



Natural Resources  
Canada

Ressources naturelles  
Canada

**UNCLASSIFIED**

187083

## **SCENARIO NOTE TO THE MINISTER**

### **CALL BETWEEN THE MINISTER OF NATURAL RESOURCES AND THE CANADIAN ASSOCIATION OF OILWELL DRILLING CONTRACTORS (CAODC)**

#### **MEETING DETAILS**

- **DATE/TIME:** Monday, June 15, 2020, 6:30 p.m. (NLDT)
- **LOCATION:** Conference call
- **PARTICIPANTS:**
  - Mark Scholz, President and Chief Executive Officer, CAODC
  - Other participants TBD

#### **ISSUE**

- The CAODC is requesting that the Government of Canada, through Natural Resources Canada, support the Canadian drilling rig sector by establishing a program that would distribute non-repayable grants to drilling rig contractor businesses.

#### **HIGHLIGHTS/KEY CONSIDERATIONS**

- Although the Government of Canada has already announced support for the well-servicing industry by providing funding for orphan and inactive oil and gas wells, the CAODC claims that additional support for the drilling services sector is required.
- The CAODC is proposing the establishment of a “Canadian Drilling Safety and Sustainability Grant”, which would be a “true grant” and not a repayable loan. The CAODC estimates that their proposal would cost \$240 million over an initial two-year timeframe. The terms of their proposal are summarized in Annex A.
- When federal support measures targeting the oil and gas sector were announced on April 17, 2020, the CAODC released a statement that it was positive news for service rig companies and that its members could count on “steady work” for the remainder of the year. However, the CAODC added that it looked forward to working with the federal government in the coming weeks “to develop additional measures of support” for Canada’s oil and gas service industry.
- In Alberta, nearly 37,000 applications have been received for funding to remediate oil and gas wells. 91,000 well sites in Alberta have been deemed inactive by the Alberta Energy Regulator. In Saskatchewan, the program will prioritize Saskatchewan-based service companies and support over 2,000 jobs. The Saskatchewan government expects up to 8,000 inactive wells to be reclaimed over the life of the program. British Columbia received \$120 million from the Government of Canada to remediate its orphan and inactive wells, most of which will be spent to reclaim wells that have been inactive for five or more consecutive years.

s.20(1)(b)

s.21(1)(b)

**UNCLASSIFIED**

187083

- During the week of June 8, the CAODC President announced that it will undergo a strategic review over the summer to discuss the evolution of the industry and its future (see Annex B for the President's message). As part of this organizational shift, the CAODC is seeking to explore new ideas and opportunities beyond traditional drilling practices.
- On April 30, the CAODC announced that it would join a number of industry organizations to form the Geothermal Collaboration Network to broaden the scope of work for its members.

### **KEY BACKGROUND**

- The CAODC is the trade association for the drilling and well-servicing sector in Canada. Its members provide contract drilling and well servicing for explorers and producers on land and offshore.
- CAODC members operate primarily in the Western Canadian Sedimentary Basin but are active across the country. Its current membership consists of 26 land drilling, 2 offshore drilling, and 72 service rig members. These members account for approximately 515 rigs registered in Canada.
- The CAODC's proposed program would target the recertification of Canadian-based rigs. Should all rigs be recertified, the Government of Canada's total grants would not exceed \$240 million. Given industry would invest a similar share, the proposal could generate approximately \$480 million of capital investment in Canada and lead to the creation of approximately 1600 jobs, while the program is operational. CAODC is proposing an initial two-year timeframe for the program, with a possible extension.

•





**UNCLASSIFIED**

187083

## **POINTS TO REGISTER**

### **CAODC Strategic Review**

- I would like to congratulate you on announcing a strategic review of your organization. I understand that you have had a very positive response from your membership to bring new thinking to the future opportunities present for Canada's drillers and service operators.
- I would be interested in hearing more about where you want to take this strategic review and the opportunities present for your industry, including in geothermal energy.

### **Announced Federal Measures**

- We know that the natural resource sector has been among the hardest hit from COVID-19, coupled with the oil price war.
- It is why we announced targeted funding to support distressed sectors, including almost \$2.5 billion for the energy sector alone.
- We have also further expanded liquidity support through the Business Credit Availability Program, or the BCAP, for medium-sized companies across the economy and support for larger companies through the Large Employer Emergency Financing Facility, or LEEFF.
- This additional liquidity provided through the BCAP and LEEFF will allow Canada's mid-market and large businesses and their suppliers to remain active during this difficult time and position them for a rapid economic recovery.
- The federal government continues to work diligently to roll out announced measures to support Canada's oil and gas sector and supporting industries.
- I am hearing that uptake for the orphan and inactive well remediation programs is strong in Alberta, Saskatchewan, and British Columbia.
  - The program is expected to create an estimated 5,200 jobs in Alberta alone, and provide lasting environmental benefits.
  - Have you received any feedback from your members on their ability to engage in remediation work across Western Canada?
- Are your members benefiting from the most recent liquidity measures for mid-sized and larger businesses? (i.e. BCAP and LEEFF)


s.20(1)(b)

s.21(1)(b)

**UNCLASSIFIED**

187083

### **Canadian Drilling Safety and Sustainability Grant**


- Thank you for sharing this proposal with me. My department is reviewing the details of the initiative with keen interest.
- Given the current state of the oil and gas sector, has the CAODC completed any analysis on whether its members are in a position to provide matching funding for this proposed program?
- If your proposed program were to be implemented, is there not a risk that investments would be made to recertify a drilling site, only to have that site close permanently?
- 

Attachments: (4)

Annex A – Terms of the CAODC's Proposed Canadian Drilling Safety and Sustainability Grant

Annex B – Public Message from CAODC President and CEO – Posted the Week of June 8

Annex C – Letter to Minister O'Regan, June 8, 2020

Annex D – 

**UNCLASSIFIED**

187083

**ANNEX A – THE TERMS OF THE CAODC’S PROPOSED CANADIAN DRILLING  
SAFETY AND SUSTAINABILITY GRANT**

- The grant would be limited to Canadian drilling contractors that are domiciled and have offices/operations in Canada, regardless of the size of the contractor;
- The drilling contractor must be a “going concern business”;
- The grant would be limited to drilling rigs registered with the CAODC;
- The grant would assist drilling contractors in partially subsidizing their costs of performing a Level IV Drilling Rig Inspection and Recertification;
- The grant would reimburse drilling contractors for approximately half of the Level IV recertification cost on a “per item” basis, with the specific amount to be determined by the Government of Canada.
- The CAODC suggests the items should include:
  - i. blowout preventers (proposed grant value \$80,000 per unit),
  - ii. boilers (proposed grant value \$10,000 per unit), and
  - iii. drilling structure, which includes the mast, top drive, draw works brake, crown and substructure (proposed grant value \$380,000 per rig);
- The drilling contractor would be required to:
  - i. submit evidence that the Level IV Recertification was completed (samples of typical certification documentation are attached as a reference example) and
  - ii. demonstrate that the costs exceeded the value of the grant, after which the grant amount would be reimbursed to the drilling contractor within a reasonable time; and
- The grant would be a true grant, not a repayable loan.



UNCLASSIFIED

187083

## **ANNEX B – PUBLIC MESSAGE FROM CAODC PRESIDENT AND CEO POSTED THE WEEK OF JUNE 8**

The Canadian energy industry is at a cross-road, unlike anything we have ever experienced. Today, smart and strategic decisions are necessary to ensure our industry's long-term success.

Over eight decades, the Canadian Association of Oilwell Drilling Contractors (CAODC) has successfully promoted the world's premier energy service industry. Although we are looking at an uncertain future, we are excited to explore new ideas and new business models to move the industry forward.

I am excited to share with you that the CAODC is pursuing an open and transparent strategic review to discuss the evolution of the industry and its future needs. We know that our industry must adapt to a new reality, and our Association is responding accordingly. We have a responsibility to collaborate with industry leaders and to chart a new course for our world-class industry. But we cannot do it without you.

The CAODC is focused on strengthening the service sector and is always interested in speaking with partner associations and industry leaders to find common ground. We will engage with every energy company in Canada that wants to build a more resilient future for our sector.

Together, we have an opportunity to create something new and bold. As part of our strategic review, we have identified gaps in how the energy industry advocates for itself with all levels of government, collaborates and works together, and promotes innovation and entrepreneurship. One option is to strategically expand our membership to energy service companies operating on or near the wellbore.

We see an opportunity to give likeminded companies a stronger voice by modernizing our Association, but remaining devoted to reducing inefficient regulations, standardizing best practices, and challenging hostile opposition.

At the CAODC, we're proud of our history. It's why we're in a position to help the industry build a better future. The CAODC has played a vital role in the drilling and well-servicing sector since 1949. Over the years, we have helped form the foundation for what has become a world-leading industry renowned for its people, processes, and technology.

The milestones we have accomplished through our philosophy speak for themselves, and we want to build upon them during these unprecedented times. I hope you will see that these accomplishments are more relevant today than ever. The following are just a few of the CAODC's historical achievements:

**1968** CAODC designs the first Blowout Prevention (BOP) course, bringing a new level of safety to the Canadian energy industry.

**1994** CAODC introduces Recommended Practices for drilling and service rig equipment, bringing a new level of standardization to the energy industry.

**UNCLASSIFIED**

187083

**2001** CAODC introduces the CAODC/CAPP Standard Daywork Contract, managing risk in the energy industry and promoting investment and certainty.

**2004** CAODC introduces the Rig Technician trade, promoting worker development and leadership to ensure Canadian energy is the most responsibly produced anywhere.

**2010** CAODC obtains a Federal Hours of Service exemption, permitting service rigs to use tour sheets as log books.

**2016** CAODC launches the Oil Respect advocacy campaign to help raise national awareness for the many benefits of Canada's oil and gas industry.

**2018** CAODC negotiates the only carbon tax exemption in the industry with the Notley Government for its service rig members in the province of Alberta.

**2019** CAODC signs a new Transportation MOA with Alberta and Saskatchewan to harmonize transportation regulations and reduce red tape.

**2020** CAODC successfully lobbies the federal government to fund the closure of inactive wells across western Canada.

**2020** CAODC negotiates the Geothermal Collaboration Network with Clean Energy Canada, Canada's most influential green energy lobby, to put rigs back to work.

Our record of advocacy has made our members thrive through the ups and downs of our industry. But we want to do more, we must do more. And we want to work together with all energy leaders and companies to take the next step.

We want to include you.

We want to listen to you.

We want to learn from you.

We want to chart this journey together, and fight for what matters most, a strong, respected, resilient and influential Canadian energy services sector.

I look forward to hearing your feedback. Together, we will make a difference.

Mark A. Scholz  
President and Chief Executive Officer, CAODC  
mscholz@caodc.ca, (403) 264-4311

"The best way to predict the future is to create it." —Abraham Lincoln





CANADIAN ASSOCIATION OF OILWELL DRILLING CONTRACTORS

Suite 2050, 717 – 7<sup>th</sup> Avenue SW, Calgary, Alberta T2P 0Z3

(403) 264 4311 • info@caodc.ca • www.caodc.ca

---

June 8, 2020

Honourable Seamus O'Regan  
Minister of Natural Resources Canada  
580 Booth Street, 21<sup>st</sup> Floor, Room: C7-1  
Ottawa, Ontario  
K1A 0E4

Dear Minister,

Re: Drilling Rig Sector: Economic Recovery Policy Recommendation

The Government of Canada (the "GOC") could support the Canadian drilling rig sector, create thousands of oilfield jobs, and prepare the country for an economic recovery by establishing a program in the form of a non-repayable grant to drilling rig contractor businesses.

The Federal Government has already implemented support for the well servicing industry by funding orphan and inactive oil and gas wells, but additional support for the drilling services sector is necessary.

The drilling services sector would significantly benefit from the institution of a ***Canadian Drilling Safety and Sustainability Grant*** (the "*Grant*" or "*Grant Program*"). The criteria and details of the *Grant Program* should include the following:

- The *Grant* would be limited to Canadian Drilling Contractors that are domiciled and have offices/operations in Canada regardless of the size of the contractor;
- The Drilling Contractor must be a "going concern business";
- The *Grant* would be limited to drilling rigs registered with the CAODC;
- The *Grant* would assist Drilling Contractors in partially subsidizing their costs of performing Level IV Drilling Rig Inspection and Recertifications ("Level IV Recertification(s)");
- The *Grant* would reimburse Drilling Contractors for approximately half of the Level IV Recertification Cost on a "per item" basis, with the specific amount to be determined by the GOC.
- The Association suggests the items should include:
  - (i) Blowout Preventors (proposed grant value \$80,000 per unit)
  - (ii) Boilers (proposed grant value \$10,000 per unit), and
  - (iii) the Drilling structure which includes the mast, top drive, drawworks brake, crown and substructure (proposed grant value \$380,000 per rig);
- The Drilling Contractor would be required to:
  - (i) submit evidence that the Level IV Recertification was completed (samples of typical certification documentation are attached as a reference example), and
  - (ii) demonstrate that the costs exceeded the value of the *Grant*, after which the *Grant* amount would be reimbursed to the Drilling Contractor within a reasonable time; and
- The *Grant* would be a true grant, not a repayable loan.



Level IV Recertifications are an essential aspect of the maintenance lifecycle of a drilling rig. Some equipment on a drilling rig, such as the Mast and Substructure, require full detailed inspections and repairs every 1000-1250 days of use. Other equipment, such as Blowout Preventors and Boilers, require recertifications after a fixed period of time has elapsed. Performance and timing of the recertifications are conducted in accordance with CAODC Recommended Practices. Level IV Recertifications ensure that essential load bearing and pressure containing components of a drilling rig (including blowout preventers, boilers, drilling masts, substructures, top drives and other overhead equipment) are properly maintained and recertified by experts in order to ensure safe and efficient drilling operations. Without this investment, a significant portion of Canada's drilling rig fleet may fail to be recertified and accordingly be unavailable to the marketplace when Canada's economic recovery begins, as Drilling Contractors' may not currently have the capital necessary to conduct the recertifications without the GOC's support.

The CAODC currently has approximately 515 rigs registered in Canada. If the program was utilized to recertify all Canadian-based rigs, the GOC's total cost of the *Grant Program* would not exceed \$240 million. Given industry would invest approximately the same amount as the GOC, creation of the *Grant Program* would generate approximately \$480 million of capital investment in Canada and lead to the creation of approximately 1,600 "man years" of work. We recommend that the *Grant Program* be created immediately and be available for a two-year time frame, which could be extended if required.

Level IV Recertifications also create substantial trickle-down benefits related to the ongoing generation and continuation of jobs in the oilfield services sector beyond just the Drilling Contractors, as a number of subcontracted professionals, trades and other smaller service providers are required in order to perform Level IV Recertifications (including engineers, inspectors, welders, fitters, mechanics, electricians, machinists, painters, truckers, etc.). The CAODC estimates that the direct local labour value necessary to complete a Level IV Recertification is approximately 75% of the cash value of the recertification. As a result, the GOC would be directly supporting these workers in Canada.

We need to ensure that Canada's fleet of drilling rigs is ready to go back to work when the economy improves, and the institution of the *Grant Program* will significantly bolster Drilling Contractors' readiness to safely ramp up drilling operations when that time comes. The safety, sustainability, economic and employment benefits that would arise from institution of the *Grant* are clear. The *Grant* would provide the GOC with the opportunity to directly support Canadian-based Drilling Contractors at a time when this help is fundamentally necessary, while generating jobs and ensuring the future sustainability of our equipment and our futures.

On behalf of our members, I want to thank you for your time and consideration, and I look forward to discussing the above matters further at your earliest convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark A. Scholz', with a stylized flourish at the end.

**Mark A. Scholz**

President & CEO

Canadian Association of Oilwell Drilling Contractors

cc:

Honourable Bill Morneau, Minister of Finance

Ms. Christyne Tremblay, Deputy Minister of Natural Resources Canada

Mr. Paul Moen, Chief of Staff to the Minister of Natural Resources Canada

Mr. Elder Marques, Chief of Staff to the Minister of Finance





3300 74 Ave, Leduc, AB T9E 1J8  
E. info@nelsen.ca  
www.nelsen.ca

DESIGN • INSPECTION • CERTIFICATION • FABRICATION

s.19(1)

## MAST CERTIFICATION

COMPANY NUMBER:  
MODEL NUMBER:  
MANUFACTURER:  
SERIAL NUMBER:  
DATE OF MANUFACTURE:  
CLEAR HEIGHT:  
BASE WIDTH:  
STATIC HOOK LOAD CAPACITY:

WIND LOADING:

In the summer of [REDACTED] representatives of Nelsen Technologies inspected [REDACTED] Mast (Company No. [REDACTED]) as disassembled in [REDACTED]. Damaged areas were flagged with color coded ribbons. Repairs were discussed with [REDACTED] personnel on site. The mast was also inspected by **Oiltown NDT Inspection** (Report No: [REDACTED]).

Based on these inspections, it is my opinion that the mast is in good condition and is safe to operate within its rated capacity when used in accordance with the manufacturer's specifications and/or industry standards. Inspections should be performed to CAODC guidelines for this certification to remain in effect. This certification is valid for 1000 operating days or until such time as the mast is structurally damaged.

Certified this [REDACTED]

James Chisholm, P.Eng.  
File No: [REDACTED]  
APEGA Permit No.: P11377

*This certification is not a review or opinion on the above mentioned load ratings, load rating determined by original manufacturer.*

The expression 'certification' constitutes neither a guarantee nor a warranty, express or implied.  
It is an expression of professional opinion by the engineer based on his best knowledge, information and belief.  
Liability arising from this certification is limited to ten (10) times the amount charged to a maximum of \$50,000.00.

Pages 12 to 15

are withheld pursuant to sections

sont retenues en vertu des articles

20(1)(b), 21(1)(b)

of the Access to Information Act

de la Loi sur l'accès à l'information