



# 2011/12 ANNUAL SERVICE PLAN REPORT

BC Oil and Gas Commission – Published July 2012



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## Message from the Chair to the Minister of Energy and Mines



On behalf of the Board of Directors and our employees, I am pleased to submit the 2011/12 Annual Service Plan Report (Report) for the BC Oil and Gas Commission (Commission). It gives an account of a year of

increasing capacity to regulate natural gas development, which has become a major economic driver for the province.

The Commission showed that the internal stability it has been building for the last few years through clear processes, proper delegation and succession planning has paid off. In October 2011 Paul Jeakins was appointed Commissioner and Chief Executive Officer after holding several senior positions with the organization over six years. Paul's open communication style and 25 years experience in regulatory and strategic decision making and organizational management have made for a short and smooth transition, with a promise for continued strong leadership ahead. As further testament to that, the Commission was selected as one of B.C.'s Top Employers for 2012.

The Commission regulates oil and gas activities in British Columbia and its staff know the important role they play in supporting the natural gas sector as a major generator of jobs and economic growth. The significant investment opportunities to exploit British Columbia's abundant natural gas resources can only be realized in a positive regulatory environment which brings certainty to both industry and British Columbians. The Commission supports commitments in the Premier's Canada Starts Here: The BC Jobs Plan; the BC Natural Gas Strategy; and the Liquefied Natural Gas – a Strategy for B.C.'s Newest Industry, all of which promote the development of the province's natural gas sector and the export opportunities afforded by liquefied natural gas.

As a result, the Commission has become even better prepared to review and assess complex applications for oil and gas projects, help ensure protection of public safety and the environment, and provide transparent communications with all regulatory partners and external stakeholders. Among the significant achievements are the implementation of an online registry for public disclosure of hydraulic fracturing fluids known as [FracFocus.ca](http://FracFocus.ca), the completion of hydrology modeling for northeastern B.C. to strengthen the stewardship of water resources, and the progress made in modernizing business systems to pave the way for electronic submission of oil and gas activities data collected by the Commission.

The Board has been truly engaged in the governance process through its well-functioning committees, a rigorous schedule of Board meetings and regular oversight of organizational performance. The strategic direction provided by the Board has been further developed by senior management and coupled with an inclusive business planning process.

Relations with First Nations have always been a priority for the Commission. We have been actively participating in the ongoing provincial process of renegotiating consultation process agreements with Treaty 8 First Nations. In the meantime, the Commission continued to provide capacity funding to those First Nations affected by proposed oil and gas projects.

The continuing North American trend of natural gas oversupply and moderate demand growth has caused natural gas prices to drop to a 10-year low in 2011. Despite the commodity price challenge, natural gas drilling and production in B.C. has slightly exceeded the Commission's projections for 2011/12. As a result, Commission operations were funded by production and pipeline levies of \$31.1 million and fees of \$12.2 million, with expenses totaling \$37.2 million. The Annual Surplus of \$7.1 million will be used to fund capital expenditures in the coming years.

The 2011/12 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, 2012 in relation to the 2011/12 – 2013/14 Service Plan. The financial statements conform to the Public Sector Accounting Standards adopted for 2011/12 and future periods. All significant decisions, events and identified risks, as of June 1, 2012, 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 2011/12 – 2013/14 Service Plan have been discussed and any significant changes identified.



Steve Carr  
Board Chair, BC Oil and Gas Commission



Kitimat, British Columbia

## Mission, Vision, Values

The Commission's legislated mandate per Section 4 of the Oil and Gas Activities Act is the platform for the Commission's mission and drives the organizational strategy. Recognizing their key role in steering the course of the organization and motivating employees' performance, the mission, vision and values were renewed in 2010 through an engaged across-the-board process.

### 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.

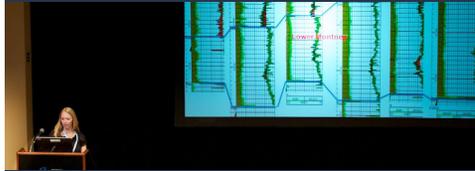
### Vision

To be the leading oil and gas regulator in Canada.

### Values

- |             |             |
|-------------|-------------|
| Respectful  | Efficient   |
| Accountable | Responsive  |
| Effective   | Transparent |

## Performance Drivers



CANADA STARTS HERE - THE BC JOBS PLAN

MAJOR PROJECTS



ORGANIZATIONAL CAPACITY

REGULATORY TRENDS



FIRST NATIONS

STEWARDSHIP



Cover Photo: Dan Hanson. Other Photos: Hardy Friedrich, Doug McLean, Pam Steckler & Dan Hanson.



## Organizational Overview

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

Since its inception as a service delivery Crown corporation, the Commission has served the public interest by administering a unique single-window model for permitting oil and gas exploration and development, and for ensuring operators' compliance with applicable regulations. This model has given British Columbia a competitive advantage over other jurisdictions and has supported effectiveness and efficiency in the regulatory

processes. Confirming and further strengthening the single-window approach, OGAA updates and consolidates the Oil and Gas Commission Act, the Pipeline Act and portions of the Petroleum and Natural Gas Act, and continues the Commission's regulatory authority with respect to oil and gas activities under the Environmental Management Act, Land Act, Water Act, Heritage Conservation Act, and Forest Act.

As a regulator, the Commission considers and adjudicates the diverse and sometimes conflicting interests of multiple stakeholder groups. The Commission has developed a long-term relationship with northeastern B.C. First Nations and continues to interface and build strong ties 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 form the basis for representing the interests of partner government agencies. The Commission is also proud of its open relationship with industry, based on mutual respect and responsiveness. Of strategic importance in its stakeholder relations is the Commission's work with northeastern communities to minimize the footprint and effects of oil and gas development.

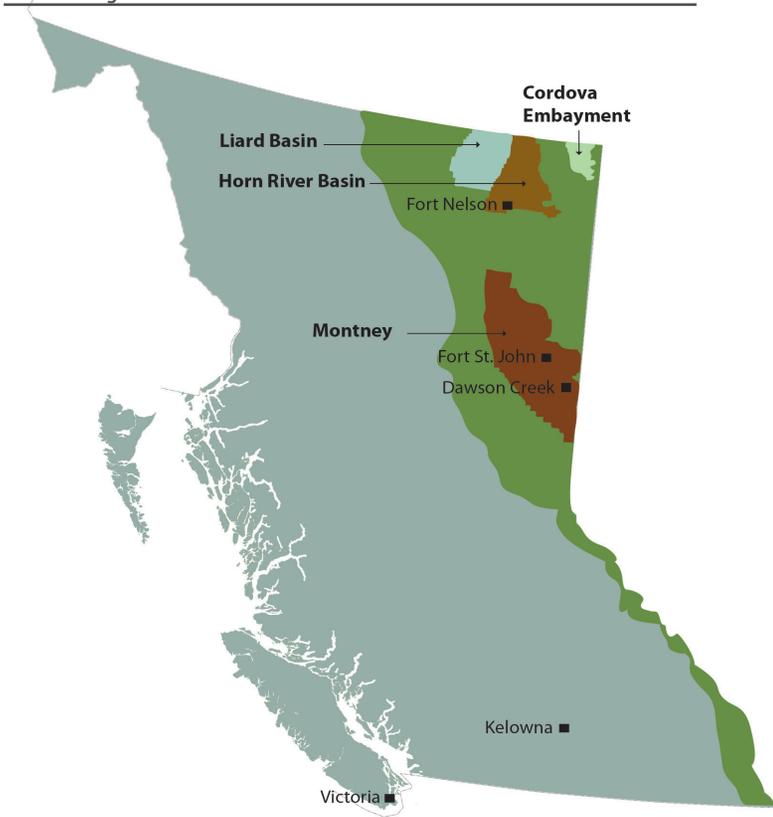
# COMMISSION MANDATE

## Section 4 of the Oil and Gas Activities Act

The purposes of the commission include the following:

- (a) to regulate oil and gas activities 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.

Figure 1: Unconventional Basins in British Columbia



The Commission recognizes its employees as a principal stakeholder group and is committed to supporting their continuous professional development and to providing a healthy work environment. Employees operate out of five locations – Victoria, Fort St. John, Dawson Creek, Fort Nelson and Kelowna, with the largest 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.

## COMMISSION CORE SERVICES

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

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

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

Resource conservation and production monitoring and measurement.

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

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

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

## Core Services and Corporate Structure

Statutory decision-making authority is vested in the Commissioner who also serves as the Chief Executive Officer. This role is supported by the Office of the Commissioner, made up of Corporate Affairs, Organizational Development, Legal and Regulatory and Executive Operations. The Commissioner delegates decision-making authority to staff members in Operations and Engineering led respectively by the Chief Operating Officer and Chief Engineer. Regulatory specialists led by the General Counsel provide support with interpretations of regulations and ensure consistency and effectiveness of the regulatory framework. A Corporate Services division under the Chief Financial Officer provides financial, information technology, human resource management, facilities and administrative support for the entire organization. The core responsibilities of each division are described on page 8.

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

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

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

Funding Area	Investment To-date (millions)	# of Active Projects (FY 11/12)	# of Projects To-Date
Environmental Impacts	\$3.0	7	33
Cumulative Impacts	\$1.1	1	15
Health and Safety	\$1.1	--	8
Traditional Knowledge	\$1.0	--	8
Collaboration & Communication	\$0.3	3	11

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).

OFFICE OF THE COMMISSIONER		OPERATIONS	
Legal & Regulatory	Legal Services Regulatory Initiatives Regulatory Support Corporate Governance	Permitting and Authorizations	Corporate Land Management First Nations Relations & Archaeology Regional Operations & Application Review
Corporate Affairs	Internal & External Communications Government Relations Strategic & Business Planning Integrated Risk Management Corporate Reporting	Community Relations	Community Relations Landowner Support
Organizational Development	Employee Engagement Strategic Workforce Planning Leadership Effectiveness Learning and Development	Operations Engineering	Compliance & Enforcement Waste Management and Reclamation Site Reclamation and Remediation Emergency Management & Public Safety Occupational Health and Safety
Executive Coordination	Executive Administrative Support Correspondence Management Event Planning	Resource Development & Geology	Petroleum Geology Stewardship Basin Management Major Projects
CORPORATE SERVICES		ENGINEERING	
Finance & Administration	Financial Planning & Accounting Corporate Property & Administration Records Management Core Research Centre Management	Drilling and Production	Operations Support Standards and Technical Requirements Programs Public Reporting Data Collection Engineering Investigations Well Integrity Programs
Human Resources Services	Recruitment & Orientation Payroll & Benefits Employee Performance Management Collective Bargaining & Labour Relations Workplace Wellness	Reservoir Engineering	Hydrocarbon Reserves Estimates Well Data and Operations Analysis
Information Technology	Information Technology & Infrastructure Business and Information Systems Web Development Geographic Information Systems	Pipelines and Facilities	Pipeline Application Engineering Review Pipeline Permit Revision and Amendment Facility Application Review and Determination Facility Permit Revision and Amendment Integrity Management Program Audit (pipeline) Integrity Management (facility) Standards and Technical Requirements Programs As-built Audit and Review Operations and Industry Technical Support Public Reporting Engineering Failure Investigation
Operations Analysis & Audit	Internal Audit Business Intelligence Process Improvement & Documentation Environmental Liability Rating	Field Engineering & Technical Investigations	Technical Investigations Staff Technical Training Support to Operations Engineering Support to Legal and Regulatory

## BOARD OF DIRECTORS

**Steve Carr**, Deputy Minister, Ministry of Energy and Mines (Chair, BC Oil and Gas Commission)

**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 & Lead Director

**Al Hurd**, Board Consultant

## Human Resources Committee

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

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

**Doug Wilkes**, Board Consultant & Lead Director

**Al Hurd**, Board Consultant

## Regulatory Committee

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

**Cliff Proudfoot**, Board Consultant, Chair

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

**Neal Norman**, Board Consultant

## EXECUTIVE TEAM MEMBERS

**Paul Jeakins**, Commissioner & CEO

**Ken Paulson**, Chief Operating Officer

**Randall Smith**, Chief Financial Officer

**Mayka Kennedy**, Acting Chief Engineer

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

## Corporate Governance

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

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

Responding to the governance renewal call in the Government Letter of Expectations, the level of communications, engagement and reporting between the Board and management has significantly increased over the last year. Assisted by a group of expert consultants, the Board and management have undertaken a review of the Commission's strategic planning framework and its linkage to board governance best practices. This initiative ensures clear and stable long term objectives taking 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.

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

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

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

## Report on Performance

The Commission's performance during the year in review has validated British Columbia's image as a leading oil and gas jurisdiction in Canada and beyond. Our Mission, Vision, and Value and the strategic direction expressed in the Government's Letter of Expectations and our Service Plan have guided the Commission in both its achievements and lessons learned. An integral part of performance has been the Commission's ability to sense and adjust to regulatory and economic trends and manage the risks and opportunities in the operating environment. Accordingly, this Report on Performance includes 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 safety, 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.

## A YEAR IN REVIEW: 2011/12

Total Approvals Issued by the Commission

2891

Site Inspections Completed by the Commission

5347

Wells Drilled in B.C.

629

Kilometers of Pipelines Built in B.C.

1171





## 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 2011/12

The Commission has closely followed the development and announcement of the provincial government's strategies on 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 estimate at year-end 2010 reported a 42 per cent increase of raw natural gas reserves over the 2009 estimate. This represents the largest yearly increase in the province's history, continuing a 10-year trend.

The Commission's response to the BC Jobs Plans has been to strengthen its organizational capacity to effectively conduct regulatory permitting for new natural gas development, including LNG plants and related infrastructure. See more actions under Major Projects and Organizational Capacity.

Additionally, the Commission has been working on optimizing its single-window approach for providing regulatory service to the oil and gas sector. This model achieves efficient and effective streamlining of application and decision-making processes.

Bringing to life a new industry, such as natural gas liquefaction and LNG exporting, will inevitably raise numerous regulatory and social questions, challenges and opportunities. The Commission expects that transparency and relevant and timely information from the regulator will greatly serve all parties. Therefore, the Commission has been enhancing its communications capabilities and strategies.

## DRIVER – MAJOR PROJECTS



### POTENTIAL INFLUENCE

Oil and gas tenure sales, and exploration and development continues to be concentrated in northeast B.C. – particularly in the Montney field centred roughly around Dawson Creek and the Horn River Basin located northeast 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. Most new projects are expected to be in the Montney play because of its better developed infrastructure.

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 BC 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 up to three new 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 2011/12

The Commission has received and accepted applications for various stages of the proposed Pacific Trails Pipeline, which will carry natural gas from Summit Lake to Kitimat for liquefaction at the proposed Kitimat LNG Project.

Although applications have not yet been received for any of the proposed LNG facilities in various stages of planning, the Commission has begun conducting due diligence on the project scope and design as new information becomes available from developers.

The Commission has continued to liaise with the Environmental Assessment Office on coordination of permitting processes.

A key priority for the Commission has been to ensure application review procedures and increased technical capacity are in place for complex projects. This includes increased capacity for First Nations consultations and landowner support outside the traditional boundaries of oil and gas activities in northeastern B.C.

## 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 those responsible for organizational success, Commission employees are central to organizational capacity.

Optimized organizational capacity is one that responds 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 ever-increasing expectations and evolving standards for operations' safety and compliance with regulations, permits and authorizations.
- 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.

The Commission continues to be faced with labour market pressures, including recruiting challenges due to compensation restrictions, operations in 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 2011/12

As the key underlying factor for delivering on the Commission's mandate and achieving its vision, organizational capacity has been an area of focus throughout 2011/12.

The goals and criteria for organizational capacity are strategically defined through workforce planning, infrastructure and business systems planning.

The Commission relies on established capacity-building programs, which target the long-term success of the organization through incremental annual achievements. Effective internal and external opportunities for training, career progression, and professional and personal development are created through the:

- Leadership Development and Scholarship Program
- Award and Recognition Policy and Service Awards
- Skillssoft – an online open learning program
- Health and Wellness Program

Important preparations and planning took place during 2011/12 to augment organizational capacity with a new LEED® Gold standard building in Fort St John to combine office space and the Core Lab storage facility now managed by the Commission. Construction is slated to begin in summer 2012.

The multi-year program of integrating core business applications into a single uniform platform continued on schedule in 2011/12. Alongside, numerous improvements to existing applications were completed. Similar to workforce planning, the strategic priorities and objectives of the organization now clearly drive the information technology infrastructure and business systems development.

Winning a spot as one of BC's Top Employers for 2012 is a credible recognition of the Commission's consistency and achievement in building organizational capacity.

## DRIVER – REGULATORY TRENDS

### POTENTIAL INFLUENCE

The Oil and Gas Activities Act (OGAA) was passed in May of 2008. The OGAA legislation and related regulations were brought into force Oct. 4, 2010.

Regulatory initiatives affecting natural resource development may influence the oil and gas regulatory framework. The Commission anticipates, follows and participates, as appropriate, in such initiatives and contributes its regulatory and technical expertise in oil and gas development in British Columbia.

Changes in environmental and natural resource management legislation require review and, possibly, amendments or enhancements to oil and gas regulations.

Regulatory trends, initiatives and resulting legislation changes may affect the single-window approach to regulating oil and gas activities. Optimizing the single-window delivery of regulatory services is of strategic importance to the Commission.

### ACTIONS AND OUTCOMES DURING 2011/12

Led by the General Counsel and Corporate Secretary, the Commission's Legal & Regulatory Team became even stronger in 2011/12 by adding the positions of Senior Legal Counsel and Strategic Legislation Analyst. Starting in April 2011, the team officially stepped into the role of providing legal services to the Commission per a letter agreement with the Ministry of Attorney General.

The Legal & Regulatory department follows and ensures the Commission's participation, as necessary, in any federal, provincial or inter-provincial regulatory initiatives. It also provides legal support to statutory decision-makers. During the year, it delivered training on the new review and appeal requirements and processes brought on by the OGAA.

The Commission views any emerging trends or changes in the regulatory environment as opportunities to maintain or expand its single-window approach. This is achieved through consultations, strong relationships with regulatory partners and current and effective regulations. During 2011/12, new regulations or amendments were effected and consultations took place with respect to six MOUs with partner agencies.





## 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 expired in March and April 2012. The renegotiation process is led by the Ministry of Aboriginal Relations and Reconciliation (MARR), with active participation by the Commission.

First Nations along the potential pipeline routes associated with proposed major projects may not be familiar with the Commission's permitting process and its 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 2011/12

Throughout 2011/12, Commission representatives have been active members of the provincial team led by MARR and responsible for re-negotiating CPAs with BC Treaty 8 First Nations. Of the eight expired CPAs, one has been extended to October 30, 2012, and one draft agreement is in final stages prior to execution.

To meet the legal duty to consult during circumstances of expired CPAs, the Commission has developed an Interim Consultation Procedure to guide consultations and timelines on oil and gas applications and to enable interim capacity funding.

The Commission has played a role in relationship building between industry and First Nations by encouraging industry to engage with First Nations as early as possible in any proposed oil and gas development and to be responsive to First Nations concerns.

Through participation on the Cross Agency Aboriginal Relations Team, the Commission continued to work with First Nations and government agencies on land and resource management issues beyond the mandate of the Commission. These include access management, wildlife management, land use planning and water use.



POTENTIAL INFLUENCE

Shale and tight gas development continues to drive activity, namely 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.

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 2011/12

The development of basin-specific stewardship plans has advanced during 2011/12. This is multi-faceted work requiring coordination and cooperation with many agencies, such as Ministry of Environment, Ministry of Forests, Lands and Natural Resource Operations (MFLNRO), Ministry of Energy and Mines, GeoscienceBC, and many others.

The Commission has implemented a regulatory requirement for companies to disclose the type, 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 [FracFocus.ca](http://FracFocus.ca).

In collaboration with MFLNRO and Geoscience BC, the Commission has completed hydrology modeling for northeastern B.C. The Commission has also been working on a GIS-based decision-making tool for allocating water for oil and gas uses in consideration of all other uses and while maintaining the required environmental flows. The public release of quarterly reports on short-term water approvals issued by the Commission has become an established practice. These actions are part of a broader long-term planning of water use in upstream oil and gas activities, volume requirements, water sources and reuse of produced water.

Utilizing funds from the Orphan Sites Reclamation Fund, the Commission has performed restoration activities as planned on four designated sites during 2011/12. Identifying and designating sites as “orphan”, or where the owner cannot be identified or has become insolvent, is an important stewardship responsibility of the Commission. A total of 21 sites have been designated to-date, eight of which have received Certificates of Restoration.

## 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 ensures alignment of Commission activities with overarching provincial goals and provides specific direction to the Commission. It is reviewed annually and is the basis for the preparation of the Service Plans and Annual Service Plan Reports.

The 2011/12 Government Letter of Expectations was signed on Jan. 29, 2011 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

Advance the governance renewal initiative and develop a Strategic Plan envisioning the Commission's role and goals as the provincial oil and gas regulatory authority

Work with the Ministry of Energy and Mines to meet the commitment and ensure the successful implementation of the regulatory requirements stemming from the BC Energy Plan.

Work with the Ministry of Energy and Mines to participate in Government's climate change objectives and initiatives.

### COMMISSION'S RESPONSE

A Strategic Plan has been developed as a result of strategic planning sessions with the Board of Directors, senior leadership and subject area experts among Commission employees who participated on internal teams assigned to develop the strategic objectives and initiatives. The plan will be the basis for stakeholder consultations and strategic planning for 2013/14.

The Commission has met the BC Energy Plan targets with respect to eliminating routine flaring. With its modern regulatory framework and single-window service approach, the Commission contributes to maintaining the province's place among North America's most competitive jurisdictions.

The Commission has continued to implement the Flaring and Venting Reduction Guideline targeting non-routine flaring in addition to routine flaring.

## GOVERNMENT'S LETTER OF EXPECTATIONS

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

Work collaboratively with the Ministry of Energy and Mines and the Natural Resource Sector Management Board on a coordinated response to any National Energy Board approved pipelines.

Continue to work with the Ministry of Energy and Mines on the sharing of information, development of common data bases and recording mechanisms and to assist the Ministry of Energy with Geographic Information mapping and analysis services if and when necessary.

## COMMISSION'S RESPONSE

Operational regulations are continuously reviewed and amended as necessary by the Commission's Legal and Regulatory Team. More details are contained in the Regulatory Trends strategic driver.

As a result of months of coordination during 2011/12 between all agencies involved, the Commission has been delegated, as of April 15, 2012, responsibility to process applications and issue authorizations under provincial statutes for federally regulated pipelines under the National Energy Board Act. This responsibility, which strengthens the Commission's single-window model, has been transferred from the Ministry of Forests, Lands and Natural Resource Operations and involves sections of the Land Act, Forest Act and Water Act.

The Commission has well-established mechanisms to share both confidential and public data with the Ministry of Energy and Mines. Additionally, non-confidential spatial data available to the Commission is shared with the B.C. public through the BC Geographic Data Warehouse. During 2011/12 seven datasets have been added for a total of 59 geographic datasets pertaining to oil and gas activities now available through the Warehouse.



## Actual Vs. Planned Performance and Benchmarks

The 2011/12 – 2013/14 Service Plan sets specific objectives along four strategic priorities for the Commission. These four overarching goals of the organization were also continued in 2012/13 - 2014/15:

- **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.

Representative performance measures, targets and where suitable, benchmarks have been selected as indicators of success under each strategic priority. 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.

Operational indicators measuring outcomes of day-to-day activities are described in divisional business plans. The methodology for publicly reported performance measures is contained in measure description forms.

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

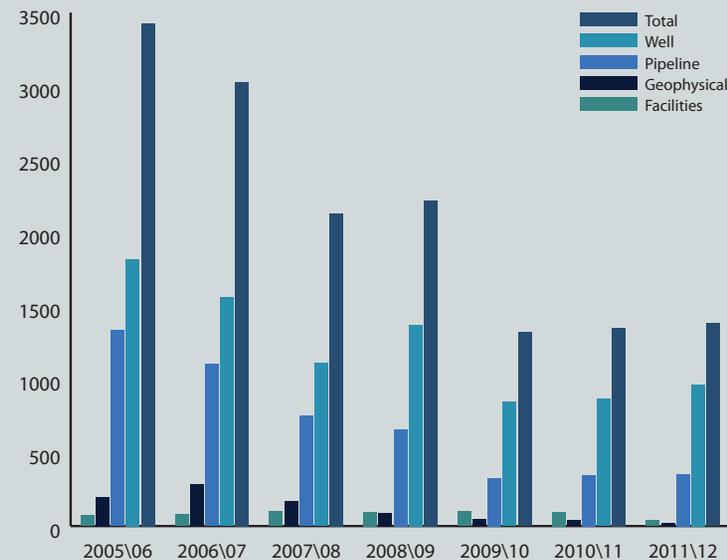
- Operational statistics mainly from the Commission's IRIS and KERMIT database systems.
- Resource statistics and estimates related to the availability, accessibility and recovery of oil and gas resources in British Columbia.
- Human resources information from the Commission's Avanti Human Resources Information System.
- Employee engagement and work environment feedback from the Work Engagement Survey.

The Commission continuously works with other government ministries and public agencies to improve the quality and integrity of mutually used data. 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 against selected North American oil and gas regulators and against comparable provincial Crown corporations and public agencies. For performance measures showing the rate of completion of internal functions or activities, external benchmarks are not included as no suitable comparisons have been identified.

In addition to reporting 2011/12 results against service plan targets, this Report includes an update on any changes to strategic objectives, measures and targets made in the 2012/13 – 2014/15 Service Plan issued in Feb. 2012.

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

- Enhance responsiveness to the dynamic operating environment and the ever evolving stakeholder needs.
- Improve alignment with partners and stakeholders through meaningful consultations and a careful understanding of their interests and goals.
- Encourage broader perspective and innovative thinking to improve the value-based approach to land use and natural resource management.
- Harmonize oil and gas activities regulations with evolving federal and inter-provincial policies and environmental and social standards.
- 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.

## 2011/12 Results

The Commission's regulatory and technical specialists have participated in various federal and provincial resource management processes and in technical standards development. In coordination with First Nations, producers, and other stakeholders, the Commission has continued to develop basin specific environmental stewardship plans, operating protocols, master databanks and value maps.

Relationships with First Nations affected by oil and gas activities have been of primary importance to the Commission when aiming for regulatory excellence. An update on the process of renegotiating consultation process agreements is included in the First Nations strategic driver on p.15.

Working closely with key partners and stakeholders is of primary importance in delivering the Commission's mandate. The single-window regulatory approach in

regulating oil and gas development relies on cooperative relationships with other government agencies defined in working agreements or memoranda of understanding (MOUs). Work completed during 2011/12 pertains to updating the agreements with the Ministry of Finance, Agricultural Land Commission, the BC Safety Authority, the Surface Rights Board, the National Energy Board and the Master Agreement for cooperation with the Ministry of Environment.

The Commission engages its Internal Audit function to conduct reviews of selected core services and processes to ensure compliance with applicable laws, regulations and other contractual obligations. As shown by the performance measure, the planned engagements were successfully completed. They pertained to compliance with OGAA's Consultation and Notification Regulation and Environmental Protection and Management Regulation.

## 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	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
1%-50% - Non-completion 50% - 85% - Partial completion 85% - 99% - Substantial completion 100% - Completion Baseline: n/a Benchmark: n/a	n/a	n/a	100%	100%	100%	100%	100%

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.	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
1%-50% - Non-completion 50% - 85% - Partial completion 85% - 99% - Substantial completion 100% - Completion Baseline: n/a Benchmark: n/a	n/a	n/a	100%	100%	100%	100%	100%

# 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 regard. 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 decision and actions.

## Objectives

- Continuously improve transparency and certainty in statutory decision making.
- Strengthen the Commission's reputation as a source of relevant and accurate information.
- Streamline decision-making processes to improve effectiveness and efficiency of statutory decisions.
- Continuously engage First Nations in the permitting processes.
- Enhance a culture of safety and service excellence.
- Clearly communicate expectations and accountabilities along strategic priorities to improve internal collaboration, linkages between dependent business units, and staff efficiencies.
- Increase internal audit capabilities to provide continuous improvement for business processes.
- Build adaptable and agile systems for comprehensive project assessment under OGAA.

- Through efficient, measured, and transparent operations, minimize review and appeal costs and increase capital and infrastructure funding within the Commission's self-sufficient funding model.
- Develop information technologies, facilities and other infrastructure to support internal processes.

## 2011/12 Results

The Commission's Operations Analysis and Audit team performs analysis of operational processes and tests any suggested improvements. Implemented improvements are promptly reflected in the Commission's manuals, guidelines and process documents accessible through the public website. The team has also undertaken a comprehensive analysis of processing times for the various types of permit applications. Until the results of this analysis inform more precise measures and targets for various permitting timelines, the average processing timeline for all new applications is reported, which in 2011/12 was 25 days.

The complexity and the significantly longer processing time for facilities and pipeline applications have led to this result being below target.

Acting on the Commission's commitment to accountability and continuous improvement, the Internal Audit team completed its annual audit plan by performing efficiency and effectiveness reviews of spatial data integrity and the well inventory for environmental liability assessment.

Throughout the year the Commission continued to refer applications to potentially affected First Nations in accordance with CPA terms or the Interim Consultation Procedure. The rate of response however dropped significantly with six out of the nine First Nations not having an active agreement in place and participating in negotiations. A decrease in the response rate was expected by the Commission. The result for this measure is a strong indicator of the importance of CPAs in the relationship and consultations with First Nations.

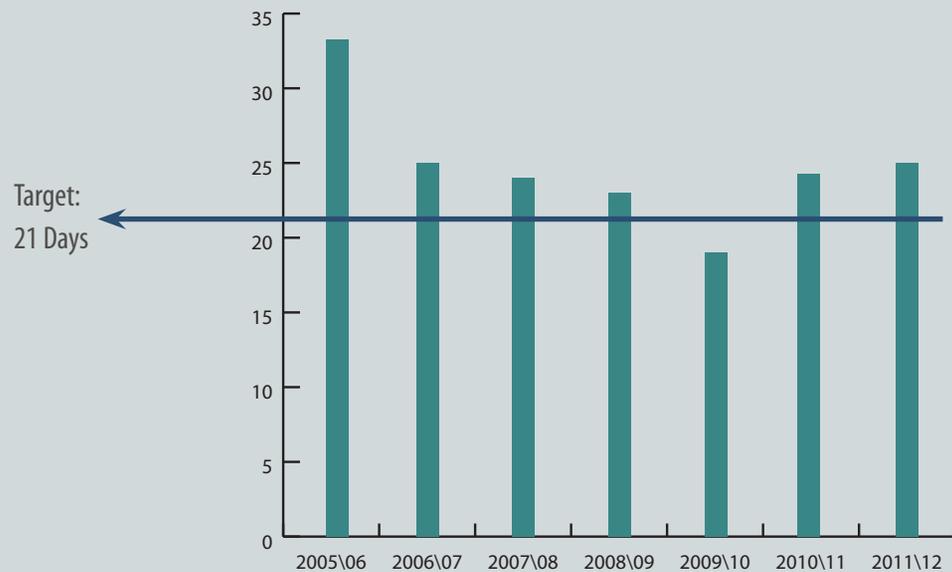
The Commission recognizes the benefits from building relationships based on transparency and accountability, and appreciates that its partners, stakeholders and the general public require reliable and relevant information on significant issues affecting the oil and gas sector and the regulatory response to those issues. The Commission is committed to consistently reporting on a number of operational

aspects such as water use, flaring, incinerating and venting reduction, field inspection compliance, pipeline performance and others. Fewer than expected reports were issued during the year due to the merging of some reports and the longer consultation process required to complete basin specific reports.

As part of its communications strategy, the Commission recognizes that efforts in the coming years should focus on the effectiveness and timeliness of communications and reporting. The activity measure “Number of external reports released” falls short of indicating the effectiveness and timeliness of external communications and was therefore not continued in the 2012/13 – 2014/15 Service Plan.

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Calendar days to process new applications	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 33 (2001/02) Benchmark: 30 (Colorado Oil and Gas Conservation Commission Strategic Plan)	19	24	25	21	21	21	21

Figure 3: Calendar Days to Process New Applications



## Strategic Priorities, Objectives and Performance Measures

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Percentage of applications responded to by First Nations	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 82% (2009/10) Benchmark: n/a	82%	88%	52%	85%	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	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
1%-50% - Non-completion 50% - 85% - Partial completion 85% - 99% - Substantial completion 100% - Completion Baseline: n/a Benchmark: n/a	n/a	n/a	100%	100%	100%	100%	100%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Number of external reports released	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 17 for 2010/11 Benchmark: n/a	16	14	16	18	n/a	n/a	n/a

# 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' pride and investment in the organization and responds to their professional development needs in line with the Commission's mission, vision and values. Holding the belief that innovative and successful organizations are those with a high level of employee engagement, the Commission encourages employees to contribute 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

- Strengthen partners' and stakeholders' confidence and trust in the Commission.
- Through transparent reporting and the active engagement of partners and stakeholders, improve awareness of regulatory processes and initiatives.
- Proactively increase and utilize knowledge of stakeholder needs.
- Improve support systems for delivering services to those affected by oil and gas activities.
- Augment facilitation and communication skills and expand information sharing through technology.
- 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.

## 2011/12 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 2011/12. This measure and target were continued in the 2012/13 Service Plan.

During 2011/12, the traditional annual employee development and performance evaluation process was replaced with a quarterly and more flexible process known at the Commission as EPDC, or Employee Performance and Development Conversations. Extensive planning, including a two-stage pilot project, took place in summer 2011 to re-design the cycle of framing and monitoring employee performance expectations and personal development goals. The new EPDC process was launched in September 2011 with training sessions across the five office locations. The Organizational Development team has all along provided tailored support to both employees and supervisors. The results achieved are highly satisfactory given 2011/12 has been the transition year.

The trend of increasing turnover rate remains driven by the following factors:

- Demographic pressures on the workforce from a macro-economic perspective as a result of "baby

boomers” (those born between 1946 and 1964) reaching retirement age.

- Increasing number of voluntary retirements that factor into the voluntary turnover rate.
- Continuing pressure from industry competing for the same human capital.
- Inequitable pay levels compared to similar work competencies in the oil and gas industry – this is the main reason quoted by employees during exit interviews conducted by HR Services.

Seeking solutions to mitigate any negative impacts of the high turnover rate is of strategic importance to the Commission. A Workforce Analysis Initiative is underway, which will provide a profile of future

knowledge, skills and abilities required to meet the demand for regulatory services, and recommendations on the talent/competencies procurement model.

The 2011/12 – 2013/14 Service Plan calls for reporting on the overall employee engagement measured through the annual Work Engagement Survey (WES). After two years of using a private provider, in 2012 the Commission returned to BC Stats as the principal WES provider for provincial government organizations. Using BC Stats’ methodology allows for a more meaningful benchmarking against public agencies in the long-term. The switch back has however made comparison to previous year’s results and the Service Plan target

irrelevant. To help identify and monitor changes in engagement level, the 2009 engagement score of 69 obtained through BC Stats has been reinstated as both the baseline and the target for 2011/12 and the next two years. The 2012 engagement score of 66 was calculated using the same questions and methodology as in 2009. The decrease in engagement since 2009 reflects a complex interaction of multiple factors, but may be attributed to decreased scores for compensation and workload. The feedback from WES is an integral part of charting the organizational strategy in a way that would best address employee expectations within the Commission’s legislated mandate and collective agreements structure.

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Industry-to-Stakeholder Issues addressed through Commission’s Facilitation Service	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: n/a Benchmark: 86% (Alberta ERCB, 2009)	97%	94%	96%	90%	90%	90%	90%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Number of Community Meetings with Commission Participation	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 10 (2007/08) Benchmark: n/a	14	11	9	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	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 98% (2008/09) Benchmark: n/a	100%	98%	92%	100%	100%	100%	100%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Voluntary turnover rate of regular staff	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 9.1% Benchmark: 10.6% (Alberta ERCB)	8%	11%	12%	10%	10%	10%	10%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
Employee Engagement Level per Workplace Environment Survey (WES) results	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Baseline: 69 (2008/09) Benchmark: 65 (BC Public Service, 2011)	n/a*	n/a*	66	69	69	69	70

\* The results reported in 2009/10 and 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 the future of resource development in alignment with the overarching energy vision for the province. Resource conservation and development activities ensure oil and gas resources are extracted in the most efficient way possible, and environmental management activities provide oversight of industry's adherence to environmental standards.

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

## Objectives

- Continue to support safety and environmental best practices in the oil and gas industry.
- Preserve knowledge and data systems to inform business decisions.
- 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.

## 2011/12 Results

With well-established functions and processes to support all aspects of its mandate, the Commission has developed greater capacity to practise 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 environmental liability to transfer to the province.

Reporting on field inspection results is an important and enduring measure indicator related to the Commission's role in industry oversight for the sake of 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 5,351 inspections were completed during the year, of

which 25 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 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).

The Commission has developed and implemented a framework for environmental liability rating of permit holders, known as the Liability Management Rating (LMR) program. Its objective is to manage liability risk to the province from financially insolvent permit

holders incapable of carrying their operations through to regulatory closure. The LMR calculates a ratio of deemed production assets to deemed abandonment and reclamation liability. Those permit holders with LMR ratio of less than 1.0, or where liabilities exceed assets, are required to submit a security deposit to the Commission or take steps to abandon and reclaim their wells. For the period November 2011 to March 2012, the estimated

unsecured liability has decreased by 50 per cent through administration of the program.

Performance against reducing carbon emissions from the Commission's operations is monitored through the per employee carbon footprint. Changes in the Commission fleet and the implementation of the Motor Vehicle Policy have resulted in reduced fuel consumption

and achieved an on-target result in the level of carbon emissions produced from Commission operations from all its office locations. This result is also in line with the Commission's efforts to increase awareness and accountability at the individual employee level and motivate a culture of conservation, sustainable business practices and environment-conscious living.

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Field Inspection Compliance Rate with respect to High Risk Deficiencies							
Baseline: 96.6% (2008/09) Benchmark: 98.3% (Alberta ERCB, for calendar year ending Dec. 31, 2009)	96%	99.7%	99.5%	98%	100%	100%	100%

Performance Measure	Actual	Actual	Actual	Target	Target	Target	Target
	2009/10	2010/11	2011/12	2011/12	2012/13	2013/14	2014/15
Carbon Emissions Per Employee							
Baseline: 2010/11 Emissions - 1.9 tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) per employee Benchmark: TBD	n/a	1.9	1.8	1.8	1.7	1.6	1.6

## Financial Report

The financial position of the Commission at the end of fiscal 2011/12 is discussed here in conjunction with the appended audited financial statements and related notes for the 12 months ending March 31, 2012. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), to which the Commission transitioned in 2011/12. Accounting changes related to conversion to PSAS have been applied retroactively for 2010/11. The comparative financial results for the prior years 2007/08 through 2009/10 shown in the table below have not been restated for the change to PSAS. The changes implemented to comply with PSAS are mainly with respect to presentation and are described in the notes to the financial statements.

The Commission's Annual Surplus was \$7.1 million compared to a forecast of \$4.1 million per the latest 2012/13 – 2014/15 Service Plan. Savings in planned operating expenses led to this higher than forecast result. Revenues from fees and pipeline levies came in at \$12.2 million and \$2.2 million respectively, compared to the forecast of \$16.0 million. Revenues from levies, however, were higher at \$28.9 million compared to the forecast of \$27.9 million. The revenue from production levies includes the tax on production to fund the Orphan Sites Reclamation Fund (OSRF) administered by the Commission and considered as part of the entity for financial statement purposes.

The higher than predicted year-end results for the past three years maintain the financial self-sufficiency of the Commission and generate surplus cash to fund needed future capital projects, such as tenant improvements for the Fort St. John Core Lab Facility and office building and information technology projects targeting business systems integration and transition to electronic submission of applications. The anticipated surpluses for the outlook years will also be applied toward the Commission's capital spending plan.

Employee salaries and benefits constitute the most significant expense, in magnitude and importance. The Salaries and Benefits expense in 2011/12 was \$19.0 million, just under the Service Plan forecast of

Comparative Financial Results and Outlook (\$000s)	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Budget	Variance from Budget	2012/13 Budget	2013/14 Forecast	2014/15 Forecast
<b>Revenues</b>										
Production Levies (incl. OSRF)	14,568	14,759	19,514	24,701	28,893	27,515	1,378	29,247	31,102	33,010
Pipeline Levies	705	844	2,127	2,056	2,215	2,000	215	2,200	2,266	2,334
Fees	10,863	12,434	10,738	12,956	12,167	11,236	931	11,983	13,063	14,145
Misc & Recoveries	1,057	510	676	265	952	335	617	343	343	343
<b>Total Revenues</b>	<b>27,193</b>	<b>28,547</b>	<b>33,055</b>	<b>39,978</b>	<b>44,227</b>	<b>41,086</b>	<b>3,141</b>	<b>43,773</b>	<b>46,774</b>	<b>49,832</b>
<b>Expenses</b>										
Salaries and Benefits	13,165	15,592	15,372	18,159	18,967	18,929	38	20,713	22,789	24,025
Operating & First Nations Expenses	13,327	16,689	13,684	16,235	18,204	19,750	(1,546)	22,743	23,848	25,754
<b>Total Expenses (incl. amort.)</b>	<b>26,492</b>	<b>32,281</b>	<b>29,056</b>	<b>34,394</b>	<b>37,171</b>	<b>38,679</b>	<b>(1,508)</b>	<b>43,456</b>	<b>46,637</b>	<b>49,779</b>
<b>Annual Surplus</b>	<b>701</b>	<b>(3,734)</b>	<b>3,999</b>	<b>5,584</b>	<b>7,056</b>	<b>2,407</b>	<b>4,649</b>	<b>317</b>	<b>137</b>	<b>53</b>

\$19.3 million. The Commission's employees come from a wide range of technical and professional backgrounds and are dispersed in different geographic areas. The salary and benefits structure for included employees is negotiated with the Professional Employees Association (PEA) and the B.C. Government and Service Employees' Union (BCGEU). The current agreements expire on June 30, 2012, with collective bargaining for renewal well underway.

Operating expenses related to First Nations capacity funding, professional services and training, travel, building occupancy, telecommunications, supplies and miscellaneous were \$15.0 million. Total operating expenses, including amortization, grants, and remediation expenses were \$37.2 million compared to a forecast of \$40.8 million.

Cash balances in 2011/12 increased from \$5.2 million at March 31, 2011 to \$11.0 million at March 31, 2012. Cash held by the OSRF, which is designated for orphan sites reclamation activities, increased from \$3.9 million to \$5.1 million. As a result of implementing the Liability Management Rating program, as of March 31st the Commission holds \$12.4 million in cash and \$14.7 million in Letters of Credit as security deposits against potential liability with respect to site reclamation and abandonment.

Primarily related to tenant improvements and new business applications development and migration of existing applications to a new platform, investments in tangible capital assets during the year were \$2.5 million. Amortization for this group of assets was \$1.6 million. The accumulated surplus of the Commission started the year at \$21.8 million and ended the year at March 31, 2012 at \$28.8 million. The Commission has zero debt.

In addition to actual results for the past year, financial outlook information is provided, reflecting an anticipated

levy reduction. 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 in the Budget Transparency and Accountability Act. Capital spending on information technology upgrades, tenant improvements and equipment is forecast to be \$10.9 million the next three years. Cash flow will be provided by operating surpluses.

#### Key Assumptions & Statistics

Assumption	2011/12 Projected	2011/12 Actual	2012/13 Projected	2013/14 Projected	2014/15 Projected
New well applications		962			--
Per 2011/12 – 2013/14 Service Plan	950	--	1050	1100	--
Per 2012/13 – 2014/15 Service Plan	1195		1250	1300	1300
Marketable Gas Volumes		36.37 x 10 <sup>9</sup> m <sup>3</sup>			
Per 2011/12 – 2013/14 Service Plan	37.41 x 10 <sup>9</sup> m <sup>3</sup>		41.32 x 10 <sup>9</sup> m <sup>3</sup>	44.94 x 10 <sup>9</sup> m <sup>3</sup>	
Per 2012/13 – 2014/15 Service Plan	35.9 x 10 <sup>9</sup> m <sup>3</sup>		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>
Produced Oil Volumes		1.2 x 10 <sup>6</sup> m <sup>3</sup>			
Per 2011/12 – 2013/14 Service Plan	1.1 x 10 <sup>6</sup> m <sup>3</sup>		1.0 x 10 <sup>6</sup> m <sup>3</sup>	0.9 x 10 <sup>6</sup> m <sup>3</sup>	
Per 2012/13 – 2014/15 Service Plan	1.212 x 10 <sup>6</sup> m <sup>3</sup>		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>
Number of well sites to be reclaimed under the Orphan Sites Reclamation Fund, cost per site per annum @ \$200K	4	4	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:

Graham Currie, Leader, Corporate Affairs

Phone: 250-419-4420

Email: [Graham.Currie@bcogc.ca](mailto:Graham.Currie@bcogc.ca)



# BC Oil and Gas Commission

## Financial Statements

March 31, 2012



### Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2012 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

Handwritten signature of Paul Jeakins in black ink.

Paul Jeakins  
Commissioner

Handwritten signature of Randall Smith in black ink.

Randall Smith  
Chief Financial Officer

June 1, 2012



## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Oil and Gas Commission (“the Entity”), which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, and the statements of operations, statements of change in accumulated surplus, statements of change in net financial assets, and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, 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 audits. I conducted my audits 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 in my audits is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Oil and Gas Commission as at March 31, 2012, March 31, 2011, and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011, in accordance with Canadian Public Sector Accounting Standards.

Victoria, British Columbia  
June 1, 2012

John Doyle, MAcc, CA  
Auditor General

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

	Note	March 31 2012	March 31 2011 (Restated - Note 2)	April 1 2010 (Restated - Note 2)
<b>Financial assets</b>				
Cash		10,989	5,207	1,962
Designated cash - Orphan Site Reclamation Fund	4	5,090	3,869	3,031
Designated cash - Security deposits	5	12,428	11,776	-
Accounts receivable	6	10,773	9,063	8,105
Due from SCEK	7	11	40	22
Due from government	8	2,883	3,494	3,021
Other assets		66	66	66
		<u>42,240</u>	<u>33,515</u>	<u>16,207</u>
<b>Liabilities</b>				
Accounts payable & accrued liabilities	9	1,674	1,602	1,591
Employee future benefits	10	240	523	460
Due to First Nations	11	3,062	1,553	1,451
Due to SCEK	7	606	-	-
Due to government		209	600	170
Deferred revenue	12	383	818	492
Deferred lease inducements		264	-	-
Liability for orphan sites	13	757	28	78
Security deposits	5	12,428	11,776	-
		<u>19,623</u>	<u>16,900</u>	<u>4,242</u>
<b>Net financial assets</b>		<u>22,617</u>	<u>16,615</u>	<u>11,965</u>
<b>Non-financial assets</b>				
Tangible capital assets	14	5,733	4,852	4,008
Prepaid expenses		475	302	212
		<u>6,208</u>	<u>5,154</u>	<u>4,220</u>
<b>Accumulated surplus</b>		<u>28,825</u>	<u>21,769</u>	<u>16,185</u>
Contractual obligations	15			
Contingent liabilities	16			
Measurement uncertainty	18			

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board

  
Steve Carr, Board Chair

  
Paul Jeakins, Commissioner

  
Ann van Iersel, Audit Committee Chair

**BC Oil and Gas Commission  
Statements of Operations  
(in \$000s)**

	Note	Budget 2012 (Note 21)	March 31 2012	March 31 2011 (Restated - Note 2)
<b>Revenues</b>				
Production levies		27,515	28,893	24,701
Annual pipeline levies		2,000	2,215	2,056
Fees		11,236	12,167	12,956
Recoveries from the Province of British Columbia		60	77	67
Remediation recoveries		-	118	-
Other revenue		275	757	198
		<u>41,086</u>	<u>44,227</u>	<u>39,978</u>
<b>Expenses</b>				
Oil and gas activities regulation	19	37,879	36,254	34,341
Orphan site reclamation		800	917	53
		<u>38,679</u>	<u>37,171</u>	<u>34,394</u>
<b>Annual surplus</b>		<u>2,407</u>	<u>7,056</u>	<u>5,584</u>

The accompanying notes are an integral part of these statements.

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

	Note	March 31 2012	March 31 2011
<b>Accumulated surplus beginning of year as previously reported</b>		21,719	16,125
Change on transition to PSAS	2	50	60
<b>Accumulated surplus beginning of year as restated</b>		21,769	16,185
Annual surplus for the year as previously reported		-	5,594
Adjustments to annual surplus for the year	2	-	(10)
<b>Annual surplus for the year restated</b>		-	5,584
<b>Annual surplus for the current year</b>		7,056	-
<b>Accumulated surplus at the end of year</b>		28,825	21,769

The accompanying notes are an integral part of these statements.

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

	Budget (Note 21)	March 31 2012	March 31 2011
Annual surplus	2,407	7,056	5,584
Acquisition of tangible capital assets	(4,744)	(2,530)	(2,358)
Amortization of tangible capital assets	1,882	1,650	1,514
	(2,862)	(880)	(844)
(Acquisition) of prepaid expense	-	(476)	(302)
Use of prepaid expense	-	302	212
	-	(174)	(90)
Increase (decrease) in net financial assets	(455)	6,002	4,650
Net financial assets at beginning of year	16,615	16,615	11,965
<b>Net financial assets at end of year</b>	<b>16,160</b>	<b>22,617</b>	<b>16,615</b>

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

	March 31 2012	March 31 2011
<b>Operating transactions</b>		
<b>Cash generated from:</b>		
Production levies	28,094	22,906
Annual pipeline levies	2,145	1,910
Fees	11,886	14,139
Miscellaneous and recoveries	1,157	354
	<u>43,282</u>	<u>39,309</u>
<b>Cash used for:</b>		
Operating expenses	(9,430)	(8,117)
Payments to First Nations	(5,276)	(6,863)
Salaries and benefits	(19,087)	(17,887)
	<u>(33,793)</u>	<u>(32,867)</u>
<b>Cash designated for Orphan Site Reclamation Fund</b>	<u>(1,221)</u>	<u>(839)</u>
<b>Cash from (used in) operating activities</b>	<u>8,268</u>	<u>5,603</u>
<b>Capital transactions</b>		
Proceeds on sale of tangible capital assets	44	-
Cash used to acquire tangible capital assets	(2,530)	(2,358)
<b>Cash from (used in) capital transactions</b>	<u>(2,486)</u>	<u>(2,358)</u>
<b>Increase in cash</b>	<u>5,782</u>	<u>3,245</u>
<b>Cash beginning of year</b>	<u>5,207</u>	<u>1,962</u>
<b>Cash end of year</b>	<u>10,989</u>	<u>5,207</u>

**BC Oil and Gas Commission  
Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011  
(in \$000s)**

**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. Conversion to Canadian public sector accounting standards**

Commencing with the 2011/12 fiscal year, the Commission has adopted Canadian public sector accounting (PSAS) standards. These financial statements are the first financial statements for which the Commission has applied Canadian public sector accounting standards. The Commission has early adopted the accounting standards contained in PS1201 – Financial Statement Presentation, and PS3450 Financial Instruments in the preparation of these statements.

Detailed information on the impact of the conversion to Canadian public sector accounting standards is provided in note 22.

**3. Significant Accounting Policies**

**Basis of accounting**

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

**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. Accounts receivable and amounts due from others are measured at amortized cost. Accounts payable, salaries and benefits payable and amounts due to others are also measured at amortized cost.

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
**(in \$000s)**

**3. Significant Accounting Policies (continued)**

**Tangible Capital Assets**

Capital assets are recorded at cost and 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	25%
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%.

**Revenue Recognition**

Revenues are recognized in the period in which the transaction or events occurred that gave 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 *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 and recognized upon oil and gas 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 over the periods expected to benefit from the expenditures.

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
**(in \$000s)**

**3. Significant Accounting Policies (continued)**

**Employee Future Retirement Allowance**

Employee Future Retirement Allowance liabilities are estimated each year and the change is recorded in salaries and benefits expense.

**4. Designated cash – Orphan Site Reclamation Fund**

The Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 as a means for industry to pay for reclamation of orphaned oil and gas sites and for related costs. The Ministry of Energy and Mines provided funding to reclaim and remediate orphan sites specifically identified at that time. Currently there are 21 sites designated as Orphan Sites.

At March 31, 2012, the Commission held \$5,090 in OSRF cash (2011: \$3,869). Net assets accumulated by the OSRF are designated for use by legislation and are not available for general use of the Commission. At March 31, 2012, OSRF Net assets totalled \$4,773 (2011: \$4,465).

**5. Designated cash – 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. The Commission, through the LMR program also undertook the responsibility to regularly assess security deposits and provide refunds. In addition to cash of \$12,428 (2011: \$11,776) the Commission holds \$14,743 (2011: \$9,026) 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 liabilities.

**6. 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 8.

	March 31 2012	March 31 2011	April 1 2010
Production levies receivable	8,273	6,645	6,022
Annual pipeline levies receivable	2,116	2,046	1,900
Fees	171	325	165
Other receivables	213	47	18
	<b>10,773</b>	<b>9,063</b>	<b>8,105</b>

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
(in \$000s)

**7. 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. Funding resumed in January 2012, and is provided to the SCEK Steering Committee for their use in projects and administration of the SCEK fund. The Commission collected \$794 during the year on behalf of SCEK. The Commission charges an annual fee to SCEK to administer the fund.

**8. Due from Government**

	March 31 2012	March 31 2011	April 1 2010
Levies collected	2,706	2,932	2,775
Recoveries and other	177	562	246
	<b>2,883</b>	<b>3,494</b>	<b>3,021</b>

**9. Accounts Payable and Accrued Liabilities**

	March 31 2012	March 31 2011	April 1 2010
Accounts payable and accrued liabilities	531	620	816
Salaries and benefits payable	1,143	982	775
	<b>1,674</b>	<b>1,602</b>	<b>1,591</b>

**Employee Leave Entitlements**

As of March 31, 2012, 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 \$529 (2011: \$533) and this amount is included in salaries and benefits payable.

**10. 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 2012 were \$1,402 (2011: \$1,295) 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 discounted value, net of recoveries, of this obligation is \$240 (2011: \$523).

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
(in \$000s)

**11. Due to 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.

**12. Deferred Revenue**

	Balance at beginning of year	Receipts during year	Transferred to revenue	Balance at end of year
Well applications	683	9,722	(10,156)	249
Transfer applications	66	617	(683)	-
Pipeline applications	69	1,015	(950)	134
	<b>818</b>	<b>11,354</b>	<b>(11,789)</b>	<b>383</b>

**13. Liability for Orphan Sites**

The Commission recognizes and estimates a liability of \$757 for remediation of 21 oil and gas activity sites designated as orphan sites by the Commissioner. The nature of the liability includes the costs associated with completing abandonment and restoration activities 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 estimated to be \$525.

The Commission has also identified a number of sites that could potentially be designated as orphan sites upon further investigation of ownership history; however liability has not been established. Estimated cost for remediation of these sites is \$3,770 to \$6,930. At this time, potential liability to the Commission or the Orphan Sites Reclamation Fund is not estimable.

BC Oil and Gas Commission  
Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011  
(in \$000s)

14. Tangible Capital Assets

March 31, 2012

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2012
<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)
<b>Closing balance</b>	<b>4,478</b>	<b>1,492</b>	<b>1,412</b>	<b>505</b>	<b>553</b>	<b>3,854</b>	<b>418</b>	<b>12,712</b>
<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)
<b>Closing balance</b>	<b>2,036</b>	<b>706</b>	<b>794</b>	<b>239</b>	<b>109</b>	<b>2,860</b>	<b>236</b>	<b>6,980</b>
<b>Net book value</b>	<b>2,442</b>	<b>786</b>	<b>618</b>	<b>266</b>	<b>444</b>	<b>994</b>	<b>182</b>	<b>5,732</b>

March 31, 2011

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2011
<b>Cost</b>								
Opening balance	3,648	956	554	168	310	2,317	151	8,104
Additions	228	239	381	334	105	861	210	2,358
Disposals	-	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>3,876</b>	<b>1,195</b>	<b>935</b>	<b>502</b>	<b>415</b>	<b>3,178</b>	<b>361</b>	<b>10,462</b>
<b>Accumulated Amortization</b>								
Opening balance	964	483	334	125	308	1,799	83	4,096
Amortization	519	101	172	41	15	595	71	1,514
Disposals	-	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>1,483</b>	<b>584</b>	<b>506</b>	<b>166</b>	<b>323</b>	<b>2,394</b>	<b>154</b>	<b>5,610</b>
<b>Net book value</b>	<b>2,393</b>	<b>611</b>	<b>429</b>	<b>336</b>	<b>92</b>	<b>784</b>	<b>207</b>	<b>4,852</b>

BC Oil and Gas Commission  
Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011  
(in \$000s)

15. 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.

	2013	2014	2015	2016	2017	Thereafter
Professional contracts	265	165	27	-	-	-
Leases	2,396	1,381	1,272	1,187	346	800
	<b>2,661</b>	<b>1,546</b>	<b>1,299</b>	<b>1,187</b>	<b>346</b>	<b>800</b>

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

16. 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 13 regarding potential reclamation costs related to the Orphan Site Reclamation Fund.

17. 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 2012	March 31 2011
<b>Revenues:</b>		
Contract recoveries	76	67
Miscellaneous	241	70
	<b>317</b>	<b>137</b>
<b>Expenses:</b>		
Salaries and benefits	604	524
Building occupancy	990	910
Professional services and training	328	314
Telecommunications and information systems	314	131
Travel and vehicle costs	242	405
Office supplies and equipment	49	60
	<b>2,527</b>	<b>2,344</b>

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
(in \$000s)

**18. 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	28,893	28,604	29,182

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.

**Liabilities**

Liability for orphan sites	757	757	1,283
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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.

Employee future retirement allowance	240	113	503
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The Commission accrues for future retirement allowance as provided under the collective agreements and terms of employment of Commission employees. This retirement allowance is estimated as the present value of potential liability upon future retirement of the current workforce. Key assumptions in this estimation are the inflation rate of remuneration (1.7%), a discount rate (3.13%), and employee turnover rate of the Commission (12.6%). The rate of employee turnover is subject to the most fluctuation. The estimated liability uses a turnover rate of 12.6% based on current fiscal year experience. A maximum expected average rate in the future would be 17%; a minimum expected average rate in the future would be 8.2%. A difference in this estimate would also affect salaries and benefits expense and annual and accumulated surpluses. Fluctuations in inflation and discount rates have not been factored into the measurement uncertainty values disclosed here.

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
(in \$000s)

**19. Expense by Object**

	Oil and Gas Activities Regulation	Orphan Site Reclamation	March 31 2012	March 31 2011
Salaries and benefits	18,967	-	18,967	18,159
First Nations	6,785	-	6,785	6,965
Building occupancy	2,552	-	2,552	2,243
Professional services and training	2,009	-	2,009	2,048
Amortization	1,650	-	1,650	1,514
Travel and vehicle costs	1,412	-	1,412	1,204
Telecommunications and information systems	1,354	-	1,354	1,214
Grants	673	-	673	264
Orphan site reclamation	-	917	917	53
Office supplies and equipment	582	-	582	584
Miscellaneous	159	-	159	146
Remediation expenses	111	-	111	-
	<b>36,254</b>	<b>917</b>	<b>37,171</b>	<b>34,394</b>

**20. Comparative figures**

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

**21. Budgeted figures**

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors.

**BC Oil and Gas Commission**  
**Notes to the Financial Statements for the years ended March 31, 2012 and March 31, 2011**  
(in \$000s)

**22. Conversion to Public Sector Accounting Standards**

As a result of the Commission adopting Public Sector Accounting Standards in 2012 there were changes made to the comparative figures that were reported in the Commission's 2011 financial statements. The tables below reconcile amounts recorded previously, in 2011 and 2010, to the comparative figures disclosed in these 2012 financial statements.

	Previously Stated <u>April 1, 2010</u>	Adjustment <u>April 1, 2010</u>	Restated <u>April 1, 2010</u>
<b>(a) Statement of Financial Position</b>			
Contributed assets	60	(60)	-
Accumulated surplus	16,125	60	16,185
	Previously Stated <u>March 31, 2011</u>	Adjustment <u>March 31, 2011</u>	Restated <u>March 31, 2011</u>
Contributed assets	50	(50)	-
Accumulated surplus	21,719	50	21,769
	Previously Stated <u>March 31, 2011</u>	Adjustment <u>March 31, 2011</u>	Restated <u>March 31, 2011</u>
<b>(b) Statement of Operations</b>			
Amortization of contributed assets	10	(10)	-
Annual surplus	5,594	(10)	5,584
<b>(c) Accumulated Surplus</b>		<u>March 31, 2012</u>	<u>March 31, 2011</u>
<b>Accumulated surplus beginning of year as previously reported</b>		21,719	16,125
Move contributed assets to accumulated surplus		50	60
<b>Accumulated surplus beginning of year as restated</b>		<u>21,769</u>	<u>16,185</u>
Annual surplus for the year previously reported			5,594
Adjustments to annual surplus for the year			(10)
Annual surplus for the year as restated			<u>5,584</u>
<b>Accumulated surplus end of year</b>			<u>21,769</u>
<b>(d) At the same dates the Commission also made the following adjustments and reclassifications</b>		<u>March 31, 2011</u>	<u>April 1, 2010</u>
<b>Retirement Benefits</b>			
GAAP - Wages payable		(70)	(51)
PSAS - Employee future benefits		70	51
<b>Software</b>			
GAAP - Intangible assets		(992)	(588)
PSAS - Tangible capital assets		992	588