



Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on
Resource Stewardship

Natural Gas Production

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First Session

Standing Committee on Resource Stewardship

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Fox, Rodney M., Lacombe-Ponoka (W)

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12:30 p.m.

Thursday, December 12, 2013

[Mr. Young in the chair]

The Acting Chair: Okay. I'd like to call this meeting to order. Welcome to all members and staff in attendance at today's meeting of the Standing Committee on Resource Stewardship.

My name is Steve Young, MLA for Edmonton-Riverview, substituting for Donna Kennedy-Glans. I would ask that all members joining the committee at the table to introduce themselves for the record and that members who are sitting in as substitutes for committee members indicate that in your introductions. Why don't you start?

Mr. Fox: Rod Fox, MLA for Lacombe-Ponoka, substituting for Joe Anglin.

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

Ms Fenske: Hello. Jacquie Fenske, MLA, Fort Saskatchewan-Vegreville.

Mr. Bilous: Good afternoon. Deron Bilous, MLA, Edmonton-Beverly-Clareview.

Ms Calahasen: I don't know about all these youngsters, Mr. Chair. Pearl Calahasen, Lesser Slave Lake. I'm the oldie against the youngsters.

Mr. Khan: I don't know how to follow that. Stephen Khan, MLA, St. Albert.

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

Ms Zhang: Nancy Zhang, legislative research officer.

Ms Dean: Shannon Dean, Senior Parliamentary Counsel and director of House services.

Dr. Massolin: Good afternoon. Philip Massolin, manager of research services.

Mr. Tyrell: Chris Tyrell, committee clerk.

The Acting Chair: We'll go to the phones. Those on the phones, could you introduce yourselves and indicate if you're substituting?

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

Mr. Allen: Mike Allen, Fort McMurray-Wood Buffalo.

Mr. Webber: Len Webber, MLA, Calgary-Foothills.

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

Mr. Casey: Ron Casey, MLA, Banff-Cochrane.

Mr. Lemke: Ken Lemke, MLA, Stony Plain.

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

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

Ms Calahasen: These are all the guys who don't have winter tires.

The Acting Chair: Pearl, you're feisty today, and we're just getting started.

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

The Acting Chair: Okay. I just want to clarify all those. We have Drew, Len, Ron, Mike, Ken, Pat, Linda, and Gary. Did I miss anybody? No? Okay.

Mr. Casey: Mr. Chair, before we start, I just want to let you know that I'm going to have to leave early to get to an event.

The Acting Chair: Okay. Thank you. We certainly have quorum here.

A few housekeeping items to address before we turn to the business at hand. The microphone consoles are operated by *Hansard* staff. Please keep cellphones, iPhones, BlackBerrys off the table as they may interfere with the audiofeed. Audio of the committee proceedings will be streamed live on the Internet and recorded by *Hansard*.

The first item is approval of the agenda. The agenda was posted online. If you've had a chance to look it over, I would welcome a motion to accept the agenda. Moved by Peter Sandhu that the agenda for the December 12, 2013, meeting of the Standing Committee on Resource Stewardship be adopted as circulated. All in favour? Any objections? Okay. That's carried.

Approval of the meeting minutes. I hope you've had a chance to look over the minutes from the last meeting. I'm sure they're accurate. Okay. I accept the motion by Deron Bilous that the minutes of the December 2, 2013, meeting of the Standing Committee of Resource Stewardship be adopted as circulated. All those in favour? Anybody object? Okay. That's carried. We're moving along quickly.

Okay. Now let's get to the meat of the matter here, which is discussion of the committee report. At this point we've heard from all of our scheduled presenters. Now it's time for the committee to get to work on some recommendations for a report back to the Legislature. LAO research services has prepared two documents for us, which were posted on the internal committee website. You should have all had a chance to look at them. Has everybody received them?

Okay. I would invite Dr. Massolin to go over the documents briefly for us.

Dr. Massolin: Thank you, Mr. Chair. I'll be pleased to do so. The two documents to which you refer: the first one is the summary of stakeholder presentations and proposed recommendations by stakeholders regarding the monetization of natural gas. That's the larger of the two documents. Basically, what's contained therein are the proposals and recommendations made by the presenters to this committee during its review. It contains an executive summary, which summarizes, basically, the key issues, including the access to markets, incentives, and so on. There's also a substantial section in this report on the background to the proposed recommendations.

The other document, the document that I think we'll use for today's meeting in terms of the committee making its recommendations for the draft report, is entitled Summary of Priorities and Proposed Stakeholder Recommendations: Natural Gas Review. That's this document that I have in my hand. It's the one where, starting on page 4, you have a three-column table with issues, priorities, proposed stakeholder recommendations. This document has the proposals and recommendations taken from the stakeholder presentations put into that third column. The second column contains priorities, as you all can see there. The first column indicates the basic issues, including access to markets, regulatory certainty and changes, incentives, and so on.

Mr. Chair, the proposal here is for the committee to work through this document as a guideline to hearing once again some of the key priorities and proposed recommendations that were put forth by stakeholders. So we'll do that systematically and then turn it back to you as chair for the committee to make a decision so that we can get information to put into the draft stakeholders report.

Just before I turn it back to you, Mr. Chair, one quick note about these proposed recommendations. You can see they're enumerated. The numbering doesn't indicate any sort of hierarchy or prioritization scheme. They're just for ease of reference. The other thing to note as well is that these are discrete proposals or proposed recommendations. They don't necessarily work together, so be mindful of that when you do that. In some cases, like under incentives – you've got a whole raft of incentives there.

With that, I'll turn it back to you, Mr. Chair. Thank you.

The Acting Chair: Okay. Just to clarify, the purpose of the committee meeting today is to frame the document, provide some direction around that, not to go into the minutiae of wordsmithing everything else but to provide direction to the LAO staff to draft a document that includes the recommendations but also captures all the processes and information that we've captured from the stakeholders. Is that a fair assessment?

Dr. Massolin: Yes. What we need, Mr. Chair, from the committee is information to put into the committee's draft report. Of course, a key component of that is the recommendations that this committee will make.

Thank you.

The Acting Chair: Sometimes we can fall into the trap of wordsmithing. I think that, recognizing the terms of process, we still get a chance to look at the final document and see how it frames up.

Ms Zhang, would you go through the summary of priorities and proposed stakeholder recommendations, beginning with the access to markets?

Ms Zhang: Yes. Thank you, Mr. Chair. I'm going to begin on page 4: issues, priority areas, and proposed recommendations by stakeholders. You'll see in the first column that we have the first issue, access to markets. In the second column we have the list of some of the priorities that were recommended by stakeholders; for example, "There is a window of opportunity to act on LNG export opportunities [and policy-makers] should move promptly on making decisions regarding these opportunities." So these are listed there.

From the presentations we've pulled out some of the proposed recommendations by the stakeholders, so I'll just go through them, summarize them very briefly, and then turn it back to the committee so that you can put together some recommendations for the final report. Recommendation 1 is a suggestion to expand the use of cogeneration in in situ oil sands operations. Recommendation 2 suggests supporting the construction of new gas-to-liquids facilities. Recommendation 3: "Alberta should recognize in an energy strategy... that cost, availability, and access" are significant.

I'll turn it back to you, Mr. Chair, and perhaps the committee can put together a recommendation based on access to markets.

The Acting Chair: Well, thank you. That's our first section, access to markets.

I'd invite any comments that anybody would have on this sort of summation of what the presentation has included so far. Jacquie.

12:40

Ms Fenske: Thank you. If I look at the larger document on page 13, in that document Alberta's Industrial Heartland stated "that a window of opportunity is also currently open in the petrochemical industry." I don't think that that's been adequately captured under the priorities. In the priorities that are listed, we mention LNG. I think that in Alberta's case we need to specify.

We heard loud and clear that there are opportunities to support value-added processing of natural gas. I don't see it. I see it maybe under point 3 of proposed stakeholder recommendations in the smaller document, but I believe it is important enough to be an item unto itself, to be identified as the value-added in the petrochemical industry. I think that there are opportunities for policies to be created, certainly – and I'm not sure if they talked about all of them; I know that we had some conversation and asked them to submit some things later – things like sliding royalty scales, clustered development, centralized utilities for those types of things. I think that that falls maybe also under infrastructure, maybe government-backed insurance programs, short-term loans, but I believe that that needs to be captured and needs to stand out unto itself.

I guess I'm going to go into sort of the whole, general spirit of this document. It seems like we're putting all of our eggs into the LNG market – throw it in a vehicle and burn it, or ship it to China and burn it – and I think in Alberta we have a huge opportunity to be able to create that additional petrochemical market, and I really, really want to see it emphasized. We did hear that from our stakeholders.

The Acting Chair: So are you suggesting that it should be a part of a recommendation or included in the priorities?

Ms Fenske: I'm suggesting that we didn't capture it in the priorities as far as the petrochemical industry, but we did have it in our larger document, so I certainly want to see it identified in the priorities. Also, then, in the proposed stakeholder recommendations it certainly needs to have its own space.

Dr. Massolin: Just a process clarification. The information that's here is not just going to be taken and put into the report. It's up to you to do now what you just did, and that is to say: I want in the report this information. Just so you know, if it's on the list, it doesn't mean that everything that's on this list is going to make the draft report.

Ms Fenske: I'm happy with that, but I didn't see a whole lot of that through the whole report, so I just really need to stand on my soapbox right now and say: this is what we need to have, too.

Dr. Massolin: That's good. That's what we need.

Ms Fenske: Okay. Thank you.

The Acting Chair: And you're standing tall.

Ms Fenske: On the soapbox.

The Acting Chair: Yes.

Maybe I'll throw this out to the committee as a general statement. The focus of this committee was natural gas, so when I hear "petrochemical," that's a lot broader focus.

Ms Fenske: Natural gas creates the petrochemical industry.

The Acting Chair: Okay. Thank you for that clarification.
Stephen Khan.

Mr. Khan: Yes. Thank you, Mr. Chair. All I would like to do is just echo the sentiments expressed by MLA Fenske. Based on the stakeholders' presentations that we have – and I fully recognize and appreciate Dr. Massolin's comments that this is a draft form – I, too, would certainly want to see moving forward, as we shape our report, much more emphasis being placed on the petrochemical industry and gas-to-liquids, based on the stakeholder presentations and certainly based on what we think could be an enormous economic benefit to the province of Alberta.

The Acting Chair: Okay. Thank you very much.
Maureen, and then Pearl, and then I'll ask anybody on the phone.

Ms Kubinec: Thank you, Mr. Chair. I again echo those comments partly because those of us that visited Williams Energy got to actually see it and see the processes that they go through. It was an exciting tour and very inspiring, how Albertans can do the value-added piece, so I think it's very important that we emphasize it.

The Acting Chair: Thank you very much.
Pearl, are you on this point?

Ms Calahasen: No. It's different.

The Acting Chair: Okay.
Is there anybody on the phone on this point, on Jacquie's point about the value-added?

Mr. Bikman: Yeah. I certainly support the concept of upgrading if industry wants to do it by themselves, without our having to subsidize it and have the cost double on us like in the BRIK situation. But in order to do that and to encourage and support it, we need to make sure that whatever other incentives we provide for export, for example – and I think that's part of what Jacquie may have been getting at – don't make it harder for industry to do this on its own.

The Acting Chair: All right. Thank you very much, Gary.

Mr. Bilous: I just wanted to very briefly add that I agree with Jacquie as far as taking opportunities, whenever we have them, of adding value, of keeping quality jobs within the province, with, again, all the spinoffs, both economic and social, that come from that. I appreciate that point. This is something that I and the NDP caucus absolutely support.

The Acting Chair: Dr. Massolin, do you need a more sharpened point on that?

Dr. Massolin: I think we have the general gist, Mr. Chair, but it would be nice if she had, you know, even a more specific recommendation that we can wordsmith and that the committee can approve at the next meeting. I mean, it's up to the committee if they want to put something forward.

The Acting Chair: Jacquie, could I ask you to get back on your soapbox and clarify that?

Ms Fenske: I think that I would like the recommendation – this is my feeling, anyway – to support value-added processing of natural gas within the province of Alberta. That would be the recom-

mendation, and what falls out from under that could be reflected in policies or statements.

The Acting Chair: Okay. Deron, on that point?

Mr. Bilous: Just a question for Dr. Massolin: do you need more clarification on support and what that entails, or are we keeping it broad?

The Acting Chair: I think it comes back to this committee, does it not?

Dr. Massolin: It does, but I would put it back, Mr. Chair, to Mr. Bilous and say, you know, that this is the committee's report. If you want more detail, add more detail.

The Acting Chair: On the phone, Ron Casey.

Mr. Casey: Yes. Thank you. I would certainly support Jacquie in this. The idea of having a value-added section in the report makes sense to me. I think it covers, in the end, a whole series of other subcategories that we're already working with; for example, infrastructure, incentives, and so on and so forth. Most of the other sections we have already got some detail on. It would be nice to relate those back to value-added industry in Alberta; in other words, to what kind of infrastructure and what support is needed and so on and so forth.

The Acting Chair: Okay. On the phone, Mike Allen.

Mr. Allen: Yeah. I certainly do support what Jacquie is tabling here. I mean, it's obvious that value-add is going to be really important for developing our natural gas. We have such a huge glut internationally, and with the world price we can't sell it just as natural gas anymore. I think that, really, what was key in what Jacquie said was about us creating the regulatory environment and policies that are going to be conducive to value-add on natural gas and not necessarily focused on any one specific area such as petrochemical or access to other markets.

Really, it's going to be up to the manufacturers to decide where it's going to be more profitable and where they can create more jobs, et cetera. LNG for shipping to Asia, for example: that is the only way to ship it over there. It's the only way it makes sense for transport. I think that if we just create the regulatory environment that allows them to go to work, they'll come back with the solutions.

The Acting Chair: Thank you very much, Mike.

Mr. Bilous: You know, to address Mike's point, the only concern that I have when, again, we leave it up to the market is that if there isn't an environment that encourages the value-add here, then industry may decide that it's cheaper to do it elsewhere, and again Alberta loses out on the value-add. I think that the government has a role to play in using different means or different tools to encourage industry to do the value-adds within the province of Alberta.

The Acting Chair: Thank you very much.

The clerk has pointed out some of the regulatory framework around that. I think that as a principle – and, Mike, correct me if I'm wrong – you don't want to presuppose a particular type of value-add, but more of a broader kind of principle of value-add needs to be reflected in the document.

Jacquie.

12:50

Ms Fenske: Yes. Speaking, I guess, from the area that I represent, part of what I would also like to see – and I agree with Mike that we need to keep it very broad – is that I would like to ensure the sustainability of our petrochemical industry here in Alberta. If they don't have access to the feedstock or it becomes prohibitive because we've chosen to do something that focuses on another direction, then of course we're losing valuable opportunities and jobs for Albertans. Sustainability and maybe a balance between what industry is doing would be important.

The Acting Chair: Okay. Well, thank you very much. I think you have clarification now on that.

Pearl, I have you next on my list on a different topic.

Ms Calahasen: Yes, on a different topic. I was just looking at the report. And thank you very much for the report. This gives us a basis from where we can jump off, so thank you very much for all the work you have done and even for collating all the information.

The only area that I don't see is the potential for economic opportunities for Albertans. I know that when we were talking to some of the presenters, they were telling us what kind of jobs are going to become available, those kinds of opportunities, even on the idea of investing.

The other part is the challenges, and the challenges that some of them were talking about were actually on the aboriginal side and the environmental side. I'm just wondering if we can sort of pull some of that information together to see what we can do and how we can deal with those specific areas that they brought to our attention.

The Acting Chair: I'm guessing that the spinoff of the value-add is those jobs.

Ms Calahasen: Yeah. You know, that would be the training components and everything that comes into it. I mean, this is a huge thing. If we're talking about value-added as well, then we're able to look at different things. I think that's where we go from what the idea is to what needs to be done and the challenges and all this stuff that has to be put together and then where we move from there. I just see that as some portion that is missing here. I think you understand that, Philip.

Dr. Massolin: I do.

The Acting Chair: So we're able to capture in terms of not only the activities of the value-add in the market focus but also some of the outcomes around . . .

Dr. Massolin: The benefits.

The Acting Chair: With the benefits, yeah, included, as you mentioned.

Mr. Bilous.

Mr. Bilous: Yeah. I just wanted to lend my voice to Pearl's to say, again, that I think it's important to identify potential partnerships and look at benefits and specifically, you know, the aboriginal communities, so looking at ways that industry can partner and work with our different communities throughout the province.

The Acting Chair: All right. Well, thank you very much.

Anybody on the phone? Okay. Hearing none, I'm going to move on, with your permission.

Now I'd like to ask LAO research services to take us through the regulatory certainty and changes issue in section 3 of the document.

Ms Zhang.

Ms Zhang: Thank you, Mr. Chair. The next area is regulatory certainty and changes. Some of the priorities that were suggested by stakeholders include striving for regulatory simplicity and the need for standards specifically for the natural gas industry.

Recommendation 4 that was proposed by stakeholders is on streamlining the regulatory process.

Recommendation 5 suggests flexible and up-to-date regulations around technology related to natural gas production.

Recommendation 6: the government supporting companies that want to transition to LNG such as assisting with challenges related to insurance risks.

Recommendation 7 suggests the government should be careful about overregulating and should study other markets that have used natural gas.

Recommendation 8 suggests updating standards for CNG and LNG buses.

Recommendations 9 and 10 on pages 5 and 6 address changing weight restrictions and making them consistent across jurisdictions.

Recommendation 11 suggests creating regulations for LNG fuelling stations.

Recommendation 12 suggests changing environmental regulations to recognize full environmental benefits of cogeneration.

I'll turn it back to the committee now to put together some recommendations.

The Acting Chair: I kind of cut you off there, Mr. Bilous, on the last section. Do you have a comment on the regulatory portion?

Mr. Bilous: I do, just briefly. You know, this is a report that we're writing, obviously, to the House with recommendations. I know that weight regulations were one of the concerns, especially, that Bison brought up, but I don't know if we ever had the answer to the question: can Alberta's highways handle these heavy loads?

The Acting Chair: Dr. Massolin.

Dr. Massolin: Yes. We did have the answer to that question. I think Ms Zhang reported that, unlike in B.C., Alberta doesn't have particular corridors that would handle the heavy-haul traffic.

Mr. Bilous: Okay. So that means something for us to just be aware of when we're talking about weight restrictions within our current infrastructure and what we can handle.

The Acting Chair: Would you recommend putting a clarifier around that piece, painting the picture, if you will, around the difference between B.C. and Alberta, putting it into the context of weight regulations?

Mr. Bilous: Sure.

The other thing, then, you know, is that this has to be part of the larger economic conversation. If we simply don't have the infrastructure for a move toward heavy vehicles using LNG, then that's going to significantly impact the decision on government involvement.

As far as the other recommendations – I think it was said in there – I do think, coming from the meetings, that our regulatory framework does need to be reviewed in the context, which I believe some of the presenters have said, that it's fairly old in

Alberta when we're looking around LNG, so some of the producers are concerned with how they currently read and how they're going to be inhibitive. Now, having said that, I am an advocate of regulations and frameworks, but I do think a review would make sense.

Thanks.

The Acting Chair: Thank you.

Does that provide some clarification?

Dr. Massolin: It does. Assuming that what Mr. Bilous says and other committee members say is okay with the rest of the committee, because it's the committee's report – you know, we've heard loud and clear what he said – we can certainly put that in the report.

The Acting Chair: There are a set of recommendations or priorities, but I think it's doing our due diligence to sort of paint the context around those and not in isolation, which I'm quite confident you will.

Dr. Massolin: We will. We certainly will.

The Acting Chair: I'd invite any other comments. Go ahead, Gary.

Mr. Bikman: Thank you. The issue of weight really wasn't about heavy weight, as I understood it. It was about the additional weight of the tanks that are required to contain the LNG. That just means that we have to change the axle weights a little bit for those vehicles, and I don't think that's a big deal. It's good to be aware of it, but we're not talking about massive weights here.

Dr. Massolin: Just to clarify – sorry, Mr. Chair and Mr. Bikman – you're right about that. I mean, they can jig it so that these rigs can go up and down highway 2, but I think they want to reconfigure the rigs so that the tanks are closer and so they don't have to have a special configuration, so that there's more weight on those axles. The road's weight allowances don't allow for that right now, so they want those weight restrictions changed therefore.

Mr. Bikman: I understand that. Just let me add that you can get around that with annual temporary permits. A lot of oil field truckers, for example, used to get temporary permits for front-axle weights that were over the traditional weight allowed. They had to address it with a little bit wider tires in some instances.

Anyway, that's too much detail for this conversation.

The Acting Chair: Okay. Well, thank you for your insight and your expertise, though, Gary.

Are there any more comments on the regulatory section?

Mr. Bikman: Just to reinforce how important it is that we create a stable set of rules and guidelines. Of course, there needs to be flexibility that reflects the technological advances that will inevitably come along, but we know that capital craves certainty and will only flow to jurisdictions where they are not concerned that the rules are going to change, you know, whimsically or unilaterally.

The Acting Chair: Okay. Thank you for that comment.

Now, with the committee's permission, I'll move on to the next section. I'd like Ms Zhang to take us through the incentives issue and section 3 of the document.

1:00

Ms Zhang: Okay. Section 3 looks at incentives. Some of the priorities suggested by stakeholders were to maintain Alberta's competitive tax regime. Some of the proposed stakeholder recommendations include number 13, providing certainty in terms of future taxation of natural gas as a fuel; recommendation 14, suggesting leaving natural gas exempt from fuel taxes; recommendation 15, maintaining Alberta's current royalty structure; recommendation 16, that government should investigate establishing a gas royalty in kind program; recommendation 17 on page 7, that the government should support funding programs for clean energy projects; recommendation 18, that government should find a way to offset incremental costs associated with natural gas vehicles; recommendation 19, that government should continue an expanded, incremental ethane extraction program; recommendation 20, offering incentives related to gas-to-liquids technology to attract more investment; recommendation 21, that government should enhance and promote skills development for the natural gas industry; recommendation 22, that government should offer incentives for use of energy-efficient vehicles.

It looks like that's it for incentives. If the committee has any recommendations around that.

The Acting Chair: Okay. David, you're up. Go ahead.

Dr. Swann: Thanks very much. I'm sorry. I was struggling with the mute button here, so I missed making comments on the regulations.

The Acting Chair: Would you like us to go back, Dr. Swann?

Dr. Swann: Can I just slip back with a few comments there?

The Acting Chair: Sure. With everybody's permission, we'll just slip back. Everybody is nodding emphatically.

Dr. Swann: Very quickly, with the regulation and encouragement for cogeneration and electricity development, it's clear that we need to move off coal, and many people for health and environmental reasons are wanting to push us this way, both for our own health and for our international reputation in terms of carbon reduction, so I was pleased to see that.

I wanted also to say with respect to the regulations that we're trying to in any way we can promote the use of natural gas. Let's be clear that we are trying to move to as low a carbon future as possible. If we are providing regulations that are incenting natural gas, we need to be prepared to provide at least the same benefits, incentives, regulatory facility, I guess you might say, or ease of operation, to the renewable future. I think we all support its growth. I just wanted to be clear that although focus in this particular paper is on the fossil fuel natural gas and it is a movement towards cleaner fuel, we want to be sure that we're clear about what total financial incentive we're providing and that we are at the same time providing a similar or identical or at least as strong incentives for renewable energy development in this province.

The Acting Chair: Thank you, Dr. Swann. As we get down to the end of the document, where we're going to go through some of the submissions from the particular caucuses, I see there's a reference to that comment there. Are you comfortable with us addressing that when we get to that point?

Dr. Swann: That's fine. I just wanted to put it on the record with all members around the table. Let's keep in mind that whatever we

do for one industry, we have to be prepared to provide the same kind of incentives, a level playing field, as you might say, to other forms of energy, especially when we are such a high carbon emitter.

Just my final comment on the record, maybe for Phil Massolin, is that Alberta Environment was asked to give an update on the baseline groundwater study that was started in 2006 and which continues to raise questions about impacts on our groundwater from the fracking industry or all oil and gas activity. Because we cannot with certainty tell people in our province and cannot tell the companies themselves to what extent groundwater has been impacted by fossil fuel development, it leaves us in a very vulnerable position to counter claims from the public about possible impacts to our groundwater. So I'm just putting that on the record again. I haven't seen any follow-up from the request to Alberta Environment to give us an update on that baseline groundwater study begun in 2006. They were supposed to give us those answers.

The Acting Chair: Thank you very much, Dr. Swann.

As the chair I'm in a bit of a position here, and I'm going to put it out there. Groundwater and renewables: are they within scope? I would invite somebody on the committee to comment.

Jacquie.

Ms Fenske: Well, thank you. I think that if we go back to what the purpose of this particular study was, it was the monetization of natural gas, and I don't think we can look into every other aspect of energy at this point in time. We are dealing with this specific one. Now, if something else comes forward, we can certainly look back at: "Oh, what did we discuss through this report? Does it pertain? Have the times changed?" So I would say that what Dr. Swann is suggesting is perhaps outside the scope of what we were trying to achieve with this particular document.

I have another comment, but if you want to take someone else's comments on that and wouldn't mind coming back, that would be great.

The Acting Chair: First of all, I'd like to welcome Joe Anglin.

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

The Acting Chair: Welcome.

Mr. Bilous and then Mr. Anglin.

Mr. Bilous: Sure. Just to follow up on this, you know, we've had a lot of different organizations and businesses come through in the course of the last six months, and I know that Donna brought up that we haven't had any environmental groups talking to this committee about environmental impacts regarding moving toward or encouraging LNG within the province. I think what Dr. Swann was saying does fit and still stays within scope if we're looking at environmental impacts and concerns dealing specifically with natural gas.

The Acting Chair: A fair point.

Joe, if I may jump to the clerk to talk about that document that Dr. Swann brought up.

Mr. Tyrell: Yes. I did follow up with Environment and Sustainable Resource Development trying to get that. The last I heard, the work has been done, but it still hasn't gone through the proper approvals process yet. It's somewhere possibly in the

minister's office or still with the deputy minister at the department.

The Acting Chair: Did you receive that, Dr. Swann? He's playing with the mute button, I'm sure.

Mr. Anglin: In addressing Dr. Swann's comments, if we look at the monetization of natural gas, you have to look at it from the perspective of the market. We talked a lot about access to market in many of our deliberations. Everything about Alberta at this moment is access to market, whether it's bitumen, whether it's LNG. Whatever product we're talking about, it is access to market, and access to market is tied to the environment. You can't get around that now. The standards being set in the U.S. market that we have to meet will determine how we're going to access that market. China just came out with some new protocols dealing with carbon and carbon footprint and carbon offsets. If we want to access that market, we have to meet that standard. That's what our industry is telling us.

To address his issue, when you look at the efficiency of natural gas, you can't negate or ignore the efficiencies around water. One of the big driving forces of much of natural gas, particularly with cogeneration, is that it's far more efficient in its water use compared to coal. We know that. It has other efficiencies. You have to look at that. When you're looking at those efficiencies, you have to calculate in its impact on water, because that's what we look at when we measure the all-in cost of efficiencies with the other energy sources.

Clearly, it's where we draw the boundary. I don't think we can eliminate it, but we have to draw the boundary somewhere in our study that says: we're going to look at it to this length. I won't say exactly where the answer is on the groundwater, but I don't think we can just ignore it and say that it's outside the bounds, because it is part of that formula that says: this is a more efficient use of natural gas versus other sources of energy.

The Acting Chair: Thank you very much, Joe. Would it be a fair statement to say, "The environment and water as it relates to natural gas" as a directional statement for the LAO to frame this document? I don't want to put words in your mouth.

1:10

Mr. Anglin: Well, I think that's fair. I think what we need – maybe we'll ask the LAO to give us a recommendation. Where do we draw the boundary on this? It has to be included in one form or another to an extent. I would say that we need to calculate it in. We can leave open-ended questions for another study, but at some point there needs to be that line, where we're going to draw the line where the water is not going to be pursued anymore. But it has to be calculated in the efficiencies that we're coming to our conclusions on. Does that make sense?

Dr. Massolin: Well, my only question, Mr. Chair, to that would be – I mean, I think the study was confined to the monetization of natural gas, which means an incentive, as you well know. You know all about this now and probably before, too. It means providing incentives to natural gas. Now, I know that relates to other energy sources. There's no question about that. I don't think this committee's mandate and scope were beyond that, to understand natural gas vis-à-vis hydro or other nonrenewables.

The Acting Chair: I'm inviting comments. Given what Dr. Massolin has clarified there, I think we need to clarify the scope, where it is in there.

Mr. Bilous: Are we talking about the impact on the environment, be it groundwater, et cetera, or are we talking about comparing natural gas to other forms of energy? Or did I misunderstand you, Dr. Massolin? Are you talking about renewables compared to natural gas or just the impact?

Dr. Massolin: My sense of it would be – and judging from the motion this committee passed – that, yes, the environmental benefits that natural gas provides vis-à-vis other nonrenewable energy sources would be in scope for the very reason that Mr. Anglin pointed out. That's part of the whole access-to-market strategy, so I think that for that part that's very much in scope.

Dr. Swann: If I may?

The Acting Chair: Okay. You're second on the list after Mr. Anglin.

Mr. Anglin: That's where I was going with it. In the monetization of natural gas there is a cost environmentally, and that cost is more in the way of efficiencies, particularly compared to coal and maybe some other energy sources, so we need to monetize that in many ways to come to this conclusion that we're going to come to. That's where I was taking it.

Dr. Swann: You said it well, I think, Joe. Whenever you're putting a price on something, you're trying to include the real costs and the external costs and compare that to the benefits – right? – the financial returns. If we're not including the whole package, I guess I would say, in our recommendations around the regulations of this industry and if we're not conscious of how we're setting a precedent – and I believe we are – for our commitment to renewable energy, we have to be clear on what the public purse is expected to take in terms of the cost, both monetary cost and external cost, environmental and health costs, of the various incentives or disincentives that we provide in our regulations.

I just want it registered that before we would expect any public money to go to an industry, we would be taking into consideration all these externalities and a longer term horizon for natural gas that includes the gradual and progressive increase in clean, renewable energy. Just focusing so narrowly on one particular product without a longer term view and a broader view on the environment and the costs – cleanup costs and remediation and legal costs perhaps associated with the litigation – that might come out of some of the activities, we're not, I think, taking in the big picture that I think government is expected to.

That's all.

The Acting Chair: Dr. Massolin, you referred to the motion that was agreed upon. What I heard was that the motion was about looking at natural gas and the monetization of natural gas, recognizing that it is a more efficient nonrenewable resource. It seems to me that we're drifting into all of these other pieces beyond that recommendation and comparing it to others. It seems to me that the starting point for this committee's direction and mandate was the assumption that this is – how do we advance that? Care to comment on that? Am I wrong in that assessment?

Dr. Massolin: I don't think that it's for me, necessarily, to comment. You know, you've said what you've said.

The Acting Chair: Yes. Okay. Well, that's what I'm reading in terms of the mandate here.

Mr. Anglin: If I may, I think we're pretty much talking the same thing as to how we're going to show it in the final report. My

recommendation is to acknowledge that there needs to be additional work done in particular areas. The reality is, starting at the beginning, that what Dr. Swann brought up is a subject matter all unto itself and an entirely different study, and clearly we want to see those reports come forward. What I'd like this report to acknowledge is that it will play an important role. It does need to be followed up, probably under a different subject matter all unto itself, but it can't be ignored either because it does play such an important role. That would be my recommendation.

The Acting Chair: I think you've made a really succinct comment, acknowledging that it is not included.

I was handed the exact wording of the mandate as a point to discuss. Moved that

in the interest of encouraging broader and higher-value use of natural gas both domestically and abroad, the committee undertake a study of possible public policy tools to:

- Encourage the consumer use of natural gas by eliminating barriers on the use of natural gas for powering personal vehicles . . . [large and small microgenerators] and home appliances (stoves, clothes dryers, etc.).

The next point is:

- Encourage heavy duty transport vehicles and off-grid power generation using compressed natural gas (CNG) and liquefied natural gas (LNG), including in Canada's north,
- Secure market access for Alberta producers to liquefied natural gas terminals which could distribute the resource at world prices . . .
- Share information on natural gas use, market experience and best practices across Canada and abroad.

Given that definition of the scope and the mandate here I think the stretch would be to acknowledge what's not being discussed but altogether may be a part of an extended conversation or another research piece. I believe – and I'm certainly open to be corrected as the chair – that water and environmental studies are not within the scope and mandate.

Mr. Khan.

Mr. Khan: If I may, I would agree with the deputy chair here. [interjection] Certainly, I've spent a lot of time sitting beside the deputy chair; he's rubbed off on me, perhaps.

Really, Dr. Swann's comments in regard to groundwater are important and certainly have merit. I think we need to stick to the scope of what this committee report is. The report itself speaks to best practice, so I certainly would not have reservations about, as the deputy chair said, acknowledging groundwater and those environmental issues in terms of scope of best practice, but to get too deep in the weeds on that issue I think would be a disservice to our mandate and what we're trying to accomplish with this report.

Mr. Bikman: If I can butt in.

The Acting Chair: Okay. You're not butting in at all. Go ahead, Mr. Bikman.

Mr. Bikman: Thank you. On the issue of incentives I've been following the discussion, of course, with the other side-related issues and agree with the final points that have been reached. I think somebody mentioned the necessity of making sure that incentives are fair. I think perhaps it was Dr. Swann, although I don't suppose it matters which one of us mentioned it. We need to keep that balance.

Also, incentives can produce unintended and potentially costly side effects. For example, wind power has resulted in extra transmission lines and cost way more dead birds than anybody thought about at the time and the requirement for extra backup

capacity to provide power when the wind isn't blowing. Government has a great track record of misallocating resources and creating distortions and unintended consequences. So whatever we do come up with in the area of incentives, we need to make sure that we are being as careful and cautious as we can to anticipate situations that clearly were not anticipated when we made this huge move to wind power, as an example. I don't want to get sidetracked by prompting someone to defend wind power. I'm just saying that there are consequences and that they aren't always anticipated or given their proper weight and cost.

1:20

Ms Calahasen: Mr. Chair, when you read that information as to what we are to do, I think we have to stick with that mandate. However, it doesn't limit us in saying that in the other studies we should do this. That's what I would recommend, that we address those other issues on the other side and then we deal with the concerns that we have been given the mandate to do.

The Acting Chair: Okay. Thank you.

I'm just conscious of the time. We have about 15 minutes to get through some other key . . . [interjection] Ten minutes, and I need a new watch, too. With your permission – I think we've had a full-some discussion here – we can move on to lack of infrastructure.

Ms Zhang.

Ms Zhang: Thank you, Mr. Chair. The section on the lack of infrastructure: some of the priorities suggested by stakeholders relate to the need for pipelines to B.C.'s LNG export facilities. Some of the specific recommendations that came out of those presentations include recommendation 23, building an LNG/CNG corridor between Edmonton and Calgary that can withstand the additional weight of the tanks, and recommendation 24, that government should find a way to offset the costs of building fuelling infrastructure to encourage construction and greater use of natural gas as a fuel.

If the committee would like to discuss those points, back to you, Mr. Chair.

The Acting Chair: Okay. I invite any comments. I'll go to the phone first. Anybody on the phone?

Hearing none, Jacquie Fenske.

Ms Fenske: Thank you very much. With respect to the conversation we had at the onset of the meeting about additional markets and additional value-added products, there probably are some other infrastructure issues that we would have to identify. We talked about cluster development. Certainly, transportation and interconnectivity and electricity: all of those things come into play. Maybe we could somehow mention something about additional infrastructure needs if we are looking at value-adding.

Mr. Anglin: On the issue that the government should find ways to offset costs associated with building fuelling systems, I have a difficult time with that suggestion of the government's responsibility. If this is going to work and if this is going to take off, I can see the role of government making regulations so that the refuelling stations or systems are sort of seamless in its approval process, you know, to address all the concerns, but there's a process in place that's clear and concise. That makes sense for what government should do.

When I see the recommendation that government should offset costs, what I see is a subsidy that I'm not very keen on, how that would come out. I'm not sure who made that recommendation. I assume it was somebody who was looking for, without being

insulting, a handout to get what they needed done. I just hesitate to enter the marketplace.

I think it's a viable alternative as we start to see the transition, but I'm not sure that the government's role is to offset costs for some of these companies. I think the marketplace needs to figure out how they're going to do that. I see the government's role in the regulatory process.

The Acting Chair: If I may, Mr. Anglin, it's a little broader than that, but I see where you're going with that.

Mr. Anglin: Okay.

The Acting Chair: Ms Zhang, can you comment on that? I see the recommendations came from three or four different sources.

Ms Zhang: The recommendation – it's on page 8 there, number 24 – says:

The Government should find ways to offset the costs associated with building fuelling systems in order to encourage the construction of more LNG/CNG fuelling infrastructure, which will encourage greater use of natural gas as a fuel.

I think that perhaps they were discussing what relates to incentives to build the infrastructure so that people will convert their vehicles to LNG/CNG, just because there is a lack of infrastructure. I believe that what they're suggesting is that if you encourage the building of infrastructure, that will encourage the conversion to that transportation fuel.

The stakeholders who brought that up include Calgary Transit, Westport Innovations, Ferus, and Bison Transport.

The Acting Chair: To Joe's point, I think that it shouldn't be just a matter of the government writing a cheque. I think there are many ways to consider a collective benefit around that.

Dr. Swann: Just a reminder that whatever we do to this industry we have to be prepared to do to the renewable industries. That would include, for example, to use the same word, finding ways to offset the costs associated with building the transmission systems from local pods of solar panels or wind turbines. Let's be clear. If we are giving incentives – and there's a significant, obviously, public cost to providing these incentives; we're not just talking about verbal encouragement or philosophical encouragement but talking about public dollars – we need to be thinking broadly about the whole energy system and how it's going to create a level playing field to move towards a cleaner renewable energy for the future.

The Acting Chair: Again, I think that that's certainly a very important issue and valid comments, but going back to our previous comments, I think that's an important issue that is sort of a spinoff but sort of apart from the mandate.

Mr. Bilous.

Mr. Bilous: Thanks. I just wanted to . . .

Dr. Swann: Sorry. Could I just follow up a bit there?

The Acting Chair: Sure.

Dr. Swann: In that recommendation that the government should "find ways to offset the costs associated with building fuelling systems," and in other sections across this report, "find ways to offset the costs associated with natural gas development," could we not include, for example, the phrase: consistent with what they will provide to all other energy forms? In other words, it sets the

discussion from a more narrow perspective of just one industry to saying: this is how we will treat all energy-producing industries. We realize as government that when we're making decisions to subsidize something, we're setting a significant precedent for all energy. It's just a phrase I'm asking for: consistent with other energy production.

Mr. Bilous: Your previous comments I agree with a hundred per cent. I think some of the committee members are going to struggle to agree with the point you just made. I think what maybe the committee would accept is a comment, when we're making a recommendation or a suggestion to government under the incentives umbrella, to encourage the government to incentivize other forms of energy and leave it fairly broad as opposed to getting into specifics. Dr. Swann, as much as you and I would like to see that, I don't think the committee is going to be in favour of it.

Dr. Swann: With all due respect, I think, Deron, I'm talking about a less specific recommendation than you are. I'm suggesting that we just add a phrase: consistent with what government will provide for all forms of energy. I'm not focusing on any in particular.

The Acting Chair: Thank you, Dr. Swann. I think your point is very clear.

Stephen Khan.

Mr. Khan: Thank you, Mr. Chair. Specific to Dr. Swann's request, although I certainly see merit in that conversation that Dr. Swann has, I don't see how specifically what he's asking for falls within the mandate of this report or the committee work that we've done under this report. So I could not support that.

The Acting Chair: Okay. Dr. Swann, I sense some push-back on your suggestion. Would you like to make a motion? Then we can consider it formally.

Dr. Swann: Yeah. I would like to add a phrase somewhere among these recommendations that we recommend various incentives for natural gas development and monetization of natural gas in Alberta and beyond consistent with incentives that will be provided for all other energy forms. That's all.

The Acting Chair: Okay. I think we captured the essence of it. Is everybody clear on what Dr. Swann's motion was?

Could you read it out for us, your version of it, and we'll get Dr. Swann to clarify or endorse it?

1:30

Mr. Tyrell: That
the committee recommend incentives for gas development and monetization of natural gas and beyond consistent with incentives provided with other renewables.
Something along those lines.

Dr. Swann:
Other forms of energy.
It doesn't have to be renewables. Other forms of energy is fine.

The Acting Chair: I'll call the question. All those in favour of Dr. Swann's motion, please say aye or otherwise indicate. On the phone? All those opposed, please indicate. That is defeated.

Mr. Khan: You ended me just before I was going to get to another part.

The Acting Chair: To the good part.

Mr. Khan: You know, Joe and I were so close to agreeing on so many things here. So close.

I think item 24 is written broadly enough that I don't necessarily see or interpret that that's specifically asking for government handouts there. I think it's phrased broadly enough that it leaves us some room to be clever and ingenious about how we can assist our industry stakeholders in creating this sort of infrastructure.

We were so close, Joe.

Mr. Anglin: I'm okay with the government being clever.

The Acting Chair: Okay. Thank you, Joe. That was my read on it, too, but I appreciate the comment.

I see the time. With your permission I'd like to at least get the education portion through, so if we agree to go for a few minutes. Okay. Thank you.

Ms Zhang: There's just one final recommendation under the issue of education, and that is that the government should play a role in educating companies and the general public on the safety and benefits of natural gas in order to increase acceptance and adoption of the fuel.

Back to you.

The Acting Chair: Any comments?

Dr. Swann: A friendly amendment. Government should play a role in educating companies and the general public on the costs and benefits of natural gas. I don't think we want to be one-sided on this. As government I think we're required to provide both the costs, the risks, the downside as well as the positive side. It looks like we are an arm of industry with this recommendation. All we're going to do is educate people about the safety and the benefits. We're not going to talk about any of the risks.

The Acting Chair: So you want to include the costs and benefits in there?

Dr. Swann: Yes.

The Acting Chair: I'll invite comments. Mr. Anglin.

Mr. Anglin: Yeah. To address Dr. Swann's concerns, when I see the word "safety," I think about the risks. I would interpret that more broadly, but I don't have a problem with him, you know, making a motion and adding "risk," but safety is safety, and that should take in the benefits and the risks.

On the other side, dealing with benefits, that is about costs. It is the monetization of natural gas. I just think this is broadly written in the sense that government can play a very important role in a number of different ways to help educate. I think one of the roles of government to try to help this market is to educate. The way I read it is that I read it very broadly, but if somebody wants to get more specific, I'll hear the arguments.

Mr. Bilous: You know, I agree with Dr. Swann. Safety and benefits: it seems to me, in my mind, that the way it reads is one-sided. As soon as we have "benefits," I would like the word "costs" to be in there as well because there are both sides to it.

The other piece that I would recommend is that I don't think that the responsibility should solely be on the government to educate the public and companies. I think industry has a part to play in that as well, I mean, in promoting the industry that they're trying to develop, so my suggestion would be to add industry along with government.

The Acting Chair: Okay. Could I get some feedback on that?

Ms Calahasen: Well, I agree with Joe in terms of the broad – imagine that – but I don’t mind the specifics if we have to do that. I’m okay with that. I like the idea of the partnership, which is government and industry. We should always make sure that both are at the table when we’re talking about these kinds of education systems. So I think this is good in terms of what it says. It could be specific if we want. I think I read within what you were saying, Joe. But I like the idea of the partnership.

The Acting Chair: If I may summarize, we want to have:
educating with industry and including safety and risks, the costs
and the benefits.

Let’s face it. Education needs to be the full spectrum, not just the pie-in-the-sky part. With anything there are always costs and benefits. Does that capture the motion? Okay.

Maybe I’ll call the question. Do we have support for amending in that direction? On the phone? Okay. Anybody against? That’s been carried.

To summarize, it was: the government with industry should play a role in educating companies and the general public on the safety and risks, the costs and benefits of natural gas . . .

Dr. Swann: Sorry, Mr. Chair.

The Acting Chair: Yes?

Dr. Swann: I guess I’m not comfortable with adding “with industry.”

The Acting Chair: Okay. I think the motion has been passed, sir. Did I not fairly represent your objection? Would you like to be . . .

Dr. Swann: I didn’t realize that part of the motion had to do with promoting with industry. One of the challenges I think we face as a government is that we’re seen to be very close to industry, at least government is seen to be very close to industry and is actually doing some of its advertising for it, spending public dollars to promote what the industry can do very well itself.

I guess the question in my mind is that if we see the role of government as being the honest broker between the public interests and the private interests, I don’t think we want to be seen as promoting with industry anything in particular but being the objective, honest broker that’s saying: these are the benefits, these are the risks, this is where we intend to go as a government in terms of setting standards, the monitoring, the evaluation of impacts, that sort of thing, and how much of the public purse we’re willing to invest in this particular sector. I think it looks a little bit too close to say that we’re going to promote it with the industry. That’s all. I’d rather leave out “with the industry.” We’re going to provide education, independent facts, science on risks and benefits to the public. We’re not doing it with anybody; we’re doing it on behalf of the public.

The Acting Chair: Thank you, Dr. Swann. Well, the motion passed, and I think we recorded your eloquent objection.

Mr. Bilous: David, I just wanted to address that. Sorry. I was hoping to make a friendly amendment and change the “with industry” to “and industry.” My intention with that is not that the government is promoting this on behalf of industry, because we framed the rest of it to look at costs and benefits and risks and rewards. So my only position is that it’s not just the government’s responsibility to educate, that industry can also – and they each might have their different views and opinions – but, again, to not put the onus solely on the government.

The Acting Chair: Can I suggest a friendly amendment to “and”? Government and industry should play a role.

Mr. Anglin: I think it’s passed. We already voted.

1:40

The Acting Chair: Okay. Fair enough. I’ve been corrected. It is “with.”

Can I just say that once the report has been tabled as a draft, we can actually have that specific – and we drifted into what I feared, a little bit of wordsmithing. I think we have another kick at the cat, if you will.

I just want to summarize that there have been proposed recommendations by the Progressive Conservative caucus, that you’ve all received. There’s also been a proposed recommendation by the Liberal caucus. If I’m fairly reflecting this, I think we’ve addressed that fairly to the LAO staff in terms of the scope and the mandate. It has been tabled there.

Recognizing the time, I’m going to ask Dr. Massolin to say some closing comments.

Dr. Massolin: Yes. All I’d say, Mr. Chair, is that we’ve got some information here, some feedback, some direction, to begin a draft report. I think we’re lacking some of the things that you’ve mentioned even under the incentive piece. I think the committee reverted to certain of the proposals and drilled down on those, and other areas they kind of glossed over, so I think we need a little bit more direction. That may mean another meeting, another step to this process. We can always put together something, but then I think there will be some holes.

The Acting Chair: Yeah. In terms of next steps: where we have not articulated clarity, can we put that out to the committee in terms of a document to review and give feedback on?

Dr. Massolin: No. Mr. Chair, I hate to disagree, but I think a meeting would be required.

The Acting Chair: Okay. Fair enough.

With your permission I will find a date that is suitable for everybody, and we will send out a request for that meeting, and we’ll reconvene in the new year.

Motion to adjourn? Pearl. Anybody opposed? Okay. That’s passed.

[The committee adjourned at 1:42 p.m.]

