

# Financial Guarantees

David Hardie, Director Liability Strategy

[david.hardie@aer.ca](mailto:david.hardie@aer.ca)

January 26, 2018

## Oil & Gas Wells, Facilities and Pipelines

- 》 Approximately 450 000 wells, 60 000 facilities, and 450 000 km of pipeline
- 》 Acceptable forms of financial guarantees
  - Cash
  - Letter of Credit
- 》 Financial guarantees are intended to offset the costs associated with the closure of infrastructure in the event of corporate failure

## Liability Programs

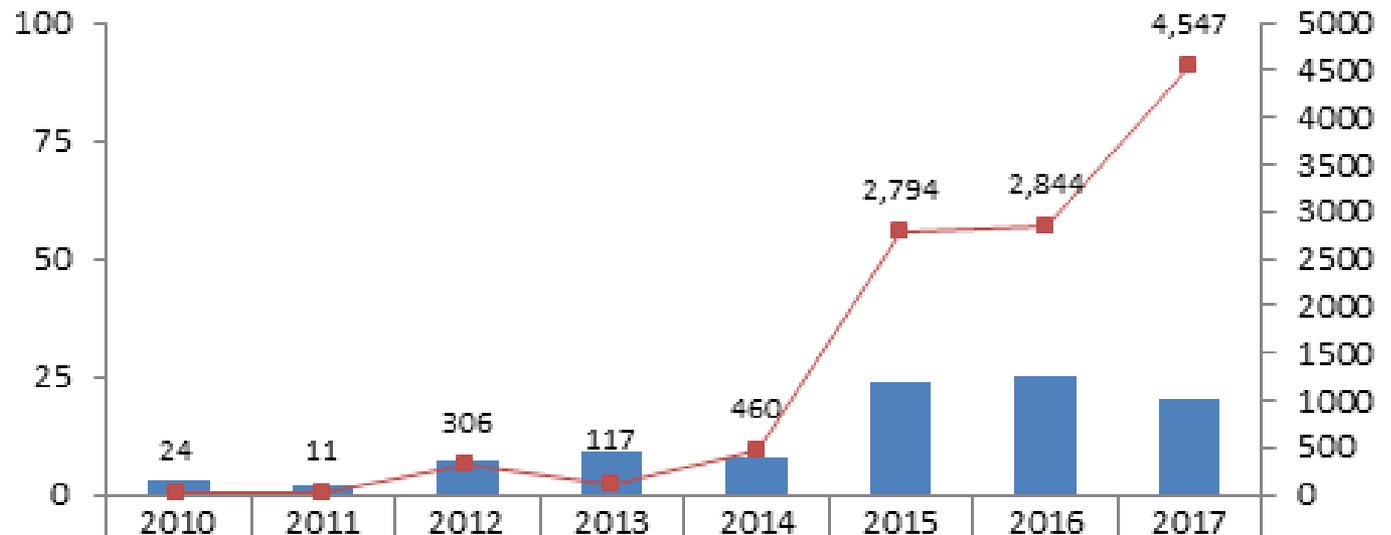
- » Liability Management Rating (LMR) = Deemed assets / Deemed liabilities
  - If  $LMR \geq 1.0$  → security not required
  - If  $LMR < 1.0$  → security is required
  
- » Security owing = Deemed assets – Deemed liabilities

## The Orphan Well Association (OWA)

- › Executes closure activities for orphaned sites
- › Funded by industry through a bi-yearly levy
  - \$30 million CDN (~20 million Euros) since 2015
- › Orphan:
  - A well, facility, or associated site that has no legally responsible or financially able party to conduct abandonment and reclamation.
  - Additional information regarding the OWA can be found on their website [www.orphanwell.ca](http://www.orphanwell.ca)

# OWA UPDATE

## Insolvencies by Year



■ Insolvent Companies	3	2	7	9	8	24	25	20
■ Licences	24	11	306	117	460	2794	2844	4547

NEED TO DO AN ANALYSIS OF WHAT ASSETS STILL HAVE POTENTIAL?

## Mines

- 》 22 coal mines and 9 oil sands mines
- 》 Acceptable forms of financial guarantees
  - Cash
  - Letter of Credit
- 》 Financial guarantees are intended to offset the costs associated with the closure of infrastructure in the event of corporate failure

## Coal Mines

- › Financial guarantees to offset the full liability for coal mines is required
- › Annual reporting of liability
- › AER audits the submissions are requires financial guarantees is a difference in liability and financial guarantees held
- › Alberta Government phasing out coal-fired electric generation by 2030

## Oil Sands Mines

- 》 Oil Sands mines provide financial guarantees at various stages during the lifecycle of the mine
  - Application
  - Asset and liability value calculation
  - 15 years left to reserves
- 》 Annual reporting of asset and liability information
- 》 AER audits the asset and liability submissions

## Assessment Considerations for Forms of Financial Guarantee

- 》 Generalization of assessment criteria of financial guarantees
  - Certainty of amount
    - Amount is determined and not subject to third party assessment
    - The money is there until the regulator determines it is no longer needed
  - Immediacy of access
    - Time matters, particularly when dealing with an immediate public health issue or risk to the environment

## Determining the Amount of Liability

- 》 Site specific assessments
  - Varying levels of accuracy based on perceived magnitude of liability
- 》 Third party assessment of costs
- 》 Survey of companies

## Challenges with Determining the Liability

- 》 Liability assessments can be costly
- 》 Consistency in approach to evaluating liabilities
- 》 Contamination is always a challenge
- 》 Outcomes based approach or prescriptive
- 》 Apportioning liabilities can be challenging
- 》 Variability in costs over time

## Additional Information

### » Disincentive

- Collection of financial guarantees for specific unwanted behavior
- Increasing value to offset unwanted behaviour

### » Screening mechanism

- Financial guarantee collection as a form of assessing corporate health



**Questions**



A landscape photograph showing a dirt road winding through a vast field of yellow and green crops under a bright blue sky with scattered white clouds. The road leads towards the horizon, creating a sense of depth and journey.

**Thank you**

AER

# Protecting what matters

**www.aer.ca**



**www.youtube.com/user/  
ABEnergyRegulator**



**resource.aer.ca**



**www.linkedin.com/company/  
alberta-energy-regulator**



**@aer\_news**