Ministry of the Economy




Oil and Gas Regulatory Cost Recovery Levy Annual Report for 2015-16

Table of Contents

1.0 Introduction 2

2.0 Regulatory Highlights and Accomplishments for 2015-16 3

3.0 Well Levy Calculation 4

4.0 Financial Reporting 5

5.0 Improved Service Standards 8

6.0 Regulatory Services 8

6.1 Applications 8

6.2 Field Operations 12

6.3 Care and Custody of Pre-Orphaned Sites 13

6.4 Other Regulatory Services 13

6.5 Agriculture 15

6.6 Environment 15

Appendices 16

KPMG Accountants' Report 16

KPMG Summary Letter 17

1.0 Introduction

Efficient and effective regulation is the foundation of responsible resource development. In Saskatchewan, the Ministry of the Economy (ECON), Ministry of Environment (ENV) and the Ministry of Agriculture (AG) share responsibility for regulating the oil and gas industry.

In 2014, the Government of Saskatchewan introduced the Oil and Gas Regulatory Cost Recovery Levy (well levy) to ensure that Saskatchewan's regulatory system meets public expectations and provides service standards that align with modern industry needs.

The well levy recovers 90 per cent of regulatory costs and follows the same principles as the funding models used in Alberta and British Columbia. Billed annually, the well levy replaces 10 individual licensing or application fees and eliminates 20,000 transactions. This is a significant reduction in administrative burden for industry and government.

When introducing the well levy, the Government of Saskatchewan made a commitment to improve transparency on the well levy administration and regulatory performance indicators through the publication of an annual report. Implementation of the Integrated Resource Information System (IRIS) in late 2015 allowed for the tracking of various service levels that were not previously available. Therefore, the 2015-16 report includes a transition from pre-IRIS to post-IRIS business processes, and some of the service level measurements conducted post IRIS were not available during the pre-IRIS period.

This report has two main sections: an overview of well levy finances; and a review of service levels for the various regulatory services that are delivered. ECON engaged KPMG to do a review of the financial information included in this annual report. The findings from this review are attached to this report in Appendix A and Appendix B.

2.0 Regulatory Highlights and Accomplishments for 2015-16

- ⇨ Completed testing activities related to finalizing the development of IRIS, which went live on November 19, 2015. This new system automated and replaced numerous outdated main frame systems and manual business systems. IRIS provides industry with the tools to do business with the province in a more efficient and effective manner.
- ⇨ Designed and implemented a number of organizational changes required to accommodate new oil and gas business processes supported by IRIS, including implementation of a unified Petroleum and Natural Gas (PNG) Division service desk to improve client support for industry.
- ⇨ Trained staff on new business processes supported by IRIS and delivery of client support through the new PNG service desk.
- ⇨ Delivered industry orientation sessions in Calgary, Lloydminster and Estevan to prepare industry to begin using IRIS as of November 2015.
- ⇨ Established new change management processes to facilitate enhancements and continuous improvement with respect to IRIS.
- ⇨ Introduced a single-window well licensing service for industry in IRIS, in co-operation with the ministries of Agriculture and Environment.
- ⇨ Completed 21,885 inspections related to wells, facilities, incidents, rigs and pipelines.
- ⇨ Initiated development of a new automated data submission penalty system to ensure timely industry access to important well data.
- ⇨ Developed and updated more than 20 directives that provide regulatory requirements with respect to oil and gas development activities in Saskatchewan. This included consultation with industry and initiation of a review of the The Oil and Gas Conservation Regulations, 2012.
- ⇨ Implemented enhanced oil and gas measurement and reporting requirements (Directive PNG017), which are harmonized to the extent possible with those in Alberta.
- ⇨ Introduced an Enhanced Production Audit Program (EPAP) for Saskatchewan in Petrinex, which is also harmonized to the extent possible with the Alberta EPAP program.
- ⇨ Developed and released a Request for Information and a Request for Proposals to initiate the process of acquiring contract resources to assist with design and administration of internal business processes related to ongoing operation of EPAP and the Enhanced Valuation Audit Program (EVAP).
- ⇨ Developed a well levy data extract process in Petrinex and a new well levy invoice system in IRIS to aid in more accurate well levy assessment and invoicing. This new process was used for the 2016-17 well levy invoiced in August 2016.
- ⇨ Completed the well file scanning project to provide better industry access to digital well data and made digital data available to industry through IRIS.

3.0 Well Levy Calculation

ECON invoices licensees of active service wells and producing oil and gas wells a well levy amount each year. The base well levy amount is determined for each fiscal year based on the number and performance of active wells during the previous calendar year. For example, the base well levy calculated and invoiced for the 2015-16 fiscal period was based on the performance of active wells during the 2014 calendar year.

The classification of each well is based on the type of well and productivity of the well during the previous calendar year. There are eight different classes of wells. The first is a service well class that includes injection and disposal wells active during the previous calendar year. The other classes are dependent on the volume of oil and gas production from the well during the previous calendar year. For purposes of determining the class for each well, a thousand cubic metres of gas production from a well is considered equivalent to one cubic meter of oil production.

Each well is charged a base fee multiplied by an adjustment factor. The adjustment factor is set annually to ensure that 90 per cent of forecast regulatory expenses are recovered. The provincial budget for regulatory services affects the well levy rates, as do changes in the number of wells or volume of production.

The following table summarizes the calculation of the base well levy revenues for each of the well levy classes and the calculation of the adjustment factor that is applied to the base amounts for invoicing purposes for the 2015-16 fiscal period, based on the performance of the active wells during the 2014 calendar year:

Annual Adjustment Factor Calculation, 2015-16					
Class	**Production (cubic meters/year)**	**Base Rate by Class:**	**Well Licences**	**Base Revenues**	
1	Service wells	$100	4,799	$479,900	
2	0.1 to 300.0	$100	31,461	$3,146,100	
3	300.1 to 600.0	$125	7,716	$964,500	
4	600.1 to 1,200.0	$312	7,027	$2,192,424	
5	1,200.1 to 2,000.0	$750	3,745	$2,808,750	
6	2,000.1 to 4,000.0	$1,250	2,874	$3,592,500	
7	4,000.1 to 6,000.0	$1,625	717	$1,165,125	
8	6,000.1 and above	$1,875	544	$1,020,000	
		TOTAL	58,883	**$15,369,299**	**B**
			2015-2016 Regulatory Budget:	$23,522,060	
			Industry Share (90%):	**$21,169,854**	**A**
			Annual Adjustment Factor (A/B=C):	**1.377412**	**C**

At the time the 2015-16 annual adjustment factor was being determined, the regulatory budget for 2015-16 was set at $23,522,060, which represented an increase of $4.9 million compared to the 2014-15 regulatory budget. Industry's 90% share of that budget was $21,169,854. ECON actually invoiced industry a total of $21,092,107 due to an adjustment to eliminate double counting of recompleted wells, as well as rounding when applying the adjustment factor at the well level.

4.0 Financial Reporting

The following table compares the 2015-16 budget amount to the 2015-16 actual spending.

WELL LEVY REVENUE AND REGULATORY COSTS ($000s)	2015-16 Budget	2015-16 Actual
WELL LEVY INVOICED		21,092
LESS: REGULATORY COSTS INCURRED (90%)		19,370
VARIANCE (8.2 %)		1,722
2014-15 VARIANCE CARRY FORWARD		(1,109)
2015-16 VARIANCE CARRY FORWARD		614
COST DETAIL		
1 Enforcement	10,486	7,267
2 Validation	733	857
3 Technical services	1,099	1,286
4 Surface Rights Arbitration Board	128	95
5 Information Technology (IT) and database costs	6,331	7,125
6 Central overhead and costs	3,975	3,243
TOTAL MINISTRY OF THE ECONOMY	22,752	19,874
OTHER MINISTRIES:		
7 Agriculture	1,000	512
8 Environment	1,500	1,136
TOTAL COSTS: ALL MINISTRIES*	25,252	21,522
WELL LEVY 90%	22,727	19,370

* The 2015-16 regulatory budget as shown in this table represents an increase of approximately $1.73 million from the regulatory budget shown in the table in section 3.0. The budget was increased as a result of an external audit recommendation.

REF.	DESCRIPTION
1	Enforcement: ⇨ Oversight of development of new regulatory initiatives requested by the industry such as Directive 17, Measurement and Metering Requirements, (part of the sour gas strategy); ⇨ Costs associated with the delivery of well, facility, blaster permit and seismic licence approvals and transfers; ⇨ Costs for enforcement, compliance and regulatory oversight, including site inspections, environmental (acknowledgement of reclamation and care custody of unmanaged sites), public safety (rig inspections), incidents (spills), waste, associated gas conservation, air emission control, licensee liability rating, inactive and orphan well management programs; ⇨ Costs associated with the delivery of pipeline licence approvals and transfers, technical application reviews, including horizontal wells, enhanced oil recovery (EOR) and waterflood projects, off-target wells, allowable production rates, oil and gas pools, reservoir analysis for appropriate well spacing, resource conservation and reserve calculations, injection wells, commingled wells, concurrent production, unitization and storage caverns; ⇨ Activities including validation of Crown lands for posting, mineral ownership for wells, resolution of title issues, maintenance of ownership data, and maintenance of data files and maps for land restrictions; ⇨ Activities related to the development of policy and regulations for carbon capture and storage; and ⇨ Support to regulatory compliance for oil and gas exploration and development, including processing cores and samples submitted under regulation and identifying oil pools.
2	Validation: ⇨ Collection, validation and enforcement of data submission requirements with respect to petroleum sector data, which includes drilling information, well and facility infrastructure data, geological data, seismic information and volumetric data; and ⇨ Activities and associated costs related to technical reviews of wells drilled on Crown lands to determine whether trespass has occurred, and administrative costs related to the enforcement of Section 25(a) of *The Crown Minerals Act* where a trespass has been confirmed.
3	Technical Services: ⇨ Activities related to client support for industry involving front-line assistance and guidance with respect to the use of the electronic data reporting system, managing data collection system change requirements and enhancements, managing electronic data submission penalty and waiver processes, developing electronic report summaries, digitizing well and seismic records, and providing industry access to digital well records, seismic information and other electronic well and facility information and reports; ⇨ Costs for providing geological reviews of technical applications on an as-needed basis (off-target wells, oil and gas pools, EOR projects, etc.); and ⇨ Costs for the technical review and administration of lease of space agreements (storage and disposal/injection).

REF.	DESCRIPTION
4	The Surfact Rights Arbitration Board: This arbitration board, governed by *The Surface Rights Acquisition and Compensation Act*, is used as a last resort when a landowner or occupant and an oil/gas or potash operator are unable to reach an agreement.
5	IT and Database Costs: ⇨ Costs of Petrinex for services that provide fast, standardized, safe and accurate management/exchange of key volumetric, royalty and commercial information associated with the upstream petroleum sector; ⇨ Operating costs for IRIS, including IT costs for the support and maintenance of IRIS to enable the licensees and regulators to audit and measure the respective performance activities; and ⇨ Amortization costs of capitalized IRIS IT projects and the operating costs of the legacy systems replaced by IRIS that are in the process of being phased out.
6	Central Overhead and Costs: ⇨ Allocation of central accommodation, IT and benefit costs attributable to well levy activities; ⇨ Accommodation costs for Geological Laboratory where core samples gathered in accordance with the Regulations are located; and ⇨ Amortization costs of capitalized Geological Laboratory assets and capitalized Petroleum Development branch field assets.
7	Ministry of Agriculture: ⇨ Salary and expenses, mileage, etc., for two land agrologists (one in the Swift Current office and one in the North Battleford office) for site inspections, review of new project proposals, abandonment inspections, lease spills, seed mix reviews and approvals; and ⇨ Salary and operating costs for one regional manager, one agreement coordinator preparing leases and addressing industry inquiries, Regina staff involved in policy development, rate review, billing, collections and accounting associated with 6,829 active leases.
8	Ministry of Environment: ⇨ Salaries and operating costs for ecological protection specialists from Landscape Stewardship Branch responsible for review and approval of oil/gas industry proposals; ⇨ Time spent by support staff within the branch on the oil/gas program; and ⇨ Salaries and operating costs for the two managers in the branch who are responsible for the program; ⇨ Time for registry staff from the Corporate Services branch responsible for producing and completing all land dispositions associated with the industry; and ⇨ Oil/gas industry related time for staff at the ENV's Conservation Data Centre (provides rare and endangered species information to the industry for use in planning exploration and developments), regional wildlife and fisheries biologist time associated with the industry, and time spent on industry issues/proposals for Environmental Assessment Branch staff.

5.0 Improved Service Standards

When the Government of Saskatchewan introduced the well levy, it provided an overview of the phase in of increased resources for regulatory oversight over the next three years. The incremental funding over the three years was intended to provide the ability to improve service standards related to:

- ⇨ Well licence approval time;
- ⇨ Sour gas and other air pollutant monitoring and enforcement;
- ⇨ Care and custody of pre-orphaned sites;
- ⇨ Incident (spill) contingency and response;
- ⇨ Single window service for all well licensing (i.e. combining the work of ECON, AG and ENV); and
- ⇨ Technological investments to expand EOR.

The implementation of IRIS enabled numerous improvements to service standards, especially those related to turnaround times for processing industry applications. The following table outlines the multi-year service standards that were targeted for post IRIS processes:

Service Standard Commitments, Post IRIS Implementation	
Service	Target
Licence Application Approvals	
Routine well licence approval	Same day
Non-routine well licence approval *excluding time of duty to consult (DTC) or Environmental Impact Assessment (EIA)	14 calendar days excluding DTC or EIA
Post Licence Application Approvals	
Rig release	Same day
Completion application	Same day
Abandonment and plug back approvals (for wells, facilities and pipelines)	Same day
Licence condition amendment (for wells, facilities and pipelines)	Same day

6.0 Regulatory Services

The following subsections provide details with respect to regulatory services provided to industry and the service levels achieved compared to any established service level targets.

6.1 Applications

a. Review Confidential Period

"Review Confidential Period" is a new application that was implemented through IRIS in November 2015. A total of six applications were processed during 2015-16 with an average turnaround time of 10.7 days. This was not a formal application process prior to the introduction of IRIS, so the number of reviews was not previously tracked.

b. Licence Applications and Transfers

During 2015-16, a total of 2,406 well licences applications, 269 facility licence applications, and 194 well and facility licence transfer applications involving 7,127 wells and facilities were approved by ECON. Prior to the release of IRIS, the turnaround times for what would have been considered "non-routine" horizontal well licences and for well and facility licence transfers was greater than 15 days. The turnaround time for processing facility licence applications was nine days.

Collaboration between AG, ENV and ECON allowed for the development and implementation of a new web-based single-window well licensing system as part of IRIS. Industry now submits a licence application through this single window as opposed to three separate applications, one to each Ministry. In addition to providing immediate approval of routine licences, the new system will enable quicker turnaround times for non-routine licence applications.

With the implementation of IRIS in November 2015, the turn-around times for well licence approval is now split between "routine" and "non-routine." Well licence applications that meet the "routine" criteria within IRIS are now approved immediately upon submission of the application in IRIS. This metric exceeds the pre-established target of a one-day turnaround time for routine applications.

Approval times for the 382 non-routine well licence applications that were processed between November 19, 2015 and March 31, 2016, was 5.8 days, significantly faster than the documented service standard target of 14 days. This metric includes the cumulative time required by AG, ENV and ECON to approve non-routine well licence applications through the new single window well licence application process in IRIS. ECON hopes to gradually improve business processes related to non-routine well licence applications over the coming years to improve further on this standard.

The following table shows the number of licences processed in the post-IRIS period (November 19, 2015, through March 31, 2016):

	Routine	Non-Routine	Total	Turnaround (days)
Facility Licence		90	90	4.4
Licence Transfer*		200	200	1.5
Well Licence	282	382	664	5.8 (non-routine)
Well Amendment		0	0	0
Gas Processing Plant		0	0	0

* Licence transfers includes licence transfer pre-assessment applications.

c. Production and Measurement

Prior to the implementation of IRIS, ECON processed eight Production and Measurement related industry applications and had an average turnaround time of 41.5 days during 2015-16.

The following table highlights the number of Production and Measurement related industry applications reviewed in the period during which IRIS was live (November 19, 2015, through March 31, 2016):

	Total	Turnaround (days)
Current Production	10	6.4
Maximum Permissible Rate	8	4.0
Good Production Practice	0	0
Measurement Exemption	1	10.6
$10 Economic Evaluation	10	16.9
Special Production Flare Test	0	0

This table illustrates the significantly positive impact that IRIS has had on various application turnaround times. Pre-Iris turnaround on applications averaged 41.5 days.

d. Reservoir

Prior to the implementation of IRIS, ECON processed 148 Reservoir related industry applications and had an average turnaround time of 32.4 days.

The following table highlights the number of reservoir related industry applications reviewed in the period during which IRIS was live (November 19, 2015, through March 31, 2016):

	Total	Turnaround (days)
Additional Wellbore	6	1.0
Commingling Application	36	4.8
Enhanced Oil Recovery (EOR)	15	18.1
Project Commencement	4	11.2
Reclassification	157	1.3
Recompletion	138	0.9
Spacing Modification	11	6.4
Waterflood	26	12.9
Well Test	2	3.3

The average turnaround times experienced by industry in the post-IRIS time period are significantly less than the turnaround times experienced in the pre-IRIS time period.

e. Repair, Abandonment and Liability

Prior to the implementation of IRIS, ECON approved approximately 250 Repair, Abandonment and Liability related industry applications. Because the applications were tracked differently, pre-IRIS applications cannot be directly compared to the number of applications processed in the post-IRIS period.

The following table highlights the number of Repair, Abandonment and Liability related industry applications reviewed in the period during which IRIS was live (November 19, 2015, through March 31, 2016):

	Total	Turnaround (days)
Acknowledgment of Reclamation	199	2.5
Full Exemption of Reclamation	152	1.2
Grandfathered Approval (AOR)	41	1.9
Non-Routine Abandonment	344	0.8
Partial Exemption from Reclamation	71	1.3
Well Repair	19	0.8

The average turnaround times experienced by industry in the post-IRIS time period are less than the turnaround times experienced in the pre-IRIS time period.

f. Storage

Two storage project applications were processed during 2015-16 with an average turnaround of 3.9 days.

g. Units and Forced Pooling

Four unit amendments and one forced pooling agreement application were processed during 2015-16. The average turnaround time for applications processed through IRIS was 13.8 days. The metric for this type of application was not tracked prior to the implementation of IRIS.

h. Pipelines

Pipeline applications were not included within the scope of IRIS and are therefore handled through a manual process. The following table shows that pipeline licence application approvals, amendments and leave to open approvals increased significantly from 278 in 2014-15 to 402 in 2015-16. Even with the increase in applications, the average turnaround time decreased from 5.9 days in 2015-16 to 4.7 days in 2015-16.

	2013-14		2014-15		2015-16	
	Number	**Turnaround Time (days)**	**Number**	**Turnaround Time (days)**	**Number**	**Turnaround Time (days)**
Transfers	1	5	30	17.1	83	4.9
Leave to Open	91	7.3	87	6.3	109	3.0
Amendments	54	5.4	76	5.8	117	5.4
Approvals	53	7.2	85	6.0	93	5.4
Total	199	6.3	278	5.9	402	4.7

6.2 Field Operations

a. Well, Facility and Pipeline Inspections

In previous years, ECON carried out risk-specific inspections focused on high-risk sour gas production areas. While there were no sour gas risk specific inspections carried out during 2015-16, all facility inspections included an inspection of sour gas related requirements.

During 2015-16, ECON conducted a total of 21, 885 inspections related to wells, facilities, incidents, rigs and pipelines. This represents an increase of more than 100% compared to the 10,821 inspections conducted in 2014-15. The 2015-16 inspections included a sweep of 4,179 sour gas area well sites operated by 55 different operators. 2,675 of those well sites were found to have compliance issues. The sweep was conducted by summer and co-operative students and involved inspection of the following:

- ⇨ Well Identification/ Signage
- ⇨ Berm Construction and Maintenance
- ⇨ Surface Casing Vent Installation
- ⇨ Surface Casing Venting
- ⇨ Production Casing Venting
- ⇨ Engine Exhaust Location
- ⇨ Tank Location
- ⇨ Chemical Containment
- ⇨ Spill Clean-up
- ⇨ Weed Control
- ⇨ Housekeeping
- ⇨ Lease Under Water
- ⇨ Equipment Storage
- ⇨ Filling and Leveling of Excavations
- ⇨ H2S Odours – Both on and off Lease
- ⇨ Sour Gas Management System
- ⇨ Other Odours
- ⇨ Residence Setback
- ⇨ Flare Combustion

A total of 6,370 inspections were conducted after the implementation of IRIS in November 2015. From those inspections, 3,495 non-compliance issues were identified and notifications were sent to industry. The notifications provide a 30-day time frame for industry to return to compliance for each issue. Prior to the implementation of IRIS in November 2015, ECON conducted 15,077 inspections, but metrics on the number of non-compliance issues were not tracked.

b. Incidents

In 2015-16, the Saskatchewan upstream oil and gas industry reported a total 643 spill incidents to the ministry. Industry was able to report those incidents that occurred after November 19, 2016, directly into the new IRIS incidents reporting tool. In addition, ECON also uploaded all historical spill incident information into IRIS.

To help oil and gas companies educate and train their spill-response personnel, ECON officials participate regularly in spill exercise and spill-response unit meetings.

6.3 Care and Custody of Pre-Orphaned Sites

ECON had expenditures of $13,518 during 2015-16 for care and custody of pre-orphaned sites. These are sites that, at the time the work was required, were not officially deemed as orphaned, but the responsible company refused or was unable to meet its obligations. The work conducted under the care and custody program is typically emergent in nature.

This expenditure was down significantly from the $432,123 spent during 2014-15 because there was a significant backlog of care and custody requirements that needed attention in 2014-15.

Examples of the work conducted under this program are abandonment of wells with unsafe pressure conditions or leaks, removal of contaminated soil adjacent to surface water, removal of fluid from tanks and other receptacles, hauling and disposal of refined chemical barrels, and mowing.

6.4 Other Regulatory Services

a. Information Management

Information management services include the services required to collect, validate, and disseminate data to industry. For the most part, data collection is accomplished by using IT systems and business processed built in Petrinex and IRIS. These two information management systems are closely integrated and require continuous IT management to ensure efficient ongoing integration of data between the two systems. The performance of data collection systems are continuously monitored and improved on through ongoing system enhancements. During 2015-16, 118 Petrinex and 314 IRIS change requests helped correct system errors and provide system enhancements aimed at continuous business process improvement.

Validation efforts include auditing data submissions and developing reports and procedures aimed at monitoring industry reporting errors and inconsistencies in both Petrinex and IRIS and at ensuring that non-compliance penalties are appropriately assessed. Validation processes ensure the accuracy and integrity of all collected data.

- ⇨ 5,366 suspect facility data records were reviewed and followed up on with industry to ensure accuracy of the data and to ensure that necessary amendments are submitted.
- ⇨ Well data audits related to 692 wells were performed during 2015-16. In addition, 9,319 work items and 899 review items were processed after IRIS was launched in November 2015.
- ⇨ After the implementation of IRIS, 1,344 well licence and post completion audits were performed.

Services related to dissemination of data include the development and operation of data extracts and reports used by industry and industry data vendors. A number of new reports and extracts were developed and implemented in concert with the implementation of IRIS in November 2015. In addition, ECON's Information Management group processed 273 one-time requests for data.

b. Client Support

ECON provided regulatory support to industry in 2015-16 through a number of avenues including the Energy and Resources (ER) support desk, Petroleum Data Management and Compliance (PDMC) support desk and several other more informal service desks within the Petroleum and Natural Gas (PNG) Division. In an effort to improve industry support and move towards a single-window model, in 2015-16 ECON consolidated all of the PNG regulatory support services into a single PNG support desk (PNG.support@gov.sk.ca).

The formal regulatory support desks (ER support, PDMC support and PNG support) handled a total of 10,446 calls and emails during 2015-16.

c. Policy Development

Policy development initiatives during 2015-16 included:

- ⇨ Development work related to Saskatchewan adopting enhanced oil and gas measurement requirements that are harmonized to the extent possible with Alberta requirements. Development work was completed during 2015-16 and Saskatchewan Directive PNG017: Measurement Requirements for Oil and Gas Operations was implemented in April 2016. While the directive is harmonized to the extent possible with Alberta's Directive 017, the new directive highlights any differences between the requirements in the two provinces.
- ⇨ Development work related to Saskatchewan adopting an Enhanced Production Audit Program (EPAP) program in Petrinex was completed during 2015-16, and Saskatchewan Directive PNG076: Enhanced Production Audit Program (EPAP) was implemented in April 2016. Like the enhanced measurement and reporting requirements, Saskatchewan's EPAP program is harmonized to the extent possible with Alberta's EPAP program. As well, the new Saskatchewan directive highlights any differences between the requirements in the two provinces. In conjunction with the directive, a comprehensive Guideline: Operating the Enhanced Production Audit Program (EPAP) was developed to assist industry with initiating and operating EPAP at a company level.

6.5 Agriculture

In 2015-16, AG issued 102 new surface leases including the review of project proposals, site inspections and field work as needed. The ministry also completed 117 surface lease renewals, 125 surface lease abandonments, approximately 50 surface lease amendments, numerous seed mix approvals, four Saskatchewan Petroleum Industry/Government Environment Committee (SPIGEC) meetings, on lease spill inspections, and policy development regarding surface lease rate review.

6.6 Environment

In 2015-16 the Ministry of Environment processed 3,762 oil and gas project proposals. Site inspections were associated with a significant number of those projects, including pre and post construction inspections and inspections that were undertaken during construction. The Ministry currently administers 852 oil and gas dispositions on both Crown and Park land it is responsible for; 37 new dispositions and 61 renewals were processed in 2015-16.

Ministry staff also undertook numerous meetings with proponents, attended all Saskatchewan Petroleum Industry and Government Environment Committee (SPIGEC) meetings.

APPENDIX A

KPMG Accountants' Report

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

ACCOUNTANTS' REPORT

To: Saskatchewan Ministry of Economy

As requested by The Saskatchewan Ministry of the Economy (MoE) we have performed the following procedures in connection with to the Well Levy Revenue and Regulatory Costs financial information (the Financial Information) contained within section 4.0 Financial Reporting of the *Oil and Gas Regulatory Cost Recovery Levy Annual Report for 2015 -16* (the Oil Levy Report) (to which this report is attached):

Revenue Item

1. For the Well Levy Invoiced amount, we reconciled the total amount to the MoE's invoice summary reporting and the general ledger (G/L) system to determine whether it occurred and is accurate.

   As a result of applying the above procedure, we found no exceptions.

Cost Items

2. For Costs Detail items 1 through 8, we reconciled the 2015-16 Actual amounts to the supporting documentation provided by the MoE, the Ministry of Agriculture (MoA) and the Ministry of Environment (MoEnv) (including: cost aggregation schedules, G/L reports, payroll summaries, full time equivalent employee [FTE] summaries, employee lists, and salary/wage grids).

   As a result of applying the above procedure, we found no exceptions.

3. For Costs Detail items 1 through 8, we assessed the mathematical accuracy of the 2015-16 Actual amounts by footing sub-totals and totals, as well as reviewing and recalculating the formulas and calculations used to aggregate the costs within the supporting documentation.

   As a result of applying the above procedure, we found no exceptions.

4. For Costs Detail items 1 through 8, we assessed whether the underlying costs that were aggregated to compile the 2015-16 Actual amounts align with the nature and types of costs described in the references to the Financial Information.

   As a result of applying the above procedure, nothing came to our attention to suggest that the amounts did not align with the nature and types of costs described in the references to the Financial Information.

The above procedures do not constitute an audit of the Financial Information or the Oil Levy Report, and would not necessarily reveal the existence of errors in the information taken as a whole. Therefore, we express no opinion on the overall Financial Information presented in the Appendix to this report.

It is understood that this report is intended for use by the Ministry of the Economy to support their production of the Oil Levy Report, and is not to be used for any other purpose without the express consent of KPMG.

KPMG LLP

Chartered Professional Accountants

Regina, Canada
November 28, 2016

APPENDIX B

KPMG Summary Letter

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

PRIVATE AND CONFIDENTIAL
Denise Haas, CPA, CMA
Chief Financial Officer
Revenue and Corporate Services Division
Ministry of the Economy
300, 2103 – 11th Avenue
Regina, SK S4P 3Z8

November 30, 2016

Dear Ms. Haas:

Summary Letter (Prepared Without Audit) Providing Qualitative Comments

We are writing to you in response to our October 12, 2016 engagement letter in which we outlined our approach for assisting the Saskatchewan Ministry of the Economy (MoE) by applying agreed-upon procedures in relation to the Well Levy Revenue and Regulatory Costs financial information (the Financial Information) contained within the Financial Reporting section of the *Oil and Gas Regulatory Cost Recovery Levy Annual Report for 2015 -16* (the Oil Levy Report).

We would like to thank the management and personnel of MoE for their assistance and cooperation during the course of our engagement. All requests for access to information were granted on a timely basis.

This is a summary letter (prepared without audit) that provides qualitative comments on the following matters:

- The degree to which the Financial Information agrees to the supporting documentation produced by the MoE, as well as the Saskatchewan Ministries of Agriculture and Environment (who collectively incurred approximately 8% of the Oil Levy regulatory costs); and

- The degree to which the Financial Information reasonably appears to align to the descriptions and assumptions of the cost categories provided within the supporting references to the Financial Information contained within the Oil Levy Report.

To complete our engagement, we performed the following procedures:

- We assessed the methodology for developing and calculating the Financial Information with representatives from the Ministries of Economy, Agriculture and Environment (hereafter collectively referred to as the Ministries).

- We compared the Financial Information contained within the Financial Reporting section of the Oil Levy Report to the supporting financial information produced by the Ministries.

- We assessed the mathematical accuracy of the Financial Information and the supporting documentation by footing sub-totals and totals and reviewing and recalculating formulas.

- We assessed the reasonableness of the assumptions, accumulation methods and formulas utilized by the Ministries to aggregate the costs for the Financial Information by reviewing the supporting documentation and interviewing members of management from the Ministries.

- We assessed whether the underlying costs that were aggregated to compile the Financial Information align with the nature and types of costs described in the references to the Financial Information.

Qualitative Comments

As a result of the agreed upon procedures during this engagement, we have the following comments:

Financial Information Reconciled to the Supporting Documentation

- The MoE produced a detailed binder of documentation (including: cost aggregation schedules, general ledger [G/L] reports, payroll summaries, full time equivalent employee [FTE] summaries, employee lists, and salary/wage grids) that supported the aggregation of cost amounts to the six MoE categories contained within the Financial Information.

- The Ministries of Agriculture and Environment each produced a buildup of costs that outlined the aggregation of cost amounts to their two respective categories contained within the Financial Information, and provided additional documentation (including: cost aggregation schedules, G/L reports, payroll summaries, FTE summaries, employee lists, and salary grids) to support those costs.

- We were able to trace the amounts for Costs Detail items 1 through 8 within the Financial Information to the supporting documentation provided by the Ministries.

- We were able to assess the mathematical accuracy of the Costs Detail items 1 through 8 within the Financial Information by footing sub-totals and totals, as well as reviewing and recalculating the formulas and calculations used to aggregate the costs within the supporting documentation.

Financial Information Aligning to the Descriptions and Assumptions of the Cost Categories

- Our review of the supporting documentation and interviews with management from the Ministries identified that:

    - the Ministries did have support for the assumptions, accumulation methods and formulas utilized to aggregate the amounts for Costs Detail items 1 through 8 within the Financial Information;

- the underlying costs that were aggregated to compile the amounts for Costs Detail items 1 through 8 appeared to align with the nature and types of costs described in the references to the Financial Information.

- As a result of our work performed during this engagement, nothing came to our attention to suggest that: i) the assumptions, accumulation methods and formulas utilized were not reasonable; or ii) the amounts for Costs Detail items 1 through 8 did not align with the nature and types of costs described in the references to the Financial Information.

Procedures performed

This is a summary letter only, and is provided in conjunction with our engagement by MoE by applying agreed-upon procedures in relation to the Financial Information contained within the Financial Reporting section of the Oil Levy Report. We have not performed an audit on the information contained in this letter, and accordingly we do not express an audit opinion on this information.

As a result of this engagement, KPMG and MoE agreed upon two deliverables, including this summary letter. We agreed that these deliverables would be designed to assist MoE to support their production of the Oil Levy Report. The following table sets out the procedures performed, and the relevant deliverables containing the results:

Procedures Performed	Deliverable
• Prepare a report, based upon the results of specified procedures, to MoE indicating the results of certain agreed upon procedures, such as: a) Whether or not the Financial Information contained within the Financial Reporting section of the Oil Levy Report reconciles to the supporting financial information produced by the Ministries; b) Assessing the mathematical accuracy of the Financial Information; and c) Assessing whether the underlying costs that were aggregated to compile the Financial Information align with the nature and types of costs described in the references to the Financial Information contained within the Financial Reporting section of the Oil Levy Report.	Our Accountants' Report dated November 28, 2016
• Prepare a summary letter to MoE providing qualitative comments on the following matters: a) The methodology utilized by the Ministries for developing and calculating the Financial Information; b) The degree to which the Financial Information reconciles to the supporting documentation produced by the Ministries;	This Summary Letter

Procedures Performed	Deliverable
and c) The degree to which the Financial Information reasonably appears to align to the descriptions and assumptions of the cost categories provided within the supporting references to the Financial Information contained within the Oil Levy Report.	

* * * * *

This letter is intended solely for the purpose of assisting the Ministry of the Economy to support their production of the Oil Levy Report, and is not to be used for any other purpose without the express consent of KPMG.

Yours very truly

KPMG LLP

Chartered Professional Accountants

James Barr, CPA, CA
Partner
(306) 791-1236