Auditor General OF ALBERTA

Alberta Petroleum Marketing Commission
Management of Agreement to Process Bitumen at the Sturgeon Refinery

Executive Summary

February 2018

Who

Alberta Petroleum Marketing Commission

What

Performance audit

When

We conducted our field work between November 2016 and June 2017 and substantially completed our audit on July 31, 2017.

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Learn More

apmc.alberta.ca

Why we did this audit

Business arrangements in the energy sector are of a high-stakes nature. The benefits can be very large, but so are the risks. Contracts can be worth billions of dollars, but success in the arrangements can depend on factors that are difficult to predict, such as the price of oil.

Since 2011, the Government of Alberta has considered a number of energy arrangements of this high-benefit, high-risk kind, entering into two of these arrangements. One is a $26 billion commitment for the government to supply bitumen to the Sturgeon refinery over a 30-year period. In another arrangement, the government planned to pay about $4.6 billion over 20 years to have oil transported to the east coast through the Energy East Pipeline. Subsequent to our audit, TransCanada cancelled this project.

These arrangements are managed by the Alberta Petroleum Marketing Commission (APMC), a commercial agency of the Government of Alberta. Although the Sturgeon arrangement is currently the only large-scale arrangement the APMC manages, the government has given the agency a mandate to explore new arrangements. In particular, the mandate allows the APMC to seek new energy markets and promote value-added activities, such as oil refining. These ventures should align with government policies, and they require approval from the Government of Alberta.

For an agency like the APMC to be successful and demonstrate stewardship when managing substantial commercial agreements, three elements are essential:

- First, the agency must have highly developed processes for managing risk, as well as the expertise and capacity to act on those processes.
- Second, the agency should be subject to strong oversight processes to ensure risk management processes and staffing requirements are in place to support the success of the agreements.
- And third, the agency has an obligation to report on its agreements to Albertans, whose resources it uses.

What we concluded

We concluded that the APMC does not have well-designed systems to manage and communicate the risks of its business arrangements and the agency does not have sufficient evidence to demonstrate that its risk management systems are operating effectively.

Management of Agreement to Process Bitumen at the Sturgeon Refinery (continued)

Why this is important to Albertans

The APMC's mandate has a long-lasting impact on the resources of Alberta. The agency is managing a complex, long-term business arrangement that has significant financial impacts for Albertans today and in the future. The existing business arrangement the APMC is entrusted to manage will commit approximately $26 billion of Albertans' resources over the next 30 years in pursuit of a favourable return.

Because of the structure of the North West Redwater Partnership (NWRP) arrangement, there is no plausible scenario where it would make financial sense to pull out of it. Albertans' resources are therefore committed. Strong oversight and risk management are consequently all the more important.

The government entered into the NWRP arrangement on Albertans' behalf, and ultimately Albertans assume all the associated risks and benefits over a long period of time. They should be confident that the APMC has adequate systems to manage the arrangement in the best interests of the province. Albertans should also receive sufficient public reporting on this arrangement to be able to keep current with the risks they assume and the benefits they receive.

What we examined

We examined the APMC's systems to manage risks, analyze results and report to the board and public on its business arrangements.

What we found

- The APMC has poorly designed risk management processes with limited evidence that risk management is operating effectively.
- Certain areas of contract monitoring need improvement.
- Staffing needs for today and the future are in the process of being developed.
- Board oversight of risk management functions could be improved.
- The APMC's current public reporting through its website and the Ministry of Energy's annual report is insufficient given the significance of the agreements.
- The APMC does not prepare a business plan, nor does it make its annual report public.
- The APMC has not defined what success means for it to be able to measure its performance.
- The APMC's assessment of business development opportunities is supported with good processes.

What needs to be done

We recommend that:

- the APMC develop and document effective processes for managing risk and for ensuring the commission has sufficient expertise to manage its business arrangements
- the board of directors exercise oversight by ensuring the APMC has these processes in place

We also recommend that the APMC:

- prepare a business plan and an annual report that are made publicly available to Albertans. The APMC must be able to demonstrate it has given appropriate consideration to the nature and extent of information it will share with Albertans.
- develop performance measures, set targets and compare results against planned performance
- complete an analysis of the lessons learned from its significant agreements, at a point in time when the commission deems it useful to do so

Consequences of not taking action

The financial risk to Albertans will be intensified if the APMC does not have proper processes and sufficient staffing capacity to manage the risks of its business arrangements.

In order for Albertans and legislators to be able to hold government accountable for results and understand the implications of significant contracts, sufficient information must be available. Albertans could be unfairly surprised if significant risks manifest themselves. Conversely, Albertans may be unaware of some of the important direct and indirect benefits obtained from significant commercial contracts used to promote strategic objectives.

Also, the potential value of learning through previous successes and failures could be lost if the APMC does not adequately analyze and document lessons learned.

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