PEMBINA Institute

Unpaid Bills

How Albertans are shouldering the costs for oil and gas companies

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Summary: The unpaid bills for oil and gas company obligations

Albertans are at risk of being left an increasing bill for obligations taken on by oil and gas companies: for cleaning up their production sites and for rent and taxes owed.

Companies are legally required to close and clean up oil and gas wells when they are done producing, but weak rules have allowed too many operators to delay the work, avoid the cost, or walk away entirely. The result is a growing problem: old, and sometimes leaking oil and gas wells persist on the landscape for decades, affecting landowners, municipalities, and taxpayers. Without targeted policy, the bill to clean up those wells risks falling on Albertans. The numbers are already large. Alberta’s regulator estimates conventional oil and gas closure liabilities at $36.6 billion, while other estimates suggest the true cost could be far higher.

On top of that, Albertans are already covering companies’ bills to landowners and municipalities. Since 2014, the Government of Alberta has paid out approximately $145 million in unpaid oil and gas rent to landowners, including more than $30 million in 2024 alone. Oil and gas companies’ total unpaid municipal taxes add up to more than $250 million.

As the energy transition accelerates, increasingly many oil and gas companies are likely to become insolvent, and the risk that cleanup liabilities and financial obligations will be transferred to Albertan taxpayers will grow.

The fix is straightforward: make polluters pay the debts they owe as well as the real costs of cleanup, and make them pay in a reasonable time before these become a burden on Albertans and Alberta taxpayers.

Alberta needs:

- firm deadlines for closing old wells, backed with enforcement
- transparent public estimates of cleanup costs
- enough money set aside up front to cover closure even if the company goes bankrupt
- stronger enforcement for unpaid bills
- tougher rules to stop high-risk companies from taking on more wells they may never clean up or pay for.

Introduction

If you live in Alberta, you're probably aware at some level that we have a problem with old wells. Sooner or later a well stops producing enough oil or gas to be profitable, so the energy company moves their equipment somewhere else … but the well site remains. Sometimes the company goes bankrupt. Even if they don't, there's no pressure on the company to act on their legal responsibility to properly seal up and decommission their old well. Years and even decades can pass without any action, and now there are tens of thousands of these disused old wells dotted across Alberta. This isn't just a legacy of mistakes from the past; we're continuing to make the same mistakes today.

Adding insult to injury, some oil and gas companies fail to pay the rent to the landowner that they agreed to pay when the well was drilled. And some companies refuse to pay their municipal taxes, leaving the county's families and businesses to pick up the slack.

If you live in the city, this problem can seem a long way away. But it's only as far away as your next paycheque. Some of the taxes deducted from your income every month are being used to clean up old wells, compensate farmers for unpaid rent, and support struggling rural municipalities. Every tax dollar the provincial and federal governments spend on these problems — all of which the energy companies are legally responsible for — is a dollar that's not available to hire a nurse or build a school or fix the highway. Alberta taxpayers are getting stuck with a pile of unpaid bills because energy companies simply didn't want to pay them. That pile has grown to tens of billions of dollars, and continues to grow every year.

This primer describes how we ended up here, and what some potential solutions could look like.

About financial obligations

Cleanup liabilities

The resource development deal in Canada is that oil and gas companies can profit from extracting the resources of the land, but they must clean up after themselves after production ends — and foot the bill.

The costs of closing, remediating, and reclaiming oil and gas sites are called *liabilities*. Based on the type of facility, liabilities can be broken down into three categories: conventional liabilities, oilsands liabilities, and pipeline liabilities. Conventional liabilities are the costs of closing and cleaning up oil and gas wells that have been vertically or horizontally drilled. Oilsands liabilities are the costs of closing and cleaning up sites that recover bitumen via mining and steam-assisted gravity drainage. Pipeline liabilities are the costs of closing and cleaning up the network of pipelines that transport oil and gas. This primer only looks at conventional liabilities. A full description of the stages in the end life of a well, and the cleanup liabilities for each, can be found in Appendix A.

Alberta's population of inactive, suspended, and orphaned wells is growing, and therefore so too are oil and gas cleanup liabilities.

Financial obligations to the public

Oil and gas companies are required to pay taxes to the municipalities in which they operate, but some companies are dodging this responsibility. Companies that have wells on private lands are also required to compensate landowners in the form of land rent. When they fail to do so, landowners can make a claim to the Land and Property Rights Tribunal. The Tribunal has handled over 35,000 claims since 2016.[1]

As a citizen of Alberta, this problem affects you. That's because the government is already using taxpayer money to cover these oil and gas delinquencies. Every dollar of public funds spent to fix oil and gas industry problems is a dollar not spent on key public goods, like education and healthcare.

What are the problems?

Companies are not setting aside enough to shut down old wells

Costs will be higher than planned for

The official estimate for closing all current conventional energy development sites, as noted in the Alberta Energy Regulator (AER)'s most recent Liability Management Report, is $36.6 billion.[2] This would cover all stages of closure, including abandonment and decommissioning, remediation when required, and final reclamation (see Appendix A for definitions of these stages).[3]

This estimate has been identified as too low, most notably by Alberta's Auditor General. Firstly, pipeline liabilities—costs to reclaim pipeline infrastructure-- are not included in this estimate. Including these pushes the estimate of closure liabilities to $60 billion (Figure 1).

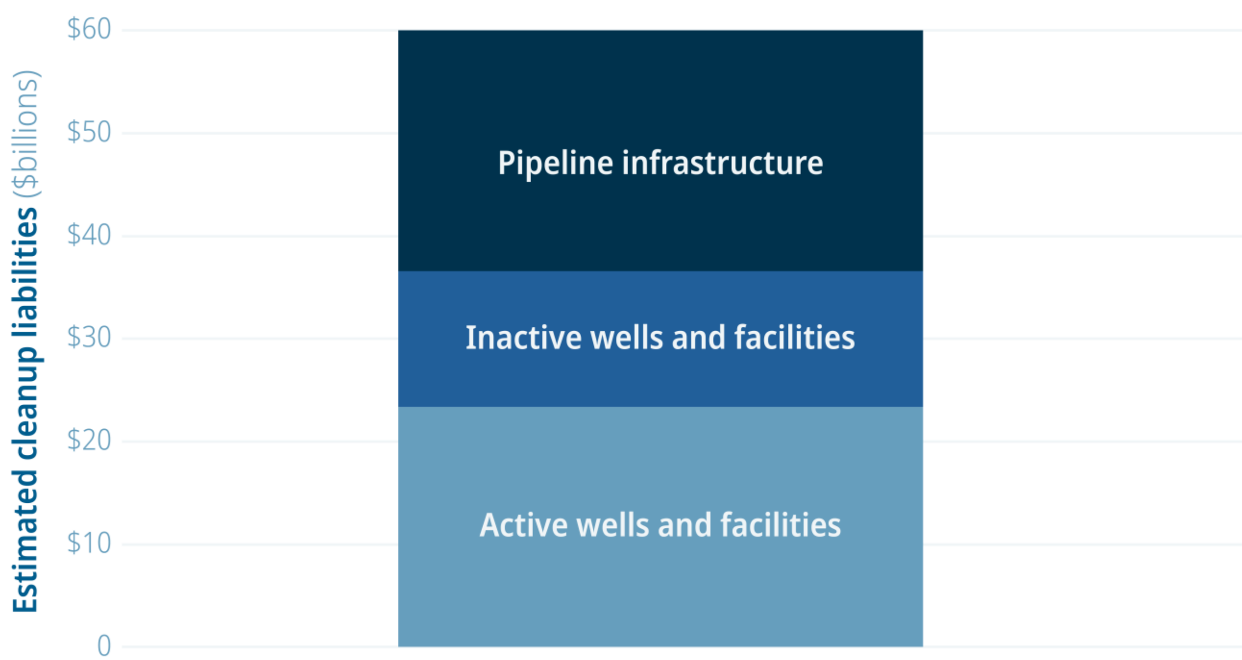

Figure 1. Estimated liabilities to clean up oil and gas facilities in Alberta

Data source: AER Liability Management Report, Alberta Auditor General[4]

And even the Auditor General's assessment may be underestimating the problem. Costs are estimated using average cleanup cost estimates which are known to be too low.[5] Taking this into consideration, internal documents from the AER estimate that the true cost of closure liabilities is high as $88 billion, nearly triple the officially reported figure.[6]

The amount of security that companies are required to have will not cover all their obligations

Under the AER's Liability Management Framework, operators are generally not required to post financial security for each well they operate. Instead, the system assesses each company to see if they're financially healthy enough overall to cover their liabilities. Only if a company is known to be in a precarious financial situation will they be required to post a security against their wells but this rarely happens. As a result, when operators become insolvent, there is often not enough money left to cover their abandonment and reclamation costs. Closure costs are instead transferred to industry levies through the Orphan Well Association and, ultimately, to the general taxpayer.

More and more wells are being turned over for others to clean up

More wells are turned over to the Orphan Well Association

The number of orphan wells has reached a record high, coinciding with estimated closure liabilities surpassing $1 billion (Figure 2). Liabilities are expected to keep rising, with an additional $844 million in ongoing insolvencies likely to fall to the Orphan Well Association (OWA) in the short term.[7]

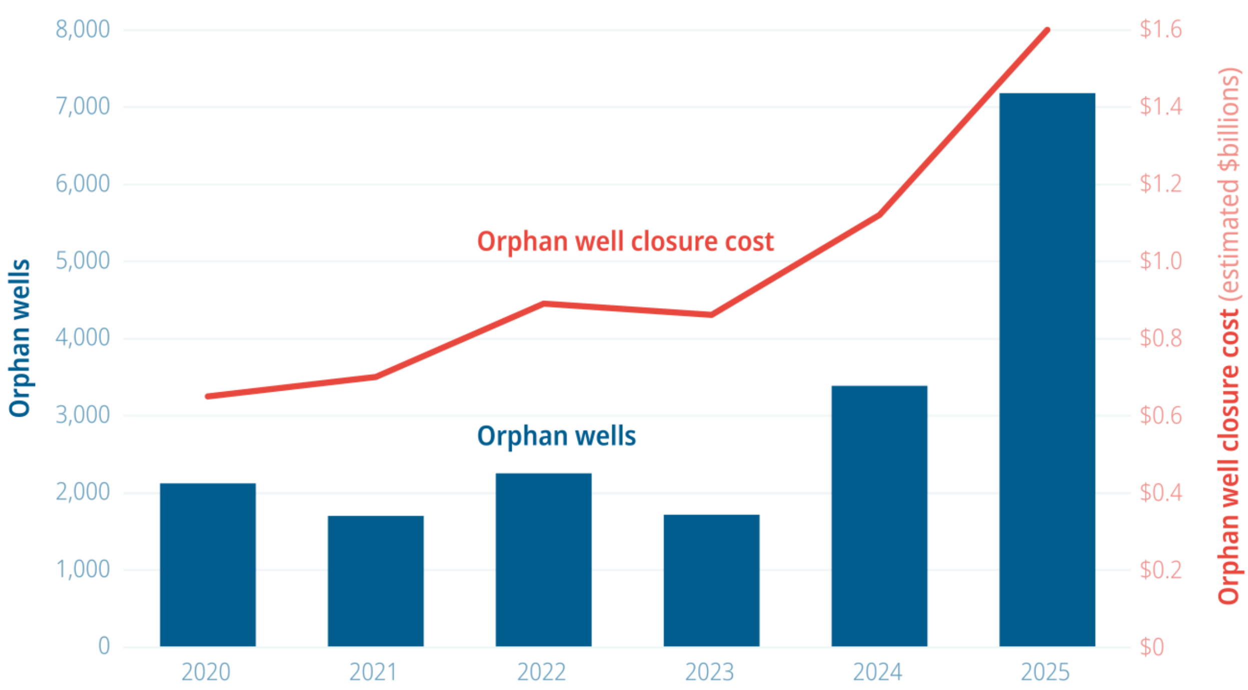

Figure 2. Orphan wells and estimated closure liability

Data source: Orphan Well Association[8]

Industry funding is not enough to cover all orphan wells

Although industry pays an annual levy to fund the OWA, the fee is insufficient , as both the orphan well inventory and associated closure liabilities have continued to grow. The Orphan Fund Levy is currently set at $144.5 million for 2026, just a 7% increase from 2025. The levy is currently well below the estimated total cost to remediate all orphan wells (Figure 3).

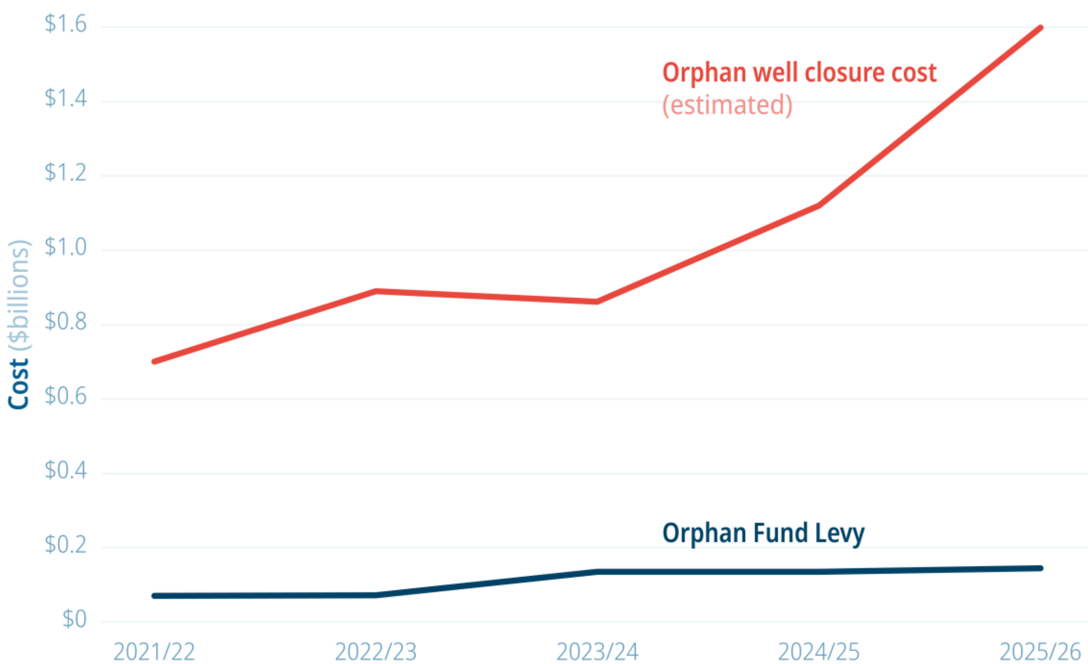

Figure 3. The Orphan Fund Levy and total estimated closure cost for orphan wells in Alberta

(Source: Orphan Well Association[9])

Taxpayers are making up the industry shortfall

The OWA has also received more than $330 million in loans from the Government of Alberta since 2009 and roughly $200 million from the federal government. The provincial loan is scheduled to be repaid by 2031, while the federal loan is not due until 2035.[10] In addition, the federal government provided a further $30 million in 2017 to orphan well cleanup.[11]

The federal government also provided $1 billion contribution to Alberta's Site Rehabilitation Program[12] constitutes a further subsidy, providing industry with public funds to address environmental obligations that were originally meant to be financed by operators themselves. While this Covid-era subsidy was meant in part to stimulate economic activity while the oil and gas sector slowed down, it was not designed to be ongoing taxpayer support of industry cleanup obligations.

Cleanup costs for non-producing wells keep getting pushed to the future

Alberta has over 350,000 non-producing wells,[13] over 80,000 of which are sitting inactive.[14] Over half of Alberta's total population of oil and gas wells are suspended or abandoned. Nearly half of Alberta's suspended wells have been suspended for over a decade. The population of suspended wells is also increasing. These facts all suggest that companies are in no hurry to close and clean up these wells; every year the risk increases that the costs will be transferred to taxpayers.

The proposed Mature Asset Strategy could further shift responsibility onto the taxpayer

The Government of Alberta has developed a strategy to deal with what it calls "mature" oil and gas assets – assets that are nearing the end of their producing lives.[15] The strategy does not take meaningful steps to improve liabilities governance in Alberta. It includes numerous minor recommendations, including several to form working groups to address ongoing problems. Some of its more substantive recommendations are concerning. In particular, the strategy proposes to shift closure responsibility away from oil and gas companies, toward public or semi-public corporations that would assume responsibility for mature oil and gas wells, produce their last drops, and use the resulting funds to pay for cleanup. Since mature oil and gas wells produce marginal amounts of oil and gas, this plan is likely to fail — and further jeopardize the public purse.

Financially shaky companies are not paying their rent to landowners

Oil and gas companies are required to pay rent to landowners for developing wells on private land, to compensate for the access they need and the disruption they cause. But financially shaky companies may stop paying this rent before they fail. When companies fail to pay or enter insolvency, the province steps in to compensate landowners for the rent owed. This has been a longstanding issue in Alberta and has grown rapidly over the past decade (Figure 4). Since 2014, the Government of Alberta has paid out approximately $145 million in unpaid oil and gas rent, including more than $30 million in 2024 alone.[16] Although the province is intended to recover these payments from companies, only $1.4 million has been recouped to date, meaning taxpayers have effectively covered almost the entire cost. grown over the last decade.

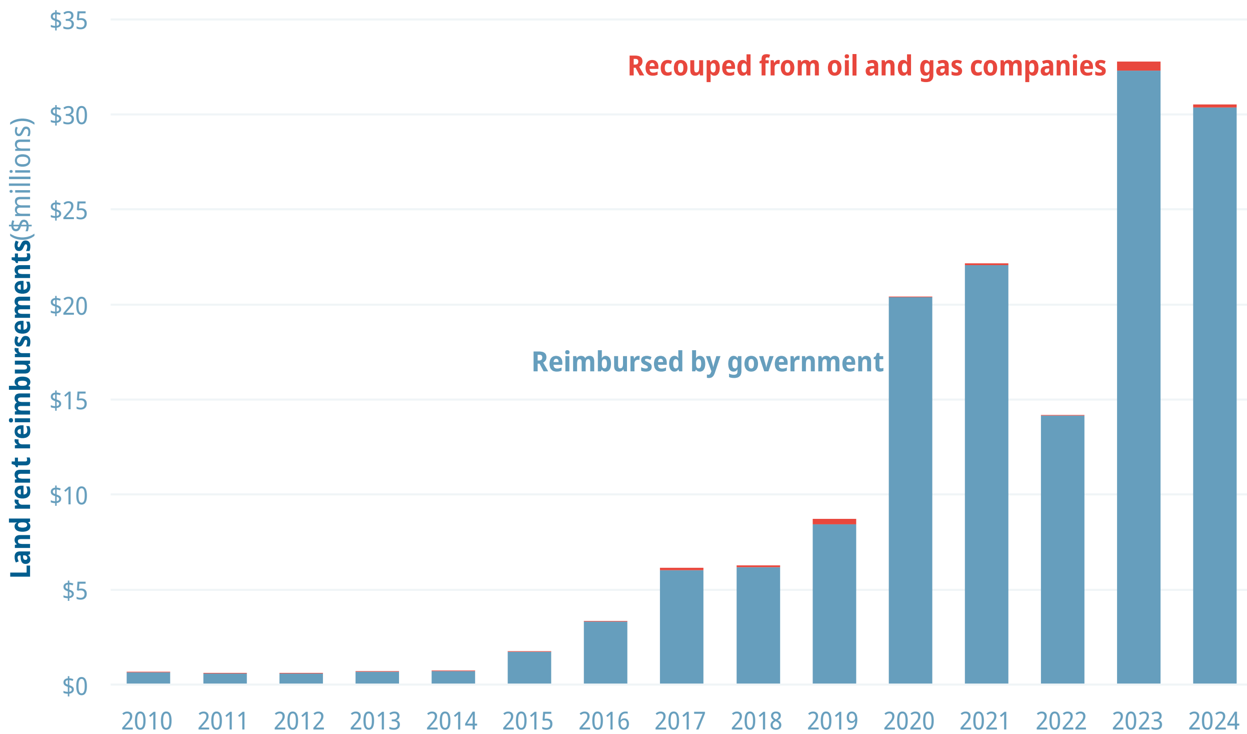

Figure 4. Reimbursements to landowners to cover delinquent oil and gas company land rents

Data source: The Narwhal[17]

Financially shaky companies are not paying their taxes to municipalities

Oil and gas companies are also required to pay property taxes to the municipality in which they operate. Some companies do not pay all that they owe to communities, which has impacts on tax rates for residents and the ability of municipalities to cover operating expenses. This problem has been growing. As of 2024, the oil and gas sector owed$253.9 million in unpaid municipal taxes, $67.8 million of which was from 2024 alone. .[18] The issue of unpaid taxes is province-wide – results from a recent survey from the Rural Municipalities of Alberta found that only four municipalities had no unpaid tax burden from oil and gas companies.[19]

What should be done?

The province and the provincial energy regulator have a responsibility to ensure wells at the end of their producing lives are properly plugged and reclaimed in a timely manner and that companies hold up their end of the resource development deal by paying what they owe. Any sound policy to deal with oil and gas liabilities must include some fundamental pieces:

- Regulations should specify mechanisms (such as closure timelines or idle well fees) to disincentivize companies from leaving wells inactive and deferring decommissioning and reclamation.
- The regulator should regularly update estimates of liabilities and share these publicly.
- The orphan well levy and up-front reclamation security amounts should be increased.
- The government should introduce strong enforcement mechanisms to efficiently resolve unpaid rents and municipal taxes.
- The government should place legal restrictions on well transfers and new well licenses for companies that are delinquent or high risk.

Appendix A. The end stages in the life of a well

There are a lot of similar-sounding names for different stages at the end of a well's useful life, and sometimes people use them interchangeably. These are the official terms used by the Government of Alberta and the Alberta Energy Regulator.

Non-producing wells

As the name suggests, a non-producing well is not currently producing oil or gas or anything of value, although it may still be venting or flaring gases. All of the stages below come under the general term of non-producing.

Inactive wells

Generally, a well is declared inactive after 12 months without reporting any production. Another 12 months after that, according to the AER, the company that operated the well must either restart operations or take action to **suspend** the well. The timelines are shorter for some sour gas wells. In practice, though, some companies ignore this requirement, and the well can sit **inactive** for years on end.

Suspended wells

When the company has taken steps to secure the well site it is said to be **suspended**. These steps vary for different kinds of wells, but they could include checking that all the valves are closed and not leaking, chaining and locking the valve handles, installing plugs in all the outlets, and making sure the wellhead is clearly marked and fenced off. The company is also required to inspect the site every year and report back to the AER. The next step is to **abandon** the well, but the government has not set a deadline to take that next step, and so wells can remain suspended for many years.

Abandoned or decommissioned wells

Despite the negative-sounding name, an **abandoned** well is one where the company has taken additional steps to permanently seal the well below the surface and dismantle the structures and remove equipment that remain above ground. The AER has standards that this work has to meet. The well site may still be an obstacle for the landowner, and it's probably still contaminated. The next steps are **remediation** and **reclamation**.

Remediation and reclamation

Remediation is the management and clean up of any spills or contamination of the site and surrounding area. This is supposed to happen at the time of any incidents, but it's also an important step in **reclamation**, which is when the company returns the land to the condition they found it in. This can include reversing any disturbances, replacing the soil, and replanting any vegetation that was there before the well was drilled. This is the final step, and it's complete when the company applies for and receives a reclamation certificate from the AER.

Orphan wells

Regardless of what stage it's in, a well is called **orphaned** when there is no longer a company that can be held legally or financially responsible for it, often because the company has gone bankrupt. These wells may be transferred to the Orphan Well Association, which takes up the suspension, abandonment, and reclamation process using money from an industry levy and public subsidies. While these are a minority of Alberta's wells, there are still thousands of them and the cost to close them has risen above $1 billion.

Endnotes

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