

BC Oil and Gas Commission

2019/20 – 2021/22 SERVICE PLAN

February 2019



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Board Chair Accountability Statement



The 2019/20 – 2021/22 B.C. Oil and Gas Commission Service Plan was prepared under the Board’s direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of Dec. 31, 2018 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, B.C. Oil and Gas Commission mandate and goals, and focus on aspects critical to the organization’s performance. The targets in this plan have been determined based on an assessment of the B.C. Oil and Gas Commission’s operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in blue ink, appearing to read "Dave Nikolejsin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dave Nikolejsin
Board Chair

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Strategic Direction and Alignment with Government Priorities

The B.C. Oil and Gas Commission (Commission) is the provincial, single-window regulatory agency with responsibilities for regulating oil and gas activities in British Columbia (B.C.), including exploration, development, pipeline transportation and reclamation.

It has a legislated mandate under the *Oil and Gas Activities Act* (OGAA) and its strategic direction is informed by the external operating environment, its vision, mission, and values as well as the [Mandate Letter](#) issued by the B.C. Government. The Commission strives to deliver cost-effective, reliable and accountable regulatory service for British Columbians. More information on the [Commission’s structure and governance](#) can be found on the Commission’s [website](#).

As a responsible and accountable regulator, the Commission is fulfilling its oversight role with respect to petroleum, natural gas, geothermal and liquefied natural gas (LNG) development by continually improving its internal capacity to provide expert and timely services to industry, Indigenous groups and the numerous stakeholders whose interests are represented by the Commission in the regulatory process.

The Commission is aligned with Government’s key priorities:

Government Priorities	Oil and Gas Commission Aligns with These Priorities By:
Delivering the services people count on	<ul style="list-style-type: none"> • Goal 1: Protect public safety <ul style="list-style-type: none"> • Public safety related issues are mitigated and understood to prevent incidents. (Objective 1.1) <ul style="list-style-type: none"> ○ Continually enhance the Compliance Management System ○ Compliance and enforcement • Goal 2: Respect those affected by energy development activities <ul style="list-style-type: none"> • Indigenous peoples’ rights are constitutionally respected and interests are considered and incorporated in Commission decisions and programs. (Objective 2.1) <ul style="list-style-type: none"> ○ Maintain and Strengthen Relationships with Indigenous groups ○ Respond to the Draft 10 Principles that Guide the Province of British Columbia’s Relationship with Indigenous Peoples ○ Support the implementation of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), the Truth and Reconciliation Commission’s Calls to Action, and established court decisions. • Landowner interests in respect of their property are valued, understood and considered in Commission decisions and programs. (Objective 2.2) <ul style="list-style-type: none"> ○ Actively engage communities and landowners • Goal 4: Support responsible energy resource development <ul style="list-style-type: none"> • Potential liabilities associated with resource development are mitigated. (Objective 4.1) <ul style="list-style-type: none"> ○ Liability management program
A strong, sustainable economy	<ul style="list-style-type: none"> • Goal 3: Safeguard the Environment <ul style="list-style-type: none"> • Environmental values and attributes are sustained. (Objective 3.1) <ul style="list-style-type: none"> ○ Alignment with the Province ○ Area-Based Analysis (ABA)

Operating Environment

The Commission's operating environment is affected by North American and global natural gas markets. While B.C. produces small quantities of oil, it produces almost one third of Canada's marketable natural gas^[1]. Total Canadian marketable gas production has remained relatively stable over the last few years with small increases in annual production.

Natural gas production has continued to increase in B.C., focused almost entirely on the Montney formation stretching from the Alberta border near Dawson Creek to approximately 150 kilometers north and west of Fort St. John. This increased focus on Montney gas has shifted much of B.C.'s development from predominantly Crown land to a mix of private and Crown land in the more developed areas of Northeastern B.C. The Commission is working closely with the Ministry of Energy, Mines and Petroleum Resources and local governments to ensure that development in this area is done in a manner that respects the rights and interests of private land owners and allows for the responsible extraction of the resource.

Natural gas and associated liquid hydrocarbons within the Montney formation are extracted using multi-well pads consisting of a number of horizontally drilled wells which are stimulated through hydraulic fracturing. This technique, commonly referred to as unconventional resource development, accounts for almost all new wells in B.C. and close to 90 per cent of current production in the province.

In October 2018, LNG Canada and Coastal Gas Link approved the construction of a LNG export facility and a 670 kilometer long pipeline that will deliver gas from the Montney to the LNG plant in Kitimat. Once in operation, the plant will require inlet gas volumes of approximately 1.9 Bcf/day on start up with a planned capacity of approximately 3.8 Bcf/day. For perspective, in 2017 the marketable gas production for B.C. averaged 4.5 Bcf/day. While not all of the gas necessary to supply the LNG Canada plant will necessarily come from B.C., the introduction of a new market will likely lead to increased production from the Montney. Other LNG and associated pipeline proposals are at various stages of development in B.C. As these developments proceed, the Commission will increase its operational presence in areas outside of Northeastern B.C. while at the same time ensuring it has the appropriate resources for regulatory oversight within its existing operations.

Insolvencies and orphan assets continue to be a primary focus of the Commission as the number of orphan sites in B.C. has increased from 220 wells in March 2017 to 326 wells in December 2018. A major driver of this increase has been extremely low gas prices coupled with historical business practices around asset sales and transfers. In April, 2018, the Provincial Government passed the *Energy, Mines and Petroleum Resources Amendment Act* (Bill 15) enabling a number of improvements to the regulatory framework in B.C. for the management of liabilities and funding for orphan site management and reclamation. The Commission is completing a series of projects and initiatives to manage associated risks, including the modernization of the Liability Management Rating (LMR) program, new funding for the Orphan Site Reclamation Fund (OSRF), implementing legislative amendments, Redwater appeal and litigation strategy, and the development of restoration

^[1] In 2017, Canada produced approximately 5.67 Trillion cubic feet (Tcf) of marketable gas. Almost 30 per cent of this gas came from B.C.

deadlines for inactive/dormant sites. Together, these actions should collectively enhance the Commission's ability to respond to orphan and insolvencies as they occur.

The Commission is working closely with Government in the implementation of UNDRIP, the TRC Calls to Action and relevant case law. The Commission is also working with Government to operationalize the Draft 10 Principles that Guide the Province of British Columbia's Relationship with Indigenous Peoples. In addition to fulfilling the Commission's duty to consult on applications, the Commission is committed to establishing long-term, respectful relationships with Indigenous communities and ensuring traditional knowledge informs the Commission's activities throughout the regulatory cycle. Significant progress has been made in this area through the introduction of shared demonstration projects such as reclamation and emergency management and through the continued support of the Aboriginal Liaison Program under the Ministry of Forests, Lands, Natural Resource Operations and Rural Development.

Performance Plan

The Commission's strategy management system is used to document and communicate accountability at all levels. Potential refinement and improvements are anticipated as the system is reviewed to ensure best practices. Annually, management considers changes to the operating environment resulting from government and Board direction, industry input, Indigenous community interests, and economic drivers. Through this review the Commission identified the need to update its performance plan to reflect the current operating environment and emerging trends. Accordingly, a number of the goals, objectives, strategies and performance measures outlined in this Service Plan have been updated from the previous year's Service Plan. These changes will be integrated into the Commission's organizational strategy.

Goal 1: Protect Public Safety

Objective 1.1: Public safety related issues are understood and mitigated to prevent incidents.

Key Strategies:

- **Continually Enhance the Compliance Management System**

The Commission has prioritized a program to enhance the tools, processes, policies, and competencies that make up the compliance management system. This will involve implementing a series of projects that will enhance the Commission's ability to provide assurance that oil and gas activities are being conducted in accordance with legislation and that Commission resources are used to maximum effect.

- **Deliver Compliance and Enforcement**

The Commission ensures industry compliance to the highest standard through regular inspections and investigations when necessary. In addition, permit holders are expected to use formal systems within their day-to-day operations to ensure compliance with the OGAA. Where alleged non-compliances

occur, the Commission will take appropriate actions, as per the processes detailed in the [Compliance and Enforcement Manual](#) provided by the Commission to the industry.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a Number of inspections completed annually ¹	4,691	4,400	4,400	4,450	4,450
1.1b Overall inspection compliance rate ²	97.0%	97.0%	100.0%	100.0%	100.0%

¹ Data Source: Internally monitored and tracked inspection data.

² Data Source: Internally monitored and tracked compliance rate data.

Linking Performance Measures to Objectives:

- 1.1a This measure reflects the Commission’s efforts to inspect industry and ensure activities are done in compliance with regulations. Inspections cover aspects of the regulatory framework, as well as all permit specific requirements (conditions). Included are factors such as safety, environmental issues, accuracy of required measurements, adherence to defined standards, etc. The intent is to align inspections with industry activity levels.

Discussion

The 2017/18 results were higher due to a large number of orphan sites from an insolvent company which required additional inspections. The Commission will continue to complete the number of inspections as outlined in its Annual Compliance Plan.

- 1.1b The Commission regulates permit holders and completes inspections to make sure they are compliant with all regulatory requirements. This measure reflects the percentage of inspections completed with no deficiencies identified, or all deficiencies corrected within the allotted timeframes.

Discussion

The objective of the Commission’s compliance and enforcement team is to make sure companies are compliant with the regulatory framework. This performance measure reflects companies who are either compliant or have addressed deficiencies within the required timeframe. The Commission will always strive for 100 per cent compliance and any companies that do not fall within these categories are followed up on by the Commission to ensure compliance is achieved.

Objective 1.2: Should an incident occur, the public is safe from harm.

Key Strategies:

- **Respond to Emergencies**

The Commission’s emergency response framework addresses both complaints (public calls of concerns such as odour, noise and road maintenance) and minor to emergency-level incidents. All incidents and complaints where public safety issues are noted result in the dispatch of staff to ensure protective actions are undertaken by the permit holder. Staff employ a range of tools and processes to

detect, monitor and confirm the extent of any incident related hazards, and ensure the public is appropriately notified and protected. Field and many office staff have received training in basic emergency management processes used across government, and support the operation of the Commission’s own emergency operations center.

- **Review Emergency Management Plans**

A permit holder is required under the Emergency Management Regulation to prepare and maintain an emergency management program as well as a specific emergency response plan (ERP) for each of its oil and gas activities prior to carrying out the activities. These plans are submitted to the Commission and reviewed and updated at least once every three years.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.2a Per cent of active companies with complete Emergency Response Plans ¹	100%	99.8%	100%	100%	100%

¹ Data Source: Internally monitored and tracked company filing data.

1.2a This measure reflects the compliance of industry permit holders’ ERP requirements. All active companies are required to have an ERP on file with the Commission to be in compliance with oil and gas regulations. Having an ERP in place enables the company to work through and plan for situations which, if not addressed quickly and methodically, could have an impact on the safety of its employees and the public who live around its area of operations.

Discussion

The 2018/19 forecast is below the target as two permit holders in bankruptcy proceedings do not have valid ERPs filed with the Commission.

Goal 2: Respect those affected by energy resource development

Objective 2.1 Indigenous peoples’ rights are constitutionally respected and interests are considered and incorporated in Commission decisions and programs.

Key Strategies:

- **Maintain and Strengthen Relationships with Indigenous groups**

The Commission will develop and maintain relationships with Indigenous groups through various engagement strategies including leader to leader (L2L) meetings, agreements and partnerships (Aboriginal Liaison Program), capacity funding, cultural awareness (training, attending community events), information sharing and the Indigenous groups’ engagement strategy.

- **Respond to the Draft 10 Principles that Guide the Province of British Columbia’s relationship with Indigenous Peoples**

In May 2018, the Province released the Draft 10 Principles that Guide the Province of British Columbia’s Relationship with Indigenous Peoples (the Draft Principles). The Draft Principles are intended to guide actions of provincial agencies, including the Commission in the implementation of the UNDRIP and the Truth and Reconciliation Commission’s Calls to Action. The Commission has integrated these elements into its policy framework and operations. The Commission will continue to build and strengthen respectful relationships with Indigenous peoples by enhancing communications, meeting regularly with communities and ensuring flexibility in the Commission’s approach to consultation.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.1a Per cent of applications where the duty to consult is met ¹	100%	100%	100%	100%	100%
2.1b Satisfaction level on how well the Commission is engaging Indigenous groups ²	75%	N/A	86%	N/A	87%

¹ Data Source: Internally monitored and tracked consultation data.

² Data Source: The surveys are given to a wide range of indigenous groups throughout the province and are conducted by an external third party and will be conducted every other year. The results are tracked and analyzed internally.

Linking Performance Measures to Objectives:

2.1a This measure reflects the Commission’s ability to fulfill the Crown’s duty to ensure Indigenous groups who may be affected by oil and gas activities are consulted.

Discussion

Consultation on applications with Indigenous communities is integral to developing relationships and understanding of Commission regulated activities on traditional territories throughout the Province. Note that in 2017 the Commission issued permits to Rockyview Resources for a 32 kilometre gas pipeline and through the judicial review process, the Commission’s decision was overturned. The Commission takes this decision seriously and has implemented improvements to the consultation process and practices. The actual figure for 2017/18 remains 100 per cent due to rounding, because the overturned decision is one of thousands of application consultations made annually.

2.1b This measure reflects the effectiveness of the Commission’s engagement efforts for Indigenous Groups.

Discussion

Meaningful consultations, collaborations and agreements between Indigenous Governments and the Commission support the honour of the Crown. In addition to consultation, the Commission interacts with Indigenous communities throughout B.C. through a suite of relationship-building initiatives and programs which include supporting joint participation in the Commission’s compliance and enforcement work, application assessment (field and

office), reclamation and restoration activities, regulation and policy development, wildlife management, education and training opportunities, capacity funding, Commission information sessions, and joint knowledge and culture sharing programs. These initiatives work towards strengthening Indigenous peoples’ abilities to be an active participant and voice in a variety of Commission business areas.

Objective 2.2: Landowner interests in respect of their property are valued, understood and considered in Commission decisions and programs.

Key Strategies:

- **Actively engage Communities and Landowners**

The Commission will identify opportunities to enhance relationships with local governments, chambers of commerce, landowners and other rights holders to address concerns related to quality of life indicators, such as noise, light and seismicity. The Commission will provide opportunities for dialogue to inform updates to policies, guidelines and regulations required to make meaningful changes that protect the interests of landowners in balance with other stakeholders.

- **Enforce Regulatory Requirements and Permit Conditions Related to Induced Seismicity**

Within the Kiskatinaw Seismic Mitigation and Monitoring Area (KSMMA), permit holders are required to report seismic events recorded within three kilometres of the common drilling pad if they are felt on the surface. Permit holders are required to report the first instance of a magnitude of 1.5 or greater event and enter a communication protocol for remaining activities. If hydraulic fracturing operations cause an event with a magnitude of at least 3.0, fracturing on the common drilling pad are immediately suspended. Operations cannot resume until the permit holder submits a plan, which is subject to the Commission’s approval, explaining how the company will mitigate future seismic events. For the rest of the province, permit holders are required to report seismic events recorded within three kilometres of the common drilling pad if it is felt on the surface or have a magnitude of 4.0 or more. If hydraulic fracturing, injection or disposal operations cause an event with a magnitude of at least 4.0, activities on the associated pad are immediately suspended.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.2a Per cent of operations which cause seismic events with a magnitude of 3.0 or higher which are immediately suspended	100%	100%	100%	100%	100%
2.2b Satisfaction level on how well the Commission is engaging Stakeholder groups ²	85%	85.5%	86%	87%	87%

¹ Data Source: Seismic events are from the Natural Resources Canada (NRCAN) earthquake database; fracturing events are from internal Commission fracturing data. Suspended activities are tracked internally.

² Data Source: The surveys are given to a wide range of stakeholders throughout the province and are conducted and rolled out annually by an external third party. The results are tracked and analyzed internally.

Linking Performance Measures to Objectives:

- 2.2a Induced seismicity has become a public concern over the past number of years and this measure reflects the Commission's commitment to suspend operations that have an impact on the public when sizable seismic events occur as a result of those operations.

Discussion

By addressing quality of life indicators, such as noise, light and seismicity, the Commission will build better relationships between industry and land owners. The Commission supports the Government's intent to build a strong and sustainable economy by providing citizens with the opportunity for meaningful input into the regulatory process and for credible, unbiased information to make informed choices on resource development through transparency and public engagement.

- 2.2b This measure reflects the effectiveness of the Commission's engagement efforts with stakeholder groups.

Discussion

Engaging with stakeholders, particularly those directly affected by regulated activities, is a key aspect of the Commission's work and the Commission has strived to improve the effectiveness of its efforts. Due to its efforts, the results have improved significantly from previous years and the targets for subsequent years have been updated. The Commission interacts with stakeholder groups throughout B.C. and has a Quality of Life initiative underway to assess and manage the impacts of activity and development on those living in Northeastern B.C.

Goal 3: Safeguard the Environment

Objective 3.1 Environmental values and attributes are sustained.

Key Strategies:

- **Align with the Province**

The Commission will ensure oil and gas activities are conducted in a manner consistent with environmental legislation and policy. Commission decisions and actions will reflect provincial and internal environmental policies (includes air, land (surface and subsurface), water (surface and subsurface), and wildlife). The Commission will work with the Province to develop and implement policies as well as define and incorporate environmental values.

- **Conduct Area-Based Analysis (ABA)**

As part of the oil and gas activity permit application process, ABA evaluates oil and gas development opportunities by analyzing existing land use, regulatory requirements, government policy and direction. The analysis then builds a landscape-level picture of all industrial development and assesses the potential risk that a proposed oil and gas activity will have on a particular region and identifies the management tools available to the Commission and industry to mitigate potential environmental impacts.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
3.1a Per cent of well & facility permits issued in environmentally sensitive areas ¹	0.6%	0.9%	<2%	<2%	<2%
3.1b Per cent of available freshwater withdrawn for oil and gas activities ²	1.5%	TBC	<5%	<5%	<5%

¹ Data Source: Internal land use and monitoring data through ABA is used as part of the permitting process. The ABA system geographic information systems data is continuously updated by the Commission, Ministry databases and partner agencies and updates based on areas that are or become environmentally sensitive.

² Data Source: Data is determined by the Commission through water withdraws reported by permit holders relative to the total volume of fresh water available in Northeastern B.C.

Linking Performance Measures to Objectives:

3.1a This measure reflects the Commission’s commitment to safeguarding the environment, particularly sensitive areas, through its regulatory scope. This measure replaces the previous Service Plan measure “Per cent of designated riparian, old growth and wildlife species areas meeting intactness targets for their ecosystem values”. This new measure reflects the aspect of environmental impact that is within the Commission’s control whereas the previous measure would be impacted by a number of factors and industries.

Discussion

As of December 1, 2018 there were 705 areas the Commission mapped as needing distinctive regulatory oversight through the ABA program. Of these, wildlife habitat areas, old growth management areas and riparian areas are more sensitive to development, and over time the success of the ABA program will be demonstrated in a decrease in the number of permits within these areas.

3.1b In an effort to mitigate the impact of industry activity on fresh water sources, the Commission encourages industry to use alternative water sources such as recycled and saline water.

Discussion

The measure was changed from the 2018/19 Service Plan to provide a more accurate measure on the magnitude of water withdrawal volumes for energy activities relative to the total volume of freshwater available.

Goal 4: Support Responsible Resource Development

Objective 4.1 Potential liabilities associated with resource development are mitigated.

Key Strategies:

- **Support the Scientific Review on Hydraulic Fracturing**

Maintain thorough knowledge of activities and practices and lend expert advice, detailed data and analysis in support of the scientific panel review of hydraulic fracturing. The review was done to ensure gas is produced safely, the environment is protected, and to provide the Province with findings and advice on the role hydraulic fracturing has in induced seismicity in Northeast B.C., as well as what impacts hydraulic fracturing has on water quantity and quality.

- **Comprehensive Liability Management Plan & Orphan Fund**

The Commission will ensure industry bears the costs of oil and gas activities through levies and therefore risks to public liability are avoided or mitigated, with a long-term approach that considers economic change. The Commission is completing a series of projects and initiatives to manage associated risks, including the modernization of the Liability Management Rating (LMR) program, new funding for the Orphan Site Reclamation Fund (OSRF), implementing legislative amendments, Redwater appeal and litigation strategy, and the development of restoration deadlines for inactive/dormant sites.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
4.1a Number of orphan sites restored ¹	6	3	15	20	25

¹ Data Source: Internally monitored and tracked liability and asset management data. Note that currently restoration work is underway at hundreds of sites and the number here only reflects the number of sites with restoration work being completed within the year.

Linking Performance Measures to Objectives:

4.1a This measure reflects the management and completion of the restoration of orphan assets, which, when recognized, become an accounting liability for the Commission. Under Part 4 of OGAA, the Commission may designate a well, facility, pipeline and/or area affected by oil and gas activity as an orphan site if the operator is insolvent or cannot be located. Once designated, the Commission recognizes the liability associated with the orphan site and a work plan is implemented so the site can be restored.

Discussion:

The Commission has a proactive policy to manage the risks to public safety and environment associated with orphan sites, with a goal to complete restoration within 10 years of designation/identification. Sites must be decommissioned and remediated before they can be restored. Certification of site restoration takes one to two years following the revegetation

phase of the restoration work. The 2019/20 target reflects the number of orphan sites certified as restored following restoration work completed in the 2018/19 year. The 2018/19 forecast is lower than the 2017/18 actuals because the results reflect the number of sites that will have the site restoration certified, rather than the number of sites with work underway.

Financial Plan

Summary Financial Outlook

(\$000)	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Operations				
Industry Levies	42,050	43,000	45,000	47,000
Application Fees and Misc.	14,824	13,000	13,000	13,000
Total revenue from operations	56,874	56,000	58,000	60,000
Salaries and benefits	28,539	31,000	32,000	33,000
Other Operating	19,699	19,300	20,300	21,300
Amortization	4,539	5,700	5,700	5,700
Total expenses from operations	52,777	56,000	58,000	60,000
Net surplus from operations	4,097	-	-	-
Orphan Site Restoration Fund (OSRF)				
Liability Levy	-	7,500	11,250	15,000
Production Levy*	5,882	7,500	3,750	-
Security Deposits, Interest	2,231	200	200	200
Total revenue from OSRF	8,113	15,200	15,200	15,200
Orphan designations and Admin	11,276	7,200	7,200	7,200
Reclamation	9,142	8,000	8,000	8,000
Total expenses from OSRF	20,418	15,200	15,200	15,200
Net deficit from OSRF	(12,305)	-	-	-
Additional Financial Indicators				
Annual deficit	(8,208)	-	-	-
Total Liabilities	90,235	90,235	90,235	90,235
Accumulated Surplus	14,090	14,090	14,090	14,090
Capital Expenditures	7,953	5,200	5,200	5,200

* includes Orphan Reclamation Tax of \$1.7 million for 2018/19. This tax is discontinued beginning in 2019/20 and replaced by the Liability Levy.

Key Forecast Assumptions, Risks and Sensitivities

Commission revenues are largely derived from oil and gas production levies. Production volume forecasts, which are provided by the Ministry of Energy, Mines and Petroleum Resources, project volumes in 2019/20 to be consistent with 2018/19. The Commission may adjust the industry levy on production to meet regulation needs.

The Commission is forecasting well application fees to decline slightly for the coming three years. No significant changes in the Commission's regular operating expenses is anticipated. Salaries and benefits will increase as positions approved in the previous budget cycle become filled.

OSRF expenses continue to impact the Commission's ability to balance its budget. The forecast deficit from the OSRF in 2018/19 is due to the bankruptcy of three companies that triggered an orphan liability of approximately \$11 million.

A major energy company entered into receivership proceedings in July 2018. The timing and outcome of any potential sales are unknown at this time, however potential orphan designations range between 300 to 500 wells at an estimated liability to the Commission of \$40M - \$90M. Given the uncertainty about the timing of these orphan designations, there is no provision built into the financial plan.

Costs to reclaim orphan sites will be incurred over a number of years using a risk based approach that focuses first on public safety and environmental protection.

The Commission's three year financial outlook is consistent with the financial information in the government's fiscal plan and is based on the key assumptions therein. The Commission has no major capital plans in excess of \$50 million as defined by the *Budget Transparency and Accountability Act*. Cash flow required to fund capital will be provided by operations. The Commission has zero debt and does not expect to incur any during 2018/19.

Management's Perspective on the Financial Outlook

The Commission's financial outlook with comparative revenues, expenses and capital spending over the Service Plan years 2019/20 to 2021/22 is outlined in the financial summary table. Key assumptions influencing the financial position of the Commission are in line with risks, uncertainties and operational influences discussed within the Strategic Direction and Operating Environment sections. More information can be found in Appendix A: Strategic Drivers.

The Commission's revenue is made up of levies and fees collected on oil and gas activity applications. Fee revenues fluctuate with industry activity levels, which in turn are influenced by a combination of factors, such as demand trends, weather conditions, natural gas and oil prices and regulatory requirements. To reduce dependency on the more volatile fee revenues, the Commission's funding model has traditionally been heavily weighted towards production levies. OSRF revenues are administered by the Commission and considered part of the entity for financial statement purposes. The OSRF funds are restricted in use for the remediation and reclamation of orphan sites.

Appendix A: Strategic Drivers

Through a formal risk analysis process, the Commission's strategic planning cycle is intrinsically linked so all risks and opportunities facing the organization are reviewed and mitigation strategies are integrated into the strategic and operational business plans. The most significant government directives, risks and opportunities, called "Drivers", are those that influence the Commission's operating environment and its ability to achieve the strategic and operational objectives of the organization. These Drivers include:

North American and Global Natural Gas Markets

The decline of demand within traditional U.S. markets for Canadian gas is happening at the same time proven reserves of natural gas are growing year over year. Not only is there an increase in knowledge of the Original Gas in Place (OGIP), but also improved extraction technologies. EMPR estimates there are more than 2,900 Tcf of OGIP in B.C. By way of comparison, Canada produces approximately 5-6 Tcf per year under current market conditions. Internationally, growing economies such as China, Korea, Japan and India have seen demand for natural gas increase and are strategically looking to Canada and specifically B.C. for a secure supply of natural gas delivered as LNG.

Provincial Strategy for Climate Action

The Commission supports the development and execution of the government's climate strategies to reduce Greenhouse Gas Emissions through its routine operations and continues to expand and further coordinate its permitting with other responsible agencies. This coordination includes opportunities for optimizing the single-window regulatory model for the efficient and effective review of applications and oversight of permitted LNG facilities and associated major projects.

Agricultural Land Reserve

The Commission has a delegation agreement with the Agricultural Land Commission that gives the Commission the authority to permit oil and gas activities in the Agricultural Land Reserve (ALR). Expert staff, including professional agrologists, review the applications before any determinations are made. The agreement ensures an efficient process and oil and gas activities are considered temporary, non-farm uses in the ALR. Land must be reclaimed to its pre-development agricultural condition when no longer required for an oil or gas activity.

Major Projects

Major projects require significant and complex consultation with multiple Indigenous groups, rights holders and stakeholders. These major projects are often reviewed concurrently with the Environmental Assessment Office (EAO) and are always required to satisfy environmental and public safety standards. The Commission designates a proposed activity as a major project if it meets some or all of the following criteria:

- Requires jurisdictional coordination among multiple government agencies.
- Involves an environmental assessment.
- Is of considerable size and duration.
- Necessitates cross-divisional participation by a variety of experts within the Commission.

The Commission will continue work on the following major projects:

- LNG Canada
- Woodfibre
- Kwispa LNG project (Steelhead)
- Vancouver Airport pipeline
- Kinder Morgan expansion
- Costal Gas Link pipeline
- WESPAC
- Tilbury

Organizational Capacity

Organizational capacity remains a key strategic driver for the Commission. To maintain long-term strategic focus, the Commission works steadily to secure a professional and adaptable workforce, and modern business systems and infrastructure.

The rising complexity of development applications, the fast pace of technological innovations and the number of major projects across B.C. including LNG proposals have highlighted an increased need for technical experts. While the Commission has the capacity to meet its mandate, attracting and retaining the required expertise remains a challenge as the Commission competes with industry (private sector). The Commission has highly trained experts that are sought out by industry, which is often able to offer compensation packages that are significantly more competitive.

Regulatory Trends

Major provincial initiatives with potential to influence new regulations and decisions anticipated during this fiscal year include:

- Agricultural Land Reserve Revitalization
- Environmental Assessment Office Revitalization
- Professional Reliance Review
- Canada-British Columbia conservation agreement for southern mountain caribou
- Forest and Range Practices Act amendments
- Land use planning
- Federal Species at Risk Act amendments
- Federal / Provincial Spill Response
- UNDRIP

The Commission actively participates in, and provides regulatory and technical expertise to, provincial initiatives affecting natural resource development. Through participation on provincial initiatives, the Commission identifies opportunities to strengthen its single-window approach in a manner consistent with the OGAA. The Commission also participates with the Canadian Standards Association (CSA) and the Western Regulators' Forum to improve standards, policies and procedures.

Indigenous groups

The Commission's goal is to work collaboratively with Indigenous groups where there may be impacts to Aboriginal interests. The Commission is working closely with Government in the implementation of UNDRIP, the TRC Calls to Action and relevant case law. The Commission is also

working with Government to operationalize the Provincial Government's commitment to the Draft 10 Principles, and will continue to build and strengthen respectful relationships with Indigenous peoples by enhancing communications, meeting regularly with communities and ensuring flexibility in the Commission's approach to consultation.

The Commission consults with over 100 Indigenous groups across British Columbia on proposed activities in accordance with consultation procedures, agreements, and established case law. Within Treaty 8, where upstream oil and gas development has traditionally occurred, the processes by which these consultations are conducted, have been historically defined by consultation procedures and agreements between each Indigenous group and the Commission (and sometimes include EMPR). The Commission is working closely with Indigenous groups in developing renewed approaches to consultation which better fit the needs of affected Indigenous groups.

Partnering between oil and gas development and Indigenous groups continues to increase as the midstream and downstream oil and gas sectors develop in B.C. The Commission will continue to seek productive working relationships with Indigenous groups not only where oil and gas activities are contemplated, but also in advance of applications through initiatives such as and the North East Water Tool (NEWT).

Stewardship

Natural gas development in B.C. occurs primarily in the Montney formation centered around Dawson Creek and Fort St. John. The Horn River, Liard and Cordova basins have significant amounts of proven unconventional gas resources but no new development in the current economic environment.

The OGAA and associated regulations provide the Commission with the ability to manage the effects of oil and gas activities on the environment and other resource values. Commission employees work closely with ministries representing natural resources to proactively ensure the Commission's regulatory framework, programs and decisions incorporate and consider all pertinent environmental, safety and other factors consistent with provincial direction.

There is a high level of public and stakeholder interest in the potential environmental and social effects from oil and gas development, especially in relation to cumulative effects management, environmental mitigation, and hydraulic fracturing. Water use in shale gas extraction continues to be of particular interest to Indigenous groups, stakeholders and the broader public.

The Commission takes a proactive approach to these issues and concerns, and is responsive to new information as it emerges. Over the past few years, the Commission has introduced full transparency in water use reporting, pipeline incident reporting, hydraulic fracture data and other key elements of interest to all stakeholders. In addition, the Commission has amended all disposal well approvals and published two globally recognized, landmark studies on induced seismicity. These studies are changing how induced seismicity as an issue is managed across North America.