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Report Highlights

Progress Report: Regulation of Oil and Gas Wells and Management of Orphaned Wells

Office of Conservation - Department of Natural Resources

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Why We Conducted This Audit

We evaluated the Department of Natural Resources - 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. 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.

What We Found

We found that OC partially or fully implemented all 21 recommendations to address the issues identified in the May 2014 report. 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% of required inspections on new wells and 68% of newly orphaned wells in fiscal year 2017.

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What We Found (Cont.)

- **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 of 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 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 schedule of abandonment (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 an 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 including lack of funding, difficulty finding licensed contractors to plug wells, and financial institutions not honoring their obligations to pay financial security.

Locations of Orphaned Oil Wells as of June 30, 2019

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

