



Natural Resources and Northern Development
Regulatory Services | Petroleum
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INFORMATIONAL NOTICE 22-07

ANNUAL REPORT ABANDONMENT FUND RESERVE ACCOUNT Fiscal year ending March 31, 2021

Abandonment Fund Reserve Account:

The Abandonment Fund Reserve Account (“the Abandonment Fund”) is established under Section 172 of The Oil and Gas Act (“the Act”). The Abandonment Fund may be used as a source of funds to operate or abandon a well or facility that is non compliant with the Act where the licensee or permittee of the well or facility fails to comply. The Abandonment Fund may also be used to rehabilitate the site of an abandoned well or facility or to address any adverse effect on property caused by a well or facility. Expenditure from the Abandonment Fund on behalf of a licensee or permittee automatically creates a debt of the licensee or permittee to the Crown.

Annual Review of Abandonment Fund:

Section 54.1 of the Drilling and Production Regulation (“the Regulation”) under the Act provides as follows:

Account reviewed annually:

54.1

The Director shall conduct an annual review of the Abandonment Fund Reserve Account and shall make a recommendation as to whether the amount of the non-refundable levy should be changed having regard to the account balance and the anticipated deposits to and expenditures from the account.

This is the Director’s report, as required by the Regulation, for the fiscal year ending March 31, 2021.

Opening Balance:

The opening balance of the Abandonment Fund on April 1, 2020 was **\$3,300,411** after an opening balance adjustment of \$6,295. The opening balance according to the April 1, 2020 annual report was \$3,294,116.

Deposits (April 1, 2020 to March 31, 2021):

Deposits into the Abandonment Fund comprises levies charged on issuance or transfer of certain licences and permits issued under the Act as well as annual levies for inactive wells and batteries. Accrued interest earned by the Abandonment Fund is also deposited. Deposits to the Abandonment Fund may also include recoveries of previous expenditures made from the Abandonment Fund.

Deposits into the Abandonment Fund during the 2020/21 fiscal year totaled **\$453,493**.

Levies on Licences and Permits:

Levies for deposit in the Abandonment Fund are established by regulation.

The Drilling and Production Regulation provides for levies on well licences issued or transferred, battery operating permits issued and wells and batteries designated by the Director as inactive.

The Geophysical Regulation provides for a levy on geophysical licences issued.

Table 1 shows the levies charged under these regulations.

Licence/Permit	Levy
Well Licence	\$ 250
Transfer of Well Licence	50
Battery Operating Permit	250
Geophysical Licence	50

In fiscal year 2020/21, the following levies were deposited into the Abandonment Fund:

Well Licences	\$18,900
Well Licence Transfers	0
Geophysical Licences	<u>50</u>
Total	<u>\$19,050</u>

Inactive Well and Battery Levies and Penalties

The Regulation provides for an annual levy on each well and battery that is designated by the Director as inactive. The following levies apply:

Class 1	a well that has not been operated for 5 years or less	\$ 150
Class 2	a well that has not been operated for more than 5 consecutive years but fewer than 10 consecutive years	500
Class 3	a well that has not been operated for 10 consecutive years or more	1,000
Class 4	an inactive battery	500

Prior to April 30 of each year, the Director advises operators of wells and batteries that have been designated as inactive for the previous calendar year including the inactive levy due for each well or battery. The operator is required to pay the inactive levy prior to July 31 of the same year unless the well or battery has been abandoned prior to that date. If the operator fails to pay the inactive levy prior to July 31, a penalty equal to 25% of the outstanding levy is assessed. Failure to pay the inactive levy and penalty, prior to October 31 of the same year, results in an additional penalty equal to 50% of the outstanding levy.

The following inactive well and battery levies and associated penalties were deposited into the Abandonment Fund during the 2020/21 fiscal year:

Inactive Levies	\$407,742
Late payment penalties	0
Total	<u>\$407,742</u>

Accrued Interest

Interest earned on the balance in the Abandonment Fund, at a rate prescribed by the Department of Finance, is deposited into the Abandonment Fund as provided for in the Act.

Accrued Interest 2020/21	\$26,701
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Recovery of Expenditures

Under the Act, where an expenditure is made from the Abandonment Fund on behalf of a licensee or permittee, that expenditure creates a debt of the licensee or permittee to the Crown. In previous years, the Petroleum unit has been successful in partial recovery of expenditures from the Abandonment Fund through marketing of oil recovered and salvage of equipment under Ministerial Seizure Orders and other collection initiatives. Any monies realized through these activities are deposited into the Abandonment Fund.

During 2020/21, no recoveries of this nature were made for the Abandonment Fund.

Expenditures and Refunds

Expenditures and refunds from the Abandonment Fund in fiscal year 2020/21 totaled **\$2,369,401**. Pursuant to a Ministerial Seizure Order dated February 23rd, 2021, the Director executed the seizure of 23 wells and 2 facilities deemed to be orphaned. Work on the abandonment of the orphaned wells and facilities commenced in the fall of 2021 and will continue into 2022.

Other abandonment and spill cleanup costs	\$53,401
Accrued costs for orphaned site seizure	2,308,000
Surface lease rentals for seized wells	<u>8,000</u>
Total	\$2,369,401

Closing Balance:

The closing balance of the Abandonment Fund as at March 31, 2021 was **\$1,384,503**.

Recommendation:

The Abandonment Fund was adequate for the Branch to promptly take enforcement action, resulting in the seizure of 23 wells. Rehabilitation is complete and being monitored. The industry saw higher oil prices, and more companies are budgeting for rehabilitation. The Abandonment Fund balance should be adequate as increased oil prices may result in more operators paying their levies and decrease delinquent operators.


Tara Kennedy
Director, Mining Oil and Gas