

# **Orphan Well Association**



**Orphan Well  
Association**

**Lars De Pauw, Executive Director**

**CLRA Conference  
Red Deer, Alberta**

**May 5, 2022**

# OWA's "Jump the Shark" moment?



# Orphan Well Association

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- **Non-profit organization**
- **Operate under the delegated authority of Alberta Energy Regulator (AER)**
  - But - financially and legally separate from the AER
- **OWA is not a Government Organization**
- **Primarily funded by the Alberta oil and natural gas industry**

# Orphan Well Association Mandate

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**To decommission Orphan oil and gas infrastructure and reclaim the land similar to its original state in a safe, principled, and cost-efficient manner**

# What is an Orphan?



- Well, facility, pipeline or associated site
- Regulatory Designation that is determined by AER after thorough review
- No legally responsible or financially viable party
  - 100% Working Interest only
  - No other working interest participants in site
- Only after Insolvency Proceedings

# What if less than 100% Working Interest?

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- **Property does not become an Orphan**
  
- **AER directs Working Interest Participant(s) (WIPs) to manage site**
  1. Site can be transferred from Defunct Company to Active Company
  
  2. Working Interest Participant(s) conducts closure work
    - Care of site
    - Abandonment
    - Reclamation
  
  3. New Option – WIP can enter agreement for OWA to conduct work (“WIPA” – started 2021)

# What is a WIPA?

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- **“Near Orphan”?**
- **Legal agreement to enable OWA to conduct closure work**
  - Allowed under OFDAR Section 4(2)(b)
- **Only applies to sites where Defunct Company is the Licensee**
  - Under an AER Abandonment Order
- **Includes both decommissioning and reclamation**
- **Deposit may be required**
- **FYI – AER following-up on all abandonment orders (including reclamation)**

# Access Issues for the OWA

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- **Many landowners have been impacted by defunct operators**
  - Surface rent owed
  - Condition of site
- **OWA does not pay back rent**
  - Landowner must apply to Land and Property Rights Tribunal
    - formerly Surface Rights Board (SRB)



# Access Issues for the OWA

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- **Reminder – OWA is a delegate authority of the AER**
  - Legal access under Legislation
  - Abandonment (Decommissioning)
    - Section 101 of OGCA – Entry on land
  - Remediation and Reclamation
    - Section 250 of EPEA – Right of Entry, Environmental Protection Order (EPO) also issued
- **Most landowners work with OWA**
  - However, OWA is obligated to notify Land and Property Rights Tribunal if site access is restricted
    - Surface Rights Act – 36(8)....
- **Overall – positive relationship with majority of landowners**

# Orphan Inventory - The problem grew quickly but is under control

- “Lower for longer” continued longer than expected
- Redwater - pre and post Supreme Court decision impacts



# Alberta Oil Prices

Dec 2012 to Oct 2021

1 year 5 year 10 year All available



# Alberta Gas Prices

Dec 2012 to Sep 2021

1 year 5 year 10 year All available

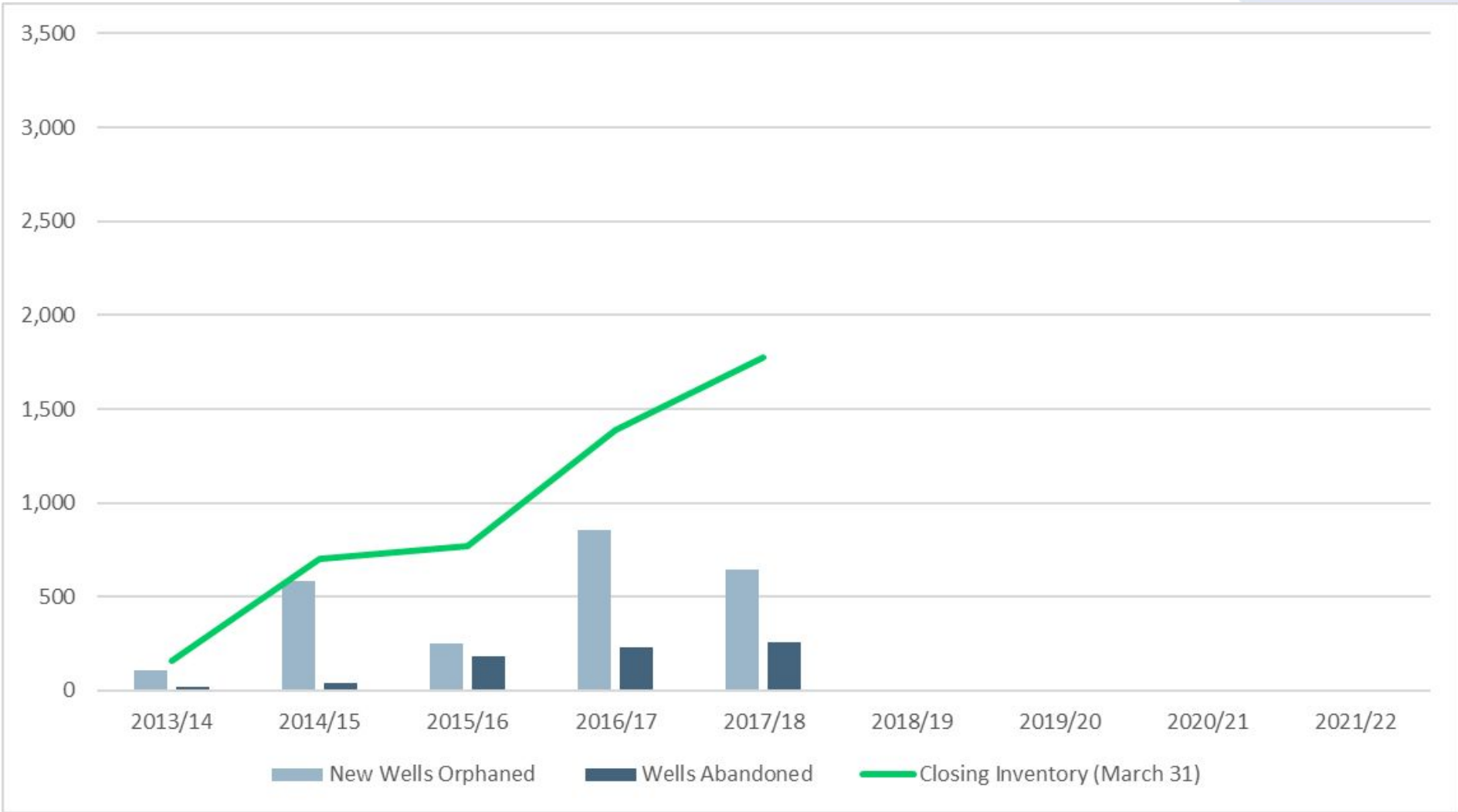


\$4.00 to \$2.50/GJ

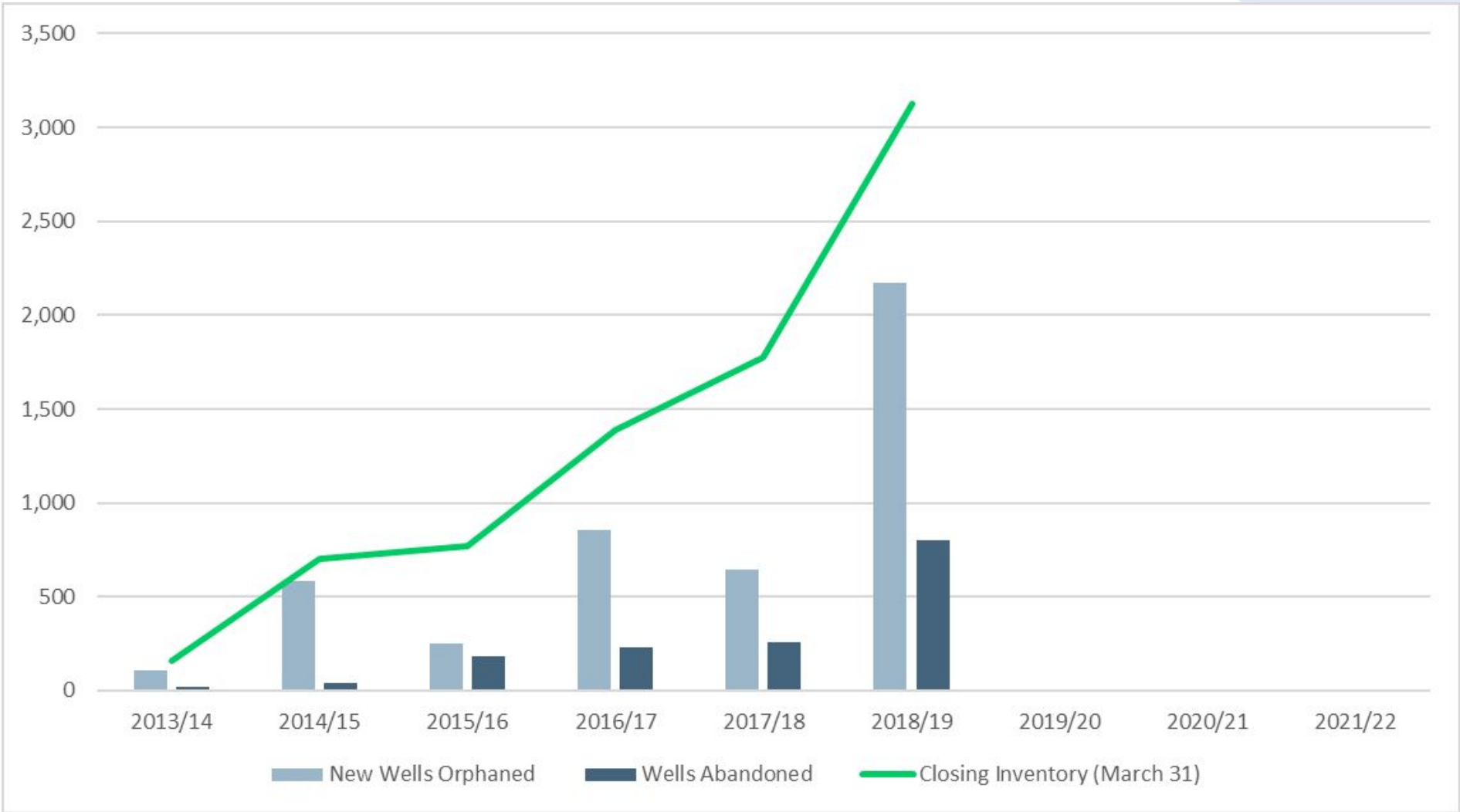
May 2022 - \$7.00/GJ



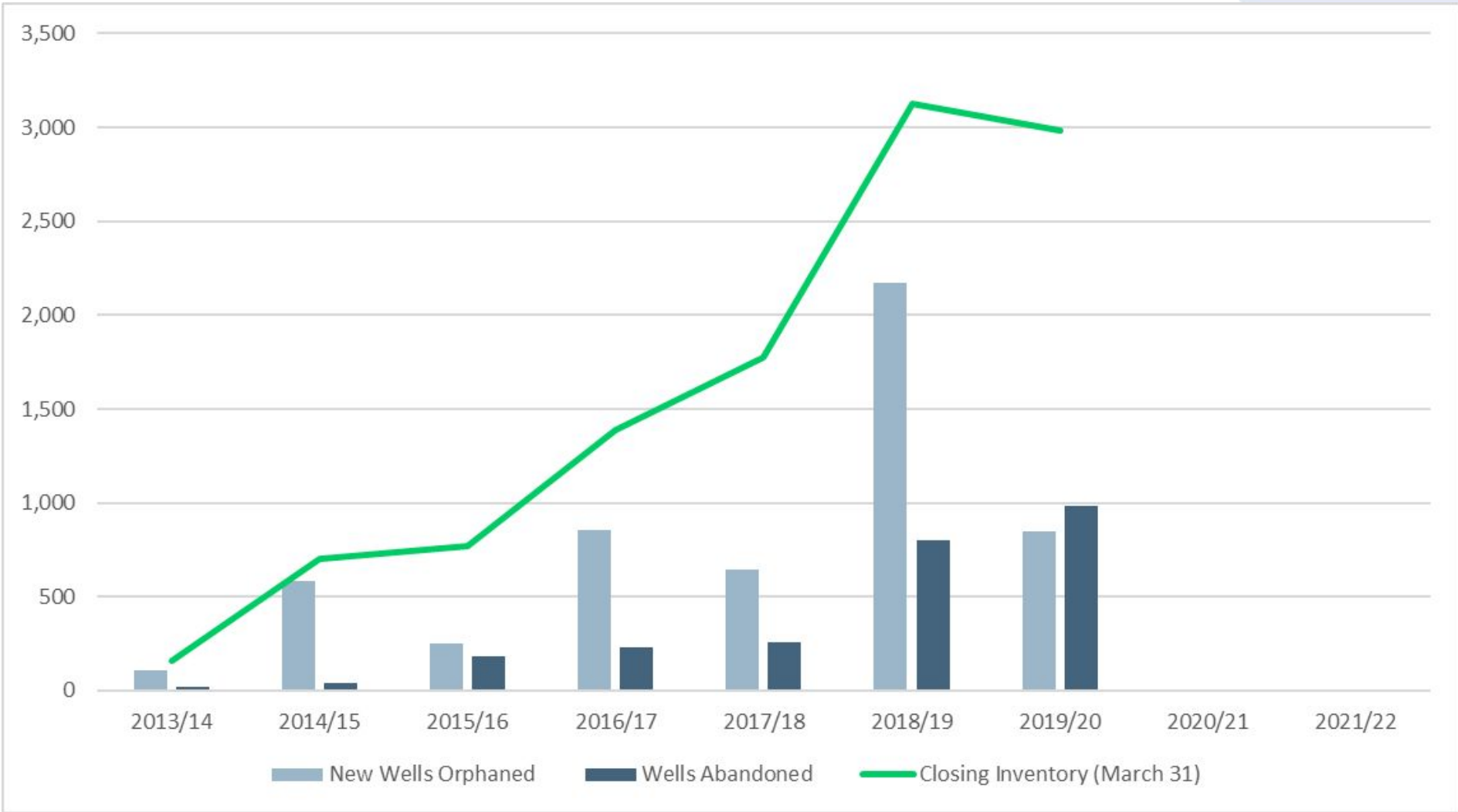
# Change in Annual Orphan Well Inventory



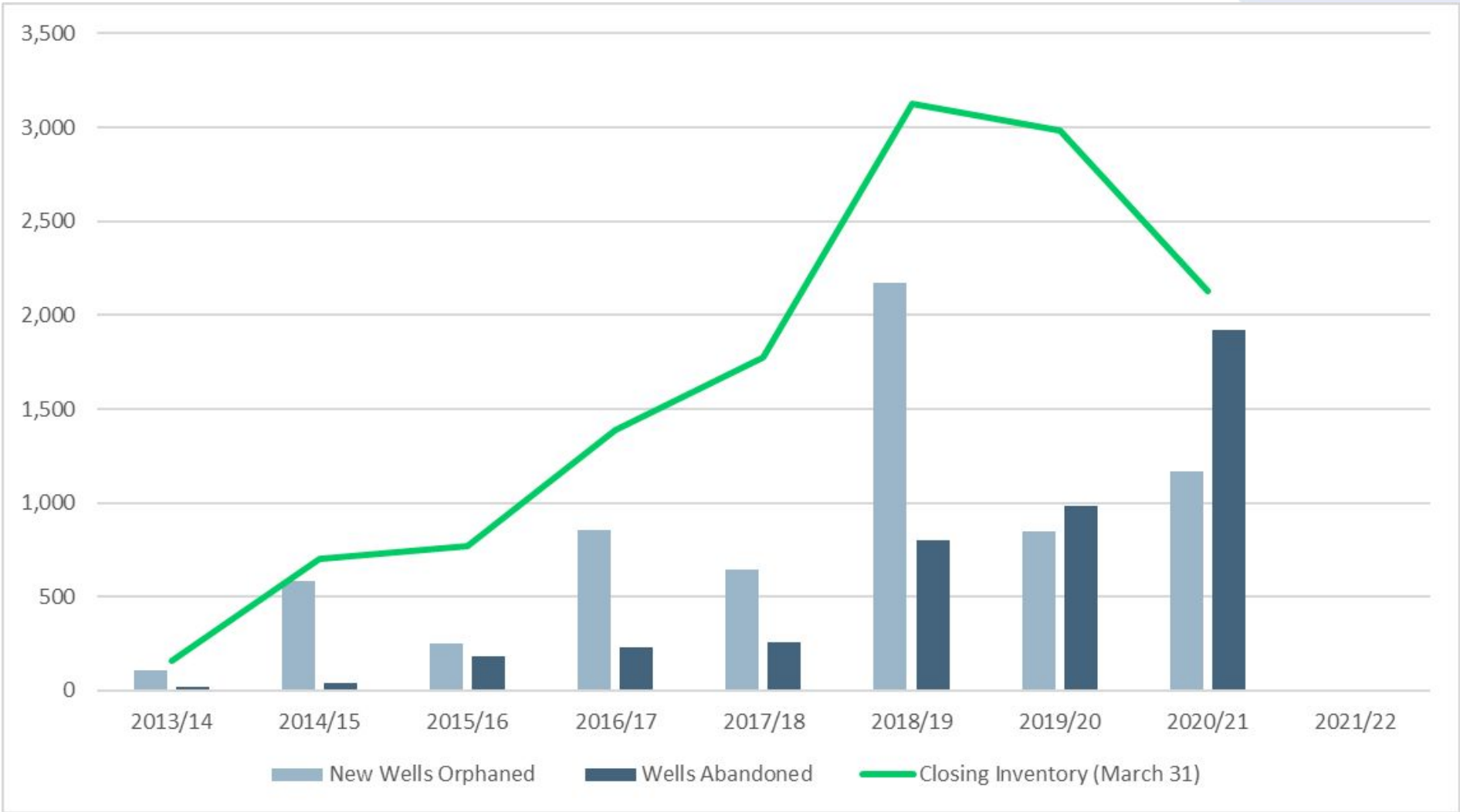
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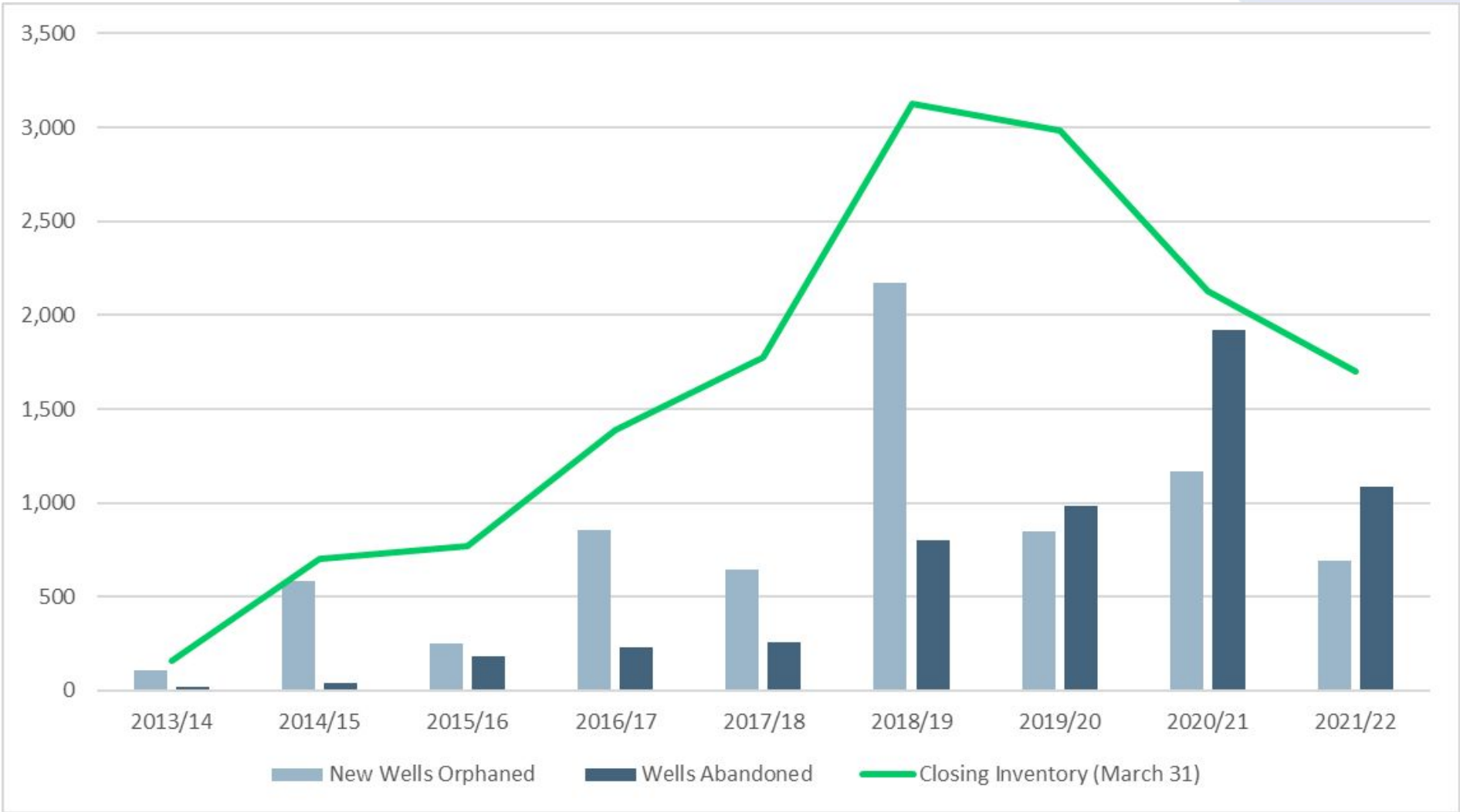


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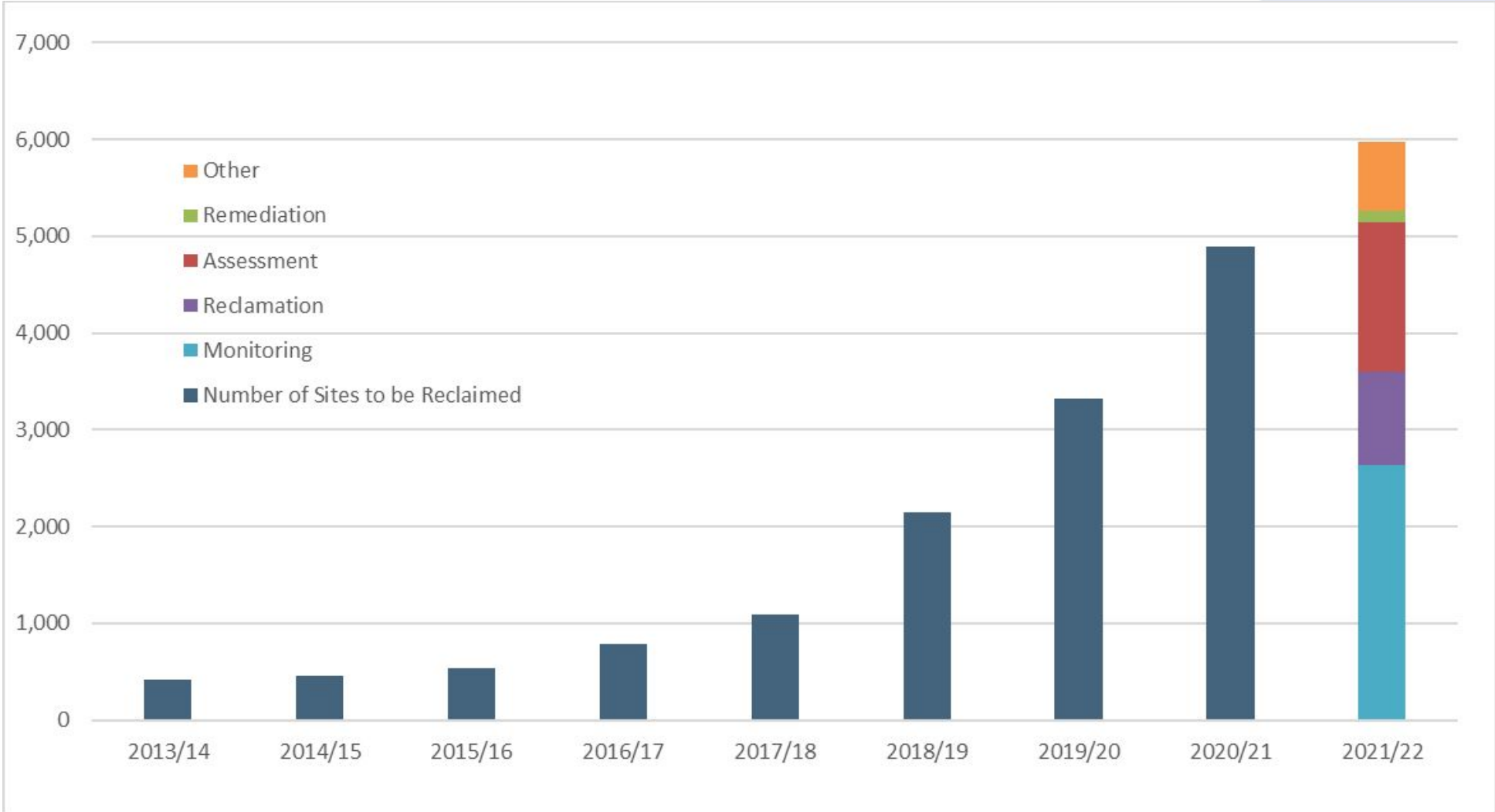




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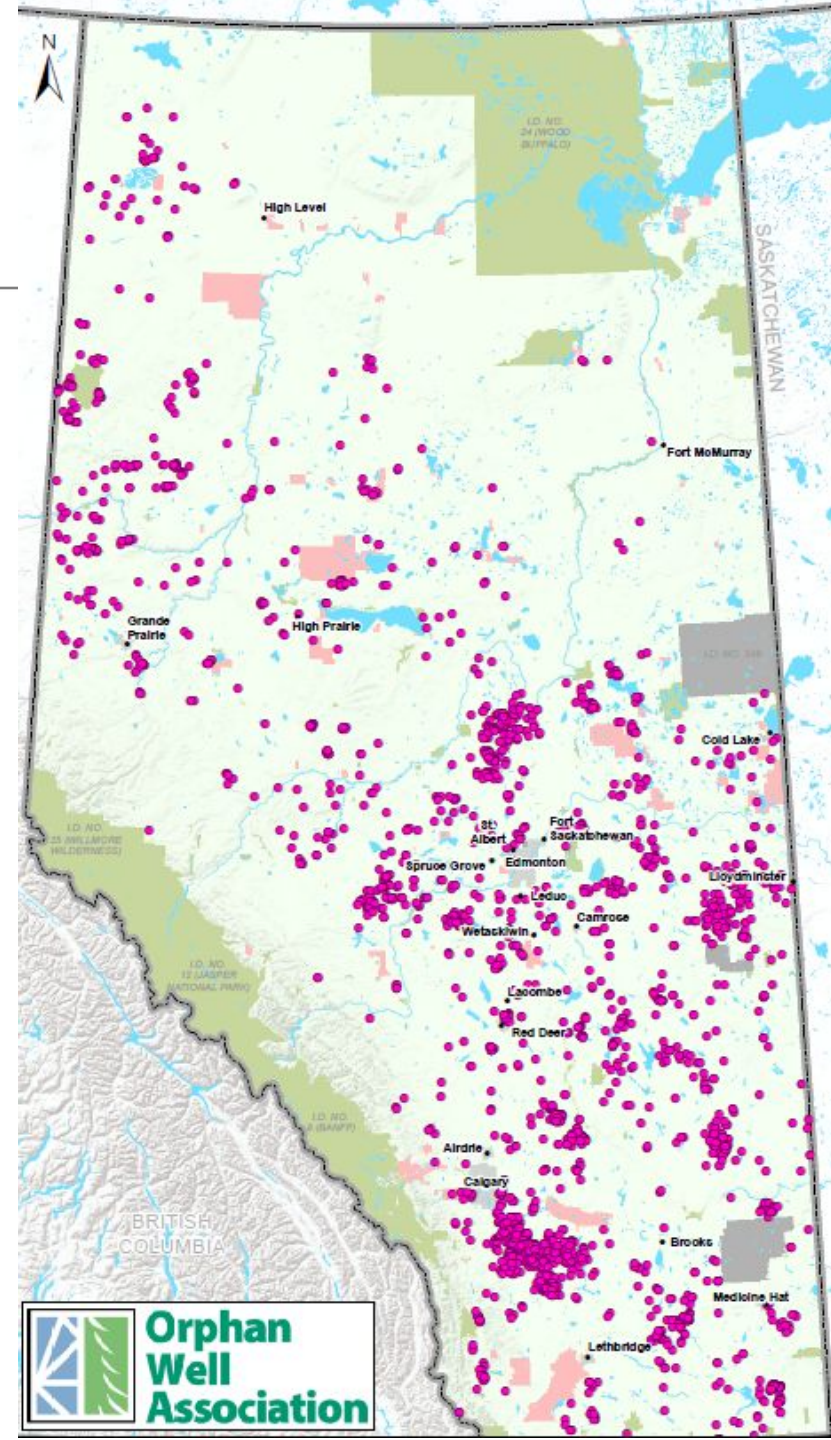


# Increase in Orphan Reclamation Inventory (at year end)



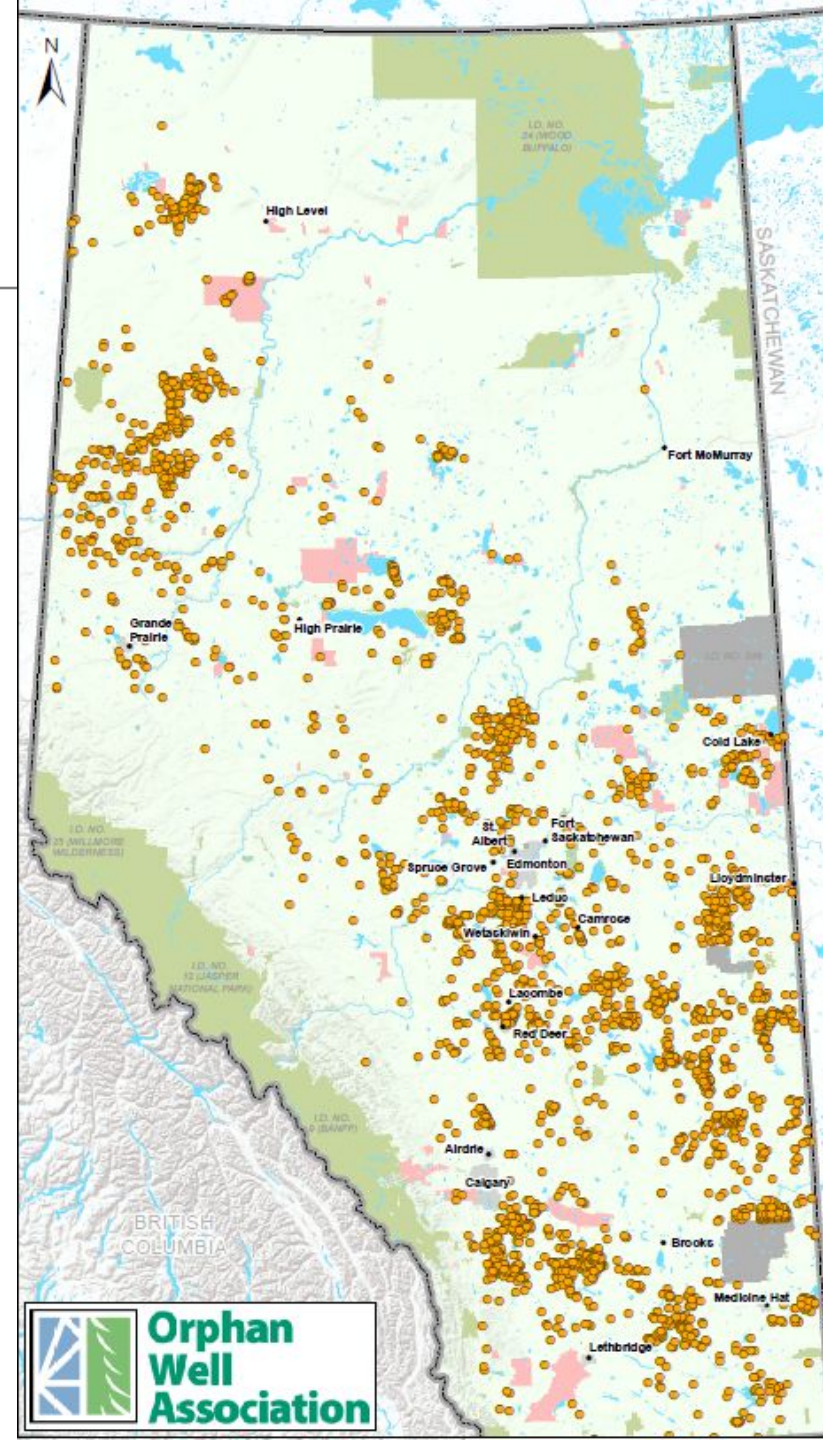
# Orphan Inventory

- **May 2022**
  - 1,758 wells for decommissioning
    - 260 only need Cut & Cap
  - Plus 63 WIPA wells
  - Expecting ~1,000 new wells from SanLing and Trident shortly



# Orphan Inventory

- **May 2022**
  - 5,928 sites to reclaim
  - Plus 94 WIPA sites to reclaim
  - Expecting additional 1,000 sites in 2022 abandoned by Receivers under the SRP

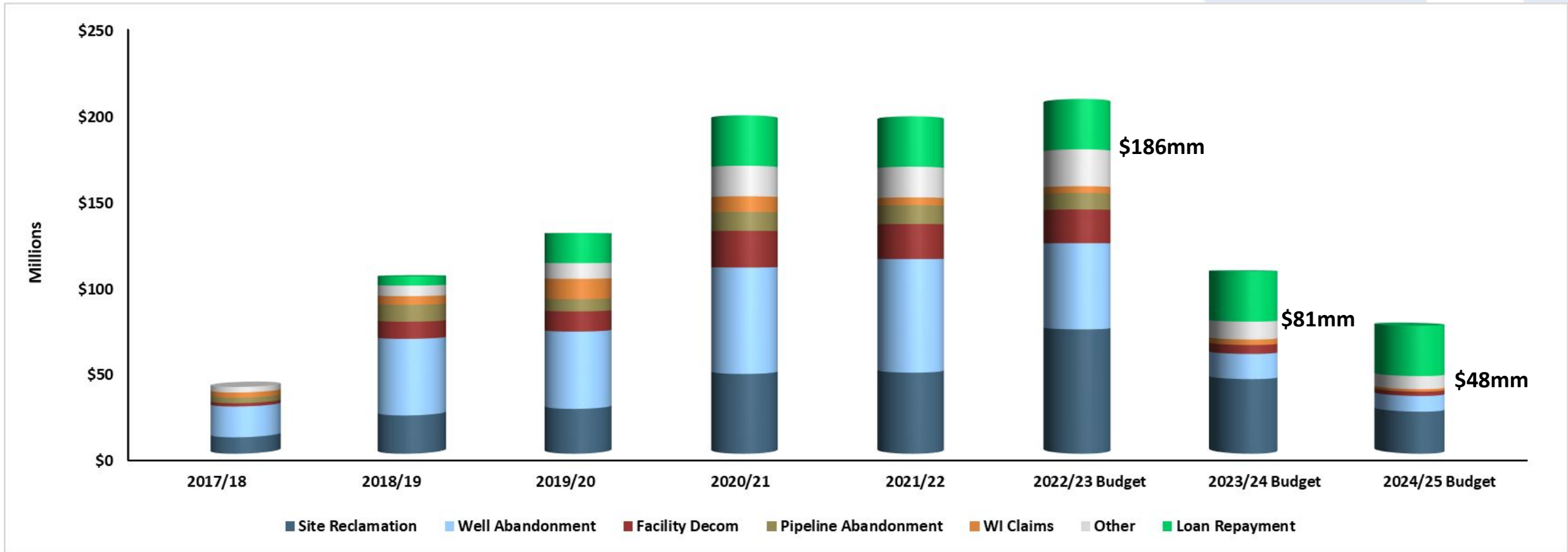


# Industry leading cost metrics

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- **OWA continuing to deliver industry leading cost metrics**
- **2021/22**
  - Downhole abandonment – \$26,300/well
  - Pipeline abandonment - \$5,400/segment
  - Reclamation
    - Simple - \$7,200/site
    - Complex - \$29,400/site

# Orphan Well Program Expenditures and Budget (2017-2025)



- Based on annual levy of \$72mm for 2022/23 to 2024/25
- Loan repayments: \$30mm/yr (2022-27), \$25mm/yr (2028-31), \$50mm/yr (2032-35)

# OWA Funding – Industry Funding

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- **Funded by the Annual Orphan Levy on Producers (not taxpayers)**
  - Total industry levies to date - **\$580 million**
- **2022 Orphan Levies**
  - \$72mm (Orphan Well) and \$6mm (Large Facility)
  - Discussions starting on 2023 levies

- **Each Licensee's Annual Levy:**

$$\frac{\sum \text{Licensee's AER Estimated Liability}}{\sum \text{All Provincial AER Estimated Liability}} \times \text{Total Annual Levy}$$

- **OWA is not eligible for Alberta's Site Rehabilitation Program**

# Recent legal decisions - Manitok

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- **Manitok Energy Inc (Re), 2022 ABCA 117**
  - March 30, 2022
- **Applicability of Builder's Lien on funds in Receivership Estate**
  - Priority of fund distribution and how Redwater is applied
- **Key Elements of Decision**
  - There are not different “pools” of assets
  - Abandonment and Reclamation Obligations are inherent to an oil and gas asset
    - Binding on the bankrupt estate – even if lien applied to “unrelated assets”
    - Timing of an AER order does not impact the obligation



# Recent legal decisions - Sequoia

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- **PricewaterhouseCoopers Inc v Perpetual Energy Inc, 2022 ABCA 111**
  - March 25, 2022
  - Second Appeal on Summary Dismissal #2 Decision
  
- **Asset transaction was “under value” and should be voided**
  
- **History:**
  - PWC claims that Perpetual sold assets in 2016 that had *negative* value of \$217 million
  - PWC files statement of claim in 2018
  - Perpetual files summary dismissal #1 – decision 2019
  - PWC files appeal on summary dismissal #1
  - Perpetual files summary dismissal #2 – decision January 14, 2021
  - Appeal on dismissal #1 granted - January 25, 2021
  - PWC files appeal on summary dismissal #2

# Recent legal decisions - Sequoia

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- **Key Elements of Second Appeal Decision**

- End-of-life obligations (ARO) are inherent to oil and gas assets from moment well drilled
  - ARO is **NOT** contingent
- Balance Sheet test of insolvency was not appropriate
  - Left side vs. right side
- Value of an asset is “reduced” by the ARO
  - E.g., House with asbestos vs. the same house with no asbestos
- ARO can be estimated
- Second summary dismissal was an abuse of process

# Ongoing Issues that Could Impact the OWA

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- **Changes in Alberta's liability management framework**
- **SRP and Mandatory Spend/Inventory Reduction Programs**
- **Increase in work related to WIPAs**
- **Increases in commodity prices**
- **Sequoia Resources – Application to set transaction aside as conducted undervalue (Section 96 of BIA)**
  - Perpetual Energy
  - AlphaBow Energy (formerly Sequoia Operating Corp)

# OWA – A Unique Program

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- **Almost all industries leave a negative “legacy” at the end of an insolvency process**
  - Typically creditors receive some money
    - Redwater changed that
  - Taxpayers have typically paid for other industries
- **In Canada - Oil and Gas companies are paying for other producer’s liability**
  - “polluter pay” principle on an industry level but not at a company level
- **Deposits could be a solution – but difficult/impossible to implement now**
  - Also creates significant “dead capital”
- **What to do now that commodity prices have increased substantially**

# **Orphan Well Association**

**Thank you**



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