



Natural Resources  
Canada

Ressources naturelles  
Canada

Energy Sector

Secteur de l'énergie



Natural Resources Ressources naturelles

October 29, 2007

R. Paul Barnes  
Manager, Atlantic Canada  
Canadian Association of Petroleum Producers  
403, 235 Water Street  
St. John's, NL  
A1C 1B6

John Masterson  
Manager, Federal Regulatory Affairs  
Canadian Association of Petroleum Producers  
Suite 2100, 350 7<sup>th</sup> Avenue SW  
Calgary, AB  
T2P 3N9

**Project Working Group Response to the Canadian Association of Petroleum Producers' (CAPP) Comments on the Draft Goal Oriented *Drilling and Production Regulations* (DP Regs.)**

Dear Mr. Barnes and Mr. Masterson:

On behalf of the DP Regs Project Working Group (PWG), the co-Chairs of the Frontier and Offshore Regulatory Renewal Initiative thank you for CAPP's letter of August 17, 2007 with comments on the draft *Drilling and Production Regulations* (DP Regs). We appreciate the level of participation of CAPP and its member companies in the stakeholder engagement process for these draft regulations and the detailed nature of the comments provided.

At this time, we wish to respond to the three general issues you raise on page 2 of your letter as well as the issue of zone as highlighted by Chevron Resources Canada in their letter dated 27 July 2007. A more detailed response to your attached table of specific comments will be provided at a later date.

As a preliminary note to the comments below, the draft regulations will be subject to a legal editing process in the coming months and prior to publication in the Canada Gazette I. Therefore, while the intent and policy basis for the wording of the draft provisions below will remain, the wording may be revised.

### *Management Systems*

CAPP and its member companies raised concern about the scope of the management system as outlined in section 4 of the draft regulations.

The purpose and scope of the management system requirement has been built into subsection 4(1) of the draft DP Regs, which states:

4 (1) The applicant for an authorization shall develop an effective management system that integrates operations and technical systems with the management of financial and human resources to ensure compliance with the Act and these Regulations.

Accordingly, the scope of the management system would be limited to ensuring compliance with the Act (COGOA or the Offshore Accord Acts, as applicable) and the DP Regulations. In evaluating an operator's management system, financial and human resources information related to ensuring compliance with the Act and DP Regs would be considered.

For example, the following sections of the draft DP Regs state:

**22.** The operator shall take all reasonable precautions to ensure protection of the natural environment and safety, including

(l) that a sufficient number of trained and competent individuals are available to complete the authorized work or activities and carry out any work or activity safely and without causing pollution or waste;

**78.** (1) The operator shall ensure that all personnel shall, before assuming their duties, have the necessary experience, training and qualifications and are able to conduct their duties safely, competently and in compliance with these Regulations.

In these instances, human and financial resources identified in the management system processes may be relevant as part of the information provided by an operator to demonstrate that it is in compliance with the provisions. However, operator's information on these issues not related to compliance with the Act or regulations would not be relevant.

The PWG considers that the wording of subsection 4(1) is sufficiently clear to delimit the scope of the management system requirements.

### ***Guidance Notes***

As laid out in each of the Acts, each Board has the authority to issue and publish interpretation notes and guidelines with respect to regulations. Staff of the three Boards

have established a guidance working group to promote consistency among the guidance materials to the extent possible.

As discussed during the 13 June meeting, CAPP and its member companies may submit comments to the working group with respect to the existing guidance or suggestions for areas of concentration. As the group has begun its work, comments should be submitted as soon as possible or, at the latest, by 19 November 2007.

For further information, please contact the following representatives from the working group:

John Crocker, Policy and Regulatory Coordination Advisor  
Canada-Newfoundland and Labrador Offshore Petroleum Board  
St. John's, Newfoundland and Labrador  
(709) 778-1429  
[jcrocker@cnlopb.nl.ca](mailto:jcrocker@cnlopb.nl.ca)

Bob Hale, Advisor, Drilling & Operations  
Canada-Nova Scotia Offshore Petroleum Board  
Halifax, Nova Scotia  
(902) 496-0740  
[bhale@cnsopb.ns.ca](mailto:bhale@cnsopb.ns.ca)

Chris Knoechel, Senior Drilling Engineer  
National Energy Board  
Calgary, Alberta  
(403) 292-3866  
[cknoechel@neb-one.gc.ca](mailto:cknoechel@neb-one.gc.ca)

### ***Reporting of Information related to Costs***

It is recognized that a high level of concern has been expressed with respect to the inclusion of requirements to report operating and capital expenditures in the Annual Production Report and to report cost of well operations in the Well History Report (sections 90 and 95(3)(d) respectively in the Nova Scotia and Newfoundland and Labrador versions of the draft DP Regs).

The PWG continues to consider the inclusion of these reporting requirements to be appropriate and provides the following information for clarity. The purpose of the Acts includes the promotion of, in respect of the exploration for and exploitation of petroleum resources, conservation of the petroleum resources. Preventing waste is critical to conserving the resource.

The PWG continues to consider the inclusion of these cost reporting requirements to be appropriate. These requirements will continue to be included in the draft DP Regs to ensure that:

- The Boards obtain the information necessary to provide regulatory oversight of an operator's operations;
- Operations are being conducted in a manner that prevents "waste" (as defined in the Act); and
- Maximum recovery (section 79 of the draft DP Regs) is achieved having regard to sound economic and engineering principles.

The definition of recovery" in the draft regulations "means, in respect of oil and gas, the recovery of oil and gas under reasonably foreseeable economic and operational conditions".

To fully assess economics and the application of sound economic principles, cost information is required for drilling wells, work-over operations and production operations.

As cost information would be required in every case for developments subject to the Offshore Accord Acts, the requirement to provide the information was included in the relevant versions of the draft DP Regs to improve regulatory clarity and certainty.

In considering CAPP's comments, the PWG decided to move the requirement for cost of well operations from section 95 and compile all cost-related requirements in section 90, which has been revised as follows:

*Annual Production Report (NL and NS versions)*

**90.** The operator shall ensure that, not later than March 31 of each year, an annual production report relating to the preceding year for a pool, field or zone is submitted to the Board, including the performance, production forecast, reserve revision, reasons for significant deviations in well performance from predictions in previous annual production reports, gas conservation resources, efforts to maximize recovery and reduce cost, details of the operating and capital expenditures including the cost of each well operation for the preceding year, the current year and the projections for the next two years, and any other information required to demonstrate how the operator has managed and intends to manage the resource without causing waste.

Consistent with the discussion under "Zone" below, this report would be required for any zone designated by the Board pursuant to section 17 of the regulations or any 'pool' or 'field' that meets the respective definition in the Acts.

***Zone***

It is recognized that a high level of concern was expressed with respect to the inclusion of 'zone' in sections 69(2), 66 and 69 of the draft DP Regs. The PWG has considered the comments and provides the following comments, clarification and intended revisions to the draft regulations.

As you are aware, both 'pool' and 'field' are defined in the *Canada Oil and Gas Operations Act* and the Offshore Accord Acts (Acts). 'Zone' and "Production Zone" are currently defined and used in the existing *Production & Conservation Regulations*, with those definitions being clear that 'zone' refers to a stratum, or sequence of strata, within a pool.

It is recognized that not all zones contain hydrocarbons and not all zones can or should be used for production or injection purposes. However, in some circumstances, management of certain zones may be required to ensure proper management of oil and gas resources and prevent waste. It is intended that the draft regulations apply to those specific zones. Accordingly, it was intended that section 17 of the draft regulations would reflect that only zones that have been designated by the Board would be subject to the requirements in the regulations. Based on this approach, 'zone' was included in sections 6(2), 17, 66 and 69 as well as to the definition of "flow allocation procedure".

To ensure clarity, the PWG has revised the definition as follows:

'zone' means any stratum or any sequence of strata which has been designated by the Board as a zone for the purposes of these Regulations pursuant to section 17.

Section 17 contains provisions by which the Boards may designate the name and delimit the location of pools, zones and fields. The PWG acknowledges that the wording could be clearer and, accordingly, has revised section 17 as follows:

17. (1) The Board may designate a zone for the purposes of these regulations.
- (2) The Board shall, for the purposes of identification, assign or change the name of a pool, zone or field.
- (3) the Board may, for the purposes of identification, define the boundaries of a pool, zone or field.

Because pool and field are defined in the Act, an operator would be required to carry out the related requirements in the regulations for any pool or field that meets the respective definitions. Accordingly, pools and field do not require a specific designation in section 17. They would, of course, continue to be named and the boundaries identified (as in the current regulations).

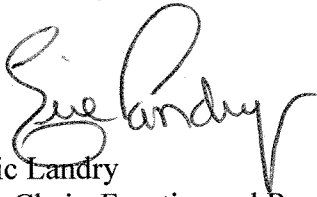
As indicated in the 20 July 2007 PWG response to CAPP's preliminary comments on the draft regulations, the process by which zones may be designated by the Board is administrative in nature and includes consultation with the operator.

Further, the PWG noted that the subsection 50(1)(b) should include 'pool' to ensure consistency with the definition of co-mingled production and will make this change.

The PWG continues to be of the view that the design of casing, drilling fluid systems and cement slurry should ensure protection from the high pressure, gas hydrate and potable water zones as described in sections 43 to 45.

The consultation process with CAPP and its member companies was most helpful in developing draft DP Regs that are clear, practical and support the objectives of an effective and efficient offshore regulatory regime. We look forward to working with CAPP on future regulatory initiatives to ensure these objectives continue to be met.

Yours truly,



Eric Landry  
Co-Chair, Frontier and Regulatory  
Renewal Initiative  
Director, Frontier Lands Management  
Division  
Petroleum Resources Branch  
Natural Resources Canada  
580 Booth Street, 17<sup>th</sup> Floor  
Ottawa, Ontario  
K1A 0E4



Fred Allen  
Co-Chair, Frontier and Regulatory  
Renewal Initiative  
Director, Regulatory Affairs  
Government of Newfoundland and  
Labrador  
Department of Natural Resources  
50 Elizabeth Avenue  
St. John's, Newfoundland  
A1B 4J6

cc: Doug Cannon, Chevron Canada Resources  
DP Regulations Project Working Group