

Chapter 43

Economy – Regulating Pipelines

1.0 MAIN POINTS

Failure to regulate pipelines effectively could harm people or the environment. This chapter reports on the status of seven recommendations we initially made in our 2012 audit on the Ministry of the Economy's (Economy) processes to ensure compliance with *The Pipeline Act, 2000* and *The Pipeline Regulations, 1998*.

By September 30, 2014, the Economy had implemented two of the seven recommendations, but needs to:

- › Establish policies and procedures to guide staff on evaluating ongoing pipeline operations
- › Develop a risk-based assessment approach to monitor pipeline construction and verify pressure tests
- › Consider seeking responsibility in law to licence flowlines and verify that pipeline operators clean up contaminated sites

2.0 INTRODUCTION

This chapter reports the results of our follow up of seven recommendations we made in our *2012 Report – Volume 1*, Chapter 5 about Economy's processes to ensure full compliance with *The Pipelines Act, 1998* and *The Pipelines Regulations, 2000*.

To conduct this review engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate the Ministry's progress towards meeting our recommendations, we used the relevant criteria from the original audit. Management agreed with the criteria in the original audit.

We obtained an update on progress from Economy and reviewed its new policies, procedures, and checklists.

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at September 30, 2014, and the Ministry's actions up to that date.

We found that the Ministry has implemented two recommendations, made progress on two recommendations, and had not made progress on the remaining three recommendations.



3.1 Need to Establish an Appropriate Management Framework to Monitor Compliance

We recommended that the Ministry of the Economy (formerly Ministry of Energy and Resources) develop written policies and procedures to guide staff when assessing pipeline design, monitoring pipeline construction, and evaluating pipeline operations. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Partially Implemented

We recommended that the Ministry of the Economy (formerly the Ministry of Energy and Resources) monitor pipeline operator compliance with integrity management and safety processes for existing pipelines. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Not Implemented

The Ministry is required to follow *The Pipelines Act, 1998* and *The Pipeline Regulations, 2000*. This legislation sets the minimum requirements for the design, construction, testing, operation, maintenance, and repair of pipelines to be the Canadian Standards Association Standards – Z662 Standard (Z662 Standard). The Z662 Standard is complex and contains detailed and technical requirements.

In early 2013, the Ministry developed and implemented a set of written policies and procedures to aid staff when reviewing a pipeline construction application and a ‘leave to open’ application (i.e., approval to use a pipeline).

Because the National Energy Board (NEB) is required to comply with the Z662 Standard, we compared its guidance to the Ministry’s written policies and procedures. We found that the Ministry’s policies and procedures incorporated the significant application requirements that the NEB prescribes as well as the requirements under *The Pipelines Act, 1998* and *The Pipelines Regulations, 2000*.

In 2014, the Ministry developed a self-audit form for ongoing pipeline operations that it will require pipeline operators to complete. The Ministry expects to receive the first pipeline operator self-assessments in late 2014. However, the Ministry has not established policies and procedures to guide staff on evaluating the completed self-assessments or conduct any other monitoring of ongoing pipeline operations. Also, the Ministry advised us that it expects to amend *The Pipeline Act, 1998* and *The Pipeline Regulations, 2000* to include more substantive provisions regarding pipeline integrity and safety of ongoing pipeline operations.

Without adequate written policies and procedures on all aspects of the Z662 Standard, staff lack the guidance necessary to carry out their work.

We recommended that the Ministry of the Economy (formerly the Ministry of Energy and Resources) consider seeking responsibility in law to verify that pipeline operators clean up contaminated sites to an acceptable condition. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Not Implemented

As at September 30, 2014, the Ministry had not made any progress in this area. The Ministry plans to consider this recommendation when it considers amendments to *The Pipeline Act, 1998* and *The Pipeline Regulations, 2000*.

Without the Ministry seeking responsibility in law to verify that pipeline operators clean up contaminated sites to an acceptable condition, there is a risk that no other government agency will accept this responsibility. This could result in land and groundwater becoming contaminated due to insufficient clean-up of spills by pipeline operators.

3.2 Need for Risk-Based Monitoring

We recommended that the Ministry of the Economy (formerly the Ministry of Energy and Resources) consistently document its assessments of pipeline license applications for compliance with the law prior to issuing pipeline licenses. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Implemented

In 2013, the Ministry implemented checklists for staff members to use when assessing pipeline license applications and ‘leave to open’ applications. Once completed, it maintains these checklists in the permanent record associated with each licensed pipeline.

We recommended that the Ministry of the Economy (formerly the Ministry of Energy and Resources) assess the resources it requires to fulfill its responsibilities under *The Pipelines Act, 1998*. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Implemented

The Ministry identified a number of potential resourcing issues in relation to its regulatory responsibilities for pipelines. As a result, the Ministry hired an additional full-time pipeline engineer in January 2013 to fulfill some of its regulatory responsibilities. The Ministry also purchased some additional equipment (e.g., laptop, truck).



We recommended that the Ministry of the Economy (formerly the Ministry of Energy and Resources) implement a risk-based assessment approach to monitor pipeline construction and verify pressure tests. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Partially Implemented

At September 2014, the Ministry had not set a risk-based assessment approach to monitor pipeline construction and verify pressure tests. Rather, the Ministry is using an informal policy to prioritize inspections of pressure tests related to “leave to open” application and pipeline construction over other work. Because of the increase in staff resources noted above, the Ministry has completed notably more inspections related to pipeline construction and pressure tests than in the past.

Having a specific risk-based assessment approach provides Ministry staff with clear priorities to guide their work to monitor pipeline construction and verify pressure tests.

3.3 Flowlines Currently Not Licensed

We recommended that the Ministry of the Economy (formerly the Ministry of Energy and Resources) consider seeking responsibility in law to license flowlines. (2012 Report – Volume 1; Public Accounts Committee agreement December 9, 2013)

Status – Not Implemented

At September 30, 2014, the Ministry had not made progress in this area. The Ministry expects to consider the need to license flowlines during the 2015-16 fiscal year. It expects this will include its decision on whether changes to the law are necessary.