

PROGRESS REPORT: REGULATION OF OIL AND GAS  
WELLS AND MANAGEMENT OF ORPHANED WELLS

OFFICE OF CONSERVATION -  
DEPARTMENT OF NATURAL RESOURCES



PERFORMANCE AUDIT SERVICES  
ISSUED MARCH 11, 2020

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

**LEGISLATIVE AUDITOR**  
DARYL G. PURPERA, CPA, CFE

**ASSISTANT LEGISLATIVE AUDITOR**  
**FOR STATE AUDIT SERVICES**  
NICOLE B. EDMONSON, CIA, CGAP, MPA

**DIRECTOR OF PERFORMANCE AUDIT SERVICES**  
KAREN LEBLANC, CIA, CGAP, MSW

**FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT  
GINA V. BROWN, PERFORMANCE AUDIT MANAGER,  
AT 225-339-3800.**

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 11, 2020

The Honorable Patrick Page Cortez,  
President of the Senate  
The Honorable Clay Schexnayder,  
Speaker of the House of Representatives

Dear Senator Cortez and Representative Schexnayder:

This report provides the results of our audit of the progress the Department of Natural Resources' Office of Conservation (OC) has made in addressing issues identified in our May 2014 report on the regulation of oil and gas wells and the management of orphaned wells. The purpose of this audit was to evaluate whether OC had implemented the 21 recommendations in the 2014 report.

We found the office had partially or fully implemented all 21 recommendations. As a result, it has improved many of its regulatory processes.

For example, OC now requires more oil and gas wells to be covered by financial security. We found 35,046 (66.3 percent) of 52,826 wells were covered by financial security as of November 2019, compared to 14,432 (25 percent) of 57,819 wells in the May 2014 report.

However, even though OC increased the amount of financial security required, the revised amounts are still not sufficient to cover the cost of plugging most wells. For the 145 wells plugged in fiscal year 2019, we found the average cost for land wells under 3,000 feet was approximately \$4.76 per foot, and the average cost for land wells between 3,000 and 10,000 feet was \$35.84 per foot. Both are significantly higher than the current financial security requirements of \$2 and \$4 per foot, respectively.

In addition, OC has improved its inspection process for active oil and gas wells and orphaned wells. As a result, OC conducted 90 percent of required inspections of new wells and 68 percent of newly orphaned wells in fiscal year 2017.

We found as well that OC has developed formal enforcement procedures that specify when compliance orders and penalties are needed for failed inspections on active wells, and when re-inspections should be conducted. But, while OC issued compliance orders in accordance with its procedures, it did not always conduct required re-inspections of wells that had major

The Honorable Patrick Page Cortez,  
President of the Senate  
The Honorable Clay Schexnayder,  
Speaker of the House of Representatives  
March 11, 2020  
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violations identified. Specifically, OC did not re-inspect 70 (42.9 percent) of the 163 active wells that had at least one major violation identified.

OC also has developed processes and amended its regulations to better identify and address inactive wells with future utility. For example, OC now requires operators with inactive wells that are not included in an approved schedule of abandonment to provide financial security and pay an annual \$250 per well fee. This helps ensure operators do not place their inactive wells in this status for extended periods of time to avoid plugging the well.

We found, too, that OC did not comply with regulations requiring operators to plug wells with no future utility within 90 days. Current regulations require inactive wells designated as having no future utility be plugged within 90 days unless the well is on an approved schedule of abandonment or granted an extension. However, we found 444 (62.1 percent) of the 715 wells in this status as of August 2019 were not plugged or on a schedule of abandonment because OC allowed the operators to instead pay the \$250 inactive well fee and provide financial security.

The number of orphaned wells in Louisiana also has increased more than 50 percent, primarily because of OC's stronger regulatory practices. As of January 1, 2020, Louisiana had 4,295 orphaned wells, as compared to 2,846 as of June 30, 2013.

The report contains our findings, conclusions, and recommendations. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to DNR's Office of Conservation for its assistance during this audit.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

DGP/aa

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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



## Progress Report: Regulation of Oil and Gas Wells and Management of Orphaned Wells Office of Conservation - Department of Natural Resources

March 2020

Audit Control # 40180039

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### Introduction

We evaluated the Department of Natural Resources (DNR) - Office of Conservation's (OC) progress toward addressing issues identified in our May 2014 performance audit on OC's regulation of oil and gas wells and management of orphaned wells.<sup>1</sup> The 2014 audit found that OC did not always effectively regulate oil and gas wells to ensure operators comply with regulations, and did not always effectively manage the current population of orphaned wells. We made 21 recommendations to improve OC's regulation and management of active and orphaned oil and gas wells, and OC agreed with all of them. In this audit, we evaluated whether OC implemented all 21 recommendations.

OC's Oil and Gas Regulatory Program regulates oil and gas operators and wells through its permitting, monitoring, and enforcement processes. Effective regulation is important for ensuring that wells are operating in compliance with regulations and that environmental and public safety risks, such as contamination of ground and surface water, are identified and addressed. Effective regulation is also important in preventing operators from abandoning their wells. If operators abandon their wells or cannot maintain their wells in compliance with regulations, OC will orphan all of an operator's wells. Since our May 2014 audit, OC has modified or promulgated new regulations and developed standard operating procedures that govern its regulatory processes. The objective of this performance audit was:

#### Example of Orphaned Oil Well



Source: Legislative auditor staff photo

#### **To evaluate OC's progress toward addressing issues identified in our May 2014 audit on the regulation of oil and gas wells and the management of orphaned wells.**

Overall, we found that OC partially or fully implemented all 21 recommendations. OC's implementation is summarized on the next page and discussed in detail throughout the remainder of the report. Appendix A contains OC's response to the report, and Appendix B details our scope and methodology. Appendix C contains a list of the findings and recommendations in our 2014 audit and whether each was implemented, partially implemented, or not implemented.

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<sup>1</sup> Our 2014 performance audit on OC can be found on our website at [https://www.la.gov/PublicReports.nsf/D6A0EBE279B83B9F86257CE700506EAD/\\$FILE/000010BC.pdf](https://www.la.gov/PublicReports.nsf/D6A0EBE279B83B9F86257CE700506EAD/$FILE/000010BC.pdf)

**Objective: To evaluate OC's progress toward addressing issues identified in our May 2014 audit on the regulation of oil and gas wells and the management of orphaned wells.**

We found that OC partially or fully implemented all 21 recommendations to address the issues identified in the May 2014 audit. As a result, OC has improved many of its regulatory processes. However, the population of orphaned wells has increased, primarily because of stronger regulatory practices and better identification of inactive wells, and OC faces multiple challenges in addressing this growing population. Specifically, we found that:

- **OC now requires that more oil and gas wells be covered by financial security. Because OC revised its regulations to remove some exemptions to financial security requirements, 35,046 (66.3%) of 52,826 wells are covered by financial security as of November 2019, compared to only 14,432 (25%) of 57,819 wells in the May 2014 audit.** Financial security is similar to insurance in that it provides the state with funds that it can use to plug the well if the operator abandons the well.
- **Although OC amended its regulations to increase the amount of financial security required, the revised amounts are still not sufficient to cover the cost of plugging most wells.** We used actual plugging costs for the 145 wells plugged in fiscal year 2019 and found that the average cost to plug land wells under 3,000 feet in depth was approximately \$4.76 per foot, and the average cost to plug land wells between 3,000 and 10,000 feet in depth was \$35.84 per foot. Both of these costs are significantly higher than the current financial security requirements of \$2.00 and \$5.00 per foot, respectively. This may provide an incentive for operators to abandon wells instead of plugging them.
- **OC has improved its process for inspecting active oil and gas wells and orphaned wells.** OC developed risk-based frequencies for inspections, and districts are responsible for ensuring those frequencies are met. As a result, we found that OC conducted 90.9% of required inspections on new wells and 67.7% of newly orphaned wells in fiscal year 2017.
- **OC has developed formal enforcement procedures that specify when compliance orders and penalties are needed for failed inspections on active wells, and when re-inspections should be conducted.** However, while OC is issuing compliance orders in accordance with its procedures, it did not always conduct required re-inspections of wells that had major violations identified during routine inspections. Specifically, OC did not conduct re-inspections on 70 (42.9%) of the 163 active wells during fiscal years 2016 through 2019 that had at least one major violation identified during its routine inspection, as required by policy.

- **OC has developed processes and amended its regulations to better identify and address inactive wells with future utility.** For example, OC now requires that operators with inactive wells that are not included in an approved schedule of abandonment (SOA) provide financial security and pay an annual \$250 per well fee. This helps ensure that operators do not place their inactive wells in this status for extended periods of time to avoid plugging the well.
- **OC is not in compliance with regulations that require operators to plug wells with no future utility within 90 days.** Current regulations require that inactive wells designated as having no future utility be plugged within 90 days unless the well is included on an approved SOA or granted an extension. However, we found that 444 (62.1%) of the 715 wells in this status as of August 2019 were not plugged or on a SOA because OC is allowing these operators to instead pay the \$250 inactive well fee and provide financial security.
- **The number of orphaned wells has increased by more than 50%, primarily because of OC's implementation of stronger regulatory practices, such as requiring more operators to have financial security and increased inspections.** As of January 1, 2020, Louisiana had 4,295 orphaned wells, as compared to 2,846 as of June 30, 2013. However, OC faces multiple challenges in trying to address this growing population.

Our findings, along with new recommendations to help OC further strengthen its regulatory processes, are discussed in more detail on the following pages.



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**OC now requires that more oil and gas wells be covered by financial security. Because OC revised its regulations to remove some exemptions to financial security requirements, 66.3% of wells are covered by financial security as of November 2019, compared to only 25% in the May 2014 audit.**

During the 2014 audit, OC regulations did not require all operators to have financial security. As a result, only 14,432 (25%) of 57,819 wells had financial security. Financial security is similar to insurance in that it provides the state with funds that it can use to plug the well if the operator abandons it. If an operator abandons a well without financial security, OC is authorized to use funds from the Oilfield Site Restoration (OSR) fund to plug the well and remediate the site. Types of financial security allowed include a certificate of deposit, a performance bond, or a letter of credit from a financial institution. At the time we conducted this audit, the following operators were exempt from financial security requirements:

- Operators who have been an operator less than 48 months (4 years).
- Operators who are associated or have officers associated with an orphaned well for 48 months immediately preceding the permit date of the well.
- Operators who have not exhibited a record of compliance for 48 months immediately preceding the permit date of the well.

OC revised its regulations in May 2015 to remove these exemptions and require all applicants seeking a permit to drill, and all applicants amending a permit to change operators, to provide financial security.<sup>2</sup> These regulations also require that inactive wells with future utility provide financial security unless the inactive well is on an approved schedule of abandonment (SOA). However, subsequent to the rule change, Act 634 of the 2016 Regular Legislative Session required that OC revise its regulations to allow the following exemptions to the new financial security requirements. To address recommendations from the 2014 performance audit, new exemptions were established to incentivize operators to plug wells that were currently orphaned.

- Any wells declared to be orphaned by the Commissioner of the Office of Conservation (Commissioner) and subsequently transferred to another operator are not required to provide financial security.
- Any well to be drilled by an operator who has an agreement with OC to plug a well that has been declared to be orphaned by the Commissioner and that orphaned well is similar to the proposed well in terms of depth and location.

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<sup>2</sup> Wells drilled prior to July 1, 2000, were exempt from the financial security requirements before the 2014 audit, and are currently still not subject to these requirements, unless the permit is amended to change operators.



As of November 2019, DNR identified that 35,046 (66.3 %) of 52,826 wells have financial security. We also tested whether all wells permitted in fiscal year 2018 that were still active and producing had financial security and found that all of them did.

**Although OC amended its regulations to increase the amount of financial security required, the revised amounts are still not sufficient to cover the cost of plugging most wells.**

OC regulations require either individual or blanket financial security. During the May 2014 audit, we found that OC regulations required financial security from \$1.00 per foot to \$12.00 per foot depending on the location and depth of the well, and \$2,500 per well for blanket financial security for coverage of up to 10 land wells. However, we found that these financial security amounts were not sufficient to cover the costs to plug the wells we evaluated during our audit. In May 2015 OC revised its regulations and increased both individual and blanket security amounts. The increase to land wells less than or equal to 3,000 feet increased from \$1.00 to \$7.00 per foot, but was reduced to \$2.00 per foot by Act 634 of the 2016 Regular Legislative Session. According to OC, this was because many small operators could not afford the \$7.00 per foot amount and were at risk of orphaning their wells. Exhibit 1 summarizes the current financial security amounts and how much they were increased since the May 2014 audit.

**Individual Security:** covers one well and is based on the well depth and well location.

**Blanket Security:** covers multiple wells owned by a single operator and is based on the number of wells and their location.

Well locations include land, inland waters (lakes, bays, etc., located within the coastal zone), and offshore waters.

<b>Exhibit 1 Current Individual and Blanket Financial Security Amounts</b>			
<b>Well Depth</b>	<b>On Land</b>	<b>Water (Inland Lakes and Bays)</b>	<b>Water (Offshore)</b>
<b>Less than or Equal to 3,000 ft</b>	\$2 Per Foot <i>(increased from \$1)</i>	\$8 Per Foot	\$12 Per Foot
<b>Between 3,001 - 10,000 ft</b>	\$5 Per Foot <i>(increased from \$2)</i>	\$8 Per Foot	\$12 Per Foot
<b>Greater than or Equal to 10,000 ft</b>	\$4 Per Foot <i>(increased from \$3)</i>	\$8 Per Foot	\$12 Per Foot
<b>Blanket Financial Security Amounts</b>			
<b>Less than or Equal to 10 Wells</b>	\$50,000 <i>(increased from \$25,000)</i>	\$250,000 <i>(increased from \$125,000)</i>	\$500,000 <i>(increased from \$250,000)</i>
<b>Between 11 - 99 Wells</b>	\$250,000 <i>(increased from \$125,000)</i>	\$1,250,000 <i>(increased from \$625,000)</i>	\$2,500,000 <i>(increased from \$1,250,000)</i>
<b>Greater than or Equal to 100 Wells</b>	\$500,000 <i>(increased from \$250,000)</i>	\$2,500,000 <i>(increased from \$1,250,000)</i>	\$5,000,000 <i>(increased from \$2,500,000)</i>
<b>Source:</b> Prepared by legislative auditor’s staff using data from OC regulations.			

Although financial security amounts have increased, these amounts are still not sufficient to cover the cost to plug all wells. We used actual plugging costs for the 145 wells plugged in fiscal year 2019 and found that the average cost to plug land wells under 3,000 feet was approximately \$4.76 per foot. The average cost to plug land wells between 3,000 and 10,000 feet was \$35.84 per foot. Both of these costs are significantly higher than the current financial security requirements of \$2.00 and \$5.00 per foot, respectively. Exhibit 2 summarizes this analysis. Not having sufficient financial security to cover the cost to plug wells may provide an incentive for operators to abandon wells instead of plugging them.

Exhibit 2 Analysis of Actual Plugging Costs Compared to Financial Security Amounts Fiscal Year 2019				
Well Depth	Financial Security Fee On Land	Number of Wells Plugged and Abandoned	FY 2019 Total Cost to Plug and Abandon	Average Cost Per Foot to Plug and Abandon
Less than or Equal to 3,000 ft	\$2 Per Foot (Increased from \$1)	139	\$1,130,052.27	\$4.76
Between 3,001 - 10,000 ft	\$5 Per Foot (Increased from \$2)	6	\$1,214,048.13	\$35.84
Greater Than or Equal to 10,000 ft	\$4 Per Foot (Increased from \$3)	0	\$0.00	\$0.00
<b>Source:</b> Prepared by legislative auditor's staff using data from DNR.				

**Matter for Legislative Consideration:** The legislature may wish to review the current financial security amounts and determine whether they should be increased to cover the actual cost to plug a well.

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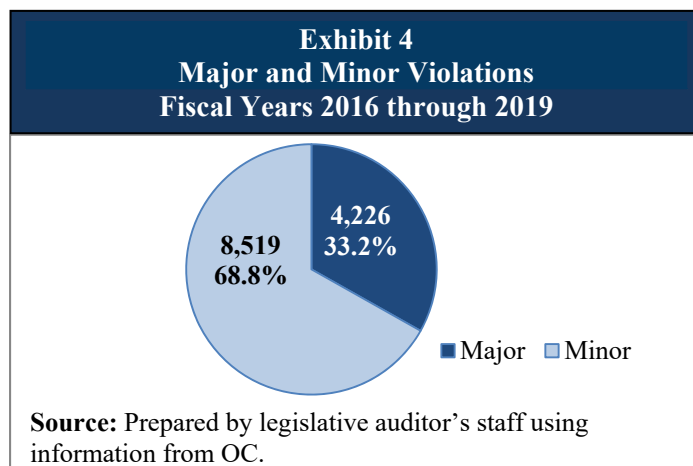
**OC has improved its process for inspecting active oil and gas wells and orphaned wells. OC developed risk-based frequencies for inspections, and districts are responsible for ensuring those frequencies are met.**

OC Conservation Enforcement Specialists (CESs) in the three district offices conduct routine inspections of oil and gas wells to ensure they are operating in compliance with regulations. Routine inspections also help OC identify inactive (non-producing) and abandoned wells. CESs also conduct inspections of orphaned oil wells. During the May 2014 audit, we found that OC did not conduct routine inspections in accordance with timeframes established by the Commissioner of at least 26,828 (52.6%) of 50,960 oil and gas wells, and 12,702 (25%) were not inspected at all during this timeframe. We also found that OC did not conduct initial inspections of 124 (46%) of 270 newly orphaned wells within 90 days and did not conduct routine inspections of 1,630 (75.6%) of 2,156 orphaned wells every three years.

To address these deficiencies, OC promulgated regulations in May 2015 that established risk-based frequencies for active wells, as shown in Exhibit 3. The frequency for orphaned wells did not change. Orphan wells still have to be inspected within 90 days following the date they are listed as orphaned in the Louisiana Register, and at least once every three years thereafter unless designated as high priority or urgent. OC inspects urgent and high-priority wells every year.

Exhibit 3 Inspection Frequency Requirements	
Criteria	Frequency
All active wells	At least once every 5 years
Wells within the state's Coastal Management Zone and/or within the guide levees of the Atchafalaya Basin	At least once every 3 years
Newly completed wells	Within 1 year of completion
<b>Source:</b> Prepared by legislative auditor's staff using information from OC.	

Since the May 2014 audit, OC has also developed processes to ensure districts are conducting inspections within required timeframes. For example, CESs are assigned areas of responsibility and must inspect wells in those areas. Districts also provide OC with monthly reports on whether inspection goals were met. Because of these changes, we found that OC has conducted most inspections within its required timeframes. In fiscal year 2017, OC conducted inspections of 361 (90.9%) of 397 newly permitted wells within one year as required by its policy. OC also conducted inspections of 287 (67.7%) of 424 wells orphaned in calendar year 2016 at least once every three years after the initial orphan well inspection, as required by OC's policies and procedures. According to OC, it was not able to conduct all inspections because of various reasons, including the difficulty in accessing certain wells because of the lack of equipment, such as boats; the loss of staff due to turnover and retirement; and the inability to fill these positions due to lack of funding.



OC can now download inspection results into its Strategic Online Natural Resources Information System (SONRIS) so that it can quantify the number and type of violations. In the prior audit, there was no way to categorize or quantify the types of violations cited on failed inspections other than by reading through narrative comments. During fiscal years 2016 through 2019, OC cited 12,745 violations on inspections, with 4,226 (33.2%) classified as major and 8,519 (66.8%) classified as minor, as shown in Exhibit 4. The most prevalent violations during this timeframe are summarized in Exhibit 5.

Exhibit 5 Top 10 Violations Identified on Inspections Fiscal Years 2016 through 2019			
Description (Violation Code)	Minor/Major	Number	Percent
No Wellsite ID (C-1B)	Minor	2,432	19.1%
Unacceptable degree of combustible vegetation in and around the production facility (E.3)	Minor	1,983	15.6%
Debris within 100 feet of the wellhead(s), which constitutes a fire hazard (C-2E)	Minor	1,535	12.0%
Wellhead not being maintained in acceptable working order, which results in the possibility of the loss of well control or unauthorized discharge of waste (C-2G)	Major	1,439	11.3%
Illegible Worksite ID (C-1D)	Minor	508	4.0%
Previous Operator on Wellsite ID (C-1F)	Minor	497	3.9%
Numerous wells located on the lease not equipped with required wellhead equipment (C-2J)	Major	456	3.6%
Incomplete Wellsite ID (C-1H)	Minor	400	3.1%
Exploration and production waste discharged in the vicinity of the wellhead or production equipment and allowed to migrate to natural drainage (F-1)	Major	304	2.4%
Tank is operative without the necessary containment (C-2M)	Major	282	2.2%
<b>Source:</b> Prepared by legislative auditor's staff using data from SONRIS.			

**Recommendation 1:** OC should continue to strive to meet its inspection goals for active and orphaned wells.

**Summary of Management's Response:** OC agrees with this recommendation and stated that OC staff have worked to improve processes, incorporating guidance from the 2014 report, and have demonstrated those efforts to have been successful, despite budget challenges resulting in reductions in staffing. Conservation will continue to seek ways to improve efficiency in its oversight of inspections and scheduling processes. See Appendix A for management's full response.

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**OC has developed formal enforcement procedures that specify when compliance orders and penalties are needed for failed inspections on active wells, and when re-inspections should be conducted. However, while OC is issuing compliance orders in accordance with its procedures, it did not always conduct required re-inspections of wells that had major violations identified during initial inspections.**

During the May 2014 audit, we found that OC had not developed an effective enforcement process that sufficiently and consistently addressed noncompliance. Specifically, we found that OC did not consistently or timely address all violations cited on inspections, and it did not always conduct re-inspections or issue penalties when it found that operators had not

corrected violations. In February 2015 OC developed standard operating procedures (SOPs) for issuing enforcement actions. These SOPs require that all violations identified during inspections receive a compliance order within 22 days. For minor violations, the operator must submit evidence, such as a photograph, that the violation has been corrected within 60 days. For major violations, the operator has 30 days to correct the violation and then OC must conduct a re-inspection within 7-10 working days to verify if the violation was corrected.

**Although OC issued compliance orders on 160 (98.2%) of 163 failed inspections on active wells that had at least one major violation, it did not conduct re-inspections on 70 (42.9%) of these wells to ensure major violations were corrected.** We tested whether the 163 inspections<sup>3</sup> that failed and had at least one major violation during fiscal years 2016 through 2019 received compliance orders as required by policy and found 160 (98.2%) had a compliance order. However, of the 160 compliance orders that were issued, 47 (29.4%) were not issued within the required number of days. In addition, we found that OC did not conduct re-inspections on 70 (42.9%) of the 163 wells that had at least one major violation identified during its routine inspection to ensure major violations were corrected. These 70 active wells had 168 major violations. Exhibit 6 summarizes the top three violations that OC cited.

<b>Exhibit 6</b>	
<b>Top 3 Major Violations Not Re-inspected by OC</b>	
<b>Fiscal Years 2016 through 2019</b>	
<b>Violation</b>	<b>Number of Instances</b>
The wellhead is not being maintained in acceptable working order which results in the possibility of the loss of well control or the unauthorized discharge of exploration and production	77
Numerous wells are not equipped with the required wellhead equipment	23
Area around the wellsite was contaminated due to unauthorized discharge of exploration and production	9
<b>Total</b>	<b>109 (64% of the 168 major violations)</b>
<b>Source:</b> Prepared by legislative auditor’s staff using inspection data obtained from OC.	

Of the 93 wells that were re-inspected, 68 (73.1%) were re-inspected outside the required timeframe of 7-10 working days after the violation should have been corrected by the well operator. Conducting re-inspections in a timely manner is important to verify whether operators have corrected major violations on their wells. Exhibit 7 shows the timeliness of DNR’s re-inspection of wells. As shown in the exhibit, almost 20% of the wells that were re-inspected were inspected over a year late.

<sup>3</sup> We limited the inspections to those inspections on active wells with at least one major violation and a status of pending, which indicates that the operator has not fixed the violation.

Exhibit 7 Timeliness of Re-inspections Fiscal Years 2016 through 2019		
Timeliness	No. of Re-inspections	Percent
Inspected on time	25	26.9%
Less than two months late	10	10.8
Between 2-4 months late	16	17.2
Between 4-12 months late	24	25.8
Between 1-2 years late	13	14.0
More than 2 years late	5	5.4
<b>Total Re-inspected</b>	<b>93</b>	
<b>Total Re-inspected Late</b>	<b>68</b>	<b>73.1%</b>
<b>Source:</b> Prepared by legislative auditor's staff using inspection data from OC.		

**OC has increased its use of civil penalties for noncompliant well operators.** OC will issue monetary penalties if operators do not correct violations, and for other areas of noncompliance such as failure to obtain permits, failure to notify the district office of the start of approved well work, and failure to file the required monitoring completion/production reports. These penalties are outlined on a penalty matrix and range from \$200 for failure to file required monitoring completion production reports to \$5,000 for unauthorized discharge of waste to natural drainage of state waters. During the 2014 audit, we found that although OC had the authority to impose civil penalties, it did so infrequently. Specifically, between fiscal years 2008 and 2013, OC issued an average of \$150,468 in penalties each year. In contrast, we found that between fiscal years 2016 and 2019, OC issued an average of \$343,763 in penalties each year, a 128.5% in increase. We also found that OC issued penalties in accordance with its penalty matrix for 16 (84.2%) of 19 wells that failed a re-inspection because it had the same violation as the initial inspection.

**Recommendation 2:** OC should ensure compliance orders are issued within the specified timeframes in its SOPs.

**Summary of Management's Response:** OC agrees with this recommendation and stated it will adjust standard operating procedures to set a timetable that better reflects the time necessary to prepare and issue compliance orders, and also to specify in the procedures the amount of acceptable time between initial report of compliance problem and issuance of the resulting compliance order. See Appendix A for management's full response.

**Recommendation 3:** OC should ensure it conducts the required re-inspection when it identifies major violations on routine inspections as required by policy.

**Summary of Management's Response:** OC agrees with this recommendation and stated it will improve its processes by working to set up an automated e-mail system as a means to improve tasking and scheduling enforcement agent re-inspections of sites found to have major violations and improving processes that ensure notifications of



districts and agents - particularly those in areas with particularly high well densities. See Appendix A for management's full response.

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**OC has developed processes and amended its regulations to better identify and address inactive wells with future utility. For example, OC now requires that operators with inactive wells that are not included in an approved schedule of abandonment provide financial security and pay an annual \$250 per well fee.**

During the May 2014 audit, we found that OC did not have a process to effectively identify inactive wells and did not have sufficient regulations regarding inactive wells with future utility. Since 2014, OC has promulgated new regulations and developed processes to better identify and address inactive wells. Specifically, OC revised its inspection report which now allows CESs to identify wells with an incorrect status during inspections and correct the status in SONRIS. In addition, beginning in November 2014 OC required operators to report well tests and inactive well reports twice a year electronically through SONRIS. If operators do not submit these reports, an email is automatically generated with a reminder. If operators still do not submit the reports, a civil penalty email is sent. Since implementing the online reporting, noncompliance with these requirements has decreased. For example, in May 2017, 92 operators failed to submit these reports compared to only 15 operators who failed to submit in May 2019.

OC also revised its rules related to the plugging of inactive wells with future utility. These rules now require that all inactive wells designated as having future utility be plugged within one year of the date of becoming inactive unless the well is included on an approved SOA or granted an extension by the Commissioner. If the well is not on a SOA, the operator must obtain financial security and pay \$250 per well per year, as recommended in our 2014 report. This helps ensure the operators do not place their inactive wells in future utility status for extended periods of time to avoid plugging the well. As of August 2019, there were 17,060 wells in future utility status, but 15,881 (93.1%) were not on a SOA. However, while we found that all of these operators paid their \$250 fee in fiscal year 2018, 1,660 (10.5%) wells were not covered by financial security. According to OC, it is in the process of obtaining financial security for these wells.

From fiscal years 2017 to 2019, according to OC, it has collected approximately \$5.1 million in fees for all inactive wells. Pursuant to Act 582 of the 2016 Regular Legislative Session, OC deposits 50% of the fee in the Oil and Gas Regulatory Fund and 50% into the Oilfield Site Restoration Fund that is used to pay for the plugging costs of orphaned wells.



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**OC is not in compliance with regulations that require operators to plug wells with no future utility within 90 days. Current regulations require that inactive wells designated as having no future utility be plugged within 90 days unless the well is included on an approved SOA or granted an extension. However, we found that 444 (62.1%) of the 715 wells in this status as of August 2019 were not plugged or on a SOA because OC is allowing these operators to instead pay the \$250 inactive well fee and provide financial security.**

During the May 2014 audit, we found that OC did not always issue compliance orders to plug inactive wells with no future utility, and did not consistently ensure that operators plugged these wells when ordered to do so through compliance orders. Specifically, we found that OC did not issue compliance orders on 416 (86.3%) of 482 wells with no future utility as required by regulations and only 591 (25.4%) of 2,323 wells were plugged as required by compliance orders. Since 2014, OC revised its regulations and, as discussed in the previous section, requires that operators with wells in a future utility status pay a \$250 fee and provide financial security if they do not plug their wells or include their wells on an approved SOA. However, it did not amend the requirements for wells with no future utility so these owners are still required to plug their wells within 90 days or be included on a SOA.

As of August 2019, we identified 715 wells designated as having no future utility, but 444 (62.1%) were not plugged or included on a SOA. According to OC, it is no longer issuing compliance orders to plug these wells and is instead requiring operators to pay the \$250 fee and provide financial security even though the rule does not allow this. According to OC, it will update the regulations to reflect its current practice.

We also tested whether operators who were issued compliance orders to plug and abandon their wells<sup>4</sup> actually plugged their wells. We found that from fiscal years 2016 through 2018, OC issued compliance orders to plug 213 wells. According to SONRIS, 35 (16.4%) were plugged as of August 2019, but OC ultimately orphaned most wells (46.5%) because operators could not be located or would not comply with the compliance order. Exhibit 8 summarizes the outcome of the wells ordered plugged during fiscal years 2016 through 2018.

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<sup>4</sup> We included all wells in this analysis, not just wells with no future utility.

<b>Exhibit 8 Outcome of Wells Ordered Plugged Fiscal Years 2016 through 2018</b>		
<b>Outcome</b>	<b>Number</b>	<b>Percentage</b>
Compliant	35	16.4%
<i>Within 90 Days</i>	<i>12</i>	<i>34.3%</i>
<i>Greater than 90 Days</i>	<i>23</i>	<i>65.7%</i>
Compliant through Other Means*	16	7.5%
Pending Plugging	48	22.5%
Orphaned or Pending Orphaned	99	46.5%
Rescinded or Voided	15	7.0%
<b>Total</b>	<b>213</b>	
*Put back in production or paid required outstanding fees and no longer needed to plug the well. <b>Source:</b> Prepared by legislative auditor's staff using data from SONRIS.		

**Recommendation 4:** OC should either comply with current regulations that require operators plug wells listed as having no future utility or amend its regulations to reflect current practice and require that operators with wells designated as no future utility that are not on an approved SOA pay the assessment fee and provide financial security.

**Summary of Management's Response:** OC agrees with this recommendation and stated it will adjust its standard operating procedures and rules to reflect the newer practices. See Appendix A for management's full response.

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**The number of orphaned wells has increased by more than 50%, primarily because of OC's implementation of stronger regulatory practices, such as requiring more operators to have financial security and increased inspections. As of January 1, 2020, Louisiana had 4,295 orphaned wells, as compared to 2,846 as of June 30, 2013. However, OC faces multiple challenges in trying to address this growing population.**

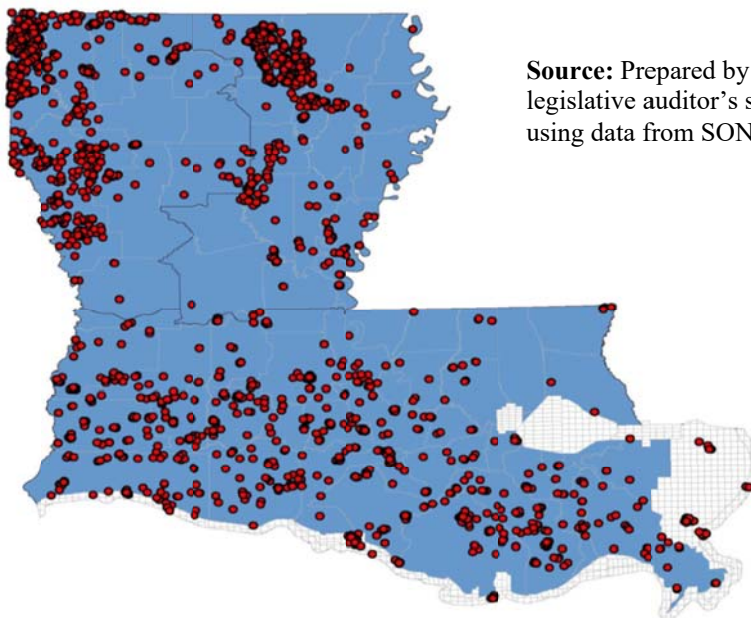
As reported in our 2014 audit, Louisiana had 2,846 orphaned wells as of June 30, 2013. However, this number increased to 4,295 wells as of January 1, 2020. OC uses a priority system to determine when to plug orphaned wells. This system ranks wells from urgent to low priority based on various risk factors, including whether the well is leaking, is a navigational hazard, and is within a certain distance of a public water supply. In addition, it often has costly emergency projects that it must immediately address. For example, during fiscal year 2019, OC spent approximately \$8.8 million to repair and plug two orphaned wells that were damaged and experiencing high pressure and leaking gas and posed environmental and public safety risks

because of the potential of a well blow-out. Exhibit 9 summarizes the current number of orphaned wells by their priority level.

Exhibit 9 Number of Orphaned Wells By Priority As of January 1, 2020	
Priority	Number (%) of Orphan Wells
1 (urgent)	61 (1.4%)
2 (high)	547 (12.7%)
3 (moderate)	1,667 (38.8%)
4 (low)	1,843 (42.9%)
Wells not prioritized or inspected	177 (4.2%)
<b>Total</b>	<b>4,295</b>
<b>Source:</b> Prepared by legislative auditor's staff using data from OC.	

According to OC, the number of orphaned wells increased after the financial security requirements were implemented as many smaller operators could not afford it. This was further exacerbated by a reduction in the price of oil from \$100 a barrel in June 2014 to approximately \$30 a barrel in January 2016. In addition, better regulatory processes, such as inspections and the requirement to report inactive wells increased the number of abandoned well sites that were ultimately orphaned. Exhibit 10 shows the location of orphaned wells as of June 30, 2019.

**Exhibit 10**  
**Locations of Orphaned Oil Wells as of June 30, 2019**

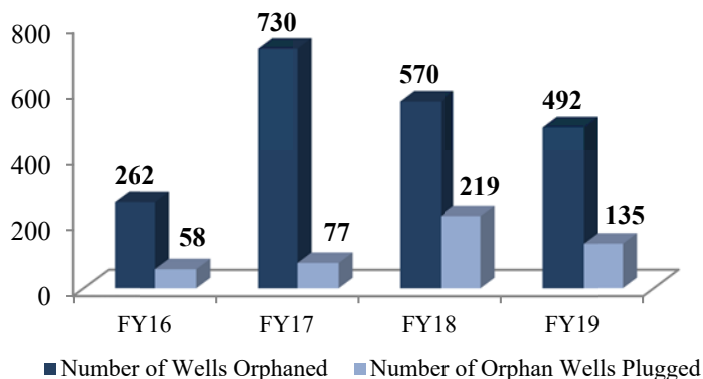


**Source:** Prepared by legislative auditor's staff using data from SONRIS.

OC uses funds from a production fee and from financial security to plug orphaned wells and restore the site. Louisiana Revised Statute (R.S.) 30:86 establishes the Oilfield Site Restoration (OSR) Fund to provide funds for site restoration and plugging costs associated with orphaned wells. These funds come from a production fee of \$0.015 for every barrel of oil and condensate produced and \$0.003 for every thousand cubic feet of gas produced, as well as from the assessment on inactive wells. OC can also use financial security to pay plugging costs. Since OC revised the financial security regulations to remove some exemptions, the amount of financial security used for plugging costs has increased significantly, from \$125,000 in fiscal year 2016 to approximately \$3.2 million in fiscal year 2019.

**OC faces multiple challenges in its ability to address the growing orphan well population including lack of funding, difficulty finding licensed contractors to plug wells, and financial institutions not honoring their obligations to pay financial security.** OC has not been able to plug the growing population of wells that are orphaned each year. Exhibit 11 summarizes the number of wells orphaned and the number of wells plugged by fiscal year.

**Exhibit 11  
Wells Orphaned and Plugged  
Fiscal Years 2016 through 2019**



Source: Prepared by legislative auditor’s staff using data from SONRIS.

**Lack of funding for plugging wells.** Although the production fee and financial security help offset the costs of plugging wells, OC estimates that it will take approximately \$128 million and nearly 20 years to address the current population of orphaned wells, assuming no new wells become orphaned.<sup>5</sup> In addition, OC must often spend OSR funds for costly emergency projects that it must immediately address. For example, in fiscal year 2019, it spent approximately \$8.8 million to repair and plug two orphaned wells that were damaged and were experiencing high pressure and leaking of gas which posed both environmental and public safety risks.

According to OC, if the production fee were raised to one cent per thousand cubic feet of gas, contributions to the OSR fund could be increased by about \$10 million per year which would significantly reduce the timeframe to reach the current \$28 million per year to address the current population.

<sup>5</sup> Based on the average cost to plug a well (\$30,000), the current population of orphaned wells, and the average amount received in the OSR fund each year (\$6.5 million)

OC is currently working with the Attorney General’s Office to seek payment from responsible parties for these emergency projects.

In an effort to increase funding to the OSR fund, Act 666 of the 2016 Regular Legislative Session was passed that increased the fee on oil produced to three cents per barrel (\$.03) for any year where the average price of oil is above \$60 a barrel and four and one-half cents (\$.045) when the average price is above \$90 a barrel. In addition, Act 411 of the 2017 Regular Legislative Session eliminated the exemption relative to severance taxes on horizontal wells which helped increase funding to the OSR fund. However, there has been no increase in the production fee on gas wells that have contributed approximately \$15.8 million (69.2%) of the \$25 million production fees in the OSR fund from fiscal years 2017 through 2019, as shown in Exhibit 12.

<b>Exhibit 12</b>				
<b>Revenue Sources for OSR Fund</b>				
<b>Fiscal Years 2017 through 2019</b>				
<b>Revenue Source</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Total</b>
Gas Production Fee	\$3,275,974	\$4,849,303	\$7,680,808	\$15,806,085
Oil Production fee	719,159	662,333	663,510	2,045,002
Interest	18,110	57,318	111,328	186,756
Inactive Well Assessment	774,500	829,000	957,875	2,561,375
Financial Security	125,000	165,697	2,099,243	2,389,940
Other Reimbursements*	47,400	279,542	1,777,263	2,104,205
<b>Total</b>	<b>\$4,960,143</b>	<b>\$6,843,193</b>	<b>\$13,290,027</b>	<b>\$25,093,363</b>
*Includes Shoreline Escrow Accounts				
<b>Source:</b> Prepared by legislative auditor’s staff using information from OC.				

**Difficulty finding licensed contractors to plug orphaned wells.** Contractors are required by state law to be licensed, furnish a \$1 million liability insurance policy for land projects and a \$5 million liability insurance policy for water projects, and obtain a performance bond worth 100% of the amount of the bid package. According to OC, these requirements make it difficult to find contractors who meet these qualifications to plug wells. In addition, the cost to plug wells through the OSR program is significantly greater than if operators plugged the well themselves because of these requirements. According to OC, operators estimated that the cost to plug wells through the OSR program was three to four times greater than if an operator plugged the well themselves. House Concurrent Resolution 72 of the 2016 Regular Legislative Session required that OC develop an alternative way of contracting with operators and other qualified bidders for services to plug orphaned wells. However, many of the suggested rule changes identified by HCR 72 cannot be enacted without changes to state law.

To encourage operators to plug orphaned wells, Act 526 of the 2016 Regular Legislative Session required that the Commissioner develop a plugging credit program. The Plugging Credit Certificate program allows operators to plug orphan wells in lieu of providing financial security on their wells. However, there have only been 3-4 applicants who have applied and received these credits.

**Some financial institutions are not fulfilling their obligation to pay financial security when operators orphan their wells.** As of February 2020, OC had approximately \$495 million in financial security instruments from financial institutions and insurance companies that operators secured for their wells. However, 12 institutions have not paid approximately \$5 million in financial security that OC has requested when wells were orphaned. OC is currently working with the Attorney General’s Office to collect these funds.

To address some of the issues with financial security, OC entered into a cooperative endeavor agreement with the Louisiana Oilfield Restoration Association (LORA) in November 2019 to help provide financial security for operators at reduced rates. LORA provides letters of credit for operators, and operators pay a fee of 3.5% of the financial security amount each year. LORA places 80% of this fee into a reserve account to plug wells and can use up to 20% for administrative costs. Once the reserve fund reaches \$5 million, LORA would then help OC with the cost of plugging orphaned wells not participating in this program as a “charitable endeavor.” As of January 2020 approximately 40 operators have obtained \$3.7 million in financial security from LORA. Because it was recently created, we were unable to perform any detailed audit work during this audit. However, we are currently examining financial security and LORA in more detail to determine if there are any audit-related issues that need to be addressed.

**Matter for Legislative Consideration:** The legislature may wish to consider increasing the production fee for gas wells or tying the fee to the price of gas, similar to how the production fee is tied to oil prices.

**Matter for Legislative Consideration:** The legislature may wish to consider whether operators or contractors who plug orphaned wells can be exempted from the statutory requirement to be a licensed contractor.





## **APPENDIX A: MANAGEMENT'S RESPONSE**





**JOHN BEL EDWARDS**  
GOVERNOR

**State of Louisiana**  
**DEPARTMENT OF NATURAL RESOURCES**  
**OFFICE OF CONSERVATION**

**THOMAS F. HARRIS**  
SECRETARY

**RICHARD P. IEYOUNG**  
COMMISSIONER OF CONSERVATION

March 2, 2020

Mr. Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804-9397

RE: Regulation of Oil and Gas Wells and Management of Orphaned Wells

Dear Mr. Purpera:

Before I get into the main section of the Office of Conservation's response, I would first like to thank the audit team and staff members of the Office of the Legislative Auditor not only for their efforts in helping our agency improve its operations, but for their professionalism and cooperative nature throughout the review of our processes and performance. I appreciate both their recognition of the hard work that has been done by Office of Conservation staff in the years since the 2014 audit and the acknowledgement that, for the few goals that have not yet been fully met, we have made great progress on the journey. I would note that the work of the Auditor's Office was instrumental in guiding the necessary changes and improvements Office of Conservation staff have implemented over the past several years. While the goals set for this Office to modernize its processes and improve its efficiency were many and varied, it is gratifying to see that our aggressive approach to achieving them has been so successful over a relatively short time.

The men and women of this office have had to adjust a great many processes and significantly update processes that had simply not evolved with newer technologies and practices. By the time this administration took office, that effort had just begun, and I am proud to see the results of the efforts we took on to continually improve and modernize Conservation's approaches. Over that time, we saw the oil and gas markets fall precipitously and only slowly recover, which has also had an impact on the funding and staffing for this agency over the past several years. In addition, the combination of a slowing market for oil and gas with greater regulatory and financial security requirements for operators had the effect of swelling the ranks of orphaned wells at a pace that the state has rarely seen in the past.

In light of that, I am gratified by the results of the work done by our team at the Office of Conservation over the past several years, appreciative of the work of your staff in developing this

report, and thankful for the suggestions and guidance provided by both this report and its immediate predecessor. With that in mind, I would like to address the report findings and recommendations. (Audit comments in italics):

**Recommendation 1: OC should continue to strive to meet its inspection goals for active and orphaned wells.**

Conservation agrees with this recommendation. Conservation staff have worked to improve processes, incorporating guidance from the 2014 report, and as noted in this report, have demonstrated those efforts to have been successful, despite budget challenges resulting in reductions in staffing. Conservation will continue to seek ways to improve efficiency in its oversight of inspections and scheduling processes.

**Recommendation 2: OC should ensure compliance orders are issued within the specified timeframes in its SOPs.**

Conservation agrees with this recommendation. In setting the goals and timelines in the overhaul of procedures that followed the last audit, the Office of Conservation had some degree of trial and error on its processes, and set some goals that were overambitious, particularly in light of budget and staffing cuts that followed. In the case of compliance order issuance, Conservation will adjust standard operating procedures to both set a timetable that better reflects the time necessary to prepare and issue compliance orders, and also to specify in the procedures the amount of acceptable time between initial report of compliance problem and issuance of the resulting compliance order.

**Recommendation 3: OC should ensure it conducts the required re-inspection when it identifies major violations on routine inspections as required by policy.**

Conservation agrees with this recommendation. Conservation will improve its processes by working to set up an automated e-mail system as a means to improve tasking and scheduling enforcement agent re-inspections of sites found to have major violations and improving processes that ensure notifications of districts and agents – particularly those in areas with particularly high well densities.

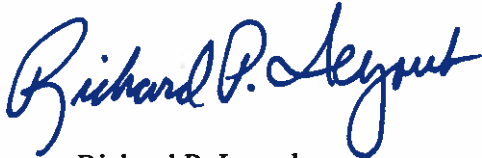
**Recommendation 4: OC should either comply with current regulations that require operators plug wells with no future utility or amend its regulations to reflect current practice and require that wells designated as no future utility that are not on an approved schedule of abandonment be required to pay the assessment fee and provide financial security.**

Conservation agrees with this recommendation. Following the 2014 audit report, Conservation initiated a new approach to dealing with wells listed as having no future utility – requiring both financial security and an annual fee if the wells were not plugged, placed on a schedule of abandonment or returned to production. This provides incentives for operators to either plug wells or bring them back into production, without forcing them to face compliance orders they might not be able to comply with and risking even greater numbers of wells being declared orphaned. However, that new procedure was not fully reflected in Conservation's rules, and the Office will adjust standard operating procedures and rules to reflect the newer practices.

Mr. Daryl Purpera, Legislative Auditor  
March 2, 2020  
Page 3 of 3

Thank you for the opportunity to respond to this audit finding and to have it included in the final audit report. Please feel free to contact me at (225) 342-5500 should you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Richard P. Ieyoub". The signature is written in a cursive style with a large, prominent initial 'R'.

Richard P. Ieyoub  
Commissioner  
Department of Natural Resources



## APPENDIX B: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. Our audit evaluated the Department of Natural Resources (DNR) - Office of Conservation's (OC) progress toward addressing issues identified in our 2014 performance audit on the regulation of oil and gas wells and management of orphaned wells. This audit generally covered fiscal years 2016 through 2019, except as noted throughout the report. Our audit objective was:

**To evaluate OC's progress toward addressing issues identified in our May 2014 audit on the regulation of oil and gas wells and management of orphaned wells.**

We conducted this performance audit in accordance with generally-accepted *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we reviewed internal controls relevant to the audit objective and performed the following audit steps:

- Researched any updates to Louisiana Revised Statutes, Administrative Code, Executive Budget documents, and DNR's website on OC's legal authority, role in the regulation of oil/gas and orphaned wells, and policies and procedures as it relates to regulation of oil/gas wells and orphaned wells.
- Interviewed DNR and OC staff to obtain an understanding of current policies and procedures and practices related to oil and gas regulation and orphaned wells.
- Evaluated OC's current financial security requirements, including comparing fee amounts to actual project costs, and whether wells were properly covered by financial security based on these requirements.
- Obtained and reviewed inspection data including whether inspections and re-inspections were conducted as required.
- Obtained compliance order and penalty data and determined whether compliance orders were issued for violations.



- Obtained and analyzed data from DNR’s Strategic Online Natural Resources Information System (SONRIS) to determine if OC adhered to its current policies and procedures. We used SONRIS to test compliance for inspections, reinspections, and enforcement of policies.
- To assess the completeness and accuracy of key data fields in SONRIS that were used during this evaluation, we randomly selected 30 wells in these tables and compared the information in SONRIS to paper files. From this evaluation, we determined that the key 21 data fields (1-Create Date, 2-District Name, 3-Effective Date, 4-Field ID, 5-Inspection Date, 6-Inspection Grade, 7-Inspection Reason, 8-OC Number, 9-Operator/Operator ID, 10-Operator Type Code, 11-Order ID, 12-Order Type, 13-Org Oper Name, 14-Original Permit Date, 15-Parish Name, 16-PFI Seq Num, 17-Prod Fac Violation Code, 18-Well Depth, 19-Well Field ID, 20-Well Serial Number, 21-Well Status Code) we tested were complete and accurate for the purpose of answering our audit objective.
- Provided our results to DNR-OC management to review for accuracy and reasonableness.

## APPENDIX C: SUMMARY OF RECOMMENDATIONS AND DNR'S PROGRESS IN IMPLEMENTATION

**Finding 1: Unlike other states, Louisiana's current regulations do not require that all operators provide financial security. Currently only 25% of oil and gas wells are required to be covered by financial security.**

Recommendation	Status
1. OC should consider revising its current regulations and require that all operators provide financial security or some type of financial assurance on newly permitted wells or wells with amended permits.	<b>Fully Implemented.</b> DNR implemented a rule effective May 2015 that required financial security on wells with new and amended permits. The rule was later amended by Act 634 of the 2016 Regular Legislative Session which granted some exemptions to financial security to encourage operators to either purchase or plug orphaned wells.

**Finding 2: Unlike other states, Louisiana's current regulations do not require that all operators provide financial security. Currently only 25% of oil and gas wells are required to be covered by financial security.**

Recommendation	Status
2. OC should consider revising its current regulations to increase the amount for financial security to be more reflective of the costs to properly plug and remediate orphaned well sites. In addition, financial security amounts should be periodically reviewed and adjusted to ensure they are reflective of the costs to plug and remediate orphaned well sites.	<b>Fully Implemented, but later revised by the legislature.</b> DNR increased the amount of financial security in May 2015, but the amount for wells less than 3,000 feet in depth was lowered to the original amount (from \$7.00 to \$2.00) by Act 634 of the 2016 Regular Legislative Session. According to OC, small operators were not able to afford the financial security which led to the decrease required by the legislation.

**Finding 3: OC did not inspect at least 26,828 (53%) of 50,960 oil and gas wells in accordance with timeframes established by the Commissioner and 12,702 (25%) were not inspected at all during this timeframe.**

Recommendation	Status
3. OC should develop standard inspection procedures, including specific frequencies for inspections and how inspections should be scheduled.	<b>Fully Implemented.</b> OC developed Standard Operating Procedures (SOPs) for conducting routine oil and gas wellsite inspections in February 2015. These SOPs outline the risk-based inspection frequency and establish defined Areas of Responsibility (AORs) for each staff with each district in order to assign the well and facility site to staff.
4. OC should monitor districts and hold them accountable for compliance with inspection frequencies.	<b>Fully Implemented.</b> OC's SOPs detail how the districts monitor to ensure all required inspections are completed.
5. OC should develop the capability in SONRIS to capture types of violations cited on inspections.	<b>Fully Implemented.</b> In the latter part of 2014, OC developed an inspection report that downloads information, including violations, into SONRIS.
6. OC should consider developing a risk-based inspection process that considers noncompliance as a factor in how often a well should be inspected.	<b>Fully Implemented.</b> OC's inspection procedures outline the following risk-based inspection frequencies: <ol style="list-style-type: none"> <li>1. Active wells – at least once every 5 years</li> <li>2. Wells within the state's Coastal Management Zone or within guide levees of the Atchafalaya Basin – once every 3 years.</li> <li>3. Newly completed wells and wells found to be delinquent on scheduled inspections – within one year of completion</li> </ol>

**Finding 4: OC has not developed an effective enforcement process that sufficiently and consistently addresses noncompliance and deters operators from having subsequent violations.**

- OC did not consistently or timely address all violations cited on inspections.
- OC did not always conduct re-inspections on 1,116 (16%) of 6,827 wells with compliance orders to ensure violations were corrected.
- OC did not consistently issue penalties after a re-inspection found that operators with compliance orders still had not corrected violations.
- Although OC has the authority to impose civil penalties, it does so infrequently.
- OC's enforcement process does not appear to deter operators from having subsequent violations.

Recommendation	Status
7. OC should develop formal enforcement procedures outlining what types of violations should be addressed by what enforcement actions.	<b>Fully Implemented.</b> OC developed Standard Operating Procedures (SOPs) for compliance order issuance in September 2018. These SOPs outline when OC should issue compliance orders.
8. As part of its enforcement procedures, OC should include criteria for when and under what circumstances re-inspections should be conducted.	<b>Partially Implemented.</b> SOPs include criteria for when re-inspections should be conducted. However, OC is not always conducting re-inspections in accordance with the SOPs.
9. OC should increase its use of civil penalties, especially for operators with multiple instances of noncompliance.	<b>Fully Implemented.</b> OC has improved on using its authority to impose civil penalties.

**Finding 5: OC's current process does not effectively identify inactive wells.**

- Although regulations require that all producers submit well tests, OC allows operators of certain wells to be exempt.
- Although regulations require that well test reports for oil wells be submitted six times per year, OC only requires them twice a year. In addition, OC did not ensure that operators submitted required well test reports twice a year.
- Operators may not be reporting wells as inactive once they are no longer producing.

Recommendation	Status
10. OC should develop a reliable and efficient method to identify inactive wells, which may include requiring operators to report production on a well basis or periodically obtaining production data on low producing wells from LDR.	<b>Fully Implemented.</b> Beginning in November 2014 OC required operators to report inactive wells electronically through SONRIS. In addition, OC revised its inspection report which now allows CESs to identify wells with an incorrect status.
11. OC should ensure that well operators submit all well test reports as required by regulations. If OC continues to allow operators to submit two well test reports instead of the six required by regulations, it should revise the regulations to reflect current practice.	<b>Fully Implemented.</b> OC revised its regulations in December 2014 to only require two well tests per year.
12. If OC continues to allow stripper lease wells and incapable gas wells in the Monroe field to be exempt from well tests, it should formalize this exemption in the regulations.	<b>Fully Implemented.</b> OC revised its regulations in December 2014 to allow stripper lease wells and incapable gas wells in the Monroe field to be exempt from well tests.
13. OC should develop a method for operators to submit electronic inactive well reports so that OC can use these reports to identify inactive wells.	<b>Fully Implemented.</b> Beginning in November 2014 OC required operators to report inactive wells electronically through SONRIS.

**Finding 6: OC did not consistently ensure that inactive wells designated as having no future utility were plugged as required by state regulations.**

- OC is not always issuing compliance orders to plug inactive wells with no future utility
- OC did not always ensure wells were properly plugged or were plugged timely after ordering the operator to do so through compliance orders.

Recommendation	Status
14. OC should ensure that wells identified as having no future utility are plugged within 90 days as required by regulations.	<b>Fully implemented.</b> OC amended its regulations that require wells designated as no future utility be plugged within 90 days. However, these regulations also allow for extensions by the Commissioner and allow operators to include the wells on a schedule of abandonment.
15. OC should ensure that when it issues a compliance order to plug a well, the operator plugs the well in a timely manner.	<b>Partially Implemented.</b> OC's regulations specify that compliance orders that require an operator to plug and abandon a well must be plugged within 90 days. However, per DNR, their approach has been to allow operators, especially those with large numbers of inactive wells, to set up Schedules of Abandonment (SOAs) to plug and abandon or to restore to production a limited number of wells each year over a 5-year period.
16. OC should develop a method to track when a schedule of abandonment or an extension is granted.	<b>Fully Implemented.</b> A check box for wells on a SOA and a new field that includes extension dates was created in SONRIS in October 2014.

**Finding 7: OC does not have sufficient regulations regarding inactive wells with future utility. As a result, wells can be placed in this status for extended periods of time to avoid being plugged and are at a higher risk of becoming orphaned.**

Recommendation	Status
17. OC should develop a specific timeframe for how long an inactive well can remain in future utility status, including how often and under what circumstances extensions will be granted.	<b>Fully Implemented.</b> OC has defined the allowable time for inactive wells (with future utility) and implemented an assessment fee per year for these wells to remain with an inactive status.
18. OC should consider requiring additional financial security or charging a yearly fee for wells in future utility status because the longer a well is in this status, the higher the likelihood that it will be abandoned.	<b>Fully Implemented.</b> The required financial security amounts for wells had been increased to \$7 per foot and then decreased \$2 per foot based on modifications in LAC. The amounts for blanket financial security have also been increased since the last audit.

**Finding 8: OC did not always conduct required inspections of orphaned wells.**

Recommendation	Status
19. OC should ensure that it conducts inspections to prioritize orphaned wells within 90 days as required.	<b>Partially Implemented.</b> OC has not always conducted the required 90-day inspections.
20. OC should ensure that it conducts routine inspections as required by the Commissioner.	<b>Partially Implemented.</b> OC has not always conducted inspections of orphaned wells within three years of the orphaned date.

**Finding 9: OC has not used \$1.5 million in financial security collected from operators who orphaned wells.**

Recommendation	Status
21. OC should use available funds from its escrow account to plug the orphaned wells that had financial security.	<b>Fully Implemented.</b> According to OC, it has used its escrow accounts to plug orphaned wells that had financial security and to encourage operators to plan out and document plans for inactive wells under an approved SOA.