



Perspectives on Liability Management

Common Principles and Desired Outcomes

For a Modernized Liability Management System

- **CAPP represents companies that explore for, develop and produce natural gas and crude oil throughout Canada. Our members produce about 80% of Canada’s natural gas and crude oil.**
- **An effective liability management system must:**
 - Protect Albertans & industry from undue risk due to current & future liability
 - Protect the environment, people and communities; and
 - Maintain economic growth and competitiveness.
- **A modernized liability management system should be based on common key principles to achieve desired outcomes that benefit all stakeholders:**

Common Principles

- Protective
- Competitive
- Risk-based
- Efficient and effective
- Flexible
- Modern and sustainable

Desired Outcomes

- Industry-wide reduction of inactive site liability
- Risk-appropriate closure guidelines (subsurface / surface)
- Focus on outcomes; flexible approaches to achieve results
- Reduction of risk to the Orphan Well Fund (OWF)
- Early identification of companies at risk of insolvency

Liability Framework Current State

Elements that are effective; Opportunities for enhancement

- **Within the existing system, certain elements have been effective for managing liability issues:**
 - The Orphan Well Association (OWA) is jurisdictionally-leading and supported by industry – it demonstrates due diligence and expertise for managing orphan sites, and thereby protects Albertans
 - The Alberta Energy Regulator provides a common basis for calculating liabilities, thereby enabling comparability and consistency across licensees
 - Liability management plans enable companies to undertake appropriate measures over a set time period to meet LLR requirements and obligations
- **Pressures on the industry with respect to continued low commodity prices and recent court decisions have identified areas of the liability management system that would benefit from enhancements:**
 - Promote site closure and reduction of inactive liability
 - Better predict a licensee's ability to fund liability associated with its sites
 - Provide an appropriate financial backstop to manage future pressure on the OWA due to legacy sites

Opportunities for Modernization

The future of Alberta's Liability Management System

- **The following three strategic pillars target areas within the current liability management system that would benefit from enhancements**
 - CAPP and its members look forward to working with the Government of Alberta and other stakeholders to further develop these concepts

Inactive Site Closure

- Commitment to reducing the amount of inactive liability per licensee based on their portfolio of sites
- Enhanced risk-based closure guidelines using risk-based principles / data-driven analysis for surface and subsurface requirements
- These measures support cost-efficient inactive liability reduction and reduces the risk to the OWA and pressure on the LLR program

Modernized Liability Management Program

- Enhanced liability management program to better predict when financial security is required, thereby reducing risk to OWA
- System that considers elements of financial health in addition to current LLR ratings
- Advancement of short-term enhancements to the existing LLR program, while transitioning to a modernized system in the medium term

Well Assurance Program

- Designed for legacy sites (sites that met closure requirements / without a responsible party)
- New funding mechanism and financial backstop to address potential legacy site issues
- Jointly funded by resource owners and resource developers
- Provides financial backstop and funding mechanism to support application of risk-based closure principles