


Failure of Houston Oil & Gas threatens to create up to 1,400 orphan wells

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Dan Healing - The Canadian Press November 6, 2019

CALGARY -- The latest failure of a Calgary-based junior oil and gas producer could add more than 1,400 wells to a provincial inventory of orphaned petroleum assets, warns the Alberta Orphan Well Association.

The total estimated abandonment and reclamation bill associated with wells, pipeline segments and other assets owned by Houston Oil & Gas Ltd. is \$81.5 million, says the industry-funded organization that steps in when operators of oil and gas facilities can't or won't meet their obligations.

The OWA intervened to ask the Court of Queen's Bench to appoint a receiver for Houston Oil after the company told the Alberta Energy Regulator its precarious financial status meant it could no longer look after its wells.

The court's decision to appoint Hardie & Kelly Inc. as receiver means there's hope that at least some of the assets will be sold to responsible new owners, said OWA executive director Lars De Pauw in an interview.

"Ideally, they'd all go to somebody else from an operational standpoint and that's what the role of a receiver would be," he said.

A growing backlog of abandoned wells prompted the Alberta government to loan the association \$235 million in 2017 to hasten cleanup but De Pauw said that while the money helps, OWA still hasn't been able to keep up.

"When the loan was announced, there were 1,400 wells to be decommissioned. Since that time, we've done 1,200. And now we have 3,400 left to do," he said.

Industry levies are expected to continue to rise to pay for cleanup and to repay the loan, he said.

The annual levy has climbed from \$15 million a few years ago to \$60 million in the current fiscal year and is expected to be \$65 million next year.

In May, the association asked the court to appoint a receiver for private Trident Exploration after it abruptly stopped operations and laid off all its staff.

The receiver has since sold about one quarter of its 4,400 wells, pipelines and other assets, De Pauw said.

There have been 10 insolvencies declared by Canadian oil and gas companies so far this year, said Alan Tambosso, president of Sayer Energy Advisors in Calgary.

"Although the numbers are all over the map, we generally state that in a typical year there are roughly eight to 10 oil and natural gas producers which become insolvent," he said in an email.

"We don't necessarily catch the ones which quietly slip away, so the numbers could be higher for any particular year."

Sayer statistics show that insolvencies jumped to 20 in 2015 as global oil prices fell, then spiked to 28 in 2016 as American benchmark oil prices tumbled as low as US\$27 per barrel. They moderated to 17 in 2017 and six in 2018.

The Alberta Energy Regulator suspended all of Houston's licences for wells producing natural gas containing toxic hydrogen sulphide on Aug. 30 after the company warned it would have to shut down all of its oil and gas operations due to its financial distress.

Last month, the AER ordered all of Houston's licences suspended and noted it hadn't paid \$1.34 million in levies it owed to the orphan well fund.

It said Houston had advised it no longer had any employees.

The company's production is about 95 per cent natural gas, mainly from wells in southeastern Alberta.

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