6. Appendices

Appendix A Types of Financial Assurance Mechanisms

Selecting an appropriate financial assurance mechanism is a complex and critical undertaking for governments, which requires careful assessment and consultation. The effectiveness of any mechanism will depend on how robust the governing provisions are, as well as the capacity of the regulator to perform requisite tasks for monitoring and compliance. The table below provides a brief overview of some of the options available.

Mechanism	Advantages	Disadvantages
'Soft options', such as self-funding (decommissioning costs met from cash flows from other projects) and parent company guarantee (the parent company guarantees it will fulfil the decommissioning obligation of the subsidiary company).	• No direct costs. • Feasible option for companies with large, diversified portfolios and strong balance sheets.	• High risk to government. Future events can result in no monies being available and the government may have to fully fund all the decommissioning costs. • May not be feasible for small independent companies.
Third party guarantees. For example, bank guarantee, letter of credit, surety bonds. A third party (e.g. bank, insurance company) provides a guarantee to the government to provide a certain amount of funds under certain circumstances. The amount of funds and timing depends on the specifics of the arrangement. For example, the value of the guarantee is based on an estimated amount for decommissioning costs, which could increase significantly thereafter.	• Does not require company to set aside a significant amount of its cash flow. There will be associated fees and charges, but relatively inexpensive to establish. • Backed by financial institutions. • Provides flexibility to cover different types of companies (large, small). • Depending on structure, not very high administrative burden for either company or government.	• Requires strong regulatory institution for ongoing oversight on effectiveness. For example, validity depends on payment of annual premium; or a surety bond issued for a specific time period, and may require renewing. • Depending on the structure, some funds may be required to be held in deposit, impacting the company's availability of cash flow.
Decommissioning trust funds (DTF). This is a trust fund established for the sole purpose of funding decommissioning activities. Cash payments are made into an escrow account on a predetermined basis (e.g., annually, based on revenue or production) over a specific period of time, before the decommissioning phase. Contributions to the DTF accumulate, so that at the end of asset's life sufficient funds are available for decommissioning activities. The management and performance of the DTF should be subject to periodic review.	• High degree of funding security, as cash held in escrow. • Government as a beneficiary of the DTF reduces risks from ownership changes during the life of the asset. • DTF contributions being structured as a series of payments over the asset's life enables the cost to be spread over the asset's productive life, when it is generating positive cash flows.	• Can be rendered ineffective if not well designed and monitored on an ongoing basis. For example, regarding the financial stability of the institution holding the cash in the escrow account. • May contain insufficient funds in the event of premature closure. For example, if there is a natural disaster. • DTF payments will impact the company's cash flow.