

**March 16, 2005**

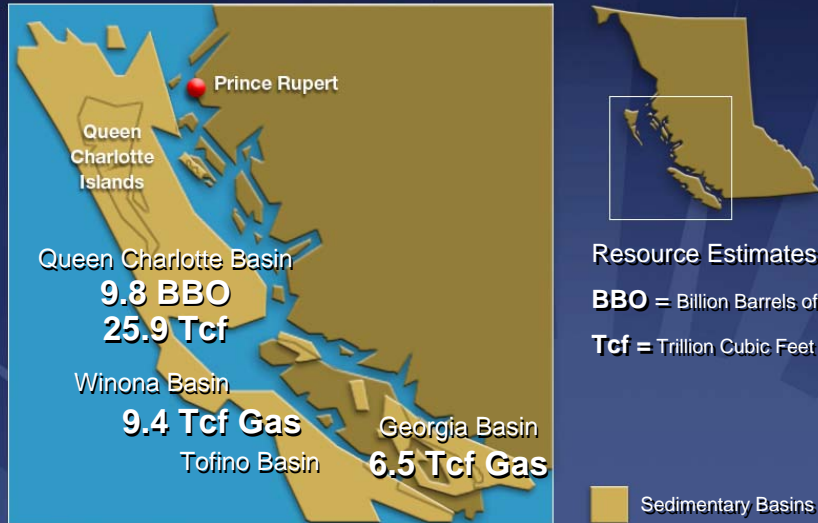


**Smart Regulation of  
BC's Offshore Oil  
and Gas**



Patrick O'Rourke  
Assistant Deputy Minister  
BC Offshore Oil and Gas Team

# BC's Offshore oil & gas potential



Today's presentation will describe a proposed regulatory model, one the Province hopes will soon be in place.

First, some context regarding BC's offshore oil and gas.

Offshore resources hold the potential for 42 trillion cubic feet of natural gas as well as 9.8 billion barrels of oil.

The Royal Society of Canada estimated there may be 6 oil fields that could produce 1.3 billion barrels worth C\$50 billion and 9 gas fields with approx 9.8 TCF recoverable gas worth about C\$60 billion. Total oil and gas \$C110 billion.

# History



- 1972 – Federal Moratorium
- 1984-86 – Joint EA
- 1986-89 – Negotiations on Pacific Accord
- 2001 – New Provincial Government
- 2003 – BC Offshore Team



Interest in development of BC's offshore oil and gas resources dates to the 1960s, when Shell Canada conducted seismic testing and drilled 14 test wells – 6 off Vancouver Island and 8 in Queen Charlotte Basin. These test wells did not make commercial discoveries.

In the early 70s Chevron Canada and Shell agreed to "farm in" arrangements. Chevron conducted additional seismic but before a drilling program was developed, Canada announced a moratorium, initially of taker traffic, but later expanded to all oil and gas activity.

Interest renewed in the early 1980s and Canada and BC conducted a joint EA of a Chevron exploration program (seismic and test wells). The EA approved the program subject to some 90 recommendations to governments.

At about the same time, Canada and BC were negotiating a "Pacific Accord", modelled on the Nova Scotia and Newfoundland Accords.

In 1989, the negotiations came to an end when BC, in response to Exxon Valdez and a barge spill, imposed a 5-year moratorium which was later indefinitely extended.

In 2001, the new provincial government decided to re-examine offshore issues, and commissioned an independent scientific review.

In 2003, BC established the dedicated Offshore Oil and Gas Team.

Also in 2003, Canada initiated a three stage review process; the process concluded in late 2004.

# Provincial Perspective



- Work with First Nations and Coastal Communities
- Coordinated Science
- Develop Management and Regulatory Regime



In the April, 2004 “Perspectives Paper”, BC laid out its rationale for pursuing offshore development, and described how the Province plans to proceed.

BC is taking a principled approach with regards to:

- First Nations and Coastal Communities
- Science
- Management and Regulatory Regime

These principles are set out in the Team’s project plan, posted on our website.

The focus of today’s presentation is the regulatory regime.

The Province believes a regulatory and management regime must be comprehensive, dealing with all aspects of offshore exploration and development, including the establishment of fiscal arrangements (e.g., royalties and taxes); initial decisions to open areas for exploration; granting of exploration rights and tenures; environmental assessments of all proposed offshore activities; approval of development plans; establishment and monitoring of operational health, environment and safety requirements; and decommissioning and reclamation.

In effect, BC believes offshore must have “smart regulation”.

## Regulatory Complexity



60 + 38!



60 + 38 is one study's conclusion as to the number of federal and provincial statutes that may have bearing on offshore activity. This volume of legislation demonstrates how highly regulated and at times cumbersome offshore processes can be.

A regulatory roadmap explaining the regulations and steps required on the east coast has been produced.

The 15 page table of contents indicates the complexity of the eastern system.

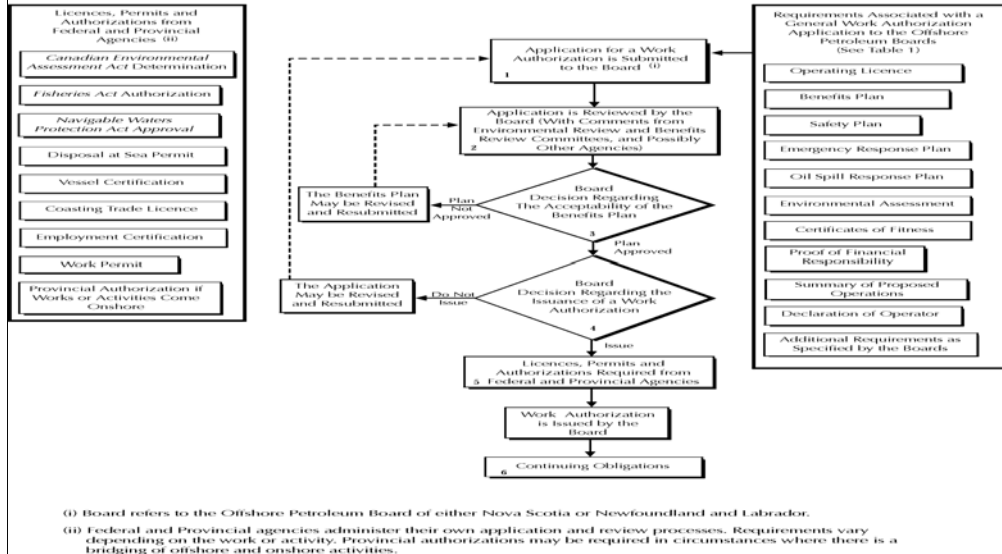
A key initial step was a review of existing offshore regulatory regimes with Canada and around the world (Norway, UK, USA, Australia).

We also looked at provincial regulatory approaches, particularly BC onshore oil and gas.

# Uncertain and Time Consuming



**CHART 1 - General Offshore Petroleum Board Authorization Process for the Atlantic Offshore Areas**



The chart on this slide provides an overview of the general requirements for approvals of offshore oil and gas works or activities in Atlantic Canada.

Don't need to review this diagram in detail; it is intended simply to illustrate the complexity of the East Coast model.

In addition, several federal agencies, including DFO, Coast Guard, and Transport Canada, also may have regulatory requirements and separate approval from these agencies is required.

Although the Atlantic Energy Roundtable has made progress in addressing some of the reasons for this complexity, BC believes a new approach – a new model – should be considered.

## Result



The more complex a process – the more agencies to give approval or advice, the more discrete process to follow, the more specific approvals needed – the more time consuming, the more uncertain, and more prescriptive the outcome.

Again, BC believes a fresh look is warranted – perhaps even required.

In the 1990's BC onshore oil and gas regulation was complex and time consuming. To address this, the Province adopted a one window approach through the creation of the BC Oil and Gas Commission.

Some of you have already heard from Commissioner Doyle how the Oil and Gas Commission is developing and applying "smart regulations" in the onshore oil and gas regulatory regime.

# A Better Approach



Responsibility (Onshore Agencies)	OGC	AEUB (Alberta)	SIR (Sask.)	WOGC (Wyoming)	COGCC (Colorado)
Lease mineral rights			X	X	X
Adjudicate Well Site (or well drilling) applications	X	X	X	X	X
Adjudicate Pipeline applications	X	X	X		
Adjudicate Facility applications	X	X			
Adjudicate Geophysical applications	X			X	X
Perform onsite technical inspections	X	X	X		
Consult with First Nations	X				
Mitigate environmental issues	X	X	X		
Issue authority to occupy public land	X				
Issue authority to cut timber on area of occupation	X				
Issue authority to build and use roads	X				
Consult with stakeholders	X	X			
Review archaeology assessment	X				8
Mitigate Heritage Issues	X				

The BC Oil and Gas Commission occupies a unique role with its single-window service to industry.

Our research suggests that throughout North America, no regulatory agency provides as comprehensive a range of services.

While no one suggests the existing OGC would be the offshore regulator, the underlying 'one window' model provides an alternative to existing offshore regulatory approaches in Canada.



# BC's Offshore Model



- Build upon OGC Concept
- True "One Window"
- Both Federal and Provincial Regulatory Authority
- Clear Objectives
- Principle Based
- Consistent with "Smart Regulation"

9

BC believes that the BC offshore provides a unique opportunity to build a new regulatory model, one that applies the lessons learned from the OGC, the Province's deregulation initiative, and the "smart regulations" process.

Our model contemplates a true "one window" regulatory agency, which would have the authority to grant all approvals and issue all licences for all offshore oil and gas activity.

The agency would have both federal and provincial authority.

We see the regulatory regime as operating under clear objectives that would set out what the agency, and the overall regime are expected to achieve.

We believe the regulatory regime must be grounded upon strong principles that would set out the foundation for the regulatory regime and guide the agency's work.

This model is also consistent with the concept of "smart regulation" and provides a unique opportunity to apply that concept in a "green field" area.

This model also reflects BC's unique geopolitical position in Canada:

- All of Canada's Pacific Coast is in BC.
- BC is the only Province that owns offshore areas.

## Underlying Assumptions



- BC/Canada political agreement
- Ownership/jurisdiction set aside
- Emphasis on performance based, "smart" regulation



The more detailed description of the BC model that follows is based on several assumptions about future events.

Most importantly, the model requires that BC and Canada reach a "political agreement" or understanding regarding the development of BC offshore oil and gas resources.

Like those in eastern Canada, this political accord could cover a wide range of topics, including royalties, tax incentives, development funds.

For the purpose of developing a new regulatory regime, two topics are critical.

First, the two governments must agree to "set aside" all issues regarding ownership and jurisdiction. This is needed so that both governments focus on the regulatory regime without concern of prejudice to ownership or jurisdictional positions.

Second, there must be agreement to emphasize performance, smart regulation – without a clear, unequivocal and substantive commitment to this approach, the likelihood of success is limited.

Formal lifting of the federal moratorium is not a prerequisite to this political accord. Development of a regulatory regime is a type of "contingency planning" so that governments are ready when the moratorium is lifted.

# Objectives



- World class, internationally competitive regulatory agency
- Achieve benefits for Canada and BC



## Objectives

To have a world class, internationally competitive regulatory agency to ensure exploration for and development of offshore oil and gas resources in a scientifically sound and environmentally responsible manner.

International competitiveness is critical because the oil and gas industry is a global one, and our “competitors” are not only elsewhere in Canada (eg. Oilsands), but around the world (eg. West Africa, Sakhalin Islands).

To achieve benefits from offshore development for Canada as a whole, and British Columbia in particular.

# Principles



- Integrated independent single window
- Coast wide
- Jurisdiction and Ownership set aside
- Transparent, predictable and effective
- Results based, non-prescriptive
- Encourages best practices

12

## Principles of a Regulatory Regime

The regulatory regime would reflect the following principles:

The regulatory regime must have an integrated, "single-window", coast-wide approach, with jurisdictional and ownership issues set aside.

"Go" and "No-go" areas for resource development must be clearly defined, including seasonal provisions and any special rules or requirements.

Regulatory rules and requirements must be transparent, predictable and effective.

The regulatory regime must be results-based, non-prescriptive, and include incentives for the development of best practices that encourage responsible development of the BC offshore, and reward advances in technology and science.

The regulatory regime must be internationally competitive.

Local communities must enjoy benefits commensurate to the risk assumed.

There must be full and prompt compensation for losses by the responsible party.

The regulatory agency must be independent, accountable and objective.

# Scope of Agency Authority



- Operational authority
  - Tenures
  - Compliance and enforcement
  - Health, Safety and environment
  - Environmental Assessment
  - Science
  - Education

13

## Scope of Regulatory Agency Authority

Policy authority would remain with governments, while the agency would have operational authority coast-wide over:

- Administration of tenures.
- Regulation and monitoring of operations including exploration, development, production, and decommissioning.
- Health, safety and environmental matters.
- Environmental assessment of proposed development activities.
- Scientific research – required, sponsored, or recommended.
- Public information and education.

# Challenges



- Existing moratorium
- Implications for other offshore areas
- Individual agencies reluctant to change or "give up" authority
- Need to develop significant staff expertise

14

Achieving a new regulatory model will require overcoming a number of significant challenges.

While the existing moratorium is not a legal barrier, it does push the BC offshore down the priority list. And, concern about actions that could be perceived as anticipating that the moratorium will be lifted, has been cited as reason to not engage. Addressing this challenge really requires nothing more than a change in perspective.

A new model could also lead to requests from other offshore areas to adopt the model. However, if a new model proves to be a 'better mousetrap', there seems little harm in allowing others to use it.

A major challenge will be the inherent reluctance of both federal and provincial agencies to change how they deal with offshore, and in particular, concerns about "giving up" authority. Similar concerns arose establishing the OGC. A strong political commitment, coupled with an appreciation that no authority was "given up", allowed these concerns to be addressed.

A final challenge – not to the development of the regime but to its implementation, is the need to develop a body of expertise. Applying state of the art best practices requires the agency to have the staff and resources capable of doing so.

## Next Steps



- Refine model structure
- Confirm necessary authorities and sources
- Develop implementation plan and timeline
- Work with First Nations on their role
- Continue to consult with stakeholders

15

BC's new model requires both federal and provincial authority to be housed in the regulatory regime, and as yet Canada has not agreed to that or even to substantively discuss regulatory matters. However, BC believes it prudent to continue to work on the model, so that we are ready when Canada does decide to engage.

We intend to refine the model – to confirm or establish options for more detailed questions, from where to locate the agency, to tenure conditions, to membership and duties of an advisory body.

We will also confirm the authorities that should be vested in the agency, and the specific statutory provisions that are the sources of these authorities.

The province will develop a detailed implementation plan, including specific timelines and target dates, that sets out who must do what to bring the regime into force.

We will expand our work with First Nations, to provide information and to begin to formulate First Nations' role in the regime.

And we will continue to consult with stakeholders – from local communities to industry, to fisheries organizations to environmental groups.

We hope that soon Canada will join us in this process.

**British Columbia's  
oil and gas potential  
for a golden decade...**

*Visit our website at*  
[www.offshoreoilandgas.gov.bc.ca](http://www.offshoreoilandgas.gov.bc.ca)

