Mine Financial Security Program Review

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 liabilities by collecting financial security from mine owners and protects the public from paying for project closure costs.

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.

Oil sand 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 and 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. Coal mining companies have paid the full financial security at the start of a project.

Program Review

Alberta's government is reviewing the MFSP to ensure appropriate funds are being collected to cover reclamation liabilities and ensure continuous program improvement.

This review will not affect environmental outcomes in the region or anywhere else in the province.

The MFSP program review will focus on the security calculation and will include feedback from the Auditor General and impact of extremely low oil prices in 2020.

The goal is to ensure sufficient funds are collected from oil sands mine operators to pay for future reclamation costs.

Auditor General Review

In 2015 the Office of the Auditor General (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
- Oil sands mine operators are able to amend the areas covered by their mine approvals or combine multiple mines into one potentially extending reserve life and size

Impact of 2020

Extremely low oil prices in 2020 reinforced problems with the MFSP formula. The program was never designed for a drastic swing in oil prices that the oil sector experienced in 2020. A year ago, the price of West Texas Intermediate reached a historical minimum of –US$37 per barrel and it is currently more than US$60 per barrel.

While the price of oil has already begun to recover, the extremely low oil prices in 2020 skewed the calculation of what oil sands companies would have been required to pay for reclamation security in 2021.

As a result, the Government of Alberta is making a change in the interim to the calculation while the review is underway, to ensure security amounts align with the intent of the program.

Engagement

Indigenous peoples and stakeholders will be engaged in the MFSP review. Details will be available in the coming weeks.

Classification: Public