

## Chapter 19

### Economy—Managing Oil and Gas Wells

#### 1.0 MAIN POINTS

The responsibilities of the Ministry of the Economy (Ministry) include regulating the oil and gas industry. Its regulatory responsibilities focus on public safety, environmental protection, and resource management matters. The Ministry estimates that the overall costs of cleaning up existing oil and gas wells and facilities could exceed \$3 billion.<sup>1</sup> If the industry fails to clean up its wells and facilities, the costs of cleanup could potentially fall to Saskatchewan residents.

This chapter reports on the status of seven outstanding recommendations we made in our 2012 audit on the Ministry's processes to manage the financial and associated environmental risks related to the future cleanup of oil and gas wells and related facilities.

By February 28, 2015, the Ministry had implemented one recommendation and had made progress on six recommendations. More work is required to meet the remaining recommendations.

The Ministry has made some progress in addressing its responsibility for cleanup of inactive wells and facilities but it needs to document its assessment of the resources it requires to monitor, assess and report on the financial risks, and also needs to document its plans.

#### 2.0 INTRODUCTION

This chapter reports the results of our follow-up of seven recommendations we made in our *2012 Report – Volume 2*, Chapter 31, to improve the Ministry's processes to manage the financial and associated environmental risks related to the future cleanup of oil and gas wells and related facilities.

To conduct this review engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate the Ministry's progress towards meeting our recommendations, we used the relevant criteria from the original audit. Management agreed with the criteria in the original audit.

We obtained an update on progress from the Ministry and reviewed all relevant documentation (e.g., applicable legislation, annual reports, ministry records) provided to us by the Ministry.

<sup>1</sup> Information taken from the Ministry of Economy's records.



## 3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at February 28, 2015, and the Ministry's actions up to that date.

### 3.1 Program to Increase Regulatory Oversight Implemented

We recommended 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 for the protection of the environment, property, and the safety of the public. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Implemented**

The Ministry is alert to its dual role of being responsible for both promoting the development of the oil and gas industry and protecting the environment, property, and safety of the public.

As of April 1, 2014, legislation<sup>2</sup> was amended to allow the Ministry to collect a well levy from the licensees for each well that they own. The new levy requires industry to pay 90% of regulatory oversight costs. This amendment mitigates the risks associated with this dual role.

By law, money collected through the well levy is targeted specifically to delivering a regulatory framework focused on public safety, environmental protection, and resource management functions of the Ministry. The levy is designed to ensure that regulatory programs are appropriately funded and sustainable (i.e., will take place on a regular basis over time). These regulatory programs include enhanced well and facility operations monitoring and enforcement, increased oversight of contaminated sites, enhanced reservoir reporting and monitoring, and enhanced spill contingency and response. As noted in **Section 3.2**, since our 2012 audit, the Ministry has increased the number of wells it has abandoned.<sup>3</sup>

The Ministry has organized the Petroleum and Natural Gas Division into five branches. Two branches are dedicated to regulatory activities such as resource conservation, environmental protection and maintaining public safety. Two branches are dedicated to advancing and developing oil and gas development. The fifth branch provides program support for the other areas of the Division. The Ministry has assigned the responsibility for the regulatory programs to one of these five branches – the Petroleum Development

<sup>2</sup> Changes were made to *The Oil and Gas Conservation Act* and *The Oil and Gas Conservation Regulations*, 2012.

<sup>3</sup> In this chapter, well clean up means well abandonment and well site reclamation. Well abandonment involves permanently squeezing cement into any perforated intervals in the well hole and filling the hole with cement to prevent any subsurface formation containing gas or fluids from leaking below ground or escaping above ground. Well site reclamation involves removing all facilities (equipment and structures), remediating (cleaning up) contaminated soils and/or groundwater, and returning the site to its original or equivalent condition.

Branch. This Branch focuses primarily on regulatory activities and does not undertake any promotion activities.

### 3.2 Financial and Environmental Risk Mitigation Needs Improvement

We recommended 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 Program. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Partially Implemented**

By February 2015, the Ministry had not formally assessed the resources and skills necessary to carry out the Licensee Liability Rating (LLR), Orphan Abandonment (OA) and Acknowledgement of Reclamation (AOR) programs.<sup>4</sup>

Since our 2012 audit, the Ministry has allocated additional resources and made some progress in carrying out these programs:

- ▶ The AOR program: In 2014-15, it had one full-time position in this program (2012 – no full-time positions). The Ministry has used these additional resources to increase the number of applications<sup>5</sup> it has reviewed, and the number of wells and facilities it has moved into the AOR program.
- ▶ The OA program: In 2013-14, it abandoned 60 wells<sup>6</sup> as compared to seven wells<sup>7</sup> in 2012-13. The Ministry expects to abandon approximately 60 more wells in 2014-15.
- ▶ The LLR program: The Ministry has reduced the estimated amount that the oil and gas industry owes for the clean-up of wells, from almost \$40 million at the inception of the program to just over \$10 million at March 31, 2014.<sup>8</sup>

While the Ministry has made progress in the three programs, completing formal assessments would allow the Ministry to identify the resources and skills needed in each area in order to effectively carry out each program.

We recommended 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. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Partially Implemented**

<sup>4</sup> For a brief description of these programs, see our *2012 Report – Volume 2*, Chapter 31, p. 248-250.

<sup>5</sup> These applications are submitted by the well licensee. They are a request for the Ministry to issue a certificate to the licensee to confirm that they have met the Ministry's well site remediation standards.

<sup>6</sup> *Saskatchewan Oil and Gas Orphan Fund Annual Report for 2013-14*, p. 5.

<sup>7</sup> An orphan well or facility is a location in which an owner no longer exists or cannot be located.

<sup>8</sup> *Saskatchewan Oil and Gas Orphan Fund Annual Report for 2013-14*, p. 5.



Since our 2012 audit, the Ministry has started to collect data that will allow it to address this recommendation. For example, the Ministry has collected cost information that will assist it in developing updated cost estimates for future orphan well reclamation. The Ministry plans to complete and report on its assessment, including risks and cost estimates, by March 31, 2016.

We recommended 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 and/or discrepancies. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Partially Implemented**

In 2013-14, in addition to sampling well sites whose reclamation reports contain anomalies and/or discrepancies, the Ministry started to audit a sample of licensees<sup>9</sup> well sites where there are no reported anomalies or discrepancies. The number of sites it audited increased from 7 sites in 2011-12 to 22 sites in 2014-15. Of these 22 audits, 16 were from well sites where there were no anomalies or discrepancies in the reclamation reports. While the Ministry indicated that it plans to carry out these types of audits each year, at February 2015, it had not documented its assessment or plans for future audits.

### 3.3 Monitoring and Reporting Results Needs Improvement

We recommended 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. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Partially Implemented**

The Ministry's *2013-14 Annual Report* included comparative information about risk trends (e.g., the number of licensees whose productive value of wells and facilities are declining and reaching the point where security deposits will be required).

While trend information provides insight into management's effectiveness, providing comparisons of actual to planned is more valuable. By February 2015, the Ministry had not set the number of orphaned wells and facilities it planned to clean up each year to enable a comparison of actual to planned. Also, the Ministry did not make public the key risks it faces in cleaning up wells and facilities and did not report on its progress in addressing these risks.

<sup>9</sup> A licensee is the owner of a well and related facilities.

We recommended the Ministry of the Economy manage the financial and associated environmental risks related to the timely cleanup of inactive wells and facilities. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Partially Implemented**

At February 28, 2015, the Ministry was developing a directive that will outline well abandonment procedures and approvals for the oil and gas industry. It expects the directive to address timeliness of abandonment procedures.

To assist in developing the directive, the Ministry established a committee comprised of members from the Ministry, industry, and regulatory bodies (i.e., Alberta Energy, Canadian Association of Petroleum Producers). One of the committee's roles will be to oversee a contract to develop the directive. The Ministry was drafting a Request for Proposal to contract with members of the industry to further assist in developing the directive. The Ministry plans to have the directive completed by June 2016.

We recommended 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 well sites. (2012 Report – Volume 2; Public Accounts Committee agreement December 9, 2013)

**Status – Partially Implemented**

By February 28, 2015, the Ministry had assessed the financial risks that arise from legacy well sites.<sup>10</sup> This assessment outlined how the Oil and Gas Orphan Fund is responsible for paying for the remediation of all legacy well sites. It noted the following:

- ▶ If a legacy site is contaminated and the licensee still exists, the Ministry, under the current legislation, has the authority to require the licensee to rectify the problem
- ▶ If the licensee cannot be located for the legacy site, then the orphaned legacy site falls within the current definition of “orphan” as outlined in *The Oil and Gas Conservation Regulations, 2012*

Also, in 2015, the Ministry hired two temporary staff members who are responsible for conducting site investigations at legacy sites. The Ministry plans to conduct these investigations from May to August 2016. The Ministry plans to use information from these investigations to help it assess the environmental risks associated with these sites, what liability may be present from these legacy sites, who is responsible for the liability (i.e., licensees or the Orphan Fund), and then develop a plan for cleaning up any contaminated sites.

<sup>10</sup> Legacy well sites are sites that received a release prior to 2007 from surface owners (e.g., farmers) or certificates issued pursuant to subsection 56 (2) of *The Surface Rights Acquisition and Compensation Act*.

