

BC Oil and Gas Commission

**2012/13**

# ANNUAL SERVICE PLAN REPORT



Published June 2013

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## Message from the Chair to the Minister of Energy, Mines and Natural Gas



On behalf of the Board of Directors and all employees, I'm pleased to present the 2012/13 – 2014/15 Annual Service Plan Report for the British Columbia Oil and Gas Commission (Commission). The Commission is the

provincial single-window regulatory agency with responsibilities for regulating oil and gas activities in British Columbia, including exploration, development, pipeline transportation and reclamation. Throughout the year, the Commission has successfully delivered on its Letter of Expectations from government, and with a vision to be the leading oil and gas regulator in Canada, has taken numerous steps to bring new tools online and enhance its regulatory capacity for the benefit of British Columbians.

The Commission plays a pivotal role in realizing the province's potential for Liquefied Natural Gas (LNG) development and has continued to build organizational capacity and expertise to effectively provide for the permitting and regulatory oversight of expected new plants and pipelines. It has also built relationships with partner agencies, ministries

and First Nations in the northwest, an area unfamiliar with oil and gas development, yet of strategic importance to fully realize the economic benefits LNG can bring.

A business transition strategy (BTS) has been initiated to enhance information management and reporting so an expected upturn in industry activity – fueled by LNG – can be managed efficiently by the Commission. This will enhance data management and integrity, while strengthening controls and auditability. It has also been a successful year for harmonizing and fully integrating the Commission's systems for strategic planning and risk management. Awareness of key strategic and operational risks, their causes and proper approaches to manage them is becoming part of organizational culture and a substantial part of the Commission's accountability framework.

The Commission has continued to put significant resources into First Nations consultation and engagement, by focusing on relationship building. Progress has been made at renegotiating Consultation Process Agreements (CPA) with Treaty 8 bands, and there are now four CPAs in place. Where negotiations have continued, and in the absence of a CPA, Interim Capacity Agreements and Interim Consultation Procedures (ICP) have been implemented.

Another significant milestone for the Commission has been the development of area based analysis (ABA). This is designed to provide a basin specific assessment of current environmental and cultural values, while considering all past and reasonably foreseeable impacts. This tool will be used by Commission statutory decision makers to guide oil and gas

activity application decisions. The Commission has also used funds from the Orphan Sites Reclamation Fund (OSRF) to undertake restoration activities at three designated sites.

The Northeast Water Tool (NEWT) is another example of how the Commission continues to take a leading role in dealing with water issues. NEWT is a unique GIS-based tool designed to query locations on rivers or lakes throughout northeast B.C. In this way, all active permits and licences upstream of the query location can be accessed, including details such as the volumes of water that have already been licensed or approved for use, and the volume of water that might be potentially available for use by industry, while maintaining environmental flows.

The Commission values the contribution of all of its employees and continued to be an employer of choice. Two labour agreements were successfully negotiated this past year, providing modest wage increases while adhering to government's mandate. The Commission has begun preparations to move its operational headquarters in Fort St. John, where construction of a new LEED® Gold office that will include the Core Lab storage facility is underway, providing the Commission with a facility that will meet future industry growth, and employees with a modern and functional work environment.

There is a global surplus of natural gas that continues to depress natural gas prices and resulted in a significant slow down in drilling activity in British Columbia over the 2012/13 fiscal year. In turn, Commission operations funded

by production and pipeline levies were \$29.0 million and fees were \$9.8 million, with expenses totaling \$42.2 million. With Treasury Board approval, the Commission had an annual deficit of \$2.6 million due to increased funding for the Orphan Sites Reclamation Fund, allowing for additional remediation and reclamation work.

The 2012/13 BC Oil and Gas Commission Annual Service Plan Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The information presented reflects the performance of the Commission for the 12 months ended March 31, 2013 in relation to the 2012/13 – 2014/15 Service Plan. The financial statements conform to the Public Sector Accounting Standards adopted for 2012/13 and future periods. All significant decisions, events and identified risks, as of May 31, 2013, have been considered in preparing this report. It contains estimates and interpretive information that represent the best judgment of management.

The Board is accountable for the contents of this report. The Board ensures internal controls are in place and performance is measured and reported accurately and in a timely fashion. Any changes in mandate direction, goals, strategies, measures or targets since issuance of the 2012/13 – 2014/15 Service Plan have been discussed and any significant changes identified.



Steve Carr  
Board Chair, BC Oil and Gas Commission

## Mission, Vision, Values

### Mission

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

We achieve this by:

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

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

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

We serve with a passion for excellence.

### Vision

To be the leading oil and gas regulator in Canada.

### Values

Respectful

Efficient

Accountable

Responsive

Effective

Transparent

## COMMISSION MANDATE

Section 4 of the Oil and Gas Activities Act sets out the mandate of the Commission as follows:

The purposes of the commission include the following:

(a) to regulate oil and gas activities 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.

## Performance Drivers



CANADA STARTS HERE - THE BC JOBS PLAN

NORTH AMERICAN NATURAL GAS MARKETS



MAJOR PROJECTS

ORGANIZATIONAL CAPACITY



REGULATORY TRENDS

FIRST NATIONS



STEWARDSHIP

## Organizational Overview

The British Columbia Oil and Gas Commission's (Commission) mandate is set out in legislation through the Oil and Gas Activities Act (OGAA) and is reflected in the organization's Mission statement. The Commission is the provincial, single-window regulatory agency with responsibilities for regulating oil and gas activities in British Columbia, including exploration, development, pipeline transportation and reclamation. The Commission's core roles include reviewing and assessing applications for industry activity, consulting with First Nations, ensuring industry complies with provincial legislation and partnering with other responsible agencies. The public interest is served through protecting public safety, conserving the environment and ensuring equitable access to oil and gas resources. To view this enabling legislation, visit the Commission's website at [www.bco.gc.ca](http://www.bco.gc.ca).

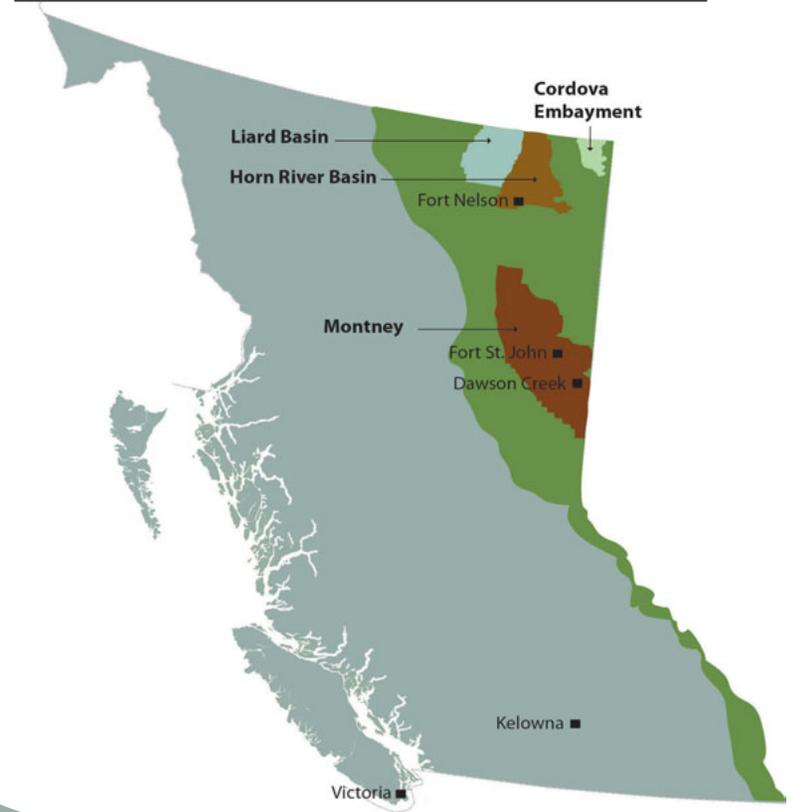
Since its inception as a service delivery Crown corporation, the Commission has served the public interest by administering a single-window model for permitting oil and gas exploration and development, and ensuring operators' compliance with applicable regulations. This model has put B.C. in a favourable position and has supported effective and efficient regulatory processes. The single-window approach was strengthened by the OGAA, which updated and consolidated various acts and regulations, while continuing the Commission's regulatory authority with respect to oil and gas activities under the Environmental Management Act, Land Act, Water Act, Heritage Conservation Act, and Forest Act.

The Commission also has authorities for processing and administering applications for federally regulated pipelines with respect to specific sections of the Land Act, Water Act and Forest Act. In addition, water licencing for oil and gas activities is also under the purview of the Commission.

As a regulator, the Commission considers and takes into account the diverse interests of First Nations, area residents and other stakeholder groups. The Commission has developed long-term relationships with northeastern B.C. First Nations and continues to interface and build strong working relationships with First Nations communities in all areas of the province where oil and gas activities take place, or are contemplated. Numerous delegated authorities, working agreements and memoranda of understanding ensure the interests of partner government agencies are represented, and there is also work on major government interagency teams. The Commission strives to achieve an open relationship with industry, based on mutual respect and responsiveness. With diverse oil and gas projects proposed throughout the province, the Commission has been working to expand First Nations, rights holders and community relations and outreach beyond northeastern B.C., the traditional area of oil and gas activity. The Commission recognizes its employees as a

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

Figure 1: Unconventional Basins in British Columbia



## COMMISSION CORE SERVICES

Review, assessment and determination of oil and gas applications for permits or authorizations under Commission jurisdiction related but not limited to:

- Wells
- Pipelines
- Geophysical activities
- Access roads
- Water use for oil and gas activities
- LNG Plants and other facilities

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

Emergency preparedness and timely and coordinated incident response.

Oversight of site reclamation and inactive well sites.

Resource conservation and production monitoring and measurement.

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

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

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

Corporate services related to asset transfers, amalgamations, and Crown Land surface tenure.

## Core Services and Corporate Structure

The Commission is made up of four Divisions, designed to meet its legislative mandate and the operational realities inherent in regulating the oil and gas industry. These include the Office of the Commissioner; Operations; Engineering; and, Corporate Services. Statutory decision-making authority is vested in the Commissioner who also serves as the Chief Executive Officer. The Commissioner delegates decision-making authority to staff members in Operations and Engineering led respectively by the Chief Operating Officer and Chief Engineer. Regulatory specialists led by the General Counsel and Corporate Secretary provide support by interpreting regulations and ensuring consistency and effectiveness of the regulatory framework. A Corporate Services division under the Chief Financial Officer provides financial, information technology, human resource management, organizational development, facilities and corporate property administration for the entire organization.

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

Funding Area	Investment To-date (millions)	# of Active Projects (FY 12/13)	# of Projects To-Date
Environmental Impacts	\$3.1	5	34
Cumulative Impacts	\$1.1	--	15
Health and Safety	\$1.4	1	9
Traditional Knowledge	\$1.0	--	8
Collaboration & Communication	\$0.3	--	11
Boreal Caribou (new this year)	\$0.9	4	4

SCEK Fund is an oil and gas focused research fund sponsored by industry and administered by the BC Oil and Gas Commission – [www.scek.ca](http://www.scek.ca).

The specific departments and the core responsibilities of each Division are described in the table on the next page.

In addition to core services, the Commission provides a support role in the implementation of the independently managed Science and Community Environmental Knowledge (SCEK) Fund, which supports and facilitates research concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia.

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

OFFICE OF THE COMMISSIONER		OPERATIONS	
Legal & Regulatory	Legal Services Regulatory Initiatives Regulatory Support Corporate Secretary to the Board Integrated Risk Management (IRM) Internal Audit	Operations Engineering	Environmental Management & Reclamation Emergency and Security Management Compliance and Enforcement
Corporate Affairs	Internal & External Communications Government Relations Strategic & Business Planning Corporate Reporting	Permitting and Authorizations	Application Review and Processing Corporate Land Management First Nations Relations and Archeology Regional Operations
Executive Coordination	Executive Administrative Support Correspondence Management Event Planning	Resource Development	Stewardship Petroleum Geology Resource Development Major Projects Geographic Information Systems
Business Transition Strategy	Management of Business Systems Transition projects	Community Relations	Education and Information Outreach Issues Management
CORPORATE SERVICES		ENGINEERING	
Finance & Administration	Financial Planning & Accounting Records Management Core Research Centre Management Corporate Property & Administration	Reservoir Engineering	Reservoir project determinations, amendments & compliance Well testing and rate controls Hydrocarbon and by-product reserves inventory and publication Well data management and analysis
Information Technology	Information Technology and Infrastructure Business and Information Systems Web Development	Drilling and Production	Compliance with regulatory requirements (Drilling) Standards and technical requirements programs Public reporting Well integrity Compliance with regulatory requirements (Production) Flare reduction Data collection and analysis
Human Resources & Organizational Development	Recruitment Payroll & Benefits Employee Engagement Strategic Workforce Planning Employee Performance Management Collective Bargaining and Labour Relations Workplace Wellness Learning and Development Leadership Effectiveness Occupational Health and Safety	Facilities	Facility application/amendment engineering review LNG facility application review Facility integrity management Facility critical data capture, integrity and reconciliation Engineering support and regulatory interpretation to C&E As-built audit and review
Operations Analysis	Business Intelligence Process Management Services Documentation Management Services	Pipelines	Pipeline Application Engineering Review Pipeline Permit Revision and Amendment Integrity Management Program Audit As-built Audit and Review
		Field Engineering and Technical Investigations	Engineering Failure Investigations Pipeline and Facility Start-up/LTO Inspections Pipeline and Facility Field Audits Public Reporting and Inter-Agency Collaboration C&E Support to Operations Engineering Operational Intervention (field support) Management of the LMR program Environmental Liability Policy and Guideline Development Project management OSRF

## BOARD OF DIRECTORS

**Steve Carr**, Deputy Minister, Ministry of Energy and Mines (Chair,)

**Paul Jeakins**, Commissioner & CEO, (Vice Chair, BC Oil and Gas Commission)

**John Jacobsen**, Independent Member, appointed by the Lieutenant Governor in Council

## Audit Committee

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

**Arn van Iersel**, Board Consultant, Chair

**Doug Wilkes**, Board Consultant

**Al Hurd**, Board Consultant

## Human Resources Committee

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

**John Jacobsen**, Independent Member, appointed by the Lieutenant Governor in Council, Chair

**Doug Wilkes**, Board Consultant

**Al Hurd**, Board Consultant

## Regulatory Committee

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

**Cliff Proudfoot**, Board Consultant, Chair

**Paul Jeakins**, Commissioner and CEO, BC Oil & Gas Commission

**Neal Norman**, Board Consultant

## Corporate Governance

**A** Board of Directors governs the Commission by setting its strategic direction, ensuring organizational performance is in line with strategic priorities, and establishing appropriate accountability and transparency mechanisms. Under the OGAA, the Deputy Minister of Energy, Mines and Natural Gas is 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. The Board has the powers to make regulations governing oil and gas activities. Governance principles and practices are described in the Board's Mandate and Charter and are posted on the Commission website at [www.bcogc.ca](http://www.bcogc.ca).

Responding to the governance renewal call in the Government's Letter of Expectations, the level of communications, engagement and reporting between the Board and management has been enhanced over the past year. Assisted by a group of expert consultants, the Board factors corporate risks into the strategic planning process. Integrating risk management and strategic planning ensure the Commission's long term objectives take into consideration direction from government, stakeholder needs, and optimal resource allocation. The board consultants further contribute to the governance renewal initiative by serving on the board committees.

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

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

## EXECUTIVE TEAM MEMBERS

**Paul Jeakins**, Commissioner & CEO

**Ken Paulson**, Chief Operating Officer

**Randall Smith**, Chief Financial Officer

**Mayka Kennedy**, Chief Engineer

**Trevor Swan**, General Counsel & Corporate Secretary

## Report on Performance

The Commission's performance during 2012/13 continued to reinforce British Columbia's position as a leading oil and gas jurisdiction in Canada and beyond. Guided by our Mission, Vision, and Values and the strategic direction expressed in the Government's Letter of Expectations, the Commission acted on the strategies outlined in the Service Plan. To remain accountable and transparent the Commission reports on performance in three parts:

- Performance Drivers – reporting on the Commission's response to challenges and opportunities in the operating environment.
- Government's Letter of Expectations – reporting success in meeting government direction.
- Actual vs. Planned Performance and Benchmarks – reporting on Service Plan objectives and measures.

During the year, Commission employees received internal and external recognition for a job well done with respect to water stewardship, community outreach and translating public policy into practical regulations and processes. Some of the individual and group achievements are highlighted in this section of the report.

In February 2013, the Commission's Executive Director of Permitting and Authorizations was awarded the prestigious Queen's Diamond Jubilee Medal in recognition of significant achievements or distinguished service to their fellow citizens, community, British Columbia or Canada.

In addition, employees and work teams from the Commission were nominated for a Premier's Award in the category "Innovation" for the creation of the Northeast Water Tool (NEWT) – a highly innovative GIS-based tool to query locations on rivers or lakes throughout northeast B.C., showing all active water permits and licences upstream of the query location and including the volumes of water licenced or approved for use, and the volume of water that might potentially be available for use by industry, while preserving environmental flows.

A team of Commission employees who created the [FracFocus.ca](http://FracFocus.ca) website – that provides online disclosure of the ingredients used in hydraulic fracturing fluids – was also nominated for a Premier's Award in the category of "Partnerships".

## A YEAR IN REVIEW: 2012/13

Total New Approvals Issued by the Commission

1,742

Site Inspections Completed by the Commission

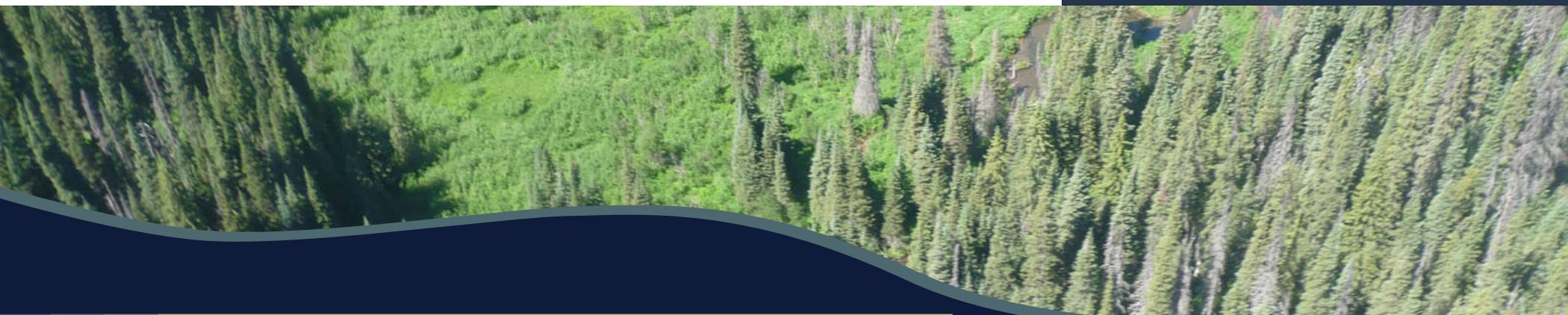
4,116

Wells Drilled in B.C.

444

Kilometers of Pipelines Built in B.C.

2,185



## Performance Drivers

The petroleum and natural gas industry is a key economic driver of the provincial economy and the Commission recognizes its important role in navigating the complex operating environment presented by the global marketplace. Numerous influences and changing circumstances present both opportunities and challenges in achieving the Commission's strategic objectives. Discussed below is the Commission's performance during 2012/13 in pursuing opportunities and mitigating risks associated with these factors along with the characteristics of each driver.

### DRIVER – CANADA STARTS HERE - THE BC JOBS PLAN

#### POTENTIAL INFLUENCE

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

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

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

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

#### ACTIONS AND OUTCOMES DURING 2012/13

The Commission works closely with all levels of government, industry and First Nations to help support strategies for the responsible development of natural gas and LNG. In confirmation of B.C.'s potential to benefit from harnessing natural gas resources, the Commission's hydrocarbon and by-products reserves estimates at year-end 2011 reported a five per cent increase of raw natural gas reserves over the 2010 estimate. Once again, this estimate represents the highest level of remaining raw gas reserves, which is due in part to shale gas exploration in northeast B.C.

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

The Commission has been working on optimizing its single-window service to the oil and gas sector through its statutory authorities under OGAA and additional authorities delegated to the Commission by partner agencies. By streamlining application and decision making processes, the Commission continues to meet expectations for a stable regulatory regime and the efficient and transparent application of regulations.

The prospect of natural gas liquefaction and LNG exporting has raised numerous regulatory and social questions, challenges and opportunities. The increased activity and interest in oil and gas development throughout the province has highlighted the need for timely information, and participation, from the regulator. The Commission has worked to ensure consistent service levels, relevancy of client services and access to services and information throughout B.C. is available for directly affected stakeholders, or any interested party.

## DRIVER – NORTH AMERICAN GLOBAL NATURAL GAS MARKETS

### POTENTIAL INFLUENCE

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

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

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

### ACTIONS AND OUTCOMES DURING 2012/13

The Commission has kept pace with the advent of technologies such as horizontal drilling and multi-stage hydraulic fracturing that is now providing economically viable access to hydrocarbons locked within extremely low permeability rock such as shales and tight siltstones/sandstones. The Commission has published its annual Hydrocarbon and By-Product Reserves report showing recovery rates in B.C. are comparing well to historic resource recovery rates for conventional higher permeability reservoirs.

The viable access to these previously inaccessible formations is increasing the available reserves of natural gas and associated liquids in B.C. and across Canada. This has spurred interest in British Columbia's natural gas resources and highlighted possible exporting opportunities to Asia.

In response to heightened interest in B.C. natural gas, the Commission has built capacity to regulate LNG export facilities and associated pipelines.

## POTENTIAL INFLUENCE

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

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

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

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

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

## ACTIONS AND OUTCOMES DURING 2012/13

During 2012 at least 10 multinational companies are considering proposals to build large volume natural gas liquefaction plants within B.C. to ship liquefied natural gas to overseas markets. Some estimates show that by 2020, the demand for natural gas to feed these plants may be as much as three times the current production levels within B.C., approaching 10 Bcf/day.

Ensuring British Columbia is ready to service this demand; the Commission has continued to deepen its knowledge of surface and subsurface resources and highly valued characteristics of each of the northeastern B.C. resource plays. Moving natural gas from northeastern B.C. to the coast for shipping introduces new areas of the province to oil and gas development. As these new regions and projects are identified for oil and gas activity, the Commission has provided stakeholders, First Nations and other interested parties clear and timely communications regarding the role of the regulator.

In the past year proposals for three additional major pipelines were announced that would transmit natural gas from northeastern B.C. to the shipping ports proposed in northwest B.C., including Kitimat and Prince Rupert. In Aug. 2012, the Commission issued a permit for a portion of the Pacific Trails Pipeline which will carry natural gas from Summit Lake to Kitimat for liquefaction at the proposed Kitimat LNG project. The Commission also received applications for Investigative Use Permits for two other pipelines.

This past year the Commission enhanced its ability to provide a single point of contact for all major project proponents for advice on B.C.'s regulatory processes by establishing a Major Projects Office.

The Commission has worked with the provincial Environmental Assessment Office and the Canadian Environmental Assessment Agency to reduce duplication of consultations and environmental assessment processes. By working closely with other ministries and agencies the Commission ensures the regulatory paths for proponents are clear and free of unnecessary regulatory burden.

## POTENTIAL INFLUENCE

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

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

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

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

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

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

## ACTIONS AND OUTCOMES DURING 2012/13

The Commission has built organizational capacity by maintaining a highly knowledgeable, professional and adaptable workforce and modern business systems and infrastructure. With the spotlight on natural gas development as a driver of B.C.'s economy, the Commission has continued to make organizational capacity and organizational development a strategic priority.

The Business Transition Strategy (BTS), a multi-year program for advancing the Commission's business systems, was resourced and highlighted as a strategic priority for the Commission in 2012/13. The BTS is a capital investment and organizational change program that will prepare the Commission for anticipated activity level changes as a result of LNG investment decisions by advancing permitting processes, information management, and reporting. This will enhance data management and integrity through streamlining systems, strengthening controls and auditability.

The Workforce Plan was completed in 2012/13 and documents the Commission's response to labour, demographic and industry trends by ensuring and advancing employees' knowledge, skills and competencies in areas anticipating operational needs going forward. The plan effectively utilizes both internal and external development opportunities to safeguard the long-term success of the organization through learning and development strategies, proactive workforce planning and employee engagement strategies. Employee focused strategies have positioned the Commission as an employer of choice and ensured employee feedback guides the building of new programs, business plans and workforce plans.

2012/13 saw the renegotiation of the Professional Employees Association (PEA) and BC Government and Service Employees' Union (BCGEU) collective bargaining agreements which aided the Commission in working towards a competitive compensation plan for all employees.

Ground was broken for the construction of the LEED® Gold office in Fort St. John in the winter of 2012/13. The operational headquarters combines office space and a Core Lab storage facility with a projected move in date of summer 2013.

## DRIVER – REGULATORY TRENDS

### POTENTIAL INFLUENCE

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

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

### ACTIONS AND OUTCOMES DURING 2012/13

Led by the General Counsel and Corporate Secretary, the Commission's Legal & Regulatory team leads the organization's participation in legislative and regulatory initiatives, which may be at the provincial, inter-provincial or federal level and may vary in nature from strategic, such as the Natural Resource Roads Act and the integrated Decision Making Initiative, to amendments to remove redundancies in regulatory requirements.

Certain regulatory and legislative initiatives also provide opportunities to strengthen the Commission's single-window regulatory model acclaimed by many oil and gas jurisdictions as highly efficient and effective.

Work completed under regulatory and legislative initiatives in 2012/13 included a comprehensive set of amendments to the Drilling and Production Regulation to enhance its efficiency and effectiveness, particularly for unconventional gas development. Also of significant importance was the development of the Oil and Gas Road Regulation under OGAA to improve consistency and enforceability regarding construction, maintenance, and use of oil and gas roads and bridge to the wider provincial initiative on natural resource roads.

Commission staff have been designated with authorities to issue longer term water licences in addition to short term approvals.

Ensuring British Columbia has a robust regulatory framework for large LNG plants is an ongoing initiative which will continue into 2013/14. At the federal level, this included regulatory provisions for LNG development on federal and reserve land.

POTENTIAL INFLUENCE

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

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

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

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

ACTIONS AND OUTCOMES DURING 2012/13

Throughout 2012/13, Commission representatives continued as active members of the provincial negotiating team led by the Ministry of Aboriginal Relations and Reconciliation (MARR) with responsibility for re-negotiating Consultation Agreements with B.C. Treaty 8 First Nations. Of the eight Agreements that expired in 2011 and 2012, Doig River, Prophet River, Saulneau, and West Moberly have Interim Capacity Agreements. McLeod Lake was extended to Oct. 31, 2013 while re-negotiation continues, and Fort Nelson and Halfway have signed onto 10 year Agreements. Discussions with Dene Tha continue regarding renegotiating a Consultation Agreement.

To meet the legal duty to consult during circumstances of expired Agreements, the Commission has developed an Interim Consultation Procedure with Treaty 8 to guide consultations and timelines on oil and gas applications.

Recognizing oil and gas development is expanding into First Nation's traditional territories in northwestern B.C., an area not familiar with oil and gas, the Commission has been working with partner agencies and First Nations to develop an understanding and establish a working relationship with those affected by this development. This has included coordinating First Nations engagement with the Environmental Assessment Office and National Energy Board. In 2012/13 the Commission hired an Aboriginal Program Specialist to focus on working with over 20 First Nations outside of northeastern B.C. on LNG related consultations.

Through participation on the Cross Agency Aboriginal Relations Team and the Northeast Managers Committee, the Commission continued to work with government agencies on First Nation land and resource management issues broader than the mandate of the Commission. For 2012/13 those initiatives have included updating the provincial database, cumulative impacts, access management, wildlife management, initial impact assessments, aboriginal relations staff training, and water use.

## POTENTIAL INFLUENCE

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

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

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

## ACTIONS AND OUTCOMES DURING 2012/13

In 2012/13 the Commission, in a collaborative effort with the Ministries of Forests and Lands and Natural Resource Operations (FLNRO) developed the area based analysis (ABA) approach – an assessment of the current condition of selected environmental and cultural values in a defined area, considering cumulative impacts from past activities that will be used to assist decision-making on new proposed activities in that area. The analysis approach is aligned with the cumulative effects assessment framework being developed by the Ministries of Forests, Lands and Natural Resource Operations and Environment (MOE). A draft analysis has been completed for the Liard Gas Basin, and in conjunction with FLNRO's North East Cumulative Effects Demonstration Project, early stages of consultation with First Nations and the oil and gas sector have been undertaken.

Ongoing collaboration with partner and other resource agencies provided insights on ways the Commission can streamline permitting processes and associated data collection.

Working with partners involved in the SCEK Fund, the Commission has supported the development of an improved baseline air quality monitoring program in northeast B.C.

Utilizing funds from the Orphan Sites Reclamation Fund, the Commission has performed restoration activities as planned on three designated sites during 2012/13.

Enhancements were also made for the data collection and analysis of the type, combination and concentration of chemicals in hydraulic fracturing fluids used at each well where the technique is performed. The data is made publicly available through an online chemical disclosure registry at [www.FracFocus.ca](http://www.FracFocus.ca).

In collaboration with FLNRO and Geoscience BC, the Commission completed the North East Water Tool (NEWT) in 2012/13. NEWT is a GIS-based decision-making tool for allocating water for all purposes, including oil and gas uses, in northeast B.C., in

POTENTIAL INFLUENCE



ACTIONS AND OUTCOMES DURING 2012/13

consideration of all other uses and while maintaining required environmental flows. *NEWT* is publicly available on the Commission website, and is now being used by Commission and FLNRO staff for water use decisions, and by First Nations, industry and others. The public release of quarterly and annual reports on short-term water approvals has become an established practice.

The Commission collaborated with the Ministry of Energy, Mines and Natural Gas (MEMNG), along with FLNRO, MOE, MOH and the Canadian Association of Petroleum Producers, on the development of a Shale Gas Hydraulic Fracturing Water Strategy. Additionally, the Commission collaborated with FLNRO and MOE on the development of a NorthEast B.C. Water Stewardship strategy. These two water-related strategies are intended to provide for clear and consistent management of the water resource in northeast B.C., to ensure that the quality or quantity of water is not impaired due to industrial use.

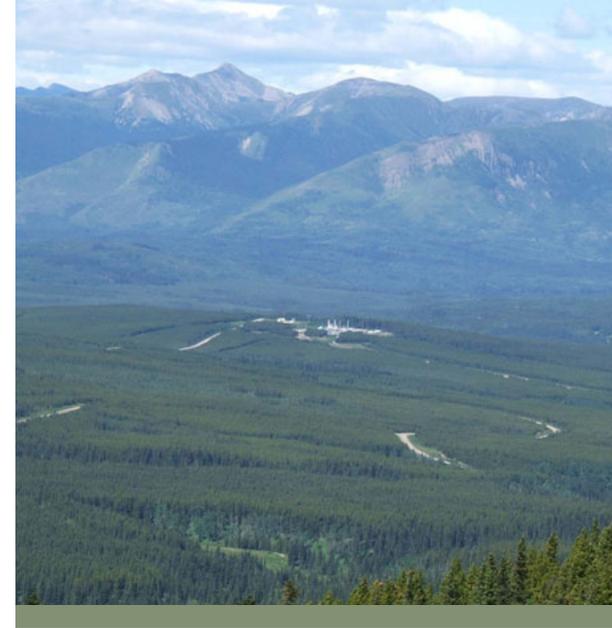
The Commission has supported the BC Boreal Caribou Implementation Plan by implementing special operating practices to mitigate the effects of oil and gas development in Boreal Caribou critical habitat areas. Working with industry and provincial wildlife managers, the Commission has managed and designed research and effectiveness monitoring projects to further the understanding of oil and gas interactions with Boreal Caribou and identify improvements that can be made. The Commission has also lent support to the development of a similar implementation plan for Peace Northern Caribou.

The Commission has proposed changes to its agreement with the Agricultural Land Commission, for improved regulation of oil and gas activities within the agricultural land reserve.

## Government's Letter of Expectations

The Government's Letter of Expectations is an agreement between the Commission and its sole shareholder, the Government of British Columbia, on corporate mandate, strategic priorities, and performance expectations. The Government's Letter of Expectations sets out broad provincial aims on oil and gas policy and provides specific direction to the Commission. It is reviewed annually and is the basis for the preparation of the Service Plan and Annual Service Plan Reports.

The 2012/13 Shareholder's Letter of Expectations was signed on Feb. 21, 2012 and can be viewed on the Commission's website at [www.bcogc.ca](http://www.bcogc.ca). The Commission-specific direction is presented here, along with the Commission's response.



### GOVERNMENT'S LETTER OF EXPECTATIONS

Continue to advance the governance renewal initiative, including proposals to the Ministry of Energy, Mines and Natural Gas for any legislative changes, to enable the implementation of modern and robust governance structure and governance practices.

Continue to develop and improve operational regulations to ensure British Columbia maintains a safe, effective and competitive regulatory framework.

Ensure coordinated and effective surface and subsurface resource development and value-based approach to natural resource management.

### COMMISSION'S RESPONSE

The Board led the governance renewal and oversaw implementation of the Commission's strategic planning and performance management system.

The Commission optimized the single window regulatory model through the Legislative and Regulatory Initiatives Program. Permitting for large LNG plants and issuance of provincial authorizations under the Land Act, Forest Act and Water Act for NEB authorized pipelines.

In 2012/13 the Commission collaborated with numerous partner agencies to complete the first draft of the Liard Gas Basin area based analysis. The process for cumulative effects of selected environmental and cultural values, considers all past and reasonably foreseeable impacts.

## GOVERNMENT'S LETTER OF EXPECTATIONS

Continue to support the successful implementation of the BC Energy Plan as it relates to the operation of the oil and gas industry.

Support provincial policies with respect to oil and gas resource development that may stem from emerging global market opportunities (e.g. Liquefied Natural Gas exports).

## COMMISSION'S RESPONSE

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

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

In addition to the specific accountabilities above, the Commission also complies with government direction for being carbon neutral under the Greenhouse Gas Reduction Targets Act and reports out accordingly. In 2012/13, the Commission was able to decrease its diesel consumption in its fleet vehicles, work commenced on its LEED® Gold office space in Fort St. John and power management software was installed in all remaining and new computers. These efforts, combined with the purchase of carbon offsets, ensures the Commission meets the government goal of a carbon neutral public sector.



## Actual Vs. Planned Performance and Benchmarks

The 2012/13 – 2014/15 Service Plan sets specific objectives along four strategic priorities for the Commission.

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

In addition to reporting 2012/13 results against service plan targets, this report includes an update on changes to strategic objectives, measures and targets made during the year for the 2013/14 – 2015/16 Service Plan issued in Feb. 2013. Certain objectives were integrated into Commission operations in 2012/13, with strategic emphasis placed on the single-window regulatory approach, organizational structure to increase efficiency and effectiveness of operations, workforce optimization, and internal and external communication. A new objective was identified to optimize the Commission's expertise and processes pertaining to the regulation of LNG facilities and associated major projects. The Commission deems these strategic objectives mission critical and the work associated with the objectives will continue into the next planning cycle.

The Commission's operations are guided by numerous indicators of inputs and outputs. Operational indicators of activity levels are reported internally on a weekly basis. Performance results for both Permitting & Authorizations and Compliance & Enforcement are summarized monthly and compared to the same period in previous years. The Board of Directors and senior management receive a quarterly report on key operational and strategic performance measures. Performance measures have been selected from numerous indicators used to track and guide activities on a daily basis. The Commission measures both outputs and outcomes where possible, and for reporting purposes follows the eight reporting principles published by the Office of the Auditor General of British Columbia.

Data used in performance tracking and measurement comes from a number of sources, including:

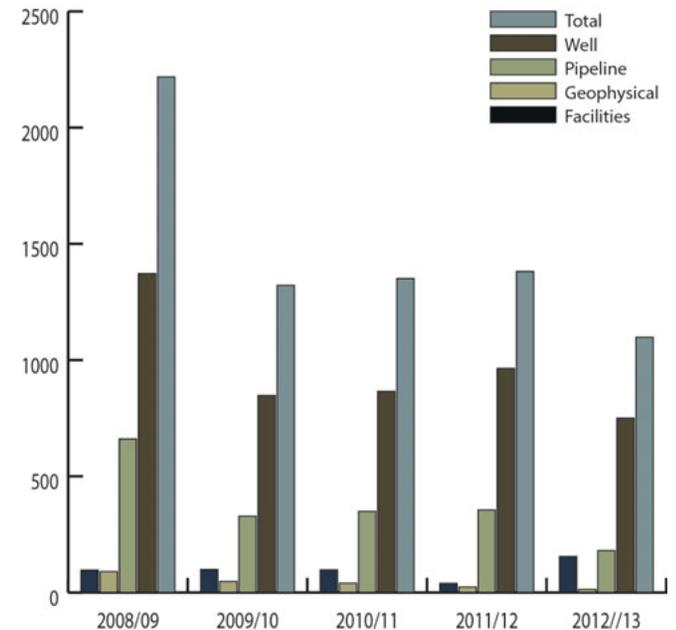
- Application and compliance statistics mainly from the Commission's database systems.
- Engineering information related to oil and gas operations in British Columbia.
- Human resources information, including tracking of employee turnover and development, and workforce engagement surveys.

Where possible, benchmark and baseline information is reviewed to provide context for the results achieved by the

Commission. Detailed information related to the methodology of Commission performance measures is maintained and updated as necessary. The Commission continued to maintain relationships with external agencies as well as other government ministries to improve the quality of data used to track and measure progress.

In comparison to other North American oil and gas regulators, the Commission provides a broader range of services through its single-window model. Notwithstanding these differences, the Commission benchmarks its performance results against selected North American oil and gas regulators and against comparable provincial Crown corporations and public agencies.

Figure 2: Oil & Gas Application Approvals



# Strategic Priorities, Objectives and Performance Measures

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

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

## Objectives

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

## 2012/13 Results

A number of achievements reported under the strategic drivers attest to the Commission's successful delivery on objectives. The single window regulatory approach was strengthened through amendments to the Drilling and Production Regulation, the new Oil and Gas Road Regulation, and the new authority to issue long-term water licences for oil and gas activities. Many regulatory processes are enabled through agreements and memoranda of understanding (MOU) with regulatory partners. The Commission makes every effort to maintain dialogue and effective working relationships with partner agencies and measures its success in negotiating and updating bilateral agreements.

MOUs of priority during 2012/13 were those with the National Energy Board regarding pipelines under their jurisdiction within B.C., with the Ministry of Forests, Lands and Natural Resource

Operations for designating water managers and assistant water managers and with the Environmental Assessment Office for major oil and gas projects also reviewable under the Environmental Assessment Act.

One way for the Commission to monitor regulatory excellence is through internal audits with respect to compliance with applicable laws, regulations and other contractual obligations. The audits completed in accordance with the annual plan pertained to compliance with contract procurement policy and procedures, financial reporting obligations, delegated authority terms, as well as identifying potential gaps in regulations.

## Strategic Priorities, Objectives and Performance Measures

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Implementation of an annual plan for developing or updating working agreements with strategic partners.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
1%-50% - Non-completion	n/a	100%	100%	100%	100%	100%	100%
50% - 85% - Partial completion							
85% - 99% - Substantial completion							
100% - Completion							
Baseline: 100% (2011/12)							
Benchmark: n/a							

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Implementation of annual Internal Audit Plan with respect to compliance with applicable laws, regulations, and other contractual obligations.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
1%-50% - Non-completion	n/a	100%	100%	100%	100%	100%	100%
50% - 85% - Partial completion							
85% - 99% - Substantial completion							
100% - Completion							
Baseline: 100% (2011/12)							
Benchmark: n/a							

# Strategic Priorities, Objectives and Performance Measures

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

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

## Objectives

- Continuously improve transparency and certainty in statutory decision making.
- Streamline decision-making processes and increase technical capacity for complex applications in order to improve the effectiveness and efficiency of statutory decisions.
- Continuously engage First Nations in the permitting processes.
- Enhance a culture of safety and service excellence.
- Through efficient, measured, and transparent operations, increase British Columbia's competitiveness as an oil and gas investment jurisdiction.
- Increase data integrity, controls and standardization to allow continuous improvement in all business processes and predictive analysis capabilities to support statutory decision-making.

- Improve service to external clients viewing well files, core collection and technical reports.
- Achieve and maintain the BC Energy Plan flaring reduction goals.

## 2012/13 Results

The measures under Operational Excellence indicate achievements to the level, and quality, of Commission service. 2012/13 saw a rise in the number and complexity of facilities and pipeline applications, but despite these factors, the Commission was able to exceed expectations for the number of days to process new well applications at 17 days.

Anticipating the effect the ongoing re-negotiation of consultation process agreements with First Nations would have on the percentage of applications responded to by First Nations, the results for the performance measure were anticipated to be below the targeted 65 per cent as ongoing negotiations have impacted response rates. Throughout 2012/13 the Commission maintained

the legal duty to consult during circumstances of expired CPAs, by developing an Interim Consultation Procedure to guide consultations and timelines on oil and gas applications and by providing interim capacity funding.

The third measure complements the internal audit measure introduced under the Regulatory Excellence strategic priority. In 2012/13 the Commission strengthened capacity for Internal Audit to successfully complete planned internal audit engagements with respect to the efficiency and effectiveness of internal processes. Liaising with the Commission's Operations Analysis team, the newly appointed director of Internal Audit worked closely with senior leadership, the Board of Directors and the Audit Committee to undertake assurance and consulting activities designed to add value and improve an organization's operations through audit, review, and investigation activities.

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

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Calendar days to process new well applications.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 33 (2001/02) Benchmark: 30 (Colorado Oil and Gas Conservation Commission Strategic Plan)	24	25	17	24	21	21	21

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Percentage of applications responded to by First Nations.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 82% (2009/10) Benchmark: n/a	88%	52%	56%	65%	85%	85%	85%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Implementation of annual Internal Audit Plan with respect to efficiency and effectiveness of internal processes.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
1%-50% - Non-completion 50% - 85% - Partial completion 85% - 99% - Substantial completion 100% - Completion Baseline: 100% (2011/12) Benchmark: n/a	n/a	100%	95%	100%	100%	100%	100%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Quantity of non-routine gas flared per unit of natural gas production.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 8.0 m3/1,000 m3 (1996) Benchmark: n/a	5.6	4.9	4.8	5.2	5.2	5.2	5.2

# Strategic Priorities, Objectives and Performance Measures

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

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

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

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

## Objectives

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

- Strengthen partners' and stakeholders' confidence in the Commission.

## 2012/13 Results

The performance measure on industry-to-stakeholder facilitation service provides feedback on the type and frequency of quality of life issues raised by various stakeholder groups and how they were addressed by the Commission.

The consistently high performance in this area attests to the increasing awareness of stakeholders of the service available through the Commission and the increasing effectiveness of the tools and approaches used to address issues.

In addition, the presence of the Commission in the communities where oil and gas activities take place continues to be measured by the number of community meetings with Commission participation. The moderate levels of oil and gas

activity and the dedicated landowner liaison and community relations resources have allowed the Commission to more effectively address on an individual basis any landowner or community issues that have been brought to its attention, which resulted in fewer meetings than targeted for 2012/13.

During 2012/13, the annual employee development and performance evaluation process, or Employee Performance and Development Conversations (EPDC), results were less than the targeted amount. Annual turnover and internal movement of employees were contributing factors. The Commission continues to work towards being a strategically focused organization where alignment with corporate strategy is reflected in employees' personal performance and development plans, and regards improvement in this area as key to supporting organizational success.

The increasing turnover trend in 2012/13 remained driven by the following factors:

- Demographic pressures on the workforce as a result of “baby boomers” (those born between 1946 and 1964) rapidly reaching retirement age.
- Increasing number of voluntary retirements.
- Continued pressure from industry competing for the same human capital.
- Inequitable pay levels in relation to comparable positions in the oil and gas industry – (primary exit interview trend).
- Mandated management wage freeze and salary cap.

2012/13 saw the renegotiation of the PEA and BCGEU collective bargaining agreements which aided the Commission

in working towards a competitive compensation plan for included employees. The completion of the Commission strategic Workforce Plan identifies mitigation strategies to combat the negative impacts of the high turnover rate. The Commission continues to place importance on all workforce related issues.

Results for 2012 employee engagement level per the Work Environment Survey (WES) results will be reported in the 2013/14-2015/16 Annual Report since the WES will be deployed in September. The survey covers all aspects of the work environment and gives a set of benchmarks to compare to other Agencies, Boards and Commissions that take part in the same survey, or all work units in the BC Public Service

ministries. The BC Public Service decided to delay the launch of its survey this year to September instead of April. This helps reduce the frequency of surveys and provides more time to analyze the results. Meaningful actions can then be prioritized and necessary changes made. The Commission will continue to use the benchmarks provided to the organization and compare them to all the other groups. An earlier survey in April does not have these important comparators.

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Industry-to-Stakeholder Issues addressed through Commission’s Facilitation Service.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: n/a Benchmark: 86% (Alberta ERCB, 2009)	94%	96%	96%	90%	90%	90%	90%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Number of Community Meetings with Commission Participation.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 10 (2007/08) Benchmark: n/a	11	9	11	12	12	12	12

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Percentage of employees with an Employee Performance & Development Conversations (EPDC) Plan in place.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 98% (2008/09) Benchmark: n/a	98%	92%	82%	100%	100%	100%	100%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Voluntary turnover rate of regular staff.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 9.1% Benchmark: 10.6% (Alberta ERCB)	11%	12%	12%	10%	10%	10%	10%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Employee Engagement Level per Work Engagement Survey (WES) results.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 69 (2008/09) Benchmark: 65 (BC Public Service, 2011)	n/a*	66	TBD	69	69	70	70

\* The results reported in 2010/11 are not comparable to 2011/12 results and were therefore not included.

# Strategic Priorities, Objectives and Performance Measures

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

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

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

## Objectives

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

## 2012/13 Results

With well-established functions and processes to support all aspects of its mandate, the Commission has developed

greater capacity to practice more rigorous strategic planning based on informed assessments of real and perceived risks. Risk-based approaches are also used in financial management, in the selection of sites for field inspection, and for ensuring permit holders' financial position does not cause an environmental liability for the province.

Reporting on field inspection results is important and relates to the Commission's role as a regulator, providing industry oversight and protecting public safety. Inspected sites are deemed to be in compliance if the inspection finds no deficiencies, or any identified deficiencies are corrected within the allotted timeframe in accordance with the deficiency type. A total of 4,033 inspections were completed during the year, of which four were identified as "high risk non-compliance", as reflected in the measure. High risk deficiencies are remedied within 24 hours. For future years, the Commission has set the target for this measure at 100 per cent. The reason for the actual result being slightly lower than 100 per cent is

that some permit holders choose to shut in (which effectively shuts down) a site rather than address non-compliance. In those cases, the hazard is eliminated but the registered non-compliance remains. Field inspection compliance results are summarized and made publicly available in an annual report that can be found on the Commission's website at [www.bcogc.ca](http://www.bcogc.ca) and work has been underway this past year to provide a more comprehensive compliance report on a more frequent basis.

Performance against reducing carbon emissions from the Commission's operations is monitored through the per employee carbon footprint and was 1.8 tCO<sub>2</sub>e in 2012/13. Continued efforts to ensure the optimal size of the Commission fleet and employees adhering to the Motor Vehicle Policy have resulted in reduced fuel consumption and the increased awareness and accountability at the individual employee level motivates a culture of conservation, sustainable business practices and environment-conscious living.

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Field Inspection Compliance Rate with respect to High Risk Deficiencies.	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 96.6% (2008/09) Benchmark: 98.3% (Alberta ERCB, for calendar year ending Dec.31, 2009)	99.7%	99.5%	99.9%	100%	100%	100%	100%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Carbon Emissions Per Employee	2010/11	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Baseline: 2010/11 Emissions - 1.9 tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) per employee Benchmark: TBD	1.9	1.8	1.8	1.7	1.6	1.6	1.6



## Financial Report

The financial position of the Commission at the end of fiscal 2012/13 is discussed here in conjunction with the appended draft financial statements and related notes for the fiscal year-ended March 31, 2013. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

With Treasury Board approval, the Commission recognized a deficit of \$2.6 million as a result of a \$3.9 million increase in Orphan Site Reclamation Fund (OSRF) expenses to fund the remediation and reclamation of additional orphan sites in future years.

From operations the Commission realized a \$2.2 million surplus compared to the budgeted surplus of \$2.6 million from in the 2012/13 – 2015/16 Service Plan. This surplus was primarily due to a reduction in operating expenses.

Total revenues came in at \$40 million, compared to the budget of \$48 million due to a drop in oil and gas activities that affected both application fees and the levies on production. Production levies revenue of \$26.8 million includes a tax on production of \$1.1 million to fund the Orphan Sites Reclamation Fund, which is administered by the Commission and considered as part of the entity for financial reporting purposes.

Total Commission expenses (not including orphan sites reclamation) were \$37.4 million compared to \$45.7 million budgeted. The reduced expenses are a result of the Commission postponing some planned projects in response to decreased revenue. Salaries and Benefits expenses in 2012/13 were \$20 million, just under the Service Plan budget of \$21.6 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. Both agreements were successfully

Comparative Financial Results and Financial Outlook (\$000s)	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Budget	Variance from Budget	2013/14 Budget	2014/15 Forecast	2015/16 Forecast
<b>Revenues</b>								
Production Levies (incl. OSRF)	24,701	28,893	26,838	31,157	(4,319)	29,346	30,938	31,808
Annual Pipeline Levies	2,056	2,215	2,160	2,200	(40)	2,281	2,349	2,420
Fees	12,956	12,167	9,806	14,557	(4,751)	10,828	10,601	13,385
Misc & Recoveries	265	952	822	343	479	838	425	436
<b>Total Revenues</b>	<b>39,978</b>	<b>44,227</b>	<b>39,626</b>	<b>48,257</b>	<b>(8,631)</b>	<b>43,293</b>	<b>44,313</b>	<b>48,049</b>
<b>Expenses</b>								
Salaries and Benefits	18,159	18,967	20,039	21,611	(1,572)	22,019	22,192	23,302
Operating & First Nations Expenses	16,182	17,287	17,340	24,073	(6,733)	20,173	20,680	23,225
Orphan Sites Reclamation Fund (OSRF)	53	917	4,825	1,000	3,825	1,000	1,000	1,000
<b>Total Expenses (incl. amort.)</b>	<b>34,394</b>	<b>37,171</b>	<b>42,204</b>	<b>46,684</b>	<b>(4,480)</b>	<b>43,192</b>	<b>43,872</b>	<b>47,527</b>
<b>Annual Surplus (deficit)</b>	<b>5,584</b>	<b>7,056</b>	<b>(2,578)</b>	<b>1,573</b>	<b>(4,151)</b>	<b>101</b>	<b>441</b>	<b>522</b>

renegotiated in 2012/13, providing modest wage increases within government's mandate.

Cash balances increased from \$16 million at March 31, 2012 to \$18.0 million at March 31, 2013. Of this, \$6.1 million (2012 \$5.1 million) was legally required to be used for purposes of Orphan Site reclamation. Additionally, at March 31, 2013 the Commission held as security deposits from operators \$17.7 million in cash (an increase of \$5.3 million from prior year) and Letters of Credit of \$17.3 million (an increase of \$2.6 million from the prior year), against potential liability with respect to site reclamation and abandonment.

Investments in tangible capital assets during the year were \$2.3 million, primarily related to new business applications development and migration of existing applications to a new platform. Annual amortization for this group of assets was \$1.9 million. The accumulated surplus of the Commission started the year at \$28.8 million and ended the year at March 31, 2013 at \$26.2 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 is therefore not reporting under this requirement of the Act. Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be \$9 million for the next three years.

### Key Assumptions & Statistics

Assumption	2012/13 Projected	2012/13 Actual	2013/14 Projected	2014/15 Projected	2015/16 Projected
New well applications					
Per 2013/14 – 2015/16 Service Plan	675	803	700	700	1,000
Marketable Gas Volumes					
Per 2012/13 – 2014/15 Service Plan	41.8 x 10 <sup>9</sup> m <sup>3</sup>	--	46.1 x 10 <sup>9</sup> m <sup>3</sup>	50.9 x 10 <sup>9</sup> m <sup>3</sup>	
Per 2013/14 – 2015/16 Service Plan	35.8 x 10 <sup>9</sup> m <sup>3</sup>	35.2 x 10 <sup>9</sup> m <sup>3</sup>	38.7 x 10 <sup>9</sup> m <sup>3</sup>	43.0 x 10 <sup>9</sup> m <sup>3</sup>	49.6 x 10 <sup>9</sup> m <sup>3</sup>
Produced Oil Volumes					
Per 2012/13 – 2014/15 Service Plan	1.261 x 10 <sup>6</sup> m <sup>3</sup>	--	1.236 x 10 <sup>6</sup> m <sup>3</sup>	1.154 x 10 <sup>6</sup> m <sup>3</sup>	
Per 2013/14 – 2015/16 Service Plan	1.3 x 10 <sup>6</sup> m <sup>3</sup>	1.2 x 10 <sup>6</sup> m <sup>3</sup>	1.3 x 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>
Number of well sites to be reclaimed under the Orphan Sites Reclamation Fund, with planned annual cost of \$1 million per year until 2016/17.	4	3	4	4	4

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

Inflation estimated at three per cent per annum.

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

## Other Information Required By Shareholder

### Confidentiality

This report is complete and contains no confidential information.

### Report On Subsidiaries and Business Segments

The Commission has no subsidiaries. The Orphan Site Reclamation Fund is considered part of the entity for financial statements purposes.

### Contact Information

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

Phone: 250-419-4400

Mail: PO Box 9331 Stn Prov Govt, Victoria, B.C. V8W 9N3

Website: [www.bcogc.ca](http://www.bcogc.ca)

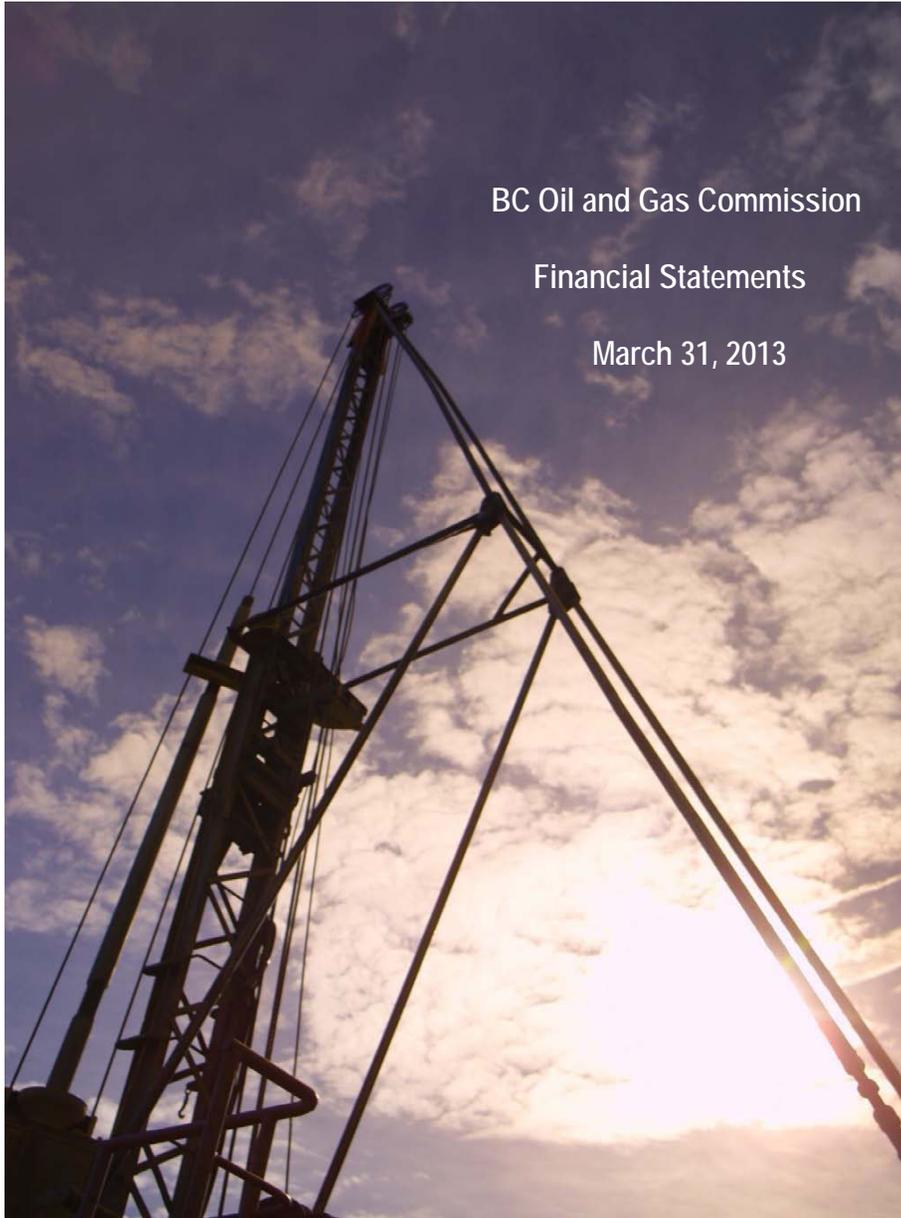
For more information regarding this Annual Service Plan Report, please contact:

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Phone: 250-419-4419

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BC Oil and Gas Commission

Financial Statements

March 31, 2013



#### Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2013 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 are 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 auditor, the Auditor General of British Columbia, conducts an independent examination, in accordance with Canadian auditing standards, and expresses his opinion on the statements. The external auditor has full and free access to the Audit Committee and management of the Commission, and meets when required.

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

On behalf of the Commission

Paul Jeakins  
Commissioner

Randall Smith  
Chief Financial Officer

May 15, 2013



## INDEPENDENT AUDITOR'S REPORT

*To the Board of Directors of Oil and Gas Commission, and  
To the Minister of Energy and Mines, Province of British Columbia*

I have audited the accompanying financial statements of Oil and Gas Commission ("the entity"), which comprise the statement of financial position as at March 31, 2013, and the statement of operations, statement of changes in accumulated surplus, statement of change 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 Oil and Gas Commission as at March 31, 2013 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.

*Victoria, British Columbia  
May 15, 2013*

  
Russ Jones, MBA, CA  
Acting Auditor General

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

	Note	March 31 2013	March 31 2012
<b>Financial assets</b>			
Cash	3	18,194	16,079
Security deposits	4	17,703	12,428
Accounts receivable	5	9,995	10,784
Due from government	7	3,218	2,883
Other assets		66	66
		<u>49,176</u>	<u>42,240</u>
<b>Liabilities</b>			
Accounts payable & accrued liabilities	8	1,782	1,674
Employee future benefits	9	224	240
Due to First Nations	10	2,707	3,062
Due to SCEK	6	875	606
Due to government		300	209
Deferred revenue	11	551	383
Deferred lease inducements		226	264
Liability for orphan sites	12	5,349	757
Security deposits	4	17,703	12,428
		<u>29,717</u>	<u>19,623</u>
<b>Net financial assets</b>		<u>19,459</u>	<u>22,617</u>
<b>Non-financial assets</b>			
Tangible capital assets	13	6,091	5,733
Prepaid expenses		697	475
		<u>6,788</u>	<u>6,208</u>
<b>Accumulated surplus</b>		<u>26,247</u>	<u>28,825</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

  
Arn van Iersel, Audit Committee Chair

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

Note	Budget 2013 (Note 19)	March 31 2013	March 31 2012
<b>Revenues</b>			
Production levies	31,157	26,838	28,893
Annual pipeline levies	2,200	2,160	2,215
Fees	14,557	9,806	12,185
Other revenue	343	822	934
	<u>48,257</u>	<u>39,626</u>	<u>44,227</u>
<b>Expenses</b>			
Oil and gas activities regulation	45,684	37,379	36,254
Orphan site reclamation	1,000	4,825	917
	<u>46,684</u>	<u>42,204</u>	<u>37,171</u>
<b>Annual (deficit) surplus</b>	<u>1,573</u>	<u>(2,578)</u>	<u>7,056</u>
<b>Accumulated surplus beginning of year</b>	<u>28,825</u>	<u>28,825</u>	<u>21,769</u>
<b>Accumulated surplus end of year</b>	<u>30,398</u>	<u>26,247</u>	<u>28,825</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 2013 (Note 19)	March 31 2013	March 31 2012
Annual (deficit) surplus	1,573	(2,578)	7,056
(Acquisition) of tangible capital assets	(3,822)	(2,302)	(2,530)
Amortization of tangible capital assets	1,731	1,945	1,650
	(2,091)	(357)	(880)
(Acquisition) of prepaid expense	(500)	(699)	(476)
Use of prepaid expense	400	476	302
	(100)	(223)	(174)
Increase (decrease) in net financial assets	(618)	(3,158)	6,002
Net financial assets at beginning of year	22,617	22,617	16,615
Net financial assets at end of year	21,999	19,459	22,617

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

	March 31 2013	March 31 2012
<b>Operating transactions</b>		
<b>Cash generated from:</b>		
Production levies	27,039	28,094
Annual pipeline levies	2,137	2,145
Fees	9,999	11,886
Interest	333	241
Miscellaneous and recoveries	565	916
	40,073	43,282
<b>Cash used for:</b>		
Salaries and benefits	(20,062)	(19,087)
Payments to First Nations	(7,679)	(5,276)
Operating expenses	(7,682)	(9,242)
Orphan site reclamation	(233)	(188)
	(35,656)	(33,793)
<b>Cash from operating activities</b>	4,417	9,489
<b>Capital transactions</b>		
Proceeds on sale of tangible capital assets	-	44
Cash used to acquire tangible capital assets	(2,302)	(2,530)
<b>Cash from (used in) capital transactions</b>	(2,302)	(2,486)
<b>Increase in cash</b>	2,115	7,003
<b>Cash beginning of year</b>	16,079	9,076
<b>Cash end of year</b>	18,194	16,079
<b>Consists of:</b>		
Cash - operating	12,113	10,989
Cash - Orphan Site Reclamation Fund	6,081	5,090
	18,194	16,079

## 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 and all gains and losses are reported in the statement of operations in the period in which they occur. 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	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 a rate of 20%.

PS3150 requires that the amortization method of the useful life of the remaining unamortized portion of tangible capital asset be reviewed on a regular basis. During the current fiscal year, the Commission revised the estimated useful life of the automotive equipment from 25% to 20%, with a 50% residual value to better reflect the useful life of this group of assets. The revisions were accounted for prospectively as a change in accounting estimate; as a result the amortization expense for the automotive equipment for the current financial year has been decreased by \$94.

## 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 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.

## 3. Cash – Orphan Site Reclamation Fund

Cash includes \$6,081 (2012:\$5,090) of cash segregated for use for the Orphan Site Reclamation Fund (OSRF). Net assets accumulated by the OSRF are designated for use by legislation and are not available for general use of the Commission – see note 12.

## 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. Under the program, refundable security deposits previously held by the Ministry of Energy and Mines under the Drilling and Production Regulation of the Petroleum and Natural Gas Act were transferred to the Commission in January 2011. The Commission, through the LMR program also undertook the responsibility to regularly assess security deposits and provide refunds. In addition to cash of \$17,703 (2012: \$12,428) the Commission holds \$17,258 (2012: \$14,743) in non-cash security in the form of irrevocable letters of credit which are not recorded in these financial statements. Security deposits are designated for use in settling potential permit holder remediation obligations. In fiscal 2013, the Commission realized \$153 (2012: \$118) from security deposits to satisfy remediation obligations of permit holders for specific orphan sites. This is reported within Other revenue on the Statement of Operations.

BC Oil and Gas Commission  
Notes to the Financial Statements for the years ended March 31, 2013  
(in \$000s)

5. Accounts receivable

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.

	March 31 2013	March 31 2012
Production levies receivable	7,641	8,273
Annual pipeline levies receivable	2,139	2,116
Fees	146	171
Other receivables	69	224
	<u>9,995</u>	<u>10,784</u>

6. Science and Community Environmental Knowledge (SCEK) Fund

The Commission administers 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 \$1,815 during the year on behalf of SCEK. The Commission charges an annual fee to SCEK to administer the fund.

7. Due from Government

	March 31 2013	March 31 2012
Levies collected	2,962	2,706
Recoveries and other	256	177
	<u>3,218</u>	<u>2,883</u>

8. Accounts Payable and Accrued Liabilities

	March 31 2013	March 31 2012
Accounts payable and accrued liabilities	646	531
Salaries and benefits payable	1,136	1,143
	<u>1,782</u>	<u>1,674</u>

Employee Leave Entitlements

As of March 31, 2013, 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 \$587 (2012: \$529) and this amount is included in salaries and benefits payable.

BC Oil and Gas Commission  
Notes to the Financial Statements for the years ended March 31, 2013  
(in \$000s)

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, 2011 indicated an unfunded liability of \$275 million for basic pension benefits. The next valuation will be as at March 31, 2014 with results available in early 2015. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2013 were \$1,553 (2012: \$1,402) and are included in salaries and benefits expense.

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, 2013 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 2013	March 31 2012
<b>Accrued retirement obligation</b>		
Balance at beginning of year	240	523
Current benefit cost	16	-
Interest	7	-
Valuation adjustment	-	(233)
Benefits paid	(39)	(50)
<b>Balance at end of year</b>	<u>224</u>	<u>240</u>
<b>Actuarial retirement obligation</b>		
Accrued benefit obligation	224	240
Unamortized actuarial loss	140	-
<b>Balance at end of year</b>	<u>364</u>	<u>240</u>

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

	2013	2012
Discount rate	3.15%	3.13%
Wages and salary escalation	1.7%	1.7%

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, 2013. Although assumptions may be similar, actuarial methodology was not used to determine March 31, 2012 figures.

#### 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 in negotiations with several First Nations.

#### 11. Deferred Revenue

	Balance at beginning of year	Receipts during year	Transferred to revenue	Balance at end of year
Well applications	249	8,215	(7,968)	496
Pipeline applications	134	654	(733)	55
	<u>383</u>	<u>8,869</u>	<u>(8,701)</u>	<u>551</u>

#### 12. Liability for Orphan Sites

The Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 to replace funding for The Ministry of Energy and Mines as a means for industry to pay for restoration of orphaned oil and gas sites and for related costs. Currently there are 38 sites designated as orphan sites, 10 which have been substantially restored, with the remainder undergoing restoration at various stages. At March 31, 2013, OSRF Net assets totalled \$1,179 (2012: \$4, 773).

The Commission has also identified a number of sites that could potentially be designated as orphan sites if no responsible owner can be established. Estimated cost for remediation of these sites could range from \$6,700 to \$8,900. Until such a time as ownership of these sites is established the potential liability to the Commission or the Orphan Sites Reclamation Fund cannot be determined.

#### 13. Tangible Capital Assets

March 31, 2013	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2013
<b>Cost</b>								
Opening balance	4,478	1,492	1,412	505	553	3,854	418	12,712
Additions	54	101	286	48	207	1,382	224	2,302
Disposals	-	(168)	(375)	(162)	-	(2,310)	(143)	(3,158)
Closing balance	<u>4,532</u>	<u>1,425</u>	<u>1,323</u>	<u>391</u>	<u>760</u>	<u>2,926</u>	<u>499</u>	<u>11,856</u>
<b>Accumulated Amortization</b>								
Opening balance	2,036	706	794	239	109	2,860	236	6,980
Amortization	598	127	364	98	62	597	99	1,945
Disposals	-	(168)	(375)	(162)	-	(2,312)	(143)	(3,160)
Closing balance	<u>2,634</u>	<u>665</u>	<u>783</u>	<u>175</u>	<u>171</u>	<u>1,145</u>	<u>192</u>	<u>5,765</u>
Net book value	<u>1,898</u>	<u>760</u>	<u>540</u>	<u>216</u>	<u>589</u>	<u>1,781</u>	<u>307</u>	<u>6,091</u>
<b>March 31, 2012</b>								
<b>Cost</b>								
Opening balance	3,876	1,195	935	502	415	3,178	361	10,462
Additions	602	297	477	7	414	676	57	2,530
Disposals	-	-	-	(4)	(276)	-	-	(280)
Closing balance	<u>4,478</u>	<u>1,492</u>	<u>1,412</u>	<u>505</u>	<u>553</u>	<u>3,854</u>	<u>418</u>	<u>12,712</u>
<b>Accumulated Amortization</b>								
Opening balance	1,483	584	506	166	323	2,394	154	5,610
Amortization	553	122	288	73	66	466	82	1,650
Disposals	-	-	-	-	(280)	-	-	(280)
Closing balance	<u>2,036</u>	<u>706</u>	<u>794</u>	<u>239</u>	<u>109</u>	<u>2,860</u>	<u>236</u>	<u>6,980</u>
Net book value	<u>2,442</u>	<u>786</u>	<u>618</u>	<u>266</u>	<u>444</u>	<u>994</u>	<u>182</u>	<u>5,732</u>

Included in the net book value of business systems development are assets not being amortized of \$759 (2012: nil) as they have not yet been completed and put to 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.

2014	2015	2016	2017	2018	Thereafter
<u>3,766</u>	<u>3,295</u>	<u>3,178</u>	<u>3,128</u>	<u>3,215</u>	<u>25,644</u>

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

#### 15. Contingent Liabilities

The Commission is 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 2013	March 31 2012
<b>Revenues:</b>		
Contract recoveries	38	76
Miscellaneous	333	241
	<b>371</b>	<b>317</b>
<b>Expenses:</b>		
Salaries and benefits	647	604
Building occupancy	1,033	990
Professional services and training	314	328
Grants	250	600
Telecommunications and information systems	145	314
Travel and vehicle costs	278	242
Office supplies and equipment	26	49
	<b>2,693</b>	<b>3,127</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.

	Actual amount reported	Estimation Range	
		Low	High
<b>Revenues</b>			
Production levies	26,838	26,599	27,136

#### 17. Measurement uncertainty (Continued)

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.

Liability for orphan sites	5,349	5,349	6,430
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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

	Oil and Gas Activities Regulation	Orphan Site Reclamation	March 31 2013	March 31 2012
Salaries and benefits	20,039	-	20,039	18,967
First Nations	7,054	-	7,054	6,785
Building occupancy	2,581	-	2,581	2,552
Professional services and training	1,951	-	1,951	2,009
Amortization	1,945	-	1,945	1,650
Travel and vehicle costs	1,415	-	1,415	1,412
Telecommunications and information systems	1,484	-	1,484	1,354
Grants	331	-	331	673
Orphan site reclamation	-	4,825	4,825	917
Office supplies and equipment	486	-	486	582
Miscellaneous	93	-	93	159
Remediation expenses	-	-	-	111
	<b>37,379</b>	<b>4,825</b>	<b>42,204</b>	<b>37,171</b>

#### 19. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors on January 11, 2012.

#### 20. Comparative note

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