

# EXPLORER

Winter/Spring 2018



**The looming political battle for the future of Alberta  
and what it means for the energy sector**



**EPAC**

CANADA'S OIL & GAS ENTREPRENEURS™

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BC Oil and Gas Research and  
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March 21, 2018 | 11:30 am – 1:30 pm  
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A member of numerous boards for both business and charitable organizations, Jim's career and deep roots in the Canadian oil and gas and investment banking communities provide a wealth of experience to share with the oil and gas entrepreneurs attending the 2018 EPAC Awards event on March 21, 2018.



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## In this Issue

- 2 EPAC President's Report to Members
- 4 The looming political battle for the future of Alberta
- 7 Meet the EPAC Board of Governors
- 9 BC Oil and Gas Research and Innovation Society: advancing knowledge since 1999
- 11 The deal with worker safety in oil and gas – contributed by Energy Safety Canada

Cover Photo credit: United Conservative Party

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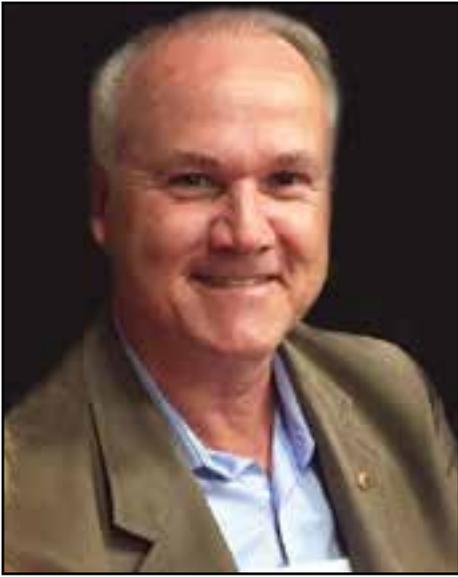
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*EPAC President*

## EPAC President's Report to Members



Operators in the Western Canadian Sedimentary Basin will have licensed about 90% more oil, gas and bitumen wells by the end of 2017 than the same period a year earlier. This is almost entirely due to the recovery in crude oil prices during the year given that more than three quarters of the drilling in the WCSB targets crude oil and bitumen. Even much of the investment targeted at natural gas will rely on liquids production priced off crude benchmarks to achieve somewhat acceptable returns. So with liquids pricing delivering a critical uplift, even as Canadian natural gas prices are frequently quoted at a dollar and change, natural gas supply from the WCSB has been rising steadily over the past year and breaking through 16 Bcf/day. Does this make sense? Can everyone be the lowest cost gas producer?

Whether you produce natural gas or crude oil, as we enter 2018 all pipeline routes out of the WCSB are full. Oil and bitumen

producers are again trying to secure rail transport and looking at larger price discounts. Natural gas producers, trying to reduce their reliance on AECO, are unable to do anything but watch their American competitors deliver robust supply growth; complete regional pipelines, construct more LNG export capacity and, lest I forget, enjoy the enthusiastic support of the Trump Administration and its agencies.

The deep dysfunction in Canada's system of government, where provinces are emboldened by federal inaction to block transit of a neighboring province's exports and access to national seaports, has never cost Canadians as much economic harm as today. We are not talking about moving a case of beer across provincial borders here...although that recent Quebec-New Brunswick case in the news, 150 years after confederation, is a perfect example of the failure of Canada's political leaders to create an economic union in our half of the North American continent.

**"A typical monthly Board of Governors meeting at EPAC these days regularly features lively discussion about many of the issues our industry is grappling with today "**

**"The deep dysfunction in Canada's system of government, where provinces are emboldened by federal inaction to block transit of a neighboring province's exports and access to national seaports, has never cost Canadians as much economic harm as today."**

would prove to be a formidable competitor. With major reductions on corporate and individual taxes, preservation of certain deductions and allowances the US oil and gas independents deemed vital and continuous actions to repeal red tape, the US economy is poised to leave Canada in

the dust. And this is before we know what the outcome of the NAFTA negotiations looks like. Government deficit spending, a condo boom in two cities and personal borrowing at record levels is not a very solid platform for the next 5 or 10 years. Eventually Canadians will notice how much their standard of living

has fallen relative to Americans.

A typical monthly Board of Governors meeting at EPAC these days features lively discussion about many of the issues our industry is grappling with today: political leadership, public opinion and misinformation about our industry, transportation options and new market access, investor sentiment, competing with the US, West coast LNG, taxes, regulation and more. On the recurring topic of public opinion about the energy industry the EPAC Board has considered how to provide the public with accurate information and particularly how to reach younger adults. Recently the Board approved supporting Canada Action's efforts (led by Cody Battershill of Calgary) to deliver a positive message and accurate information about the oil and gas industry to hundreds of thousands of Canadians via their various social media platforms. In fact, you may find one of our Board members contacting you over the next few weeks to encourage you to get behind this initiative. This is your chance to help us and yourself move the needle on public opinion.

In 2018 EPAC will be supporting a Board led committee engaging with TransCanada Pipelines on behalf of our members on matters like increasing utilization of the remaining Mainline spare capacity, removing bottlenecks on the NGTL System, analyzing options to avoid the crash in AECO prices that occurred in the summer of 2017, storage services, access

to other North American markets and supporting west coast LNG.

EPAC will be working in the new year with other industry representatives on a "Competitiveness Council" at the Alberta Energy Regulator to prioritize and advance over the next 18 to 24 months a number

of material changes to their project review and approval process that will, without affecting the AER's mandate to protect public safety and the environment, deliver savings in time costs for industry. And the AER's methane emission reduction directives will be released early in 2018.

EPAC has been engaged with the Methane Reduction Oversight Committee as part of a negotiation/consultation phase in an attempt to ensure the regulations are as practical and cost effective as possible when they come into effect one year from now.

Protection of caribou habitat has proven to be another environmental themed topic where the federal government is a growing threat to provincial jurisdiction over development of Crown owned resources, including oil and gas. In 2018, Alberta and BC will be advancing provincial level plans to outline how dwindling caribou herds can be restored over the next several decades. EPAC has members with tenure in areas affected by caribou protection plans and we will be working with them to achieve the best possible outcome. In Saskatchewan, the Brad Wall era is coming

**"In Saskatchewan, the Brad Wall era is coming to an end in 2018. The Premier has always understood the large economic and employment contribution the industry made to the Province... He will be sorely missed in the nation's political life."**

**"As always, many thanks to many of you who volunteer and give some of your expertise and talent back to the industry through representing EPAC on a variety of committees and working groups."**

to an end in 2018. The Premier has always understood the large economic and employment contribution the industry

made to the Province. I can't think of another Premier in modern Canadian history who gave an entire province the optimism and confidence in the future he was able to deliver. And our industry was a major part of creating the economic buoyancy

that allowed his government to write that chapter for Saskatchewan. He will be sorely missed in the nation's political life.

In British Columbia our sense is the government sincerely wants to get a LNG project underway and is prepared to adjust its own fiscal and royalty terms to support this outcome. Of course, not much will happen if the federal

government remains indifferent to the poor international investment reputation the country has earned under the Trudeau government. It remains to be seen whether any level of government can bring sufficient consensus from numerous indigenous

groups to avoid a protracted approval process. EPAC has urged both the Alberta and BC provincial governments to consider deep collaboration on making west coast LNG a reality.

March 21st we will be hosting our Annual General Meeting for

Producer members in the morning at the Petroleum Club and then our fifth annual EPAC Awards luncheon event starts at noon. We hope you will attend and support our industry, our members and your Association. You can learn more and buy tickets at [www.epacawards.ca](http://www.epacawards.ca). The event has sold out every year so don't delay.

As always, many thanks to many of you who volunteer and give some of your expertise and talent back to the industry through representing EPAC on a variety of committees and working groups. And for those of you who support us through purchasing memberships we highly value that support too. Of course, the Association benefits greatly from the enthusiasm and time contributed by the twenty people on our Board of Governors. You will find more about the current members of our Board elsewhere in this edition of the Explorer magazine

Thanks and I always look forward to meeting and talking with members. Don't hesitate to contact me at the EPAC office. ♣

**Gary Leach**  
President, EPAC

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## The looming political battle for the future of Alberta and what it means for the energy sector

It's always been tough to keep politics out of the energy business in Alberta. For decades the provincial government relied on oil and gas royalties to deliver 20% to 40% of its annual revenue. Those big royalty cheques weren't enough for the out of control spenders in successive Progressive Conservative governments. Indeed PC Premier Ed Stelmach campaigned to victory in 2008 on a platform demanding a bigger "fair share" from the oil and gas industry, ironically at a time when Alberta's royalty income was hitting all time peaks (e.g. \$12.3 billion in royalties in 2007). The economically damaging royalty changes Stelmach introduced in 2009 were gone by 2010, Ed himself resigned soon after and ultimately the PCs were swept from power in 2015 by the NDP who benefitted from vote splitting between the fiscally conservative Wildrose and what was left of the PC voter base.

Today the struggling oil and gas sector contributes only 6% of provincial spending (\$3.75 billion annually) from a combination of royalties, annual lease payments and land sale bonuses. The shrunk relevance to provincial budgets not only reflects the collapse in oil and gas prices in the last three years but also the explosive growth in spending under the NDP government, reaching \$55 billion per year boosted by annual deficits in the \$10 billion range. (Source: 2017-18 Provincial Fiscal Plan, Government of Alberta). Even though the oil and gas industry has a much reduced profile in provincial budgets and spending the industry still has much at stake in the outcome of the election next year in Alberta. The NDP will be carefully managing its agenda and messaging this year with an eye on the 2019 election while the United

**"It's always been tough to keep politics out of the energy business in Alberta."**

Conservative Party will emerge from its 2018 first quarter policy convention with many of the themes it will carry into that election.

Albertans will have before them starkly different choices about the future path the province should take in terms of spending, controlling deficits, taxation, relations with the federal government and environmental policies. These choices will deeply affect the regulatory and fiscal framework here in Alberta and thus the competitiveness of the province relative to other provinces and US states.

Now well into its third year in power, the NDP approach to governing Alberta, (which would rank highly among OPEC's members if it were a separate country) and their view of the role of the oil and gas industry in the province's economic and political future, is well known...although it has certainly evolved from its day's in opposition. The UCP policies are not yet developed but we can surmise their broad outlines from the public comments of the new Leader, Jason Kenney and some other UCP MLAs in shadow cabinet posts. Let's consider how the policy choices for Albertans might stack up between the NDP and the UCP in key areas affecting the oil and gas industry.

### Personal and Corporate Tax Rates

Although the Alberta economy was already under stress from the collapse in oil prices that started in late 2014, the NDP immediately introduced new brackets and higher personal tax rates for larger income earners and increased the corporate tax rate by 20%. The outcome cannot be what the NDP hoped for: corporate tax revenue forecasts for the 2017-18 fiscal year will be

32% below 2014-15 (the year before they came to power) and personal tax revenues remain well below projections. How much of this was due to the recession? Nobody can say for sure but most economists likely would argue that a recession is the worst time to take dollars away from productive workers through tax increases.

Given the fiscal collapse in Alberta and the resulting enormous annual deficits and accumulated debt (forecast to be \$70 billion by the election year) the UCP will have to carefully consider how fast they can move to reverse the NDP tax increases if elected. Jason Kenney has said he wants to restore the "Alberta Advantage", and a key element of that was no sales tax along with lower income tax rates. If the UCP campaigns on "restoring the Alberta Advantage" they will have to deliver on tax cuts sooner and perhaps pay for it with more aggressive spending cuts.

### Royalties

The Modern Royalty Framework was a successful outcome of very serious analysis from experts from government, finance and industry. The NDP deserves to be congratulated for getting this right considering the views they held on royalties while in opposition. Indeed, the government had to use up considerable political capital with their voter base to quell dissent. The resulting MRF was designed with considerable thought given to the type of resource development opportunities that lay in Alberta's future and what our province's competitive position was relative to other jurisdictions. Industry had a lot of input into the final design and the result was a new royalty system introduced at the start of 2017 with a minimum of fuss. Expect no material changes if the UCP is elected.

**"Albertans will have before them starkly different choices about the future path the province should take ..."**

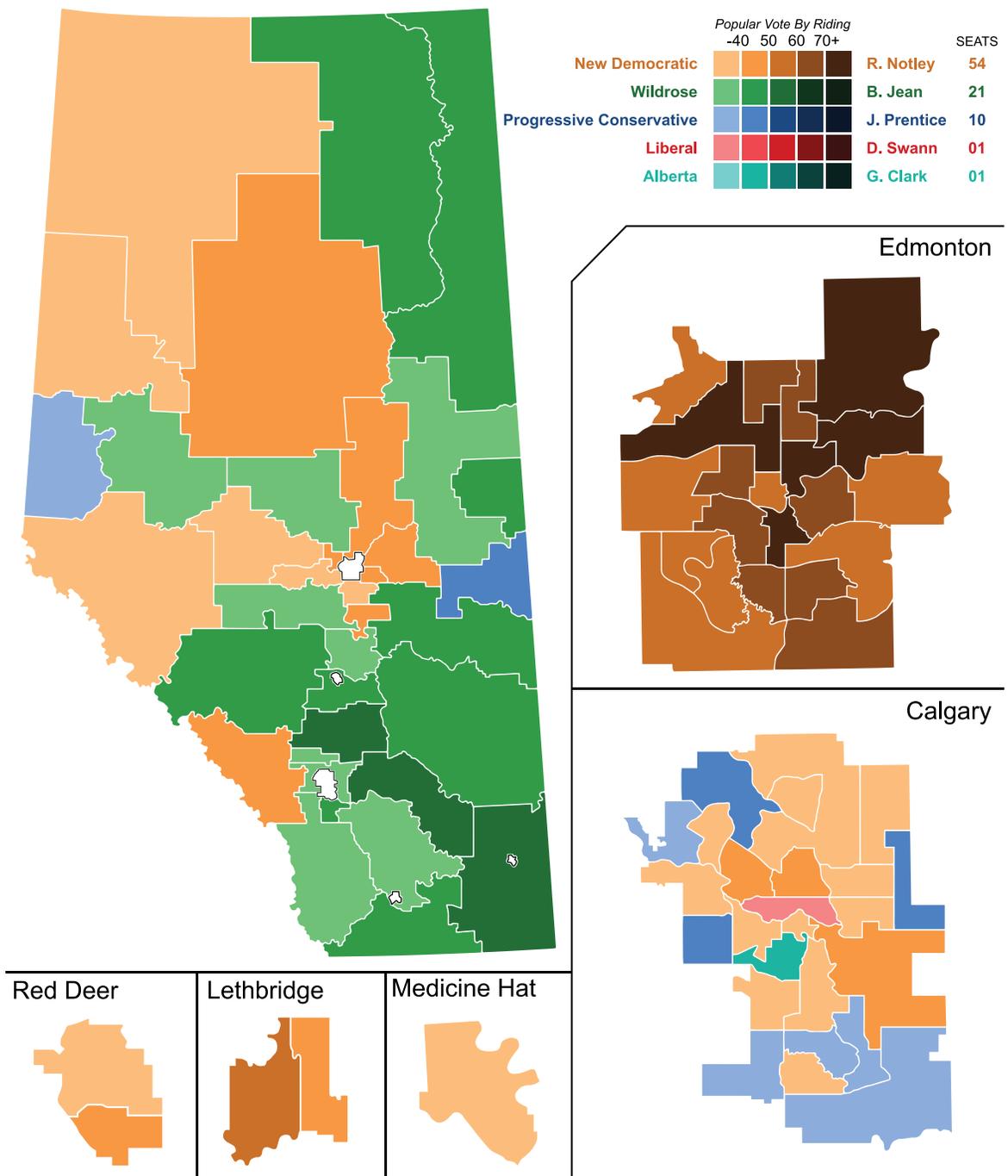
### Carbon Taxes, Climate Policies and Pipelines

The NDP has made the carbon tax the most visible part of their “Climate Leadership Plan” which includes a re-designed emissions compliance/incentive system for large emitters, funding for

wind and solar power and at home service to replace light bulbs, along with rebate cheques for hundreds of thousands of Albertans who meet an income test. This is a tax the government did not reveal during the election campaign of 2015. Anticipating a backlash, the

NDP sold it to Albertans as absolutely necessary to gain “social license” and support from Ottawa to ease the way for pipeline construction in Canada. Except Energy East was cancelled due to NEB regulatory “overreach”, TransMountain is still fighting in federal court, and the

## Alberta Election Results 2015



carbon tax remains unpopular with a large majority of Albertans according to polling.

So unpopular that Jason Kenney has said, if he wins, a bill to repeal the carbon tax will be the first bill to pass the legislature and added during a recent interview: *“Alberta families are already struggling under the weight of a carbon tax that this NDP government never campaigned on,” Kenney said. “Their job-killing carbon tax has made virtually everything Albertans buy more expensive, from groceries to kids’ hockey fees, and everything in between. The NDP is even slapping Albertans with a whopping 75 percent tax on natural gas. It’s all economic pain with no environmental gain.”*

If the tax is repealed however Ottawa has made clear it will impose its own federal carbon tax. Kenney has suggested a UCP government would challenge the constitutionality of a federal tax in court. He has also stated that there would be “consequences” for provinces in Canada who act to damage the economic union of Confederation by blocking access for Alberta’s energy exports. Everyone is hoping that Trans Mountain continues to have the patience and deep pockets necessary to bring this project to the finish line to avoid serious friction between Alberta and BC if a UCP government is elected next year.

As part of their Climate Leadership Plan the NDP announced planned reductions to industry’s methane emissions of 45% by 2025. The Trudeau government has its own federal methane reduction regulatory regime ready to impose if Alberta’s rules do not meet an “equivalency” standard desired by Ottawa. Given that these regulations will be in force before the next provincial election and many industry operators will have already made investments and adjustments

to comply, it will be tricky for a UCP government to unravel all this, especially since Ottawa would likely be unwilling to cooperate. The UCP will need to consult with industry on whether or how the methane emissions topic should be approached, particularly if a legal challenge to federal jurisdiction is being contemplated (see carbon taxes above).

### Conclusion

There are a lot of issues affecting the oil and gas industry that are never really ‘solved’ but have to be managed on an ongoing basis by a provincial government as the Crown/resource owner but also a government balancing interests such as indigenous communities, land use planning, environmental protection and

*“it will be tricky for a UCP government to unravel all this ...”*

municipal governments. Our industry needs a government that is deeply mindful of the huge economic contribution the industry makes, that Alberta is no longer endowed with energy resources that are scarce... but are now abundant and cheap... and that we are in a highly competitive market to develop and sell those resources at the highest and best price. And we expect to be doing this for many decades to come given global population and energy demand growth. If we all understand the big picture then Alberta governments will usually make the right choices...eventually. ♦



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## EPAC Board of Governors

EPAC's Board of Governors meets 10 times a year to consider a wide variety of issues that challenge our industry. Drawn from backgrounds that include engineering, geoscience, finance and land, Board members also reflect the range of company sizes and operating areas that are represented among the Association's membership. The Board works closely with the Association President, Gary Leach, to identify priorities for EPAC engagement, develop EPAC positions on issues and direct what

actions to take. Decisions at the Board are primarily arrived by consensus. Between Board meetings, the Board's Executive Committee, comprising the President, Chair, Vice Chair and Past Chair, meet to advance the Association's agenda.

In the first half of 2018 the EPAC Board will be supporting work on several key files including: dialog with TransCanada Pipelines on transportation options and system reliability, methane emissions reduction directives, reforms to provincial LLR programs, orphan wells and site

liability management policy, AER's regulatory efficiency priorities, LNG advocacy, caribou range planning, mineral tenure reforms and more.

Each year several new candidates are elected to the Board at the Association's Annual General Meeting in March. Candidates are identified by the Board's Executive Committee who can provide the skills and other attributes needed to assemble a well rounded and experienced Board to lead the Association. ♦



*L to R Gary Leach EPAC President, Dan Brown EPAC Chair, Wes Morningstar EPAC Vice Chair*

*EPAC Vice Chair, Wes Morningstar (Canlin Energy) presents a gift on behalf of the Board of Governors to Dan Brown, EPAC Chair (Surge Energy) to acknowledge the Board's appreciation for Dan's commitment and service as Chair during 2017-18.*

*Photos by Charles Hope Photography*

## EPAC Board of Governors



**Back row/standing L-R:**

*Marty Proctor (Seven Generations); Ken Truscott (Crew); Jim Scream (Corval); Neil Smith (Crescent Point); Gary Leach (EPAC President); Bret Hughes (Manca); Scott Robinson (Peyto); George Fink (Bonterra/Pine Cliff); Kel Johnston (Lakeview); Ken Frankiw (Red River)*

**Front Row/seated L-R:**

*Jodi Jenson Labrie (Enerplus); Dan Brown (EPAC Chair/Surge); Wes Morningstar (EPAC Vice Chair/Canlin); Bruce Robertson (EPAC Past Chair/Raging River); Ken McCagherty (Westbrick); Dave Mombourquette (Whitecap).*

*Absent: Brett Herman (TORC); Glenn Ross (Tundra); Craig Blackwood (Advantage)*

*Photos by Charles Hope Photography*



For more information on becoming a member, please contact Dana Robertson at 403-269-3454 or view our website at [www.explorersandproducers.ca](http://www.explorersandproducers.ca)



## BC Oil and Gas Research and Innovation Society

The BC Oil and Gas Research and Innovation Society (BC OGRIS) funds research that focuses on information gaps regarding the environmental and social impacts of upstream oil and gas activities in British Columbia. EPAC, along with Canadian Association of Petroleum Producers (CAPP), and the BC Oil and Gas Commission (OGC) are members of BC OGRIS. EPAC's participation in the governance of BC OGRIS reflects the commitment of our members operating in the province to responsible development of B.C.'s natural resources. BC OGRIS directs funding to projects approved by its Board as well as providing continuing oversight on research results to ensure accountability for delivery and relevance of findings from projects.

### Funding Sources

Since 1999 when it began operating as the Science and Community Environmental Knowledge (SCEK) Fund, BC OGRIS has received close to \$20 million dollars in funding, mostly from levies and fees on industry collected by the OGC, including a levy on production volumes and a small portion of the fees from well licence applications.

BC OGRIS has successfully diversified its funding In the last two years to include contributions from various government and industry stakeholders. As a result of these contributions, funding collected through fees and levies on industry was suspended while the organization assesses future projects and funding requirements.

### Supported Research

Close to 125 projects have been supported by BC OGRIS. Since transitioning from the SCEK Fund to BC OGRIS in 2015, research activity has focused on larger projects strategically aligned with the information needs and policy priorities of the B.C. Government. Research is often carried out in collaboration with other organizations that support and coordinate projects that extend over several years.

Strategic partnerships with research organizations provides BC OGRIS the capacity to respond to the requirements and expectations of its members—including attracting good research, leveraging our investments and avoiding duplication of research activity.

Several high profile research projects supported by BC OGRIS are described below.



Images from motion-sensing cameras installed to monitor boreal caribou and their prey's usage of linear features (courtesy Matrix Solutions).

### Boreal Caribou Research Initiative

BC OGRIS has been providing funding, contract governance and quality assurance to a joint industry-B.C. Government initiative on boreal caribou since late 2011. The initiative collects science-based information on populations and habitat to support the B.C. Government's management plans. In 2017, an innovative landscape level approach to restoration resulted in over 60 kilometers of habitat being restored. New projects are researching additional options to functionally restore habitat quicker and at lower costs.



### Seismic Array Network

Since 2012, BC OGRIS has participated in a consortium of research organizations tasked with establishing and maintaining a network to collect and analyze data on induced seismic activity in northeast B.C. The analysis provides information to continue the safe and responsible development of B.C.'s natural gas resources—for example, supporting protocols for hydraulic fracturing, fluid disposal and completion practices.

*Seismic Array Network equipment—an installed seismograph station (courtesy Geoscience BC).*



*Northeast Air Monitoring Network equipment—an air monitoring environmental laboratory (courtesy B.C. Ministry of Environment).*

### Northeast Air Monitoring Network

BC OGRIS funded a three-year project to establish a monitoring network in northeast B.C. to capture ambient air quality data for use in making informed public health decisions. A collaboration between the B.C. Government and industry, the project addressed public demand for air quality information from oil and gas activities. Findings showed that levels of common air pollutants associated with oil and gas facilities were generally very low. The network will be continued as a base case for characterizing regional air quality.

### Govern and Assure Quality

The BC OGRIS is governed by a Board of Directors representing the OGC, CAPP and EPAC. The Board sets strategic direction and oversees operations to ensure a well governed fund that delivers high quality results to inform public policy, aid decision making and enhance operating practices for oil and gas activities.

Ultimately, the Board ensures that BC OGRIS delivers on its mandate of assisting the B.C. Government and

industry, including EPAC and its members, to address public concerns and thus retain the confidence and support of the communities in northeast B.C. for the upstream oil and gas sector.

More information on BC OGRIS can be found on their website at [www.bcogris.ca](http://www.bcogris.ca). ♦



# The new deal with worker safety in oil and gas: Energy Safety Canada



**A**n oil strike in Turner Valley, Alberta launched Canada’s energy industry in the 1930s. Resources were abundant, but experience was in short supply. Workers were expected to learn on the job—and avoid the dangers of a drilling rig’s many moving and often oil-slicked parts: pulleys, wheels, cogs, belts, gears, chains, ropes, planks, tools and equipment.

Not everyone could, and worker injuries and deaths were common.

In 1938, the Calgary Herald described working on an oil drilling rig “as one of the most hazardous occupations in the world.”

As the industry grew and advanced, so too has the role of safety. In 1949, the Petroleum Industry Training Service (PITS) was formed to equip oil and gas workers with the knowledge and skills needed to be safer on the job.

In the decades since, the industry has made worker safety as much a part of its operations as advancing technology, maximizing production and delivering shareholder value.

Gone are the days when workers would walk off a farm field or out of a high-school classroom and onto a rig without knowing its risks—and how to avoid them.

### **Evolving with a constant goal**

In an industry known for its fluctuating production, prices and profits, worker safety is now an unflinching constant. For the past 10 years, industry, companies, workers, contractors, associations and other stakeholders have collectively worked to a bold goal of zero lost time due to injury.

In mathematics, zero has no value. It is neither positive nor negative. In oil and gas safety in Canada, zero is invaluable and exponentially positive, symbolic of the many higher standards the industry holds itself to.

“Industry Standards from work site to work site; are changing for the better.”



“Merging of the Associations will eliminate the duplicated, confusing safety training; current training certificates and tickets will remain valid.”

Energy Safety Canada

The new steward of the zero-lost time goal is Energy Safety Canada (ESC).

ESC was formed when two national safety associations, Enform and Oil Sands Safety Association (OSSA), merged officially on October 2, 2017. The move makes ESC the single voice of safety for upstream conventional and unconventional energy production in the country.

Following the 50th anniversary of oil sands production in Canada, the merger also marks the progress made in working past silos and to come together.

That single voice will increasingly reflect and represent the industry’s most valuable resource: workers. ESC’s mission is to make it easier, better and more effective for workers (including contractors) in the energy industry to get the training and knowledge they need to be healthy and safe.

More importantly, ESC will be a one-stop shop for all things safety in the energy industry. It will be a hub of safety knowledge: where industry gathers, gains and interprets information and acts upon what it learns.

By serving workers. ESC will also serve the companies they work for. Safety performance will improve faster and overall.

Industry will pool its expertise and work together to find simple, agreed-upon safety solutions and standards. In turn, these solutions and standards will save time and money, and increase efficiency. ♦



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