



NWT OFFICE OF THE REGULATOR OF OIL AND GAS OPERATIONS

Office of the Regulator of Oil and Gas Operations

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Bill Peterson
Senior VP, Development Operations
Canadian Natural Resources Ltd.
Suite 2100, 855 – 2 ST SW
CALGARY AB T2P 4J8

December 17, 2018

Dear Bill Peterson:

Letter of Decision:

**Denial of Canadian Natural Resources Ltd. Request for Extension to
Deadline for Abandonment of Non-Compliant Suspended Wells (OA-2018-005)**

On November 26, 2018, the Office of the Regulator of Oil and Gas Operations (OROGO) received a complete application from Canadian Natural Resources Ltd. (CNRL) for an Operations Authorization (OA). The OA covers the proposed abandonment of 13 wells operated by CNRL in the Fort Liard area.

CNRL has requested an extension to the deadline imposed by the *Well Suspension and Abandonment Guidelines and Interpretation Notes* (the Guidelines), which require CNRL to bring nine (9) of the 13 wells into compliance with the suspension requirements of the Guidelines by August 31, 2019. Under the Guidelines, the remaining four (4) wells are required to be abandoned or brought back into production by January 31, 2023, unless otherwise required by the Regulator. In its application, CNRL has indicated an intention to proceed directly to abandonment for all 13 wells.

For the reasons that follow, I have determined that CNRL has not provided enough information to substantiate an extension of the deadline applicable to the nine non-compliant wells.

Background

In February 2017 the Northwest Territories Regulator of Oil and Gas Operations (the Regulator) issued the Guidelines after a public engagement process that included all Operators in OROGO's jurisdiction. CNRL was actively engaged in this process. The draft version of the Guidelines provided to Operators for review and comment set out the same deadlines as are now given effect by the approved Guidelines.

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On August 31, 2017, as required by section 1 of the Guidelines, OROGO completed an assessment of all suspended wells and notified all suspended well Operators of the results of the assessment and the requirements for well compliance set out in the Guidelines. The notification issued to CNRL identified nine non-compliant suspensions in the Fort Liard area¹.

On June 26, 2018, OROGO staff met with CNRL staff in Calgary, Alberta. OROGO staff described the regulatory requirements applicable to the nine non-compliant wells and explained the need to initiate applications and associated requirements promptly. CNRL staff were also urged to take note of the need for a land use permit and water licence specific to the activity.

On November 26, 2018, OROGO received CNRL's application for an OA for the abandonment of 13 wells, including the nine non-compliant suspended wells. The second paragraph of CNRL's application letter indicates that it "will complete the abandonment activities by 2023"². The Schedule and Execution Plan found later in the application materials indicates that "given the remote nature of the existing wells, the schedule will be evaluated annually, with the objective of having operations complete by 2023. Annual review will include review with other operator activity, with a focus on sharing services such as access equipment, camps and major equipment to perform the down hole abandonment operations"³. The application notes that "down hole operations will be conducted in Year 2 (and potentially Year 3)". The application requests a waiver of the abandonment deadline for the nine non-compliant wells "in order to plan and execute the abandonment work efficiently".

On November 27, 2018, OROGO issued Information Request (IR) No. 1 to CNRL, asking for:

1. A rationale for the proposed extension that considers the Regulator's responsibilities for safety and the protection of the environment under OGOA;
2. A detailed schedule for the proposed work that will see all wells abandoned by the January 31, 2023 deadline, identifying which wells will be abandoned in which winter work season and prioritizing the abandonment of the non-compliant wells; and

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¹ Arrowhead River I-75 (WID 1981), Arrowhead River J-74 (WID 1987), Liard P-16 (1976), Arrowhead River O-38 (WID 1983), Arrowhead River K-35 (WID 1991), Emile Lake A-77 (WID 1964), SW Arrowhead M-35 (WID 1989), Netla C-07 (WID 191), Netla K-77 (WID 1862).

² CNRL Letter to Chief Conservation Officer, November 20, 2018, at page 1.

³ CNRL Letter to Chief Conservation Officer, November 20, 2018, at page 5.

3. Confirmation that a Benefits Plan for all of the work as scheduled, or a request for a waiver of the requirement for a Benefits Plan, has been submitted to the Minister of Industry, Tourism and Investment of the Government of the Northwest Territories for approval.

CNRL responded to IR No. 1 on December 13, 2018.

CNRL's Rationale for Extension (IR 1.1)

In response to OROGO's request for a rationale for the proposed extension, CNRL refers to what it describes as "a detailed risk assessment, following Canadian Natural's Corporate Risk Matrix" for each non-compliant well. CNRL states that the evaluation "included a combination of likelihood of occurrence, and the potential consequence". CNRL concludes that the risk assessment identified six of the nine non-compliant wells as having "an acceptable risk level"⁴. CNRL's evaluation assigned the remaining three wells with a "tolerable risk" and states that "with increased inspection frequency [the remaining three wells] would be deemed at an acceptable level". The letter is accompanied by a graphic representation and well location map that CNRL describes as a "summary of the Risk Assessment".

I find CNRL's response to IR No. 1.1 to be non-responsive. CNRL has supplied no details on its Corporate Risk Matrix, no explanation of how factors are evaluated or weighted, and no description of what consequences are considered. It does not define the meaning of the terms "acceptable risk" or "tolerable risk" it assigns to the wells. CNRL's response provides no reason why its internal evaluation supports an extension of the deadline and has made no effort to link its request to the existing requirements of the Guidelines. Consequently, there is not enough information to determine whether CNRL's Corporate Risk Matrix considers the Regulator's responsibilities for safety and protection of the environment. Furthermore, the Guidelines already assign a risk ranking to each suspended well⁵, in addition to inspection requirements that vary depending on that risk ranking⁶.

The Guidelines reflect the Regulator's policy on how it will carry out its obligations with respect to safety and the environment in respect of suspended wells and provide for the possibility of exceptions if they can be substantiated. CNRL has not provided an alternative approach that demonstrably meets the same standards for the protection of human safety and the environment.

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⁴ CNRL Letter to Chief Conservation Officer, December 13, 2018, at page 1.

⁵ *Well Suspension and Abandonment Guidelines and Interpretation Notes*, Well Classification Framework, section 2, at page 5.

⁶ *Guidelines, Testing and Inspection Requirements for Suspended Wells*, section 5D, at page 23.

CNRL's Detailed Schedule (IR 1.2)

In response to OROGO's request for a detailed schedule of planned activities that would see all CNRL's wells abandoned by the January 31, 2023 deadline and prioritizes the abandonment of the non-compliant wells, CNRL's December 13, 2018 response indicates that it plans to complete the abandonment work in a single season⁷. It further states that "given the results of [CNRL's internal] risk assessment [the non-compliant wells] will not be specifically prioritized". CNRL goes on to state that the "exact order of operations will need the final design and approval of the down hole abandonment program, as well as coordination with winter road building and site access. This will not be possible to scope until closer to planned execution". CNRL concludes by requesting a further extension of the final deadline to March 31, 2023 "to take full advantage of the winter season".

I conclude from CNRL's reply that it now proposes, contrary to the information contained in its application of November 26, 2018, to conduct all 13 proposed abandonments in the 2023 winter season. It does not provide a reason for failing to prioritize the abandonment of the non-compliant wells, other than referring to its internal risk assessment (see discussion above). I agree with CNRL that an "exact order of operation", something that is not sought by OROGO at this time, will not be possible until closer to the planned execution period.

Given that CNRL does not identify a reason for its request to delay all 13 abandonments, other than referring to its own internal undisclosed risk assessment, I find that that CNRL has provided no reasonable or adequate justification for granting an exception to the deadlines for the abandonment of existing non-compliant and compliant suspended wells.

Confirmation of Benefits Plan (IR 1.3)

IR 1.3 requested confirmation that approval for a Benefits Plan, or a waiver of the requirement for a plan, with respect to all of the works subject to the Operations Authorization, had been submitted to the Minister of Industry, Tourism and Investment of the Government of the Northwest Territories for approval. In response to this IR, CNRL provided a copy of e-mail correspondence with Mr. Ian Butters, a departmental employee. Mr. Butters' response relates to the timing of submission of a benefits plan.

I conclude that CNRL has not yet submitted a request for approval of a benefits plan, or waiver of the requirement for a benefits plan, to the Minister of Industry, Tourism and Investment. I also find that CNRL is mischaracterizing Mr. Butters' response as an approval for a multi-staged approach to the benefits plan under a single Operations Authorization. Mr. Butters appears to be agreeing in principle to CNRL submitting a benefits plan for an activity at a time of CNRL's choosing.

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⁷ CNRL Letter to Chief Conservation Officer, December 13, 2018, at page 2.

As CNRL is now proposing to conduct all well abandonments in a single season, this matter is now moot. The *Oil and Gas Operations Act (OGOA)* does not allow the Regulator or his delegate to issue an OA unless the entire applied-for activity under the OA, in this case 13 well abandonments, is addressed by the Benefits Plan. CNRL has supplied no evidence that a benefits plan has been devised with respect to this activity, nor has it provided any timeline for submitting one.

Additional Considerations

On December 4, 2018, OROGO issued IR No. 3, requesting that CNRL provide any information that would confirm that a preliminary screening under section 124 of the *Mackenzie Valley Resource Management Act* had already been conducted with respect to the proposed 13 well abandonment program.

In its response letter dated December 7, 2018, CNRL indicated that "CNRL believes that a preliminary screening is needed" for the abandonment activities.

By implication, this means that CNRL has not yet obtained the necessary land use permit(s) and water licence(s) to conduct this well abandonment program, as a preliminary screening would necessarily have been conducted before the issuance of either type of authorization. These authorizations are an additional precondition to CNRL carrying out the activity proposed under the applied-for OA.

Decision

The application materials and responses to IRs demonstrate that CNRL has not diligently pursued the necessary preconditions of this activity and consequently will be unable to conduct down hole suspension or abandonment operations with respect to any of the nine non-compliant wells in the 2019 winter operating season. Regrettably, CNRL's inaction has already resulted in a *de facto* one year extension of the Regulator-set deadline to bring the non-compliant wells into a safe and compliant state, with no principled rationale. Consequently, CNRL will be in contravention of the deadline applicable to the nine wells as of August 31, 2019. This leaves open the possibility of future enforcement action, up to and including an Order of the Regulator, with respect to the abandonment of the non-compliant suspended wells.

While CNRL has indicated a laudable intention to engage with neighbouring operators on collaborative efforts in the area that could minimize duplicative environmental impacts and save on costs, it has not submitted any evidence of the state of these discussions.

For the reasons above, I deny CNRL's application for an extension of the deadline applicable to the nine non-compliant wells.

Sincerely,



James Fulford
Chief Conservation Officer

c. Arly Castillo, Regulatory Coordinator, CNRL

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