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Report Highlights

Oil and Gas Regulation and Orphaned Wells

Office of Conservation - Department of Natural Resources

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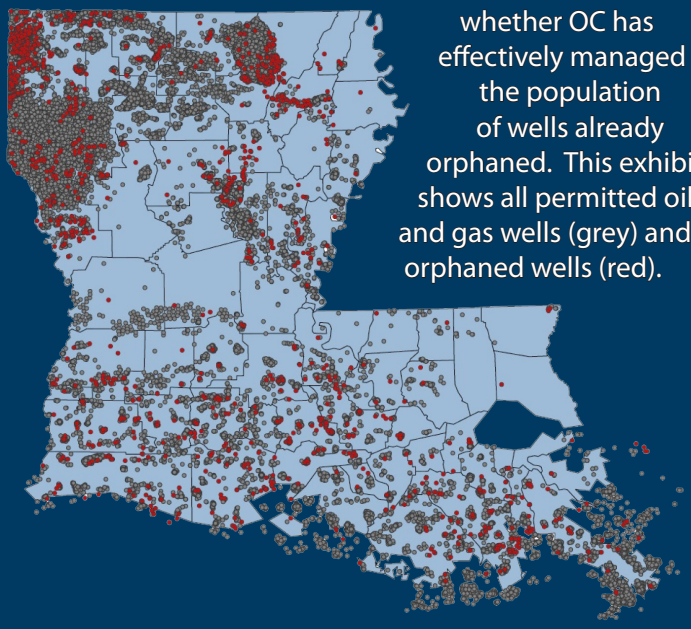
Why We Conducted This Audit

The purpose of this audit was to determine whether the Office of Conservation (OC) within the Department of Natural Resources (DNR) effectively regulates oil and gas wells to ensure operators comply with regulations. Because Louisiana has a growing population of orphaned oil wells, we also evaluated whether OC has effectively managed the population of wells already orphaned. This exhibit shows all permitted oil and gas wells (grey) and orphaned wells (red).



What is an orphaned well?

Orphaned wells are abandoned oil and gas wells for which no responsible operator can be located or such operator has failed to maintain the well site in accordance with state regulations.

What We Found

Objective 1: Has OC effectively regulated oil and gas wells to ensure that operators comply with regulations?

Overall, we found that OC has not always effectively regulated oil and gas wells to ensure that operators comply with regulations. We found the following:

- Unlike other states we reviewed, OC's current regulations do not require that all operators provide financial security on their oil and gas wells. Financial security provides funds the state can use to plug a well in the event the well is abandoned by the operator. Currently, 25% of all current oil and gas wells are required to be covered by financial security. Of the 716 wells that have been orphaned since the financial security requirements became effective, 397 (55%) were exempt from financial security pursuant to regulations.
- OC's financial security amounts outlined in regulations are not sufficient to cover the cost of plugging most wells. Not requiring sufficient financial security amounts may provide an incentive for operators to abandon their wells since it may be more economical to forfeit the financial security rather than to pay to plug the wells.
- OC did not inspect, in accordance with timeframes established by the Commissioner, at least 26,828 (53%) of 50,960 oil and gas wells from fiscal years 2008 through 2013, and 12,702 (25%) were not inspected at all during this timeframe. Conducting these inspections is important for identifying non-compliant wells and wells that are no longer producing.

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What We Found (Cont.)

- OC has not developed an effective enforcement process that sufficiently and consistently addresses noncompliance and deters operators from committing subsequent violations. Specifically, OC did not consistently or timely address all violations identified on inspections, it did not always conduct reinspections, and it issued penalties infrequently. We identified approximately $471,000 in penalties that were not assessed in fiscal years 2011 and 2012.

- OC's current process does not effectively identify inactive wells. Because OC's current regulations do not require operators to report actual production by well, an individual well's production amounts cannot be verified to ensure the well is still active.

- OC did not consistently ensure that inactive wells identified as having no future utility were plugged within 90 days as required by state regulations. During fiscal years 2008 through 2013, OC did not issue compliance orders to plug 416 (86%) of 482 wells designated as having no future utility.

- OC does not have sufficient regulations regarding inactive wells with future utility. For example, current regulations do not specify how long a well can remain in future utility status. 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. We identified 5,239 (46.5%) of 11,269 wells in future utility status that have been in that status for over 10 years.

- Because OC did not always identify and effectively regulate inactive wells, the current orphaned well population may grow in the future.

Objective 2: Has OC effectively managed the current population of orphaned wells?

OC has not always effectively managed the current population of orphaned wells. Overall, we found the following:

- Because OC changed its focus to plug urgent and high priority orphaned wells, OC is not able to reduce the total population of orphaned wells. Because of the increased costs associated with plugging higher risk wells, OC is not able to plug as many wells and has reduced the number of wells plugged each year. Although focusing on urgent and high priority wells helps ensure that wells that pose a greater risk are addressed first, this focus has reduced the number of wells plugged from 177 in fiscal year 2010 to 42 in fiscal year 2013.

- OC did not always conduct required inspections of orphaned wells. Of the 270 wells orphaned from September 2010 to April 2013, OC did not inspect 124 (46%) within 90 days and 87 (70%) of these 124 were not inspected at all as of July 2013. Conducting inspections is important to ensure that wells are appropriately prioritized for plugging and that conditions at the well site do not pose a risk to the environment.

- OC has not used $1.5 million in financial security collected from operators whose wells were orphaned. Although OC has collected financial security on 208 orphaned wells, it has not yet used these funds to plug the wells because it is waiting on a legal interpretation on how to transfer these funds.

- OC does not routinely recover costs from operators who abandoned wells but does seek recovery costs from previous operators. Since 1993, OC has recovered $3.6 million from 13 previous operators of orphaned wells.

- Increasing production fees and identifying other sources of funds, such as permit fees, civil penalties, and inactive well fees, would help generate additional funding to help reduce the current population of orphaned wells.