

THE ABANDONMENT BOOM, **PART 2:** **THE IMPACT**

APRIL 2021



Mark Sabourin
Freelance Writer
Campbellford, Ontario
dbp@personainternet.com



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 second of two parts, ERIS looks at the program's impact.

What Happens When the Money Starts Flowing?

The federally-supported oil and gas site abandonment programs in BC, Alberta and Saskatchewan may have stumbled out of the gate in the first half of 2020, but by the second half they were on course, money was flowing and industry was forgiving. Complaints of “Hurry up and wait” had been drowned out by a loud and insistent “Thank you.”

Alberta had botched its launch, but Alberta Energy hit the reset button and the program found its footing. Buckets of money have been allocated for various grant periods, with each grant period having its own criteria for application. Grant period 1 – the ill-fated launch – favoured the low-hanging fruit. Grant period 6, which is open until March 31, 2022, is aimed at abandonments on First Nations and Métis Settlement lands.

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

“There may be **MONEY LEFT IN THE BANK** when the programs formally close”

Hard Deadlines Bring Challenges

All three provincial programs have a hard end date, though, and there's growing concern within the industry that there may be money left in the bank when the programs formally close at the end of December 2022.

“That's one of the things that keeps us all up at night,” concedes Blair Wagar, Assistant Deputy Minister at the Saskatchewan Ministry of Energy and Resources.

Estimating a project's cost is an uncertain exercise, and Scott Darling, President of Performance Energy Services, says he may have to walk away from jobs he's been awarded if he discovers it can't be done within the program's funding limits.

“A lot of the [Site Rehabilitation Program] is approved, but probably not going to get used,” he says.

Loni Evans, Vice President, Prospect Environmental Services Ltd., says the hard closing date has forced her to schedule in reverse with several of her clients, beginning with a deadline of December 31, 2022 for completion of site reclamation and scheduling backwards to determine her last possible start date.

“The **HARD CLOSING DATE** has forced her to **SCHEDULE IN REVERSE** with several of her clients”

An Incentive for Companies to Get Creative

The service industry in each of the three provinces has been disrupted by the programs. Darling and Ryan Smith CEO of 360 Energy Liability Management both say they've seen many new entrants in the oil and gas service industry in Alberta. Smith says much of this is simple entrepreneurship: companies expanding their business lines to take advantage of an opportunity. Darling, with his 33 years in the service rig business, views it more harshly. The most recent rounds of funding in Alberta have also strongly favoured First Nations businesses, and that is not sitting well with many companies outside those communities.

“Companies (are) expanding their business lines to **TAKE ADVANTAGE OF AN OPPORTUNITY**”

ALLOCATION & IMPACT

Alberta

As of March 26, 2021



- 17,666 applications approved
 - 64.5% of approved applications are for abandonment work, representing \$207.7 million in funding
 - 35.5 % of approved applications are for remediation and reclamation work (including Phase 1 and 2 environmental site assessments), representing \$113.8 million in funding
- \$321.5 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



Companies Scramble to Meet New Criteria

Saskatchewan and BC are both limiting funding to companies based in their provinces, and that has led to a scramble among some companies to establish bona fides in those provinces. Dave Kalinowski, Vice President of Operations at Compass Well Servicing in Red Deer, AB, says Compass maintained operations in Saskatchewan until the downturn hit and he returned his idle rigs to the company's secure yard in Red Deer. Now, he's trying to re-establish his Saskatchewan pedigree.

Daniel Gorsic, CEO of BC-based SynergyAspen Environmental, says he knows of Alberta companies that have created instant offices, sometimes nothing more than a mail drop, in BC. "These are minor things," he adds, an inevitable consequence of a program of this magnitude.

A Rising Tide... or Pigs at the Trough?

Kalinowski says he's disappointed to see some of his competitors behaving like pigs at the trough. The program was intended to support an entire service sector. Instead, what he's seen are winners and losers. No one was supposed to get rich off this program, he says, but instead of a rising tide that lifted all boats, some boats have sailed and others have foundered.

“Instead of a rising tide that lifted all boats, **SOME BOATS HAVE SAILED AND OTHERS HAVE FOUNDERED**”

In British Columbia, the design of the program has put undue strain on the finances of some environmental service companies. The program requires one company, often an environmental service company, to act as the general contractor for all surface work. Subcontractors will have to be paid, usually long before the government reimburses the 50% of costs the program covers. Some companies have found that a challenge, says Gorsic.

Help with a Looming Problem

Inactive oil and gas sites in BC, Alberta and Saskatchewan represent a looming environmental problem. According to the most recent figures from Alberta Energy, the province is home to 97,000 inactive sites. The number is smaller in Saskatchewan, smaller still in BC, but significant nonetheless.

“Only BC demands that operators **INITIATE CLOSURE** after a specified period of inactivity”

Site closure, remediation and reclamation is required of all operators under provincial operating licences, but only BC demands that operators initiate closure after a specified period of inactivity, and that requirement only became law in 2019. In Alberta and Saskatchewan, a non-producing well, or one that is no longer economically viable, can remain a deep hole in the ground until hell freezes over or, more likely, until the owner goes bankrupt and responsibility for site closure and reclamation shifts to each province's industry-funded and cash-strapped orphan fund.

Positive Environmental Impact...

Though it will be some time before the three provincial governments can take the full measure of their programs' environmental impact, there is little question that much more abandonment, remediation and reclamation has been done because of it. There is widespread agreement that in many instances, government money simply displaced

“In many instances, government money simply **DISPLACED BUDGET**”

budget. After all, these are all wells and associated infrastructure owned by operating companies that had budgeted sums for closure in 2020, 2021 and 2022.

... and Putting People Back to Work

In one of the most difficult years the industry has ever faced, the programs allowed that budget to be shifted elsewhere. But the simple fact is that service rigs that were idle in April 2020 were back in the field in October, pulling pipe and cutting and capping inactive wells. Operators that did not have the funds to abandon dormant wells in early 2020 are proceeding to abandonment, says Shannon Armstrong, Manager – Site Assessment and Reclamation, at Action Land & Environmental Services. If not for this program, the work simply would not get done.

Oil and gas giant Cenovus Energy, which recently completed its acquisition of Husky, had planned 150 well abandonments per year for the next 10 years, and Husky was looking at 400 to 500 per year. But thanks to the program the combined company is now planning 1,000 abandonments in 2021, and will be setting new targets for the years to come, according to Justine Strawbridge, Director of Asset Retirement at Cenovus.

“Thanks to the program the combined company is now **PLANNING 1,000 ABANDONMENTS** in 2021”

Some Skeptics are Still Asking this Question

The nagging question, though, is how much of this work would have been done without the program? It's an impossible question to answer except, perhaps, in BC. It is the only province that requires the abandonment of a well after a specified period of inactivity.

Both Evans and Armstrong saw clients put the brakes on scheduled remediation and reclamation when the funding program was announced. Why proceed with an expensive remediation project when the government might pick up all or half the costs?

“Clients put the brakes on **SCHEDULED REMEDIATION AND RECLAMATION** when the funding program was announced”

Work resumed at an accelerated pace in BC once the program got underway, Evans says, but the additional abandonments funded by the program will count toward each operator's future closure obligation. In BC, the program is supporting the closure of wells today that likely would have been closed in a few years anyway. The same may be said for many funded closures in Alberta and Saskatchewan.

Good for the Environment – and the Industry

Don't judge the programs too harshly, cautions Gorsic. In the midst of a pandemic, at a moment of historically low oil prices, the three provincial programs declared two objectives, in order: get people back to work and help clean up dormant well sites and associated infrastructure.

“More than 50% of our work right now is for funded projects,” he says, and for that he has only one word. Thanks. 🙏

Need to Assess Environmental Impact and Risk for Oil & Gas Sites?

Now you can quickly get the critical Phase I Oil & Gas related information you need for sites in BC, AB, and SK.

ERIS' NEW ENHANCED OIL & GAS PHYSICAL SETTING REPORT (PSR)

Learn More >>

ONE-STOP SHOP FOR ENVIRONMENTAL PROPERTY DUE DILIGENCE

1-866-517-5204 | info@erisinfo.com | erisinfo.com

