

Mine Financial Security Program Review

Engagement



Program Overview

The Mine Financial Security Program (MFSP) is one of many liability management programs that ensure that Alberta's energy resources are developed responsibly. The program helps manage coal and oil sands mine liabilities by collecting financial security from mine owners, to protect the public from financial liabilities associated with project closure.

At the end of a mining project's life, the company that owns the coal or oil sands mine must remove all infrastructure and return the land to equivalent land capability. The MFSP is a series of financial deposits that secures funding to ensure environmental reclamation is achieved and that the financial burden to abandon and reclaim these sites remains with the energy companies that own them.

Coal and oil sands mining companies that use their assets as collateral for reclamation security must pay a base security amount and more security as they get near the end of life of their operations. Mine operators must pay additional security if their asset to liability ratio falls below 3:1 or if they fail to meet their approved reclamation plan targets.

Under the MFSP, mining companies must provide sufficient funds to abandon, remediate, and reclaim their sites. Companies are required to remediate and reclaim their sites and maintain the land until they receive a reclamation certificate.

Program Review

The Government of Alberta is reviewing the MFSP to ensure appropriate funds are being collected to cover reclamation liabilities as part of continuous program improvement. This review will not include coal or oil sands mine environmental requirements or outcomes.

The Government of Alberta intends to engage mine operators and Indigenous communities and organizations in the program review to gain their input regarding program change options.

The public and other stakeholders can submit comments, information, or analysis related to the program review at the following email address:

AEP.MineFinancialSecurityProgram@gov.ab.ca

The Government of Alberta is engaging coal and oil sands mine operators and Indigenous communities and organizations in the review because:

- Industry is required to participate in the MFSP. Coal and oil sands mine operators will be directly impacted by any program changes. Industry also has operational data needed for analysis to support the review.
- The Government of Alberta wants to learn more about issues and interests raised by Indigenous communities and organizations within the scope of the program review as described below.



The review scope is focused on ensuring appropriate financial security is collected to cover reclamation liabilities with respect to the following:

- Calculating the value of MFSP assets so that calculated values align with actual asset values. This will include finalizing government's work on the Office of the Auditor General (OAG) recommendations (see Background);
- Timing of security payments during mine life;
- Sufficiency of program reporting; and
- Possibly other topics specifically related to calculating reclamation security raised by engagement participants.

Alberta Environment and Parks is leading engagement for the Alberta Government as follows:

- **Winter 2022:** launch engagement and outline the scope and process with industry and Indigenous communities and organizations;
- **Spring to Fall 2022:** host working sessions to discuss potential program change options.

Alberta Environment and Parks has created a webpage for the program review, and will use it to provide updates on the progress of the review. The webpage can be found at the following: <https://www.alberta.ca/mine-financial-security-program-engagement.aspx>

Background

Extremely low oil prices in 2020 reinforced a problem with the MFSP formula: during drastic swings in oil prices, the MFSP formula calculates asset values, and thus security requirements, that are inconsistent with actual asset values.

As a result, the Government of Alberta made an interim change to the calculation to align calculated and actual asset values. At the same time, government committed to reviewing the program to ensure security amounts align with the intent of the program.

In 2015, the OAG made recommendations to improve the MFSP. The OAG raised the following concerns about overstating asset values in the MFSP calculations:

- Reserves estimate treats proven and probable reserves as equally valuable;
- The resource asset valuation calculation applies a forward price factor to the average netback for the last three years, which assumes that oil prices and operating costs move proportionally;
- The resource asset valuation calculation does not reflect risks associated with the future economic value of the reserves;
- Some oil sands mine operators include in-situ (non-mining) production areas in their asset calculations; and
- Oil sands mine operators are able to amend the areas covered by their mine approvals or combine multiple mines into one approval, potentially extending reserve life and size.