



Oil and Gas Commission

2005/06 to 2007/08 Service Plan Update

September 2005



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**Letter from the Board Chair to the
Minister of Energy, Mines and Petroleum Resources**



I am pleased to present the 2005/06 to 2007/08 Service Plan Update for the Oil and Gas Commission of British Columbia.

As appointed Deputy Minister of Energy, Mines and Petroleum Resources on June 16, 2005, I also assumed Board Chair for the Oil and Gas Commission. I am excited by the opportunity to work with my board colleagues to lead the development of the Oil and Gas Commission as a world-class regulator.

As reported by my predecessor, Dr. Sheila Wynn, the province is continuing to enjoy a significant growth in the oil and gas industry. The key strength to the Oil and Gas Commission in responding to this growth is held in the professional and dedicated individuals who work in the Commission. A key strategic priority for me as Board Chair is to ensure that Commission staff have the support and tools for the Oil and Gas Commission to be an innovative regulatory leader, respected by stakeholders, First Nations and clients.

Success at the Oil and Gas Commission could not be accomplished without the hard work of industry on advisory groups, First Nations showing new pathways in collaboration, and the Oil and Gas Advisory Committee in providing valued advice. I would like to extend my gratitude for their continued work with the Commission.

This Updated Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and overall service plan. All significant assumptions, policy decisions, and identified risks, as of July 29, 2005, have been considered in preparing the plan. I am accountable for ensuring the Oil and Gas Commission achieves its specific objectives identified in the plan and for measuring and reporting actual performance.

A handwritten signature in blue ink, appearing to read "Greg Reimer". The signature is fluid and cursive, written over a light blue horizontal line.

Greg Reimer
Board Chair

July 29, 2005



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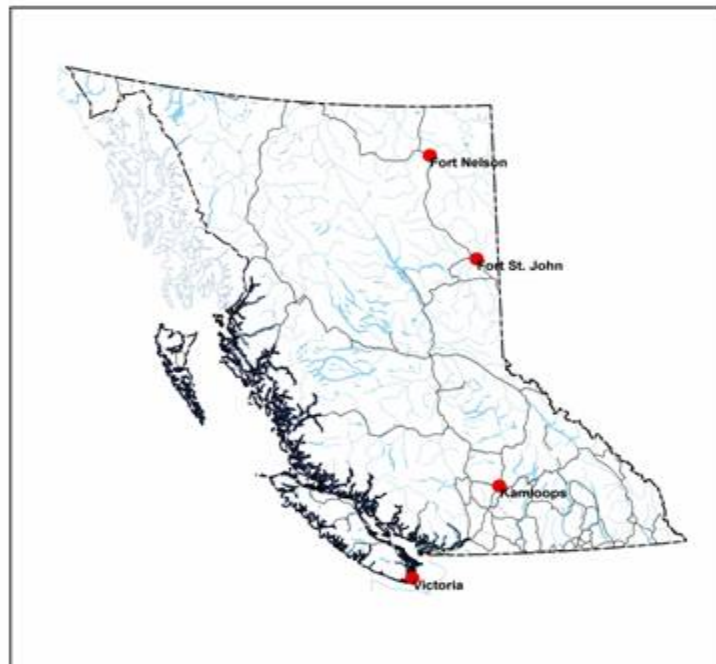
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Organizational Overview

The Oil and Gas Commission (OGC or Commission) was established under the *Oil and Gas Commission Act* in July 1998. 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.

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
- Program Development Branch
- Aboriginal Relations and Land Use Branch
- Technical Services and Regulatory Affairs Branch

2. Corporate Services Division

- Strategic Planning & Performance Reporting
- Finance and Administration Branch
- Human Resources
- Strategic Human Resources
- Information Systems Branch
- Advisory Committee Administration
- Science and Community Environmental Knowledge Fund Administration

The executive office has responsibility for Stakeholder Relations, Client Services, and Board administration.

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 does not have business partners in the traditional sense. The Commission has a number of contracted service providers, mostly from within government. These service providers include the BC Public Service Agency and the Ministry of Management Services' Payroll Services and Common Information Technology Services. The OGC has also established operational Memorandums of Understanding (MOU's) with a number of ministries and agencies. The MOU's identify or clarify service levels and articulate how communication or work practices can be improved. The MOU's can assist the Commission to achieve its goals and objectives by promoting clear communication protocols and identifying clear deliverables.

It is important to note the distinction between the Ministry of Energy, Mines and Petroleum Resources and the Oil and Gas Commission. While government determines policy, the Commission regulates according to that policy. The OGC is not responsible to set or directly evaluate government 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 Energy, Mines and Petroleum Resources, Greg Reimer, is the Chair. The Commissioner, Derek Doyle, is Vice Chair. John Bechtold, a government appointee, is the third Director and chairs the Audit Committee of the Board. The responsibilities of the Board can be found on the OGC website. The Commissioner continues to be responsible for the operations of the Commission.

The Commission receives advice from several groups in doing its duty:

- **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 provide recommendations to the Commission. Over 89% of recommendations have been implemented.
- **Practice Advisory Group (PAG):** PAG 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. It is 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. Over 80% of recommendations have been implemented.
- **Best Practices Working Group (BPWG):** BPWG is a group led by the Ministry of Energy, Mines and Petroleum Resources and composed of government and industry members to address regulatory efficiency and service delivery issues related to petroleum and natural gas activities. The Oil and Gas Commission has a representative on the BPWG. 100% of recommendations received to date have been implemented.

Finally, the Commission receives advice from First Nations, local governments, federal and provincial agencies, the Canadian Association of Petroleum Producers (CAPP), and the Small Explorers and Producers Association of Canada (SEPAC) – along with many other stakeholders who contribute to our continuous improvement.

In summary, the Oil and Gas Commission provides an important public service by regulating oil and gas activities in British Columbia. Inter-provincial and international pipelines are regulated by the National Energy Board.



Strategic Context

Keeping pace with the growth in industry activity continues to be a challenge because we are currently constrained internally by relatively outdated business processes and technologies. Several important initiatives are underway to address this challenge.

Human resource restrictions are also a challenge. For example, attracting and hiring appropriately skilled professionals to northern B.C. can take a considerable time. The Commission will continue to look at new human resource options to manage growth, increased workload and change.

The Commission continues to improve in the areas of results-based regulation and audit process development, as well as to transition to a more collaborative framework with First Nations.

Ensuring public safety is the highest priority at the Oil and Gas Commission.

The Commission continues to benefit greatly from the hard work of our employees and the stable working relationships that we enjoy with clients, stakeholders, First Nations, and government.

Our Key Risks and Capacity Influencers fall into two areas:

Uncontrollable:

- Commodity price and production fluctuations: As prices and production volumes change, the level of industry activity and therefore Commission revenue also change.
- Weather: Temperature variations, and the timing of winter freeze-up and spring break-up, can lead to variations in industry activity and hence Commission revenues.

Controllable:

- Organizational capacity to manage growth and change: As the Commission assumes a greater scope of activities and oversees more industry activity; our capacity to manage can become stressed. Effective structures, resourcing, and focusing on core competencies can help to alleviate this capacity influencer.
- Employee retention: As industry expands, staff can be attracted to or recruited by industry. With the departure of staff, corporate knowledge is lost. Time, expenses, and client satisfaction can be adversely affected while filling the vacant positions. Retention strategies can reduce turnover and minimize those adverse effects.

The Commission is on-schedule to establish and implement an Enterprise Risk Management Plan that will identify strategies to manage or mitigate risks.



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"*



Goal 1

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

Enabling Legislation

Oil and Gas Commission Act, Section 3.

"The purposes of the commission are to:

(a) regulate oil and gas activities and pipelines in British Columbia in a manner that:

- (i) provides for the sound development of the oil and gas sector, by fostering a healthy environment, a sound economy and social well being,
- (ii) conserves oil and gas resources in British Columbia,
- (iii) ensures safe and efficient practices, and
- (iv) assists owners of oil and gas resources to participate equitably in the production of shared pools of oil and gas..."

Objective

Increase the number and effectiveness of field inspections.

Strategies

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

| Performance Measures | Targets | | | | |
|---|----------------|----------------|---------|---------|---------|
| Safety, Environment, & Conservation | 2004/05 Target | 2004/05 Result | 2005/06 | 2006/07 | 2007/08 |
| Major compliance: Exploration & Development ¹ Baseline: 2001/02: 79% | 90% | 93% | 92% | 92% | 92% |
| Major compliance: Facilities, Drilling Rigs & Operations Baseline: 2002/03: 93% (Restated) Benchmark: Alberta EUB: 95.6% (2001/02) | 96% | 97% | 97% | 97% | 97% |
| Number of Inspections Baseline: 3 year rolling average: 2,282 | N/A: New | 2,510 | 3,140 | 3,760 | 4,140 |



Goal 2

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

Enabling Legislation

Oil and Gas Commission Act, Section 3.

"The purposes of the commission are to:

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

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

1. Implement process improvements.
2. Broaden the use of General Development Plans (GDPs) by industry.
3. Upgrade electronic information systems and program management tools.

| Performance Measure | Targets | | | | |
|--|-------------------|-------------------|---------|---------|---------|
| Application Review | 2004/05 Target | 2004/05 Result | 2005/06 | 2006/07 | 2007/08 |
| Average number of calendar days to assess new applications ² | 21 | 27 ³ | 25 | 24 | 23 |
| Baseline: 2001/02: 32.71 calendar days ³ | | | | | |
| Benchmark: Colorado: 30 days (Target) | | | | | |



Goal 3

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

Enabling Legislation

Oil and Gas Commission Act, Section 3.

"The purposes of the commission are to:

(c) encourage the participation of First Nations and aboriginal peoples in processes affecting them, and

(d) participate in planning processes, and

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

Objectives

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

Strategies

1. Independent assessment of client satisfaction.
2. Develop and begin implementation of an enhanced Alternative Dispute Resolution model.
3. Review and update Agreements and MOU's with First Nations and other agencies and ministries.

| Performance Measures | | Targets | | | |
|--|--------------------|----------------|---------|---------|---------|
| Education & Participation | 2004/05 Target | 2004/05 Result | 2005/06 | 2006/07 | 2007/08 |
| Percent of applications responded to by First Nations Baseline: 2001/02: 75.2% | 80% | 84% | 84% | 84% | 84% |
| Client Satisfaction Baseline: N/A (New Measure) Benchmark: Alberta EUB: 76% (2000). | Establish Baseline | Baseline: 75% | 75% | 80% | 85% |



Goal 4

We will broaden our permitting authority.

Enabling Legislation

Oil and Gas Commission Act.

Objectives

1. Establish a regulatory framework that enables improved delivery of services to industry.
2. Move towards results-based regulation where appropriate.

Strategies

1. Work with MEM to improve our legislative and regulatory framework.
2. Enter into additional MOU's with partner agencies and ministries.

| Performance Measure | Targets | | | | |
|--|----------------|----------------|---------|---------|---------|
| One-Stop Permitting | 2004/05 Target | 2004/05 Result | 2005/06 | 2006/07 | 2007/08 |
| Number of agencies that industry clients must work with on oil and gas applications Baseline: 1998/99: 6 | N/A: New | 3 ⁴ | 3 | 2 | 1 |



Goal 5

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

Enabling Legislation

Oil and Gas Commission Act.
Public Service Act.

Objectives

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

Strategies

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

| Performance Measures | Targets | | | | |
|---|----------------------------|----------------------------|-------------------|-------------------|-------------------|
| Organizational Capability | 2004/05 Target | 2004/05 Result | 2005/06 | 2006/07 | 2007/08 |
| Percentage of employees with a performance evaluation & plan in place Baseline: N/A (New Measure) | 100% of Excluded Employees | 100% of Excluded Employees | 100% of Employees | 100% of Employees | 100% of Employees |
| Voluntary Turnover Rate of Regular Staff Baseline: 2000: 11.3% Benchmark: BC Government: 2.4% (2004) | 10% | 11.6% | 9% | 8% | 7% |



Goal 6

We will operate as a self-sustaining organization.

Enabling Legislation

Oil and Gas Commission Act.

Objectives

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

Strategies

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

| Performance Measures | | Targets | | | |
|---|----------------|----------------|---------|---------|---------|
| Financial Integrity | 2004/05 Target | 2004/05 Result | 2005/06 | 2006/07 | 2007/08 |
| Ratio of Commission Revenues to Expenses Baseline: 1998/99: 0.95:1.0 | N/A: New | 1.14:1 | 1:1 | 1:1 | 1:1 |
| Ratio of Financial Audits performed to Positive ("Unqualified") Audit Opinions Baseline: 1998/99: 1:1 | N/A: New | 1:1 | 1:1 | 1:1 | 1:1 |



Alignment with Government's Strategic Plan

The following goals were outlined in the Throne Speech of February 2005:

1. To make B.C. the best educated, most literate jurisdiction on the continent.
2. To lead the way in North America in healthy living and physical fitness.
3. To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.
4. To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.
5. To create more jobs per capita than anywhere else in Canada.

The Commission Service Plan demonstrates alignment with government's fourth goal through objectives, strategies and other initiatives. We will combine community knowledge and science in all aspects of our work, we will move towards results-based regulation and inspections will increase 25-percent in each of the next three years. The OGC supports a major inter-provincial study on the possible impact of gas emissions on animal health with reports expected in early 2006. It supports studies on cumulative impact management and wildlife sustainability. Flaring reduction strategies are being updated and the Healing the Land program has been initiated. Guidelines and manuals are continuously improved to ensure that wise management practices are widely known and applied by industry. Finally, the commitment of all Commission advisors including stakeholders, First Nations and clients is vital to the sectors contribution to government's fourth goal.

The Service Plan also demonstrates alignment with government's fifth goal. An improved regulatory climate should help to sustain an improved business climate, which in turn should lead to increased employment.



| Summary Financial Outlook (\$000) | 2003/04 Actual | 2004/05 Budget | 2004/05 Actual | 2005/06 Budget | 2006/07 Estimate | 2007/08 Estimate |
|--|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Revenue | | | | | | |
| Fees | 14,218 | 14,172 | 16,243 | 14,982 | 15,207 | 15,733 |
| Levies | 6,221 | 10,438 | 10,283 | 11,173 | 11,146 | 11,415 |
| Miscellaneous | 120 | 50 | 85 | 50 | 50 | 50 |
| Total Revenues | 20,559 | 24,660 | 26,611 | 26,205 | 26,403 | 27,198 |
| Expenses | | | | | | |
| First Nations | 8,779 | 7,910 | 9,819 | 9,940 | 10,471 | 11,020 |
| Salaries and Benefits | 8,343 | 10,514 | 8,934 | 10,497 | 10,497 | 10,497 |
| Operating Expenses | 3,959 | 5,047 | 4,535 | 5,416 | 5,300 | 5,395 |
| Total Expenses | 21,081 | 23,471 | 23,288 | 25,853 | 26,268 | 26,913 |
| Operating Income (Loss) | (522) | 1,189 | 3,323 | 352 | 136 | 285 |
| Amortization of Contributed Assets | 95 | 95 | 95 | 95 | 95 | 95 |
| Net Income (Loss) | (427) | 1,284 | 3,418 | 447 | 231 | 380 |
| Full Time Equivalents | 121 | 140 | 130 | 140 | 140 | 140 |
| Capital Expenditures | 333 | 596 | 475 | 452 | 452 | 452 |
| Linking Goals with Required Resources | | | | | | |
| Goal 1 | 3,068 | 4,005 | 3,417 | 3,874 | 3,874 | 3,874 |
| Goal 2 | 2,671 | 3,298 | 2,680 | 3,395 | 3,395 | 3,395 |
| Goal 3 | 2,068 | 2,132 | 1,953 | 1,957 | 1,957 | 1,957 |
| Goal 4 | 1,895 | 2,025 | 1,129 | 2,381 | 2,265 | 2,265 |
| Goals 5 & 6 | 2,600 | 4,101 | 4,280 | 4,306 | 4,306 | 4,401 |
| Total Required Resources (Direct Operating Costs: Total Expenses less First Nations payments) | 12,302 | 15,561 | 13,469 | 15,913 | 15,797 | 15,892 |

Key Assumptions

- New well applications are 1750, 1875, & 2000.
- Gas volume increases are 3% per year (Ministry of Energy, Mines and Petroleum Resources).
- Oil volume decreases are 2% per year (Ministry of Energy, Mines and Petroleum Resources).
- Inflation is forecast at 2% per year (Treasury Board).
- Gas prices remain in excess of \$5/MCF.
- The following approved levies and fee are implemented:

| | <u>2005/06</u> | <u>2006/07</u> | <u>2007/08</u> |
|---------------------------|----------------|----------------|----------------|
| Gas Levy: Total (w/ SCEK) | 35¢ | 35¢ | 35¢ |
| To the OGC | 35¢ | 34¢ | 34¢ |
| Oil Levy: Total (w/ SCEK) | 70¢ | 70¢ | 70¢ |
| To the OGC | 70¢ | 68¢ | 68¢ |
| Well Fee: Total (w/ SCEK) | \$7,900 | \$7,900 | \$7,700 |
| To the OGC | \$7,900 | \$7,500 | \$7,300 |

Forecast Risks and Sensitivities

- Commodity price and production fluctuations
- Weather



Major Capital Projects Information

Not Applicable to the Oil and Gas Commission

Operating Segments Summary Information

Not Applicable to the Oil and Gas Commission

Confidentiality

No information in this Service Plan is deemed to be confidential.

Contact Information

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

| | |
|---------|---|
| Phone | (250) 261-5700 |
| Website | www.ogc.gov.bc.ca |
| Mail | 200, 10003 – 110 Avenue Fort St. John, B.C. V1J 6M7 |
| Fax | (250) 261-5728 |

For more information regarding this Service Plan, please contact Craig Wilkinson, Division Leader, Corporate Services, at (250) 261-5771.

Endnotes

- ¹ This measure includes compliance with road, geophysical, and stream-crossing regulations.
- ² This measure has been redefined (and adjusted) from working- to calendar-days at our clients' request. Targets have been adjusted from the original 2005-2008 Service Plan.
- ³ Independently verified.
- ⁴ Includes Ministry of Water, Land and Air Protection (for flaring) and Agricultural Land Commission (for issues beyond the current MOU).