

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, September 22, 1981

Chairman: Dr. Reid

11 a.m.

MR CHAIRMAN: The committee will come to order. I'd like to welcome the Minister of Energy and Natural Resources to the committee's hearings. I don't know if the minister wishes to make any preliminary statement or not. If he does, I think he may as well go straight into it, and we'll get on with the business.

MR LEITCH: Thank you, Mr. Chairman. I don't have any preliminary comments, so I'm happy to get right into it.

MR NOTLEY: Mr. Chairman, I'll have some more general questions in a moment, but I'd like to deal specifically, if I could, with respect to the convertible debentures. The Provincial Treasurer has indicated that we may in fact be converting those debentures. We've had some ongoing discussion over whether or not those debentures should or should not have been converted. I might just say in background that I reviewed the letter sent by the Provincial Treasurer to *The Calgary Herald* on this matter.

My question really relates to how we make that decision and on what basis we make the decision. Because as I look at the Provincial Treasurer's letter, the only way these figures make any sense is if we take in two periods of downtime. If we take the full fiscal year, April 1, 1980, to March 31, 1981, there was a significant loss by not converting. If we take in two periods of downtime, the first three months of 1980 and the first three months of 1981, so in fact we're talking about 15 months rather than 12 months, there is a jibing of the figures. But I don't think anyone has suggested that we would have converted in the first part of 1980. It would have been later on in the year.

My point really is: to what extent does the Department of Energy and Natural Resources offer any advice with respect to a matter like this? Or is that exclusively within the purview of the Provincial Treasurer's department?

MR LEITCH: Mr. Chairman, the primary responsibility for making recommendations in that area would be with the Provincial Treasurer. The Heritage Savings Trust Fund now holds as a security the two debentures for \$100 million each with the option of converting that into a different form, namely an equity interest in the Syncrude project. So the primary responsibility, because it is an investment decision, would be with the Provincial Treasurer. Certainly we in the Department of Energy and Natural Resources would give information or advice to the Provincial Treasurer, but that would be much more of what we expect the future will hold, that kind of advice, rather than financial advice. Certainly the financial issue would be one that would be dealt with by the Provincial Treasurer.

MR NOTLEY: What is the relationship between the member on the Syncrude board and the Department of Energy and Natural Resources in terms of the flow of advice both ways?

MR LEITCH: I'm sorry, Mr. Chairman, I missed the last few words of the question.

MR NOTLEY: What is the relationship between the Department of Energy and Natural Resources and the member on the Syncrude board with respect to the flow of information both ways; in other words, the flow of information necessary to us as an equity owner? Presumably some of that would go to the Department of Energy and Natural Resources, I would assume, and the other way back to the company.

MR LEITCH: Certainly as the minister I would get information from the member on the Syncrude board on matters that were relevant from our management point of view, from the management of the Syncrude equity point of view.

MR NOTLEY: To what extent then would a decision on conversion or not be made in part? You say the primary responsibility is with the Department of the Provincial Treasurer, but to what extent would advice from the member on the Syncrude board be relevant in making that decision?

MR LEITCH: I have a little difficulty answering that, Mr. Chairman. I suppose we have to start with the Provincial Treasurer saying what information he needs in order to make the decision. I would assume -- but I think this is an area that should be explored with the Provincial Treasurer -- that he would want some feel for what the operators felt the future would hold with respect to production, cost, pricing, and things of that nature. I have no doubt that that kind of information is exchanged, certainly at the official level -- Deputy Provincial Treasurer; Tom Vant, who manages the Syncrude equity on behalf of the Department of Energy and Natural Resources; and others -- as well as at the ministerial level. But that would be information and advice that we would give to the Treasury Department on request in order to enable them to make a decision on the question of when to convert or whether to convert.

MR NOTLEY: Well, let's move ahead then, Mr. Minister . . .

MR KNAAK: I just have a supplementary . . .

MR NOTLEY: This is on the same subject, hon. member. Would the minister outline to the committee what specific role in the forecasting and advice the department would have in terms of advising the investment committee with respect to major investment in the two new projects? The Provincial Treasurer has indicated -- it was just a press approach, so I'm not sure just how accurate it was -- that we may in fact be investing in a substantial way in an equity position in the two new projects. My question very directly to you, Mr. Minister: what role does your department play in that, and to what extent can you offer us some indication of where the government is at, at this time, on that matter?

MR LEITCH: Mr. Chairman, I see our role as one of providing information. Again, the issue would be an investment issue: is that the best place for an

investment of the Alberta Heritage Savings Trust Fund? In order to make that decision, I'm sure the people, the Provincial Treasurer and others, would want to have all the information they could gather, from a variety of sources, as to the likely financial success of those projects. Certainly we would be involved in giving advice or information on that.

MR NOTLEY: As I understand your public position, it's your view that both projects are now viable. With that in mind, where does the Department of Energy and Natural Resources stand with respect to the July 25 proposal of up to \$7 billion, as I recall, being invested in both projects? What advice is being offered to the investment committee at this stage on the viability of that size of investment?

MR LEITCH: Mr. Chairman, let me deal with the latter point first. I wouldn't see our department making recommendations with respect to the size of the investment. I think that's much more of an investment decision that would be properly dealt with by the Provincial Treasurer.

With respect to the \$7 billion, it was not \$7 billion for the Alsands and Cold Lake projects; it was \$7 billion, as I recall, for the next three projects. It was a commitment in total, inclusive of equity and debt funding, but no breakdown of the \$7 billion between debt and equity. It was an offer which of course expired when it was not accepted by the federal government and has been replaced by the energy agreement we just concluded. The energy agreement concluded on September 1 makes no reference to investments by the Alberta government in future oil sands projects.

So from our point of view -- that is, from the point of view of the Department of Energy and Natural Resources -- in the agreement with the federal government, there is no commitment to invest. So whether we do or don't will be an investment decision reached on the advice of the Provincial Treasurer.

MR NOTLEY: Mr. Minister, it's not only an investment decision reached on the advice of the Provincial Treasurer, but it's an investment decision as a consequence of negotiating with the other participants to the project, or projects in this case. What will the mechanism of those negotiations be? Are they going to be conducted? What role does the Department of Treasury have in that, or will the negotiation of the commercial terms, if any, be exclusively within the purview of the Provincial Treasurer?

MR LEITCH: The negotiations with the project developers, both Alsands and Cold Lake, would be carried on primarily by the Department of Energy and Natural Resources. We would make a decision along the way as to whether there would be an equity participation by Alberta and, if so, the amount; also a decision as to debt involvement with either project. Once that decision is made, the actual negotiations would no doubt go on between the Department of Energy and Natural Resources and the project developers, certainly with respect to the equity. A number of terms would need to be resolved, and it would be a relatively complex agreement, as it is with Syncrude.

With respect to debt, again there would be a relatively complex agreement because it would involve terms, all the elements of a major commercial debt instrument. While we in the Department of Energy and Natural Resources took the lead in the negotiating, undoubtedly there would be involvement by the Treasury Department with respect to those terms on both the equity and debt side. In the Department of Energy and Natural Resources, we would rely

primarily on advice from the Department of Treasury with respect to those terms.

MR NOTLEY: Just one final question, Mr. Chairman. Bearing in mind the July 25 offer, which admittedly has been superseded by the energy agreement, and statements attributed to the Provincial Treasurer with respect to equity participation: can the Minister of Energy and Natural Resources advise this committee whether at this stage of the game it is the position of the investment committee that there should be substantial equity investment in one or both of these projects? And would it be your advice, as Minister of Energy and Natural Resources, to this committee, which has to make recommendations, that in fact that would be a reasonable way of making heritage trust fund investments?

MR LEITCH: I'm not sure when the hon. member uses the phrase "investment committee" to which body he's referring.

MR NOTLEY: The investment committee of the fund -- whether or not it's the view of the investment committee of the heritage trust fund, the cabinet in fact, that there should be a major investment. The reason I ask this question is that in our watchdog capacity we have to make recommendations. It might well be that we recommend this would be a good idea or not, as the case may be.

What I want from you, Mr. Minister, is your best information as the Minister of Energy and Natural Resources, bearing in mind that we've had figures as large as \$7 billion being floated about, albeit part of an offer a year and a half ago: where do we stand at this stage? What is the best information you can give this committee as to whether or not in September 1981 we should be making major investments from the heritage trust fund in one or both of these projects?

MR LEITCH: I certainly feel that an investment on an equity basis -- and I think perhaps I should limit my comments to equity -- would be a sound one from the province's point of view. Now it's an entirely different question as to whether it's a better investment than other investment opportunities that may be available. So the difficulty I have answering that question is I have no reservations in saying to the committee that, in my judgment, if these two projects proceed and we've settled all the terms for participation and so on, it would be a sound investment for the province of Alberta to be an equity holder in both projects. But that only gets you halfway home, I think, because the next question this committee and the Provincial Treasurer would no doubt direct their minds to is: is that a better investment than the other investment opportunities that are available? In that area, I think you have to deal with the Provincial Treasurer rather than me. I'm looking at the one investment opportunity and have no hesitation in saying that I think it's a sound investment. But I'm not in the position of balancing it against all the other investment opportunities that may be available. That's an area the Provincial Treasurer would be looking at.

MR KNAAK: I wonder if the minister has made an assesement or whether it's premature whether the conversion of the convertible debentures would be a better investment than participation by way of equity investment in the two new proposed projects. *Prima facie* one would think being able to convert a debenture in a plant that was constructed several years ago and is ongoing

would be a surer investment than the others. I'd appreciate the minister's views on it.

MR LEITCH: I don't see those as alternatives. Because in the case of the Syncrude project, you already have the 200 million invested. And the question is: what form? So it's not: do we invest by converting as opposed to investing in, say, the Alsands project. Our money is already invested in Syncrude, so it's just simply an issue of what form: in the debentures or in equity? I can't add anything to what I said in response to earlier questions in that area. So I don't know how you can draw a comparison between investing in Syncrude by way of conversion and investing in, say, the Alsands or Cold Lake projects, unless I've missed something in your question. [Not recorded] the form in which we're going to hold the investment.

MR KNAAK: I guess the question I'm asking is terms of the timing of the conversion. If it's *prima facie* a good investment to invest in the two new projects, it would seem even more so to convert the 8 per cent debentures into equity. However, I also see the timing can be anytime between now and March 1, 1984, and may be a better decision down the line because the price remains the same, I presume, in terms of the conversion. So we'd get 8 per cent interest during that whole period rather than having no dividends. I guess the question is: have we received dividends from Syncrude at all up to this point?

MR LEITCH: You mean a return on the equity. The answer to that is yes, but again I'd leave the Provincial Treasurer to give you the particulars of that.

MR CHAIRMAN: The Member for Calgary McCall followed by the Member for Calgary Buffalo.

MR SINDLINGER: Could I follow up on that last point?

MR CHAIRMAN: I think I recognized the Member for Calgary McCall first.

MR LITTLE: My question deals with another area. So if some members want to pursue this discussion on investment, I'd be quite prepared to defer for a moment.

MR CHAIRMAN: A supplementary from the Member for Calgary Buffalo.

MR SINDLINGER: Thank you, Mr. Chairman. First of all, Mr. Leitch, let me congratulate you on concluding an energy agreement with the federal government.

With regard to this rate of return on equity, I'm looking at the transcripts from last year's committee meetings. The Provincial Treasurer was asked at the time what the rate of return was on the Syncrude plant. He indicated that there were two rates of return depending upon how one calculated it. The first rate of return he gave was a discounted cash flow rate of return which is a rate of return over an entire project. The other one was what he referred to as a simple accounting rate of return.

The simple accounting rate of return that the Provincial Treasurer gave us was that the Syncrude investment was earning something in the area of 2 or 3 per cent. The other rate of return, the discounted cash flow rate of return,

which is that over the life of the project, he indicated was in the area of 15 per cent.

MR LEITCH: Are you referring to the evidence of the Provincial Treasurer when he was before the committee a couple of weeks ago?

MR SINDLINGER: No, Mr. Leitch, I'm referring to the transcripts from last year's committee meetings when Mr. Hyndman was here. I've quoted the numbers and the definition of the numbers from the transcript. I wonder what observations or comments you might make in regard to those rates of return -- the 15 per cent, or the 2 or 3 per cent -- in view of the questions that have already been asked of you by Mr. Notley and Mr. Knaak with regard to investing in synthetic crude oil production.

MR LEITCH: Mr. Chairman, I'm having a little difficulty with the question. It seemed to me that the Provincial Treasurer dealt with this when he came before the committee on August 25. I'm just looking for the section in the transcript where he dealt with it.

MR CHAIRMAN: I think the Provincial Treasurer provided a document that was circulated to members of the committee subsequent to his appearance on August 25 in which he gave some details of the convertibility.

MR SINDLINGER: Mr. Chairman, in that subsequent submission by the Provincial Treasurer the rate of return isn't addressed, I don't believe. The rate of return was asked a year ago. The only reason I brought it up is because of questions asked by Mr. Knaak; that is, the desirability of taking the equity or the investment in the present project, the Syncrude one, and leaving it there as equity or taking it out and investing it in a new plant. The rate of return has a definite bearing on a decision such as that.

MR LEITCH: I don't follow the connection between the two, because we wouldn't be taking the money out of Syncrude. We now have \$200 million in Syncrude in the form of a debenture. And the question is whether that should remain in the form of a debenture or that investment should be altered and be held in the form of an equity interest. So I don't follow it as being a question of whether it's better to convert or invest the money in the other projects. You already have the money in Syncrude. There's not going to be any taking of the money out of there, except by way of return, whether it be a return on the equity investment or a return by way of interest on the debentures.

MR SINDLINGER: As I understood the question by Mr. Knaak, what you could do is retain the debentures and have it paid back as provided in the terms of the debentures; that is, in equal payments over 10 years, if I recall correctly. In that case, if you do hold the debentures and have the money returned in 10 equal instalments, then the decision is whether to reinvest it in whatever or reinvest it in another synthetic crude oil plant.

MR LEITCH: I agree that the cash flow would be different if you held it in an equity as opposed to the debentures. Then you have a decision as to what to do with the cash flow. But if you're saying, is it a better investment to -- and in that sense, if you're talking about the cash flow, what to do with the cash flow, it may be larger or smaller depending on whether you convert. But I don't know how that's related. Again you have to look at the other

investment opportunities. You have a certain flow of cash, and the decision is where can it best be invested.

MR SINDLINGER: Then on that point, Mr. Leitch, looking at the other investment opportunities: what criteria will be used to decide whether or not Alberta or the heritage fund should invest in new synthetic crude oil plants? Will you be using strictly a financial criteria such as that used by the Treasurer, the rate of return, a 15 per cent rate of return, or a 2 or 3 per cent rate of return? What rate of return was contemplated when the government committed itself to invest \$7 billion in the July 25 agreement? Are you going to have a criteria or cutoff?

MR LEITCH: I think one can answer that in general terms. If the projects are going to go ahead, they will only go ahead if the private investor feels that that is a sound investment from a rate of return basis. Now the government because it is in a different income tax position receives on those projects a better rate of return. So you can do it on a general test comparing it with the private sector, because their investment criteria is somewhat different because of their tax position contrasted with the government's.

We don't fix a particular rate of return on those projects. At the time of the \$7 billion offer, we knew it had to be in the 18 per cent range or something in that order before the private sector was going to invest -- probably higher now because of the change in interest rates and the changing costs of long-term financing. But each investor is going to look at the project in a slightly different light because of the risks involved. Certainly my approach to it would be that the people who are the most knowledgeable in this kind of investment, if they have made the decision that the investment is warranted, bearing in mind their tax position, I think that's pretty good evidence that it's a sound investment on the part of the government, bearing in mind its favorable tax position.

MR SINDLINGER: Are you meeting now with the proponents of the two plants, the heavy oil plant and the tar sands plant, with a view to proceeding? Are you discussing these types of things, the rates of return, and have you set guidelines for what Alberta would consider to be viable rates of return, bearing in mind the different tax position that we have?

MR LEITCH: I haven't had any meetings with the Cold Lake or Alsands people since the signing of the energy agreement. As we indicated at the time of the completion of the energy agreement, we had set a pricing regime, a taxation regime, and a royalty regime that in our view would lead to a rate of return approaching 20 per cent. Now the precise rate of return is going to differ from calculation to calculation. Everyone is going to use a slightly different calculation. Remember you're forecasting prices here over the next 30 or so years. Everybody's view on that is going to be a little different. The estimate of costs, operating costs, and so on is bound to differ from forecast to forecast or from estimate to estimate. So when I say we contemplated a rate of return with that pricing, royalty, and taxation regime approaching 20 per cent, there are bound to be differences of opinion. Because each person who runs through those calculations will come out with a slightly different answer.

MR CHAIRMAN: I think the Chair's getting a little concerned. It's a very interesting discussion about the recent energy agreement, but its relationship

to this committee's function, I think, is getting a little distant from the present discussion. Perhaps we could go on to . . .

MR NOTLEY: [Not recorded] relevant at all. It's the crucial question of the convertibility of debentures that we have in the Heritage Savings Trust Fund and are reported on in this current year. The question of whether we convert or not, or why haven't we converted or not, and the yield is pretty fundamental -- and frankly, fundamental enough that I would like to see the Provincial Treasurer back. I've read over this letter we finally got from *The Calgary Herald*, and I just don't think it answers the question. If this is the basis on which we decided not to convert for the last several years -- at least for the last year and a half -- then I think we want to know on what basis it is, because we've got some pretty fundamental decisions to make in the future. So all the questions relating to the convertibility of debentures, I think, are totally within the purview of this committee. The public interest demands that we have satisfactory answers.

MR PAHL: Mr. Chairman, on the point of order. I quite agree with the hon. member, but I would like to talk to the minister on the three items that are his responsibility before this committee; namely, the Alberta Oil Sands Technology and Research Authority, the Alberta Reforestation Nursery, and the maintaining our forests program. So if it's the wish of the committee to bring back the Provincial Treasurer, I would tend to support that. But I would like to use our time this morning directed at issues that the minister is directly responsible for.

MR CHAIRMAN: Thank you. That was the point I was making a few minutes ago. I think we'll go on to the Member for Calgary McCall with his question.

MR LITTLE: Thank you, Mr. Chairman. I understand that for a good number of years it was a priority of the Alberta Oil Sands Technology and Research Authority to attempt to find better ways of extracting from the heavy oil sands. Is this research still proceeding? Is the minister able to report any progress?

MR LEITCH: The answer is that that research is proceeding. We've had some disappointments and some encouraging results. I think it is too early to make any definitive forecast as to the outcome of the research now under way. There are a number of projects: one with British Petroleum at Cold Lake. In that project we did some additional drilling in 1981. The AOSTRA commitment was increased in 1981 for that project from about 9 million to about 20 million. We'll be starting in 1983 -- probably in early 1983 -- a key second phase of that project which is the *in situ* combustion. That's designed hopefully to get more oil out of the ground. So the results so far have been encouraging from that project.

We have another one at Gregoire Lake with Amoco. That project has completed its first phase this year, and it was completed on schedule. The results from the project were not as promising as we had hoped. The decisions as to the future of that project haven't been finally made. The Alberta Oil Sands Technology and Research Authority is contemplating a modification of the process and may continue with it. But the final decisions have yet to be made there. There's a project that AOSTRA is involved in at Peace River with the Shell Oil Company, and it's one of AOSTRA's largest pilots. It's completing its second year of operation. The results have been encouraging so far with

that, but we'll have to wait for the next couple of years before we have any definitive results out of that pilot project.

There are a number of other smaller field projects that AOSTRA is involved in with Petro-Canada, with the Alberta Energy Company, and with Union Oil, and they're proceeding. It's a little too early yet to make any comment about the results. The one with Union Oil is one that I'm excited about because it's in the carbonate rock deposit which is an immense oil deposit also. But again, those projects are in the very early stages and really haven't yielded any results that we could comment on one way or another today. This fall or early in the spring when we file the annual report of AOSTRA, I'm sure we'll cover all those projects and some with more detail. But it's a very important phase of their work, and I certainly have a feeling of optimism about it.

MR SINDLINGER: Mr. Leitch, could I refer you please to the annual report. On page 8 there's a graph in the upper right-hand corner.

MR LEITCH: Which annual report is that?

MR SINDLINGER: The heritage fund annual report. Mr. Leitch, on the upper right-hand corner of page 8 there is a small graph titled Alberta's Conventional Crude Oil Profile. On the vertical axis is plotted thousands of cubic metres of crude oil production per day. On the horizontal axis is the time line from 1973 to 1986. In the notes underneath the graph it says: "synthetic production is excluded as are forecast reserve additions". Inasmuch as the entire trust fund is based on non-renewable resource revenues, what I wonder is why the synthetic production in the forecast reserve additions are excluded?

MR LEITCH: I'm not sure why they're excluded. One of the reasons for . . .

MR SINDLINGER: Mr. Chairman, while Mr. Leitch is considering that and gathering his thoughts, I wonder if I might table this with the recording secretary and have these charts distributed to members for reference. They are ERCB reports providing crude oil, synthetic, and new discovery production forecasts from 1980 to 1990. Perhaps as Mr. Leitch responds to this initial question, then we could refer to this. May I please do that?

MR CHAIRMAN: Is this graph produced by the Energy Resources Conservation Board?

MR SINDLINGER: Yes, it is.

MR CHAIRMAN: What document does it come from, for the benefit of the secretary?

MR SINDLINGER: It comes from ERCB Report 81-B which was published January 1981, the Energy Resources Conservation Board. It's a report on Proceedings No. 800065, estimates of ultimate potential and forecasts of attainable productive capacity of Alberta's crude oil [inaudible].

MR CHAIRMAN: Thanks.

MR LEITCH: One of the reasons, I would think, for excluding synthetic or additional reserves is that the revenue to the province is much more difficult

to forecast in those areas. Additional reserves is a question of what we're going to be able to discover in the future. Synthetic production: we have the two plants on stream. But the royalty arrangements for Syncrude, for example, differ very substantially from the royalty arrangements with respect to conventional oil. We would be very much in the area of conjecture if we were trying to forecast revenue flows from additional conventional reserves and also revenue flows from additional projects. I think the only revenue flow we could have forecasted here in respect of synthetic production would have been from the Suncor and Syncrude plants.

MR SINDLINGER: Mr. Leitch, at the conclusion of the energy agreement September 1 with the federal government, various estimates were made of the revenue that would accrue to the various participants: the government of Canada, the government of Alberta, and the government of industry. It's been reported at various times that the total deal was worth somewhere in the neighborhood of \$212 billion. It was estimated that of that total revenue of \$212 billion, approximately \$64 billion would accrue to the government of Alberta. Could you tell us please whether or not in making these revenue forecasts this production curve on page 8 of the heritage trust fund report was used?

MR LEITCH: I can't say whether this particular production curve was used. I assume it was in connection with the established reserves. But the forecast in the agreement of course included total revenues from all sources: conventional, synthetic, forecasts of additional reserves. So it's quite a different number we're dealing with that is in the Heritage Savings Trust Fund report.

MR SINDLINGER: Assuming then that this was the production curve used to derive the \$64 billion, if I can just do some multiplication out loud. Past practice in law has been that 30 per cent of non-renewable resource revenue would accrue to the trust fund. So if I took 30 per cent of that \$64 billion, just in round numbers, that would mean we would have another approximately \$20 billion come into the trust fund by 1986 when that agreement expires. Now we already have -- again, just using round numbers -- something like \$10 billion in the trust fund. By 1986 we would have something like \$30 billion in the trust fund.

If I go a little further -- and if I could refer you to the handout I've just tabled -- in the production forecast given by the Energy Resources Conservation Board and compare it to the one in the heritage trust fund report, the one in the heritage trust fund report shows a very steep decline between 1981 and 1986. Whereas the curve on the production line from the handout I've given you, the ERCB report, shows a decline, the bottom line shows the most pessimistic production forecast, given the national energy program of last year, also given the production cutbacks of the Alberta government of 180,000 barrels per day, also the delay of synthetic plant construction. So even the most pessimistic line on that curve on the ERCB report is much more optimistic than the one in the heritage fund report.

The point I'd just like to make is that the production curve in the heritage fund report is in the grossest sense very pessimistic. Using the rough calculations I've done, we come up with a heritage trust fund of \$30 billion in five years by 1986. Now it doesn't take much to extrapolate that \$30 billion, take it another five years, and we're almost looking at a heritage trust fund of something in the neighborhood of \$80 billion to \$100 billion.

Now this is where the question of the conversion of the debentures comes in, and the question that Mr. Knaak brought up; that is, the rate of return. The key words I would refer to are those that were used by you; that is, that investment decisions would be based on looking at other investment opportunities that are available. So when we're talking about \$80 billion to \$100 billion in the trust fund that this committee is responsible for reviewing each year, it becomes very important that there are specific guidelines sent down for those investment decisions. I can sympathize with the other members in their questions to you trying to get some more information to determine exactly how those investments are made. If we can't do that at this point in time, when we're talking about -- and I almost gulp on the words -- a mere \$200 million, we're going to be in grave straits when it comes down to deciding about \$80 billion to \$100 billion.

MR LEITCH: I've listened to the speech, Mr. Chairman, but I don't know what the question was.

MR CHAIRMAN: I'm not sure if there was a question or just a statement based on the information the member has presented.

MR LEITCH: Incidentally, I think the two charts compare two quite different things. In the chart on the Alberta Heritage Savings Trust Fund, I notice that the forecast production is about 120,000 cubic metres a day in the pessimistic case. In the chart from the Energy Resources Conservation Board, it's about 130,000 but in the one case we're including synthetic production and in the other we aren't. So the two seem to me to be relatively close.

MR SINDLINGER: Mr. Chairman, I have just made an observation, but there are two observations. The first one would be that in subsequent annual reports, the total amount of renewable resource revenue sources should be indicated, rather than just a selected revenue source. The second observation I made was just simply that we ought to be given more information in terms of investment criteria.

MR CHAIRMAN: The other difficulty I have is that there is a considerable difference in the royalties that are paid on the different forms of oil production that may, as well, affect the figures that are being projected by the Provincial Treasurer.

MR SINDLINGER: There's no question, Mr. Chairman, that there's a range of numbers for these things, given the different mix of components. But certainly there is enough information available, and there is enough manpower in the department, to come up with a reasonable, representative range. I don't believe that the graph on page 8 is a reasonable representation, because it has selected information only to underline a point which is made in a paragraph subsequent to the graph. This report, and the fund, is based on the total amount of revenues coming from non-renewable resources, and those should be depicted in here and not just a selected section of them.

MR CHAIRMAN: I'm having a little difficulty because I presume that the two governments, during their meetings, were using figures that were finally acceptable to both governments. I think what the member is trying to say is that Mr. Lalonde, Mr. Leitch, and the other people were using figures which

were not accurate and were, presumably, estimates. I'm having a little difficulty with what the member is trying to get across to us.

MR SINDLINGER: No, not at all. All I wanted to do is establish if there is a correlation between the numbers in this graph and the ones used for the revenue estimates. The response I got was that it was presumed that it was this production forecast. All I wanted to determine was whether or not this \$64 billion, or the \$30 billion that would come into the trust fund, was a conservative or optimistic number. What I've been told is that it's very conservative. So we'll be getting \$30 billion in the trust fund over the next five years, and that will be a low number.

MR CHAIRMAN: I think it would be \$18 billion if it's 30 per cent of 60.

MR SINDLINGER: I was rounding the numbers, Mr. Chairman. I took 30 per cent of 64 and said 20. And I said approximately 10 that we have today, so I came up with 30.

MR LEITCH: I wouldn't want to leave the member's last statement go unchallenged, which, as I followed it, was that the \$212 billion we were talking about was a conservative number. I don't know quite how he reached that conclusion. The information I gave the committee was that I felt that the number for conventional crude from our existing, known reserves that was used in that \$212 billion calculation was probably similar to the one shown on page 8 of the Alberta Heritage Savings Trust Fund report. But there are a number of other resource revenue sources that go to make up the province's share of that \$212 billion. There would be revenues from synthetic production, which are not shown in the chart on page 8, from sulphur, natural gas, and a variety of other resources covered by the agreement.

I don't think I said anything upon which the member could base the conclusion that the \$212 billion we're talking about in the agreement is a conservative number. As far as I'm aware, it's the best estimate that we could arrive at at this time. I wouldn't characterize it as conservative or in any other way. It's just the best estimate we were able to arrive at.

MR NOTLEY: Mr. Chairman, perhaps it might be useful if the minister could supply the members of the committee, before we get into our deliberations on recommendations, with the estimates that in fact were used. Because we're talking about other things -- synthetic crude development -- and obviously facts and figures common to both governments were used. It would be useful if members had that information in our deliberations too.

MR LEITCH: Mr. Chairman, I'd be happy to check that. I assume it's available and I can make it available. I'll look into it, and perhaps report back to you as Chairman.

MR CHAIRMAN: I think that will be acceptable if you can determine what's available and acceptable for release, and then it would be available to us for our discussions.

MR PAHL: Mr. Chairman, I note that the AOSTRA mandate was expanded to include capital activities in the area of conventional oil enhanced recovery processes, to the amount of \$75 million to 1985. This is on page 12 of the annual report. I wonder if the minister could give his assessment of how that

program would go now that an agreement has been reached with the federal government, and whether it will somehow be related to the payment administration by Alberta of grants to the oil industry in Alberta. Will that, if you will, throw that investment by the Heritage Savings Trust Fund in doubt, as to whether it will be taken up or will there be a need to expand it? What's the perception?

MR LEITCH: Mr. Chairman, it's an excellent question. I do not think the fact that Alberta will be administering the petroleum incentive program as opposed to the federal government administering it, will have any bearing on the level of enhanced recovery in the province of Alberta. What I think is the key point is the terms of the agreement of September 1 that provides, in effect, international prices for enhanced recovery oil, which will be treated as new oil. We've had very limited success with industry entering into enhanced recovery oil programs, from the time the AOSTRA mandate was expanded to the present. In my view, that was primarily because of the economics for enhanced recovery oil that were established by the national energy program and budget of October 28. I think there will be quite a dramatic change in that area. I would anticipate quite a dramatic change in that area as a result of the agreement of September 1. Obviously, it's too early for us to have any definitive indications on that, but that would be my expectation.

We have some laboratory programs that are being conducted by AOSTRA now on enhanced recovery. AOSTRA is certainly going to move ahead on its own in some areas, but I'm hopeful there will be a significant take-up by industry in that area and that we will, over the years, have some very promising results of that program. We know the oil is there; it's a question of getting it out of the ground.

MR PAHL: Supplementary question, Mr. Chairman, on that point. If this program indeed is taken up, the \$75 million budgeted might very well be quite inadequate. As I understand it, the technology on enhanced recovery has to occur on a pool basis. To me, this would seem to be one of the alternate investments the Heritage Savings Trust Fund should consider relative to oil sands plants. For example, if the Pembina oil field as a total unit were slated for some other form of recovery, then there would be a need for a very large sum of money expended but with the prospect of gaining perhaps twice again the oil that had been recovered by conventional means.

How would the minister's assessment relate to the wisdom of that being considered as an alternate investment relative to oil sands plants of the same scale of funding?

MR LEITCH: Mr. Chairman, that's difficult to answer because I don't think we can make any decisions about the wisdom of providing additional funds in the enhanced recovery program until we've done a good deal of the research and development work which can be done with the funding that has already been provided. So I think that decision is one we'll have to make down the road. The hon. member is absolutely correct, Mr. Chairman. As we move down the road, we'll have to make a decision as to where we get the most for our dollar. It may well be that we would get it in additional funding of enhanced recovery programs as opposed to additional funding in oil sands or carbonate rock, as the case may be.

MR PAHL: Thank you. I have one final question, and it's switching gears to the renewable resources of our province. It relates to the Alberta

reforestation nursery and the maintaining our forests program. We in this province have had two successively bad years with respect to wild fires in our forests. I would ask the minister whether the experience of the last two years has pointed to a need to perhaps enhance both those programs.

MR LEITCH: Mr. Chairman, there are two areas the member has touched. One is the Pine Ridge nursery. I think we should do a little more there, but basically that project is completed. I think there may be a need to expand the facility in some respects in the genetic area. We also are looking at the question of paving, and things of that nature, at that facility. Apart from that, the facility at the moment I think is complete and would not require expansion. We are capable of turning out about 36 million seedlings a year now, and I think that is going to be sufficient to meet our needs over the medium term certainly.

With respect to the reforestation program, that initially was a \$25 million program. I think we should proceed with that and re-examine it when the \$25 million has been expended. I would think it highly likely that when we have completed that expenditure, this committee and others would be convinced of the wisdom of continuing with it.

I've no doubt it is a sound program. Obviously, while the non-renewable resources get all the attention, in the long term it's the renewable resources of the province -- of which forestry is a very important one -- that people will be depending on. I think it's critical that we maintain our forest land base, that we protect the fibre that's growing on that land base, and that we do a number of things in the research area to try to improve the quality of fibre and the amount of fibre you can grow on the same land base. So certainly, from my point of view, the objective should be that we will, if anything, have more fibre out of our forest land base 50 or 100 years down the road than we have today. I think this maintaining program would be a very key element in achieving that objective.

MR FJORDBOTTON: Mr. Chairman, my questions had to do with reforestation and maintaining our forests. Most of those questions have now been answered. However, I think no one would disagree that the program is certainly an important one, because to have a good forest in 80 years is a lot better than having a poor forest in 120 years if we didn't have a program along this line.

One of the questions I have is what role private enterprise is playing vis-a-vis what we are spending public money on doing. Are they also spending a fair amount of money in that area? Since there is a higher demand anticipated -- you know, I would expect the program has certainly done what you intended it to do, Mr. Minister, and you're looking for greater expansion for the program. I see there is a modest increase in funding, very modest at this point. The lapsed appropriation of March 31, 1981, shows we didn't use up some of the funds. Could you expand on that a little?

MR LEITCH: Dealing first with the question of what the private sector is doing, of course it is responsible for the majority of reforestation work in the forest management areas. They are also carrying out research. I'm not familiar with all their various programs, but it's very much to their interest to produce more on the land they have under forest management agreements. Essentially, their use of the fibre is based on a continuous supply from that land. So they need to keep the quantity up that is being produced. Obviously, their economics will improve if they can produce more fibre, produce it more quickly -- produce a better tree, in other words.

With respect to the lapsing of a part of the appropriation, that in part occurs because we make a forecast of the work we hope to be able to do during the upcoming year and there are various conditions that affect that. The weather will have a significant impact on that. In addition, the forest fire situation has a significant impact because we have to give first priority to protecting that which is now there and second priority to developing more of it, which is the reforestation program.

In the last two years, as I'm sure members of the committee are aware, we have had a very, very serious fire situation in Alberta. It has been primarily due to the unusual weather conditions. Certainly this year they've been very bad. Members will recall that in the budget last year we substantially increased the funding for fire protection. That program, which essentially is the initial attack program, has worked extremely well. The Swan Hills fire, which has been a very serious one, is the one case in which the initial attack crew wasn't successful in extinguishing the fire, despite the fact they were there, I think, 14 minutes after the report. When they arrived on the site, about 200 acres were then burning and was simply too large for them to bring under control. We've had 100 and some fires in the summer in that area -- 130, if my memory is accurate -- and they were all caught and put out by the initial attack crews. I think the total burned is only about 2,000 acres as compared with 35,000 to 40,000 of the one that got away. So I've been very pleased with the results of that program. In a normal weather year, I think we would have been able to keep our fire losses to a minimum in this province.

Just in summary, part of our difficulty with estimating the amounts we might spend in this area has been just that: it's an estimate. We haven't done enough work to be sure of the extent that we can successfully implement in the year. For example, in the wetland improvement area, which is really to take land that is non-productive by current standards and develop productive land, we did a number of field tests and on-ground inspections, things of that nature, but didn't find we were able to go ahead because those tests indicated it wouldn't be useful to go ahead with those programs in those areas. So we drew back and will do some more work on it before we proceed to spend money.

MR FJORDBOTTEN: Supplementary, Mr. Chairman. I've noticed as of late that in other jurisdictions, not only on this continent but in the world, they feel we are one of the leaders in working with good seed stock and reforestation. Are we getting a lot of other jurisdictions coming to us, to try to assist them through the programs we have set up here? If so, are we doing anything to help them?

MR LEITCH: There's a good deal of interest in what we're doing in Alberta. I recently attended a meeting of forestry people in Banff. The Pine Ridge nursery has attracted a lot of interest. I think it's certainly one of the finest in the world, and we're getting a lot of people looking at that. There is also a good deal of consultation with other provinces and us over the various programs we have in place, including the fire protection program. Members will recall that last year we created the research section in the department, which is now getting under way. There is interest in that from the other provinces as well.

So, in a sentence, I think the answer to the question is, yes, there is a good deal of interest from outside of Alberta in what we're doing.

MRS FYFE: Mr. Chairman, I want to ask a follow up to a question this morning to the Minister of Housing and Public Works related to the acquisition of appropriate logs for log home building, either by the individual or the log home industry. While it's not directly related to the fund, I wonder if you or your department have done any analysis of the availability of the appropriate timber for this purpose.

MR LEITCH: For home building?

MRS FYFE: Yes.

MR LEITCH: I'm sure we have, because we have an inventory of the forest resource. How detailed the inventory is I couldn't tell you without checking. I couldn't answer that specific question without checking, but I'm sure we have gathered information.

MRS FYFE: The concern seems to arise that there may be different applications in different forestry areas, as to how logs can or cannot be acquired. So I just leave that as a concern that perhaps you could take a look at.

MR LEITCH: You may be talking about the allocation system as opposed to availability of the resource. We have a variety of ways in which we allocate forest. We're continually reviewing that with people and making changes where the system doesn't appear to be working as it should.

I can't answer your specific question. I don't recall receiving any complaints or concerns about the allocation of timber resources for house building. If there are any concerns about that, I haven't been made aware of them.

MR CHAIRMAN: I think I can add something here. There is a concern that some of these people wish to go to a selective logging of only those trees that are straight and suitable for log houses, and it has become almost a matter of policy that we are not going to go to selective logging but to clear cut if possible. I think these people do indulge in very highly selective cutting of the best trees, and in the process may damage others. But I think the problem is being looked at by the department, if they can extract these logs at the larger facilities in the province from the general supply of logs, either for lumber or for pulping or chips. So it may be there. Perhaps you can get it from the department.

MR NOTLEY: Mr. Chairman, just one quick question, following up on Mr. Sindlinger's quite proper point about the need for as much accurate information as possible. Mr. Leitch, are you in a position to advise the committee whether or not the government will be able to comply with the motion for a return requesting an accounting on Syncrude early in the fall session, before we make our report to the Legislature? I raise this because if we're going to be looking at, as a province, making future investments of sizable amounts in other plants, we need some kind of accurate accounting of the Syncrude project. The motion for a return was passed by the Legislature. Are you in a position to advise when the government will be able to comply with it?

MR LEITCH: Mr. Chairman, I would expect to file that early when the House resumes next month. Certainly I would endeavor to file it before the Alberta

Heritage Savings Trust Fund appropriation estimates and Bill come before the House. Any questions arising from that, I assume, would properly be raised as that appropriation moves through the House.

MR NOTLEY: Would the government be looking at at least an annual accounting of this nature, or perhaps even a semi-annual accounting, in view of the importance of the question?

MR LEITCH: I don't know whether that question should come to me or to the Provincial Treasurer. In any event, I'm certainly prepared to consider it.

MR NOTLEY: Mr. Chairman, are there other questions?

MR CHAIRMAN: I'm at the bottom of my list.

MR NOTLEY: I think some of the questions that have been raised today by Mr. Knaak, Mr. Sindlinger, and me with respect to the Syncrude debentures are properly the purview of the Provincial Treasurer, even though, as the minister pointed out, advice is obtained from the Department of Energy and Natural Resources. I think we have some handle on just what the role of the Energy Department is. But I would suggest that in view of the importance of the conversion question, and the fact that the minister, while making reference to this handout material when he was here a month ago, didn't have it at the time and we didn't have it at the time -- it was impossible to obtain it at the time. We now have it, and I certainly have a number of questions about it. I raise it because it's a pretty crucial question of whether we convert or not.

I would like to suggest to you, Mr. Chairman, that on Monday, the 28th, we invite the Provincial Treasurer back -- or at some point in the remaining time of hearings -- so that we can go over this question, because I think it is pretty crucial and it's important we have the Provincial Treasurer here to outline the question. I think we have all we can get usefully at this stage from the Minister of Energy and Natural Resources.

MR CHAIRMAN: Are there any more questions for the minister?

MR SINDLINGER: I have no other questions, but I would like to support the motion made by Mr. Notley in regard to calling Mr. Hyndman back here, not only for the reasons he has put forth but also because since Mr. Hyndman's appearance here he has given us more material that we could consider. There are question that come from that material that I think would be properly put to him again.

MR CHAIRMAN: Perhaps before we get into that debate, I can thank the Minister of Energy and Natural Resources for appearing before the committee and giving us the information he did. Thank you very much, Mr. Minister.

Presuming that was a motion by the Member for Spirit River-Fairview, have any other members anything to say on this subject of recalling the Provincial Treasurer in front of the committee, possibly on the September 28?

MR PAHL: Mr. Chairman, I would have no problem with that. I would like to suggest that the convenient date be perhaps at least after our field tour. Certainly it would create some problems if it's not before our recommendations.

MR CHAIRMAN: The Member for Edmonton Whitemud with his remarks while I ponder this problem.

MR KNAAK: I just think it's a good idea and I support that.

MR NOTLEY: We'll leave it to the Chair.

MR KNAAK: Yes, let's leave it to the Chair.

MR CHAIRMAN: I'll check with the Provincial Treasurer. Looking at our schedule, it may be a little difficult to put it between the visit to Kananaskis and the meetings starting on October 5. But I'll discuss it with the Provincial Treasurer and will make sure everybody gets notification of when he's going to return.

Are there any more matters to bring up at this time in relation to my memorandum? I think we'll now adjourn until next Monday at 1:30.

The meeting adjourned at 12:15 p.m.