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## Staff Report

<b>Applicant:</b> Paramount Resources Ltd.	
<b>Location:</b> West of Fort Liard, NT	<b>File Number:</b> MV2020A0009
<b>Date Prepared:</b> September 28, 2020	<b>Date of Board Meeting:</b> October 8, 2020
<b>Subject:</b> Request to invoke 22(2)(b) of the Mackenzie Valley Land Use Regulations	

### 1. Purpose

The purpose of this Report is to present to the Mackenzie Valley Land and Water Board (MVLWB/the Board) a request to invoke 22(2)(b) of the Mackenzie Valley Land Use Regulations (MVLUR) for Land Use Permit (Permit) Application MV2020A0009 submitted by Paramount Resources Ltd. (Paramount).

### 2. Background

- November 14, 2013 – Issuance of Permit MV2013A0012 and Water Licence (Licence) MV2013L1-0002;
- August 30, 2018 – Issuance of Extension to Permit MV2013A0012 and Licence MV2013L1-0002 Amendment to term; and the Board issued direction on re-assessment of security;
- October 30, 2018 – Paramount submitted a security estimate using Directive 011 from the Alberta Energy Regulator;
- January 17, 2019 – Board directed Paramount to submit a security estimate using the RECLAIM model;
- March 1, 2019 – Paramount submitted security estimate using RECLAIM model;
- March 5, 2019 – Review of security estimate commenced;
- April 5, 2019 – Reviewer comments and recommendations on security estimate due and received;
- April 18, 2019 – Responses on security estimate due and received;
- July 23, 2020 – Applications to renew the Permit and Licence received;
- July 31, 2020 – Applications deemed incomplete;
- August 18, 2020 – Additional information received;
- August 28, 2020 – Applications deemed complete and review commenced;
- September 18, 2020 – Reviewer comments and recommendations on renewal Applications due and received;
- September 22, 2020 – Request to extend response deadline received;
- October 2, 2020 – Responses due from Paramount;
- **October 8, 2020 – Request for further study presented to the Board for decision;**
- **October 9, 2020 – End of 42-day timeline for the Permit Application; and**

- November 13, 2020 – Expiration of Permit MV2013A0012 and Licence MV2013L1-0002.

### **3. Discussion**

#### Project History

The Fort Liard West oil and gas development (referred to as Fort Liard West, or the Project) is situated approximately 20 kilometers (km) west-northwest of The Hamlet of Fort Liard, Northwest Territories, between Fisherman Lake and Fort Liard River. The location of the Project is displayed in Figure 1. Development in Fort Liard West contains oil and gas infrastructure and supporting facilities, including:

- five sites (K-29, O-80, M-25, F-25 and F-25A) containing nine natural gas and disposal wells (K-29, K-29A, 2K-29, 3K-29, O-80, M-25, 2M-25, F-25, and F-25A),
- a communication site,
- winter roads,
- an all season road,
- ice bridges,
- pipelines and pipeline right-of-ways<sup>1</sup>,
- existing quarries (D-05, K-03, G-01, L-04, M-05, C-66, O-10, F-25),
- campsites (D-05, L-18, K-29), and
- sumps (A-01 contains two pits, L-18, F-25).

Portions of the development were constructed by different proponents. Paramount has acquired these portions through mergers and acquisitions. Currently, all of the aforementioned development in Fort Liard West is authorized under Type A Permit MV2013A0012 and Type B Licence MV2013L1-0002 which were issued to Paramount on November 14, 2013.

On August 30, 2018, the Board [approved](#) an Extension to Term of Permit MV2013A0012 and Amendment to Term of Licence MV2013L1-0002. This extended the expiration dates to November 13, 2020. As part of the August 30, 2018 approvals, the Board directed Paramount to submit a re-assessment of reclamation security by October 30, 2018, for Board approval. This stemmed from a recommendation during the review period from the Government of the Northwest Territories Department of Environment and Natural Resources (GNWT-ENR).

On October 30, 2018, Paramount [submitted](#) a security estimate utilizing [Directive 011](#) from the Alberta Energy Regulator. The security proposed by Paramount totaled \$345,000. No rationale or evidence was provided to support the estimates. As a result, on January 17, 2019, the Board determined they could not proceed with the regulatory process based on Paramount's October 30, 2018 submission as there was no evidence or supporting information. The Board [directed](#) Paramount to submit another security estimate using the current version of RECLAIM by February 28, 2019 and encouraged Paramount to work with the GNWT prior to submitting.

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<sup>1</sup> As described in the Application, K-29, M-25 and F-25 are tied-in to a 37.2km pipeline that connects the K-29 site to a facility at the abandoned/reclaimed British Petroleum Pointed Mountain plant site. The M-25 site is linked to the F-25 plant site via a 1.4 km pipeline lateral and the F-25 plant is linked to the main pipeline via a 3.3 km pipeline lateral.

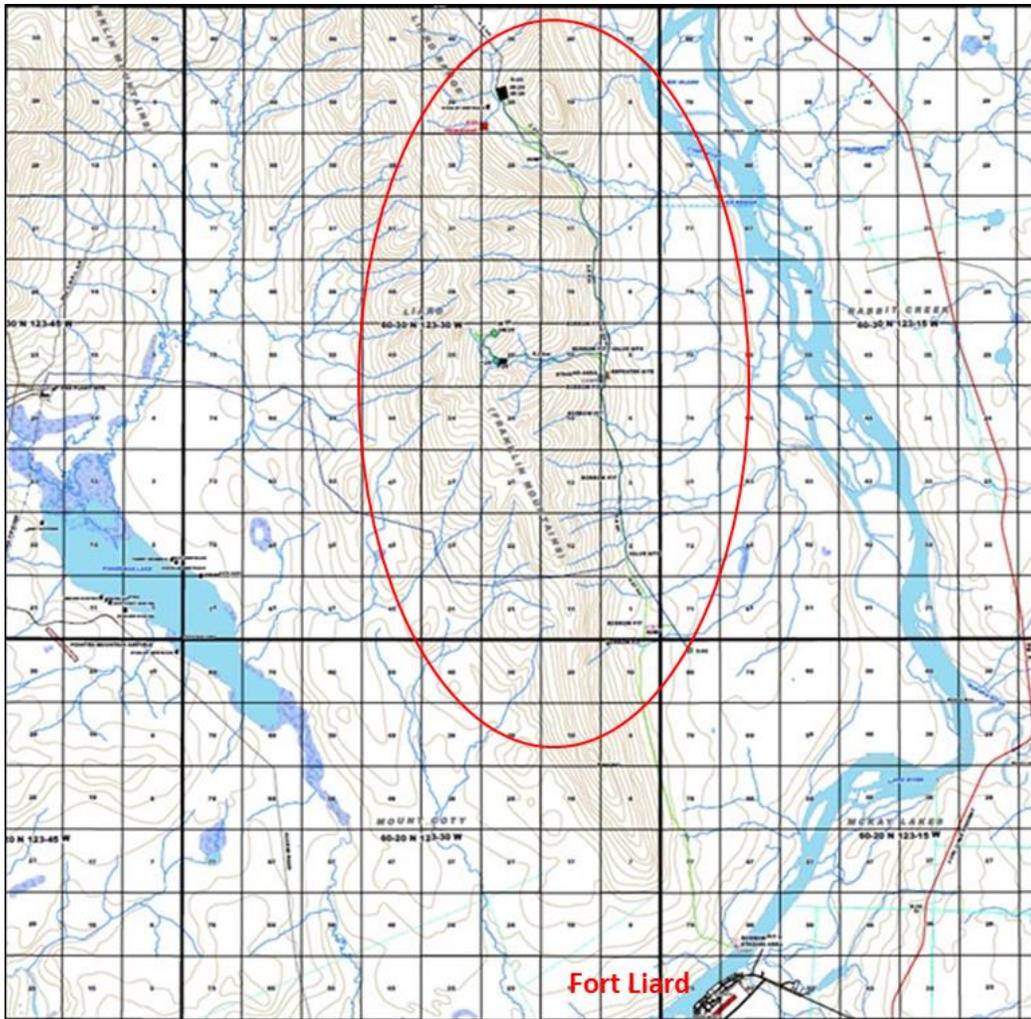


Figure 1: The Project in Relation to Fort Liard

On March 1, 2019, Paramount [submitted](#) an updated security estimate using RECLAIM 7.0. The submission was the subject of a public review which began on March 5, 2019 and concluded April 18, 2019. GNWT [submitted](#) an updated security estimate as part of the review (using RECLAIM version 7.0). The submissions from Paramount and GNWT resulted in different liability estimates which were not reconciled as part of the review. Because of this, Board staff felt it would be more efficient to address the security estimates as part of the renewal Application process.

#### Description of the Renewal Applications

On July 23, 2020, Paramount submitted renewal applications for Fort Liard West (MV2020A0009 MV2020L1-0006) to replace the existing Permit MV2013A0012 and Licence MV2013L1-0002. Paramount described the activities as well re-entries, completions, suspensions, abandonments, production, reclamation, and remediation. Paramount indicated that well and battery sites K-29, O-80, M-25, and F-25A have been suspended while F-25 has been abandoned and that no new disturbance of land or new exploratory oil and gas drilling were proposed.

The applications were [deemed incomplete](#) on July 31, 2020. By August 18, 2020, Paramount submitted a [response letter](#) and revised application material. Board staff deemed the application complete on August 28, 2020 and distributed the Application for review.

#### Type of Area

This Project is in a non-federal area.

#### **4. Public Review**

The Applications were distributed for review on August 28, 2020. When the Applications were distributed, Board staff communicated that evidence gained as part of the 2019 review of the security re-assessment would also be used to establish security for the applications Paramount applied for. The security re-assessment review resulted in different liability estimates. Based on the evidence collected, the differences in the estimates is attributed to the following:

- 1) Whether reclamation of portions of oil and gas infrastructure, namely wells and site buildings, are the responsibility of the GNWT or OROGO. Paramount excluded portions of the Project from their cost estimate which resulted in different costs under line items 'Wells and Facilities' and 'Buildings and Equipment'.
- 2) Detail regarding the scale and scope of the Project which resulted in GNWT and Paramount inputting different values into the RECLAIM model.

The review also identified other factors which would significantly influence security requirements:

- 1) Whether reclamation of the access roads should be included. GNWT requested Paramount engage with local governments to determine whether they desire the access roads to be reclaimed. Should access roads require reclamation, this would increase the security estimates.
- 2) Whether reclamation of the pipeline should be included. Paramount were of the opinion that security for the pipeline reclamation should be held by OROGO<sup>2</sup>, while reclamation of the right-of-way was the jurisdiction of the MVLWB.
- 3) Fort Liard West contains nine wells in total. GNWT included five wells in their estimate, while Paramount did not include the wells.

As part of the review, GNWT stated Paramount had not engaged with them prior to submitting their estimate. The Board, on January 17, 2019, had previously encouraged Paramount to work with the GNWT prior to submitting. Board staff note the lack engagement as it appears to be a significant factor in the discrepancies between the estimates.

By September 18, 2020, comments and recommendations on the Applications were received; comments included further information from GNWT on the re-assessment of security. GNWT clarified that they and OROGO require security for different liabilities, and do not consider their estimate to result in overlapping reclamation costs. Responses were due September 25, 2020. On September 22, 2020, Paramount submitted a request to extend the response deadline to October 2, 2020. At the time the Staff Report was prepared proponent responses had not yet been received.

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<sup>2</sup> OROGOs security is termed Proof of Financial Responsibility (PFR) under the *Oil and Gas Operations Act* (OGOA)

## 5. Security

### Current Security

A summary of the security currently required by Permit MV2013A0012 and Licence MV2013L1- 0002 is provided in Table 1 below.

**Table 1: Current Security**

Authorization	Condition	Amount
Permit MV2013A0012	Condition 59	\$125,000.00
Licence MV2013L1-0002	Part B Condition 2	\$0.00

**Table 2: Summary of Paramount's and the GNWT's RECLAIM Estimate**

Table 2 compares Paramount's 2019 RECLAIM estimate with that of the GNWT. Based on the evidence available, Paramount's estimate does not include the pipeline, pipeline right-of-way, access roads, or wells (9), while GNWT's estimate does not include the pipeline, pipeline right-of-way, access roads, or four of the nine wells.

RECLAIM ESTIMATE	Paramount 2019		GNWT 2019	
	Land Liability	Water Liability	Land Liability	Water Liability
<b>CAPITAL COSTS</b>				
Wells and Facilities	\$0	\$0	\$637,000	\$368,500
Buildings and Equipment	\$2,040	\$2,040	\$180,190	\$100,425
Chemicals and contaminated soil management	\$392,700	\$0	\$0	\$257,150
Surface and groundwater management	\$0	\$0	\$0	\$0
Interim care and maintenance	\$0	\$0	\$0	\$3,890
<b>SUBTOTAL: Capital Costs</b>	<b>\$394,740</b>	<b>\$2,040</b>	<b>\$817,190</b>	<b>\$729,965</b>
<b>PERCENT OF SUBTOTAL</b>	99%	1%	53%	47%
<b>INDIRECT COSTS</b>				
Mobilization/ demobilization	\$124,383	\$643	\$58,149	\$51,943
Post-closure monitoring and maintenance	\$65,661	\$339	\$38,135	\$34,065
Engineering (3%)	\$11,842	\$61	\$24,516	\$21,899
Project management (3%)	\$11,842	\$61	\$24,516	\$21,899
Health and safety plans/ monitoring & QA/QC (1%)	\$3,947	\$20	\$8,172	\$7,300
Bonding/insurance (1%)	\$3,947	\$20	\$8,172	\$7,300
Contingency (20%)	\$78,948	\$408	\$163,438	\$145,993
Market price factor adjustment (0%)	\$0	\$0	\$0	\$0
<b>SUBTOTAL: Indirect Costs</b>	<b>\$300,571</b>	<b>\$1,553</b>	<b>\$325,098</b>	<b>\$290,398</b>
<b>TOTAL COSTS</b>	<b>\$695,311</b>	<b>\$3,593</b>	<b>\$1,142,288</b>	<b>\$1,020,363</b>
<b>GRAND TOTAL COSTS</b>	<b>\$698,904</b>		<b>\$2,162,651</b>	

## Description of Request

Section 22(2) and paragraph 22(2)(b) of the MVLUR reads as follows:

*22 (2) Subject to sections 23.1 and 24, if the Board does not return an application under paragraph (1)(a), it shall, within 42 days after receipt of the complete application,*  
*(b) conduct a hearing under section 24 of the Act or require that further studies or investigations be made respecting the lands proposed to be used in the land-use operation and notify the applicant in writing of the reasons for the hearing, studies or investigations;*

The Board would need to make a decision on Permit Application MV2020A0009 as per section 22(2) of the MVLUR within 42 days of receipt of the complete application (October 9, 2020).

The Permit Application was accompanied by an Application to renew Licence MV2013L1-0002. The administration of permits and licences together requires security to be established for both authorizations at issuance. As a result of the discrepancies between Paramount's and GNWT's estimates, Board staff were of the opinion it would be difficult to determine appropriate security. This could be resolved by directing Paramount to engage with the GNWT to resolve the discrepancies.

## **6. Conclusion**

Board staff suggest that updated information respecting the proposed activities in the Fort Liard West is required to resolve the discrepancies in the security estimates submitted by Paramount and the GNWT. The Board could invoke paragraph 22(2)(b) of the MVLUR.

## **7. Recommendation**

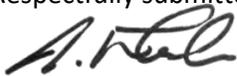
Board staff recommend the Board **make a motion to invoke paragraph 22(2)(b) of the Mackenzie Valley Land Use Regulations** for the application of Land Use Permit MV2020A0009 to enable additional information to be gathered to appropriately establish security for the Type A Permit MV2020A0009 and Type B Water Licence MV2020L1-0006 renewal Applications.

A draft decision letter is attached.

## **8. Attachments**

- [Permit Application Form](#)
- [Licence Application Form](#)
  - [Project Information](#)
  - [Liard West Map](#)
- [Paramount's Security Estimate](#), submitted March 1, 2020
- [GNWT's Security Estimate](#), submitted April 5, 2020
- Draft Decision Letter from the Board

Respectfully submitted,



Andrew Wheeler  
Regulatory Specialist