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Now 40% Worse: The Mine Financial Security Program in 2023

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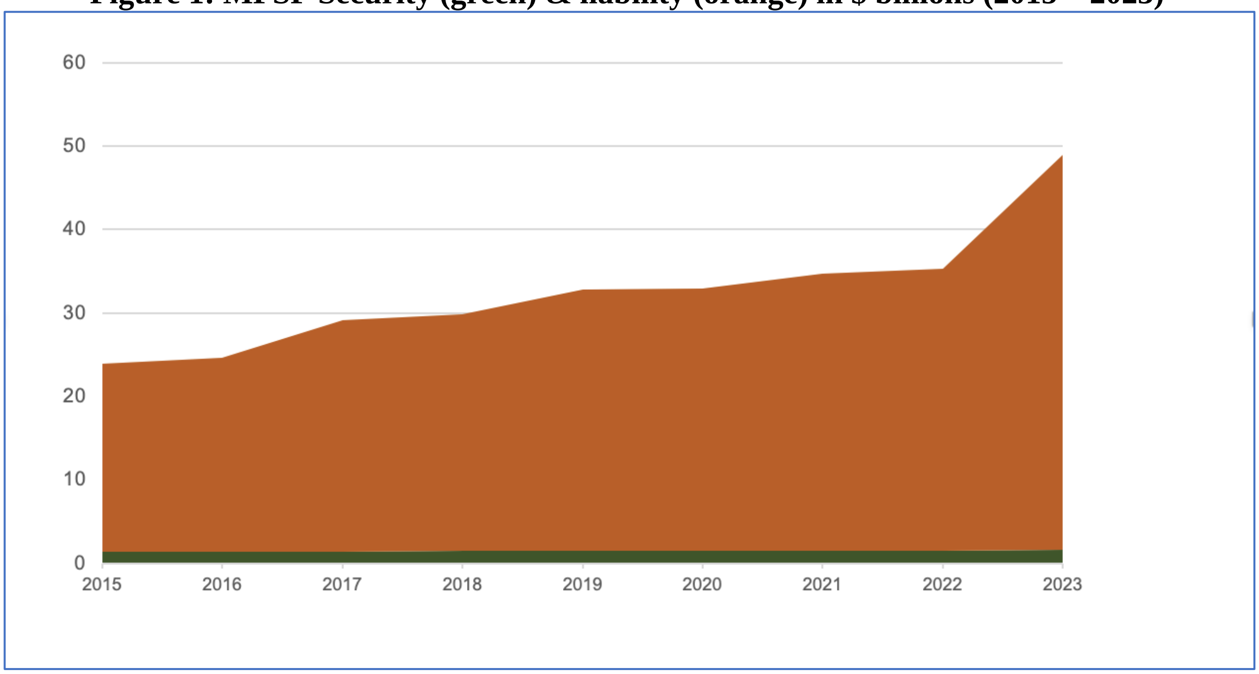
Documents Commented on: Mine Financial Security Program – Security and Liability (2023); Annual Mine Financial Security Program Submissions 2023 Submissions for 2022 Reporting Year

This brief post is in response to the Alberta Energy Regulator (AER) publishing the annual submissions required under the Mine Financial Security Program (MFSP). We provide an update on the state of Alberta's system for obtaining financial security for the closure of oilsands and coal mines. Drew last provided an update in 2021, and that post describes the problems with the MFSP. He skipped 2022 because there was not much to say: it was bad news, but the same bad news as 2021. The numbers this year contain some notable surprises.

The big news for 2023 is a massive jump in estimated mine closure liability. The MFSP estimate for mine closure liability was $33.69 billion on June 30, 2022, but rose to $47.31 billion by June 30, 2023. That is an increase of $13.62 billion, or roughly 40%. That is the largest one-year jump recorded since the MFSP began in 2014. (The second largest jump was less than $5 billion, back in 2016-2017) (see Figure 1). Alberta now has security for about 3.5% of the total estimated cost of mine closure.

Figure 1: MFSP Security (green) & liability (orange) in $ billions (2015 – 2023)



The jump is so large, the AER felt the need to provide some explanation (but not much):

> Increases in liability and security amounts from year to year are due to:
>
> - Changes to coal and oil sands mine approval holders mine reclamation plans and life of mine closure plans,
> - Inflation (Mine Financial Security Program – Security and Liability (2023))

That is not nearly enough explanation for a $13.62 billion change. Inflation is bad (currently at 4.0%), but not that bad. While reclamation plans can and do change, this seems drastic and raises questions (e.g., were they discovered to be inadequate?). Unfortunately, the AER does not require mine operators to disclose the calculations behind their liability estimates to the public, nor to obtain independent third-party verification of same, so we simply do not know what material changes to reclamation and closure planning have significantly driven up costs.

The Annual MFSP Submissions also tell us that from September 2022 to September 2023 the MFSP once again collected 0$ in security from oilsands mine operators. This is the eighth year in a row where the MFSP collected 0$ from oilsands mine operators. Fort Hills Oil Sands had an asset safety factor of 3.03 in the last report (this is an expression of deemed assets against liabilities; see Drew's earlier post for an explanation), and Drew predicted they might fall below the require 3.00 and be required to post security, but he was incorrect. The Fort Hills Oil Sands asset safety factor was back up to 5.45 for the 2022 reporting year, most likely a reflection of higher oil prices. Despite high oil prices, it is difficult to see how the increases in asset safety factor can be consistent with the increases in estimated liability.

The AER appears to have forgotten to update the figures for planned and completed reclamation, as the numbers are identical to those reported last year. While this is likely an administrative error, it suggests the AER does not take progressive reclamation obligations very seriously.

The MFSP did collect a total of $131.8 million for the closure liabilities of six coal mines.

The MFSP was modified in June 2022 to allow demand forfeiture bonds as security (essentially, an insurance product as opposed to a letter of credit from a bank). Unmentioned in the MFSP documents, but shown in the AER's Consolidated Financial Statements for 2023 (see note 21 on page 16), $247 million in MFSP security is now held as demand forfeiture bonds. Since this amount is more than the total collected since June 2022, this must mean that at least one corporation withdrew their previously posted security and replaced it with a demand forfeiture bond.

With *official* estimates of oil sands closure liabilities approaching $50 billion dollars (an internal but not official 2018 estimate of $130 billion remains essentially unrefuted), and less than $1 billion held in security, Albertans should be very concerned. Most of the planned remediation and reclamation is not slated to begin until after 2050, when many jurisdictions – including Alberta – have committed to achieving net-zero emissions. While a detailed analysis of what this may mean for oil demand and prices is beyond the scope of this post, this is clearly a large and growing risk that Albertans can no longer afford to ignore.

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