

# Office of Conservation: Regulation of Oil and Gas Wells & Management of Orphan Wells



# Office of Conservation



- Responsibility to regulate the exploration and production of oil, gas, and other natural resources and protect public health and the environment
- Through the Oilfield Site Restoration Program, responsible for addressing unrestored orphaned oilfield sites in Louisiana (orphan wells)

## Overview of Regulation of Oil and Gas Wells

### Stage of Well

### Operator

### Office of Conservation (OC)

#### Pre-Drilling

- Files an Organization Report with OC prior to the date of initial operation and annually thereafter.
- Applies for permit to drill through OC.

- Processes and issues permit to drill if application is complete
- May require financial security on well if operator is new or has history of noncompliance.

#### Drilling

- Begins drilling operations.

- Inspects drilling process and is present when drilling tests are conducted.
- Issues a daily allowable to produce.

#### Production

- Submits monthly production reports to OC.
- Submits production potential tests.
- Reports well on inactive report if inactive for 6 months.

- Routinely inspects wells to ensure compliance with Statewide Order 29-B.
- Uses enforcement actions to gain compliance from non-compliant operators.
- Audits production reports against transportation reports.

#### End of Production

- Classifies inactive wells as either having future utility or no future utility.
- Plugs and abandons well within 90 days if no future utility.

- Must periodically review wells classified as having future utility.
- Inspects plug and abandonment of inactive well by operator.

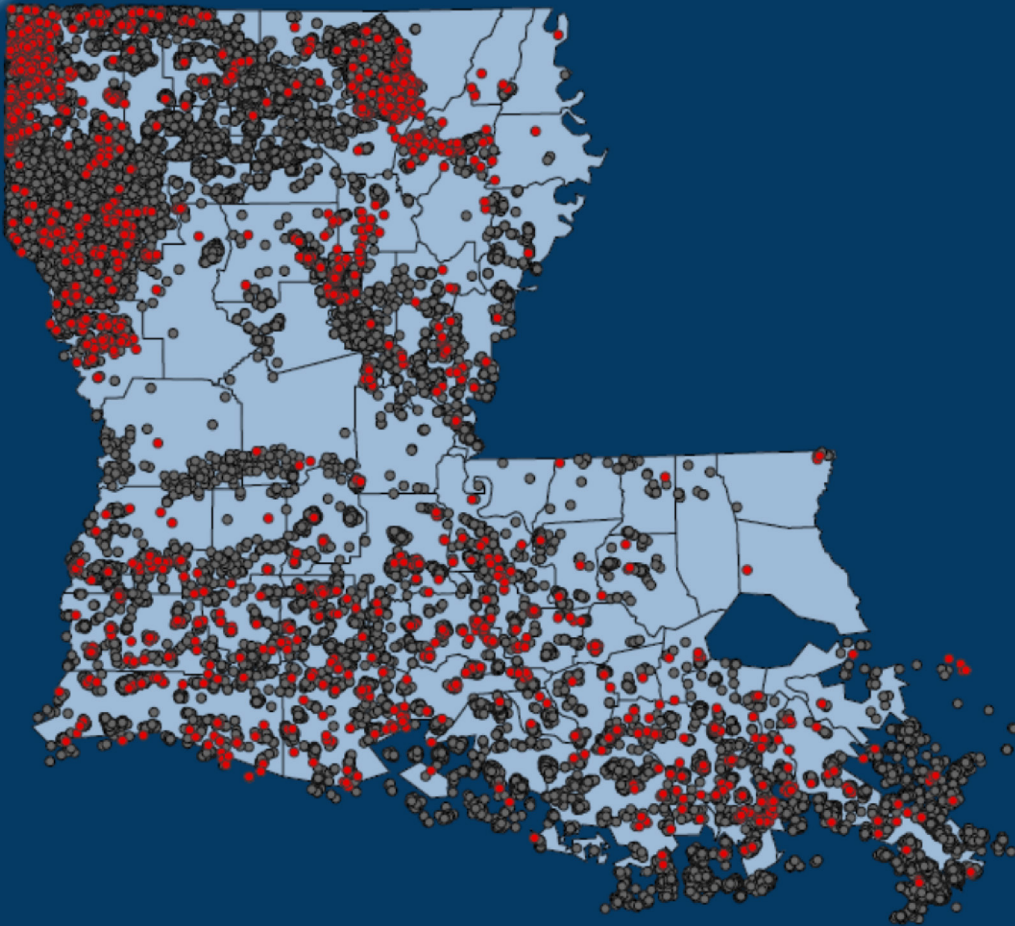
#### Orphan

- Operator fails to maintain well in compliance with rules and regulations.

- OC declares well site to be orphaned if no responsible party can be located, or such party has failed or is financially unable to undertake actions ordered by the Commissioner and the well either:
  - Was not plugged or maintained in accordance with rules and regulations or
  - Constitutes a danger to public health, the environment, or an oil or gas strata.
- Through the OSR Program, properly plugs and abandons orphan wells and returns them to pre-well site conditions.



# What is an Orphan Well?



Abandoned oil and gas wells for which no responsible operator can be located or such operator has failed to maintain the well site in accordance with state regulations

# Examples of Orphan Wells



# Risks of Orphan Wells



- Environmental:
  - Contamination of ground and drinking water
  - Spillage into the surrounding environment
- Public Safety:
  - Navigation Hazards



# Objective 1



- **Has the Office of Conservation effectively regulated oil and gas wells to ensure operators comply with regulations?**
  - Overall, we found that the Office of Conservation had not effectively regulated oil and gas wells to ensure that operators comply with regulations.

# Financial Security



- OC's regulations did not require that all operators provide financial security on their oil and gas wells.
  - Only 25% of wells were covered by financial security
- OC's financial security amounts are not sufficient to cover the cost of plugging most wells.

<b>Individual Financial Security Amounts</b>	
<b>Location</b>	<b>Amount</b>
<b>Land</b>	$\leq 3000'$ : \$1.00 per foot $3001' - 10000'$ : \$2.00 per foot $\geq 10001'$ : \$3.00 per foot
<b>Water (Inland)</b>	\$8.00 per foot of well depth
<b>Water (Offshore)</b>	\$12.00 per foot of well depth



# Inspection & Enforcement



- OC did not inspect wells in accordance with its established timeframe

**Wells Not Inspected According to 3-Year Goal  
Fiscal Years 2008 to 2013**

District	Total Number of Wells	Wells not Inspected According to 3-year Goal	% of Total Wells	Wells not Inspected at All	% of Total Wells
Lafayette	14,448	2,794	19%	398	3%
Monroe	11,712	6,156	53%	2,456	21%
Shreveport	24,800	17,878	72%	9,848	40%
<b>Total</b>	<b>50,960</b>	<b>26,828</b>	<b>53%</b>	<b>12,702</b>	<b>25%</b>

# Inspection & Enforcement



- **OC had not developed an effective enforcement process that sufficiently and consistently addressed issues of noncompliance and deters operators from committing subsequent violations.**
  - OC did not consistently address violations cited on inspections.
  - OC did not always conduct re-inspections on wells cited for violations to ensure they gained compliance.
  - OC did not consistently issue penalties after re-inspections showed uncorrected violations.
  - OC's enforcement process did not deter operators from having subsequent violations.



# Inactive Wells



- OC's process did not effectively identify inactive wells.
- OC did not consistently ensure that inactive wells were plugged as required by regulations.
  - 65% were not plugged by operator as required



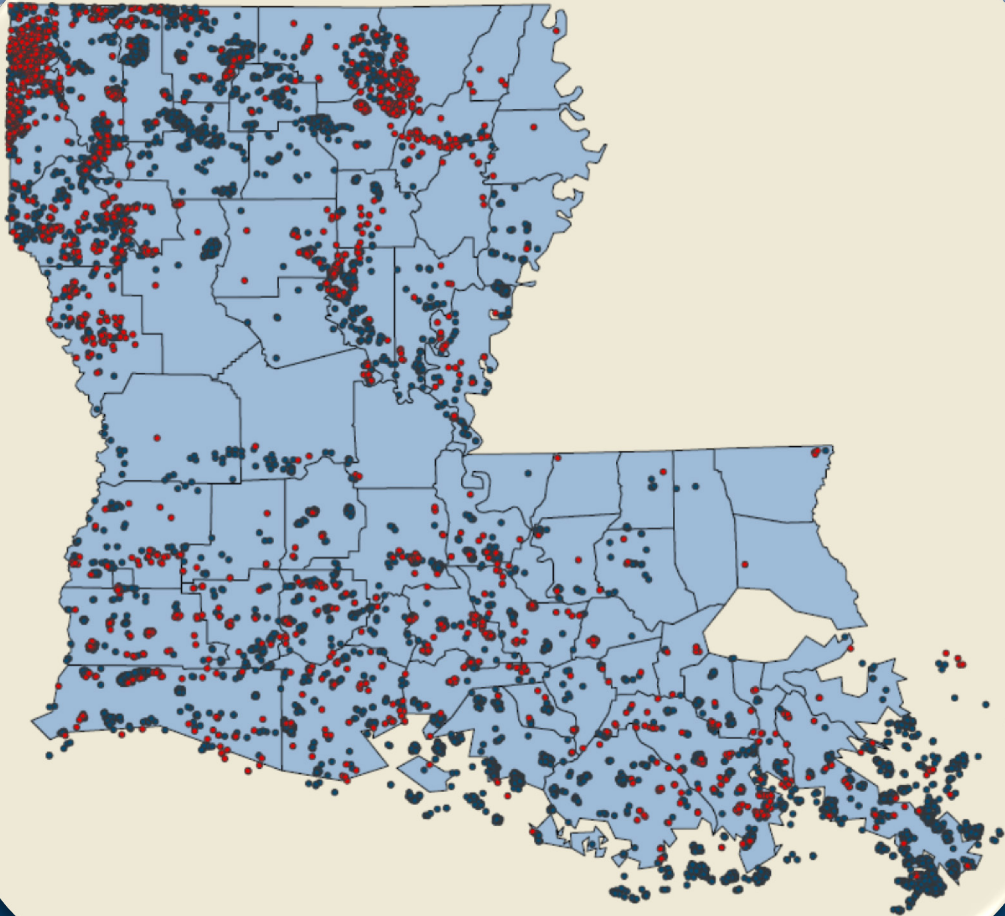
# Inactive Wells



- OC did not have sufficient regulations regarding inactive wells with future utility.
  - Wells are placed in this status for extended periods of time to avoid being plugged
  - These wells are at a higher risk to be orphaned

<b>Future Utility Wells As of June 30, 2013</b>		
<b>Years in Status</b>	<b># Wells</b>	<b>Percent</b>
0 - 3 Years	2,741	24.3%
3.1 - 5 Years	1,090	9.7%
5.1 - 10 Years	2,199	19.5%
10.1 - 25 Years	3,275	29.1%
25.1 - 50 Years	1,535	13.6%
50.1+ Years	429	3.8%
<b>Grand Total</b>	<b>11,269</b>	<b>100.0%</b>

# Potential Orphaned Well Population



Because OC had not always identified and effectively regulated inactive wells, the current orphaned well population will likely grow in the future.

**Wells at Risk: 9,415**

# Objective 2



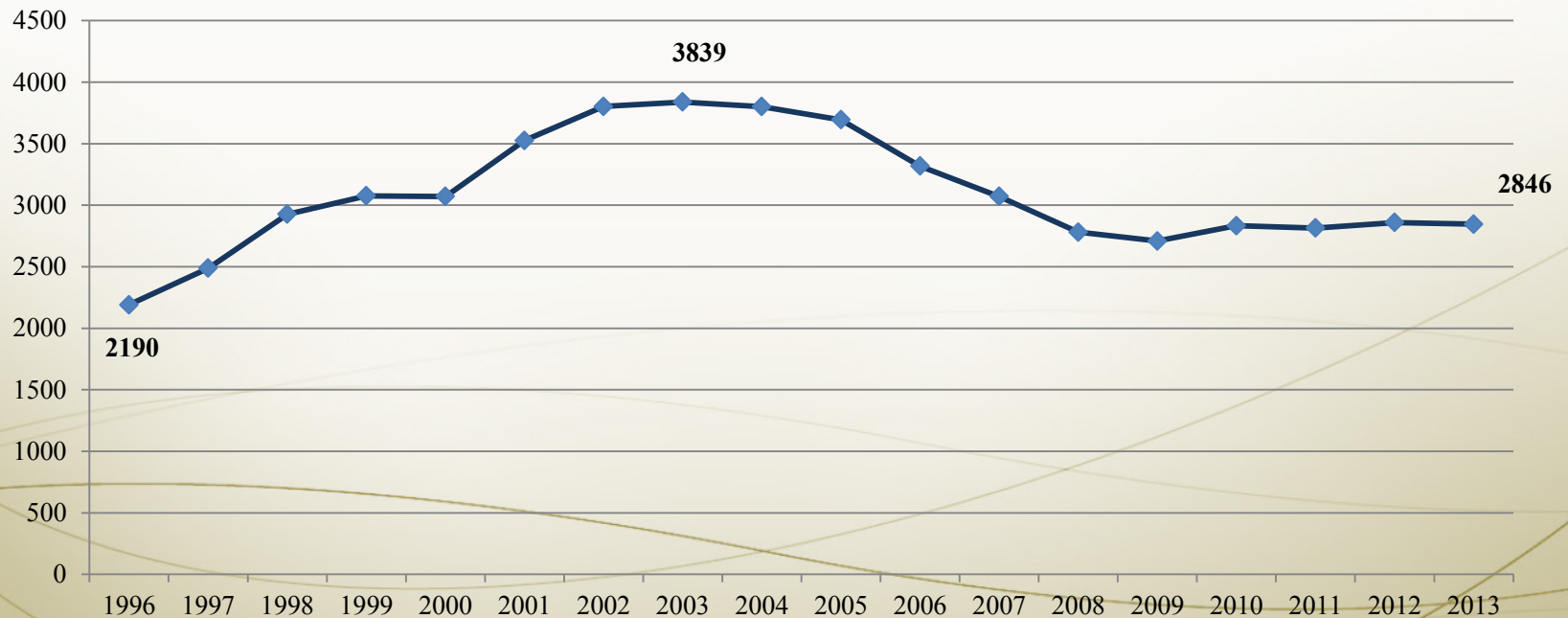
- **Has the Office of Conservation effectively managed the current population of orphaned wells?**
- Overall, we found that the Office of Conservation had not always effectively managed the current population of orphaned wells.



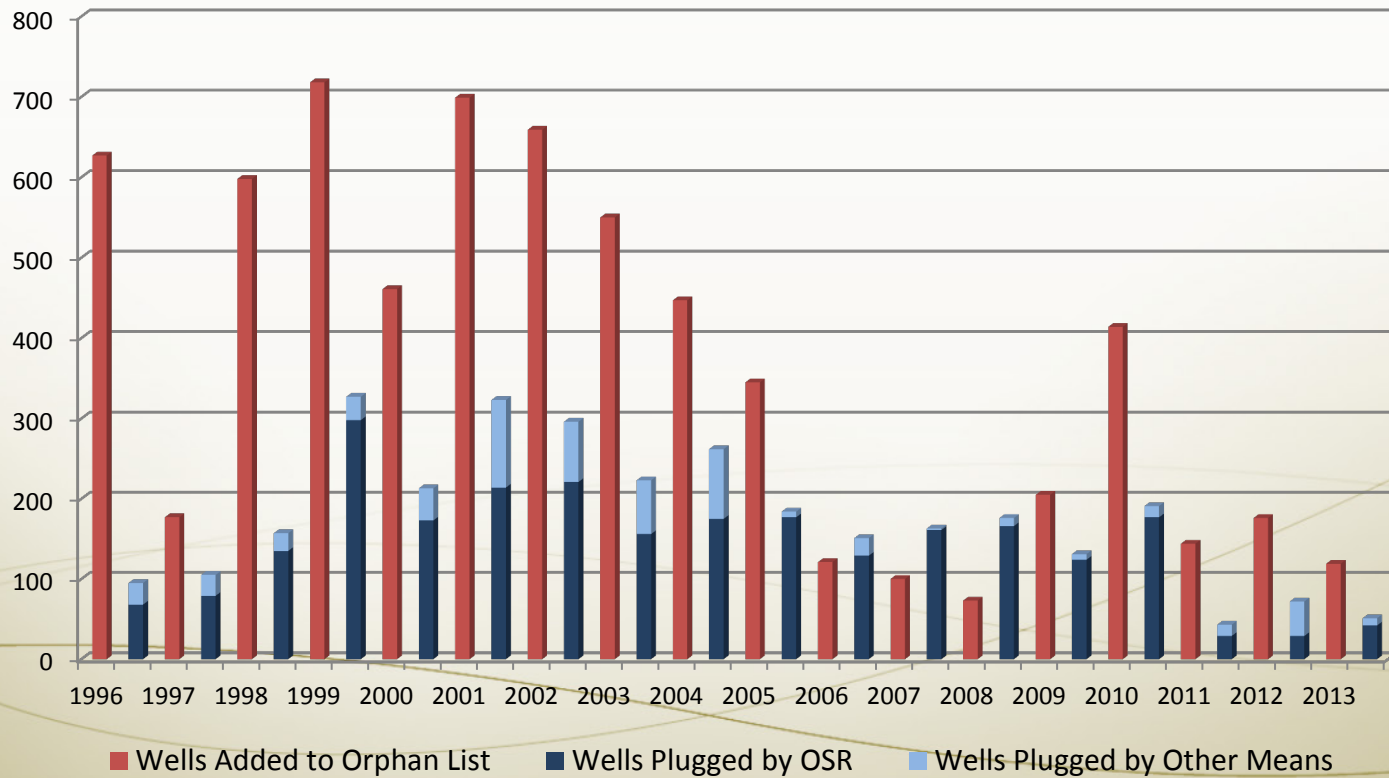
# Orphan Well Population



**OC is unable to reduce the total population of orphan wells.**



# Orphan Well Population





# Management of Orphaned Wells



- OC did not use \$1.5 million in financial security collected from operators who orphaned wells (208 wells).
- OC does not routinely recover costs from operators who orphaned wells, but does seek recovery costs from previous operators
  - Since 1993, \$3.6 million from 13 previous operators

# Management of Orphaned Wells



- Increasing production fees and identifying other sources of funds would generate additional funds to help reduce the current population of orphaned wells
  - Current production fee is set at \$0.015 per barrel of oil and \$0.003 for every thousand cubic feet of gas produced, equaling approximately \$4.8 million in FY 2013 (0.03% of total oil and gas revenue for that year).

# Outcome & Impact of Audit



- 21 Recommendations & 3 Matters for Legislative Consideration
- Agency responsive to report and are implementing recommendations
  - Changes in Regulations
  - Updated computer system to track information
  - Program Changes
  - Proposed legislation
    - Task Force Created (SB 41)
- Support from Oil & Gas Industry for Increasing Fee

# Questions or Comments?



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