Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on
Public Accounts

Energy

Wednesday, May 13, 2009
8:30 a.m.

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Standing Committee on Public Accounts

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Quest, Dave, Strathcona (PC), Deputy Chair

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Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
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Woo-Paw, Teresa, Calgary-Mackay (PC)

Also in Attendance

Taft, Dr. Kevin, Edmonton-Riverview (AL)

Department of Energy Participants

Douglas Borland	Director, Finance
David Breakwell	Assistant Deputy Minister, Energy Policy and Research Division
Trevor Dark	Chief Operating Officer, Operations Division, Energy Resources Conservation Board
Mike Ekelund	Assistant Deputy Minister, Energy Future and Strategic Relations Division
Tim Grant	Assistant Deputy Minister, Electricity and Alternative Energy Division
Jim Van Horne	Executive Director, Corporate Services, Alberta Utilities Commission
Peter Watson	Deputy Minister

Auditor General's Office Participants

Fred Dunn	Auditor General
Doug Wylie	Assistant Auditor General

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8:30 a.m. **Wednesday, May 13, 2009**

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this Standing Committee on Public Accounts to order, please, and on behalf of all the members welcome those in attendance. I would like to advise our guests this morning that they do not need to operate the microphones, of course. It's no different from any other year; *Hansard* staff will take care of that. This meeting is also to be recorded by *Hansard*, and the audio is streamed live on the Internet.

If we could quickly go around the table, perhaps starting with the hon. Member for Edmonton-Manning, and introduce ourselves.

Mr. Sandhu: Good morning. Peter Sandhu, Edmonton-Manning.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Wylie: Doug Wylie, Assistant Auditor General.

Mr. Dark: Trevor Dark, Energy Resources Conservation Board.

Mr. Van Horne: Jim Van Horne, Alberta Utilities Commission.

Mr. Borland: Douglas Borland, Department of Energy.

Mr. Watson: Peter Watson, Department of Energy.

Mr. Ekelund: Mike Ekelund, Department of Energy.

Mr. Breakwell: Dave Breakwell, Department of Energy.

Mr. Grant: Tim Grant, Department of Energy.

Dr. Taft: Kevin Taft, Edmonton-Riverview, sitting in for the Member for Calgary-McCall.

Mr. Chase: Harry Chase, Calgary-Varsity.

Mr. Mason: Brian Mason, Edmonton-Highlands-Norwood.

Mr. Denis: Good morning. Jonathan Denis, Calgary-Egmont.

Mr. Benito: Carl Benito, sitting in for Teresa Woo-Paw.

Mr. Bhardwaj: Good morning. Naresh Bhardwaj, Edmonton-Ellerslie.

Dr. Massolin: Good morning. Philip Massolin. I'm the committee research co-ordinator, Legislative Assembly Office.

The Chair: Hugh MacDonald, Edmonton-Gold Bar.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Thank you very much. Corinne is filling in as committee clerk for this meeting.

Are there any questions regarding the agenda that was circulated earlier? Could I please have approval of the agenda? Mr. Sandhu has moved that the agenda for today's meeting, May 13, be approved as distributed. All in favour? Seeing none opposed, thank you.

The approval of the minutes that were circulated from the May 6, 2009, meeting. Mr. Chase, are you approving the minutes as circulated?

Mr. Chase: Yes, that's correct.

The Chair: Moved by Mr. Harry Chase that the minutes of the May 6, 2009, Standing Committee on Public Accounts meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

Of course, this comes to item 4 on our agenda, our meeting this morning with officials from Alberta Energy. We are dealing with the reports of the Auditor General of the province of Alberta from April and October 2008 as well as any references to the 2009 report of the Auditor; the annual report of the government of Alberta 2007-08, which includes the consolidated financial statements annual report from 2007-08, and the Measuring Up document on the business plan; and, of course, the Alberta Energy 2007-08 annual report. I would like to remind everyone of the briefing material prepared for the committee by our research staff.

If there are no other concerns from the members, I would invite Mr. Watson, deputy minister, to make a brief opening statement on behalf of the Department of Energy. Mr. Watson, please.

Mr. Watson: Thank you, Mr. Chairman. Just before I commence my statement, I did want to indicate for the folks that are here their area of work within the department, or in the ministry. Trevor Dark is with us from the Energy Resources Conservation Board, and Trevor is the chief operating officer of the board. Jim Van Horne is the executive director of corporate services for the Alberta Utilities Commission. Mr. Borland, on my right, is the Department of Energy's senior financial officer. Mr. Ekelund, on my left, is our assistant deputy minister of energy future and strategic relations. Mr. Breakwell, to his left, is our assistant deputy minister of energy policy and research, and Mr. Grant is our assistant deputy minister of electricity and alternative energy.

In my opening remarks I wanted to share some of our accomplishments over the 2007-2008 fiscal year. Just as we do this, it's interesting to note that some things have changed since the last time we stood before this committee. A lot of things have changed in the last year. When we were in front of the committee last year, oil prices were nearing $120 a barrel, and it didn't appear that we would see this side of $100 a barrel for oil again. Of course, we did, and we now find ourselves in the midst of an economic downturn, with oil prices hovering around $55 a barrel and gas prices around $4. Actually, both of those are an improvement from a month ago.

I think that when I was in front of the committee last year, I had only been with the department for a couple of weeks, actually, so it's been about a year since I've been with the Department of Energy. One of my priorities over the past year has been to implement some changes and create some focus in the department around some new areas going forward and address our organizational structure within the department. Some of this is consistent with the work arising out of some of the royalty system reviews that occurred, including the Valentine report and our follow-up to the Auditor General's report.

The reorganization in the department has been completed, and we're also progressing on all fronts in responding to the Auditor General's report and the Valentine report. We expect to be essentially complete with all that work by this fall, and we'll be in a position to review that with the Auditor General. At this point, as we're implementing the recommendations, we have actually asked Mr. Valentine to come back into the department and conduct a review in the very near future just to make sure that we are on track to completing our work. If there are any things that he identifies where we may not hit our final targets, we want to make those adjustments now, before we've completed our work, and ask the Auditor General to come back in and review it.

In 2007-08, the year of focus for our annual report, we met or exceeded 11 of our performance measures, and I want to briefly address some of those. First, with regard to the performance measure regarding the royalty system in 2007-08 we didn't achieve the performance target, which was to realize 20 to 25 per cent of industry's annual net operating income. In 2007 our three-year average royalty share remained at 19 per cent. We know from the Auditor General's review of our system that our new royalty framework has some different aspects to it than the old system did. There has been discussion around the need to assess our current performance measure, and we're indeed doing that.

I do want to note very briefly that we've made some adjustments in our 2009-2012 business plan, where we've tried to be clearer about some of the core businesses that the Department of Energy is in. We've restated those business statements in our three core businesses: one, that we assure energy supply and benefits from energy and mineral resource development for Albertans; two, that we lead and engage citizens, communities, industry, and governments to achieve effective stewardship of Alberta's energy resources; and three, that we lead and support the development of energy-related infrastructure, innovation, markets, and regulatory systems.

Within core business one our goal for the royalty system is that Alberta has a competitive and effective royalty system, incenting development and maximizing benefits for Albertans. So we're working right now on developing the measure for that goal that is appropriate and meaningful and that addresses all aspects of that goal's statement. While we have been challenged to complete this work given what's going on in the economy and some of the changes that we've had to bring forward in the near term to address some of the economic situation, we fully expect that measure will be completed and ready for inclusion in the 2010-2013 business plan, so we will have completed that measure by fall.

We obviously want clear, reflective measures to assess the performance of our royalty regime, and we recognize that that previous measure, as has been pointed out by some commentators, may not have been meaningful and only provided a snapshot of the full story, in this case Crown revenue share. As I indicated, we're doing our work on that, and in our new business plan we will be bringing forward a new performance measure that addresses and measures the effectiveness of our royalty system and also measures the effectiveness of a strong energy sector that's providing not only royalties to Albertans but also jobs, business opportunities, and tax revenue.

I also wanted to mention that we're making changes to our invoicing system in response to the adjustments that are needed for fuel gas. This was an issue that was flagged through our own internal systems and reported to the Auditor General. Changes to our invoicing system will be complete by June 30 of this year and will remedy the issue back to the 2004 year. At the same time, we will be auditing the 2003 year by the end of June in order to address the issue for that year that our invoicing system could not address.

8:40

We're taking action on all of the recommendations resulting from the royalty review process, particularly with respect to the controls and reporting relative to the royalty system. We're addressing the recommendations of the Auditor General in concert with the recommendations arising from the Valentine review. Our plans are in place to do this, and all of the work is under way and well along the path. As I indicated, we expect to essentially complete this work by this fall. As I mentioned, we've retained Mr. Valentine just to come back and give us a quick checkup on our path to complete implementation to ensure that we're on the right track.

With respect to the Auditor General's recommendation on volumetric assurance, again, that work is essentially complete, and the work arising out of that recommendation will be implemented by the fall of 2009. The recommendation was to ensure that the Energy and Utilities Board explore ways to strengthen its controls for verifying the accuracy and completeness of reporting, and we've been working on this diligently with the ERCB since. The ERCB carried out a number of substantive audits in the past that showed no significant undercollection of royalties, but we recognized that we could improve our systems. So we're in the final stages of developing an enhanced production audit program, that will be implemented this fall, and it'll cover a wider population of the data elements that we're needing to provide assurance on. We believe this will greatly improve the overall level of reporting and assurance around that reporting, and it will meet the department's level of assurance requirements that we need from this data that the ERCB manages.

As you will have noted, I referenced the Energy Resources Conservation Board. In 2007-2008, of course, the restructuring of the former Energy and Utilities Board took place, leading to the creation of our two new regulatory bodies: the Energy Resources Conservation Board and the Alberta Utilities Commission.

A number of other highlights from 2007-08. Of course, one of the highlights was the creation of Alberta's royalty framework. After a lengthy independent review the government adopted a new royalty framework to address the changing fiscal climate in the energy sector. The framework was designed to ensure that Albertans receive an increased share of revenues and to bring stability and predictability to the oil and gas sector. The regime is price and production sensitive, so as commodity prices improve and increase, government essentially takes a greater share, and at lower prices, where risks to industry are greater, some of the government's share responds to that.

It really was no simple task, and as the members know, there has been a lot of debate about the system. The new system has some proponents and some detractors; the government's goal was to strike the right balance. As you know, we implemented the framework in January of 2009.

A number of other things we did in 2007-08 related to our value-added activity in Alberta. We launched our bioenergy producer credit program in July of 2007. That program encourages investment in Alberta's emerging bioenergy industry by providing financial incentives for producers of ethanol, biodiesel, and biogenerated electricity.

Also, in 2007-08 we moved closer to moving forward with our initiative on carbon capture and storage. A significant milestone in 2007-08 was the establishment of the joint Ecoenergy Carbon Capture and Storage Task Force with the federal government. The task force provided advice to both governments as to how government and industry could work together to support CCS technology, and this helped us as we moved forward with taking steps on CCS in Alberta.

The Chair: Mr. Watson, I regret to interrupt you, but your time for a brief opening statement has now passed.

Mr. Watson: Thank you, Mr. Chair.

The Chair: We have a long list of members interested in asking questions today.

Mr. Dunn: Mr. Wylie will be very brief with our opening comments.

The Chair: I appreciate that.

Mr. Wylie: Mr. Chairman, past recommendations to the ministry are highlighted on page 110 of our April 2009 report. As the committee is also referencing our April and October 2008 reports, we'll briefly summarize the recommendations included in those reports. Pages 53 to 61 of our April 2008 report include the results of the audit on the department's system for identifying and managing conflicts of interest. Our audit resulted in one recommendation, that the department document and retain discussions, conclusions, and actions taken when potential conflicts are disclosed by employees.

Our October 2008 report has two recommendations to the Department of Energy. The first, on page 255, relates to improved controls relating to the administration of the bioenergy program. The deputy was just referring to that. At the time of our audit the department approved grants under this program totalling $93 million. Although the policy framework requires an assessment of the environmental impact, the grant applications we reviewed did not have any environmental impact information, and the criteria for evaluating the projects did not include an assessment of the environmental impact.

Our second recommendation, on page 257, was that the department improve controls to prevent and detect errors in reporting royalty-liable fuel gas and also monitor processes over amendments made to previously reported fuel gas volumes. Following up on an error identified by the department, we noted that the reporting system did not prevent operators from coding royalty-liable fuel gas dispositions as nonliable dispositions. We also observed that although the department requested producers to ensure all transfers of gas are correctly recorded, the department did not seek assurance that operators amended reported fuel gas volumes as necessary, potentially resulting in lost royalties.

Of the 10 remaining outstanding recommendations listed on page 110 of our April 2009 report, five relate to our 2007 audit of the ministry's royalty review systems. We are currently examining the changes to the accounting systems resulting from the new royalty regime as part of our audit of the March 2009 ministry financial statements. We will not conduct our follow-up systems audit on the new royalty regime until next year. We plan to report any findings and recommendations to the ministry in our October 2010 report. Mr. Chairman, this is consistent with the information provided to this committee on March 4, 2009.

That concludes our opening comments. We'd be pleased to answer any questions the committee may have of us.

The Chair: Thank you very much. I appreciate that.

We'll start quickly with Mr. Chase, followed by Mr. Bhardwaj.

Mr. Chase: Thank you. I just note a little regret with the fact that the next royalty review won't be happening until the fall of 2010.

I'm referencing the 2007-08 annual report, specifically note 12, page 81. If the information requested isn't readily available at this moment, would you please follow up through the chair and the clerk with written responses to all members of the Public Accounts Committee. Note 12, page 81, relates to the royalty reduction programs and states that for the year ended March 31, 2008, royalties received were reduced by $778 million. Could the ministry provide a breakdown of this reduction by each of the 11 royalty reduction programs?

Secondly, for the companies that benefited from this royalty reduction program, what proportion were large cap compared with small cap?

Mr. Watson: Mr. Chairman, I do not have that information available right at this moment, but we will endeavour, and we can certainly report the reductions under the various programs that were in place at that time. So we will get that back to the committee clerk in writing.

Mr. Chase: Thank you for your follow-up.

The Chair: Thank you, and if you could respond, Mr. Watson, to both of Mr. Chase's requests through the clerk to all members, we'd be grateful.

Mr. Bhardwaj, please, followed by Dr. Taft.

Mr. Bhardwaj: Thank you very much, Mr. Chairman. I guess, from the deputy's opening remarks, it's been a very, very interesting year for the industry. Since the announcement of the new royalty framework, which was supposed to simplify the regime, we have unintended consequences, new programs, and amended Crown royalty agreements. Can the department assure Albertans and industry that we're getting what was advertised in terms of this simplified regime?

8:50

Mr. Watson: Thank you, Mr. Chairman. This was an interesting year. Given the nature of the economic situation there were some adjustments to our royalty framework that were made, but I want to remind the members that the royalty framework was indeed simplified in a number of key areas, and a number of the programs that the previous member referred to have been eliminated under the new royalty framework.

We eliminated a number of tiers that were in place under the old royalty frameworks for oil and gas as well, and now there's just one tier for all of conventional oil and natural gas. A number of the programs that were mentioned were indeed eliminated with the changes and the adjustments that were made in the new royalty framework. We really believe that Alberta's royalty framework going forward has done a lot to reduce the complexity of the system, but again I want to remind members that it is a complex system and a large and critically important business for Albertans.

The new programs that the member mentioned were brought forward in response to the global recession and credit crisis and consistent with the intent to encourage some activity and generate more royalty for the province in this economic situation. I think the actions of Alberta are generally consistent with actions that have been taken by other players around the world. So while we've undertaken a number of short-term modifications, we will be reviewing the effectiveness of those incentive programs over the course of the year, and once the situation in our economy has resolved itself, those short-term incentives will go away.

Mr. Bhardwaj: Okay. Just a quick supplemental, then, to that. I guess when you were developing and modifying the new royalty regime, you were under fairly, you know, tight timelines. How can we be sure that we're really correctly calculating what royalties are owed to us?

Mr. Watson: There was an enormous amount of work that was done within the department to implement the new royalty framework. A large amount of changes were needed to our electronic systems. A number of regulations needed to be created and passed by government to implement the policy decisions that they took. There was just an enormous amount of activity.

As a newcomer to the Energy department I witnessed just how much effort was required to implement that major policy decision.

All of those changes were made. The systems were adjusted and reworked, and we had all the systems in place for the January 2009 production month. As we were implementing those things, an extensive amount of testing of the system was done by our staff. We literally had hundreds of people working on it. We're continuing to monitor and verify our controls in our system to ensure that the changes we've made to our systems do not lead us to any material errors. I know that the Auditor General is in and reviewing the changes that we've made to our systems to ensure that the revenue is accurately assessed and calculated.

Mr. Bhardwaj: Thank you.

The Chair: Thank you.

Before we proceed to Dr. Taft, I would like to welcome Mr. Fawcett, Mr. Johnson, and Mr. Quest this morning. Good morning, gentlemen.

Dr. Taft, please, followed by Mr. Quest.

Dr. Taft: Thanks, Mr. Chairman. I'm looking, for example, at page 27 of the '07-08 annual report of the department. It makes me refer back in my own mind to the work of the Auditor General in the immediately preceding report, '06-07, where he took a look at the royalty review systems. My first question is to the Auditor General. On pages 91 and 92 of that particular report you made what to me were some of the most serious comments I've heard a public official make in Alberta. They addressed the fact that the Department of Energy's reporting wasn't adequate. I will just quote one line from that on page 92, and this is concerning the measure around royalty performance. "For several years the measure portrayed satisfactory performance by the royalty regimes while detailed analysis in the Department indicated otherwise." The Auditor General may remember writing that. My question is to the Auditor General. Why should I as an MLA and citizen of this province have confidence that the annual report of '07-08 meets any normal standards of full, plain, and true disclosure given the very serious statements the Auditor General made?

Mr. Dunn: Well, as discussed with the committee last week, I explained that this is a complex and comprehensive measure. It contains three commodities, and it contains a rolling three-year time frame. It is very difficult to assess the results of the royalty regime and its intent when you use such a comprehensive one-off measure. As explained in other reports in addition to our own report, the expectation would be that you could determine what is the result by year, by commodity and what choices were made by the department.

If people are at page 27, you can determine that you know what the public policy of the goal is. It's to optimize Albertans' resources. You know what the performance measure is. The performance measure talks about sharing the resource. You know what the target is: 20 to 25 per cent. Then you are provided a table which is a rolling three years, which looks at essentially the last five years, and it has always been below the bottom of the range.

To your comment as to integrity and transparency, I believe it's done with a great deal of integrity, but it's very difficult to meet transparency as to what is exactly the result. I believe the deputy has addressed that in his opening comments, that they are looking at what would be the appropriate performance measure and how it should be reported in the future. If I've heard the comments correctly this morning, it appears that it's under development and will be available by the fall of 2009, and we should expect in the future that it should meet the test that you were advising, Dr. Taft.

Dr. Taft: Let me come at this from just a slightly different angle. I'm just quoting from the Auditor General's own report here, the one that immediately preceded the publication of the annual report under consideration. Again I quote. "For several years the measure portrayed satisfactory performance by the royalty regimes while detailed analysis in the Department indicated otherwise." Now, the way I read that is that the public, through annual reports, was being told one thing, "Things are fine, satisfactory" while the work inside the department, in your terms, "indicated otherwise." So that raises for me a profound concern. If I was a shareholder in a company, there probably would be some serious actions on that. It raises for me a profound concern and doubt about this annual report, and it's, you know, in large measure.

Again, why should I have any confidence in this annual report when you indicated that previous annual reports were portraying satisfactory performance while detailed analysis within the department was indicating otherwise?

Mr. Dunn: Again, we'll go back to the mathematics if you wish. Previous to this it did indicate that there was above 20 per cent. That was the result of 2001-2002, and those results being carried forward because of the rolling three-year would indicate that the result was above the bottom of the range. But that was the last year when the result was above the bottom of the range, in 2002. I stand to be corrected. I believe it was 2002. In 2001-2002 we were above 20 per cent. But because of just the arithmetic that's involved, it would appear that when you included those for a couple of more years, you were above the bottom of the range when, really, if you broke it down per annum, you were not above the bottom of the range.

9:00

Hopefully, I'm being clear here, Dr. Taft. That's what we were referring to. When it indicated previously that the results were above the bottom of the range, it was not clear to a reader that that happened some years ago, not the current year. And we have within that report given credit to the quality, the experience, and the training of the staff within the department. That information is available per annum.

The Chair: Thank you.

Mr. Quest, please, followed by Mr. Mason.

Mr. Quest: Thank you, Mr. Chair. In the department's business plan, goal 4, with respect to value-added development, contains specific targets with respect to bitumen upgrading. While the business plan states that the target is to increase the percentage of bitumen being upgraded in Alberta, the opposite is happening. Can you explain why we upgraded less bitumen as a percentage of the total in 2007-08 compared to the two years previous?

Mr. Watson: The first thing that I want to be clear is that it doesn't reflect a decrease in any upgraded bitumen but a decrease in the proportion of upgraded bitumen relative to overall production. It relates to the proportion of in situ production versus mined bitumen production. Mined bitumen production in 2006, 2007-08 increased by about 3 per cent, but in situ production increased at a greater rate. Since only a small proportion of in situ production is currently upgraded, that resulted in a decrease in the overall percentage being upgraded.

Mr. Quest: All right. So the real question is: if we want to see more bitumen upgraded here in Alberta – and we all do – what policy or policies do we have in place now to encourage that?

Mr. Watson: One of the things that we're taking a very serious look at and as government identified in the royalty framework: they would look at taking bitumen royalty in kind rather than cash payments for bitumen royalty. We've been undertaking some very serious review and analysis for government on bitumen royalty in kind. We believe that's an opportunity for Albertans to participate in more value-added as we utilize Crown royalty barrels for value-added purposes.

One of the things that I want to highlight is that in our recently released energy strategy there is some benefit both from industry and government to ensure that we've got an open, competitive market for bitumen, certainly in terms of the cash value that we receive for raw bitumen, that we collect royalty on. We have a notional goal of seeing one-third of our bitumen being sold as raw bitumen, one-third being upgraded to synthetic crude and being utilized for other refining and into transportation fuels, and one-third for value-added petrochemical development. We think there's good value for Albertans in all of those areas. Our bitumen royalty in kind approach will help us further that.

The Chair: Mr. Mason, please, followed by Mr. Denis.

Mr. Mason: Thanks very much, Mr. Chairman. Mr. Deputy Minister, the government has adopted the stance that it is neutral with respect to the development of nuclear energy in our province. Given certain imbalances in reports that they've produced, many of us doubt that.

I want to ask about a report recently released by the Canadian Energy Research Institute in Calgary calling for four large nuclear plants and about two dozen small nuclear energy facilities by 2030 to fuel oil sands extraction and reduce the environmental footprint of the oil sands. Now, on the board of directors of CERI from your department are Mr. Ekelund, deputy minister, the chairman of the Alberta Utilities Commission, and the chairman of the Energy Resources Conservation Board. My question is: how can people have confidence that your department and the government are neutral with respect to nuclear power when an institute in which you have significant representation is proposing that as a solution for the dirty oil image of our oil sands?

Mr. Watson: Well, the first thing I would say is that the research that was done by CERI would not have been influenced in any way by the members of the board. The research would have been done independently by their staff and reviewed by experts in the field. While the board would govern the activities of the society and provide oversight on the governance of the institution, the board would not be directly influencing the nature of the research or the findings of the research.

The second issue, I think, that's germane as we go through our review of the engagement on the potential for nuclear energy in Alberta is that we need to remember that our system in Alberta is not driven by government. We have a deregulated electricity market, and at the end of the day it will be up to investors to decide whether there is a business case to promote certain fuel sources for electrical generation.

On the results of our review we do need to hear the views of Albertans. There are things that government needs to assess, such as we would have to entertain processes to allow connection of energy sources into our grid. We're very open and want to hear what Albertans have to say about this, but we are not promoting any particular fuel type in this province. We require that the investment community determine what the best business case is for fuel sources in our electricity system.

Mr. Mason: Do you think it's appropriate for your senior officials to retain their positions on the board of CERI given the official position that you've just indicated and given the fact that it now appears to be actively promoting nuclear power?

Mr. Watson: I don't think that CERI is promoting nuclear power. CERI produced a report and provided some analysis and some information to a variety of players who are interested in understanding the issues for the industry.

One of the businesses of our department, that I mentioned when I referenced our core business statements, is to lead and engage with a variety of players in the energy system to ensure that our innovation systems are working to achieve our goals around energy technology, to ensure that some of our infrastructure systems are working to achieve and support our energy goals in this province. The department has a role to play and a need to stay connected with other players in the system that all contribute to moving forward with our energy goals in this province. Research and innovation is a key connection for our department so that we understand the issues, we understand the nature of the constraints around barriers to innovation. Here's where an organization like CERI comes into play, where they conduct valuable research. We don't always agree, but it is a perspective that we need to be aware of, and we need to connect and stay tuned to the work that is occurring there as well as in a number of other institutions in the province.

9:10

The Chair: Thank you.

Mr. Denis, please, followed by Mr. Chase.

Mr. Denis: Thank you, Mr. Chair. Thank you to all of you for appearing before the committee today. I just have a couple of questions not really into policy but the operation of the department for the last year. The industry had warned that land sales, specifically, and drilling activity would decrease as a result of the changes to the royalties announced over the last year and a half. I wonder if you could comment on if, in fact, this has happened, what the effect has been on land sales and drilling activity from the new royalties.

Mr. Watson: I just want to remind members that in 2007-08 there were not any substantive changes to our royalty framework, but what we were seeing at that time was that there was already a slowdown occurring in drilling as a result of a number of things, including weak natural gas prices and higher costs that the industry was starting to see as well as an excessively wet spring that we had this year. I think one of the realities is that the industry is constantly assessing their position, in particular relative to commodity prices and access to credit and capital, and then making their business decisions in response to that.

Mr. Denis: Just one quick supplemental. At the same time we're also hearing over the last year of record land sales and heightened activity in our neighbouring provinces, B.C. and Saskatchewan. Notwithstanding that you mentioned there were not substantial royalty changes for the year in question, I want to talk about for the last year, if the new royalty framework has in fact shipped jobs out of this province to our neighbours.

Mr. Watson: I want to just give a bit of perspective. In 2004-2005 bonuses in this province were \$1.2 billion. Over the next two years that increased quite high, to \$3.5 billion in '05-06 and \$2.4 billion in '06-07. In '07-08 the bonus bids were \$1.1 billion, which we felt was more reflective of our historical patterns in Alberta. So while we did have a significant ramp-up in ’05-06 and ’06-07, the pattern of activity in ’07-08 returned to a more traditional pattern.

There have been some significant resource plays both in northeastern B.C. and in Saskatchewan that have come on as a result of some improvements in drilling technology. There is no question that there is interest in those resource plays from the industry as a result of some of the technology breakthroughs that have facilitated those plays.

Mr. Denis: Thank you very much.

The Chair: Thank you.
Mr. Chase, please, followed by Mr. Benito.

Mr. Chase: Thank you. I’m referencing the Auditor General’s April 2009 report, and as always I welcome the Auditor General’s comments for further updates and clarification. On page 110 of the April 2009 report in the outstanding recommendations section it lists recommendation 9 from the 2006-07 report, that the Ministry of Energy clearly describe and publicly state the objectives and targets of Alberta’s royalty regimes, as outstanding. What is the cost of the failure to implement this?

Mr. Watson: The answer is that there is no cost. The royalties that are being assessed under our new royalty framework are being assessed properly. They’re being collected, and we have systems and controls in place to ensure that we’re collecting all royalties that are liable to the Crown under the new regulations that we passed. I know that the Auditor General is indeed assessing our systems and controls with some of the changes we’ve made to our systems to assure collection of royalties. Having said that, we do understand that there have been issues or there is a concern around the reporting of that measure, as both the Auditor General referenced in his review and also Mr. Valentine referenced in his review, that we could be clearer regarding the objective that we’re trying to achieve in our royalty system, and that’s, indeed, the work that we’re undertaking right now. We’ll be bringing forward a new performance measure that is appropriate to the royalty framework that we’ve put in place and provides more clarity to Albertans and will be more helpful to understand the effectiveness of our system and the features that are at play with our system. We are intent on bringing that forward in our 2010-2013 business plan, and it will reflect the changes from our new royalty framework and our intent to help Albertans understand the issue better.

The Chair: Mr. Dunn, please.

Mr. Dunn: Okay. I’ll pick up from there. It refers back to Dr. Taft’s point. The cost is clarity. If you don’t understand what you’re aiming at, you’re not going to achieve it. If the target is 20 to 25 per cent, simply, when you provide a range, the natural inclination in a range is to go to the midpoint. If the royalty regime achieved the midpoint, 22 and a half per cent, your question translated back to the department is: how much additional royalty would you have collected? If you had hit the midpoint of the range rather than below the bottom, what additional royalty would you have collected? So clarity: what additional royalty would have been collected? Maybe the department can answer it. If you had hit the midpoint of the range, how much additional royalty would have been collected?

Mr. Watson: I think the answer is that we are collecting all the royalties that the province is owed. We have adopted and implemented the government’s royalty framework, and we are collecting all royalties that are owed to the province of Alberta.

What we are trying to do in our improvements to the performance measure is help Albertans understand our goal. Our goal statement – I want to restate this – is that “Alberta has a competitive and effective royalty system, incenting development and maximizing benefits to Albertans.” We want to help Albertans understand how we will measure those things on a go-forward basis. We do understand that the previous measure did not create the clarity that we are all looking for, and that’s what we’re trying to bring forward. But I want to stress that we are collecting all the royalties that the government of Alberta is owed.

Mr. Chase: Thank you. In previous years that has not been the case, as the Auditor General has pointed out. Two years ago there was one individual in charge of reviewing the self-reporting of the various companies and then coming up with a calculation as to what was owed. The system is extremely flawed. My supplementary is: when will the Ministry of Energy implement the Auditor General’s recommendation, that has been outstanding for three years?

Mr. Watson: As I indicated in some of my opening remarks, we are essentially complete in our review of that volumetric assurance recommendation. The Energy Resources Conservation Board will be implementing a new process by the fall of 2009, I believe – by September, Trevor? – and that will close our implementation of the Auditor’s recommendation and will meet the assurance requirements that the department has for volumetric data from the Energy Resources Conservation Board. Then we will be in a position for the Auditor to come back and review that work.

Again, I want to stress that in the early stages of our work in implementing that recommendation, we audited some data elements. We found in some cases some overpayment of royalties, and we found in some other cases some underpayment of royalties. There was no evidence that there was ever any material amounts that the department was not collecting at any time.

Mr. Chase: Thank you.

9:20

The Chair: Mr. Benito, please, followed by Dr. Taft.

Mr. Benito: Thank you very much, Mr. Chair. Good morning. Thank you very much to the deputy minister and to all members of the department. Your time is appreciated today. The question that I would like to ask is about the royalty framework. We all know that Syncrude and Suncor account for more than 50 per cent of Alberta’s oil production. Right now on the framework that we have, we collect about 1 per cent from the 20, 25 per cent net income of these two major players. Is that royalty framework the same for all industry members, whether you are a big producer or a small producer, as long as you are an industry member? Do we have the same royalty framework for all the members of this industry?

Mr. Watson: All industry is transitioning to the royalty framework. In the case of Syncrude and Suncor we have existing Crown agreements that are in place for a number of years, but then they will transition to the new royalty framework that will apply to all industry players. Those Crown agreements were in existence for some years, and the deadline on those Crown agreements is 2015 or 2016, I believe. When we adopted the new royalty framework for the oil sands, as committed by the government, we did go back and renegotiate the Crown agreements with both Syncrude and Suncor to ensure that we received more royalty under those Crown agreements consistent with our intent under the new royalty framework.

Mr. Benito: Thank you very much. My second question: can you make a clarification to this member on how many oil wells are not working right now out of the total oil wells we have in Alberta?

Mr. Watson: I don't have the recent drilling statistics right at my fingertips, but I think, Mike, that maybe you could give the members just a kind of a summary of what has been kind of traditional levels of activity and where we anticipate that to be. We will certainly go back and provide through the committee clerk a more detailed description of industry activity levels, and we'll access the work of the ERCB to do that.

Mr. Ekelund: I just want to make a clarification with respect to the question. In terms of the number of wells that are operating in the province, that would continue to increase as new wells are drilled. We can provide information, but I believe we have something in the range of 200,000 operating wells. That does sound about correct. You may be referring to the number of rigs that are operating and the amount of drilling. That is variable over time, and we saw increases in 2004, '05, and '06, I believe, into the range of 400 to 500 rigs operating each week. This year that is currently down. Right now we're just coming out of spring breakup, so it's a bit hard to tell what the actual capability of drilling is this year. I think we were down to about a hundred rigs drilling, but we'll confirm that information.

Mr. Watson: For the member's benefit, the Energy Resources Conservation Board has some statistics.

Mr. Dark: We have some statistics that might help. I guess the question was around the number of oil and gas wells in Alberta. In the calendar year 2007 there were 176,208. The question was also about the number of operating oil and gas wells in Alberta: 167,928 in the calendar year 2007.

The Chair: Thank you.
Dr. Taft, please, followed by Mr. Bhardwaj.

Dr. Taft: Thanks. I'm going to continue on what's become a bit of a theme here – and I'll to refer to page 27 of the annual report – and that's the target, the 20 to 25 per cent range, which, you mentioned in your opening comments, has been the subject of some discussion. Although it's printed in the report, it's recognized and was recognized even then that it's not really that useful a measure. At the same time I've heard the deputy minister use phrases like "We are collecting all royalties owed" or "Things are consistent with our intent under the royalty framework."

My question to the deputy or any of the officials would be: if there is no clear target, then how do we know any target is being achieved? I have to admit that I was a bit surprised with your recent reports and even in this morning's comments when you said: well, we're working on our targets. We've already got the system in place. It would seem to me that you'd want to set the targets and then organize your system to meet those targets. It feels like it's upside down. Back to you: how can you say that we're meeting targets when, apparently, we don't know what the targets are?

Mr. Watson: When the framework was developed, the government made decisions on: what is the amount of economic rent that we can achieve while ensuring that there are reasonable rates of return for our industry? We are trying to achieve as much of that as we can while ensuring reasonable rates of return and that our industry remains in a competitive position to continue to make investments and develop the resources on behalf of Albertans. There certainly was an intent on behalf of the government to achieve that.

What we're trying to do is provide a measure that helps Albertans to simply and easily understand the very complex system that we have put in place to achieve the government's policy objective. Again back to my point: we have implemented regulations, we have implemented systems to ensure the decisions that the government took in the fall of 2007: that all royalties owed under that system are accurately assessed, accurately reported, accurately collected. We are very clear that we can do a better job of helping Albertans understand this complex system. That's what we're trying to do. We think that one of the ways of doing that is a very clear reporting back to Albertans through our annual report.

You will see in our annual report that we're working on now, that will be published for the end of this fiscal year – we will be providing more comprehensive information on royalties in our upcoming annual report to help Albertans understand this issue, and we will, as I said, be inserting this new measure in our business plan for 2010-2012 as another way of helping Albertans understand the very complex system that's at play here. We're hopeful that all of these efforts towards better information will help.

Dr. Taft: Okay. My supplemental, I guess. The minister a year ago promised that we'd have those measures within a few weeks, and now it'll be another year. It sounds like there will be many measures. When the report here talks about a competitive royalty regime in a number of places, page 27 and so on, the question that comes to mind immediately is: competitive for whom? If we established royalties of zero, it would be highly competitive. You know, we'd have the most competitive environment anywhere for investors. I hope you're not going there.

9:30

This is a detailed point I'm going to ask you, and I'd ask that if you can't answer, please consider it. Does your department track the flow of royalty wealth leaving Alberta when it's looking at the benefits to Alberta of the royalty regime? Are we looking at the massive transfer of wealth through corporate profits outside of Alberta and even outside of Canada? I want to know who's really benefiting. Who are we being competitive for? Is it the investor in New York and London, or is it the owner, the citizen of Alberta?

Mr. Watson: There is a balance that has to be achieved, and what we're trying to do in the development of the measure is appropriately convey information so that Albertans can see how we rank compared to other places that we compete for capital with. We are indeed trying to assess and find a way to bring information forward on our situation relative to others so that we can continue to judge on an ongoing basis that we have the right balance. There needs to be a rate of return that our industry makes and some assurance to investment capital that it can flow into this province, create the development that is needed because that capital has to fund the development of the resource which generates the royalties that come back to Albertans. There is a balance there that we're mindful of. At the same time we are trying to maximize the economic rent that we collect within that balance. That's one of the things we're looking at in our performance measures: how can we convey something so we can start to help people understand our relative position compared to jurisdictions that are similar to us and that we may be competing for capital with?

The Chair: Thank you, Mr. Watson.
Mr. Bhardwaj, please, followed by Mr. Mason.

Mr. Bhardwaj: Thank you very much, Mr. Chairman. On page 29 of the '07-08 annual report there's a performance measure regarding audit adjustments to industry filing and reporting. In the past three years the audit adjustments have fallen from 2.4 per cent to 1.5 per cent. It's almost a 40 per cent decrease in that. My question would be: what is the reason for this decrease? Did the ministry have strict rules in place, or is the industry getting better at filing?

Mr. Watson: It's hard for me to speculate on the reason for the adjustment. I do want to stress that on an ongoing basis we audit regularly and consistently. We also run training sessions for industry to ensure that they're understanding methods of reporting and so on. My assumption would be that industry is getting better in their filings. Again, we have a very comprehensive audit program, so if there are mistakes that are made, we catch them and we require the adjustments to be made. Some of our volumes, for example, on the gas processing side that may not be reconciled initially, we charge the maximum royalty rates until some of the adjustments are made in the system, and that creates an incentive for industry to get their adjustments made.

Mr. Bhardwaj: My supplemental, then, sir. I think these numbers are probably within the target rate, but I believe there's room for improvement. Were there certain errors that came up more regularly than others that would be addressed, do you think, in the future?

Mr. Watson: That's part of what we try to monitor, again, and communicate back to industry. We produce regular guidelines that we report to industry. As I say, we conduct sessions with them, as well, to educate and train them. Where we do identify areas that appear to be repeated, we ensure they are corrected, and then we ensure that they have the information they need to fix the situation at their end.

I do want to just mention as well that in our next business plan we have a performance measure under development in addition to audit adjustments as a measure of accurate calculation and collection. We're in the process of developing a new performance measure that will reflect the work on our volumetric assurance program to ensure that we can report back to Albertans with some additional assurance that these volumetric controls we put in place are working.

Mr. Bhardwaj: Okay. Thank you very much.

The Chair: Thank you.
Mr. Mason, please, followed by Mr. Benito.

Mr. Mason: Thanks very much. Mr. Chairman, I'd like to follow up on Dr. Taft's questions about targets. It seems to me that given a fixed royalty regime and by plugging in different prices for the commodities, we should be able to calculate what the province's take is at any given price, especially if it's something like the percentage of the industry's annual net operating revenue as outlined on page 27 of your annual report. My question is: have you done that, and what is our take with the new royalty regime at some typical prices?

Mr. Watson: Well, the answer to the question is yes, we have done that. In Budget 2009, based on our forecast price and activity levels in the province, we identify the amount of royalty revenue that we forecast at those price levels and at those activity levels based on the production we think will come from the industry. We certainly provide a calculation and a forecast like that that is provided to government in their budget planning.

Mr. Mason: Thank you. In the numbers that you used in Budget 2009, what is the percentage take, the Crown revenue share, the portion of oil and gas industry's annual net operating revenue that is paid to the Crown as a royalty? What is that percentage?

Mr. Watson: I can give you the forecast value of royalty revenue that we anticipate collecting as consistent with the price and production forecast for 2009, and of course those are in our financial statements. In 2009-10 the forecast nonrenewable resource revenue, $5.9 billion, is broken down as $3.6 billion in natural gas and by-products, $1.2 billion in crude oil royalty, $1 billion synthetic crude oil and bitumen royalty, and then a variety of small amounts for bonuses, rentals, and fees. Those numbers are calculated and forecast on the basis of the commodity price forecasts and production forecasts for the industry.

Mr. Mason: Mr. Chairman, perhaps they could provide the answer to the question of the proportion of oil and gas industry's annual net operating revenue in writing to the committee through the chair.

The Chair: Certainly.

Mr. Mason: Thank you.

The Chair: Mr. Benito, please, followed by Mr. Chase.

Mr. Benito: Thank you very much again, Mr. Chair. I firmly believe that there's a perception out there that because the regulatory bodies are largely financed by the industry, they are somehow beholden to the industry. Can the deputy minister tell us if either the ERCB or the Alberta Utilities Commission turned down industry applications, particularly during the year being discussed today, 2007-2008, and if you can provide also some numbers?

9:40

Mr. Watson: Yes. I think we can provide those numbers, and I can say that there was, you know, I believe, a significant volume of activity considered by both the Energy Resources Conservation Board and the Alberta Utilities Commission, and in both cases not all applications were approved. In the case of the Alberta Utilities Commission, I think it's very seldom that a rate application actually survives as per the proposed application in front of it. There are, indeed, adjustments made regularly to reflect information that comes from other stakeholders as part of their hearing process.

A similar situation exists with the Energy Resources Conservation Board as they consider applications in the public interest, that there are certainly occasions where approvals are not granted or work is sent back to industry and mitigative action and adjustments need to be made in the proposals to accommodate the public concerns that have been addressed. I might ask the members from the ERCB and the AUC just to quickly supplement that, but we can provide some statistics to the committee clerk as well.

Mr. Dark: From the perspective of the Energy Resources Conservation Board, in calendar year 2007-08 there were 2,048 applications that were closed or denied and 1,207 that were withdrawn, for a total of 3,255 that were turned back to industry, if you will.

Mr. Benito: Thank you very much for that information. My second question is about the royalty incentive which the Alberta government announced a couple of months ago. Now, I understand from that announcement that for every well that, you know, starts to work again, it produces about 106 jobs. My question is about this royalty incentive. Are you seeing this royalty incentive working now, or do we expect that it will really work so we can have the jobs that we lost come back?

Mr. Watson: Of course, this isn't an issue relative to 2007-08, but the programs were put in place in February of 2009, and we are monitoring and assessing the effectiveness of those programs. We'll be continuing that evaluation because they were announced for a one-year duration, and based on our evaluation and the state of the economy, they will be extended only if needed based on the economic conditions we're facing. But with the extreme drop in commodity prices and the situation in the financial markets it was felt that providing a royalty incentive would ensure that we maintain and reduce the reduction in the level of drilling that is occurring out there as a result of the economic conditions, thus ensuring that we're continuing to collect royalties for Albertans. It was an incentive that was put in place for a very short period of time to try to lessen the impact of industry activity and continue to see royalties being generated for Albertans rather than no royalties, in some cases. If a well is not drilled, there is no royalty that is payable.

Mr. Benito: Thank you very much for that information, Deputy Minister.

Mr. Dunn: Mr. Chairman, maybe I could just back the deputy minister and help here. You have the Technical Royalty Report #3 – we talked about Alberta's conventional oil and gas industry – the Impact of Potential Royalty Change on Industry Activity. Would that be available to the committee members? It's a public document off your website, and it talked about exactly what I think you were getting at, Mr. Benito: what does a 1 per cent change in the royalty rate have by number of wells?

Mr. Watson: The information is available on our public website.

Mr. Dunn: Right. So it's there. It'll tell you: 150 wells per 1 per cent. It's a useful document if the committee members want to read it.

The Chair: Thank you.
Mr. Chase, please, followed by Mr. Sandhu.

Mr. Chase: Thank you. Mr. Chair, given the limited time remaining, would you please add my name to the list of read-into-the-record questions?

I'm again referring to the Auditor General's April 2009 report. While the ministry has indicated that it will comply with the Auditor's recommendations by this fall, the Auditor General will not again be reporting on the ministry's compliance until the fall of 2010. I find that gap in reporting troubling given the past concerns that the Auditor General has raised.

On page 110 of the April 2009 report, in the outstanding recommendations section, it lists recommendation 10 from page 119 of the 2006-07 report: "that the Department of Energy improve the planning, coverage, and internal reporting of its royalty review work." There have been a number of swift changes to the royalty regime in the past months in light of the dramatically changed economic situation. What impact does the failure to implement those improvements have when changes are being made so rapidly to the royalty system?

Mr. Watson: Again, I want to stress to the committee that we accept all the recommendations of the Auditor General and also of Mr. Valentine in his review. We've been diligently working to respond to those and put those in place. Meanwhile, of course, there was a situation occurring within the economy, and the government decided that there needed to be some adjustments to our programs.

What we have been able to do is take advantage of some of the changes that we had already implemented as a result of the recommendations of both the Auditor General and Mr. Valentine. For example, one of the things that we have done in response to one of the reviews was significantly enhance our cross-ministry consultation in the development of the adjustments and advice and input into the decisions that have been made. Consistent with some of the changes I made to our organizational structure, I also established a formal cross-ministry committee to support and provide advice to the Department of Energy as we're considering adjustments going forward. We took advantage of that, as an example.

While we had to provide some advice to government in view of the state of the economy, we did take advantage of the work that we had already begun in a number of areas. Of course, as we go forward into the future and as we have fully implemented everything associated with those recommendations, we'll have those systems in place to rely on in the future.

Mr. Chase: Thank you. My follow-up. The ministry has been repeatedly suggesting that its problem isn't with the collection of the royalties but, rather, with the communication of royalty collection to the Alberta public. Given the number of individuals employed in the Ministry of Energy, the millions of dollars spent on external consultants, and the enormous size of the Public Affairs Bureau, why is it so difficult to reassure Albertans that the fair share of royalties owing to them is being accurately and systematically collected?

Mr. Watson: Again, as I indicated, we have been reporting in the past through our financial statements and our annual reports the amounts of royalties collected, royalty revenue, including forecasts associated with budgets that have been developed. As a result of the work of the review panel and the Auditor General it is clear to us that we can help people understand this complicated system better.

9:50

There are literally hundreds of thousands of transactions and activities that we're tracking and processing in our system and checking for accuracy and ensuring that our systems are picking those things up and just the nature of, you know, the factors that go into investment decisions in industry, the volatility of commodity prices, the variability of production associated with individual wells and fields and the differences between different types of the resource, whether it's conventional oil and gas or unconventional gas, enhanced oil recovery, oil sands and bitumen extraction, whether it's mined or whether it's done in situ. There are a lot of different features and different things to understand and then relate back to: what does that cost? What is the economic rent associated with it? How does that compare? How does our situation compare to other similar jurisdictions? Some of the features of our industry can be compared. In other features we're unique. So it's pulling that together.

The Chair: Thank you, Mr. Watson.
We're going to now proceed to Mr. Sandhu, please.

Mr. Sandhu: Thank you, Mr. Chairman. Last year, January '08, government separated the Alberta Energy and Utilities Board into two new organizations: the Alberta Utilities Commission and the Energy Resources Conservation Board. We were told that this division was necessary to centralize and to make the regulatory system more efficient. Is this transition fully accomplished? How has the department measured the success of those two splits?

Mr. Watson: The split, as I mentioned, has been fully accomplished. Both the ERCB and the Alberta Utilities Commission are fully functioning in their independent businesses. As Trevor mentioned earlier, the ERCB has been dealing with a large number of activities from the oil and gas side of the business, a large number of drilling activities primarily, and conducted many, many inspections over the course of the last year, a large increase from 2007.

Both boards have added members to their boards – these are really top-tier people – to assist them in their oversight of their respective regulatory systems. In the case of the Alberta Utilities Commission as well, a lot of work has been done to advance some of the rules that are needed in the utilities framework to assess and respond to utility rate applications going forward.

I'll just ask the members if they have anything to supplement to that. But the split has been achieved successfully.

Mr. Sandhu: A follow-up. What were the additional costs to the taxpayer to complete the separation of the former EUB?

Mr. Watson: The budget for the transition to the separation of the agencies was $7 million for the Alberta Utilities Commission and $4 million for the Energy Resources Conservation Board. There was a small budget increase for the increased operating costs associated with the Alberta Utilities Commission.

Mr. Sandhu: Thank you.

The Chair: We still have members with questions. Unfortunately, we do not have enough time, but we're going to as usual read them into the record. Mr. Watson, if you could respond in a timely fashion through the clerk to all members, we would be grateful. We will start with Mr. Mason, followed by Mr. Fawcett.

Mr. Mason: Thanks very much, Mr. Chairman. Well, I've already indicated that I'd like an answer to the question on royalties as a portion of the oil and gas industry's annual net operating revenue, that being the numbers that were used in the 2009 budget.

The other question has to do with the goal of limiting exports of bitumen to one-third of total production. There are plans to build or expand at least 10 refineries in the United States. There are also the two major pipelines under construction to carry bitumen, being the Alberta Clipper and – what's the name of the other one?

The Chair: Keystone.

Mr. Mason: Keystone. Thank you.

I would like to know in terms of the upgrading and construction of refineries in the United States and the pipeline capacity, that's either under construction or planned, how that relates to the overall capacity or overall production of bitumen in the oil sands and what percentage of that production will actually be able to be exported and processed in the United States over the next period of time, the next several years at least.

Thank you.

The Chair: Thank you.

Mr. Fawcett, please, followed by Mr. Chase.

Mr. Fawcett: Thank you, Mr. Chair. Just before I go to my question, I just wanted to highlight that as part of my university programming I had to take several courses at the Canadian Energy Research Institute, which is a fabulous organization. I would suggest some of the opposition members might want to take some of those courses. One of the things that I learned is that this particular industry is a very complex industry.

One of the questions that I have – we focus a lot of our questions around targets and measures for the core business of ensuring that Albertans secure the benefits of energy and mineral resource development. You talked about creating new performance measures. One of the most important things that I don't think is talked about enough is jobs created from the oil and gas sector. We can talk all we want about this share of royalties, but I don't think that matters to an oil service worker that doesn't have a job.

My question is: are the new performance measures going to be considering these types of performance measures such as employment created from resource extraction? As well – the other part of the question – are the targets for investment going to be changed? I noticed it was at $15 million, and we attracted significantly higher than that. So I'm not sure if that target is appropriate or not.

The Chair: Thank you.

Mr. Chase, and if you could be concise, please.

Mr. Chase: Yes. Yes. I will note that a number of jobs have been created both in pipeline building to the States and in processing in the United States thanks to our bitumen.

However, my question has to do with the Auditor General's 2008 annual report. Recommendation 25 in the October 2008 report, page 255, stated that there was a need to have better accountability of the level of environmental benefits that came from bioenergy programs receiving grants from the Department of Energy. The department has accepted that recommendation, but it is still listed as outstanding in the April 2009 report, page 110. Why is this recommendation still outstanding? What steps has the department taken to implement it? When will the value-for-money measures on this project be available so we can know what return we're getting for this investment?

The Chair: Thank you very much.

Now, I also have a couple of questions that I'm curious about. On page 137 of the annual report for 2007-08 the Alberta Petroleum Marketing Commission statement of operations is listed. Could you provide in writing who acts as agents for the Alberta Petroleum Marketing Commission and if one of those agents is EnCana?

On page 86 of the annual report, program 2, revenue collection, operating expense, the authorized budget was for $56 million, but the actual expense for revenue collection through royalties was $46 million, an unexpended amount of $10 million. Why did that occur? Was there a shortage of staff, or was it unnecessary to spend that money because we were collecting our fair share in resource royalties?

Thank you.

Dr. Taft: Can I read one question in?

The Chair: Sure. You bet. Quickly.

Dr. Taft: Okay. Ever so quickly. In developing the measures that have been discussed so much here, has or will the ministry please consider measuring the flow of capital and wealth that leaves Alberta and, secondarily, leaves Canada as one of the measures to be considered, one of the factors to be considered in its measures? Do we keep the capital here? What percentage of the capital are we keeping here?

10:00

The Chair: Thank you. On behalf of all members of the Public Accounts Committee, Mr. Watson, to you and your staff we wish the very best. We thank you very much for your time before us this morning. Appreciate it.

Mr. Dunn, we always value your time and that of your staff. Thank you very much.

Mr. Watson, you are free to go. We have a couple of other items on the agenda to attend to. Again, thank you.

Item 5. Under other business on our agenda is attendance at the joint Canadian Council of Legislative Auditors and the Canadian Council of Public Accounts Committees conference. Last week all committee members received a special registration form for the conference in September. This is a reminder to fill out the form and return it to the committee clerk by the 27th of May. Usually this committee is represented at this conference by the chair, the deputy chair, the committee clerk, and the committee research co-ordinator. I'm very pleased that all interested committee members will have the opportunity to participate this year. For the record, however, I would still ask for a motion recognizing the formal delegates for this conference. The chair requests that there be a motion to send the chair, the deputy chair, the committee clerk, and . . .

Mr. Johnson: So moved.

The Chair: So moved? Okay. Moved by Mr. Johnson that

> the chair, deputy chair, committee clerk, and committee research co-ordinator be approved to attend the 2009 Canadian Council of Public Accounts Committees conference as delegates.

Mr. Bhardwaj: I'll second that.

The Chair: Okay. Any questions?

Mr. Sandhu: Where is it?

The Chair: It's here in Edmonton the second week in September.

Mr. Johnson: We'll send you first class, then.

The Chair: Okay. Great. I appreciate that.

All those in favour?

Mr. Mason: I'll drive the bus myself.

The Chair: Okay. Seeing none opposed, thank you very much.

Now out-of-session meetings. I know everyone is busy. There are 30 bills on the Order Paper, and there are evening sessions. Everyone has got so much work to do; I don't know if you've had time to think about out-of-session meetings. Next week is constituency week. The vice-chair and I are going to see if there are some appropriate dates before the fall session. If you have any agencies, boards, or commissions – think about this, please – that you would like to have before the committee in the fall, just let Mr. Quest or myself know. Is that fair enough?

Mr. Fawcett: We are talking about the fall and not any time in June or the summer months, right?

The Chair: Well, we possibly could.

Mr. Fawcett: Well, no. I was just going to suggest that I think I would be open to it if it was the fall, but I don't think June, July, or August would be appropriate.

Mr. Quest: I'm hoping to get a schedule of out-of-session caucus meetings and build them around them. I wouldn't anticipate anything in August, I wouldn't think.

The Chair: No. In the past we have co-ordinated the dates of these meetings, because the majority of committee members are government member and to reduce travel costs, to have them at the same time or the day before or the day after you have a big meeting here in the capital.

Mr. Fawcett: Okay.

The Chair: That's what's been done in the last couple of years, and hopefully that can be achieved again this year. So that's a work-in-progress.

Item 6, the date of the next meeting. There will be no meeting next week, constituency week, of course. The next meeting will be in two weeks, with the Treasury Board, on Wednesday, May 27, 2009. Is that fair enough?

Okay. Motion to adjourn? Mr. Johnson. All in favour? Seeing none opposed, thank you. Have a good day.

[The committee adjourned at 10:05 a.m.]

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