



2012 Report Volume 2
December 2012

*Ministry of the Economy's Management of Financial
and Associated Environmental Risks Related to the
Future Cleanup of Oil and Gas Wells*

SIPTAC

May 2, 2013

Regina, Saskatchewan

General Findings



- The audit concluded the programs that were the subject of the audit (Licensee Liability Rating , Orphan Abandonment Program and Acknowledgement of Reclamation) had clear objectives , defined policies, procedures, and Ministry of the Economy (ECON) carried the programs out in accordance with the programs’ governing legislation.
- The audit determined that ECON has made slow progress in cleaning up orphaned wells and facilities. This was attributed to lack of staffing resources allocated to the program. ECON assess its resourcing requirements for these programs to ensure all of its mandated responsibilities are being properly fulfilled.

General Findings



- The audit identified that provincial licensees have too many inactive wells and facilities that may be inactive for long periods of time. At the time of the audit there were 9,728 wells that had not produced oil or gas for over five or more years. There are many inactive wells in the province that have little likelihood of producing oil or gas in the future. For ECON to be successful at limiting financial and associated environmental risks to Saskatchewan residents, it needs to address risks posed by wells and facilities that need to be cleaned up now and in the future. When oil and gas production eventually declines and the industry is less profitable, licensees may no longer have the money to pay for the cleanup of wells and facilities. The financial burden could then fall on Saskatchewan residents.

General Findings



- The Auditor's report concluded that ECON did not have effective processes to manage the financial and associated environmental risk related to the future cleanup of oil and gas wells and related facilities.
- The audit recommends ECON manage the financial and associated environmental risks related to the timely clean-up of inactive wells and facilities.

Recommendations



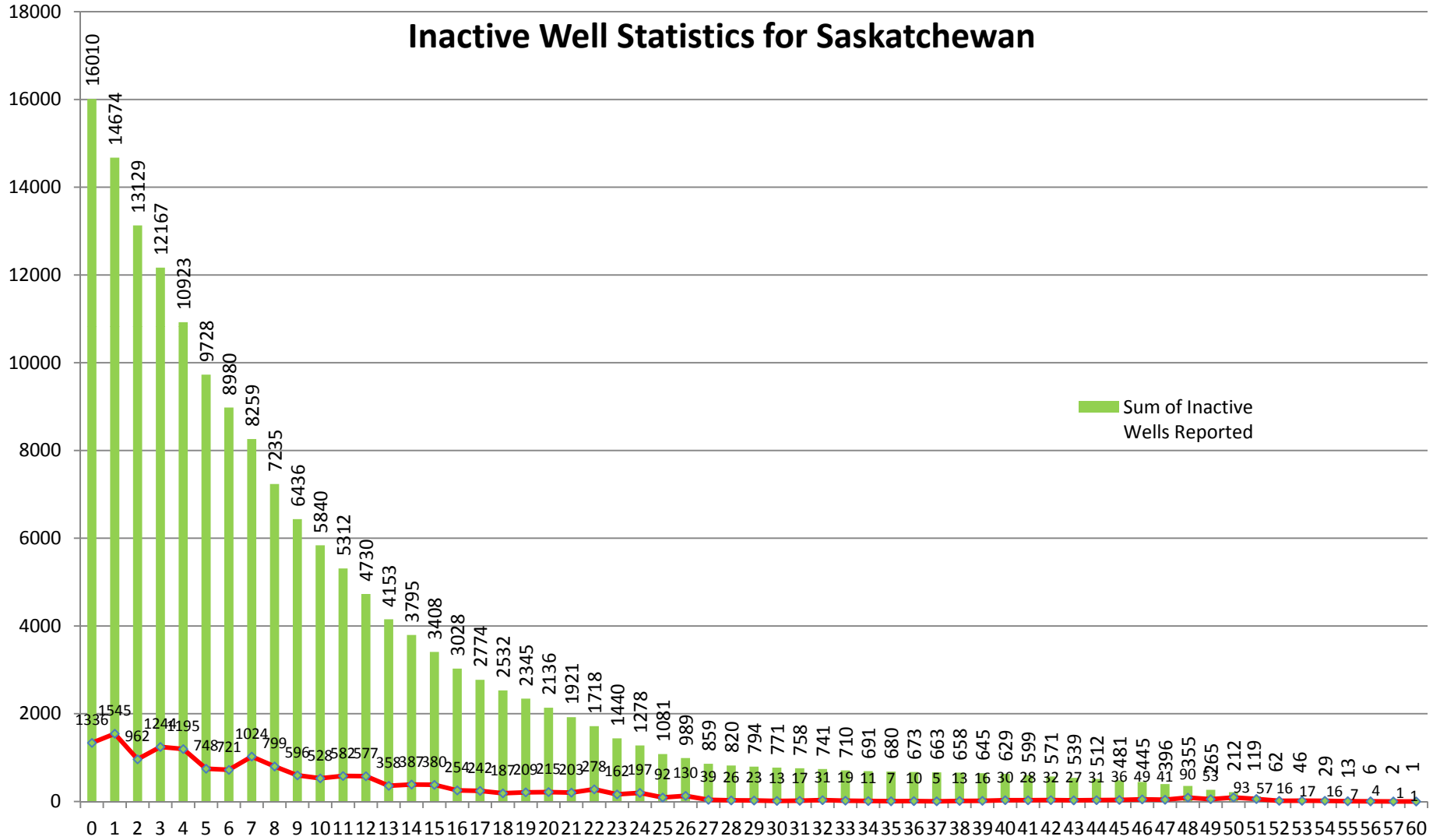
- **Recommendation 1:** We recommend the Ministry of the Economy actively mitigate the risks resulting from the Ministry being responsible for both the promotion of the development of the oil and gas industry and the protection of the environment, property, and the safety of the public.
- **Recommendation 2:** We recommend the Ministry of the Economy assess and allocate the resources and skills necessary to effectively carry out the Licensee Liability Rating Program, the Orphan Abandonment Program (including the timely cleanup of orphaned wells and facilities), and the Acknowledgement of Reclamation (AOR) Program.
- **Recommendation 3:** We recommend the Ministry of the Economy use current estimates and trend analysis to monitor, assess, and report on the risks and associated costs of the future cleanup of wells and facilities.
- **Recommendation 4:** We recommend the Ministry of the Economy assess the need for extending its independent audit practices to sample licensees' well sites whose reclamation reports contained no anomalies.
- **Recommendation 5:** We recommend the Ministry of the Economy report on its effectiveness to the Legislative Assembly and the public in managing the financial and associated environmental risks related to the future cleanup of oil and gas wells and related facilities.
- **Recommendation 6:** We recommend that the Ministry of the Economy estimate and record its liability for cleaning up orphaned wells and facilities in its financial records for inclusion in the Government's financial statements.

Recommendations

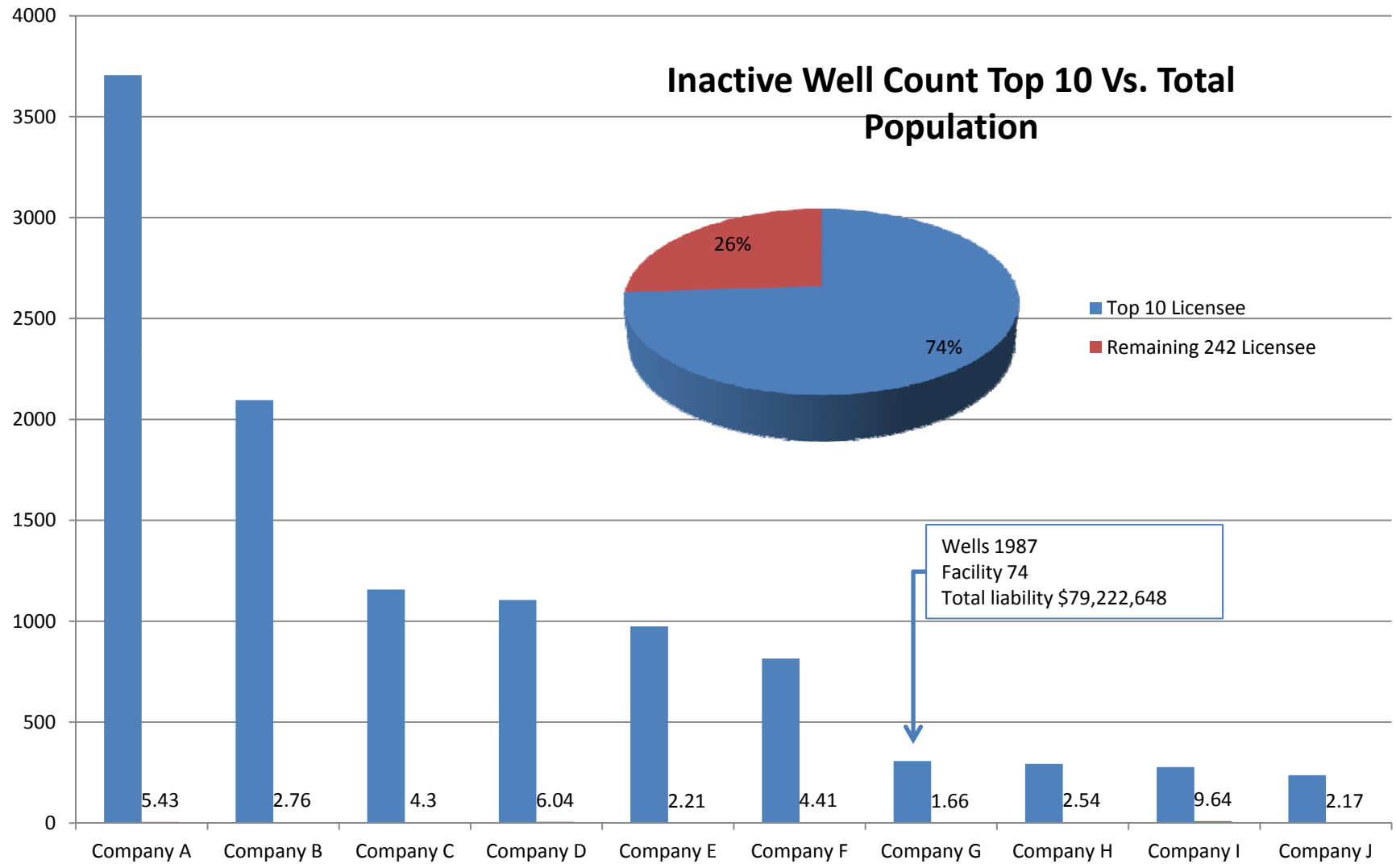


- **Recommendation 7: We recommend the Ministry of Economy manage the financial and associated environmental risks related to the timely clean-up of inactive wells and facilities.**

Inactive Well Statistics for Saskatchewan



Inactive Well Count Top 10 Vs. Total Population



Wells 1987
 Facility 74
 Total liability \$79,222,648

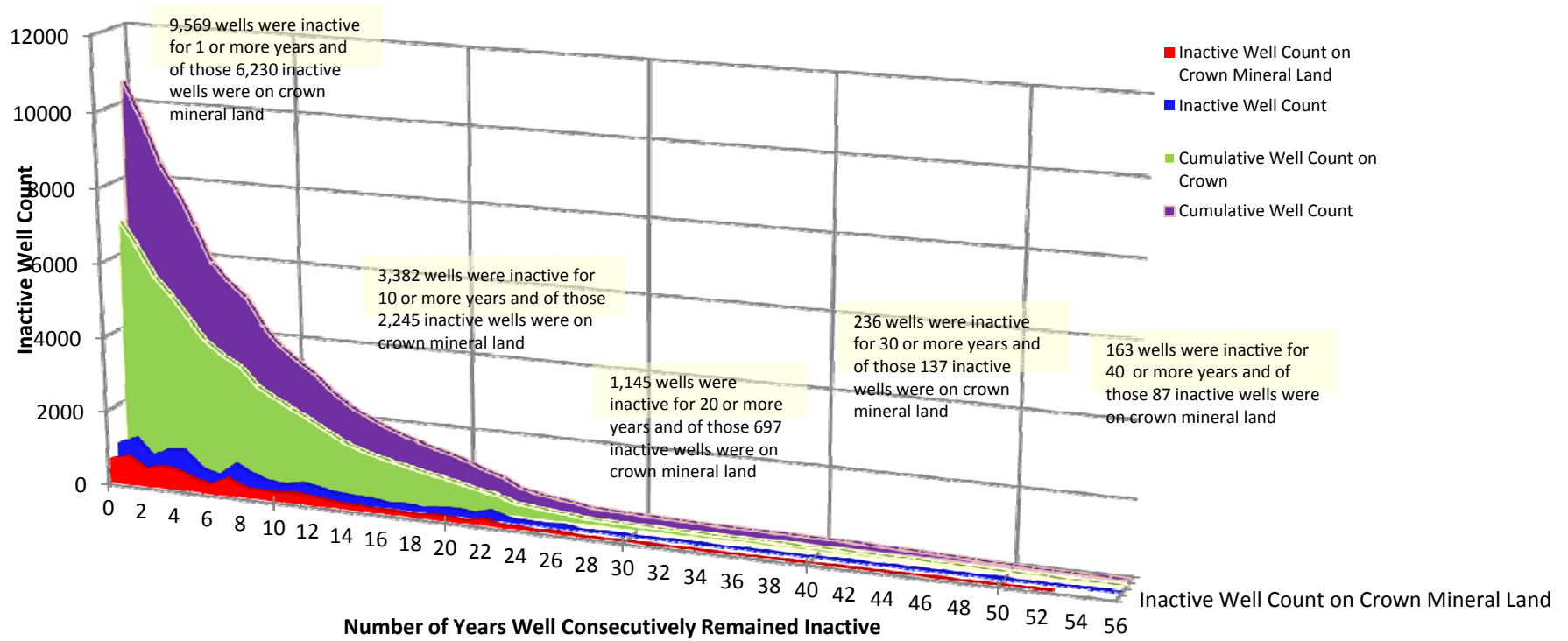
Company G



Years of Inactivity Category

Operator Name	0 to 9	10 to 19	20 to 29	30+	Total	Percentage	Abandon- Reclaim Cost	10+ year WC	10+year inactive well %	S-30 Costs	Rec+Abn 10+ Year Inactives
Company G	187	21	57	12	277	2.67%	\$12,645,000	90	32%	\$900,000	\$3,600,000

Number of Wells and Years of Inactivity (Year) Chronological Cumulative of Inactivity Well Count



Recommendations



- **Recommendation 8: We recommend the Ministry of the Economy complete its assessment of the financial and environmental risks arising from legacy well sites, assess its liability, and develop a plan for cleaning up contaminated legacy sites.**

Potential Legacy Wells Risk Factor

Abandoned Well Type	Count (28601)	Risk Factors
0: JUNKED AND ABANDONED	96	Lowest Risk
1: ABANDONED DRY	16884	Low Risk
2: ABANDONED NON-PRODUCER	2661	Low Risk
3: ABANDONED FORMER PRODUCER	8960	potential risk

JUNKED AND ABANDONED - Unable to finish drilling for various reasons (eg. rig skidded).

ABANDONED DRY (see NOTE 2) - Well abandoned <= 30 days FDD.

ABANDONED NON-PRODUCER (see NOTE 2) - Well abandoned > 30 days FDD. Well never active.

ABANDONED FORMER PRODUCER - Well completed and active, then abandoned. Well was not necessarily active in abandoned well type.

Release of drilling information and confidential status

If a well or structure test hole is not located within the boundaries of a pool on its finished drilling date, the minister shall hold in confidence all information obtained from the drilling of the well or structure test hole submitted to the minister as required by the Act and these regulations or an order made pursuant to the Act:

- (a) for a period of one year from the finished drilling date; or
- (b) for a period not exceeding 18 months from the finished drilling date if:
 - (i) circumstances that the minister considers exceptional exist; and
 - (ii) the minister approves the longer period of confidentiality for that information.

(3) If a well or structure test hole is located within the boundaries of a pool on its finished drilling date, the minister shall hold in confidence all information obtained from the drilling of the well or structure test hole submitted to the minister as required by the Act and these regulations or an order made pursuant to the Act for a period of:

- (a) 30 days after the finished drilling date;
- (b) one year, if the well is to be drilled more than 150 metres below the datum of the lower-most producing horizon in the pool and the licensee applies pursuant to section 6; or
- (c) one year if, within 30 days after the finished drilling date, the licensee establishes to the satisfaction of the minister that the well is completed exclusively in a reservoir deeper than the designated horizon in an existing pool.

(4) Unless otherwise specified by the minister in an order made by the minister pursuant to clause 17(1)(a) of the Act, the confidential status and the period for which that status is maintained are not to be changed if the boundaries of a pool are altered to exclude or include wells or structure test holes that were previously located within or not located within the boundaries of that pool.

(5) No person shall release for public inspection, without the written consent of the licensee of the well, any information obtained from drilling a well and submitted to the minister as required by the Act and these regulations or orders made pursuant to the Act before the time that information ceases to have confidential status.