



NWT OFFICE OF THE REGULATOR OF OIL AND GAS OPERATIONS

Office of the Regulator of Oil and Gas Operations

P.O. Box 1320, Yellowknife, NT X1A 2L9

Tel: 867-767-9097 • Fax: 867-920-0798 • Web: www.orogo.gov.nt.ca

Courier Address: 4th floor, 5201 – 50th Avenue, Yellowknife, NT X1A 3S9

Derek Warren
Manager, Stakeholder Relations and Environment
Obsidian Energy Ltd.
Suite 200, Penn West Plaza
207 – 9 AVE SW
CALGARY AB T2P 1K3

October 16, 2020

Dear Derek Warren:

Letter of Decision – Proof of Financial Responsibility (OA-2019-001-OBS)

On May 15, 2019, the Office of the Regulator of Oil and Gas Operations (OROGO) received a complete application from Obsidian Energy Ltd. (Obsidian) for an Operations Authorization (OA). The OA covers the proposed abandonment of two wells operated by Obsidian in the Fort Liard area of the Northwest Territories.

The content of this application with respect to Proof of Financial Responsibility was supplemented by Obsidians' responses to Information Requests No.1, No.5, No.7 and No.10.

The Regulator, designated under section 121 of the *Oil and Gas Operations Act* (OGOA), may issue an OA under section 10(1)(b) of that act. On August 2, 2020, the Commissioner in Executive Council designated me as the Regulator under section 121 of OGOA.

Section 13 of OGOA requires that Obsidian provide satisfactory proof of financial responsibility, in accordance with section 64(1) of OGOA, prior to the issuance of an OA.

Sections 61 - 64 of OGOA describe the operator's responsibilities in the event of a spill or debris and what steps may be taken by the Regulator if the operator does not fulfill those responsibilities. These sections also describe the operator's liability, without proof of fault or negligence, for losses or damages resulting from and costs and expenses associated with clean-up of any spill or debris. Third parties may make a claim through the courts under section 63 up to the maximum amount specified in the *Oil and Gas Spills and Debris Regulations*. Proof of financial responsibility is the amount held by the Regulator to respond to such claims under section 64(3) without going through the court process. If the Regulator does not hold the maximum amount of proof of financial responsibility, claims may still be pursued through the courts for the remaining funds, up to the maximum amount.

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Having reviewed the information contained in Obsidian's OA application and responses to Information Requests issued by OROGO, I find that:

1. Obsidian's scenario of the event most likely to occur with the highest consequence related to the proposed activities (a spill of maximum 500 L (0.5 m³) at the North Liard C-31A wellsite), provided in response to Information Request No. 7, is reasonable;
2. Obsidian's assessment of the third party crew costs, accommodation costs, equipment costs, sampling costs and transportation and disposal costs, provided in response to Information Request No. 7, are reasonable; and
3. Obsidian's assertion that there would be no access costs associated with a third-party clean-up of a spill because clean-up would occur immediately after the release was discovered with crews already on-site (from Obsidian's response to Information Requests No. 7 and 10) is not reasonable.

Proof of financial responsibility is intended to be available to respond to claims under section 63 of OGOA, which would only occur if Obsidian **did not** clean up a spill or debris. Therefore, it is not reasonable to assume that the clean-up would occur during the same winter work season as the spill and costs for third-party access to the site should be included in the amount of proof of financial responsibility held by the Regulator.

OROGO requested third-party site access costs from Obsidian in Information Requests No. 1, No. 5, No. 7 and No. 10. Obsidian did not provide the requested information. Therefore, I have used access costs previously deemed reasonable for another well site, on the same all season road as the North Liard C31-A well but slightly closer to Fort Liard, to complete my assessment of the PFR for this application.

In conclusion, I find that the total amount of proof of financial responsibility for OA-2019-001-OBS is \$ 421,100.00.

Please submit a draft Irrevocable Letter of Credit (ILOC) in the amount of \$ 421,100.00 to OROGO for review and approval **no later than October 26, 2020**.

The ILOC should:

- Show as beneficiary “Government of the Northwest Territories, 4th floor, 5201-50th Avenue, PO Box 1320, Yellowknife, Northwest Territories, X1A 2L9, Canada”;
- Be to the attention of “Executive Director, Office of the Regulator of Oil and Gas Operations”;
- Allow for automatic renewal with at least 90 days’ notice to the Regulator if the ILOC is to be cancelled, not renewed or expire; and
- Allow for multiple partial drawings.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Pauline de Jong', is written over the typed name and title.

Pauline de Jong
Regulator

- c. Craig Dansereau, Obsidian Energy Ltd.
Craig Langford, Obsidian Energy Ltd.
Steve Sterling, Obsidian Energy Ltd.
Regulatory@obsidianenergy.com