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The Orphan Well Association Annual Report 2025/2026: The Problem with the AER's Long Run Plan for Orphan Oil and Gas Sites

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Matter Commented On: Orphan Well Association Annual Report 2025/2026

On July 15, 2026, the Orphan Well Association (OWA) released their annual report for 2025/2026. OWA annual reports provide insight into Alberta's orphan oil and gas site problem and the pace at which the problem is being addressed (see the ABLawg posts on past OWA annual reports: 2022/2023; 2023/2024; 2024/2025). The OWA annual report is separate from the Alberta Energy Regulator (AER)'s annual liability management performance reports, which are concerned with the closure liability of oil and gas sites generally in Alberta, most of which still have operating licensees.

This post assesses the current state and foreseeable future of Alberta's orphan oil and gas site problem.

The Basics of Orphan Oil and Gas Sites

I begin with the same quick refresher on the orphan oil and gas site problem from last year – if you know the issue, skip this section.

Once their role in oil and gas production ends, oil and gas sites need to be decommissioned (which Alberta legislation confusingly calls 'abandonment') and reclaimed. Decommissioning is the permeant sealing of any borehole and removal of surface equipment, and reclamation is the removal of contamination and restoration of vegetation comparable to what existed prior to the site being used to access oil or gas. The entire process is referred to as site 'closure'. The orphan fund program, initially established around 1994, was intended as a safety net to prevent the Albertan taxpayer from bearing the costs of closure when an oil and gas licensee becomes insolvent or defunct and is unable to pay for its closure obligations. The AER sets an annual orphan fund levy to be paid by oil and gas licensees, and the money is used by the OWA to decommission and reclaim orphaned oil and gas sites. The OWA is independent of government, but primarily controlled by oil and gas lobbying organizations: 5 of 6 OWA board members are appointed by oil and gas lobbying organizations.

From 2002 to 2020, a catastrophically designed liability management system failed to require oil and gas companies to perform closure or to collect financial security for closure costs (in the form of either cash, letters of credit, or bonds), so oil and gas companies amassed 89,000 inactive sites and 100,000 sites requiring reclamation and the AER held little security for their closure. This large volume of inactive and marginally producing sites that require closure work is the source of orphan sites when the licensees for those sites become insolvent, as these sites are not purchased from the bankrupt licensee. The inventory of orphan wells and other sites first shot up after a collapse in natural gas prices in 2016 and the AER and Alberta government have been slowly restructuring the regulatory approach since 2020. For an extensive background, see my paper with Shaun Fluker and Martin Olszynski from 2023.

A Growing Inventory and New Responsibilities: Long Run Exploration & Weed Control

First, it bears noting that the OWA's annual reports since 2021 have been consistent in format and organization, which contrasts favourably with the AER's troubled liability management performance reports. The OWA made only minor adjustments in the 2025/2026 report to how information is presented.

I take issue with one paragraph of the report, which says:

> The industry levy finding formula - accounting for more than $140 million in the past year alone - is unusual and may be unique among any industry or jurisdiction. Active and viable companies pay directly for other companies' liabilities - not out of government revenues of taxpayer funds, but from a direct industry levy. (at 7)

This can give the impression that oil and gas corporation's funding of the orphan program is a kind of generosity. That is misleading. Oil and gas corporations accepted responsibility for orphans in exchange for Alberta adopting a very light touch in the regulatory system for oil and gas license transfers. This high-risk regulatory design caused the orphan problem. The orphan fund levy is not a gift from oil and gas corporations to the public, but rather a key component of the bargain struck between Alberta regulators and the oil and gas corporations. Oil and gas corporations do not fund the OWA voluntarily; they are legally obligated to pay the levy set by the AER under governing legislation.

Two major insolvencies impacted the OWA inventory around the 2025/2026 fiscal year. First, although the bankruptcy of Sequoia Resources ended in the previous year, Sequoia sites continued to be transferred to the OWA during the 2025/2026 fiscal year. Second, in April 2026 (after the OWA's fiscal year end on 31 March 2026 but before the annual report was completed), 2,980 wells and associated pipelines and facilities were sent to the OWA from Long Run Exploration Ltd. (see pages 4 and 6 for the different numbers) This frustratingly-timed influx of orphans makes some of the annual report's information dated, but the annual report helpfully includes some information on the number and cost of sites sent to the OWA from Long Run Exploration Ltd. (at 2,4,19)

The inventory of orphan wells for decommissioning grew to 4,200 by March 31, 2026, (at page 19) but that total rose to 7,302 by July 2026 because of the Long Run Exploration sites up (see the OWA website).

The OWA performed more decommissioning this year than last despite spending less on well decommissioning by focusing spending on cheaper-to-decommission wells from the former inventory of Sequoia Resources (at 19 and 14). The number of reclamation certificates the OWA received increased slightly from almost 800 in 2023/2024 to 850 in 2025/2026 (at 21).

Total OWA revenue was just over $193 million. The OWA's major source of revenue is the orphan fund levy set by the AER and paid by solvent oil and gas licensees. The orphan fund levy was $144 million for 2025/2026, and will rise by 7% to $154.6 million for 2026/2027 (at 5). Other OWA sources of revenue increased by a total of $9 million: notably a $6 million increase in security deposit recovery to $20.2 million for 2025/2026 (up from $14.2 million and $14.3 million in the previous two years), a $3.3 million increase in recoveries from working interest partners in orphan sites, and a $3.9 million drop in interest income (at 12-13).

In May 2026, the OWA was also made responsible for weed control on the sites in their inventory (at 4), see Order in Council 113/2026. The assignment of weed control responsibilities for orphan sites to the OWA is a rational policy change that keeps more of the costs of orphan sites with oil and gas licensees rather than the public. However, this does add another financial responsibility that will need to be paid for through the orphan fund levy. As this change occurred after the end of the OWA's fiscal year, the report does not address the scale of the new costs of this responsibility. That information will be in the next annual report.

OWA Policy Changes and Activities

The OWA ended the Working Interest Participant Agreement effective July 1, 2026, after the end of the OWA's fiscal year. This administrative change is the result of an AER policy change and provides a simplified structure for the OWA to carry out closure on orphan sites with solvent active working interest participants and then recover their share of costs. This is an administrative change in the sense that it does not shift any financial responsibility for orphan sites to or from the OWA, only modifying the process by which closure and cost recovery is organized. When a working interest participant in a site becomes insolvent, the OWA remains responsible for only the insolvent working interest participant's share of the closure costs.

The annual report also provides details of two expensive and specialized closure projects the OWA undertook: one inside a residential area in Bonnyville and another in a remote location on the Keg River (at 8-11). Both are good examples of why closure costs of particular sites can vary so widely.

The Future of the Orphan Inventory

As of March 31, 2026, the OWA's estimated total remaining closure cost for the orphan inventory is $1.16 billion, and $1.66 billion by July 2026 due to addition of the Long Run Exploration sites. The table below shows the estimated total remaining closure cost for the orphan inventory since 2021, with an added row for the post-Long Run Exploration costs.

Year	Estimated Orphan Closure Cost
2021	$650,000,000*
2022	$700,000,000
2023	$890,000,000
2024	$862,000,000
2025	$1,120,000,000
2026	$1,160,000,000
*July 2026***	$1,660,000,000

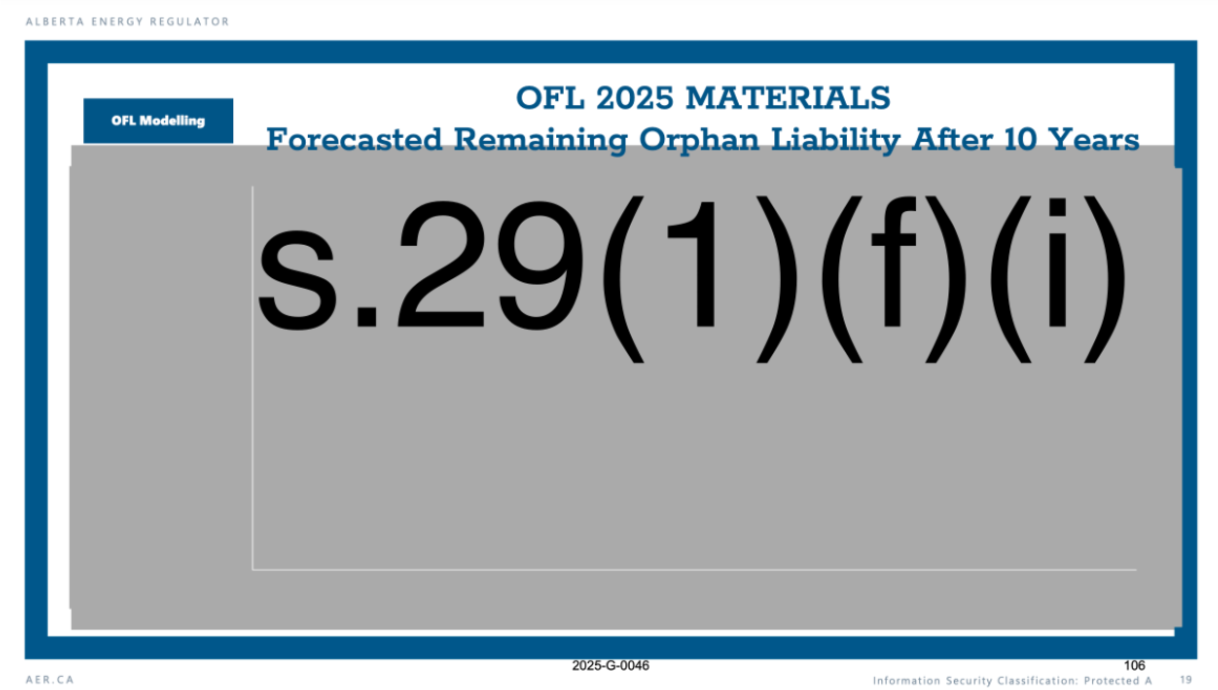
*For 2021, the estimate was given as a range from $650M to 700M.
** July 2026 is included to show the estimated impact of Long Run Exploration Ltd sites. The other estimates are for March 31 of each year.

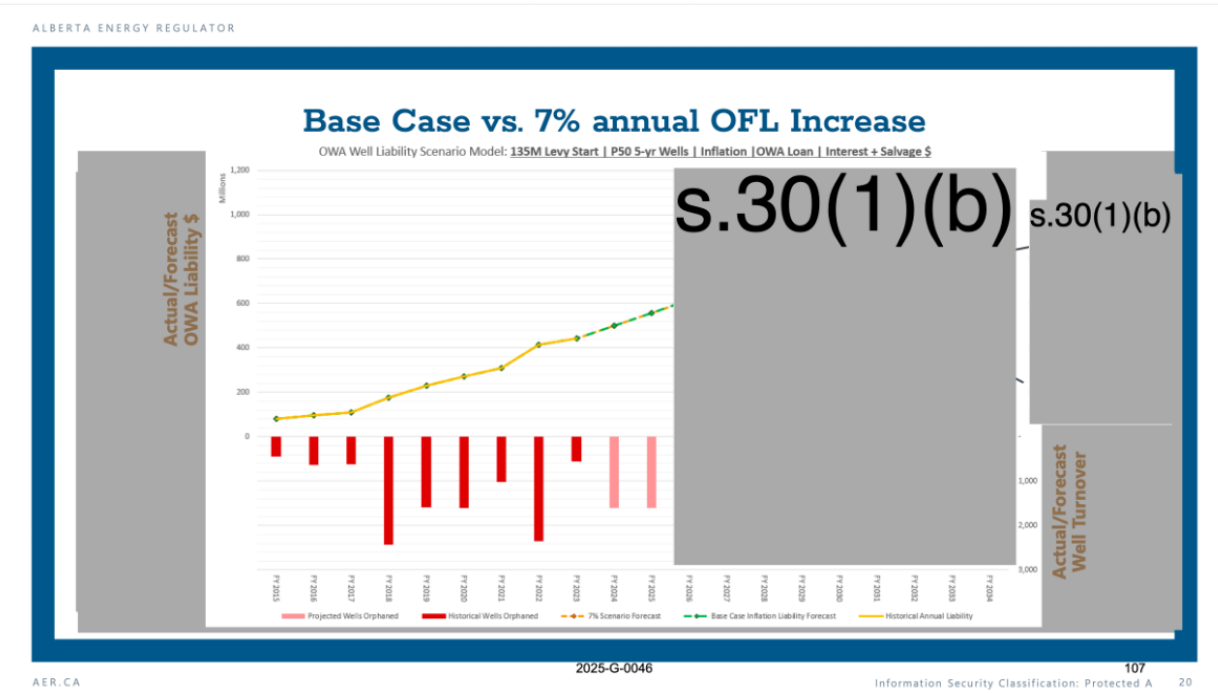
The OWA holds $330 million in government loans from the provincial and federal governments, to be repaid on an uneven repayment schedule until October 2035, with the largest quarterly payments scheduled for 2032 to 2035 (at 35). There are large ongoing insolvencies that will likely add several hundred million more to the OWA's total closure liability in the next few years. These include Alphabow Energy Ltd. (with $264 million in estimated liability), Tallahassee Exploration Inc. (with a deemed $88 million in closure liability), and Revitalize Energy Inc. (with $16 million in deemed closure liability). Altogether, the OWA has $1.66 billion in orphan closure costs, $330 million in government loans, and should foresee at least another $350 million in orphan closure costs in the near future.

The OWA's target closure date can be identified by extrapolating from the orphan fund levy, the estimated total remaining cost of closure, and other OWA financial information. In August 2025, the OWA expected to clear the backlog of orphan sites between 2037 and 2040. The OWA annual report compares the orphan inventory to "a 30-year mortgage" to be handled "steadily and diligently" (at 5). This metaphor does not accurately describe a situation where the total amount owed has increased for 5 of the last 6 years and has more than doubled from 2021 to July 2026. The approximately 180,000 inactive and marginal sites in need of closure work and the lack of financial security collected for their closure also makes it nearly certain the inventory of the OWA will continue to grow rapidly over the next decade. Using the mortgage metaphor, this mortgage holder will continue buying more house each year.

The AER is failing Albertans as a public regulator by not providing adequate disclosure to the public about the AER's decision not to set a levy that addresses the major growth of the OWA inventory. I attempted to use the *Access to Information Act*, SA 2024, c A-1.4 (*AB ATIA*) to determine both how the orphan fund levy was being set and how long the AER believed the OWA inventory would take to close. Although this information exists in a June 2025 AER slideshow (see Figure 1), it was kept secret on the basis that it could reveal "the contents of agendas or minutes of meetings of" … "the governing body of an agency, board, commission, corporation, office or other body designated as a public body in the regulations" (*AB ATIA* , s.29(1)(f)) and because the information "could reasonably be expected to harm the economic interest of a public body or the Government of Alberta or the ability of the Government to manage the economy, including the following information:" "financial, commercial, scientific, technical or other information in which a public body or the Government of Alberta has a proprietary interest or a right of use and that has, or is reasonably likely to have, monetary value;" (*AB ATIA*, s.30(1)(b)). In my view, the s.30(1)(b) redactions are clearly incorrect. There is no proprietary interest in this information, and the AER is improperly avoiding democratic scrutiny of a decision it knows is unpopular. I have filed for administrative review.

Figure 1: June 2025 AER slideshow on Setting the Orphan Fund Levy (Source: AER, 2025)





These calculations by the AER should be public, so that the public can assess the calculations and estimates used by the AER, and the AER's policy decision on what the closure rate should be for orphan sites.

Instead of a static annual levy, the OWA and AER now expect steady 7% annual increases to the orphan fund levy. If we take that at face value and make some generous assumptions about the future financial condition of conventional oil and gas in Alberta, the orphan levy would rise above $300 million around 2037/2038, double what it is scheduled to be for 2026/2027. This would allow the OWA's inventory to be closed around 2038. However, it is not realistic to expect the AER to hold firm to such a policy of increases given their long record of softening requirements due to regulatory capture by the corporations they are meant to regulate. It is also unrealistic to think Alberta's aging conventional (non-oilsands) oil and gas producers will have both the financial capacity and the willingness to pay a levy twice as large as today in ten years. There will likely be price problems for oil or gas before 2037 – oil and gas prices are volatile, and competing low-hydrocarbon technologies are positioned to disrupt oil and gas markets in the near future. The AER is planning to leave most of the cost for after 2030, rather than in the next few years. This is another version of the same big mistake the AER consistently makes on liability management: failing to collect funds now based on an unfounded optimism about the distant future of a non-renewable and depleting resource.

What should the orphan levy for 2026/2027 be set at? If the AER wanted to correct their long-term mistake of setting the levy improperly low without proper analysis in one year, the levy should be in the range of $1.7 billion. That is roughly the amount oil and gas corporations have underpaid the orphan fund levy since the orphan inventory began its rapid growth in 2014. $1.7 billion appears very high – but that is the amount by which past levies were cumulatively too low.

If the AER continues to be lenient with oil and gas corporations by spreading payment out beyond 2035, the AER should be forced to justify this decision to the public. A long timeline for collecting payment puts the public at risk if oil and gas corporations' ability to pay collapses, it leaves landowners with unreclaimed and hazardous sites longer, and it requires the public to pay for the surface leases of orphan sites longer. A long payment timeline also leaves the orphan program unprepared to address future commodity price collapses that will create new waves of orphans. The AER's long term plan gets it backwards: a good orphan program would operate like insurance, looking forwards and collecting funds to pay for future problems, not a mortgage that looks backwards and takes decades to pay for what already happened.

Conclusion

Despite the positive tone of the OWA's 2025/2026 report, the bottom line is that Alberta's orphan problem continues to grow. The inventory of orphan wells for decommissioning hit an all-time high in July 2026 and the large number of inactive and marginal sites needing closure work strongly suggests the OWA inventory will continue to grow and remain high for many years, even if all goes as the OWA plans. The problem is neither fixed nor under control and the details of the plan to address the problem are being kept secret. All signs point to an orphan well problem that will become too big to solve so that a large share of the costs will be socialized, with taxpayers left to pay the bill for closure work

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