

Overview of the Saskatchewan Orphan Well and Facility Liability Management Program

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Saskatchewan Orphan Well and Facility Liability Management Program

Orphan Wells/Facilities – Owner no longer exists or can not be located.



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Orphan Wells – Scope of Potential Problem

- Estimate about 600 orphan wells in Saskatchewan. Represents \$26 million in abandonment and reclamation costs.

- \$117 million in unfunded liability associated with well and facility abandonment and site reclamation.

2002/ 9/17



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2005/2006 Alberta Orphan Well Program

- 2005/2006 Alberta Orphan Well Program spent \$12 million on abandonment and site reclamation of orphan properties.

- Abandoned 27 wells for an average cost of \$37,000. Most costly well abandonment \$154,727.

- Decommissioned 19 orphan facilities for an average cost of \$4,700. Most costly facility decommissioning \$186,850

2002/ 9/17



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2005/2006 Alberta Orphan Well Program

- Remediation and reclamation carried out at approximately 210 sites in 2005/2006 for an average cost of \$38,000 per site.

- Most costly site reclamation at a single site was \$1,433,152 followed by a site costing \$650,782.



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Wells and Facilities in Saskatchewan

- 63,000 wells in Saskatchewan listed as capable.
- 3,300 facilities in Saskatchewan. Oil Batteries, Compression Facilities, Gas Plants, EOR Facilities.



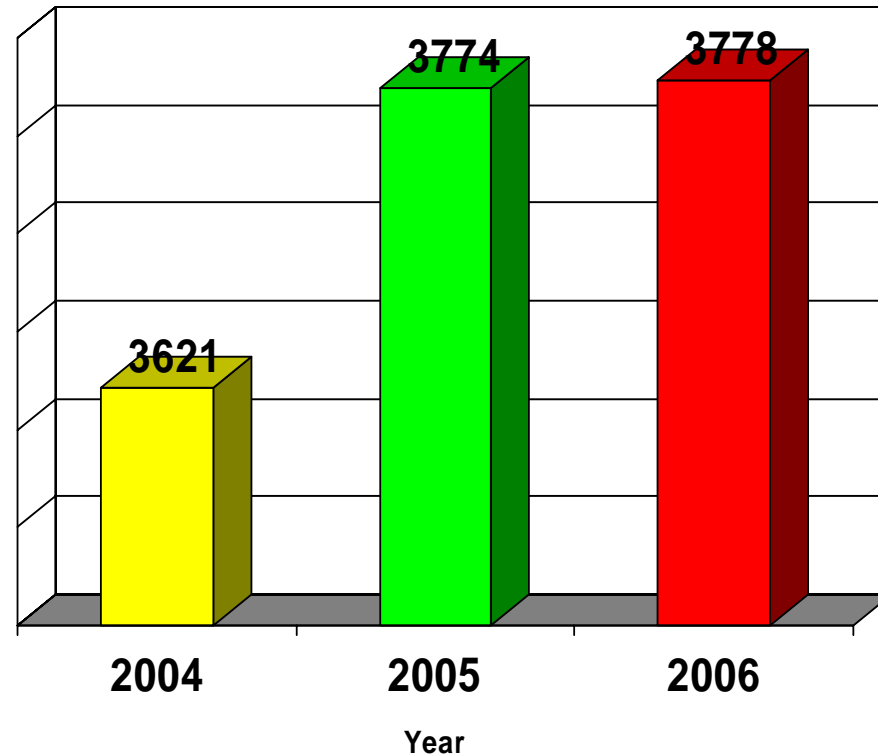
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Wells Drilled In 2006

- Wells Drilled to December 31, 2006
 - Vertical Oil: 1396
 - Vertical Gas: 1472
 - Horizontal: 749
 - Service: 171
 - Total :3778



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2006 Upstream Oil and Gas Facility Construction in Saskatchewan

- Approximately 100 new facilities ranging from oil batteries to gas plants.
- This is fairly typical in recent years.



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Saskatchewan Upstream Oil and Gas Industry Total Liability

- The combination of Saskatchewan's 63,000 wells and 3,300 facilities represent a total future liability of approximately \$2.8 billion dollars in terms abandonment, decommissioning and site reclamation costs.

Saskatchewan Orphan Program

Getting Our “Act” Together

- To give program legislative authority required amendments to *The Oil and Gas Conservation Act*.
- Government/Industry steering committee was formed in 2001 to develop policy framework.
- Concurrently, Bill 10 of 2001 *An Act to Amend the Oil and Gas Conservation Act* was drafted and introduced. It received royal assent but was never proclaimed.



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Saskatchewan Orphan Program

Getting Our “Act” Together

- In 2002 program put on hold until about 2005.
- In 2006, Bill 5 *The Oil and Gas Conservation Amendment Act, 2006*. Recently passed in the Spring 2007 session.
- During 2006 the supporting regulations were drafted. Regulations will be passed in the very near future along with proclamation of the Act.



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Orphan Program Components

Two key components:

1. Licensee Liability Rating (LLR)
 - Monthly Financial Fitness Review
 - Detailed Financial Fitness Review during Transfer
 - Security Deposit
2. Orphan Levy Fund



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Licensee Liability Rating (LLR)

- Assets < Liabilities → Security deposit requirement.
- Assets > Liabilities → Business as usual
- Well and Facility Transfers. If Assets < Liabilities, company will not be allowed to acquire more wells or facilities from other companies without security deposit.

LLR Program - Licensee's Liability

- Licensee of a well or facility is responsible for the liability associated with that well or facility and the site it is situated on regardless of whether the liability existed before or after they acquired the property.
- Companies need to ensure adequate environmental assessment of sites prior to acquiring new properties to avoid excessive security deposit requirements.

LLR Program Flexibility

- Allows the department to work together with individual companies to make the application of the program rules as equitable as possible.
- Companies given 4 years to pay required security and on appeal basis up to 10 years.
- Companies can appeal and request changes to any of the factors used to calculate deposit requirements.



Annual Orphan Fund

- Each year SIR will identify a certain number of orphan wells and/or facilities for abandonment and develop a budget and program to tender out the work.
- Budget is completely funded by oil and gas industry. Generally larger companies pay a larger portion of budget than smaller companies.

Summary

- Huge potential liability exists if not adequately planned for.
- \$2.8 billion for abandonment and reclamation.
- Currently \$26 million in orphan liability.
- Currently \$117 million in unfunded liability.



Summary

- Orphan Well and Facility Liability Management program has 2 key components. The LLR Rating and the Orphan Fund.
- Main concept: Licensee is liable.
- Program has built in flexibility.
- Timing: Spring/Summer 2007.

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