Legislative Assembly of Alberta

The 27th Legislature
Fourth Session

Standing Committee on Public Accounts

Energy

Wednesday, March 23, 2011
8:30 a.m.

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Tim Grant	Assistant Deputy Minister, Electricity, Alternative Energy, and Carbon Capture and Storage
Barry Thompson	Director, Financial Planning and Reporting
Peter Watson	Deputy Minister
Rhonda Wehrhahn	Assistant Deputy Minister, Resource Revenue and Operations

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8:30 a.m. **Wednesday, March 23, 2011**

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this Standing Committee on Public Accounts to order, please. My name is Hugh MacDonald. On behalf of the committee I would like to welcome everyone in attendance.

Please note that the meeting is recorded by *Hansard*, and the audio is streamed live on the Internet.

We can now quickly go around, as is the usual tradition, and introduce ourselves. Let's start with the hon. vice-chair.

Mr. Rodney: Thank you, Mr. Chair. From Calgary-Lougheed, Dave Rodney. Welcome.

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

Mr. Dallas: Good morning, everyone. Cal Dallas, Red Deer-South.

Mr. Vandermeer: Good morning. Tony Vandermeer, Edmonton-Beverly-Clareview.

Mr. Kang: Good morning, everyone. Darshan Kang, Calgary-McCall.

Mr. Chase: Good morning. Harry Chase, Calgary-Varsity.

Mr. Foss: Good morning. Matthew Foss, Department of Energy, economics and markets.

Ms Wehrhahn: Rhonda Wehrhahn, Department of Energy, resource revenue and operations.

Mr. Thompson: Barry Thompson, Department of Energy, finance.

Mr. Watson: Peter Watson, Department of Energy, deputy minister.

Mr. Borland: Douglas Borland, Department of Energy, finance.

Mr. Grant: Tim Grant, Department of Energy, electricity, alternative energy, and carbon capture and storage.

Mr. Leonty: Eric Leonty, principal, office of the Auditor General.

Mr. Wylie: Good morning. Doug Wylie, Assistant Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Xiao: David Xiao, Edmonton-McClung.

Mr. Allred: Ken Allred, St. Albert.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: Thank you. The chair would like to welcome and recognize Mr. Brian Mason.

Mr. Mason: Thank you very much.

The Chair: Okay. Item 2 on the agenda that was circulated, the approval of the agenda. Any questions? Could I have approval, Mr. Allred? Thank you. Moved by Mr. Allred that the agenda for the March 23, 2011, meeting be approved as distributed. All those in favour? Thank you.

The minutes for the March 16, 2011, meeting: are there any questions regarding those minutes? If not, could I have approval as circulated, please, Mr. Chase? Moved by Mr. Chase that the minutes for the March 16, 2011, Standing Committee on Public Accounts meeting be approved as distributed. All in favour? Thank you very much for that.

Of course, this comes to our meeting today with the officials from Alberta Energy. We are dealing with the Auditor General's reports from April and October of 2010, the consolidated financial statements of the government of Alberta, the annual report 2009-10, the Measuring Up document, the business plan, and of course the Alberta Energy annual report from 2009-10. I would remind everyone of the briefing material that was again supplied for our benefit by the LAO research staff.

At this time I would ask Mr. Peter Watson, please, to make a brief opening statement on behalf of Alberta Energy.

Mr. Watson: Thank you, Mr. Chairman. I do want to acknowledge that there are some additional colleagues here with me today in the gallery from both the Energy Resources Conservation Board and the Alberta Utilities Commission.

We're pleased to be here with the committee today and share some of our highlights and accomplishments from 2009-10, and 2009-10 was a year of both some challenges and some opportunities for us given some of the uncertain economic situation that we experienced. At the beginning of the fiscal year we were feeling the effects of falling markets and declining energy prices, and at the end of the fiscal year things were starting to kind of hold their own.

I think one of the issues that's fair to say is like the rest of the world: Alberta didn't escape the economic recession. It did test our ability to respond to some challenges, provided us an opportunity to demonstrate some resilience in a number of areas. We relied on our provincial energy strategy as our blueprint for balancing some of the things that we did throughout the year in ensuring that they were continuing to point in the direction of our long-term plan for Energy for Alberta with some of the nearer term work that we were doing in 2009-10. That strategy, just for everyone's benefit, is built around three goals: clean energy development, wise energy use, and sustained economic prosperity.

A couple of highlights. In March of 2010 we released Energizing Investment: A Framework To Improve Alberta's Natural Gas and Conventional Oil Competitiveness. This was a year-long review by the department examining some of the changing economics in conventional oil and gas to try to address the challenge of how we ensure Alberta remains a preferred jurisdiction for investment.

It recommended changes to our system to ensure that we could be more competitive on conventional oil and natural gas investment in a number of areas, including modifying the natural gas and conventional oil royalty framework, as well as addressing some of the issues and challenges in the regulatory system by better co-ordinating regulatory processes between ministries and between regulators as well as continuing to encourage technological advances and providing greater momentum to advance technology and ensure that regulatory systems aren't a barrier to the advancement of technology.

In some cases the modifications to the royalty frameworks confirmed the action that the government took in 2009 in response to declining oil and gas prices and an incredibly tight investment market. As members know, in 2009 we implemented a three-point incentive program for oil and gas drilling which included a drilling royalty credit, a new well incentive program, and a one-time investment in the Orphan Well Association to facilitate the abandonment of oil and gas sites across Alberta. Those initiatives were developed to ensure we remained as competitive as we could be during a significant economic downturn and helped make sure that our industry and Albertans kept working to the extent possible during a difficult period and bring resources on stream so that we would continue to see the contribution to our prosperity for many years to come.

As I mentioned, the competitiveness review also looked at and identified the need to take a look at our regulatory system, and an MLA task force was appointed in March 2010 and began that review, which has recently been completed.

Moving to transmission, strengthening our transmission system supports our provincial energy strategy's goals. In 2009-10 the government passed the Electric Statutes Amendment Act, 2009, and approved the need for several critical upgrades to the province's transmission system. The transmission system was in need of upgrade to support the demand that we will face in the future in Alberta as the system has been working at or near its design limits for some time now. The cost of the four projects that were approved by that statute was about $3.3 billion, and they were a component of what our Electric System Operator's long-term plan identified as the need for transmission upgrades in Alberta to a total of about $14.5 billion.

I want to mention that in that plan there are a number of projects that are required in terms of major network components for the system as well as regional projects that will deal with specific needs and growth in certain parts of the province as well as just the ongoing upgrading and expansion of a distribution system and wires right across the province. We anticipate and project that the expenditures on transmission between now and 2018 will be in the order of about $10 billion as forecasted by AESO's plans. As I mentioned, a small component of that for the four projects that were identified as critical network pieces was estimated at $3.3 billion.

Associated with electricity and transmission, in March of 2010 government asked the Alberta Utilities Commission to examine and report on how smart-grid technology could be implemented to modernize our electricity system. The Utilities Commission has been doing that work, and we anticipate being able to release that work shortly. That work was initiated in the 2009-10 fiscal year.

I want to make a quick mention of alternative forms of energy. In March of 2010 the bioenergy producer credit program was extended and expanded for bioenergy projects in the province. This, of course, helps us meet and support our climate change goals and targets as well as providing some value-added opportunities for both the agricultural and forestry industries in the utilization of waste products to develop cleaner fuels. The province also introduced the renewable fuel standard, which takes effect on April 1 of 2011, and we're requiring an annual average of 5 per cent of ethanol content in gasoline, a 2 per cent renewable content in diesel. Again, that standard will contribute to our climate change goals and help us reduce greenhouse gas emissions.

8:40

The other notable highlights for the fiscal year included our continuing commitment around CCS projects, and we continued to review in 2009-10 the projects that we sought proposals from. In 2010 we signed letters of intent with four projects that would help us achieve five million tonnes of reductions annually in 2015. It's a long-term program over 15 years that'll pay out money as projects reach milestones and they show successful, safe injection of CO_2.

The other thing that occurred of highlight was the Energy Statutes Amendment Act in 2009. It set out the legislative authority for the province to take bitumen royalty in kind. In October of 2009 we put a request for proposals on the street to seek opportunities for people to utilize the Crown's bitumen to process and upgrade in Alberta. As members are aware, we recently signed agreements with industry for royalty in kind processing as well as carbon capture in a carbon dioxide pipeline that'll capture the greenhouse gases from that facility and utilize them for enhanced oil recovery.

The last issue I wanted to mention was our continuing work to support the land-use framework and support other ministries in the development of plans for the lower Athabasca and the South Saskatchewan regions. We believe that these plans are important tools in helping us manage the environmental framework throughout the province and appropriately and responsibly balance the issues of development with Environmental Protection.

That was a very brief look at a number of things that were important to us over the past year. Again, we had some challenges in terms of the economic situation we found ourselves in as well as the need to continue to take the steps to plan for success in the future.

As always, Mr. Chair, we're pleased to answer questions that the committee has.

The Chair: Thank you very much, Mr. Watson. We appreciate that brief overview.

Mr. Saher, do you have anything to add at this time?

Mr. Saher: Yes. Mr. Doug Wylie will make our equally brief comments.

Mr. Wylie: Thank you. Mr. Chair, the results of our audit work at the Ministry of Energy are included on pages 139 to 142 of our October 2010 report. We audited the financial statements of the ministry, the department, the Alberta Utilities Commission, the Energy Resources Conservation Board, and the Alberta Petroleum Marketing Commission.

We also completed a review of selected performance measures in the ministry's annual report. We issued unqualified audit opinions on these financial statements and an unqualified review engagement report on the selected performance measures. We reported on the implementation of four recommendations covering the following areas: bitumen valuation methodology, corporate effective royalty rate, controls over royalty liable fuel gas volumes, and the SAP security controls at ERCB.

Mr. Chair, I also refer you to pages 211 to 212 of the same October 2010 report, where we list past recommendations made to the department and the ERCB. In accordance with our practice we follow up all outstanding recommendations and report the results of our work in future reports.

Thank you.

The Chair: Thank you very much. The chair would like to welcome this morning Mr. Doug Elniski. Good morning, sir.

Mr. Elniski: Thank you, Chair.

The Chair: We will now proceed to questions. I would remind all members, if you could be concise in your questions, and to the department, if you could be concise in your answers, it would be appreciated by the chair. There's already a long list of individuals who want to direct questions.

Mr. Chase, please, followed by Mr. Dallas.

Mr. Chase: Thank you. I'm referencing page 29 of the annual report, goal 2, linked to core business 1, to ensure all energy and mineral resource revenues that the government of Alberta is entitled to are accurately calculated, collected, and reported. The target: more than 99.99 per cent of all revenues owed are collected. Not long ago, within the last five years, one lonely government gatekeeper accountant analyzing and averaging the information provided to him by the largest oil and gas companies, former Auditor Fred Dunn, pointed out the inadequacy of this methodology, suggesting Albertans were potentially not collecting billions of royalty dollars owed them. The government commissioned another Auditor, Mr. Valentine, to do a quick report in an attempt to refute Fred's findings, which brings us to today.

Question 1. The department claims to have collected all royalties owed to the government; however, the Auditor General has recommended that the Department of Energy complete a risk assessment of controls over well production data. This comes from the October 2010 report, page 211. Given the question about the data, how effective is a performance measure based on that data; namely, the royalties owed to the government?

Mr. Watson: Thank you. The recommendation from the Auditor General has now been addressed and fully implemented by our department, and I believe that the Auditor General has been back in to look at and review the appropriateness of our response. There was never any evidence that ever came to our attention that there was underreporting of royalties associated with volumetric controls, but we did agree that there were steps that we could be taking to improve our controls, and we have indeed implemented those steps and updated risk assessment methodologies. The Auditor General's office has been back in to review the appropriateness of that response.

Mr. Chase: Thank you. My supplemental: how are taxpayers supposed to believe that we collect a hundred per cent of our revenue when the bitumen in kind program valuation of bitumen is not public?

Mr. Watson: With respect to bitumen valuation we have taken steps to put a methodology in place to ensure that where there are non arm's-length transactions associated with bitumen, we've got a fair and appropriate way of measuring the value. We do tie the value of bitumen to an indicator, western Canada select, that is adjusted based on different densities, which is a proxy for the quality of the bitumen. We track those indicators and we track the reports that industry provides us, and that information is reviewed by our economics people and our auditors. If there are any discrepancies with what we're seeing in terms of trends in the market, then those inquiries are taken back to industry. They may result in audits and further assessments. So there are steps and methodologies in place to ensure that we've got appropriate valuation and appropriate responses if there are any questions.

The Chair: Thank you.

Mr. Chase: Thank you.

The Chair: Mr. Dallas, please, followed by Mr. Kang.

Mr. Dallas: Thanks, Mr. Chair. I'm actually on the same topic, I think. I'm looking at, first of all, that there was a recommendation made by the Auditor General in 2009 that I'm following up and seeing in October 2010. The Auditor is making comments with respect to changes, improvements with respect to the monitoring of the bitumen valuation methodology.

I'm also noting in the notes on page 139 from the Auditor's report that two companies filed noncompliance notices. Obviously, there are still some issues with respect to how those calculations are done. I wonder if you can speak a little bit more to how we're actually ensuring that we're attaching the right value to that bitumen.

8:50

Mr. Watson: What I mentioned is that we've reviewed and updated our process so that there are formal steps that are taken by the department to review and recalculate BVM pricing in accordance with our BVM regulation, which is again based on tracking that marker of western Canada select and adjusting it for density. Then we compare our review and our calculations with the reports from industry. That information is reviewed by our economics people to see if there are any differences in trends and reporting.

Where there are inconsistencies, that's where we are going back to operators and challenging and questioning those inconsistencies, and we may be pursuing audits in those cases. Again, in response to the Auditor's recommendation we took steps to update and upgrade our procedures, and I know that the Auditor is reviewing the appropriateness of those responses.

Mr. Dallas: Okay. Well, as a supplementary, then, I'm looking at page 72 of the annual report, which is a consolidated schedule of nonrenewable resource revenue, the very top line there being synthetic crude oil and bitumen royalty. I'm noting that there's, obviously, a difference of about just under $200 million in terms of revenue, but it's a long way from the 2010 budget projection. Is that difference a function of the volume, or is it in part a function of some changes that we made in the valuation methodology, or is it a combination of both? There's a lot of difference there.

Mr. Watson: Yeah. My understanding is that the difference is the result of the forecast that was made at the beginning of the fiscal year and the forecast difference between light and heavy oil differentials that was our view at the time. Oil prices were higher than budgeted over the course of the fiscal year. Then light and heavy oil differentials were actually smaller than what was forecasted at the beginning of the year, so bitumen values were stronger than what we anticipated at the beginning of the fiscal year.

There were some reasons for that, including a drop in heavy oil production in some other parts of the world and some associated expansion in North American upgrading capacity in the United States. So we saw that spread between light and heavy oil tighten, and the values of heavy oil were higher than we were forecasting at the beginning of the year. That's the primary reason for that discrepancy.

Mr. Dallas: Thank you.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Allred.

Mr. Kang: Thank you, Mr. Chair. On page 23 of the annual report, goal 4 talks about ethane demand, ethanol production, and biodiesel production in Alberta. The Auditor General's report states that the ministry should document and quantify the environmental benefits of bioenergy technologies, AG's 2010 report, page 212. How have you conducted a cost-benefit analysis without quantifying environmental benefits?

Mr. Watson: With respect to the environmental benefits there is a requirement that projects that are supported in Alberta identify that they achieve a certain target performance in reducing greenhouse gas emissions.

Tim, I'm just trying to remember what the specifics of that target were.

Mr. Grant: Right. The target calls for 25 per cent less greenhouse gas emissions than business as usual for those types of fuels. The Auditor General had looked at the program and suggested that we needed to make sure that those fuels that were entering the program, in fact, did reflect that 25 per cent reduction in emissions. So we did develop a nationally accepted standard using the GHGenius program, developed by a Canadian scientist, to put all of the projects through that standard. What we've now developed is an emissions standard, that will be released in the very near future, certainly before the start of the program on the first of April. Suffice it to say that all of the programs, all of the projects that have been put through the bioenergy program have now been measured against that 25 per cent standard using the GHGenius methodology.

Mr. Watson: We've estimated over a period of five years the greenhouse gas reductions that would come from the production of these alternative fuels, and based on the reductions over a five-year period the average cost of those reductions would be about $5 per tonne of CO_2.

Mr. Kang: Okay. My supplemental: what will be the cost per millilitre of ethanol produced in this project? Is this good value for the money?

Mr. Watson: Again, we've supported projects up to, I think, about $85 million in grant funding that was paid out by the end of the 2008-09 fiscal year. We were anticipating and they were certifying reductions of 3.4 million tonnes of CO_2 a year. When we look at the amount of reductions that would be achieved by the use of those fuels as required by our renewable fuel standards, over about a five-year period if you do the calculations, that works out to be a cost of about $5 per tonne of CO_2 to achieve those kinds of reductions for the government.

The Chair: Thank you.

Mr. Allred, please, followed by Mr. Mason.

Mr. Allred: Thank you, Chair. Referring to the drilling royalty credit program and given that the price of natural gas has been, well, not at an all-time low but certainly low in the last number of years, what was the rationale for providing the drilling royalty credit for natural gas wells? I note that it cost us $786 million last year.

Mr. Watson: Okay. I made a comment about this in my opening remarks, that there was concern as we were entering into a significant downturn and that we were also in a situation where the natural gas markets in North America were changing in a significant way. There was concern about whether we would keep, you know, sufficient levels of drilling and employment associated with that drilling occurring to the extent we could, so the government announced that three-point incentive program.

There is a concern, particularly in the natural gas area, that we have a competitive environment to allow people to continue to drill and utilize the technologies and maintain the learning and the capability to do some of the work that's needed in the natural gas industry because we definitely find ourselves in a challenge where costs to produce conventional natural gas are higher than in other areas of North America.

We are still in a situation – which is why we made corresponding adjustments recently to our royalty framework to ensure that we can continue to be competitive for investment and we can continue to see drilling of wells and the utilization of technologies and the learning of some new things that are going on that will be important to sustain our industry over the long haul while we're in a very difficult challenge now.

Mr. Allred: Just to follow up on that point, are the skills and the technology sufficiently different between natural gas and conventional oil drilling? Perhaps comment on what the program looks like going forward. I think it ends this year, if I am right.

Mr. Watson: Yes, it does.

What we have done is incorporated some of those features into the design of the adjusted royalty framework that we made because we believed it made sense to support and incent the new technologies that are being applied in the drilling industry today, to ensure that we in Alberta are actually utilizing those technologies and learning how to utilize those technologies and dealing with the issues around increased costs and driving down the costs of those technologies in Alberta. We think it was necessary to provide that incentive to ensure that we maintained activity and we maintained our ability to attract investment and to ensure that we're utilizing some of these new techniques and new knowledge that have been sorted out in other parts of North America.

9:00

The Chair: Thank you.

Before we proceed to the next question, Mr. Watson, on page 82, note 2, it is written:

> Drilling royalty credits recorded under the Energy Industry Drilling Stimulus Program include an estimate of $283 [million] for credits expected to be claimed in the future for royalties paid between April 1, 2009 and March 31, 2010.

That $283 million is included in the amount Mr. Allred spoke about, right?

Mr. Watson: Yes, I believe so.

The Chair: Okay. Thank you.

Mr. Mason, please.

Mr. Mason: Thank you very much, Mr. Chairman. Mr. Watson, when Syncrude and Suncor went to a bitumen valuation for their royalties, there was an attempt to negotiate a new arrangement with them, which I think has not yet come to fruition. I wonder if you could just update us on the status of that. I think we'll start with that.

Mr. Watson: In the case of Syncrude and Suncor the specific Crown agreements and the royalty-amending agreements identified that the government would consider reasonable adjustments to our generic methodology for evaluating bitumen that were specific to those two projects' instances. We've been in significant discussions with both companies for a period of time. That hasn't been fully resolved yet. However, we have given notice to those companies of the value of the bitumen that we expect them to reconcile I think at the end of this month. If the companies disagree with that, under those royalty-amending agreements they have the opportunity to put the issue in front of an arbitration panel or in front of the courts. We're still working through that, but we have given notice to the two companies.

Mr. Mason: That's been about three years.

I don't expect you to have all of the numbers in front of you, so if you could provide it to the committee later in writing, I'd appreciate it. I'd like to know the total value of the royalties collected from Syncrude and Suncor for, say, two or three years before that change and what it's been since. I'd like to have a basis of comparison so that we can compare the gross numbers, if you don't mind.

Mr. Watson: Yeah. I don't have those numbers with me, but we can provide them to the committee.

Mr. Mason: Yes. Thank you.

The Chair: Okay. We'd appreciate that.
Mr. Elniski, please, followed by Mr. Chase.

Mr. Elniski: Well, thank you very much. I'll just take us back down a merry little path to ethanol and biodiesel. I notice that in ethanol we've been very consistently producing about 40 million litres of fuel a year and that by 2015 we're anticipating a sudden and somewhat dramatic increase to 300 million litres. Then in the biodiesel situation it's actually a little bit worse. We're currently at about 19 million litres a year, and then, again in 2015, we have a 700 million litre online process there. So given that neither ethanol nor biodiesel has been proven to be particularly economic, what's the incentive for the private-sector producer to get into this business?

Mr. Watson: I would say that there are two things. The governments across this country and in other countries, I believe, have made some policy decisions that require a certain amount of renewable fuels being blended into the transportation fuels that are distributed, and Alberta is no different. I think most jurisdictions in Canada, certainly B.C. and Saskatchewan, to my knowledge have renewable fuel standards. Of course, Alberta went ahead and implemented its standard, which comes into effect this coming fiscal year. That creates a requirement for 5 per cent ethanol and 2 per cent biodiesel and creates a pull for those fuels. Then, in addition, we have recently extended our bioenergy producer credit program so that as volumes are produced, there will be a small incentive payment based on volumes produced that will go to those producers.

Mr. Elniski: Good. Thank you. Just a second supplementary question. Of course, when we go to the pump and we fuel up, whether it be with ethanol-enriched gasoline or with, you know, some biodiesel-enriched diesel fuel, we are paying tax at the pump. Is this a net-sum game in terms of the tax that I pay as a taxpayer that offsets the full and complete cost of the production of this product? Or, in fact, are we still subsidizing this?

Mr. Watson: Well, I don't know that I fully appreciate all of the levels of taxation that are applied on fuel both in Alberta and federally onto the price of gasoline as that tends to be within the mandates of other departments. I guess I would have to say that we could take your question under advisement and respond in writing with a bit more detail.

Mr. Elniski: Yeah. If you could, Peter, I'd really appreciate that. Thank you.

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

Mr. Chase: Thank you. I'm referencing page 23 of the annual report: reducing emissions. What confidence is there that the carbon capture and storage program will be able to meet the emissions target of five megatonnes by 2015 when construction of the first carbon capture project, which will only capture 1.2 million, is not expected to begin until 2012 and others still have not been announced?

Mr. Watson: Yes, we are watching that closely. We have announced the completion of agreements with one project. We do anticipate that we will be in a position to announce two other projects relatively soon. We're still working through the details, but we think it'll be relatively soon. There are definitely three projects that we think will be moving forward in the very near future. There is some challenge to the fourth project just relative to some policy uncertainty around greenhouse gas regulations federally. So we're watching that very closely and trying to see how that will unfold.

Mr. Chase: My second question has to do with the valuation of stored carbon. Europe, for example, talks about $30. We've been operating with $15. What will be the cost per tonne of carbon stored in this project, and is this good value for the money?

Mr. Watson: I may need to get you to help me, Tim. I think one of the points I want to make – and then I'll see if Tim can supplement – is that we're at the front end of bringing down the costs associated with this technology. Alberta's challenge is really no different than in many jurisdictions across the world, but there's a lot at stake for Alberta given the energy intensity of our economy and the nature of our economy and significant hydrocarbon production in Alberta, not only for fuels and other uses but also in terms of the mix in our electricity system. We believe that we need to help facilitate the advance of this technology for a variety of reasons, including securing opportunities for the nature and state of our economy in the future. We do recognize that it's costly at the front end, which is why we've committed the $2 billion, but part of our effort is to try to get projects working and start to learn how to bring those costs down.
Tim, maybe you can help on kind of our anticipated cost per tonne.

9:10

Mr. Grant: From the standpoint of cost per tonne we haven't specifically looked at it from the standpoint of relating the $2 billion to the five megatonnes per year that would be sequestered. As the deputy minister has said, this is more about incenting development. In any one of these projects there's government money that has gone into it from both the provincial and a little bit from the federal governments, but there's still industry money, the companies investing in this themselves. This is more equivalent to what was done in the early '70s with the oil sands, where government money was invested to kick-start technology development and make sure that the technology could come online that would benefit the province in the long run. This is very much the same approach now with the investment in carbon capture and storage.

Mr. Chase: Thank you.

The Chair: Thank you.
Mr. Vandermeer, please, followed by Mr. Kang.

Mr. Vandermeer: I'm referencing page 88, schedule 2, of the ministry's annual report. Why have salaries, wages, and employee benefits risen by nearly $10 million in the past year? That's an increase of almost 20 per cent.

Mr. Watson: Did you say page 88?

Mr. Vandermeer: Page 88. Yeah.

Mr. Watson: There were really two reasons for that. There were, I think, some increases in the negotiated settlements with our unions in the public service, some small increases there. There was also an increase in essentially the overall workforce within the constraints of our budget in the Department of Energy. I think that as we were proceeding with the implementation of the royalty frameworks and a number of other policy areas that were requiring significant work, there was some increase in the total numbers of staff that were brought on to help us deal with those pressures and challenges in the 2009-10 fiscal year.

Mr. Vandermeer: Is this just a one-time event, or has this been going on for years, the 20 per cent increase?

Mr. Watson: No. I think it reflects the nature of the workload that was on the department in 2009-10. I will say that the nature of the work and the challenges our department faces are not abating and probably, to some degree, are increasing given the nature of what's occurring in the world and the nature of the uncertainty around energy markets and issues that we need to be aware of. A big part of that increase would have been our significant effort to implement all of the royalty changes that we made throughout that year.

Mr. Vandermeer: Wow.

The Chair: Thank you very much.
Mr. Kang, please, followed by Mr. Xiao.

Mr. Kang: Thank you, Mr. Chair. The ministry's annual report, page 15, states:

> Incentives to maintain activity
>
> To help stabilize employment and activity in the energy industry during the recession, Alberta Energy announced an incentive plan aimed at encouraging new oil and gas drilling. In June 2009, incentive programs for new and qualifying wells were extended to March 2011.
>
> These short-term incentives recognize the economic importance of oil and gas exploration activity for Albertans and their families. The oil and gas sector is an important source of jobs and income for communities across the province, including many rural communities where small business owners benefit from the economic activity.

How many jobs were directly created as a result of this drilling incentive plan?

Mr. Watson: I cannot tell you the exact number of jobs, but there was some research done by the Canadian Energy Research Institute recently that indicated that drilling a well will generally create something in the order of 120 jobs directly and indirectly associated with the drilling of that well not only in the direct employment that's created for the well event itself, but also they did assess some of the indirect employment that's created in communities to provide services to the industry and accommodations to the industry and so on. So that figure is based on some research done by the Canadian Energy Research Institute. Again, I can't tell you exactly how many jobs were created, but that gives you an idea of the linkage between a well event and employment.

Mr. Kang: My second question: is it possible to find out, maybe, exactly how many jobs were created? Like, I know you gave the answer of 120 jobs. How do you know you are receiving value for the money? Have you, for example, completed a cost-benefit analysis of the drilling incentive program?

Mr. Watson: Back to the program again. In 2009-10 the number of wells that were eligible under the program was close to 7,500. I think it was 7,490 wells, and I've got stats on metres drilled and so on. Again, I don't know the exact number of employment, but at 7,500 wells the Canadian Energy Research Institute estimates that each well event generates in the order of 120 jobs directly and indirectly.

I want to reiterate that part of what we were doing was trying to sustain levels of activity to the extent that we could because commodity prices, particularly in the natural gas area, were extremely challenging for the industry. Part of the benefit of this is maintaining sufficient capacity and capability and ensuring that drilling fleets are being utilized in Alberta and high-technology drilling rigs are being utilized and implemented and incented to ensure that we have that skill set and that knowledge retained in our sector while we're challenged to compete with other areas of North America.

The Chair: Thank you.

Mr. Kang: So this is like getting ready for the future. That's what you're saying?

The Chair: We're going to move on now, please.
Mr. Xiao, please, followed by Mr. Chase.

Mr. Xiao: Thank you, Mr. Chair. My question is related to the carbon capture and storage, climate change. As we know, our government made a commitment to research for a cleaner energy future and a commitment to responsible development, which is highlighted in the annual report. On page 89 of your annual report it seems that, you know, of the amount of money we committed, $99 million went unspent. Can you explain why?

[Mr. Rodney in the chair]

Mr. Watson: Can you reference that page number for me again?

Mr. Xiao: Page 89.

Mr. Watson: The difference between the numbers on page 89 is because I think we anticipated at the beginning of the year, when the budget was introduced and passed, that we might have progressed further with final grant agreements with some of the companies and we would have seen people moving ahead quicker. That, unfortunately, took us a little longer, and we've just announced the first projects, so that's the reason that our spending has been reprofiled for carbon capture and storage in that year and into the future.

Again I want to reiterate that the commitment to these projects has not gone away. It's just that we've now announced the first one, and we expect two more will come relatively quickly. You'll see our spending profile increase with those projects going ahead.

9:20

Mr. Xiao: Also, in your annual report on page 77, you know, about $538,000 is already spent on carbon capture and storage. What I want to know is: what have we accomplished through this expenditure?

Mr. Watson: That work would have been tied to the evaluation of the projects that we entered into, the letters of intent, as well as we were taking steps during that year to begin a more comprehensive assessment of the regulatory framework that would support CCS. We have experience in injecting gases in Alberta, and the Energy Resources Conservation Board deals with acid gases today, but we commenced some work, and we're moving forward with it significantly this fiscal year to make sure that those approaches and those regulations are going to be sufficient for the large-scale volumes of CO_2 that we anticipate in Alberta.

We've got a good system in place today, but we want to step back and take a look at it before we're injecting large amounts and ensure that it's dealing with the uniqueness of the large sequestration volumes that we'll be seeing in Alberta. So it relates to our negotiation of the agreements and our assessment of regulatory frameworks for CCS.

Mr. Xiao: Okay. My final supplemental question is: in the past fiscal year has the performance . . .

The Deputy Chair: Sorry, Mr. Xiao. I was just approached at the chair by the hon. Member for Calgary-McCall. We have two questions only, as you know. Shall I put you back on the list?

Mr. Xiao: Okay. Sure.

The Deputy Chair: I'm happy to do so, but it's time to go back to Mr. Chase.

Just for the information of members – I know Darshan Kang was wondering if he was on the list – after Mr. Chase we have Mr. Allred, Mr. Kang, Mr. Elniski, and the list goes on from there. If you're not on and you want to get on, I'll put you back on.

Mr. Xiao: Trying to be nonpartisan, eh?

The Deputy Chair: Yes. Absolutely nonpartisan, sir. An all-party committee. In that spirit from you, sir, to the hon. Member for Calgary-Varsity.

Mr. Chase: Thank you. Had a long career of refereeing as well.

In the outstanding recommendations, or Energy ministry homework not yet completed, from the report of the Auditor General from October 2010, page 211, the Auditor General recommends that the government "clearly describe and publicly state the objectives and targets of Alberta's royalty regimes." Without clearly stating the objectives and targets of the royalty framework, how does this government know that it's fulfilling its priority initiative of maximizing benefits to Albertans?

Mr. Watson: We have indeed advanced work in that area. As you'll note in our current business plan, we've identified a performance measure that relates to the conventional oil and natural gas segments of the industry, where we're very concerned about our competitiveness for investment relative to those types of resources. We've reviewed and assessed what our target should be and have moved forward with that.

We've had several recent discussions with the Auditor General regarding all of their recommendations on royalty measures, and we do know that we have some final work to do on the oil sands side of the sector. We've been focused on the competitiveness of our resources because that was really highlighted over the last couple of years and ensuring that we receive a share that's comparable to other jurisdictions that have similar resources and face similar circumstances so that we don't find ourselves unable to compete for the investment for the development of our resources.

The challenge on the oil sands side that we're working through right now is that there's no real direct comparators for competitiveness of investment in that sector whereas we had them for sure in onshore North America relative to our other resources. Our challenges that we're trying to address by being more precise in our performance target are the nature of that resource, the size of the resource, the size of the projects in terms of multibillion dollars of investment, and around the openness to foreign investment because that's a critical feature associated with oil sands development as well.

We're doing work on that currently, and we do anticipate that we will have an updated target in place for our next business plan to deal specifically with the challenges with the oil sands resource.

Mr. Chase: Thank you. I realize that our oil sands circumstance is rather unique and comparables are somewhat difficult, but when it comes to royalties for conventional oil and gas or even shale gas, we're considerably behind in comparison to our southern neighbour, to whom we export a lot of our product to be processed down there. You mentioned by the next business year, I think, if I heard correctly, and that partially answers: when can Albertans expect to have these objectives clearly stated?

Mr. Watson: Yeah. We're doing that work right now on the oil sands. We've committed to the Auditor General to have further discussions with them this year, so we anticipate that it'll be in our business plan for the upcoming year.

I do want to mention that our target of being in the top quartile of investment opportunities in North America for conventional oil and natural gas was chosen for a reason, partly because our resources do exist at a bit of a disadvantage to other resources in other parts of North America, particularly the distance and the cost to get them to market. So while we're comparing royalty and taxation rates, we do need to realize that we are at a disadvantage in terms of the cost to transport. A lot of the new resources, particularly natural gas, are very close to market. That was part of the reason why we chose that we should be targeting for the top quartile of the jurisdictions we compare against.

The Deputy Chair: Thank you very much, Mr. Chase.

Back to Mr. Allred, please.

Mr. Allred: Okay. Thank you, Mr. Chair. Following up on my last question – I sort of stepped into my own trap by trying to get two questions into one there.

The Deputy Chair: Aha. We'll catch you on that every time.

Mr. Allred: You already caught me.

You mentioned that, essentially, the drilling and stimulus program was to capture the skills and technology. I'm having a hard time understanding the difference between the skills and technology required in gas well drilling as opposed to oil well drilling. Why could that not all have been pushed towards conventional oil drilling? That's where the money was.

Mr. Watson: I should have been clearer in that some of the skills and the technologies are indeed applicable to conventional oil drilling. What you'll see in our royalty curves for both conventional oil and natural gas is very similar design features: low front-end royalties to give industry an opportunity to recover the much more significant capital cost associated with some of the new technologies for horizontal drilling.

[Mr. MacDonald in the chair]

We're now beginning to see those technologies being applied in a conventional oil context, where they're going back into more mature reservoirs and utilizing those technologies to increase production from those reservoirs as well as new tighter oil formations. We're also seeing that evidence in terms of patterns of land sale activity, where land sales around oil resources have picked up as well. We expect that people are looking to apply those technologies and increase recoveries in some existing reservoirs as well as looking at new tighter oil formations.

9:30

Mr. Allred: Okay. My supplementary, then, is: in retrospect – we almost have two years of history now – do you feel it was worth putting in that drilling incentive program for natural gas, which cost us three-quarters of a billion dollars in the first year?

Mr. Watson: Yes. I think it maintained activity. One of our objectives was to maintain a reasonable amount of activity to the extent we could. It also ensured that we were creating royalty income for years to come associated with those wells. We were driving to ensure that we're getting returns from these areas in a very difficult environment, where industry was not inclined to move. We believe that for a variety of reasons, including the royalty income that will come over the life of those wells to the province, there was good reason to do that. As I say, some of our learnings from that we have now incorporated into our royalty framework on an ongoing basis.

Mr. Allred: Okay. Thank you.

The Chair: Thank you.
The chair apologizes. Mr. Anderson has been here for some time. Welcome, sir.
Mr. Kang, please, followed by Mr. Elniski.

Mr. Kang: Thank you, Mr. Chair. In the October 2010 Auditor General's report, page 212, in the outstanding recommendations the AG recommended that the Department of Energy enhance controls for its monitoring of technical review work. My first question is: what steps are being taken to implement the enhancement of controls for monitoring technical review work?

Mr. Watson: We've actually taken steps and implemented measures for that recommendation as well as the other recommendations associated with the royalty systems review. The office of the Auditor General has been back in to review that work with us and, I think, will be commenting on it in future reports. So we have indeed completed that recommendation and implemented our work.

The Chair: Thank you.
Mr. Saher, do you have anything to add at this time?

Mr. Saher: Thank you. It might be useful for committee members to know our follow-up work on Energy's royalty review systems, work originally reported in 2007. We're in the last stages of completing that follow-up work, and I anticipate that our follow-up conclusions will be in our next public report, which I anticipate will be in April of this year, next month.

Mr. Kang: Thank you. Mr. Chair, I think the second question should be answered in there, too. How do you know the technical review work is being undertaken effectively and correctly if controls are not in place?

Mr. Saher: Perhaps the deputy minister might care to answer your question. My point is that our views on it will be in our next report.

Mr. Watson: What we've done in response to the Auditor's recommendations is implement a series of new policies for our internal work, and they relate to a variety of areas, including the steps we take to properly put a plan in place for some of our review processes in the first place. We've been very specific about the management controls that need to be signed off and procedures and checks in documentation that need to occur as well as, you know, enhanced our standards around the nature of the information sources that we utilize in some of these review processes, ensuring that there is appropriate assessment and then a sign-off from management on those as well.
So there were a variety of things that were taken and, again, that we believe we've fully completed implementing. That work has been implemented for some time and is under way today. I want the members to know that we're utilizing all of those new controls, and the office of the Auditor General will be reporting on that in April.

Mr. Kang: Thank you, sir.

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

Mr. Elniski: Great. Thank you very much. Peter, on page 90 of your 2009-10 annual report it talks about your direct reports, and I just want to kind of run down the synopsis of the list here. As I read the list – and I'm probably wrong on this one – it looks like you have nine ADMs, two executive directors, and something called an executive lead. But then when I dig a little bit further, I discover that the executive lead is actually the executive lead of something called energy futures, and it looks like he's paid for by Agriculture. Then the executive director for oil sands looks like it's paid for by Executive Council. So I have two questions for you. One, what does your senior management org chart actually look like? Two, are these people that are attached to these other departments paid for by you or by them?

Mr. Watson: Thank you for that question.

Mr. Elniski: Sorry. I thought you would probably. Yeah.

Mr. Watson: In the middle of that fiscal year I took steps to reorganize some areas of the department, so it changed the nature and the makeup of my executive team. We've tried to report that appropriately here in all the variety of notes that we've got, but I would be pleased to send the committee my up-to-date org chart and to explain how that works.
Indeed, a new member to our team came from the department of agriculture, and over a period of transition his salary was still supported by the department of agriculture. There were some of those details that did occur, but the key thing, I think, that will help you is that our new, up-to-date org chart is available. It's unfortunate that this happened in the middle of the fiscal year, so it had to be reported as such.

Mr. Elniski: Oh, okay. Yeah, it is a little bit confusing, but I think that if we get the org chart, that would probably be great. That's all we need.
Thank you.

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

Mr. Chase: Thank you. The Auditor General outlined on page 212 of the October 2010 report "that the Department of Energy improve its annual performance measures that indicate royalty regime results." My first question. These recommendations highlight the inadequacy of the department's performance measures on royalty regime results. Why hasn't the ministry reviewed these measures?

Mr. Watson: The ministry has reviewed these measures and is continuing to review these measures and has implemented a new measure for conventional oil and natural gas, as I mentioned, with a clear target. We are in the process of finalizing a measure for oil sands resources because, of course, the performance measure for conventional oil and natural gas – those resources are different than oil sands resources. So we've been doing that work. We've fully implemented it on the conventional oil and natural gas side, and we intend to move forward with oil sands this year and report on it in our next business plan.

Mr. Chase: Thank you.
My supplemental: how can Albertans trust these measures to be an effective representation of the performance of the ministry when they do not clearly reflect the performance of the royalty regime? It seems that we're measuring measures and creating new measures, but we never seem to come to an end goal.

Mr. Watson: Well, we have reached a state – and I'm going to speak about conventional oil and natural gas – where our measure is comparing the combined royalty and taxation rates in Alberta with jurisdictions in our partner provinces, you know, our neighbouring provinces, B.C. and Saskatchewan, and then with jurisdictions in the United States as well. We believe it's reasonable to compare those numbers because those are the places we're competing with for investment to develop like resources. As I mentioned, we felt it was appropriate to target the top quartile in that range of 12 jurisdictions we compare against, partly because we're disadvantaged in the western Canada sedimentary basin in being a long way from market. We wanted to be on the top end of the competitiveness scale. We're essentially saying that with like resources we should have a similar investment incentive for industry when comparing royalty and taxation.

9:40

Mr. Chase: Thank you.

The Chair: Thank you.
Mr. Dallas, please.

Mr. Dallas: Thanks, Mr. Chair. I was looking through the '09-10 annual report for a line item with respect to a regulatory enhancement project, but as I think back to that, I think there was some readiness work that was likely occurring maybe back into December '09, early in the '09-10 fiscal year. I wonder if you can comment with respect to expenditures and if you want to comment on, you know, a combination of perhaps what had accrued in '09-10 and going forward into the current fiscal year on the regulatory enhancement project.

Mr. Watson: Okay. Indeed, as I mentioned, in March of 2010, when we released the results of our competitiveness review, we did announce that we would be proceeding with the regulatory enhancement project. That formal effort got kicked off towards the end of the fiscal year. There was some readiness work that was done. As part of the competitiveness review it became clear very early on as we were doing that study that there was as much comment and feedback regarding the regulatory systems and some issues around the regulatory systems as there was around fiscal systems.
I don't have the figures right at my fingertips – and we can certainly provide them to the committee – but I would estimate that we expended about $250,000 in readiness work in the fiscal year '09-10, then the work of supporting the parliamentary task force in '10-11. In addition to just the in-kind resources of a number of staff across several ministries, there was a budget in the order of $750,000 for studies and support for that effort in 2010-11. But that was in addition to a number of in-kind resources and technological knowledge from a variety of staff.

Mr. Dallas: Great. Thank you very much.
That's all I have, Mr. Chair.

The Chair: Thank you.
Mr. Kang, please, followed by Mr. Vandermeer.

Mr. Kang: Thank you, Mr. Chair. In the October 2010 Auditor General's report, page 212, in an outstanding recommendation the AG recommended that the Department of Energy document potential conflicts of interest declared by their employees. My first question, sir, is: why has the ministry neglected its own policies and procedures and not implemented this recommendation?

Mr. Watson: We have implemented this recommendation. I believe, if I'm not mistaken, that the Auditor General has been back in to review our implementation of this recommendation as well. I can't recall if that's been reported on yet, but we have indeed implemented the recommendation.

Mr. Kang: Okay. My second question: what steps are being taken to follow the risk mitigation strategy?

Mr. Watson: We have put in place a number of steps. There is annual disclosure of financial interests for all members of my executive, and we've updated our department's supplement to the code of conduct for the public service. Those annual processes are reviewed specifically by our human resources department, and if any issues are flagged or identified, they are reviewed by government legal counsel and then by myself. There have been no issues or concerns that have required any review or any follow-up.
Just for the committee's information, we had one incident of disclosure that was properly disclosed regarding an employee's participation on a panel to review curriculum at an educational institution. That situation was reviewed and documented, and no conflict or perception of conflict was found in that instance. Again, we've made it clear when disclosure is required if people feel they may be in a potential conflict. We've had instances where that's occurred, been disclosed, and reviewed appropriately.

Mr. Kang: Thank you.

The Chair: Thank you.

Mr. Vandermeer: It's been touched on a little bit earlier about the $800 million towards the bioenergy production incentives. What does Alberta have to show for the significant financial support provided to the bioenergy industry?

Mr. Watson: Tim, can I get you to . . .

Mr. Grant: Will do. I'd just like to clarify that the amount of money that we're talking about in the bioenergy program at this particular time is not the $800 million. There was $239 million allocated to the nine-point bioenergy program. About $85 million of that was allocated in grants or in producer credits during the fiscal year '09-10. The $800 million that I think you're referring to is the extension and expansion of the producer credit program, which will take effect on the 1st of April of this year.

To address what have been the benefits to the province, essentially we've put to date about $150 million in grants to bioenergy programs, and our estimate is that that's seen a private-sector investment to match that of about $1.2 billion to $1.5 billion. We won't have a firm answer on the definitive numbers until the program ends at the end of this fiscal year. But that $150 million really was to incent construction and put steel in the ground for a number of bioenergy projects. We've seen that development take place, and the expansion and extension of the bioenergy producer credit program portion of that over the next five years will be to continue to incent production based on the construction of those facilities in the province.

Mr. Vandermeer: A totally unrelated question. On page 87 of your report coal royalty is down substantially. Is there a reason for that, and is that going to be continuing in the future? There's no note to accompany it on the reasons why it's down so significantly.

Mr. Watson: There, of course, was no change in royalty rates, so I would have to assume that that relates to a decrease in production of coal. I think what we will see in the coming year is that that revenue will increase because things have begun to turn around with respect to that commodity. We're starting to see more production of coal for export, export of metallurgical coal into Asia. I think this probably relates to a bit of the downturn in the commodity cycle and just the state of the economy, but we're now starting to see coal production and more facilities seeking approvals for export coal markets. That's the assumption I would make for that, but if you wish, I can provide more clarification in writing.

Mr. Vandermeer: No. That makes sense. Thank you.

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

Mr. Chase: Thank you. Achieving the correct balance between being competitive with other similar jurisdictions offering the appropriate incentives to encourage resource exploration and extraction and providing Albertans with a royalty return that reflects their ownership of the resource is an ongoing challenge. Given that instability can be economically damaging, as we've seen with a series of royalty reviews, how can you guarantee that Albertans are getting their fair share?

9:50

Mr. Watson: I think the issue that we have tried to land on is that to ensure development of our resources in the first place, we have to be in a situation where we're viewed as competitive against like resources that people can invest in. As I've mentioned, that's been a real challenge, particularly with natural gas in North America and, I think, will be a challenge in a similar vein as new technologies unlock conventional oil issues there. Again, we have felt that the appropriate place for Alberta to be is in that top quartile of comparative jurisdictions. That provides the right balance that ensures our resources are being invested in and are being developed in the first place so that we can receive our share of royalties as a result of that investment.

Mr. Chase: Thank you.

Following up on Mr. Mason's question on unresolved royalty agreements with Suncor and Syncrude and, as you mentioned in your answer, the potential of an arbitrated settlement in the case of a dispute, what's the timeline? When can Albertans expect a firm royalty price from these two major producers?

Mr. Watson: I'm not sure that I can give you an exact answer because, again, the two royalty agreements specify that if we do have a dispute that can't be resolved, in one instance it goes to binding arbitration, and in the other instance it goes to the courts. Now, I can only speculate in terms of the time frame associated with those processes, but I did want to be clear that we have provided notice to the companies in terms of our view of what the appropriate bitumen value is and are requesting them to reconcile their accounts and determine whether they agree or not or whether we're going to proceed to arbitration or to court.

I don't know if Tim . . .

The Chair: Thank you. No. I'm sorry, sir. This is a very interesting subject, but we're short of time.

Mr. Xiao, followed by Mr. Anderson.

Mr. Xiao: Thank you very much, Mr. Chair. I'd just like to go back again to the carbon capture and storage issue. In the last several fiscal years we have spent, you know, a significant amount of money on supporting developing such a technology. I want to know how much money we have spent so far on this. Then I have a second question.

Mr. Watson: On carbon capture and storage?

Mr. Xiao: Yes.

Mr. Watson: Douglas, I'll ask you to correct me if I'm wrong, but I think the $538,000 is all that's been expended of that $2 billion commitment to date. We do anticipate that into the current fiscal year, with the enhanced project going ahead, you will see more significant expenditures.

Mr. Xiao: Okay. As you probably know, a lot of people in the public are still very sceptical about the technology. Personally, I think the amount of money is probably far from enough to develop reliable technology. From your point of view, when do you think we can have very mature technology, a proven technology, that can securely store the CO_2, put the CO_2 underground?

Mr. Watson: I want to say that the parts of this system, the technology associated with different parts of this issue, have all been proven. There is technology that we know will capture CO_2 off an emission stream. We do understand the technology to compress and transport CO_2. We also understand the technology associated with injecting gases for permanent storage, and we've been injecting acid gases in Alberta for underground storage for some time. The issue is not so much the technical viability; it has been the economics of putting all the pieces together. Until you have large, fully-integrated projects that put them together and start operating them and learning how to bring the costs down – that's the real challenge.

I do want to also stress that while we believe we've got a sound regulatory framework that deals with the compression and transport of gases, that deals with the injection and storage of gases, the other thing we are doing in advance of commercial operation of these projects is taking a look at this regulatory framework because we will be injecting larger volumes of CO_2 in the future than we have historically, of course, and we want to ensure that the public of Alberta is fully confident that we have an appropriate and responsible and safe regulatory regime in place, to pick the right locations for storage and ensure that they're monitored and verified and that they're performing properly.

We just launched a review of that and assembled a panel of experts who are recognized internationally for their knowledge and experience to help guide this work, and that work will be completed before we begin injecting CO_2 in Alberta.

Mr. Xiao: Okay. Thanks.

The Chair: Thank you.

Unfortunately, we're out of time, and we have members with interest in asking questions. So, Mr. Anderson, if you could read your questions into the record, and we will request that the department through the clerk respond in writing, please.

Mr. Anderson: Okay. I'll ask just one question. You mentioned earlier about needing to be economically competitive in that upper quartile. At what point between 2007 and 2011 did it dawn on the Ministry of Energy that in order to be competitive, you needed to have royalty rates in that top quartile? You went in the exact opposite direction with the first royalty framework, and then you completely reversed course. So at what time did it dawn on your experts that that was going to make us uncompetitive and drive thousands of jobs out of the province?

The Chair: Thank you. If you can do your best to answer that question for 2009-10, please, Mr. Watson.

Mr. Chase, followed by Mr. Kang. Do you have questions as well?

Mr. Chase: Thank you. In the October 2010 Auditor General's report, page 211, in outstanding recommendations the AG recommended that the Department of Energy improve quality control processes for the preparation of working papers and financial statements as well as timely completion of accurate financial reporting. What steps have been taken to implement this recommendation to improve financial statements? How do we know it's working?

Secondly, how do Albertans know that they are receiving value for money without quality control over financial statements?

Mr. Kang: In the October 2010 Auditor General's report, page 212, in outstanding recommendations the AG recommended that the Department of Energy improve the planning, coverage, and internal reporting of its royalty review. Now, my first question is: what steps have been taken to implement this recommendation?

The second question is: how do Albertans know that they are receiving value for money without proper planning, coverage, and internal reporting of the royalty review?

The Chair: Thank you.

Mr. Watson, I have a question of interest as well, and it centres around page 31 of your annual report. You indicate that you hired more staff and did more audits of the resource revenues. It is indicated here that the average annual net dollar value of net adjustments was $72 million in the Crown's favour. I am pleased to read that. Could you confirm that that's over a three-year period? Could you also let us know how many extra audits were done to acquire this extra $216 million over three years, if I'm reading that correctly? Thank you.

10:00

I would like to on behalf of the committee at this time thank you and your staff for coming. Hopefully, we can have you back next year, and maybe someone will ask you about the injection of acid gas, which has been going on for decades, and if any of that gas is migrating from formation to formation. It would be interesting to hear your opinions on that. I think that's quite an interesting historical event. People don't relate that to CO_2 sequestration, but perhaps that would help us understand CO_2 sequestration better.

Thank you to you and your staff. We have other items on our agenda. You're free to go. Have a good year, sir.

Mr. Watson: Thank you.

The Chair: Is there any other business at this time that members would like to bring up or address? No.

The date of the next meeting will be Wednesday, April 13, at 8:30 with Alberta Seniors and Community Supports.

Now, if there's nothing else on Mr. Vandermeer's mind, perhaps he could give us a motion to adjourn.

Mr. Vandermeer: So moved.

The Chair: Moved by Mr. Vandermeer that the meeting be adjourned. All in favour? Thank you very much. Have a good week.

[The committee adjourned at 10:01 a.m.]

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