Pipeline Online Brief to the

Commons Natural Resources Committee on

"FEDERAL ASSISTANCE FOR VARIOUS NATURAL RESOURCES INDUSTRIES"

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Introduction

My name is Brian Zinchuk, and I am the editor and owner of Pipeline Online Ltd, Saskatchewan's Energy News. (PipelineOnline.ca). I am also a former pipeliner.

I have spent most of the last 14.5 years reporting on energy in Saskatchewan. From 2008-2020 I was editor of Pipeline News[1], Saskatchewan's Petroleum Monthly Newspaper, until the onset of the COVID-19 pandemic in the spring of 2020[2].

The day after I announced on social media that I had been laid off from Pipeline News in April 2020, I was approached by the Government of Saskatchewan to do short-term consulting with respect to the oil and gas industry's collapse due to the pandemic. Oil and gas is Saskatchewan's second largest industry after agriculture and before potash. I was told that the provincial government had depended heavily on my reporting to keep tabs on what was happening in the oilfield services sector – the companies and people that work for the oil companies. While they had regular contact with the oil producers, they did not have similar contact with the oilfield service companies that do most of the work.

I was asked to essentially call everyone I knew, ask how they were doing, and what the Saskatchewan government could do to help. Some of that consultation was in reference to implementation of the federally-funded Accelerated Site Closure Program. While I can not disclose the results of this report, I can tell you that the spring and summer of 2020 were brutal on the industry. And this came after a downturn that hit in late 2014 and had lasted for five years until that point. Only in early 2022 did that seven-year downturn end.

In doing that survey, I identified roughly 450 companies which I determined accounted for roughly 90 per cent of activity in the Saskatchewan oilpatch. I called 152 over the course of six weeks, and 150 took my call and were interviewed for the purposes of that consultation.

Later that summer I was brought back to work with Glacier Media, but in a term contract as a Local Journalism Initiative reporter covering the Saskatchewan Legislature. I left in May 2021 and in October, 2021, I launched Pipeline Online[3], an entirely independent energy news website. Among my columnists is former Premier Brad Wall[4], who has contributed some op-ed pieces.

Between Pipeline News and Pipeline Online, I have visited and reported on nearly every type of oilfield business and activity in Saskatchewan, from refining to seismic, drilling to trucking, and everything in between. Since 2008 I have reported at one point or another on most oilfield businesses of any scale in this province. Since 2015, I have been the only journalist in Saskatchewan whose primary focus has been on energy. And from 2008 to 2015, the only other journalist focused on energy worked for me as a reporter.

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[1] https://issuu.com/pipeline-news Note: Pipeline News' online archive of stories has been absorbed under the almagamated Glacier Media website SaskToday.ca since 2021. Thus, links to stories from 2008-2020 will reflect that URL and masthead.

[2] https://issuu.com/pipeline-news/docs/pipeline_20200304 Final printed edition of Pipeline News.

[3] https://pipelineonline.ca/

[4] https://pipelineonline.ca/about/

I should also point out that from 1995-2003, I was a pipeline construction worker, and am the only reporter I know of who used to actually build pipelines.

Perception

There is a mistaken perception through much of Canada that the oil industry is simply the large oil companies – Suncor, Canadian Natural Resources, Cenovus, Crescent Point and the like. Yes, it is true they are the largest companies, with the majority of the production. But in Saskatchewan, at least, they are not the largest employers in the industry – not by a long shot.

That's because the oil industry in Saskatchewan by and large works on a contractor and subcontractor model throughout. Let me provide an example:

Let's say Crescent Point Energy Corp. is drilling an oil well near Estevan, Saskatchewan. On a typical oil well drilling rig job, the drilling rig company, itself, might have 21 workers on the rig's crew. As separate subcontractors there would be two geologists, two measure-while-drilling surveyors, two directional drillers, a water hauler, a drilling fluids spreader, and a wellsite consultant, sometimes referred to as the 'company man,' who represents the oil company. Additionally, the site will be visited sporadically by drilling mud providers, drilling bit sales staff, flatbed truckers hauling pipe, pickers (cranes), wire line operators, satellite and cellular communications, daily diesel delivery, lease road maintenance via a grader, snow removal, and about 30 people on the crew to move the rig in and move it out again.

Of all those listed above, not one singular person listed is a direct employee of the oil company. Not even the "company man." He will usually be a subcontractor with his own small company billing as a corporation to Crescent Point, in this example.

Thus, the oil company, while paying the invoices for all of these services, does not directly pay them as organic employees. And this model is common throughout most of the oil industry in Saskatchewan.

This is a crucial consideration in any talk of a "just transition." The vast majority of workers affected by any such transition are not the direct employees of Crescent Point, Cenovus or Whitecap Resources. They are they employees of the small firms like CSL Hotshot and Picker Services, Good To Go Trucking, Panther Drilling, Ironside Energy, Miller Well Services and the like. They are the companies on the ground, typically with 10 to 50 people, who provide much of the actual work, and workers, in the Saskatchewan oilpatch.[5] Any action towards a "just transition" must include these people.

And with the exception of relief measures arising from the the COVID-19 pandemic, I cannot name one federal government subsidy that is applicable to any of these service companies or workers save Employment Insurance.

Not a subsidy, but a punishment, in the way of carbon taxation

Indeed, the reality for most companies, and workers quite the opposite of a subsidy. In most cases in the field, the entire site is off the electrical grid and fueled by diesel, either in generators or in the equipment like trucks and loaders. During a cold winter day, the drilling rig and its boiler, can go through

[5] https://pipelineonline.ca/jobs/

4,500 litres of diesel or more[6], never mind the rest of the equipment or trucks. And every litre of that has the federal carbon tax applied, at an ever-increasing rate.

There is no 'green option.' There is nothing to "transition to" in a practical sense in maintaining operations. There are no electric or hydrogen alternatives.

When the carbon tax was first introduced, most oil companies at that time refused to pay a surcharge on vendors invoices. In many, if not most cases, the vendors (the oilfield service companies) had to eat that cost out of their already hurting bottom line. That's because the oil industry has suffered for seven years, from 2014 until early 2022.

Seven year downturn

Let me explain:

On Nov. 27, 2014, Saudi Arabia opened the taps and flooded the market with oil[7]. At that time, West Texas Intermediate – the North American benchmark – was around US$75 per barrel, having already fallen from around US$110 per barrel in June of that year. We did not see oil prices return to that level for seven years.

By January, 2015, oil activity in Saskatchewan crashed hard. By 2017, I had identified an alarming trend. Compared to 2014, roughly four out of five oilfield service companies in Saskatchewan had laid off roughly half of their staff[8]. And of those who remained, the curtailment of overtime, bonuses, and implementation of reduced hours or furloughs resulted in total remuneration dropping by another half.

Thus, total payroll from the oilpatch into local communities diminished by roughly 75 per cent. This was a continual trend with almost every oilfield service company I spoke with. And remember, as noted above, oilfield service companies provide nearly all of the direct employment.

There were no subsidies that I knew of or heard of during that time to help these companies, or workers. Nor was there any serious implementation of "just transition" funding. Business owners bled capital and their life savings to stay afloat. There was universal capital destruction across the industry.

In December of 2014, almost every oil company demanded the service companies cut their rates[9]. In many cases, they imposed prices they would allow their vendors to charge.

Nearly every oilfield service company I have spoken to in the last year has told me their rates still have not returned to 2014 levels. But fuel costs have at times doubled, inflation has dramatically impacted the cost of parts for equipment like trucks. And supply chain issues arising from the pandemic have meant parts can be difficult to obtain.

Next to no recapitalization since 2014

There used to be a factory in Estevan called Do-All Industries that built drilling rigs. All-in, with all ancillary equipment, a new drilling rig cost around $10 million a piece by 2014. Do-All went broke in

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[6] https://issuu.com/estevanmercury/docs/dec-2011/7
[7] https://www.vox.com/2014/11/28/7302827/oil-prices-opec
[8] https://issuu.com/pipeline-news/docs/pipeline_news_july_2017/4
[9] https://issuu.com/pipeline-news/docs/2015_03/8

2014[10] after having built 14 rigs. I have not seen a new drilling rig in Saskatchewan, built by any company, since 2015. That's now seven years without any recapitalization in sight. Instead, drilling rigs by the dozen were cut up for scrap[11], some less than 10 years old.[12]

Once a drilling rig has drilled the well, the next stage is well completion with a service rig. It's similar in operation to a drilling rig, but smaller in scale. From 2014-2021 I had only seen one, singular, new service rig purchased in this province[13]. In 2021, I believe three more were finally added to the provincial fleet.

Trucking companies that in 2008 were buying a new truck and trailer per week for months on end didn't buy any new units for at least three years[14], and in many cases, much longer. I identified this as a "recapitalization crisis," that the industry endured. And now that activity levels and prices are up, it can take a year to get a new truck, if you can get one at all.

Subsidies?

This brings us to subsidies. The only subsidies I know of that any oilfield service company has taken part in over the last seven years have been related to the COVID-19 pandemic.

They include:

1. The Accelerated Site Closure Program[15]. This was the principal federal relief program for the oil sector during the pandemic, and is wrapping up within weeks. This provided some work for the service companies that did work in wellsite abandonment and reclamation, but the vast majority of oilfield services companies and workers saw no direct benefit.
2. CERB
3. CEWS
4. CEBA
5. Rent subsidy.

With the exception of 1., all of the remaining programs were universal across the entire economy.

[10] https://www.alvarezandmarsal.com/do-all-industries-ltd-and-po-assets-ltd-%E2%80%9Cdo-all-group%E2%80%9D

[12] https://www.sasktoday.ca/south/local-news/the-drilling-rig-industry-is-shrinking-fast-and-yet-were-producing-more-oil-than-ever-4144016
[13] https://www.sasktoday.ca/south/local-news/new-service-rig-for-john-kmita-ltd-4133410
[14] https://www.sasktoday.ca/south/local-news/almost-no-one-is-spending-money-on-new-equipment-mnp-4112469
[15] https://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/oil-and-gas/accelerated-site-closure-program

As for provincial subsidies, it would often be a misnomer. Programs such as the Saskatchewan Oil and Gas Processing Investment Incentive (OGPII)[16], Oil Infrastructure Program (OIIP)[17], Saskatchewan Petroleum Innovation Incentive (SPII)[18] are based on royalty holidays up to a certain percentage of eligible costs.

In a similar manner, drilling incentive programs which date to the Lorne Calvert era, or earlier, reduced royalties based on the initial amount of oil or gas production, and then revert to full royalties above that threshold.[19]

By and large, all of these programs are based on the government reducing its initial take, until the project or well can earn enough to make the investment pay out. This would be analogous to the basic personal exemption on federal income tax. Once income reaches a certain level, everything above that is taxed.

Any direct "subsidies," as in cash payouts, are minimal to non-existent. The closest I can think of would be funding for training initiatives, where the total payout would be measured in the thousands, not the millions.

With the extreme exception of the COVID-19 related Accelerated Site Closure Program[20], in no way, shape or form have I seen the Saskatchewan oilpatch benefit from a direct cash government subsidies from the federal government. If they do occur, they are beyond my 14 years of experience in reporting on this sector.

What the oil and gas sector is facing is an existential threat from the federal government in the name of climate change regulations. The federal carbon tax is a perfect example.

No other options

Much of the oilpatch operates large, heavy equipment – trucks, bulldozers, excavators, drilling and service rigs. All of these run almost exclusively on diesel. One company, CanElson Drilling, attempted to use dual-fuel compressed natural gas supplemented by diesel on their drilling rigs about 10 years ago. I haven't heard anything of it in at least seven years since it was acquired by Trinidad Drilling.

There are no other options. Much of this equipment is used for 12 hours, 14, or even 24 hours a day. There is no opportunity to charge them like a Tesla in your garage. Much of this equipment stays in the

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[16] https://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/oil-and-gas/oil-and-gas-incentives-crown-royalties-and-taxes/oil-and-gas-processing-investment-incentive

[17] https://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/oil-and-gas/oil-and-gas-incentives-crown-royalties-and-taxes/oil-infrastructure-investment-program

[18] https://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/oil-and-gas/oil-and-gas-incentives-crown-royalties-and-taxes/saskatchewan-petroleum-innovation-incentive

[19] https://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/oil-and-gas/oil-and-gas-incentives-crown-royalties-and-taxes/drilling-incentives

[20] https://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/oil-and-gas/accelerated-site-closure-program

field, and only comes to the shop for servicing or spring breakup. Even if the equipment was electric, where could they charge it on the open prairie? Hook up booster cables to the nearest hydro pole? And even if that were an option, what would it take to charge four D-8 bulldozers, four excavators and two graders, never mind trucks? How much amperage would you need, and how much time?

And how long would any of those batteries last in -35 C weather? The oilpatch generally does not shut down except in the absolute most extreme weather. If it's -40 C, they might shut down, but they'll keep operating in -32 C. And that's before a wind chill.

While there is a lot of talk about hydrogen, the hydrogen economy simply does not exist in Canada right now. According to NRCAN, there are currently six public hydrogen fuelling stations in all of Canada as of Nov. 24[21], and that's an increase of only two compared to a year ago. They are located in British Columbia's Lower Mainland, Vancouver Island, and Quebec City. There is not one hydrogen fuel station between Quebec and the Lower Mainland. And those are for small cars, not heavy trucks, bulldozers or drilling rigs. If hydrogen is the fuel of the future, it is decades away from implementation. It is utterly impossible to implement in the oilpatch at this time.

As such, diesel is the only option. And with the carbon tax soon increasing to $65 per tonne CO2e, that cost is a major burden. In 2019, Estevan based Ironside Energy estimated their carbon tax would be $50,000 per year, and that was when the carbon tax was at $20 per tonne[22]. Their fuel bill is measured in hundreds of thousands of dollars per month. At current carbon tax rates, the value of the carbon tax alone would equal two good-paying jobs. And that's a small dirt-moving company, not a major one.

As you are surely aware, individuals may get carbon tax rebates, but businesses never do. And as a result, those business are being forced to provide fewer jobs as a result of the carbon tax burden.

Conclusion

What the oil industry does have is risk – at every turn, every day.

Every single well drilled is a risk of being a failure – a dry hole, known as a "duster." Despite all of our advanced 21st century technology and advanced knowledge, it still happens. No one likes to talk about that. And that well probably cost $1 million to drill.

And even if the geology doesn't fail, equipment might. Or people. The drilling rig could get stuck in the hole and twist off the quarter million dollars of drill pipe. A service rig worker could accidentally drop a pipe wrench down the hole, resulting in a literal "fishing" expedition that could take hours, days or even weeks to conclude.

Everyone on site wears fire retardant coveralls so that, God forbid, they might have some protection should a surge of natural gas (known as a "kick") result in an explosive blowout.

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[21] https://www.nrcan.gc.ca/energy-efficiency/transportation-alternative-fuels/electric-charging-alternative-fuelling-stationslocator-map/20487#/analyze?fuel=HY&country=CA&show_map=true

[22] https://www.sasktoday.ca/south/local-news/ironside-energy-is-trying-to-figure-out-the-cost-of-the-carbon-tax-and-its-going-to-be-high-4131541

A derrickhand could fall off the derrick if his fall arrest harness is insecure. A crew cab with four workers in it could hit a moose on the way to work in the middle of a snow storm. I've personally reported on a young man who left the drilling rig and drove straight into a black train where it crossed a buffalo trail of a road in the middle of a black night[23]. He died.

That these sort of things are not common occurrences, but indeed, incredibly rare is a testament to the skills, education, training, fortitude and institutional knowledge built up within the industry since the 1940s. In 14 years, I have never attended a blowout. Energy Safety Canada has for years reported a continual improvement in safety records within Saskatchewan's oil industry. Environmental standards are continually improved, and met.

The industry may not be perfect, but it's trying every day.

What we do have is regulatory risk, including the imposition of some rules that just don't make sense. I've seen road bores done in the middle of a field, across a dry slough, at incredible expense, because it was a National Energy Board regulated pipeline.

And we've seen the collapse of the Northern Gateway, Energy East and now Keystone XL pipeline projects. In 1998 I personally worked on the installation of the 42 inch pipeline TransCanada wanted to convert into Energy East.

In more recent years, investment capital has collapsed because the smart money knows investing in Canada is a risk due to the governmental hazard. Teck walked away from a $20 billion oilsands project in 2020, as an example. And Kinder Morgan walked away from the Trans Mountain Expansion project, necessitating the federal government's nationalization of the project and pipeline.

What we do have, despite all the hazards and perils of the markets, of a federal government that is doing its best to regulate us out of existence, of OPEC's attempt over half a decade to drive us out of business, is hope. Hope and optimism.

I spend a lot of time with geologists[24]. And to be a geologist, you have to be an optimist. You have to look at a piece of core, or a well log, and a seismic survey, and convince someone to spend a million dollars to drill a hole in this one particular spot. And that person they convince has to put their professional reputation, and sometimes their own money, on the line and turn that geologist's hope into reality you can put in your gas tank or wear on your back.

When others drive past pumpjacks, they see iron. When I drive past them, I see each one as a dream some optimistic geologist once had, turned to fruition through the efforts of hundreds of workers, to make that dream a reality. And there it is, pumping up and down, producing the oil that allows the rest of our society to live their dreams.

[23] https://www.sasktoday.ca/north/opinion/that-crude-by-rail-derailment-rattled-the-nerves-a-bit-4142655

[24] https://issuu.com/pipeline-news/docs/2014_01

Recommendations

1. Any program or consideration of a “just transition” away from fossil fuels must include the service companies and the individual workers within the industry. Consideration must go beyond the oil producing companies, themselves.
2. Reality shows there is no practical alternative to the fossil fuels we use today in an industrial context, calling into question the practicality of “transitioning” away from fossil fuels in the first place.
    a. Electrification is simply not adequate or even possible in many circumstances.
    b. A “hydrogen economy,” at this state, is non-existent and decades from fruition.
3. The federal carbon tax reduces employment and is a heavy burden on the oil industry service sector. This is the exact opposite of assistance. A significant form of assistance the federal government could provide is to eliminate the carbon tax.
4. Elimination of federal government regulatory hazard would be the greatest form of assistance. Uncertainty or outright cancellation have killed the Northern Gateway Pipeline, Energy East Pipeline and Teck Frontier oilsands project.
5. The oil and gas sector in Saskatchewan receives little, if any, direct assistance from the federal government beyond what is available to all industries.
    a. Specifically, the oilfield services sector, which actually makes up the bulk of the employment in Saskatchewan’s oil sector, has only received the Accelerated Site Closure Program during the COVID-19 pandemic. This only assisted a small portion of the actual sector.

Respectfully submitted,

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