

# **BC Oil and Gas Commission**

## **2014/15 ANNUAL SERVICE PLAN REPORT**



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## Board Chair's Message and Accountability Statement



On behalf of the Board of Directors and employees of the BC Oil and Gas Commission (Commission) it's my pleasure to present the 2014/15 – 2017/18 Annual Service Plan Report. The Commission is fulfilling its mandate and delivering on its Vision to provide oil and gas regulatory excellence for British Columbia's changing energy future in accordance with the Taxpayer Accountability Principles.

The Commission has had a successful year, receiving the first applications for Liquefied Natural Gas (LNG)-related pipelines; beginning to apply its innovative Area-based Analysis tool as part of its decision making process; and announcing the go-live of eSubmission, the first project of the Business Transition Strategy (BTS) which is establishing highly effective and efficient systems supporting the operations of the Commission – and paving the way for LNG development.

The Commission enacted its LNG Facility Regulation, which comprehensively establishes the Province's regulatory requirements for all proposed small- and large-scale LNG facilities. This includes rules around engineering design requirements and hazard analysis. Safety of the oil and gas industry was further enhanced with consolidation of the provincial oil and gas emergency management requirements into a single Emergency Management Regulation which came into effect on October 1<sup>st</sup>, 2014. This built on legislation that has included emergency management requirements for more than 25 years.

The Commission also opened its new Core Research Facility, operating out of the new location in Fort St. John. This is the provincial repository for oil and gas core and drill cutting samples and provides an archive and access to inspect and examine petroleum well cores and drill cutting samples.

The Commission continued its leading work around water management. For the third time, the Commission suspended water withdrawals from specific drainages in the Peace Region to ensure environmental flows and community requirements were met. In addition, enhancements were made to the Water Portal, which provides the public with easy access to information on water quantity and quality.

Further efforts have been made to extend the reach of the Commission to the northwest, with staff actively working out of Terrace, Smithers and Prince George. This is in addition to the expertise the Commission has in Kelowna, Fort St. John, Victoria, Dawson Creek and Fort Nelson.

The BC Oil and Gas Commission 2014/15 Annual Service Plan Report compares the corporation's actual results to the expected results identified in the 2014/15 - 2016/17 Service Plan. I am accountable for those results as reported.

*Steve Carr*  
*Board Chair*

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## Purpose of the Organization

The Commission is the provincial, single-window regulatory agency with responsibilities for regulating oil and gas activities in B.C., including exploration, development, pipeline transportation, processing and liquefaction and, ultimately reclamation. It has a legislated mandate under the [Oil and Gas Activities Act](#) (OGAA) and its strategic direction is informed by the external operating environment as well as its Mission, Vision and Values. The Commission's strategy is aligned with provincial social and economic priorities and Government's Natural Gas and Liquefied Natural Gas Strategies. The Commission is committed to the [Taxpayer Accountability Principles](#) (TAP), as outlined by the B.C. Provincial Government, and strives to deliver a cost-effective, reliable and accountable service for British Columbians. More information on the Commission's structure and governance can be found here: <http://www.bcogc.ca/about-us>.

Section 4 of the OGAA outlines the purposes of the Commission:

- (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,
  - (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;
- (e) to undertake programs of education and communication in order to advance safe and efficient practices and the other purposes of the Commission.

More information on the Commission's Mission, Vision and Values can be found here: <http://www.bcogc.ca/about-us>.

## Strategic Direction and Context

### *Strategic Direction*

The Commission's strategic direction is derived from the [2014/15 Government's Letter of Expectations \(GLE\)](#). In achieving its mandate over the 2014/15 year, the Commission was directed to take the following specific actions:

- Support the B.C. Jobs Plan, B.C.'s Natural Gas Strategy and the Liquefied Natural Gas (LNG) Strategy.
- Work with the Government to continue to develop and improve operational regulations to ensure B.C. maintains a safe, effective and competitive regulatory framework.

- Collaborate and maintain dialogue with the Ministry of Natural Gas Development (MNGD), other government agencies, professional organizations and learning centers to ensure an informed and coordinated approach to oil and gas development.
- Continue to support the development of the northeast B.C. Shale Gas Hydraulic Fracturing Water Strategy identified within the Natural Gas Strategy and the Northeast B.C. Water Stewardship Plan led by the Ministry of Environment and Ministry of Forests, Lands and Natural Resource Operations (FLNRO).

The Commission's strategic direction is also guided by TAP which were released in June 2014. TAP reinforces the principles of cost consciousness, accountability, appropriate compensation, service, respect, and integrity, to enhance public sector governance and increase public sector accountability to taxpayers.

### ***Strategic Context***

Through a formal risk analysis process, the Commission's strategic planning cycle is intrinsically linked so all risks and opportunities facing the organization are reviewed and mitigation strategies are integrated into the strategic and operational business plans. The most significant risks and opportunities influencing the Commission's strategic context and its ability to achieve its goal and objectives include:

#### **North American and Global Natural Gas Markets**

Demand for Canadian gas is declining as the U.S. continues development of domestic shale and tight gas plays. Current estimates by the U.S. Energy Information Administration shows demand for Canadian gas will continue to decline for the next five to seven years and at some point, U.S. gas may displace Canadian gas in Canadian markets. The decline in North American demand for Canadian gas is happening at the same time as knowledge of the vast quantities of natural gas available for development is expanding rapidly. The Commission actively monitors natural gas markets to identify changes which could potentially impact provincial production.

#### **Major Projects**

The Commission has established a Major Projects department responsible for the full permitting lifecycle of projects which have significant provincial implications and/or are subject to review by the Environmental Assessment Office (EAO). Typical major projects include the large diameter natural transmission pipelines necessary to transport natural gas to the emerging LNG industry on the coast (including the LNG plants themselves). As major project applications are high profile and can affect a broad range of stakeholders, the Commission's dedicated major projects team and resources mitigate any associated risks.

#### **Regulatory Trends**

The Commission actively participates in and provides regulatory and technical expertise to provincial initiatives affecting natural resource development. Through participation on provincial initiatives, the Commission identifies opportunities to strengthen its single window approach in a manner consistent with the OGAA.

#### **First Nations**

The Commission consults with First Nations on proposed oil and gas activities on treaty lands and within their traditional territories in accordance with section 35 of the *Constitution Act* and established case law. During 2014/15 the Commission engaged with

dozens of different First Nations across B.C. on multiple applications. In the northeast, the Commission has three Consultation Process Agreements in place, and utilizes the Interim Consultation Procedure with Treaty 8 First Nations. The Commission actively seeks to engage with First Nations when proposed activities are in traditional territories.

### **Stewardship**

There is an increased public and stakeholder interest in the potential environmental and social effects from oil and gas development, especially in relation to cumulative effects management, environmental mitigation, and hydraulic fracturing. Water use in shale gas extraction continues to be of particular interest to stakeholders. The regulatory regime for oil and gas in B.C. protects human health, as confirmed by a report released in March 2015 ([Human Health Risk Assessment of Oil and Gas Activity in Northeastern British Columbia](#)). The Commission's highly experienced professional staff continue to use sophisticated and sensitive equipment to monitor air quality in consultation with the Ministry of Environment and other stakeholders to manage any potential air quality risks.

### **Organizational Capacity**

The Commission has worked steadily to secure a professional and adaptable workforce, modern business systems and infrastructure. In response to an increased focus on legal and strategic services, the Commission undertook a re-organization, establishing the Strategic Services division. While the Commission had the capacity to meet its mandate in 2014/15, attracting and retaining the required expertise remains a challenge as the Commission competes with both industry (private sector) and government. The Commission continuously identifies opportunities to engage and support its employees.

## Report on Performance

Annually, management considers 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. Those results are reviewed and brought forward to the Board of Directors for consideration and integration into the organizational strategy.

### *Goals, Strategies, Measures and Targets*

The Commission’s performance during 2014/15 continued to reinforce British Columbia’s position as a leading oil and gas jurisdiction in Canada and beyond. Guided by its Mission, Vision, and Values and the strategic direction expressed in the GLE, the Commission acted on the strategies outlined in its 2014/15 – 2016/17 Service Plan. To remain accountable and transparent the Commission reports on performance in three parts:

- GLE completed actions.
- TAP action items.
- Actual vs. planned performance and results.

GLE SPECIFIC GOVERNMENT DIRECTION	2014/15 COMPLETED ACTIONS
Support the B.C. Jobs Plan, and British Columbia’s Natural Gas Strategy and LNG Strategy and the specific actions pertaining to the Commission from those strategies.	The Commission has actively delivered on the actions contained in the government strategies, including: Coordinated permitting with the EAO; developing the Water Portal to provide better information for decision makers on water quality and quantity; managing the B.C. Unconventional Gas Technical Forum with staff from MNGD; providing technical peer review for the health study of oil and gas development; working cooperatively to expand the Northeast B.C. Air Monitoring project; engaging with First Nations on permitting processes; publishing peer reviewed and world leading research on detection, management and mitigation of induced seismicity associated with hydraulic fracturing and expanding the use of FracFocus.ca.



GLE SPECIFIC GOVERNMENT DIRECTION	2014/15 COMPLETED ACTIONS
<p>Work with government to continue to develop and improve operational regulations to ensure B.C. maintains a safe, effective and competitive regulatory framework.</p>	<p>In 2014/15 the Commission continued to follow a systematic approach for identifying issues in the oil and gas regulatory framework and for improving the effectiveness and efficiency of oil and gas regulations. This includes a proposed change to OGAA to enable oil and gas refineries to be regulated by the Commission. Additionally, new regulatory amendments for the <i>Water Sustainability Act</i> are under development and a new Memorandum of Understanding (MOU) with the Ministry of Energy and Mines is being implemented to enable permitting and compliance and enforcement (C&amp;E) activities for aggregates.</p>
<p>Collaborate and maintain dialogue with the MNGD, other government agencies, professional organizations and learning centres to ensure an informed and coordinated approach to oil and gas development.</p>	<p>The Commission continued to build relationships, formal and informal information sharing agreements with partner ministries, agencies and universities throughout the province. In 2015, the Commission played a leading role in the development of undergraduate courses in pipeline engineering at UBC constituting a new specialization in pipeline engineering – through the Pipeline Integrity Institute. In addition, the Commission continues to participate in multiple research initiatives at UBC, UBCO and other institutions including the preliminary development of a UBC test site in northeast B.C.</p> <p>In addition, the Commissioner was appointed as the first Chair of the Western Regulators’ Forum consisting of chief executive members of the Commission, the National Energy Board (NEB), the Alberta Energy Regulator (AER) and the Ministry of the Economy in Saskatchewan.</p>
<p>Continue to support the development of the Northeast B.C. Shale Gas Hydraulic Fracturing Water Strategy identified within the Natural Gas Strategy, and the Northeast B.C. Water Stewardship Plan led by the Ministry of Environment and FLNRO.</p>	<p>The Commission lent its expertise and provided input for the Northeast Water Strategy, released by FLNRO at the end of the fiscal year. In addition, the Commission is currently in the process of developing new regulatory amendments for the <i>Water Sustainability Act</i> in support of this strategy.</p>

TAP - REQUIRED ACTION ITEMS	2014/15 RESPONSE
<p>Regular meetings will be required between ministers and board chairs, and deputy ministers and CEOs that focus on performance against TAP, results and strategic decision making.</p>	<p>The Commission Board Chair is the Deputy Minister of MNGD (Deputy Minister) and meets with the Commissioner and CEO on a quarterly basis to discuss the Commission's performance against TAP and the Commission's strategic performance measures.</p>
<p>Ministries, in collaboration with the organization, will develop an evaluation plan with specific efficiency and performance measures as determinants of the organization's health and performance, against TAP, which could include annual feedback from government.</p>	<p>The Commission has developed a quarterly reporting structure to monitor and manage its efficiency and effectiveness with its Board of Directors and the Deputy Minister.</p>
<p>A new accountability established for deputy ministers to develop a strategic engagement plan with their public sector entities to work more effectively together and to hold the entity accountable for the outcomes and measurements identified by the minister responsible, in consultation with the respective board chair.</p>	<p>The Deputy Minister is informed of the Commission's performance on a quarterly basis. As Board Chair, the Deputy Minister effectively oversees and influences the direction and performance of the Commission.</p>
<p>Public sector entities to undertake more comprehensive and appropriate communication, orientation and training regarding the accountability framework, the taxpayer accountability principles, roles and expectations for their boards and executive.</p>	<p>The Commission implemented the revised templates for both the Service Plan and the Annual Report which are reviewed by Executive and approved by the Board. In addition, the Board was kept apprised of the TAP and had to sign off on the Minister's Mandate Letter which outlined the specific accountabilities of the TAP.</p>
<p>Institutionalize semi-annual board chair/CEO/DM meetings with members of the Executive Council.</p>	<p>The Commission Board Chair will identify opportunities to attend Crown Board Chair meetings in 2015/16.</p>

### ***Goal 1: Optimize the Oil & Gas Single Window Approach.***

This goal supports a comprehensive single window approach to regulating oil and gas development, while being mindful of the organizational capacity required to support the regulatory model. This approach requires the Commission to proactively anticipate and respond to changes in the regulatory environment, technology and North American and global markets in order to establish an efficient and effective single window model that is consistent with promoting the Province's competitiveness as an oil and gas jurisdiction.

#### **Strategies**

- Identify and recommend specific opportunities for optimizing the Commission's statutory decision making authorities under the single-window approach.

#### **Performance Measures: Changes to the scope of Commission mandate (expanding or contracting the single window regulatory model).**

Performance Measures 1.1 and 1.2

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target <sup>2</sup>	2014/15 Actual	2015/16 Target	2016/17 Target
Proactively seeking changes to the scope of the B.C. oil and gas regulatory framework?	N/A	Yes	Yes Target Achieved	Yes	Yes	Yes	Yes
Reacting in a timely manner when changes are required to the scope of regulatory mandate?	N/A	Yes	Yes Target Achieved	Yes	Yes	Yes	Yes

Data Source: **Internally monitored and tracked by subject matter experts.**

The Commission successfully continued to track, monitor, analyze and take action on the interpretation of regulations or interface with other regulatory authorities. The Commission measured the changes to the overall scope of its regulatory framework, as well as changes implemented to improve the existing framework. Changes to the scope of the Commission's mandate in 2014/15 included a change to OGAA which will enable the Commission to regulate oil refineries.

***Goal 2: Optimize organizational structure to increase efficiency and effectiveness of operations.***

This goal aims to increase efficiency and effectiveness of core processes and their enabling business systems. The supporting strategies provide opportunities for staff to cross train in multiple areas to ensure clear understanding of the processes and provide consistency and flexibility in managing current and expected workloads and demand for services.

**Strategies**

- Core Process Analysis: define and document the inventory of core processes, assess the processes against pre-established criteria and identify recommendations for optimizing processes for efficient and effective delivery on the Commission’s mission and mandate.
- Business Transition Strategy: align core business systems to improve electronic submission, information management, and reporting to heighten the ability to electronically collect, analyze, store and report on a multitude of data streams managed under the mandate.
- Optimize Organizational Structure: ensure synergies between the outcomes of, and improvements made from, the core process analysis and business transition strategy and the organizational structure.

**Performance Measure 2.1: Calendar days to process new well applications.**

Performance Measure	Baseline/ Benchmark <sup>1</sup>	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Calendar days to process new well applications (average)	Baseline: 33 Benchmark: 30	20	21	12 Target exceeded	21	21

Data Source: **Application processing data is maintained in an internal database.**

<sup>1</sup> Baseline: 2001/02 actual results; Benchmark: Colorado Oil and Gas Conservation Commission Strategic Plan.

Throughout 2014/15, the Commission processed 1,247 new well applications with a maximum processing time of 229 calendar days (this was a single anomaly application in the north) and a minimum processing time of one calendar day. This target was exceeded due to both increased staff stability and increased private land applications.

Staffing strategies and practices leveraged in 2014/15 allowed for replacement of staff quickly when vacancies were encountered. In addition, the Commission has established a reputation as an employer of choice in Fort St. John. Coupled with low commodity prices and uncertain forecasts, staff turnover rates for 2014/15 were lower than in previous years allowing the Commission to leverage the experience of staff.

Finally, the activity in B.C. has shifted almost entirely to the Montney basin where much of the activity takes place on private land. Processing times for applications on private land are often less than average processing times.

### **Goal 3: Optimize workforce.**

To optimize formal workforce planning the Commission must ensure ongoing analysis of the internal workforce is combined with an analysis of the complexities of external economic factors contributing to labour skills shortages in the oil and gas industry and in turn, the Commission. Identifying risk mitigating strategies whereby alternative methods, such as utilizing local and global consulting firms, will form a part of the Commission's strategy to mitigate future workforce knowledge and skills gaps.

### **Strategies**

- Implement the 2013/14 workforce plan.
- Implement change management processes to support workforce optimization.

#### **Performance Measure 3.1: Voluntary turnover.**

Performance Measure	Baseline/ Benchmark <sup>1</sup>	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Voluntary turnover rate	Baseline: 9.1% Benchmark: 10.6%	12.5%	12.0%	9.6% Target exceeded	12.0%	12.0%

Data Source: **Internally monitored workforce data.**

<sup>1</sup> Baseline: 2008/09 actual results; Benchmark: Alberta Energy Regulator.

The Commission has established a reputation as an employer of choice across the province, especially in Fort St John, its largest location. This reputation is attributed to employee engagement initiatives that were developed through the analysis of our Work Engagement Survey (WES) such as; developing a robust learning and development program, increasing health, wellness & safety training as well as delivering awards and recognition events. This reputation, coupled with the implementation of the workforce plan, resulted in staff turnover rates for 2014/15 being lower than the targeted and previous years results.

#### **Performance Measure 3.2: Employee engagement level per work engagement survey (WES).**

Performance Measure	Baseline/ Benchmark <sup>1</sup>	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Employee Engagement Level per Work Engagement Survey (WES)	Baseline: 69 Benchmark: 65	73	N/A	N/A	74	N/A

Data Source: **WES survey results provided by BC Stats.**

<sup>1</sup> Baseline: 2008/09 actual results; Benchmark: BC Public Service 2011.

The WES is now conducted every two years to align with the B.C. Public Service. The next WES is targeted to be launched in 2015.

**Goal 4: Enhance external and internal communication.**

The Commission regulates on behalf of British Columbians and part of its mandate as defined in legislation is to “undertake programs of education and communication” to ensure people understand the regulatory environment the industry operates under. Developing two-way communication with the general public and those we interact with is critical, both externally and internally.

**Strategies**

- Document the story of oil and gas development, tracing its history and early beginnings, to current practices and potential future scenarios.

**Performance Measure 4.1: Number of peer reviewed reports published in national or international journals.**

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Number of peer reviewed reports published in national or international journals	N/A	1	2	2	0 Target not achieved	2	2

Data Source: **Internally monitored publications data.**

In 2014/15, the Commission developed and completed a chapter for the Society of Petroleum Engineers (SPE) Monograph; however it is still awaiting publication at the time of developing the Annual Report. In support of the strategy to document the story of oil and gas development, the graphic LNG Forecast Scenario was completed and released publicly in July 2014.

**Performance Measure 4.2: Results on mission, vision and goals per work engagement survey (WES).**

Performance Measure	Baseline/ Benchmark <sup>1</sup>	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Work Engagement Survey (WES) Result for Vision, Mission and Goals	Baseline: 63 Benchmark: 65	76	76	N/A	77	N/A

Data Source: **WES survey results provided by BC Stats.**

<sup>1</sup> Baseline: 2008/09 actual results; Benchmark: BC Public Service 2011.

This measure indicates whether staff feel connected to the mission, vision and goals of the organization as this has a direct impact on their commitment and satisfaction with their work. The WES is now conducted every two years to align with the B.C. Public Service. The next WES is targeted to be launched in 2015.

***Goal 5: Optimize the Commission’s expertise and processes pertaining to the regulation of LNG facilities and associated major projects.***

The Commission applies its knowledge, processes and activities in coordination with other ministries and partner agencies, ensuring the comprehensive review and efficient processing of regulatory applications and the effective utilization of resources to ensure public safety and environmental protection. The purpose of this goal is to reflect the optimization of the Commission’s expertise.

**Strategies**

- Review regulatory requirements for LNG facilities and pipelines from other jurisdictions and look for opportunities to strengthen the single-window model and proactively engage with First Nations, rights holders and other stakeholders affected by proposed major projects.

**Performance Measure 5.1: Number of stakeholder interests related to LNG successfully addressed<sup>1</sup>.**

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Number of stakeholder interests related to LNG successfully addressed <sup>1</sup>	N/A	65%	80%	75%	59% Target not achieved	75%	75%

Data Source: **Internally monitored stakeholder relationship management data.**

<sup>1</sup> Results are reflected as a percentage.

The Commission’s ability to address interests is dependent on information tied to each project. The LNG proposal process frequently takes longer than other types of proposals. Often, the timeline between initiation of interest (pre-EAO work) and actual project information (and ability to address specific concerns) takes multiple fiscal quarters which impacts the target. The Commission actively monitors the interests of stakeholders and while it may take additional time, the interests will be addressed.

**Performance Measure 5.2: Number of First Nations meetings attended in person by the Commission.**

Performance Measure	2011/12 Actual	2012/2013 Actual	2013/14 Actual	2014/15 Target	2014/15 Actual	2015/16 Target	2016/17 Target
Number of LNG related First Nation meetings attended in person by the Commission	N/A	N/A	72	36	168 Target exceeded	36	36

Data Source: **Internally monitored stakeholder relationship management data.**

The Commission resolved to pursue opportunities to meet with First Nations to engage in consultations where their traditional territories may be affected by proposed LNG and major projects. Because these meetings have become such a critical part of the applications and operations process, the targets were well exceeded in both 2013/14 and 2014/15.

# Financial Report

## *Management Discussion and Analysis*

The financial position of the Commission at the end of fiscal 2014/15 is discussed here in conjunction with the appended draft financial statements and related notes for the fiscal year ending March 31, 2015. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

The Commission realized a \$1.4 million surplus compared to the budgeted surplus of \$650 thousand in the 2014/15 – 2016/17 Service Plan. Total revenues came in at \$57.6 million, compared to the budget of \$50.1 million due to an increase in production volume, application volume and major project revenue.

Production levies revenue of \$31.2 million includes a tax on production of \$1.4 million to fund the Orphan Sites Reclamation Fund (OSRF), which is administered by the Commission and is considered as part of the entity for financial reporting purposes.

Total Commission expenses (not including orphan sites reclamation) were \$52.6 million compared to \$48.5 million budgeted. The 2014/15 expenses for salaries and benefits were \$25.8 million, versus the Service Plan budget of \$23.4 million. The Commission's employees come from a wide range of technical and professional backgrounds and are dispersed in different geographical areas. The salary and benefits structure for included employees is negotiated with the Professional Employees Association and the B.C. Government and Service Employees' Union.

At March 31, 2015 the Commission held security deposits from operators in the amount of \$25.9 million (an increase of \$7.2 million from prior year) and Letters of Credit of \$16.3 million (an increase of \$2.2 million) against potential liability with respect to site reclamation and abandonment. OSRF expenses of \$3.6 million were higher than budgeted because six of the designated sites were substantially restored during 2014/15.

Investments in tangible capital assets during the year were \$7.7 million, \$3.1 million higher than the service plan budget. This increase is primarily related to timing and scope changes of new business applications development and tenant improvements. The accumulated surplus of the Commission started the year at \$28.3 million and ended the year at March 31, 2015 at \$29.7 million.

The Commission has no debt.

In addition to actual results for the past year, financial outlook information is provided below. Forecast information is subject to a number of risks and uncertainties as discussed in the preceding report on strategic and operational drivers. The key assumptions used for estimates are provided and compared to actual results where possible.

The Commission has no major capital projects in excess of \$50 million as defined by the *Budget Transparency and Accountability Act* and therefore there are none reported here under this requirement of the Act. Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be \$10 million over the next three years.



## *Key Assumptions and Statistics*

<b>Assumption</b>	<b>2014/15 Projected</b>	<b>2014/15 Actual</b>	<b>2015/16 Projected</b>	<b>2016/17 Projected</b>	<b>2017/18 Projected</b>
New well applications					
Per 2014/15 – 2016/17 Service Plan	1,000	1,271	1,200	1,200	1,300
Marketable Gas Volumes <sup>#</sup>					
Per 2014/15 – 2016/17 Service Plan	38.7x10 <sup>9</sup> m <sup>3</sup>		47.0x10 <sup>9</sup> m <sup>3</sup>	53.8x10 <sup>9</sup> m <sup>3</sup>	
Per 2015/16 – 2017/18 Service Plan*	38.7x10 <sup>9</sup> m <sup>3</sup>	39.5 10 <sup>9</sup> m <sup>3</sup> **	44.0 x 10 <sup>9</sup> m <sup>3</sup>	48.3 x 10 <sup>9</sup> m <sup>3</sup>	52.9 x 10 <sup>9</sup> m <sup>3</sup>
Produced Oil Volumes					
Per 2014/15 – 2016/17 Service Plan	1.1 x 10 <sup>6</sup> m <sup>3</sup>		1.1 x 10 <sup>6</sup> m <sup>3</sup>	1.1 x 10 <sup>6</sup> m <sup>3</sup>	
Per 2015/16 – 2017/18 Service Plan	1.3 x 10 <sup>6</sup> m <sup>3</sup>	1.2 10 <sup>6</sup> m <sup>3</sup> **	1.3 x 10 <sup>6</sup> m <sup>3</sup>	1.2 x 10 <sup>6</sup> m <sup>3</sup>	1.2 x 10 <sup>6</sup> m <sup>3</sup>
Inflation estimated at three per cent per annum.					
The Commission has made estimates with respect to consultation process agreements.					

\* From forecasts provided by Ministry of Finance.

\*\* From forecasts provided by Ministry of Natural Gas Development, January 2015.

# Marketable gas is the volume of sales gas following gas plant processing of the field raw gas, removing impurities such as carbon dioxide and hydrogen sulphide, and the removal of processing fuel gas. Individual well gas production volumes and plant throughput statements are submitted monthly.

**Financial Resource Summary Table**

\$'000	2012/13 Actual	2013/14 Actual	2014/15 Actual	2014/15 Service Plan Budget	2014/15 Variance to Budget	2015/16 Service Plan Budget	2016/17 Service Plan Budget	2017/18 Service Plan Budget
<b>Operating Revenue</b>								
Production Levies	26,838	29,215	31,215	27,241	3,974	29,740	31,897	32,663
Annual Pipeline Levies	2,160	2,314	2,356	2,351	5	2,421	2,493	2,568
Fees	9,806	13,960	22,199	19,729	2,470	23,443	21,649	21,767
Misc. & Recoveries	822	829	1,820	800	1,020	565	565	566
<b>Total Revenue</b>	<b>39,626</b>	<b>46,318</b>	<b>57,590</b>	<b>50,121</b>	<b>7,469</b>	<b>56,169</b>	<b>56,604</b>	<b>57,564</b>
<b>Operating Expenses</b>								
Salaries & Benefits	20,039	21,398	25,815	23,350	2,465	24,369	25,455	26,151
Professional Services & Training	1,951	1,881	3,443	2,000	1,443	5,005	3,892	4,313
Other Operating & First Nations Expenses	13,446	15,493	20,383	20,506	(123)	21,553	21,377	20,988
OSRF	4,825	3,097	3,649	1,000	2,649	1,000	1,000	1,000
Capital Assets Amortization	1,945	2,380	2,914	2,615	299	3,748	4,644	4,589
<b>Total Expenses</b>	<b>42,206</b>	<b>44,249</b>	<b>56,204</b>	<b>49,471</b>	<b>6,733</b>	<b>55,675</b>	<b>56,368</b>	<b>57,041</b>
<b>Net Income from Operations</b>	<b>(2,580)</b>	<b>2,069</b>	<b>1,386</b>	<b>650</b>	<b>736</b>	<b>494</b>	<b>236</b>	<b>523</b>
<b>Capital Expenditures</b>	2,302	7,034	7,687	4,586	3,101	4,280	2,646	2,610

*Auditor's Report*

**BC Oil and Gas Commission**

**Financial Statements**

**March 31, 2015**





## Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2015 have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial statements on a quarterly basis and external audited financial statements annually.

The external auditors, the Auditor General of British Columbia, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to the Audit Committee and management of the Commission and meet when required.

The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the financial statements.

On behalf of the Commission

A handwritten signature in black ink, appearing to read "Paul Jeakins".

**Paul Jeakins**  
Commissioner

A handwritten signature in black ink, appearing to read "Randall Smith".

**Randall Smith**  
Chief Financial Officer

**May 29, 2015**



## **INDEPENDENT AUDITOR'S REPORT**

*To the Board of Directors of Oil and Gas Commission, and  
To the Minister of Natural Gas Development, Province of British Columbia*

I have audited the accompanying financial statements of the Oil and Gas Commission (“the entity”), which comprise the statement of financial position as at March 31, 2015, and the statement of operations and accumulated surplus, statement of changes in net financial assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Oil and Gas Commission as at March 31, 2015, and the results of its operations, changes in accumulated surplus, changes in its net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads "Russ Jones". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

*Victoria, British Columbia*  
June 1, 2015

Russ Jones, CPA, FCA  
Deputy Auditor General



OFFICE OF THE  
**Auditor General**  
of British Columbia

**BC Oil and Gas Commission**  
**Statement of Financial Position**  
(in \$000s)

	Note	March 31 2015	March 31 2014
<b>Financial assets</b>			
Cash		5,818	4,259
Investments	3,4	36,000	30,000
Accounts receivable	5	12,045	11,811
Due from government	7	4,674	3,596
		<u>58,537</u>	<u>49,666</u>
<b>Liabilities</b>			
Accounts payable & accrued liabilities	8	5,134	2,682
Employee future benefits	9	285	258
Due to First Nations	10	1,793	2,431
Due to SCEK	6	734	970
Due to government		300	484
Deferred revenue	11	3,315	1,973
Deferred lease inducements		297	191
Liability for orphan sites	12	7,507	5,214
Security deposits	4	25,869	18,713
		<u>45,234</u>	<u>32,916</u>
<b>Net financial assets</b>		<u>13,303</u>	<u>16,750</u>
<b>Non-financial assets</b>			
Tangible capital assets	13	15,516	10,743
Prepaid expenses		883	823
		<u>16,399</u>	<u>11,566</u>
<b>Accumulated surplus</b>		<u>29,702</u>	<u>28,316</u>
Contractual obligations	14		
Contingent liabilities	15		
Measurement uncertainty	17		

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board



Steve Carr, Board Chair



Paul Jeakins, Commissioner



Doug Wilkes, Audit Committee Chair



**BC Oil and Gas Commission**  
**Statement of Operations and Accumulated Surplus**  
**(in \$000s)**

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	<b>Note</b>	<b>Budget 2015</b>	<b>March 31 2015</b>	<b>March 31 2014</b>
		(Note 19)		
<b>Revenues</b>				
Production levies		27,241	31,215	29,215
Annual pipeline levies		2,351	2,356	2,314
Fees		19,729	22,199	13,960
Interest		499	733	510
Other revenue		301	1,087	319
		<u>50,121</u>	<u>57,590</u>	<u>46,318</u>
<b>Expenses</b>				
	18			
Oil and gas activities regulation		48,471	52,555	41,152
Orphan site reclamation		1,000	3,649	3,097
		<u>49,471</u>	<u>56,204</u>	<u>44,249</u>
<b>Annual surplus</b>		<u>650</u>	<u>1,386</u>	<u>2,069</u>
<b>Accumulated surplus beginning of year</b>		<u>28,316</u>	<u>28,316</u>	<u>26,247</u>
<b>Accumulated surplus end of year</b>		<u>28,966</u>	<u>29,702</u>	<u>28,316</u>

The accompanying notes are an integral part of these statements.

**BC Oil and Gas Commission**  
**Statement of Change in Net Financial Assets**  
**(in \$000s)**

	Budget 2015	March 31 2015	March 31 2014
	(Note 19)		
Annual surplus	650	1,386	2,069
(Acquisition) of tangible capital assets	(4,586)	(7,719)	(7,033)
Disposals of tangible capital assets		32	
Amortization of tangible capital assets	2,615	2,914	2,381
	(1,971)	(4,773)	(4,652)
(Acquisition) of prepaid expense	(500)	(883)	(823)
Use of prepaid expense	400	823	697
	(100)	(60)	(126)
Decrease in net financial assets	(1,421)	(3,447)	(2,709)
Net financial assets at beginning of year	16,750	16,750	19,459
Net financial assets at end of year	<b>15,329</b>	<b>13,303</b>	<b>16,750</b>

**BC Oil and Gas Commission**  
**Statement of Cash Flows**  
(in \$000s)

	<b>March 31 2015</b>	<b>March 31 2014</b>
<b>Operating transactions</b>		
<b>Cash generated from:</b>		
Production levies	29,824	28,761
Annual pipeline levies	2,284	2,191
Fees	23,545	14,306
Interest	705	262
Miscellaneous and recoveries	1,168	187
Security deposits	11,158	3,979
	<u>68,684</u>	<u>49,686</u>
<b>Cash used for:</b>		
Salaries and benefits	(25,119)	(21,124)
Payments to First Nations	(8,135)	(6,647)
Operating expenses	(14,772)	(10,421)
Orphan site reclamation	(207)	(3,232)
Security deposits refunded	(4,001)	(2,968)
	<u>(52,234)</u>	<u>(44,392)</u>
<b>Cash from operating activities</b>	<u>16,450</u>	<u>5,294</u>
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	(8,891)	(6,932)
<b>Investing transactions</b>		
Investments in portfolio investments	(6,000)	(30,000)
<b>(Decrease) increase in cash</b>	1,559	(31,638)
<b>Cash beginning of year</b>	4,259	35,897
<b>Cash end of year</b>	<u><b>5,818</b></u>	<u><b>4,259</b></u>

## 1. The Oil and Gas Commission

The Commission was established under the Oil and Gas Commission Act on July 30, 1998 to regulate oil and gas activities, having regard to environmental, economic and social values, encourage participation of First Nations, and advance safe and efficient practices in the industry. The Commission is accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia. The Commission and its purposes were continued in the Oil and Gas Activities Act which came into force October 4, 2010.

The Commission is funded through:

- Fees charged in respect of permit applications, transfers and amendments and
- Levies on oil and gas production and
- Annual pipeline levies

The Commission is exempt from federal and provincial income taxes.

## 2. Significant Accounting Policies

### Basis of accounting

These financial statements are prepared by management in accordance with Canadian public sector accounting standards.

### Financial Instruments

The Commission reports its Financial Instruments as follows: Cash is measured at fair value, all other financial assets and financial liabilities are measured at cost or amortized cost.

### Tangible Capital Assets

Capital assets are recorded at cost. The costs, less estimated residual value, of the tangible assets, are amortized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

Capital assets	Rate
Tenant improvement	over the lease
term Furniture	10%
Computer hardware	33%
Operating equipment	10% - 20%
Automotive equipment	20%
Business systems development	33%
Computer software	20% - 33%

Computer software includes satellite imagery which is being amortized on a straight-line basis at an annual rate of 20%.

## **2. Significant Accounting Policies (continued)**

### **Revenue Recognition**

Revenues are recognized in the period in which the transaction or events occurred that give rise to the revenues. All revenues are recorded on an accrual basis. Revenue related to fees or services received in advance of the fee being earned or the service being performed is deferred and recognized when the fee is earned or service performed.

### **Levy Revenue**

All production levy revenue authorized and collected under the Oil and Gas Activities Act is first paid to the Minister of Finance. The Province is required to transfer this amount of revenue to the Commission in full. Levy revenue is calculated based on production of oil and gas, and is also recognized as revenue at point of production. Annual pipeline levies are billed and recognized based on length and size of pipe owned at March 31 of the applicable fiscal year.

### **Expenses**

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Grants are recorded as expenses when the payment is authorized and eligibility criteria have been met by the recipient. Reclamation costs are estimated and accrued when determinable.

### **Prepaid Expenses**

Prepaid expenses include flight passes, subscriptions, insurance, property taxes and other general prepaid expenses and are charged to expense when used or over the periods expected to benefit from the expenditures.

### **Employee Future Retirement Allowance**

Employee Future Retirement Allowance liabilities are estimated each year and the change is recorded in salaries and benefits expense. Actuarial gains or losses are amortized over the expected average remaining service life of the employees.

### **Liability for Contaminated Sites**

Contaminated sites result from contamination by a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into air, soil, water or sediment. The Commission has a liability for contaminated sites that have been designated as orphan sites. An orphan site is defined as a well, facility, pipeline, area, or oil and gas road where the permit holder is insolvent or cannot be located or identified. A liability for remediation of contaminated sites is recognized when the Commission accepts responsibility for the remediation of an orphan site, contamination at the orphan site exceeds the environmental standard and a reasonable estimate of the amount can be made.

### 3. Investments

Investments consist of term deposits which are liquid short term investments with maturity dates of one year or less from the date of acquisition and are carried on the Statement of Financial Position at the lower of cost or market value.

Investment funds are pooled from the following sources:

	March 31 2015	March 31 2014
Security deposits - Liability Management Rating program (note 4)	25,869	18,713
Orphan site reclamation fund (note 12)	3,000	5,000
Operating fund	7,131	6,287
	<b>36,000</b>	<b>30,000</b>

### 4. Security Deposits

On October 28, 2010, the Commission established a Liability Management Rating (LMR) program. The objective of the LMR program is to ensure that permit holders carry the financial risk of their oil and gas operations through to regulatory closure. The Commission, through the LMR program, undertook the responsibility to regularly assess security deposits and provide refunds. The Commission holds \$42,202 in security deposits, of which \$25,869 (2014: \$18,713) is held in cash and/or investments and \$16,333 (2014: \$14,132) in the form of irrevocable letters of credit which are not recorded in these financial statements. Security deposits are restricted for use in settling potential permit holder remediation obligations. In fiscal 2015, the Commission recovered \$346 (2014: \$21) from security deposits to satisfy remediation obligations of permit holders for specific sites. This is reported within Other revenue on the Statement of Operations.

### 5. Accounts Receivable

	March 31 2015	March 31 2014
Production levies receivable	8,245	7,961
Annual pipeline levies receivable	2,358	2,286
Fees	1,069	1,059
Other receivables	373	505
	<b>12,045</b>	<b>11,811</b>

Production levies are collected and processed by the provincial government. At any point in time, a portion of levies receivable by the Commission is payable by industry, and a portion is payable by the Province. See note 7.

## 6. Science and Community Environmental Knowledge (SCEK) Fund

The Commission provides administrative services for the SCEK fund on behalf of the SCEK Steering Committee. The activities and balances of the SCEK fund are not included in these financial statements. Funding is generated and collected by the Commission through a portion of the levy on oil and gas production and a portion of the application fee for wells. The Commission collected \$3,465 (2014: \$2,480) during the year on behalf of SCEK. The Commission charges an annual fee to SCEK to administer the fund. In addition to normal funding, the Commission also provided a grant of \$3.5 million to the SCEK fund in lieu of potential future levies and fees.

## 7. Due from Government

	March 31 2015	March 31 2014
Levies collected	4,328	3,192
Recoveries and other	346	404
	<b>4,674</b>	<b>3,596</b>

## 8. Accounts Payable and Accrued Liabilities

	March 31 2015	March 31 2014
Accounts payable and accrued liabilities	3,089	1,306
Salaries and benefits payable	2,045	1,376
	<b>5,134</b>	<b>2,682</b>

## Employee Leave Entitlements

As of March 31, 2015, the value of employee entitlements to vacation, other leave and compensatory time off, plus related benefits, in accordance with collective agreements and terms of employment was \$760 (2014: \$566). This amount is included in salaries and benefits payable.

## 9. Employee Future Benefits

### Employee Benefit Plan

The Commission and its employees contribute to the Public Service Pension Plan (the Plan). The Public Service Pension Board of Trustees, representing plan members and employers is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a defined benefit multi- employer contributory pension plan.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The latest valuation as at March 31, 2014 indicated a surplus of \$194 million for basic pension benefits. The next valuation will be as at March 31, 2017 with results available in early 2018. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2015 were \$1,922 (2014: \$1,748) and are included in salaries and benefits expense.

## 9. Employee Future Benefits (continued)

### Future Retirement Allowance Liability

The Commission accrues for future retirement allowances as provided under the collective agreements and terms of employment. The accrual as at March 31, 2015 is actuarially determined based on service and best estimates of retirement ages, expected future salary and wage increases, long term inflation rates and discount rates. The estimates are also based on assumptions about future events.

The liability as reported on the statement of financial position is as follows:

	March 31 2015	March 31 2014
<b>Accrued retirement obligation</b>		
Balance at beginning of year	258	224
Current benefit cost	33	34
Interest	15	12
Amortization of actuarial loss	8	9
Benefits paid	(29)	(21)
<b>Balance at end of year</b>	<b>285</b>	<b>258</b>
<b>Actuarial retirement obligation</b>		
Accrued retirement obligation	285	258
Unamortized actuarial loss	132	112
<b>Balance at end of year</b>	<b>417</b>	<b>370</b>

The significant actuarial assumptions adopted in measuring the Commission's accrued retirement obligations are as follows:

	2015	2014
Discount rate	3.30%	4.00%
Wages and salary escalation	2.00%	2.00%

Over time, changes in assumptions and actual experience compared to expected results will cause actuarial gains and losses in future valuations. The unamortized actuarial loss on future payments is amortized over the estimated average remaining years of service of the employee group which has been determined to be approximately 16 years at March 31, 2015.

## 10. Due to First Nations

Due to First Nations includes management's best estimate of expected liability to a number of First Nations. The Commission works closely with First Nations and negotiates Consultation Process Agreements and Memoranda of Understanding to establish formal consultation processes for oil and gas activities. These agreements provide resources for First Nations' capacity to participate in the consultation processes as well as set out responsibilities of the parties involved. The Commission is currently participating in negotiations with several First Nations.



## 11. Deferred Revenue

Deferred revenue consists of unearned application fees and major application revenue. The change in the deferred revenue balance is as follows:

	Balance at beginning of year	Receipts during year	Transferred to revenue	Balance at end of year
Fees	1,973	21,253	(19,911)	3,315

## 12. Liability for Orphan Sites

The Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 as a means for industry to pay for restoration of orphaned oil and gas sites and for related costs. Revenue for the OSRF is derived from levies. The Commission has \$4,999 cash and investments in the OSRF to pay for costs associated with orphan sites. Currently there are 37 (2014: 40) sites designated as orphan sites, 6 of which have been substantially restored, with the remainder undergoing restoration at various stages of completion.

The Commission recognizes and estimates a liability of \$7,507 (2014: \$5,214) for remediation of the sites designated as orphan sites. The liability estimate includes costs that are directly attributable to the remediation activities, and reflects the costs required to bring the site up to the current environmental standard for its use prior to contamination. Liability for known orphan sites is estimated using expected abandonment and restoration costs for these specific sites, under expected conditions based on known characteristics of each site. The estimation of the liability does not include contingencies for delays due to weather, problematic plugging activities, or unforeseen sources of contamination. Additional potential liability for the designated sites resulting from these contingencies are estimated based on site characteristics and are disclosed in the measurement uncertainty note. Estimated costs have not been net present valued as the remediation work is not expected to occur over an extended long term period.

The Commission continues to monitor other sites that could potentially be designated as orphan sites.

### 13. Tangible Capital Assets

March 31, 2015

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2015
<b>Cost</b>								
<b>Opening balance</b>	5,881	2,957	2,165	921	986	5,315	664	18,889
Additions	802	554	913	343	335	4,643	129	7,719
Disposals	-	-	-	-	-	(32)	-	(32)
<b>Closing balance</b>	<b>6,683</b>	<b>3,511</b>	<b>3,078</b>	<b>1,264</b>	<b>1,321</b>	<b>9,926</b>	<b>793</b>	<b>26,576</b>
<b>Accumulated Amortization</b>								
<b>Opening balance</b>	3,174	859	1,236	282	242	2,025	328	8,146
Amortization	369	291	607	136	109	1,251	151	2,914
Disposals	-	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>3,543</b>	<b>1,150</b>	<b>1,843</b>	<b>418</b>	<b>351</b>	<b>3,276</b>	<b>479</b>	<b>11,060</b>
<b>Net book value</b>	<b>3,140</b>	<b>2,361</b>	<b>1,235</b>	<b>846</b>	<b>970</b>	<b>6,650</b>	<b>314</b>	<b>15,516</b>

March 31, 2014

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2014
<b>Cost</b>								
<b>Opening balance</b>	4,532	1,425	1,323	391	760	2,926	499	11,856
Additions	1,349	1,532	842	530	226	2,389	165	7,033
Disposals	-	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>5,881</b>	<b>2,957</b>	<b>2,165</b>	<b>921</b>	<b>986</b>	<b>5,315</b>	<b>664</b>	<b>18,889</b>
<b>Accumulated Amortization</b>								
<b>Opening balance</b>	2,634	665	783	175	171	1,145	192	5,765
Amortization	540	194	453	107	71	880	136	2,381
Disposals	-	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>3,174</b>	<b>859</b>	<b>1,236</b>	<b>282</b>	<b>242</b>	<b>2,025</b>	<b>328</b>	<b>8,146</b>
<b>Net book value</b>	<b>2,707</b>	<b>2,098</b>	<b>929</b>	<b>639</b>	<b>744</b>	<b>3,290</b>	<b>336</b>	<b>10,743</b>

Included in the net book value of business systems development are assets not being amortized of \$4,339 (2014: \$1,092) as they have not yet been completed and put into use.

### 14. Contractual Obligations

The Commission has entered into a number of multiple-year contracts for the delivery of services, the construction of assets, and operating leases. These contractual obligations will become liabilities in the future when the terms of the contract are met. Disclosure relates to the unperformed portion of the contracts.

2016	2017	2018	2019	2020	Thereafter
3,524	3,472	3,594	3,119	2,306	20,150

The Commission is committed under First Nations agreements to make certain payments in the coming year's that are based on well applications received.

### 15. Contingent Liabilities

The Commission may become contingently liable with respect to pending litigation and claims in the normal course of operations. In the opinion of management, any liability that may arise from pending litigation would not have a material effect on the Commission’s financial position or results of operations.

See also Note 12 regarding potential reclamation costs related to the Orphan Site Reclamation Fund.

### 16. Related party transactions

The Commission is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are recorded on an accrual basis, are considered to be in the normal course of operations, and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The financial statements include the following related party transactions:

	March 31 2015	March 31 2014
<b>Revenues:</b>		
Recoveries	612	136
Miscellaneous	107	182
	<b>719</b>	<b>318</b>
<b>Expenses:</b>		
Salaries and benefits	964	574
Building occupancy	181	840
Professional services and training	772	359
Grants	47	1,013
Telecommunications and information systems	118	122
Travel and vehicle costs	154	93
Office supplies and equipment	46	69
	<b>2,282</b>	<b>3,070</b>

## 17. Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Measurement uncertainty exists in these financial Statements. Actual results could differ from these estimates.

	<u>Reported</u>	<u>Low</u>	<u>High</u>
<b>Production Levies</b>	31,215	30,903	31,527

Production levies are revenues derived from oil and gas production in the province of British Columbia. As of the date of these statements, production for the last month of the fiscal year is estimated. This estimate is based on analysis that takes into account both historical and current year trends in production. Actual production revenue for the year has consistently been within 1% of estimated production revenue. A difference in this estimate would also affect production levies receivable and annual and accumulated surpluses.

	<u>Reported</u>	<u>Low</u>	<u>High</u>
<b>Liability for orphan sites</b>	7,502	6,001	9,958

Liability for known orphan sites is estimated using expected abandonment and restoration costs for these specific sites, under expected conditions based on known characteristics of each site. The estimation of the liability does not include contingencies for delays due to weather, problematic plugging activities, or unforeseen sources of contamination. Additional potential liability for the designated sites resulting from these contingencies is also estimated based on site characteristics. Changes in this estimate would also affect orphan reclamation expenses and annual and accumulated surpluses.

## 18. Expense by Object

	<b>Oil and Gas Activities Regulation</b>	<b>Orphan Site Reclamation</b>	<b>March 31 2015</b>	<b>March 31 2014</b>
Salaries and benefits	25,815	-	25,815	21,398
First Nations	7,547	-	7,547	6,396
Building occupancy	4,339	-	4,339	4,143
Professional services and training	3,443	-	3,443	1,889
Amortization	2,914	-	2,914	2,381
Travel and vehicle costs	2,043	-	2,043	1,573
Telecommunications and information systems	2,132	-	2,132	1,615
Grants	3,704	-	3,704	1,097
Orphan site reclamation	-	3,649	3,649	3,097
Office supplies and equipment	582	-	582	630
Miscellaneous	36	-	36	30
	<b>52,555</b>	<b>3,649</b>	<b>56,204</b>	<b>44,249</b>

## 19. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the budget approved by the Board of Directors on January 19, 2014.

## 20. Financial risk management

It is management's opinion that the Commission is not exposed to significant credit, liquidity or interest rate risks arising from its financial instruments.

**Credit Risk** - Credit risk is the risk of financial loss to the Oil and Gas Commission if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Oil and Gas Commission's exposure to credit risk related to the value of accounts receivable in its normal course of business is managed by minimizing the amount of transactions which require recovery. The Commission continually monitors and manages the collection of receivables.

The Commission's cash and investments are held at Canadian chartered banks, and credit unions. The Commission is not exposed to significant credit risk.

**Liquidity Risk** - Liquidity risk is the risk that the Oil and Gas Commission will have difficulty in meeting its financial obligations when they come due. The Oil and Gas Commission manages liquidity risk by continually monitoring cash flows.

**Interest rate risk** - Interest rate risk is the risk that the Commission's investments will change in fair value due to future fluctuations in market interest rates. The Commission's investments are measured at cost. Income they generate varies as market interest rates vary. All other financial instruments are non-interest bearing. The Commission mitigates this risk by monitoring interest rates.

## 21. Comparative note

Certain comparative figures have been restated to conform to the current year's presentation.

## **Additional Information**

### ***Corporate Governance***

A Board of Directors governs the Commission by setting strategic direction, ensuring organizational performance is in line with strategic priorities, and establishing appropriate accountability and transparency mechanisms. Under OGAA, the Deputy Minister of MNGD is the Board Chair, the Commissioner is Vice Chair, and a third independent member is appointed by the Lieutenant Governor in Council. The Board approves the Commission's budget, Service Plan, and Annual Service Plan Report. Under OGAA, the Board has the powers to make regulations respecting aspects of carrying out oil and gas activities. Governance principles and practices are described in the Board's Mandate and Charter and are disclosed on the Commission's website at [www.bcogc.ca](http://www.bcogc.ca).

Assisted by a group of expert consultants, the Board factors corporate risks into the strategic planning process. Integrating risk management and strategic planning ensures the Commission's long term objectives are consistent with direction from government, and take into consideration stakeholder needs, and optimal resource allocation. Board consultants further contribute to Commission governance by serving on the Board committees (outlined below).

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) 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 GLE (Minister's Mandate Letter going forward) 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 the senior leadership team.

### **Board of Directors**

- Steve Carr, Deputy Minister, Ministry of Natural Gas Development (Chair)
- Paul Jeakins, Commissioner & CEO, BC Oil and Gas Commission (Vice Chair)
- Graeme McLaren, Independent Member, appointed by the Lieutenant Governor in Council (Appointed Oct. 3, 2014)

### **Audit Committee**

Responsible for financial reporting and disclosure, risk management, and compliance with applicable laws, regulations and government policy.

- Doug Wilkes, Chair
- Al Hurd
- Graeme McLaren

**Governance & Human Resources Committee**

Responsible for executive appointment, performance, succession and compensation, and for trade union negotiations and compensation structure.

- Al Hurd, Chair
- Graeme McLaren
- Doug Wilkes
- Don Avison
- Neal Norman

**Regulatory Committee**

Responsible for legislation and regulation matters, policies, procedures and systems appropriate for an effective regulatory framework.

- Don Avison, Chair
- Paul Jeakins
- Neal Norman

**Executive Team Members**

- Paul Jeakins – Commissioner and CEO
- Ken Paulson – Chief Operating Officer
- Randall Smith – Chief Financial Officer
- Mayka Kennedy – Chief Engineer
- Trevor Swan – Chief Legal and Regulatory Officer