

Bulletin 2013-09

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Licensee Liability Rating (LLR) Program Changes and Implementation Plan

Effective May 1, 2013, the ERCB is implementing changes to the LLR program. These changes are being implemented following extensive consultation and with full support of the Canadian Association of Petroleum Producers (CAPP) and the Explorers and Producers Association of Canada (EPAC). These changes have resulted in amendments to applicable ERCB requirements in *Directive 006: Licensee Liability Rating (LLR) Program and Licence Transfer* and *Directive 011: Licensee Liability Rating (LLR) Program: Updated Industry Parameters and Liability Costs*, collectively referred to in this bulletin as “LLR program changes.” The LLR program changes update parameters and liability costs and modify the parameter variation request process as described below. Along with the LLR changes, both directives had minor administrative clarifications. In addition, a reporting requirement for gas plant amendments was added to *Directive 006* to verify that gas plant liabilities reflect site conditions when the licence is amended to an alternative operational status.

The ERCB has made the LLR program changes to address concerns (shared by CAPP and EPAC) that the previous LLR program significantly underestimated abandonment and reclamation liabilities of ERCB licensees.

The LLR program changes are summarized below:

- *Directive 006: Licensee Liability Rating (LLR) Program and Licence Transfer Changes*
 - Present value and salvage (PVS) factor changed from 0.75 for active wells and 0.50 for active facilities to 1.0 for all active wells and facilities.
 - Parameter variation request must be based upon licensee-specific data for *all* parameters, not just one or more parameters.
- *Directive 011: Licensee Liability Rating (LLR) Program: Updated Industry Parameters and Liability Costs*
 - Used consultant estimates to update well abandonment costs.
 - Decreased the industry average netback from a 5-year to a 3-year average.
 - Increased facility abandonment cost parameter for each well equivalent from \$10 000 to \$17 000.
 - Increased well and facility reclamation costs by 25%.

The LLR program changes will become effective May 1, 2013. The changes will take effect in accordance with a three year implementation plan as detailed below. The implementation plan updates are effective in May of each year. The parameter changes and costs updates will be done in accordance with the implementation plan, after which time parameters and costs will be updated in accordance with *Directive 011*.

Year	Changes in effect
One (May 2013)	Deemed well abandonment liabilities updated by one-third the 2012 values. Deemed assets updated by one-third of the 2012 industry average netback. PVS factor changed to 1.0 for all active wells and facilities.
Two (May 2014)	Deemed well abandonment liabilities updated by one-third of the 2012 values. Deemed assets updated by one-third of the 2012 industry average netback. Increase facility abandonment cost parameter for each well equivalent from \$10,000 to \$17,000. Reclamation costs increased by 25% for wells and facilities. Orphan levy calculated on 2013 LLR program changes.
Three (May 2015)	Deemed well abandonment liabilities updated to either full 2012 values or to 2015 consultant authorization for expenditure estimates, whichever is lower. Deemed assets increased to either the full 2012 industry average netback values or to the 2015 update values, whichever is lower. (Note: Both the deemed assets and well abandonment liabilities are updated to either the full 2012 values or the updated 2015 values.) Orphan levy calculated on 2014 LLR program changes.

The phased-in implementation plan is intended to give licensees time to make the adjustments necessary to comply with the revised LLR program. The actual amount of financial security owing will depend on the licensee's assets and liabilities when the LLR program changes are implemented and updated. The final year of the phase-in plan contains provisions designed to select the lower values of both assets and liabilities. This is intended to adjust the updates to the most appropriate values at the time, avoiding the potential risk that the ERCB may require security in year three only to refund it in the following year. During the three-year implementation period, no additional changes to parameters, parameter variation conditions, or costs will be made.

During the implementation period the orphan levy will be calculated upon the previous year's liability costs and parameters. The 2016 orphan levy will be based upon year-three (2015) implementation plan changes. After 2016, the orphan levy will be based on *Directive 011* costs and parameters.

Directive 006 has a new notification requirement in the licence status change notification process section. When a gas plant licence is amended (e.g., to a compressor station), the Liability Management Group must be notified within 30 days. The liability cost of a gas plant is based upon the current submitted site-specific liability assessment (SSLA). A gas plant's liability cost does not change when the licence is amended; the liability only changes when a new SSLA is accepted by the ERCB. The notification is required to ensure that the gas plant's site-specific liability is not significantly underestimated.

The ERCB will monitor the implementation of the LLR program changes and advise licensees on options to maintain continued compliance.

For additional information contact Liability Management at LiabilityManagement@ercb.ca or call the Liability Management Group's help line 403-297-3113.

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