transactions.

(b) 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.

LET'S CONNECT

ALBERTA ENERGY REGULATOR

Head Office
Suite 1000, 250 – 5 Street SW
Calgary, Alberta T2P 0R4

inquiries
1-855-297-8311

inquiries@aer.ca

24-hour emergency
1-800-222-6514

www.aer.ca

@aer_news

resource.aer.ca

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