Liabilities soar for wellsite cleanup costs in Canada

In November, the *Globe and Mail* newspaper in Ontario published articles on abandoned wells and mounting liabilities for cleanup in British Columbia, Alberta and Saskatchewan. The Alberta Energy Regulator, the same month, estimated the costs of cleaning up the province's oilpatch could be as high as $260 billion up, from the previous $58-billion liability to taxpayers from orphaned and abandoned wells.

The Globe reported that "20 percent of all oil and gas wells in the three provinces are inactive, and that there are 54,147 more idle wells there than in 2005. Such wells no longer produce oil and gas, but have not been plugged." The newspaper also counted another 84,569 abandoned wells, some idle for decades.

Reclaiming the well sites and surface facilities and restoring the land to its original state are the responsibility of producers.

"Those wells have been filled with cement and capped because there is no profit left in them, but companies have not yet reclaimed the sites and restored the surrounding land to its original state," the *Globe* stated.

Canada's *National Observer* newspaper also reported in late November at a press conference, the Alberta Energy Minister **Margaret McCuaig-Boyd** threatened to crack down on the oil industry. She said, "Canadians shouldn't be on the hook for actions of irresponsible operators."

In November, the Alberta Liberal Party called for the province to create a bond program that requires companies to put up cash for cleanup costs to protect the government.

"Many U.S. states require companies to seek continuing approvals and post security bonds to keep wells inactive," the *National Observer* stated. "In some cases, they have to show evidence that the wells could be returned to production, if commodity prices improve."

Companies in Alberta have only submitted about $1.6 billion in security deposits to cover the costs. At the same time, unowned orphan wells – some abandoned, others to be abandoned – increased from fewer than 800 to more than 2,000. After Sequoia Resources Ltd. went bankrupt last year, the costs to decommission and clean up 4,000 wells, pipelines and other facilities fell in the lap of the province.

The *Globe* investigation also reported brisk trade in distressed wells and other facilities between major companies offloading those properties to smaller buyers with no ability to pay for abandonment and reclamation costs (ARC). "The deals were approved, even in cases where purchasers didn't meet the Alberta regulator's test for financial fitness," the publication stated.

Recent news has ramifications for the reserves sector. A year ago, *Reservoir Solutions* newsletter reported that the Society of Petroleum Evaluation Engineers chapter in Calgary was poised to challenge the Alberta Securities Commission interpretations of a 2015 regulation that requires a reporting issuer (RI) to cashflow oil and gas production net of ARC for wells, surface facilities and pipelines up to the sales point.

As it played out, SPEE lost whatever bluster it had, and its language in the 2018 Canadian Oil & Gas Evaluation Handbook (COGEH) fell in line with the ASC. COGEH clarified that abandonment-and-decommissioning costs should address producing wells, suspended wells, service wells, gathering systems, facilities and surface land development.

If ADR costs are excluded, COGEH recommends that the RI disclose those omissions to reconcile unaudited (supplemental) information in the 10-K with the audited financial statement. On the accounting side, all ADR costs are reported annually as asset retirement obligations.

In light of the November news on abandoned wells, reporting ARCs may become an even bigger issue in the reserves evaluation sector.

Canada's National Instrument 51-101 governs public issuers in Canada and refers to COGEH as "the standard of practice for evaluation and classification."

Historically, reporting issuers in Alberta have been more selective in their disclosures. "The cost of abandoning an exploration well, which is unrelated to reserves cash flows, should not be included," said one RI.

Just how the Canadian industry treats ARCs in reserves disclosures will be for all to see in year-end 10-Ks released in March.