

THE ABANDONMENT BOOM, **PART 1:** **THE FUNDING ROLLOUT**

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A welcome \$1.72 billion cash infusion into the Western Canadian oil and gas service industry — everything from service rigs to environmental consultants – has helped an entire sector find its feet in the midst of a global pandemic.

The rollout was anything but smooth, but with funds now flowing freely, the industry is loudly applauding the federal and provincial governments for a program that likely averted a financial disaster and may even have averted an environmental one.

In this first of two parts, ERIS looks at the program's (bumpy) rollout.

A Pandemic-Relief Gold Rush?

The lights burned bright in the offices of oil and gas service companies the night of April 30, 2020 across Alberta. Nobody got a good night's sleep. The scene was repeated the weekend of May 22 to 24 next door in BC, particularly in the province's gas-rich northeast.

In both cases, companies were stalking their share of a \$1.72 billion windfall – COVID relief money the federal government had allocated to Alberta, BC and Saskatchewan to support the abandonment and reclamation of dormant oil and gas sites and infrastructure. Alberta and BC had let it be known that funding applications would be taken on a first come, first served basis, and service companies in those provinces were preparing to pounce the instant the application portal opened.

PROGRAM FUNDING

Total Funding: \$1.72 billion from the federal government

Funding Allocation (Recipients)

Alberta's Orphan Well Association:

\$200 million repayable loan

Government of Alberta:

grants up to \$1 billion to clean up inactive wells

Government of Saskatchewan:

grants up to \$400 million to clean up inactive or orphan wells

Government of British Columbia:

grants up to \$120 million to clean up inactive or orphan wells

"It felt like the Yukon Gold Rush," says Ryan Smith CEO of 360 Energy Liability Management in Calgary. "We had a team of 10 on it from moment one, probably four or five days of applications."

“It felt like the **YUKON GOLD RUSH!**”

- Ryan Smith, CEO of 360 Energy Liability Management in Calgary

Relief for a Hard-Hit Industry

At the end of April 2020, the Western Canadian oil and gas service industry had been brought to its knees by the twin blows of collapsed oil prices and a global pandemic. Scott Darling, President of Performance Energy Services, a Calgary-headquartered oil service company, has a 33-year-long pedigree in well abandonment. He had laid off 28 staff and, for the first time ever, had no pending work and zero dollars booked for the quarter.

It would be an understatement to say the \$1.72 billion cash infusion was welcome, but in all three provinces, its arrival was also slow and bumpy.

"The expectations were high and the rollout was slow," says John Bayko, Vice President, Communications, with the Canadian Association of Oilwell Drilling Contractors.

Alberta got the biggest share, a \$200 million loan to the province's Orphan Well Association, and a \$1 billion grant to set up the Site Rehabilitation Program. It launched on May 1, 2020 with an initial allocation of \$100 million for projects that required full government funding. Grants were capped at \$30,000 per closure activity, and applications were to be made by service providers.

Alberta: Boon... or Boondoggle?

Rob Wiedemann, Principal and Senior Environmental Geoscientist at EBM Geoscience Inc. in Calgary, says he applied for contracts on between 100 and 200 sites. "We put in a lot of work. And they all got rejected." Wiedemann needn't feel embarrassed. His experience was repeated across Alberta's oil patch. By most accounts, the program's launch was a mess.

In its desperation to get its oil and gas service industry back to work, Alberta rushed its program out of the gate and the industry swarmed to it like bees to a honeycomb. Communication with the industry was inadequate. The application process was unclear.

"You had everybody running somewhere, but they didn't know why or to what. Oftentimes ill-equipped, oftentimes not understanding what they were chasing," says Smith.

"We were just blindly applying for \$30,000," Darling admits.

ALLOCATION & IMPACT

Alberta

As of March 26, 2021



- 18,204 applications approved
 - 64.6% of approved applications are for abandonment work, representing \$217.3 million in funding
 - 35.4 % of approved applications are for remediation and reclamation work (including Phase 1 and 2 environmental site assessments), representing \$119 million in funding
- \$336.3 Million in grant funding has been approved and is being allocated

Source: <https://www.alberta.ca/site-rehabilitation-program-grant-funding-status.aspx>

Saskatchewan

As of the end of January, 2021



- Allocates \$300 million of the \$400 million in federal funding
- Completed 871 well abandonments, 246 flowline abandonments, 9 facility closures
- 1425 site reclamation and remediation activities undertaken (this includes phase 1, phase 2 and/or remediation)
- \$100 million of contracted packages are out in the market
- \$34.6 million of invoices paid
- Approximately 1,500 to 2,000 people working as a result of the program

Source: Blair Wagar, Assistant Deputy Minister, Saskatchewan Ministry of Energy & Resources

British Columbia

- Increment 1 awarded \$50.8 million of contracts to 79 BC companies



Source: <https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/natural-gas-oil/responsible-oil-gas-development/dsrp-successful-applicants-increment-1-2020.pdf>

- Increment 2: \$50 million available; Applications closed March 8, 2021.

Program End date: December 31, 2022

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- Rob Wiedemann, Principal and Senior Environmental Geoscientist at EBM Geoscience Inc. in Calgary

A Better BC Rollout

BC delayed its launch, opening applications for its first tranche of its total \$120 million of federal funding on May 25. Daniel Gorsic, CEO of SynergyAspen Environmental, says he only learned of details of the application on May 21, and what followed was a flurry of work to get ready for the opening bell.

“We were 100% successful up to about 3:15 in the afternoon,” he says, when the first tranche ran out of money.

Loni Evans, Vice President, Prospect Environmental Services Ltd. in Fort St. John, regularly works in Northern BC and northwestern Alberta. She says she was 100% unsuccessful in the first round of applications in Alberta, and 100% successful in BC – until the money ran out. She credits BC with better communication from program administrators at the Ministry of Energy, Mines and Low Carbon Innovation. She says she knew what was coming and what was expected of her.

“Saskatchewan waited even longer to open applications for its **\$400 MILLION** share of the federal pie.”

Slow and Steady Saskatchewan

Saskatchewan waited even longer to open applications for its \$400 million share of the federal pie. In an effort to get the biggest environmental bang for each federal

buck, it developed an area-based closure model in partnership with the Saskatchewan Research Council.

“We spent a lot of time working directly with the producers and with the oilfield service companies,” says Blair Wagar, Assistant Deputy Minister at the Saskatchewan Ministry of Energy and Resources.

When the program launched on June 1, producers were invited to nominate wells and related infrastructure for abandonment. Rather than have one service rig come in from Lloydminster and another from Saskatoon to close and cap neighbouring wells, one service provider would deal with both, enhancing the efficiency of the program.

The result was a much slower rollout, admits Wagar, who in early March 2021 was describing Saskatchewan as being only six months into a program whose federal funding was announced 11 months earlier.

“**WEAKNESSES WERE REVEALED...**
(but) by early September, boots were hitting the ground.”

An Appreciative Industry Gets Moving

Despite delays, confusion, and sometimes poor communication, across the oil patch today, few whisper a word of complaint about the program's slow rollout. In Alberta and BC, the launch was partly a live experiment, largely successful in BC, less so in Alberta. Weaknesses were revealed, but programs were adjusted, and by early September, boots were hitting the ground. 📍

Next: The Abandonment Boom, Part 2: Industry Impact

Part 2 explores the impacts the program has had on the finances of the environmental service companies involved, and the bottom-line regarding the progress of remediation and clean-up of retired assets.

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