



## Well and Pipeline 2006 Conference

If You Aren't Handling Your Liabilities;  
Your Liabilities Are Handling You!

Presented by: Corporate Compliance Group




### Agenda

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- ◆ Liability Management Section
- ◆ Mandates, Principles, and Objectives
- ◆ The Liability Management Continuum
- ◆ Liability Management Programs
  - ◆ Historical (rescinded)
  - ◆ Current and in Development
  - ◆ Future Plans





## Agenda continued

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- ◆ Reduction of industry liability
  - ◆ Questions to ask yourselves
  - ◆ Inactive Licences: A Case Study
- ◆ Outreach Program
- ◆ Questions



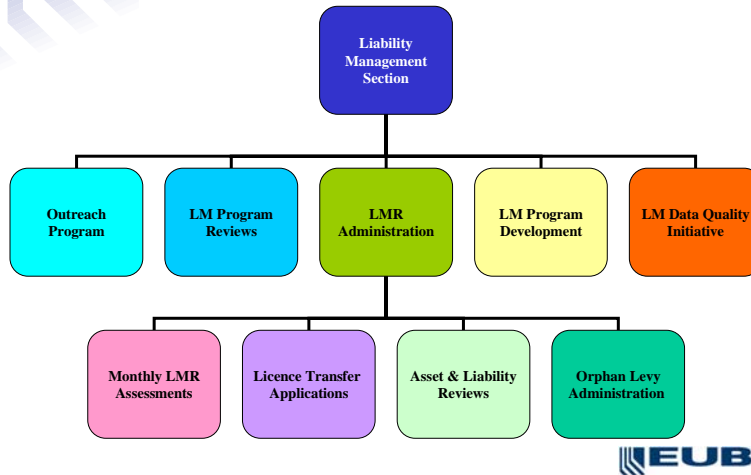
## Liability Management Section

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“The Liability Management Section develops, implements, and administers appropriate, effective and efficient liability management programs designed to minimize and, where possible, eliminate the risk of the abandonment and reclamation liabilities of industry sectors regulated by the EUB falling to the people of Alberta.”



## Liability Management Section



## Mandates, Principles, and Objectives

- ◆ Managing the development of a liability management program requires:
  - ◆ Mandate – Scope, purpose, intent (WHY) and the authority of the program
  - ◆ Principles – How the program is to be developed and evaluated against
  - ◆ Objectives – Program specific outcomes. What we want as outcomes from the program development.

## Orphan Protection Programs

- ◆ Risk Assessment Program
  - ◆ Orphan liabilities are backstopped by program participants
- ◆ Full Security Program
  - ◆ Orphan liabilities are backstopped by the licensee



## The Liability Continuum

### LIABILITY MANAGEMENT CONTINUUM



Risk Assessment Programs  
Directive 006 - Licensee  
Liability Rating (LLR) Program

Directive 024 - Large Facility  
Program

Full Security Program  
Waste Management Program

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## The Liability Continuum

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- ◆ Orphan Protection Programs
  - ◆ Protects the public from incurring orphan abandonment and reclamation liability
- ◆ Liability Reduction Programs
  - ◆ Mechanism to reduce liability where appropriate, and reduce the risk of future liability
  - ◆ Mechanism to provide longevity to orphan protection programs
- ◆ End-of-Sector Life Programs
  - ◆ Future programs that reduce the risk left from orphan prevention and liability reduction program continuum



## Liability Management Programs

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- ◆ Historical (Rescinded) Programs
  - ◆ Well Screening Ratio (WSR)
    - Assessed at time of a licence transfer application
    - Evaluation of Active over Inactive well licences
  - ◆ Monthly 0.5 Audit
    - Evaluation of Active over Inactive well licences
  - ◆ The Long Term Inactive Well Program (LTIWP)
    - Program designed to reduce number of well licences that had been inactive for greater than 10 years.





## Liability Management Programs

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- ◆ Current
  - ◆ Licensee Liability Rating (LLR) Program
  - ◆ Large Facility Program (LFP)
  - ◆ Waste Management Program
- ◆ In Development
  - ◆ Utilities Program
  - ◆ Mining Liability Management Program – Alberta Environment's LM program



## Liability Management Initiatives

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- ◆ Future Plans
  - ◆ Replacement of the Large Facility Program – September 30, 2008
  - ◆ Determine the need for a Transmission Pipeline program
  - ◆ Improve reporting of liability management issues to the public and energy industries
  - ◆ Enhancements to LLR program





## Reduction of Industry Liability

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- ◆ Questions to ask yourselves:
  - ◆ Do I know what is licensed to me?
  - ◆ What am I doing with my inactive licences?
  - ◆ Do I have any “Data Quality” issues that impact my liabilities?
  - ◆ Do I understand the concept of liability management?
  - ◆ Do I understand the programs that the EUB administers towards liability management?
  - ◆ Do I have a “Liability Management Plan” that addresses my liabilities?
  - ◆ Is there a person assigned in my company that is responsible for liability management?
  - ◆ What am I doing to ensure that my liabilities are handled by me?



EUB Operational Concern



## Inactive Licences: A Case Study

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- ◆ A well (licence) is considered inactive if it has not reported to the Alberta Petroleum Registry an operation (production or injection) in the last 12 calendar months



## Inactive Licences: A Case Study

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- ◆ EUB has been reviewing the inactive well licence population since Mid-1990s
- ◆ Inactive well licence population continues to grow
  - ◆ April 2005 – 44820 inactive wells
  - ◆ April 2006 – 47973 inactive wells
  - ◆ April 2007 (Forecast) – 51477 inactive wells





## **Inactive Licences: A Case Study**

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- ◆ **Based on April 2005 monthly LLR assessment:**
  - ◆ **598 licensee's with at least one inactive well**
  - ◆ **44,820 inactive well licences**
    - **10,000 of these licences have been inactive for ten or more consecutive years**



## **Inactive Licences: A Case Study**

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- ◆ **Based on April 2005 monthly LLR assessment:**
  - ◆ **Of 598 licensee's with at least one inactive well, 500 licensees are passing the LLR**
  - ◆ **These 500 licensees hold 99.4% of the inactive well licence population**
  - ◆ **Top 11 licensees hold 51% of the inactive well licence population**
  - ◆ **Top 3 licensees hold over 25% of the inactive well licence population**





## Inactive Licences: A Case Study

- ◆ **Based on April 2005 monthly LLR assessment:**
  - ◆ **Deemed abandonment liability is \$1.134 Billion**
  - ◆ **Deemed reclamation liability is \$904 million**
  - ◆ **Total deemed liability is \$2.038 Billion**



## Inactive Licences: A Case Study

- ◆ **April 2006, 47973 inactive well licences with a total deemed liability of \$2.182 billion:**
  - ◆ **Inactive wells increased by 3153 (since April 2005)**
  - ◆ **Liabilities increased by \$143 million**
  - ◆ **7.03% increase in liabilities**

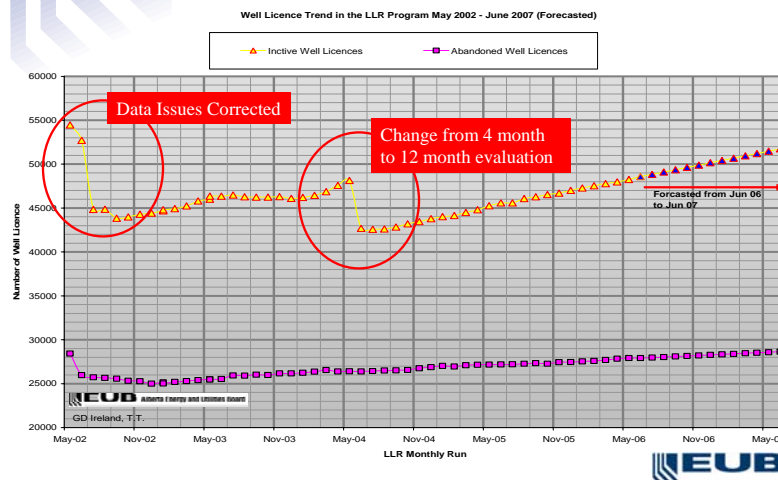


## Inactive Licences: A Case Study

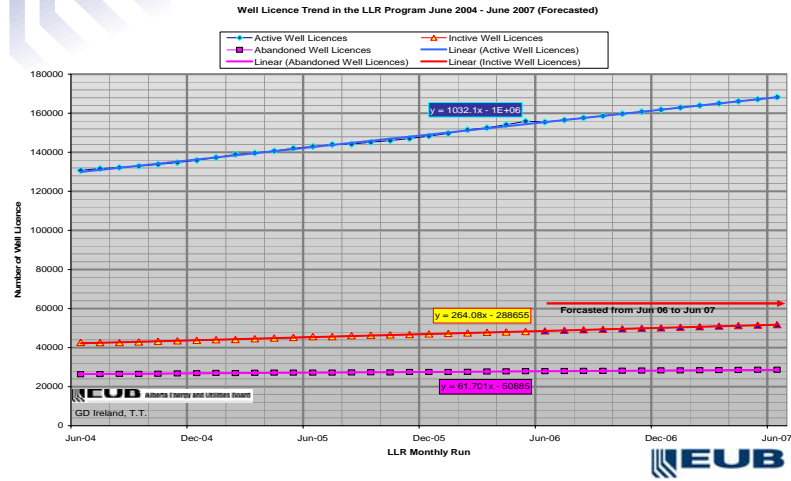
- ◆ April 2007 (forecast), 51477 inactive well licences with a total deemed liability of \$2.329 billion:
  - ◆ Inactive wells forecasted to increased by 6393 (since April 2005)
  - ◆ Liabilities forecasted to increased by \$305 million
  - ◆ 14.26% increase in liabilities



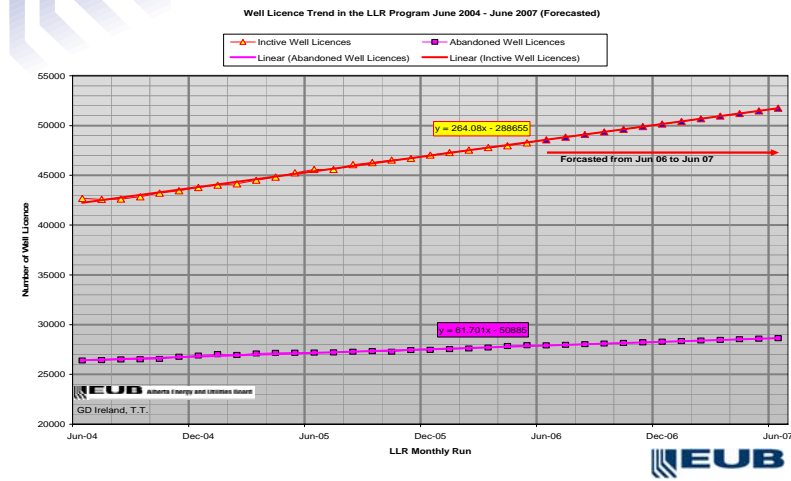
## Inactive Well Licence Trend



# Inactive Well Licence Trend

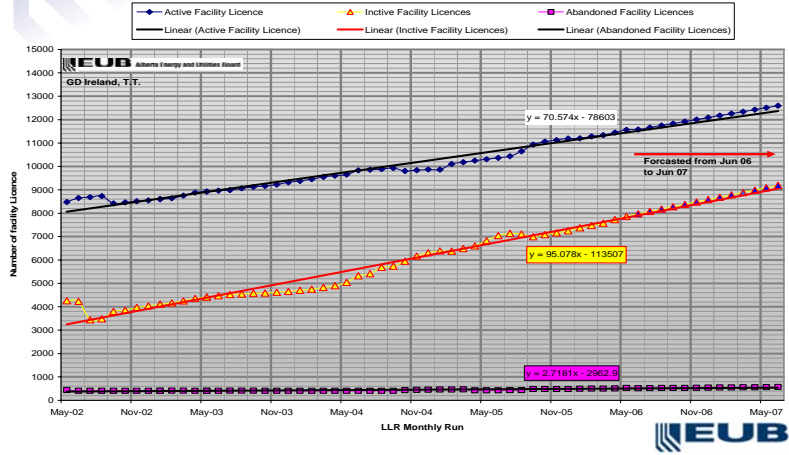


# Inactive Well Licence Trend



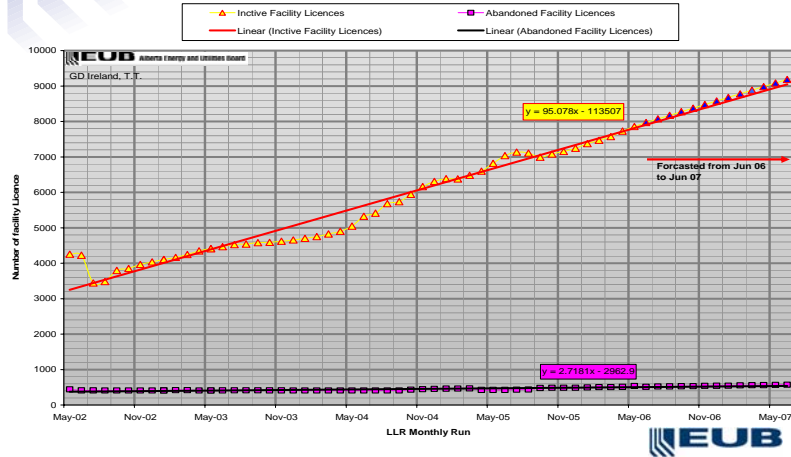
# Inactive Facility Licence Trend

Facility Licence Trend in the LLR Program May 2002 - June 2007 (Forecasted)



# Inactive Facility Licence Trend

Facility Licence Trend in the LLR Program May 2002 - June 2007 (Forecasted)





## Inactive Licences: A Case Study

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- ◆ Summary of the Regulator:
  - ◆ Inactive licences are increasing
  - ◆ 99.4% of the population is with 500/598 Licensees passing the LLR
  - ◆ Population to increase to 51477 by April 2007 (Forecasted)
  - ◆ Forecasted liability to reach \$2.323 billion by April 2007

So...



## Inactive Licences: A Case Study

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- ◆ As a regulator, we are asking ourselves the following:
  - ◆ Why do inactive well licences exist during record high commodity prices?
  - ◆ Is it appropriate to have inactive well licences? When? What are the circumstances that allow inactive well licences to occur?
  - ◆ Does the inactive well licence population pose a risk to the Orphan Fund and the public?
  - ◆ Will the inactive well licence population pose a problem at end-of-sector life?





## Outreach Program

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- ◆ The EUB offers through the Outreach Program, assistance to licensee's in understanding the various EUB liability management programs and the responsibilities and opportunities to industry



## Outreach Program – Case Study 1

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- ◆ Meeting held with a new (potential) licensee
- ◆ Discussed:
  - ◆ Directive 067, Applying For Approval To Hold EUB licences
  - ◆ Directive 006 - Licence transfer application(s) - LLR calculation
  - ◆ Security deposit requirements
  - ◆ Roles and responsibilities of the Liability Management Section
  - ◆ Benefits of having a proactive liability management plan
  - ◆ Considerations in creating a plan (present/future)





## Outreach Program – Case Study 2

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- ◆ Meeting held with an existing licensee with a LLR below threshold (more liabilities than assets)
  - ◆ Reviewed inventory of licences and liabilities assessed
  - ◆ Enquired as to primary business activity
  - ◆ Discussed possible missing reporting codes linked to facility licence and other data quality issues
  - ◆ Recommended updating EUB records to reflect accurate licence status ie. Abandoned
- ◆ Licensee followed up by updating records, resulting in their LLR above the threshold

**“The Outreach Program directly impacted in the improvement of the licensee’s LLR”**



## Outreach Program

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- ◆ If any interest in this service, please contact Mr. Tashi Sheka at (403) 297-6500





## Questions

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- ◆ Questions from the floor

