Oil and Gas Commission

Annual Service Plan Report

2005/2006

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

Dear Honourable Minister Neufeld:

I am pleased to present the Oil and Gas Commission Annual Service Plan Report for 2005/2006.

The Commission achieved a net revenue of $1.9M against a budgeted net revenue of $0.5M for the fiscal year. The variance is primarily due to very strong fee revenue and lower than expected salary costs. The Commission also made significant progress in achieving its planned corporate strategies and performance targets despite an extremely aggressive agenda.

The Board has assessed these results and is satisfied with the organizational performance given the number of issues and priorities facing the Commission. Those issues include the unprecedented level of industry activity and significant corporate restructuring being undertaken. This corporate restructuring, while still underway, included the appointment of a new Commissioner and preparations to move the Commission outside of the *Public Service Act*.

There are certain risks facing the industry regulated by the Commission. Some of the uncontrollable risks include commodity price and volume fluctuations, and adverse weather conditions (such as an early spring break- up). The Commission obtains information from industry regarding forecast drilling activity in order to manage these risks and the resulting drilling activity. Controllable risks, over the long-term, include workforce availability and the quality of information related to pipelines.

The Province has recently passed legislation enabling the Commission to operate outside of the *Public Service Act*. When this transition is finalized, the Commission will have greater flexibility with human resource policies and be in a position to retain and attract employees. As a result, workforce availability is expected to improve. Renewed effort has been put on the pipeline data management project, including the retention of a new contractor and the development of a new project plan with strict timelines.

The Board is also confident that the Commission is positioned to regulate the anticipated growth in industry activity in a timely and professional manner, to improve service delivery to clients, and to meet our statutory obligations under the *Oil and Gas Commission Act*.

OGC

The 2005/06 Oil and Gas Commission Annual Service Plan Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of the Crown agency for the 12 months ended March 31, 2006. All significant decisions, events and identified risks, as of June 20, 2006, have been considered in the preparation of this report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our Service Plan. The measures presented are consistent with the Oil and Gas Commission's mission, goals and objectives, and focus on aspects critical to the organization's performance.

I am responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

Greg Reimer, Chair

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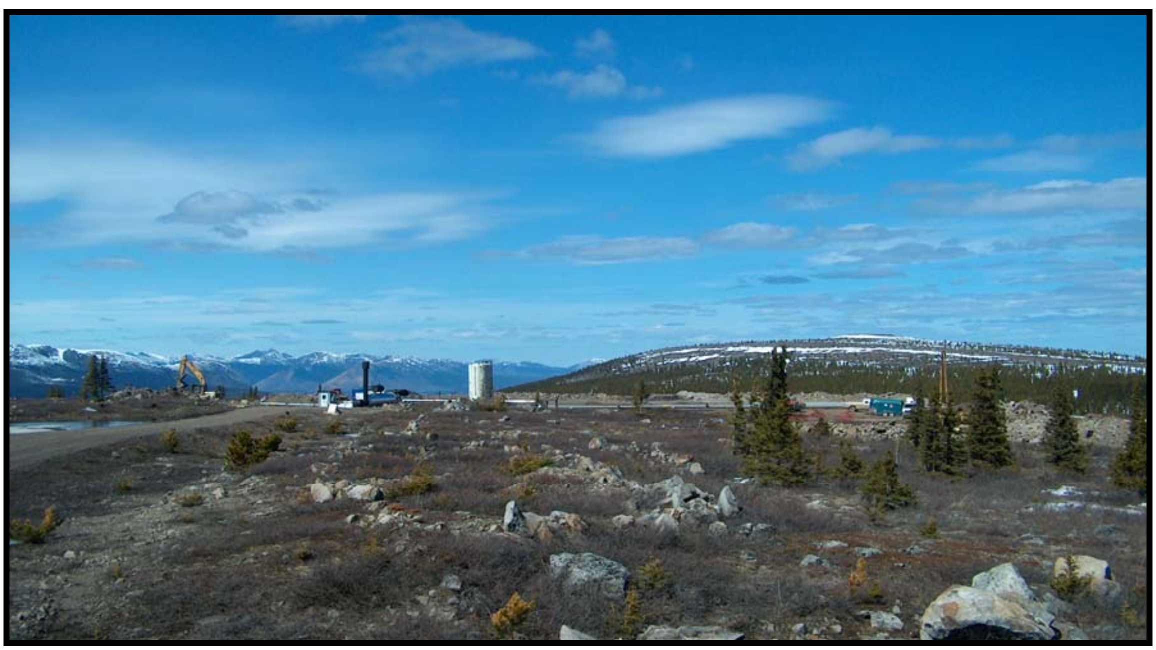


OGC

Organization Overview

The Oil and Gas Commission (OGC or Commission) was established under the *Oil and Gas Commission Act* in July 1998 as part of the provincial government's Oil and Gas Initiative. This independent Crown agency is fully financed by the oil and gas industry through fees and levies.

The Commission is responsible for regulating British Columbia's oil and gas sector and for making decisions on oil and gas applications, considering broad environmental, economic and social effects. It also has a responsibility to consult with First Nations, engage stakeholders, ensure safe operating practices, and streamline regulatory processes.

Our Vision is:

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

Our Mission is:

"Regulating Oil and Gas Activity:

- *through fair, consistent, responsible and transparent stakeholder engagement,*
- *for the benefit of British Columbians,*
- *by balancing environmental, economic, and social outcomes."*

Our Core Values are:

- *"We are truthful and do our duty above all else in the performance of our responsibilities.*
- *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 will measure our performance and strive for excellence.*
- *We embrace change that enables personal and organizational growth.*
- *We promote a positive and rewarding work environment."*

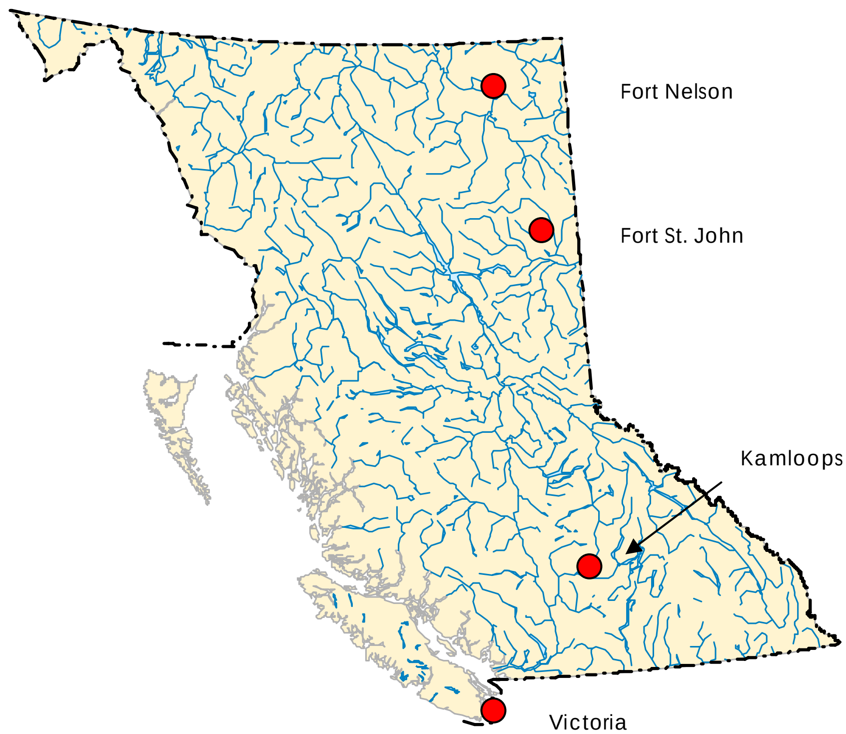
Our Key Success Factors are:

- *"Upholding our core values*
- *Understanding and focusing on core services*
- *Building and sustaining competence within the organization*
- *Anticipating and responding to short- and medium-term demands for the services of the organization*
- *Staying close to communities, clients, and stakeholders*
- *Recognizing barriers and developing initiatives to close performance gaps*
- *Aligning and focusing organizational energy on achieving performance targets*
- *Continuously improving business processes and technological support".*

Employees are encouraged to use core values as a guide in their work activities. The degree to which the values *have* been used is determined through annual performance evaluations: five core values are specifically measured in every evaluation. Performance evaluations on senior managers go a step further and require detailed feedback on innovation and change management. The percentage of employees who receive an appraisal is targeted and measured each year, and the Board is appraised of the results.

Goals and objectives are linked to the Commission's mission and vision through strategic planning exercises. The Executive team formulates goals, objectives, and strategies that promote the OGC mission and vision in the context of government policy direction. Performance targets are established with reference to historic performance, current performance, and future opportunities and constraints. The Commission's plans are submitted to the Board for review, comment, and approval.

The Commission has offices in Fort St. John, Fort Nelson, Kamloops, and Victoria.



The Commission has approximately 130 employees.

The core services of the Commission are:

1. Assessment of oil and gas applications and issuance of approvals
2. Compliance and enforcement of exploration, development, operations and restoration with regulations and conditions
3. Consultation with First Nations on applications and operations

There are two divisions and an executive office in the Commission:

1. Operations Division

   - Project Assessment Branch
   - Compliance and Enforcement Branch
   - Operations Engineering Branch
   - Resource Conservation Branch
   - Technical Services and Regulatory Affairs Branch

2. Business Services Division

   - Finance and Administration Branch including Advisory Committee administration, strategic planning, and performance reporting
   - Information Technology and Systems Branch
   - Corporate Compliance Branch

The executive office has responsibility for Communications & Stakeholder Relations, Human Resources, and Board administration.

Detailed information on branch and division responsibilities can be found in Appendix 1.

The Commission has both clients and stakeholders. Clients are industry firms and their representatives. Those representatives are the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC). Stakeholders are groups and individuals outside of the Commission that may influence decisions. Stakeholders include First Nations, local and regional governments, environmental organizations, community groups, private landowners and others. This grouping is used to simply and concisely categorize external parties who play a role in the operations and development of the organization. Neither group plays a more or less important role than the other.

The Commission has business partners both within and outside government. Certain human resource services are provided by the BC Public Service Agency. A limited number of information technology services are provided by Common Information Technology Services (CITS); other services are provided by Tec Net, a private firm. Payroll services are provided by Telus Sourcing Solutions BC.

The OGC has signed Memorandums of Understanding (MOU's) with a number of ministries and agencies to further the single-window goal by clarifying roles or delegating responsibilities.

There is an important distinction between the Ministry of Energy, Mines and Petroleum Resources (MEMPR) and the Commission. While MEMPR determines policy, the Commission regulates to that policy. The Ministry is the oil and gas resource manager and determines where tenures will be sold and the conditions that will guide activity on those tenures.

A three-member Board of Directors governs the Commission. The Deputy Minister of MEMPR, Greg Reimer, is the Chair. The Commissioner, Ross Curtis, is Vice Chair. John Bechtold, a government appointee, is the third Director and chairs the Audit Committee. The Commissioner is responsible for the operations of the Commission; detailed information on operations and service delivery are laid out in Appendix 1.

The Commission receives advice from several groups:

- Advisory Committee: A group of eight individuals appointed by government to evaluate Requests for Reconsideration by Alternate Dispute Resolution (under the authority of Section 9 of the *Oil and Gas Commission Act*) and to make recommendations to the Commissioner. Eighty percent of recommendations have been implemented. Detailed information on the Advisory Committee is available in Appendix 2.

- Practice Advisory Group: A volunteer group that consists of a Steering Committee and eight sub-committees, each with expertise in a particular operational area of the oil and gas industry. It is a joint initiative between the Commission and the oil and gas industry that is intended to raise issues of mutual concern and to work toward a resolution of those issues. Further information about the Practice Advisory Group is available in Appendix 3.

- Best Practices Working Group: A group composed of government and industry members to address regulatory efficiency and service delivery issues in British Columbia related to petroleum and natural gas activities. The Oil and Gas Commission has a representative on the Group. Further information about the Best Practices Working Group is available in Appendix 4.

Finally, the Commission receives advice from First Nations, local governments, federal and provincial agencies, CAPP, and SEPAC.

The Board, Audit Committee, and the Advisory Committee all play a role to ensure that Commission staff exercise the duties of their positions in a manner consistent with core values. They also ensure that services are delivered in a manner consistent with public sector values. Those values are outlined in Appendix 5.

In summary, the Oil and Gas Commission provides an important public service by regulating oil and gas activities in the province of British Columbia.

Inter-provincial and international pipelines are regulated by the National Energy Board.

Performance Report

The operating environment in 2005/06 was unprecedented in the history of the Oil and Gas Commission. It included an 18% increase in applications and a 22% rate of staff turnover. The performance results for the year are reflective of those and other challenges. The Commission is satisfied with the results for the year.

There were a small number of changes in targets used compared to 2004/05:

- A measure was introduced to capture the number of inspections performed by Compliance & Inspection staff.
- The measure to track the number of regulations within the Commission was deleted because the 'smart regulation' initiative concluded in June 2004.
- The measure to track unit costs was deleted because increased applications were driving a significant part of the cost declines.
- The measure "Ratio of Financial Audits Performed to Unqualified Audits" was introduced as a proxy of prudent stewardship and controllership of resources.
- The measure of Commission revenues to expenses was changed from a percentage to a ratio format.

The staffing authorization remained constant from last year at 140 full-time equivalent positions, of which 130 were staffed on average during the year. The difference is due to hiring lags, which in turn are due to recruitment difficulties. These difficulties now apply throughout the Commission and not within only the professional component. Staff are lost to both the private sector and the public service.

As in past annual reports, results of operations have been set out according to Service Plan goals. The first three goals are *core* and are directly related to the *Oil and Gas Commission Act*. The related objectives and measures are important because they are tied to statutory obligations. The public and legislators can be assured that the Commission is fulfilling those obligations. The fourth goal involves regulatory reduction and single-window service. It is an important goal because it helps to create a positive economic environment, drive improved internal efficiencies, and promote alignment with government direction. The fifth goal involves nurturing a personal-best performance environment for staff. This goal is important because a stable, skilled and professional staff complement can help to make internal operations more efficient and effective. Finally, the sixth goal involves the financial health of the organization. Financial health can sustain and promote an enduring, effective and stable organization.

The *critical* measures are the Major Compliance measures (because they involve environmental protection) and the Average Days measure (because it involves operation efficiency and client satisfaction). Management puts particular attention on these results.

The Commission continues to advance in the areas of strategic planning and performance reporting. Several years ago, there were a very large number of performance measures and strategies; most of those were very basic and *input* related. There is now a more manageable number of measures and strategies; most are *output* or *efficiency* related. The Commission intends to transition towards an even smaller number of measures that are truly *critical* and which are *outcome* related. Such measures would be much more meaningful to clients and stakeholders. An independent professional consultant is being retained to assist in that exercise.

The Oil and Gas Commission Performance Management Model

Goals	Strategies	Measures
Goal 1 We will continue to improve public safety, protection of the environment, and conservation of petroleum resources	Develop an orphan site program for the consideration of government. Deliver education and compliance programs to industry. Increase inspections by 25% each year on a three year rolling average. Undertake risk and performance assessments.	Major Compliance: Exploration & Development Major Compliance: Facilities, Drilling Rigs & Operations Number of Inspections
Goal 2 We will make timely and informed decisions based upon the input we receive.	Upgrade electronic information systems and program management tools. Implement process improvements. Broaden the use of General Development Plans (GDPs) by industry.	Average number of calendar days to assess new applications
Goal 3 We will strengthen our relationships with stakeholders, First Nations, and clients.	Review and update Agreements and MOU's with First Nations and other agencies and ministries. Develop and begin implementation of an enhanced Alternative Dispute Resolution model. Independent assessment of client satisfaction.	Percent of applications responded to by First Nations Client Satisfaction
Goal 4 We will broaden our permitting authority.	Work with MEMPR to improve our legislative and regulatory framework. Enter into additional MOU's with partner agencies and ministries.	Number of agencies that industry clients must work with on oil and gas applications
Goal 5 We will nurture a personal-best performance environment for our employees.	Monitor employee turnover, conduct exit interviews, and take action to prevent excessive turnover. Develop innovative human resource strategies, systems, and guidelines to ensure that we can recruit and retain professional staff. Conduct regular 360° performance surveys on senior leaders and close any leadership gaps. Conduct regular performance evaluations & plans and close any performance gaps.	Voluntary Turnover Rate of Regular Staff Percentage of employees with a performance evaluation and plan in place
Goal 6 We will operate as a self-sustaining organization.	Generate sufficient revenue to at least cover Commission costs. Increase working capital to manage unexpected fluctuations in cash. Introduce a refined financial information system to assist in monitoring financial activity. Develop and implement an Enterprise Risk Management Program.	Ratio of Commission Revenues to Expenses Ratio of Financial Audits performed to Positive ("Unqualified") Audit Opinions

The Commission developed and populated this model by taking into account statutory obligations, operational priorities, and client/stakeholder satisfaction.

Goal 1

We will continue to improve public safety, protection of the environment, and conservation of petroleum resources.

Objective

Increase the number and effectiveness of field inspections.

Strategies

Develop an orphan site program for the consideration of government.	Achieved
Deliver educational and compliance programs to industry.	Achieved
Increase inspections by 25% each year on a three year rolling average.	Achieved
Undertake risk and performance assessments.	Partially Achieved

Measures

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Major compliance: Exploration & Development	92%	99.5% Target Exceeded	93%	94%	95%
Major compliance: Facilities, Drilling Rigs & Operations	97%	97.7% Target Exceeded	97%	97%	97%
Number of Inspections	3,140	4,361 Target Exceeded	3,750	4,370	4,990

All corporate strategies related to this goal were either fully or partially achieved through the application of resources by management and regular monitoring of results. The strategy to "Undertake risk and performance assessments" was partially achieved because work was not complete at March 31, 2006. It is expected to be complete in mid-2006/07.

The baseline results for compliance are 79% (2001/02) and 93% (2002/03) respectively. No baseline results for Inspections are available because the metric and methodology have changed over time.

The measures were selected because they involve public safety, protection of the environment, and conservation of resources. The source of the data is the Commission's IRIS operating system.

The Commission was able to exceed the targets because of increased compliance and enforcement activities and increased education of industry.

The benchmark for these measures is the Alberta Energy and Utilities Board (AEUB): "Percent of major and serious unsatisfactory incidence of non-compliance related to field inspection results". Target: < 3.5%. Actual: 2.3% (Dec. 31 2004). Source: http://www.energy.gov.ab.ca/docs/aboutus/pdfs/AR2005.pdf

The measures are relatively objective; results are based on audits and inspections by Compliance and Enforcement staff.

The measures demonstrate a linkage with government priorities because a government goal is to "Lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none". Source: BC Government Strategic Plan: http://www.bcbudget.gov.bc.ca/2006/stplan/

Efforts will continue to improve industry compliance through such actions as conducting joint audits with other agencies, as well as through holding support and education programs.

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Goal 2

We will make timely and informed decisions based upon the input we receive.

Objectives

1. Improve service levels by improving application processing.
2. Combine community knowledge and science in all aspects of regulation.
3. Improve dispute resolution processes and procedures.

Strategies

Upgrade electronic information systems and program management tools.	On Schedule
Implement process improvements.	Partially Achieved
Broaden the use of General Development Plans (GDPs) by industry.	Not Achieved

Measure

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Average calendar days to assess new applications	25	33.28 Target Not Achieved	24	23	21

The strategy to "Upgrade electronic information systems and program management tools" is on schedule with the kick-off of the IT Migration Plan during the year. The strategy to "Implement process improvements" was only partially achieved due to capacity constraints and staff turnover. The third strategy was not achieved because several First Nations declined to participate in the GDP process.

The baseline for the measure is 27.1 days (1998/99). While the target was 25 calendar days, the result was 33.28 calendar days. The Commission was not able to achieve the target for several reasons. First, only one General Development Plan (GDP) was initiated in the year (compared to 11 last year) because several First Nations declined to participate in the GDP process. Second, the number of applications received during the year increased 18% over the previous year, and the Commission did not have the necessary capacity. And finally, the Commission continued to be challenged by high staff turnover, and this in turn further affected capacity.

The benchmark for the performance measure is from the Colorado Oil and Gas Conservation Commission: "Process all complete permit applications within 30 days". No published results. Please refer to http://oil-gas.state.co.us/ and to Appendix 6.

This measure was selected because it provides industry with approximate processing timelines. This timeline in turn gives certainty for operational planning purposes. Clients have expressed a strong desire for this or a similar measure.

The results are entirely objective and were reported monthly by an independent data professional: Mr. Paul Seaby of Blue Shale Resources. Mr. Seaby retrieved the data from the IRIS system and performed an SQL query to calculate the result. Management has high confidence in the accuracy of the data.

This measure demonstrates a linkage with government priorities because government priority actions include ensuring that B.C. "Undertakes economic activity in ways that ensure sustainable environmental management" and "Making B.C. one of the most business friendly jurisdictions in Canada to attract and retain investment". Source: BC Government Strategic Plan: http://www.bcbudget.gov.bc.ca/2006/stplan/

The Commission will continue to target decreased application timelines. It is anticipated that technological and process improvements will lead to improved timelines beginning in mid- 2006/07.

Goal 3

We will strengthen our relationships with stakeholders, First Nations, and clients.

Objectives

1. Improve relationships with stakeholders, First Nations, and clients.
2. Broaden dispute resolution to all aspects of decision-making.

Strategies

Review & update Agreements & MOU's with First Nations and other agencies and ministries.	Transferred to MEMPR
Develop and begin implementation of an enhanced Alternative Dispute Resolution model.	Partially Achieved
Independent assessment of client satisfaction.	Deferred

Measures

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Percent of applications responded to by First Nations	84%	83% Target Partially Achieved	84%	84%	84%

The strategy to "Review & update Agreements & MOU's with First Nations and other agencies and ministries" was transferred to the Ministry of Energy, Mines and Petroleum Resources during the year. That work is in progress.

The baseline result for the performance measure is 75.2% (2001/02). No benchmark data are available; please see Appendix 6. The target results were not achieved due to capacity constraints within several First Nations. This factor is beyond the direct control of the Commission.

The data is retrieved from the IRIS operating system. Management has high confidence in the accuracy of the data because periodic audits are conducted on the electronic tables in the IRIS operating system.

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Client Satisfaction	75%	Deferred	80%	85%	85%

The strategy to measure client satisfaction was deferred because of other operational priorities. The assessment of client satisfaction is scheduled for June 2006. The benchmark is 75% from 2004/05, when the survey was first conducted.

No exact benchmark is available at this time. The Commission has reviewed the information of the AEUB, Oklahoma Corporate Commission, Railroad Commission of Texas, Colorado Oil and Gas Conservation Commission, and Saskatchewan Industry and Resources. The OGC will continue research in this area. Please refer to Appendix 6.

Goal 4

We will broaden our permitting authority.

Objectives

1. Establish a regulatory framework that enables improved delivery of services to industry.

2. Move towards results-based regulation where appropriate.

Strategies

Work with MEMPR to improve our legislative and regulatory framework.	Achieved
Enter into additional MOU's with partner agencies and ministries.	Achieved

Measure

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Number of agencies that industry clients must work with on oil and gas applications.	3	2 Target Exceeded	2	1	1

Both corporate strategies relating to this goal were fully achieved during the year through working collaboratively with MEMPR and other ministries and agencies.

The performance measure was introduced in the September 2005 Service Plan because it was determined to be the best measure for success with the single-window goal of the Commission. The baseline figure is 6 (1998/99). The target was exceeded because an MOU with the Ministry of Environment was completed during the year. In addition, an MOU with the Department of Fisheries and Oceans is being developed. Management has high confidence in the accuracy of the data.

This measure will be retired at the end of 2006/07 because the Commission will have attained the single-window goal first envisioned with the 1998 *Intent of the Oil and Gas Commission.* This document is available at: http://www.ogc.gov.bc.ca/documents/misc/formationandintent.pdf

Goal 5

We will nurture a personal-best performance environment for our employees.

Objectives

1. Improve employee retention.
2. Enhance leadership capabilities.
3. Enhance employee capabilities and professionalism.

Strategies

Monitor employee turnover, conduct exit interviews, & take action to prevent excessive turnover.	Achieved
Develop innovative human resource strategies, systems, and guidelines to ensure that we can recruit and retain professional staff.	Achieved
Conduct regular 360° performance surveys on senior leaders and close any leadership gaps.	Achieved
Conduct regular performance evaluations and plans, and close any performance gaps.	Partially achieved

Measures

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Voluntary Turnover Rate of Regular Staff	9%	21.95% Target Not Achieved	10%	9%	8%

The Commission achieved both strategies related to improving employee retention.

The baseline for the performance measure is 9% (2000/01). The results for 2002/03 were 5%, for 2003/04 were 6%, and for 2004/05 were 11.6%. The benchmark for this measure is the Government of BC's Regular Employee Voluntary Turnover Rate: 2.6% (Calendar 2005, PSA). The Commission was not able to achieve the target for the year because of staff retention challenges. Exit interviews are conducted for all staff departures to identify core issues. The relatively low compensation at the OGC compared to industry has consistently been the primary issue. The plan to operate outside of the *Public Service Act* is therefore of the utmost importance.

The results of this measure are objective. Data is retrieved from the Corporate Human Resource Information System (CHIPS), and is then validated by management review. Management confidence in the accuracy of the data is high. This measure was selected because a low and stable employee turnover rate should reflect a superior work environment. It should also result in reduced recruitment and training expenses.

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Percentage of employees with a performance evaluation and plan in place	100% of Employees	76% of Employees Target Not Achieved	100% of Employees	100% of Employees	100% of Employees

The Commission achieved the strategy relating to 360° performance surveys on senior leaders, but was only partially successful at the strategy and performance measure relating to regular performance evaluations of all staff. This was due to operational priorities and capacity constraints. However, it is important to note that very significant gains were made during the year: the percent of staff with a performance evaluation increased 55%.

No benchmark has been found to date. The measure is new and no baseline information is available. Last fiscal year, the results were 100% of *excluded* employees. This measure was selected because performance evaluations and plans are essential to creating a personal-best performance environment at the individual and corporate levels. The data is entered on a spreadsheet and reported quarterly by the Human Resource Branch of the Commission.

Goal 6

We will operate as a self-sustaining organization.

Objectives

1. Achieve targeted financial results.
2. Minimize working capital pressures.
3. Ensure that prudent risk management practices are in place.

Strategies

Generate sufficient revenue to at least cover Commission costs.	Achieved
Increase working capital to manage unexpected fluctuations in cash.	Achieved
Introduce a refined financial information system to assist in monitoring financial activity.	On Schedule
Develop and implement an Enterprise Risk Management Program.	Partially Achieved

Measures

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Ratio of Commission Revenues to Expenses	1:1	1.06:1 Target Exceeded	1:1	1:1	1:1

The first two corporate strategies were achieved because revenues exceeded expenses for the year. The "Financial Report" section provides detailed information and analysis. The strategy to introduce a refined information system is on-schedule; recommended improvements are outlined in a consultant's report which is expected in early 2006/07. The final strategy was partially achieved; please refer to the analysis for Goal 1.

The performance measure was selected because it is a good indicator of the financial stability of the OGC. If revenue exceeds expenses, working capital will increase and the organization can better manage fluctuations in cash requirements.

The Commission exceeded the target because fee revenue was higher, and salary expenses lower, than originally planned.

The baseline for this measure is 0.95:1 from the 1998/99 fiscal year. No comparable benchmark has been found to date. The source of the data is the corporate accounting information on AccPac. The data is subject to an annual attest audit using generally accepted auditing standards.

	2005/06 Target	2005/06 Result	2006/07 Target	2007/08 Target	2008/09 Target
Ratio of Financial Audits performed to Positive ("Unqualified") Audit Opinion	1:1	1:1 Target Achieved	1:1	1:1	1:1

The Commission developed this measure, at the direction of the Board, to show the quality of financial management and stewardship within the OGC.

This measure illustrates whether the annual attest audit was *unqualified*.

An attest audit assesses the accuracy and completeness of financial records. An audit opinion is expressed by the auditors at the conclusion of an audit. It expresses whether the financial statements fairly represent the Commission's financial position, results of operations, and cash flows. An unqualified audit opinion means that the statements *do* fairly represent those factors. An unqualified audit opinion is positive because the Board, public, clients and stakeholders can be reasonably assured that the financial records and reports of the Commission are accurate and reliable.

The Commission achieved the target through the appropriate application of policies, procedures, and generally accepted accounting principles to financial transactions. The Commission has enjoyed an unqualified audit opinion every year since its inception.

OGC

Financial Report

Management Discussion and Analysis

Results of Operations

The Commission budgeted for revenue to exceed expenses in the amount of $0.447 Million. The Commission ended the year with revenue exceeding expenses by $1.862 Million.

Summary Financial Results ($000)	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Budget	2005/06 Actual
Revenues							
Fees*	11,355	9,877	10,904	14,019	16,243	14,982	16,605
Levies	5,579	6,581	6,756	6,221	10,283	11,173	11,415
Misc. & Recoveries	326	178	102	120	402	50	1,709
Total Revenues*	**17,260**	**16,636**	**17,762**	**20,360**	**26,928**	**26,205**	**29,729**
Expenses							
First Nations	4,945	7,971	5,347	8,779	9,819	9,940	11,108
Salaries and Benefits	4,361	5,090	6,272	8,343	9,198	10,497	10,078
Operating Expenses	2,330	2,690	3,314	3,959	4,588	5,416	6,776
Total Expenses	**11,636**	**15,751**	**14,933**	**21,081**	**23,605**	**25,853**	**27,962**
Operating Income (Loss)*	**5,624**	**885**	**2,829**	**(721)**	**3,323**	**352**	**1,767**
Amortization of Contributed Assets	886	142	69	95	95	95	95
Net Income (Loss)	**6,510**	**1,027**	**2,898**	**(626)**	**3,418**	**447**	**1,862**

* These figures are the restated amounts resulting from the prior period adjustment in 2004/05.

Fee revenue was 11% higher than budgeted, which is significant. The key reason is found in the number of well applications (WA's) received. The number of WA's received was 11% higher than budgeted: 1,935 actual versus 1,750 budgeted.

First Nations payments were 12% higher than expected. The increase was driven by the increased number of WA's, which is how most First Nations are funded.

Salary and benefit costs were once again lower than budgeted, and are reflective of recruitment delays common to northern employers. The Commission was also challenged by severe competition for staff from the private sector.

The variance to last year's results reflects:

- Increased industry activity, which led to increased fee revenue;
- Higher First Nations payments, which are tied directly to industry activity; and,
- Increased expenses for facilities and operating equipment.

There are certain *core* causes to these very positive financial results. They include the extremely high commodity prices, the favorable investment climate, and the cold winter weather which was conducive to drilling activities.

Given the unprecedented level of commodity prices, the expectation is that the positive trend in industry activity will continue for the foreseeable future.

Capital expenditures for the year were $0.826M and primarily reflect expenditures for vehicles, computer hardware, and the IT Migration Plan.

The Commission is funded by the oil and gas industry. Commission revenues have two components. The first component is the levy, which is based on oil and gas production. It is fairly stable and changes slowly as overall production changes. It is somewhat linked to commodity prices: pricing trends influence activity, and over the long term activity levels affect production. The second component is fees. Fee revenue is related directly to exploration activity and is volatile, changing quickly based on commodity prices and other factors.

Funding was sufficient to meet operating requirements, strategies and targets. However, those operating targets were negatively affected by the level of staff turnover and by capacity constraints.

The Commission is not bound by the lapsing provision of the *Financial Administration Act.* Operating surpluses or deficits are carried-forward to the next fiscal year. Long-term cash management is therefore quite important. The Commission is assessing its financial system and in particular the need for a more robust cash forecasting tool.

The budgeting and planning cycle is outlined in the following table. Resource allocation decisions are made in this annual cycle:

Summer	Board gives management overall strategic direction for the upcoming year
	Management undertakes strategic planning exercises and identifies program priorities
Fall	Commission receives budget guidance from the Board
	Commission creates the draft budget
	Commission presents the draft budget to the Board
Winter	Board approves the budget
	Budget is tabled in the Legislature
Spring	Budget is delegated to responsibility centre managers

The Finance and Administration Branch prepares quarterly financial statements at June 30, September 30, December 31 and March 31 to identify forecast or actual net revenue and the closing cash balance.

Variable costs make up virtually all Commission expenses. They include salaries and benefits, First Nations payments, and most operating expenses. This cost pattern allows the Commission to respond quickly to unanticipated changes in the operating environment.

Fixed and semi-fixed costs include facility and vehicle lease payments. The Commission has leased office space in Fort St. John, Fort Nelson, Kamloops, and Victoria. The Commission also has leased vehicles.

Key Performance Drivers

1. Business & Policy Environment

- Industry Activity:

  A level of industry activity that meets or exceeds the forecast is essential for the Commission to achieve its financial and performance goals. The Commission works closely with MEMPR and CAPP to identify forecast industry activity. Mid-course corrective measures are implemented as required.

- Regulatory Environment:

  The Commission continues to work closely with MEMPR on the transition from a prescriptive regulatory approach to a results-based approach. The outcome would be a regulatory framework that better promotes professional sign-off, operational efficiencies and client satisfaction. During the year, MEMPR published a discussion paper on the Oil and Gas Regulatory Improvement Initiative (OGRII). It is available at their website:
  http://www.em.gov.bc.ca/Oil&gas/reg_improvement.htm

2. Internal Environment

- Information Systems:

  Accurate information is critical for effective decision making. To further this goal, numerous upgrades were made to the operating systems and upgrades were initiated to the financial systems.

  The most significant event was the approval and kick-off of the three-year IT Migration Plan. This plan will see the retirement of OGC legacy systems and the creation of a new service delivery model. There will be substantial benefits for both OGC and industry clients. It will increase data reliability, improve internal efficiencies, reduce cycle times, enable faster system responses to future business changes, and potentially reduce industry's cost of compliance.

  The project will enable electronic application submission by clients, electronic performance/compliance data submission, electronic data import, electronic workflow management, separation of routine vs. non-routine workflows, electronic document management, remote synchronization with the central database, online access by related Ministries and Agencies, and online access by First Nation groups.

- Staff:

  Improved core-competencies and job-specific skills are key drivers of a personal-best performance environment. Several steps were taken during the year to progress in this area. A Human Resource branch was established; a Director of Human Resources was recruited; performance evaluations and plans were prepared for 76% of staff; and the Commission is seeking government approval to operate outside of the *Public Service Act* to address recruitment and retention challenges.

Risk Management

The Corporate Compliance Branch has developed a framework to implement an *OGC Risk Register* in 2006/07 as a key component of the OGC Enterprise Risk Management Strategy. The *OGC Risk Register* will include fully documented process flow analysis for all major business processes, and will identify and characterize risks within each. In addition, the *OGC Risk Register* will identify options for risk mitigation, strategies, and timelines.

Specifically, each major business process will be charted, and then will be evaluated for risks (i.e. financial and fiduciary exposure, environmental liabilities, IT systems, stakeholder relations, health and safety, and other risk factors that may be identified from time to time).

Then, each risk factor will be evaluated and rated in a summary table for consequence, probability of occurrence, and ease of mitigation. This rating process is a critical step in that it will enable the Audit Committee to prioritize the overall mitigation strategy for efficient use of available resources.

In a final step, those responsible for oversight will be identified as will a timeline for milestones and ongoing review.

The outcome of this Enterprise Risk Management Strategy will be the ability for the OGC to identify and monitor significant risks, prioritize action, and source/allocate the resources necessary to mitigate risks according to severity. The OGC plans to have the framework implemented for key OGC processes by the end of Summer 2006.

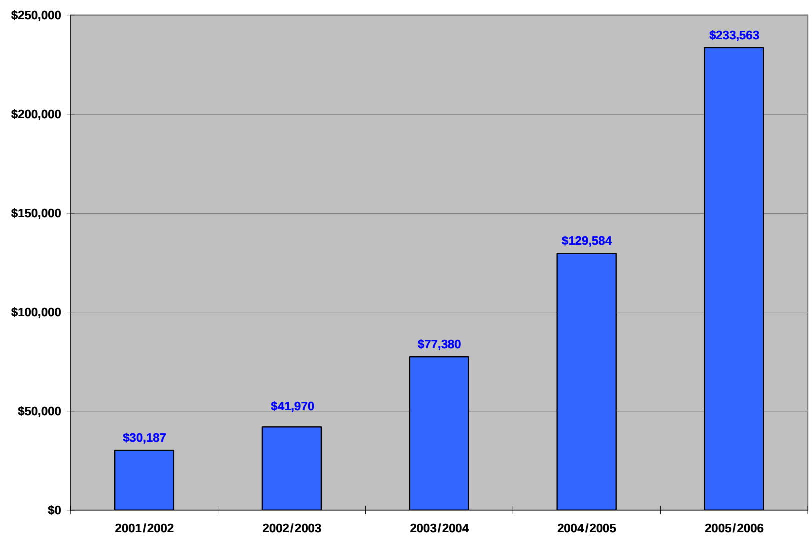
Capacity

The number of well applications (WA) has been the traditional measure of capacity for the organization. That approach is now recognized to be too narrow for the broad range of services that are provided by the Commission.

There are very few performance standards in place for individual positions or teams of positions. As a result, it is difficult to determine overall capacity.

For this fiscal year, annual overtime expense is being used as a proxy for capacity. If overtime were low or nil, an assumption could be made that there is capacity in the organization for additional workload.

Overtime expenses for the last five fiscal years are presented below:



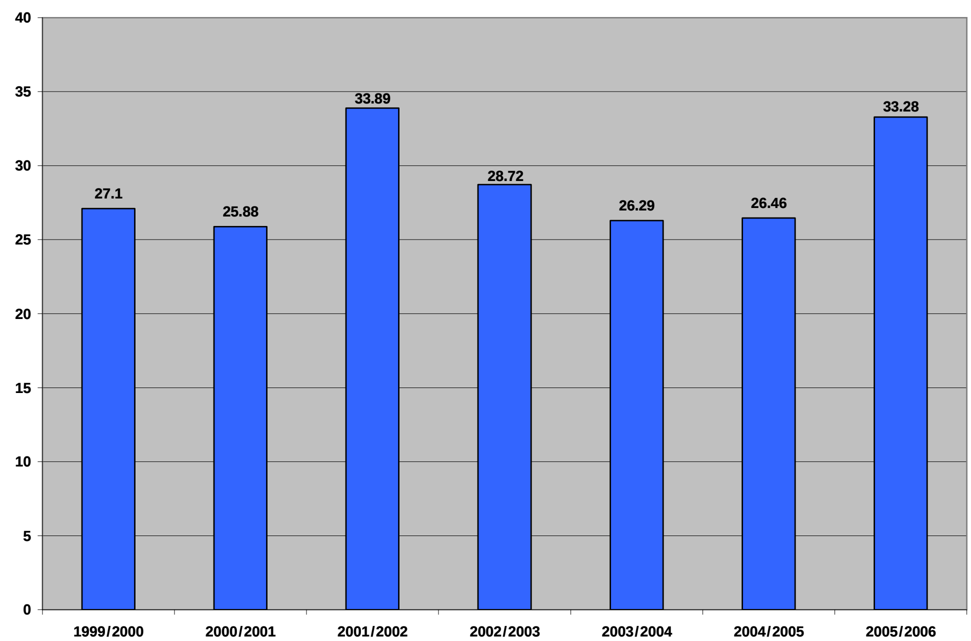
Overtime expenses have clearly increased over time. The apparent conclusion is that workload exceeds capacity during peak times such as the winter drilling season – notwithstanding historic hiring lags to fill vacant positions.

This capacity gap affected performance by influencing processing timelines: the average time to process new applications increased by seven days over last year.

Many business processes are very labour-intensive; they are the main capacity constraint. The outdated information systems are the secondary constraint. The I.T. Migration Plan is therefore of high strategic importance. Together with increased funding allocated for staffing and for professional development in 2006/07, management is of the opinion that capacity will increase substantially to meet future objectives in mid-2006/07.

Independently-Determined Historical Operating Data

The number of calendar days to assess new applications increased noticeably from the previous fiscal year and did not meet the target of 25 calendar days. There are three reasons. First, only one General Development Plan (GDP) was initiated in the year because several First Nations declined to participate in the GDP process. Second, the number of applications received during the year increased 18% over the previous year, and the Commission did not have the necessary capacity. And finally, the Commission continued to be challenged by high staff turnover, and this in turn further affected capacity.

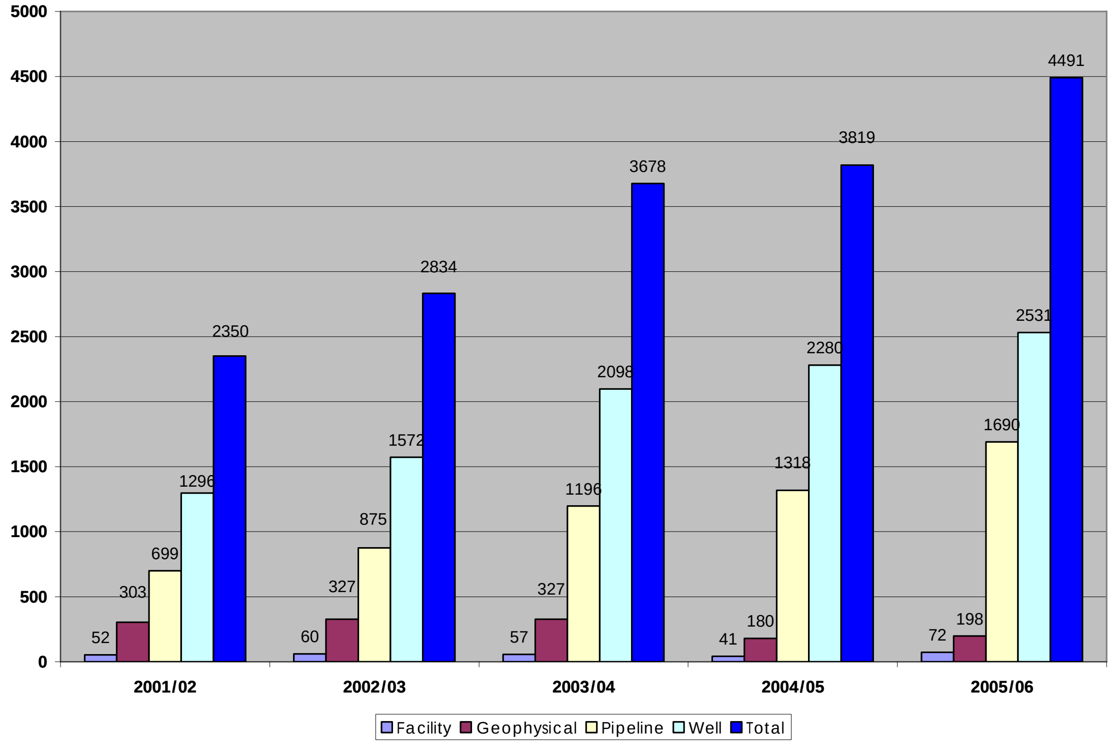


The Board and management are putting significant attention on this matter:

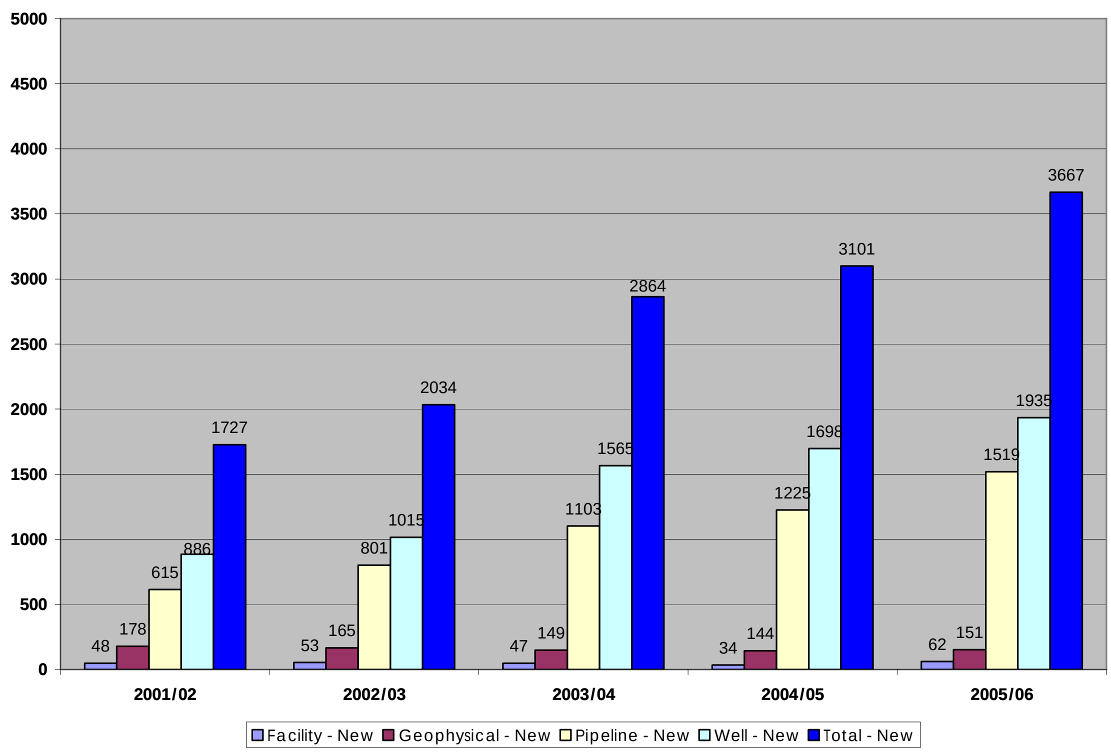
- The I.T. Migration Plan was approved by the Board and began in 2005/06;
- Increased funding has been allocated for professional development for 2006/07; and,
- The staffing authorization has been increased from 140 to 154 for 2006/07.

Management will continue to closely monitor processing timelines. The Commission will also have discussions with CAPP and other stakeholders to determine if there is a more meaningful measure of efficiency that is available.

Total applications (new *and amended* applications) increased 18% over last year:



New applications also increased 18% over last year:



Data Integrity

Management has high confidence in the integrity of financial data. The Commission uses two common and effective financial software packages to record and report information externally. A third common software package is used to report information internally. The Commission will seek an independent assessment of the financial systems in 2006/07 to determine if opportunities for improvement in financial recording and reporting exist.

Management has high confidence in the integrity of most operating data. However, some errors and omissions have been identified in pipeline data. A project to correct the errors has been in place for two years. It is slightly behind schedule due to staff turnover and a contractor's departure. New project management and methodology were put in place in 2005/06. Senior management, under the direction of the Audit Committee, has put significant attention on this important project.

The Commission has an Information Systems Branch that manages the development and maintenance of operating systems. Controls are in place to ensure the integrity of operating data. For example, audits are performed on the tables in IRIS.

Oversight

The Board and Audit Committee provide an oversight role in the governance of the Commission. Oversight activities include ensuring that appropriate plans and policies are in place, approving the Commission's budget and service plan, reviewing the Commission's performance to planned targets, and approving the organizational structure and level of staffing.

Financial statements of the Commission and the Science and Community Environmental Knowledge (SCEK) Fund are independently audited each year.

The Advisory Committee provides a level of oversight with respect to *operating* decisions. Any interested party may initiate a request for reconsideration by Alternate Dispute Resolution (ADR) to the Advisory Committee if they feel that a better original decision could have been made through ADR. The Advisory Committee is operationally independent of the Commission. Please refer to Appendix 2.

Management Perspective of the Future

The Commission has developed a three year financial plan. The details and assumptions are on the following page. Please refer to the 2006/07-2008/09 Service Plan for strategies and measures which indicate the Commission's business objectives for the future, as well as the means to achieve performance targets.

Capital Planning

The Commission has no major capital plans as defined by the *Budget Transparency and Accountability Act* (plans in excess of $50M). The IT Migration Plan, referenced on page 15 of this report, has anticipated capital costs of $1.8M over four years.

Confidentiality

This report is complete and contains no confidential information.

Summary Financial Outlook ($000)	2004/05 (Actual)	2005/06 (Budget)	2005/06 (Actual)	2006/07 (Budget)	2007/08 (Estimate)	2008/09 (Estimate)
Revenues						
Fees	16,243	14,982	16,605	17,909	19,649	21,389
Levies	10,283	11,173	11,415	14,693	15,162	14,732
Miscellaneous and Recoveries	402	50	1,709	50	50	50
Total Revenues	**26,928**	**26,205**	**29,729**	**32,652**	**34,861**	**36,171**
Expenses						
First Nations	9,819	9,940	11,108	11,600	12,760	13,920
Salaries & Benefits	9,198	10,497	10,078	13,297	13,962	14,381
Operating Expenses	4,588	5,416	6,776	7,850	8,044	7,776
Total Expenses	**23,605**	**25,853**	**27,962**	**32,747**	**34,766**	**36,076**
Operating Income (Loss)	3,323	352	1,767	(95)	95	95
Amortization of Contributed Assets	95	95	95	95	95	95
Net Income	3,418	447	1,862	0	190	190
Capital Expenditures	545	452	826	452	452	452
Full Time Equivalents	130	140	130	154	154	154

Key Assumptions

- Inflation is forecast at 2% per year (Treasury Board)
- Gas prices remain in excess of $5/MCF

Assumptions:	2006/07	2007/08	2008/09
Gas Levy	46¢	46¢	46¢
Oil Levy	92¢	92¢	92¢
Well Fee	$8,700	$8,700	$8,700
Well Applications	2,000	2,200	2,400
Gas Volume (MEMPR)	$28.5 \times 10^9 m^3$	$29.4 \times 10^9 m^3$	$28.5 \times 10^9 m^3$
Oil Volume (MEMPR)	$1.83 \times 10^6 m^3$	$1.80 \times 10^6 m^3$	$1.77 \times 10^6 m^3$
Salary Increases (Estimated)	5%	3%	3%

Forecast Risks and Sensitivities

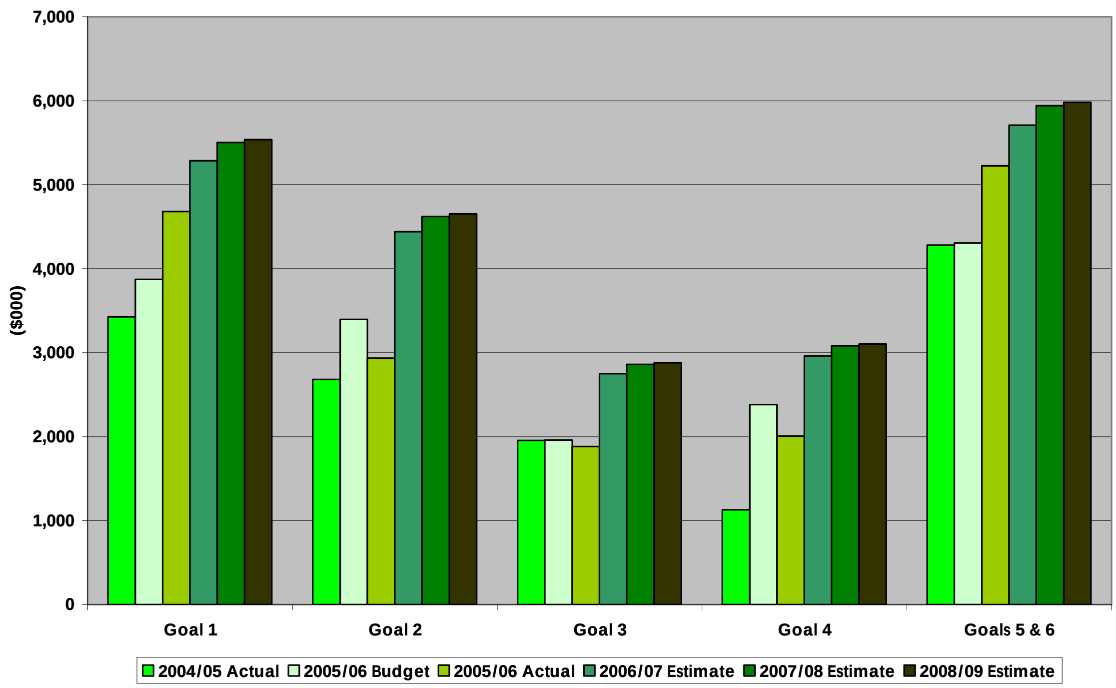
- Commodity price and production fluctuations
- Workforce availability
- Weather

Financial Resources and Corporate Performance

Program resources are identified and allocated during the budget planning, building, and approval cycle. This allocation is primarily driven by corporate goals, objectives, and strategies. A secondary driver are the business plans of individual branches and divisions. Expenditures are recorded daily and reported regularly to senior management and the board.

Expenditures on Goals One and Two are relatively high and reflect the focus of management on core business:

Expenditures per Corporate Goal



Expenditures on Goals Five and Six are combined, and reflect their direct costs as well as corporate overhead expenses.

Expenditures on all corporate goals are expected to increase modestly. This pattern reflects the resource needs of regulating the increasing level of industry activity.

In 2004, a cost-driver analysis was undertaken by the professional services firm Meyers Norris Penny. This exercise identified the cost of every activity and output of the Commission. The data was used to structure the well fee and production levies in a fair and transparent manner. The analysis will be updated in 2006/07.

The Commission has allocated funding by objective or strategy where possible. In certain cases, allocation to that detail was not possible: there may have been overlap or the precise costs could not be identified.

OGC

Oil and Gas Commission
Financial Statements

March 31, 2006

Oil and Gas Commission

Statement of Management Responsibility

The financial statements of the Oil and Gas Commission for the year ended March 31, 2006 have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements present fairly the financial position of the Commission as at March 31, 2006, 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 financial statements and has established a system 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 financial statements of the Oil and Gas Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Oil and Gas Commission.

Ross Curtis
Commissioner

James Sproul
Executive Director, Business Services

May 3, 2006

Report of the
Office of the Auditor General
of British Columbia

To the Members of the Board of Directors of the
Oil and Gas Commission, and

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

We have audited the statement of financial position the *Oil and Gas Commission* as at March 31, 2006 and the 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2006 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
May 3, 2006

Errol S. Price, CA
Deputy Auditor General

OGC

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

March 31,	2006	2005
Assets		
Current assets		
Cash	**7,398**	7,333
Accounts receivable	**4,818**	3,686
Due from Province of British Columbia *(Note 4)*	**3,113**	1,931
Prepaid expenses	**51**	51
	15,380	13,001
Property, plant and equipment *(Note 3)*	**2,177**	1,813
	17,557	14,814
Liabilities and Net Assets		
Current liabilities		
Accounts payable	**722**	513
Wages payable	**488**	-
Due to First Nations	**2,087**	1,389
Due to the Province of British Columbia *(Note 4)*	**3,011**	3,430
	6,308	5,332
Net Assets		
Net assets	**11,011**	9,149
Contributed assets (Note 5)	**238**	333
	11,249	9,482
	17,557	14,814

Commitments (*see Note 7*)
Science and Community Environmental Knowledge (SCEK) Fund *(see Note 10)*
Contingent Liability *(see Note 11)*

On behalf of the Board

Greg Reimer
Board Chair

Ross Curtis
Commissioner

The accompanying notes are an integral part of these statements.

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

For the years ended March 31,	2006	2005
Revenues		
Fees	**16,605**	16,243
Levies	**11,415**	10,283
Recoveries from Province *(Note 6)*	**1,545**	317
Miscellaneous	**164**	85
	29,729	26,928
Expenses		
First Nations *(Note 9)*	**11,108**	9,819
Salaries and benefits	**10,078**	9,198
Building occupancy	**1,222**	877
Telecommunications and info systems	**699**	707
Travel and vehicle costs	**1,150**	831
Professional services and training	**1,816**	1,299
Orphan well reclamation	**878**	53
Amortization	**462**	393
Office supplies and equipment	**539**	417
Grants	**9**	2
Miscellaneous and bad debts	**1**	9
	27,962	23,605
Revenue from operations	**1,767**	3,323
Amortization of contributed assets *(Note 5)*	**95**	95
Net revenue from operations	**1,862**	3,418
Net assets beginning of year, as previously reported	**9,149**	6,413
Prior period adjustment	**-**	(682)
Net assets beginning of year	**9,149**	5,731
Net assets end of year	**11,011**	9,149

The accompanying notes are an integral part of these statements.

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

For the years ended March 31,	2006	2005
Operating activities		
Cash generated from:		
Fees	**15,907**	15,213
Levies	**10,465**	9,079
Miscellaneous	**168**	14
	26,540	24,306
Cash used for:		
Payments to First Nations	**10,410**	9,582
Salaries & benefits	**9,841**	6,864
Operating costs	**5,509**	3,872
	25,760	20,318
Cash from operating activities	**780**	3,988
Investment activities		
Cash used for:		
Purchase of plant and equipment	**(715)**	(488)
Purchase of land	**-**	(57)
Cash used in investment activities	**(715)**	(545)
Increase in cash	**65**	3,443
Cash beginning of year	**7,333**	3,890
Cash end of year	**7,398**	7,333

The accompanying notes are an integral part of these statements.

OGC

Oil and Gas Commission
Notes to the Financial Statements March 31, 2006
(Tabular Amounts in $000s)

1. The Oil and Gas Commission

The Oil and Gas Commission (the "Commission") was established under the *Oil and Gas Commission Act* on July 30, 1998, to administer 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 funded through revenue from the consolidated revenue fund of the Province of British Columbia derived from:

- Levies from oil and gas production,
- Fees in relation to applications for and issuance of approvals, licenses, permits and other authorizations issued 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. Significant accounting policies

The financial statements of the Commission are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Property, plant and equipment

Property, plant and equipment 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:

• Furniture, equipment and tenant improvements	10 per cent
• Operating equipment	20 per cent
• Automotive equipment	25 per cent
• Computer hardware	33 per cent
• Computer software	100 per cent

Amortization associated with assets paid for by the Province of British Columbia is transferred from contributed surplus to revenue each year. See *Note 5*.

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 then transfers this amount of revenue to the Commission.

(Tabular Amounts in $000s)

Revenue is recognized when it is earned. The Oil and Gas Levy is assessed in the second month following production; therefore, revenue for February and March is estimated based on an analysis that takes into account both historical and current year trends. Fees under the *Pipeline Act* for pipelines are recognized when earned, that is, when "leave to open" has been granted.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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.

Financial instruments

The Commission's financial instruments consist of cash held in its bank account, accounts receivable, accounts payable, due from and to the Province of British Columbia, and amounts due to First Nations. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risk arising from these financial instruments.

3. Property, plant and equipment

			2006	2005
	Cost	Accumulated Amortization	**Net book value**	Net book value
Land	57	-	**57**	57
Furniture, equipment, and tenant improvements	2,600	(1,251)	**1,349**	1,452
Operating equipment	94	(28)	**66**	82
Automotive equipment	356	(59)	**297**	51
Computer hardware	709	(488)	**221**	165
Computer software	504	(483)	**21**	6
IT migration project	166	-	**166**	-
	4,486	(2,309)	**2,177**	1,813

Oil and Gas Commission
Notes to the Financial Statements March 31, 2006
(Tabular Amounts in $000s)

4. Due from / to the Province of British Columbia

	2006	2005
Due from:		
Accrued leave liability	**120**	120
Signing bonus	**488**	-
Contract reimbursement	**559**	383
Fee and levies	**1,946**	1,428
	3,113	1,931
Due to:		
Operating expenses	**3,011**	3,430
	3,011	3,430

5. Contributed assets and forgiveness of start-up costs

During its first year of operation (1998/1999) the Commission borrowed funds from the Province to finance its purchase of start-up capital and pay for other start-up costs like professional contracts. The total of all of these amounts was $1.620 million.

During the 2000/01 fiscal year the Province forgave this amount and the amount equal to the capital assets. They were recognized as a contributed asset.

Contributed assets are reduced each year and an amount transferred to revenue equal to the yearly amortization.

	2006	2005
Contributed assets beginning of year	**333**	428
Amortization of contributed assets	**(95)**	(95)
Contributed assets end of year	**238**	333

Oil and Gas Commission
Notes to the Financial Statements March 31, 2006
(Tabular Amounts in $000s)

6. Related party transactions

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The financial statements include the following transactions with related parties:

	2006	2005
Recoveries from the province		
Signing bonuses	**488**	-
Orphan well restoration	**878**	53
Salary costs	**179**	264
	1,545	317
Expenses		
Building occupancy	**1,200**	866
Telecommunications and info systems	**256**	202
Travel and vehicle costs	**345**	336
Professional services and training	**346**	399
Office supplies and equipment	**95**	97
	2,242	1,900
Assets		
Tenant improvements	**34**	123
	34	123

The Commission has accrued $488 thousand for signing bonuses payable to its employees within salaries and benefits, which is offset by a corresponding recovery from the Province. The bonuses relate to incentive payments offered by the Province to eligible employees for the timely negotiation of collective agreements that expired March 31, 2006.

The Commission leases office space from the BC Buildings Corporation. The Ministry of Attorney General acted as the Commission's primary legal advisor during the year on a cost recovery basis. The BC Public Service Agency provided human resource services during the year under terms of a Service Level Agreement. Common IT Services provides information technology services to the Commission. Queen's Printer provides publishing and other services to the Commission.

(Tabular Amounts in $000s)

7. Commitments

The Commission occupies leased office buildings in Fort St. John, Fort Nelson, Victoria and Kamloops. The Commission pays building occupancy fees to the BC Buildings Corporation. The lease for the Fort St. John office space runs until March 31, 2008 with no early release option. The Commission rents office space at two separate locations in Victoria. The lease for the first location runs until April 30, 2010 with no early release option. The lease for the second location is managed through the Ministry of Energy, Mines & Petroleum Resources with no fixed end date, and requires six months notice to vacate. The lease for the space in Kamloops ends on July 31, 2010.

The Commission will be spending approximately $1million per year on an IT Migration Plan. This plan will see the retirement of legacy systems and the creation of a new service delivery model.

The Commission has entered into a number of short-term leases and support agreements. These are for vehicles and office equipment.

The Commission's total fiscal year commitments are:

Fiscal Year	Operating	First Nations	**Total**
2007	3,433	1,340	**4,773**
2008	2,403	-	**2,403**
2009	1,584	-	**1,584**
2010	308	-	**308**
2011	6	-	**6**

8. Pension Liability

The employees and employers of the public service contribute to the Public Service Pension Plan (the Plan), a jointly trusteed pension 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 multi-employer contributory pension plan. Basic pension benefits are defined. The plan has about 51,000 active plan members and approximately 30,000 retired plan members.

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, 2005 indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Oil and Gas Commission paid $457,166 for employer contributions to the Plan in fiscal 2006.

Oil and Gas Commission
Notes to the Financial Statements March 31, 2006
(Tabular Amounts in $000s)

9. First Nations Payments

The Commission has entered into Agreements or Memorandums of Understanding with the following First Nations. During the life of the MOUs and Agreements each First Nation will receive payments based on current well activities. These payments are for consultation services on applications as required by the *Oil and Gas Commission Act*.

Payments to:	Agreements Expire	2006	2005
Blueberry River First Nations	March 31, 2007	**1,355**	1,187
Doig River First Nations	September 30, 2006	**1,354**	1,265
Dene Tha' First Nations	March 31,2007	**440**	440
Fort Nelson First Nations	September 30, 2006	**1,354**	1,277
Halfway River First Nations	September 30, 2006	**1,354**	1,187
McLeod Lake Indian Band	March 31, 2007	**1,112**	902
Prophet River First Nations	September 30, 2006	**1,355**	1,187
Saulteau First Nations	September 30, 2006	**1,354**	1,187
West Moberly First Nations	September 30, 2006	**1,355**	1,187
Ktunaxa First Nation	-	**60**	-
Tahltan First Nation	-	**15**	-
		11,108	9,819

10. Science and Community Environmental Knowledge (SCEK) Fund

The Oil and Gas Commission administers this fund on behalf of the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC). Separate audited financial statements are available.

11. Contingent Liability

The Commission is contingently liable with respect to pending litigation and claims in the normal course of business. An estimate of a contingent loss cannot be determined at this time. In the opinion of management, any liability that may arise would not have a material adverse effect on future income.

12. Environmental Costs/Subsequent event

A tax on oil and gas production will take effect on April 1, 2006. On that date, legislation for a newly created Orphan Site Reclamation Fund ('Orphan Fund") will be brought into force with an amendment to the *Oil and Gas Commission Act* and an amendment to the *Oil and Gas Commission Levy Regulation*. The Orphan Fund will be administered by the Commission, and is intended to pay for the reclamation of orphan sites and for related costs. There are 37 known orphan wells in the province. Prior to March 31, 2006 the liability for this work was the responsibility of the province and has been recorded in their accounts.

13. Comparative figures

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

Corporate Governance

A three-member Board of Directors governs the Commission. The Deputy Minister of Energy, Mines and Petroleum Resources, Greg Reimer, is the Chair and reports to the Minister responsible, the Honourable Richard Neufeld. The Commissioner, Ross Curtis, is Vice Chair. John Bechtold, a government appointee, is the third Director.

A Governance Manual has been created and approved by the Board, and is available to view on the OGC website: http://www.ogc.gov.bc.ca/

The responsibilities of the Board include:

- Establishing the Commission's organization
- Providing strategic direction to the Commission
- Ensuring appropriate plans, programs, and policies are in place
- Approving the Commission's budget, service plan, and regulatory initiatives
- Regularly reviewing the Commission's performance to planned targets and budgets

The Chair has the following responsibilities:

- Approving the Governance Manual
- Scheduling and conducting Board meetings
- Signing approved Decision Notes
- Reviewing the Commissioner's Performance Plan
- Reporting to the Minister of Energy, Mines and Petroleum Resources on the activities of the Commission
- Ensuring alignment with appropriate government policies

The Vice Chair/Commissioner has the following responsibilities:

- Leading and managing the operations of the Commission
- Approving internal operating procedures at the division level
- Acting as the Chair in his/her absence
- Supervising and leading the Executive team of the Commission
- Responding to recommendations of the Advisory Committee
- Upholding the regulatory framework

The Commissioner is accountable for the operations and performance of the Commission.

The third Director is responsible to chair the Audit Committee.

The Board operates under a Carver™ -type governance model; it is strategic and advisory rather than operational. Duties and practices are identified in the Governance Manual referenced above.

There is one standing committee of the Board: the Audit Committee. It is comprised of the Board Chair, the third Director, and the Executive Director of Business Services. The Committee is responsible to:

- Ensure the adequacy of internal controls
- Ensure compliance with financial policies and procedures and Canadian Generally Accepted Accounting Principles (GAAP)
- Meet at least annually with the Commission's auditors, and to approve draft audit responses by management
- Select the Commission's auditors
- Ensure effective risk management practices are in place

Audit Committee Terms of Reference are included in the Governance Manual.

The Commission's Leadership Team is:

- Ross Curtis, Commissioner
- Jim Sproul, Executive Director, Business Services
- Robert Munro, Director, Human Resources Branch
- Dave Crack, Acting Executive Director, Compliance and Enforcement Branch
- Craig Gibson, Executive Director, Technical Services and Regulatory Affairs Branch
- Ben Mitchell-Banks, Executive Director, Project Assessment Branch

The Commission's Operations Management Team includes the Leadership Team and:

- Craig Wilkinson, Director, Finance and Administration Branch
- Larry London, Director, Information Technology and Systems Branch
- Dave Krezanoski, Director, Operations Engineering Branch
- Richard Slocomb, A/Director, Resource Conservation Branch
- Tom Ouellette, Strategic Director, Technical Services and Regulatory Affairs Branch
- Cindy Dame, A/Operations Division Coordinator

Appendices

1a. Operations Division

The Operations Division is composed of five branches:

- Compliance and Enforcement
- Operations Engineering
- Project Assessment
- Resource Conservation
- Technical Services and Regulatory Affairs

The Compliance and Enforcement Branch strives to ensure the province's petroleum resources are explored, developed, maintained, transported, and utilized in a safe, efficient and environmentally sound manner, consistent with statutory and permit requirements.

The Operations Engineering Branch's purpose is to regulate the development and extraction of oil and gas. Responsibilities include public safety, environmental and fiduciary interests, rights of subsurface tenure holders, and resource information. This branch provides technical support to the other branches within the Operations Division. Its duties relate to management of the operational activities associated with developing and major pools within the provincial proven reserves.

The Project Assessment Branch provides effective and efficient processes for the review of applications related to oil and gas activities (i.e. Geophysical, Wells, Pipelines, and Facilities), and approves applications that serve the public interest concerning environmental, economic, and social impacts. During the year the Aboriginal Relations and Land Use Branch was amalgamated into the Project Assessment Branch. The Project Assessment Branch now consults with First Nations communities about the oil and gas industry and its regulation; working with the Technical Services and Regulatory Affairs Branch in creating appropriate legislative and policy frameworks; and representing the interests of the oil and gas sector in land use and environmental planning processes undertaken by the province.

During the year, the Project Assessment Branch and the Compliance and Enforcement Branch were regionalized to provide improved service delivery.

The Resource Conservation Branch renders decisions, and ensures compliance with these decisions on oil and gas development and conservation proposals. The goal is to optimize resource recovery and provincial revenues while protecting the rights of tenure holders. The branch also provides technical information to industry in support of development of the province's hydrocarbon resources.

The Technical Services and Regulatory Affairs Branch is responsible for providing policy, practices and technical services to the Operations Division of the OGC, providing strategic advice to the Executive, and providing leadership to a range of technical services functions including operational standards and best management initiatives; audits of corporate due diligence systems; regulatory reform; support to Treaty Negotiations and inter-government affairs; program development; internal quality control; strategic land use planning; corporate and special projects; and operational changes.

1b. Business Services Division

The Business Services Division is composed of the following work units:

- Finance and Administration Branch including Advisory Committee administration, strategic planning, and performance reporting.
- Information Technology and Systems Branch
- Corporate Compliance Branch

The mandate of the Finance and Administration Branch is to fulfill responsibilities identified by statute in the *Oil and Gas Commission Act*, the *Financial Information Act*, the *Budget Transparency and Accountability Act*, the *Freedom of Information and Protection of Privacy Act*, and related Regulations and Directives.

The key responsibilities of the Finance and Administration Branch are to:

- Develop and implement finance and administration policies and procedures
- Provide finance and administration advice and assistance
- Manage finance and administration processes
- Provide secretariat services to the Advisory Committee
- Lead strategic planning exercises, prepare the Service Plan, monitor corporate performance, and prepare the Annual Service Plan Report
- Provide functional direction to the SCEK Fund Manager

The Information Technology and Systems Branch manages corporate hardware and software, the OGC website, end-user support, and the IT Migration Plan.

Corporate Compliance is responsible for providing oversight and program development expertise to the SCEK Fund, Orphan Site Reclamation Fund, Drilling Deposit program, and the Enterprise Risk Management Strategy.

Services related to these responsibilities are delivered by Commission staff.

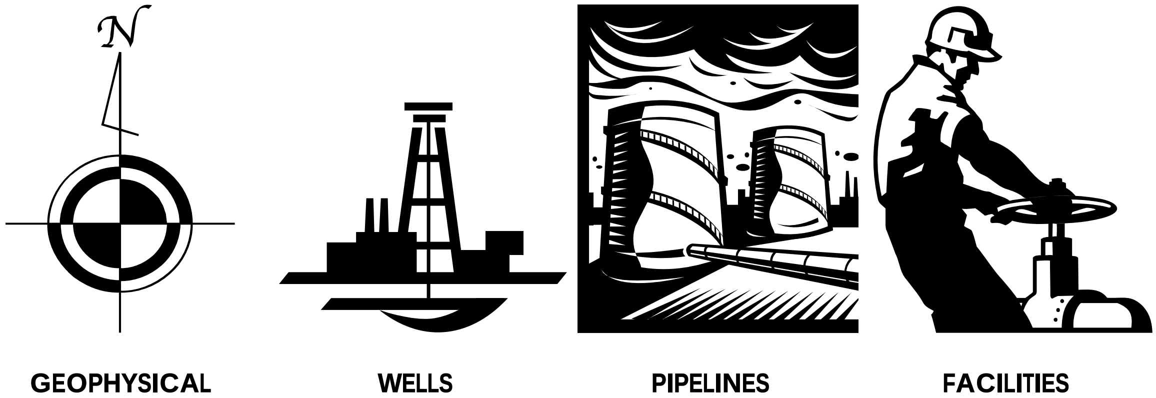
Contracted services provided by government entities are assessed annually by management. Contracted services provided by private firms are evaluated throughout the term, with a formal review at completion if the contract value exceeded $50,000.

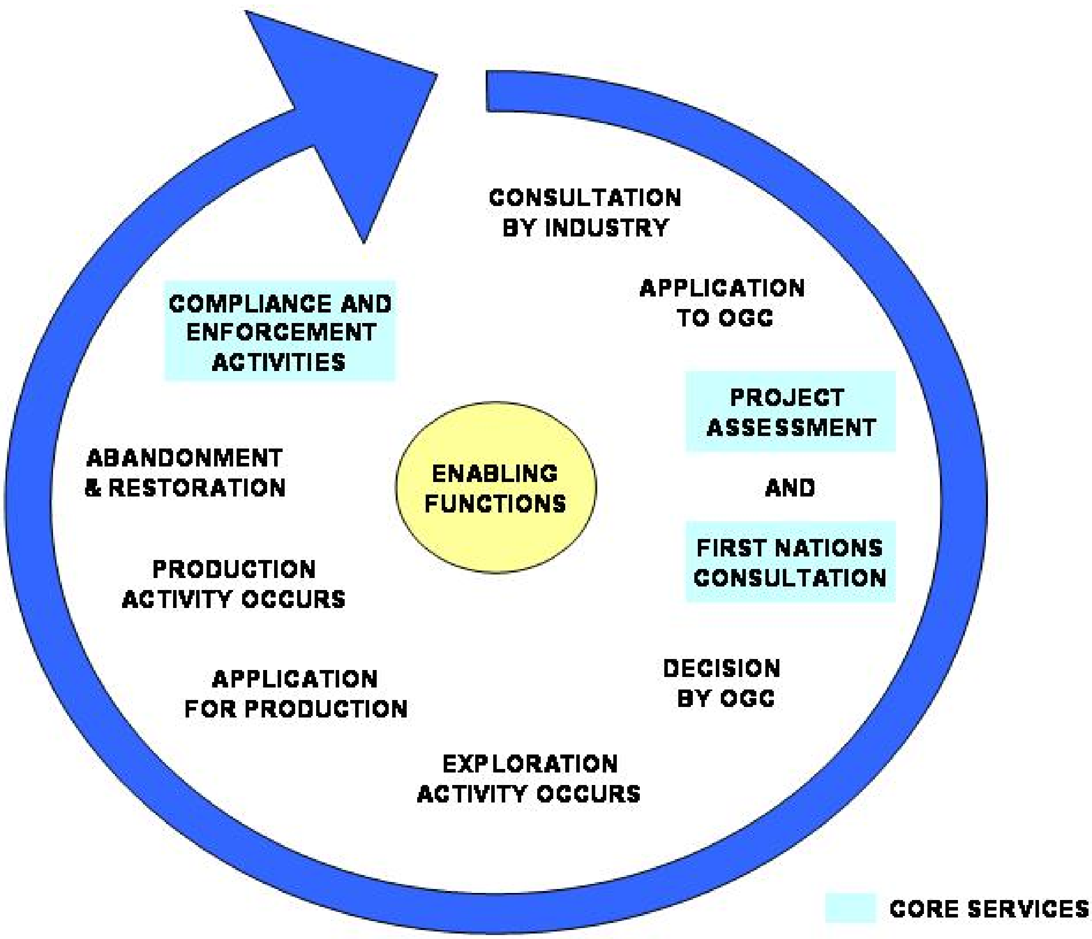
Service delivery is provided and administered in a manner consistent with public sector values. Those values include probity, prudence, legality, economy, efficiency, and effectiveness. The division ensures such an approach by adhering to established policies and procedures.

1c. The Nine Step Application Process at the Oil and Gas Commission

Step	Action
1	Application, including consultation records, is submitted to the OGC
2	OGC reviews application for impacts affecting: • Stakeholders • First Nations • Archaeological interests • Environmental Issues • Technical information
3	Enhanced consultation may be required, including: • Public safety and emergency response planning • Record of community input • Assess commitments by applicant • Give comments from application review team
4	Decision on a well authorization includes: • Construction • Drilling • Site disturbance/removal of timber • Operational impact, such as traffic and odor
5	Well installation, pipelines and facilities and compliance control
6	Preparing for production: • Applicant must apply for production activities, including flaring
7	Production commences: • Applicant must apply to test, produce, and/or flare.
8	Community consultation and notification on completion and production applications
9	Community liaison and issue management

1d. Service Delivery Model of the Oil and Gas Commission





2a. The Advisory Committee

The Advisory Committee is an independent body with the following responsibility to :

- Provide advice and make recommendations to the Commission
- Assess Requests for Reconsideration by Alternative Dispute Resolution
- Anticipate and identify environmental, economic and social issues
- Review the Commission's plans and financial statements
- Assist the Commission to develop operating plans

Committee members at March 31, 2006, and terms of appointment, are:

Mike Waberski (Chair)	Nov 2004-Nov 2008
Kathi Dickie (Vice-Chair)	Nov 2002-Nov 2006
Allan Blair	Nov 2004-Nov 2008
Jim Campbell	Nov 2002-Nov 2006
Michelle Gardner	Nov 2002-Nov 2006
David Pryce	Nov 2004-Nov 2008
Shirley Viens	Nov 2004-Nov 2008
Van Greig	Nov 2002-Nov 2006

Ex officio members are:

Ross Curtis, Commissioner, Oil and Gas Commission
Paula Barrett, A/Executive Director, Oil and Gas Policy Branch, MEMPR

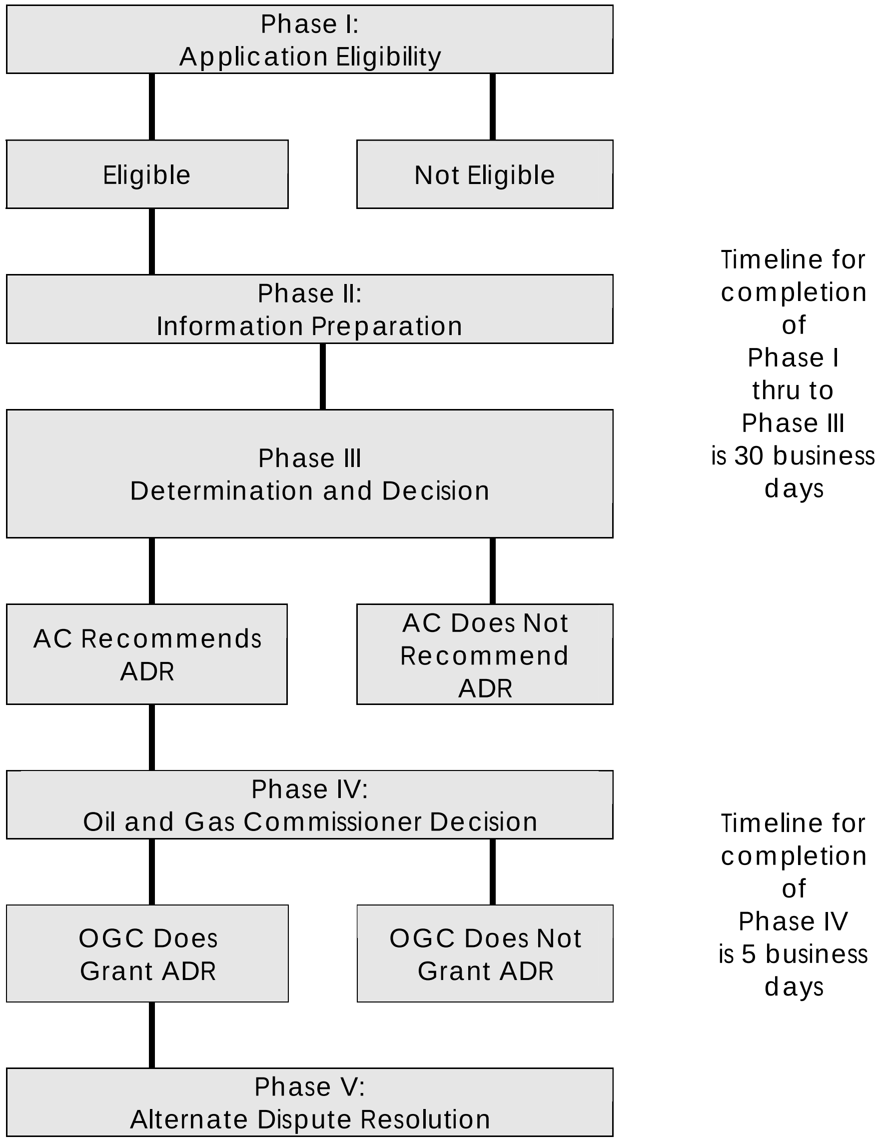
The Advisory Committee made 25 recommendations to the Commissioner during the year to March 1, 2006, and 23 were implemented, or 92%.

The Commissioner has implemented overall 80% of Advisory Committee recommendations since the inception of the Committee to March 31, 2006.

The Committee received 30 applications for reconsideration by ADR during the year, and zero (0) were recommended for ADR.

An Annual Report of the Committee will be made available through the Oil and Gas Commission's website after June 30, 2006:
http://www.ogc.gov.bc.ca/advisorycommittee.asp

2b. The Request for Reconsideration Process



3. Oil and Gas Practice Advisory Group

The Oil and Gas Practice Advisory Group (PAG) is a joint initiative between the Commission and the oil and gas industry. The group's purpose is to raise issues of mutual concern and work toward a resolution of those issues. The Commission is committed to implementing 80% of the recommendations made by PAG.

PAG is comprised of a Steering Committee and eight subcommittees, each with expertise in a particular operational area of the oil and gas industry. The Steering Committee is comprised predominantly of the leaders of the subcommittees. The Steering Committee examines the issues that are raised by the sub-committees. After an issue passes the scrutiny of the Steering Committee, it is passed on to the Commission for resolution. The PAG subcommittees are:

- Community Relations, Archaeology, First Nations and Dispute Resolution
- Surface and Environment
- Seismic
- Well Drilling, Completions, Operations and Maintenance
- Pipeline Design and Construction
- Facilities Design and Construction
- Pipeline and Facilities Operations and Maintenance
- Pipeline and Equipment Systems Integrity

During the 2005/06 fiscal year, PAG collaborated with the Commission in the development of the OGC Pipeline and Facilities Operations Manual. In this effort, suggestions offered by PAG led to a number of efficiencies for both the Commission and the industry regarding the pipeline application process and submission of pipeline information.

In anticipation of regulatory matters for review and comment relating to the ongoing Oil and Gas Regulatory Improvement Initiative (OGRII), there were no new issues brought to the Steering Committee during the 2005/06 fiscal year. The PAG subcommittees continued to meet to discuss operational matters and identify issues that may be resolved under OGRII or in OGC operational manuals planned for 2007.

PAG is providing guidance to the OGC in updating the Manual for Measurement Requirements for Upstream Oil and Gas Operations; has offered the expertise of the PAG membership in assisting the OGC in the development of operational manuals respecting wells and geophysical activities; and will continue to work with the OGC to improve the Pipelines and Facilities Operations Manual.

4. Best Practices Working Group

The Best Practices Working Group (BPWG) is composed of government, OGC, and industry members to address regulatory efficiency and service delivery issues in British Columbia related to petroleum and natural gas activities.

Working in collaboration with the BPWG, the OGC developed a more efficient administrative process to allow well operators to commingle production from sweet gas-bearing formations in the Deep Basin area. Under the new process, if a well meets certain criteria, the operator can submit a simple notification to the OGC rather than a detailed application. The commingling is expected to maximize production and recover from the gas pools involved. This area-based approval method provides operational certainty for producers and reduces paperwork for the industry and the OGC.

5. Public Sector Values

The Oil and Gas Commission delivers services in a manner consistent with public sector values.

The core values of government, as identified in the BC Government Strategic Plan, are:

- Integrity**:** to make decisions in a manner that is consistent, professional, fair, transparent, and balanced
- Fiscal responsibility**:** to implement affordable public policies
- Accountability**:** to enhance efficiency, effectiveness and the credibility of government
- Respect**:** to treat all citizens equitably, compassionately and respectfully
- Choice**:** afford citizens the opportunity to exercise self-determination

(Please refer to : http://www.bcbudget.gov.bc.ca/2006/stplan/).

The financial management objectives of government include ensuring that funds are controlled, accounted for and well managed by embracing these principles:

- Funds are handled properly and honestly
- Funds are spent responsibly and in accordance with statutory, regulatory and appropriation provisions, and not used for personal gain
- Funds are used economically and efficiently to deliver programs that effectively meet government's goals

(Please refer to http://www.fin.gov.bc.ca/ocg/fmb/manuals/CPM/01_Governance.htm).

The Standards of Conduct required of all employees is available to view at: http://www.bcpublicservice.ca/policies/Directives/5-8/05-4soc.htm

6. Benchmarking

The Commission occupies a unique role with its single-window service to industry. Research confirms that no oil and gas regulatory agency in North America provides the range of services that the Commission provides.

The following table outlines the unique role of the Commission. The information was collected by an independent data analyst professional and has been verified with agency leaders during the fiscal year:

Responsibility	OGC	AEUB (Alta.)	SIR (Sask.)	WOGCC (Wyom.)	COGCC (Colo.)	Oklahoma	Montana
Lease mineral rights			x				
Adjudicate Well Site (or well drilling) applications	X	x	x	x	x	x	x
Adjudicate Pipeline applications	X	x	x				
Adjudicate Facility applications	X	x	x				
Adjudicate Geophysical applications	X		x	x	x	x	
Perform onsite technical inspections	X	x	x	x	x	x	x
Consult with First Nations	X					x	x
Mitigate environmental issues	X	x	x	x	x	x	x
Issue authority to occupy public land	X						
Issue authority to cut timber on area of occupation	X						
Issue authority to build and use roads	X						
Consult with stakeholders	X	x	x	x	x	x	x
Review archaeology assessment	X						
Mitigate Heritage Issues	X						
Waste management and clean up	X	x	x	x	x	x	x

Only a few regulatory agencies throughout North America provide performance measures and targets. For example, the Wyoming Oil and Gas Conservation Commission lists no performance measures. However, where an agency has a measure and it is reasonably comparable, it will be shown as a benchmark.

The Commission is partnering with the Alberta Energy and Utilities Board (AEUB) and select American agencies to collect and compare operational, financial and administrative information. The goal is to establish performance measures and identify benchmarks that could be useful to regulatory agencies throughout North America. Data collection has been completed and a draft report is scheduled to be released soon.

7. Continuum of Dispute Resolution at the OGC

The OGC has a duty to resolve oil and gas development issues and disputes between affected parties, such as industry, stakeholders or First Nations. The goal of dispute resolution is to explore and understand each other's interests and to develop acceptable solutions together. The Commission works collaboratively with industry, First Nations and stakeholders to resolve a broad range of issues.

Concern/Issue	Action
Absence of Information	**Information Sharing:** -Information brochures, publications, fact sheets, and information letters. -Sharing information at trade shows, workshops, community meetings. -Providing information in response to information requests.
Stakeholder Concerns	**Issue Resolution:** -The Project Assessment Branch works with First Nations, stakeholders and industry to mitigate issues during the application review process. - The OGC has added an Appropriate Dispute Resolution (ADR) Manager position to assist in facilitating processes that enable positive outcomes. -The Compliance and Enforcement Branch works with First Nations, stakeholders and industry to resolve operational issues arising after an application has been approved.
First Nations Concerns	**Protection and Mitigation:** -Facilitated meetings between First Nations and industry. -OGC confers with Chief and Council, Land Use staff, Elders and Monitors. -Imposes terms and conditions on approvals and provides final permits. -Compliance monitoring and enforcement.
Community Concerns	**Community Engagement**: -The OGC documents concerns and shares information with communities. -Broad-based community involvement across British Columbia. -Enhanced compliance and enforcement. -Actions tailored to meet specifics of activity and concerns (workshops, presentations, bulletins, etc.).
Proponent/Surface Dispute	**Facilitation:** -Facilitation occurs at all levels of the OGC on issues dealing with land, health, safety, wildlife, water, rehabilitation and industry performance.
Landowners/Proponent Disputes	**Mediation and Arbitration Board:** -The OGC provides information relevant to applications made to the Board, and shares information with landowners. -The OGC's Landowner Liaison Inspector works with landowners to provide information and address concerns.
Conflicting Tenures	**Interagency Task Group:** -Pre-tenure planning for oil and gas operations. -Sustainable Resource Management plans.
Oil and Gas Production Disputes	**Reservoir Engineering Studies and Decisions:** -Limits on daily production. -Off target penalties. -Pool conservation and evaluation.
Unresolved Dispute of OGC Approved Activities	**Request for Reconsideration:** -Disputant may apply to the Advisory Committee for reconsideration of the OGC activities decision. -If the Advisory Committee grants the application, it makes a recommendation to the OGC. -If the OGC grants the recommendation, it authorizes a facilitated resolution of the dispute. -The OGC reconsiders its original decision.

8. Science and Community Environmental Knowledge Fund

The Science and Community Environmental Knowledge Fund (SCEK Fund) was established in 1998 by the Canadian Association of Petroleum Producers (CAPP) and Small Explorers and Producers Association of Canada (SEPAC) to support and facilitate research concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia.

The objectives of the Fund are to:

1. Deliver credible findings from scientific and knowledge-based research,
2. Improve scientific and community environmental knowledge relevant to the management of oil and gas activities in BC,
3. Communicate findings to industry, regulators, First Nations, land and resource users, and public.

Much of the SCEK Fund activity in 2005/06 focused on the development of structures and processes that would achieve the three Fund objectives and improve the transparency and efficiency of Fund management.

1. Strategic Planning

   - Establishment of an iterative planning framework to increase the involvement of users in establishing priority topics for funding, with the intent of making the Fund more responsive to the key challenges facing the oil and gas industry.
   - Definition of a strategic framework (vision, goals) for the SCEK Fund.
   - Review and renaming of Fund envelopes, classification of existing projects to envelopes, and identification of research gaps under each envelope.

2. Communications

   - Preparation of a communications and extension strategy, development of a SCEK logo and presentation templates, redesign and expansion of the SCEK portion of the OGC website.

3. Program Development

   Development of guidelines and templates to support:

   - Governance (Steering Committee Terms of Reference, Subject Matter Expert Terms of Reference, conflict of interest protocols).
   - Project selection (Call for Proposals process, Letter of Intent guidelines, full proposal guidelines).
   - Contract management (recipient agreement template, project cost guidelines, project deliverables guidelines, invoice guidelines).
   - Program administration (project implementation and payment process, expense forms, request for payment forms).

4. Program Management

   - Creation of two electronic databases that include full SCEK Fund history of projects and invoices.
   - Development of a password-protected internal project management website with all materials developed for the SCEK Fund Steering Committee related to planning and implementation of the Fund (committees, meetings, plans, documents).
   - Development of a password-protected internal project document library with all project documentation (proposals, funding agreements, amendments and deliverables).

Nine projects were initiated in 2005/06, 20 projects were active, and ten were completed. The Call for Proposals process attracted 17 letters of intent and generated six full proposals for consideration in the 2006/07 fiscal year.

Further information on the SCEK Fund is available at
http://www.ogc.gov.bc.ca/scek/index.asp

Contact Information

For general information about the Oil and Gas Commission, you can contact us by:

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Fax	(250) 261-5728

Please visit our website at www.ogc.gov.bc.ca

For more information regarding this Annual Service Plan Report, please contact Craig Wilkinson, Director of Finance & Administration, at (250) 261-5771.