LOUISIANA LEGISLATIVE AUDITOR
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OFFICE OF CONSERVATION, DEPARTMENT OF NATURAL RESOURCES OIL AND GAS REGULATION AND ORPHANED WELLS

The state Office of Conservation has not always been effective in regulating and inspecting the state's 57,819 oil and gas wells and has not properly managed a growing number of "orphaned" wells in the state, those that have been abandoned or neglected by operators, according to a report released Monday by Legislative Auditor Daryl Purpera.

The performance audit said that when compared to other oil- and gas-producing states – like Texas, Oklahoma and California – Louisiana has not required all operators to provide a bond or other financial security when they drill wells. Only 25 percent of the wells, (14,432 of the 57,819) are covered by financial security because more than 18,000 were grandfathered in when the financial security law took effect in the year 2000 and another 24,000 met exemption criteria.

Financial security can be used by the state to plug a well if an operator orphans it. As of July 1, 2013, there were 2,846 orphaned wells that have not been plugged. Since the financial security requirements took effect, 397 wells have been orphaned by operators exempt from providing financial security.

The report said that the amount of financial security required from non-exempt operators by the office, a part of the Department of Natural Resources, is "not sufficient to cover the cost of plugging all wells." In comparison to other states we reviewed, Louisiana has one of the lowest financial security amounts for land wells that are less than 3,000 feet deep."

"Not having sufficient financial security to cover the cost to plug wells may provide an incentive for operators to orphan wells instead of plugging" them.

The state auditor said that the Office of Conservation failed to inspect at least 53 percent of the 50,960 oil and gas wells at least once every three years between July 1, 2008 and June 30, 2013, as department officials directed. More than 12,700 of the wells were not inspected at all during that time.

The report also found that the Office of Conservation has not developed "an effective enforcement process" that consistently addresses noncompliance and "deters operators from having subsequent violations." A total of 7,665 routine inspections showed one or more violations between 2008 and 2013, but there was no record of compliance orders in 15 percent of the cases. Also, not all wells were re-inspected to ensure violations were corrected.

Although the agency has the authority to impose civil penalties for violations, it does so infrequently, the report said. Since fiscal year 2008, the conservation office has issued an average of only $150,468 in penalties annually for inspection violations. In addition, the agency did not assess approximately $471,000 in penalties it could have.

The report said that the conservation office did not have an effective process to identify inactive wells and "did not consistently ensure that inactive wells" identified as having no future use were plugged as state regulations require. Although inactive wells pose environmental and public safety risks and may become orphaned, the state did not issue orders to plug 86 percent of inactive wells reported by operators as having no future use.

Inactive wells can also be placed in a status indicating future use, but the state does not require operators to specify when the well may be used again, according to the report. "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." Of the 11,269 wells in inactive status with future use as of June 30, 2013, 5,239 of them were listed in this status for more than 10 years.

The report said that because the conservation office did not always identify and effectively regulate inactive wells, "the current orphan well population may grow in the future." The report identified 9,415 inactive wells that "can be considered at risk of being orphaned."

The report said that an average of 170 wells were orphaned every year from 2008 to 2013, but the state was only able to plug an average of 95 annually. Because the conservation office since 2011 has focused on plugging "urgent and high priority wells since these wells pose the most environmental and public safety risks," the state is unable to reduce the total population of orphaned wells.

Plugging the higher-priority wells increased the average cost per well from $26,000 to $163,000. The report said that the agency has $1.5 million in security from operators whose wells were orphaned but it has not used the funds pending a legal interpretation on how to transfer the money.

The report recommended that lawmakers increase production fees and identify "other sources of funds" to generate money to reduce the current population of orphaned wells. "The current production fee is not sufficient to address the current population of orphaned wells," the report said.

The production fees are now $0.015 for every barrel of oil and condensate produced and $0.003 for every thousand feet of natural gas produced, totaling about $4.8 million for the 2013 fiscal year.

The report had 21 recommendations for the department and the Office of Conservation agreed with all of them.

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On Twitter: State has not always been effective in regulating and inspecting oil and gas wells, managing "orphaned" wells.