EPAC Perspective Regarding Liability Management

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Industry Commitments

Industry remains committed to addressing liabilities and continuous improvement of liability management programs

Desired Outcomes

- Ensure ongoing decommissioning and reclaiming of oil and gas production and processing sites in Alberta
- Address reasonable concerns of landowners and other stakeholders
- Ensure a balance of environmental, social and economic interests
- Programs must be transparent and simple to administer
- Must keep Alberta competitive with other North American jurisdictions

Focus on 3 areas to improve Liability Management Framework

1. LMR Program Changes
2. Focused mandate for Orphan Well Association
3. Establish Legacy and Long-Term Liability Fund

1. Modified LMR Program

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Two step process – focused on inactive liability reduction

Annual CEO Declaration
- W.I. Production/ Operating Cash Flow
- W.I. Inactive Liability
- W.I. Inactive Liability spending for previous 12 months

Each year

- Compliance report /annual corporate declaration submitted and subject to AER audit
- Makes liability management a yearly compliance step

Met Spending Level - Completed

Spending Level Low Proceed to Step 2

STEP 1 Compliance

- Compliance requires minimum annual spending on inactive liability as a percentage of total reported inactive liability
- Two step process will result in mandatory decommissioning and reclamation of inactive wells and facilities

Step 2 Compliance Options:
- If low LSR- may have to post security
- Submit company specific plan to AER to achieve compliance in one year
- AER Global Refer Status

STEP 2 Non-Compliance

- Calculate Liability Servicing Ratio (LSR): a measure of cash flow versus total inactive liabilities
- Compliance enforcement options will ensure non-compliant companies decrease current liabilities

2. Orphan Well Association

Focused Mandate

- Focus the mandate of the OWA to avoid it becoming a “dumping ground” for any and all industry liability

Funding

- Industry committed to fund the OWA to ensure it can address current and future orphan liabilities
- EPAC supports an increase in industry funding to the OWA to deal with recent increase in orphan liabilities

New tools for OWA to manage portfolio

- OWA needs ability to take care and custody of producing assets and retain the mineral rights and surface access in order to facilitate the sale of orphan assets
- AER requires authority to compel Licensees and Receivers to preserve and transfer all well, pipeline and facility records to OWA

3. Legacy Fund

A separate Legacy Fund is required to deal with past legacy liabilities and future long-term liabilities

- To be operated under the authority of the OWA
- To be funded jointly by Government and Industry
- All decommissioned and reclaimed sites (e.g. 5 years post reclamation certified) would be transferred to the Legacy Fund with payment of a proposed Legacy Fund fee.
- Future reclamation certificate applications to include Legacy Fund fee with these sites automatically transferred to the Legacy Fund 5 years after issuance of reclamation certificate (5 year warranty period).
- Legacy Fund fee determined as a percentage of deemed Directive 006 and 011 liability costs. (i.e. lower fee for shallow gas with zero disturbance surface and higher for deeper multi-zone wells)
- AER must also have the ability to expropriate land to allow the Legacy Fund to risk manage sites where reclamation is impractical