

BACKGROUND

Report of the Auditor General—*Liability Management of (Non-Oil Sands) Oil and Gas Infrastructure*

Our report examines six key areas of AER's liability management system: Risk Management, Performance Measurement and Public Accountability, AER's Processes to Assess Information From the Orphan Well Association (OWA), Timely Closure of Inactive Sites, Financial Security and Licence Transfers, and Regulatory Compliance of Closure Activities.

Risk Management and the New Liability Management Framework (p.19)

Key findings:

- AER completed a risk analysis of liability management and potential actions within the new framework. (p.20)
- Future performance measurement and upcoming decisions will be critical to demonstrate whether objectives in the new framework are being achieved. (p.20)
- Additional gaps, like exclusion of pipeline liabilities, were not dealt with directly in the new framework. (p. 21)
- AER's enterprise risk management system is under development, but not yet fully functional. (p.22)

Recommendations:

- **Recommendation 1:**
We recommend that the Alberta Energy Regulator ensure that liability management risks and gaps are periodically identified, that risk responses are documented, and residual risk is determined (p.22)

Goals, Performance Measurement and Public Accountability (p.22)

Key findings:

- Roles and responsibilities for liability management are clearly defined. (p.22)
- Public reporting and external performance measurement on liability management are insufficient to assess whether results are being achieved and risks are being effectively managed. (p.22)
- AER has an industry-wide closure liability estimate but does not regularly update it or communicate it to Albertans (p.23)

Recommendations:

- **Recommendation 2:**
We recommend that the Alberta Energy Regulator improve its accountability processes by:
 - *developing relevant external performance measures, including targets, to ensure that Albertans can gauge whether AER's liability management programs are meeting objectives and whether progress is being made (p.24)*
 - *periodically updating and publicly communicating an industry-wide active and inactive liability estimate using best available data, with accompanying explanation of the risks associated with that liability (p.24)*
 - *reporting more complete, integrated and useful information on liability management to provide a more complete picture of risks and the actions taken to mitigate those risks (p.24)*

Processes to Assess Information From the Orphan Well Association (OWA) (p.24)

Key findings:

- AER is receiving information from the OWA; however, the purpose of and approach to information reviewed is unclear. (p.25)
- Before 2022, AER did not scrutinize the orphan levy proposed by the OWA and did not analyze the longer-term sustainability of the Orphan Fund. In 2022, AER began implementing a process to review the levy and sustainability. (p.26)
- The risks to the “polluter pays” principle have increased in recent years. (p.26)

Recommendations:

- **Recommendation 3:**
We recommend that the Alberta Energy Regulator:
 - *collect information that allows AER to assess whether the OWA is achieving intended objectives and to assess the long-term sustainability of the Orphan Fund. (p.27)*
 - *assess sustainability by completing modelling on how long it will take OWA to complete closure work on its current inventory of sites and anticipated funding levels. (p.27)*

Processes to Ensure Timely Closure of Inactive Sites (p.27)

Key findings:

- There are no timelines for closure activities like abandonment or reclamation, other than a timeline to suspend inactive sites. (p.27)
- While inactive well sites have grown, abandonment work has remained flat, and licensees have focused more on low-risk and lower-cost sites. (p.27)
- AER’s new Inventory Reduction Program establishes spending targets for closure; however, whether the program encourages more timely closure is something AER will have to evaluate over time. (p.28)

Recommendations:

- **Recommendation 4:**
We recommend that the Alberta Energy Regulator ensures compliance with the Inventory Reduction Program by monitoring, measuring, taking corrective action and reporting on industry and licensee closure progress under the Inventory Reduction Program. (p.28)

Processes to Ensure Sufficient Financial Security and Minimize Risk of Inappropriate Licence Transfers (p.29)

Key findings:

Security

- The Licensee Liability Rating Program, which has historically failed to properly identify financial risks and to ensure sufficient security is collected, remains in place while AER determines a future approach to security. (p.30)
- Under the new framework, AER is collecting more operator information to better evaluate risk; however, future changes to the security system have not yet been decided. (p.30)

Licence transfers

- AER made improvements to its licence transfer review process after post-transfer bankruptcies increased. (p.31)
- AER's licence transfer process lacks sufficient monitoring of licensee conditions. (p.32)
- Risks remain where licences can be exchanged outside of AER's licence transfer application process via certain corporate transactions. (p.32)

Recommendations:

- **Recommendation 5:**
We recommend that the Alberta Energy Regulator determine how much security needs to be collected, when it will be collected, and how collection will get enforced with the transition away from the Licensee Liability Rating Program (p.32)
- **Recommendation 6:**
We recommend that the Alberta Energy Regulator continue to improve its licence transfer processes by:
 - *updating AER's delegation of authority to clearly articulate who can approve discretion requests, and under what circumstances (p.33)*
 - *developing a system to track, monitor and report on the effectiveness of discretion requests, including transfer conditions and licensee commitments (p.33)*

Processes to Ensure Oil and Gas Site Closure Regulatory Compliance (Suspension, Abandonment, Remediation, Reclamation) (p.33)

Key findings:

Suspension

- AER has not completed well-suspension compliance assurance activities for the past three years. (p.34)
- In 2015, AER implemented a five-year program that resulted in 27,000 wells being brought into compliance; however, about 17,000 wells remain non-compliant. (p.35)

Abandonment (Decommissioning)

- AER completes proactive inspections on abandoned wells; however, there is no assurance process to ensure routine abandonments are complying with directives. (p.35)
- Inspections of inactive facilities are occurring. With less than three per cent of inactive facilities currently reclaimed, the number of inspections is considerable. (p.35)
- Requirements exist for measuring fugitive greenhouse gas emissions from active wells; however, no similar requirements exist for inactive wells. (p.35)

Reclamation

- AER has increasingly automated its approval process for reclamation certificates, but improvements are needed to ensure approvals are consistently valid. (p.36)
- Manual reviews for reclamation certification are occurring; however, improvements are needed to ensure judgments and reviews are properly evidenced. (p.36)
- AER lacks processes to ensure third-party professional declarations meet requirements. (p.37)

- AER audits reclamation post-certification; however, the process has been inconsistent and there is a 16 per cent rate of non-compliance. (p.37)

Remediation

- AER did not consistently complete reviews of remedial action plans. (p.38)

Recommendations:

- **Recommendation 7:**
We recommend that the Alberta Energy Regulator evaluate compliance assurance activities for suspended wells and routine abandonments and determine whether it is meeting AER's risk tolerance. (p.38)
- **Recommendation 8:**
We recommend that the Alberta Energy Regulator:
 - *improve the controls resulting in invalid approvals for reclamation certificate approvals (p.38)*
 - *retain documented evidence to support justifications and reviews as part of its manual reclamation certification process (p.38)*
 - *determine the necessary level of assurance work on post-reclamation certification and consistently complete it (p.38)*
- **Recommendation 9:**
We recommend that the Alberta Energy Regulator ensure there is evidence of review of remedial action plans and demonstrate that timelines for remediation are being consistently monitored and followed up. (p.38)