



BC Oil and Gas Commission

2009/10 - 2011/12 Service Plan Update

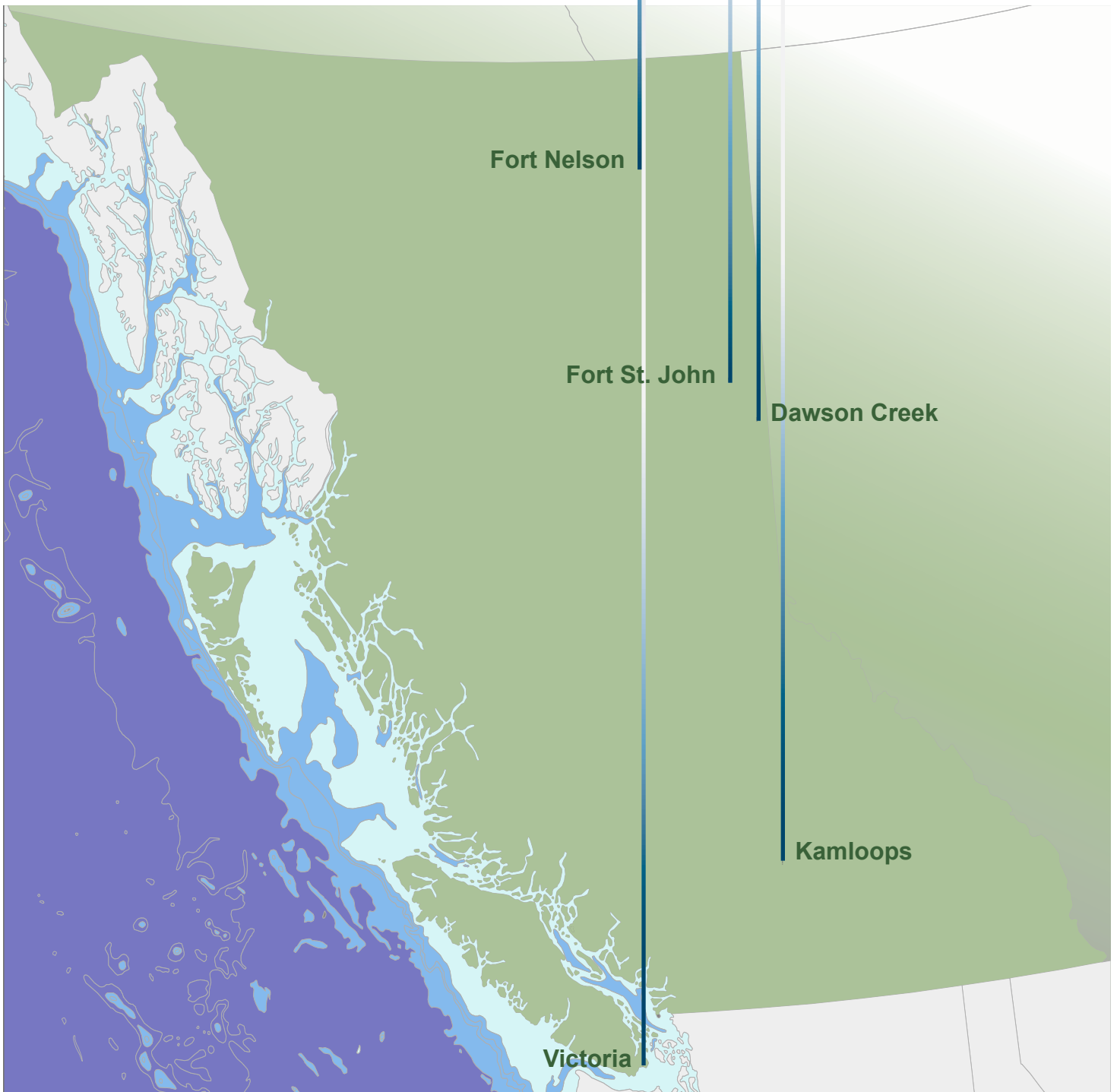


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Message from the Chair to the Minister of Energy, Mines and Petroleum Resources



On behalf of the board of directors, management and staff of the BC Oil and Gas Commission (Commission), I am pleased to submit this 2009/10 to 2011/12 Service Plan (Plan).

The Commission continues to support the Province's Energy Plan and objectives by implementing flaring reduction guidelines and investing in measures to reduce its operational carbon footprint. Additionally, the Commission is active in cross government initiatives, enhancing environmental reclamation, and community-oriented social license priorities.

In preparation for the sizeable opportunity of British Columbia's unconventional gas development, the Commission is committed to ongoing assessment of regulatory practice, to remain on the forefront of environmental consideration, and resource conservation in North America.

Providing quality supportive client services remains a priority of the Commission. Decision-making processes will continue to develop in support of operations and communities where sector activity takes place. Consultation Process Agreements (CPAs), signed with Treaty 8 First Nations partners, continue to evolve and improve through implementation stages.

The Commission is poised to complete *Oil and Gas Activities Act* (OGAA) related regulations, update a number of business processes linked to the

implementation of the new legislation, and evaluate opportunities to have a more coordinated approach to development related to water, wildlife, land access and First Nations values.

While there has been some reduction in development activity, the medium to long-term plan for the Commission is the maintenance of its established resources, and infrastructure capacity, to ensure a fast response once the global investment climate improves.

A number of human resource initiatives support the organization in fostering a positive working environment. Enhanced programs supporting leadership development of high potential staff continue to provide supervisors with the training and tools required to manage operational issues. Supplemental programs to these skill development initiatives are wellness planning, physical fitness programs and enhanced health services.

Moving forward, executive focus for fiscal 2009/10 will be on increased transparency, continuation of vertical and horizontal integration within the organization, fiscal diligence, and maintaining the capacity gained through last year's focus on leadership and supervisory development.

The goals and performance measurements of the Plan are inter-reliant and reflect the cooperative nature of intergovernmental, First Nations,

community and industry consultation. These goals guide the Commission and provide set criteria for the regulation of oil and gas activity while giving applicable measurement tools for future planning of the Commission.

The Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The Plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the Plan, including the selection of performance measures and targets.

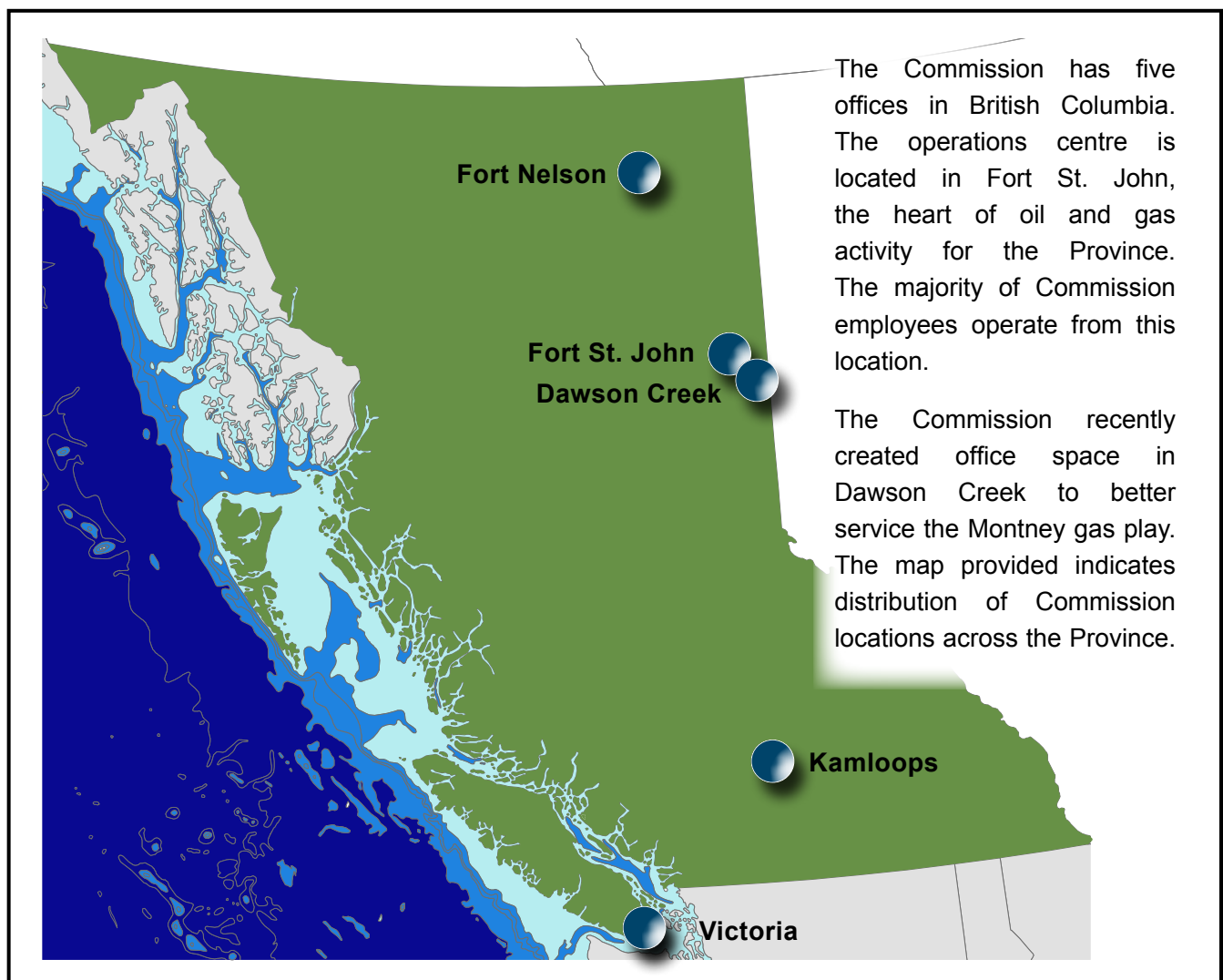
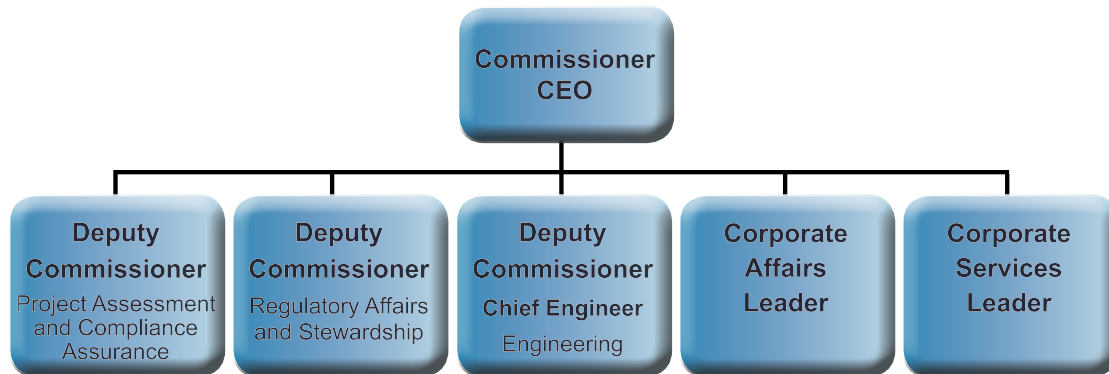
All significant assumptions, policy decisions, and identified risks as of August 2009 have been considered in preparing the Plan. The performance measures presented are consistent with the mandate and goals of the Commission, and focus on aspects critical to the organization's performance. The performance targets in this Plan have been determined based on an assessment of the operating environment, forecast conditions, risk assessment and past performance of the Commission.



Greg Reimer
Board Chair
BC Oil and Gas Commission

Organizational Overview

The Commission currently employs approximately 180 employees in a structure based on functional operational responsibility and support services. The three operational divisions include Engineering, Project Assessment and Compliance Assurance, and Regulatory Affairs and Stewardship. Support divisions include Corporate Affairs and Corporate Services.



Vision

“To be the innovative regulatory leader, respected by stakeholders, First Nations and clients.”

Values

“Regulating oil and gas activity through fair, consistent, responsible and transparent stakeholder engagement; for the benefit of British Columbians and by balancing environmental, economic and social outcomes.”

Core Business

The core function of the Commission is to regulate oil and gas activity throughout British Columbia by reviewing and assessing industry activity, consulting with First Nations, and ensuring industry complies with applicable provincial legislation.

Under this broad description fall a number of specific activities aimed at supporting these responsibilities.

The services provided by the Commission under its legislated mandate fall into four broad categories;

COMMISSION SERVICES

REVIEWING

and assessing applications for oil and gas activities and issuing approvals when appropriate.

Applications for:

- wells,
- pipelines and facilities,
- geophysical activities,
- roads,
- engineering and geology, and
- transfer of assets.

The Commission liaises directly with industry representatives for most oil and gas activity

applications and, where necessary, manages relationships with engineering partners and surveyors.

ENSURING INDUSTRY COMPLIANCE

with legislative, regulatory and permit-specific requirements, in part through inspections and other monitoring and enforcement activities. Qualified Commission inspectors attend oil and gas activity sites to ensure operations are proceeding in accordance with applicable regulations.

COMPLETING FIRST NATIONS CONSULTATION

on activity applications. Consultation relationships with First Nations in northeast British Columbia are guided by negotiated CPAs.

COOPERATING WITH PARTNER AGENCIES

such as the Ministry of Energy, Mines and Petroleum Resources (MEMPR), Ministry of Environment, Ministry of Agriculture and Lands, Ministry of Forests and Range, and others ensures the effective delivery of government policy, including goals in the ongoing BC Energy Plan.

Environmental interests such as appropriate land use activities are protected and, as appropriate, balanced with financial interests, including revenue to the Crown.

These interests are protected through the implementation of guiding legislation, to ensure the public purpose is served. Table 1 (pg 8) shows the Commission mandate as outlined in legislation, and the specific activities that support delivery of that mandate.

Table 1

Section 3 of the *Oil and Gas Commission Act*

(a) 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 oil and gas resources in British Columbia;
- (iii) ensures safe and efficient practices; and,
- (iv) assists owners of oil and gas resources to participate equitably in the production of shared pools of oil and gas.

(b) provides for effective and efficient processes for the review of applications related to oil and gas activities or pipelines, and to ensure that applications that are approved are in the public interest having regard to environmental, economic and social effects;

(c) encourage the participation of First Nations and Aboriginal peoples in processes affecting them;

(d) participate in planning processes; and,

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

Commission Activities:

- Regulatory Development and Affairs
- Assess Drilling Deposit
- Regulate Drilling Waste
- Regulate Air Discharge
- Estimate Reclamation Costs
- Process Certificates of Restoration
- Orphan Site Management
- Implement the Science and Community Environmental Knowledge (SCEK) Fund
- Geological and Engineering Evaluations
- Oil Reserve Analysis
- Inventory and Map Hydrocarbons
- Well Evaluation
- Manage Subsurface Technical Information
- Conduct Production Metering Audits
- Conduct Inspections
- Pipeline Integrity Management
- Ensure Appropriate Complaint Responses
- Ensure Appropriate Incident Responses
- Implement Emergency Management and Response Programs
- Health and Safety Program
- Investigations and Compliance
- Recommend Industry Practices
- Conduct Correlative Rights Review
- Review Applications for Activity
- Review Sour Wells Classifications
- Transfer Assets
- Land Administration
- Enable Public Engagement
- Process Improvement
- Aboriginal Relations
- First Nations Consultation
- Develop and Implement Agreements with First Nations
- Memorandum of Understanding Development
- Quality Assurance
- Participate in Inter-Agency Activities
- Public Engagement and Dispute Resolution
- Conduct Landowner Liaison Activities
- Advisory Committee and Practice Advisory Group
- Respond to Requests for Information

Activities undertaken by the Commission within this mandate ensure the safe operation of oil and gas related activities in the Province while encouraging a balance between economic, social and environmental benefits.

Continual Improvement to Service Delivery

The Commission continues to enhance service delivery based on changes in the operating environment. A summary of the changes is provided below.

Enhanced Planning process

The Commission is often required to respond to time-critical events. In order to provide consistency in Commission response, enhanced business planning and performance management processes are continually reviewed.

First Nations Consultation Process Agreements

The Commission continues to work with First Nations in the development of CPA implementation strategies. CPAs encourage industry engagement with First Nations prior to applications being submitted to the Commission. Through early engagement, industry can improve participation with First Nations and consultation timelines. For more information on these agreements, visit www.ogc.gov.bc.ca.

Enhanced Emergency Management Planning (EMP)

To mitigate the potential consequences of oil and gas related incidents, the Commission requires operators in British Columbia to establish emergency preparedness plans for facilities, pipelines and wells. In the case of an incident, Commission responsibility is to ensure companies activate these plans effectively, thereby contributing to public confidence in the government's requirements for public health and safety.

The EMP profile of the Commission has been raised over the last year through extensive training and increased interagency cooperation.

These efforts have increased awareness of Commission roles while maintaining a state of readiness. More information on the Commission EMP program is available on the Commission website at: www.ogc.gov.bc.ca

Activities undertaken by the Commission within this mandate ensure the safe operation of oil and gas related activities in the province.

Science and Community Environmental Knowledge (SCEK) Fund



The SCEK Fund supports and facilitates research of practical ways to address environmental issues related to oil and gas exploration in British Columbia. The vision for this fund is to continuously improve understanding and management of the impacts of oil and gas activities in the Province. Study findings are incorporated into practices and regulations where appropriate.

Orphan Fund

On April 1, 2006, legislation for a newly created Orphan Site Reclamation Fund was brought into force with an amendment to the *Oil and Gas Commission Act* (Act) and an amendment to the *Oil and Gas Commission Levy Regulation*. The Orphan Fund is administered by the Commission and is intended to pay for the reclamation of orphan oil and gas sites (sites that no longer have an owner associated with them).

Principle Partners, Clients and Stakeholders

Many individuals and groups are the direct beneficiaries of services provided by the Commission.

- As the provincial regulator of oil and gas activity in British Columbia value service is provided in many forms to various stakeholders throughout the province. The Commission maintains a unique relationship with First Nations and has built on ten years of partnerships to enhance the quality of decisions made by the Commission. Outside northeast British Columbia the Commission also interfaces with First Nations on areas of oil and gas activity.
- The Commission maintains a number of working agreements and Memorandums of Understanding (MOUs) that support and define relationships and delegated authorities with partner agencies. These agreements support Commission authority with respect to upholding the values associated with partner agencies' mandates.
- Commission employees ensure resources are recovered in the safest and most effective manner possible. Liabilities incurred through these activities are borne by the operators. In this capacity the Commission regularly interfaces with industry, First Nations, landowners, the public, other government agencies, and corporate peers in other jurisdictions.
- Many partners use information collected and maintained by the Commission. For example, the BC Assessment Authority accesses information collected by the Commission in the development of annual assessment rolls and the Integrated Land Management Bureau uses Commission information to update provincial land resource maps.
- The Commission maintains a strong voice in the communities where oil and gas activity occurs. This is done primarily through the efforts of the Commission's Community Relations staff, whose job is to assist landowners in gaining a better understanding of the oil and gas industry, the role of the Commission and the role of other government agencies.
- The Commission regularly interfaces with the oil and gas industry, the primary users of the Commission's services. Such interactions range from sharing information to soliciting recommendations for best practices.

Corporate Governance

The Commission was established by the Province of British Columbia as a service delivery Crown Corporation. It is mandated to regulate upstream oil and gas activity in British Columbia, including exploration, development, pipeline transportation to facilities, and reclamation activities.

Regulatory authority of the Commission is derived from legislation, including the:

- *Oil and Gas Commission Act (Act)*
- *Pipeline Act*
- *Petroleum and Natural Gas Act*
- *Land Act*
- *Forest Act*
- *Forest Practices Code of BC Act*
- *Heritage Conservation Act*
- *Environmental Management Act, and*
- *Water Act*

The Act establishes the Commission as a Crown Corporation and provides for the establishment of internal authority structures as well as funding of the organization through fees and levies. The Act and other legislation also give the Commission authority to regulate various aspects of oil and gas activity.

To view guiding legislation, visit the Commission website at www.ogc.gov.bc.ca

The Commission is governed by a three-member Board of Directors that is responsible for directing and overseeing the organization's affairs and operations. Additionally, the Board:

- Ensures the Commission exercises its powers in accordance with governing legislation;
- Ensures the Commission establishes appropriate internal controls and practices; and
- Approves the Commission's budget, Service Plans and regulatory initiatives.

The Board is made up of a chair and two directors. The Act establishes the Deputy Minister of MEMPR as board chair, the Oil and Gas Commission Commissioner as vice chair, and a third independent member appointed by the Lieutenant Governor in Council. The independent member serves as a chair for the two sub-committees of the Board. The role of these sub-committees is to engage in review of policies, issues and corporate finances, and to make recommendations to the Board where decisions are made.

The Board of Directors provides policy direction and performance review, while operational matters are the responsibility of the Commissioner and the executive team, as shown on the following page.

Terms of Reference for the Board and sub-committees are online: <https://www.ogc.gov.bc.ca>

The Governance policies and practices of the Oil and Gas Commission and the Board of Directors 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), Office of the Premier of British Columbia.

Board of Directors (Board)

Mission

Ensures the Commission exercises its powers and performs its duties in accordance with the Act and other applicable laws.

Directors

| | |
|---------------|--|
| Greg Reimer | Deputy Minister, Ministry of Energy, Mines and Petroleum Resources (Chair) |
| Alex Ferguson | Commissioner and CEO, BC Oil and Gas Commission |
| John Jacobsen | Independent Member, appointed by the Lieutenant Governor in Council |

Executive Team

Mission

Leads the management of business affairs of the Commission, and implements policy direction received from the Board.

Members

| | |
|----------------|--|
| Alex Ferguson | Commissioner and CEO, BC Oil and Gas Commission |
| Paul Jeakins | Deputy Commissioner, Regulatory Affairs and Stewardship |
| James O'Hanley | Deputy Commissioner, Project Assessment and Compliance Assurance |
| Greg Lever | Deputy Commissioner, Chief Engineer |
| Steve Simons | Leader, Corporate Affairs |
| Randall Smith | Leader, Corporate Services |

Audit Committee

Mission

Provides oversight and direction on matters relating to the financial position of the Commission

Members

| | |
|---------------|---|
| Greg Reimer | Deputy Minister, Ministry of Energy, Mines and Petroleum Resources |
| John Jacobsen | Independent Member, appointed by the Lieutenant Governor in Council (Chair) |
| Randall Smith | Leader, Corporate Services (ex-Officio) |

Governance and Human Resources Committee

Mission

Provides oversight and direction in regard to human resource and compensation matters and ensures the good governance of the Commission.

Members

| | |
|---------------|---|
| Greg Reimer | Deputy Minister, Ministry of Energy, Mines and Petroleum Resources |
| John Jacobsen | Independent Member, appointed by the Lieutenant Governor in Council (Chair) |
| Randall Smith | Leader, Corporate Services (ex-Officio) |

Shareholder's Letter of Expectations

Strategic direction and performance expectations from the Government of British Columbia for the Commission are outlined in a Shareholder's Letter of Expectations. This document is a public agreement that outlines performance expectations, public policy issues and strategic priorities. This clarification of roles is provided to ensure alignment of Commission activities with overarching provincial goals.

The most recent Letter of Expectations was signed on January 11, 2009. It outlines the Commission's role in delivering commitments on the following items:

- Support successful implementation of the Province's Energy Plan;
- Work to ensure that all routine flaring at oil and gas production wells and production facilities will be eliminated by 2016 with an interim reduction of 50 percent by 2011;
- Encourage the participation of First Nations in processes affecting them;
- Continue to develop and improve operational regulations to ensure a modern innovative regulatory framework;
- Continue to develop operational policies and procedures to manage and address stakeholder concerns at the approval and permitting stage.

To view the most recent Shareholder's Letter of Expectations, please visit www.ogc.gov.bc.ca

Capacity, Outlook and Drivers

As the regulator of oil and gas activity in British Columbia, the Commission continually strives to keep pace with a dynamic and rapidly growing oil and gas industry. This includes taking bold, proactive steps and providing innovative solutions to ensure safe and sustainable development while considering the needs of a competitive and thriving industry, community interactions and First Nation rights.

The Commission has developed a risk register as a key component of the Commission Enterprise Risk Management Strategy. The Commission risk register now includes documented process flow analysis for all major business processes.

In addition, the register documents options for mitigation, strategies, and timelines. This analysis is a cornerstone of Commission business planning which prioritizes the overall mitigation strategies for efficient use of available resources.

The following section provides an overview of the anticipated operating environment and key strategic issues faced by the Commission for 2009/10 through 2011/12. This section highlights key internal and external factors that may shape the business of the Commission, and outlines the Commission's proactive responses to these trends.

Driver REGULATORY TRENDS

Issue Impact

OGAA was passed in May of 2008. It is anticipated that OGAA and associated regulations will be brought into force after the regulations are completed.

Commission Response

The Commission is working with MEMPR, the Ministry of Environment, the Ministry of Agriculture and Lands and other ministries in the development of OGAA related regulations. The Commission has also led the engagement of First Nations in this process.

The priorities and areas of focus of the Commission's response to this are outlined in Goal 4 of this Service Plan: "The Commission continually improves the regulatory environment".

In addition to the development of regulations, the Commission will be updating a number of processes and guidance documents linked to the implementation of the new legislation.

As well, the Memoranda of Understanding that the Commission has with other government agencies will be updated to reflect the changing legislative environment for the oil and gas sector.

Driver ORGANIZATIONAL CAPACITY

Issue Impact

As the oil and gas industry in British Columbia evolves, the Commission is handling more complex development applications each year, resulting in more intricate consultation and compliance activities.

Commission Response

The Commission has been building capacity to meet regulatory demands by increasing staffing and providing facilities and services to attract, retain, and accommodate additional employees.

In order to keep pace with changing needs, the Commission continually reviews regulatory processes. Additionally, managing for the long term the Commission is actively protecting capacity through enhanced skills training, leadership development and health and wellness initiatives for Commission staff.

Capacity growth has also expanded Commission presence in the South Peace through the establishment of a new satellite office in Dawson Creek.

Driver FIRST NATIONS

Issue Impact

The Provincial government has been negotiating economic benefits and long term oil and gas agreements and associated resource management agreements with Treaty 8 First Nations. Each of these will have an effect on the operating environment for the oil and gas sector.

The CPA Implementation Committee and other Consultation Agreements continue to evolve the processes for oil and gas related consultations. Fort Nelson First Nation and Dene Tha First Nation have indicated that they would like to revisit their consultation agreements.

The Provincial government is continuing to implement a new First Nations Consultation Coordination approach and Strategic Engagement Model at a sub-regional level throughout the Province. Discussions with the Kaska Dena Council regarding a strategic engagement agreement are currently underway.

The Environmental Assessment Office has granted a certificate for the Kitimat-Summit Lake (KSL) Pipeline project. Application to the Commission for land based operations is anticipated. This application will involve consultation with a number of First Nations located outside of northeast British Columbia.

Commission Response

The Commission has been a key participant in the negotiation of the oil and gas related agreements.

The Commission continues to work with First Nations and MEMPR on the implementation of consultation agreements. A comprehensive review framework has been developed by the team to assess the effectiveness of the agreements and to look for opportunities for improvement. Once complete, this will guide the future work of the team. A facilitation roster has been established to assist in issue resolution process.

Goal 3 in this Service Plan 'The Commission is recognized as a service-oriented organization' outlines Commission commitment to maintain a strong service focus, including working with First Nations communities. The Commission continues to work with the North East and Omineca Managers Committees to coordinate First Nation initiatives with other government agencies. The Commission will continue to participate in and provide advice to the First Nations Business Coordination Team to identify First Nations' and agencies' collective priorities on consultation and strategic engagement including economic benefit and resource management agreement implementation.

The Commission will continue to work with partner agencies such as the Environmental Assessment Agency to facilitate an efficient and productive review of the KSL Pipeline project.

Driver STEWARDSHIP

Issue Impact

Oil and gas rights land sales have increased in two large shale gas plays, the Horn River Basin (HRB) and the Montney Basin.

The HRB has relatively small amounts of oil and gas activity currently underway. Opportunity exists to develop a more coordinated approach to development related to water, wildlife access and First Nation values.

Commission Response

The Commission has consolidated its surface land specialists and analysts under the Stewardship Department aimed at providing a practical approach to managing surface land values in a subsurface resource development context.

The Commission has been integral in bringing together the Horn River Producers Group, First Nations and appropriate government working groups to address stewardship of other priority values that could be affected by oil and gas development in the HRB.

These groups are coordinating activity to contribute toward sustainable management. Components of the effort include targets and indicators for maintaining priority values, a coordinated operational oil and gas development plan, operating protocols and values mapping.

The Commission has also assisted in bringing together producers and stakeholders in the Montney Basin to identify and address priority stewardship and sustainability issues in the area.

This supports Goal 1 of the 2008/09 Service Plan; the Commission will continually improve protection of the environment.

Driver TECHNOLOGY

Issue Impact

New technologies are providing opportunities to increase linkages between working groups, reduce timelines for service delivery, increase data integrity and improve quality of decision making.

Commission Response

The continuing improvement of Commission business systems is a critical factor in meeting the success of Goal 1 of our Service Plan, to protect the public interest

Significant development and enhancement of systems continues in an ongoing effort to improve and streamline the application process, accessibility of services, and reliability of data.

The Commission has completed an evaluation of our current business systems and future needs. From this, the Commission plans to change its business systems to continue to improve upon its service delivery.

Driver MAJOR PROJECTS

Issue Impact

As a direct result of the recent drilling success and petroleum and natural gas rights sales in the Province, most notably in the Montney and HRB gas plays, there is an emerging need for more gas processing capacity in the Province and/or Western Canada.

The Commission is currently working on a number of new gas processing plant and large facility applications at various stages, and expects to receive continued submissions at the current pace. The Commission has four major projects with the first three being imminent, the Cabin Gas Plant, the KSL Pipeline, the gathering of BC Ojay gas into new gathering and processing in Alberta, and the SEMCAMS Pipeline from Bullmoose field to Alberta (Fox Creek) Gas Plant.

As new regions of the Province are identified for oil and gas activity, consultation requirements with First Nations, landowners and the public are being increased.

Commission Response

Internally, the Commission is prepared to manage these shifts through existing application procedures and by increasing technical capacity to review and manage new and complex applications.

The Commission has also worked with external agencies toward a provincial major oil and gas projects team for projects outside of northeast British Columbia.

Objectives and strategies related to ensuring that quality decisions are made in a timely manner and that technical expertise is in place are presented in Goals 2 and 5 of the 2008/09 Service Plan.

Driver INDUSTRY ACTIVITY TRENDS / FUNDING

Issue Impact

North American oversupply of natural gas continues to suppress commodity price.

British Columbia natural gas reserves continue to increase in size. With conventional Western Canadian gas production in decline, the emergence of unconventional gas sources could be vital in maintaining Canada's position as a major producer of natural gas.

Commodity price is linked to industry activity which in turn is linked to the Commission's revenue structure.

Commission Response

The Commission expects industry activity levels to reflect the North American situation. Industry will continue to invest in unconventional gas exploration and development, although in a restrained manner over the short term.

While continued exploration is expected, the Commission is choosing a conservative approach to spending in the coming years while continuing to monitor industry forecasts and expenditures.

Allocating resources carefully will allow the Commission to navigate the current economic climate while continuing to guide resource development and management throughout British Columbia. Further identification of discretionary expenditures and opportunities to further reduce the Commission's carbon footprint are under consideration.

Driver HUMAN RESOURCES

Issue Impact

The Commission has faced labour market pressures, including challenges recruiting to northern locations. Changing economic situations required adjustments to recruitment plans.

The Commission recognizes the value of information technology solutions to better track and manage Human Resources functions. Competition for leadership talent continues.

Commission Response

After consistently high turnover and low employee engagement scores, the Commission used the results of the 2007/08 Workplace Environment Survey (WES) results to begin a dialogue aimed at improving its work environment. Staffing levels were increased within the Commission's safety and health and wellness programs to support more consistent, focused programming in these areas.

The Commission continues to focus on supervisors and leaders with increased training and development programs for all supervisory staff.

Implementation of a new Human Resources Information System (HRIS) began in 2008/09. The system has the functionality to provide more efficient delivery of services and allows for greater reporting and measurement of Human Resources functions.

Driver BC ENERGY PLAN

Issue Impact

The BC Energy Plan puts British Columbia at the forefront of environmental and economic leadership. This plan looks to all forms of clean, alternative energy in meeting the needs of British Columbians and the provincial economy.

New technologies and solutions will be encouraged to 'green the grid' and provide clean remote energy and reduce energy losses.

These policy actions will mean more jobs, new investment and ultimately greater prosperity for British Columbia.

Commission Response

The Commission will continue to move forward with implementing priority aspects of the BC Energy Plan including flaring reduction, commingling policy, community level engagements and the process of carbon reporting.

Management Perspective of the Future

The Commission has developed a four year financial plan. The details of the Summary Financial Outlook and assumptions are on the following two pages.

Capital Planning

The Commission has no major capital plans as defined by the *Budget Transparency and Accountability Act* (plans in excess of of \$50M). Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be \$3.2 million over four years.

Summary Financial Outlook

| Summary Financial Outlook (Consolidated 2008/09) \$000s | 2007/08 Actual | 2008/09 Budget | 2008/09 Actual | 2009/10 Forecast | 2010/11 Forecast | 2011/12 Forecast |
|--|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| Revenue | | | | | | |
| Fees | 11,568 | 13,900 | 13,278 | 9,016 | 12,462 | 11,292 |
| Levies | 13,727 | 14,167 | 14,050 | 17,565 | 19,218 | 22,829 |
| Misc | 1,057 | 780 | 510 | 70 | 700 | 750 |
| Total Revenues | 26,352 | 28,847 | 27,838 | 26,651 | 32,380 | 34,871 |
| Expenses | | | | | | |
| First Nations | 7,103 | 7,830 | 8,797 | 4,100 | 5,966 | 6,505 |
| Salaries and Benefits | 13,165 | 14,496 | 15,592 | 15,232 | 17,401 | 19,085 |
| Operating Expenses (incl amort) | 6,329 | 9,584 | 7,950 | 7,319 | 9,013 | 9,281 |
| Total Expenses | 26,597 | 31,910 | 32,339 | 26,651 | 32,380 | 34,871 |
| Operating Income (Loss) | (245) | (3,063) | (4,501) | - | - | - |
| Orphan Sites Reclamation Fund | 841 | 104 | 709 | - | - | - |
| Amortization of Contributed Assets | 105 | 48 | 58 | - | - | - |
| Net Income (Loss) | 701 | (2,911) | (3,734) | - | - | - |
| Deficit/Surplus Management Allowance | | 2911 | | - | - | - |
| Adjusted Net Income | 701 | - | (3,734) | - | - | - |
| Capital Expenditures | 1,074 | 1,990 | 1,135 | 1,900 | 2,619 | 2,674 |

Key Assumptions

- New well applications are 550, 900, 1000 annually starting in 2009/10.
- Gas volumes are $28.5 \times 10^9 \text{m}^3$, $28.8 \times 10^9 \text{m}^3$ and $34.8 \times 10^9 \text{m}^3$ starting in 2009/10.
- Oil volumes are $1.229 \times 10^6 \text{m}^3$, $1.124 \times 10^6 \text{m}^3$ and $1.029 \times 10^6 \text{m}^3$ starting in 2009/10.
- Workforce Full Time Employees per table previous reflect cost containment measures; wage and benefit increases are based on the current collective agreements and are subject to future labour negotiations however are otherwise calculated at 2.5% per annum.
- Inflation estimated at 3% per annum.
- Reclamation activities projected at five, four and four well sites per annum @ \$200K each starting in 2010/11 for the Orphan Sites Fund.
- Premises costs do not reflect future possible consolidation of Fort St. John facilities.
- Funding for OGAA is limited to internal regulatory development - costs of training, implementation, and external stakeholder processes have not been addressed.
- Information Technology Migration Project capital spending is subject to an external review of Commission systems requirements.

Forecast Risks and Sensitivities

- Commercial price and production fluctuations.
- Exploration activity levels and well applications are affected by adverse weather conditions, commodity price fluctuations, and economic conditions.
- A revised fee/levy structure is to be implemented to offset variances from forecasted revenues and expenditures.
- The Commission has access to a three million dollar line of credit, however it is not anticipated that it will be used.



Performance Goals

This Plan update provides an overview of the Commission's performance model to achieve organizational goals through implementation of objectives and strategies as measured through performance indicators. Goals, objectives, strategies and measures have been selected to ensure that the Commission achieves its vision and values.

The performance of the Commission is based on the goals and expectations that were set in the 2008/09 Service Plan. The Plan provides a three-year outlook for the direction of the Commission, reflecting the trends and issues faced by the Commission, and serves as the basis for annual corporate business planning.

Goals

The goals as identified in the 2008/09 Service Plan are:

1. The Commission protects the interests of the people of British Columbia.
2. The Commission makes quality decisions in a timely manner.
3. The Commission is recognized as a service oriented organization.
4. The Commission works with government to continually improve the regulatory environment.
5. The Commission is a great place to work.

These goals represent the foundation for the direction of the Commission based on existing legislation as well as a dynamic and evolving operating environment. The goals are inter-dependent and reflect the multi-faceted nature of the Commission's regulatory mandate. These goals also clearly capture the intended purpose of the Commission and provide a set of criteria for government, First Nations, landowners, stakeholders, industry and the general public to assess the success of the organization going forward.

Goal 1 protects the interests of the people of British Columbia and is the result of many activities undertaken by the Commission in the public interest. These include public engagement, application review, compliance and enforcement, engineering reviews, and emergency management functions. This also includes resource conservation activities which ensure oil and gas resources are extracted in the most efficient way possible and environmental management activities which ensure environmental standards are achieved. This goal provides clarity about the public purpose served by the Commission and combines the intent behind the mandate for public safety, environmental protection and resource conservation.

Quality decisions, as described in **Goal 2** relate to the statutory decision making authority that is delegated to the Commission through legislation. The Commission endeavors to adjudicate activity applications in a timely manner based on available information. Activities included under this goal consist of application processing, transfer of assets, general management of internal operations, and capturing and documenting corporate knowledge.

Goal 3 reflects the Commission's aim to proactively set a standard of excellence in service for clients. Clients are considered to be all people in British Columbia including communities, First Nations and industry. Activities included under this goal are FrontCounter BC, community relations services to assist landowners, and alternative dispute resolution among others.

Goal 4 speaks to the efforts of the Commission to work with government ministries to improve the regulatory environment for oil and gas activities in the Province. There are many activities the Commission undertakes to achieve this goal including the development of MOUs with partner agencies, establishing and implementing agreements with First Nations, leading the development of regulations within the Commission's authority and implementing government policy.

Goal 5 represents the Commission's commitment to improve the quality of work experience for employees by instilling a culture of "the Commission is a great place to work". Activities under this goal include development of organizational training and performance measurement plans, implementing a robust health and safety program, and engaging staff across the organization in the development of these goals, objectives and strategies.

Objectives

Commission objectives were developed to support these goals and are based on direction received from the annual review process. The objectives of the Commission associated with each goal are:

Goal 1

- Maintain public safety and safety of operations.
- Minimize potential for negative environmental effects from oil and gas activities.
- Ensure optimal recovery of oil and gas resources over time.

Goal 2

- Decisions consistent with the complexity of the operating environment.
- Maintain consistency of information and processes used in decision making.

Goal 3

- Build and sustain relationships of trust and confidence with communities, First Nations and stakeholders.
- Enhance the culture of service excellence.

Goal 4

- Contribute to the ongoing development of an innovative and efficient regulatory framework for oil and gas activities in British Columbia.
- Support an environment where innovative practices can be introduced and implemented.

Goal 5

- Support a healthy and safe work environment.
- Ensure appropriate infrastructure and support services are in place to allow for development and growth of Commission employees.

The objectives included under **Goal 1** describe the mandate of the Commission as outlined in legislation. Objectives in **Goal 2** highlight the priority of being aware of the external environment and to also ensure internal capacity is present to support decisions. In much the same way, **Goal 3** outlines internal and external components to build and sustain quality service delivery standards. Objectives of **Goal 4** highlight the Commission's priority of building innovative activities into aspects of regulation. Objectives in **Goal 5** outline the ways in which the Commission will ensure our working environment serves the needs of Commission employees.

In the 2008/09 Service Plan, strategies and objectives were chosen to reflect the direction of Commission activities based on an annual review of the operating environment. Tactical direction for the Commission, outlined in the corporate Business Plan, is updated annually and provides a three year outlook outlining specific processes and projects that will be undertaken to achieve the goals of the Service Plan. For more information on the Commission's Business Plan, visit the Commission website: www.ogc.gov.bc.ca.

For each goal, measures have been chosen and targets have been set to outline what success looks like for each goal. Actual results are shown for the previous and current year, and targets are shown for the upcoming three years to provide a complete performance picture for the Commission. The measures have been selected from numerous possible indicators used to track and guide overall performance.

The Commission strives to measure both outputs and outcomes of activities, and to incorporate the eight reporting principles as outlined by the Office of the Auditor General of British Columbia: www.bcauditor.com.

The majority of Commission measurement information is collected through database systems of the Commission, including the IRIS and KERMIT systems, as well as the financial and Human Resource information systems.

Measurement

The Commission tracks data for performance measures from a number of sources including:

- Application and compliance statistics, which are benchmarked against comparable jurisdictions;
- Engineering information related to oil and gas operations in British Columbia;
- Human resource information, including tracking of employee development; and
- Information from surveys, including employee engagement and client satisfaction.

Organizational performance is measured at least quarterly. Where possible benchmark and base-line information is reviewed to provide context to Commission results. Detailed information related to the methodology of Commission performance measures is maintained and updated as necessary. The Commission continues to develop business applications in order to refine business processes and enable the electronic submission of data. Business application systems are continually developed and enhanced to meet the performance targets of the Commission.

In addition, the Commission continues to have strong relationships with external agencies to improve the quality of data used to track and measure progress such as the Integrated Land Management Bureau and GeoBC.

The components of service planning, business planning, budgeting and performance management are closely integrated. As a result when an objective is revised or replaced, so must the associated strategies and performance measures. This cycle of continuous improvement that underpins both effective public service planning and meaningful, accountable public performance reporting.

Information in the following tables presents the objectives, strategies and performance measures of each of the Commission's goals.

Benchmarking

The Commission benchmarks internal evaluation processes and practices against selected North American oil and gas regulators, provincial Crown Corporations and public agencies. In 2008/09, the Commission introduced new performance measures in its organizational Service Plan.

The Commission occupies a unique role with its single-window service to industry. Research confirms that no oil and gas regulatory agency in North America provides the range of services that the Commission provides. As shown in previous annual reports, performance on Commission goals, objectives, strategies and measures are outlined in the following section in table format.



Objectives

- Maintain public safety and safety of operations
- Minimize potential for negative environmental effects from oil and gas activities
- Ensure optimal recovery of oil and gas resources over time

Strategies

Achieved:

- Develop, implement and maintain internal systems and processes for managing risks to public interests
- Maintain emergency management and emergency response planning framework
- Develop innovative reservoir management techniques for efficient and effective extraction of petroleum resources for unconventional gas

| Performance Measures | Target | Actual | Target | Target | Target |
|--|---------|---------|---------|---------|---------|
| | 2008/09 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
| Major Compliance - exploration and development Baseline: 79% (2001/02) Benchmark: 97.7% (Alberta ERCB, 2004) | 95% | 95% | 96% | 97% | 98% |
| Major Compliance - facility, operations Baseline: 93% (2002/03) Benchmark: 97.7% (Alberta ERCB, 2004) | 97% | 95% | | | |

The strategies related to this goal were achieved through core operational activities of the Commission. The performance target was substantially met.

Major Compliance-exploration and development, and Major Compliance - facility, operations performance were not measured separately, so identical results were attained and shared. Targets for these performance measures were set based on a continuation of trends from previous years. Compliance process is carried out by geographical region rather than by function. Compliance has moved to a focused inspection process based on risk, rather than just more inspections.

Additionally, inspectors are supported by technical advisors for more in-depth inspection issues.

The Commission has become more effective and efficient with inspections, ensuring protection of public and the environment.

Regulatory compliance commences as soon as an application for industrial activity is submitted. Prior to any industrial activity taking place, applications are reviewed to ensure legislative requirements and stakeholder concerns have been accounted for. During project reviews modifications to an application may be requested by the Commission based on First Nation consultation, landowner concern or technical assessment results.

All compliance information for performance measures of this goal is drawn from the Commission's KERMIT database which is used to manage applications and inspections; except for information on non-site inspections which is drawn from the IRIS database.



The Commission makes quality decisions in a timely manner

Objectives

- Decisions consistent with the complexity of the operating environment
- Maintain consistency of information and processes used in decision making

Strategies

Achieved:

- Implement process improvement initiatives
- Communicate the role of the Commission to First Nations, industry, public and landowners

Ongoing:

- Strengthen organizational and employee capacity for effective issue management and decision making

| Performance Measures | Target | Actual | Target | Target | Target |
|---|---------|---------|---------|---------|---------|
| | 2008/09 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
| Calendar days to process new applications Baseline: 33 calendar days (2001/02) Benchmark: 30 days (Colorado Oil and Gas Conservation Commission Strategic Plan) | 21 | 24 | 21 | 21 | 21 |
| Internal processes conforming to specified quality assurance criteria | 90% | 33% | 90% | 90% | 90% |

The Commission is a decision-making agency, therefore goal and performance measures associated with decision timelines gives a reasonable indicator of performance. It also provides a certainty to industry groups for operational planning activities.

The performance measure for Goal 2 applies to the majority of applications submitted for review. This measure does not include timelines for major project applications that may require enhanced review or prolonged review periods due to their complexity. Targets remain unchanged.

Management closely monitors processing timelines. The Commission expects to have discussions with clients to determine if there is a more meaningful measure of efficiency available.

In an effort to ensure continual improvement of Commission processes internal evaluations are carried out to assure compliance with quality assurance criteria. Quality assurance criteria include concise documentation and review of current Commission processes, analysis of potential process improvements, and implementation of recommendations.

Internal quality audits allow the Commission to focus resources on necessary process design as well as continually adapt to a dynamic operating environment.



The Commission is recognized as a service oriented organization

Objectives

- Build and sustain relationships of trust and confidence with communities, First Nations and stakeholders
- Enhance the culture of service excellence

Strategies

Achieved:

- Apply previous learning when developing new partnerships with First Nations
- Ensure Commission services are readily and consistently available
- Increase Commission profile
- Integrate FrontCounter BC with Commission operations

Ongoing:

- Ensure consistent and transparent reporting

| Performance Measures | Target | Actual | Target | Target | Target |
|---|---------|---------|---------|---------|---------|
| | 2008/09 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
| Percentage of applications responded to by First Nations Baseline: 75% (2001/02) Benchmark: n/a | 84% | 75% | 84% | 85% | 85% |
| Client Satisfaction among all surveyed Baseline: 89% (2006/07) Benchmark: 76% (Alberta Energy Utilities Board (AEUB)) | 87% | 82% | 89 | 91% | 91% |
| Number of community awareness meetings conducted Baseline: 10 (2007/08) Benchmark: n/a | 10 | 10 | 11 | 12 | 12 |

As the regulator of oil and gas activity for the Province the Commission continually evolves relationships with key stakeholders and partners as measured through Goal 3. The Commission continues to provide the opportunity for First Nations to comment on major changes to policy and procedures that may significantly affect them including OGAA regulations and information notes.

Fiscal 07/08 saw the introduction of a rural outreach initiative aimed at conveying the various roles and services of the Commission to local landowners and other interested community members. This pilot was successfully conducted at 10 public meetings capturing 39 rural communities in the Peace region.

As a Crown Corporation, Commission accountabilities extend to affected communities, First Nations, client companies and their representative associations. All of these constituents form participants in the client survey.



The Commission continually improves the regulatory environment

Objectives

- Contribute to the ongoing development of an innovative and efficient regulatory framework for oil and gas activities in British Columbia
- Support an environment where innovative practices can be brought forward

Strategies

Achieved:

- Develop and document relationships with partner ministries and agencies
- Communicate a broader level of understanding of the oil and gas regulatory system with stakeholders and partner agencies
- Utilize available academic, research and development funds in advancing best practices
- Lead the development of regulations within Commission mandate and responsibilities

| Performance Measures | Target | Actual | Targets | Targets | Targets |
|--|---------|---------|------------------|------------------|------------------|
| | 2008/09 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
| Number of updated MOUs or working agreements with partner agencies Baseline: 18 (total number of MOUs at 2007/08) Benchmark: n/a | 2 | 2 | 2 | 2 | 2 |
| Number of new MOUs or working agreements with partner agencies Baseline: 18 (total number of MOUs at 2007/08) Benchmark: n/a | 2 | 2 | 2 | 2 | 2 |
| Client satisfaction (among partners with whom the Commission holds MOUs) | n/a | n/a | To be determined | To be determined | To be determined |

In an effort to continually improve the regulatory environment, the Commission maintains a number of working agreements and MOU that support and define relationships and delegated authorities with partner agencies.

The agreements support Commission authority in upholding the values associated with partner agencies' mandates. They also ensure a continued dialogue with partner agencies as agreements require updates or enhancements.

Client satisfaction provides a measure of the quality of interaction perceived by partner agencies through the implementing of the oil and gas legislative framework.

In 2009/10 the Commission will review its benchmarks, and with its MOU partners, set targets for future reports.



Objectives

- Support a healthy and safe work environment
- Ensure appropriate infrastructure and support services are in place to allow for development and growth of Commission employees

Strategies

Achieved:

- Utilize employee survey results to foster a climate where employees are engaged in their work

Ongoing:

- Improve training, knowledge and education organization wide
- Maintain the Commission's health and wellness program in support of ActNow BC

| Performance Measures | Target | Actual | Target | Target | Target |
|--|---------|---------|---------|---------|---------|
| | 2008/09 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
| Percentage of employees with a development plan in place Baseline: 13% (2004/05) | 100% | 98% | 100% | 100% | 100% |
| Voluntary turnover rate of regular staff Baseline: 11.3% (2000/01) Benchmarks: 2.6% (BC Government, 2005/06) 5.4% (AEUB 2004/05) | 10% | 9.1% | 10% | 10% | 10% |
| Percentage of employees that respond to an employee engagement survey Baseline: 94% (2007/08) Benchmark: 70% (Public Service Agency 2007/08) | 90% | 92% | 90% | 90% | 90% |

The first measure has been adjusted from previous years to reflect changes to the performance management system. Targets have been set based on current organizational capacity. The second measure is unchanged from previous years, although the targets have been adjusted based on the reality of a dynamic and competitive operating environment.

To maintain efficient process and capacity growth within the Commission focus was placed on supervisory training, Health and Wellness programs, and an increase in staff support systems in the Human Resources, Communications and

Finance departments. Key initiatives were implemented in support of the Workplace Environment Surveys. Increasing capacity in these employee driven initiatives help to foster a positive working environment thus increasing employee satisfaction and retention.

Historical Financial Information

For fiscal 2008/09, the Commission's Consolidated Net Loss was \$3.7 million compared to a budgeted Net Loss of \$2.9 million and Net Income of \$0.7 million the prior year.

| Consolidated Financial Results \$000s | 2004/05 Actual | 2005/06 Actual | 2006/07 Actual | 2007/08 Actual | 2008/09 Budget | 2008/09 Actual |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenues | | | | | | |
| Fees | 16,243 | 16,605 | 14,364 | 11,588 | 13,900 | 13,278 |
| Levies | 10,283 | 11,415 | 14,323 | 13,727 | 14,167 | 14,050 |
| Misc & Recoveries | 402 | 1,709 | 1,039 | 1,057 | 780 | 510 |
| Total Revenues | 26,928 | 29,729 | 29,726 | 26,352 | 28,847 | 27,838 |
| Expenses | | | | | | |
| First Nations | 9,819 | 11,108 | 9,065 | 7,103 | 7,830 | 8,797 |
| Salaries and Benefits | 9,198 | 10,078 | 11,370 | 13,165 | 14,496 | 15,592 |
| Operating Expenses | 4,588 | 6,776 | 6,579 | 6,329 | 9,584 | 7,950 |
| Total Expenses | 23,605 | 27,962 | 27,014 | 26,597 | 31,910 | 32,339 |
| Operating Income (Loss) | 3,323 | 1,767 | 2,712 | (245) | (3,063) | (4,501) |
| Amortization of Contributed Assets | 95 | 95 | 105 | 105 | 48 | 58 |
| Net Income (Loss) | 3,418 | 1,862 | 2,817 | (140) | (3,015) | (4,443) |
| Orphan Site Reclamation Fund - Surplus | - | - | 911 | 841 | 104 | 709 |
| Consolidated Net Income (Loss) | 3,416 | 1,862 | 3,728 | 701 | (2,911) | (3,734) |

This report is complete and contains no confidential information.

Information on subsidiaries - not applicable

Operating segment information - not applicable

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