

Chapter 18

Economy – Regulating Pipelines

1.0 MAIN POINTS

This chapter reports the status of five recommendations we first made in our 2012 audit on the Ministry of the Economy's processes to ensure compliance with *The Pipelines Act, 1998* and *The Pipelines Regulations, 2000*.

By March 2017, the Ministry had implemented two of the five recommendations we first made in our 2012 audit. The Ministry has proposed changes to legislation that include the mandatory licensing of flowlines and verifying that pipeline operators appropriately clean up contamination of sites for which they are responsible. The Ministry continues to need to:

- › Establish policies and procedures to guide staff on evaluating ongoing pipeline operations
- › Develop a risk-based assessment approach to verify pressure tests and to monitor pipeline construction and the integrity and safety of existing pipelines

Pipeline failures caused by poor design or inadequate maintenance can seriously impact people, the environment, and the economy. A pipeline leak can contaminate both land and water. Failure to regulate pipelines effectively could harm people and/or the environment.

2.0 INTRODUCTION

Saskatchewan people rely on the Ministry to regulate the safety of oil and gas pipelines. They expect the Ministry to have an effective regulatory regime and to verify that companies comply with applicable laws. Effective regulatory processes and standards minimize the risk of disasters occurring.

Our *2012 Report – Volume 1*, Chapter 5 concluded that the Ministry of the Economy (formerly the Ministry of Energy and Resources) did not have effective processes to ensure full compliance with *The Pipelines Act, 1998* and *The Pipelines Regulations, 2000*. We made seven recommendations. By September 30, 2014, as reported in our *2014 Report – Volume 2*, Chapter 43, the Ministry had implemented two of the recommendations.

This chapter reports the results of our second follow-up of the five outstanding recommendations.

To conduct this audit 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.



We interviewed Ministry management and employees responsible for regulating pipelines; reviewed proposed legislation, revised policies and procedures; and examined information the Ministry now receives from pipeline operators and tested a sample of the submissions.

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 March 31, 2017, and the Ministry's actions up to that date.

We found that the Ministry had implemented two recommendations, made progress on two recommendations, and had not made progress on one recommendation.

3.1 Written Policies and Procedures Needed

We recommended that the Ministry of the Economy (formerly the 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 (Implemented with respect to pipeline design and construction, but not implemented with respect to pipeline operations)

The Ministry is required to enforce *The Pipelines Act, 1998* and *The Pipelines 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, technical requirements.

As of September 2014, the Ministry had developed and implemented a set of written policies and procedures to aid staff when reviewing construction applications and 'leave to open' applications (i.e., approval to use a pipeline). We found these policies and procedures incorporated the significant application requirements that the National Energy Board¹ prescribes as well as the requirements from *The Pipelines Act, 1998* and *The Pipeline Regulations, 2000*.

By the end of March 2017, the Ministry did not have written policies and procedures to evaluate existing pipeline operations (see **Section 3.2** for further discussion of 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.

¹ The National Energy Board is Canada's energy and safety regulator. It oversees safety for the full lifecycle of energy facilities—from design and application assessment to construction, operation, and abandonment. www.neb-one.gc.ca/bts/pblctn/nnlrprt/2015/nnlrprt2015-eng.pdf (30 March 2017).

3.2 Timely Monitoring of Compliance Needed

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

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

As of March 31, 2017, the Ministry indicated it received about half of the compliance declaration forms for the approximately 2,200 licensed pipelines in the province. It planned to use information from these forms to help it monitor pipelines. However, by March 2017, its focus was on updating its licensing records and issuing amendments to pipeline licences as opposed to using the information to monitor the pipelines. It had not started to assess the completed forms to assist it in its monitoring processes.

The Ministry had developed the compliance declaration form in 2014. The compliance declaration form requires operators to indicate, for each licensed pipeline, whether they comply with the Z662 Standard, Ministry requirements and/or industry best practices related to pipeline specifications, operations, discontinuance or abandonment. It initially required all pipeline operators to complete these forms for their ongoing pipeline operations by the end of 2014. The Ministry granted extensions to this deadline on request.

Most of the approximately 80 pipeline operators have submitted the completed forms. Two significant operators had not submitted all of their forms as of March 2017. These are the two largest pipeline operators, who account for about one-half of the pipelines in the province. The Ministry expects operators to submit all forms.

When pipeline operators completed their forms, many found that their Ministry-issued pipeline operating licences did not reflect their current infrastructure. For example, some operators had more than 100 metres of pipeline than indicated in their licence.

The Ministry allows operators to add up to 100 metres of pipe without amending their licence. However, some operators had added less than 100 metres of pipe several times. This resulted in many compliance declaration forms having *unsatisfactory* responses to certain questions.

As a result, many operators submitted amendments to update their licences along with the completed compliance declaration forms. The Ministry indicated that the two largest



pipeline operators have advised they expect to submit a significant number of amendments to their licences.

The Ministry received 385 amendments since January 2015. By March 2017, it had processed just over 50% of them. The Ministry indicated, given resources it has assigned to process these amendments, it plans to complete processing amendments by the end of calendar year 2017. It is processing these amendments to make its records of pipelines complete and accurate.

As of March 2017, it had not developed policies and procedures for staff to evaluate the information on the completed compliance declaration forms.

In addition, at March 2017, the Ministry had not set a risk-based assessment approach to monitor pipeline construction and verify pressure tests.

Rather, the Ministry informally prioritized its selection of which pressure tests to observe related to 'leave to open' applications and pipeline construction. The Ministry indicated it considers risks such as proximity to urban centres or water crossings and purpose of the pipeline (e.g., pipes designed to carry hydrogen sulfide were assessed as a higher risk than those designed to carry crude oil). It did not document its assessed risk or use a formal risk matrix to rank new pipeline construction.

In 2016, Ministry staff attended 32 of the 37 'leave to open' pressure tests to determine the sufficiency of the testing process and accuracy of results. It assigned responsibility to observe pressure tests to either pipeline engineers or technicians depending on its informal risk assessment of the pipeline.

Not having a specific risk-based assessment approach increases the risk of the Ministry not focusing its monitoring resources on pipelines and operators presenting the highest risk to public health and safety.

3.3 Responsibility for Licensing of Flowlines and Verification of Cleanup Sought

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 – Implemented

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 – Implemented

Since September 2014 (the time of our last follow-up), the Ministry has proposed changes to *The Pipelines Act, 1998* (i.e., Bill 43, *An Act to amend The Pipelines Act, 1998*, introduced on November 28, 2016). The proposed changes would:

- › Require all flowlines to be licensed
- › Place more responsibility on pipelines operators when abandoning pipelines—it would make them liable for cleaning up abandoned pipelines
- › Allow the Ministry to set directives

The Ministry showed us that it had developed a directive for pipelines and flowlines for overseeing the clean up of contaminated sites caused by an incident. It expects to put this directive in place if and when the Bill is enacted into law.

As of March 2017, Bill 43 was in progress (i.e., 2nd reading) and the Ministry was awaiting the Assembly's final decision on the proposed changes. In addition, the Ministry considered and has plans to manage the impact on its staffing if this Bill is enacted into law.

