

BC Oil and Gas Commission
2012/13 – 2014/15 Service Plan



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On behalf of the Board of Directors and our employees, I am pleased to submit the 2012/13 – 2014/15 Service Plan for the British Columbia Oil and Gas Commission (Commission).

I would like to welcome Paul Jeakins to the Board. Paul accepted his current

position as Commissioner and Chief Executive Officer in October 2011. His 25 years experience in organizational leadership, financial management, regulatory and strategic planning and decision making are a huge asset in the strategic and operational leadership of the Commission.

As the regulator for oil and gas activities in British Columbia, the Commission and its staff know the important role they play in supporting the natural gas sector as a major generator of jobs and economic growth in the province. With its abundant natural gas resources, skilled labour and modern infrastructure, British Columbia will face major investment opportunities in the coming years for expanded use of natural gas domestically and as an export commodity in the form of liquefied natural gas. The Commission will play an integral role in supporting commitments in the Premier's Canada Starts Here: The BC Jobs Plan, which promotes the development of the Province's natural gas sector and the export opportunities afforded by liquefied natural gas.

The Commission is prepared to meet the rising demand for and complexity of regulatory approvals and its stakeholders' expectations for sound resource development, protection of public safety and the environment. To ensure workforce stability as the key driver in delivering the Commission's mandate,

management's efforts will continue to be focused on improving the work environment, closely monitoring staff turnover, and employing effective solutions for cross training and preservation of knowledge.

The development of new drilling technology has made B.C.'s vast shale gas resources accessible. As a result, shale and tight gas now account for 50 per cent of our province's annual natural gas output of 1.1 trillion cubic feet (Tcf). Over the next fiscal year, the Commission anticipates most applications will focus on unconventional oil and gas activities. Management is planning to meet this demand by continuously updating staff knowledge of the latest technologies employed by industry and the most recent research on environmental and social effects associated with oil and gas development.

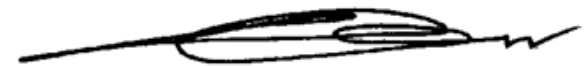
Many First Nations live in areas where oil and gas development is underway. Consultation Process Agreements (CPAs) between the Commission and Treaty 8 First Nations continue to provide significant consultation resources directly to First Nation communities. The Commission will continue to renegotiate CPAs with those First Nations whose agreements have expired or are set to expire in 2012.

This Service Plan reiterates the strategic priorities of the Commission in pursuing regulatory and operational excellence, balancing the interests of its various stakeholders, and creating value for British Columbians. The Commission's single-window regulatory model is a key reason why the Commission is a leading regulator. To further strengthen the model over the next three years, efforts will be directed towards harnessing the right technological solutions to move to e-submission of oil and gas activity applications and expanded use of geographic information systems (GIS) analysis and mapping to inform statutory decisions.

The Commission's core services and related processes are governed by the Oil and Gas Activities Act (OGAA), which provides a robust, modern framework for regulating oil and gas activities. The Commission will work to improve efficiency and effectiveness of approval processes, consistency in compliance with applicable laws, permits and authorizations, and transparency of statutory decision-making.

This 2012/13 - 2014/15 Service Plan was prepared by senior management under the direction of the Board of Directors in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The plan is consistent with the government's fiscal plan and strategic priorities expressed in the BC Jobs Plan, the BC Energy Plan, and the Government's Letter of Expectations. All significant assumptions, events, policy requirements and identified risks, as of January 24, 2012, have been considered in preparing the plan. The performance measures support the Commission's mission, vision, and strategic priorities, and focus on aspects critical to the organization's performance. Corresponding targets are based on a thorough analysis of the Commission's operating environment, risk assessments, and past performance indicators.

The Board is accountable for the contents of this plan and the way they have been communicated. The Board is also responsible for ensuring corporate performance is measured and results are reported accurately and in a timely fashion.



Steve Carr
Board Chair, BC Oil and Gas Commission

ORGANIZATIONAL OVERVIEW

The BC Oil and Gas Commission (Commission) is the provincial regulator of oil and gas activities, including exploration, development, pipeline transportation, and reclamation. The Commission fulfills the intent and purpose of the Oil and Gas Activities Act (OGAA), which came into force on October 4, 2010. Reflecting extensive multi-party consultations, the Act modernizes and streamlines the regulatory framework for the oil and gas sector representing a major economic force in the province. The OGAA continues the Commission's mandate as first defined in the Oil and Gas Commission Act and strengthens the independent role of the Commission in permitting and overseeing petroleum and natural gas operations in B.C. To view enabling legislation, visit the Commission website at www.bcogc.ca.

Since its inception as a service delivery Crown corporation, the Commission has served the public interest by administering a unique single-window model for permitting oil and gas exploration and development, and for ensuring operators' compliance with applicable regulations. This model has given British Columbia a competitive advantage over other jurisdictions and has supported effectiveness and efficiency in the regulatory processes. Confirming and further strengthening the single-window approach, OGAA updates and consolidates the Oil and Gas Commission Act, the Pipeline Act and portions of the Petroleum and Natural Gas Act, and continues the Commission's regulatory authority with respect to oil and gas activities under other B.C. legislation such as the Environmental Management Act, Land Act, Water Act, Heritage Conservation Act and Forest Act.

MISSION

We regulate oil and gas activities for the benefit of British Columbians.

We achieve this by:

- Protecting public safety,
- Respecting those affected by oil and gas activities,
- Conserving the environment, and
- Supporting resource development.

Through the active engagement of our stakeholders and partners, we provide fair and timely decisions within our regulatory framework.

We support opportunities for employee growth, recognize individual and group contributions, demonstrate accountability at all levels, and instill pride and confidence in our organization.

We serve with a passion for excellence.

VISION

To be the leading oil and gas regulator in Canada

VALUES

Respectful

Accountable

Effective

Efficient

Responsive

Transparent

BC Oil & Gas COMMISSION

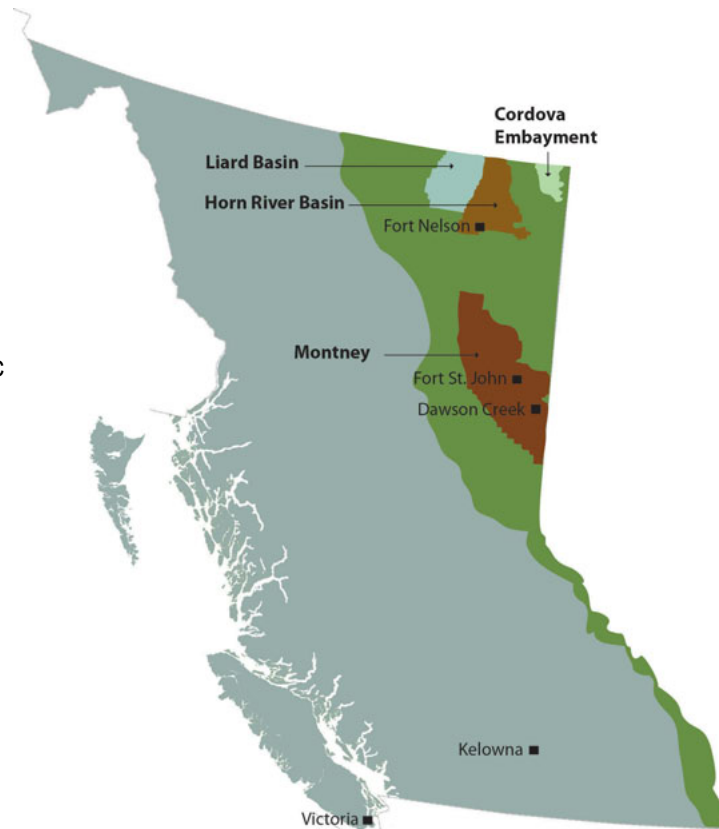
ORGANIZATIONAL OVERVIEW

As a regulator, the Commission considers and adjudicates diverse and sometimes conflicting interests of multiple stakeholder groups.

The Commission has developed long-term relationships with northeastern B.C. First Nations and continues to interface and build strong ties with First Nations communities in all areas where oil and gas activities take place, or are contemplated, in the province. Numerous delegated authorities, working agreements and memoranda of understanding form the basis for representing the interests of partner government agencies. The Commission is also proud of its open relationship with industry, based on mutual respect and responsiveness. Of strategic importance in its stakeholder relations is the Commission's work with northeastern communities to minimize the footprint and effects of oil and gas development.

Of equal importance, the Commission recognizes its employees as a principal stakeholder group and is committed to supporting their continuous professional development and to providing a healthy work environment. Employees operate out of five locations – Victoria, Fort St. John, Dawson Creek, Fort Nelson and Kelowna, with the largest numbers concentrated in Fort St. John and Victoria. The offices in Fort Nelson and Dawson Creek ensure the Commission's presence in communities of the Horn River Basin and Montney gas plays respectively. The areas of primary oil and gas activities are shown in **Figure 1** along with the Commission's office locations.

Figure 1: Major oil and gas basins and Commission office locations



COMMISSION MANDATE

Section 4 of the *Oil and Gas Activities Act*

The purposes of the Commission include the following:

- (a) to regulate oil and gas activities and pipelines in British Columbia in a manner that:
- (i) provides for the sound development of the oil and gas sector, by fostering a healthy environment, a sound economy and social well being;
 - (ii) conserves petroleum and natural gas resources in British Columbia;
 - (iii) ensures safe and efficient practices; and,
 - (iv) assists owners of petroleum and natural gas resources to participate equitably in the production of shared pools of petroleum and natural gas.
- (b) to provide for effective and efficient processes for the review of applications for permits and to ensure that applications that are approved are in the public interest having regard to environmental, economic and social effects;
- (c) to encourage the participation of First Nations and Aboriginal peoples in processes affecting them;
- (d) to participate in planning processes; and,
- (e) to undertake programs of education and communication in order to advance safe and efficient practices and the other purposes of the Commission.

CORE SERVICES AND ORGANIZATIONAL STRUCTURE

Statutory decision-making authority is vested in the Commissioner who also serves as the Chief Executive Officer. He is supported in that role by the Office of the Commissioner, made up of Corporate Affairs, Organizational Development, General Counsel and Executive Operations. The Commissioner delegates decision-making authority to staff members in Operations and Engineering led respectively by the Chief Operating Officer and Chief Engineer. Regulatory specialists led by the General Counsel provide support with interpretations of regulations and ensure consistency and effectiveness of the regulatory framework. A Corporate Services division under the Chief Financial Officer provides financial, information technology, human resource management, facilities and administrative support for the entire organization. The core responsibilities of each division are described on page 7.

In addition to core services, the Commission provides a support role in the implementation of the Science and Community Environmental Knowledge (SCEK) Fund managed by a Committee comprised of representatives of the Commission, the Canadian Association of Petroleum Producers and the Small Explorers and Producers Association of Canada. The purpose of this independently managed Fund is to support and facilitate research concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia.

The Commission administers the Orphan Site Reclamation Fund established in 2006 and funded through a tax on production. The fund is used to pay the cost of reclaiming abandoned well sites, test holes, production facilities and pipelines for which the responsible owner cannot be identified or who has ceased to exist. Priority is given to orphan sites on private land to alleviate the burden on the landowners who are unable to use the land.

COMMISSION CORE SERVICES

Review, assessment and adjudication of applications for oil and gas permits and authorizations related but not limited to:

- Wells
- Pipelines and facilities
- Geophysical activities
- Access roads
- Corporate services related to asset transfers, amalgamations, and Crown Land surface tenure.

Assurance of industry compliance with applicable laws and regulations and permit-specific requirements through inspection, enforcement and incident investigation activities.

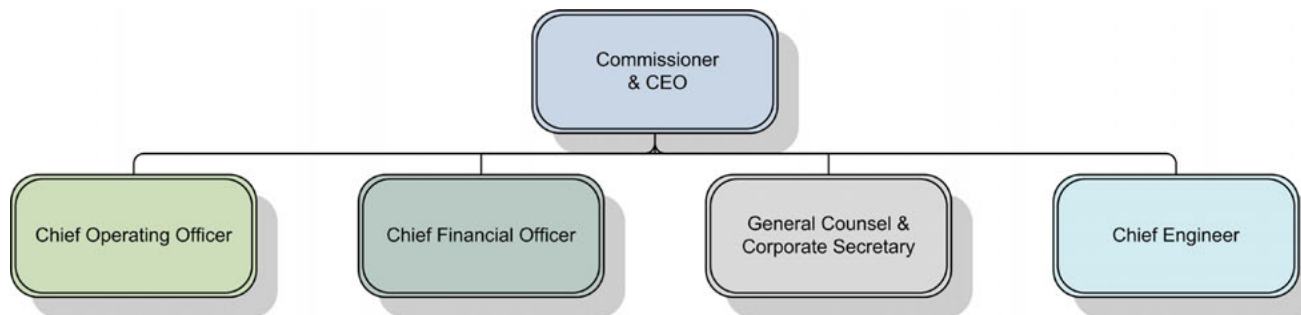
Resource conservation and production monitoring and measurement.

Consultation and information sharing with First Nations on oil and gas activities.

Liaison with other provincial and federal government agencies in ensuring effective delivery of government policy, improved regulatory climate and cohesive application of existing regulations.

Community and landowner support through education, public engagement, mediation and dispute resolution.

Figure 2: Organizational Structure



CORE SERVICES AND ORGANIZATIONAL STRUCTURE

COMMISSION DIVISIONS, DEPARTMENTS AND CORE FUNCTIONS

OFFICE OF THE COMMISSIONER		OPERATIONS	
Legal & Regulatory	Legal Advice Regulatory Initiatives Regulatory Support Corporate Governance	Permitting and Authorizations	Application Review and Acceptance Project Assessment Project Level First Nations Consultations Land Management Oil and Gas Asset Tracking
Corporate Affairs	Internal & External Communications Community Relations Landowner Support Government Relations	Operations Engineering	Compliance & Enforcement Waste Management and Reclamation Site Reclamation and Remediation Emergency Response & Safety Emergency Management Occupational Health and Safety
Organizational Development	Employee Engagement Workforce Planning Leadership Effectiveness Learning and Development	Resource Development & Geology	Resource Conservation Stewardship Basin Management
CORPORATE SERVICES		ENGINEERING	
Finance & Administration	Financial Planning & Accounting Corporate Property & Administration Records Management	Drilling and Production	Operations Support Standards and Technical Requirements Programs Public Reporting Data Collection Engineering Investigations Well Integrity Programs
Human Resources Services	Recruitment Payroll & Benefits Employee Performance Management Collective Bargaining & Labour Relations Workplace Wellness	Pipelines and Facilities	Pipeline Application Engineering Review Pipeline Permit Revision and Amendment Facility Application Review and Determination Facility Permit Revision and Amendment Integrity Management Program Audit (pipeline) Integrity Management (facility) As-built Audit and Review Operations and Industry Technical Support Public Reporting Engineering Failure Investigation Standards and Technical Requirements Programs
Information Technology	Information Technology & Infrastructure Business and Information Systems Web Development Geographic Information Systems		
Operations Analysis & Audit	Internal Audit Business Intelligence Process Improvement & Documentation Environmental Liability Rating		
Performance and Planning	Strategic Planning Integrated Risk Management Business Planning Corporate Reporting		

A Board of Directors governs the Commission through setting the strategic direction, ensuring organizational performance is in line with strategic priorities, and establishing appropriate accountability and transparency mechanisms. The Board approves the Commission's budget, Service Plan, and Annual Service Plan Report. Under the OGAA, the Board has the powers to make regulations respecting aspects of carrying out oil and gas activities.

Under OGAA, the Deputy Minister of Energy and Mines is Board Chair, the Commissioner is Vice Chair, and a third independent member is appointed by the Lieutenant Governor in Council. Governance principles and practices are described in the Board's Mandate and Charter and are disclosed on the Commission website at www.bcogc.ca.

Responding to the governance renewal call in the Government Letter of Expectations, the level of communications, engagement and reporting between the Board and management has significantly increased over the last year. Assisted by a group of expert consultants, the Board and management have undertaken a review of the Commission's strategic planning framework and its linkage to board governance best practices. This initiative ensures that long-term objectives are developed in accordance with government direction, stakeholder needs and optimal resource allocation. The Board consultants further contribute to the governance renewal initiative by service on the Board committees.

Complementing the governance renewal, work has been undertaken and will carry on during the planning period in advancing a performance measurement and continuous improvement culture at all levels of the organization. This will involve reviewing and refining data collection, data integrity, performance measurement methodology, targets, benchmarks, and establishing an internal audit function.

The Commission's governance policies and practices comply with the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations (Best Practice Guidelines) February 2005 issued by the Board Resourcing and Development Office (BRDO). The Commission's accountability framework is consistent with the accountability requirements established for provincial Crown corporations. Its policy direction is derived from the Government's Letter of Expectations and is aligned with government's strategic priorities. Accountability is delivered through three-year service plans issued every year, quarterly reports on financial performance, and the Annual Service Plan Report summarizing achievements during the year and comparing performance results to service plan targets.

Strategy implementation and management of day-to-day operations are the responsibility of the Commissioner, the executive and senior management.

BOARD OF DIRECTORS

Steve Carr, Deputy Minister, Ministry of Energy and Mines (Chair)
Paul Jeakins, Commissioner & CEO, Oil & Gas Commission (Vice Chair)
John Jacobsen, Independent Member, appointed by the Lieutenant Governor in Council

AUDIT COMMITTEE

Responsible for financial reporting and disclosure, risk management, and compliance with applicable laws, regulations and government policy.
Arn van Iersel, Board Consultant and Chair of the Audit Committee
Doug Wilkes, Board Consultant & Lead Director
Al Hurd, Board Consultant

HUMAN RESOURCES COMMITTEE

Responsible for executive appointment, performance, succession and compensation, and for trade union negotiations and compensation structure.
John Jacobsen, Independent Member, appointed by the Lieutenant Governor in Council (Chair)
Doug Wilkes, Board Consultant & Lead Director
Al Hurd, Board Consultant

REGULATORY COMMITTEE

Responsible for legislation and regulation matters, policies, procedures and systems appropriate for an effective regulatory framework.
Cliff Proudfoot, Board Consultant, Chair
Paul Jeakins, Commissioner and CEO
Neal Norman, Board Consultant

EXECUTIVE TEAM MEMBERS

Paul Jeakins, Commissioner & CEO
Ken Paulson, Chief Operating Officer
Randall Smith, Chief Financial Officer
Richard Slocomb, Chief Engineer
Trevor Swan, General Counsel

The Commission lives up to the challenge of keeping pace with a dynamic and rapidly growing natural gas and petroleum industry which in the last decade has become a dominant economic force in the provincial economy. Industry investment has reached \$50 billion and the province realizes significant land sales and royalty revenue (\$313 million from natural gas royalties for 2010/11 alone).

Confirmed hydrocarbon reserves continue to increase, with unconventional natural gas reserves in particular signifying a large potential and high levels of activity in the coming years. Currently natural gas production is at 1.1 trillion cubic feet (Tcf) of marketable natural gas per year. The current level of marketable gas production in B.C. is approximately 18 per cent of the total Canadian production and second only to Alberta.

The operating environment of the Commission is influenced by key characteristics of the oil and gas industry:

- Extremely dynamic and competitive within a highly integrated North American market, and increasingly inter-dependent world market.
- Innovative through fast-paced technological advancements, which make technically possible and economically viable the recovery of resources previously thought unrecoverable.
- Subject to ever-increasing public scrutiny due to environmental awareness and the generational responsibility for wise and prudent extraction and utilization of non-renewable resources.

Responding to the complex and often competing economic, environmental, social and political priorities driving the oil and gas industry, the Commission maintains a modern regulatory framework and stays current on innovative solutions for continued safe and sustainable oil and gas development in the province. In accordance with its mandate, the Commission delivers fair and timely decisions on proposed projects, balanced with firm oversight of operations' safety and consideration of First Nations' rights.

Given the characteristics of the industry and the role of the Commission as the provincial oil and gas regulator, it is of strategic importance for the Commission to stay fully apprised of the latest technological breakthroughs, as well as independent world-wide scientific research on the effects of the industry on human health, social structures, climate, environmental and cultural values. In parallel, the Commission will continue to deepen its knowledge of the B.C. hydrocarbon resources, and local effects of oil and gas development in order for its statutory decisions to represent the best interests of British Columbians.

The Commission's strategy is aligned with the provincial government's social and economic priorities. The current BC Jobs Plan identifies the natural gas sector as a leading contributor to job creation in the province and sets a priority for establishing a liquefied natural gas export industry in B.C. As a responsible and accountable regulator, the Commission will fulfill its enabling and oversight role with respect to natural gas development by

strengthening its internal capacity and expertise to provide highly competent and timely services to industry operators as its clients and to the numerous stakeholders whose interests the Commission represents in the regulatory process. A strong organizational capacity also ensures a thorough and uninterrupted oversight of permitted activities to guard public safety.

Strategic direction for the Commission is derived from the Government's Letter of Expectations, which is an agreement between the Commission and its sole shareholder, the Government of British Columbia, on corporate mandate, strategic priorities, and performance expectations. The Government's Letter of Expectations ensures alignment of Commission activities with overarching provincial goals and provides specific directions to the Commission. It is reviewed annually and is the basis for the preparation of the Service Plan.

Specific directions from the Letter are referenced hereafter. The most recent Letter of Expectations can be viewed on the Commission's website at www.bcogc.ca.

Several drivers have been identified as having significant potential to influence operations and performance outcomes during the planning period. Also discussed are actions expected to mitigate, manage and, in some cases, take advantage of such influence.

GOVERNMENT LETTER OF EXPECTATIONS FOR 2012/13

SPECIFIC GOVERNMENT DIRECTION

- Continue to advance the governance renewal initiative, including proposals to the Ministry of Energy and Mines for any legislative changes, to enable the implementation of modern and robust governance structure and governance practices;
- Continue to develop and improve operational regulations to ensure British Columbia maintains a safe, effective and competitive regulatory framework;
- Ensure coordinated and effective surface and subsurface resource development and value-based approach to natural resource management;
- Continue to support the successful implementation of the B.C. Energy Plan as it relates to the operation of the oil and gas industry; and
- Support provincial policies with respect to oil and gas resource development that may stem from emerging global market opportunities (e.g. Liquefied Natural Gas exports).

PLANNED ACTIONS

The Board, with the involvement of the Board consultants, leads the governance renewal and oversees the implementation of a strategic planning and performance management system.

Objectives and initiatives under the Regulatory Excellence strategic priority are aimed at providing the right information and the appropriate consultation processes that will inform improvements in operational regulations.

The Commission applies a value-based approach to statutory decisions where subsurface resource value is optimized in consideration with related surface rights and resource values. Basin-specific environmental stewardship plans and operating protocols are being developed to provide the tactical analysis information.

Objectives under both the Regulatory Excellence and Operational Excellence strategic priorities contribute to increasing the competitiveness of B.C. as an oil and gas investment jurisdiction. The Commission's success in achieving the Plan's flaring reduction targets is referenced under Operational Excellence.

Opportunities with respect to LNG and the Commission's planned actions are described under the operational drivers on the B.C. Jobs Plan, major projects and North American and global natural gas markets.

DRIVER – CANADA STARTS HERE - THE BC JOBS PLAN

POTENTIAL INFLUENCE

The BC Jobs Plan announced by the provincial government in September 2011 places the natural gas sector, among the critical economic forces relied on to enable job creation across B.C. The Plan calls for strengthening the processing and transportation infrastructure to get B.C. natural gas in the form of Liquefied Natural Gas (LNG) to new foreign markets and to expand its domestic use for transportation.

LNG facilities and pipelines development will be time sensitive in order for B.C. to win a share in the world LNG market, and socially sensitive due to environmental and First Nations concerns. Associated permits and approvals will be required to satisfy high environmental and public safety standards.

Natural gas exploration and development are in the social and economic spotlight. This will increase stakeholders' expectations for a stable regulatory regime and the efficient and transparent application of regulations by the Commission. It also means higher than ever expectations for compliance by industry with regulations, permits and authorizations.

To enhance the investment-friendly climate in the province, the BC Jobs Plan commits to broad, technology-enabled consultations with citizens on regulatory processes. It calls for streamlining regulations in order to achieve a zero regulatory gain through 2015.

PLANNED ACTIONS

Continue to strengthen organizational capacity to effectively conduct regulatory permitting for new natural gas development, including LNG plants and related infrastructure. See more actions under Major Projects and Organizational Capacity.

Continue to provide a single-window regulatory service to the oil and gas sector through clear delegation of authorities to the Commission by partner agencies in accordance with the OGAA. This model achieves efficient and effective streamlining of application and decision-making processes. See more actions under Regulatory Trends.

Continue to improve the level and relevancy of client services by increasing access to services, measuring client satisfaction, and finding ways to enhance regulatory certainty. These actions will contribute positively to the overall investment climate in the province.

DRIVER – NORTH AMERICAN AND GLOBAL NATURAL GAS MARKETS

POTENTIAL INFLUENCE

Developments in North America's and the global natural gas markets most significantly affect the level of industry activity. The activity in turn affects the workload of the Commission and its revenue. The Commission plans its operations and capital expenditures to be fully covered by the revenue generated from application fees and production levies. As a result, it does not create any burden to B.C. taxpayers.

The abundant shale and tight gas resources and the advent of economically feasible shale and tight gas production techniques employing multi-stage hydraulic fracturing combined with horizontal drilling has created a long-term over-supply situation for North American natural gas. Over-supply and reduced demand in the U.S. during the economic recession has kept the price of natural gas depressed over the last three years and this trend is likely to continue in the near to mid-term.

In the global market, however, growing economies like China, Korea, Japan and India have a growing demand and strong prices. North American producers are looking at overseas markets reliant on the import of LNG to avoid a decline of production due to oversupply and low natural gas prices. As Canada's Pacific gateway, British Columbia is ideally situated to respond to the opportunity of producing and exporting LNG to Asia from B.C. shale and tight gas.

PLANNED ACTIONS

Continue to closely monitor North American and global forecasts of market conditions.

Continue to build a competent workforce and internal capacity that can respond to shifting demand for regulatory services.

Continue to increase the efficiency of the permitting processes to augment the competitiveness of B.C. as an attractive oil and gas investment jurisdiction.

DRIVER - MAJOR PROJECTS

POTENTIAL INFLUENCE

Oil and gas tenure sales and exploration and development continues to be concentrated in north-eastern B.C. – particularly in the Montney field extending from Dawson Creek to Fort St. John and beyond and the Horn River Basin located north of Fort Nelson.

As the potential of these plays continues to grow and industry shifts from land acquisition to gas extraction, expanded infrastructure will be required for development, production, processing and transportation of natural gas. While most new projects are expected to be in the Montney play because of its better developed infrastructure, there will continue to be project expansions in the northern basins, particularly where linked to LNG exports.

Stemming from the conditions in the North American natural gas market and the strategic priority of the province to gain access to Asian markets discussed under the B.C. Jobs Plan driver, several major projects have been proposed and are in various planning stages. Because of the size and significance of these projects, the Commission's strong collaboration with other responsible federal and provincial agencies will be required.

The realization of the LNG proposals is dependent on a significant expansion and upgrade of existing pipeline infrastructure and the construction of additional pipelines, which will require regulatory permitting and oversight by the Commission.

These major projects will create a high level of competition for skilled workers, especially in Northern B.C.

PLANNED ACTIONS

Continue to improve efficiencies in application review procedures and increase technical capacity to manage new and complex applications.

Continue to deepen knowledge of surface and subsurface resources and highly valued characteristics of each of the north-eastern B.C. resource plays.

As new regions and projects are identified for oil and gas activity, clearly and timely communicate the role of the regulator and applicable regulations to First Nations, landowners and residents in general.

Communicate internally and externally the role and responsibilities of the Commission with respect to major projects.

Seek early collaboration with partner permitting agencies in order to drive efficient and effective joint federal/provincial reviews where necessary.

Clearly identify and pursue the knowledge, skills, competencies and business systems needed to meet the regulatory role of the Commission in the responsible realization of these projects.

DRIVER - ORGANIZATIONAL CAPACITY

POTENTIAL INFLUENCE

As a mature organization, the success of the Commission depends on a long-term strategic focus, strong governance, highly knowledgeable, professional and adaptable workforce, and modern business systems and infrastructure. Organizational capacity is the key driver representing the Commission's ability to execute its strategy and manage its performance to high standards. As the bearers of organizational success, Commission employees are central to organizational capacity.

As noted in the other strategic drivers, organizational capacity needs to stay responsive to:

- The demand for permitting of oil and gas activities and major projects.
- The rising complexity of development applications.
- The fast pace of technological innovation associated with unconventional methods of natural gas extraction.
- The highly competitive labour market for specialized skills in resource management and oil and gas operations.
- The accountability requirements and performance expectations of public sector organizations.

Having skilled inspectors at various locations in proximity to oil and gas activities with the proper equipment to carry out their field work is critical in upholding oil and gas operations' safety and compliance with regulations.

The Commission continues to be faced with labour market pressures, including recruiting challenges due to compensation restrictions and northern locations, and an escalating number of eligible retirements.

The Commission's business systems infrastructure and information technology capabilities are of key importance in building optimum organizational capacity. They increase linkages between working groups, reduce service delivery time, increase data integrity, provide tools for performance measurement, and ultimately improve internal processes and the quality of decision making at all levels. Technology underpins every business process and is vital to knowledge preservation and management.

PLANNED ACTIONS

Continue to make organizational capacity and organizational development a strategic priority for the Commission.

Follow labour, demographic and industry trends and advance employees' knowledge, skills and competencies based on anticipated operational needs going forward.

Effectively utilize both internal and external opportunities for training, mentoring, professional development and career progression.

Work towards gaining shareholder approval for a reasonable, rational and competitive compensation plan for all employees.

Differentiate the Commission as an employer of choice through career development, employee recognition, workplace safety and health and wellness programs.

Continue to utilize a suite of tools and methods to consistently measure the organizational engagement and program effectiveness. Seek employees' input in building new programs, developing business plans, and workforce plans.

Continue implementation of the capital investment program aimed at core business applications integration into a single uniform platform with improved electronic submission, information management, and reporting.

Continue to improve data management and integrity through controls and data audits.

Continuously improve the functionality of both Internet and Intranet websites.

DRIVER - REGULATORY TRENDS

POTENTIAL INFLUENCE

The successful implementation of the Oil and Gas Activities Act (OGAA) is a significant advancement of the regulatory framework in B.C. that increases the public's opportunity to participate in decisions affecting them, strengthens the rules to protect the environment and enhances government's ability to respond to the future regulatory needs of industry.

The challenging work ahead relates to increasing the confidence of both industry and stakeholders in the framework and utilizing OGAA's potential to streamline regulations.

PLANNED ACTIONS

Continue review and update of the processes and guidance documents linked to OGAA and its Regulations.

Continuously provide opportunities to stakeholders and citizens at large to get involved in oil and gas regulatory processes.

Continue to gather feedback from staff, clients, First Nations and stakeholders on the interpretation, training and application of OGAA processes and regulations.

Identify and initiate amendments to the regulations where necessary to improve the effectiveness of the regulations.

Steer improvements into regulatory processes through advancement and integration of business system applications.

Keep track of new regulations and rescinded regulations to sustain a zero net gain in regulations through 2015.

DRIVER - FIRST NATIONS

POTENTIAL INFLUENCE

The expected increase in oil and gas activities in the northern resource plays, drilling techniques for unconventional gas extraction, and proposed new facilities and major projects will further increase the requirements for consultations with First Nations.

The oil and gas consultation process with First Nations is governed by specific agreements with each affected First Nation. Consultation Process Agreements (CPAs) with eight of the nine north-eastern B.C. First Nations are being re-negotiated. Six CPAs expired at the end of March 2011 and two more expire in March and April 2012. The renegotiation process is led by the Ministry of Aboriginal Relations and Reconciliation, with active participation by the Commission. To meet the legal duty to consult, the Commission has developed draft Interim Consultation Procedures to guide consultations with these First Nations on oil and gas applications.

First Nations along the proposed natural gas transmission pipeline routes are generally not familiar with oil and gas activities, their effects, the permitting process and the Commission's role as the regulator.

Consulted First Nations have indicated the potential impacts of oil and gas development on water and caribou are of increased interest to them.

PLANNED ACTIONS

Continue to actively engage First Nations in consultations on oil and gas project applications, and at the tactical level with respect to basin management and environmental management.

Continue to participate in the CPA renegotiation process and subsequently in the successful implementation of the renewed agreements.

Continue to search for and consider innovative processes for the effective participation of First Nations in the review and assessment of projects.

Develop relations with First Nations whose traditional territories outside north-eastern BC are expected to see new oil and gas transportation infrastructure as a result of proposed major projects. In doing this, engage other partner agencies as necessary to gain knowledge of the First Nation communities and develop mutual understanding of the Commission's role in regards to regulation of the oil and gas industry and consultation with First Nations.

DRIVER - STEWARDSHIP

POTENTIAL INFLUENCE

Shale and tight gas development continues to drive activity in the Horn River, Liard, and Montney Basins and the Cordova Embayment.

The Oil and Gas Activities Act and associated regulations increase the Commission's ability to manage the effects of oil and gas activities on environmental values. Particular attention of stakeholders is directed to water use for hydraulic fracturing in shale gas extraction, and any quality of life effects such as noise, air and soil quality. The Commission has implemented a regulatory requirement for companies to disclose the ingredients, combination and concentration of chemicals in hydraulic fracturing fluids used at each well where the technique is performed. As of January 1, 2012, the data is collected and made publicly available through an online chemical disclosure registry at www.fracfocus.ca.

Unconventional shale gas extraction using horizontal drilling technologies from multi-well pads allows for a better coordination of access and management of surface effects.

PLANNED ACTIONS

In coordination with First Nations, producers, and other stakeholders, continue the development of basin-specific environmental stewardship plans, operating protocols and value maps.

Continue ongoing collaboration with the Ministry of Environment and other resource agencies to streamline permitting processes and associated data collection and analysis.

Employ latest research and technological innovations when regulating for the protection of the environment and the fair and equitable access to hydrocarbon resources.

Administer, and make improvements to, the hydraulic fracturing registry.

STRATEGIC PRIORITIES, OBJECTIVES AND MEASURES

A thorough assessment of the Commission's operating environment was completed in 2010 with the participation of the majority of employees as part of the strategy renewal process and the transition to an integrated performance management system. Building on that assessment, management considered changes to the operating environment resulting from government and Board direction, industry input, First Nations interests expressed through the process of renegotiating consultation process agreements, and any economic drivers that influence the operations of the Commission.

The Mission, Vision and Values renewed in 2010 remain central to the organizational strategy. In order to continue to deliver on its Mission and Values and move closer to achieving its Vision, the Commission confirms the four areas it must excel in:

- **Regulatory Excellence:** to sustain a safe, effective and competitive regulatory framework.
- **Operational Excellence:** to provide exceptional customer service within regulatory mandate.
- **Quality of Life:** to provide partners and stakeholders with services tailored to their unique interests.
- **Value to the Province:** to maximize the socio-economic value of oil and gas resources while safeguarding the environment.

Strategic objectives have been identified for each strategic priority, together with specific initiatives

or projects to harness work efforts in attaining the objectives. Respective performance measures, targets and benchmarks provide feedback on the success of the strategy and signal necessary adjustments.

Performance measures have been selected from numerous indicators used to track and guide activities on a daily basis. The Commission measures both outputs and outcomes where possible, and for reporting purposes follows the eight reporting principles published by the Office of the Auditor General of British Columbia. Data used in performance tracking and measurement comes from a number of sources, including:

- Application and compliance statistics mainly from the Commission's IRIS and KERMIT database systems.
- Engineering information related to oil and gas operations in British Columbia.
- Human resources information, including tracking of employee turnover and development, and workforce engagement surveys.

Organizational performance is measured at least quarterly. Where possible, benchmark and baseline information is reviewed to provide context for the results achieved by the Commission. Detailed information related to the methodology of Commission performance measures is maintained and updated as necessary.

The Commission continues to have relationships with external agencies as well as other government ministries to improve the quality of data used to track and measure progress.

In comparison to other North American oil and gas regulators, the Commission provides a broader range of services through its single-window model.

Notwithstanding these differences, the Commission benchmarks its performance results against selected North American oil and gas regulators and against comparable provincial Crown corporations and public agencies.

REGULATORY EXCELLENCE: To Sustain a Safe, Effective and Competitive Regulatory Framework.

The Commission works to improve the social, economic and environmental well-being of British Columbians by supporting a safe, effective and competitive regulatory framework for oil and gas activities. The foundation of the framework is the Oil and Gas Activities Act and its regulations. The framework implementation relies on the active engagement of partners and stakeholders. The Commission's statutory and operational decisions are independent from provincial policy development and land tenure sales. The OGAA and working agreements with strategic partners enable the Commission to be the single-window regulator for oil and gas activities in B.C., which earns the Commission a leading position within and outside Canada.

Objectives

- a) Strengthen the single-window regulatory approach by increased alignment and consultations with partners and stakeholders.
- b) Stay fully apprised of latest technological breakthroughs, as well as independent world-wide scientific research on the effects of the oil and gas industry on human health, social structures, climate, environmental and cultural values.
- c) Apply a value-based approach to statutory decisions where subsurface resource value is optimized while considering related surface rights and resource values.
- d) Through the continuous improvement of regulatory processes and decision-making steps, minimize review and appeal costs under OGAA while optimizing the overall cost effectiveness of regulation.

Initiatives

- Participate in federal and provincial environmental and technical standards development processes that will affect oil and gas development.
- In coordination with First Nations, producers, and other stakeholders, continue the development of

basin specific environmental stewardship plans, operating protocols, master databanks and value maps.

- Liaise with industry, academic and research communities to keep apprised of innovative practices, latest scientific research relating to social and environmental effects of oil and gas development, and to benchmark performance against other jurisdictions.
- Develop enterprise business intelligence and audit services for internal processes.
- Implement consultation process agreements with participating northeastern B.C. First Nations and develop relations with First Nations whose traditional territories outside northeastern B.C. may see new oil and gas infrastructure development.

Measures

The Commission continues to track, monitor, analyze and take action with respect to issues related to interpretation of regulations or relationships with other regulatory authorities.

The measure related to the implementation of the annual plan for developing or updating agreements with strategic partners anticipates the adoption of a plan at the beginning of each reporting cycle specifying the working agreements to be developed or updated in accordance with the Commission's strategy, government policy, and within the constraints of available resources. The challenge with this measure is achieving reciprocal responsiveness from partner agencies which also operate on limited resources. The Commission makes every effort to maintain the dialogue and effective working relationship with partner agencies.

A similar methodology applies to the second measure – percentage implementation of the annual internal audit plan with respect to compliance with applicable laws, regulations and other contractual obligations. This measure pertains to the Commission's internal audit function ensuring adherence to applicable laws, regulations and delegated authority terms, as well as identifying potential gaps in regulations.

STRATEGIC PRIORITIES, OBJECTIVES AND MEASURES

Measure	Actual	Forecast	Target	Target	Target
Implementation of the Annual Plan for developing or updating working agreements with strategic partners	2010/11	2011/12	2012/13	2013/14	2014/15
1%-50% - Non-completion	n/a	100%	100%	100%	100%
50% - 85% - Partial completion					
85% - 99% - Substantial completion					
Baseline: n/a					
Benchmark: n/a					

Measure	Actual	Forecast	Target	Target	Target
Implementation of the annual Internal Audit Plan with respect to compliance with applicable laws, regulations, and other contractual obligations	2010/11	2011/12	2012/13	2013/14	2014/15
1%-50% - Non-completion	n/a	100%	100%	100%	100%
50% - 85% - Partial completion					
85% - 99% - Substantial Completion					
Baseline: n/a					
Benchmark: n/a					

OPERATIONAL EXCELLENCE: To Provide Exceptional Customer Service Within Regulatory Mandate.

This strategic priority aims at service excellence in day-to-day operations of reviewing and adjudicating applications, inspecting safety of operations, and enforcing measures to remedy any deficiencies. The Commission proactively sets a standard of service excellence whereby safety, decision integrity and accountability are held in the highest esteem. By identifying and implementing process improvements in statutory decision making, the Commission organizes its business and interacts with its clients and stakeholders in a manner that maximizes their confidence in the Commission's decisions and actions.

Objectives

- a) Continuously improve transparency and certainty in statutory decision making.
- b) Streamline decision-making processes and increase technical capacity for complex applications in order to improve the effectiveness and efficiency of statutory decisions.
- c) Continuously engage First Nations in the permitting processes.
- d) Enhance a culture of safety and service excellence.
- e) Through efficient, measured, and transparent operations, increase British Columbia's competitiveness as an oil and gas investment jurisdiction.
- f) Increase data integrity, controls and standardization to allow continuous improvement in all business processes and predictive analysis capabilities to support statutory decision-making.
- g) Improve service to external clients viewing well files, core collection and technical reports.
- h) Achieve and maintain the BC Energy Plan flaring reduction goals.

Initiatives

- Core business applications integration into a single uniform platform with electronic submission of applications, information management, and reporting.
- Develop guidelines for pipeline damage prevention programs and upstream operating standards and inform the development of a national standard.
- Increase the use of GIS analysis and mapping in informing statutory decision-making, in oil and gas infrastructure oversight, and in participating in Government's open data and public engagement opportunities.
- Undertake a thorough analysis and renewal of corporate performance measures and benchmarks.
- Implement an enterprise records management and electronic document storage system.
- Establish a succession management program.

Measures

The measures under Operational Excellence indicate the level and continual improvement of Commission service. The measure related to timeliness of

processing new applications has been adjusted to represent the average time to process new well applications only, which corresponds to the benchmark measure of the Colorado oil and gas regulator. Due to the increasing number and complexity of facilities and pipeline applications, it is no longer feasible to combine processing time of all new applications under one measure. While the re-negotiation of consultation process agreements with First Nations is ongoing, the timeline for their response has been increased, which is the reason for the 24 days target for 2012/13. The stretch target of 21 days for wells will be maintained for the remaining years until a thorough analysis is completed and communicated to stakeholders on the reasonable timelines for application processing under the OGAA requirements and at the current level of staff resources.

The measure representing the level of First Nations' responses on applications referred to them under consultation agreements is continued. The low results currently occurring are due to the expiration of CPAs with the majority of participating First Nations. When the complex process of re-negotiating the consultation

STRATEGIC PRIORITIES, OBJECTIVES AND MEASURES

Measure	Actual	Forecast	Target	Target	Target
Calendar days to process new well applications	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 33 (2001/02) Benchmark: 30 (Colorado Oil and Gas Conservation Commission Strategic Plan)	24	24	24	21	21

Measure	Actual	Forecast	Target	Target	Target
Percentage of applications responded to by First Nations	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 82% (2009/10) Benchmark: n/a	88%	65%	65%	85%	85%

Measure	Actual	Forecast	Target	Target	Target
Implementation of annual Internal Audit Plan with respect to efficiency and effectiveness of internal processes	2010/11	2011/12	2012/13	2013/14	2014/15
1%-50% - Non-completion 50% - 85% - Partial completion 85% - 99% - Substantial completion Baseline: n/a Benchmark: n/a	n/a	100%	100%	100%	100%

Measure	Actual	Forecast	Target	Target	Target
Quantity of non-routine gas flared per unit of natural gas production	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 8.0 m ³ /1000 m ³ (1996) Benchmark: n/a	5.6	5.4	5.2	5.1	5.0

agreements is complete, It is anticipated that the response rate will return to its previous, if not higher, levels.

The third measure complements the internal audit measure introduced under the Regulatory Excellence strategic priority. It indicates the Commission's success in completing planned internal audit engagements with respect to the efficiency and effectiveness of internal processes.

The flaring reduction measure reflects the Commission's responsibility under the BC Energy Plan to reduce all sources of flaring. The Commission has achieved the Energy Plan target to eliminate all routine flaring.

QUALITY OF LIFE: To Provide Partners and Stakeholders with Services Tailored to their Unique Interests.

Where the effects of industry activity can directly impact an individual's quality of life, the Commission looks for ways to influence how those impacts can be effectively mitigated, and in some cases even positively benefit the party involved. The Commission considers the full array of interests represented by First Nations, landowners, individuals employed in the oil and gas sector, communities living in proximity to oil and gas activities, and various special interest groups.

Of equal importance, the Commission recognizes employees' contributions to the organization and creates professional development opportunities in line with the mission, vision and values. Believing that employee engagement leads to organizational success, the Commission continuously seeks employees' ideas and feedback.

Accommodating the sometimes divergent interests of all these groups is a challenging process. However, by proactively utilizing support systems and strategic partnerships, the Commission provides services, and where possible solutions, tailored to the unique "quality of life" interests of each group.

Objectives

- a) Strengthen partners' and stakeholders' confidence in the Commission.
- b) Through transparent reporting and the active engagement of partners and stakeholders, improve awareness of regulatory processes and initiatives.
- c) Increase the Commission's reputation as an employer of choice through career development, employee recognition, workplace safety and health and wellness programs.
- d) Improve support systems for delivering services to those affected by oil and gas activities.
- e) Improve organizational and employee engagement as the key driver for unlocking productivity, improving performance, and positively transforming employees' lives.
- f) Create opportunities for professional and personal development that motivate employees and provide them with the right mix of competencies and skills to excel in performing their responsibilities.

Initiatives

- Survey stakeholders on issues relevant to available services, education, perceptions of oil and gas development; and accordingly provide relevant information and services.
- Leverage strategic partnerships to mitigate impacts to landowners related to traffic, dust, noise, and odour.
- Develop best practices related to effective recruitment and retention in a competitive labour market.
- Maintain annual workforce plans in accordance with the results of the Work Engagement Survey (WES) and in alignment with corporate strategy.
- Complete new building lease agreement and tenant improvements for the Fort St. John office and Core Lab Facility.
- Implement enhancements to the Workforce Safety Program.

Measures

Continued from the previous year's service plan, the indicator on the success of the dispute resolution facilitation service will provide feedback on the type and frequency of quality of life issues raised by various stakeholder groups and the way those were approached and resolved. To complement this information, the presence of the Commission in the communities where oil and gas activities take place will continue to be measured by the number of community meetings and targeted interactions with Commission participation.

The three employee-focused measures monitor different perspectives of the concerted efforts of management, with the ongoing feedback from employees, to create a healthy, productive and engaged workforce. The Commission's Organizational Development team leads the design and implementation of a comprehensive workforce plan. This includes understanding and promoting dissemination of workforce demand and

STRATEGIC PRIORITIES, OBJECTIVES AND MEASURES

Measure	Actual	Forecast	Target	Target	Target
Industry-to-Stakeholder issues adressed through Commission's Facilitation Service	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: n/a Benchmark: 86% (Alberta ERCB, 2009)	94%	98%	90%	90%	90%

Measure	Actual	Forecast	Target	Target	Target
Number of community meetings with Commission participation	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 10 (2007/08) Benchmark: n/a	11	10	12	12	12

Measure	Actual	Forecast	Target	Target	Target
Percentage of employees with Employee Performance Development Conversations (EPDC) Plan in place	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 98% (2008/09) Benchmark: n/a	98%	100%	100%	100%	100%

supply analytics, thorough analysis of WES results, and the resulting development of workforce programs aligned with the corporate strategy.

The targets for voluntary staff turnover are continued from the previous year's plan. The results may be significantly influenced by demographic factors and the continuing pressure from industry competing for the same human capital.

STRATEGIC PRIORITIES, OBJECTIVES AND MEASURES

Measure	Actual	Forecast	Target	Target	Target
Voluntary turnover rate	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 9.1% Benchmark: 10.6% (Alberta ERCB)	10.8%	14%	10%	10%	10%

Measure	Actual	Forecast	Target	Target	Target
Employee Engagement Level per Work Engagement Survey (WES) results	2009/10	2010/11	2011/12	2012/13	2013/14
Baseline: 59% (2008/09) Benchmark: 65% (BC Public Service, 2011)	71%	75%	75%	75%	75%



VALUE CREATION TO THE PROVINCE OF B.C.: To Maximize the Societal Value of Oil and Gas Resources while Safeguarding the Environment.

The Commission regulates oil and gas activities for the benefit of British Columbians. The majority of activities undertaken by the Commission aim at protecting the public interest and decisions are weighed for the future of resource development in alignment with the overarching energy vision for the province. Resource conservation and development activities ensure oil and gas resources are extracted in the most efficient way possible, and environmental management activities provide oversight over industry's adherence to environmental standards.

The Commission continuously aligns its efforts with the provincial strategy of increasing B.C.'s competitiveness as an oil and gas jurisdiction, effective and efficient use of public resources and reducing environmental footprint. It remains the Commission's strategic priority to foster a value-driven, high performance culture within a stable work environment.

Objectives

- a) Continue to support safety and environmental best practices in the oil and gas industry.
- b) Increase collaboration with industry and the public to proactively safeguard public safety.
- c) Manage resources to optimal value, including any potential risks and liabilities, to the shareholder.
- d) Contribute to government's priorities of building a strong economy, job creation, private sector investments, and reduction of greenhouse gas emissions.
- e) Practice sound financial management and highly efficient operations through strategic planning, risk management, internal audit and transparent reporting.

Initiatives

- Maintain an integrated strategic planning and performance management system, including an integrated risk management framework.
- Further the development of risk-based assessment tools for damage prevention programs, emergency management programs, security management programs, and field surveillance.
- Develop a system to reconcile and consolidate oil and gas related water approvals issued by various provincial authorities.
- Undertake actions to reduce the Commission's greenhouse gas emissions associated with corporate operations.

Measures

Reporting on field inspection results is an important and enduring indicator related to the Commission's role in industry oversight for the sake of protecting public safety. The number of field inspections during a given year is driven by reported incidents and complaints and by a detailed risk modeling targeting sites with the highest risk potential based on previous performance, site sensitivity and inherent risk. Inspected sites are deemed to be in compliance if the inspection finds no deficiencies, or any identified deficiencies are corrected within the allotted timeframe in accordance with the deficiency type. The percentage of inspected sites without high risk deficiencies is reflected in the measure. The Commission has set the target for this measure at 100%. The reason for the actual result being slightly lower than 100% is that some permit holders choose to shut in a site rather than address a non-compliance. In those cases, the hazard is eliminated but the registered

STRATEGIC PRIORITIES, OBJECTIVES AND MEASURES

Measure	Actual	Forecast	Target	Target	Target
Field Inspection Compliance Rate with respect to High Risk Deficiencies	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline: 96.6% (2008/09) Benchmark: 98.3% (Alberta ERCB, for calendar year ending Dec. 31, 2010)	99.7%	98%	100%	100%	100%

Measure	Actual	Forecast	Target	Target	Target
Carbon Emissions Per Employee (tCO ₂ e)	2010/11	2011/12	2012/13	2012/13	2013/14
Baseline: 2010/11 Emissions - 1.9 tCO ₂ e Benchmark: TBD	1.9 tCO ₂ e	1.8 tCO ₂ e	1.7 tCO ₂ e	1.6 tCO ₂ e	1.6 tCO ₂ e

non-compliance remains. Field inspection compliance results are summarized and made publicly available in an annual report that can be found on the Commission's website at www.bcogc.ca.

Performance against reducing carbon emissions from the Commission's operations is monitored through the per employee carbon footprint. This measure represents the spread of carbon emissions reported into the provincial SMARTTool carbon calculator over the average number of employees in the year. This indicator will speak to the Commission's participation in LiveSmartBC initiatives and the provincial efforts to reduce greenhouse gas emissions. It will also be applicable in increasing awareness and accountability at the individual employee level and our commitment to a culture of conservation, sustainable business practices and environment-conscious living.

FINANCIAL OUTLOOK

Presented here is the Commission's forecast of financial position at the end of fiscal year 2011/12 and of revenues, expenses and capital spending over the Service Plan years 2012/13 to 2014/15. Key assumptions influencing the financial position of the Commission are shown and are in line with risks, uncertainties and operational influences discussed within the strategic context earlier in this plan.

The Commission revenue is determined by fees collected on oil and gas activities applications and by levies charged on production. Fee revenues fluctuate with industry activity levels, which in turn are influenced by a combination of factors, such as demand trends, weather conditions, natural gas and oil prices and regulatory requirements. To reduce dependency on the more volatile fee revenues, the Commission's funding model is more heavily weighted towards stable production-based levy revenues payable on a monthly basis. This model ensures the ability of the Commission to maintain financial self-sufficiency and an adequate capacity to oversee the growing oil and gas infrastructure in the province.

The Commission's Consolidated Net Income for 2011/12 is forecast at \$4.1 million in comparison to a budget of \$2.4 million in the 2011/12 – 2013/14 Service Plan. This reflects a higher than expected number of well applications, which are the main source for fee revenues. The projected Consolidated Net Income includes \$866,000 as the expected net income of the Orphan Sites Reclamation Fund (OSRF) administered by the Commission and consolidated for financial

statement purposes. The OSRF funds are restricted in use to reclamation of orphaned sites. The Net Operating Income of \$3.3 million will increase the operating surplus used to fund capital expenditures. Making all efforts to avoid a deficit situation in any year, the Commission carefully balances operating expenses with planned capital spending.

Budget projections for 2012/13 anticipate fee revenues at \$16.8 million, and levies on production at \$31.2 million. Fees and levies represent 99 per cent of operating revenue, with the remaining one per cent derived from miscellaneous fees.

Relations with First Nations and the funding for their participation in the oil and gas activities permitting process are managed through consultation process agreements (CPAs). CPAs with six First Nations expired at the end of March 2011 and two more expire in March and April 2012. While re-negotiation of these agreements between the province and the affected First Nations is ongoing, the Commission has developed and follows draft Interim Consultation Procedures to meet its obligation to consult.

Consolidated Financial Results \$000s	2010/11 Actual	2011/12 Budget	2011/12 Forecast	2012/13 Budget	2013/14 Budget	2014/15 Budget
Revenues						
Fees	15,012	13,237	16,034	16,758	17,389	17,509
Levies	24,701	27,514	27,896	31,156	30,626	33,559
Misc & Recoveries	275	335	974	342	342	343
Total Revenue	39,988	41,086	44,904	48,256	48,357	51,411
Expenses						
Salaries and Benefits	18,159	18,929	19,291	21,611	22,789	24,025
Operating & First Nations Expenses	16,235	19,751	21,474	25,073	24,360	26,176
Total Expenses (incl. amort.)	34,394	38,680	40,765	46,684	47,149	50,201
Consolidated Net Income (Loss)	5,594	2,406	4,139	1,572	1,208	1,210
Capital Expenditures	2,245	4,744	2,773	3,822	4,551	2,513

FINANCIAL OUTLOOK

Employee salaries and benefits constitute the most significant expense, in magnitude and importance. The Commission's employees come from a wide range of technical and professional backgrounds and are dispersed in different geographic areas. The salary and benefits structure for included employees is negotiated by the respective union and the Commission at the end of each collective agreement term. Currently, the Commission has ratified agreements with both the Professional Employees Association and the B.C. Government and Service Employees' Union. The Salaries and Benefits expense in 2012/13 is expected to be \$21.6 million, or approximately 12% higher than the forecast \$19.3 million for year end 2011/12. The increase in this expense reflects the cost of new recruitment and retention of existing employees in competitive geographical and technical job markets.

Operating expenses budgeted at \$25 million include payments to First Nations, professional services contracts, employee training, travel and telecommunications. It also includes expenses for office space in five geographic locations, a new Core Lab facility in Fort St. John, maintenance of vehicle fleet and office equipment.

Under the OGAA regulations, determinations made by the Commission can be subjected to a review by a review official from the Commission or to an appeal before the independent Oil and Gas Appeal Tribunal. Any staff and professional services costs associated with reviews are expected to be absorbed by the budgeted amounts for salaries and professional services.

Primarily related to new business applications development and migration of existing applications to a new platform, investment in property, plant and equipment and intangible assets during 2012/13 is expected to be \$3.8 million, with related amortization of \$1.7 million. Net assets projected at \$23.5 million will fund the receivables, intangibles, and property, plant and equipment.

The Commission's three year financial outlook presented here is consistent with the financial information in the government's fiscal plan and is based on the key assumptions. The Commission has no major capital plans as defined by the Budget Transparency and

Accountability Act (plans in excess of \$50 million). Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be \$10.9 million over the next three years. Cash flow will be provided by operating surpluses.

The Commission has zero debt and its consolidated equity at December 31, 2011 was \$26.5 million.

The Commission continues to take government direction through the Ministry of Energy and Mines. No major organizational changes are expected over the planning period.

Key Assumptions for 2012/13 – 2014/15 Service Plan

New well applications are forecast at 1195, 1250, 1300 and 1300 annually starting in 2011/12.

Gas volumes are $35.9 \times 10^9 \text{ m}^3$, $41.8 \times 10^9 \text{ m}^3$, $46.1 \times 10^9 \text{ m}^3$ and $50.9 \times 10^9 \text{ m}^3$ starting in 2011/12.

Oil volumes are $1.212 \times 10^6 \text{ m}^3$, $1.261 \times 10^6 \text{ m}^3$, $1.236 \times 10^6 \text{ m}^3$ and $1.154 \times 10^6 \text{ m}^3$ starting in 2011/12.

Salaries and benefits projections reflect cost containment measures and are subject to future labour negotiations.

Inflation estimated at three per cent per annum.

\$500,000 is planned for well sites reclamation in 2012/13 under the Orphan Sites Reclamation Fund. This amount will increase by \$200,000 in each of the following years until 2016/17.

The Commission has made estimates with respect to consultation process agreements.

CONFIDENTIALITY

This report is complete and contains no confidential information.

REPORT ON SUBSIDIARIES AND BUSINESS SEGMENTS

The Commission has no subsidiaries. The Orphan Site Reclamation Fund is not a subsidiary, but is consolidated for financial statements purposes.

CONTACT INFORMATION

For general information about the Oil and Gas Commission, please contact:

Phone: 250-419-4400

Mail: PO Box 9331 Stn Prov Govt, Victoria, BC V8W 9N3

Website: www.bcogc.ca

For more information regarding this Service Plan, please contact:

Theodora Borissov, Manager, Performance and Measurement

Phone: 250-419-4460

Email: Theodora.Borissov@bcogc.ca

