

[Mr. White in the chair]

THE CHAIRMAN: Good morning, ladies and gentlemen. We are gathered here together in copious quantity by the looks of it to deal with the first order of business, Resource Development and the Associate Minister of Forestry.

We have an agenda that has been circulated. Might we have a motion to accept that agenda as presented, please. Is it agreed? It's carried.

We have with us today the Hon. Dr. West, Minister of Resource Development, and the Associate Minister of Forestry, the Hon. Mike Cardinal. If we might have some opening remarks from you, sir, and an introduction of your staff.

DR. WEST: Thanks, Mr. Chairman. We are looking at '98-99, the Ministry of Resource Development. At that time, I believe, it was the department of energy, but now because of various reorganizations it's Resource Development and includes the Associate Minister of Forestry, the Hon. Mike Cardinal, and he'll make a report on his area.

You made reference to the number of people that are here with me. I would like to introduce them, but first I want to make a comment that I made last year and that I'll continue to make in this House. I would hope that the chairman and the committee members would make recommendation to bring Public Accounts into the next century in the proper manner. Looking at the year '98-99 is redundant from a practical point of view in the public interest, so we have to bring a lot of people with us that have some recall of the events of that time in facts and figures to answer people's questions in this House. With the speed that government is moving and the number of facts and figures we have to deal with on a daily basis, it's impossible to do total recall on a budget from '98-99. Now, maybe the Auditor General can do that because he has concentrated on his figures on a day-to-day basis for years, but individual ministers that come and go and that go on with . . .

THE CHAIRMAN: Dr. West, we understand the complaints you have. We've heard them before. Thank you.

DR. WEST: Well, I think it's something that has not been listened to over the years. I've made this statement many times, Mr. Chairman . . .

THE CHAIRMAN: We've heard it, sir.

DR. WEST: . . . and I would hope you'd take it into consideration, especially when you're with the loyal opposition. Perhaps it's to your interest to keep this going, but not to the public interest. Bring it into the day. Let's talk about last year's budget or the budget that joins up – let's stop this two-year recall.

With me today is the deputy minister, Ken Smith; Don Keech, the assistant deputy minister of corporate services and acting assistant deputy minister of mineral resources; Linda White, special issues manager, deputy minister's office; Harvey Walker, executive manager, financial services; Douglas Borland, director of financial planning and reporting; Joanne Rosnau, the director of the EUB, and Neil McCrank is the chairman of the EUB. With us also from the department is Dick Batten.

Alberta Resource Development works in conjunction with the EUB to ensure that resource development in the province is safe, sustainable, and fair to industry who develop the resource and to Albertans, who own the resource, lest we forget. To put our energy sector in context, I would note that Alberta ranks fourth in natural

gas production and 18th in oil production when compared with all energy producing countries. In 1998 this province accounted for 69 percent of all energy produced in Canada, including 65 percent of Canada's conventional oil, 80 percent of natural gas, 100 percent of bitumen and synthetic crude oil, and 53 percent of the coal. It's interesting to note that probably within a decade Alberta will be 50 percent of the total Canadian production of oil.

The 1998-99 business plan listed three core businesses for the department: industry development, resource stewardship, and revenue management. The Energy and Utilities Board's core businesses are "adjudication and regulation; applications, surveillance and enforcement; and information and knowledge."

We had several significant achievements during the last fiscal year that I would like to highlight now. The resource revenues. In recent months this year we have been blessed with higher than anticipated prices for oil and natural gas. These high prices were a major reason why Budget 2000, announced a few weeks ago, contained such good news on every front: a significant payment on the accumulated debt, increased program spending, and a healthy economic cushion.

But Albertans have learned that oil prices will rise and fall. When they're high, we have a tendency to forget that they were ever low or that they could be low again. It wasn't that long ago – in fact, it was during the 1998-99 fiscal year, that we are here to discuss today – that oil prices averaged \$13.70 per barrel with a 67 cents exchange rate. Gasoline prices, for those that care, were 44 cents a litre at that time.

Even with low oil prices, energy revenues still earned \$2.7 billion in the '98-99 year that we're talking. Partly this was due to higher natural gas prices and increased gas development in Alberta. In fact, gas drilling reached a new high in Alberta in the '98-99 year that exceeded the previous record by 10 percent. While Alberta has little control over the price of natural gas, which is set in the greater North American market, we can take some credit for getting better access to market. This has allowed the price for our gas to catch up to the price in the rest of the continent, mainly this year because of pipeline expansion. From '95-99 we went from a capacity of 10.3 bcf a day to 11.6 bcf mainly due to the TransCanada PipeLines and the Foothills pipeline development.

The Ministry of Resource Development has a sophisticated and responsive royalty regime in place to ensure that the people of this province receive a fair share of production in bad times and in good times. The royalty system is flexible and designed to make it economical for producers to keep producing when prices fall so that Albertans have a steady revenue stream. Overall, the \$2.7 billion in resource royalties included this: \$1.47 billion in natural gas and gas byproducts of royalties – I think the significance of that is that we always see oil as the keystone of royalties and revenues when, indeed, natural gas and gas byproducts bring in more on a year-to-year basis – \$470 million in crude oil royalties, \$59 million in synthetic crude oil and bitumen royalties from the Alberta oil sands, \$17 million in coal royalties, and \$464 million in land sales and bonuses.

In '98-99 we were introducing competition to the electrical industry, and significant steps were taken to introduce that; namely, that year we brought in amendments to the Electric Utilities Act, the Power Pool was brought in and put up and running, and the transmission administrator, ESBI, was appointed. The private sector can and will improve itself continually in all those areas if it is free from overregulation and unnecessary government interference.

One item of particular note is that the department responded to concerns about power supply by working with stakeholders to increase power generation and minimize the risk of major power interruptions over the winter. I am pleased to report that for the most part the lights stayed on in Alberta, and by the end of 1999 850

megawatts of new power supply had come onstream. That's enough to light up eight cities the size of Red Deer.

In reference to climate change this year, Alberta Resource Development took a leading role in addressing the issues of climate change. The department co-chaired the National Secretariat on Climate Change and the National Air Issues Coordinating Committee. The department also participated in the greenhouse gas emissions trading pilot program to find ways of balancing compliance with proposed national emission standards and economic impacts.

May I make note here of Mr. John Donner, who has done exemplary work in this department and has now been moved over to the Department of Environment. He and the 11 staff he took with him have been recognized throughout Canada as one of the leaders on information and ability in reference to climate change and development of processes around that.

8:43

The Alberta Energy and Utilities Board in '98-99 was also busy that year. It received 20,500 applications and 43,500 corporate transaction and environmental reviews. Landowner concerns about the oil and gas industry was a leading issue caused by high levels of industrial activity, animal health concerns, and an increase in sour gas drilling with closer proximity to populated areas. But outside of that, you can understand that less than .1 percent of all those applications had to be dealt with under appeal and under a process. Forty-five hearings were held out of 20,500 applications and 43,500 corporate transactions. That's the significant number you should concentrate on.

These concerns were evident around those controversial areas, with the highest profile decision in '98-99 regarding an application to drill a level 4 critical sour gas well 11 kilometres northwest of Calgary, which raised significant concerns in the community. The board approved the application but with some of the most stringent restrictions ever passed on a sour gas well in this province or in this country. This case served to highlight the need for increased education among the public about the energy industry in terms of safety, enforcement, and regulation and the benefits of resource development. Towards this end, the EUB made 125 presentations to nearly 5,000 members of the industry and the public.

The board also maintained its field presence, conducting 7,200 inspections, investigating 1,350 accidental spills and releases, performing 1,200 audits to ensure application accuracy, and responding to 850 public complaints and 350 public inquiries. Nonetheless, this stated, to this date we must make a better effort in mitigating the differences of opinion between the public and the resource industry. The EUB is taking many steps to increase the surveillance and inspection process throughout the province.

These were just a few of the accomplishments of the ministry for '98-99, and now the Hon. Mike Cardinal, Associate Minister of Forestry, will continue.

MR. CARDINAL: Thank you very much, Steve. I'm very pleased to join Dr. West in appearing before the Standing Committee on Public Accounts. I'll talk about the 1998-99 expenditure of program areas now under my responsibility and how they met business plan activities. My present responsibility areas include the Northern Alberta Development Council, or NADC as it's known, and the forest industry development branch, now both part of Alberta Resource Development.

With me today are Howard Gray, the executive director of the forest industry development branch, and Tom Baldwin, who is the executive director of the northern development council.

In May of 1999 reorganization of government separated the forest industry economic development, resource development, and

resource protection functions by department. The forest industry development branch in Alberta Resource Development is responsible for formulating policies relating to forest industry development, forest product exports, and forest revenues. We communicate the socioeconomic benefits of forestry to the province to promote the value adding and upgrading of commodities. In fact, when you go back to '97-98, it's just an example of the importance of the forest industry. Total industry revenues were \$8.4 billion. Direct expenditures were \$3.4 billion. Taxes, stumpage, protection charges totaled \$564 million a year. The value of export shipments at that time totaled \$2.44 billion. The industry employed over 50,000 direct and indirect employees in Alberta, so it's a very important area.

Responsibility for timber allocation and tenure moved to Resource Development from Alberta Environment, and we now lead the development of new forest management agreements. The Minister of Environment remains – and it is very important for the committee to know the split between the two areas – responsible for overall land management and protection of Alberta forests. This will include fire protection. Alberta Environment ensures compliance with legislation and collects Crown timber dues. The Economic Development minister is responsible for secondary and tertiary manufacturing as they relate to noncommodity forest products, such as windows, door frames, and office furniture.

During 1998-1999 I chaired the Northern Alberta Development Council under the Executive Council. The forest products development branch was part of Alberta Economic Development at the time. Timber allocation, for which I am now responsible, was handled by lands and forests of Alberta Environment. NADC's business plans for 1998-1999 were to promote emerging development opportunities in northern Alberta, to address barriers to economic growth, and to increase the northern skills level so people may take advantage of economic opportunities.

For those members that may not be aware of the northern development area and what it has, it's basically a very diverse resource base and a key contributor to the overall economy of our province. A hundred percent of all the oil sands production, 90 percent of its forests, and 40 percent of conventional oil and gas are within that area, as well as 20 percent of agriculture. The population is not large though. Only about 250,000 or less than 10 percent of the Alberta population lives within that area. It's an area that has billions of dollars of economic investment, and some of the challenges we have, of course, are to ensure that development takes place in a co-ordinated fashion and that people living in those areas and other areas have full advantage of opportunities that are there.

Working with the NADC, many partners work to further value adding in agriculture, for an example, in product diversification opportunities in the Peace region. NADC co-ordinated the development of the northwestern Canadian integrated road conceptual plan for British Columbia, Alberta, Saskatchewan, Manitoba, Northwest Territories, and the Yukon. This plan was accepted by the western Premiers at their 1998 annual conference, and it will guide the development in the northwestern Canada growth network as part of the western Premiers' northwestern Canadian economic action plan. What this does is basically show an integrated road network in Alberta which connects roads; for example, from Fort McMurray-Fort Chipewyan to Fort Smith, Fort McMurray to La Loche in Saskatchewan, the Fort Vermillion-High Level area to Fort Smith, and then a road network also from Rainbow Lake connects us to B.C. and of course an integrated road network within other areas in Alberta itself. So it's a key area of responsibility to ensure that co-ordination takes place.

Another area is telecommunication initiatives which helped Fairview, Hines Creek, Worsley, Cleardale, and Bear Canyon install

digital communication services. This will allow schools and libraries in these northern communities better access to the Internet, data transfer, and long-distance education services. The federal/provincial western economic partnership agreement provided \$300,000 in funding for this initiative. In addition, the northern development bursary program helped northern students access postsecondary education. About 75 percent of recipients fulfilled the program return service requirements, which introduces these young people to economic development opportunities in northern Alberta as part of our overall plan.

8:53

Turning now to the forestry side of the business, during '98-99 the forest products branch supported three Economic Development business plan goals. One is being an advocate for the Alberta advantage, furthering the government's economic planning framework, and thirdly, supporting the continued growth of business and markets in Alberta. The forest products branch promoted Alberta-made forest products and identified market and product growth opportunities. It advocated on behalf of Alberta forest products and provided strong support for innovation and science.

The forest products development branch achievement in 1998-99 included developing a wood allocation strategy with Alberta Environment to redistribute some 1.1 million cubic meters of deciduous timber that had reverted to the Crown. Three advisory committees made recommendations on timber in the Footner forest area, the Peace region, and north-central Alberta. The industry consultation phase of this reallocation was completed by the end of the 1998-99 fiscal year. Efforts continued to eliminate trade barriers on softwood dimensional lumber in Europe. The Europeans restricted green lumber sales from Canada and the U.S. to prevent pinewood parasite infestation problems. Most western Canadian companies have their own kilns for heat treating this lumber to protect it from infestation and increase its marketability.

The branch also participated in a national task force with International and Intergovernmental Relations. They encouraged the World Trade Organization to consider Alberta kiln drying capabilities as a rationale for eliminating trade barriers. The branch also worked with Alberta Environment on a forest industry long-term strategy, which will be submitted to government later this year, which shows a 10-year plan for forestry.

Another achievement was partnership with the Canadian forest research source to actively market forest products sector research information to industry. This innovative technology transfer program, launched in October of 1998, involved distribution of over 500 research reports completed by the Alberta government over the last decade, representing an investment of \$5 million. This is a partnership with Forintek, a B.C. research organization, which we participate with in some funding, and NAIT here in Alberta and the *Edge*, which is an Alberta communications newsletter.

Finally, a partnership in the development of new pulp and paper stumpage with Alberta Environment was also completed. The shift from forest products development in Economic Development to the forest industry branch in Alberta Resource Development involved a change of emphasis on forestry products to the needs of the entire forest industry. We now provide a stronger advocacy role for the whole forest industry. We have established a dynamic linkage with Alberta Environment's regulatory and forest management role and Economic Development's support for marketing and noncommodity secondary manufacturing. At the same time, product research and development funding previously available under Economic Development has moved to Alberta Innovation and Science.

Forestry did not become the third largest manufacturing industry

in Alberta by chance. We need to ensure that industry continues to receive the support afforded significant and mature industries through the Alberta advantage. This will be my focus over the next several months in specifically targeting continued diversification in that area and also in the area of value adding.

Thank you for giving me the opportunity to provide an overview on NADC and also the forest products branch. Thank you.

THE CHAIRMAN: Thank you, ministers.

Mr. Auditor General, you have members of your staff here that you'd like to introduce, please.

MR. VALENTINE: Good morning, Mr. Chairman. On my left is Jim Hug, Assistant Auditor General with responsibilities for this ministry, and on my right is Mike Stratford, a principal in the office with responsibilities for this ministry.

THE CHAIRMAN: Thank you, sir.

A small administrative matter before we get started. There is a reply to some questions by a member of the committee from the Auditor General that will be circulated with the minutes of this meeting.

Questioning. We have Ms Blakeman, please, followed by Mrs. Forsyth.

MS BLAKEMAN: Thanks very much. Welcome to the minister and his staff and to the Auditor General and accompanying staff. I understand we have fun seekers again in the gallery. We do indeed. Welcome.

Very interesting comments the minister started out with. It's interesting to recall that this committee has brought forward motions every year to expand and update the powers of the committee, so perhaps the minister could use his considerable powers of persuasion on his own colleagues who hold the majority of votes on this committee and thus far have precluded any movement forward.

Secondly, I'd like to put on the record the difficulty for this committee to deal with what are now superministries. We're now looking at a combination of three ministries that used to be dealt with separately and on separate days. We're now trying to cope with them in one two-hour period. Having said that, on we go.

I'll refer the minister and his staff to page 31 of his annual report and additionally to page 84, vote 3.0.5. My questions are about what cost-benefit studies were conducted by the department or for the department in this fiscal year – that is, from April 1, 1998, to the end of March 1999 – regarding the impact of deregulation of the electrical industry on the retailer consumer bills over the long term, medium term, short term, and can the minister share any results of these cost-benefit studies with us?

DR. WEST: The working documents on electrical deregulation. As they looked throughout the world at the deregulation that was going on in the United States and other countries such as England and Australia and New Zealand, that indicated that until you had done such things as the independent assessment team's analysis of the cost of production of every plant that's in the province, the PPAs, the power purchase arrangements, the principles involved in deregulation were more important than a full cost analysis because of the inability to project what would happen at the auction and the evaluation of the power coming out.

But that said, there have been studies on deregulation, privatization, outsourcing, whatever you want to call it, that have demonstrated time in memoriam, whether it's in the transportation industry or in other types of utilities, that the power of competition brings a benefit to consumers over the long run. Therefore the actual

studies that were done did not hone in on cost-benefit analysis to the consumer but more to the efficiencies of running a deregulated power structure outside the costs that were incorporated in regulation. Remember; the last major hearing that went forward cost 9 and a half million dollars, and most of that money went to lawyers and accountants attending meetings at the EUB. Perhaps the chairman of the EUB could indicate the cost of regulated power.

9:03

MR. McCRANK: Well, it varies, of course, on a regular basis. But we do know, as the minister said, that for the '96 general rate application the costs awarded to the intervenors was \$9 million. We've been looking at intervenor costs for the history of the last five years, and it has averaged between \$5 million and \$10 million on each fiscal year in terms of trying to deal with regulated gas and electric utility industries.

MS BLAKEMAN: Okay. Can I then ask what types of additional performance measures the minister studied or implemented or considered or put in place to assess the effectiveness of the change once the power purchase agreements were in place and customer choice had been implemented.

DR. WEST: We have full reporting, and since the EUB has analyzed the power purchase arrangements as submitted under application by the independent assessment team, we now have the ability to look at the low-cost production of various plants and then put in place a performance of the auction that we expect so that going forward we can now set certain benchmarks we want achieved for the public interest. Again, that will be evident in future discussions. We're now at '98-99, so you're asking us for a year we don't have the information for that we can now put in those benchmarks and performance measurements.

As we go forward to this July to the auction with Charles Rivers and Associates on the power purchase agreements and have all the regulations in place that will put in the marketers' requirements as well as the standards we expect from retailers and distributors and transmission people as well as the generators, we'll be able to set out certain targets that we have expectations on.

But to answer your question, in '98-99 we did not have enough of those facts in place yet to set those benchmarks.

THE CHAIRMAN: Mrs. Forsyth, please.

MRS. FORSYTH: Thank you, Mr. Chairman. Thank you, Mr. Minister, for coming before Public Accounts. As a new member of this committee, I have to agree with what you said at the beginning, that it's important to bring public accounts into the new century and difficult to review a budget from '98-99. But saying that, I'd like to take you to the schedule of revenue on page 79 of your annual report. I notice that the nonrenewable resource revenue for '99 reflects a 34 percent decrease, or \$1.4 billion, over '98. I wonder if you can tell me what factors caused such a dramatic change.

DR. WEST: There were several factors involved in that. There was a decrease of \$452 million in conventional oil royalties due to an average actual WTI price of \$13.70 against a budgeted price of \$17.50, so we had quite a variance there. We also had a decreased oil price at the time on the oil sands, which caused a decrease there of \$133 million from oil sands royalties. Also, a decreased cash flow in the industry of that year resulted in a reduction of our sale of lands of \$607 million. You have to understand that we came out of 1997 going into '98-99 – '97 was only the third time in history that

we'd gone over \$4 billion in revenues in the department. Then going into this year we had a tremendous drop. We had lower prices even in the natural gas byproducts that came out of this year. So again, you'd have to look at the reference year of '97 and then go to '98-99, and you'd understand that the activities fell off and the prices dropped tremendously from '97 to this year.

MRS. FORSYTH: Thank you.

Can you explain the decrease in the coal royalties, too, then?

DR. WEST: Well, again, coal is a never-ending story. It's under a lot of pressure throughout the world today. Coal production was down about 7 and a half percent that year, over a million dollars in revenues that were decreased. The decreasing commodity prices for coal have really hurt this industry. Of course, if you take a snapshot of '98-99 and then you come to today, you see that in the Grande Cache area and even in B.C., Tumbler Ridge and areas, tremendous layoffs are going to come because of the competition of Australia and South Africa but also because of some of the backing off as it relates to the Asian flu that came through economically a few years ago, and it hasn't fully recovered. The metallurgical side is fine, but even since this budget – we took in \$17 million in this budget. I just put the budget out the other night. We're down to \$14 million in coal royalties. Coal is in trouble, folks.

THE CHAIRMAN: Before we get to the next round of questions with Ms Olsen, we've had a member of Executive Council and a member of the committee question the form and function of this committee. I must remind committee members in particular that the chair is a servant of the committee. This committee has but one purpose, to review the accounts. Now, it isn't the chairman that has struck this form. The committee does this. If the committee wishes a full debate on this matter, either in this committee or in the House, then it's up to the committee.

I might add that this chairman has tried in three successive years to deal with the government caucus members to have in fact the accounts reviewed as in other jurisdictions in this world that have a Westminster-style democracy. The minister specifically asked not to attend these meetings so as to have the committee members as private members, not as a member of a caucus but a private member, question the administration not on the policy but on the implementation of that policy and strip away some of the inherent politics involved and question the administration of that budget year, but to no avail. But if the committee wishes that, the chairman is certainly open to any motions now or at any time throughout. If there are any questions or motions, if you can give notice at the end of the meeting, we'll make sure they're put either at this meeting, if you wish, or at subsequent meetings.

Thank you.

DR. WEST: Mr. Chairman, could I . . .

THE CHAIRMAN: No. We don't have room for introductions. We're question and answer here, sir.

DR. WEST: No. I would like to make a motion.

THE CHAIRMAN: You're not a member of the committee. In fact, the Westminster style of democracy sets aside the Executive Council very distinctly and separately from a private member. This is a private members' committee. Only private members have won the right to be on this committee.

We have numerous questions here to deal with. We have a long, long list, starting with Ms Olsen, followed by Mr. Yankowsky.

MS OLSEN: Thank you very much. Welcome, everybody. Dr. West, you always make my day interesting. I am going to draw your attention to page 136, and we'll talk about energy first. I, too, am concerned about the process of superministries diluting the public accounts process. However, we'll start with energy and see where we can go from there.

In the Auditor General's report, Mr. Minister, four key issues were identified in the prior year's audit and this year yet again have been identified as not being fully addressed. Although you may find Public Accounts redundant, we do have some outstanding recommendations from the Auditor General's department that have yet to be fulfilled. I'm wondering if the minister can indicate what steps were in fact taken by the department in '98-99 to approve a policy and identify security objectives with respect to computerized information systems. That's taking you to page 136 of the Auditor General's report.

9:13

DR. WEST: I'll have the deputy minister start, and then we can have some of the staff that are in that area answer the question.

MR. SMITH: The Auditor General has identified an ongoing concern here with the security procedures for the administration of our information systems. It's also a concern with the department and one that has been addressed.

I'd like to ask Mr. Keech if he could provide supplemental information on what we've done there.

MR. KEECH: We engaged a consulting firm to come in and look at the weaknesses specifically as they're related to access by individuals who should not have access to the system. They identified a number of improvements. We've implemented those improvements, and we have in fact a security policy that's presently in place. The Auditor General will be reviewing that again this year during their audit, and we have provided some of that information to them already.

MS OLSEN: That's great. Hopefully this will be the year you're out of the doghouse.

My next question is: can the minister indicate what steps were taken by the department in '98-99, again, to test the disaster recovery plans for its major information technology applications?

MR. KEECH: We have again put in place disaster recovery plans. Because of the sensitivity of the information we deal with and because of the large volume of information, it's a fairly rigorous process that's now been developed. During this year as well we were working obviously on the year 2000 issue, and just to update that, there were no implications in our ministry with respect to year 2000. So we feel we've made significant progress in terms of ensuring that we have the information available in the event that there is a disaster in the ministry.

MS OLSEN: I was just wondering in terms of the tests. You know, how often do you require that testing process to occur in terms of the steps to take to test the recovery plan?

MR. KEECH: We have an ongoing process to test and evaluate it. Without knowing what the disaster might be, if we're looking at a situation where perhaps the building were destroyed and all the equipment with that – we have put in place mechanisms to ensure that we have the most current information backed up and off site. It would take us several days or a week, perhaps, to get back up to speed just by virtue of having to acquire new equipment in the event there was a total disaster, but the integrity of the information is

protected by virtue of being off site.

THE CHAIRMAN: Thank you.

Mr. Yankowsky, please, followed by Ms Blakeman.

MR. YANKOWSKY: Yes. Thank you, Mr. Chairman. My questions will all be to the Associate Minister of Forestry. I recognize that the Minister of Environment is responsible for the collection and administration of forestry-related revenues, but the Associate Minister of Forestry sets the stumpage fees through timber dues, legislation, and policy. My question here would be: were there any major changes to the stumpage fiscal policies in 1998-1999?

MR. CARDINAL: Thank you very much. There were changes in both areas, the stumpage rates for coniferous and also deciduous. Both rates were changed involving the industry and also the government. Both of these rates are market sensitive, and they seem to be working well. I'll get Howard Gray to expand on it in detail for you.

MR. GRAY: Yes. The rates were shifted from just a base line charge that we used to use in the industry to one that was based on markets, and it's designed to increase the revenue to the Crown as the markets improve. So as the company's opportunity for profit increases with markets, so does the government's share of that increase. It is based directly on the markets, and as the markets fluctuate, so do the stumpage fees collected by the Crown.

MR. YANKOWSKY: Thank you. I'm assuming here that a more market-sensitive system would also give the province greater revenues as a result of these changes over the long term, and my question is: if that is indeed the case, what was the acceptance among pulp and paper producers for that new system?

MR. CARDINAL: Of course the new rates, again, are market sensitive. When lumber prices and pulp prices are high, the return for the province is greater. On the other hand, when the prices drop, then there is less pressure on the industry in relation to the cost of production and the market they get for their products. The processes were developed involving the industry in both cases.

Again I'll ask Howard to expand on it further.

MR. GRAY: The readjustment of the pulp and paper sector was accepted by the industry, and we have voluntary compliance by the pulp and paper sector in this project. It has been done in concert with the industry, and the industry has adopted this, recognizing that it is a better system, albeit in many cases it did increase their payments to the Crown.

THE CHAIRMAN: Thank you, sir.

Ms Blakeman, followed by Mr. Cao.

MS BLAKEMAN: Thank you. I'm going back to electricity. I'm interested in the studies or the projections that the ministry conducted, once again in this fiscal year, 1998-99, to determine what the aggregate surplus or deficit would be in the balancing pool once the IAT final design had happened for the power purchase agreements.

DR. WEST: Mr. Chairman, could I have your consultation? This is now, this year, we're talking. I mean, '98-99, that's a redundant question.

THE CHAIRMAN: Redundant would mean it's being asked again.

The chairman didn't catch the question. If the question relates to the current policy year, then of course the member knows that's out of order, but if there's something that's related to the accounts as filed, then the question is in order. Perhaps the member would like to rephrase the question so as to not offend the rule.

MS BLAKEMAN: Yes, certainly. It's what the department did, what they were trying to do, what they were looking at, the studies and all that sort of thing. It was done during this fiscal year. We're examining history at this point. So I'm interested. Knowing that this was kicking into place, what studies or projections did the ministry do in that fiscal year regarding the balancing pool and an aggregate surplus or deficit?

DR. WEST: I guess I could answer your question. We did put in the various tools because the Electric Utilities Act that was brought forth, Bill 27, set out in it processes that we started to institute in this year in preparing for a calling of an independent assessment team and having people bid on that program as well as implementing some of the other standards around the power pool and the transmission administrator. Specific to your question was the fact that we put in the processes to achieve the facts and figures that you're asking for, but at that time we didn't have them.

9:23

So following '98-99, we did release a contract to an independent assessment team, who started the arduous task of taking each and every plant in this province and costing all the factors that were involved in the production of power and assessing a value to that plant, some of it above book value, some at book value, and some below. But those facts and figures will come out at the auction this July.

Then the balancing pool. The effect of that sale will then put certain moneys into the balancing pool. The question you asked: did you do any studies? Today I can say we have done studies on the value that should go into the balancing pool.

MS BLAKEMAN: Okay. I'm still trying to seek out, seeing as this was implemented in this year, what sort of expectations were laid out to be able to achieve. What I keep hearing is: we didn't have the information at that time; we've had to gather the information since then. As an Albertan without specific expertise in electricity, I keep going back and saying: then how did you know where to go? What was the criteria the department established in this year, when this all came to happen, that would set the bar for how successful the auction of the PPAs would be? I'm looking for the work that was done in the year when this was brought into play, and it sounds to me like there wasn't any. It was: well, we'll wait until it's actually running before we develop any performance measurements, and then we'll judge it. But how could we have gotten into this without performance measurements?

DR. WEST: Okay. I understand your question now. I didn't understand your question in the beginning, but you've explained it now.

Going into this, we had every fact and figure that we needed through the hearings that were held at the EUB. I mean, there's a complete record of all the costs that went into each application for a rate that went out to the consumers. So it did evaluate everything from the coal reserves to the value of the plants that were there today, the base value as they were written down through a regulated process. Each plant had a life that was set out in the legislative hedges that were put in place. Therefore, those values were known,

and when we came to this and said that we'll take those values and put them against a process called a public auction, we decided not to force divestiture by making them sell plants to find out the value. In some regions they have actually forced the sale of certain plants and assets, and then they have a market value. Then they apply it against all these facts and figures that EUB has dealt with and come up with a residual value or a thing called stranded costs.

We did run that analysis out on the existing facts we had, although projected over 20-year contracts. We had to trust the PPA or the independent assessment team analysis of certain costs that might go forward. In saying that, we did come up with a valuation that there should be somewhere between \$2 billion and \$4 billion in residual value.

MR. WHITE: Thank you.

Mr. Cao, followed by Ms Olsen and Mr. Lougheed.

MR. CAO: Thank you, Mr. Chairman. I would like to refer to the Auditor's report, pages 138 to 141, regarding the AEUB. Basically, as I understand from the Auditor's report, there are three mission critical systems for the AEUB: the basic well data system; the production, injection, and disposition system; and the gas gathering and processing system. Information is very important; in fact, probably the AEUB worked on the information on it. My question is regarding the information systems. What is the status of those systems in the improvement recommended by the Auditor, particularly the volumetric infrastructure petroleum information registry, VIPIR? There were some recommendations from the Auditor, recommendation 26, to be exact. What is the status of that now?

DR. WEST: The VIPIR project follows a long-term, almost 10 years, study of the royalty simplification, it was called. It was neither a royalty nor simple at one time. Nonetheless, this came out of recommendations from industry and our department stakeholders involved, and I'll have them answer what the status of this is. It's a seamless information system that would serve us a lot better than what we have in place today.

MR. SMITH: Thank you, Mr. Minister. Hon. member, the VIPIR project is a joint EUB/DRD, department and industry, initiative. The scope of the project has been developed. There is a comprehensive business area analysis report that has been prepared to proceed towards implementation. The draft business area analysis report identifies the deliverables, the scope, the time frame, and other details that we need to implement this. It's a three-year initiative. It will not be completed until the year 2002. While the data integrity user needs and other business needs of the current well production systems at the EUB will be addressed, there is no interim solution for the existing production, injection, and disposition system or the gas gathering and processing system.

However, I want to add that what we have done to ensure the integrity of the current data is that we have detailed a segment of the EUB's staff to work with the current existing IT system to ensure its integrity, and we have every confidence that that integrity is being protected. In the event that the VIPIR project were to fail – we don't believe it will; we believe it has advanced to the point now where it is going to be successful – we have put in place plans to move the current IT systems from the mainframe that public works has to a stand-alone system. Again, we expect that that would protect the integrity.

So we're pretty confident that the integrity is there in the interim, but we are moving to what we hope is a far more easily accessed system from industry, from the DRD, from the board, and from the

public's point of view.

Thank you.

THE CHAIRMAN: Ms Olsen, followed by Mr. Lougheed.

MS OLSEN: Thank you, Mr. Chairman. I'd like to draw the minister's attention to page 32 in the ministry's annual report. In the annual report you have a performance measure: "Consumer and stakeholder satisfaction target of 80 per cent satisfied [and the] process is fair and effective." You achieved 59 percent. Fifty-nine percent of all stakeholders in a December '98 survey were satisfied that the ministry's consultation process on electricity and deregulation was fair and effective in the areas of

restructuring, deregulation, competition and competitiveness, transitional issues, balancing competing interests surrounding deregulation and providing clear, timely explanations as to why suggested changes have not been implemented.

That's your performance measurement. That's right out of your report.

You know, if your goal is 80 percent and you've achieved 59 percent, what have you done to ensure that the stakeholders do feel there's a fair and effective process of consultation?

DR. WEST: This year we were right at the centre of the start of deregulation, and we had massive stakeholder input. As we moved, there were a lot of unknowns as we started deregulation. I mean, a lot of them did not have the facts and information, and some of the regulations were not in place. We were just putting up a change in the power pool as well as the transmission administrator. So this does not amaze me, that there would be this type of response.

9:33

Since then we have done everything from bringing in the regulation to spelling out the processes as well as putting as much information as we could out in package form to the various stakeholders, whether it's the rural electrification associations or whether it's the industrial consumer groups. We've also put the information on the Internet. Although we won't be using this form of performance measurement in the future, suffice it to say that it would be no surprise that if we had set a target of 80, we wouldn't have achieved that in this year. I don't look at that as a criticism. I think that's just the nature of the beast of deregulation and some of the changes we were making within the department.

MS OLSEN: Mr. Minister, given that you are changing your performance measurements, I'm wondering why you wouldn't have some sort of static measurement that can be measured through time and why you wouldn't want to stick with that specific measurement. But given that you've chosen not to, would you provide us with a copy of the results of the survey and the survey questions for that particular time?

DR. WEST: For this particular time?

MS OLSEN: Where you achieved 59 percent.

DR. WEST: Could you answer?

MR. SMITH: There's no difficulty providing the results of the survey if you'd like to have a copy.

THE CHAIRMAN: Through the secretary, if you wouldn't mind. Thank you.

Mr. Lougheed, followed by Ms Blakeman.

MR. LOUGHEED: Thank you. I have some questions regarding the EUB. The industry levies and assessments increased by about half in comparison to '98. Mr. Minister, if you'd comment on the increase and perhaps the thinking that was current at that time with respect to the view of the residents of Alberta on the split and on the relationship of the industry assessments to the financial statements of the EUB.

DR. WEST: All right. I'll have the EUB answer that.

MR. McCRANK: Thank you, Mr. Minister. Hon. member, as of April 1 of 1998, which is the year we're talking about, the board, as a result of a policy decision that was made, eliminated all but one type of application and licence fees. If you'll note in the financial statements, the application and licence fees brought in over \$16 million up to that year, 1998, and only \$760,000 in 1999. To offset the reduction in the revenue from that source, licence fees and industry levies and assessments were increased. The reason for the removal of those application fees was that industry found it was burdensome for them to be cutting a cheque every time they had to bring in an application for a well licence or a facility. So it was determined that the better way, the most efficient way to proceed would be by way of levies as opposed to application fees. That's the reason. It's just reflected in another part of the financial statements.

MR. LOUGHEED: Hmm. Your answer, I was going to say, was begging the question about the reason behind dropping the fees, but your answer was so complete that you've incorporated my second part of the question into your answer. So perhaps I'll move on to another one, if that's okay, with the minister.

There's also a statement about "funds held on behalf of others" on page 87 of the financial statements. What funds are you holding, on behalf of whom, and what were your plans with respect to that at that particular time?

DR. WEST: Well, these funds are collected by the EUB to ensure the proper abandonment of oil and gas wells, and I'll again have the chairman or others expand on that.

MR. McCRANK: Hon. member, this is a fund that was set up for the purpose of ensuring that Albertans don't have to look after improperly abandoned wells in the final analysis. If the licensee of the well does not meet certain requirements that we have set, they are asked to provide a deposit. Once the well is deemed to be in compliance with the requirements, the deposit plus any interest is refunded.

The funds held on behalf of others have increased dramatically, which is what you're noting, due to the introduction of the long-term inactive well program which was just introduced in the last couple of years, particularly during the year we're talking about, '98-99. Again, as I say, the program seeks to reduce the number of long-term inactive wells and reduce the financial risk to Albertans generally.

DR. WEST: Might I just add some information? There's a bill before the Assembly in this session, the orphan fund, that will bring us up into this century with following up on this to include other facilities, batteries, and pipelines, and increase this fund. It has been fully supported by industry. They want to clean up as much as they can and increase this fund so that their reputation with the public is that they're very responsible.

THE CHAIRMAN: Mr. Minister, the reason for the questioning is the questioning of these particular accounts. It is the minister's

prerogative to go into current policy, but what that does, then, is beg questions of the policy, which we by rules are not allowed to go into. So it's easier if you restrict your answers to the year in question. It will be much easier then. A full and complete answer nonetheless.

MS BLAKEMAN: In other words, don't tempt me.

I'm going to try my line of questioning slightly differently. Can the minister indicate how much electrical power was purchased from Powerex, which is a division or a subsidiary of B.C. Hydro, during this fiscal year specifically, and what was the total amount of financial compensation that was paid to Powerex through the power pool? That's a very detailed question. You may want to respond in writing through the secretary.

DR. WEST: Yes, Mr. Chairman. It's impossible for me. The power purchasing changes each and every day on the hour, every 15 minutes actually. Therefore, depending on what period of time and that, I couldn't answer that. I'm sorry. I'll have to get that information.

THE CHAIRMAN: You may want to ask your staff if the question is specific enough to answer in a succinct manner.

DR. WEST: Is there anybody here that can be that specific on numbers?

THE CHAIRMAN: But the question is specific enough to answer?

DR. WEST: I think it is.

THE CHAIRMAN: That's fine, so long as the answers do come back to the administration, come back through the secretary, so we can disseminate it to all the committee. Perfect. Thank you.

DR. WEST: Mr. Chairman, I also might point out that there's a narrow line. You just corrected me on going forward, but has this anything to do with our accounts? I mean, this has been operating outside – our department doesn't, you know, directly interface in the private-sector involvement in the power pool operation on a day-to-day basis. It's independent.

MS BLAKEMAN: It's referenced in here.

THE CHAIRMAN: The test would be: is it in your administrative responsibility for the administration of this? Is it included in an act of this Legislature? I think it is. If that would be the case and it's included in the accounts . . .

DR. WEST: At any rate, we'll do our best to fulfill the answer.

9:43

THE CHAIRMAN: Should you need any further clarification, the Auditor General's office or the chairman would be happy to assist.

Supplementary question for the hon. Member for Edmonton-Centre.

MS BLAKEMAN: Thank you. What evidence that was prepared either by the department or for the department in this fiscal year was making the minister so confident that electrical deregulation would result in downward pressure on prices? In response to previous answers – I'll just explain this a bit – the minister has referred to some programs that ran in other places. I'm interested in New Zealand, for instance, but I don't know that that's a very good example for us here in Alberta. I'm looking for what this

department did. What did the minister do? What evidence did the minister have before him to be able to make those statements in this fiscal year that this was going to result in a long-term downward trend? It's beyond principle-based.

THE CHAIRMAN: If the chair might interrupt. This truly may be a redundant question in that, as I recall, the previous question in some way was this: were there any studies in this reporting year that said that the ministry should continue on the path of deregulation? And the answer came back, in a circuitous route mind you, that: no, we didn't have any consumer driven; we were planning on the long term.

So the minister may wish to answer this question, but I believe it was asked once before. We're governed by the same rules as the House, and a question that has been asked and answered or attempted to be answered is therefore out of order, unless I'm misinterpreting the question.

MS BLAKEMAN: Well, I've been careful with the language. I asked about cost-benefit analysis in the first question. I asked about studies in the second question. I'm now looking for any evidence.

THE CHAIRMAN: Oh, okay. All right. I stand corrected.

MS BLAKEMAN: I mean, I've had to be very narrow in my questions. So why did this happen? What was this based on? It strikes me that this was a principle, seemed like a good idea, but no performance measurements were put in place to begin with to be able to immediately judge how this project would move forward. So what evidence was all this based on?

THE CHAIRMAN: The chair stands corrected, and I gather the question is a related but different question then.

MS BLAKEMAN: Yup.

THE CHAIRMAN: Mr. Minister, if you will.

DR. WEST: Well, first of all, if you want to go back into that, the analysis done was first on the 10-year review on EEMA, which was an equalization of power rates across this province, and at the end of that we had a feeling that in the province of Alberta not only jurisdictions, municipalities, but the public of Alberta wanted a change in how electrical power was generated, distributed, and transmitted in this province.

The power supply. At one time we had a 53 percent surplus of power supply. When we did our analysis, it was evident that as the province grew and we were moving to a tighter squeeze on power supply, without major new generation plants in this province we would indeed run out of power without some change.

Regulated systems. When we did our survey with the public of Alberta, 75 percent agreed that regulated systems were not the way to be, that deregulation would best serve them. We did our surveys early, and we've done a survey recently. You can have the results of those, and we'll publish those after we're done. But the people of Alberta believe strongly, by 75 percent at that time, that a deregulated system would serve them better for power in the future than a regulated system.

Thirdly, we had the results of the hearings at the EUB that demonstrated to us that the costs were going up, that it was getting much more complicated than it should be, and that indeed a process like that if continued would fail down the road.

The next thing. We looked throughout the world, and as the ministers – and I came in after some other ministers had been to

various jurisdictional meetings. The energy chapter, which is a combination of meetings between all the provinces of Canada and the federal government, indicated that they wanted to move in a deregulated fashion by dropping provincial barriers to the free movement of power, and that continues to be a target throughout Canada in all provinces at the present time, probably except the ones on both sides of us.

After that analysis we looked at areas that were deregulated and looked at the security of supply in the North American grid and understood that all 52 states eventually will go through some form of deregulated procedure and that Alberta would be best served by getting into a deregulated market.

The next phase was that we weren't a Crown corporation. Indeed we'd been served 90 years by one called TransAlta, and our studies showed that it would be easier for Alberta to move to a deregulated system than any other jurisdiction I know. In fact, I have spoken throughout many meetings in the United States to many jurisdictions, and many are copying what we're doing here in some form or other. We had privately owned stockholder companies – Alberta Power and TransAlta – and we had EPCOR, which itself was an independent power company, so to speak.

The next thing was that the industry had come to us and said that if you want to advance on new power generation that is clean, cogeneration, which will make a third of the power coming on to our grid over the next five years, then you have to change the policy as it relates to your regulated system and have a new industrial power generation policy and utilization. Therefore, we had started early on a partial deregulation because of the fact that we wanted our industries to generate power from steam and gas and other by-products, and without changing the regulated system, that wouldn't take place. So as we studied this, all these factors, the decision to change the policy of the government and speed up the full deregulation, which started in about '93, took place. This year we put it into high gear.

So I hope that answers your question. It wasn't just done as a knee-jerk reaction. A lot of the questions we get today would insinuate that we didn't step back and look at not only North America but the Canadian grid as well as what would best serve the people of Alberta. I can assure you that we did not step into this without knowing that most people in Alberta, over 70 percent, agreed that they would be better served in a deregulated system than they would in a regulated system. I don't know why that was in such an absolute manner, but I suggest that it's because they observed perhaps some waste in a regulated system.

THE CHAIRMAN: Thank you.

Ms Graham, followed by Ms Olsen.

MS GRAHAM: Thank you, Mr. Chairman. My question this morning relates to the procedures used by the EUB. If I could refer you to the bottom of page 42 of the annual report for the department, I note that it is indicated that several alternative dispute resolution mechanisms have been used and were being evaluated by the EUB to help resolve landowner concerns about oil and gas development. I'm wondering which, if any, of those mechanisms the EUB has adopted in regard to dispute resolution.

DR. WEST: All right. I'll have the EUB answer this. This is an ongoing concern even today. I'll have the chairman or others state what it was like in 1998-99 and what processes they put in place.

MR. McCRANK: Thank you, Mr. Minister and Mr. Chairman. Hon. member, we observed that there was an increasing number of disputes that just weren't being settled. They were going to hearing; our hearing load was increasing dramatically. So we decided to try

another method of resolving these issues, and we have successfully incorporated third-party mediation and staff facilitation. It's very important that we understand that the staff, whether it's in the field or head office, get involved in this process in trying to resolve the disputes early on. It reduces the need to go to hearings and, from our point of view, increases the satisfaction of the participants in mutually derived solutions. This has been in place formally since about the mid-part of 1999, so it's really just following the year we're talking about as a matter of interest. It has resolved numerous disputes in the field and in the application process.

9:53

We have organized a steering and working committee that is comprised of industry representatives, alternative dispute resolution professionals — it has become a real art today to try to get people that know enough about ADR and the mediation process, but we have involved them – environmental proponents, and landowner representatives to direct the development of a more comprehensive and defined resolution process. In other words, we've been doing it more or less on an informal basis. We're now trying in years subsequent to '98-99 to develop a more formal mechanism.

MS GRAHAM: All right. That's very good to hear.

As a result of those very positive steps, I'm wondering whether you're able to say whether the use of them translates to any savings for the EUB, or are you able to say at this point?

MR. McCRANK: I believe it does. Now, I've put it in context in terms of the amount we're committing to this, because we believe it's a very important initiative. We've committed about 1,800 man-days, or person-days to be more precise, to front-end facilitation and 1,100 person-days to operations to try to ensure that this process works. This equates to about 15 percent of our field surveillance staff time. We've had in total at the moment – and you have to keep this in context – 10 what we would call absolutely complete successes. Now, these are 10 matters that would have gone to hearings.

You'll recall that earlier the minister indicated that in the year we're talking about there were about 45 hearings. We will reduce that in future years, we hope, to about 35, which is about a third of the cost of hearings, which is a significant success from our point of view. We expect this to grow. We've had nothing but positive input from particularly the landowners, the ordinary Albertans, plus industry, plus the board as to the results of this new technique.

THE CHAIRMAN: Thank you.

Ms Olsen, we have but a minute or so.

MS OLSEN: Maybe the minister could provide this in writing if we don't have time to answer the questions through the chair.

Okay. I'm confused. The minister has actually confused me. At the outset of this particular session this morning the minister said that what wasn't important was the independent analysis of the power purchase agreements, that what was important were the principles involved, that they were more important given that deregulation and outsourcing have somewhere along the line, according to the minister, proved to be more efficient. I also heard the minister say this morning that there is nothing they've been able to come up with in terms of evidence-based studies. Then I heard the minister say: well, the studies that they have done. So in order to clear the confusion – for me especially, Mr. Minister, because my background is criminology, not power – maybe you could provide us with those studies that you just alluded to in the last question.

I'm wondering if you could also provide us here with the survey

and the survey results where you say that 75 percent of Albertans agree with the deregulation process. I'm a little concerned that this is complex, that this is not simple, so I'm really interested in having that material provided to this group here in Public Accounts so we can try and get a greater understanding of that process. I'm wondering if you could do that for us, Mr. Minister.

DR. WEST: Well, we'll do our best to bring that forth. You know, number one, you don't have to produce a report to do a study. I want to clarify that. Some of your assumptions are ideologically based, so I don't know if that was the reason for this. It is a policy of this government to deregulate the electrical industry, so I'll rest on that. Then to get it done, we have to do certain internal reviews and acknowledgments of facts and figures. I don't know whether debating you on ideology is redundant now, because we'll be complete in six months of this process, but I will do the best I can to bring you facts and any materials we have. I'll give you the EEMA report. There was a post 10-year study done on electricity in this province, which was very detailed and brought out a lot of facts and figures. Nonetheless, I sense that some of these questions are targeted more for political correctness than they are for the value of the public accounts.

Thank you very much.

THE CHAIRMAN: Any answers will be through the secretary, the administrator, please.

Thank you very kindly, members. We've almost finished on time. I might remind you that next week, one week hence, we have the Minister of International and Intergovernmental Relations, the Hon. Shirley McClellan, along with the Associate Minister of Aboriginal Affairs at this meeting.

Might we have a motion for adjournment?

MR. LOUGHEED: So moved.

THE CHAIRMAN: Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: We stand adjourned. Thank you, members.

[The committee adjourned at 9:58 a.m.]