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File OF-Surv-OpAud-A083-2020-2021-01  
CV 2021-476  
26 March 2021

Mr. Terry Anderson  
Chief Executive Officer and Accountable Officer  
ARC Resources Limited  
Suite 1200, 308 – 4<sup>th</sup> Avenue SW  
Calgary, AB T2P 0H7  
Email [REDACTED]

Dear Mr. Anderson:

**Canada Energy Regulator (CER) Final Audit Report  
ARC Resources Limited (ARC) – Audit of Accountable Officer Annual Report**

Please find attached a copy of the Final Audit Report for the audit of ARC's 2019 Accountable Officer Annual Report conducted during the period from 21 September to 27 November 2020. The audit was conducted by the CER in accordance with section 103 of the *Canadian Energy Regulator Act* (CER Act).

On 5 February 2021, the CER sent ARC the Draft Audit Report documenting the evaluation of ARC's 2019 Annual Report for review and comment. ARC was also advised that the CER intends to post the Final Audit Report on the CER's website. To that end, ARC was advised that if it had any objections to the release of the audit report, or to specific parts of the report, to provide the CER with a list of those objections along with a detailed rationale and specific reference to applicable sections of the *Access to Information Act* and the *Privacy Act*. ARC was advised that the CER redacts the personal information of ARC's employees with the exception of the personal information of ARC's executive staff, which the CER considers publicly known figures of the company.

ARC was given until 8 March 2021 to provide the CER with any comments on the Draft Audit Report. Since no comments were received from ARC by 8 March, the CER has now finalized its Final Audit Report and appendices, attached to this letter, which it will now post on the CER's website.

**Corrective and Preventive Action Plan**

ARC is directed to submit to the CER, a corrective and preventive action (CAPA) plan for approval within 30 calendar days of receipt of this Final Audit Report describing the methods, timing and rationale for addressing the non-compliant findings identified in the audit report. ARC is directed to use the CER standard CAPA plan template in the development of its CAPA plan for approval. The template was previously provided to ARC.

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The CER will monitor and assess ARC's corrective and preventive actions until they are fully implemented. The CER will continue to monitor the implementation and effectiveness of ARC's management system and programs through targeted compliance verification activities as part of its on-going regulatory approaches.

If you require any further information or clarification, please contact Mark Tinney, Lead Auditor, Systems Operations Business Unit at 403-966-1065 or at 1-800-899-1265 toll free.

Yours sincerely,

*Signed by*

Mark Tinney  
Lead Auditor  
Canada Energy Regulator

Attachment: ARC Resources Limited - Final Audit Report – Audit of Accountable Officer  
Annual Report, dated 26 March 2021

c.c.: Mr. Dan Barghshoon, Acting Director Audit, Enforcement and Investigation, Canada  
Energy Regulator, email [REDACTED]  
[REDACTED], Manager of Health and Safety, ARC Resources Ltd.,  
email [REDACTED]



Canada Energy  
Regulator

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du Canada

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**Canada Energy Regulator**  
**Suite 210, 517 Tenth Avenue SW**  
**Calgary, Alberta**  
**T2R 0A8**

**ARC Resources Limited**  
**Final Audit Report**  
**Audit of Accountable Officer Annual Report**  
**Compliance Verification Activity: CV2021-476**  
**File OF-Surv-OpAud-A083-2020-2021 01**  
**Date: 26 March 2021**



## Executive Summary

In accordance with section 103 of the *Canadian Energy Regulator Act* (CER Act), the Canada Energy Regulator (CER) conducted a compliance audit of the ARC Resources Limited (ARC) 2019 accountable officer annual report (Annual Report). The audit was conducted during the period from 21 September to 27 November 2020.

The objectives of the audit were to verify that ARC's Annual Report meets the requirements of the *Canadian Energy Regulator Onshore Pipeline Regulations* (SOR/99-294) and that the company has the necessary processes, procedures and work instructions in place to fulfill the requirements of the OPR section 6.6.

The scope of the audit included the personnel, processes, and activities used to generate the 2019 Annual Report focusing on the OPR paragraphs 6.5(1)(b), 6.5(1)(v), 6.6(1)(a), 6.6(1)(b), and 6.6(1)(c) over all of ARC's program areas for all lifecycle phases of ARC's CER-regulated assets.

The CER conducted the audit using the audit protocols, attached in Appendix 1.0 of this report. The CER assessed whether ARC's documentation, processes, and activities complied with legal and other requirements under the CER's authority listed below.

- The *Canadian Energy Regulator Act* (CER Act);
- The *Canadian Energy Regulator Onshore Pipeline Regulations* (SOR/99-294); and
- Any conditions contained within applicable certificates or orders issued by the CER.

Of the five (5) regulatory requirements listed in the audit protocol, the CER audit team had no issues of concern with one (1) and found ARC to be non-compliant with four (4). The non-compliant findings relate to:

- Goals, objectives and targets not being in accordance with the requirements of the OPR;
- Inadequate performance measures to assess the company's performance towards the achievement of the company's goals, objectives and targets; and
- Annual Report not being prepared in accordance with the requirements of, and to the level of detail required by, the OPR.

The findings from the audit are summarized in Table 1 and explained in detail in Appendix 1.0 of this report.

With respect to the identified non-compliances that are based on interviews with ARC's staff and a review of the information provided by the company, the CER is of the view that the non-compliant findings do not result in imminent or immediate safety or environmental protection issues.

ARC is required to develop a corrective and preventive action (CAPA) plan to address the non-compliant findings and submit it to the Canada Energy Regulator within 30 days of receipt of the Final Audit Report for approval. The CER will monitor the implementation of the CAPA plan to confirm that it is completed in a timely manner.



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## 1.0 Introduction

In accordance with section 103 of the *Canadian Energy Regulator Act* (CER Act), the Canada Energy Regulator (CER) conducted a compliance audit of the ARC Resources Limited (ARC) 2019 accountable officer annual report (Annual Report). The audit was conducted during the period from 21 September to 27 November 2020.

The CER audit team applied the audit protocol listed in Appendix 1.0 of this report. Abbreviations and terminology used in the report can be found in Appendix 3.

Subsection 6.1(1) of the *Canadian Energy Regulator Onshore Pipeline Regulations (SOR/99-294)* (OPR) requires that companies regulated by the CER establish and implement a management system that:

- is explicit, comprehensive and proactive;
- integrates the company's operational activities and technical systems with its management of human and financial resources to enable the company to meet its obligations under the OPR section 6;
- applies to all of the company's activities involving the design, construction, operation, or abandonment of a pipeline, and to the programs referred to in the OPR section 55;
- ensures coordination between the programs referred to in the OPR section 55; and,
- corresponds to the size of the company, the scope, nature, and complexity of its activities, and to the hazards and risks associated with those activities.

Each company and its management system is required to comply with all applicable requirements of the CER Act, its applicable regulations, any standards referenced in the regulations, and any company-specific Orders and Certificates.

### 1.1 Audit Objectives

The objectives of the audit were to verify that ARC's Annual Report meets the requirements of the OPR and that the company has the necessary processes, procedures and work instructions in place to fulfill the requirements of the OPR section 6.6.

### 1.2 Audit Scope and Methodology

The scope of the audit included the personnel, processes, and activities used to generate the 2019 Annual Report focusing on the OPR paragraphs 6.5(1)(b), 6.5(1)(v), 6.6(1)(a), 6.6(1)(b), and 6.6(1)(c) over all of ARC's program areas for all lifecycle phases of ARC's CER-regulated assets.

An audit notification letter was sent to ARC on 21 September 2020 advising ARC of the CER's plans to conduct the audit and detailing the audit's objectives. The Lead Auditor provided the audit protocol and initial information request (IR) and the audit plan to ARC on 24 September 2020 and followed up on 1 October 2020 with an opening meeting to discuss the plans and schedule for the audit.

Document review began on 1 November 2020 and interviews were conducted during the period from 16 to 24 November 2020. The audit was conducted virtually with no actual on-site visits. ARC provided the CER with access to all of its documents and records related to the audit through a shared access site organised by ARC.

To evaluate ARC's compliance, the CER audit team reviewed the documents and records provided by ARC and conducted interviews with company personnel.

The CER audit team shared a pre-closeout summary of the results of the audit with ARC' staff on



27 November 2020, which identified four (4) potential non-compliances. At that time, ARC was given an additional week to provide any documents or records which ARC believed could help resolve the potential non-compliances. Subsequent to the pre-closeout meeting, ARC did not provide any additional information so the meeting held on 27 November became the Final Closeout meeting.

## **2.0 Facility and Process Description**

ARC is an independent energy company engaged in the acquisition, exploration, development and production of conventional oil and natural gas with its assets primarily located in Western Canada. The company produces light, medium and heavy crude, condensate, natural gas liquids and natural gas. ARC has operations in three areas in Western Canada, which include:

- North East British Columbia, including the Dawson, Parkland/Tower, and Sunrise fields;
- Northern Alberta, including the Ante Creek Field; and
- Pembina Cardium oil field in central Alberta.

Its CER-regulated assets, comprising approximately 20 kilometres of pipeline, are shown in the map in Appendix 2.0.

## **3.0 Assessment of Compliance**

### **3.1 General**

There are a number of requirements in this audit in order for an auditee to be able to demonstrate to the CER that it is conducting its activities in compliance with the OPR within the objectives and scope of the audit.

The OPR requires that CER-regulated companies establish documented policies and goals to ensure that its obligations under the OPR are met. The company is to have a policy for the internal reporting of hazards, potential hazards, incidents and near-misses and corporate goals for the prevention of ruptures, liquid and gas releases, fatalities and injuries and for the response to incidents and emergency situations. In addition, the OPR requires the company's accountable officer to prepare a policy statement that sets out the company's commitment to those policies and goals and communicate it to the company's employees.

The company is to base its management system, as well as the programs referred to in section 55 of the OPR on its policies and goals. It also must have a process for setting the objectives and specific targets required to achieve the corporate goals, and performance measures for evaluating the company's success in achieving its goals, objectives and targets.

Having established a management system, the OPR requires the company to establish and implement a process for evaluating the adequacy and effectiveness of the management system and for monitoring, measuring and documenting the company's performance in meeting its obligations under the OPR. To accomplish this, the company is required to have a quality assurance program for the management system and for each program referred to in section 55, including a process for conducting compliance audits and for taking corrective and preventive actions if deficiencies are identified.

The primary focus of the audit being reported herein, is that the OPR requires that each year, the company generate an Annual Report for the accountable officer's review and signature. The Annual Report is to describe the company's performance in achieving its goals, objectives and targets during the previous year, as evaluated by the company's performance measures. In addition, the report is to describe the adequacy and effectiveness of the company's management system in

achieving the company's policies, goals and objectives and to describe the actions taken during the year to correct any deficiencies identified by the company's quality assurance program.

Once the company has prepared its Annual Report and it has been reviewed and signed by the accountable officer, the company is to advise the CER of this in writing. This written advisory is to be signed by the accountable officer and delivered to the CER no later than 30 April of each year. The receipt of this notification each year serves to confirm to the CER that the company's accountable officer is aware of and has signed off on an Annual Report which details:

- The adequacy and effectiveness of the company's management system and programs;
- Any deficiencies identified through the company's quality assurance measures; and
- The status of the actions being taken to rectify any deficiencies.

The CER does not normally ask companies to provide a copy of this Annual Report, but simply to verify that it has completed it and that it has been reviewed and signed by the accountable officer. However, the CER can ask companies to produce the report, as it did during this audit.

More detailed explanations of the CER's expectations for this audit are explained in Appendix 1.0

### 3.2 Assessment of ARC's Regulated Facilities

The CER audit team's assessment of ARC's compliance with the regulatory requirements are summarized in Table 1 of this report and explained in detail in Appendix 1.0 attached to this report. The CER audit team had no issues of concern with one (1) of the protocol items and found ARC to be non-compliant with four (4) of the regulatory requirements evaluated as part of this audit.

### 3.3 List of Audit Findings

The CER could assign one of two possible types of findings to each audit protocol item that was evaluated:

1. No Issues Identified – *No non-compliances were identified during the audit based on the information provided and reviewed within the context of the scope of the audit; or,*
2. Non-compliant – *An evaluated regulatory requirement does not meet legal requirements. The company has not demonstrated that it has developed and implemented programs, processes and procedures that meet the legal requirements. A corrective and preventive action plan must be developed and implemented.*

Below is a table that provides the summary of the CER's audit findings. They correspond to the Appendix 1.0 Audit Assessment Tables that provide more information regarding the review and substance of each finding.

**Table 1: Summary of Findings**

Audit Protocol Item	Regulatory Reference	Protocol Topic	Status	Summary of Finding
AP-01	OPR paragraph 6.5(1)(b)	Performance Measures to meet Company Goals, Objectives and Targets	Non-compliant	ARC did not demonstrate that it has a process for setting departmental goals, objectives and targets designed to meet corporate policies and goals. In addition, ARC did not demonstrate to





Audit Protocol Item	Regulatory Reference	Protocol Topic	Status	Summary of Finding
				the satisfaction of the CER audit team that it has a process for setting performance measures designed to assess the company's success in achieving those goals, objectives and targets.
AP-02	OPR paragraph 6.6(1)(a)	Describe Company's Performance in Achieving its Goals, Objectives and Targets	Non-compliant	ARC did not demonstrate that it had described the company's performance in achieving its goals, objectives and targets, as assessed by its performance measures, in its 2019 Annual Report.
AP-03	OPR paragraph 6.5(1)(v)	Process to Evaluate Adequacy and Effectiveness of the Management System	No Issues Identified	ARC did demonstrate that it has a process to evaluate the adequacy and effectiveness of its management system, including the development of compliance plans and conducting audits of each element of its management system.
AP-04	OPR paragraph 6.6(1)(b)	Describe the Adequacy and Effectiveness of the Management System	Non-compliant	ARC did not demonstrate that it had described the adequacy and effectiveness of its management system in its 2019 Annual Report.
AP-05	OPR paragraph 6.6(1)(c)	Describe the Actions Taken to Correct Deficiencies	Non-compliant	Although ARC did demonstrate that it has activities and practices, including internal audits, that it uses to identify deficiencies in its management system and programs, and that it monitors their rectification, ARC did not demonstrate that it had described the actions taken to rectify deficiencies in its 2019 Annual Report. ARC also did not demonstrate that it has a documented quality assurance program.

#### 4.0 Conclusion

ARC did not demonstrate that it has completed an Annual Report, endorsed by the accountable officer, which satisfies all of the regulatory requirements assessed during this audit.

The CER requires ARC to address the deficiencies identified during this audit through the development of a corrective and preventive action (CAPA) plan using a template which was provided by the CER to analyze, address, and manage the deficiency. ARC shall submit the CAPA plan to the Canada Energy Regulator within 30 days of receiving the Final Audit Report.



The CER will assess the implementation of ARC's CAPA plan to confirm it is fully implemented in a timely manner.

The CER will make the Final Audit Report public on the CER's external website.



## Appendix 1.0 - Audit Assessment Tables

### AP-01: Performance Measures to meet Company Goals, Objectives and Targets

<p><b>Regulatory Requirement:</b></p> <p><b>OPR subsection 6.5(1)</b> A company shall, as part of its management system and the programs referred to in section 55, (b) develop performance measures for evaluating the company's success in achieving its goals, objectives and targets.</p>
<p><b>Expected Outcome:</b></p> <ul style="list-style-type: none"><li>• <i>The company has developed performance measures that are relevant to its documented goals, objectives, and targets.</i></li><li>• <i>The performance measures support the ability to assess the achievement of the company's goals, objectives, and targets.</i></li><li>• <i>The company applies the performance measures to assess its success in achieving its goals, objectives and targets.</i></li></ul>
<p><b>Summary of Information Made Available by ARC:</b></p> <p>To demonstrate compliance with this requirement, ARC supplied the CER audit team with:</p> <ul style="list-style-type: none"><li>• <b>Audit of Accountable Officer's Annual Report, Information Request Response, dated 30 October 2020</b></li><li>• <b>ARC 2019 Board Books</b></li><li>• <b>2019-Q4 Update Goals &amp; Objectives and KPI's</b></li><li>• <b>Objective/Goal/KPI Setting Process</b></li><li>• <b>Process for Managing Performance</b></li><li>• <b>Process for Ensuring Effective Communications</b></li><li>• <b>Process for Managing Training</b></li><li>• <b>Process for Managing Performance</b></li><li>• <b>Process for Annual Management Review</b></li></ul>
<p><b>Assessment:</b></p> <p>ARC provided the CER audit team with a document titled, <b>ARC Resources Ltd., Audit of Accountable Officer's Annual Report – Information Request Response, dated 30 October 2020</b>, which will be referred to hereafter in this audit report as the 'IR Response'.</p> <p>In the IR Response, ARC responded to each of the five protocol items and their various information requests. ARC also used it as a means of explaining to the CER audit team the manner in which its management system and programs are set up.</p> <p>In the IR Response, ARC stated that it has developed a management system referred to as the <b>ARC Integrated Management System (AIMS)</b> which the company claims is a fit-for-purpose management system that corresponds to the company's size, scope, nature and</p>



the complexity of ARC's activities. ARC stated it has been working to implement the AIMS across the organization since 2018 and that some of its processes have yet to be fully implemented.

Within the AIMS, ARC has an **Operational Excellence Policy** (OEP) which the CER audit team found does not meet the requirements of the OPR section 6.3. The OEP states: *'At ARC Resources Ltd. We're committed to conducting our business in a manner that reflects our dedication to operational excellence. This goal is realized through the implementation of the ARC Integrated Management System (AIMS) which fosters continuous improvement and operational efficiency, resulting in value creation, sustainable business growth and a safe and rewarding corporate culture for everyone'*. The policy then goes on to list ten (10) commitments and associated responsibilities for ARC staff and contractors, which are to:

- Provide and maintain a safe and healthy workplace for all employees and contractors;
- Conduct operations in a manner that minimizes adverse effects to stakeholders and the public;
- Promote and enable strong environmental stewardship in alignment with regulatory requirements and industry best practices;
- Continually strive to reduce its environmental impacts by seeking out opportunities for conservation and identifying sustainable practices;
- Maintain the integrity of its assets and infrastructure and protect the public, workers, property, equipment, pipelines and environment through robust damage prevention planning;
- Identify, evaluate and implement effective measures to adequately reduce or eliminate and security threats;
- Ensure that effective emergency response protocols are implemented that adequately reduce the risk to employees, contractors, stakeholders, the public, environment, and the process;
- Maintain compliance and understanding of all laws, regulations, and industry standards that are related to its business functions;
- Encourage the uninhibited reporting of all incidents, hazards, potential hazards and near miss events by ensuring that people are held free from disciplinary action for making the report;
- Ensure all incidents, near misses and hazard identifications are investigated to determine cause(s) and that the appropriate corrective, preventative and disciplinary actions are implemented.

Based on the above, ARC did not demonstrate that it has corporate policies and goals in alignment with the requirements of the OPR. For clarification on the OPR's minimum requirements for the company's policies and goals, please refer to the OPR section 6.3.

In the IR Response, ARC stated that it sets annual goals and objectives using its **Objective/Goal/KPI Setting Process**. It further stated that it develops objectives and targets relevant to the risks and hazards associated with its facilities and activities. It stated that goals and targets are approved by management and relevant Board of Director's Committees.

ARC advised the CER audit team that it communicates its progress in achieving goals, objectives and targets through quarterly reporting to its **Safety, Reserves and Operational Excellence Committee**, which is made up of members of senior management including the accountable officer.



ARC provided the CER auditor team with its **Safety, Reserves and Operational Excellence Board Books** for Q1, Q2, Q3 and Q4. These Board Books show the topics of discussions at these quarterly meetings, which include:

- Incidents and incident trends;
- Accidents;
- New initiatives within the company (such as a new Learning Management System);
- The status of performance indicators;
- Budgetary issues;
- The status of audits and compliance rating;
- Inspections;
- Asset integrity performance;
- Review emerging policies and regulations that impact company assets;
- Asset retirement obligations;
- Other issues.

ARC provided its 2019 Q4 Update on the achievement of its Health, Safety, Environment and Regulatory Goals and Objectives and its Key Performance Indicators (KPIs). The purpose of the document is to discuss ARC's objectives and performance measures for its People, Processes, Planning, Safety and Environment, Capital Efficiencies, and Learning initiatives. The CER audit team noted that although the document is titled **2019-Q4 Update Goals & Objectives and KPI's**, it only contained objectives and accountabilities, but did not have goals or KPIs.

The **2019 Safety, Reserves and Operational Excellence Quarterly Reports** provided by ARC include tables that summarize KPIs for HSE & Asset Integrity, however there is no link made between these KPI's and the objectives established in the **2019-Q4 Update Goals & Objectives and KPI's** document.

Based on the above, ARC did not demonstrate that it has a process for setting departmental goals, objectives and targets designed to meet corporate policies and goals. In addition, ARC did not demonstrate to the satisfaction of the CER audit team that it has a process for setting performance measures designed to assess the company's success in achieving those goals, objectives and targets.

#### **Finding: Non-compliant**

Based on the information made available by ARC and reviewed by the CER audit team within the scope of this audit, ARC was unable to demonstrate that:

- It has a process for setting departmental goals, objectives and targets designed to achieve the corporate goals;
- It has developed performance measures that are relevant to the documented goals, objectives, and targets;
- The performance measures support the ability to assess the achievement of the company's goals, objectives, and targets; and
- The company applies the performance measures to assess its success in achieving its goals, objectives and targets.

ARC will have to develop a corrective and preventive action (CAPA) plan and submit it to the CER for approval.



## AP-02: Describe Company's Performance in Achieving its Goals, Objectives and Targets

<p><b>Regulatory Requirement:</b></p> <p><b>OPR subsection 6.6(1)</b> A company shall complete an annual report for the previous calendar year, signed by the accountable officer, that describes</p> <p>(a) the company's performance in achieving its goals, objectives and targets during that year, as evaluated by the performance measures developed under paragraph 6.5(1)(b).</p>
<p><b>Expected Outcomes:</b> The company is able to demonstrate that:</p> <ul style="list-style-type: none"><li>• <i>The company has completed an annual report for the previous calendar year</i></li><li>• <i>The report has been reviewed and signed by the accountable officer</i></li><li>• <i>The annual report discusses the company's performance in achieving its goals, objectives and targets as evaluated by the performance measures developed under the OPR paragraph 6.5(1)(b)</i></li><li>• <i>The goals, objectives and targets are those developed in accordance with the requirements of the OPR paragraph 6.5(1)(b)</i></li></ul>
<p><b>Summary of Information Made Available by ARC:</b></p> <p>To demonstrate compliance with this requirement, ARC supplied the CER audit team with the following documents:</p> <ul style="list-style-type: none"><li>• <b>Audit of Accountable Officer's Annual Report, Information Request Response, dated 30 October 2020</b></li><li>• <b>ARC 2019 Annual Report</b></li><li>• <b>ARC 2019 Board Book</b></li><li>• <b>ARC 2019 Operational Performance KPIs</b></li><li>• <b>Process for Managing Corrective and Preventative Actions</b></li></ul>
<p><b>Assessment:</b></p> <p>ARC provided the CER audit team with, what it referred to as its <b>2019 Annual Report</b> and noted that the annual report had been reviewed, but not signed, by the accountable officer. The CER audit team reviewed the document and found that it is actually an internal audit report conducted by ARC using the archived <b>National Energy Board Management System and Protection Program Audit Protocol</b>. The CER audit team reviewed the internal audit and noted that this audit report is neither signed nor dated, so there is no way to validate when the report was completed.</p> <p>ARC advised the CER that the accountable officer had reviewed and signed off on its <b>2019 Annual Report</b> and provided the CER with a document titled, <b>NEB Annual Report Notification 2019 Signed</b>. Upon review by the CER audit team, it was found that this document is actually ARC's annual notification letter to the CER for the 2018 operating year, sent in April 2019, to indicate that ARC had completed its 2018 annual report. The CER audit team noted that the <b>2019 Annual Report</b> is to be completed subsequent to the 2019 operating year,</p>



and therefore a letter dated in April 2019 does not constitute evidence that the accountable officer reviewed and signed the **2019 Annual Report**.

In its IR Response dated 30 October 2020, ARC advised the CER audit team that its **2019 Annual Report** does not describe ARC's performance in achieving its goals, objectives and targets during the year, as evaluated by its performance measures. The CER audit team concur with this assessment.

**Finding: Non-compliant**

Based on the information made available by ARC and reviewed by the CER audit team within the scope of this audit, ARC did not demonstrate that it had described the company's performance in achieving its goals objectives and targets during that year, as evaluated by its performance measures, in the document it referred to as its **2019 Annual Report**,

ARC will have to develop a CAPA plan and submit it to the CER for approval.



### AP-03: Process to Evaluate the Adequacy and Effectiveness of the Management System

<p><b>Regulatory Requirement:</b></p> <p><b>OPR subsection 6.5(1)</b> A company shall, as part of its management system and the programs referred to in section 55, (v) establish and implement a process for evaluating the adequacy and effectiveness of the company's management system and for monitoring, measuring and documenting the company's performance in meeting its obligations under these Regulations.</p>
<p><b>Expected Outcome:</b> The company is able to demonstrate that:</p> <ul style="list-style-type: none"><li>• <i>it has a compliant process that is established and implemented.</i></li><li>• <i>it has developed methods for evaluating the adequacy and effectiveness of its management system.</i></li><li>• <i>the management system has been evaluated for adequacy and effectiveness.</i></li><li>• <i>the company's performance in meeting its obligations under these Regulations have been monitored, measured and documented.</i></li><li>• <i>the company has implemented corrective actions based on the results of its monitoring and measuring the adequacy and performance of its management system.</i></li></ul>
<p><b>Summary of Information Made Available by ARC</b></p> <p>To demonstrate compliance with this requirement, ARC provided the CER audit team with its:</p> <ul style="list-style-type: none"><li>• <b>Audit of Accountable Officer's Annual Report, Information Request Response, dated 30 October 2020</b></li><li>• <b>Process for Ensuring Accuracy and Compliance to Regulatory Obligations and Risk Profile</b></li><li>• <b>Auditing and Inspections Process</b></li><li>• <b>AIMS Audit Protocol</b></li><li>• <b>Compliance Plan</b></li><li>• <b>2019 Annual Report</b></li><li>• <b>ARC 2019 Board Books</b></li><li>• <b>ARC 2019 Operational Performance KPIs Quarterly reports</b></li></ul>
<p><b>Assessment:</b></p> <p>ARC provided the CER audit team with its <b>Process for Ensuring Accuracy and Compliance to Regulatory Obligations and Risk Profile</b>. This document directs each of ARC's discipline subject matter experts (SME) to monitor regulatory obligations and ARC commitments (continually) through:</p> <ul style="list-style-type: none"><li>• Inclusion on information distribution lists (i.e. email) from regulatory bodies;</li><li>• Inclusion on information distribution lists from industry partnerships;</li></ul>





- Participation on industry committees;
- Direct engagement with government officials.

Each discipline SME is to develop a compliance plan and update the compliance plan registry. In so doing, they are to consider the need to adjust inspection programs, record keeping and overall compliance management. Each year, the SMEs are to review the regulatory obligation registry. At the senior management level, each year the Board and Executives are to review and approve ARC's regulatory obligations, compliance plan and risk registry. SMEs are then to review the compliance plan every quarter and make adjustments accordingly. To demonstrate this, ARC provided the CER audit team with its most recent **Compliance Plan**.

Each asset/facility manager is to review the risk register and profile semi-annually with participation of cross discipline committee, comprised of at least: Field Operations; Asset Integrity, Health and Safety. Environment and Regulatory, and Capital Projects.

Each Field Manager is to develop a plan to strengthen controls and follow the management of change (MOC) process and Revision Request Process where necessary. Operations are to continually monitor risk in operations and take appropriate action.

The CER audit team noted that the process is linked to the **Process for Managing Corrective and Preventative Action Items**,

ARC provided the CER audit team with its **Auditing and Inspections Process**. According to the process, discipline specific SMEs are to develop an audit schedule, which may include:

- Contractor Spot audit to evaluate the implementation and use of contractor's safety management program at the field level;
- Transportation of Dangerous Goods spot audit, completed by field ops on trucking companies responsible for transporting ARC dangerous goods such as crude oil, condensate, and sulphur, etc.;
- Electrical Compliance Audit, which is to be completed by a 3<sup>rd</sup> party electrical inspector on behalf of ARC;
- Pressure Equipment Integrity Program Audit, conducted internally by Asset Integrity to verify compliance to program;
- Pipeline Integrity Program Audit, conducted internally by Asset Integrity to verify compliance to programs as well as ensuring quality control of repairs and new construction meets requirements in the event of a regulatory audit; and
- Process Safety Audit of specific operations or controls as warranted by their risk profile and history.

The AIMS Coordinator is to develop an audit schedule by AIMS element with the goal that each AIMS element is to be audited at least once every three years. The AIMS Coordinator and SMEs are also to determine the need for ad-hoc audits. Where deficiencies are identified, the Field Manager is to develop action items, which then links to the **Process for Managing Corrective and Preventative Action Items**. The CER audit team noted that this process is linked to the **Process for Annual Management Review and Reporting**.

To demonstrate that it actually follows its documented processes, ARC provided the CER audit team with records of completed audits and its annual management review records.



ARC advised the CER audit team that these processes evaluate AIMS adequacy and effectiveness and monitor, measure and document ARC's performance in meeting regulatory obligations. ARC also provided the CER with what it called the **AIMS Audit Protocol** and stated that it sets out the AIMS Elements and their corresponding measures of effectiveness.

Through its process of developing compliance plans and conducting audits and inspections, including audits of its AIMS Elements and following up with quarterly and annual reviews, ARC was able to demonstrate that it does have a process for monitoring the adequacy and effectiveness of its management system.

**Finding: No Issues Identified**

Based on the information made available by ARC and reviewed by the CER audit team within the scope of this audit, ARC was able to demonstrate that it has a process to evaluate the adequacy and effectiveness of the company's management system.



## AP-04: Describe the Adequacy and Effectiveness of the Management System

<p><b>Regulatory Requirement:</b></p> <p><b>OPR subsection 6.6(1)</b> A company shall complete an annual report for the previous calendar year, signed by the accountable officer, that describes,</p> <p>(b) the adequacy and effectiveness of the company's management system, as evaluated by the process established and implemented under paragraph 6.5(1)(v);</p>
<p><b>Expected Outcome:</b> The company is able to demonstrate that:</p> <ul style="list-style-type: none"><li>• <i>The company has completed an annual report for the previous calendar year that is signed by the accountable officer.</i></li><li>• <i>The annual report discusses the adequacy and effectiveness of the company's management system.</i></li><li>• <i>The discussion of adequacy and effectiveness of the management system is based on the process established and implemented in accordance with the requirements of the OPR paragraph 6.5(1)(v).</i></li></ul>
<p><b>Summary of Information Made Available by ARC:</b></p> <p>ARC supplied CER audit team with its:</p> <ul style="list-style-type: none"><li>• <b>Audit of Accountable Officer's Annual Report, Information Request Response, dated 30 October 2020</b></li><li>• <b>Process for Ensuring Compliance to Regulatory Obligations and Risk Profile</b></li><li>• <b>Auditing and Inspections Processes</b></li><li>• <b>AIMS Audit Protocol</b></li><li>• <b>Compliance Plan</b></li><li>• <b>Records of Completed Audits</b></li><li>• <b>2019 Board Books</b></li><li>• <b>ARC 2019 Operational Performance KPIs Quarterly Reports</b></li></ul>
<p><b>Assessment:</b></p> <p>The difference between AP-03 and AP-04, is that in AP-04, ARC was asked to demonstrate that it described its evaluation of the adequacy and effectiveness of its management system in a documented <b>Annual Report</b>, signed by the accountable officer.</p> <p>As indicated in AP-03, ARC was able to demonstrate that it has processes in place to monitor the adequacy and effectiveness of its management system.</p>



The document that ARC refers to as its **2019 Annual Report** is an internal audit report conducted using the archived **National Energy Board Management System and Protection Program Audit Protocol**. As mentioned previously, there is no way of knowing when this report was prepared and there is no evidence that it was reviewed and signed by the accountable officer. The CER audit team reviewed the document and found that it did not contain an assessment of the adequacy and effectiveness of the company's management system.

**Finding: Non-compliant**

Based on the information made available by ARC and reviewed by the CER audit team within the scope of this audit, ARC did not demonstrate that it described the adequacy and effectiveness of its management system in the document it refers to as its **2019 Annual Report**.

ARC will have to develop a CAPA plan and submit it to the CER for approval.



## AP-05: Describe the Actions Taken to Correct Deficiencies

<p><b>Regulatory Requirement:</b></p> <p><b>OPR subsection 6.6(1)</b> A company shall complete an annual report for the previous calendar year, signed by the accountable officer, that describes</p> <p>(c) the actions taken during that year to correct any deficiencies identified by the quality assurance program established under paragraph 6.5(1)(w).</p>
<p><b>Expected Outcome:</b> The Company is able to demonstrate that:</p> <ul style="list-style-type: none"><li>• <i>It has completed an annual report that has been signed by the accountable officer.</i></li><li>• <i>The company has identified any deficiencies identified by the company's quality assurance program, through audits, inspections and other activities.</i></li><li>• <i>The company has a quality assurance program.</i></li><li>• <i>The annual report discusses the actions taken by the company to correct any deficiencies that have been identified by the company's quality assurance program.</i></li></ul>
<p><b>Summary of Information Made Available by ARC:</b></p> <p>To demonstrate compliance to this regulatory requirement, ARC supplied CER audit team with its:</p> <ul style="list-style-type: none"><li>• <b>Audit of Accountable Officer's Annual Report, Information Request Response, dated 30 October 2020</b></li><li>• <b>2019 Annual Report</b></li><li>• <b>Process for Managing Corrective and Preventative Action Items</b></li><li>• <b>Process for Ensuring Compliance to Regulatory Obligations and Risk Profile</b></li></ul>
<p><b>Assessment:</b></p> <p>In its IR Response, ARC advised the CER audit team that it does not have a documented quality assurance program but that its AIMS has a process for conducting audits and inspections. ARC went on to state that it takes corrective actions to address deficiencies identified through its quality assurance activities using its <b>Process for Managing Corrective and Preventative Action Items</b>. ARC demonstrated during interviews that the AIMS platform is used to record findings from inspections and audits, including the identification and tracking of corrective and preventive actions. ARC provided the CER with records of this process.</p> <p>ARC advised the CER that it communicates its actions taken during the year to correct deficiencies identified during audits and inspections through quarterly reporting to its <b>Safety, Reserves and Operational Excellence Committee</b>, which is made up of members of senior management including the accountable officer.</p>



ARC referred the CER audit team to the **ARC 2019 Board Books**. ARC provided its **Safety, Reserves and Operational Excellence Board Books** for Q1, Q2, Q3 and Q4. These Board Books show the topics of discussions at these quarterly meetings, which include:

- Incidents and incident trends;
- Accidents;
- New initiatives within the company (such as a new Learning Management System);
- The status of performance indicators;
- Budgetary issues;
- The status of audits and compliance rating;
- Inspections;
- Asset integrity performance;
- Review emerging policies and regulations that impact company assets;
- Asset retirement obligations; and
- Other issues.

ARC advised the CER audit team that the status of deficiencies identified during audits and deficiencies are included in its annual management review process and provided the CER with a copy of its **Process for Annual Management Review and Reporting**. This process is used to review the following:

- Results of internal and external audits;
- Stakeholder Feedback;
- Health, Safety, Environmental, Security, Capital and Asset Integrity statistics and performance;
- Regulatory Compliance;
- Incident analysis and trends;
- Status of preventive and corrective actions or improvement initiatives;
- Objectives, targets and actions; and
- Lessons learned.

The CER audit team was able to verify through management review records that preventive and corrective actions are reviewed.

In its IR Response, ARC stated that the document that it refers to as its **2019 Annual Report** does not describe actions taken to correct any deficiencies identified by a quality assurance program. ARC went on to state that it has identified a corrective action to address this deficiency.

Based on the documents and records provided by ARC, it appears that ARC does have a process for identifying deficiencies through the company's quality assurance activities and a process for taking preventive and corrective actions, However, ARC did not demonstrate that it described the actions taken during that year to correct any deficiencies in its **Annual Report**.



**Finding: Non-compliant**

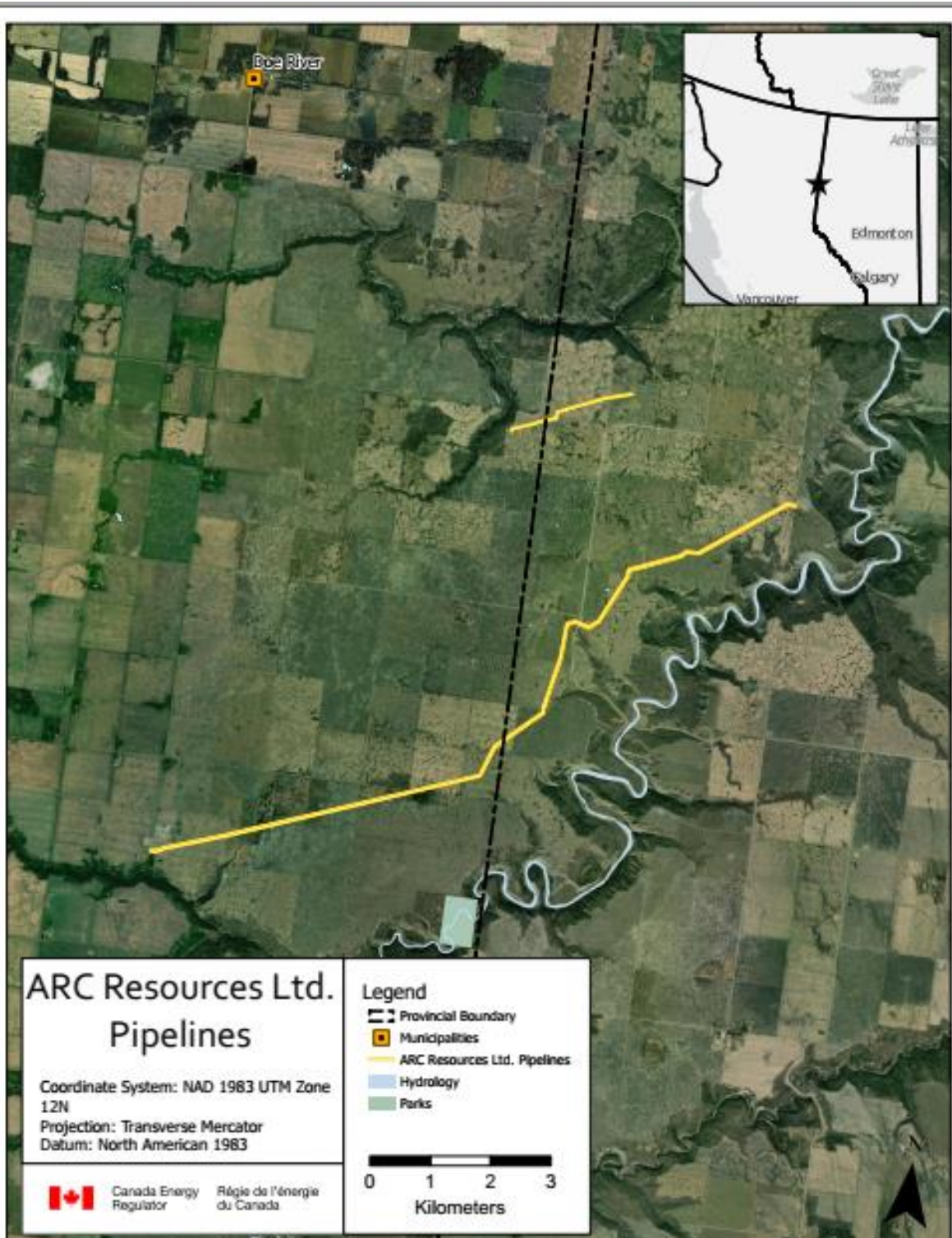
Based on the information made available by ARC and reviewed by the CER audit team within the scope of this audit, ARC did not demonstrate that it described the actions taken to correct deficiencies identified by its quality assurance activities in the document it referred to as its **2019 Annual Report**. ARC also did not demonstrate that it has a quality assurance program in accordance with the OPR paragraph 6.5(1)(w), which was an expectation of this protocol item.

ARC will have to develop a CAPA plan and submit it to the CER for approval.



## Appendix 2.0 - Map and System Description

ARC's CER-Regulated pipelines are shown in yellow in the following map:



This map is a graphical representation intended for general informational purposes only. Map produced by the CER, November, 2020, Last updated on Nov 05





## Appendix 3.1 - Abbreviations

The following abbreviations were used in this report:

AIMS:	ARC Integrated Management System
AP:	Audit Protocol
CAPA:	Corrective and preventive action
CER:	Canada Energy Regulator
CER Act:	<i>Canadian Energy Regulator Act</i>
HSE:	Health, Safety and Environment
IR:	Information Request
KPI:	Key Performance Indicator
OPR:	<i>Canadian Energy Regulator Onshore Pipeline Regulations</i>



## Appendix 3.2 - Glossary of Terminology and Definitions

*(The CER has applied the following definitions and explanations in measuring the various requirements included in this audit. They follow or incorporate legislated definitions or guidance and practices established by the CER.)*

**Adequate:** The management system, programs or processes complies with the scope, documentation requirements and, where applicable, the stated goals and outcomes of the CER Act, its associated regulations and referenced standards. Within the CER's regulatory requirements, this is demonstrated through documentation.

**Audit:** A systematic, documented verification process of objectively obtaining and evaluating evidence to determine whether specified activities, events, conditions management systems or information about these matters conform to audit criteria and legal requirements and communicating the results of the process to the company.

**Corrective Action Plan:** A plan that addresses the non-compliances identified in the audit report and explains the methods and actions that will be used to correct them.

**Developed:** A process or other requirement has been created in the format required and meets the described regulatory requirements.

**Effective:** A process or other requirement meets its stated goals, objectives, targets and regulated outcomes. Continual improvement is being demonstrated. Within the CER's regulatory requirements, this is primarily demonstrated by records of inspection, measurement, monitoring, investigation, quality assurance, audit and management review processes as outlined in the OPR

**Established:** A process or other requirement has been developed in the format required. It has been approved and endorsed for use by the appropriate management authority and communicated throughout the organization. All staff and persons working on behalf of the company or others that may require knowledge of the requirement are aware of the process requirements and its application. Staff has been trained on how to use the process or other requirement. The company has demonstrated that the process or other requirement has been implemented on a permanent basis. As a measure of 'permanent basis,' the CER requires the requirement to be implemented, meeting all of the prescribed requirements, for three months.

**Finding:** The evaluation or determination of the compliance of programs or elements in meeting the requirements of the CER Act and its associated regulations.

**Implemented:** A process or other requirement has been approved and endorsed for use by the appropriate management authority. It has been communicated throughout the organization. All staff and persons working on behalf of the company or others that may require knowledge of the requirement are aware of the process requirements and its application. Staff has been trained on how to use the process or other requirement. Staff and others working on behalf of the company have demonstrated use of the process or other requirement. Records and interviews have provided evidence of full implementation of the requirement, as prescribed (i.e., the process or procedures are not partially utilized).

**Inventory:** A documented compilation of required items. It must be kept in a manner that allows it to be integrated into the management system and management system processes without further definition or analysis.

**List:** A documented compilation of required items. It must be kept in a manner that allows it to be integrated into the management system and management system processes without further definition or analysis.



**Maintained:** A process or other requirement has been kept current in the format required and continues to meet regulatory requirements. With documents, the company must demonstrate that it meets the document management requirements in OPR paragraph 6.5(1)(o). With records, the company must demonstrate that it meets the records management requirements in OPR paragraph 6.5 (1)(p).

**Management System:** The system set out in OPR sections 6.1 to 6.6. It is a systematic approach designed to effectively manage and reduce risk, and promote continual improvement. The system includes the organizational structures, resources, accountabilities, policies, processes and procedures required for the organization to meet its obligations related to safety, security and environmental protection.

*(The CER has applied the following interpretation of the OPR for evaluating compliance of management systems applicable to its regulated facilities.)*

*As noted above, the CER management system requirements are set out in OPR sections 6.1 to 6.6. Therefore, in evaluating a company's management system, the CER considers more than the specific requirements of section 6.1. It considers how well the company has developed, incorporated and implemented the policies and goals on which it must base its management system as described in section 6.3; its organizational structure as described in section 6.4; and considers the establishment, implementation, development and/or maintenance of the processes, inventory and list described in subsection 6.5(1). As stated in paragraph 6.1(1)(c) and 6.1(1)(d), the company's management system and processes must apply and be applied to the programs described in section 55.*

**Manual:** A document that contains a set of instructions on methods which are employed to accomplish a result. These instructions will be detailed and comprehensive. The document will be organized for ease of use.

**Non-Compliant:** The audited company has not demonstrated that it has established, developed, maintained and/or implemented programs, processes and procedures that meet the legal requirements relating to the protocol item referenced. A corrective and preventive action (CAPA) plan must be developed for approval and implemented.

**Plan:** A detailed, documented formulation for action to achieve an end.

**Practice:** A repeated or customary action that is well understood by the persons authorized to carry it out.

**Procedure:** A procedure indicates how a process will be implemented. It provides a documented series of steps followed in a regular and defined order thereby allowing individual activities to be completed in an effective and safe manner. A procedure also outlines the roles, responsibilities and authorities required for completing each step.

**Process:** A documented series of actions taking place in an established order, with identified roles and responsibilities, and directed towards a result. A process includes the roles, responsibilities and authorities for the actions. A process may contain a set of procedures, if required.

*(The CER has applied the following interpretation of the OPR for evaluating compliance of management system processes applicable to its regulated facilities.)*

*OPR subsection 6.5(1) describes the CER's required management system processes. In evaluating a company's management system processes, the CER considers whether each process or requirement: has been established, implemented, developed or maintained as described within each section; whether the process is documented; and whether the process is designed to address the requirements of the process, for example a process for identifying and analyzing all hazards and potential hazards. Processes must contain explicit required actions including roles, responsibilities*



*and authorities for staff establishing, managing and implementing the processes. The CER considers this to constitute a common 5 w's and h approach (who, what, where, when, why and how). The CER recognizes that the OPR processes have multiple requirements; companies may therefore establish and implement multiple processes, as long as they are designed to meet the legal requirements and integrate any processes linkages contemplated by the OPR section. Processes must incorporate or contain linkage to procedures, where required to meet the process requirements.*

*As the processes constitute part of the management system, the required processes must be developed in a manner that allows them to function as part of the system. The required management system is described in OPR section 6.1. The processes must be designed in a manner that contributes to the company following its policies and goals established and required by section 6.3.*

*Further, OPR subsection 6.5(1) indicates that each process must be part of the management system **and** the programs referred to in OPR section 55. Therefore, to be compliant, the process must also be designed in a manner which considers the specific technical requirements associated with each program and is applied to and meets the process requirements within each program. The CER recognizes that single process may not meet all of the programs; in these cases it is acceptable to establish governance processes as long as they meet the process requirements (as described above) and direct the program processes to be established and implemented in a consistent manner that allows for the management system to function as described in section 6.1.*

**Program:** A documented set of processes and procedures designed to regularly accomplish a result. A program outlines how plans, processes and procedures are linked, and how each one contributes toward the result. Program planning and evaluation are conducted regularly to check that the program is achieving intended results.

*(The CER has applied the following interpretation of the OPR for evaluating compliance of programs required by the CER regulations.)*

*The program must include details on the activities to be completed including what, by whom, when, and how. The program must also include the resources required to complete the activities.*



## **Appendix 4.0 – List of Company Staff Interviewed and Documents Reviewed**

The lists of company staff interviewed and documents reviewed are maintained on file at the offices of the Canada Energy Regulator.