

UNDERSTANDING LIABILITY FOR OIL AND NATURAL GAS ASSETS IN ALBERTA



THE LIFE CYCLE OF A WELL

Every company that explores for and develops Canada's oil and natural gas resources is financially responsible for safely managing each well it drills, as well as any associated facilities. This includes all stages of a well's life cycle: exploration, development and operation, as well as end-of-life activities including abandonment and reclamation.

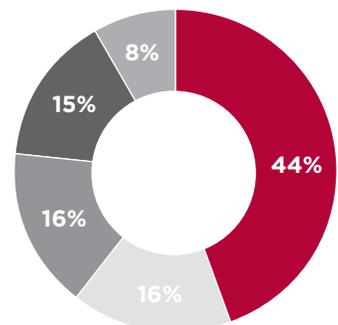
When an oil or natural gas well is no longer productive, the operating company is required by regulations to remove equipment and reclaim the site. Regulatory requirements are documented under various government acts such as the Oil and Gas Conservation Act (OGCA) in Alberta, and a host of technical regulations from the Alberta Energy Regulator (AER).

DEFINITIONS AND WELL CLASSIFICATIONS

- **Reclamation** – the process of replacing soil and re-establishing vegetation on a wellsite so it can support activities similar to those it could have supported before it was disturbed.
- **Abandoned** – a site that is permanently dismantled (plugged, cut and capped) and left in a safe and secure condition.
- **Active** – a well that is currently producing oil or natural gas.
- **Inactive** – a well or associated facility where activities have stopped due to technical or economic reasons. Not all sites in this category are orphaned. Many may be reopened and produce again at a later date.
- **Suspended** – a well that is not currently producing, has been safely secured, but may produce in the future.
- **Orphan** – a well or facility confirmed not to have anyone responsible or able to deal with its closure and reclamation.
- **Reclamation Certified (Rec Cert)** – well sites that are remediated and reclaimed to the regulatory standard of the day.
- **Remediation** – the process of cleaning up a contaminated well site to meet specific soil and groundwater standards.

Our industry safely manages all stages of a well's life cycle – exploration, development, operation, abandonment and reclamation.

WELLS IN ALBERTA BY WELL STATUS



- **Active 44%**
- **Reclamation Certified 16%**
- **Inactive 16%**
- **Abandoned 15%**
- **Reclamation Exempt 8%**

Source: AER, 2017

COVERING THE COSTS FOR ORPHAN WELLS

Abandoned, inactive and suspended wells have an identifiable owner, the licensee, and are financially managed by the licensee through to end-of-life activities. To protect against licensees whose businesses failed and are unable to cover the costs for abandonment and reclamation, the AER collects an annual levy (the Orphan Well Levy) from all active oil and natural gas producers and remits these funds to the Orphan Well Association (OWA).

THE ORPHAN WELL ASSOCIATION

In Alberta, when a well has been classified as an orphan, the OWA on behalf of industry, conducts testing to determine the work needed to abandon the well safely, and then oversees performance of this task. For the fiscal year 2016-2017, the OWA has an annual budget of \$30 million which is 100 per cent industry funded, to ensure orphan wells are abandoned safely and sites are reclaimed according to regulations. The levy does not cover unpaid taxes, debts or payments to landowners. Landowners have the opportunity, under the Alberta Surface Rights Act, to apply to the Alberta Surface Rights Board (ASRB) to recover unpaid surface lease payments for orphan wells.

Source: OWA, ASRB, 2017

As of March 2017, there were about 594,000 well licenses in Alberta, and a total of 2,074 orphan wells (1,391 to be abandoned, 683 to be reclaimed). In the last five years, almost 500 orphan wells have obtained closure. The OWA has accelerated its abandonment and reclamation work on the remaining orphan wells and expects to complete the work in less than 20 years.

Source: CAPP, AER, OWA, 2017

More information on well management can be found at:

OWA: www.orphanwell.ca

CAPP: www.capp.ca/responsible-development/land



A reclaimed well site in Alberta.

Photo Courtesy of: Orphan Well Association.

INDUSTRY CHARACTER

Managing orphan wells is a top priority for industry to return the land to an acceptable state and ensure there is no safety or environmental risk to the public.

Orphan Well Levy

Total Contribution:

**\$30
MILLION
ANNUALLY**

100%

Industry Funded