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8:06 p.m.

[Mrs. Gordon in the Chair]

Subcommittee D - Energy

Gordon, Judy, Chairman
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Amery, Moe
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THE CHAIRMAN: I'm going to call the committee to order. We are in committee, and you can certainly get up and have a coffee and move around, et cetera. I'd ask you to please be attentive to what is being said and who is speaking.

I will first ask the hon. Minister of Energy to start off, and then I will next ask the critic for the Official Opposition.

So go ahead, hon. minister.

DR. WEST: Thank you very much, Madam Chairman. Tonight we're looking at the budget of the Ministry of Energy, in which we're in consideration of \$79 million, which includes the Alberta Energy and Utilities Board.

With me tonight are some key individuals in the Department of Energy that work long hours to get these things prepared. With us is John Donner, the ADM of the planning and development division; Don Keech, ADM of corporate services and our chief financial officer; David Smith, ADM of the mineral operations division; and we have . . . Is your son here with you?

MR. SMITH: Yes, he is.

DR. WEST: Yes, another one coming up there, another Mr. Smith. We have Harvey Walker, executive director of financial services. With us also is Neil McCrank, chair of the Alberta Energy and Utilities Board.

I'm going to give a few highlights of the Department of Energy this year. I will state at the end and state now that the budget hasn't changed. The only change in the total figure is the transfer of the gas co-ops and REAs over from the Department of Transportation and Utilities, which was a direct line increase in the budget, as well as some \$690,000 that came across from Treasury to accommodate the 5 percent wage change that took place this year, the return of the 5 percent. So in essence this budget stays the same as it was last year and, as I say, is a flat-line budget. There was some movement around internally to meet climate change and some things in electrical deregulation, a movement between division of moneys, but the total amounts have not changed from last year.

Now the state of the industry today. We're all aware that this department deals with some specific areas of resource revenues and that the industry has gone through some changes this year. The oil and gas industry represents about 25 percent of the investment in Alberta today, and nearly 70 percent of the value of our exports is energy based. The industry employs a lot of Albertans - you're aware of that - and is one of the major employers of the province actually.

We've seen the oil prices go up and down this year, and we're looking with interest as the OPEC nations and non-OPEC nations

get together. The Hague process they call it this time. They agreed today that they would look at cutting 2 million barrels a day. We trust this can be accomplished, but with countries such as Iran and Venezuela and some of the others in the equation, whether that can be controlled or not will be interesting to see. Oil hit \$15.03 a barrel this afternoon, but our projection has been around \$13.50 going into '99 and going up the next year. It has affected the revenues in the province, but thank God for gas. It's a highlight. We've seen good strength in the gas industry, and it will take up a position to steady us through this low oil price.

The industry has had to adjust, so you've seen a lot of changes, especially in the heavier end oils, and drilling activities have certainly paid a price for the low oil prices. Now, we have a lot of significant investment in spite of those oil prices, and I'm going to give you some stats right now that will capture the year.

It wasn't as exceptional as '97-98, which was our big year, but we issued in 1998 some 8,933 drilling licences in the province, which was considered a good year before the big year of '97. We completed 7,273 wells; 2,000 of these were oil wells and 3,724 were natural gas. About 1,467 were dry wells at the time.

Our marketable natural gas sales were about 5.2 trillion cubic feet, and that equates to around 13 BCF, billion cubic feet, a day in the province of Alberta, which is quite remarkable. We export about half of this, 2.6 trillion cubic feet, to the United States and 1.4 trillion cubic feet to the rest of Canada. The remaining 1.2 trillion cubic feet stayed right here in Alberta.

The forecasted value of our '98 production is \$9.8 billion. This is up very slightly from '97, with a production value of \$9.74 billion. So you can see that even with a soft year going in, we were still holding fairly well.

The 1998 production level in oil - and I mean all oils - was about 1,654,000 barrels per day in the province of Alberta. Thinking that Canada produces about 2 million barrels a day, you can see the significance of Alberta in this. We haven't got the final results from the EUB yet. We export 980,000 barrels each and every day to the United States and offshore, we export another 258,000 barrels a day to the rest of Canada, and we use the remaining 415,000 barrels in Alberta each and every day. The value of our '98 oil production was \$9.6 billion, and this is down from the \$13.8 billion in '97.

So now you see the reflection: gas stayed pretty well steady, but oil dropped down. It gives you that snapshot.

Our oil and gas exports have more than doubled since 1991. Now, this is a stat that is significant. Our exports out of this province totaled more than \$16 billion last year. Alberta's energy exports make up more than half of Alberta's total exports of \$30 billion.

Now, on the other side, coal has been in tough, folks. If it hadn't been for the market here, our generating of electricity - with coal exports and that, with the Japanese and Asian markets being soft, coal has got a tough go. The price of coal throughout the world is very low, and with the conversion in many, many countries, including Europe, to electrical generation from natural gas, you're going to see coal used less and less.

I was just down in Venezuela, and I gave them the 50-year snapshot of the gas industry in the province of Alberta. In Venezuela we've got a lot of companies wanting to look at that. They're where we were about 40 years ago. They're 90 percent dependent on oil, and they didn't develop their natural gas. It's all solution gas. They drive it into the ground, or they don't use very much of it. They listened intently. They couldn't believe that 3 million people in the province of Alberta had a gas production industry midstream, upstream, and downstream of the significance we had. They were absolutely floored. They were also floored by the dimension of the whole energy industry in this province. Their total GDP for a country of 22 million people was \$85 billion, and our seasonally adjusted GDP was \$101 billion in the province of Alberta. Now, that gives you the significance of a country that has the potential to produce 6 and a half million barrels of oil a day. That's Venezuela.

I'm going to make a few comments, if you'll bear with me. I wanted to give some stats as it relates to the natural gas industry, because it's very important. Alberta is a centre of natural gas liquids. Processing and production accounts for 91 percent of Canadian gas processing capacity, and 97 percent of the gas plant NGL production is right here in this province. The natural gas liquid recovery takes place in some 600 field facilities, where propanes and butanes are extracted, and seven straddle plants where ethane, the base of our petrochemical industry, is extracted. Three of the five largest gas processing plants in the world are straddle plants located in Alberta. Alberta is a major player in North America, and significant investments by TransCanada Midstream, Centurion Gas Liquids, Imperial Oil, and BP Amoco are either committed or under consideration and will expand our gas processing ability. They are putting in straddle plants, and there are going to be many thousands of barrels of liquids brought out of the oil sands too. That's been committed here recently.

8:16

Last year we produced 77,700 cubic metres a day - that's 490,500 barrels a day - of ethane, propane, and butane. If somebody asks you sometime where our liquids production is, it's very, very healthy. Ethane was about 210,000 barrels a day, propane 178,000, and butane about 102,000. Alberta ranks 13th in the world in ethylene capacity. This is a benchmark throughout the world. They do it in ethylene to rank us as far as comparison. Our ethylene production has upgraded Alberta into a variety of derivatives - polystyrene, polyethylene, and ethylene glycol. Last year we exported nearly \$5.8 billion in chemicals and chemical products.

More than \$4 billion Canadian has been invested in world-scale ethylene and ethylene-related production facilities in this province. It has allowed Alberta's share of the global ethylene production to double to 2.7 percent in '98, from 1.3 in the mid-70s. The growth factor in Alberta's petrochemical industry is phenomenal. The investments currently under way will increase Alberta's share of global ethylene production to 4.2 percent by the time new facilities come on-line in the year 2000.

The ethylene plant being constructed by Nova and Union Carbide at Nova's existing Joffre site will make the site the single largest ethylene production facility known in the world today. Just a month ago BP Amoco announced that it's ready to begin construction on its \$400 million petrochemical plant which will be built in Alberta. This is a linear alpha olefin plant, which is very important to be in the campus of productions. We had to import all that before. By 2000 the total investment in Alberta's ethylene and ethylene derivative plants will be 6 and a half billion dollars. That really blows them away when you talk to the people in Venezuela, which has a greater capacity than we have, actually, if they ever get to their free gas.

I told at the beginning the changes in this year's budget. We did move over the rural utilities branch from Transportation and Utilities, and that brought over about \$7 million. So that's now under the Department of Energy, and they'll be moving from the Twin Atria Building over to Petroleum Plaza in the next few weeks. We also transferred, remember, AOSTRA to the science, research, and information technology portfolio. We moved over about \$24 million when we did that. The number of people involved in both of these was about the same. We got about 19 FTEs from transportation, and we gave the minister of science and research about 19.

We're keeping about \$8 million of the operating funds, research funds to implement the royalty and related information review system. We're going to set up a high-tech royalty system, and it's going to take about \$24 million. That'll be up and running starting in June, but after that, of course, we've indicated to the research division that those moneys could be dealt with through Treasury.

I mentioned the \$690,000 provided by Treasury for salary adjustment - that's in here - and \$171,000 less in grants to the EUB. Also, the EUB forecasts a decrease in their costs, and our budget reflects that.

So, Madam Chairman, I'm going to leave it there. I'm sure there are other stats that I can get to. You have copies of our business plan. The highlights will indicate, and your questions will likely come in - we're still working on the electrical deregulation. That's one of our highlights that we've put forward. Climate change issues and the environmental issues affecting the energy sector: that's very important. We're also developing a nonenergy mineral development policy, which is fairly well advanced. We're hoping June on that. These are diamonds, folks, and some of the other things. There is potential in this province for that. I mentioned the royalty system for the information review that we've done, and that's being implemented.

We are enabling development of secondary processing opportunities. We work through Economic Development. They have the stats in that direction, but that's the petrochemical industry. Then the competitive access to external markets, the pipeline issues, Alliance, and some of the granddaddies that have just been announced. Note that we will not have a disconnect in our gas going into the future, and we should get North American prices for that.

I mentioned the transfer of rural electrification programs from ATU. The Energy and Utilities Board has to look at many of the emergent conservation issues, and that's going to be a highlight for them, and some of your questions may be in that line. They have to design a regulatory process that'll align with changes occurring in the Alberta electrical industry. That's a big issue, because now instead of being a regulator, they've got to mitigate some of the changes that will take place in some of the tariffs.

Improve the timeliness of EUB decisions. I've been assured that we're going to shorten the time frame so that this is a friendly place to do business and companies want to bring their capital here. We will also be looking at high-risk operations, the sour gas, and other areas. One of the big things is reducing flaring. We made an announcement recently from the EUB that they are targeting a further 25 percent reduction. You will see the day, folks, we're going to take this right off the horizon here, and one of our announcements of a royalty waiver on gas going into electrical generation off flaring will help do that. Of course, we also are looking at facilitating more mapping of the geologically favourable areas throughout the province, and that has to do with some of that nonmineral development.

That's it, Madam Chairman. I know there will be good questions, and we'll get to some of the details on some of these. I'll listen carefully, and whatever I can't answer here tonight, the division will

put out written answers to all of you as it relates to some of your questions, because I won't be able to cover them all here tonight.

THE CHAIRMAN: Okay, thank you very much hon. minister. I think, just due to the configuration of the room, if you would like to indicate to me you want to be on the speaking list, that would probably make it a little easier. I will be recognizing next the critic, and that's Edmonton-Calder.

MR. WHITE: Madam Chairman, just to go through the procedure. It's my understanding that the opposition - there's only three of us here at the moment. We'll be allowed 20 minutes at a time to ask questions?

THE CHAIRMAN: The maximum time for any member that wishes to speak here is up to 20 minutes, yes.

MR. WHITE: To ask questions straight on as opposed to the question and answer. This particular minister and others, too . . .

THE CHAIRMAN: This, Edmonton-Calder, is the same as if it were being held in the Assembly. This is not a designated committee. This is a committee similar to what is happening right now in the Assembly, so it's a 20-minute time limit. You can talk for 20 minutes, and the minister has indicated either he will answer the questions or at the end of the evening he can answer them or whatever.

MR. WHITE: Yeah, that's mostly the latter, whatever. He does do a good job.

First of all, I'd like to say that this particular department is probably the department that we, the opposition, agree with most of the policies that are held, and I think the minister would agree with that. But that's not a question. He doesn't have to reply to that one. You'll know why because, in fact, this is a major generator of income in this province, and we do appreciate the efforts of the minister and all the staff in order to keep the province above the red line, as it were.

Mr. Minister, I'll start with some capital expenditures. Can the minister explain the \$581,000, just over a half a million dollars or 44 percent reduction in capital investment between the 1998-99 estimate and the 1998-99 forecast? If the minister could be so kind as to more fully explain - that which you said off the top was something to the effect that our expenditures have not changed from the last budget year to this forthcoming budget year, to the '99-2000 year. Yet page 159 indicates something quite different. There's a substantial increase. Now, the minister did explain that there was an inclusion of a move from one department to another, I gather from transportation, and there was a movement of some FTEs out. Can you do the balancing of that so that the numbers jibe a little better with what the minister was saying to begin with?

8:26

As to the FTEs, we would appreciate a response and a much more in-depth analysis of the manpower and the FTEs, both in the department and in the AUEB. You have on page 163, in the department, a grand total of 1,234 employees, but we'd prefer to see that broken down into the program areas and really an org chart, I suppose, just to see where the people are and where the manpower gets moved from year to year.

The department expenses by object in the '99-2000 year: we'd like that broken down too in permanent position salaries and nonpermanent position salaries, wages, those that are on contract, travel

expenses, advertising, telephone communications, hosting, and the lot. Basically, we'd like to see where the money is spent on employees, because we have a fairly decent accounting of income elsewhere in the book.

Will the minister provide a breakdown for the other revenues? I believe that's on page 159 again. There's some \$925,000 unaccounted for there, and it varies, as you'll notice on that line, from the budget of the fiscal year that's just ending, '98-99, from \$2,107,000 down to \$925,000. It's a fairly substantial difference. At this point I'd like to also add that one of my colleagues, one of your favourites, the Member for Spruce Grove-Sturgeon-St. Albert, has asked a question I gather she's asked before: where does she find the nonrenewable resource revenue for things such as gold and diamonds and other assorted precious metals and minerals? It does not seem to have a line item there. It may be in various other revenues, but we would have thought it would have been mostly in nonrenewable resources.

A question related to an item in program 1 here, and it goes like this: how many FTEs are employed under program 1, department support services, in the '98-99 year, and in which subprograms are they employed? What are the projections for the FTEs on into the 2000-2001 year and the 2001-2002 year? That's page 148 of the government estimates.

What is the breakdown of the projected department support services budget for the 2000-2001 year and the breakdown of the 2001 and 2002 year? It seems to be flat through those years. We'd like that broken down by subprogram, with the minister's office, deputy's office, corporate services, communication, internal audit, and legal services. That's from the business plan page 130 and the estimates page 148.

Turning now to the minister's office with the expenditures there. Will the minister provide a breakdown of his office expenses for the '98-99 year by the following expense objects: salaries, wages, travel expenses, advertising contracts, and hosting. That's a breakout of page 148. And the deputy's office too. Will the minister explain the reasons behind the \$57,000 or 13.5 percent reduction in expenditures of the deputy's office from the previous year's comparable estimate and forecast. It's also on 148, sir.

Corporate services, 1.0.3: will the minister explain activities that corporate services will be undertaking in the '99-2000 year to justify a 20 percent or a \$2.6 million increase in operating expenses, and will the minister provide a further breakdown of the number of FTEs projected to be employed in corporate services from '99-2000, 2000-2001, and 2001-2002. Can the minister or staff explain the 108 percent increase in capital investment or \$320,000 under subprogram 1.0.3, corporate services, for the coming budget year of '99-2000? Why did corporate services underexpend its capital budget in the '98-99 year by almost \$400,000? That's also on page 148.

Will the minister provide an update on the plan that was indicated at one time to integrate corporate services functions of the department and the EUB. I gather there was some study on that over a number of years, and most recently, I believe, the minister has a study in his hands that could explain some of that and what the plans for this coming year are. What role did Arlington Consulting Group play in that review, and what costs were attributed to that function that Arlington carried out? And what are the time lines for integration if integration is set to take place, what various functions will remain in each group, and in particular how is the integrity of the board to stay clear of the function of the department so as to be able to remain independent from the administration of the department as well as at arm's length from the minister's office?

What are the cost savings and efficiencies of the plan? I suppose it's more of a political statement. With the cost savings is there an

evaluation of some of that risk that I just spoke of earlier? Was the cost-benefit analysis prepared, and will in fact all that be released in answer to these questions or in a package that can be released to the public?

What will be the impact of the FTEs in the area through this potential integration over the course of a three-year plan? That's the implementation of the synergies and the opportunities of integrating some of the operations and what effect that has on the function of the FTEs.

Will the minister provide an update of the activities of the corporate services by implementing the recommendations flowing out of the performance and reporting project? How are the implementation strategies reflected in the three-year business plan? What would be the internal performance measures that can be developed by corporate services to gauge the efficiencies of these strategies as it relates to each one of the business lines? That's also on page 148 of the government estimates.

8:36

What are the steps being taken in this coming budget year, the '99-2000 year, to ensure that the core business of the department is interrelated in the most effective and efficient manner to manage the human resources and information technologies to meet the performance criteria? I think a number of performance criteria there have been described.

What are the human resource plans that are being developed by corporate services so that the ministry staff can meet the current and future skills needed in order to effectively serve the public and the industry? Those are the human resource development plans really. What is the status of the quality management and service initiative? That's the QMAS, that has been implemented within corporate services. I'd like to know how far along they are. Have they fully reported and completed, or are they in the midst of the performance of that function?

What information technology improvements are being examined within corporate services to improve service levels and minimize costs in the upcoming '99-2000 year budget? What is the status of the activities being conducted by corporate services to identify the optimum energy information management strategy for the department? What is the status of the investigation of activity-based costing? That's the amount of revenue generated compared to the cost of outputs as a planning and streamlining tool. It's also on page 148 of the estimates.

Now, what type of alternative service delivery methods is the ministry evaluating to improve efficiency, including partnering and the sharing of costs with other ministries and perhaps industry also? Will the minister provide an update on plans developed by the Ministry of Energy to ensure Y2K compliance and monitor industry's compliance so as to prevent the predicted disasters? That's both in electrical production and service in oil and gas. I suspect that electrical energy is the most critical.

I'm moving to the communications area. Will the minister provide some further information as to the role and the function objectives, the accomplishments in this section in such areas as co-ordination with other departments, dissemination of public information, administration of the Calgary Information Centre, educational and promotional activities, energy trade missions, and visitor programs? What steps will be taken in the upcoming '99-2000 budget year by the communications people to fulfill its objective by acting as an advocate for industry in such areas in relationship with other departments, particularly the departments of Environmental Protection, agriculture, Treasury, and Intergovernmental and Aboriginal Affairs, and promoting the inherent value of geological characteristics of the western sedimentary basin?

I'm trying to move on here as quickly as I can. What integral benchmarks have been established to measure success in the communications division to fulfill its roles and responsibilities? What role has the communications division played in the implementation of Alberta's position on climate change, as presented at the Regina conference of the ministers of environment and energy in November of '97, called A Balanced Approach to Effective Climate Protection? What role did the communications division play in the development of Alberta's strategy on climate change, released by the cabinet committee on climate change in October of 1998?

What role did the communications division play in the dissemination of information to Albertans on proactive steps that can be taken to deal with climate change as a voluntary challenge registry - that's a VCR - and other voluntary consumer measures? How is the communications division responding to the recommendations of the energy sector reporting to the Alberta growth summit to engage the public in discussion moving towards commitment to agreed-upon changes and solutions regarding direction on climate change?

I didn't get to the internal audit sections. We'll get to that before we get to program 2. Thank you, Madam Chairman, for your time, and I'll allow the minister some time if he wishes.

THE CHAIRMAN: Hon. minister, do you wish to answer those questions now?

DR. WEST: Well, I'll take a stab at a few, but I can't answer most of it in depth in consideration of the detail that is requested.

All I can say is that we have complete flowcharts here - I have them with me, if the hon. member wants to see them - on every expenditure in every office right down to postage stamps, hosting, and material supplies for every office, including my office and the deputy minister's office, corporate services. I have a breakdown for every department - you can have this; I'll hand this across - of the manpower allocations from the department and that sort of thing, but we will get you some of the information that you asked for in detail. As I say, the worksheets that we have spell out exactly the expenditure right down to the paper clips, so I don't have any problems with those questions.

You said that the expenditures had not changed. I did indicate that the money transferred over from Transportation and Utilities with the 19 FTEs added to the difference between last year's budget of \$69 million and this year's budget of \$78 million - if you add the 7 million plus dollars that came over from Transportation plus the \$690,000 that was given by Treasury to accommodate the wage increments along with some moneys that came from EUB of underexpenditures, if you add those up, you will come close to the \$79 million. So that's why I said that a lot hasn't changed.

There was one other, 1 and a half million dollars for the orphaned well program, that we had to get through Treasury. It's a unique problem that we have with the orphaned well program in that the money is tied up in Treasury, but it's actually a fund that belongs to the industry, and there's quite a concern over that. So that one each year will require that we have to make through Treasury a request for money to access the orphaned well fund.

I talked about the FTEs. I gave you a sheet. You asked about them. Why the cap rolls down: that answer will come. I don't have that specific target for that \$581,000. We will have that for you.

The nonrenewable resource revenues. Well, we did change the royalty in gold, but I think we took out of total gold royalties \$30,000 one year. I think it's down to around \$15,000 now because we've changed it. So that gives you the idea that the gold rush is over, and the amount of money that's here will be in miscellaneous. We don't take any royalties on diamonds at the present time. We

don't have a structure for that. Of course, the other nonmineral things that we have in the province: we do take money from coal, and it will be shown as a revenue increase. The only other one I know of is ammonite. We don't take a royalty on that. That's the one that they take out for jewelry or fossils. We'll clarify any of those miscellaneous ones for you, but there isn't a lot, to tell you the truth. It's oil, gas, and other revenues from coal and that.

8:46

You asked about the manpower going out to 2001 and 2002. We'll get you an explanation. It's pretty hard to know. Their settlements will come every year internally; wage settlements and contract settlements come out. It's pretty hard to write into a three-year business plan the fluctuations that that will indicate to us. The other thing is attrition and movement of personnel. We have to flatline these out in a three-year budget plan, and then we will correct those each year if there's been some variance in those. It's very difficult in three-year budget plans. We can set out the policy and the principles, and the general coverage of the budget we won't be varying, but the internal complexities of manpower, for example, may not be absolutely predictable as we go out two, three years. You can understand that, because people have the freedom to move, people get sick, and we may have to hire people in specific areas if somebody leaves. So that's a hard one.

You spent some time probing on the EUB and the Department of Energy. We did studies and the previous minister did studies on restructuring of these. Your question is a bit redundant because we are not going in that direction. We have changed leadership at the EUB. We have looked internally at the Department of Energy. We are working on information-related systems back and forth between the EUB. We are also interfacing on some other policies and programs as it relates to licensing and some of the other issues around the pipelines and what have you. But we're not as much indicating now that we want a wholesale restructuring internally, and there's no integration of the Department of Energy and the EUB in that sense. The new chairman certainly will look at separating out what is quasi-judicial and what is parking.

I found it interesting when the new chairman came in. He had worked a lot previously in Justice and that, dealing with one of the biggest quasi-judicial boards, and that's the courts. It was insinuated at one time that everything from parking to where the water fountain was was quasi-judicial. Well, that's not true. The process - and we have many quasi-judicial boards - can be kept whole, but they can still work on restructuring or good, efficient management of the administration and some of those factors. One of the contests that I had when I first came in here was to try to get that mind-set that the EUB as well as the Department of Energy should be flexible in their administration and not be intimidated by change, because everything was quasi-judicial in the public interest. I hope that explains it to you.

The Arlington Consulting Group. Whatever costs were there, we can get those to you. We had a look at it, but because of the professionals that we need inside the EUB and some of the manpower movement that's taken place, we will have to look at a funding model for the EUB that addresses some of the concerns in mitigation of landowner problems, some of the issues from safety. They'll be coming back with a new funding model. They're working on it with the private sector as well as public input as well as from the Department of Energy and the EUB, and we'll bring that forth to committee.

We want to strengthen the EUB. They do need bench strength in certain areas. They've lost professionals over the years because of the high level of activity in the private sector. There was a kind of

scavenging going on at both the Department of Energy and the EUB. As we move forward in the future, we will try to find good efficiencies in our information systems, but there won't be an integration of these two bodies. They both have separate identities. The EUB is under legislation, and it will be protected as a world-class, renowned organization. Outside of that, you had indicated something about the geological survey and science systems. We're putting more money into that. We indicated another million and a half to the Chamber of Resources in working on mapping the nonenergy source minerals. There is a problem, however, because CAPP and SEPAC are concerned at the present time that the money for the geological survey in the provinces comes out of fees to them, and in fact probably \$3 million is used on nonenergy related mapping and research. Therefore, we're going to be looking internally - and I'll send that message out - whether they should fairly be charged for that function when indeed it's diamonds and gold or whatever it is that represents the other side of it. I don't think the industry minds paying for their share of geological science, but I think the province may have a role in the rest of it.

Climate change. We are co-ordinating with other departments. The ministry of environment's here, and John Donner has been a leader in Canada. He is renowned in other provinces and the federal government as having worked and co-ordinated this climate change initiative and the tables that are being worked on, massive tables studying climate change. So your question was: are we co-ordinating? Yes. We're going to have a roundtable this spring on climate change. We're inviting a cross-section of Albertans and groups to sit down and discuss how we can communicate. You said: what's our communication division doing? We are going to need the communication divisions of all departments as well as the EUB and others, industry, the municipalities, all the consumers of energy, so that they know what their role is.

Climate change is an energy consumption issue, and the people of Alberta, Canada, and North America are going to pay for it. No ifs, ands, or buts. The communication must go out and indicate to them in the strongest manner what changes in their lives have to be addressed in order to meet the CO₂ emissions and the other six gases that we're talking about. Now, if that's what you meant by the question, I can say: yes, we are, but the Department of Energy's communication division is not going to be the total lead on this. There'll be Environment, and there'll be communication divisions from Public Affairs involved in this as we go forth following the summit we're going to have.

All I can say is that AEDA has played a huge role in this. The private-sector table that sits down through Economic Development has done a tremendous job in addressing some of the issues around climate change to give us direction. Finally Alberta has gotten recognition from the federal government in the strongest sense. We lead in many of our developed positions and our companies lead in voluntary challenge. In fact at the last awards that were given out in Ottawa, the major awards were given to Alberta, and lo and behold, which government across all Canada that was nominated won the award for the most CO₂ emission control? The Alberta government, over the federal government and over Ontario, and those were the ones nominated. So I give thanks again to John Donner and some of the teams. He's done tremendous work in this area.

All right; that's enough on that. On the other details you asked for, I do have the breakouts. We have the worksheets on every corporate division, mineral division, and what have you. You can have a look at those. They do come to Public Accounts later on.

We are working on the very thing that you're asking. I think it's a good question. The department has come to expenditure worksheets, right down to freight and rentals, and you're asking how this

breaks down. I think these are excellent worksheets: legal services, corporate services, expenditures, assistant deputy minister's office, administration units. If you get these all broken down - travel expenses, hosting, insurance, freight and postage, telephone, repairs and maintenance - then pretty soon it starts to make sense. I think that's the toughest thing in looking at budgets.

8:56

I don't know how we'd do that in the future, but I think your questions aren't as far out as they might appear. I can't even read somebody's budget. I mean, it's like reading your accountant's estimate of your business. You have to get another accountant to tell you what your accountant told you about your business. We don't do a very good job of outlining the exact expenditures right down to putting wheels on chairs, you know.

THE CHAIRMAN: Thank you, hon. minister.

The hon. Member for Airdrie-Rocky View, followed by the hon. Member for Calgary-Buffalo.

MS HALEY: Thank you. Mr. Minister, I just have a few questions. They're not specific numbered questions but rather more from your business plan and the ministry business plan here. With regard to the royalty tax credit changes that you are forecasting in here, which would see the payment go from \$225 million down to \$191 million, I think, is the way it flows across to 2001, the question I have for you is: are you anticipating any major impact on some of the small- and medium-sized oil companies that are expressing concern about this particular program at this particular time? That would be number 1.

The second one is with regard to the Chamber of Resources group that had at one point shown me and several other people a map of Alberta, British Columbia, Northwest Territories, and Saskatchewan. On that map there was a tremendous amount of work other than oil and gas and coal that had been done throughout those other areas with regard to diamonds or gold or that type of mineral resource. They indicated at that point that there was not very much work by comparison that had been done in Alberta, and that was in large part because our mapping hadn't been perhaps as up to date as other places. I was wondering if there's any movement on your side or on the part of your department to expand that. I looked in here, but I couldn't find anything specifically. Well, it could be there, and I just missed it. Anyway, I'd like some clarification on that.

Another area is the Y2K compliance of your department, the energy industry, and the electrical industry. I've been following along on the web site that indicates that everybody's basically saying, "Well, things are coming together really well," but I want to know if your department is taking a role in monitoring this, if you're convinced that your own department is in fact Y2K compliant but more importantly in areas where it'll impact the people of the province with regard to their electricity or their natural gas for heating their homes in the middle of winter. Do you have a level of comfort that companies in Alberta in fact either are already in compliance with that or will be before the end of the year?

On the EUB, one of the performance measures or one of the indications in here is that you're working towards reducing even further the turnaround time on applications, but that was just on a regular well. I guess my question would be with regard to sour gas wells. What is it that you anticipate would be a reasonable amount of time for an application on a sour gas well? I use as an example the one out on Lochend Road, which just happens to be in my constituency. The hearings for that were last May, and everybody is sort of still waiting and holding their breath wondering what will

happen. Is this the standard amount of time that one can anticipate? If you could enlighten me with regard to that and your performance measures by comparison.

Another area that I was wondering about was on the petrochemical side. The question is basically with regard to Alliance Pipeline and what impact there would be on our petrochemical industry if we can't find a way to ensure that our gas isn't pumped raw through the system down into Chicago, where they in fact could build our petrochemical industry down there. Where are we at on that particular issue?

My last question, Mr. Minister, is with regard to research. We have a very active research and technology department coming along here with ASRA in our own ministry, but with regard to the Department of Energy could you just give me some indication of whether or not the Department of Energy is actively involved in any research projects, and if so what they might be?

Thank you, Madam Chairman.

THE CHAIRMAN: Hon. minister.

DR. WEST: Okay. I like your questions, because they get right to the meat of some things, and they're easier to answer. It's not that yours aren't, Edmonton-Calder, but some them are detailed academics.

Y2K. Edmonton-Calder asked about this too. We have had assurances and we have worked internally at the Department of Energy with the electrical generators in the province, with the gas companies. We have done a cross-section of checks with some of the major companies, whether it's PanCanadian or whether its Petro-Canada or even right down to the petrochemical industry. They assure us that they're okay. They may have to do some fine-tuning, but they have done considerable work to ensure that their customers are not interrupted. So we have assurance that going forward into the year 2000, unless there's a big storm that night, the turkey should be done.

I think there's been a lot of fear mongering - I'll put it that way - on this Y2K. Ontario Hydro the other day ran a test and advanced everything forward and found out that they blew right on by the year 2000 with not one blink. They made a statement that they were very concerned about the amount of fear mongering that's going on on Y2K. That doesn't mean that your home computer will work, but the majors that have been upgrading over the last five years and looking at this problem are well in control of this. I haven't got one iota of fear going into the year 2000.

That doesn't mean, as I say, that there aren't some outdated things there with chips. I know that my own computer at home is only a WordPerfect machine. It won't store much of my accounting work after that. That just means I have to buy a new machine. I won't even get anybody to look at it.

So on Y2K I think we're in good shape. The Department of Energy has done their own homework internally, because our information systems, royalty information, and all that has to work too. I mean, it's a big concern.

How much research do we do? We worked with the department of technology and research to transfer the last of AOSTRA over. We're trying to focus that department and, as I say, to give better force to a balanced research division. We still have the board of private-sector advisers that will look at projects with the Alberta Research Council, but as I say, the actual work that we're going to be doing in research come another year or two will be done over there.

They will work on setting up climate change research. Probably a chair or something will be established. After this summit we'll

hope that they'll come back with certain recommendations, and of course other types of research, whether it's in the oil sands, will be co-ordinated through ASRA. It's not that we won't be looking in, but we feel that if we are going to give the force to one department to represent research in this province, let's damn well get at it, and maybe send a message to Agriculture to have a look at that too.

ARTC changes. Well, we're going to sit down with CAPP and SEPAC very shortly and explain to them exactly what's coming off. The ARTC will affect about 8,500 passive investors who are trust companies or individuals. They didn't drill any wells. They got less than \$250 a year. There'll be another 1,500 that got less than \$5,000 affected by this. There is a cutoff in the large companies at a certain royalty level that will affect some 35 major companies as it relates to their production. There will be a few caught in the middle of this. We want to sit down and talk to them about that. We put a \$10,000 ceiling on this, so this will affect a few companies caught in and around a certain level. One of their concerns was, of course, the banks and how they would fund operating flow if this affected them in a major way. We're going to be sitting down again with CAPP. We've told them that we will go over the administrative structure and look at it very carefully to see what effect this has.

When we looked at this, we wanted to ensure that 80 percent, 90 percent of the people who are drilling wells in this province actually are getting - these are small to medium-size companies that are actually doing exploration and development. All those others, those 10,000 or so people that don't, will be able to get their returns through the companies on dividends if they make a profit. [interjection] But it's small. I mean, can you imagine? We administratively did all this work for \$8,500. They got less than \$250 a year. What was going on? I don't suppose anybody knew that. I'm just saying that I don't know why you would go through the maceration of the costly administration we did for that kind of end result. But that's another issue. At any rate, it is sensitive with the industry at a time when oil is at the price it is, and we will certainly be working with them. This does not come into effect until January 1, 2001, and it won't affect everybody in that initial year. It will be phased in over a couple of years. So it's going into the future.

9:06

Now, what else? That petrochemical Alliance pipeline: who brought that up? Well, we have a task force looking at it. It'll be reporting fairly shortly. Fort Saskatchewan and an MLA from Red Deer sat down with the industry. We've met with the industry. They are working and communicating among themselves right now between the large players of CAPP: the TransCanadas, the Novas, the Dows, the Shells. They've found out some very interesting things, that when they communicated with each other, perhaps they could look at some market solutions to this to ensure that there wasn't an unfair or tipped playing field for Aux Sable petrochemical plant at Chicago, which is in construction right today.

The supply of liquids going forward, by the look of many of the companies that have just announced their plans, is going to be ample. The amount, if at 60,000 to 70,000 barrels coming off Alliance at the other end - I mean, we're shipping on the Cochin line at the present time thousands of barrels a day, and they've been going down there for 25 years. So the marketplace, I want them to sit down. The avenues we have would change the scope - and that'll come out in the report - of how we collect royalties, how we take that. I don't know whether we want to go down that line on this marketplace.

It was interesting to note - and I'm going to get in touch with them - how Nova Scotia and the east coast are looking at putting in legislation to help develop the petrochemical industry there after the

Sable Island gas lines. I'll be having the department tell me what they're doing down there. At any rate, I have fairly good confidence that our petrochemical industry will stay strong. We're going to work with them, though, to ensure that. There is a question that was brought up between some of the major players. It isn't just an issue around ethane itself. It's an issue around the hotter ends of propanes and some of the others, butanes.

All right. The turnaround time on sour gas wells. Well, listen. There are 4,000 sour gas wells in the province of Alberta. We have 40,000 gas wells, so they make up sometimes less than 10 percent of them. Our turnaround on normal wells is what our benchmark will be. A sour gas well has a lot of interface with the public, with the environment that it is targeted to, safety matters, and that sort of thing, so to put an absolute turnaround on any one well compared to the other 40,000 or 30,000 - I'll get that answer to you if there's a different one, but I think some of these are very complicated and are going to take a lot of time.

The other thing is, one nice thing. The sour gas well always comes up as the bad boy, but I told them in Venezuela that for 15 years we haven't had one blowout in sour gas wells or one death. Fifteen years; since 1980. That's a safety record that we'll match up to anybody. That was in my notes going to Venezuela. Our safety record is unbelievable in the province of Alberta. We have had no major blowouts for that length of time. The press that it gets I think is unfair to this industry. I mean, we're dealing always in an energy-related industry, and the safety record in Alberta is unbelievable.

Talk about safety. They have to have armed guards where I was in Columbia. That's another issue; that isn't a blowout. They put pipelines in, and they go behind them and drill holes in them faster than - and, you know, they're blowing them up; they're dynamiting. It's unbelievable. They blow gas lines right out of the ground. I asked them how they know how much to put down. They said they really don't want to blow them apart. They just want to damage them so they can get work, but they just don't know how many sticks of dynamite to put down the hole. Sometimes they put too many, because it kills some of them. What I'm saying is that the last time they did one in Columbia, it killed 15 or 16 people in the village, and they hadn't really intended to do that.

Anyway, I will get you a better answer on sour gas wells, but I know there are considerable variables there, including more public input on some of them than others, especially if they're being drilled inside or close to the city of Edmonton.

Okay. That's all, Madam Chairman.

THE CHAIRMAN: Okay. I have on my speaking list Calgary-Buffalo, followed by Edmonton-Rutherford.

Calgary-Buffalo.

MR. DICKSON: Thanks, Madam Chairman. Good evening, Mr. Minister. I'm delighted to hear that my constituents don't have to rush out and buy generators for December 31.

I've got a number of questions about the key performance measures. I'm looking at page 156 of the estimates book. When I look at Natural Gas Pipeline Capacity, I don't see any measurable target there. When I look at Crude Oil - Average Apportionment, the target is "increase expansion and minimize apportionment." If we're going to put these things in as key performance measures, then presumably there should be some way of measuring whether you achieve that. So I don't know what level of expansion is the goal, what's acceptable, what is short of being acceptable. Minimizing apportionment: is that to zero? Is it 1 percent, 20 percent? I don't know. It seems to me that if we're going to put it in as a key performance measure, it ought to be done in a way that it's measurable.

[Ms Haley in the chair]

I look at page 156, Secondary Processing, "The target is to encourage steady growth by industry." Who would argue with the goal? But so it serves some useful purpose, ought it not to be measurable?

When I look at the business plan book, it looks like with a couple of these items you're still developing criteria. With Cost of Compliance, "the target is to maintain Alberta's competitive advantage." My reaction is that that doesn't make much sense, but I take it, and you can confirm, that you're trying to develop criteria to be able to measure that.

It looked like the same thing would apply to Department Services. When you show "an average satisfaction rating of 76%," I don't understand how that relates to service standards. Your goal on page 157 is: "The Department is committed to meeting its service standards 95% of the time." Then you go on to talk about a "satisfaction rating of 76%," which sounds to me to be something different. This sounds like a more subjective thing. So at some point I'd like to understand where those standards come from and how in fact they're measurable.

Let me then turn to some specific elements, some specific votes. I refer you, Mr. Minister, to element 1.0.5, the internal audit. I ask you: would you explain why expenses under internal audit are being reduced by 14.5 percent in the 1999-2000 fiscal year? The reference point is page 148 in the estimates book. What activities are being planned by internal audit in '99-2000? Further, will the \$49,000 reduction in expenses impair the ability of internal audit to perform its designated functions effectively?

9:16

That actually also causes me to come back - this is a little bit out of sequence - to page 155. You talk about highlights for 1999-2000. I take it this is projected highlights. The second bullet under the AEUB: "Design regulatory processes that align with changes occurring in Alberta's electricity industry." Then the second from the bottom bullet: "Implement regulatory processes to reduce flaring." Mr. Minister, I've always had a keen interest in subordinate lawmaking in this province. You're presented, it seems to me, with a huge challenge. So much of the oil and gas industry is governed not by statute but by regulation, and the regulation is highly technical and voluminous. Yet when we had the Public Utilities Board, I saw an attempt to in different ways ensure that the public interest was reflected, accommodated, protected, and so on.

I'm interested, if you've got some specific plans in terms of developing what looked to be fairly extensive regulatory processes in these areas under the AEUB, what your concrete plans are to ensure that not only are the appropriate stakeholders and industry players consulted and canvassed for input but how you build in what we'll call public-interest checks. I think this is very important.

As I say, I acknowledge it's an enormous challenge because what your department does is so very technical. There's not going to be a long lineup of laypeople stopping by, like they would if we were talking about telephone rates. The impact is important, and that's why I think the public interest is something that has to be factored into the development of these processes. I'm interested in terms of how you view that and how you would go about doing it.

Going through specific elements: 1.0.6, legal services. If you can indicate what type of advice is provided by legal services to necessitate the expenditure of \$133,000 in the upcoming fiscal year.

Element 1.0.7 dealing with amortization. Will you confirm, Mr. Minister, that a portion of the \$4.408 million pertains to the amortization of the book value of the mineral revenue information

systems, MRIS? The reference point there is page 148 in your estimates book. What's the book value of MRIS as of March 31, 1999? Do the amortization projections of \$4.588 million in 2000-2001 and 2001-2002 also pertain to a portion of the amortization of MRIS? It's not clear from looking at page 130 of the Energy business plan. What's the current amortization schedule for MRIS? In other words, over how many years is MRIS being amortized? That is also not apparent from page 130 of your business plan.

What steps is the ministry taking in '99-2000 to respond to the recommendations of the Auditor General? This is an important time for us as MLAs to take the Auditor General's recommendations and determine to what extent your department measures up with the good advice you received from the Auditor General. There were specific recommendations - and I regret I don't have the Auditor General's report in front of me - that related to strengthening the processes and controls with respect to natural gas and by-product subsystems. This includes things like calculation, invoicing, monitoring of gas royalty that had not been incorporated into MRIS. So we'd like an update in terms of where we're at in terms of compliance with all or part of the recommendation from the AG.

What steps is the ministry taking or planning in '99-2000 to ensure the allowance related to operating costs for the compressing, gathering, and processing of the royalty share of gas and gas by-products - I understand it's sometimes referred to as UCOR, the unit cost operating rate - is correct and adjusted for GDP, as required by the department's own business rules? How has the ministry recovered the \$25 million overallowance to industry from the improper application of the UCOR? What steps is the department taking to ensure that UCOR files are not shredded instead of archived? Now, presumably you've got a document destruction practice in your department that deals with this. I'm not familiar with that, so perhaps you can tell us what your disposal record is and how long these records are kept under your departmental policy.

Moving on, I asked you to advise us what steps are being taken by the department to ensure greater security over spreadsheets which contain key gas royalty data and calculations such as UCORs and royalty paid banks. Now, I understand in the past they've been stored in underground injection schemes, so if you can tell us what's been done to improve security over spreadsheets. The reference point is page 148 in the government estimates, minister.

Further, what steps are being taken by the department to enhance the security controls related to information technology in systems within the information systems branch, ISB? The reference point there in your estimates book is page 148.

Moving on to program 2, mineral operations. Will you provide a breakdown of FTEs - I didn't get a chance to look at the charts you'd shared with Edmonton-Calder a few months before - in the mineral operations for 2000-2001 and 2001-2002? Will you provide a breakdown of capital investment planned in mineral operations for 2000-2001 and 2001-2002? The reference point there again is page 130 of the Energy business plan.

Next I've got some questions around mineral rights compensation. I think that's vote 2.0.2. What's the status now, Mr. Minister, of the review of mineral rights compensation undertaken by the division? What, if any, recommendations have been made by the industry advisory committee to make changes to the mineral tenure rules? I note at page 122 of your Energy business plan the reference there is to the phrase: "Respond to changes in the business environment on a timely basis by amending royalty and tenure rules." So presumably when your department put that in your business plan, you're relying wholly or in part on recommendations of the industry advisory committee.

Mr. Minister, moving on, what plans are being developed by your

ministry to develop a nonenergy minerals development policy for Alberta in consultation with industry stakeholders and improve nonenergy minerals geological information to attract increased investment? You gave us some statistics before on some minerals that currently don't generate revenue, if you will, for the provincial government, but there's the broader issue of how we attract investment and I guess further exploit those resources.

Mr. Minister, what plans is the ministry developing to obtain certainty of processes and access to nonrenewable resources and do this by working in partnership with other ministries to develop more effective sustainable resource and environmental management approval processes, including aboriginal issues? We understand you want to obtain certainty of processes and you want to work in partnership with other ministries. You talk about this or allude to it on page 122. We'd like to know how you're going to go about that.

Further, what are the time lines for implementation of certain recommendations - and I'll identify the particular recommendations - of the royalty and related information systems review? Firstly, integration of production data reported to the DOE and EUB. Secondly, simplified rules for determining capital and operating costs - that is, allowable operating costs - for gathering and processing of Crown gas. Next, a centralized shared information registry to store production data used by both industry and government. Next, the effectiveness of compliance penalties, and then allowing small companies an opportunity to elect the corporate average price rather than the provincial reference price for gas. Those were all, as I understand, recommendations from the royalty and related information systems review. We would hope that at this point, Mr. Minister, your department would have time lines for implementation of those recommendations.

9:26

Further, what steps are being taken by your department to analyze the effectiveness of the following recommendations of the review? Firstly, suspend minimum royalty charge. Two, examine the deep-gas royalty holiday program. Three, reduce the volatility of unit operating cost rates. Four, linking capital cost allowance more directly to individual EUB facilities. Five, implementing custom processing allowances based on gas type and updating and aligning allowable cost definitions with industry standards and practices. The reference point would be page 149, Mr. Minister, of your business plan.

Will the minister provide further details on the use of \$8.2 million in lottery funding provided in 1999-2000 to ensure computer system improvements for the royalty and related information systems? In other words, in what areas will the funding be allocated? We're interested in just the areas that are going to benefit directly from that; \$8.2 million is a lot of money and ought to go a long way in terms of providing system improvements. What are the estimated cost savings, Mr. Minister, that can be achieved for industry and government through simplification of royalty administration related information systems? We assume you've done some projections, some analysis, some planning around that. Will you share that with Albertans?

What's the status of the department's work in the Special Places 2000 initiative as it relates to the provision of a resource assessment of all candidate sites and the production of site maps for use in the process of site evaluation? This is something I learned about only recently. I hadn't been aware that your department was doing these kinds of assessments for Special Places 2000. I see your colleague from Environmental Protection is here, and hopefully between the two of you we can get an update in terms of how that work is proceeding. I was going to say that we hope it's proceeding better than the nomination of special places, but that would be unfair. The

Minister of Environmental Protection would think I was taking unfair advantage of the fact that I have the microphone and he doesn't, so I won't ask that.

What's the status of the implementation of the integrated resource management framework that addresses policy development, integrated resource planning, project reviews and approvals, and field operations? I'm specifically interested in here as it relates to land use decision-making in integrated resource management processes. The reference point here is page 149 of the estimates book.

Moving on, you have a tenure and royalties division in your department, Mr. Minister. How is that division responding to the energy sector report on the growth summit recommendation? You recall that there was a growth summit recommendation - this would be from just a year ago - regarding a need for clarity and timely processes for access to land and resources. I didn't have the opportunity to attend, but I understand what came out of the growth summit was the need to have a clear inventory of current land use; combining land use planning processes into one common model, something that sounds like it ought to be somewhat attractive; use of a multistakeholder model with principles to be followed to achieve results; resolution of differences; socioeconomic elements to be valued; government departments to be advocates for responsible development of natural resources. We know what the recommendations are from the growth summit. What we're asking you, Mr. Minister, is to tell us what the tenure and royalties division has to say in response to that.

What assessments or reviews will be conducted by the department on the efficiencies that have been achieved by industry and government through natural gas royalty simplification? This was a major project, something I've heard you indicate you're very proud of. It would be interesting to find out and I'm sure you'd want to share with Albertans just what kind of evaluation is being done on that so we can all share your sense of accomplishment.

What's the status, Mr. Minister, of the review being undertaken by the department on the impact of total Crown influence charges on premature abandonment of oil and gas wells in the province? I don't know whether that review has been completed or not, and if not, you could tell us that. If it's been completed, we'd be interested in the recommendations from that review and the findings of it.

What's the status of the review being undertaken by the department on mature properties? What recommendations have been made by the Clean Air Strategic Alliance as it relates to the reduction of sulphur dioxide emissions and reduction in natural gas flaring? What other initiatives are planned by the Clean Air Strategic Alliance for the years 2000-2001 and 2001-2002? What steps are planned by the department in 1999-2000 and 2000-2001 to develop new systems and processes to enhance surveilling of flaring in support of CASA's flaring objectives? What steps has the Minister of Energy taken to remove information, technical, and investment barriers to allow for significant improvements in efficiency and reduction of greenhouse gas emissions?

I look forward to those responses. I don't expect you're going to be able to provide them now, but we look forward to them before we have to ultimately vote on the appropriation bill.

Thank you.

THE DEPUTY CHAIRMAN: Mr. Minister, did you want to respond at this time?

DR. WEST: Well, I'm glad the individual member made that last caveat, that I don't expect you to respond, because it's obvious that these have been questions, albeit some of them very good questions, developed by researchers and have been put together in a format

where the individual reads them out on an ongoing basis. We could save a lot of time if you'd just send us a copy of the questions, and you wouldn't have to read them.

[Mrs. Gordon in the chair]

AN HON. MEMBER: A point of order, Madam Chairman. There is no forum for that.

DR. WEST: You can table anything, Madam Chairman, I believe. There was a lot of information and good things covered here, but as I say, I can't keep up. There must have been I don't know how many questions, and we will get back in due course and answer them to the best of our ability. What we'll do, too, is try to cipher out the duplication of questions asked and then put them into one, whether it's royalty simplification or gas flaring or many of the other issues. Madam Chairman, I'll just continue to listen.

THE CHAIRMAN: Okay. Just a clarification, hon. minister. We can table paper. We can't table anything. The hon. Member for Edmonton-Rutherford.

MR. WICKMAN: Thank you. I'll be a bit more general in my questions. First of all, Madam Chairman, if I could ask you the format for tonight. Like, what time do we conclude at this particular stage?

THE CHAIRMAN: We basically conclude when the last person who wishes to speak has spoken. As you noticed last night, the committee from upstairs was downstairs shortly after 10 o'clock.

MR. WICKMAN: Okay. I'm going to ask a few more general type questions and then allow our critic, if he has some more specific ones he may want to ask before we adjourn that the minister can then respond to in writing. First of all, as the critic passed along a compliment on in his opening statement, I well recognize that the Department of Energy has been one of the ministries within government over the past 10 years which has been significantly downsized: in terms of a percentage roughly 38 percent, or total expenditures of close to \$50 million. I don't know how much of that took place after the current minister became responsible for the department, but based on his past actions in other departments, I would venture to say a good, good portion of it.

DR. WEST: No. No. That's not true.

MR. WICKMAN: I said that I would venture to say. I didn't say that I knew for sure.

9:36

When I go through the budget itself, there are a couple of things that strike out at me. One is right off the bat on page 147, when we look at program 2 showing an increase from \$21 million to \$28 million. I imagine there is some explanation for that, but I'm just curious, because it seems to be a high percentage increase in comparison to other programs.

The one, Madam Chairman, that really, really surprises me - and I can never seem to get away from it - is when I look at this budget, of all budgets, and I see "operating expense funded by lotteries." I know going through the overall budget that that was a new format used for lottery expenditures this year. They were earmarked for particular programs like education and health and that type of thing,

even infrastructure, which was announced sometime ago, which I would have anticipated to be in the budget. I recognize the change, that there aren't any lottery dollars now going to general revenues like previously, but departments like Energy using lottery dollars and then trying to write it off as unique or above normal programming, as the Premier referred to at one time, kind of astounds me. Particularly with this minister, I would have thought that he would have objected to having lottery funds come into his department. Those dollars could have been used, I would think, in a more appropriate fashion.

The other area that I look at. When I look under electricity, the references to the task force, I'd like the minister to provide an update on the recommendations that have been made by the task force established in October of 1998 to facilitate the development of a new generation's supply of independent producers. This, of course, falls under electricity.

Now, two very broad questions that I would like the minister to respond to this evening if he could, because I'm sure we'd all like to get an update in these two areas, and I think the minister would probably like the opportunity to be able to explain these in some broader detail. There are two areas of concern that I hear in my constituency that may relate to energy when I talk to constituents of mine. One is the number of people that have been impacted by the dramatic downscaling of drilling activity and such, and a number of people in my riding that are employed in the oil industry are now laid off. Those may be engaged in small businesses, whether they be located in Nisku, whatever. There are quite a number of people in my riding alone that are feeling the pinch as a result of what we've seen happen with the world price of oil dropping. If the minister could maybe just send us a message as to what we can expect next year, the year after - is there some optimism; is there some reason to feel that we may somewhere along the line have an upswing - so that those people that have been engaged in that particular industry have some room for optimism.

Now, the other one that really, really puzzles me is when we go back a few months ago, the controversy we had with the power blackouts and the threats of a shortage of power and so on and so forth. We actually came to the point where we saw a number of companies cut back on their power output and such. The minister at that particular time made some fairly harsh statements, and I'm not sure if the minister put the heebie-jeebies into these energy companies, exactly what happened, but it seems that since that time - and maybe it's just the luck of the draw - we haven't had those types of problems. My question to the minister in this area is: is he now comfortable that Albertans can feel - and I know he went out on a limb at one time and almost staked his life that there would be no more power blackouts. Just what level of comfort can we have, using his phrase, that the turkey will keep cooking in the oven?

I would like some response to those questions. I've intentionally kept my questions limited, broad so that the minister could respond to some degree this evening.

Thank you, Madam Chairman.

DR. WEST: I appreciate the types of questions, because they are information that people out there do ask about all the time. The unemployment rate in the province of Alberta leads Canada at 5.7 percent. I say that in spite of the fact that the question asked about the harm that's been done by low oil prices in certain areas. Is it going to sustain and how much has it been? Well, I have to say that drilling rigs at 41 percent or less compared to a year ago and drilling activity in certain areas such as the heavy oil patch out in my area, which is Lloydminster through to Cold Lake, has caused unemployment in those areas. There's no doubt about it. The backing off of

certain service industry sectors as well as rig hands and people who build tanks and that sort of thing has been significant.

Now, is there hope? Yes. The base of this industry is a lot better than it used to be. We see a lot of people that can adapt and move forward with some of their expertise and get jobs in the petrochemical construction area or in the oil sands construction area or perhaps move over to some of the pipelines, welders and what have you. So we see a greater flexibility for some of the workforce to move laterally when the industry gets hurt.

I think, going out over the long run, that we're going to be fine. I really do. I really think that the oil business will sustain, and as we move into the year 2001-2002, we'll see a steady utilization of world surpluses. We will see demand come in line with supply, and the prices will go up.

We do say, in the short term, that we can't see the backing off of world surpluses. There's a huge storage in the United States, and some of these countries like Venezuela and others just can't stop producing. They're tied into a very volatile economy based totally on oil. I sat with the president of Petravasa, which is a Venezuelan oil company, and he flatly said: we won't be cutting production very much. In some circles, they're talking about increasing their production as high as 6 and a half million by 2003 to 2005.

I think that we will be at balance as our oil sands come on, a higher upgraded oil, but some of our workers will have to adjust and move over to other areas in this industry. Remember that this province is only about 17 to 22 percent dependent on oil right now, and corporately about 22, 21 percent. Directly about 17 percent of our revenue is from the oil and gas industry, whereas in 1980 to '86, that range, we were as high corporately as 60 percent dependent on this industry and for revenues were anywhere from 48 to 52 percent dependent. Today the base with petrochemical and other things makes this province very attractive for sustaining its revenues and its workforce base.

Now, the electricity supply. Ironically I do have the results released, and you can get a copy of this. You have it. Because of tremendous support from the EUB and the chairman who headed up the task force to look at this, one of his first jobs that he had - Neil McCrank, the chairman, did a great job of co-ordinating the industry, the power players, the producers of power in the province, as well as the other key players: the transmission administrators, the power pool people. I can look Albertans in the eye and say that I have the utmost confidence in the power base grid in the province of Alberta and that except for those unforeseen storms and squirrels on your lines, going forward, it looks very good for supply in the province as well as a well-maintained system. I think that when we're done, the operation of the transmission administrator and that grid as well as the power pool - and it's going to take some work - and the production of power, the new marketers that are coming in, we will be a model that will be envied in many areas.

We've got producers of power now coming in that want to take the generators on the flare right through to major companies that want to look at new cogeneration programs. Some are even looking at new gas-fired generating plants that can produce 500 megawatts or better. We've got those sitting there right now, considering applications, as well as the existing co-gen plants, about 2,000 megawatts, that should come on in the next two years.

9:46

I accept your question. It was a tough time, October 25. I will never forget it. We have a good balance, and we got through Christmas. About December 15 is the highest peak time, and we got through it. I think we're fine going into the summer. Right now utilization has dropped off from that peak of 4 to 5 percent. We're

now using less than 2 percent growth of new power that we need in the grid each year. That's helped us too, because the economy has flattened out. I appreciate the question.

Albertans are going to be well served, and I give credit also to these companies: Alberta Power, TransAlta, EPCOR, and other generators. They did come into line. They did start looking at their own operations. They did co-operate. British Columbia co-operated, Saskatchewan co-operated, the Bonneville tie, or the North American grid, co-operated, and industry has co-operated. If somebody is reading this, I want to ensure that without our big players industrywise, it would curtail their load. They came to the table, and they didn't blackmail the power pool at a high cost. It isn't costing Albertans a tremendous amount of money for that standby power that is there in curtailment. So they all played a tremendous role.

ESBI, the Irish company that's running our transmission administration, took a while to get a handle on this because it's a new thing for them. They're doing a tremendous job. Now they're working internally. There are going to be problems, I guess, as we go forward, to ensure that everything is co-ordinated on time as the Electric Utilities Act comes into force and full customer choice comes in in 2001, but we'll be there.

The only other thing. You asked about the mineral operation and what the increase is.

MR. WICKMAN: About the lotteries.

DR. WEST: Yes. That \$8.2 million is the money that we had inside the Department of Energy, and we applied it to the mineral division for the development of the new royalty information system, the related information review project. It'll be up and running here in June. Yes, it was designated as lotteries. The people who met in Medicine Hat at the forum down there said that they wanted the lottery dollars dedicated inside the general revenue fund to specific projects that would not be part of the operating moneys, and it's been an arduous task to try to meet the recommendations of that summit and try to designate as many onetime expenditures that wouldn't affect health care or education or some of the core services. That was a request by the public. I think we're going to have to review that. You have made an excellent point. I mean, it isn't our chance to fool the public or to use these dollars in the wrong location, but that was the request. It doesn't fit the glove, to tell you the truth. It's not practical. So we would hope the opposition helps us in this with the people of Alberta and supports the government in any initiative it can to make this right. But that was the recommendation from a public forum. That's why it went from \$21 million to \$28 million, this increase, because we designated that money for three years to build this system with the EUB, the Department of Energy, and industry.

THE CHAIRMAN: I do have Calgary-North Hill that would like to ask some questions.

MR. MAGNUS: Thank you, Madam Chairman. Just a couple of questions for the minister. I'm reading your ministry business plans, your goals section. It comes under number 6. I'm just curious. You've got as a goal, "The Department is managed in an effective, affordable manner and provides an attractive work environment for its employees." I don't know what you're getting at with "an attractive work environment for its employees." That's the first question.

The second one has to do with the capital investment within the first page here. It was forecast at \$734,000. It's budgeted at how did we get a forecast of \$734,000?

The third thing. When you first started your presentation today, you talked about the price of coal. I think it's a given that we all know that we have a huge known supply of 900 and some odd years of coal, and coal is in the basement as far as price goes. But most of our power is coal generated. If that's the case, with coal as low as it is, why haven't the energy prices electricitywise gone down?

DR. WEST: In answering your last one first, they are fixed by regulation. They are still regulated power, and those plants are built and in the system at the present-day cost, prorated not for the market of coal today but as was estimated back when the power rates were given.

The question underlying yours is that if you notice the 2,000 to 3,000 megawatts that will be coming on in this province, none of them will be coal. I have to speak to the Canadian Coal Association. It's going to be quite a tough speech, because I'm going to try to give them as much encouragement as I can but understanding, of course, that throughout the world and with all of the things going on, much of the electricity will be produced by natural gas and cogeneration.

You say: why isn't power cheaper? It can't get any cheaper than it was, because the capital cost is the greatest component, not the coal in relationship to the total price.

Now the goals. We just want everybody to be happy in the Department of Energy. It must be working, that goal, because I took some heart from an article that said they didn't want me to leave.

MRS. SOETAERT: I don't believe that.

DR. WEST: You don't believe that?

On the capital investments, I'll have to get that to you. I have no idea, here tonight, why it bumps around by \$200,000 or \$300,000.

THE CHAIRMAN: Edmonton-Rutherford.

MR. WICKMAN: No, that's fine.

THE CHAIRMAN: Okay. Go ahead, Edmonton-Calder.

MR. WHITE: Centred around picking up from my learned colleague from Calgary, the electrical deregulation and all that, can the minister provide cost-benefit studies and analyses that were conducted by the department or the department agents on the impact of deregulation on the electrical industry, on the retail and the wholesale business for the short, medium, and long term? What types of performance measurements has the industry examined to assess the effectiveness of the changes to the PPAs that are in place now and the customer choice, when it has been implemented? What steps has the department taken to increase the number of participants in the power pool by 40 percent by the year 2000 from the current level of 37 participants?

I'll move on. I don't have a whole lot of time here. What studies and projections has the ministry conducted to determine the aggregate surplus or deficit in the balancing pools once it proceeds to auction? Who is going to pick up the difference, whether it be surplus or deficit? How will the minister determine whether the auctions of the PPAs are in fact successful? What contingency plans are in place if these auctions are deemed not to be successful; i.e. whether they have legislative hedges? What does occur there?

What is the status of negotiations with the industry stakeholders to develop guidelines to allow interim operations with the B.C. interconnect above the 800 megawatt during emergencies? What are the current obligations under the western interconnect system and

the full details of what we're expected to input when required?

What's the status of the negotiations between TransAlta and Bonneville Power in the northwestern United States? What obligations does that put on the entire system? Can those obligations be terminated under emergency situations, even temporarily, to cover some potential shortfalls that may or may not be there?

9:56

Will the minister provide an update on the recommendations made by the task force established in October of '98 to facilitate the development of new generation supply from independent producers? Will the minister provide copies of studies and reports that have been prepared by the task force for that new generation?

What is the current status to initiate allowing buyers and sellers to enter into contracts for physical delivery of electricity through the power pool, i.e. direct sales? Will the minister provide further information on the development of a tariff to allow customers direct access to the power pool by the spring of '99?

What plans does the EUB have in the '99-2000 year to "reduce application information requirements and simplify the review process for mineable oil sands developments," i.e. streamline the applications for those? What does the EUB in its upcoming budget have to "reduce potential public liability for the abandonment and reclamation of inactive facilities," the abandoned wells? I know you're working on something. We'd like that recorded.

There are some other questions that relate to page 150 of the budget document: 3.0.5, electricity. The expenditures in this program under Planning and Development have gone up substantially from the gross amount of expense in the current year, the '98-99 year, from pretty near \$900,000 to \$1.2 million in the coming year. We'd like to know what the anticipated difference is, because it's a substantial increase from what has been spent thus far. It's been assumed that for the moneys expended thus far, the process was well on the way to being concluded. That kind of number would indicate that that is not the case.

THE CHAIRMAN: Edmonton-Calder, can you maybe speak into your mike a little more? It is very, very difficult for us to hear you down here.

MR. WHITE: Sometimes with the yawns, Madam Chairman, it's difficult to hear myself here, but the minister can hear, and I assume that the recordist can hear too.

There is one thing in this report. It's the first time that I've had a go at it. There's a key line here on page 12. It's the Minister of Energy's annual report, which is a decent publication, I might add. I've referred to it a number of times. It says, "The Legislature's 1998 spring session debated electricity deregulation extensively." Well, the facts are that one member of the government spoke to the bill four times. That was you, the minister, sir, and if you total it up, it's fewer than 75 minutes. So I think that statement perhaps is extending it a little bit to say "extensively."

Further, on the bottom of page 13, "The Oil Sands Royalty Regulation was passed during October, 1997 accompanied by related amendments to the Mines and Minerals Act." Well, there was no sitting in October, or the fall, of '97. There was in '98. There will be in '99, presumably. But in '97 there wasn't one when we dealt with that.

DR. WEST: By regulation, OC. It wasn't by sitting.

MR. WHITE: Right. Well, the wording implies that it was a session.

I have one question put to me by e-mail by a gentleman by the name of Doug Vincent. [interjection] I'm speaking as fast as I can.

THE CHAIRMAN: Just for your benefit, hon. member, the group downstairs finished 10 minutes ago.

MR. WHITE: They finished early?

AN HON. MEMBER: No, it's about on time.

MR. WICKMAN: I've got one last question too.

MR. WHITE: You're not going to get that Percy.

MR. WICKMAN: I want a written response to mine. Go ahead.

MR. WHITE: Okay.

The question really centres around the gross amount of royalties. His claim is that the Norwegians in the North Sea oil take over 30 percent for their profits, and the province of Alberta in the Getty years took 40 percent. Perhaps you can respond to that at some future date, sir.

THE CHAIRMAN: Are you finished, Edmonton-Calder?

MR. WHITE: Yes, I think I have completed all that I have. I might add that this is the only opportunity one has to ask these questions. There isn't any other place in this Legislature to do it.

SOME HON. MEMBERS: Written Questions.

MR. WHITE: How many have been answered?

THE CHAIRMAN: I'm going to recognize, very quickly, Edmonton-Rutherford. Go ahead.

MR. WICKMAN: Madam Chairman, one last question. I'd prefer the minister to respond to it in writing because it's something that I do want to share with the constituents of mine that talk about this. This is pipeline construction activity. There's a great deal of optimism from those that talk to me. They feel that the next 10 years are good when it comes to employment. Could the minister give me in writing just an overview of what is planned in the next five, 10-year period in terms of pipeline construction in the province of Alberta?

THE CHAIRMAN: The hon. Member for Airdrie-Rocky View.

MS HALEY: Madam Chairman, I would like to move that subcommittee B rise and report and reconvene in full committee of supply.

THE CHAIRMAN: Does the committee concur with that recommendation?

SOME HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed?

SOME HON. MEMBERS: No.

THE CHAIRMAN: Carried.

[The subcommittee adjourned at 10:04 p.m.]

