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# BUDGET REVIEW RÉVISION DU BUDGET ANNUEL

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Prepared for: The Office of the Regulator of Oil and Gas Operations  
Préparé pour: Le Bureau de l'organisme de réglementation des  
opérations pétrolières et gazières

**Le présent document contient la traduction française du sommaire.**

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## Executive Summary

The purpose of the report is to review the annual budget for the Office of the Regulator of Oil and Gas Operations (OROGO) for the fiscal years ending March 31, 2022 to 2026. We reviewed OROGO's budgetary process and assessed its budget including a general overview of human resources. Our goal when performing this review was to ensure that the organization maintains resources consistent with the level of activities it regulates and adequate to meet the requirements of its mandate under the *Oil and Gas Operations Act* (OGOA).

### General approach

We obtained and reviewed background information on the organization, reviewed past budgets and compared to actuals. We also reviewed information available on the oil and gas industry in the Northwest Territories including its future outlook. We then obtained details on operations and expected demands related to mandate and levels of service. We reviewed and assisted in the development of assumptions related to budget and performed analysis resulting in a number of recommendations.

### General background and overview

OROGO was established by the Government of the Northwest Territories (GNWT) following the devolution of responsibility from the federal government for management of the Territory's oil and gas resources, effective April 1, 2014.

The Regulator is designated by the Commissioner in Executive Council under the *Oil and Gas Operations Act* (OGOA). Although the Minister of Industry, Tourism and Investment was designated as the Regulator following devolution, this authority was transferred to the Minister of Justice in 2016 and, effective August 2020, the Executive Director was designated as Regulator. OROGO operates at arms-length from the GNWT in decision-making and policy development. OROGO reports administratively through the Department of Justice.

The Regulator is responsible for applications and authorisations related to oil and gas wells which includes drilling, suspension and abandonment, and other oil and gas infrastructure. Inspections and responding to incidents and spills are also part of activities in which the OROGO participates.

### Current environment

At the end of fiscal 2020-21, there are nine operators in the NWT with 87 suspended wells and no active wells. No new wells are expected, however there is potential in the future. Future well operations will be driven by demand for oil and gas and the related price per barrel on the markets. Due to uncertainty related to the impact of Covid-19 and the volatility of the oil and gas markets, the current analysis is solely based on current known activity requirements for OROGO, any significant changes in activity levels would impact the budget.

## Analysis summary

Since becoming an activity within the Department of Justice in 2016-167, OROGO has operated under the same budget.

The historical budget has been set at \$1.9M of which 46-48% is Compensation and Benefits, 38-40% Contract Services, 6% purchased services and the balance of 8% shared between Travel, Materials and Supplies, and Controllable Assets.

OROGO currently operates with six full time equivalents (FTEs). Historically this has been the budget area with actual results closest to the approved budget (Actuals over budget range from 2% to 11%). However, the expected reduction in activity levels over the next five fiscal years, and management's analysis of workload capacity suggest that the Office can be supported by four FTEs. This would mean realignment of duties and sunseting for some of the positions.

Contract services, which form a large part of the budget, have been consistently underspent by an average of 84% in the fiscal years ending March 31, 2017 to 2020. Based on future activities related to suspended wells approved for abandonment and it is expected that technical level expertise requirements will increase from an average of \$126,000 over the last 5 years to an average of \$328,000. However, this still represents a decrease of 57% over the initial budget of \$750,000.

Travel costs, which on average are close to budget (within 3%) are expected to remain fairly consistent as travel for inspections and incidents is also expected to remain the same. The expected cost is based on the average level of inspections seen for the last five years.

A budget for computer hardware and software is being proposed as these are annual costs OROGO incurs (mainly for software) to complete their duties. Fees and payments should also be added as these are recurring costs seen since the fiscal 2016 and so are expected to continue. The budget for Controllable Assets should be removed. It is a budget allocation that has not materialized and is unlikely to be utilized unless significant changes occur in the oil and gas industry.

Other costs included in the budget are not expected to change significantly from what has been observed as they are not well-related costs and have remained fairly consistent over the last several years.

Based on our analysis, the budget for OROGO for the next five fiscal years should total \$1,211,000 annually. This represents a \$717,000 or 37% decrease from the current budget. The key adjustments are listed in the table below.

#### Comparison of proposed budget to current

	Proposed Budget	Current Budget	Difference	
<b>Compensation &amp; Benefits</b>	\$ 678,000	\$ 930,000	\$ (252,000)	(32%)
<b>Travel</b>	68,000	70,000	(2,000)	(< 1%)
<b>Materials &amp; Supplies</b>	34,000	50,000	(16,000)	(2%)
<b>Purchased Services</b>	23,000	118,000	(95,000)	(12%)
<b>Contract Services</b>	390,000	750,000	(360,000)	(48%)
<b>Fees and Payments</b>	13,000	-	13,000	2%
<b>Computer Hardware and Software</b>	5,000	-	5,000	< 1%
<b>Controllable Assets</b>	-	10,000	(10,000)	(1%)
	<b>\$ 1,211,000</b>	<b>\$ 1,928,000</b>	<b>\$ (717,000)<sup>1</sup></b>	<b>(37%)</b>

#### Other Observations and Recommendations

1. *The budget proposed above includes the sunseting of two positions. OROGO should coordinate a human resource review to ensure processes are properly applied*
2. *OROGO should formalize assumptions related to each line item in its budget.*
3. *OROGO should utilize financial and statistical information from its systems to ensure key details about its operations are documented.*
4. *We recommend the budget be set at \$1,211,000 for each of the next five fiscal years, assuming operations remain as described in this report.*
5. *The GNWT should review and implement the proposed budget as soon as reasonably feasible.*
6. *OROGO should review and document its budget assumptions at a minimum every two years to ensure they are still accurate.*

#### Data limitations

Assumptions from the original (at devolution) and current budget were not formalized or documented, this resulted in large variance between budget to actuals that were difficult to monitor, explain and use by management. This issue resulted in the last two points of the recommendations noted above.

<sup>1</sup> There is an additional \$7,000 reduction related to Technology Service Centre (TSC) chargeback within the Department of Justice, Corporate Services which would further reduce the budget from current to (\$724,000) over previous budget.

## Sommaire

L'objectif du rapport est d'examiner le budget annuel du Bureau de l'organisme de réglementation des opérations pétrolières et gazières (BOROPG) pour les exercices financiers de 2022 à 2026 se terminant le 31 mars. Nous avons examiné le processus budgétaire du BOROPG et avons évalué son budget, y compris un aperçu général des ressources humaines. L'objectif de notre examen était de nous assurer que l'organisme maintienne les ressources adéquates pour correspondre au niveau des activités qu'il réglemente et pour répondre aux exigences liées à son mandat en vertu de la *Loi sur les opérations pétrolières* (LOP).

## Background information and overview

### Mandate

The Office of the Regulator of Oil and Gas Operations (OROGO) was established by the Government of the Northwest Territories (GNWT) following the devolution of responsibility from the federal government for management of the territory's oil and gas resources, effective April 1, 2014.

The Regulator is designated by the Commissioner in Executive Council under the *Oil and Gas Operations Act* (OGOA). Although the Minister of Industry, Tourism and Investment was designated as the Regulator following devolution, this authority was transferred to the Minister of Justice in 2016 and, effective August 2020, the Executive Director was designated as Regulator. OROGO operates at arms-length from the GNWT in decision-making and policy development. OROGO reports administratively through the Department of Justice.

The Regulator's mandate is to regulate the exploration for and exploitation of oil and gas resources for the primary purposes of ensuring human safety, environmental protection and the conservation of those resources. The Regulator's activities are governed by OGOA, the *Petroleum Resources Act* (PRA) and the regulations under those Acts.

### Jurisdiction

The Regulator has jurisdiction for the regulation of onshore oil and gas works and activities in the Northwest Territories (NWT), with the exception of the following areas:

- the Inuvialuit Settlement Region and lands that were not transferred from the Government of Canada to the GNWT with devolution;
- National parks; and,
- Norman Wells Proven Area.<sup>2</sup>

Oil and gas activities on Aboriginal settlement lands as well as other private lands within the boundaries described above also fall under the Regulator's jurisdiction.

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<sup>2</sup> The Norman Wells Prove Area refers to the area west of Norman Wells covered by the Noman Wells Proven Area Agreement between Federal Government of Canada and Imperial Oil Limited,



## Responsibilities

The Regulator is responsible for:

- Considering applications for and issuing Operations Authorizations<sup>3</sup>;
- Considering applications for and issuing Well Approvals<sup>4</sup> for activities including drilling, re-entry, work overs<sup>5</sup>, completion, recompletion, suspension<sup>6</sup> and abandonment<sup>7</sup> of a well or part of a well;
- Inspecting active and historic oil and gas facilities;
- Responding to incidents and spills at regulated oil and gas facilities;
- Considering applications for and issuing Significant Discovery Declarations and Commercial Discovery Declarations<sup>8</sup>; and
- Issuing Operating Licences<sup>9</sup>.

## Goals and Strategic Objectives

OROGO has established the following as its Mission, Vision and Strategic Objectives:

Mission: We regulate oil and gas activities to keep people safe and protect the environment where we live and work.

Vision: OROGO is a respected and effective regulator grounded in the values of Northerners.

Strategic Objectives:

- To enhance certainty and predictability in our actions and in regulatory decisions.
- To promote accessibility and transparency in our work.
- To build and maintain resilient working relationships.
- To grow oil and gas regulatory capacity in the NWT.

## OROGO Staff

OROGO has a staff complement of six. This includes the Executive Director, the Office Administrator, the Senior Advisor, Legislation and Policy, the Senior Technical Advisor [REDACTED], Technical Specialist [REDACTED] and the Manager, Information Office.

OROGO receives technical advice and support from the Canada Energy Regulator (CER) (formerly the National Energy Board – NEB) and the Alberta Energy Regulator (AER) through service agreements. OROGO is also able to access support from other regulators or consultants as may be required.

OROGO's staff and office are located in Yellowknife, NWT.

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<sup>3</sup> See Appendix 1 for Definition

<sup>4</sup> See Appendix 1 for Definition

<sup>5</sup> See Appendix 1 for Definition

<sup>6</sup> See Appendix 1 for Definition

<sup>7</sup> See Appendix 1 for Definition

<sup>8</sup> See Appendix 1 for Definition

<sup>9</sup> See Appendix 1 for Definition

## Current Operations and Services

Current operations and services consist of the following:

- a. Applications – OROGO receives, reviews, and makes recommendations to the regulator, regarding applications for:
  - i. operations authorizations,
  - ii. well approvals,
  - iii. amendments to existing operations authorizations or well approvals, including well suspensions and abandonments,
  - iv. changes to well names, to reflect changes in ownership, and
  - v. core sampling requests.

OROGO also receives and reviews annual reporting requirements for continued compliance, including production reports, environmental reports, and safety reports.

- b. Inspections - OROGO's inspection activities include:
  - i. On-site inspections of authorized oil and gas activities; and
  - ii. Review of operator inspections of suspended wells
  - iii. On-site inspections of historical oil and gas infrastructure. Although OROGO does not have a legal obligation to inspect abandoned wells, it has a mandate to protect the environment and human safety. Abandoned wells are not built into this analysis, because OROGO has no legal obligation to do so.
- c. Incident response – All oil and gas incidents from OROGO-regulated facilities or pipelines, whether spills, non-spills or near misses, must be reported to OROGO. These reports are reviewed by OROGO.

OROGO participates in the NWT-Nunavut Spills Working Group, a group of agencies that have signed the NWT-Nunavut Spills Working Agreement.
- d. Public hearings – the Regulator may choose to hold a public hearing into an application if it:
  - i. Needs more information regarding an application which could only be gained by holding a public hearing; and/or
  - ii. Determines that the public interest would be served by conducting a more detailed and public examination of potential concerns and impacts regarding an application.

Examples of applications that might require a public hearing could include applications for construction of a new pipeline; for abandonment of a pipeline; and/or to develop an oil and gas pool or field.

- e. Public education and information - OROGO maintains a public registry of applications reviewed, publishes summary reports of inspections conducted and incidents monitored, and produces an Annual Report. OROGO maintains an Information Office that makes non-confidential information about oil and gas activities in the Regulator's jurisdiction publicly available. This data may be used by companies and researchers evaluating oil and gas potential.

OROGO also participates in community outreach and stakeholder engagement activities.
- f. Establish policy, procedures and expectations – OROGO issues guidelines approved by the Regulator under OROGO's government legislation.

### Financial risks from wells

Due to the mandate of the OROGO it has no financial liability related to a well and is only required to assess and ensure that wells are compliant with established standards. All financial liability related wells rest with the original operator or the Landowner if the operator is no longer in business. OROGO as the regulator cannot be responsible for remediation.

Note: once an operator abandons a well under the term of the OGOA, the Regulator's requirement to monitor that well also ends, unless there is an incident.

## Analysis

OROGO's current annual operating budget of \$ 1,928,000 for fiscal year 2021-2022 and is allocated as follows:

	Annual Budget (2021-22)	Actual (2019-20)
Compensation and benefits	\$ 930,000	\$ 924,380
Contracted services	750,000	50,179
Controllable assets	10,000	-
Computer hardware and software	-	20,882
Materials and supplies	50,000	35,474
Fees and payments	-	102,299
Purchased services	118,000	17,089
Travel	70,000	72,979
	\$ 1,928,000	\$ 1,223,252

## Historical budget to actual

	2016-17		2017-18		2018-19		2019-2020	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Compensation and benefits	\$871,000	\$970,000	\$871,000	\$970,000	\$871,000	\$953,000	\$908,000	\$924,000
Contracted services	750,000	186,000	750,000	65,000	750,000	204,000	750,000	50,000
Controllable assets	10,000	-	10,000		10,000	-	10,000	-
Computer hardware and software	-	-	-	6,000	-	1,000	-	21,000
Materials and supplies	50,000	41,000	50,000	25,000	50,000	35,000	50,000	35,000
Fees and payments	-	38,000		18,000	-	26,000	-	102,000
Purchased services	118,000	23,000	118,000	26,000	118,000	19,000	118,000	17,000
Travel	70,000	62,000	70,000	62,000	70,000	76,000	70,000	73,000
Grants and contribution	-	-	-	5,000	-	-	-	-
	\$1,869,000	\$1,320,000	\$1,869,000	\$1,177,000	1,869,000	\$1,314,000	\$1,906,000	\$1,222,000
\$ above (below) budget	(\$549,000)		(\$692,000)		(\$555,000)		(\$684,000)	
% above (below) budget	(30%)		(38%)		(30%)		(36%)	

When reviewing budgets to actuals it is clear that OROGO consistently comes under budget, on average by 34% from 2016-17 to 2019-20. The main area of difference is in the area of contracted services, which are on average \$624,000, or 84%, under budget. Purchased services are also consistently lower than budget by an average of \$97,000, or 82%. The only areas where OROGO is overbudget is in Compensation and benefits (average \$74,000 or 8%) and Fees and Payments which were not budgeted.

As a result, our analysis and review of assumptions will on Contract Services and Purchased services.

Although OROGO has had a budget since fiscal 2014-15, it has only been reporting under the Department of Justice since fiscal 2016-17, which is why this analysis does not contain financial data previous to that date. Also note that at the date of this report, data related to the year ending March 31, 2021 was not finalized or available.

### Activities and Drivers

Between the spring and fall OROGO spends most of its time reviewing and approving applications, holding public hearings if warranted, and/or providing public education. Oil and gas operations are required to obtain an Operations authorization before the operator can alter the status of a well, unless grandfathered in (existed prior to devolution, prior to 2015). Those grandfathered in operate under Operations Authorizations issued by the National Energy Board and do not have an end date. They do not need to apply for an Operations Authorization in order to abandon its wells, however, it does need to apply for a Well Approval (issued under the Operations Authorization) to Alter the Condition of the Well (ACW) for a well it wants to abandon.

After each approval OROGO must determine if an inspection is required. Since fall 2020, inspections are done when a formal risk assessment indicates a need. Operations are typically inspected during the winter months, when well operators are on location as work sites are easier to reach during that time of the year. OROGO's commitment is to inspect each active operator at least once per year.

OROGO has maintains contracts with several organizations to assist in fulfilling its mandate. Contracts are used when geologists, hydrogeologists, reservoir engineers, drilling engineers, and other similar experts are required. Because a lot of OROGO's work is highly technical, contractors are used to meet OROGO's mandate and activities, for examples: detailed review of applications; completion of an inspection; setting policies; and expectation for clean-up in the case of incidents.

## Assumptions

Budget development is typically done based on set of assumptions. These assumptions require management to review current operations as well as to assess its plans or expectations for future operations. Historical budgets were prepared based on assumptions which were not formally documented. The assumptions presented below were developed by management through consultation.

### Current outlook for the oil and gas industry in OROGO's jurisdiction

OROGO's resource needs are dependent on the level of oil and gas activities in the Northwest Territories (NWT). At the end of fiscal 2020-2021, there are 9 operators with 87 suspended wells and no active wells. Over the next five fiscal years all of these wells are expected to be processed from suspended well to abandoned well. No new wells are expected to be approved during this period.

Through discussions with staff at both the Ministry of Industry, Tourism and Investment and the Office of Devolution Initiatives, it was identified that there is some potential for growth in the oil and gas sector and/or OROGO's responsibilities but nothing had been finalized at the time of this report. Those potential activities and/or responsibilities are excluded from this budget analysis.

### Current workload and costing expectations based on the current outlook

#### Applications

To move the 87 suspended wells into abandonment, four operators will need to obtain an operation authorization, 1 operator was grandfathered in and now requires a well approval because a change in the well status is required. On an individual wells' basis, 69 wells will need approval to change the status of the well. Eighteen wells have already been approved to start abandonment procedures. The table below outlines the scheduled applications for abandonment over the next five fiscal years which will drive the expected workload for contract services.

**Table1 – Applications expected over the next five fiscal years**

Fiscal year	Operation Authorization	Approved wells	Approval to alter condition of a well (ACW)
2021-2022	3	18	20
2022-2023	1		29
2023-2024	-		-
2024-2025	-		17
2025-2026	-		3

The table was completed by management based on directions provided to the operators. The directions outline when applications should be made to meet the abandonment deadlines. Abandonment deadlines are set based on the Well Suspension and Abandonment Guidelines and Interpretation Notes, these notes are issued by OROGO under section 18 of their Act.

Note: Management occasionally receives applications or requests from the public for information, e.g. core samples. These requests are not a part of the application procession mentioned above but are covered by OROGO staff and are addressed in the assessment of the staff complement required.

## Incidents

OROGO was notified of 17 incidents between fiscal 2017-18 and 2019-20 with all of the incidents occurring in the last two years.

**Table 2a – Incidents for the last three fiscal years**

	2017-18	2018-19	2019-20
# of ACWs	0	11	7
# of incidents (excluding near misses)	0	10	4
# of incidents (near misses)	0	1	2

On average approximately 94% of all Approvals to Alter a Condition of a Well (ACWs) approved in a year will have an incident. Table 2b outlines the estimated number of incidents expected in each of the next five fiscal years.

**Table 2b – Estimated Incidents**

	2021-22	2022-23	2023-24	2024-25	2025-26
Estimated ACWs (abandonment)	35	29	-	17	3
Estimated Incidents	33	27	-	16	3

When an incident occurs, the operator is required to assess and clean up the spill or debris resulting from the incident. The operator must also report the incident and the work done to OROGO. OROGO reviews and determines whether what is done is sufficient, and then may decide to inspect operations.

Though Incidents and ACWs can trigger an inspection, at present neither are solely used to determine the need for an operator inspection.



## Inspections

OROGO's current approach to inspections is to annually inspect each active operator and the Cameron Hills field and as such management does not track inspections by cause. Inspections can occur at various stages in an oil and gas operation. For example, inspections are triggered through actions taken on an ACW, or an incident.

Table 3a below outlines the number of inspections completed compared to the total number of active operators, to determine the expected inspection rate.

**Table 3a –Inspections rate past six fiscal years**

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b># of Active Operators</b>	2	3	1	-	2	2
<b>Operator Inspections</b>	2	5	2	-	3	3
	100%	167%	200%	0%	150%	150%

Table 3a indicates an average inspection rate of 128 percent, therefore each active operator will be visited at least once a year. This inspection rate does not include the annual inspection of the Cameron Hills wells which is added separately to determine the future inspections expected.

In recent fiscal years OROGO has begun to formally factor risk into determining inspections. There is no expectation that OROGO will deviate from completing inspections based on the assessed risk and ensuring that each active operator is inspected annually. We have used the average inspection rate for the last six years, 128 percent to complete this budget assessment.

Note: When OROGO completes an inspection of an operator, OROGO indicates they may complete assessments for multiples wells. In addition, one site visited by OROGO may result in the inspection of multiple operators.

**Table 3b – Estimated Inspections**

	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Estimated active operators</b>	7	4	-	1	-
<b>Estimated operator inspections</b>	9	5	-	1	1
<b>Cameron Hills inspection</b>	1	1	1	1	1
<b>Total estimated inspections</b>	10	6	1	2	2



### Contract Services

At the onset of operations in 2014-2015, the contractual services budget was set based on an expected high level of activity in the NWT. Also, in the first few years, OROGO was much more dependent on its contractors for day-to-day support and training, including having a contractor in the OROGO office for much of 2014-2015.

Over the years, the expected level of oil and gas activity has not materialized. In tandem with that, OROGO got through their growth phase and is now capable of handling day-to-day activities without support from contractors.

The use of contractual services is dependent on several factors, such as staffing levels and type or level of expertise required for a given activity. We analyzed the use of consultants over the last four fiscal years.

**Table 4a. – Average Contractor cost per activity**

	2016-17	2017-18	2018-19	2019-20
<b>Operation Authorization</b>	-	-	5	2
<b>ACW (other)</b>	5	4	6	2
<b>ACW (abandonment)</b>	-	-	-	12
<b>Reported inspections</b>	4	3	6	5
<b>incidents</b>	-	-	11	6
<b>Total</b>	9	7	28	27
<b>Contractor cost</b>	\$186,156	\$ 64,700	\$ 203,543	\$ 141,179
<b>Average cost/activity</b>	\$ 20,684	\$ 9,243	\$ 7,269	\$ 5,229

Table 4a indicates a downward trend in the use of contractual services. Several reasons have been identified: increased knowledge of OROGO staff and/or decreased activities that required a consultation. OROGO does not track contractor cost by service provided. As such, an average contractor cost was determined using the last four fiscal years. This average cost is utilized in the budget analysis. Based on table 4a, the average is approximately \$10,606 per activity.

Using an average creates uncertainty related to actual results as the charge rate among the contractors varies with level of expertise required and availability based on demand. High demand equals higher costs. The estimated average is based on current and expected levels of activity in the oil and gas industry in the NWT and western Canada. Any increase in levels of activity in this sector would have a significant impact on this estimate and should be monitored as such.

**Table 4b. – Estimated Contractor cost per year**

	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Operation Authorization</b>	3	1	-	-	-
<b>ACW (abandonment)</b>	35	29	-	17	3
<b>Estimated inspections</b>	9	5	-	1	1
<b>Estimated Incidents</b>	33	27	-	16	3
<b>Total Activity</b>	80	62	-	34	7
<b>Average Contractor cost</b>	\$10,606	\$10,606	\$10,606	\$10,606	\$10,606
<b>Contractor cost by year</b>	<b>\$ 848,480</b>	<b>\$ 661,618</b>	<b>\$ -</b>	<b>\$ 363,370</b>	<b>\$ 75,304</b>

Table 4b outlines shows the estimated cost each year for contractual services. The suggested estimate of the annual contractor cost for each of the next five years \$390,000 based on the five-year average of estimated contract cost per year of Table 4b.

## Staffing

Although we are not performing a full review of staffing needs, we did perform a higher level review of workloads and demands.

OROGO currently operates with six FTEs. With the exception of the Regulator, who is an appointed official, management developed an hourly requirement for each staff on a per task basis using the position's job description. We did not verify the accuracy or completeness of the tasks because OROGO management is best able to identify all tasks required of staff. The hourly allotment was used to create the expected annual time requirement for each role based on activities OROGO expect to occur over the next five years. This analysis allows us to create the annual FTE requirement for the office presented in table 5a.

**Table 5a. Staff requirement in weeks and expected OROGO FTE requirement**

	2022	2023	2024	2025	2026
	52	52	52	52	52
	30	30	30	30	30
	31	31	31	31	31
	53 <sup>11</sup>	47	8	26	12
	44	37	10	20	13
	29	29	16	23	17
	239	226	147	182	155
<b>Weeks per FTE</b>	52	52	52	52	52
<b>FTE required</b>	5	4	3	4	3

The Office Administrator and Manager, Information Office roles are not heavily dependent on oil and gas operator activity and so were not significantly affected by expected fluctuations in operators' requests. These roles are more affected by public requests for information, but information was not available to allow for an analysis of the time expectations for each role. As such we have relied on the assessment provided by OROGO.

<sup>10</sup> The Regulator must be at full time equivalent for 52 weeks as mandated under OGOA

<sup>11</sup> When an analysis is completed on an FTE basis the overtime is not a concern as a calculation by FTE is done to determine the overall staffing requirement for the office and not how the workload is to be allocate among the required FTEs.

The Senior Advisor Technical, Technical Specialist and Senior Advisor Legislation and Policy roles have components that link directly to the activities of an oil and gas operator and therefore allowed more specific calculations of time for each role using the estimated level of activities for the next five years.

Note: The Senior Advisor Technical and the Technical Specialist are both compliance officers and are both below the level of an FTE and have overlapping responsibilities. However, it is our understanding that safety protocols dictate that two compliance officers attend each onsite inspection.

As depicted in Table 5, OROGO will no longer require six FTEs, and on average will need four FTEs for the next five years.

As a result, some of the positions should be realigned to meet the FTE requirement calculated above. Although this would require a more in-depth approach, some consideration should be given to reallocating duties of the Office Administrator to the Manager, Information Office, and of the Senior Advisor Legislation and Policy to the Regulator. Through some discussions, it appears that although the Regulator is recognized as full FTE, the role has capacity to take on duties of the Senior Advisor Legislation and Policy.

Management has indicated [REDACTED]. This budget analysis [REDACTED] as the analysis is done on an FTE basis and not an incumbent basis and it is anticipated that the FTE levels required to run the operations will be maintained.

Note, if the FTE levels mentioned above are not maintained, especially in the case of the Technical Specialist, there is likely to be an increase in contractor costs as contracts will be needed to replace the lost technical expertise.

This salary estimate is done using the current proposed budget for each position at step four of the position's pay grid as this is the approach utilized for budgeting by the GNWT.

**Table 5b. Estimated Salary and Benefit Cost by Position (with recommendation for 4 FTE)**

	2022	2023	2024	2025	2026
<b>Regulator – mandated under OGOA</b>	\$ 213,106	\$ 213,106	\$ 213,106	\$ 213,106	\$ 213,106
<b>Manager, Information Office</b>	152,625	152,625	152,625	152,625	152,625
<b>Sr. Advisor Technical</b>	159,533	159,533	159,533	159,533	159,533
<b>Technical Specialist</b>	152,626	152,626	152,626	152,626	152,626
<b>Total estimated salaries &amp; benefits</b>	<b>\$ 677,890</b>	<b>\$ 677,890</b>	<b>\$ 677,890</b>	<b>\$ 677,890</b>	<b>\$ 677,890</b>

Based on these calculations the average annual budget for salaries and benefits should be set at \$678,000 based on a recommendation for 4 FTEs. Our analysis and recommendations for reducing the budget for salary & compensation include all salary and compensation funded amounts as well as O&M amounts which include:

- Base salary
- Northern allowance (\$3,700)
- Training (\$1,000)
- Benefits (23% of salary)
- Materials and supplies (\$5,000 per FTE)

No adjustments have been made for potential increment increases. Costing for salaries was not done based on individual roles because the need for some roles fluctuates for each of the next five years. Note: this approach assumes that the current level of staff experience will be maintained.

1. *The budget proposed includes the sunseting of two positions. OROGO should coordinate human resource review to ensure process is properly applied.*

### Travel

Travel costs are incurred whenever wells or operations need to be inspected. To determine the required budgetary cost the average travel cost per inspection was determined by using actual travel costs for the last four years. Based on our calculation, each inspection cost approximately \$11,200. This cost is reflective of the need to carry equipment as well as the related cost to access remote locations.

Non-inspection related travel costs are approximately \$20,000, which includes event related costs expected to be incurred by the office on an annual basis. Event costs include staff travel to the Arctic Oil & Gas Symposium, Western Regulators Forum, NWT Board Forum and the *Mackenzie Valley Resource Management Act* Workshop to name a few.

### Other costs

Materials and supplies, purchased services and computer hardware etc. were assessed using an average of the last four fiscal years as it was anticipated that these costs would remain relatively consistent from year to year, given the nature of operations, and are not dependent on activities related to oil and gas operations.

## Data Limitation

### Potential change in operations/industry

This budget review has not evaluated or accounted for any potential changes in operation including inflation-related increases and does not address any potential increment increases that may be provided to staff as the budget is based on historic cost.

### Budget assumptions should be formalized

At the beginning of the engagement there was an expectation that assumptions would be provided for analysis. It was realized early in the engagement that OROGO had no formalized assumptions. As this was unanticipated, additional time was required to identify what the assumptions should be for OROGO's operations. Without formalizing resource expectations and/or potential need for resources it is very difficult to create a reasonable budget if or when there are changes in operations.

2. *We recommend that OROGO formalize its assumptions related to each line item in its budget.*

### Financial and statistical information need to improve.

To assist with the creation of a budget or to assist with analysis of operations, the financial records or statistical data should record sufficient details about the operations of OROGO. If OROGO's records contained, for example, contractor cost/time for inspections, type of inspections, type of applications, etc., this would allow for better and quicker analysis of the information.

OROGO currently does not track inspections by ACW or incident. Tracking by ACW or incident along with the locations related to both would allow OROGO to better identify risk levels with specific types of ACWs, site and incidents, etc. and therefore allow for better analysis to determine risk levels with sites or operations.

Tracking of data will also allow OROGO to better analyze future gaps as well as identify potential education needs for the office. This could become important if activity for the office once again increases and contractor services are not available.

3. *We recommend that OROGO utilize a financial and statistical system to ensure key details about its operations are documented.*

## Recommendations

Our estimate of a reasonable budget for OROGO is \$1,211,000 for each of the next five fiscal years. This represents a decrease of \$717,000, or 37%, based on assumptions noted above.

**Figure 6. Estimated budget for the next five fiscal years**

	<b>Proposed Budget</b>	<b>Current Budget</b>	<b>Difference</b>
<b>Compensation &amp; Benefits</b>	\$ 678,000	\$ 930,000	\$ (252,000)
<b>Travel</b>	68,000	70,000	(2,000)
<b>Materials &amp; Supplies</b>	34,000	50,000	(16,000)
<b>Purchased Services</b>	23,000	118,000	(95,000)
<b>Contract Services</b>	390,000	750,000	(360,000)
<b>Fees and Payments</b>	13,000	-	13,000
<b>Computer Hardware and Software</b>	5,000	-	5,000
<b>Controllable Assets</b>	-	10,000	(10,000)
	<b>\$ 1,211,000</b>	<b>\$ 1,928,000</b>	<b>\$ (717,000)<sup>12</sup></b>

We arrived at this estimate because of the anticipated decline in activity in the oil and gas sector in the Northwest Territories. As a result of this decline staffing needs are expected to decline from six FTEs to four FTEs because several staffing positions are reliant on the activity of the oil and gas companies. Travel, though potentially higher in the first couple of years, is also reliant on the activity of the oil and gas operators and so will drastically decrease in the later years.

Contractor services have been previously budgeted at a higher level in anticipation of greater reliance on contractors. However, this has not been the case since the creation of OROGO. The current estimate reflects actual costs observed in previous years using an average cost per activity. We caution that contractor costs currently do not include any expectation for changes in staffing levels and so this cost should be re-evaluated if conditions mentioned in this report are not maintained.

Computer hardware and software is being proposed as a budget category as these are annual costs OROGO incurs, mainly for software, utilized during completion of OROGO duties. Fees and payments should also be added as these are recurring costs seen since fiscal 2016 and so are expected to continue. Controllable assets should be removed as a budget line item, as this is a budget allocation that has not materialized and is unlikely to be utilized during this phase of OROGOs operations. To this end we make two recommendations.

The materials and supplies reduction of \$16,000 includes \$5,000 per FTE as per the staffing recommendations of sunsetting two FTE's. This is inline with the Financial Management Board's funding guidelines for new positions. Additionally, the Technology Service Centre (TSC) chargeback budget for all

<sup>12</sup> This excludes impact of Technology Service Centre (TSC) chargebacks of \$7,000 related to sunsetting of two position (total reduction in budget \$724,000)



employees is held centrally within the Department of Justice within Corporate Services, this is 3,291 per FTE therefore a reduction of \$7,000 will also be required within the centrally located TSC chargeback budget.

4. *We recommend the budget be set at \$1,211,000 for each of the next five fiscal years, assuming operations remain as described in this report.*
5. *The GNWT should review and implement the proposed budget as soon as reasonably feasible.*
6. *We recommend that OROGO review its budget assumptions at minimum every two years to ensure they are still accurate.*

# APPENDIX 1 – Definitions

## **Abandoned well**

- A well that is no longer needed for oil and gas development and permanently sealed and taken out of service.

## **Active Operator**

- An organization that has approved oil or gas activity related to its wells, i.e. changing the status of the well from suspended to abandoned.

## **Applications to amend an existing authorization**

- Application to change the status of a well, e.g. to change from a Production well to a Suspended well

## **Core sampling requests**

- Applications to access samples of earth from an oil and gas exploratory activity

## **Operation authorization**

- Authorization issued by OROGO to an Oil and gas operator, so the operator can conduct activity within OROGO's jurisdiction

## **Operating license**

- Licence that authorizes a company to carry out oil and gas works or activities in the OROGO jurisdiction

## **Significant discovery**

- A discovery that has potential for sustained production

## **Significant discovery declaration (SDD)**

- Public declaration by OROGO that a discovery of oil or gas has been made that meets the definition of a Significant Discovery

## **Suspended well**

- A well that is temporarily not in use and that has been temporarily plugged in accordance with the requirements of the *Oil and Gas Drilling and Production Regulations* and OROGO's guidelines.
- It can be reactivated

## **Workover**

- A well intervention involving invasive techniques to pull and replace the completion or production hardware in order to extend the life of the well.

## APPENDIX 2 – Listing of individuals interviewed

Ms. Pauline DeJong, Executive Director, Office of the Regulator of Oil and Gas Operations  
Mr. James Bancroft, Assistant Director, Corporate Services, Department of Justice, GNWT  
Mr. Johnny Lennie, Manager, Industry Tourism and Investment, Minerals and Petroleum Resources  
Mr. James Fulford, Chief Negotiator, Office of Devolution Initiatives, Executive and Indigenous Affairs

## APPENDIX 3 – Documents reviewed

OROGO Annual Reports – fiscal 2014/15- 2019/20

Government of the Northwest Territories Business Plan 2020-2024

Government of the Northwest Territories Main Estimates 2020-2021

*Northwest Territories Oil and Gas Operations Act*

Reports and analysis provided by management including:

- OROGO expected Operation authorizations and Application to change an existing well
- Hours available for each staff level
- Expected non-inspection related travel
- Incidents by fiscal year