

Oil and Gas Commission

2018/19 – 2020/21 SERVICE PLAN

February 2018



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Board Chair Accountability Statement



The 2018/19 - 2020/21 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 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 January 1, 2018 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, Oil and Gas Commission's 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 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 BC 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 mission, vision and values as well as the [Mandate Letter](#) issued by the B.C. Provincial 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 [here](#).

As a responsible and accountable regulator, the Commission is fulfilling its oversight role with respect to petroleum, natural gas 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 the Commission represents in the regulatory process.

The Commission is aligned with Government’s key priorities:

Government Priorities	Oil and Gas Commission Alignment:
Delivering the services people count on	<ul style="list-style-type: none"> • Goal 1: Protect public safety <ul style="list-style-type: none"> • All oil and gas activities are conducted in accordance with all applicable legislation. (Objective 1.1) <ul style="list-style-type: none"> ○ Compliance and Enforcement ○ Verify Integrity Management Programs • Goal 2: Respect those affected by oil and gas activities <ul style="list-style-type: none"> • Interests of Indigenous groups are understood and considered in Commission decisions. (Objective 2.1) <ul style="list-style-type: none"> ○ Relationships with Indigenous groups ○ Response to UNDRIP • Stakeholder and community concerns are considered in delivery of the Commission’s mandate. (Objective 2.2) <ul style="list-style-type: none"> ○ Actively engage Indigenous groups, Communities and Stakeholders • Goal 4: Support responsible 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
A strong, sustainable economy	<ul style="list-style-type: none"> • Goal 3: Conserve the Environment <ul style="list-style-type: none"> • Environmental values and attributes (eg. air or water quality, biodiversity) are sustained. (Objective 3.1) <ul style="list-style-type: none"> ○ Alignment with the Province ○ Area Based Analysis (ABA)

	<ul style="list-style-type: none"> • Goal 5: Organizational excellence • The Commission continuously improves. (Objective 5.1) <ul style="list-style-type: none"> ○ Systems and Process Improvements
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Operating Environment

The Commission’s operating environment is affected substantively 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 gas¹. Total Canadian marketable gas production has remained relatively stable the last few years with small increases in annual production.

Within B.C., activity and production is 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. As of November 2017, approximately 80 per cent of gas produced in B.C. was originating from the Montney and unconventional gas overall accounted for approximately 90 per cent of B.C.’s production. Canada’s Energy Future [report](#) published by the National Energy Board in October 2017 predicts continued production growth within the Montney for the next 20 years accounting for approximately 40 per cent of Canada’s gas supply by 2040.

While natural gas production has continued to increase in B.C., the number of wells needed to deliver the recorded volumes has decreased substantially as technology and knowledge of completions in unconventional wells has advanced. Increased productivity from fewer wells means the necessary development footprint per unit of production continues to decline in B.C., resulting in less incremental disturbance to the land base.

Insolvencies and orphaned assets continue to be a primary focus of the Commission in light of the Redwater decision² in Alberta. The Commission is working closely with the Ministry of Energy, Mines and Petroleum Resources (EMPR) and its partners within the Western Regulators’ Forum (Alberta, Saskatchewan, Northwest Territories and the National Energy Board) to make improvements to policy and the regulatory framework to reduce potential liabilities and provide more certainty for the management of orphaned assets.

The Commission is preparing for the implementation of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), consistent with the Province’s commitment. This includes coordination with other provincial agencies and various training initiatives. The Commission will adapt its actions to ensure alignment with further provincial direction.

Additional details regarding strategic drivers are included in Appendix A.

¹ In 2016, Canada produced approximately 5.6 Trillion cubic feet (Tcf) of marketable gas. Almost 30 per cent of this gas came from B.C.

² An Alberta court decision regarding Redwater Energy Corporation made in May 2016 has had, and will continue to have, a significant impact on the liability exposure to provincial oil and gas regulators, and on the sustainability of the Orphan Site Reclamation Fund (OSRF). The Redwater Decision stands for the principle that the trustee of an insolvent operator may complete sales of productive assets and leave the unproductive assets in the hands of the regulators like the Commission, without any requirement to address regulatory obligations to restore those sites. At the time of this report, Alberta, B.C. and Saskatchewan are in the process of appealing the decision.

Performance Plan

Annually, management considers changes to the operating environment resulting from government and Board direction, industry input, Indigenous groups' interests expressed through ongoing engagement and formal consultation as required, and any economic drivers that influence the operations of the Commission. The goals are similar to those in the 2017/18 – 2019/20 Service Plan with some updates to performance measures to better reflect the organization's performance.

Goal 1: Protect Public Safety

Objective 1.1: All oil and gas activities are conducted in accordance with all applicable legislation.

Key Strategies:

- **Verify Integrity Management Programs**

Pipeline and facility permit holders are expected to anticipate, prevent, mitigate and manage the risks associated with construction, operations and decommissioning of pipelines and facilities. A tool for managing this is the permit holders' Integrity Management Program (IMP). This documented program provides a systematic approach for assuring asset integrity throughout the full life cycle of the asset. An IMP specifies the practices that should be used by a permit holder, owner and/or operator to ensure public safety, environmental protection and operational reliability. The Commission inspects and reviews permit holders for their IMPs. More information can be found [here](#).

- **Continually enhance the Compliance Management System**

The Commission has prioritized a transformation 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 while ensuring Commission resources are used to maximum effect.

- **Compliance and Enforcement**

The Commission ensures industry compliance to the highest standard through regular inspections and resulting investigations. 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. This manual can be found [here](#).

Performance Measure(s)	2016/17 Actuals	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.1a Number of inspections completed annually ¹	4,869	4,400	4,400	4,400	4,450
1.1b Overall inspection compliance rate ²	97.63%	96.6%	100%	100%	100%

¹ Data Source: Internally monitored and tracked inspection data.

² Data Source: Internally monitored and tracked compliance rate data. This reflects companies who are either compliant, are in their required timeframe to still address any compliance issues or have addressed deficiencies within the required timeframe.

Linking Performance Measures to Objectives:

1.1a This measure reflects the Commission’s efforts to inspect industry and ensure that 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 expectation is to align inspections with industry activity levels.

Discussion

The 2016/17 results were higher due to a large number of sites orphaned from an insolvent company which required additional inspections. The forecasts have decreased slightly since the September 2017 Service Plan to reflect more accurate planning for the years ahead.

1.1b The Commission ensures compliance with all regulatory requirements. This measure reflects the compliance rate results of the first follow up inspection.

Discussion

The targets have increased since the September 2017 Service Plan to reflect improvements in the compliance and enforcement process that will stem from improvements to the Compliance Management System that will be in place for 2018/19.

Objective 1.2: Impacts of safety events are mitigated.

Key Strategies:

- **Response Framework**

The Commission’s Response framework addresses both complaints (public calls of concerns such as odour, noise and road maintenance) and incidents from minor to emergency level. All emergencies 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 are appropriately notified and protected. Both 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.

- **Emergency Management**

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 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)	2015/16 Baseline	2016/17 Actuals	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.2a Per cent of active companies with complete Emergency Response Plans ¹	100%	100%	100%	100%	100%	100%

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

Linking Performance Measures to Objectives:

1.2a This measure reflects the completeness of the industry permit holders’ emergency response plans (ERP). 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.

Goal 2: Respect those affected by Oil and Gas Activities

Objective 2.1: Interests of Indigenous groups are understood and considered in Commission decisions.

Key Strategies:

- **Relationships with Indigenous groups**

Develop and maintain relationships with Indigenous groups through various engagement strategies including leader to leader (L2L) meetings, agreements and partnerships (liaison program), capacity funding, cultural awareness (training, attending community events) information sharing and the Indigenous groups’ engagement strategy.

- **Response to UNDRIP**

The Commission interacts with more than 100 Indigenous communities and is preparing for, and is supportive of, Government’s intent to adopt and implement the United Nations Declaration on the Rights of Indigenous Peoples. 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)	2016/17 Baseline	2016/17 Actuals	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.1a Per cent of applications where the duty to consult is met ¹	100%	100%	100%	100%	100%	100%

¹ Data Source: Internally monitored and tracked consultation data.

Linking Performance Measures to Objectives:

2.1a This measure reflects the Commission’s ability to fulfill its mandate to ensure industry consults with Indigenous groups who may be affected by oil and gas activities.

Discussion

OGAA and the *Consultation and Notification Regulation* (CNR) require oil and gas applicants to conduct formal consultation and/or notification with affected stakeholders, landowners and Aboriginal First Nations prior to submitting an application for an activity. Once applications are submitted to the Commission, it evaluates the consultation and notification activities undertaken by the applicant to make sure the activities have fulfilled their regulatory obligations. Note, in 2017 the Commission issued permits to Rockyview Resources for a 32 km gas pipeline and through the judicial review process, the Commission’s decision was overturned. The Commission takes this decision seriously and has identified opportunities to improve the consultation process and practices. The forecasted figure for 2017/18 remains 100 per cent because the overturned decision is one of thousands of application consultations made annually.

Objective 2.2: Stakeholder and community concerns are considered in delivery of the Commission’s mandate.

Key Strategies:

- **Actively engage Indigenous groups, Communities and Stakeholders**

Identify opportunities to enhance relationships with Indigenous groups, local governments, chambers of commerce, landowners and other rights holders, Provincial and Federal levels of government as well as other crown agencies, academic institutions, industry, the public and the media. Address concerns related to air, water and environmental quality as well as induced seismicity.

- **Regulatory requirements and permit conditions related to induced seismicity**

Permit holders are required to report seismic events recorded within three kilometers of the drilling pad if it is felt on the surface or has a magnitude of 4.0 or more. If hydraulic fracturing, injections or disposal operations cause an event with a magnitude of at least 4.0, activities on the associated pad are immediately suspended. Operations can not resume until the permit holder submits a plan –and the Commission approves - explaining how the company will mitigate future seismic events.

- **Open and direct communication**

Have an open dialogue with area operators focused on mitigation strategies aimed at reducing instances of induced seismicity. Also support direct communication between permit holders and stakeholders to understand the circumstances and effects of induced seismicity.

Performance Measure(s)	2016/17 Baseline	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.2a Per cent of operations which caused seismic events with a magnitude of 4.0 or higher, which were immediately suspended ¹	100%	100%	100%	100%	100%	100%
2.2b Satisfaction level on how well the Commission is engaging stakeholders and Indigenous groups ²	74.3%	74.3%	75%	75%	75%	75%

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 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 ability and commitment to suspend operations that have an impact on the public when sizable seismic events occur as a result of those operations.
- 2.2b This measure reflects the effectiveness of the Commission’s engagement efforts for both stakeholders and Indigenous groups.

Goal 3: Conserve the Environment

Objective 3.1: Environmental values and attributes (eg. air or water quality, biodiversity) are sustained.

Key Strategies:

- **Alignment with the Province**

Ensure oil and gas activities are conducted in a manner consistent with environmental legislation and policy. Ensure Commission decisions and actions reflect provincial and internal environmental policies. Work with the Province on the development and implementation of policies as required by the Province (includes air, land (surface and subsurface), water, and wildlife).

- **Area Based Analysis (ABA)**

This program 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 the impact oil and gas and other activities have on a particular region and the management tools available to the Commission.

Performance Measure(s)	2015/16 Baseline	2016/17 Actuals	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
3.1a Per cent of designated riparian, old growth and wildlife species areas meeting intactness targets for their ecosystem values ¹	87%	87%	87%	87%	90%	91%
3.1b Surface water withdrawn as a per cent of total water used in hydraulic fracturing ²	42%	35%	39%	35%	35%	35%

¹ Data Source: Internal land use and monitoring data through Area-based Analysis (ABA). The ABA system geographic information systems data is continuously updated by the Commission, Ministry databases and partner agencies. Riparian ecosystems include the space around water sources, old growth ecosystems include trees that are more than 100 years old, and wildlife ecosystems include areas identified by government as requiring customized operations.

² Data Source: Data is reported by the industry to the Commission. The numerator includes total surface fresh water withdrawn under licenses and permits in northeast B.C. (NEBC), for oil and gas related activities. The majority of water withdrawn is utilized for hydraulic fracture stimulation; however, use may also include limited volumes for hydro pressure testing, waterflood oil recovery, etc. The denominator includes the total water utilized for hydraulic fracture stimulation in NEBC. Hydraulic fracture water sources include: surface fresh water, deep saline sourced water, shallow fresh water wells, municipal grey water, and recycled hydraulic fracture fluid held at surface and 3rd party water purchase.

Linking Performance Measures to Objectives:

3.1a This measure reflects the intactness of riparian, old growth and wildlife ecosystems in the Province. While these ecosystems can be affected by factors unrelated to the oil and gas industry, the Commission considers this information when making decisions on applications to mitigate the impact the industry has on these key ecosystems.

Discussion

As of December 1, 2017 there were 514 areas the Commission tracks for ecological intactness through the ABA program and 449 were meeting their intactness targets. For those areas which are not meeting the intactness targets, the Commission will limit oil and gas activity levels and work with provincial ministries on limiting other natural resource sector impacts on these areas. Intactness targets for these areas have been coordinated with Government. Note, these results are impacted by many industries, one of which is oil and gas.

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 targets have changed since the 2017 September Service Plan to reflect updated forecasts on water usage from companies and updated projections on hydraulic fracturing, resulting in an increase. A declining ratio indicates industry is using more non-freshwater sources rather than fresh water sources.

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 to review hydraulic fracturing. The review is being done to ensure gas is produced safely, the environment is protected and there is increased awareness of the impacts and benefits of resource development.

- **Liability Management**

Ensure industry bears the costs of oil and gas activities and risks to public liability are avoided or mitigated, with a long-term approach that is tolerant of economic change. Undertake a series of projects and initiatives to manage associated risks, including Liability Management Rating (LMR) review, Orphan Site Reclamation Fund (OSRF) review, legislative amendments, Redwater appeal and litigation strategy, lifecycle asset management plan and Revenue Renewal initiative.

Performance Measure(s)	2015/16 Baseline	2016/17 Actuals	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
4.1a Number of orphan sites restored ¹	1	2	6	3	15	20

¹ Data Source: Internally monitored and tracked liability and asset management data.

Linking Performance Measures to Objectives:

4.1a This measure reflects the management and completion of restoration of orphaned assets, which, when initially recognized, become an accounting liability for the Commission. Under Part 4 of the *Oil and Gas Activities Act* (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's liability management programs and initiatives will increase in the number of restored orphaned sites until all have been restored. 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 target is lower than the 2017/18 forecast because the targets reflect the number of sites that will have the site restoration certified rather than the number of sites with work underway.

Goal 5: Organizational Excellence

Objective 5.1: The Commission continuously improves.

Key Strategies:

- **Focus on Performance and Accountability**

The Commission will establish key performance indicators to ensure accountability of the workforce. It will use data and analysis to assess the workforce’s capacity and implement improvements for the organization’s ongoing success. There will be a cultural change towards using data to drive and support decisions about resource fluidity and moving people around to meet business demands.

- **Transparency Strategy**

The Commission will ensure availability and transparency of public information in alignment with other regulators. It will enhance transparency and public engagement to ensure timely, quality information is available to support changing public expectations, while increasing understanding of the regulatory safeguards in place to protect public interests.

- **Leadership Development**

The Commission will remain focused on developing organizational capacity through learning and development, workforce planning and employee engagement strategies. It will continue to build on its effective leadership model to support an engaged, skilled and productive workforce.

- **Systems and Process Improvements**

The Commission will continue to leverage business intelligence, process management and quality improvement to enhance corporate systems (Application Management System (AMS), eSubmission). The Commission’s internal audit, corporate reporting and planning functions will continuously improve the Commission’s performance. Legal tools and regulations related to oil and gas activities will also be continuously improved throughout the year.

Performance Measure(s)	2016/17 Actuals	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
5.1a Per cent of stakeholders who agree that when they access the Commission’s website, they can find the information they are looking for	53%	57%	65%	75%	85%

¹ Data Source: The surveys are conducted and rolled out by an external third party and the results are tracked and analyzed internally.

Linking Performance Measures to Objectives:

5.1a These results reflect the external perspective of the Commission’s efforts to continuously improve the transparency and accessibility of its information.

Discussion

It is expected, through the efforts and initiatives associated with the transparency strategy, particularly the changes to the Commission website in 2018/19, the results of this performance measure will improve over time.

Financial Plan

Summary Financial Outlook

(\$000)	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/21 Budget
Levies	39,870	43,800	43,900	43,400
Fees from Oil and Gas Applications	16,618	14,000	14,000	14,000
Miscellaneous & Recoveries	963	1,000	1,000	1,000
Total revenue from operations	57,451	58,800	58,900	58,400
Salaries and Benefits	26,500	27,400	27,900	28,500
Operating & Indigenous groups Expenses	19,730	18,600	18,900	19,200
Amortization	4,297	5,000	5,200	5,200
Total expenses from operations	50,527	51,000	52,000	52,900
Net surplus from operations	6,924	7,800	6,900	5,500
OSRF Revenues	3,967*	1,700	1,700	1,700
OSRF Expenses	19,956	9,500	8,600	7,200
Net surplus/(deficit) from OSRF	(15,989)	(7,800)	(6,900)	(5,500)
Annual deficit	(9,065)	-	-	-
Total Liabilities	75,000	70,000	65,000	60,000
Accumulated Surplus	16,088	16,088	16,808	16,808
Capital Expenditures	5,126	7,400	5,200	5,200

*Note that the \$3,967 in OSRF revenue for 2017/18 is comprised of \$1,518 OSRF tax, \$2,373 Security and \$76 in interest.

Key Forecast Assumptions, Risks and Sensitivities

Commission revenues are largely derived from oil and gas production levies. Production volume forecasts, which are provided by EMPR, project an increase of 10 per cent in 2018/19 over 2017/18. The Commission is forecasting a slight decline for well application fees, which are typically more volatile. On the expense side, the salaries and benefits budget is unchanged from 2017/18. Other operating expenses will be up slightly as they include payments for Indigenous groups agreements, professional services, travel, building occupancy, telecommunications and amortization.

OSRF expenses continue to impact the Commission's ability to balance its budget. The forecast deficit from the OSRF in 2017/18 is due to the bankruptcy of a medium sized regulated company that triggered a \$10 million liability. The Commission plans to use operating surplus to fund shortfalls in the OSRF until a more sustainable funding source for the OSRF can be put in place. 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 2018/19 to 2020/21 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 charged on production and pipelines 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 from a production tax levy legislated through OGAA and 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 orphaned 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 the 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. The 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 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 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 other 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 is currently working on the following major projects:

- Trans Mountain Expansion Project
- LNG Canada
- Coastal Gas Link
- Woodfibre LNG
- Vancouver Airport Fuel Delivery

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:

- Continued development of a provincial Cumulative Effects Assessment and Management Framework.
- Caribou management.
- Regulations under the *Water Sustainability Act*.
- Potential development of new natural resource road legislation.
- Potential legislative amendments to the OGAA and its regulations.

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 partner with Indigenous groups where there may be impacts to their treaty or Aboriginal rights. The Commission supports the Province's commitment to implement the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) 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.

To protect Aboriginal and treaty rights, the Commission consults with Indigenous groups on proposed oil and gas activities on treaty lands and within their traditional territories 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 Area-based Analysis and the North East Water Tool (NEWT).

Historically, the Commission has developed and maintained relationships with Treaty 8 Indigenous groups. These have expanded with emerging major projects, which involves consultation and proactive engagement with Indigenous groups outside northeast B.C.

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 with 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.