

IN THE MATTER of a CONTRAVENTION
of the *OIL AND GAS ACTIVITIES ACT*
[SBC 2008] Chapter 36
before
The BC OIL and GAS COMMISSION
Case File 2019-090

BETWEEN

The BC Oil and Gas Commission

AND

Saguaro Resources Ltd.

ADMINISTRATIVE FINDING

Before

Vice President, Operations, Andy Johnson

Representing the BC Oil and Gas Commission

Ken McLean, Compliance and Enforcement
Officer

Representing Saguaro Resources Ltd.

Stacy Knull, President & CEO

Decision Date

June 14, 2022

Introduction:

1. On September 1, 2019, Saguaro Resources Limited (Saguaro) reported a Level 2 incident after losing well control at NTS: d-056- E/094-H-05 (“d-056- E”).
2. A Contravention Report (the Report) was sent to me on March 25, 2022, alleging that Saguaro contravened section 12(1) of the *Drilling and Production Regulations* (DPR).
3. The BC Oil and Gas Commission (Commission) sent Saguaro a letter and the Report on March 28, 2022, informing Saguaro that I was considering making a finding that it contravened section 12(1) of the DPR. The letter informed Saguaro of its opportunity to be heard in written form and advised that a finding of contravention could result in the Commission imposing an administrative penalty in accordance with section 63 of the OGAA.
4. Saguaro provided a response in a letter dated April 19, 2022 (the Response).
5. The Commissioner of the Oil and Gas Commission has delegated me authority under sections 62 and 63 of the OGAA. I will be making a determination with regards to: whether Saguaro contravened section 12(1) of the DPR; whether to impose an administrative penalty under section 63 of the OGAA; and the amount of the penalty, if any. I have reviewed the Report and Saguaro’s Response. In making a determination, I rely on these documents, and the applicable legislation.

Applicable Legislation

6. Section 12(1) of the DPR states that a well permit holder must take all reasonable measures to minimize the risk of loss of well control.
7. Maximum penalties for specific violations are set by regulation. Section 5(1) of the *Administrative Penalties Regulation* (APR) provides that a person who contravenes section 12(1) of the DPR is liable to an administrative penalty not exceeding \$500,000.
8. Section 62(1) of the OGAA states that, after providing an opportunity to be heard to a person who is alleged to have contravened a provision of the Act, the regulations, a permit, an authorization or an order, the Commission may find that the person has contravened the provision.
9. Section 62(5) of the OGAA states, in part, that the Commission may not find that a person has contravened a provision of the OGAA or the regulations if the person demonstrates to the satisfaction of the Commission that they exercised due diligence to prevent the contravention, or if the person’s relevant actions were the result of an officially induced error.
10. Section 63(1) states that, if the Commission finds that a person contravened a provision of the OGAA or its regulations, the Commission may impose an administrative penalty. Section 63(2) of the OGAA sets out the factors that must be considered when determining whether to impose an administrative penalty under section 63(1) and the amount of the penalty. These include:

- (a) previous contraventions by, administrative penalties imposed on, or orders issued to the person;
- (b) the gravity and magnitude of the contravention;
- (c) the extent of harm to others resulting from the contravention;
- (d) whether the contravention was repeated or continuous;
- (e) whether the contravention was deliberate;
- (f) any economic benefit derived by the person from the contravention;
- (g) the person's efforts to prevent and correct the contravention; and
- (h) other prescribed matters.

Background

11. On September 1, 2019, Saguaro was drilling d-056- E and lost well control. The loss of well control resulted in gas coming to the surface. Saguaro reported a level 2 incident to the Commission and implemented their Emergency Response Plan.
12. On September 4, 2019, Saguaro successfully shut in the well and re-gained well control.
13. A Commission Officer attended the site on September 4, 2019. He noted that the cellar was full of a mix of mud, produced water, cement and other fluids and that mud, fluids and cement were spread across a portion of the lease. He also observed a split in the casing approximately 12-14" deep and approximately 3-5" wide.
14. The Commission Officer attended the site a second time on September 12, 2019. The casing was removed, and the Officer observed a split approximately 24-26" by 4-6" from the casing bowl downwards.
15. Saguaro engaged Acuren Group Inc. (Acuren) to examine the casing bowl. The report submitted by Acuren identified that the failure of the casing was the result of "internal erosion caused by the passage of sand entrained in the gas that was passing up the annulus of the well."
16. The Commission's Supervisor of Integrity Programs reviewed the circumstances of the incident and the Acuren report. He concluded that the loss of well control resulted from a rupture of the surface casing during well control operations due to a reduction in the surface casing wall thickness. The probable cause of the reduction in casing wall thickness was "mechanical wear from the drill pipe against the inner wall of the surface casing, resulting from a misalignment between the surface casing and the drilling rig."

Issues

17. The issues which I will decide are:
 - Did Saguaro take all reasonable measures to minimize the risk of loss of well control?
 - Did Saguaro exercise due diligence to prevent the contravention?
 - Was any noncompliance due to an officially induced error?
 - Did Saguaro contravene section 12(1) of the DPR?
 - If Saguaro is found to have contravened section 12(1) of the DPR what if any, administrative penalty to impose?

Did Saguaro take all reasonable measures to minimize the risk of loss of well control?

18. In the Response, Saguaro does not identify any measures that it took to minimize the risk of loss of well control. Saguaro identifies new mitigation steps introduced since the incident, such as a new operating procedure and mandatory wear bushing for all subsequently drilled wells but does not provide any evidence that these or similar measures were in place at the time of the incident to minimize the risk of loss of well control.
19. I find that Saguaro did not take all reasonable steps to minimize the risk of loss of well control.

Did Saguaro exercise due diligence to prevent the contravention?

20. Pursuant to section 62(5) of the OGAA, I may not find that Saguaro contravened section 12(1) of the DPR if Saguaro demonstrates to my satisfaction that it exercised due diligence to prevent the contravention. The test to be applied is whether Saguaro has demonstrated that it took all reasonable steps to prevent the contravention. Saguaro is not required to show that it took all possible or imaginable steps to avoid the contravention. The standard is not one of perfection, but rather of a reasonable person in similar circumstances.
21. Saguaro did not provide any evidence in relation to any actions it took to prevent the contravention.
22. I note that Acuren and the Commission's Supervisor of Integrity Programs identified different potential causes of the casing failure and resulted in the loss of well control. In the Response, Saguaro agrees with the Commission's conclusion that the probable cause of the reduction in the casing wall was the result of mechanical wear from the drill pipe against the inner wall of the surface casing because of a misalignment between the surface casing and the drilling rig.
23. Irrespective of the cause, a proactive integrity assessment that verified the integrity of the casing bowl and surface casing during drilling operations would have identified the potential for failure. This would have alerted Saguaro to address any misalignment to avoid further mechanical wear of the drill pipe or to cease operations to address the integrity of the casing. In the absence of such an assessment, Saguaro had no means by which it could become aware of an integrity issue, whatever the underlying cause.
24. Saguaro has failed to satisfy me that it took all reasonable steps to prevent the contravention.

Was any noncompliance the result of an official induced error?

25. I have no evidence before me of officially induced error.

Did Saguaro contravene section 12(1) of the DPR?

26. I find that Saguaro has failed to comply with section 12(1) of the DPR. I am not satisfied that Saguaro exercised due diligence to prevent the contravention. As such, I find that Saguaro contravened section 12(1) of the DPR.

If Saguaro is found to have contravened section 12(1) of the DPR what if any, administrative penalty is to be imposed?

27. Section 63 of the OGAA sets out factors that the Commission must take into consideration when determining whether or not to impose an administrative penalty. In the following paragraphs, I consider the applicability of those factors to this contravention.
28. There have been four General Orders issued to Saguaro, none of which are related to Well Control. There are no previous contraventions or administrative penalties issued to Saguaro.
29. The gravity and magnitude of the contravention was moderate. Any loss of well control presents a serious potential hazard to workers and the environment.
30. There is no evidence of harm to others as a result of the contravention.
31. The contravention was not repeated but was continuous until such time that the well was brought under control
32. There is no evidence demonstrating that the contravention was deliberate.
33. There is no evidence to indicate that Saguaro derived economic benefit as a result of the contravention.
34. Saguaro implemented their Emergency Response Plan and worked to bring the well under control. As a result of the incident, Saguaro took steps to ensure there would not be a future incident including the introduction of a new standard operating proceeding for wellsite supervisors regarding the mandatory use of a wear bushing for all subsequently drilled wells.
- 35.

Conclusion

36. I have found Saguaro contravened section 12(1) of the DPR. Based on the above discussion of the various factors set out in section 63(2), I am imposing an administrative penalty of \$20,000.



Andy Johnson
Vice President, Operations
BC Oil and Gas Commission

Date: June 14, 2022