Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee on Resource Stewardship

Ministry of Energy
Consideration of Main Estimates

Monday, April 8, 2013
7 p.m.

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Standing Committee on Resource Stewardship

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Standing Committee on Resource Stewardship

Participant

Ministry of Energy
Hon. Ken Hughes, Minister

7 p.m. **Monday, April 8, 2013**

[Ms Kennedy-Glans in the chair]

Ministry of Energy
Consideration of Main Estimates

The Chair: Everybody, I think we're going to start. It's 7 o'clock. Welcome back from the break. I hope everybody had dinner because there's an awful lot of garlic and ginger in that dinner. For those of you who didn't, you may want to nip out and get some.

I just want to clarify the housekeeping here. The committee has under consideration the estimates of the Ministry of Energy for the fiscal year ending March 31, 2014.

I want to remind you on behalf of *Hansard* that the microphones are operated by *Hansard*, so please don't touch them. And if you would put your cellphones under the table, that would be much appreciated.

I'm going to start going around the table for introductions. Minister, if you would introduce your team as well when we get to you or as you wish.

So to my right.

Mr. Anglin: Joe Anglin, MLA, Rimbey-Rocky Mountain House-Sundre.

Mr. Sandhu: Peter Sandhu, MLA, Edmonton-Manning.

Mr. Webber: Len Webber, Calgary-Foothills.

Ms L. Johnson: Linda Johnson, Calgary-Glenmore.

Mr. Stier: Pat Stier, MLA, Livingstone-Macleod.

Mr. Hale: Jason Hale, MLA, Strathmore-Brooks.

Mr. Barnes: Drew Barnes, MLA, Cypress-Medicine Hat.

Mr. Bikman: Gary Bikman, Cardston-Taber-Warner.

Mr. Hughes: Ken Hughes, MLA, Calgary-West.

The Chair: Minister, do you want to introduce your team now?

Mr. Hughes: Sure. Let me introduce the folks who are here with me from the Energy department. I'd like to start with the deputy minister, Jim Ellis, and Douglas Borland, senior financial officer.

Then joining us in the group here are several other people. I'll run through, and I'd ask people to raise their hand when I mention their name. I believe I've got everybody. Al Sanderson, who's the chief ADM of strategy; Audrey Murray, acting ADM of resource development; Cynthia Farmer, ADM of policy management; Janice Schroeder, director of communications division; Jennifer Steber, chief ADM, oil sands and energy operations; Martin Krezalek, chief of staff from the deputy minister's office; Mike Ekelund, ADM of strategic initiatives; Rhonda Wehrhahn, ADM of resource revenue and operations; Sandra Locke, ADM, alternative energy and carbon capture and storage; Barry Thompson, executive director of revenue forecasting; and David Gowland, my chief of staff.

Thank you.

The Chair: Thank you very much.

Mr. Allen, just so we don't miss you, could you introduce yourself?

Mr. Allen: Thank you, Madam Chair. Mike Allen, Fort McMurray-Wood Buffalo.

Mr. Lemke: Ken Lemke, Stony Plain.

Mr. Khan: Stephen Khan, MLA, St. Albert.

Mr. Casey: Ron Casey, Banff-Cochrane.

Ms Fenske: Jacquie Fenske, Fort Saskatchewan-Vegreville.

Ms Kubinec: Maureen Kubinec, Barrhead-Morinville-Westlock.

Ms Calahasen: Pearl Calahasen, Lesser Slave Lake.

Mr. Hehr: Kent Hehr, MLA, Calgary-Buffalo.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Thank you.

I just want to note for the record that Mr. Hehr is substituting for Ms Blakeman and that Mr. Mason – I'm sure he will arrive – is substituting for Mr. Bilous on this committee.

I have to go through some housekeeping on the standing orders, so just bear with me. I think you are familiar with this. The Assembly approved amendments to the standing orders that impact the consideration of the main estimates. Before we proceed, I would like to review the standing orders governing the speaking rotation.

As provided for in Standing Order 59.01(6), the rotation looks like this. The minister or member of the Executive Council acting on your behalf, Minister, may make opening comments not to exceed 10 minutes. For the hour that follows, members of the Official Opposition and the minister or the member of the Executive Council acting on the minister's behalf may speak. Mr. Hale, I understand you'll be leading that. For the next 20 minutes the members of the third party and the minister or member of the Executive Council acting on the minister's behalf may speak. I understand, Mr. Hehr, you'll be leading that. For the next 20 minutes the member of the New Democratic Party and the minister or member of the Executive Council acting on the minister's behalf may speak. Mr. Mason, welcome to our committee meeting. For the next 20 minutes private members of the government caucus and the minister or member of the Executive Council acting on the minister's behalf may speak. Thereafter, any member may speak.

Members may speak more than once, but speaking times are limited to 10 minutes at any one time. A minister and a member may combine their time for a total of 20 minutes. Members are asked to advise the chair at the beginning of their speech if they plan to combine their time with the minister's time or block it.

Once the rotation between those caucuses is complete and we move to the portion of the meeting where any member may speak, the speaking times are reduced to five minutes at any one time. Once again, a minister and a member may combine their speaking time for a maximum total of 10 minutes, and members are asked to advise the chair at the beginning of their speech if they wish to combine their time with the minister's time.

Just to restate, when we're going through the first phase of this, you are asking questions as a caucus, so you may rotate questions among members of your caucus. Once we get to the second phase of this in the five-minute intervals, you're speaking as an individual member, and those five minutes are yours.

Six hours have been scheduled to consider the estimates of the Ministry of Energy. I will call a five-minute break near the midpoint of the meeting or when we look like we need it.

Committee members, ministers, and other members who are not committee members may participate. Members' staff and ministry officials may be present, and at the direction of the minister officials from the ministry may address the committee.

As noted in a memorandum we received in March, I would like to remind members that during main estimates members have seating priority at all times. This sounds like an aircraft. Should members arrive at a meeting and there are no seats available at the table, staff seated must relinquish their seat to a member.

If debate is exhausted prior to the six hours, the ministry's estimates are deemed to have been considered for the time allotted in the schedule, and we will adjourn; otherwise, we will adjourn at 10 p.m. today and 6:30 p.m. tomorrow.

Points of order will be dealt with as they arise, and the clock will continue to run.

Any written material provided in response to questions raised during the main estimates should be tabled in the Assembly for the benefit of all members.

Vote on the estimates is deferred until consideration of all ministry estimates has been concluded, and that will occur in the Committee of Supply on April 22.

There are no amendments that have been tabled, and I understand that there are likely not to be amendments to be tabled, so I won't go into that.

Mr. Hale: Not tonight, but tomorrow.

The Chair: Oh. Tomorrow. Thank you very much, Mr. Hale.

With that, I would invite the Minister of Energy. You've got 10 minutes to provide an introduction.

Mr. Hughes: Thank you very much, Madam Chair. Well, I'm really pleased to be here to present the highlights from the Department of Energy's business plan and budget estimates for 2013-14. You know, today's fiscal reality really sets the stage for a new spending direction for the government. We know that the coming year will be a challenge, and we're prepared.

Nonrenewable resource revenues are estimated to be approximately $7.3 billion for 2013-14, much lower than the $11.2 billion that was predicted for Budget 2012. With constrained royalty revenues, difficult decisions had to be made. This meant tough but thoughtful choices. These choices were difficult, but Albertans can take comfort in the fact that we're on the right track to a balanced budget and building a better Alberta. If we want to continue building a world-class province, we must first get world prices for our resources. This will mean higher revenues. It's a balancing act and a task we've taken on willingly.

Now, operating spending for the Ministry of Energy for 2013-14 is budgeted at $462 million. This is an $18 million increase over the 2012-13 budget, or 4 per cent. In the 2013-14 estimates the ministry made a number of cuts to ensure that taxpayer money is spent where it is needed most. Proposed general cuts to our operating budget are a result of finding internal efficiencies, which include cuts to ministry support services. The Alberta Utilities Commission and the Energy Resources Conservation Board saw cuts as part of reductions throughout the ministry.

There were also some funding increases. The ministry is increasing funding for carbon capture and storage and bioenergy programs and committing an additional $3.1 million to the costs of marketing oil. Alberta continues to grow, and we need to ensure that our revenues grow with it. That growth must be managed in a responsible manner.

I'd like to make a few comments as well about the question of market access. The ministry supports Premier Redford's top priorities: market access for Alberta oil and leading the development of a Canadian energy strategy. Getting our resources, especially oil and gas, to tidewater is a strategic imperative of this government. We're looking north, south, east, and west, and in so doing, we're engaging with Canadians and Americans in a constructive way to ensure that we achieve our objective of getting to tidewater.

7:10

This government has had a presence in Asia, Europe, and across Canada and the U.S. as well. Whether it's expanding current pipeline capacity, developing new pipelines, or moving product by rail, this government is moving fast to get our products to other markets. Alberta Energy provides technical expertise to support these missions to ensure that Canadian leaders and decision-makers around the world have the best information possible when they're making decisions on matters that might affect us.

The ministry is also leading a market diversification strategy which includes work with other ministries, including our partners at Environment and Sustainable Resource Development. The outcome of this strategy aims to increase access to new markets, help shrink price differentials with which we are all too familiar, and get a better price for our oil. Economies around the world need energy, and we need to get it to them. World prices mean higher revenues for producers in this province and in terms of royalties for the province of Alberta and, actually, in terms of revenues for the government of Canada as well.

To continue building Alberta and supporting the Canadian energy strategy, we must of course develop our resources responsibly. We must showcase Alberta internationally as an example of efficient and responsible resource development, a province that considers economic, environmental, and social priorities and the balance thereof.

Now, another area of interest to some members I'm sure will be the bioenergy commitments of the government. One of the government's responsible commitments is reducing our carbon footprint. That's why in this budget we committed an additional $32 million to bioenergy projects currently under way. These projects encourage alternative and renewable energy sources and are an efficient use of waste in industries like agriculture and forestry. They also mean new jobs. We've strengthened reporting requirements for bioenergy, as recommended by the Auditor General. We also currently use a results-based budgeting process to evaluate the program.

While we anticipated three rounds of the program when it was originally created, we will not be proceeding with round 3, which was a tough but a responsible choice. Round 1 and round 2 of the program are still in operation and have our full support. The $98 million in funding this year will support about 30 projects over the next three years to 2015-2016. Current projects have also created hundreds of millions of dollars in additional private investment in the province of Alberta.

Alberta Energy also undertakes the assessment, forecasting, calculation, collection, and audit of royalties, freehold mineral taxes, and bonuses from the sale of petroleum, natural gas, and mineral rights. Energy also collects other revenues from the production of energy and mineral resources by industry. Funding for revenue collection is estimated to be $46 million in 2013-14 and is undertaken mostly by the resource revenue and operations division.

When determining the department's nonrenewable resource revenue forecast, we consider a number of factors. This includes supply and demand, global prices, and, of course, production. The department monitors the forecasts of other industry analysts and positions our numbers close to the average of the forecasters that we track. Often we're more conservative in our own forecasts than the average of the other forecasters that we follow.

The estimated oil price for western Canadian select for this fiscal year of 2013-14 is $68.21 Canadian per barrel. This is standing next to a west Texas intermediate price of an estimated $92.50 U.S. per barrel. The WTI price is climbing as the U.S. expands its own pipeline capacity and closes the differential between WTI and Brent, the world price, essentially.

Now, natural gas prices are expected to be $3.07 Canadian per gigajoule, an increase from a $3 price that was projected in the previous budget. That increase is due to lower U.S. gas storage levels and relatively flat gas production growth in the U.S. due to reduced gas drilling levels and a strong year for petrochemicals which consume the natural gas as well. Bitumen and conventional oil are estimated to account for 69 per cent of our nonrenewable resource revenue in this next year.

When the last budget was announced a year ago, banks, investment houses, and other governments all predicted western Canadian select would be just over $80 per barrel for 2012 and 2013. We have estimated that to be at $68.21 for the coming year for western Canadian select. This price, obviously, is lower than we'd all like to see as Albertans.

Now, when it comes to bonuses from land leases, they're forecast to be roughly what was forecast for 2012 and '13. This is thought to be due to continued low industry cash flow resulting from low oil and gas prices. These are all reasons why we need to get our resources to world markets and why we need to support initiatives that bring higher revenues. Market access and higher revenues will help us continue to build Alberta as an innovative, progressive energy leader in Alberta and around the world.

I'd like to make a few comments about the energy regulator, the Energy Resources Conservation Board, which will become part of the new Alberta energy regulator this fiscal year. The ERCB will continue its role to ensure the safe, responsible, and efficient development of Alberta's energy resources. It is a government arm's-length regulatory body. It will also see a 2 per cent, or a $3.4 million, cut that is part of a general cut across the department. Moving forward, in addition, industry will fund the ERCB and the Alberta energy regulator a hundred per cent. This funding comes from industry levies and in this fiscal year will save taxpayers some $41 million. Industry will now cover this $41 million cost in addition to the $125 million they already pay.

Looking forward, the creation of the new energy regulator will also better serve responsible resource development after it has been phased in. This one-stop shop will enforce legislation related to our energy resources such as land and water acts.

Is that my time?

The Chair: That's your time.

Mr. Hughes: Okay. That's good. I've got lots more to say.

The Chair: Good. We've got six hours here. That's wonderful. Thank you, Minister.

The Wildrose caucus has 60 minutes. Mr. Hale, it's 10 minutes and 10 minutes, and then I'll interrupt you in the next block to just check in. Would you like to combine your time with the minister?

Mr. Hale: Yeah, I'll combine the time. We'll just go back and forth.

The Chair: Thank you. Twenty minutes.

Mr. Hale: Okay. Thank you, Madam Chair. I'd like to thank the Energy minister for coming tonight and all of his ministry staff. Thank you for all the good, hard work that you guys do for our Energy department.

I'd like to start off by talking about market access, which is huge these last few months and the last year. It's something that's been on everybody's mind, and I think we can all agree that we do need to find new markets for our products. It's nothing new. It was, you know, asked today in question period, and from the answers from the Energy minister we all know that we need to expand our markets.

I'm sure that the Department of Energy has a list and that the minister has been fully briefed on all the ports and refineries that we can access through these new pipelines: Keystone, Northern Gateway, the west-east pipeline. I'd just like to know: are there any agreements in place with these end-of-pipeline customers so that we can know what we're going to get paid or if they are going to be using our oil, or are we kind of leaving it up to speculation on what we're going to be receiving if they will take our oil, if they're planning on paying us the higher price, or if they are still going to be saddling us with a differential?

Mr. Hughes: Sure. There are many aspects to that question, and it's a very good question and an interesting question. If you look at the wide range of possibilities as to how we could move our product to market, there are many pathways to tidewater, obviously. If you get it to tidewater, the cost of moving oil on water is actually relatively cheap, so you get very close to world price. Actually, when we talk about getting Alberta's product to market, there are really two ways to look at that. One is oil that is owned by private interests, and that's actually by far the most of it. Then there's also some bitumen royalty in kind. We have the potential to take bitumen in kind and then market that ourselves directly.

7:20

If you look at the wide range of possibilities, if you look at the government of Alberta marketing its own resources, we market our own oil through the Alberta Petroleum Marketing Commission. Obviously, they're working with many different parties. For anybody who wants to come and talk to us, we'll talk to them about how we can work with them.

If you look at the most recent proposal that came from TransCanada Pipelines seeking an open season to convert a gas pipeline to oil all the way to Montreal, Quebec City, and then expand beyond that down to Saint John, New Brunswick, there is a great example of success from what we have been working on as the Canadian energy strategy. Really, that has an opportunity to deliver product to a refinery in Saint John, New Brunswick, a potential interest in Nova Scotia, a potential interest in the Come By Chance facility in Newfoundland, Quebec City potentially, and Montreal. So you've got a wide range of possible markets that could take either oil that's owned by Albertans directly as bitumen royalty in kind or, which will be by far the greatest volume that's shipped out of here, oil that's owned by private interests.

The Alberta Petroleum Marketing Commission has been working very directly and very actively with the province of Quebec and the province of New Brunswick to help ensure that we have a good understanding and that they also have a good understanding of the opportunities and any support that they need from us.

Our oil market diversification strategy: I can walk you around the compass, actually. If you start on the west side, Kinder Morgan has a proposal that they're working on to expand their pipeline into Vancouver. You've got the Northern Gateway proposal. We've all heard of the G7G railway proposal to Delta Junction in Alaska that would end up going out through Valdez. We've also had discussions with the minister of energy in the Northwest Territories. They're very interested in working with us because they're even farther at the back end of the pipe than we are, in fact. They're very interested in working with us. They'd like to explore the possibility of an Arctic port. Now, some of these are a little more speculative than other proposals.

If you keep going around the compass, you get to Churchill. Churchill is obviously a northern port that is seeing the opportunity to expand beyond being primarily a grain port. The owners of the Churchill port are interested in expanding the use of that and doing so by train. That has some really interesting opportunities in the longer haul for probably primarily refined product to go there. Then you go to the TransCanada Pipeline proposal I spoke of earlier. There's the reversal of line 9 between Sarnia and Montreal. It's an Enbridge property.

Then you have all kinds of pipelines sort of into the States that help us in one way or another but particularly the Keystone XL pipeline as well, which is an interest, obviously a very keen interest as the Premier and two of our colleagues are there today meeting with the leadership in America. Then, of course, you've got train as well. It's been a remarkable evolution of train capacity to move product that three or four years ago people would have never believed possible.

Mr. Hale: Okay. Thank you, Mr. Minister.

I guess the main basis of my question was that there are no guarantees. You know, we have possibilities, so I guess we'll just see when these lines get built how things play out.

Mr. Hughes: Well, actually, the work that the APMC is doing, that we're doing to ensure that people in Quebec are well informed, that people in New Brunswick are well informed has led to a really constructive engagement with the province of New Brunswick, as an example of one bookend on this pipeline that could be very helpful to us. While there are no guarantees in life, the proposition is exceedingly compelling to pipeline builders and to shippers to actually get the product to market.

Mr. Hale: Okay. I'd like to concentrate a little bit on Keystone. We know the U.S. is setting themselves up to be self-sufficient. So far the only pipeline that has reached a decision stage is the Keystone pipeline, which relies on Texas and the Gulf coast markets. Now, we know that America's supply of crude has grown 10 per cent above levels a year ago, at 7 million barrels a day, the highest it's been since the late 1990s. The U.S. Energy Information Administration reported that oil supplies grew more than three times the increase that analysts expected.

Does your budget take into account the potential for lower prices for our oil once we get Keystone up and running? Hopefully, we do. I think we're all in agreement also that we definitely do need Keystone, and right now it looks like that's our best bet because it's the closest one to being approved. Are there any, I guess, specific agreements, contracts, anything specific that will allow you to come up with your budgets knowing that we will get paid full price and that they will be taking the oil? You know, if it's a couple of years before Keystone gets built, once it's built and we're actually using it, sending our bitumen down there, are they going to be needing our oil? Are they going to say, "We'll take it, but we're going to pay you a differential"?

Mr. Hughes: Again, it's a good question. These are market forces in which we are seeking to be a constructive force for our own interest, as everybody else is. Let's assume for purposes of discussion that Keystone gets built. The question is: are the refineries on the Gulf coast going to want our product, and what are they going to pay us for it? Right? What are they going to pay our producers for it? That's the question.

Maya oil, which comes from Mexico, is very, very similar to western Canadian select because it's a heavy oil. Maya would be kind of the marker on the Gulf coast that we would look to. Today it's at, like, a hundred bucks. It's better than the west Texas price. It varies, actually, around Brent or a little lower. What most industry observers would tell any of us is that there would be a backing-out of Venezuelan and Mexican product out of the refineries on the Gulf coast because they're built for heavy crude. They're built for stuff like our bitumen. As a result, there's going to be a demand for that kind of quality, that kind of heavy crude for a long time because these refineries can't change on a dime. They build for a certain kind of product, and then they try and buy it in the marketplace. So there's a lot of confidence on the part of industry players and independent observers that there would be good demand once it gets there from Alberta.

Mr. Hale: Okay. Thank you.

If we look back to 2005 at the average for west Texas intermediate compared to western Canadian select, the differential has varied from a low of $9.66 in 2009 to a high for a yearly average of $22.69 in 2007. The yearly average for this calendar year, which makes up three-quarters of this fiscal year, was $21.03. If we look at this stat and if you go to a monthly average, the highest differential on a monthly average was in December 2007 at $41.72, and the lowest monthly average was in April of 2009 at $6.19. If you look at these stats, would it seem that the price we're getting for bitumen has been on par with historical averages?

You know, we've heard lots about the bitumen bubble. Why, I guess, is this price differential such a big deal now? We know from past experience that we've always had the differential. The current differentials aren't off the mark from what we've seen, so why is there a problem now, and what makes our current circumstance worse than past circumstances?

7:30

Mr. Hughes: That's again a good question. It's easy to sort of focus just on that one differential between western Canadian select and west Texas intermediate, which we've identified quite accurately, I'm sure. I don't have them in front of me to check, but there's been quite a bit of variability. What is different in the last year, last couple of years, really, is the spread that's come between west Texas intermediate and the world price in Brent, effectively, and Maya crude as well. If you think of a graph, you know, the top line is Brent and then the differential between Brent and west Texas has really grown quite dramatically, and then western Canadian select, which is a lower line still, fluctuates below that. The combination of those two differentials is the squeeze that we're feeling today, and it's worse than it has been in a historical context.

Mr. Hale: Okay. Thank you.

On page 84 of your fiscal plan in the economic outlook you state, "The amount of spare pipeline capacity to accommodate Alberta's rising oil sands production and surging US tight oil production has been shrinking." I guess the general sentiment is that we saw this tight capacity on the horizon, but we didn't think it would hit us this soon. I guess, you know, we could sit here for hours and argue whether something should have been done before or we waited too long, but it's here now, and this is what's happening.

What I'd like to know is: what are you doing from now forward to deal with this pipeline capacity? I know that rail is being used more, but we know that there are only so many rail cars that can be shipped. You know, the pipelines are in the wings. We're just waiting to see. What can we do now that helps us with this market crisis so that when the next market crisis happens, we're prepared so that we can look ahead and maybe estimate when it's going to happen so that we can look after it before we actually get caught again?

Mr. Hughes: Just to be clear, there are two major factors that have put us in this tighter spot than anybody might have expected a year or two or three years ago. One is the immense growth of production in the Bakken in North Dakota and southern Saskatchewan, which came about because of technological improvements. The other one is politics. Politics has delayed the implementation of the Keystone pipeline. Had politics not intervened, that might have been very nearly built now. Likewise with the Northern Gateway project as well. That has been delayed because of the dynamics of the political context within which industry is trying to build these things.

What can we do about that? Well, we're working, obviously, with rail providers to help ensure it is a strategic tool to fill in the short term. Let's assume Keystone happens in a couple of years and that that starts to take off some of the pressure. There are also pipelines south of Cushing, between Cushing, Oklahoma, and the Gulf coast, that will be taking pressure as well off of the oversupply in the middle of the continent. Some of those are coming into place, like, right away, in the very near future. We're talking months, not years. Keystone.

The railways are responding with remarkable capacity and improvements in efficiency in the way they perform and the kind of unit trains that they're putting together and the work that they're doing. Just as an example, it's really interesting to see. Three years ago nobody would have predicted this, but last year there were 600,000 barrels a day being hauled by train out of the Bakken, which is an immense volume, and it's growing like this, a very steep curve of growth. In Alberta the number is somewhere around 150,000 barrels a day moving by train, and people are securing train capacity to ship particularly to the Gulf coast but also to Chicago. One of the great advantages of trains is that it gives you strategic alternatives that you can deploy to optimize and get the best price.

Mr. Hale: Okay. Well, thank you.

So carrying on the with the tight pipeline capacity, there have been many alternatives, and we've discussed them: you know, the networks from here to New Brunswick, the Irving refinery, using the natural gas pipelines, sending on northern pipelines with rights-of-way out to Valdez, Alaska. Out of all these alternative plans how many applications are before the Alberta government or the NEB right now for approval, and out of these plans how many firms have approached your ministry with their plan for using these proposed pipelines?

Mr. Hughes: Pretty well everybody who has an idea has approached us to talk to us. Some of them are more formal than others in terms of how prepared they are. For example, I have personally had and my officials have had detailed briefings from all of the major proposals that are out there, and we have worked with them to explore alternatives and see if there are things that we can do that would be helpful to expand access. You'd be interested to know that we have 15 people, full-time staff, in the Energy department working on our oil market diversification strategy. They're obviously based here in Alberta, but they're out engaging right across Canada and into the States as well.

Mr. Hale: How many of these pipeline proposals are actually before a regulatory committee for review? Is there anything substantial? Are we just talking about it, or is there actually work being done?

Mr. Hughes: They're all at various stages of development, right?

The Chair: Sorry to interrupt you, fellows. Mr. Hale, do you want to continue as you're doing? So another 20 minutes the same way? Carry on.

Mr. Hughes: Okay. Kinder Morgan have applied – haven't they? – to the NEB. The Keystone XL, obviously, is in the American process. We all know that all too well. TransCanada PipeLines have gone to an open season in order to prepare for going forward. That would be an NEB process. Many of these regulatory processes are not within our purview or our control within the government of Alberta. What we can do is to help ensure that proponents are well informed, that we're helping to set the right political context where they need to go to get access to global markets.

Mr. Hale: Okay. Thanks.

I'd like to switch gears now and talk a little bit about Alberta production and Bill 2, our new single regulator. I guess it's on page 22 of your business plan, under 2.1: collaborate with Environment and Sustainable Resource Development to implement the Responsible Energy Development Act. We know that it's a single regulator responsible for oil, gas, oil sands, and coal. Looking at the estimates, it would appear that the single regulator is going to become entirely industry funded. As you mentioned in your opening remarks, there won't be any more government transfers. If we look at the difference between Budget 2012-13 and the estimate for 2013-14, the energy industry is going to have to make up $41 million, as you stated. So when I look at that – you know, fees work like taxes. There are two ways to collect more fees. You either charge more or there's more revenue because there's expansion in the industry. In the case of this $41 million for the new regulator is it coming from growth you see in the industry, the production of energy, or will the energy producers see an increase in costs of doing business because of higher fees?

I'm also interested in how these fees are going to work. How are you going to charge these fees? There are many junior companies right now that are barely keeping their doors open, with the low prices of natural gas. They're really struggling to stay afloat. If we keep imposing increased fees on them, it's going to be tough to attract investment into our province, you know, with new companies and also to be able to continue to have these junior companies and smaller independent companies in business. To me this doesn't look like a very good drilling stimulus program. I was just wondering if you could comment on the fees and how you're going to be collecting them.

7:40

Mr. Hughes: Sure. Yeah. Actually, it's a very valid point. We're watching fees that might be incrementally added on to industry because we're very sensitive to the competitive nature of the business and the difficulties that some industry players are in, particularly on the natural gas side. You know, the industry is expanding, though, so it'll be a combination of an expanding industry and increased fees that will make up that $41 million that we're talking about.

One of the suggestions that we could potentially follow is to create a new fee collection agency, actually, for all of the regulatory bodies in the province. You know, what you need is somebody who's really good at doing what they're doing and can focus on collecting fees on behalf of any of the regulatory bodies in the province. That helps create the separation between the regulator and the regulatee as well, which is a helpful model to keep in mind.

With respect to the funding, though, I can give you some specific details on how funding is actually calculated for both the ERCB today and the new Alberta energy regulator. For oil and gas the fees, or levies, are calculated based on the individual well production of oil or bitumen or gas and the number of production and service wells for the year.

With respect to the oil sands it's levied in five categories based on the operating information of the calendar year. An operator may actually have activities in more than one category, so the categories include wells, mines, and thermal.

Then coal fees are levied on each mine's share of total production volumes for the year. These levies now are paid once a year and are based on production. In some cases exploration can also be considered a part of the production; i.e., the levies are charged based on the number of wells.

Mr. Hale: The fees are going to increase per well.

Mr. Hughes: Well, some fees will increase, and there'll also be growth in the industry as well.

Mr. Hale: Yeah. I can see the fees increasing more than the growth, with the price of gas, unless we can get a big hit in the gas market.

Mr. Hughes: There's a lot of growth, though, on the oil side, right?

Mr. Hale: Yeah.

Mr. Hughes: In the oil sands, too. You know, it may not be as clear cut as any of us might think.

Mr. Hale: I guess your fee structure will be different . . .

Mr. Hughes: Yeah.

Mr. Hale: . . . depending on what they're mining, if it's oil, if it's gas. The gas companies, the small, junior companies: their fees are going to be less than an oil sands project or a deep oil well, a horizontal oil well.

Mr. Hughes: Yeah. It'll be reflective of sort of the way the fees are levied today.

Mr. Hale: Okay. We've already seen some tax increases, not in your department but like with the education portion of the property taxes. So with this increase now of $41 million to industry to fund this regulator, is the same thing going to happen? Next year if the cost of operating the regulator is higher than what you're predicting now, are these oil companies going to be hit with another increase to continue to fund the regulator as it moves into its first year of regulation? In subsequent years is it going to continue to cost them more money to do business because it's costing more to run this regulator?

I have a little concern with the ERCB. They're the entity that creates, enforces, and collects the fees and levies which this regulator relies solely on to operate. Who's going to be providing the oversight to ensure that they're collecting the fees properly, that they're actually spending the money wisely that they are collecting so that, you know, it won't result in companies being overcharged or unfairly penalized for, maybe, inefficiencies within that regulator?

Mr. Hughes: Yeah. You know, this speaks directly to the reason why we created the Alberta energy regulator the way we did, with a professional board that is made up of people who are professionals at governance and at running large organizations like this. Don't forget, of course, that the mandate of the Alberta energy regulator is to find that right balance between economic development, social licence, environmental concerns, and respect for landowners as well. That balance, obviously, will be met through leadership provided by the board.

I can't think of a better governance model, actually, than having people who really know how to run organizations in charge of the organization, which is a new model for a regulator, in fact. I think we're providing some interesting leadership on how regulators should be set up in this province relative to the rest of North America. I think we'll be very well served by that because of good people like Gerry Protti who actually understand how to make an organization run, how to put in place the metrics to govern it and to ensure that it's efficient and it's effective for all players.

Mr. Hale: So you won't have any say in what the fees are going to be? Is that totally going to be up to the regulator?

Mr. Hughes: Well, we can actually set guidelines, as we did this year, which is that there's a 2 per cent reduction in the budget parameters, although normally that would be set by the independent board.

Mr. Hale: So they're going to set the fees, and you'll just give them some guidance if you see fit.

Mr. Hughes: Yeah.

Mr. Hale: Okay. Given that we're currently running a deficit, have you done anything to rein in the spending within the executives on the current ERCB? Last year it was 2 and a half million dollars for 10 employees' wages. Is there going to be any change in the wages for this new regulator compared to the ERCB?

Mr. Hughes: Well, that will be the responsibility of the board primarily and the new CEO, who will be appointed by that board in the not-too-distant future. I think everybody is working within the context of understanding that public resources are not endless, that the success of this arm's-length regulatory body is heavily dependent upon having a strong economy as well. But don't forget that they have to compete for human resources as well. They have to compete in the open marketplace. You want people who are going to be highly competent, fairly paid, well motivated, and interested in the work that they're doing so that they serve the people of Alberta.

Mr. Hale: Yeah. I see that.

I'd like to switch now and talk about the orphan well abandonment program with the ERCB. We see a $250,000 decrease in the funding from the ERCB. Does this mean that you are expecting fewer wells to be orphaned and abandoned in this upcoming year, or is it because the ERCB has released this LLR directive, the licensee liability rating, which shows that the program is going to go from 88 companies and $13 million to $297 million and 248 companies? Is it going to be maybe that you're seeing more companies going out of wells and more orphaned wells coming on stream because of, I guess, the economy in Alberta and the drilling that's maybe not happening? Is this new fee structure going to be charged to the companies? Obviously. So are you expecting more companies to close their doors? Is that why you're charging more for the orphan well abandonment fund?

7:50

Mr. Hughes: No. Just to be clear on the question of wells that are to be abandoned. Wells that are abandoned are the responsibility of the leaseholder and the company that's developed them. The orphan well program is designed to ensure that, you know, say, if a company goes broke and is, obviously, then in no position to make . . .

Mr. Hale: That's kind of the gist of my question. Are you increasing that fund because you're thinking that more companies are going to go broke and there are going to be more orphan wells?

Mr. Hughes: I think what you're referring to are the steps that were taken by the ERCB to ensure that companies, if they couldn't demonstrate financial capacity in other ways, had to demonstrate more capacity and put up more security, if I could call it that, to demonstrate their ability to actually deal with wells at the abandonment stage. What that is is an assurance to Albertans that wells are not going to become orphan wells, that they're going to be dealt with by the appropriate party, and that companies that are at risk of not having enough resources to deal with the liability that they have there actually set aside those resources earlier in the stage rather than later in the stage so that we don't have as many orphaned wells. That's really what that's about.

Mr. Hale: So that's why you're increasing the money going into the orphan well fund?

Mr. Hughes: Well, that's a discussion between the ERCB and the orphan well program. There are several pieces to it. There are the wells that need to be abandoned and the requirement to ensure that there are adequate resources to abandon them appropriately. Then there are also orphan wells for which there is no identifiable responsible party that has the resources to deal with them. Presumably a company went broke or went out of business for some reason. The industry carries the load for that as a whole, as I think everybody would agree they should.

Mr. Hale: Okay. Thank you.
I'd like to talk a little bit now about the biofuels initiative. We see the budget increasing by $32 million this year and rising by $50 million for 2014. What is this substantial increase in funds going towards? Given the conclusions in the October 2012 report of the Auditor General, which stated that the Department of Energy has failed to "ensure that recipients under the bioenergy producer credit grant program are complying with their grant agreements" – I believe that six out of seven companies that received funding were in noncompliance with the requirements – why are you giving $32 million more to a program that has problems with how their expenses are being reported? You know, he says: "The Department does not have a process to ensure bioenergy credit grant [recipients] are submitting annual reports." Does any portion of this substantial increase go into a program for provision of increased cost compliance so that you can make sure that these companies are actually complying with your rules and regulations, which they should be?

Mr. Hughes: Yeah. I appreciate the question. The grants that the hon. member is referring to, Madam Chair, and the Auditor General's comments relate to the fiscal year 2010-2011, so it's a couple of years ago. Obviously, the Energy department took on the advice of the Auditor General, as any good department should. The Auditor General is a source of good advice for anybody who is provided it. The Energy department has actually strengthened the requirements for reporting since then. There is a review that we're undertaking of all of the bioenergy producer credit grant program files to ensure that there is full compliance with the grant agreements. We expect that to be completed by June of this year.

Mr. Hale: So once that report is finished and you find that some are not in compliance, are you then going to be looking at those companies closer?

Mr. Hughes: Yes.

Mr. Hale: You do have the authority to take that money back if they haven't used it or if they haven't met the criteria?

Mr. Hughes: Or not provide it in the first place. Yeah.

Mr. Hale: Yeah. Okay. Perfect.
I guess for our knowledge and the knowledge of all Albertans, with these taxpayer dollars going to them, will you be disclosing the grant recipients?

Mr. Hughes: Oh, I think it's a matter of public record already, is it not?

Mr. Hale: The new ones? I noticed you said that there were 30 new projects coming that you were going to be funding.

Mr. Hughes: Yeah. I think it's public domain already. It's on the website.

Mr. Hale: And the amounts which they receive?

Mr. Hughes: Yeah, it should be.

Mr. Hale: Okay. Good.

Mr. Hughes: And if it isn't, we'll make it.

Mr. Hale: Okay. Are you going to be coming up with new performance measures dealing with this program?

Mr. Hughes: Well, clearly, I think the department learned from the observations of the Auditor General. That's why you have an Auditor General, to make sure that there's another set of eyes overlooking every program. They've learned from that, and they're reviewing all of the programs and all of the files. You know, any grant recipients that fail to comply with those requirements can actually have their grants reduced or cancelled. You know, we've learned from that. The report will be done as planned by June.

Mr. Hale: You're stating that this is from 2010-11, but it came out in the October 2012 Auditor General's report. How far back are you going to go with companies that received this?

Mr. Hughes: It's the whole program.

Mr. Hale: The whole program? So from implementation you'll be making sure.

Mr. Hughes: Yeah. Looking at them all right back to ground zero.

Mr. Hale: And you haven't started any of that yet.

Mr. Hughes: Oh, no. It's well under way.

Mr. Hale: Do you have any results?

Mr. Hughes: I'm not aware of any conclusive results because we're expecting the results in June.

Mr. Hale: Okay. Thank you.

You mentioned the BRIK program, bitumen royalty in kind.

The Chair: Mr. Hale, I have to ask you. Round 3: do you want to do it the same way?

Mr. Hale: You bet.

The Chair: Carry on.

Mr. Hale: Okay. [interjections] You're taking up my time, you guys.

On the bitumen royalty in kind program. On page 22 of your business plan under goal 1: "Albertans are assured of the benefits from energy and mineral resource development." Under priority initiative 1.6: "Develop policies and programs to encourage energy processing and petrochemical development in Alberta." I guess the way you're fulfilling that goal now is with the North West upgrader project.

Mr. Hughes: Uh-huh.

Mr. Hale: I would like to caution you to be careful with the taxpayers' money now that we've learned from Suncor and their Voyageur project. You know, they do not see it as economically viable at this time.

I notice also that there's no check mark beside this priority. Does that mean that energy processing in the province is taking a bit of a back seat to your list of priorities? Are you seeking other active partners besides the North West upgrader project right now?

Mr. Hughes: Well, we're not reducing our emphasis and interest in seeing value added to products here in Alberta. We think that's a really important aspect of creating a hedge against how we sell our products in the marketplace. I would point out that the bitumen royalty in kind program is a strategic tool that can be used to enable the creation of a project like the North West upgrader together with the other private-sector player there, in the hands of the private sector to do this. It's not the same as putting up cash, which is a completely different model.

8:00

We're using our strategic asset as a way to help ensure that this upgrader and refinery, which, incidentally, is the first refinery that's been started in North America in 30 years, actually has an economic basis for proceeding. It is quite different from the Voyageur project, which was a project proposed by Suncor with another private-sector party.

In summary, we're keenly interested in adding value in this province, but I would say that, frankly, as Canadians, adding value anywhere in Canada is good news for Alberta, too. For example, if we can see refining and upgrading in Saint John, New Brunswick, why is that good for Alberta? It's good for Alberta for several reasons. One, it creates jobs in a part of the country that otherwise might be a net draw upon equalization payments in the country. Two, it creates goodwill in New Brunswick, which is important because as Albertans we need goodwill in order to be able to get our products to market wherever we can. Three, it helps other Canadians understand how important energy is to our collective well-being, which is good for Alberta. We're very keen on using the bitumen royalty in kind in circumstances to help ensure that value-added gets done here in Alberta and potentially elsewhere in Canada if need be.

Mr. Hale: We agree that Alberta has a vibrant oil and gas industry, which does include upgrading and refining. You mentioned that this is new in the last 30 years, but we do have refinery options that have started before, so we're not starting anything new.

Do you think that the government is stepping in to help spur investment, which suggests that something isn't happening naturally in the marketplace? Through the bit program, what are you intending on providing that private industry doesn't already provide?

Mr. Hughes: You know, it's a good question, but I reflect upon the early days in the Peter Lougheed government when they created the circumstances to allow for the development of the Joffre plant near Red Deer. You know, that was an industry that didn't exist. There had to be a deliberate political will expressed in order to create the market circumstances to allow that whole industry to develop. Had they not done that then, it's questionable whether we would have the kind of upgrading and value-added in the ethylene stream of products that we have today.

I'm pleased to say that the general economic conditions in Alberta are so favourable that there's been another company that's stepped up to create a whole new leg of the petrochemical industry, and that's Williams taking a crack at the propylene stream of products, that has the potential to be very significant in time, as is the case with the ethylene products that go through plants like Joffre.

What one needs to be aware of is: are there constraints, whether it's government policy, whether it's royalties, whether it's just kind of market conditions, that with a little bit of work could create greater added-value opportunities here in Alberta? We're open to all those kinds of opportunities. But I'm pleased to say that Williams is going to be investing a billion dollars in a propylene plant here starting this year, and this is good news for Alberta. It's good value-added. It's fabulous, actually.

Mr. Hale: Okay. By accepting the bitumen instead of cash, you're paying a cost of service for the production of upgraded products. The Alberta government is no longer a regulator of downstream oil and gas production; it's going to be a regulator and a player. By accepting this bitumen in kind, you could become one of the largest players in the bitumen sales market in Alberta, and you do have a responsibility to properly steward our oil and gas endowments. What is the case that you have to be such a huge player in the downstream market? Are there other options that you looked at where you could have helped with this program without taking the bitumen royalty in kind?

Mr. Hughes: Well, first of all, we're taking the royalties in kind, but that doesn't necessarily make us, you know, the largest player in the marketplace. It makes us a player in the marketplace, right?

We're looking at not just using BRIK. We're looking at gas royalty in kind as well and regulatory approval and improvements. Just to reflect upon this, the government of Alberta has actually sold oil downstream since at least 1973, so this is nothing new for us. We've been a participant in the market since 1973, but obviously we do so in ways that leverage the knowledge, the capabilities, and the market know-how of private-sector players, both in terms of how we market and in terms of the model that we've set up for the North West upgrader. It's not like the government is running a refinery. That would not be good.

Mr. Hale: Well, you're getting close.

Mr. Hughes: No, no. [interjection] Brian has some answers on my behalf.

Actually, we have highly professional people in the Alberta Petroleum Marketing Commission that have deep industry experience that are acting on behalf of the people of Alberta and looking after the public interest.

Mr. Hale: We have a service contract, the total cost agreement with North West Upgrading. Will Albertans be able to clearly see the cost of converting BRIK to diesel fuel as the end result?

Mr. Hughes: Yeah. You'll see that every year in the estimates, so if we live long enough, we can have this conversation when it's up and running.

Mr. Hale: I mean, we know they're hoping for 2016. In the meantime, are you looking for – you mentioned gas. Will you be working on gas and conventional oil?

Mr. Hughes: Well, we're open to proposals. I can't tell you that there's a lot out there. I mean, market conditions are difficult. Accessing capital in the industry is seldom easy. It's not like a tech bubble, where there's cash being handed out on every street corner. It never has been like that in the oil and gas business in this province. We all have to be realistic about the number of projects that will develop like this.

The North West upgrader is designed to be in three phases, and through the bitumen royalty in kind program we've got a total commitment of, I believe, 100,000 barrels a day to the end of those three phases.

Mr. Hale: Okay. Thanks.

I'd like to talk now about the Alberta Petroleum Marketing Commission, that you mentioned earlier. I see that the current budget is $9.1 million, which is self-funded. Now, it's my understanding that Nexen was the Crown agent working for the Alberta Petroleum Marketing Commission and that as of November 2012 they were searching for a new Crown agent. Have they found a new Crown agent, and do you know who it is?

Mr. Hughes: We're just in the final weeks of making that determination. It was an open, competitive process, in which there was a reasonable level of interest in providing that service for the APMC.

Mr. Hale: Okay. In the operational expenses, page 70, line item 4, costs of marketing oil . . .

Mr. Hughes: Sorry. Which page?

Mr. Hale: Page 70. Costs of marketing oil: you have it listed at $43,100,000. The Alberta Petroleum Marketing Commission costs are $9.1 million. Where is the other just about $34 million of marketing money going to?

8:10

Mr. Hughes: It's a very good question. In fact, what that includes is transportation from the wellhead to the pipeline. That might mean trucking. It might mean pipe. It might be other costs to get to a pipeline from the source. It's the same cost that anybody in the business would face in getting their product to market.

Mr. Hale: Okay. When picking your new Crown agent – we know that Nexen was bought out by CNOOC, the Chinese National Offshore Oil Company, which is state owned – did you take state-owned companies into consideration? There are a lot of state-owned companies in the world. Some of them operate in Alberta. Did foreign national ownership play any part in the selection?

Mr. Hughes: We will be taking that into consideration.

Mr. Hale: So you don't know right now who it is.

Mr. Hughes: We haven't finalized the details of the successful party.

Mr. Hale: Do you have a short list?

Mr. Hughes: Oh, yeah. We're well into it.

Mr. Hale: Can you share the short list?

Mr. Hughes: We're getting there. It's a commercial matter that would be quite sensitive. You as somebody who's been an entrepreneur would understand the commercial nature of that and the sensitivity of that.

Mr. Hale: When can we expect an answer?

Mr. Hughes: We're within weeks, not too many weeks, of actually dealing with that. The current contract runs until May 31, I believe, the end of May.

Mr. Hale: Okay. As I understand the government structure, conventional oil is also taken in kind by the government through the Alberta Petroleum Marketing Commission. They select the agent that sells your oil. It's the same with the North West upgrader. Once they hire another agent, also with the North West upgrader – and they're self-funded, correct? Nine point one million dollars through market fees?

Mr. Hughes: Yeah. Same model since 1973.

Mr. Hale: Yeah. Are those fees scraped off the sale of the product, and is that how they get the $9.1 million? How are they funded that $9.1 million?

Mr. Hughes: Well, some of the cost is related, as I mentioned earlier, to transporting the product to market, where you can sell it, and the revenues that maintain the Alberta Petroleum Marketing Commission are based upon a fee in that process, yes.

Mr. Hale: So the $9.1 million basically is paying the middle man. The Alberta Petroleum Marketing Commission acts as a middle man.

Mr. Hughes: They market the oil on behalf of the government of Alberta, yes.

Mr. Hale: Okay. Do you think there could be some savings? I mean, you have a very intelligent-looking staff and a very big ministry, you know, that deals . . .

Mr. Hughes: The chair of the APMC is sitting right beside me here, and he's looking pretty good, too.

Mr. Hale: Okay. I mean, he's already getting paid from your ministry.

Mr. Hughes: That's right. So he doesn't cost us a lot, does he?

Mr. Hale: No, he doesn't cost anything, and he should be able to run it from your ministry's office.

Mr. Hughes: So the question is: can this be done more efficiently?

Mr. Hale: Yeah. You know, you're paying the $9.1 million to a middle man to do it.

Mr. Hughes: Well, no, we're not paying – really, there are a number of costs built into the transaction of taking a product, you know, as conventional oil or bitumen in kind, taking possession of it and moving it to market. You've got to move it physically. You have to engage with the marketplace. You have to find the right person to sell it. We've built a model that is industry standard, and we've gone to the marketplace to seek applicants to step up and take on this assignment on behalf of the APMC. All of those factors lead us to believe that we're being provided with a service that is cost-competitive, that is reasonable, that is as cost-efficient as could be accomplished, you know, in a near if not completely commercial transaction context.

Mr. Hale: Okay. I'd like to talk a little bit about the performance measures from the Auditor General's report. You know, in last year's report there was kind of a serious issue surrounding the department's performance measures. I guess a more general question is: why are all but one of the department's measures based on the department's own reporting rather than on an outside body such as the Auditor General? Where does your department now stand on the Auditor General's recommendations to improve its performance measures that indicate royalty results? Under section 1(b) your performance measure is based on percentage of amounts collected versus amounts owed. How is that based, and can you explain how it's measured?

In his 2012 report the Auditor General mentioned that the department needs to "improve its controls over the completeness and accuracy of royalty information disclosed in the financial statements." I see you have a 100 per cent rating in your report. I'm wondering how you came to that 100 per cent rating when the Auditor General is saying that your numbers, in his words, may be seriously misstated. Does this bring up some concern?

Mr. Hughes: The department has accepted all of the recommendations of the Auditor General and is working on addressing each of the items that were raised by the Auditor General. This is why you have an Auditor General. It's helpful. From my experience in public administration, Auditor General reports are actually almost universally really useful to the body that's being audited. Certainly, I've had the same experience in the private sector as well. That's why you have auditors.

In the recommendations you're referring to, the department has indicated that they are strengthening the controls over the completeness and accuracy of the royalty information disclosed in the notes to the financial statements by March 2013, so at the end of this fiscal year they'll be fully compliant, as recommended by the AG.

The Chair: Okay. Gentlemen, I have to interrupt you. You can carry this on because you have more opportunity for questions. Thanks, Mr. Hale.

Mr. Hehr, 20 minutes. Do you want to do 10 and 10?

Mr. Hehr: We'll go back and forth.

The Chair: Okay. Thank you.

Mr. Hehr: Well, thank you to the minister and your staff for coming here tonight and being so well prepared. Hopefully, you'll continue to enlighten us all at this table. I know you'll be ready and able to answer my questions in a full and fulsome fashion.

I appreciate your reference and going into a little bit of history here in Alberta. You know, we obviously had two different styles of government in this province, one a very activist government, the Lougheed government, where you referenced the incenting of the Joffre plant and the Alberta Energy Company and all of that history that actually led to the development of a pretty substantial petrochemical industry at that time. We then went through a period of time under Mr. Klein's leadership and later on where we had a less activist government and where we left things to the market and the like. To be honest, I think that right now what I'm seeing is that the government is not quite sure what direction it's going to go in, whether it's going to take an approach like Lougheed or leave it like Klein. You can't be sort of halfway pregnant in these matters.

My questions would be around bitumen upgrading in Alberta. Again, to bring up a little bit of history, I think it was in 2007 when Mr. Stelmach set a goal of upgrading 70 per cent of our bitumen in this province. He stated that it was akin to I think it was scraping off the topsoil and not doing your best with the product here in this province. I even see that with the Canadian energy strategy. Well, it's a nice name, but if you're not going to put government muscle behind it, what the heck, really, is that?

8:20

But let's just focus more on the Alberta context. I'd noticed you even said in the paper – and you've got to be careful what you read in the paper. I know you only get two seconds in there. But on February 11 you indicated a new diversification strategy and said that this department is working on an aggressive new plan to upgrade Alberta's resources in Canada. How is the minister prepared to add value to these resources at home, or what policy changes or incentives are being contemplated to achieve this?

Mr. Hughes: Thank you for your questions and comments. You know, in each era in this province I think that, as a rule, if we go back right to 1905, we've been well served by the different styles of leadership and the different kinds of leadership that were provided and that met the needs of the time. That was true through even the Liberals, 1905. There was an era there. There was the United Farmers of Alberta through the '20s and the '30s. There was Social Credit from '36 on. A few of us around this table – some might, but most of us wouldn't have – agreed with many of the things they did, but it was appropriate for the time and viewed to be so. The Peter Lougheed era was a time of immense growth, immense awakening of Alberta, and some real innovation as well. You move through the other eras. The late Mr. Klein was exceedingly effective at responding to the challenges that the province had at the time that he was Premier and throughout the piece.

We're no different in that respect. We are here to provide leadership that is appropriate for the time. What do we need right now? We need access to markets. We need to respond to and make the most of the immense resources that we have that are being developed in this province and to add as much value as we can in this province. Again, I think it's not just in a spirit of pan-Canadian generosity that I say this, but I think it is actually in Alberta's interests that we ensure that value-added anywhere in Canada takes place if it can be done because that also is good for Alberta. For many reasons that is a good thing.

I remember February 11. Well, it was my birthday. In the report you referred to, that was a reference to our new oil diversification strategy and the policy changes that flow from that strategy. That's where we have a group of some 15 people that we've pulled together, some of the best talent in the government of Alberta, to develop strategy around this immense challenge that we face as a province, which is the kind of challenge that anybody else in the rest of the world would love to have. We've got way too many resources, and we have trouble getting them to market.

The way we can get them to market is that we can do upgrading and add value here in the province of Alberta. We can do added value anywhere in Canada. We can export products. We can increase the number of pipelines and rail access to market. Frankly, I think it's too early for us to be able to characterize how we're going to respond to all of the issues we face. We may respond in a different way to opportunities to try and get . . .

Mr. Hehr: And that gives me some concern, that you don't know which ways you're going to respond.

Mr. Hughes: No, no. We know exactly what we're going to do.

Mr. Hehr: Okay. Just let me ask a question, then, to follow up on that.

Mr. Hughes: Yeah.

Mr. Hehr: You know, in 2007 we had on the books here eight upgrader projects in the heartland district. Eight were on the books, prepared and planned to go, and everyone thought it was going to be hunky-dory and that everything was going to be good. Since that time I guess the market has spoken, and none of those projects that were on the books, except for possibly the North West upgrader, remain on the books.

In my view, we had to get busy on either incenting that marketplace, getting the muscle of government behind these programs and setting these shops up, or else we're simply going to let the market dictate. I guess: what are your plans? Are there any comments on where all that development went, on whether there are any plans to try and get it back, and on whether there are any concrete agreements outside of North West to build upgrading capacity? Otherwise, frankly, it's all just lip service.

Mr. Hughes: Just to be clear, there are currently five operating upgraders in Alberta, currently handling about a million barrels per day of bitumen. We could handle more because there's more capacity. There's about 1.3 million in capacity. There are three operating refineries, with the capacity of 420,000 barrels a day. There are two projects still under way, one of which is the Sturgeon refinery of the North West upgrader, for a total of nearly 300,000 barrels a day of upgrading capacity. So there's a lot going on. You know, I'm sure you wouldn't recommend that we go out and invest money in an upgrader as the people of Alberta would you. Or would you?

Mr. Hehr: Well, I'm not the Minister of Energy, and this is my question period not answer period. I guess that if you're asking me, I would probably ramp up the bitumen royalty in kind program a lot quicker than it is, take a gamble or – what's a better term? – a reasonable bet on the long-term future of the oil and gas industry and us being a player in that and say: we're going to get rolling on four upgraders right now before the market sets. Okay? If I had to make a call right now, that's what I would do.

Mr. Hughes: Yeah. You know what? I respect your ambition, but frankly what you need to do this business and to do it successfully and not put Albertans' resources at unnecessary risk is that you actually need private-sector people to lead these projects who actually know what they're doing.

Today there are two major projects still under way on the upgrading side. There are others which still have additional capacity that could be better used. You know, the market continues to evolve. Gosh, we all got elected in April. I was appointed in early May. The market is quite different even in that very short period of time. It's remarkable how quickly the market evolves and changes. Look at the volume of oil and bitumen that's moving by rail that we didn't see even at that point.

Mr. Hehr: But with all due respect, that's the trouble. Companies can make quarter-to-quarter provisions for this and change on a dime. Our government can take a long-term view of this and make either strategic investments, strategic partnerships, whatever you want to do to make this happen.

Mr. Hughes: Yeah. Just to give you comfort on that, we will look at any reasonable market-driven proposal. You will probably see us using bitumen royalty in kind to enable getting resources to market from Alberta. We're prepared to be involved in ensuring that we get access because it's so critically important to Alberta.

Mr. Hehr: By getting access to . . .

Mr. Hughes: Markets, getting to tidewater and enabling . . .

Mr. Hehr: So by being involved, does that mean building?

Mr. Hughes: Using bitumen royalty in kind as an example for the North West upgrader, that kind of use of strategic resources we're fully prepared to consider.

Mr. Hehr: Okay. Well, in my view, we've considered it for quite some time. We've seen the market sort of make up its mind and said: we're not going to do this here. In my view, that's a lost opportunity. We've really either got to say, "Well, I guess we're going to let the market do this" or "We're going to get busy and incent the marketplace." I see that timing as being now, before it gets established even further. That might be my point, that otherwise it's just going to get established elsewhere and get established when the pipelines get built and the like. It'll be more difficult to do it then than it would be now.

8:30

Let me ask a question. My understanding is that there are some financing troubles now with the North West upgrader. Is that true? Can you give me an update on whether the financing plan for the North West upgrader project has yet to be approved? Does that signal delay?

Mr. Hughes: No. I think the project was commissioned or – what's the term? –sanctioned recently by both parties. There are hundreds of engineers working on the project. I'm confident that it'll proceed.

Mr. Hehr: Okay. Just turning a little bit, actually, to our calculation of royalties. My understanding is that your department has put more money, a substantial increase of 85 per cent higher, I think, into actually calculating our royalties and understanding in that department. Is that correct?

Mr. Hughes: That number doesn't ring a bell with me.

Mr. Hehr: No? That doesn't ring a bell? Well, my question is more around the Auditor General's report, then, okay? I can understand this. If you're an accountant in the royalties department and you're all of a sudden starting to get engineers' reports saying, "This project can fit under this capital cost allowance" and "We don't have to pay royalties on this because it's part of the cost structure involved in setting up our operations," then you're trying to evaluate it with how much oil and gas is coming out of that department. Do we have the expertise in that department to actually be able to do the calculations to understand what is a capital cost allowance and what is not? It's my understanding that it's awfully tricky business and that we may not have the capacity to actually do that.

Mr. Hughes: Yeah. We have a wide range of talent, actually, in that group that is responsible. It includes economists, it includes accountants, and it includes people with a wide range of expertise. You're absolutely right. It is a pretty sophisticated business, particularly when you look at the way in which royalties are paid on the oil sands projects – right? – where it's a low royalty threshold through until payout and then it jumps substantially after that. You want to make sure that whatever is calculated as part of the costs to get the payout is appropriate and all that sort of stuff. You require a wide range of talent. We're confident that we've got the right people on the job in that respect, and we've continued to build that team as needed over time.

Mr. Hehr: Again, back to freezing: I guess, sometimes we do impose public-sector wages and the like and the competition from the private sector. It's my understanding that it's very difficult to keep good people in this department. Has there been some analysis on that?

Mr. Hughes: That hasn't actually been something that the deputy minister has raised with me as a strategic concern for the department. We have some people who have been in the department for an awfully long time who have really specialized skills and who just love, you know, the job they do for Albertans in this department. I think it varies depending upon which agency you're talking about. Sometimes in the regulatory agencies also it's hard to keep good people simply because it's an expertise that is rare and can be very much in demand in the private sector as well. What you do is you try to create an exciting mission. You create a good leadership team. You pay people fairly, and you give them all of the intrinsic benefits of working in a great place and doing good work on behalf of the people of Alberta. That actually is good enough for a lot of people.

Mr. Hehr: Okay. In your view, are we collecting the royalties the department is entitled to?

Mr. Hughes: Yeah. I'm advised that we are.

Mr. Hehr: Okay. Could I just ask – this is more under the operational expenses and financial transactions that will see an estimated $30.5 million expenditure for settlements related to the land-use framework – how many oil sands leases did the government revoke to establish the conservation plans under the lower Athabasca regional plan?

Mr. Hughes: Just getting the number here confirmed. This relates to leases under the lower Athabasca regional plan that were terminated in discussions with the leaseholders, 78 leases in total.

You know, when you look at the lower Athabasca regional plan, that's a part of the province where there wasn't a lot of settlement, obviously. It was actually settled very early. Some of the north was settled the earliest, as our colleague can attest.

Ms Calahasen: I was there.

Mr. Hughes: With personal experience, apparently.

Really, we've set aside huge tracks of land for environmental consideration, for recreational consideration for the long haul in northeastern Alberta and to meet our obligations that we think we need to meet in order to secure our social licence to operate as well. So the $30.5 million is what has been set aside to deal with these specific leases according to the normal course of business. This is a process that is well established for how these affected parties are dealt with and dealt with fairly.

Mr. Hehr: So you think the $30.5 million is an accurate number?

Mr. Hughes: Yeah.

Mr. Hehr: Could that number be higher?

Mr. Hughes: No. We believe it to be an accurate number. You know, we'll know to the penny within a relatively short period of time, but we believe that that's . . .

Mr. Hehr: There are going to be six other regional land-use plans going into effect. Are there going to be large tracts of land that will need to be paid out in a similar fashion to these, and does the ministry have an estimate as to how much this settlement may be?

Mr. Hughes: Yeah. Actually, each regional plan will have a quite different character. As mentioned, the south, where I grew up, in the Highwood watershed basin and the South Saskatchewan-Bow River basin area . . . [A timer sounded] Is that it? Can I finish my thought?

The Chair: Just a few seconds.

Mr. Hughes: Okay. Really, we actually can't say with any certainty today what that plan will predict in terms of this. I would say that it's quite different than the lower Athabasca.

The Chair: Okay. Thank you. Thanks, Mr. Hehr.

Mr. Mason, we're going to go with your 20-minute slot now. We're trying to co-ordinate bathroom breaks here with the other group. So if everybody's okay with that, we'll go with the NDP questioning.

Mr. Mason: My 20 minutes will seem like forever.

The Chair: Will they? Is that a lobby for a break now?

Mr. Mason: No, not from me. But I'm quite happy to wait.

The Chair: All right. If you're comfortable, then let's proceed with your questions.

Do you want to do 10 and 10, or do you want to do back and forth with the minister?

Mr. Mason: Before we start my time, Madam Chair, can I just ask a question about the second round of this tomorrow?

The Chair: Yes.

Mr. Mason: Will we start again with the opposition parties receiving the fixed amount of time at the beginning?

The Chair: Actually, once we finish your round of questioning and then the PC round of questioning, the 20-minute slot today, we're going to move into a different cycle, which is the five-minute rounds per member. I'll keep a speaker list, and I will be going PC Party, opposition, PC Party, opposition, PC Party, opposition.

Mr. Mason: Okay. I suppose this was debated before I came.

The Chair: Well, it's not debated. It's actually my discretion. [interjections] No. There was no debate at all. I agree with myself.

Mr. Mason: But I wasn't here.

All right, Madam Chair. Thanks. I'm ready.

8:40

The Chair: Do you want to go back and forth?

Mr. Mason: No. I have a lot of questions, and I'd rather just get them all on the record. If the minister can't answer them all here, then, of course, he'll respond later.

The Chair: So you want to do 10 minutes, and then have the minister do 10 minutes?

Mr. Mason: Yes. I'd like to just go solid for 10 if that's all right.

The Chair: Absolutely. Your call. Fire away.

Mr. Mason: Thank you very much. The first thing I want to talk about and ask about is the whole question of bitumen, of course, and the export of bitumen as well as the so-called bitumen bubble that the Premier spoke about in her televised address. While she called it a bitumen bubble, she referred primarily to the projections that had been put in place for west Texas intermediate and how those were wrong. She didn't particularly talk about the projections for bitumen or western Canada select, and that's actually the much greater proportion of the reduction in revenue. There's been a massive expansion in the extraction of bitumen in the oil sands in our province. In fact, almost every project going forward is for the extraction of bitumen without upgrading here in the province.

If you look at a report that we got from Wood Mackenzie that was done for the Department of Energy and was acquired under freedom of information, it talked about a number of factors like the glut of supply for coking refineries, which are the ones that can upgrade the bitumen into products other than just heating fuel, and that there's too much. There's a glut of bitumen and not enough capacity to deal with it. My question is: why didn't the government see that coming when it allowed the oil companies to move towards extraction of bitumen without upgrading here, which has been a major trend for a number of years, why they didn't see the lack of capacity for upgrading and transportation and didn't anticipate that there would be a massive increase in the supply, leading to a glut and, of course, a fall in prices? So that's, really, the first question I have.

The Chair: Can I just ask you to put a date on that report?

Mr. Mason: Sure, I can: December 2011. So that's the first question that I have.

The second question has to do with what's going to be happening with the Keystone pipeline. This has been a very contentious issue both here in Alberta and in the United States. Recently Nancy Pelosi, the Democratic leader in the House of Representatives in the United States, stated that the bitumen being exported by the Keystone pipeline was going to be re-exported from the southern United States to other countries, and I don't think this is exactly well known. My question is: what amount of the bitumen that is being exported or would be planned to be exported down Keystone would actually be upgraded to crude oil then re-exported to Europe to be upgraded into diesel fuel and other components, and what is the value that would be captured then by the Americans in that particular process? Those are some of the questions that I have with respect to that.

I'd like to know how much money has been spent by the government in total, including travel, advertising, lobbying, consultants, and so on, on promoting the Keystone XL pipeline.

I'd like the minister to please comment on whether or not he believes that a higher price for blends such as western Canada select will negatively impact the economics for future upgrading and refining in our province. If so, can he please comment on this within the context of the government's support for the Keystone XL pipeline, which it claims will increase the price that producers receive for western Canada select?

Does the government currently have a target for bitumen upgrading in the province, and/or are there any plans to change this target going forward?

Does the government have any plans to connect approval of future oil sands extraction projects to requirements to upgrade bitumen in the province before it is exported outside of Canada, such as the requirements that were attached to the Fort Hills project?

The Voyageur upgrader was recently shelved by Suncor. If Suncor fails to ensure that the bitumen produced during the second phase of the Fort Hills project respects the requirements that the government put in place for upgrading, will it hold Suncor to account and implement the $500 million penalty?

Can the minister please comment on whether or not the government of Alberta has completed or commissioned any of its own economic research into the viability of upgrading and/or refining in the province? If so, would the minister please share that information with the committee?

Can the minister please comment on whether or not the Keystone XL pipeline will be accompanied by a return condensate pipeline as is the case for the Northern Gateway proposal? If not, does he believe that this will have a negative impact on the oil sands industry given that it is likely to lead to an increased cost of condensate? Can the minister please explain whether or not any of the oil that will be shipped through the Keystone XL pipeline – and I think I've asked this – will be for export outside of the United States?

Now, I want to just ask a few more questions about price projections. First of all, would the minister comment on why the government went ahead with projections for a narrow spread between western Canada select and west Texas intermediate in last year's budget, which would have almost tied a historic low, while it was widely known that oil production in the United States was rapidly expanding?

Can the minister please comment on why the government of Alberta relies so heavily on private-sector projections, especially given that the private sector has a vested interest in projecting high oil prices and their projections have been notoriously self-serving throughout their history? The ministry claims it is once again using private-sector projections for oil prices. Can the minister please comment on what steps the government of Alberta takes to do its own analysis of oil prices?

We've obtained oil and gas projections from BMO Capital Markets dated January 7, 2013. The benchmarking tables provided in the government of Alberta 2013 budget state that BMO Capital Markets predicts that west Texas intermediate will average $94 U.S. per barrel while the report we have states that BMO projects the price to be $87 U.S. a barrel. Would the minister be willing to provide us with a copy of the BMO Capital Market report used in the budget in order to explain this anomaly? The same BMO report predicts a price for western Canada select for 2013 of $67.86 Canadian per barrel, which is more in line with the government of Alberta prediction for 2013 of $68.21 Canadian per barrel.

There is, however, an important divergence between the BMO prediction and the government of Alberta's when predicting future years. The BMO report suggests a slight increase in 2014, followed by consecutive decreases in the price of bitumen to $63.75 Canadian per barrel in 2016. This is in sharp contrast to the government of Alberta prediction that western Canada select will increase year over year to $75.74 Canadian per barrel in 2015. Can the minister please comment on why the government believes that the price for western Canada select will improve so drastically in the next three years, especially given the fact that it is publicly stated that pipelines are needed to improve the price, but we know of no new pipelines that will be flowing this oil in such a short time frame as covered by the BMO projections?

We know that U.S. production is set to increase dramatically over the next couple of years with the Bakken expected to nearly double, to 1.3 million barrels a day, by 2015 in addition to thousands of barrels of new production in Colorado and potentially some other places. What evidence does the government have that increasing production in the U.S. coupled with significant expansion and production in Alberta set to come on line will not lead to significantly depressed prices for Canadian heavy crude in the next couple of years?

Now I'd like to talk a little bit about royalties if I may. We've used some figures from the Canadian Energy Research Institute that if Alberta met the Lougheed-era targets of 35 per cent of revenue over the next 35 years and invested it in the heritage fund, it could be as large as $1 trillion by 2045. At $1 trillion, assuming a 5 per cent interest rate, the fund would earn $609 billion in interest alone by 2045. According to former Lougheed government experts on royalties the combined provincial and federal share of all hydrocarbon resources amounts to less than 50 per cent of industry profits. No other country in the world has such a low rate. [A timer sounded] I have lots more, but I guess that's it.

8:50

The Chair: That's a good start there.

Ten minutes to respond, Minister.

Mr. Hughes: Well, I'm very pleased to hear that bell.

Allow me to respond to those topics that I can respond to in the time I have. The question with respect to anomalies, comparing the one report that the hon. member has referred to from BMO, Bank of Montreal, and the difference of that relative to the government's projections is a great example of the challenge of trying to prepare projections, you know, over a period of several years and to aggregate and take into account the views of a lot of different experts. BMO, obviously, is one of the experts that we draw upon. As we all know, when you aggregate – I think we use 12 different providers to do the west Texas, right? We look at roughly a dozen. We would use fewer on the western Canadian select number to do an average because there are fewer institutions that actually track the western Canadian select.

You know, you could probably pick any one of those dozen or so experts, and they would be at variance from the government of Alberta numbers simply because we took at look at all of them. We've got high, we've got low, we've got in the middle, and we're just a little bit more conservative in the middle in terms of our forecasting out. You can always pick and choose your experts, but we try to pick and choose from amongst a basket of them so that we're mitigating the risk of any one of them perhaps being particularly wrong on their estimates.

What else to take on from this list here? The member asked with respect to last year's budget. You know, the same methodology was used last year in the budget as we've used this year, or a very similar methodology, and that is that you take a basket of independent advisers. To suggest that there's a bias for private-sector analysts to be high in their numbers I think underestimates the ambitions of economists. I think the ambitions of economists are to try and be right generally, and they seldom are. They almost never are. So what the projections were a year ago was the same methodology: take the basket of a dozen or so providers that look at the models and do their own analysis and try to pick an average kind of right in the middle for both western Canadian select and WTI assumptions. That's what it was then.

They were all wrong. So was the government of Canada. So was the government of Saskatchewan. So were most players looking at, particularly, the variance on the western Canadian select price. This is the nature of the folks who are in the business of making estimates. They're frequently wrong. You try and mitigate that risk by using a number of them to make your assumptions.

I'd just like to talk a bit about the Keystone question and respond to some elements of some of the questions that the hon. leader brought forward. You know, I saw those comments as well about Keystone, about this product that might come from Alberta being exported from America, and I find it an interesting perspective because, actually, the Gulf coast of America is where a huge percentage of upgrading and refining gets done in America for the whole American market. To suggest that that's going to be exported to China . . .

Mr. Mason: Europe.

Mr. Hughes: Europe?

Mr. Mason: To be refined in Europe.

Mr. Hughes: But Pelosi, I think, also suggested it was going to China as well, and some have suggested that as well, right?

I think that while it is theoretically possible that there could be some refined products like diesel being exported, on the Gulf coast these facilities are both upgraders and refiners so that you're likely to have the whole chain completed on the Gulf coast, and it feeds the American market. What Alberta bitumen does is that it backs the source of Venezuelan or Mexican heavy oil out of the marketplace, out of the U.S. Gulf coast marketplace. So I think it's a highly unlikely scenario that this is going to end up being exported anywhere because what it's doing is simply meeting the needs of the American marketplace. Now, do we have any control over that? No. It's a marketplace where products are traded as the commodities that they are. That's how I anticipate that will work out.

Now, the question was: what analysis do we do within the Energy department over and above sort of looking at other analyses? Well, our team does analysis on many players out there, wider than the ones that we actually use in the basket, to understand and to analyze how valid their judgments are likely to be. We do have a team that has many, many years of very deep experience. This is another great example of talented people who have been doing this for an awfully long time, who really understand global markets and understand how to do these projections.

One of the questions also was: why do we think that the price for western Canadian select will improve over the course of the next two or three years when you don't see any pipelines coming in the short term? Well, there are a couple of reasons for that. First, if Keystone gets approved, that would be a big impact in a couple of years, you know, approximately two years, so that is within the time frame of three years. But even if Keystone doesn't get approved, the volume of oil that is moving by rail out of the central part of this continent is immense, and the investment going into rail cars and rail ports and into shipping product – you know, I know of product that's coming from bitumen, that's coming from the oil sands in Alberta onto a train, onto the Mississippi on a barge, hauled down to be upgraded and refined on the Gulf coast. Three years ago nobody would have thought that was a reasonable proposition. It's only because there's this great arbitrage opportunity in between the price that we can get here in this part of the world and what you can sell it for all the way down the Gulf coast.

So while pipelines are the ideal solution to getting our products to market, trains are actually meeting an immense need right now and are moving products all over the continent because you have flexibility. It can go by train anywhere from Vancouver to Saint John, New Brunswick, in Canada or even, actually, to Churchill, although I think the opportunities in Churchill relate primarily to refined product like diesel. There's a real opportunity there to serve the north in the long haul.

The Chair: Thank you, gentlemen.

I think we will take a five-minute break now. When we get back, the PC caucus questioning will be led by Ms Fenske, is that correct? Okay. Thanks. Five minutes, then, folks.

[The committee adjourned from 9 p.m. to 9:07 p.m.]

The Chair: Thank you, folks. I think we're ready to start.

The Progressive Conservative caucus has 20 minutes. Ms Fenske, do you want to go back and forth?

Ms Fenske: Yes, we want to go back and forth, please, Madam Chair.

The Chair: Thank you.

Ms Fenske: Thank you, Mr. Minister, for being with us here this evening. I just wanted to make a comment. I guess I'm concerned when sometimes things are thrown out and not corrected. There was a comment about education taxes going up, and that wasn't correct. I know that has nothing to do with industry, but I do think that we need to correct some of those things. I'm sure I haven't caught them all.

Mr. Minister, we are looking at a Canadian energy strategy and market access. What is your department doing about that?

Mr. Hughes: I'm assuming we're sharing our time, are we?

Ms Fenske: Yes, we are going back and forth.

Mr. Hughes: Well, thank you for the question. The Department of Energy is actually stepping up in an unprecedented way to the challenge of market access in this country. The Canadian energy strategy is obviously integral to our approach to improve market access. When you step back from it and you look at this circumstance, this is unprecedented in this province and perhaps in this country with respect to having so much immense resources for which we are not getting world price or fair market price. The latest study suggests it's $50 billion of revenue to industry over three years, of which there are billions in impact to the province of Alberta and to the government of Canada.

What do we do about that? Well, we are taking an unprecedented level of commitment to gain access to markets. We have a core team of 15 people in the department that people were invited to bid into to participate. This is an honour to be on this team. They're a smart bunch of people who have a lot of talent and a real commitment to the task at hand.

The oil market diversification strategy and the Canadian energy strategy are kind of the two top priorities. Obviously, Premier Redford and other representatives have been out on several national and international missions. What do we do in Alberta Energy? We provide the technical input to support these missions for the Premier and for our colleagues, the ministers.

With respect to the Keystone XL project we reviewed the supplemental environmental impact statement for Keystone XL. We co-ordinated a comprehensive response to ensure that the Obama administration was well informed with the facts and showed that Keystone XL actually makes sense for the United States, for Alberta, and for Canada.

Amongst other things we commissioned the Jacobs study, which showed that fuels derived from oil sands have a greenhouse gas intensity similar to other forms of oil. That has been really useful, particularly for engaging in Europe on the fuel quality directive issue, because in the absence of science and facts the lack of science and facts wins. So we have been trying to use science and facts. As somebody I know frequently says, facts are friendly. Facts are friendly. So we've tried to ensure that facts are available to decision-makers in Europe through the Jacobs study, in the United States through the Jacobs study and the work done on the supplemental environmental impact statement.

Then, of course, we also worked very closely with our partners at the Department of Environment and Sustainable Resource Development on the market diversification strategy. Really, the goal is to access new markets, shrink price differentials, get closer to world price for our oil. Those are some of the high points of what we're doing through this department.

Ms Fenske: That's great. You were saying that you provide the technical support for these roles, and I would imagine it's the Premier's office that's taking the lead, but I guess I will ask you that question. Whose department is taking the lead? Is it your department, the Premier's, International and Intergovernmental Relations? And how do you work together as a team?

Mr. Hughes: Well, every team needs a leader. The leader of the government, obviously, is the Premier, but the lead on providing the support and the strategic underpinnings, the execution on the strategy, is delivered by the Department of Energy.

I would add, Madam Chair, that the development of the Canadian energy strategy is an initiative of the Premiers of Canada. The Premier of Alberta together with the Premier of Manitoba and the Premier of Newfoundland are the three Premiers who have been tasked with the responsibility for ensuring that the Canadian energy strategy is developed and is enhanced and that actually there is something for the Premiers to address when we get to the next Premiers' meeting later this summer. So those are the three lead Premiers, those three provinces. The ministers obviously are working very closely with the support of our respective Premiers as well.

Ms Fenske: You mentioned earlier some of the BRIK program and commitments to open season from some of the pipelines. I think you said it was TransCanada.

Mr. Hughes: TCPL, yeah. TransCanada.

Ms Fenske: Have you ever considered entering into firm commitments during the open season with these new pipelines to make sure that we have market access for our BRIK barrels?

Mr. Hughes: This is a very good question. We're fully prepared to entertain participating. These, of course, would be private commercial transactions between the Alberta Petroleum Marketing corporation and pipeline companies like TransCanada PipeLines. We're fully prepared to entertain participating in that to help ensure that the job gets done, that the pipeline is built, that it's built all the way to Saint John, New Brunswick.

Ms Fenske: Would you consider or have you ever considered working with small producers to ensure that a portion of the pipeline capacity remains open to those small producers?

Mr. Hughes: Well, you know, it's a good question. Small producers are well served if large producers can get to the market and can get that incremental barrel of production as close as possible to world prices. So the solution here comes from ensuring that as much volume can move to tidewater as possible. Actually, trains are a fabulous marginal transporter of oil barrels because trains can take much smaller volumes, obviously. It actually moves more quickly than oil through a pipeline, and it has different options where the oil can go. The huge growth in the capacity in the train system actually will serve to our benefit for a long, long time because we will have that capacity in the train system to move large volumes for a long time to come. When the pipelines come into place, the trains will still be useful to ensure that small shippers can get their product to market and get that incremental value for products as well.

9:15

Ms Fenske: Would you be concerned, though, about the price of delivery being higher by rail than by pipeline?

Mr. Hughes: Yes, it is more costly to move products by rail; there's no question. But in the market the way it is today it's still a very compelling case to move oil out of western Canada to any of the ports by rail just because the differential is big enough between the two differentials, the western Canadian select to west Texas intermediate, west Texas intermediate to global to Brent or some proxy for Brent.

Ms Fenske: Great. Well, thank you very much.

I'm going to turn this over now to MLA Kubinec.

Ms Kubinec: Thank you. I want to start by thanking the minister for all the information. I have to say that this budget estimates process I've found to be fascinating, and I'm learning a lot.

I do have a question about the Swan Hills Synfuels. As you're probably aware, that is in my constituency, and that means jobs. I did take the time during the election campaign to do some research on it, but before I go into my question, I'm wondering if you would maybe give us, the rest of the group, a bit of a history lesson on syn-fuels and perhaps then tell us what you mean when we're abandoning the commitments to carbon capture and storage – are we doing that? – and to climate change.

Mr. Hughes: Yeah. Thank you very much. You know, this is an interesting case in study for how markets have changed quite dramatically. The Swan Hills Synfuels project was a project which was conceptualized, I believe, when gas prices were much higher. The economics of creating synthetic fuels from coal in place, under the ground, was a much more compelling proposition. Over time with the drop in natural gas prices, Swan Hills Synfuels never really had a chance to develop their project. The whole circumstance was, in fact, that in the view of the company, not in the view of the government of Alberta – this was not our decision – it was not economic. They were not going to proceed with this within a time frame that was set out for making commitments under the carbon capture and storage initiative.

You know, what we're looking at here is that we still have two major projects in carbon capture and storage, and those two projects are obviously a key part of Alberta's climate change strategy. We've got a commitment over 15 years of approximately $1.3 billion, and we're planning to spend about $180 million on the two projects this year.

It's unfortunate that market conditions led Swan Hills Synfuels to determine that in their own judgment their particular project wasn't economic, but we as Albertans are building on the global expertise of carbon capture and storage. There are not a lot of projects like this around the world. Norway is one of the countries that has quite a bit of long-term experience with carbon capture and storage. We will contribute to the knowledge on this, which is an important contribution as citizens of the world to developing an understanding of how we can reduce our greenhouse gas footprint in a very substantial way.

I mean, these two projects have the effect of taking 550,000 cars off the road, which is about two-thirds of the passenger vehicles in the city of Calgary. That's a pretty big commitment, and it's a big commitment on the part of the people of Alberta. We're learning lots as we do this. We've got nearly 70 per cent of the original commitment still in play and developing with the Alberta carbon trunk line and the Shell Quest projects going ahead.

Ms Kubinec: Given the commitments made to our industry partners participating in the carbon capture and storage program, can you comment on the potential costs if the program was cut completely? Would they outweigh the immediate savings?

Mr. Hughes: Well, you know, the biggest impact would probably be to our reputation as a reliable partner in taking on big projects. We made the commitment to work with these highly reputable firms to develop carbon capture and storage. It's about our reputation globally and our commitment to addressing our greenhouse gas footprint in a serious way that is innovative but very material. If that were to be cut, it would be cutting costs. It's not $1.3 billion in one year. I can tell you that for free. It is $1.3 billion over the course of 15 years. What that would lead to is a very damaging impact upon our reputation as a responsible energy developer that can supply America, Canada, and elsewhere with energy products. In addition to that, it wouldn't yield the kind of numbers that people have been throwing around out there that they claim it would yield.

Ms Kubinec: Okay. Thank you.
I think I can turn this over to Stephen.

Mr. Khan: Thank you very much.
Thank you, Mr. Minister. I'm going to change the channel just a little bit and talk about an issue that's been a concern raised in my constituency specific to the retail cost of electricity. I have a very strong seniors' group in my community, a Seniors United Now organization. They're scattered across the province, but in my constituency they're very active, and they have monthly meetings. Every time I have the pleasure to meet with them, one of the biggest concerns that they state is the fluctuating price of electricity, particularly in the winter months. They have very, very grave concerns about being seniors and about affordability and the impact on the cost of living that they have. Now, one of the things that I was able to tell these good folks is that the minister is very aware of this, and he commissioned a Retail Market Review Committee to study some of these impacts. My question being: specifically, what have you done about the Retail Market Review Committee's recommendations?

Mr. Hughes: Thank you. Madam Chair, through you I would say that seniors' groups are one of the groups of people that I thought about most deeply when I reflected upon how we should respond to the Retail Market Review Committee. The Retail Market Review Committee had a lot of technical recommendations, 41 recommendations in total. Of those we implemented two immediately and accepted 33 in principle. There's a team of very talented MLAs who are working to implement those 33 recommendations that we accepted in principle. That team, obviously, is in place. It's been identified, and they're getting up to speed on the tasks ahead. Their expertise, really, is ensuring that they work effectively with anybody who has a concern about these recommendations and ensuring that the recommendations are implemented very effectively.

9:25

What have we done in terms of specific matters that would affect the seniors group? You know, all Albertans can look at their electricity bill. They actually have choices. One of the things we will be doing is investing more resources in ensuring that people are well informed about what those choices are so that they can make rational choices that meet their needs. You know, most seniors, as we all know, are on a fixed income. They worry about having a lot of fluctuation in the cost of any input to their life, whether it's electricity or any other cost that they face. When we looked at the Retail Market Review Committee recommendations, we made sure that we allowed for the opportunity to reduce the volatility of the price that people face if they're going to stay on the default rate, which is what would happen if you didn't make a decision about where you wanted to buy your electricity.

Seniors have an opportunity to choose amongst suppliers and ensure that they can buy a contract that gives them stability and certainty, which for a lot of seniors is actually pretty important. I would encourage them to look at that option.

Mr. Khan: I have been encouraging them to look at contracts. I know that as the minister we're not going to have you going door to door and speaking to the seniors.

Mr. Hughes: I've done door to door.

Mr. Khan: I know you have. [A timer sounded] Is that my time?

The Chair: Thank you, Mr. Khan.
We're now going to shift. We've got just a little over half an hour left, and what we'll do is shift to five and five. The rotation that I'm going to propose for the rest of the evening is – the Wildrose caucus. The vice-chair has identified Mr. Hale. You'll ask the questions for the Wildrose caucus. It'll be five minutes and five minutes. You can combine or do it block time, as you wish. I'll let you start, and then we'll go to the PC caucus and then Wildrose, and I think we'll probably be ready to go home by then.

Mr. Hale: Okay. Thanks.

The Chair: Would you like to combine your time?

Mr. Hale: Yeah. You bet.

The Chair: Okay.

Mr. Hale: I'd like to talk a little bit about the carbon capture and storage. The 2013-14 capital expenditure budget is budgeted to jump $64 million from this year's estimate and rise to $128 million by 2015. What will this substantial increase be going towards? You know, in the times we're in now, it's crucial to practise measures of fiscal austerity. During times where we're seeing cuts in education, health, agriculture, why are we increasing operational funding for carbon capture and storage? Are these estimates a reflection of the government's changing commitments from health and education and agriculture to focus on carbon capture?

Have you done any kind of a cost-benefit analysis to ensure that this increase in funding will actually result in benefits for Albertans and taxpayers where their money is going?

Have you created an effective way to monitor the success of carbon capture and ensure that it is in compliance? Will there be a new agency created, and if so, what sort of cost to taxpayers will this entail?

You know, back to the government's commitment for providing for-profit companies with the revenue to build the infrastructure that we feel should be their responsibility when we're seeing other funding cut towards very important sections in our Alberta population. I've received many calls over the farm fuel rebate. That's affecting people's pocketbooks, hard-working Albertans. I'd just like to get your sense on, I guess, how you can justify giving money to corporations and billion-dollar companies when we're cutting funds where they can be used by everyday Albertans.

Can you provide us with current contracts and liabilities with their commitments in regard to the carbon capture and storage? You know, what other projects are you looking at now? We saw that the two cancelled projects, the Pioneer project and the Swan Hills Synfuels project, have been cancelled because they decided that it was not economical to continue with them.

We're seeing $1.2 million annually for captured carbon within the Shell Quest project, which is going to cost $745 million over 15 years. If you figure out over 15 years how much carbon is going to be sequestered for the price, it works out to about $42 a tonne. You know, we've been hearing lately about the environment minister talking about a $40 a tonne fee. Is that how that fee came about?

In the Alberta trunk line project they're not sequestering carbon. Actually, they're going to be using it for enhanced oil recovery. They're going to be receiving $495 million over 15 years.

So we are not gaining any return on that investment in a dollar figure when these other companies are going to be benefiting from our taxpayers' dollars going into carbon capture.

Mr. Hughes: Thank you. Well, there were several points there as part of that.

Let me address the question of: what's the cost of monitoring performance in carbon capture and storage? The department will be monitoring compliance, and the cost of that will be $2.3 million on an annualized basis to monitor compliance. So it's no new agency, nothing new being set up there.

But let's step back to the first principles about why we're doing carbon capture and storage in the first place. This is about ensuring that we have the social licence to operate. This is about ensuring that we actually have the goodwill, if I could call it that, of people who should be our customers to continue to develop our resources and to continue to develop the economy here in this province. If we have the social licence, if we're granted the goodwill on the part of other players, we will be successful in achieving the market access goals that we have, which are largely pipelines to the Atlantic, to the Pacific, and to the Gulf coast and perhaps elsewhere as well.

The whole world is watching our greenhouse gas strategy. You know, we still clearly have work to do to help draw to the attention of people in Europe and in America and elsewhere the work that we're doing. That's what Premier Redford is doing and Diana McQueen and Cal Dallas in the work that they're doing to reach out and help people understand what we're doing and the pretty exceptional, actually, I would say, very unusual commitment to environmental standards in this province relative to many other jurisdictions if not all jurisdictions in North America.

You've asked about the price of carbon, and I can say that your calculations at best are serendipitous. There's no real relationship there to one of the options that you've seen in the public domain out there from Minister McQueen. There are several options that are being discussed with industry, with the government of Canada, and obviously Alberta is leading that discussion with the other parties. There are a number of options, and we've made no firm decision on any one of them.

I would add on the carbon capture and storage initiatives that if you look at the Alberta trunk line, that will be generating royalties and taxes from enhanced oil recovery. This is good news for Alberta. It helps become a base source of stimulation for enhanced oil recovery in older fields right down the backbone of Alberta. This is actually achieving good while doing good at the same time, so it has its own economic return to the people of Alberta both in terms of royalty and in terms of taxes.

9:35

Then I would also note that in the two projects that we've talked about for carbon capture, those payments that we've talked about, the commitments of up to about $1.3 billion over 15 years, only get made when the companies achieve certain thresholds and certain milestones along the project program. These are initiatives undertaken to help ensure that we get the right outcome, that we achieve the greenhouse gas footprint that we're talking about. As I mentioned earlier, this is accomplishing the equivalent of taking two-thirds of the cars off the roads in Calgary. That's a big commitment; I don't care who you are. There are very few jurisdictions in the world that are making that kind of commitment, and as a result we have, I think, very good standing in the eyes of thoughtful observers in the world because of our commitment to this.

Mr. Hale: I guess in a sense you're subsidizing these oil companies.

Mr. Hughes: No.

Mr. Hale: Well, if you're providing them with this funding . . .

Mr. Hughes: We're getting an outcome by way of using an incentive to achieve a policy outcome, but the people who have to deliver on the measurements and the goals that we've set out are people who are best skilled to do that, and those are people who are in the business of meeting those kinds of objectives in their own business. It's not a subsidy. It is a tool used to achieve a public policy outcome that would not have happened had it not been for this program.

Mr. Hale: It wouldn't have happened. The companies wouldn't have done it themselves. Do they see it maybe as not economically viable if they're not doing it themselves?

Mr. Hughes: Well, at this stage of the development of the technology, at this stage of the understanding of the economy for carbon, it would not have gone ahead, but in time we may see that.

The Chair: Thank you.

I think the next question is going to be taken by Mr. Casey. Is that correct?

Mr. Casey: Yes. Thank you.

The Chair: Do you want to go back and forth?

Mr. Casey: Yes, please.

The Chair: Thank you.

Mr. Casey: Thank you. I'm sure your brain is hurting by now, but you're close to being at the end.

I just had a question about terminology to begin with. Biofuel, bioenergy: we see both of them. In the fiscal plan we refer to bioenergy. In your budget we refer to biofuel. I would just like to get those two terms correct in my own mind so that we all know what we're talking about.

Mr. Hughes: Yeah, I noticed that there's different usage as well. Really, bioenergy is kind of a more generic term that describes a wider range of possible outcomes. Biofuels are the output of specific projects. So biofuel is a fuel that's developed in a way that is . . .

Mr. Casey: I guess my question is: in your budget are we talking about biofuel, or are we talking about bioenergy?

Mr. Hughes: The answer is yes. It's both.

Mr. Casey: In the fiscal plan and in your budget it's different, right?

Mr. Hughes: Yeah.

Mr. Casey: Maybe you could explain a little bit about the depth, then, of bioenergy. Tell me what that entails.

Mr. Hughes: Sure. Let me just find my notes here. The kinds of projects that we've invested in and supported in bioenergy encourage alternative and renewable energy sources. It's intended to actually create an opportunity for an efficient use of waste in industries, in this case agriculture or forestry. We've actually helped through this commitment to ensure that we create hundreds of millions of dollars of private investment in Alberta. The commitment of the province of Alberta is small relative to the commitment of the private sector that's invested in these projects. What we've really done is kind of seeded and primed the pump a bit to make sure that these projects are economic and can get up and going and get started.

You know, for example, there's a wide variety of bioenergy products, which includes renewable fuels and electricity from biomass. In the forestry industry you'd have biomass that could be burned in order to create electricity. That's actually a fairly important source of energy and sort of economic stability for some players in forestry. Bioenergy production includes liquid biofuels and electricity. Heat is another good example. You can generate heat from some of these projects that can be used to heat buildings or to, you know, not be just wasted as wasted heat. You can create biomass pellets in some cases that can be then used subsequently to create heat and gas products as well.

Mr. Casey: This wouldn't include things like wind power, then?

Mr. Hughes: No.

Mr. Casey: Okay. Page 48 in the fiscal plan refers to the $328 million dedicated to this over three years as actually dedicated to complete funding commitments to approved bioenergy projects. The way I read that, unless I'm reading it incorrectly: we're not going to fund any new projects in the next three years; this $348 million is the end of the line for biofuel projects.

Mr. Hughes: Three hundred and twenty-eight million dollars. Yes. That's right.

Mr. Casey: Three hundred and twenty-eight million. Sorry. Well, I was being generous. I know Minister Horner is tough on you.

Mr. Hughes: What's $20 million?

In fact, the original bioenergy program contemplated three different phases for receiving applications for projects. The first two had been completed. The third one had not yet been initiated. The decision we had to make in the course of this budget, along with every other department as we tightened our belts, was a decision to actually not receive new applications, not have a third round. However, we are continuing with the existing commitments that resulted from the first two rounds of applications that came in, and that's what the $328 million over three years is related to, including $98 million in 2013-14, this fiscal year.

Mr. Casey: But we're really not out looking for new projects?

Mr. Hughes: We're not looking for new projects at this point. We'll learn from the projects that we have. At some point in the future there may be a chance where we'll say, "You know, maybe there's something we learned from this that we could look at fresh again in the future" because we'll have really good experience in this whole area.

Mr. Casey: Just back likely close to a question that was asked earlier. What kind of performance measures are in place, then, for these projects that are already approved? What was the outcome that we were looking for? I mean, that's been a huge investment over a number of years.

Mr. Hughes: Yeah. It really varies by project.

Mr. Casey: Give me an example of one that'd make me happy.

Mr. Hughes: For example, there might be projects where a forestry company that historically would just either burn or allow to rot some of the organic material that's taken off the bark or sawdust and wood scraps, all that kind of stuff that historically might have been seen as having limited or no value, can instead take that and put it into a combustion chamber and use that to generate heat for the building or, even more likely, electricity, right? That's the kind of project. There's an economic return for the company. All we're doing is helping prime the pump to help them get into the game and generate this more appropriate use of that resource.

9:45

Mr. Casey: This kind of thing, then, would include agricultural waste, for example, from feedlots for generation of power?

Mr. Hughes: It could, yeah. There are, I believe, projects like that. You know, here's a couple of examples. There's a forest products company that is generating both electricity and heat, as one example, near Boyle. There's another forest products company in the Grande Prairie area generating electricity and heat. Hinton: electricity and heat. So these are, you know, forest products companies that are making good use of this. That's the kind of project that there is where they're combusting biomass to produce electricity and heat, including cogeneration, so if they maybe don't have enough production of wood chips or whatever, then they can burn gas, natural gas.

Mr. Casey: So in those cases what would be the assessment of success? What would success look like?

Mr. Hughes: Well, success would look like helping them to get up and going, to ensure that they're actually producing electricity and heat that has an economic value and that continues beyond the date of the end of the program.

Mr. Casey: I have a really easy last one here. Really easy. This is more likely for Minister Horner than for you. On page 21 of your business plan under goals and priorities it talks about six specific areas that the government will focus on, and they have a little star beside them. You have two stars. I'm just curious what your other four stars would be. As you read through the business plan, I think you'll find that most areas are that way. I'm just curious. If you had to put four more stars down here, where would they be?

Ms Fenske: It's been bothering him for a while.

Mr. Casey: It's been bugging me for three weeks, I've got to tell you. Sorry.

Mr. Hughes: Let's look at those, actually, because they're quite interesting. If you look under goal 1, priority initiatives, the one that has the star is: "explore opportunities to develop and expand Alberta's access to key global markets to better serve Alberta's long-term interests." It's pretty hard to beat that. That's a big star, right? That's worth billions of dollars.

Mr. Casey: That might be two stars.

Mr. Hughes: That might be two stars almost, yeah.

Mr. Casey: Okay. I can accept that.

Mr. Hughes: Actually, if you look at this in priority of the list, I'd say that expanding energy-related collaboration in key Asian markets to secure market access opportunities for Alberta companies and resources is an important long-term strategic goal as well, so that's where I'd put the other star. I'm sure I could find the others if I had the time.

Mr. Casey: I'm sure you could. Thank you.

The Chair: All right. Mr. Hale, are you going to ask the questions for the Wildrose caucus again?

Mr. Hale: Yes, Madam Chair.

The Chair: Okay. Do you want to combine or not?

Mr. Hale: Yeah, we'll combine.

Mr. Hughes: Sure.

Mr. Hale: I'd like to just start by making a statement about goal 2, dealing with 2.6 under your priority initiatives, to "provide effective regulation of energy development in Alberta that is fair, responsible and in the public interest." I just find that kind of ironic as quite a few of my amendments to Bill 2 dealt with public interest, and subsequently they were all voted down. So I'm glad to see that you do have a little bit of public interest mentioned in here.

Mr. Hughes: Well, as you'll recall, many of the 10 pieces of legislation that are being regulated by the Alberta energy regulator still have ample and regular references to the public interest in the originating legislation, the six pieces of energy legislation and the four environmentally-related ones.

Mr. Hale: Okay. Under your performance measure 2(a), Albertans' assessment of their energy knowledge, I just wonder if you could explain why some of these made the list and how they're even measured. You know, based on the phrasing of this measure, are you saying that Albertans who are being asked to report on these questions rated their own knowledge, or did you provide them with any questions, I guess, to find out their proficiency in energy? Is there any criteria to this knowledge base? Even with it based on loose criteria, in your annual report it was stated that you wanted to reach 71 per cent, and we see that it has not. You didn't meet those targets.

Under 2(b), the regulatory noncompliance within the ERCB, how is that risk defined? Why is it only based on high-risk noncompliance? I think it's important to provide Albertans as stakeholders with a complete overview and be able to provide them with an accurate picture. Why wouldn't it include an overall compliance within the ERCB rules? You know, this is kind of a review of the government, so why didn't you put in there a measure about how many companies were inspected for ERCB compliance?

Mr. Hughes: Thanks. Those are good questions about performance measures because, obviously, we're all keenly interested in accountability. The first measure, 2(a), Albertans' assessment of their energy knowledge, was actually developed to help ensure that Albertans have a robust knowledge, awareness, and education on energy issues. It's a self-assessment by Albertans of the knowledge they feel they have about an energy industry. It's conducted every two years, and the target has been revised to reflect the trend rather than a median target. We're just trying to ensure that Albertans are actually aware of energy issues.

I'd put this in the context, actually, that as a parent of kids who are in grades 8, 10, and 12, I've been a student of understanding where Alberta stands relative to other school jurisdictions in the world. Actually, if you compare Alberta students, age 15, to students anywhere in the OECD, the last time this was done was, which was 2009, Alberta students were first in the nation by a long shot and second only to Shanghai in the world, which is a great base on which to build our population's awareness of energy, science, and an understanding of where we're at.

With respect to performance measure 2(b), regulatory noncompliance, this just identifies one aspect of a range of accountabilities and metrics that the ERCB, soon to be the Alberta energy regulator, follows or uses as a way to measure. Just to give a definition, high-risk noncompliance refers to a situation in which noncompliance has the potential to cause significant harm to the public or environment, so it's a high-risk scenario. That's just one of the risks that we do measure within the ERCB. The ERCB measures and reports on industry's compliance with ERCB regulations. Obviously, that's not the only one.

Actually, under the new Alberta energy regulator one of the reasons we have a governance board in the way that we do is that I want to see very clear accountabilities that are driven by the new board of the Alberta energy regulator, that are clear, that are accountable, and that are reported to Albertans on a regular basis and that it is as transparent as we can make it so that we know industry is performing to the standards that they should. That's the role of the regulator.

Mr. Hale: With the new regulator are you going to be increasing the compliance and the companies that are inspected? You know, is that going to be an added cost to the companies now with them funding the regulator so that they're funding the regulator to ensure that they're all in compliance?

Mr. Hughes: Well, I won't say that we're going to increase the compliance unless there's evidence that we need to, that companies are not performing. We certainly will not be reducing the compliance oversight of the industry. But what I can tell you as well is that the new board under the leadership of Mr. Protti will be taking a fresh look at: what are the compliance metrics and measures that we want to keep a pretty close eye on? We're really focused, obviously, on risk-based compliance reporting. This is not about checking boxes and filling in forms. This is actually about making sure that situations that present a risk to people, to the environment, or to other factors are monitored and that companies are in full compliance.

9:55

Mr. Hale: Okay. You mentioned Alberta students gaining the knowledge and how well they are doing that. We've seen, you know, quite a bit of negativity, I guess, toward our Alberta oil sands across the world. What is your ministry doing now not just to increase the knowledge of Alberta students but to increase the knowledge of the public in Canada, in Alberta so that we are accepted as the energy superpower that we are?

Mr. Hughes: You know, that's a good point. Really, it's all fine and dandy if Albertans are well informed and understand this, but that won't get us very far if nobody else does. The whole initiative behind the Canadian energy strategy was to create a safe kind of discussion amongst Canadians so that we can have an open conversation about the importance of energy to all Canadians.

Energy literacy, obviously, is one of the pillars within the Canadian energy strategy that we will be working on to help ensure that there is much better literacy right across Canada. The Premier and I and our officials will be working with the other provinces to find ways to improve literacy around energy because so often challenges arise because people actually don't understand the fundamental science let alone the reality of issues that they might face. Having a well-informed, science-literate population in Canada is critical to the Canadian energy strategy, which is critical to the oil market diversification strategy.

Mr. Hale: Okay. Now, in talking about the Canadian energy strategy – that's under 2.2 – how do you plan to accomplish an implementation of this strategy without straining portions of Alberta's sovereignty over our resources? You know, I do agree that we need to increase our awareness across the world.

Mr. Hughes: This is a great question for another day.

Mr. Hale: That's a little bit of a lead-in to tomorrow.

Mr. Hughes: Okay. Perfect. Thank you for the heads-up.

The Chair: All right. Thank you, Mr. Hale.

We only have a couple of minutes left, so I think we won't go forward with any more questions from the PC caucus.

Mr. Hale: How about we just finish this while we have a few minutes left?

The Chair: Nice try. We can do that tomorrow afternoon.

Don't everybody leave just yet. Tomorrow will be five cycles. We'll start with a member from the PC caucus, Liberal, PC, ND, PC, Wildrose, PC, Wildrose. Then we'll go from there.

I just want to commend everyone. Everyone stayed very attentive to the questions. The decorum was fantastic. Thank you to everyone at the table and behind the tables. I'm really impressed. I think there'll be some pretty marvellous information in the *Hansard*.

This committee will continue tomorrow afternoon, April 9, at 3:30, in committee room A. So we have the big room. We'll complete the consideration of the estimates for the Ministry of Energy.

Thank you and good night to everyone.

[The committee adjourned at 9:59 p.m.]

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