Outstanding Recommendations

Assessment of Implementation Report

Alberta Petroleum Marketing Commission

Systems to Manage Risks in Business Arrangements

(February 2018)

Summary of Recommendations

We completed an assessment of implementation (AOI) of our February 2018 audit of the Alberta Petroleum Marketing Commission's (APMC) management of risks in business arrangements. We found that APMC implemented the four recommendations.

IMPLEMENTED Recommendation:
Risk management: Enterprise risk management and board oversight over business arrangements

IMPLEMENTED Recommendation:
Reporting to Albertans

IMPLEMENTED Recommendation:
Performance measures and targets

IMPLEMENTED Recommendation:
Lessons learned

Introduction

In 2018,[17] we audited whether the APMC had adequate systems to manage risks associated with its business arrangements. We concluded that APMC did not have well-designed systems to manage and communicate the risks of its businesses arrangements and it did not have sufficient evidence to demonstrate that its risk management systems were operating effectively. Our 2018 audit primarily focused on the Sturgeon Refinery agreements[18] as the refinery was the only business arrangement APMC was involved in at that time. Based on our findings, we made four recommendations to APMC to improve processes related to risk management, oversight, reporting, and lessons learned.

Since our 2018 audit, APMC has become involved, in varying capacities, in three significant business activities where agreements were entered into between APMC and third parties:

- Crude-by-Rail (CBR)
  - In November 2018, APMC was directed by the Minister of Energy to design and implement the crude-by-rail program.
  - In May 2019, APMC was directed by the Minister of Energy to cancel and divest the crude-by-rail program, without operating the program.
- Keystone XL (KXL)
  - In May 2020, APMC was directed by the Minister of Energy to implement the KXL business arrangement.
  - Following the revocation of the U.S. Presidential Permit, in January 2021, a review of the project was completed by TC Energy, in consultation with the Government of Alberta, the decision was reached to terminate the KXL pipeline project. APMC is working with TC Energy on the KXL divestiture.
- Optimization of the Sturgeon Refinery arrangement (optimization)
  - APMC prepared the assessment of public interest and internal analysis for risk, feasibility, and cost benefit. APMC has estimated the optimization will yield a $2 billion net present value.
  - In June 2021, the Government of Alberta provided approval for APMC to execute negotiations and steward the operations of the refinery as 50 per cent owner.

The Department of Energy, in support of the minister, was responsible for reviewing the risks associated with accepting and moving forward with the CBR program and KXL project. This included the collation of materials needed to analyze public interest. APMC's responsibilities for CBR and KXL were restricted to the management of the implementation and operational risks of the arrangements. The scope of our followup work includes APMC's responsibilities with respect to these significant business arrangements but does not include the processes employed by the department to accept arrangements and analysis of public interest.

The Department of Energy and its associated organizations, including APMC, assess public interest by analyzing if a proposed project will assure sustained prosperity through stewardship of energy and mineral resources systems, responsible development and wise use of energy.

[17] *Report of the Auditor General—February 2018*, APMC Management of Agreement to Process Bitumen at the Sturgeon Refinery.

[18] For the 2018 performance audit and this assessment of implementation, our scope did not include APMC's contractual arrangement with a third party to facilitate the sale of crude oil royalties collected in kind (CORIK) as part of the processes we examined. The Sturgeon Refinery and Energy East business arrangements were to be included in the 2018 audit; however, the Energy East project was cancelled (with no cancellation cost to the government) prior to our 2018 audit.

In addition to assessing the implementation of our recommendations, we also re-examined APMC's process to assess potential business development opportunities—a process we concluded was operating effectively in 2018. The scope of this re-examination of included only the optimization of the Sturgeon Refinery, as APMC was responsible for initiating, evaluating public interest benefit, and implementing the opportunity.

Conclusion

Based on our followup work, we conclude that APMC implemented our recommendations related to:

- risk management and board oversight over business arrangements, including the risk analysis and management over the execution and running of the CBR and KXL projects per ministerial order
- preparing organizational business plans and publicly providing annual reporting to Albertans
- developing performance measures and targets for the Sturgeon Refinery
- completing a lessons-learned analysis on significant business arrangements, including Sturgeon Refinery, CBR and KXL

Further, we conclude APMC has sustained systems and effective processes for assessing potential business arrangements, such as the Sturgeon optimization, including completion of the assessment of public interest and risk analysis.

Recommendation:
Risk management: enterprise risk management and board oversight over business arrangements
IMPLEMENTED

Context

In 2018, we recommended that APMC develop processes for risk management and board oversight. We found that APMC had a poorly designed risk management process with limited evidence that risk management processes were in place and were operating effectively at both an organizational and a business arrangement level. Additionally, we found when important documents were submitted to the board, there was no documented evidence of approval, rejection, or direction.

Our current findings

APMC has developed and deployed an Enterprise Risk Management (ERM) policy and program. Through examination of the *Risk Management Process Guidance* document, various iterations of the risk register, and several quarters of board risk presentations, we conclude APMC has implemented a robust ERM system.

Specifically, the ERM process now includes:

- a complete risk register with descriptions of the risk, whether the risk is tied to a component of the organization or tied to the overall organization
- cross-organizational input to identify and assess risk (both inherent and residual), using established definitions for likelihood and impact of the risk event
- assignment of key risks to a "risk owner" that is responsible to continually monitor risk profiles, progress the action plans, and report to APMC management all matters that could materially affect the organization

We verified that APMC has used its ERM to ensure significant risks and mitigation strategies have been identified for APMC's responsibilities over business arrangements.

We also saw evidence that APMC is continuing to improve its risk management processes. For example, APMC has plans in place to enhance key risk monitoring, with accompanying action plans and timelines.

Board oversight

APMC has developed and deployed its *Risk Management Process Guidance* document and the *Mandate and Roles* document to further define and improve board oversight. Through examination of meeting minutes and several quarters of risk presentations to the board, we conclude APMC has implemented appropriate board oversight of risk management processes.

Board responsibilities related to risk management include ensuring appropriate processes are in place to identify, evaluate, mitigate, monitor and communicate risks. The board receives quarterly risk management updates, which include new risks identified, changes to key risks (including key risk indicators), and planned mitigation to reduce risk. The board played an active role ensuring that management put a sufficient risk management system in place. Further, we saw evidence of extensive risk-related board discussions and risk reporting for each of the key business arrangements that APMC has recently been involved with, including the Sturgeon Refinery, Crude-by-Rail, and Keystone XL.

Risk management over business arrangements

The scope of APMC's risk analysis process and this AOI is limited to the risks associated with implementing ministerial directives to comply with its statutory duties.

We reviewed evidence to support that the risk management activities, including risk identification, mitigation development and board reporting, were completed.

Crude-by-Rail (initiation portion)

The Crude-by-Rail (CBR) program was designed to commence June 2019 and expire December 2022. The program was intended to help manage pipeline constraints by moving up to 120,000 barrels per day (bdp) of diluted bitumen from Alberta to market destinations in Canada, the U.S. (including the U.S. Gulf Coast) and international markets.

The Department of Energy was responsible for the public interest assessment and supporting analysis for the CBR program. Upon approval of proceeding with crude-by-rail, APMC was tasked to design and implement the program. APMC negotiated with industry, entered into various commercial agreements for the logistical components of the program and was negotiating buy/sell contracts. APMC was also responsible for administering the contracts and risk management of the program.

Crude-by-Rail (divestiture portion)

In May 2019, the Minister of Energy directed the divestment of the crude-by-rail program to the private sector. APMC's role was limited to risk managing the divestment. The public interest of Alberta in exiting the program was determined by the Minister of Energy.

Until completion of divestment in March 2022, APMC provided the government with regular updates on the divestment process, progress and estimate of cost reduction from the divestment. Through our review of APMC's risk management program, we noted that the divesture of the crude-by-rail contracts was identified, assessed and reported appropriately.

Keystone XL

On March 31, 2020, the government finalized an agreement with TC Energy Corporation to provide financial support to complete construction of the remaining portions of the KXL pipeline. The investment provided financial support of up to $5.3 billion (US), beginning with an equity commitment up to $1.06 billion (US).

The public interest in the Keystone XL project was determined by the Minister of Energy. Once the KXL business arrangement was approved by government, APMC was directed to enter into contracts and implement the Keystone XL investment arrangements, including risk management of the program.

Through our review of APMC's risk management program we noted that the revocation of the Presidential Permit was identified and reported appropriately.

APMC is working with TC Energy to divest Keystone XL assets.

Recommendation:
Reporting to Albertans
IMPLEMENTED

Context

In 2018, we recommended that APMC improve its reporting to Albertans by preparing a business plan and an annual report that are publicly available to Albertans. We found that APMC's public reporting on significant business arrangements was insufficient given the risks and financial magnitude of the activities APMC was overseeing.

Our current findings

Annual report

APMC has developed and publicly disclosed an annual report. Through examination of the annual report, we conclude APMC has implemented the 2018 recommendation.

To verify APMC implemented our recommendation:

- We found the annual reports include important financial and nonfinancial information on APMC's business arrangements, operations and financial results, including accompanying analysis.
- We found that APMC has adequate processes to determine the extent and nature of the information provided in its public documents, including ensuring commercially sensitive information is not inappropriately disclosed.
- We found the annual reports were submitted to and approved by the APMC Board prior to their release.

Business plan

APMC developed a business plan which was reviewed and approved by the board in August 2022 and publicly released in the fall of 2022. Through examination of the business plan, we conclude APMC has implemented the 2018 recommendation.

To verify APMC implemented our recommendation:

- We found the business plan includes APMC's mandate, goals, strategic priorities, and success measures.
- We found APMC has processes to ensure board approval of the business plan and related strategies.

We also received evidence that APMC plans further improvements to its business plan by:

- further defining key metrics to assess organizational performance
- improving reporting to the board to include variance analysis against key metrics

Recommendation:
Performance measures and targets
IMPLEMENTED

Context

In 2018, we recommended that APMC develop performance measures, set targets and compare results against planned performance. We found that APMC had not established key performance indicators and targets to allow comparison of expected outcomes with actual results.

Our current findings

APMC has developed performance measures and targets. Through examination of the measures, we conclude APMC has implemented the 2018 recommendation.

To verify APMC implemented our recommendation:

- We found APMC has key performance indicators for its business arrangements. Through participation of the Northwest Refinery Partnership, the owner of the Sturgeon Refinery, APMC contributed to the creation of key performance indicators for the refinery.
- We found for each performance measure a threshold was developed and defined. If the threshold is exceeded a detailed variance analysis is completed to understand the cause.
- We found APMC presents the results of performance metrics and targets to the board on a quarterly basis.

APMC is continuing to mature the performance measures and targets process to include all business arrangements APMC is responsible for overseeing.

Recommendation:
Lessons learned
IMPLEMENTED

Context

In 2018, we recommended that APMC complete an analysis of the lessons learned from its significant agreements. We found that APMC had not completed a thorough analysis of the lessons learned from its business arrangements.

Our current findings

APMC has developed a process and areas of key focus to analyze the lessons learned from business arrangements. Through examination of the process and completed reports, we conclude APMC has implemented the 2018 recommendation.

To verify APMC implemented our recommendation:

- We examined the lessons learned document created for the Sturgeon Refinery business arrangement. The document included key elements related to the Sturgeon Refinery: contracts, process agreements, project management, technical engineering, operations, maintenance, turnaround, procurement, and finance. The analysis was prepared by APMC personnel who had considerable knowledge about the Sturgeon Refinery business arrangement.
- We found the issues and recommendations resulting from the lessons-learned analysis were presented to the board.
- We found lessons learned from the Sturgeon Refinery business arrangement were applied to the Keystone XL investment, including contractual and oversight recommendations.

APMC is in the process of completing a lessons-learned analysis for the Crude-by-Rail business arrangement and a lesson learned analysis will be completed for the Keystone XL business arrangement after divestment activities are complete.

Processes to assess new business opportunities and arrangements

Context

In 2018, we examined whether APMC had effective processes for assessing new business opportunities. The 2018 audit considered whether APMC had systems to manage the risks associated with its business arrangements and, in particular, whether APMC analzyed each new business arrangement to decide whether pursuing it is in the province's interests. At that time, APMC was receiving various proposals from industry participants. While none of the proposals were selected to proceed further, we did find that APMC had good processes for assessing these business opportunities.

Since our 2018 audit, APMC has been involved in three significant business activities where agreements were entered into: Crude-by-Rail, Keystone XL, and the optimization of the Sturgeon Refinery arrangement.

The focus of following up on this original criterion is to ensure APMC is continuously applying the good processes for assessing business development opportunities and arrangements, including risk analysis, as seen through the 2018 audit. The optimization of the Sturgeon Refinery agreement was the only business arrangement in which APMC proposed and led the assessment of public interest towards the approval of the arrangement.

Our current findings

Since 2014, the Minister of Energy has had the ability under the *Petroleum Marketing Act* to issue directions that APMC must follow in carrying out its duties, including new business arrangements.

If APMC proposes a project, such as the Sturgeon Refinery optimization, its duties include the responsibility to prepare a full analysis to support its assessment of the public interest of Alberta and to obtain the required approvals to proceed with the project.

Based on our examination of APMC's process for assessing and managing the risks of business development opportunities and arrangements, we found APMC had a sufficient process in place to meet its requirements.

Sturgeon Refinery[19] optimization

During the 2020-2021 fiscal year, APMC sought to restructure its debt and reduce near term cash outflows associated with being a toll payer of the Sturgeon Refinery. APMC developed a cost-benefit analysis assessing whether it would be in the public interest of Alberta for APMC to remain a toll payer or to become a part owner of the refinery. The analysis included current risks, new business risks resulting from optimization, feasibility of the project, and cost benefits.

We reviewed the cost-benefit analysis and presentations created by APMC for the Sturgeon Refinery optimization arrangement. We found an extensive cost-benefit analysis was completed to support the public interest assessment. Further, we obtained the presentation and subsequent approval from the board to proceed with submitting the proposal to the minister and cabinet, which provided the approvals needed to proceed with the optimization transaction.

Through negotiations, on June 30, 2021, APMC executed an optimization transaction resulting in its acquisition of a 50 per cent ownership interest in the Northwest Redwater Partnership (NWRP). The partnership owns the Sturgeon Refinery.

[19] The Sturgeon Refinery is the first refinery built in Canada in over 35 years. It is designed to process approximately 79,000 barrels per day of diluted bitumen from Alberta's oil sands to ultra-low sulphur diesel, vacuum gas oil, diluent and natural gas liquids. The refinery is operated by the Northwest Redwater Partnership (NWRP)