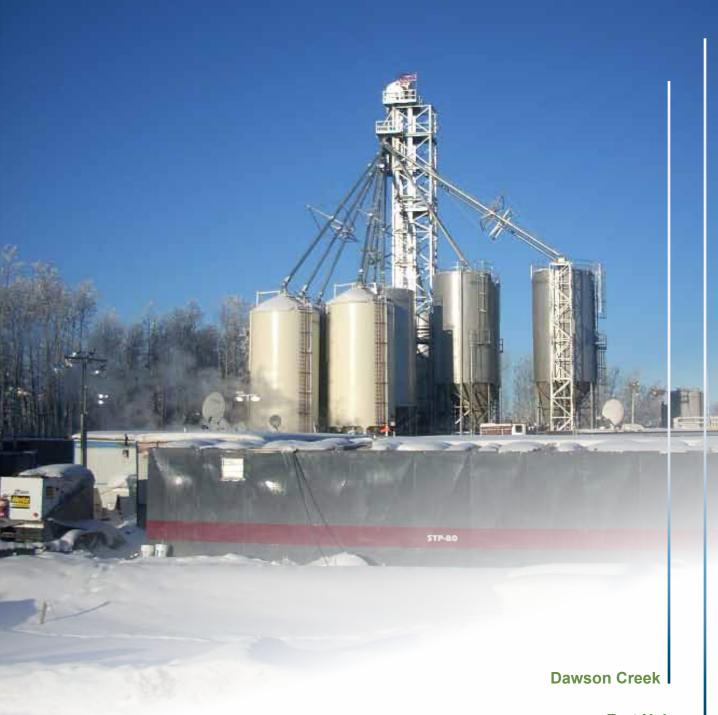
## **BC Oil and Gas Commission** 2009/2010 Annual Service Plan Report



Fort Nelson

Fort St. John

Victoria



## **MISSION**

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

## **VISION**

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

## **VALUES**

We are truthful and do our duty above all else in the performance of our responsibilites.

We continually strive to strengthen relationships with our stakeholders, First Nations, clients and co-workers by being open and demonstrating integrity.

We are accountable through our Service Plan.

We are flexible, innovative and proactive.

We are socially and environmentally responsible.

We measure our performance and strive for excellence.

We embrace change that enables personal and organizational growth.

We promote a positive and rewarding work environment.



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# MESSAGE FROM THE CHAIR TO THE MINISTER OF ENERGY, MINES AND PETROLEUM RESOURCES



On behalf of the Board of Directors, management and staff of the British Columbia Oil and Gas Commission (Commission), I am pleased to submit our 2009/10 Annual Service Plan Report. During the past fiscal year, the Commission continued to deliver regulatory services with professionalism and integrity to enable

conventional and unconventional oil and gas activities in the province. Significant efforts were aimed at improving the regulatory climate, delivering on commitments in the BC Energy Plan, and building organizational strength through strategic initiatives and attracting new capabilities.

The anticipated reduction in industry activity during the past year allowed the Commission to re-allocate resources and attention to completing *Oil and Gas Activities Act* (OGAA) related regulations and manuals. OGAA enhances the unique-to-B.C. single-window

permitting and oversight process and confirms the Commission as the regulatory leader and authority. Despite the challenges with this type of change, the Commission staff and information technology infrastructure will be prepared for the new legislation coming into force later this year.

Two other strategic initiatives were launched this past year. The first involves a review of the Commission's strategic planning framework and its linkages to board governance best practices. This process will ensure clear and stable long-term goals taking into consideration direction from government and oil and gas sector stakeholder needs. The second initiative is advancing a measurement and reporting framework to improve key processes, better connect the organization at all levels, and create a performance measurement culture.

Regulatory excellence – the ultimate goal of the Commission – is impossible without well-structured consultations and communications with affected First Nations, public stakeholders and communities. To increase the effectiveness of First Nations participation in the permitting process, a comprehensive review of the Consultation Process Agreement was undertaken. The First Nations' response rate on referred applications has



increased by seven per cent for 2009/10, speaking to the growing collaboration between the Commission and First Nations communities.

The Commission has been proactive in keeping stakeholders in northeast B.C. informed of oil and gas developments and safety incidents. The Commission was involved in nine community awareness and information meetings, facilitated the positive outcome of 42 complex issues, over 75 landowner education outreaches and 55 private land inspections. The Commission's participation on the Northeast Energy and Mines Advisory Committee has been instrumental in addressing 11 recommendations related to environmental and operational issues brought to the Committee.

In accordance with the BC Energy Plan, the Commission took decisive steps in 2009/2010 to reduce greenhouse gas emissions through the implementation of its Flaring, Incinerating and Venting Reduction Guidelines. Emissions from the Commission's own operations were also targeted through various green initiatives and raising awareness among employees in response to the *Greenhouse Gas Reduction Targets Act*. The Commission is proud that its Victoria office has been consolidated at the Dockside Green development where the highest LEED® Platinum CI Certification has been achieved.

The Board and senior management attribute the 2009/2010 achievements to the dedication and professionalism of Commission employees and the responsible utilization of Commission resources. Operations were funded by levies of \$19.5 million and fees of \$12.9 million, with total revenues of \$32.9 million. Due to revenue uncertainty early in the year, the Commission embarked on a significant cost restraint initiative, which resulted in total expenses of \$29.1 million. The Consolidated Net Income of \$4.0 million will be used to fund capital expenditures in the coming years.

The 2009/10 Oil and Gas Commission Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been communicated. The information presented reflects the actual performance of the Commission for the 12 months ended March 31, 2010 in relation to the February 2009 Service Plan and the September 2009 Service Plan Update.

I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion. Updated annually, the measures presented are consistent with the Commission's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

All significant decisions, events and identified risks, as of June 1, 2010, have been considered in preparing this report. It contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures or targets made since the September 2009 Service Plan Update were released and any significant limitations in the reliability of data are identified.

The release of this Annual Report coincides with the end of my service as Chair of the Board of Directors for the Oil and Gas Commission. It has been a distinct privilege to work with the Commission's dedicated staff and to witness the advancement of oil and gas development in British Columbia. A sincere thank you for making me part of your success.

Greg Reimer Board Chair

BC Oil and Gas Commission

## **ORGANIZATIONAL OVERVIEW**

The Oil and Gas Commission (Commission) was created as a service delivery Crown corporation of the Province of British Columbia through the enactment of the *Oil and Gas Commission Act*. Its mandate is to regulate oil and gas activity in the province, including exploration, development, pipeline transportation to facilities, and reclamation.

The regulatory model established with the Commission is unique as it provides an independent single-window regulatory agency for an industry with diverse and complex needs. To enable a thorough review process and effective decision-making, regulatory authority with

Figure 1: Primary areas of oil and gas activities

• Pipeline Act

- · Petroleum and Natural Gas Act
- Land Act
- Forest Act
- Forest Practices Code of BC Act
- Heritage Conservation Act
- Environmental Management Act, and
- Water Act

The Commission is a self-sufficient Crown agency funded by application review fees and production levies. Its sole shareholder is the Province of British Columbia and its governing body is a three-member Board of Directors whose roles and responsibilities are described on p. 15. To view enabling legislation, visit the Commission website at www.ogc.gov.bc.ca.

respect to oil and gas activities has been delegated to

the Commission under the following legislation:

in B.C. and Commission locations. Commission website at www.ogc.gov.bc.ca. Liard Basin The Commission's workforce of about 200 employees operates out of four locations -**Horn River Basin** Victoria, Fort St. John, Dawson Creek and Fort Fort Nelson Nelson, with the largest number of employees concentrated in Fort St. John, the heart of oil and gas activities in the province. Small but productive, the offices in Fort Nelson and **Montney Basin** Dawson Creek ensure the Commission's Fort St. John presence in communities of the Horn River Basin Dawson Creek and Montney gas play respectively. These areas of primary oil and gas activities are shown in Figure 1 along with the Commission's office locations.

#### **COMMISSION MANDATE**

The Commission's legislated mandate per Section 3 of the *Oil and Gas Commission Act* is the platform for the Commission's mission and drives the organizational strategy. Work undertaken by the Commission within this mandate ensures the safe operation of oil and gas related activities in the province while encouraging a balance between economic, social and environmental benefits.

The Commission places a high value on the significance of its mission, vision and values and their role in steering the course of the organization, motivating its employees and measuring progress on organizational goals. The current strategic planning initiative of the Commission is aimed at confirming or refining these organizational drivers and aligning corporate objectives accordingly.

The Commission's mission, vision, values are reflected in the organizational structure, core business areas, principal stakeholders, and organizational goals and initiatives described following.



## **COMMISSION MANDATE**

# Section 3 of the Oil and Gas Commission Act

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

## ORGANIZATIONAL OVERVIEW

#### ORGANIZATIONAL STRUCTURE AND CORE SERVICES

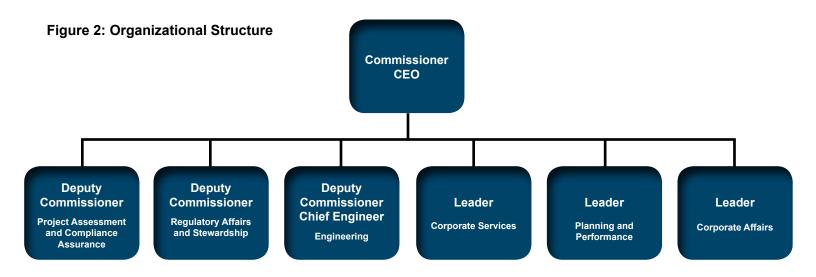
Regulatory decision-making authority is vested in the Commissioner who also serves as the Chief Executive Officer for the Commission. Decision making authority is further delegated to three operational divisions headed by Deputy Commissioners: Project Assessment and Compliance Assurance, Engineering and Regulatory Affairs and Stewardship. As shown in **Figure 2**, three service divisions ensure the delivery of corporate governance and a full spectrum of corporate services. **Table 1** on page 10, presents the responsibilities assumed by the various divisions in delivering the core services.

In addition to core services, the Commission plays a key 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 the Fund is to support and facilitate research concerning practical ways of addressing environmental issues related to oil and gas exploration in British Columbia. Research findings are incorporated, where appropriate, into practices and regulations.

The Commission administers the Orphan Site Reclamation Fund established in 2006 to raise the funds through a tax on production levels and pay the cost for reclaiming abandoned well sites, test holes, production facilities and pipelines for which no responsible owner can be identified. Priority is given to orphan sites on private land to alleviate the reclamation burden on current landowners who bear no responsibility for the past development. Ten orphan well sites on private land have so far been identified, eight of which have been successfully reclaimed with significant cost savings realized through direct involvement of Commission staff. Remediation of the two remaining private land sites should be completed this summer. Two sites on Crown land in northeast B.C. are currently undergoing environmental investigation.

The Commission continues to strive for excellence in service delivery and process improvement is being considered at all levels of the organization. Changes in the operating environment, trends in the oil and gas industry and in the world economy as a whole, and a number of other factors identified as drivers for the Commission's strategic direction and performance are continually being analyzed and responded to within the Commission's legislated authority and organizational capacity. A detailed report of these drivers and opportunities associated with them is provided in the Report on Performance section.

The specific enhancements to service delivery that were initiated during 2009/10 include:



- Increased ability to respond to time-critical events through anticipatory analysis, short and longer term business planning and focused performance management processes.
- Ongoing consultations with Northeast BC First Nations on major changes to policy and application review procedures associated with the new *Oil and Gas* Activities Act coming into force later this year. The Commission believes that engaging First Nations and providing them with the opportunity to comment on draft regulations will strengthen their participation and response in future application of these regulations.
- Extensive preparatory work and training of staff and stakeholders in anticipation of the implementation of the Oil and Gas Activities Act, which will consolidate and streamline the oil and gas regulatory framework.
- Increased level of transparency and reporting through annual publications on key services or activities delivered by the Commission. When completed, technical reports on various operational aspects are accessible through the Commission website at www.ogc.bc.ca. Such reports strengthen the knowledge base of the organization, maintain stakeholder awareness on key aspects of the Commission's work, and provide continuity and a basis for performance improvement.

#### **TECHNICAL REPORTS ISSUED IN 2009/10**

Archaeology Audit Program Final Report, Apr 1, 2009

2008 Annual Site Restoration Report, July 30, 2009

2009 Flaring, Incinerating and Venting Reduction Annual Report, *Sept 1, 2009* 

2008/09 Field Inspection Annual Report, Nov 25, 2009

Failure Investigation Report – Piping at EnCana Swan Wellsite, *Feb 4. 2010* 

All reports available at <a href="http://www.ogc.gov.bc.ca/publications/reports">http://www.ogc.gov.bc.ca/publications/reports</a>

## **COMMISSION CORE SERVICES**

Review, assess and make decisions on oil and gas applications for:

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

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.

First Nations consultations on specific oil and gas applications and overall resource management.

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

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



## **ORGANIZATIONAL OVERVIEW**

**Table 1: Commission Divisions and Core Responsibilities** 

DIVISION	RESPONSIBILITIES
Project Assessment and Compliance Assurance	Application Review and Acceptance (through FrontCounterBC) Project Assessment and Project Level First Nations Consultations Compliance & Enforcement Land Management
Regulatory Affairs and Stewardship	Regulatory Affairs First Nations Strategic Planning and Consultations Stewardship, including GIS systems, environmental management Implementation of the Science and Community Environmental Knowledge (SCEK) Fund
Engineering	Drilling and Production Pipelines and Facilities Waste Management Resource Conservation Site Reclamation and Remediation Emergency Response Emergency Management Planning Occupational Health and Safety
Corporate Services	Finance & Accounting Administration Human Resources Information Systems and Records Management Vehicle Fleet and Facilities
Planning and Performance	Strategic Planning Business Planning Corporate Reporting Quality Assurance and Audit Process Improvement
Corporate Affairs	Internal and External Communications Community and Landowner Support

### PRINCIPAL PARTNERS, CLIENTS AND STAKEHOLDERS

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

A unique relationship has been developed with northeast B.C. First Nations by working together and building strong partnerships since the creation of the Commission. Outside Northeast British Columbia, the Commission also interfaces with First Nations in areas of oil and gas activity.

The Commission maintains a number of working agreements and Memorandums of Understanding (MOUs) that support and define the relationships and delegated authorities with partner agencies. The agreements support the Commission's authority with respect to upholding the values associated with the partner agencies' mandates.

Commission employees ensure resources are recovered in the safest and most effective possible manner and that liabilities incurred through these activities are borne by the operators. In this capacity, the Commission regularly interfaces with industry, First Nations,

landowners, the public, other government agencies, and corporate peers in other jurisdictions.

Many partners use information collected and maintained by the Commission. For example, the BC Assessment Authority accesses information collected by the Commission in the development of annual assessment rolls and the Integrated Land Management Bureau uses Commission information to update provincial land resource maps.

The Commission regularly interfaces with the oil and gas industry - the primary users of the Commission's services. Such interactions range from sharing information to soliciting recommendations for best practices.

The Commission maintains a strong voice in the communities where oil and gas activity occurs. This is done primarily through efforts of the Commission's community relations services, whose job it is to assist landowners with a variety of services in understanding the role of the Commission and other Government agencies.



## **ORGANIZATIONAL OVERVIEW**

#### **ORGANIZATIONAL GOALS**

Flowing from the Commission's mandate, mission and vision, the following goals have been identified to guide our performance:

# Goal 1 The Commission protects the interests of the people of British Columbia.

The majority of activities undertaken by the Commission aim at protecting the public interest. These include public engagement, application review, compliance and enforcement, engineering reviews, and emergency management functions. Additionally, resource conservation activities ensure that oil and gas resources are extracted in the most efficient way possible, and environmental management activities which ensure that environmental standards are achieved. This goal embodies the public purpose served by the Commission and combines the intent behind the mandate for public safety, environmental protection and resource conservation.

# Goal 2 The Commission makes quality decisions in a timely manner.

Activities included under this goal are application processing, transfer of assets, general management of internal operations, and capturing and documenting corporate knowledge.

The statutory decision making authority that is delegated to the Commission through legislation commits staff to make quality decisions. Commission staff endeavor to adjudicate activity applications in a timely manner based on the best information available.

# Goal 3 The Commission is recognized as a service oriented organization.

This goal reflects the Commission's aim to proactively set a standard of excellence in service for clients. Clients are considered to be all people in British Columbia, including communities, First Nations and stakeholders. Activities included under this goal are FrontCounter BC, landowner liaison services and appropriate dispute resolution, among others.

# Goal 4 The Commission works with government to continually improve the regulatory environment.

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

#### Goal 5 The Commission is a great place to work.

This goal represents the Commission's commitment to continue to improve the quality of work experience for employees by instilling a culture of engagement, commitment, and work/life balance. Activities under this goal include the development of organizational training and performance measurement plans, implementing a robust health and safety program, and engaging staff across the organization in the development of the Commission's goals, objectives and strategies.

These goals represent the foundation for the direction of the Commission based on existing legislation and a dynamic and evolving operating environment. The goals are inter-dependent and reflect the multi-faceted nature of the Commission's regulatory mandate. They provide a set of criteria for government, First Nations, landowners, industry and the general public to assess the success of the organization. An account of performance under each of these goals is provided in the Report on Performance section.

#### **CURRENT INITIATIVES**

## **Strategic Planning Framework and Governance**

The Commission Board and management have undertaken a review of the Commission's strategic planning framework and its linkage to board governance best practices. This process will ensure clear and stable long term goals taking into consideration direction from government and oil and gas sector stakeholder needs. Under the direction of the Board, the alignment of goals, strategies and resource allocation will ensure long range planning and performance reporting discipline within the Commission.

# Advancing an Organizational Measurement and Reporting Framework

Internally, in order to further position itself as a transparent, proactive and responsive organization, the Commission has recognized the value of advancing a performance measurement culture. The newly created

Planning and Performance division has been tasked with reviewing and refining data collection, data integrity, performance measurement methodology, targets and benchmarks. This work will position the Commission to identify and address improvements in critical processes and establish target areas for development. Vertical and horizontal integration within the Commission will be a key activity in reforming, balancing and advancing its activities.

The capacity to maintain measurement and integration for future planning of the Commission will be supported through a focus on leadership and supervisory development. Based on the value proposition that process measurement and reporting is the knowledge based cornerstone of business improvement and better decision making, the Commission is embarking on an internal process to identify opportunities to improve the transparency of reporting, measurement of business process deliverables, collection of trend information and analysis of information.



## **CORPORATE GOVERNANCE**

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

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

Per the *Oil and Gas Commission Act*, the Deputy Minister of the Ministry of Energy, Mines and Petroleum Resources serves as board chair, the Oil and Gas Commission Commissioner as vice chair, and a third independent member is appointed by the Lieutenant Governor in Council. The independent member serves as a chair for the two sub-committees of the Board. The role of these sub-committees is to engage in review of specific policies and issues and make recommendations for decisions by the Board.

The Board of Directors provides policy direction and performance review, while operational matters are the

responsibility of the Commissioner and the executive team. The names and functions of the members of the Board and sub-committees as of the date of this report, as well of the executive team members are listed below.

The Governance policies and practices of the Oil and Gas Commission and its Board of Directors comply with the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations (Best Practice Guidelines) February 2005 issued by the Board Resourcing and Development Office (BRDO), Office of the Premier of British Columbia. Terms of Reference for the functions of the Board and its sub-committees can be viewed on the Commission website at <a href="https://www.ogc.gov.bc.ca">www.ogc.gov.bc.ca</a>.

The Commission's accountability framework is consistent with the accountability requirements established for provincial Crown corporations. Its policy direction is derived from the Shareholder's Letter of Expectations and is aligned with government's strategic priorities. The main accountability vehicles are the three-year Service Plan, which is updated annually, quarterly reports on financial performance, and the Annual Service Plan Report summarizing achievements during the previous year and comparing performance results to expectations.

#### **EXECUTIVE TEAM**

#### **MISSION**

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

#### **MEMBERS**

**Alex Ferguson – Commissioner** 

James O'Hanley - Deputy Commissioner, Project Assessment and Compliance Assurance

Ken Paulson – Deputy Commissioner and Chief Engineer

Paul Jeakins - Deputy Commissioner, Regulatory Affairs and Stewardship

Steve Simons - Leader, Performance and Planning

Randall Smith - Leader, Corporate Services

Graham Currie - Leader, Corporate Affairs

#### **BOARD OF DIRECTORS (BOARD)**

#### **MISSION**

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

#### **DIRECTORS**

**Greg Reimer**, Deputy Minister, Ministry of Energy, Mines and Petroleum Resources (Chair)

**Alex Ferguson**, Commissioner and CEO, BC Oil and Gas Commission

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

**Note:** Greg Reimer is succeeded by Robin Junger as Deputy Minister, Ministry of Energy, Mines and Petroleum Resources effective June 7, 2010.

#### **AUDIT COMMITTEE**

#### **MISSION**

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

#### **MEMBERS**

**Greg Reimer**, Deputy Minister, Ministry of Energy, Mines and Petroleum Resources

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

Randall Smith, Leader, Corporate Services (ex-Officio)

# GOVERNANCE AND HUMAN RESOURCES COMMITTEE

#### **MISSION**

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

#### **MEMBERS**

**Greg Reimer**, Deputy Minister, Ministry of Energy, Mines and Petroleum Resources

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

Randall Smith, Leader, Corporate Services (ex-Officio)

# THE COMMISSION IN THE COMMUNITY

- Participated in all Northeast Energy and Mines Advisory Committee meetings since June 2006, assisting in the implementation of 11 strategic recommendations. This Committee received the Premier's Award in Service Excellence for 2009/10.
- Completed 55 construction stage inspections on private land within the Agricultural Land Reserve and de-briefed landowners on results.
- Hosted Noxious Weed and Invasive Plant Identification workshop in collaboration with BC Forest Service (Peace District).
- Conducted landowner survey of all activities on private land receiving Certificates of Restoration (COR) over the past 2 years and worked with industry and landowners to address issues on certain old lease sites that had previously received a COR.
- Participated in open houses, workshops and public forums hosted by industry or non-government agencies such as the BC Grain Growers Association and the BC Guide Outfitters Association.
- Hosted a number of Community Education and Community Interaction Meetings.

This section of the Annual Service Plan Report reviews performance across the organization in terms of pursuing the Commission's goals and as measured against specific objectives and Service Plan targets. Where plausible, benchmarks have been identified to compare against past performance levels or against results of similar organizations in other jurisdictions. In accordance with the Commission's accountability framework, the review of organizational performance presented here is based on the goals and expectations set in the 2009/10 – 2011/12 Service Plan Update.

The first order of review of organizational achievements is against the Shareholder's Letter of Expectations delineating the strategic direction of the organization. Secondly, a discussion is provided on the level of organizational capacity managed in 2009/10 along the opportunity and several drivers identified as affecting the Commission's operations and performance. With the understanding of what factors, events, and values have been influencing the Commission's decisions and behavior during the reporting year, specific objectives and performance measures under each of the five organizational goals are presented.



WE MADE THIS POSSIBLE						
	2009/10	2008/09				
Total Approvals Issued by Commission	2663	2842				
Site Inspections Completed by Commission	4337	4359				
Wells Drilled in B.C.	557	845				
Kilometers of Pipelines Built in B.C.	1127	1315				
<u> </u>						

#### SHAREHOLDER'S LETTER OF EXPECTATIONS

This strategic direction document is an agreement between the Commission and its sole shareholder, the Government of British Columbia, on corporate mandate, strategic priorities, and performance expectations. The Shareholder's Letter of Expectations ensures alignment of Commission activities with overarching provincial goals and provides specific directions within the mandate. It is the basis for the preparation of the Service Plan and is a reporting target for this Annual Service Plan Report.

Reviewed annually, the most recent Letter of Expectations was signed on January 8, 2010 and can be viewed on the Commission's website at <a href="https://www.ogc.gov.bc.ca">www.ogc.gov.bc.ca</a>. The Shareholder's Letter of Expectations directives that governed the 2009/10-2011/12 service planning and the corresponding Commission activities during the reporting year may be summarized in **Table 2**.

#### Table 2:

#### SHAREHOLDER'S LETTER OF EXPECTATIONS

Implement measures for greenhouse gas emissions reduction in line with the government's climate change action and the public sector carbon neutrality policy.

Support successful implementation of the province's 2007 Energy Plan.

#### **COMMISSION'S ACTIVITIES**

Significant planning and concrete steps took place in 2009/10 to reduce the Commission's carbon footprint. The Commission's leadership and employee support foster a culture of conservation, sustainable business practices and environmentally conscious living.

Complementing legal requirements per the *Greenhouse Gas Reduction Targets Act*, our corporate values and goals set the stage for the organization's participation in the government's efforts to reduce emissions and promote behaviour change towards a greener and healthier workplace. Specific actions in this direction during 2009/10 are discussed on p. 36 under Goal 5: The Commission is a great place to work.

The oil and gas sector has a significant place in the BC Energy Plan due to the high resource potential in the province. The Commission, as the regulator for oil and gas activity, continuously and effectively collaborates with the Ministry of Energy, Mines and Petroleum Resources and other stakeholders in the implementation of the Plan. The streamlined regulatory environment and the single-window permitting process offered by the Commission further support the Plan.

#### SHAREHOLDER'S LETTER OF EXPECTATIONS

#### **COMMISSION'S ACTIVITIES**

Support successful implementation of the province's 2007 Energy Plan (cont'd).

The Commission contributes to B.C.'s competitive advantage as an oil and gas jurisdiction through setting the stage for the implementation of the *Oil and Gas Activities Act*, a modern, efficient and sustainable regulatory framework. It is also continually improving its performance with respect to application review timelines, safety measures, and facilitating the dialogue and interactions between various stakeholders and converging their interests in the service to the overall societal interest.

The efforts and achievements reported throughout this report are a demonstration of the Commission's work in support of the BC Energy Plan. Details specific to the directives of the Plan are included on p. 20 – Regulatory Trends, p. 21 – First Nations, p. 24 – BC Energy Plan.

Work to ensure that all routine flaring at oil and gas production wells and production facilities will be eliminated by 2016 with an interim reduction of 50 per cent by 2011.

During 2009/10 the Commission focused on implementation of the Flaring, Incinerating and Venting Reduction Guidelines of British Columbia, which came into effect in March 2008.

During the reporting year the Commission issued its first Flaring, Incinerating and Venting Reduction Annual Report, which follows progress towards the Energy Plan reduction targets. This report describes the aggressive regulatory, economic and technological measures employed by the Commission to achieve flaring reduction for the Energy Plan targets. The full version of the report can be viewed at www.ogc.gov.bc.ca.

**Encourage the participation of First Nations in processes affecting them.** 

Involving First Nations in the Commission's decision-making has been a priority for the Commission reflected in its mission, vision, values, business processes and day-to-day operations.

#### SHAREHOLDER'S LETTER OF EXPECTATIONS

#### **COMMISSION'S ACTIVITIES**

The Commission's relationship with the First

Encourage the participation of First Nations in processes affecting them (cont'd).

Nations and aboriginal peoples affected by oil and gas development are described on p. 21 of this report and the level of response by Treaty 8 First Nations on oil and gas applications is shown on p. 32.

In collaboration with other government, public and industry stakeholder, continue to develop and improve operational regulations to ensure a successful implementation of the *Oil and Gas Activities Act*.

The successful implementation of this new legislation requires a complete and thorough remake of a number of regulations and manuals. The Commission was directly responsible for five regulations, which were drafted and consulted on during 2009/10. Process mapping has been completed for these regulations and work has advanced on the preparation of associated manuals.

Partnering with the Ministry of Energy, Mines and Petroleum Resources and other responsible agencies, Commission staff provided significant contributions to the remaining three regulations required for implementation of the Act.

Continue to develop operational policies and procedures to manage and address stakeholder concerns at the approval and permitting stage.

This is an ongoing priority for the Commission and 2009/10 saw a number of improvements related to tracking, analyzing and pro-actively managing stakeholder concerns. The Commission's Community Relations Department has been at the front line in facilitating between companies and landowners, holding community awareness meetings, and addressing individual concerns.

On p. 32, Goal 3 states: The Commission is recognized as a service oriented organization. The discussion of results under this goal provides a measure for the Commission's service to its shareholders.

#### REPORT ON OPERATIONAL DRIVERS

As the regulator of oil and gas activity in British Columbia, the Commission continually strives to keep pace with a dynamic and rapidly growing oil and gas industry. This includes timely decision-making on proposed projects, balanced with firm control of operations' safety and consideration of First Nations' rights and community needs. Because of the fast-paced technological developments in this competitive industry, the Commission consistently stays current on innovative solutions for safe and sustainable oil and gas development in the province.

The Commission's strategic planning includes operations analysis and risk management as important components of its governance and management system. The Commission is updating process flow analyses

for all major business processes. This analysis is the cornerstone of the Commission's business planning which prioritizes mitigation strategies for efficient use of available resources. A priority for the Commission is to re-evaluate risks once new *Oil and Gas Activities Act* related processes are implemented and reach a steady state.

Several drivers have been identified as having a significant potential to impact operational decisions and outcomes during the reporting period and in the following three outlook years. Each of these drivers is discussed following in terms of the scope of its potential impact on operations and the activities and outcomes during 2009/10 to mitigate, manage and, in some cases, take advantage of such impacts.

## DRIVER - REGULATORY TRENDS

#### **POTENTIAL IMPACT**

The *Oil and Gas Activities Act* (OGAA) was passed in May of 2008. It is anticipated that the Act and associated regulations will come into force in the fall of 2010.



#### **ACTIONS AND OUTCOMES DURING 2009/2010**

The Commission is working with the Ministry of Energy, Mines and Petroleum Resources, the Ministry of Environment, the Ministry of Agriculture and Lands and other Ministries in the development of *Oil and Gas Activities Act* related regulations. The Commission has also led the engagement of First Nations in this process.

In addition to the development of regulations, the Commission has undertaken a complete review of numerous processes and guidance documents linked to the implementation of the new legislation. The Memoranda of Understanding that the Commission has signed with other government agencies are also being revisited to reflect the changing legislative environment for the oil and gas sector. Specific measures presented under Goal 4 in the Measurement and Benchmarking section of this Report on Performance provide further insight into the Commission's activities.

### DRIVER - FIRST NATIONS

## **POTENTIAL IMPACT**

As a result of the recent oil and gas rights sales in the province, unconventional gas development, new plant and facility applications and consultation requirements with First Nations will continue to expand and evolve.

The Consultation Process Agreement (CPA)
Implementation Committee will be faced with continued enhancements to the processes for oil and gas related consultations. Some First Nations wish to revisit their consultation agreements.

The Environmental Assessment Office (EAO) has granted a certificate for the Kitimat-Summit Lake (KSL) Pipeline project and the Cabin Gas Plant. The anticipated start up on the KSL project, along with new sections of the TransCanada Pipeline (TCPL) Project (under National Energy Board jurisdiction), will further increase activity levels in northeastern B.C. The anticipated applications to the Commission for land based operations will generate the need for consultation with a number of First Nations outside of the northeast region.

## ACTIONS AND OUTCOMES DURING 2009/2010

The Commission's aboriginal relations staff continue to engage First Nations and ensure consultations are conducted appropriately on all oil and gas development within the province. The Commission has sought First Nations input into development of regulations, guidelines and manuals, including *Oil and Gas Activities Act* regulations and other process changes that First Nations have expressed interest in.

Work continued with First Nations and the Ministry of Energy, Mines and Petroleum Resources on the development and realization of CPA implementation strategies. CPAs encourage early industry engagement with First Nations, which improves responsiveness and consultation timelines. Regular meetings with Chiefs and Councils and collaborative activities with community land offices have augmented the consultation process. The CPA Implementation Committee has developed a review framework to guide the assessment of agreements' effectiveness while looking for opportunities for improvement.

Through the Integrated Land Management Bureau's First Nations Initiative Division (FNID), the Commission has participated in coordinated First Nations consultation activities with the Environmental Assessment Office and other agencies. In collaboration with the Regional District and the Ministry of Energy and Mines and Petroleum Resources, water information workshops were held with local First Nations in Dawson Creek and Ft. Nelson.

#### DRIVER - STEWARDSHIP

## **POTENTIAL IMPACT**

A shift in oil and gas activity from conventional oil and gas development to unconventional development is occurring in British Columbia. Oil and gas rights sales continue to increase in shale gas plays, namely the Horn River Basin and the Montney Basin. Other areas (the Liard Basin, the Cordova Embayment – see map on p. 6) have attracted industry interest as well.

The shift from conventional to unconventional development results in changes to land and resource uses, including:

- An increase in the construction and use of all-season roads.
- · An increase in the use of water.
- Multiple wells drilled from a single site.
- · An increase in the use of aggregate.
- Development activity in areas with little historic oil and gas activity.
- Re-development in areas of historic conventional oil and gas activity.
- A change in the pattern of oil and gas footprints on the land base.

Development in the Horn River Basin is in the early stages due primarily to depressed gas prices and the existence of minimal infrastructure. Conversely, the Montney Basin has experienced accelerated development due to a more southern location and better developed infrastructure. An opportunity exists to develop a more coordinated approach for activities in these basins related to water, wildlife and First Nation values.

In addition to the changing technical environment for oil and gas, there are increasing management requirements as expressed in the evolving oil and gas legislation. The *Oil and Gas Activities Act* and supporting regulations will enhance the Commission's ability to manage the effects of oil and gas activities on environmental values.

## **ACTIONS AND OUTCOMES DURING 2009/2010**

The Commission's surface land specialists in the Stewardship Department aimed at providing a tactical approach to managing surface land and resource values in the context of subsurface resource development. Potential effects of oil and gas projects on other resource values - water, land, wildlife, fish, and other land users – have been thoroughly considered for each specific site and project proposal. This work has required ongoing collaboration with land and resource managers in other government agencies to coordinate land use activities, promote the use of shared geographic information services and data, and manage the effects of oil and gas development on other values on the land base.

The Commission has continued to work with the Horn River Producers Group, First Nations and government working groups to coordinate an operational oil and gas development plan, operating protocols and values mapping for the Horn River Basin. Preliminary work has begun on developing a framework for effectively managing the effects of oil and gas development activities on environmental values in the Liard Basin.

The Stewardship group has been instrumental in developing regulations under the *Oil and Gas Activities Act* based on robust methods of managing environmental effects of oil and gas development. The Commission's stewardship staff provided in-depth analysis and expert advice throughout the development of the formal basis for the implementation of the new regulations, supplying decision makers with informed advice and recommendations on process development.

The Commission has streamlined its water permitting process and associated data collection and analysis. Our relationship with the Ministry of Environment Water Stewardship Division has been strengthened and clarified in support of surface water permitting activities.

Achievements of the Stewardship group during 2009/10 have supported organizational Goal 1 – The Commission protects the interests of the people of British Columbia, and Goal 4 – The Commission continually improves the regulatory environment.

### DRIVER - MAJOR PROJECTS

### POTENTIAL IMPACT

Proven methods for the economic production of natural gas from shales and other tight formations continue to drive tenure sales, exploration and development in northeast B.C. – particularly in the Montney formation centred roughly around Dawson Creek and the Horn River Basin located northeast of Fort Nelson (see map on p. 6). Multi well sites are being developed to extract the gas by fracturing the gas bearing formations releasing the trapped gas. As noted in the Stewardship discussion above, these fracturing operations require larger amounts of water than conventional operations. Once released, the gas requires treatment to remove liquids and contaminants including hydrogen sulphide and carbon dioxide. The requirements for refinement have led to numerous demands by industry to increase processing capacity in these areas. Finally, the need to move the refined gas to market requires ongoing expansion of the pipeline network in these areas.

The emergence of economical "shale gas" from northeastern B.C. has changed the North American gas market. The available gas far exceeds current and near future demand in North America and plans are developing for liquefaction and export.

As a result, the Commission is currently dealing with a number of new gas processing plant and facility applications, and expects to receive more. The Commission anticipates three major projects: the Cabin Gas Plant, the Kitimat to Summit Lake (KSL) Pipeline, and the Vancouver Airport Fuel Delivery Project. In addition, a number of projects under National Energy Board jurisdiction are currently being considered which has the potential to greatly affect the workload of the Commission through the expansion of gas development in northeast B.C.

As new regions and projects are identified for oil and gas activity, consultation requirements with First Nations, landowners and the public are increasing.

### **ACTIONS AND OUTCOMES DURING 2009/2010**

As described in the strategies under organizational Goal 2 and Goal 5, the Commission is prepared to manage these impacts through the existing application procedures and increasing technical capacity to review and manage new and complex applications. Eleven gas processing plants were approved during the reporting year, compared to three the previous fiscal year.

The Commission has collaborated with other agencies towards establishing a provincial major oil and gas projects team for projects outside of northeast B.C.

A review of the facility application review process has been undertaken. To streamline application approvals for gas plants, the implementation of routine and non-routine application processes was proposed. In addition, the Commission is nearing completion of the Measurement Manual, which will ensure that appropriate measurement for the calculation of royalties is in place, supplemented by a selective and risk-based audit function.

Plans have been developed to recruit a measurement engineering specialist, as well as two new engineers to join the facilities group. These organizational changes will ensure the smooth processing of applications while protecting the interests of British Columbians.

## DRIVER - INDUSTRY ACTIVITY TRENDS/FUNDING

## **POTENTIAL IMPACT**

Production of conventional oil and gas in British Columbia is reaching a mature stage. An increase in unconventional oil and gas plays will likely offset this depletion. Oil prices have been relatively stable in the US\$70 to US\$80 per barrel range. Although the future direction of the global oil market is uncertain, nearterm oil prices may be sustained within the current range by economic growth in Asia and other developing regions. On the other hand, natural gas prices have been on a downward curve due to increasing shale gas production throughout North America, relatively mild winter temperatures and lower than anticipated storage withdrawals, per National Energy Board review of current market conditions.

Commodity prices drive industry activity with respect to both development and production, which in turn are the determinants of the Commission's funding.

## DRIVER - BC ENERGY PLAN

#### **POTENTIAL IMPACT**

The 2007 BC Energy Plan (Plan) puts British Columbia at the forefront of environmental and economic leadership. The Plan envisages environmentally and socially responsible oil and gas development in line with New Relationship consideration of First Nations interests.

New technologies and new solutions will be encouraged to 'green the grid' and cut back emissions.

With regard to the importance of the oil and gas sector to the provincial economy, the Plan calls for maintaining and strengthening B.C.'s competitive advantage as an oil and gas jurisdiction.

## **ACTIONS AND OUTCOMES DURING 2009/2010**

To buffer the effects of the world's financial crisis and economic slowdown, the Commission continued its conservative spending course during the first half of fiscal 2009/10. Although gas production is expected to increase over the coming years, this fiscal approach will continue until industry activity and forecasts confirm a solid upward trend in development and production.

With close oversight over discretionary spending, new hiring was resumed in the second half of the year in preparation for expected increases in industry activity. With the support of the shareholder and our clients, the Commission's funding model has moved to an increased emphasis on production levies, easing the dependency on the volatile application fees revenues. This will allow for better planning of resources and consistent fiscal management.

#### **ACTIONS AND OUTCOMES DURING 2009/2010**

The Commission continued to move forward with implementing priority aspects of the Plan, including flaring reduction, maintaining competitive advantage, engaging First Nations in the permitting process, and implementing best practices for unconventional gas development.

The single-window regulatory services that the Commission offers have been recognized as a significant advantage by industry beyond provincial borders. The Commission is working hard to enhance its reputation as a consistent regulator while contributing to provincial efforts to modernize the regulatory framework.

2009/10 was the first year of implementation of the BC Flaring, Incinerating and Venting Reduction Guidelines which came into force in March 2008 as a direct response to the Energy Plan flaring reduction requirement.

### **DRIVER - INFORMATION TECHNOLOGY**

#### POTENTIAL IMPACT

Encompassing all Commission operations, information technology presents both challenges and opportunities. Maintaining a balance between infrastructure, technological advancements and changing operating requirements is critical to setting the stage for strong organizational performance.

Harnessing the latest developments in technology has the potential to increase linkages between working groups, reduce timelines for service delivery, 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 key to knowledge preservation and management.



## **ACTIONS AND OUTCOMES DURING 2009/2010**

Supporting all five Commission goals, considerable planning took place in 2009/10 with respect to the Business Systems Development Project. The Information Technology group fully analyzed business system requirements to accommodate and facilitate the implementation of the *Oil and Gas Activities Act*. Priority has been given to migrating our core business applications into a single platform with improved electronic submission, information management, and reporting. This includes entering into partnerships with other government agencies and discussing solutions beneficial across industry sectors and provincial borders.

Further results have been achieved in the area of data management and data integrity. Controls and data audits have been put in place to minimize errors and omissions in operating data. Both the Commission Intranet and website have been re-designed and updated, including automatic updates for subscribers.

Service delivery to both Commission employees and external users of our web applications has been streamlined and expanded through the Service Desk, for which 2009/10 was the first full year in operation. The Desk handled more than 5,000 service requests over the year. The value of the Service Desk in managing resources and measuring performance cannot be overemphasized. This Service Desk model is being rolled out across the organization.

In accordance with the Commission's action plan to reduce greenhouse gas emissions from operations, the following "green IT" projects have been completed: server virtualization, video conferencing for all Commission offices, and replacement of individual printers and copiers with energy efficient multi-functional devices.

## DRIVER - ORGANIZATIONAL CAPACITY

## **POTENTIAL IMPACT**

Organizational capacity needs to be responsive to the increasing levels of oil and gas activities, the changing consultation and permitting requirements associated with the shift from conventional to unconventional gas development, and the rising complexity of development applications.

Organizational capacity is critical in adequately responding to the ever increasing presence of the Commission in the public eye and the paramount importance of oil and gas operations' safety and compliance with regulations.

#### **ACTIONS AND OUTCOMES DURING 2009/2010**

During the second half of 2009/10, the Commission resumed building its capacity to meet regulatory demands by increasing staff and providing facilities and services to attract, retain, and accommodate additional employees. Although competition for talent with industry continues, the Commission is a respected and equitable employer offering opportunities for training, professional development and career progression.

The breadth of technical expertise of the Commission has visibly grown during the past year with the attraction of professional hydrologists, agrologists, geologists, and other specialized personnel. Additionally, regional capacity has expanded with staffing of the offices in Fort Nelson and Dawson Creek. This has improved the Commission's presence in the areas where expanded oil and gas development is expected to occur.

Capacity will continue to be built in accordance with the strategic direction and with regard to the core work and projects planned in each division's business plan. The Commission follows a proactive approach in building capacity by trying to anticipate emerging issues and being prepared to address them.



## **DRIVER - HUMAN RESOURCES**

## **POTENTIAL IMPACT**

The Commission continues to be faced with labour market pressures, including challenges recruiting to northern locations. Changing economic conditions constantly require adjustments to recruitment plans.

The Commission recognizes the value of information technology solutions to manage Human Resources functions efficiently and effectively.

As a maturing organization, the Commission recognizes the importance of succession planning and the development and continuous enhancement of leadership/supervisory skills at all appropriate levels.



#### **ACTIONS AND OUTCOMES DURING 2009/2010**

The Commission has made decisive steps in increasing employee satisfaction led by its respected human resources team. In 2009 the Commission joined the BC Human Resources Management Association to have access to the latest information on human resources management methodologies, labour market trends, talent pools, and a benchmarking opportunity against similar size organizations.

The 2010 Workplace Engagement Survey showed a significant improvement in scores compared to the previous year and has once again proven to be an effective tool in gathering feedback from employees and including their ideas and comments in workplace initiatives, business planning and individual professional development plans.

During 2009/10 the Commission completed many enhancements to its work safety program, particularly in northern locations where most of the field inspections are conducted. The health and wellness program has gained great popularity among employees in all locations and continues to attract new ideas.

Implementation of a new Human Resources Information System (HRIS) was completed in 2009/10. The system has the functionality to provide more efficient delivery of services and allows for greater reporting and measurement of Human Resources functions.

Focus on supervisory and leadership development continued during the year in review. All executive level leaders have detailed development plans in place which are reviewed and updated regularly and form the basis for succession planning.

#### MEASUREMENT AND BENCHMARKING

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

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

Organizational performance is measured at least quarterly. Where possible, benchmark and baseline information is reviewed to provide context for the results achieved by the Commission. Detailed information related to the methodology of Commission performance measures is maintained and updated as necessary. Better measurement and reporting is one of the desired outcomes of the business applications development project currently underway. It will refine and improve business processes and enable electronic submission of oil and gas applications and related data. In addition, the Commission continues to have strong relationships with external agencies as well as other government ministries to improve the quality of data used to track and measure

progress, including the Integrated Land Management Bureau and GeoBC among others.

The Commission occupies a unique role with its single-window service. Research confirms that no oil and gas regulatory agency in North America provides the range of services that the Commission provides. Notwithstanding, the Commission benchmarks internal valuation processes and practices against selected North American oil and gas regulators and against comparable provincial Crown corporations and public agencies.

The components of service planning, business planning, budgeting and performance management are closely integrated. Revising or updating an objective may entail adjustments to associated performance measures. This cycle of continuous improvement underpins both effective service planning and meaningful, accountable reporting on performance. Reported here are performance results against 2009/10 Service Plan Update targets, as well as any changes to performance measures with a corresponding explanation.

Performance measures are presented under each of the five organizational goals. The Commission's key responsibilities under each goal are described and specific strategic initiatives are mentioned where pertinent. For each measure, actual 2009/10 results are shown along with targets for the reporting year and the following three years per the 2010/11 – 2012/13 Service Plan.



#### **GOAL 1**



## THE COMMISSION PROTECTS THE INTERESTS OF THE PEOPLE OF BRITISH COLUMBIA

#### **Goal Descriptors**

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

#### **Strategies**

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

Measure	Results		Targets			
Field Inspection Compliance Rate	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
Baseline: 96.6% (2008/09) Benchmark: 97.9% (Alberta ERCB)	95%	96% Target met	96%	98%	98%	98%

Protecting the interests of the people of British Columbia is the underlying goal of all core activities of the Commission. Regulations and requirements have been established surrounding public safety, protection of the environment, accurate product measurement and responsible reservoir management.

Regulatory compliance oversight by the Commission commences as soon as an application for industrial activity is submitted. Thorough application reviews ensure legislative requirements and stakeholder concerns have been accounted for prior to project start. During project reviews, modifications to an application may be requested by the Commission based on First Nation consultations, landowner concerns or technical assessment results. Field inspections are performed by Commission inspectors and compliance and enforcement actions are undertaken where necessary.

A detailed risk modeling and reported incidents and complaints drive the number of inspections conducted during a given year. This risk-based approach prioritizes inspection of sites with the highest risk potential. Compliance for all sites inspected is measured with respect to Minor, Major and Serious deficiencies. Due to the higher probability of registering deficiencies of any ranking at the inspected sites, a comprehensive Field Inspection Compliance Rate has been selected as a performance measure under Goal 1. It replaces the Major Compliance Rate - Exploration and Development, and Major Compliance Rate - Facility Operations that are no longer measured separately. The 96 per cent inspection compliance rate reached in 2009/10 meets the target set in the September 2009 Service Plan Update. It represents the ratio of compliant sites inspected to the total number of sites inspected. The number of inspections conducted during 2009/10 were 4337, comparable to 4359 the previous year.

#### GOAL 2



### **Goal Descriptors**

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

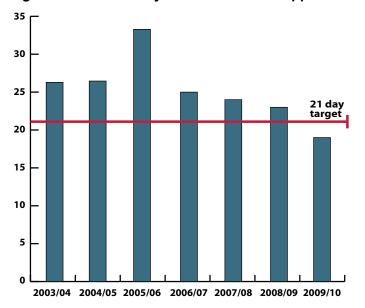
#### **Strategies**

- · Implement process improvement initiatives
- Communicate the role of the Commission to First Nations, industry, public and landowners
- Strengthen organizational and employee capacity for effective issue management and decision making

Measure	Results		Targets			
Calendar days to process new	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
applications	24	19 Tanant	21	21	21	21
Baseline: 33 (2001/02) Benchmark: 30 (Colorado Oil and Gas Conservation Commission Strategic Plan)		Target exceeded				

Measure	Results		Targets			
Percentage of internal processes	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
reviewed to confirm with quality assurance criteria	33%	100% Target exceeded	90%	33%	33%	33%
Baseline: 33% (2008/09) Benchmark: n/a		CACCEGGG				

Figure 3: Calendar Days to Process New Applications



The Commission makes decisions in the interest of British Columbians but also ensures that these decisions exemplify excellence in service. Performance with respect to client satisfaction is measured in application turnaround time and compliance of decision-making processes with applicable laws and regulations. The processing time for new routine applications is a reasonable indicator of the performance of the Commission on its core activities. It also provides certainty to industry groups for operational planning activities.

The number of calendar days to assess new routine applications decreased to 19 calendar days from 24 calendar days in 2008/09. As shown in **Figure 3**, this result exceeds the target of 21 days and was made

## GOAL 2 (CONT'D)

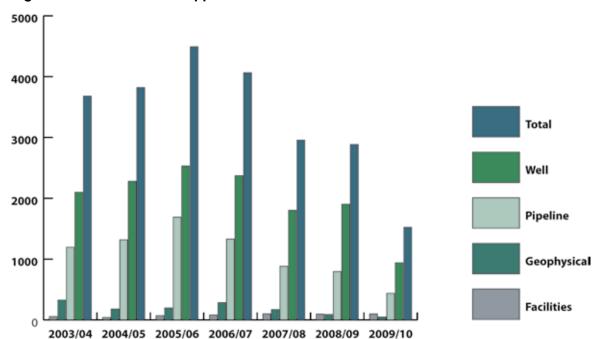


Figure 4: Total Number of Applications - New and Amended

possible largely by the smaller number of new applications (see **Figure 4**) and approvals issued compared to 2008/09. The outlook targets remain at 21 days for 2010/11 through 2012/13 since the nature of applications is changing due to the move from exploration to development in the Montney and Horn River Basins. A significant number of applications now involve new technologies and large scale developments in both undeveloped and well developed areas of B.C. The review of these applications to ensure that appropriate design standards are employed and that resources are properly managed, conserved and measured, has placed huge demands on the facilities approval team within the Commission.

The Commission undertakes quality assurance activities to provide confidence that its processes are being delivered in compliance with legislation, policy and standards. Examples of activities performed by Commission staff to gather information used to gauge the conformance of internal process may include:

- The concise documentation of internal processes through process mapping.
- Operational analysis of applicable data to identify trends and relationships.
- The identification and analysis of potential process improvements.
- The design of strategies to implement process improvement initiatives.

As part of the preparation to implement the *Oil and Gas Activities Act*, Commission staff reviewed 100 per cent of its internal operational processes for conformance with the new legislation. Utilizing process mapping techniques, internal processes were mapped to meet the requirements and obligations of the new regulatory regime. Any required adjustments or improvements to internal processes identified during the review have been incorporated into the implementation of the Act. Post-implementation, the Commission will return to its previous target to review one third of operations procedures each year.

## GOAL 3



#### **Goal Descriptors**

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

## **Strategies**

- · Apply previous learning when developing new partnerships with First Nations
- Ensure Commission services are readily and consistently available
- · Increase the Commission's profile
- Integrate FrontCounter BC with Commission operations
- · Ensure consistent and transparent reporting

Measure	Results		Targets			
Percentage of applications	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
responded to by First Nations	75%	82% Target	84%	85%	85%	85%
Baseline: 75% (2008/09) Benchmark: n/a		substantially met				

Measure	Results		Targets			
Success of Community Relations	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
Facilitation Service	89%	97%	89%	89%	89%	89%
Baseline: n/a Benchmark: 89% (Alberta ERCB)		Target exceeded				

Measure	Results		Targets			
Number of Community Meetings	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
with Commission Participation	12	14 Target	11	12	12	12
Baseline: 10 (2007/08) Benchmark: n/a		exceeded				

## GOAL 3 (CONT'D)

The Commission continually evolves relationships with key stakeholders and partners as measured under Goal 3. As a regulator and a Crown corporation, the Commission services and accountabilities extend to affected communities, First Nations, client companies and their representative associations.

This past year saw an increase in response rates from almost all First Nation communities contributing to an overall response rate of 82 per cent. Although the target rate of 84 per cent was not fully met, the increase of 7 per cent over the previous year is significant. While capacity issues remain a concern for many First Nations, new Consultation Process Agreements (CPAs) established with First Nations in Northeast British Columbia and implemented in 2009/10 provide increased certainty in consultation relationships for both parties, resulting in higher response rates and moving the Commission closer to achieving its targets. The CPA Implementation Committee has initiated a comprehensive review of the CPA process, which will help identify areas of improvement and enhance future consultations. The Commission continues to provide the opportunity for First Nations to comment on major changes to policy and procedures that may significantly affect them, including draft Oil and Gas Activities Act regulations and Commission information bulletins.

The measure under Goal 3 providing feedback on client satisfaction was updated to "Success of Community Relations Facilitation Service". This measure is the successor of the client satisfaction surveys which were discontinued in 2008/09. The client base of the Commission has expanded to include companies,

landowners and other public stakeholders. As the regulator, the Commission facilitates the resolution of a number of issues between the various client groups. Successful issue resolution at 97 per cent was determined when all or the majority of issues within Commission jurisdiction and directly related to an oil and gas activity proposal were mitigated. In situations when the proponent chose to withdraw their application during the process or when the stakeholder chose to withdraw their objection, resolution was considered successful since the Commission's process facilitated the discussions that contributed to these decisions.

During 2009/10 the Commission has continued to conduct Community Awareness Meetings as an educational service to stakeholders. The need for those meetings however has significantly changed now that the Commission has an established presence in northeastern communities where oil and gas activities are taking place. The Commission has concluded that at this stage specific subject meetings and targeted interactions with impacted communities or individual landowners are more beneficial. As a result, the Commission has updated its measure for presence in the community to "Number of Community Meetings with Commission Participation". In addition to the six Community Awareness Meetings held in 2009/10, the Commission coordinated an information session in Pouce Coupe and provided staff resources and information for a meeting of the BC Grain Growers. Commission representatives participated in all six Northeast Energy and Mines Advisory Committee (NEEMAC) meetings. The targets for the following three years remain unchanged.

#### **GOAL 4**



## THE COMMISSION CONTINUALLY IMPROVES THE REGULATORY ENVIRONMENT

### **Goal Descriptors**

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

### **Strategies**

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

Measure	Results		Targets			
Number of updated MOUs or	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
working agreements with partner agencies	2	2 Target met	2	2	2	2
Baseline: n/a Benchmark: n/a						

Measure	Results		Targets			
Number of new MOUs or working	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
agreements with partner agencies	2	2	2	2	2	2
Baseline: n/a Benchmark: n/a		Target met				

Measure	Results		Targets			
Internal Audit to ensure	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
consistency with MOU and OGAA requirements	n/a	n/a	TBD	TBD	TBD	TBD
Baseline: n/a Benchmark: n/a						

## GOAL 4 (CONT'D)

Strategies and targets under this goal were achieved during 2009/10 through the extensive regulatory improvement work completed in preparation of the *Oil and Gas Activities Act* implementation. All working agreements and Memoranda of Understanding with other agencies were either confirmed or updated. New MOUs have been established with the Agricultural Land Commission and with the BC Safety Authority.

To enable efficient application of OGAA regulations, the Commission has commenced the development of an MOU with the Ministry of Environment on the implementation of the Environmental Protection Management Regulation.

Client satisfaction previously measured under Goal 4 is now being monitored under Goal 3: The Commission is a service-oriented organization. In the 2010/11-2012-13 Service Plan a new measure under Goal 4 was identified: Internal Audit to Ensure Consistency with MOU and OGAA requirements. The internal operational audit function is currently being developed by the Commission and progress will be reported in the 2010/11 Service Plan Report.

## **GOAL 5**



## THE COMMISSION IS A GREAT PLACE TO WORK

### **Goal Descriptors**

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

#### **Strategies**

- Utilize employee survey results to foster a climate where employees are engaged in their work
- · Improve training, knowledge and education organization wide
- Maintain the Commission's health and wellness program in support of ActNow BC

Measure	Results		Targets			
Percentage of employees with a	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
development plan in place	98%	100%	100%	100%	100%	100%
Baseline: 98% (2008/09) Benchmark: n/a		Target met				

Measure	Results		Targets			
Voluntary turnover rate of regular	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
staff	10%	8%	10%	10%	10%	10%
Baseline: 9.1% Benchmark: 10.6% (Alberta ERCB)		Target exceeded				

## GOAL 5 (CONT'D)

Measure	Results		Targets			
Percentage of employees responding to an employee engagement survey	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13
	92%	95%	90%	90%	90%	90%
Baseline: 94% Benchmark: 87% (B.C. Public Service Agency)		Target exceeded				

Our continued focus on increasing employee retention and satisfaction has yielded positive results during 2009/10. The three measures monitored under Goal 5 represent different perspectives of the concerted efforts of management, with the ongoing feedback from employees, to create a healthy and rewarding working environment. Substantially exceeding targets for two of the measures – employee turnover rate and employee response to workplace engagement survey – brings reassurance that the Commission's strategies and actions under this goal have been successful.

The June 2009 performance review and development process revealed that all of employees had a performance plan in place. This was an improvement from the previous year and is the maximum achievable result. The second half of 2009/10 was marked with increased hiring activity, which will require an additional time commitment from supervisors to meet the expectations of the 2010 performance review and development process. In parallel, the Commission provides opportunities on a regular basis for supervisor development, as well as further competency development of employees at all levels.

The result of the Workplace Engagement Survey – 95 per cent response rate – is highly indicative of the increasing level of engagement of our employees. Not only did the Commission exceed its performance target for participation, but the survey produced meaningful results that confirm the importance of the Commission's strategic initiatives on transparency and accountability and pointed to further areas where improvement will be sought over the next period.

The ever evolving Health and Wellness Program has been highly praised by employees. The program combines environmental and health awareness with financial incentives to strike a better work/life balance and boost performance through improved health and an appealing work environment. During 2009/10 the program contributed to the Commission's efforts to reduce greenhouse gas emissions and become compliant with the provincial requirement for carbon neutral public service. In addition to the Green Living incentives that the program provides, it raises employee morale and promotes changes in behaviour, which is unlocking a wealth of opportunities to minimize the Commission's carbon footprint and make it a great place to work.



## FINANCIAL REPORT

This section reports on the Commission's financial position at the end of fiscal 2009/10 and should be considered in conjunction with the appended audited consolidated financial statements and related notes for the 12 months ending March 31, 2010. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). In addition to actual results for the past year, financial forecast information is provided, which is subject to a number of risks and uncertainties as discussed in the preceding report on operational drivers.

The Commission's Consolidated Net Income was \$4.0 million compared to a forecast of \$2.2 million per the latest 2010/11 – 2012/13 Service Plan. Following the planned Net Loss of \$3.3 million for the previous fiscal year, this year's result reflects changes in the funding model, higher than expected industry activity and number of asset transfers. It returns the Commission to a position where it can balance its revenues and

expenses, generate surplus cash to fund needed capital projects and enhance organizational capacity. The Orphan Sites Reclamation Fund administered by the Commission and consolidated for financial statement purposes had a net income of \$885,000.

As a self-sufficient Crown corporation, the Commission generates its revenue mainly from application fees and levies on production. Fee revenues are harder to predict as they are predicated on industry activity levels, which in turn are influenced by a combination of factors, such as demand trends, weather conditions, natural gas and oil prices and regulatory regimes. To reduce dependency on the more volatile fee revenue, the Commission adjusted its funding model to be more heavily weighted toward stable production-based levy revenues. Levies on petroleum and natural gas production are predictable and payable on a monthly basis.

Table 3:

Consolidated Financial Results \$000s	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Budget	2009/10 Actual	2010/11 Forecast	2011/12 Forecast	2012/13 Forecast
Revenues								
Fees	14,364	11,568	13,698	9,016	12,865	13,886	15,174	16,467
Levies	14,323	13,727	14,050	17,565	18,596	20,595	22,988	25,892
Misc & Recoveries	1,039	1,057	510	70	402	259	259	259
Total Revenues	29,726	26,352	28,258	26,651	31,863	34,740	38,421	42,618
Expenses								
First Nations	9,065	7,103	8,797	4,100	6,296	6,000	6,500	7,000
Salaries and Benefits	11,370	13,165	15,755	15,232	15,372	17,560	19,415	21,380
Operating Expenses (incl. amort.)	6,579	6,329	7,787	7,319	7,091	9,180	10,506	12,238
Total Expenses	27,014	26,597	32,339	26,651	28,759	32,740	36,421	40,618
Net Operating Income (Loss)	2,712	(245)	(4,081)	-	3,104	2,000	2,000	2,000
Orphan Site Reclamation Fund - Surplus	911	841	709	-	885	183	442	704
Amortization of Contributed Assets	105	105	58	-	10	10	10	10
Consolidated Net Income (Loss)	3,728	701	(3,314)	-	3,999	2,193	2,452	2,714

**Note:** The above financial information, including forecast information, has been accounted for in accordance with Canadian Generally Accepted Accounting Principles. However, for presentation purposes and continuity with previous years' annual reports, the information above differs from the appended Consolidated Financial Statements in that the revenues and expenses of the Orphan Site Reclamation Fund have been removed from the respective line item, and the net income of the Fund disclosed separately.

On a consolidated basis, revenues from application fees were \$12.9 million in 2009/10, and levies on production amounted to \$19.5 million. This represents 99 per cent of operating revenue, with the remaining one per cent is derived from miscellaneous fees. An increase in levy rates was approved effective February 2010 to allow the Commission to balance its budget, fund capital spending and provide working capital. Fees revenue decreased by 6% from the previous year due to the smaller number of applications received.

Payments to First Nations were \$6.3 million, which was a decrease of 28% due to the smaller number of applications received in the year. Relations with First Nations and the funding for their participation in the oil and gas activities permitting process are managed through CPAs. Payments to First Nations are primarily based on oil and gas activity levels.

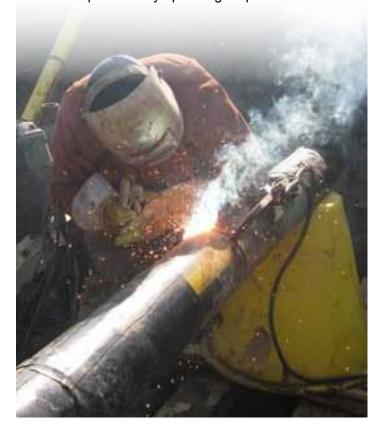
The Commission employs people of varied expertise with a wide range of technical and professional backgrounds in different geographic areas. The most significant expense of the Commission, in magnitude and importance, is salaries and benefits. Applying fiscal constraints and a hiring freeze during the first half of the year, the Commission kept salary and benefits levels similar to those in the previous year. Salaries and benefits in 2009/10 were \$15.4 million compared to \$15.8 million in 2008/09.

Operating expenses related to professional services and training, travel and telecommunications decreased by a total of \$2.1 million from their 2008/09 levels reflecting strict control of discretionary spending and a significant reduction in travel made possible by the expanded video conferencing system between all Commission offices.

In 2009/10 cash balances decreased from \$4.5 million at fiscal 2009 year-end to \$2.0 million at March 31, 2010. Cash held by the Orphan Fund, which is restricted in its use to Orphan activities, increased from \$2.2 million to \$3 million.

Primarily related to new business applications development and migration of existing applications to a new platform, investments in property, plant and equipment and intangible assets during the year were \$2.3 million. Amortization for this group of assets was \$1.3 million. Net assets of the Commission started the year at \$12.1 million and ended the year at March 31, 2010 at \$16.1 million. Net assets have funded the receivables and property, plant and equipment on the Commission's Balance Sheet.

The Commission's three year financial outlook is presented in the table above based on the key assumptions. The strategies and measures to achieve financial targets are annually described in the Commission's Service Plan. The Commission has no major capital plans as defined by the *Budget Transparency and Accountability Act* (plans in excess of \$50M). Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be \$9.25 million the next three years. Cash flow will be provided by operating surpluses.



## **FINANCIAL REPORT**

Most of the key assumptions in the Service Plan Update continue to apply and some are compared against actual levels in 2009/10 in the following table.

#### Table 4:

Key Assumptions per 2009/10 – 2011/12 Service Plan Update	2009/10 Actual
New well applications are 550, 900, 1000 annually starting in 2009/10.	828
Gas volumes are 28.5 x 10 <sup>9</sup> m <sup>3</sup> , 28.8 x 10 <sup>9</sup> m <sup>3</sup> and 34.8 x 10 <sup>9</sup> m <sup>3</sup> starting in 2009/10.	28.1 x 10 <sup>9</sup> m <sup>3</sup>
Oil volumes are 1.229 x 10 <sup>6</sup> m <sup>3</sup> , 1.124 x 10 <sup>6</sup> m <sup>3</sup> and 1.029 x 10 <sup>6</sup> m <sup>3</sup> starting in 2009/10.	1.287 x 10 <sup>6</sup> m <sup>3</sup>
Natural Gas prices remain in excess of US\$5/MCF.	Downward
Workforce FTEs reflect cost containment measures; wage and benefit increases are based on the current collective agreements and are subject to future labour negotiations.	Continued
Inflation estimated at 3 per cent per annum.	Downward
Reclamation activities projected at five, four and four well sites per annum @ \$200K each starting in 2009/10 for the Orphan Sites Fund.	Continued
Premises costs do not reflect future possible consolidation of Fort St. John facilities.	Continued
Funding for OGAA is limited to internal regulatory development - costs of training, implementation, and external stakeholder processes have not been addressed.	Continued
Information Technology Migration Project capital spending is subject to an external review of Commission systems requirements.	Continued

## 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 and therefore is not reporting on this item.

#### **CONTACT INFORMATION**

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

Phone: (250) 419.4400

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

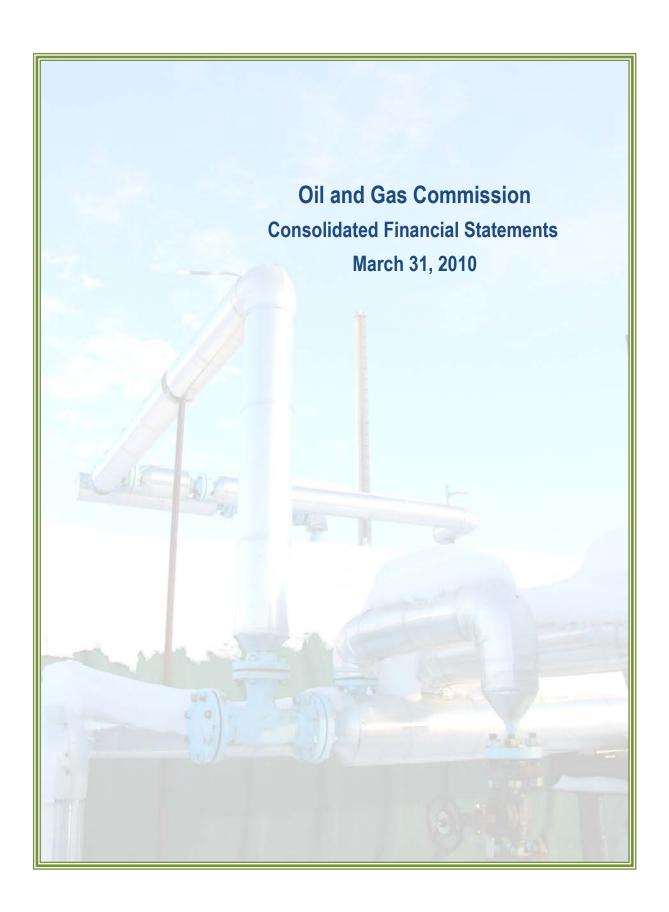
Website: www.ogc.gov.bc.ca

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

Steve Simons, Leader, Performance and Planning Division

Phone: (250) 419.4419

Email: <u>Steven.Simons@gov.bc.ca</u>





## **Statement of Management Responsibility**

The consolidated financial statements of the Oil and Gas Commission (Commission) for the year ended March 31, 2010 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. These consolidated financial statements present fairly the financial position of the Commission as at March 31, 2010, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the consolidated financial statements and have established systems of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of the Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Commission.

Alex Ferguson
Commissioner

Randall Smith

**Executive Financial Officer** 



# Report of the Auditor General of British Columbia

To the Board of Directors of the Oil and Gas Commission; and

To the Minister of Energy Mines and Petroleum Resources Province of British Columbia:

I have audited the consolidated statement of financial position of the *Oil and Gas Commission* as at March 31, 2010, and the consolidated statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia June 21, 2010 John Doyle, MBA, CA Auditor General

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

March 31	2010	2009
		Restated
Assets		Note 2
Current assets	4.000	4 500
Cash	1,962	4,529
Accounts receivable (Note 6)	11,148 212	6,986 226
Prepaid expenses	13,322	11,741
	13,322	11,741
Restricted cash (Note 7)	3,031	2,242
(Note 1)	3,551	_,
Other assets	66	23
Property, plant and equipment (Note 9)	3,420	2,062
Intangible assets (Note 9)	588	1,395
	20,427	17,463
Liabilities and net assets		
A (11.1.11)		
Current liabilities	004	4 204
Accounts payable	894 826	1,384 1,447
Wages payable (Note 11)  Due to First Nations	1,451	1,44 <i>1</i> 844
Due to the Province of British Columbia (Note 14)	170	910
Deferred Revenue	492	149
Bololiod Novolido	3,833	4,734
		.,. • .
Future retirement allowance (Note 11)	409	533
,	4,242	5,267
Net assets		
Net assets	16,125	12,126
Contributed assets (Note 10)	60	70
	16,185	12,196
	20,427	17,463

Orphan Site Reclamation Fund (Note 7)

Funds under administration (Note 8)

Contingent Liability (Note 13)

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board

Greg Reimer, Board Chair

Alex Ferguson Commissioner

## Oil and Gas Commission Consolidated Statement of Operations and Net Assets (in \$000s)

March 31	2010	2009
		Restated
		Note 2
Revenues		
Fees	12,865	13,698
Levies	19,514	14,971
Recoveries from the Province of British Columbia	381	1,177
Miscellaneous	135	351
	32,895	30,197
Expenses		
Salaries and benefits	15,372	15,755
First Nations (Note 15)	6,296	8,797
Professional services and training	1,638	3,139
Travel and vehicle costs	928	1,295
Building occupancy	2,196	1,847
Telecommunications and information systems	746	941
Amortization	1,317	1,243
Miscellaneous and reserve for doubtful accounts	37	49
Office supplies and equipment	516	493
Grants	10	10
	29,056	33,569
Income (loss) from operations	3,839	(3,372)
Gain on sale of assets	150	-
Amortization of contributed assets (Note10)	10	58
Not income (loca)	2.000	(2.24.1)
Net income (loss)	3,999	(3,314)
Net assets beginning of year	12,126	15,440
Net assets end of year	16,125	12,126

The accompanying notes are an integral part of these statements.

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

March 31	2010	2009
		Restated
Operating activities		Note 2
Cash generated from:		
Fees	11,508	13,613
Levies	17,156	14,822
Miscellaneous and recoveries	412	2,043
	29,076	30,478
Cash used for:		
Payments to First Nations	(5,689)	(7,595)
Salaries and benefits	(16,117)	(15,222)
Operating expenses	(7,330)	(7,904)
	(29,136)	(30,721)
Cash from (used in) operating activities	(60)	(243)
Investing activities  Cash generated from:		
Proceeds from sale of assets	207	-
Cash used for: Purchase of plant and equipment	(1,912)	(947)
Purchase of intangible assets	(13)	(504)
Cash restricted for Orphan Site Reclamation Fund	(789)	(686)
	(2,714)	(2,137)
Cash from (used in) investing activities	(2,507)	(2,137)
Decrease in cash	(2,567)	(2,380)
Cash beginning of year	4,529	6,909
Cash end of year	1,962	4,529

The accompanying notes are an integral part of these statements.

#### 1. The Oil and Gas Commission

The Oil and Gas Commission (Commission) was established under the *Oil and Gas Commission Act* on July 30, 1998 to regulate industry activity on oil and gas lands and to resolve industry land use and economic issues related to Aboriginal lands on behalf of the Province of British Columbia. The Commission is also accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia. The *Oil and Gas Activities Act*, which supercedes the *Oil and Gas Commission Act*, has been passed but the new Act and related regulations have not yet been enacted.

The Commission is funded through revenue from the consolidated revenue fund of the Province of British Columbia derived from:

- Levies from oil and gas production,
- Fees related to applications for licenses, permits and other authorizations reviewed by the Commission under the Petroleum and Natural Gas Act, and
- Annual fees prescribed under the Petroleum and Natural Gas Act and the Pipeline Act.

The Commission is exempt from federal and provincial income taxes.

## 2. Prior Period Adjustment

During the current year it was determined that 2009 Fee revenue was understated by \$420,000. The adjustment to reflect this was applied retrospectively, which for the March 31, 2009 year-end increased Cash, Fees, Net Income, and Net Assets by \$420,000.

#### 3. Significant Accounting Policies

The consolidated financial statements of the Commission are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Significant accounting policies are as follows:

#### **New accounting pronouncements**

Future Accounting Framework

The Commission is a government organization within the British Columbia government reporting entity, and as such follows the accounting standards of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). The Commission has been classified as an "other government organization" under PSAB and has chosen to follow the private sector accounting standards of the CICA.

The Canadian Accounting Standards Board (AcSB) has confirmed that, on January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. In addition to IFRS, the CICA will continue to support accounting standards for private enterprises, not for profit organizations, and public sector accounting standards.

PSAB has amended the Introduction to the Public Sector Accounting Handbook to confirm that "other government organizations" should either adhere to the PSAB Handbook or to the standards for publicly accountable enterprises.

The Commission is currently in the process of determining the changes required to comply with the direction of PSAB. Once the new direction is finalized, the Commission will determine the impact to the financial statements.

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

#### Goodwill and Intangible Assets

In February 2008, the CICA issued section 3064 *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Oil and Gas Commission has adopted this standard which has resulted in a change in presentation separately disclosing intangible assets.

#### Consolidation

The accounts of the Commission and the Orphan Site Reclamation Fund (OSRF) have been consolidated in these financial statements. The Commission administers and controls the OSRF and all intercompany balances and transactions have been eliminated.

#### **Financial Instruments**

The Commission has designated its Financial Instruments as follows: Cash is classified as held for trading and measured at fair value and all gains and losses are included in net income from operations in the period in which they occur. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payables, wages payable and due to First Nations are classified as other financial liabilities and are also measured at amortized cost.

#### **Capital Assets**

Property, plant and equipment, and Intangible 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

Property, plant and equipment	Rate
Furniture, equipment and tenant improvements	10%
Operating equipment	20%
Automotive equipment	25%
Computer hardware	33%
Intangible assets	Rate
Business Systems Development	33%
Other software	33%

An amount approximating amortization associated with capital assets originally paid for by the Province of British Columbia is transferred from contributed assets to revenue each year. See note 10.

#### Revenue Recognition

All fee and levy revenue authorized and collected under Section 23 of the *Oil and Gas Commission Act* is first paid to the Minister of Finance. The province is required to transfer this amount of revenue to the Commission in full. Revenue is recognized when it is earned.

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

#### **Use of Estimates**

The preparation of financial statements in accordance with Canadian GAAP requires 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. Actual results could differ from these estimates.

Significant balances that include an element of estimation include levy revenues and receivables, the amortization of capital assets, and future employee benefit liabilities.

Levy revenue receivable is estimated based on an analysis that takes into account both historical and current year trends. Actual results have been consistently within 2% of estimate.

#### 4. Capital Management

The Oil and Gas Commission defines capital as net equity (assets minus liabilities). It manages its capital structure in accordance with its long-term view of investments in property, plant and equipment and the anticipated impacts to operations caused by changes in economic conditions necessary to meet its legislative mandate. Net equity includes the net assets of the Orphan Site Reclamation Fund which is restricted in its use (see Note 7). There has been no change to the Commission's approach to capital management during the period. The Commission is currently meeting all of its financial commitments. The Commission has no externally imposed capital requirements.

#### 5. Financial Instruments

The Commission's financial instruments include Cash, Accounts Receivable, Accounts Payable, and Due to First Nations. The carrying amounts of these instruments approximates fair value due to their short-term nature.

#### Risks

The activities of the Commission could expose it to a variety of financial risks including credit risk, interest rate risk, and liquidity risk.

#### Credit Risk

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations. The Commission is exposed to credit risk in the event of non-payment of Accounts Receivable levies on production of oil and gas. This risk is negligible, as the third parties cannot access their oil and gas assets without the concurrence of the Commission.

The Commission is exposed to credit risk associated with its cash deposits. This risk is mitigated by placing Cash deposits in recognized British Columbia and Canadian deposit-taking financial institutions, with coverage of the Credit Union Deposit Insurance Corporation or the Canadian Deposit Insurance Corporation. Credit risk arising from Cash deposits is considered negligible.

#### Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. The Commission is exposed to interest rate risk on Cash deposits, however the risk is not considered significant as interest revenues are not significant.

#### 5. Financial Instruments (continued)

## Liquidity Risk

Liquidity risk is the risk that the Commission will encounter difficulty in meeting obligations associated with its financial liabilities. The Commission manages its liquidity risk by placing deposits in cash and closely monitoring revenue-generating activities, as well as controlling expenditures to result in suitable cash flows.

It is management's assessment that the Commission is not exposed to significant credit, interest, or liquidity risk arising from these instruments.

#### 6. Accounts Receivable

Fee and levy revenue is initially receivable from industry. The majority of the revenue is subsequently collected and processed through the provincial government. At any point in time, a portion of fees and levies receivable by the Commission is payable by industry, and a portion is payable by the Province to the Commission.

	2010	2009
Due from Industry		
Fees	2,065	772
Levies	6,022	4,009
	8,087	4,781
Due from the Province of British Columbia		
Fees and levies collected	2,775	2,023
Recoveries	246	141
	3,021	2,164
Other	40	41
	11,148	6,986

#### 7. Orphan Site Reclamation Fund

The Oil and Gas 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, Mines and Petroleum Resources provided funding to reclaim and remediate orphan sites specifically identified at that time. It is anticipated that there will be no residual liability to the OSRF from the identified sites.

There are also 24 potential orphan sites in BC, the majority of which preceded regulation in the province. Liability for these sites has not been established at this time, however it is probable that the majority will become the responsibility of the OSRF if ownership cannot be determined. Reclamation of the sites would then be prioritized based on risk, and proximity to human habitation or sensitive environment. Because the majority of these sites were abandoned more than 50 years ago with minimal documentation, it is impractical to estimate costs of reclamation or whether reclamation is necessary or feasible.

At March 31, 2010, the Commission held \$3,031,000 in OSRF cash (2009: \$2,242,000). Net Assets accumulated by the OSRF are restricted in use by legislation and are not available for general use of the Commission. At March 31, 2010, OSRF Net Assets totalled \$3,493,000 (2009: \$2,608,000).

Net Assets and results of Operations of the OSRF are summarized as follows:

	2010	2009
Assets		
Cash	3,031	2,242
Receivables	540	395
Total assets	3,571	2,637
Current liabilities		
Accounts payable	78	29
Net assets	3,493	2,608
Net assets and liabilities	3,571	2,637
Revenue		
Levies	918	921
Recoveries from province	257	992
Miscellaneous	7	26
	1,182	1,939
Expenses		
Reclamation expenses	297	1,230
Net income - Orphan Site Reclamation Fund	885	709

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

The Commission administers the SCEK fund on behalf of the SCEK Steering Committee. The activities and balances of the SCEK fund are not included in these financial statements. Funding is generated and collected by the Commission through a portion of the levy on oil and gas production and a portion of the application fee for wells. The money is restricted for use as directed by the SCEK Steering Committee for projects and administration of the SCEK Fund. This funding was suspended April 1, 2009.

At March 31, 2010 the net asset balance of the SCEK fund is \$1,516,000 (2009: \$2,054,000). For the year ending March 31, 2010 revenues were \$5,000 (2009: \$889,000) and expenses were \$543,000 (2009: \$360,000).

## 9. Capital Assets

Capital assets are amortized at rates as stated in note 3. For the year-ending March 31, 2010, Amortization expense for Property, plant and equipment was \$497,000 (2009: \$509,000), for Business Systems Development was \$771,000 (2009: \$706,000), and for purchased Computer software was \$49,000 (2009: \$28,000).

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Property, plant and equipment				
Furniture and tenant improvements	4,604	1,447	3,157	1,742
Computer hardware	555	335	220	163
Automotive equipment	310	309	1	42
Operating equipment	168	126	42	58
Land		-		57
	5,637	2,217	3,420	2,062
Intangible assets				
Business systems development	2,316	1,798	518	1,284
Computer Software	151	81	70	111
	2,467	1,879	588	1,395
	8,104	4,096	4,008	3,457

#### 10. Contributed Assets and Forgiveness of Start-up Costs

During its first year of operation (fiscal 1999) the Commission borrowed funds from the province to finance its purchase of capital assets and pay for professional contracts. The total of these amounts was \$1.62 million.

During fiscal 2001 the province forgave this amount and the amount equal to the capital assets. They were recognized as a contributed asset. The province also provided \$100,000 towards tenant improvements in fiscal 2007. An equivalent amount was recognized as a contributed asset.

Contributed assets are amortized each year in an amount approximating amortization of capital assets; this amount is transferred to revenue.

Contributed assets beginning of year Amortization of contributed assets Contributed assets end of year

2010	2009
70	128
(10)	(58)
60	70

#### 11. Employee Benefit Plans and Future Liability

#### **Employees' Benefits 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, 2008 indicated a surplus of \$487 million for basic pension benefits. The next valuation will be as at March 31, 2011 with results available in early 2012. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2010 were \$1,160,262 (2009: \$1,017,905).

#### **Accrued Employee Leave Entitlements**

As of March 31, 2010, 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 \$429,392 (2009: \$446,387).

## **Employee 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 \$460,104 of which \$51,320 is included in wages payable as a current liability.

#### 12. Commitments

The Commission occupies leased office buildings and storage space in Fort St. John, Fort Nelson, Dawson Creek and Victoria and has entered into a number of short-term leases and support agreements for vehicles, office equipment, and software development and licensing.

The Commission's commitments for the agreements described above are:

Fiscal Year	Commitments
2010/11	3,062
2011/12	2,352
2012/13	2,394
2013/14	1,307
2014/15	1,109
	10,224

As well, the Commission has signed Consultation Agreements with a number of First Nations communities, committing the Commission to fixed minimum payments totalling \$880,000 annually plus further amounts based on the number of well applications received by the Commission. Estimated payments to First Nations for fiscal 2011 are \$6.0 million; future years' payments are dependent upon renewal of existing agreements, the likelihood of which cannot be ascertained at this time.

#### 13. Contingent Liability

## **Litigation and Claims**

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

See also Note 7 regarding potential reclamation costs related to the Orphan Site Reclamation Fund.

## 14. 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 the 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 consolidated financial statements include the following related party transactions:

	2010	2009
Due from the Province of British Columbia:		
Fees and levies collected	2,775	2,023
Recoveries	246	141
	3,021	2,164
Due to the Province of British Columbia:		
Expense reimbursements	170	910
Revenues from the province:		
Contract recoveries	381	1,177
Miscellaneous	17	17
	398	1,194
Expenses:		
Salaries and benefits	1,646	1,603
Building occupancy	1,305	1,608
Professional services and training	264	551
Telecommunications and info systems	257	328
Travel and vehicle costs	171	420
Office supplies and equipment	62	750
	3,705	5,260

#### 15. First Nations Payments

The Commission has entered into Consultation Agreements with the following First Nations. During the life of the Agreements, each First Nation will receive payments based on current oil and gas development activities, for the purpose of consultation services on applications as required by the *Oil and Gas Commission Act*. Payments for the year-ended March 31st are as follows:

Payments to:	Agreements Expire	2010	2009
Blueberry River First Nations	March 31, 2020	577	1,002
Dene Tha' First Nations	September 30, 2011	460	540
Doig River First Nations	March 31, 2011	577	978
Fort Nelson First Nations	March 31, 2011	577	978
Halfway River First Nations	March 31, 2011	577	978
McLeod Lake Indian Band	April 30, 2011	982	1,187
Prophet River First Nations	March 31, 2011	577	978
Saulteau First Nations	March 31, 2011	966	1,065
West Moberly First Nations	March 31, 2011	985	1,088
Ktunaxa First Nation	March 31, 2010	18	3
		6,296	8,797

#### 16. Comparative Figures

Certain comparative figures have been restated to conform to the presentation used in the current year.