*Welcome to LLA Reports, a podcast produced by the Louisiana Legislative Auditor’s office. This podcast is intended to be an oral representation of the written report it highlights and is primarily for the use of the Louisiana Legislature.*

This is Gina Brown. I’m a manager for LLA’s Performance Audit Services. This episode of LLA Reports summarizes the findings of two new performance audit reports focused on Louisiana’s orphaned oil and gas wells.

In the first report – titled “Progress Report: State Efforts to Address Orphaned Oil and Gas Wells” – we evaluated the Office of Conservation’s progress in addressing issues identified in two previous audits that focused on the regulation of oil and gas wells and the management of orphaned wells.

In the second report – titled “Oversight of the Louisiana Oilfield Restoration Association’s Efforts to Address Orphaned Oil and Gas Wells” – we evaluated the Office of Conservation’s oversight of the Louisiana Oilfield Restoration Association – or LORA – and its efforts to provide affordable financial security and assistance with plugging orphaned wells.

The Office of Conservation – or OC – is housed with the Louisiana Department of Energy and Natural Resources – or DENR.

In our first report, we found that while more oil and gas wells were covered by financial security after OC removed most exemptions, the financial security amounts were still not enough to cover the cost of plugging orphaned wells.

We also found that LORA and the Oilfield Site Restoration Program – or OSR – plugged 976 orphaned wells in fiscal years 2020 through 2023. At the same time, the number of orphaned wells grew, increasing by 12.4 percent between October 2023 and April 2024.

In addition, we found that OC was unable to expand the OSR Program because state law limits the program’s ability to collect adequate funding. We estimated that it would take approximately $542.9 million dollars to address the current population of orphaned wells; however, state law requires that collection of the oil and gas production fees that help pay for the program be suspended if the OSR fund exceeds $14 million dollars.

Further, the number of inactive wells, which have a higher risk of being orphaned, increased 21.7 percent from August 2019 to April 2024. Although OC recently updated its regulations to increase the annual fee owners of inactive wells pay so that it is based on the time each well has been inactive, OC does not place as many restrictions on inactive wells as other states.

In our second report, we found overall that OC did not sufficiently monitor LORA to ensure it remained financially solvent and complied with the requirements of the cooperative endeavor agreement – or CEA – between the two entities.

In addition, the CEA does not establish clear and comprehensive terms for LORA’s operations, does not adequately protect the state from financial risks if LORA were to become insolvent, allows LORA significant flexibility on how to spend its funds, and provides no timelines for how long LORA has to fulfill its obligation to plug orphaned wells.

In particular, we found that while OC has sole oversight of LORA, OC does not do enough to monitor LORA to protect operators and the state from the risk that LORA will be unable to meet its financial obligations.

We also found that, under the requirements of the CEA, LORA provided 45.5 percent of all financial security for Louisiana wells as of October 2023. However, OC does not have a contingency plan in place to address financial and safety risks to the state if the CEA were to be terminated or LORA could not cover its obligations.

In addition, we found that OC has never exercised its authority to monitor LORA’s administrative expenses to determine if the percentage allowed is reasonable. However, OC did allow LORA to increase its percentage for administrative expenses from 20 percent to 36 percent after the required minimum reserve balance of $5 million dollars was reached.

We found as well that OC did not include provisions in the CEA to help ensure LORA operates in the state’s best interest. Specifically, the CEA does not address how LORA should spend investment income, does not establish measurable targets for evaluating LORA’s performance, and does not contain an audit clause to allow the legislative auditor access to LORA’s records.

We found, too, that OC did not ensure LORA prioritized plugging orphaned wells that were secured, as required by the CEA. Of the 175 wells secured by LORA that were orphaned through December 2023, 130 remained unaddressed as of October 2024.

Additionally, we found that OC did not ensure LORA operated in a cost-effective manner so that its costs to plug wells were lower than those of the Oilfield Site Restoration Program.

As a result of these reports, we developed five matters for legislative consideration and 17 recommendations.

We suggested the Legislature revise state law to lower the minimum site restoration recovery cost and/or allow site specific trust accounts to be established to secure wells in other situations besides transfer to a new operator.

We also suggested the Legislature remove the $14 million cap on the OSR Fund or increase it based on the total estimated costs to plug orphaned wells, and increase the production fee for gas wells or establish a variable fee based on the market price of gas.

We suggested as well that the Legislature provide the OSR program additional budget flexibility to allow OSR to spend collected financial security to plug wells without the expenditures decreasing revenue from other sources that OSR can spend.

Additionally, we suggested the Legislature authorize DENR or another governmental entity to perform LORA’s function in order to minimize administrative costs and maximize the number of orphaned wells plugged.

We recommended that DENR establish time periods to review individual and blanket security amounts for orphaned wells to provide updated information, implement a consistent policy to grant exceptions for inactive well fees, and implement additional restrictions on inactive wells to prevent them from remaining inactive indefinitely.

Another 12 recommendations focused on the cooperative endeavor agreement and what changes should be considered to strengthen the CEA, improve DENR’s monitoring efforts, clarify LORA’s administrative processes, and reduce risks to the state.

We also recommended DENR re-evaluate the benefits of spending or not spending reserve funds to plug orphaned wells when the reserve fund falls below $5 million dollars so it can provide guidance to LORA.

Finally, we recommended that OC monitor how LORA’s costs to plug wells compare to those of the Oilfield Site Restoration Program to evaluate whether LORA’s benefit to the state justifies the risks posed by LORA providing financial security.

As part of its response, which is included in the report as Appendix A, the Department of Energy and Natural Resources agreed with all 17 of the recommendations.

*We hope you found this podcast informative, and that you’ll follow future episodes of LLA Reports.*

*This podcast was created as part of the audit reports just discussed and is intended primarily for the use of the Louisiana Legislature. Both the full reports and the podcast can be found on the LLA’s website at* [*www.lla.la.gov*](http://www.lla.la.gov)*.*

*Thank you for listening.*