

**Standing Committee on The Alberta Heritage Savings Trust Fund Act**

**Tuesday, October 13, 1981**

*Chairman: Dr. Reid*

*9:30 a.m.*

MR CHAIRMAN: The committee will come to order.

This morning the Provincial Treasurer has returned to appear before the committee, and I think to answer questions in specific terms regarding the Syncrude debenture recommendations that are amongst the prepared recommendations for this year. If the Provincial Treasurer has any remarks to make first, we can then go to questions from members of the committee.

MR HYNDMAN: No, Mr. Chairman, I don't. I would note that a document was filed on September 11 pursuant to questions posed when I appeared before the committee at the end of August, which deals with the question of the Syncrude convertible debentures.

MR NOTLEY: Mr. Chairman, perhaps I can begin the questioning. Mr. Minister, on page 83 of the transcript when you were here in August, you indicated that there should have been no conversion during the current year that we're examining, the 1980-81 annual report. I don't think there's any question in my mind that it would have been imprudent to convert in 1979. When one looks at the quarterly reports, there was a continuing loss throughout 1979. I think the issue that this committee has to address is whether or not there should have been conversion either at some point during the current year that we are presently examining, or in the last few months.

With that in mind I refer, Mr. Chairman, to the information given to the committee by the minister, and I see first of all a time frame that in fact is 18 months, not 12 months. Now I suppose we can take snapshots at any given time. As you point out, if we'd taken the snapshot in 1980, there would have been a surplus by conversion. If we'd taken the snapshot during the year of this report, I would maintain there would have been a surplus by converting. Now there isn't, by taking 18 months. That's true, but as you take those 18 months I find that first of all we take in three months of 1979 when there's no quarrel. We all admit there would have been a loss; I don't think anyone has suggested there would have been conversion during that time. We take in three months of 1980, Mr. Minister, which is a normal downtime as I understand the Syncrude operation, when they're getting things ready for the full year's production, when there's repair work -- it's a normal time when production is low, and I've gone back over production figures to indicate that is a usual low time in their operation -- and we've taken three months of 1981 of downtime. So we've brought in six months of normal downtime, three months where there's no quarrel, and only nine months when in fact a profit could have been made.

I'm saying that that particular snapshot, in my judgment, is misleading in terms of what this committee has to assess as to whether or not there should have been conversion during the reporting year, because it takes in two periods of downtime when normally that would be a matter you would take into

account in making that decision to convert or not. But you would take it into account on the basis of the expected profits as well.

MR HYNDMAN: Mr. Chairman, I think the key to it is as set forth in the memo which I tabled, and that is that it is misleading, to use the hon. member's word, unless you take into account the total time period during which . . . Here we have the benefit of hindsight, and that is that if one is going to be sitting making a decision as to whether to convert or not, one has to consider not just three quarters, or quarters which, say, relate to the calendar year 1980, but including the first quarter of this year and, as well, the history of what the quarters have been in the past. As well, I think you have to remember that at the times during which these conversion decisions could have been made, there was, firstly, very great uncertainty with respect to the future price of oil which of course very directly relates to whether or not one would have secured a reasonable return as an equity owner. And, as well, there was the history of production difficulties which related to volume.

So what it boils down to, Mr. Chairman, I suggest any way you slice it, is that there would have been a cash flow advantage of some millions of dollars in holding the debentures and securing those rather than converting them into equity during any time period that it is fair and reasonable to compare.

The other thing I think we have to consider, Mr. Chairman, is that if you're looking at the value of an equity conversion, you can't simply look at net income, because as an equity owner with, for example, an 8 per cent equity, the province has to contribute capital dollars to the Syncrude plant regularly for working capital, for operating. You're not simply looking at an income picture of the amount derived from the sale of oil less operating costs; that's only part of it. Therefore, the if, as, and when the conversion is made -- and I suppose the only way we can ever reach a final conclusion on this matter is when we look at it about 15 or 20 years from now, and the other information will be available. But at the moment, as the document indicates, it would have been imprudent to have made that conversion decision anytime in 1980.

MR NOTLEY: Mr. Chairman, just to follow along a bit, it seems to me that the question is the snapshot that we want to take, the time frame, because what we have is a normal operating year for Syncrude: three months where it is unlikely the company will make any money, and nine months where the company will make some money, because January, February, and March are the downtime period when the equipment is being repaired, the volume is clear. When one looks at the volume of oil produced during any period one wants, not that much oil is produced. So any decision you make as to whether or not you convert, you take into account that you're going to lose money for three months, you're going to make money for nine months, and then you balance it out over the year.

AN HON MEMBER: It could be the other way about.

MR NOTLEY: Well, those are the facts, Mr. Chairman.

I think the point we have to examine is that the snapshot that one has to examine, it seems to me -- certainly this committee has to examine, Mr. Minister -- is the reporting year. That's the year we are entrusted with assessing and reviewing. We're not talking about whether the government should have converted in 1979. I agree; I don't think it would have been wise to have converted in 1979; no quarrel about that. The question is whether or

not conversion should have been made sometime between April 1, 1980, and the end of March 1981, or in the last six months. I think that is the crucial issue.

Now, if we look at that snapshot of the reporting year with which, after all, the government has supplied us as a committee, and the people of Alberta -- because that's the snapshot that we're looking at for the 8 per cent equity -- one finds that there in fact would have been a profit; by conversion there would have been a net yield to the province in that period of time.

Before getting into enlarging that debate there are several specific questions, and I think that in the fifth paragraph . . . Mr. Minister, I refer you to "this \$10.2 million difference was more than offset by \$19.1 million cash gain from holding the debentures between January 1, 1981, and March 31, 1981". In these three months the debentures yielded \$9.7 million in cash income. I think I know what you're saying, but I suggest that in those three months the debentures did not yield that income, that we did not earn \$9.7 million in three months. I think it's part of the reporting process, because if we are earning \$19.5 million a year, we're not going to earn \$9.7 million in three months. So I want what is meant by that \$9.7 million clarified; it's surely not a period of three months.

MR HYNDMAN: Well, income comes in every six months, and so \$9.4 million would come in on that date, but it wouldn't make any difference to the final figures.

MR NOTLEY: So that it doesn't make any difference to the final figures in terms of the 18 months of this reporting period; no question about that, Mr. Minister. I think the Treasury Department has taken a six-month period, October 1, 1979, to the end of March, so that you get 9.7 there, 9.7 in the next six months, 9.7 in the following six months, and that gives you your total. You have a nice convenient snapshot of 18 months. But it's a snapshot where for the first three months there was no question about no money being made. For the next three months it's a down period of time, and then we have the first three months of 1981. So what we have is a snapshot that, from a politician's point of view, justifies the decision not to convert. But I suggest this committee is not looking at a politician's response, but whether or not the government should have undertaken the conversion.

MR HYNDMAN: Mr. Chairman, I suggest that from an investment point of view, if we had done what the hon. member suggests, and that is in the last quarter of the calendar year 1980, it would have looked very, very unfavorable when, in the first quarter of 1981, it would have appeared that there was \$19 million on the down-side, which is what would have been the situation if we had been an equity owner as of the first quarter this year.

MR NOTLEY: Mr. Chairman, there's no quarrel with the pattern. You're looking over the quarterly reports. No doubt for the first three months of the year we're going to lose money. But what I think we as a committee have to analyse . . . In 1980 we lost money for the first three months, made money in the last nine months; I don't think there's any question about that, and I'm sure the minister would confirm it. Your paragraph here deals with what would have happened if we'd taken the snapshot 1980 as such; there would have been a yield to the heritage trust fund of a little over \$10 million, and that's fair enough. That's one period of time we could examine. If we take the current year that we as a committee must examine, Mr. Minister, and look at both the

downtime and the uptime, the good and the bad, we still find that there would be a surplus by conversion in the reporting year. The only way that one can justify not converting is to take an 18-month period of time which takes into account three months when no one would have recommended conversion, and takes in two periods of downtime.

MR HYNDMAN: Well, I'd have to disagree with the hon. member, Mr. Chairman, and I haven't seen anything yet that is converse to what has been set forth specifically in this document and this memo. If the hon. member has something that rebuts or purports to rebut what's in here, I'd like to see it, because in terms of being a prudent investor it's not possible, and it's not desirable, fair, or a proper accounting or investment procedure, to take very limited periods of time such as the hon. member is suggesting. From the point of view of conversion, you have to look at the total performance.

MR NOTLEY: Mr. Chairman, the difference between 12 months and 18 months is hardly that big a difference. Let's take two years, then. I submit, Mr. Minister, that if we took the snapshot of the two full years -- because you're before this committee now; we've still not converted these debentures -- and added in the period from April 1 to now, that that would also show that it would have been prudent to advise. It seems to me that the only period of time one can make the argument is this selective 18 months. What's magic about 18 months? The Gulf people don't report 18 months; they report a year. Why do we take this 18 months and hang onto it as if this is somehow the basis of a prudent investment? Why not two years? If it's two years, then you should be making the announcement today that we're going to convert, because it's obvious that over that snapshot it would pay to convert. Over a period of a year, the reporting year that this committee has to examine, it would pay to convert. You yourself admit that over the 1980 year it would pay to convert. The only year, the only possible combination of months that can justify the decision not to convert, is this 18-month period.

MR HYNDMAN: Well, I don't think we have the time to debate this. I think if the hon. member has and wants to get into an accounting debate or an investment date, and that is the key test of this, over the document which I have tabled which indicates that it would have been \$19 million worse off, then I'd like to see the document. Perhaps what he's really doing is carrying on this debate a year ahead of time, because next year, when we see what's happened over the course of this quarter, he may have an argument. At the moment he does not.

MR CHAIRMAN: The Member for Edmonton Mill Woods, followed by the Member for Edmonton Whitemud, and then back to the Member for Spirit River-Fairview.

MR PAHL: Thank you, Mr. Chairman. I just have to feel that the hon. committee member who's making all the noise hasn't read the memo. It seems to me that when we have the benefit of hindsight, as we do in this instance, a prudent investor would only have to see \$1 greater advantage to one decision as to the other. And if he insists, I could certainly support asking for the time period from March '79 to '84, if you will, but more accurately from September because of the precedent of the Alberta Energy Company's option prior to that. But I think it's very clear that with the benefit of hindsight there is a positive advantage, and as long as the advantage is \$1, it's an advantage. I guess if you took the view of a conservative investor, you wouldn't even need

to make \$1; you could break even and still be ahead. So, Mr. Chairman, I just have a little bit of trouble seeing what the point is here because we've obviously seen a positive benefit to the action taken on the Syncrude convertible debentures.

MR KNAAK: Mr. Chairman, I guess as a preface, I've always been vigilant to ensure that we get a decent return on the trust fund and even suggested equity investment, a suggestion that the Member for Spirit River-Fairview voted against in this Assembly. Now he's becoming the investment expert on a short-term time frame.

I think the convertible debenture is an extremely clever and extremely prudent investment, and this is the reason why. There was no knowing exactly what the federal government and the province of Alberta would agree to in terms of energy pricing. There was absolutely no certainty in a new venture of this sort of the kind of performance profitwise, depending on breakdowns, depending on the price that would be obtained in a federal/provincial energy agreement. I think it's time to wait, time to make an assessment, and to see whether in fact we want the capital repaid or whether we want to become an equity investor.

The second point is: anyone can look smart in retrospect. Who would have known that you should have sold all your stocks after the energy agreement instead of buying your energy stocks. Now to make a big hullabaloo out of conversion one year instead of the next . . . . I strongly feel that this is a time for us to assess carefully whether we want to change that debt to equity, or whether we should wait for another year to have a better assessment. I don't have any criticism with respect to this decision; I support it, and would have done the same thing.

MR NOTLEY: I don't think that the people of Alberta will be terribly surprised that the hon. Member for Edmonton Whitemud supports the position of the government on this issue. I rather doubt that that's news. However, getting back to the question we have to look at, Mr. Chairman, I think we are asking ourselves whether or not -- and that's our mandate; that's a commitment -- we're getting the most appropriate yield to the trust fund during the reporting year.

Going back over the figures, if we take the snapshot of the trust fund reporting year, I would say to the minister that we could take a blackboard and the minister could put down his figures and I could put down my figures, and we could probably agree on the figures and not take a year and a half as the federal and provincial governments have. And we'd take the snapshot of the reporting year when we in fact should have converted. That then raises all sorts of other issues, where there are uncertainties and imponderables that could have been taken into account, but during that snapshot there's no doubt that we would have been better off to convert.

The question I raise this in, and I'm not prepared to let it sort of drop, is that it seems to me that the conversion really ought to be made as quickly as possible, because the longer we delay it, we have in fact an unjustified shielding of cheap capital to two companies when we should be converting to make more for the people of Alberta. What worries me is the minister's response that we now don't have enough information. I find what has happened, really since the company began to make money, and looking at projections of production figures, that there really is little doubt that we should be making the conversion. If the conversion isn't going to be made for a year down the

road then, in my view, we're talking about many, many millions of dollars that will be lost if that is not undertaken as quickly as possible.

I have one specific question I'd like to put to the minister, Mr. Chairman. That is with respect to the \$9.4 million contribution. I wonder if the minister would specify just what that is, because, as I see the first quarter report of 1981, our 8 per cent contribution was about \$4.1 million and I fail to see how, if we converted the debentures, that additional 9 per cent would force us to come up with \$9.4 million. Perhaps the minister could explain that.

MR HYNDMAN: I don't have the details, Mr. Chairman, but in every month, or every quarter, or both, if one is a participant in the fortunes of an entity such as Syncrude, one is required to make advances for, I suppose, three areas: firstly, advances to meet operating expenses, and those can be high or low, depending on the year and the month and the progress of production and whether or not other things occur. Secondly, there has to be working capital; revenues don't always come in at the same time expenditures have to be made. Also, there's the acquisition of capital assets which are constantly made in amounts large, medium, and small, in an entity of this size. Therefore, in any given months or quarters there well may be significant capital outlays as a participant, which of course one does not have to be obliged to put forward as a debenture holder. So I don't have the breakdown of what the \$9.4 million was, but it would probably be in those three areas, as has been the case for the last two years, and would continue in future if we go from an 8 per cent to a 16.74 per cent.

MR NOTLEY: Mr. Chairman, just following that along, I'm fully aware of what the advances are for. The point I want to make is: how did the minister arrive at \$9.4 million, because it's important in terms of the arithmetic that we all have to understand here. Taking the quarterly report until March 31, 1981, which I assume is accurate, the total advance for our 8 per cent share is \$4.1 million. Now, for all the reasons the minister identified as being one of our obligations to the company, I find it difficult to see if 8 per cent forces us to advance \$4.1 million, 9 per cent should be somewhere in the neighborhood of \$4.6 million, not \$9.4 million. I really fail to understand how that \$9.4 million figure is arrived at; why it would be so much larger. Every other figure I've seen here in terms of even checking the minister's arithmetic is based on essentially the equation between 8 per cent and 9 per cent, which is fair and reasonable. But here we suddenly have an extra almost \$5 million lumped in -- unless we're lumping both of them together, Mr. Minister, in which case you really have an unfair comparison, because you're talking about taking part of the costs of an 8 per cent which we already own and lumping that in with the 9 per cent we're adding.

MR HYNDMAN: The comparison is a fair one. I think perhaps I'll have to talk to the Syncrude equity people to see if I could get more information on that topic. But we have to remember that of course that figure of the amount contributed as a participant can go up or down very significantly in every quarter. But as to the breakdown of what the \$9.4 million comprises, I'd certainly consider that and see if I could get the information.

MR NOTLEY: No, I understand that, Mr. Minister. I have no quarrel with that. Just looking over the quarterly reports I realize that there's a very substantial variation, but the variation should be in a constant ratio between

people who own as opposed to saying, well, Gulf will pay this quarter and the government of Alberta the next quarter. My point is that if 8 per cent obliges us to advance \$4.1 million, an additional 9 per cent should be in the neighborhood of \$4.6 million.

MR HYNDMAN: We'll do some more arithmetic on that and perhaps the quarterly report should be changed or modified in terms of the degree of disclosure that's in it.

MR CHAIRMAN: Are there any more questions in relation to the Syncrude debenture, rather than debate? The Member for Calgary Buffalo.

MR SINDLINGER: It's not a question, Mr. Chairman, but perhaps a suggestion. I find this matter very complex, and when the two members here sit and discuss it and throw numbers back and forth it's difficult to follow. It was suggested by Mr. Notley that perhaps it would assist the members if we could get a blackboard in here and put down the two columns of numbers to compare them. The reason I think it's a good suggestion is that we're not dealing with a matter of opinion here. We do quite often deal with differences of opinion. But what we have today is a difference in fact. If there's a difference in fact, we should be able to reconcile that. The first step to doing that, I think, would be to lay out the two numbers side by side. The second step to doing that, I think, would be to call in some expert assistance to give us advice in this matter, and we're empowered to do that; any committee is empowered to bring in experts with knowledge for the purpose of their enquiries, either to supply information which is not readily available or to elucidate matters of complexity within the committee's terms of reference. I think if we did that we could resolve this difference of a fact, and I think that it's important that we do so, not to determine whether or not the correct or incorrect decision was made in the past, but to determine what we're going to do with one of the recommendations we have before us. That is Recommendation No. 2 under the Alberta investment division, which is that the debentures be converted immediately and, unless we hear some expert advice with which to support the decision we make here, we have nothing more than just the difference opinion that we've had before.

So I would like to suggest to the committee that we do those two things: one, get a blackboard and compare the two numbers and, two, get some expert advice in here so that we can reconcile this difference in fact as opposed to difference in opinion.

MR CHAIRMAN: The question of convertibility is decided upon, I think, by an investment committee. The purpose of this committee is to go over what is in the report for the fiscal year ended March 31, 1981. In actual fact there are two proposed recommendations in front of the committee later on under the Alberta investment division: one for immediate conversion, and the other that consideration be given to conversion at this time. As the member said, it's a very complex issue and even with a blackboard and the assistance of experts, I don't think this committee is going to be able to come up with any better decision than the investment committee with the assistance of the experts they have on call. To my mind, it would appear to be duplication for this committee to be going over the investment committee's job, either in retrospect or in advance.

I think the Member for Edmonton Mill Woods has some ideas on this subject.

MR PAHL: Thank you, Mr. Chairman. I was just going to say that I would support the idea of the hon. Member for Calgary Buffalo for a blackboard if I could be assured that it would be any better than his calculator.

MR HYNDMAN: I sometimes have a suggestion that others than myself would like to share the load and the responsibility as to the proper date for conversion, and to be able to say that in the future the committee has that responsibility but, as you know, that's not the way, pursuant to the statute, it operates. I know, and I'm quite prepared to accept the total responsibility for making the decision as to when the conversion should be made, and then, of course, in years subsequent, the committee and the Legislature will have a look at that and make a decision as to how that responsibility was discharged.

As I pointed out in the memo of September 10, no one can predict the future with that much precision. Of course, for the first time we do have more precision since the energy agreement and a possible regime which is more favorable to the sale of synthetic oil. But I just note that it is the responsibility of the Provincial Treasurer to make that investment decision, and I will in future months and years be quite happy to discharge it.

MR CHAIRMAN: Are there any more questions to the Provincial Treasurer at this time?

The Member for Calgary Buffalo.

MR SINDLINGER: Mr. Chairman, there are two other subject areas which we referred to the committee since the Provincial Treasurer first appeared. The first subject area deals with the net loss and sale of marketable securities, and I brought this up the last time the Provincial Treasurer was before us. I'd like to ask a series of questions in regard to those losses, if I may, please.

The first one is the realized losses on investment disposals amounting to \$2.9 million for 1978-79, \$43.7 million for 1979-80, and \$13.7 million for 1980-81. The question is: was it possible to obtain from the investment manager a precise reason for these sales?

MR HYNDMAN: Well, as I think I indicated in the past, Mr. Chairman, the decisions to realize losses or gains are made on the basis of the way in which one predicts the various market trends will proceed. If it's seen that holding on to a particular investment is going to accelerate a loss position -- bearing in mind, of course, the volatility of the last 18 months; that's happened with respect to investment funds like this or any other fund -- then decisions can be made to sell a given investment and to use those moneys to purchase something else that will have a better performance record. That is done by the Treasury Department regularly in the course of its regular handling of the various investments.

MR SINDLINGER: Just to summarize, Mr. Hyndman, you are saying that it was possible to obtain from the investment manager a precise reason for these sales.

MR HYNDMAN: Oh yes. In each case as indicated, I think, when we've gone over the decision-making process in the past, these decisions are made within the guidelines of the department and within the legislation, and they're made on the basis of trying to get the best possible return.

MR SINDLINGER: Right. You've answered in the affirmative to that question. Thank you.

The second question is: were traders in a position to explain the rationale for purchases and sales of transactions long after the event, and were they able to provide information on the results of their activities to senior investment management?

MR HYNDMAN: I would certainly think so. Whether, of course, it is easier or more difficult to explain what the reasons were for the investment long after the event sometimes depends on what happens in the market place. But at the time the investment decisions were made, for example, to deliberately incur a loss in order to invest in another investment of some kind, the best possible objective decisions were taken and applied at that time, just as occurs hundreds of thousands of times in North America with similar funds as the heritage fund.

MR SINDLINGER: Mr. Hyndman, have traders made notes on a daily basis and retained them as memory aids for investment activities to assist in the preparation of management control information for senior investment management?

MR HYNDMAN: Such notes as would be of value in the future and would be of assistance would be appropriately retained.

MR SINDLINGER: Mr. Hyndman, has there been a monthly management control list whereby the designated employees responsible for specific control or accounting functions are required to acknowledge that the work for which they're responsible is completed? For example, such items on the control list may include bank reconciliation, reconciliation of TIIS investment position report for the general ledger . . .

MR CHAIRMAN: Excuse me. What is TI and IS? Sorry, I don't understand.

MR SINDLINGER: It's a management control procedure, Mr. Chairman.

Rather than going into details, I'd just like to give a few more specific examples. I was talking about the TIIS investment position report with the general ledger, reconciliation to TIIS with FRI market value holdings, reconciliation of AFIS 60:40 reports of long-term investments and capital project division accounts in the general ledger, and the reconciliation of DFC 578 revenue status report on investment proceeds, and non-renewable resource revenue in the ledger accounts.

MR HYNDMAN: Well, I don't have all that in my head at the moment, Mr. Chairman, but because the question has some details and requires a precise answer I think I'd like to take the time to provide an answer to those points. Perhaps we could then have the information available and could debate it further at committee study of the 30 per cent Bill in the Legislature.

MR SINDLINGER: Two final questions, then, Mr. Chairman.

The Alberta Heritage Savings Trust Fund Act provides for the investment of funds in accordance with the criteria set out in Section 6. The Act also provides that funds residual to Section 6 requirements may be invested in any or all the investment vehicles specified in detail within Section 9. Mr. Hyndman, has there been for each year the fund has been in existence a formal

plan for the investment of such funds to be used as a performance measurement tool, and has there been for each year the fund has been in existence a formal organizational structure for approval, implementation, and reporting?

MR HYNDMAN: You're talking about a five-year period, Mr. Chairman. I'd be happy to look that up because I'd want the answer to be absolutely precise. I'll undertake to do that.

MR SINDLINGER: When you do that, Mr. Hyndman, I wonder if you might be able to determine if, in your judgment or opinion, there has been any scope for collusion between any investment trader employed by the Treasury Department and someone in one of the brokerage houses, which could result in fraud.

MR HYNDMAN: Mr. Chairman, I'm not sure about the fairness of that question at all. It does cast aspersions on some very thoughtful people who do an excellent job and are totally honest, so I'm not sure at all that that question is entirely appropriate. If the Auditor General had commented on that, perhaps it would be, but I think it's a very unfair kind of comment to make in this kind of a position by a member who has special privileges.

MR SINDLINGER: Mr. Chairman, I'm not casting aspersions on anybody. I'm not dealing with individuals; I'm dealing with the organization and management procedures of the Heritage Savings Trust Fund.

Now that the Auditor General has been brought up, I might ask if the Auditor General provides comments or criticism on the plan management or operation to the Provincial Treasurer which are not shown in the annual report.

MR HYNDMAN: Mr. Chairman, if the hon. member would look at The Auditor General Act, he would see that there certainly are occasions on which advice and recommendations are received from the Auditor General but are not found in the annual report. That's in the statute which was passed by the Assembly.

MR SINDLINGER: Are there other reports from the Auditor General to the Provincial Treasurer which occur in neither of the reports to which we've just referred?

MR HYNDMAN: All the reports made by the Auditor General are made pursuant to the statutes of the Legislature.

MR SINDLINGER: That's all I have in that subject area, Mr. Chairman.  
The second subject area . . .

MR CHAIRMAN: I think the Member for Edmonton Whitemud wanted to get in at this stage.

MR KNAAK: I just have a subsequent question, and not in this particular area. I just had my hand up so I'd have a turn as well to ask a question on a different area.

MR CHAIRMAN: Well, maybe we should take it in turns and let the Member for Edmonton Whitemud follow the Member for Calgary Buffalo.

MR KNAAK: Mr. Chairman, to the minister. Has the investment committee made any recommendations for investment pursuant to the commercial investment division at this time?

MR HYNDMAN: Mr. Chairman, we're in the process of beginning the investment routine which will be followed to increase the returns of the funds through the commercial investment division. As I indicated in our previous discussions, that has been delayed over the course of past months by the national energy program, but that will be a matter which is now in process and will be forthcoming before the end of the fiscal year. Members will appreciate that to reveal too much about the plans and the timing with respect to the commercial investment division would identify the strategy and tactics of the heritage fund. If that's done, others would take advantage of that and lower the return to the fund, which no one would want. So I can't be too precise, but it's in progress at the moment.

MR KNAAK: Mr. Chairman, as it turned out, especially with respect to the stock market, everyone has 20/20 vision. Now, one could attribute to the minister great foresight in seeing the market drop and saying, what a clever, clever decision to postpone this investment decision and go into the market now that it's declined so substantially. But I'd be more interested in finding out, was there any actual advice to the investment committee to postpone the investment decision because of a possible further reduction, or was the reason for the delay merely because the timing wasn't appropriate and there were other reasons, or was it actually based on investment advice to postpone the decision because of a possible drop in the market?

MR HYNDMAN: No. The reason for the delay was the fact of the massive uncertainty of the national energy program. As members will recall, the legislative authority to proceed in this direction was given in 1980. In addition to then going out and securing and finding the two investment advisors we have, then on October 25, 1980, that threw a spanner into the works, as you might say, in terms of investment. Those were the reasons that there was a delay.

Remembering that the investments of the commercial division are long-term, passive holdings, I might mention that in future years we can expect them to go up and down. Therefore, I wouldn't claim the credit for delaying it on the basis of the present state of the stock market.

MR KNAAK: One final question. Will the minister now be in a position to be able to move rapidly enough to take advantage of the decline in the market at this time, or will it be a considerable period of time before those investments can be commenced? I'm sure all the investments wouldn't take place at once, but is the minister in a position to take advantage of this decline in the market?

MR HYNDMAN: Well, our goal, Mr. Chairman, will be to employ such timing with respect to investments that will yield the best possible return over the middle and long term.

MR KNAAK: Would that suggest that the minister is ready to move ahead fairly quickly, then?

MR HYNDMAN: You certainly may make that suggestion.

MR SINDLINGER: Mr. Hyndman, one of the recommendations the committee had before read as follows:

The Provincial Treasurer should identify the members of the Provincial Treasurer's ministerial advisory committee on the Alberta Heritage Savings Trust Fund, the formation of which was announced in the government of Alberta news release October 24, 1980.

In consideration of that recommendation before the committee, one of the members moved to say, and I quote: I guess what I find so amazing about this resolution is that there's any question about whether these people should be identified.

Of course they should be identified.

He goes on to say: I fully support the proposition but it's a little obvious that we're entitled to the information, and that we should get the information advanced. We can. The minister should provide the information . . . et cetera, et cetera.

I wonder perhaps if he might explain to the committee, in view of those comments, what his feelings are in regard to revealing the members of the ministerial advisory committee on the Heritage Savings Trust Fund.

MR HYNDMAN: Of course the comment by the questioner as to what another member said in the House indicates clearly the total spontaneity of discussion and debate as among government members and between MLAs in the Assembly on this topic. I would point out, though, as I did in the past, that the ministerial advisory committee, which was one of seven paragraphs, I guess, in the news release of October 24, 1980, is again a very informal committee with a revolving membership. It is not set up by statute. None of the members receives any payments of public money. Because there is in fact a new and increasingly able group of people in the private sector in this province who are prepared and interested in having lunch or giving advice, I found that it would not serve any useful purpose to have a fixed membership; rather, to be able to call on the abilities and advice of people all over the province. And again, because it's not a formal committee set up by legislation, it would be important to continue it that way. Therefore, I wouldn't see it as appropriate to be revealing the names of the many, many people I have chatted to about the heritage fund and who will be offering advice in the future.

MR KNAAK: Since some of that was a partial quote of what I said, I should preface that in the context in which those remarks were made. They were made on the assumption, which I stated, that it was a formal committee being paid by the minister. In that regard, I don't think anyone would disagree with my comments that if it's a government-employed committee being paid by the minister, we are entitled to the names. The minister has never ever refused to give us names of people formally employed by the government, either by way of contract or otherwise.

In this particular regard, Mr. Minister, is it in fact a committee, or is it a group of individuals the minister would contact much like he would contact constituents for advice?

MR HYNDMAN: It's closer to the latter, Mr. Chairman. It really is not a fixed group of people; it's individuals around the province and the growing expertise that's available and which Albertans are developing in the whole

financial area, whom we meet with from time to time and discuss the various aspects of finance and the heritage fund. So it's closer to the latter.

MR SINDLINGER: On another subject now, Mr. Chairman. Just for clarification, Mr. Hyndman, in the preparation of this annual report, how much of it is solely the responsibility of the Auditor General and how much of it comes from him verbatim?

MR HYNDMAN: Well, we note on page 27 -- that's essentially the basic responsibility of the Auditor General to put in his formal accounting statement, and of course that statement relates to the back half of the report, which contains all the various financial documents. The front part of the report, which of course certainly reflects the financial statements, up to that page, is prepared by the minister responsible for the heritage fund and the government.

MR SINDLINGER: Mr. Hyndman, when the Auditor General provides you with material, is the material you have given us in the annual report from page 27 to the end of the report all the material the Auditor General has given you? Or, in the preparation of this annual report, has your department taken editorial licence and selected portions only of the material given to you by the Auditor General?

MR HYNDMAN: Those aspects of the Auditor General's responsibilities which relate to his statutory duties or requirements are reflected both in this report and in all other government statements. So anything that is required to be presented from the Auditor General is presented in this report and others.

MR SINDLINGER: Then am I to take it he also gives you other material in addition to that which is included in this annual report?

MR HYNDMAN: I don't know the detail of it. I would imagine, for example, in the case of all the Auditor General's recommendations in respect of each department, as the members know, there is advice given on minor matters or on matters which are corrected pursuant to the statute, which wouldn't appear in reports subsequently. That applies with respect to the accounts of the provincial government and the General Revenue Fund as well as the heritage fund. Anything of any material interest or that is substantial, though, would of course be found in the annual report or in another report of the Auditor General.

MR CHAIRMAN: Any more questions for the Provincial Treasurer at this time?

MR NOTLEY: It's my understanding that the purview of the Auditor General with respect to the trust fund would be precisely the same as with any other department. So when the Auditor General makes recommendations with respect to the management of Public Works, he sends it to the Minister of Housing and Public Works, and he'd do the same with respect to the heritage trust fund to you as Provincial Treasurer. I take it there would be an absolute parallel with other departments.

MR HYNDMAN: That's my understanding, Mr. Chairman. I think there's no question that the ministerial responsibility which the Provincial Treasurer

has, for example, with respect to the Treasury Branches and therefore the Auditor General's reporting on that would be the same -- no larger, no smaller -- as with the heritage trust fund, and that pursuant to his Act, the Auditor General would apply the same degree of rigor to each.

MR NOTLEY: The reason I raise that question, Mr. Chairman, is that one of the recommendations we had before us was with respect to the ability of the Auditor General to not only review the accounts as we have here but also make recommendations as to whether or not things are being done with prudence and wisdom as he does with respect to the other departments. Now I just want it clarified: there is absolutely no impediment to the Auditor General at this stage in terms of existing legislation as far as the Heritage Savings Trust Fund is concerned? He has the same power to investigate and make recommendations with respect to the prudence of management as he does with other departments?

MR HYNDMAN: Well, I don't have The Auditor General Act in front of me, Mr. Chairman. I'd want to check that first. But let me say that certainly with respect to the extent of the powers of the Auditor General as set forth in the very wide Auditor General Act, those are followed to the letter with regard to the Heritage Savings Trust Fund. I don't think I can interpret the statute, because I don't have it in front of me. But certainly anything in The Auditor General Act with respect to the scope in which he can or is obliged or may offer comment is what we would follow. We would follow The Auditor General Act to the letter.

MR NOTLEY: That's the point, because the discussion centred around whether or not there needed to be any change in The Auditor General Act to give the Auditor General as full a scope with respect to the trust fund as he would have with any other department. Perhaps if there is any uncertainty at all, Mr. Minister, you will get back to us, because I think it would have some relevance to that recommendation.

MR HYNDMAN: Well, if you're asking for a legal opinion, I'm not sure whether the opinion I could provide, if any, would be better than anyone else's.

MR NOTLEY: Perhaps your department or you could get that information, because that is relevant to the recommendation. There's no point in our making a recommendation that the Auditor General be empowered to do it if he already has the power. I mean, that's become an irrelevant recommendation. We shouldn't waste your time making it. But if there is any uncertainty at all, in either his mind, the minister's mind, or anybody's mind, about his ability to make the same kind of recommendations with respect to not just the narrow accounting function but the full scope of The Auditor General Act, then I think we should have that so we can make a judgment on whether or not that recommendation has merit.

MR HYNDMAN: Mr. Chairman, my concern is that I don't know what recommendations the committee is discussing or is going to come up with. I would think that this seems to me to be a matter of legal interpretation and that perhaps the Legislative Counsel would be the person to ask as to whether or not there is an appropriate meshing, melding, or congruence as between The Auditor General Act, the Heritage Savings Trust Fund, and The Financial Administration Act -- I think that's really what we're looking at -- and whether there are any gaps.

I'm not sure whether it would be helpful if a legal opinion, which I suppose I would secure from the Attorney General, would be that much benefit to the committee. I think that this legislative committee's counsel might be the person who could be appropriately asked and who should provide the opinion.

MR NOTLEY: But in terms of the government's response, there is no quarrel with the concept of the Auditor General having full scope, and it's just a question of whether or not there are any gaps in the Act?

MR HYNDMAN: As I say, without reading The Auditor General Act, The Financial Administration Act, and The Alberta Heritage Savings Trust Fund Act all together . . . It has been my impression that they're essentially the same, the requirements in The Auditor General Act with respect to government operations, and that this is considered to be one of them. However, as I say, I would want to look at all three if you were going to do a detailed study of that.

MR NOTLEY: Mr. Chairman, then I have no quarrel with the suggestion that we seek the specific information from Legislative Counsel.

MR CHAIRMAN: I think perhaps this applies to the proposed Recommendation No. 7 by the Member for Calgary Buffalo and the discussion we already had on that subject before deciding to hold it. Recommendation No. 7 on page 2:

An annual audit of the AHSTF should be commissioned by the Select Standing Committee.

The discussion seemed to be going toward the Auditor General possibly appearing before this committee rather than having a second audit done. Is that the subject the member is on?

MR NOTLEY: The question really is that if the Auditor General has exactly the same power with respect to the heritage trust fund and that there is no inhibition on his part, no obstacle from a legal point of view, then in his annual report to the Legislative Assembly he is able to examine the wisdom of the operation of the fund in the same way he can examine and comment on the wisdom of line departments. If there's no problem with that, I think that solves any need for a separate audit, if the Auditor General already has that authority. I just wanted to make sure he has that authority. There was some uncertainty in my mind that he did. If that's cleared up, fine.

MR HYNDMAN: I think we have to remember that The Auditor General Act does provide wide-ranging responsibilities and powers to the Auditor General. It also provides some restrictions with respect to the measurement of efficiency. So I would again indicate that our feeling is that The Auditor General Act applies to The Alberta Heritage Savings Trust Fund Act. But I wouldn't agree to everything the hon. member has said without seeing the recommendation. Perhaps the best thing is to see what comes out of the committee. Then as in the past the government will either agree to it or disagree to it or agree to it in part.

MR NOTLEY: Mr. Chairman, with respect to the question of whether the Auditor General comes, that would really be a decision of the committee and would have

nothing to do with the investment committee. It would be totally up to us as to whether we ask him or not.

MR CHAIRMAN: I think maybe we should do two things: we should see what comes out of the recommendations from the committee; also, we should consult the Law Clerk of the Assembly for his advice as to what The Auditor General Act includes.

MR SINDLINGER: Just a final supplementary question, Mr. Hyndman. Has the Auditor General provided any reports, comments, or recommendations to your department with regard to either the prudence of management or the measurement of efficiency?

MR HYNDMAN: I would imagine he would have provided recommendations within the scope of his duties under the Act, but I'm not sure whether those two items are clearly within the powers of the Auditor General. He has the authority to look at systems which relate to prudence of management, but I very much doubt whether they go as far as the hon. member suggests.

MR SINDLINGER: They are just words I heard in exchange between you and Mr. Notley: "the prudence of management or the measurement of efficiency". I just wanted to determine whether or not any had been provided.

MR HYNDMAN: I don't know.

MR CHAIRMAN: I'd like to thank the Provincial Treasurer for coming back and spending the time with us in clarifying some points. Perhaps once I have discussions with the Law Clerk of the Assembly, I'll also get back to the Provincial Treasurer about the Auditor General matter. Any more questions to the Provincial Treasurer? Thank you very much

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To get back to the matter of proposed recommendations, I would suggest that the committee meet from now until noon to discuss proposed recommendations. Then this afternoon we are reconvening at 1:30. Are there any ideas about how long we should go this afternoon? I would suggest 4 p.m. Is that agreeable?

MR NOTLEY: [Inaudible] going to 4:30. Is there a problem? Do members have difficulties? We have a lot of work to do. That extra half hour would not be . . .

MR CHAIRMAN: Does anyone have any problems with 4:30 rather than 4 o'clock? Three do. Well, 4 o'clock. We may have quorum problems otherwise.

We'll now proceed with discussion on Recommendation No. 13 on page 6. The Member for Bonnyville circulated a somewhat changed recommendation, I presume covered by the word "etc." on the original recommendation. Discussion has already started on that, and perhaps we can go into any further discussion on the amended Recommendation 13. Does anyone have anything else they wish to say on this particular recommendation before we put the matter to a vote? Does everyone have the amended recommendation in front of them? It reads:

The AHSTF (a) purchase transportation corridors to ensure rights-of-way for primary highways, major pipelines, and transmission lines under a 10-year provincial transportation plan; (b) establish a program in co-operation with municipalities to purchase and fence rights-of-way expansion on roads (municipal and secondary) well in advance of planned construction projects.

So there are really two separate proposed recommendations in this one.

MR LITTLE: Mr. Chairman, could we have the member proposing the recommendation make some further explanation of the subtle differences between the two recommendations?

MR CHAIRMAN: I'd forgotten that the Member for Calgary McCall was away at a Canada Safety Council, and I understand we have to congratulate him on having another load on his shoulders, being a director of that organization. Perhaps the Member for Bonnyville would like to repeat some of his earlier remarks for the benefit of the Member for Calgary McCall.

MR ISLEY: I'd be pleased to, Mr. Chairman. Very simply, the first part of the recommendation is suggesting that we develop a long-range transportation plan which would cover primary highways, major pipelines, and commercial transmission lines. I used as an example in my opening remarks, I believe, that we have already made long-term commitments to the twinning of the Yellowhead and Trans-Canada Highway No. 1, and that I feel we should be moving well ahead of construction and getting the rights of way in order so we're not getting construction delayed with expropriation procedures.

With respect to the major pipelines and the commercial transmission lines, I suggested that particularly when we start approaching the high population centres in the province, where we know there are going to be a number of pipelines and transmission lines converging, we should establish transmission corridors, buy them under the ownership of the province, then lease back the rights of way to the various commercial users who wish to establish a pipeline or major electrical line. Part of my [inaudible] there is that I think we eliminate what I would say is all the inefficiencies of running a number of ERCB hearings every time we get a separate project and that we'd have a much better planned area. You'd be away from the hassle of arguing with landholders each time, you could lease that land back and put it under agricultural production, and the operator would know the conditions under which he was working.

The second part was to establish a program. It's separate because I'm suggesting herein co-operation with the municipalities so that, in dealing with secondary and municipal roads, they can again plan well in advance, acquire rights of way well in advance, and avoid the problems encountered under our present system.

I would close my remarks by suggesting that if past happenings are any indication of what is going to happen in the future, the value of the investment will grow much faster in land than it will in money. I'll try to handle any questions that may be raised.

MR MUSGREAVE: Mr. Chairman, it was at my suggestion that the hon. member included the rights of way and municipalities. But thinking about this, I really have some problems with it. As the hon. member knows, when we were in Holland the Dutch government advised us that they had developed a similar

scheme whereby they had a corridor system running from Amsterdam to Antwerp with pipelines and whatnot to transport oil into Europe. You have to appreciate that Holland is run primarily by a Socialist government, and they've had no government for about six months because of the representation system of voting and nobody was able to get a clear majority. I reacted rather quickly to the people and said: why didn't you let free enterprise build that corridor system? They looked at one another and looked up at the ceiling and were obviously embarrassed. They advanced all the reasons the hon. member just advanced, then I said: is it working? They said: regrettably, no. The oil companies in particular won't use this system, and it's about 15 per cent used versus about 85 per cent not used. They just don't seem to be able to resolve this problem.

Frankly, I don't think we have enough money to do this, Mr. Chairman. In spite of the new energy agreement, I think we'd need all the money in the fund. We'd have to call in the loans, retire the debt, that we've loaned out to the rest of Canada if we were to buy the rights of way for pipelines, which are now acquired by private enterprise, and highways, which are acquired by government. In municipalities, most acquisition of rights of way is usually by the joint financing between the cities and the province.

One of the factors people often overlook when they talk about acquiring rights of way -- and I know it's a problem and that when you're planning roads you should obviously plan . . . I know that in the new areas in the city of Calgary now the rights of way have provision for LRT and any other systems as well as a four- or six-lane highway. One of the difficulties in acquiring rights of way, particularly in built-up areas, is that when you acquire the right of way for the public purse, you are then increasing the tax burden on the citizens. What happens is that when you acquire the rights of way, you take the property off the tax rolls. A lot of people forget this fact, and you have two problems: first of all, you have to come up with the capital money, and you have to pay money to borrow it; secondly, you're making your cash position worse by taking the property off the tax roll, because the tax revenues decline. So in sitting here and looking out on the grand scene, it's a good idea. But when you get down to the practical realities, it has some horrendous cost difficulties.

Now, I know I'm talking on both sides of this. I just feel that I could maybe support it for highways, freeways in cities, and possibly for some power lines, but I think pipelines are getting too much into the area of private operations and it's better financed and run the way it is. The fact that there are ERCB hearings, compared to our experience in Europe, is pretty insignificant. There, they can take up to eight years to get something done if farmers object. I'm sure the delays aren't that long in this country.

MR KNAAK: Mr. Chairman, I certainly like the recommendation that relates to the government instrumentalities in terms of looking ahead and planning for rights of way and to acquire the land well in advance. Especially because of the buoyant economy, we've seen in Alberta very rapidly escalating land prices. I'm sure that with a little bit of land banking, as we've seen in the green belt, money can be saved.

The question I have is with respect to the acquisition of land for the government instrumentalities -- municipalities and counties and so on -- whether it is an appropriate investment for the Heritage Savings Trust Fund. It's implicit in the recommendation that it come out of the capital projects division. It seems to me that this may more squarely fall within the normal budgetary process of either the Department of Environment or the Department of

Transportation, whichever one does the land banking, in that this can be converted into a possible recommendation, as we've done in the past, not so much out of the Heritage Savings Trust Fund but as a recommendation for the actual department to consider.

With respect to land banking for the private institutions -- pipeline companies, electricity transmission companies, and others of that nature -- I see more difficulty there because, first of all, it's more difficult to see the exact location that private enterprise wants to locate in and, second, I see some problem setting the price when it's converted from a provincial government-held piece of land and then sold to the commercial enterprises. I don't know if there is a problem right now with respect to private enterprise acquiring their own rights of way. I guess before I could support that recommendation outside the Heritage Savings Trust Fund, I would have to be convinced that private enterprise is incapable or not of adequately dealing with the landowners at present and not dealing with it very effectively.

In summary, I think I can support the land banking concept when it comes to government instrumentalities outside the Heritage Savings Trust Fund, but would have to wait before supporting that recommendation with respect to private enterprise. Again, before I could support it, it would have to be understood that it would be outside the Heritage Savings Trust Fund.

MR ISLEY: Mr. Chairman, just a couple of comments as a result of the last two speakers' remarks. I agree with my hon. friend from Calgary on his description of the experience with the energy corridor in Holland, although I think the main reason was that they were anticipating much more oil pipeline activity than they were when they purchased it, and that didn't materialize. Also on the surface rights committee, when we visited the States we were exposed to some rather master energy corridor studies they were doing between six western states, I believe, to try to get a more organized distribution system.

I probably have to research this a little more, but I think energy corridors are not totally new to Alberta. I believe we have one designated at least part of the way from here to Fort McMurray. On the pipeline and electrical transmission line rights-of-way acquisitions, I'm not suggesting that the private companies have been unable to do it. What I am suggesting is that it's happening in a rather haphazard fashion, with them deliberately avoiding one another's rights of way. It seems to me that as we proceed with the development of this province, it shouldn't be impossible for us to organize a corridor that would have roadways, railways, pipelines, and electrical transmission lines rather than cutting our land up in many other different bits and pieces. Also for clarification, my suggestion would be that the use of that land simply be leased back to the private operator who wanted to put a pipeline on it.

If I were to address Mr. Musgreave's problems of financing and how much this would cost, I'm not suggesting that we go out tomorrow and create a plan and bank a bunch of land. I am suggesting that we have a plan that moves ahead of construction and have a source of funding so those rights of way can be put in place two, three, four years in advance of when they're required. With the major pipeline and commercial transmission line rights of way, I'm thinking of the last few miles in the major transportation centres, not strips entirely across the province. In listening to the industry, I realize that it's pretty near impossible to lay out an overall provincial plan, because the line must start where a resource is developed or end where power is needed.

I have no problem with the suggestion of the hon. Member for Edmonton Whitemud that maybe it should be a recommendation to the departments for their normal budgeting procedures. I think we have a problem out there that we could plan better if we put money a little more up front. I'm not that hung up on where that money comes from.

MR MACK: Mr. Chairman, the concept is admirable; however, the practicality is much more difficult in definitive terms, for the reason that today we have the department ministries which have the responsibilities to work in concert with the various municipalities as well as the urban centres. The urban centres basically do much of their own planning. My concern would be the appropriateness of this particular fund to become involved in special funding or setting aside funds for this purpose, simply because of its massiveness in terms of cost alone.

Is it the intent of the hon. member that the existing pipelines would be consolidated with and brought under the new corridor system being planned? If so, I think the cost is mind-boggling when we think of it, because so many of them in this province are already in place. Obviously, at some point some would probably have to be removed or changed because of the urban development within their proximity. But the wisdom of moving existing lines which only go through raw land is something else that would have to be considered by the appropriate departments.

I'm inclined to support the concept that the general revenues should perhaps continue to play the major role in the assistance as far as developing the road systems in the outlying areas or in the rural communities is concerned. They are basically doing it in concert with the various municipalities involved, and the municipalities, basically responding to their people, set the priorities of which road should be developed. Again, how will that definition as to what corridor roadway would receive the high priority of the government be arrived at? So it's a fairly ambitious resolution, to say the least.

MR FJORBOTTEN: Mr. Chairman, I certainly support the concept of this recommendation, because transportation is certainly vital to the long-term future of the province. I certainly have great appreciation for the hon. member who proposed the recommendation. Because of his involvement with the surface rights committee, I'm sure he likely has a better feeling for it than I and a number of others have. However, I'm concerned about the number of departments being impacted here. I agree with the Member for Edmonton Whitemud when he said that the recommendation should likely go to the departments. The recommendation itself is important to the future of Alberta, but I have some concern about it coming to the heritage fund because I can picture the heritage fund out negotiating purchases of land in the province. That's something that's now a process that the departments are now doing. I think it's a very important recommendation, but I just don't feel I could support it in the heritage fund concept. I would recommend that it certainly be a recommendation that all departments would consider.

MR D ANDERSON: Mr. Chairman, I have some of the same concerns as other members, though I do believe this is an important resolution and recommendation and one which should be considered seriously, as the Member for Macleod indicated. I'm wondering if the hon. member who proposed the recommendation might consider amending the first portion, indicating that the government investigate the possibility of purchasing transportation corridors,

leaving out the terms "the Heritage Savings Trust Fund". I don't fully agree that it is not the role of the Heritage Savings Trust Fund to deal with it. I think there's a possibility that a dimension of the vast kind of program the member talks about could be taken into account, but I'm not capable of evaluating where that's best dealt with and which aspects of this should be looked at.

So I'd personally be able to support a recommendation that was prefaced with "that the government investigate the possibility of purchasing", and leaving out the Heritage Savings Trust Fund aspect. Perhaps the hon. Member for Bonnyville could respond to that suggestion in his closing remarks.

MR CHAIRMAN: Any further comments before the Member for Bonnyville concludes?

MR ISLEY: Mr. Chairman, first of all I'd like to respond to a number of questions raised by the hon. members, then close with some comments on Mr. Anderson's suggestion.

In response to the hon. Member for Edmonton Belmont, I'm not suggesting relocation or purchasing of existing pipelines. What I think would be logical, though, is that where you're approaching major centres -- and there are already a number of pipelines crossing certain given properties -- that would be the logical place to develop and broaden your energy corridor. Keep in mind that you would not be buying land from energy companies, because currently they're simply leasing rights of way. You would be buying land from the original landowner and taking over the lease of the utility on that land. With respect to his question on (b), as to who would set the priorities, I would see that as being the municipalities. That's why I suggested establishing a program in co-operation with the municipalities.

I think the hon. Member for Macleod supported the concept in general but felt that the funding should come from departments, or at least the negotiations should be continued in their present form. I'm not suggesting that there be any change of who negotiates rights of way. I would still see Transportation acquiring their rights of way and municipalities acquiring their rights of way. I'm simply advocating an overall, long-term funding system so that it can be done on a better planned basis.

I have no difficulty with the hon. Member for Calgary Currie suggesting a wording change. If it's accepted by the Chair, I would amend the recommendation to read: "that the government investigate the possibility of (a) purchasing" et cetera, and "(b) establishing" et cetera.

MR CHAIRMAN: Is the amendment acceptable to the members of the committee for voting upon? I take it that it is; I don't hear anything to the contrary. I think we'll divide the vote into two parts, because they are essentially two separate issues, the first being that the government investigate the possibility of purchasing transportation corridors to ensure rights of way for primary highways, major pipelines, and transmission lines under a 10-year provincial transportation plan. Those in favor? Those against? That proposed recommendation is defeated.

The second one is that the government investigate the possibility of establishing a program in co-operation with municipalities to purchase and fence rights-of-way expansion on roads (municipal and secondary) well in advance of planned construction projects. Those in favor? Those against? That one is also defeated.

I think perhaps while the discussion with the Provincial Treasurer is still in people's minds, do we want to go back to discussing Recommendation No. 7,

or would you rather hold it until we have some further discussions about the

MR NOTLEY: [Inaudible] opportunity to consult with the Law Clerk.

MR CHAIRMAN: Okay. Perhaps we can then go on to Recommendation No. 14 on page 6 under the capital projects division.

MR FJORBOTTEN: Mr. Chairman, Recommendation No. 14 is: "The upgrading of the transportation system for the moving of agricultural products be a priority for AHSTF involvement."

I worded that in the broadest sense on purpose, because moves are now being made in the country with regard to the Crow rate issue, which is something that's certainly vital to the improvement of our transportation system. There has to be an upgrading of the system, or we're going to be into car rationing. No one argues with the moves we made in the purchase of the hopper cars. I'm not suggesting here any more purchases of hopper cars because that is not going to solve any problems. I think in the future there are a number of other areas in the transportation system that we have to get involved in. We can certainly produce it, and we have the manufacturing capability and have only begun to scratch the surface on processing. The transportation out of our land-locked province has to be a high priority. On this recommendation, I just wanted to see highlighted that it continue to be a top priority of the Heritage Savings Trust Fund involvement to be in the long-term upgrading of our transportation system.

MR NOTLEY: Mr. Chairman, I'm not sure that I would agree with the Member for Macleod on the Crow rate question. But setting aside possible differences of opinion on that, I certainly support Recommendation 14. I'd add one area that it seems to me we should look at, not moving an amendment but simply stating it because I think it needs to be underlined.

When we look at moving agricultural products, we think of the hopper cars we've purchased. But I would just remind members of the committee that over the last four years now we have made a recommendation to government with respect to rail links. We're always talking about rail abandonment, but I think there's still a case to be made for rail expansion, especially in northwestern Alberta as it relates to BCR. There's absolutely little doubt that if you want to move Peace River grain, the best way to do it is to look at links with BCR. For example, from the central Peace you would save 490 miles from Hines Creek, which is the major delivery point, one-way to Prince Rupert by linking up with BCR. That's almost 1,000 miles turnaround time. We just simply have to begin looking at eliminating some of the bottlenecks presently in the system.

Also with respect to Recommendation 14, there were a number of quite useful proposals made, I thought, when the Premier met with the Prime Minister on July 25, for about \$2 billion from the Heritage Savings Trust Fund -- or at least from the government of Alberta -- with respect to removing bottlenecks in Vancouver, the Fraser canyon, and on the route to B.C. as well as Churchill in Manitoba. This recommendation doesn't bind the committee to support any of those projects *per se*, but it lends the emphasis that I think is necessary. For that reason, I support it.

MR PAHL: Mr. Chairman, I would support the hon. member's recommendation; however, I would like to see a generalized emphasis on Alberta products'

production. I would also argue the case that Heritage Savings Trust Fund involvement be subject to favorable, if you will, or positive cost/benefit studies. So I certainly support the spirit behind this. But I would like to recommend to the hon. member that it be broadened to all Alberta production, because certainly coal and forestry products are important, and I don't think one system would be upgraded. Any upgrading would benefit all of them, and I think it would be important to recognize that.

MR KNAAK: Mr. Chairman, I think this particular recommendation signifies the frustration we all feel with the federal government's lack of exercising its responsibility with respect to interprovincial transportation. We're almost falling into our own trap here, and I just want to comment on that before addressing the exact recommendation.

The federal government not only has jurisdiction with respect to interprovincial transportation, which includes railways, interprovincial trucking -- not the highways -- and airplanes. Of course, railway is the major transportation. They don't only have jurisdiction over it, they have exclusive jurisdiction over it, which means that a province has no jurisdiction whatsoever over interprovincial railways and don't tax for it. They have no legislative jurisdiction in any way to affect interprovincial jurisdiction because of exclusive federal jurisdiction in this area.

The federal government taxes westerners probably as much or more, on a per capita basis, than anyone else because of the higher income in this area and because of the resource base in this area. By taking more and more of that responsibility onto ourselves as a government, I'm concerned that the federal government will increasingly reduce its responsibility in this area. At the same time, I think this kind of resolution -- and most of our constituents aren't constitutional experts, but they may begin to believe that this province has a responsibility in terms of interprovincial transportation with respect to railways, which we haven't. Even though I know we bought hopper cars because there was no alternative left to us in terms of improving our system and buying port facilities and so on, I still have a concern that by getting increasingly involved in federal jurisdiction, Albertans will begin to believe that it is in fact a responsibility of this government, which it is not.

I don't know what the answer is. We have a federal government not prepared or not willing or unable to provide us with the kind of railway transportation that we require in order to meet our potential and even to facilitate our normal growth. We have a Heritage Savings Trust Fund, which is there to benefit future generations, our children. Should we be spending this trust fund on areas within federal jurisdiction? It's a difficult question. I guess the question I have of the member is whether this suggestion includes a possibility of buying out CPR.

AN HON MEMBER: How about that.

AN HON MEMBER: Boy.

MR CHAIRMAN: Any further remarks before the Member for Macleod decides on the purchase of a major railroad?

MR ISLEY: Mr. Chairman, I wasn't surprised by the remarks of the hon. Member for Spirit River-Fairview with respect to the Crow rate. Could I just address it briefly, because I think it's related to this recommendation. Anyone who

has studied it -- its history, its purpose -- should be able to reach the conclusion that it was not designed to enhance western Canada agriculture. Hence, I can only conclude that those who are consistently supporting the Crow are really opposing the development of the agricultural potential of this province.

With that said, I have somewhat the same concerns as were just expressed by the hon. Member for Edmonton Whitemud as to whether the answer is to continually go piecemeal into an area where we don't have the responsibility. But at this point in time, I don't think we have an alternative plan. If we're going to keep products moving under the existing conditions and arrangements, we have little choice. Hence, I would support the recommendation.

MR FJORBOTTEN: I'd just like to make a couple of comments. I think the hon. Member for Spirit River-Fairview is right on on the northern part of the province. The whole system within the province has to be looked at. The Member for Edmonton Mill Woods made the recommendation that we change "agriculture" to "Alberta products". I have no problem with making that change, because we're talking about all Alberta products, whether raw or processed products. I have no problem with making a recommendation that we make an amendment to that.

While I'm speaking, I'd like to say something about what the hon. Member for Edmonton Whitemud had to say. I don't know the answer -- the federal government pulling back in a number of areas they've always had jurisdiction. We can get into the argument of, you should be doing this, and nothing actually gets done. Being that we're a landlocked province, we don't have much. Our economic development in the future, our strategy for this government or any other governments in the future of the province, transportation is vital. If we don't do something about the transportation system, rather than saying that's up to you or somebody else, we're not going to get anywhere.

As far as buying CPR is concerned, I can't comment on that. I'm not smart enough to know what we should or shouldn't be buying. I think that issue will be debated a lot in the future. The Member for Bonnyville talked about the piecemeal approach. That's certainly the way it has been in the past, and hopefully in our economic strategy for the future in transportation and everything, we'll get away from the piecemeal approach.

Mr. Chairman, I'd like to make a recommendation that we make an amendment changing "agricultural" to "Alberta" products.

MR CHAIRMAN: Is the amendment acceptable?

HON MEMBERS: Agreed.

MR CHAIRMAN: All right. A vote on the proposed recommendation. Those in favor? It's unanimous.

Recommendation No. 15 Member for Calgary McCall.

MR LITTLE: Thank you, Mr. Chairman. It had been my intention when I proposed this recommendation that it be a little bit broader than is stated here; rather that it be urban and inter-urban, but I will confine most of my remarks to the urban area.

I believe the most compelling argument to support public transportation would be the same principle which supports the creation of the Heritage Savings Trust Fund itself, and that is the very finite nature of hydrocarbons: the need to take advantage while the advantage is here, and to practise conservation so that future generations will have a share of those hydrocarbons.

To the specific problem: Calgary has long been recognized as the automobile city of Canada. In fact, on a per capita basis, it is presently second only to Los Angeles in the number of cars on the streets, and from time to time it has even exceeded the Los Angeles numbers. I recently heard a presentation by the commissioner of transportation in Calgary, who stated that the streets in Calgary were entirely adequate for the size of the city but, unfortunately, we had 50,000 too many cars. For those of you who are familiar with the intersection of McKnight and Barlow Trail in my constituency, when I come out to the airport in the morning and when I get back there in the evenings, backed up for almost as far as the eye can see, cars are proceeding through the lights, maybe three and four at a time, and the waste of energy from those stopped cars becomes almost obscene.

The Los Angeles experience, which I referred to a few moments ago, is living proof that the private automobile just is not the vehicle to transport vast numbers of people. In fact, the Los Angeles experience is a total disaster. They've built more freeways than any other city on earth and the freeways are inadequate the day they're opened. Their transportation, for what it is, is bus service which competes on the streets, the expressways, and the freeways, with the private automobile, and it just doesn't work. When we compare their experience with that of New York and London, where millions of people are transported every day, I'm sure that the people of New York are eternally grateful that somebody in the past had the foresight to build those public transportation systems which are doing such an excellent job today.

Who should pay for them? Well, governments build roads, and quite obviously the public transportation systems are a much more effective, much more efficient, method of transporting people. We have the luxury of the choice now. I would predict that not too many years down the road that choice will no longer be with us. Once again, I have to quote Calgary figures. I'm not all that familiar with Edmonton, but I'm sure that their experience is almost identical; 60,000 people come into the downtown area every morning. Many of them are transported by private automobiles. Approximately 25,000 automobiles come into the downtown core, park in areas they're not paying for in many cases, parking areas that are today supported by taxation or by private enterprise. Then comes 4 or 5 o'clock in the afternoon and those 25,000 are out on the streets again, clogging up streets that are already inadequate to carry the load. So governments have had no hesitation in the past in subsidizing or paying in full for freeways, expressways, interchanges, and I would suggest that we've got to transfer our priorities; we've got to change our thinking to public transportation rather than the private automobile.

MR D ANDERSON: Mr. Chairman, I would like to support this recommendation in the strongest possible way. I believe that in terms of a cause and effect relationship it is perhaps one of the most appropriate kinds of investments that could be made from the Heritage Savings Trust Fund. We've seen the growth of Calgary and Edmonton expand dramatically as a result, primarily, of the energy situation in the province, and that is going to put pressure on future generations in terms of their ability to deal with the transportation problems that have evolved. So I think it is appropriate that we invest now

for future generations in a public transportation system. I congratulate the member who introduced the recommendation, not only for his foresight in the recommendation itself, but also for the obvious amount of research he has done into various aspects of transportation now in the city of Calgary.

MR KNAAK: Mr. Chairman, I think a lot can be said . . . When we were talking about this resolution, urban public transportation service, I initially thought it meant roads as well, but I guess it's not intended to mean roads and freeways. It's intended to mean rapid transit kind of public transportation?

MR LITTLE: Mr. Chairman, to the Member for Edmonton Whitemud. As I said, governments have had no hesitation in the past in totally subsidizing freeways, expressways, interchanges. This is taking place right now. All I'm saying is that we have to change our thinking and transfer our priorities to the public transportation versus the private.

MR KNAAK: I understand it correctly now after listening to the hon. member make his point.

I really have no concern at all in terms of expanding rapid transit if it's being paid for through taxation, rather than out of the Heritage Savings Trust Fund. The reason I say that is that for the time being, and only for a short period of time, we in Alberta have the unique circumstance where, when we talk about the government paying something, it doesn't necessarily mean increased taxation or the citizens paying for it. We do have a fund, reasonably small in relation to the kind of expenditures we're talking about, if we do this in a big way, and reasonably small in relation to the kind of funds that will be required in the future for future generations.

So I guess my question would be: would there be any difficulty if we took the suggestion that rather than taking the funds out of the Heritage Savings Trust Fund, we took the funds from taxes by taxing individuals, say, over the life of the project -- government taxation, whether municipal or provincial -- but in fact tax the people who get the benefit of this rapid transit, or do it in terms of transportation fees? If that's not the idea -- and if the government should subsidize it, again it's through taxing -- whether the member would change it to amend this recommendation to have the funds raised through taxation rather than getting the Heritage Savings Trust Fund to pay for it.

MR NOTLEY: Mr. Chairman, I support Recommendation 15, although I think that the point the Member for Edmonton Whitemud makes is useful to the extent that we do have a capital budget for the Department of Transportation. It would seem to me that massive increases in capital funding from the Department of Transportation for LRT is the route to go, and that would be the route that at first glance one would assume we should take. I suppose the argument that can be advanced and, I think, a fairly persuasive argument, for using Heritage Savings Trust Fund money for this is that we're not just talking about transportation as such; we're talking about transportation that is related to the saving of energy on a massive scale. As the Member for Calgary McCall has pointed out, I think there is a conservation argument for the expansion of LRT which is very compelling. I think one can make the case for this, where it would be a little more difficult to make the case for more freeways, because if we have more freeways we just get locked into the Los Angeles scenario that

the member has correctly identified. But we're talking about an investment in an energy-efficient transportation system.

I don't think the committee should have any major problem accepting this as a concept because in Recommendation 14 we've already accepted substantial investments from the heritage trust fund in a transportation system which will include everything from railroads to roads, which could just as easily be financed from the general capital works budget of the province. What is crucial is, is there a relevant public reason for doing it? I would suggest that the Member for Calgary McCall has correctly identified energy conservation as being a major compelling reason that would justify the use of heritage trust fund moneys as opposed to the sort of normal operating or capital grants of the Department of Transportation. So I think that it's a recommendation that we should support.

MR PAHL: Mr. Chairman, I see some definite benefits to the intent of the hon. Member for Calgary McCall, but I also agree with the Member for Edmonton Whitemud in the sense that urban public transportation as well as transportation across the province is supported by the regular budgeting process and, in fact, nearly \$0.75 billion is dedicated to urban transportation capital expenditures in the last year and the following five. So I think there's certainly a strong support by our government for public transportation services which, to the extent they're buses or LRT, will indirectly assist in energy conservation. I would argue that there is a need to draw on the resources of the Heritage Savings Trust Fund, but I think the payments should somehow be related to those who benefit, and there should be some recognition that provincial tax dollars in total are already supporting urban public transportation.

So I wonder if the hon. member who proposed Recommendation 15 would consider that the Alberta investment division be substituted for the capital projects division to support the development of urban public transportation services. We would then have a situation where the resources would be made available in an earlier time period than would otherwise occur, energy conservation would be satisfied, but we would more properly reflect the appropriateness of the expenditures and how they be reimbursed.

MR KNAAK: Just by way of clarification, is it intended that the investment from the Heritage Savings Trust Fund through the Alberta investment division would then be, one, much like Alberta Housing and so on where it would be on commercial terms to a municipality by way of a debenture, or some other security, and the municipality then repay it either through government grants coming out of the department or otherwise? Is that the intent?

MR PAHL: Yes, Mr. Chairman, that would be my intention. There would be, as there is with the Municipal Financing Corporation -- the subsidy would then flow out of the regular departmental budget. So what I'm trying to reflect in here is a recognition of rather than stage the investment out over 10 years, i.e., when it can be afforded, you make it early and reap the earlier benefits and still reflect that it is a legitimate area that should be supported by taxation.

MR NOTLEY: Mr. Chairman, as I understand the proposal now, we're saying to the cities that rather than using the capital works budget, where there would be significant investment of money to light rapid transit -- some sort of percentage ratio, whether it's one-third, two-thirds; two-thirds, one-third,

or some sort of ratio so that that is written off as we write off the bulk of our highways expenditure -- we will make money available to you: \$1 billion to Calgary, \$1 billion to Edmonton, whatever the case may be. I'm not quite sure what the figures are; I guess somewhere in the neighborhood of \$800 million or \$900 million in the city of Calgary. But you're going to have to borrow all of this.

Now, I would say that the people in the city of Calgary are going to think twice about it, because even if they have to pay the 11 per cent -- and who knows whether it's going to be 11 per cent; it might be 12 or 13 per cent down the road as the result of changes in the interest rates of the Alberta Municipal Financing Corporation -- I think these people would say, well, just a minute, we're better with the existing formula under the Department of Transportation, because at least part of that -- I believe it's about 37 per cent -- would be written off.

So it seems to me you either make a capital investment or you don't. The only area here that I think might be clarified from the recommendation of the Member for Calgary McCall is whether we would make this capital investment on some kind of sharing basis, whether it would be energy-efficient LRT systems on a two-thirds, one-third basis or whatever the formula would be. But I think that's the crucial question. If we take the suggestion of the Member for Edmonton Mill Woods, we're going to be asking the cities of Edmonton and Calgary to come up with far more money than they are today. And I really question whether that is going to be a very wise move.

It seems to me that what the Member for Calgary McCall is getting at is that an investment now from the heritage trust fund -- and it's an incentive investment; no question about it -- is an investment in an energy-efficient transportation system that is going to pay us all dividends for years to come. We just can't take the sort of accounting approach on this and say, sure, we'll get more money if we ask the cities to do it. They would simply say, oh no, we're not going to do it; we'll stick with freeways; why in heaven's name would you get into an LRT when you have to pay all this money back to the provincial government, to the Heritage Savings Trust Fund, when you get your freeways practically paid for by the Department of Transportation. No city in its right mind is going to consider that. We'd be locking ourselves into exactly the scenario the Member for Calgary McCall says we should avoid. And I agree with him; we should avoid it. So if we're going to avoid it, we have to get away from that.

With great respect, I just don't think the suggestion from the Member for Edmonton Mill Woods has any merit at all. If it's going to be done, it should be done from the capital works division, and some sort of formula should be worked out for the sharing.

MR FJORBOTTEN: Mr. Chairman, I certainly see a lot of problems in the future with urban transportation as well as the entire transportation system across the province if you consider by 1990-95 we could have a population of over 3 million people in Alberta and, hopefully, our decentralization and encouragement to locate in the smaller communities will mean they won't all locate in the major centres.

However, I certainly support the Member for Edmonton Mill Woods in his desire for seeing an amendment to this particular recommendation. Considering the way it's worded: if the Alberta investment division supports development of urban public transport . . . I don't think the Member for Edmonton Mill Woods -- I'd appreciate clarification -- is suggesting that all other ways would be out, and the Alberta investment division would be the only tool. But

if you wish to expand to great lengths, the Alberta investment division would be the right tool to use.

Could I ask for clarification of what he really meant?

MR PAHL: The member's right on. The fact is that it's not an either/or situation. This provincial government is committed to supporting urban transportation through, in fact, massive expenditures over time through regular budgeting. However, I think the option should be open to municipalities who say -- as they do in Calgary -- they don't want half a leg. Then the best way to put two legs on the system is to be able to have access to that front-end costing.

I just don't think the hon. Member for Spirit River-Fairview understood what I was saying. I certainly wasn't precluding the normal budgeting process. But it's simply a matter of reflecting that sometimes it makes more sense to bite the bullet and spend more money at the front end than it does to limp along, if you will, on one leg. That is a benefit. The funding through the Alberta Municipal Financing Corporation is in fact subsidized and would be reflecting the benefit to all Albertans of supporting the cities' ambitions with respect to public transport.

MR D ANDERSON: A point of clarification. [Inaudible] debating an amendment by the hon. Member for Mill Woods? Has there been an amendment made?

MR CHAIRMAN: I don't think the amendment has actually been made yet. He suggested it to the Member for Calgary McCall, I think.

The Member for Edmonton Belmont.

MR MACK: In supporting the concept that is being proposed by the hon. Member for Calgary McCall, on the basis that I think it's very, very obvious that the preference of the municipal government has been, particularly in the two larger urban centres, to continue developing a very strong public transportation system, which has been maintained in place over the years under fairly extreme odds, particularly in the '50s and '60s when the automobile was king. But I think they essentially kept the systems very viable in their approach to the management of the system.

I think we have reached a point now where we have to do one of two things. If we stay with the surface transportation, be it public transport, buses and so on, it means a large expenditure on roadway systems, where they would almost have to be brought to freeway status in order to be able to move the traffic. At some point, even that is not going to be sufficient. I think we can learn from Los Angeles, for example, where even their freeway systems, which in some areas are eight lanes, are backing up now. The city and the surrounding municipalities are going into a brand new public transport system because they did away with theirs in the late '40s and early '50s and '60s.

I think it is without question that public transport is going to be the most reliable and cost-efficient transportation system going. So, if one were to use an analogy or a trade-off as opposed to building freeway systems to public transport, then obviously the public transport is the most economical route to go, bearing in mind that it's got to be an alternative rather than a mandate. No one should be denied the right of driving their own vehicle if it is their choice. But I think the alternative has got to be viable. A viable alternative is not hourly service. A viable alternative is not an hour and a half to go from, let's say, your residence into the downtown core where you work. That's not a viable service. People will not subject themselves to

that kind of transportation system. They will use the automobile for obvious reasons. So the LRT is that viable system that, within a 20 minute period, will be able to bring people from the outlying areas into the work area. There has got to be a fresh approach.

I commended and continue to commend government initiatives of \$7.5 million over a six-year period towards transportation in the province. But it does not begin to touch the surface of the cost of putting in place, let's say, the second leg of the LRT both in Edmonton and Calgary, in order to truly test the system and make it the system it ought to be so people can go from one end of the city to the other with a degree of certainty insofar as timing of schedules is concerned, but also with a degree of efficiency of time and not spend an hour, an hour and a quarter, or an hour and a half bouncing around on a surface vehicle.

Having said that, I believe the municipalities have a really serious problem and a dilemma. They don't have the freeways nor do they encourage them, and it is not their aspiration to go into a freeway into the major downtown core. They don't have the funds to continue with the establishment of the full service on the LRT. Therefore, there has got to be a fresh approach. If the general revenue doesn't do it, then I think it's an investment for future Albertans, and appropriate, that a special investment be made to enhance the LRT, that it might continue to go on stream so that it can be the vehicle that would provide energy efficiency. It would provide environmental protections that we all aspire to achieve. It would also provide the viability for the people to choose and use. I'm sure they would.

Thank you.

MR CHAIRMAN: The Member for Calgary McCall, followed by the Member for Edmonton Whitemud.

MR LITTLE: Mr. Chairman, I'd like to close the debate, if you don't mind.

MR KNAAK: Well, I guess if the Member for Calgary McCall is going to be the last speaker, we don't know whether he wants to move an amendment or not. The only thing I would ask again is whether the Member for Calgary McCall, in suggesting this, is prepared to increase taxation on Albertans in order to fund this LRT suggestion.

If he is not prepared to make the amendment suggested by the Member for Edmonton Mill Woods, I'd prefer to make it now myself. I don't think the Member for Spirit River-Fairview understood the whole implication. It doesn't suggest the funding would be any different from the departments as it is now. There's no suggestion there wouldn't be grants for rapid transit. All we're doing here is conceptually separating the role of the Heritage Savings Trust Fund from the normal budgetary procedure of the departments. The department can still fund rapid transit whichever way it wants to. It's a decision of the department and taxes will be raised. The only role of the Heritage Savings Trust Fund, as Mr. Pahl suggests, is that it provides funding immediately at a market interest rate as the investment division must. Any subsidy is made up through the department, and any grants with respect to rapid transit also come out of a departmental budget. In that way, we solve the problem of immediate capital for rapid transit, if that's a decision we want to go by. It also solves the problem of maintaining the integrity of the Heritage Savings Trust Fund, in terms of what it was set out to do.

Maybe we can just ask whether the member is intending to move that amendment. If not, I'll move it.

MR LITTLE: No, I don't intend to move the amendment.

MR KNAAK: I'll move the amendment then.

The motion would be amended as follows: That the Alberta investment division of the Heritage Savings Trust Fund lend, at commercial rates, funds to support rapid transit within the province, and that any subsidies or grants with respect to the development of such undertaking be paid through the normal budgetary procedure.

MR NOTLEY: Mr. Chairman, surely with the pressure of population -- we can talk about the decentralization all we want, and we all support it -- but there's not much doubt we have three million people here in the next eight or nine years, and that a very large number of them are going to be in Edmonton and Calgary, no matter what we say or do. That just happens to be a fact.

Now we're going to have to move people efficiently. What it seems to me we're getting ourselves into is, rather than an approach to light rapid transit where there is an inducement, if you like, to the cities to get into it, we're saying to the municipalities: we'll make the money available to the Municipal Financing Corporation, and whatever the grant system is now -- Mr. Mack points out that while it's helpful it's far from adequate; it's a start, but only the start -- you borrow the rest. You borrow the rest at a sheltered interest rate of 11 per cent, and we'll pick up the difference between 18 and 11 per cent, or whatever the situation may be. But we are still going to be shouldering upon Edmonton and Calgary massive borrowings at this stage of the game, in the absence of a new approach to the construction of light rail transit in the two cities.

I would think, Mr. Chairman, that if any of us remember city council either in Edmonton or Calgary, we would think twice indeed before grabbing this one. When we did our arithmetic we'd find that -- Mr. Knaak says, so they should. The fact of the matter is, what is more likely to be the case, is that we lock ourselves right back into where we're at at the moment, the freeway system, because more funds are available now under existing policies. If you just want to do your narrow cost/benefits as a city councillor, get into freeways. But that's not what we should be doing if we want to move people efficiently over the next decade.

The concern I have with this amendment is that -- while I certainly agree, Mr. Pahl, the existing grants are going to be there, and we're just talking about the supplement, the front-end costs -- we're still going to be saying, you've got to borrow this money at 11 per cent. I don't think Edmonton or Calgary are going to be able to even consider doing that in the absence of a total agreement between the provincial government and the cities on light rapid transit.

MR KNAAK: It's still not properly understood. In my comments, I didn't say "existing formula". I didn't address the point about existing formula at all. All I'm saying is that in order to maintain the integrity of the trust fund, we do it the way I'm suggesting. But in my formula, I didn't suggest that we only pursue the present formula. I don't disagree that it might be time to reconsider the incentives.

MR D ANDERSON: Mr. Chairman, while I certainly agree with the Member for Edmonton Whitemud that we have to be prudent in any investments that are made into light rail transit or any other kind of transportation system, and I appreciate he's not at this point in time indicating we should maintain -- I

get my implication -- change the grant structure or the other devices we use to fund transportation systems in Calgary and Edmonton; the fact is that the amendment would in fact not have us investing any more money in light rail transit. It would allow us to make loans at the commercial rate of interest, but it would not have us invest more money in that area. Perhaps that's the opinion of the hon. member, I don't know.

However, I do believe very strongly -- based on the arguments already made by the Member for Calgary McCall and the Member for Spirit River-Fairview -- that Calgary and Edmonton need the development of the light rail transit systems, or transportation systems, and they need them in the fairly immediate future. I think the pressure is on Calgary to an even greater extent as a result of the successful Olympic bid. I believe this is an appropriate capital projects division fund investment. It is based on an investment for future generations. It is not income generating in this respect, therefore is appropriately dealt with in this particular investment area. It is partially at least, if not to a very great extent, the cause of the growth of our urban centres relating to the very energy that we receive money for the heritage fund from.

I would oppose the amendment and support the original recommendation as made by Mr. Little.

MR LITTLE: I don't think there is any point, Mr. Chairman, in developing the attributes of public transportation. It seems to me that every speaker has voiced his support for public transportation *per se*. I believe the point of the discussion now is who should pay. The most compelling argument I came up with was the conservation, which is a very useful objective of the heritage fund. When we heard the remark "maintaining the integrity of the . . . trust fund", I'm reminded that we did purchase the hopper cars from this very same section.

The cities just cannot handle the massive input of funds that are required for the additional legs. Three-quarters of a million I know is a huge amount of money, but they need a great deal more than that. They will be faced with operating costs, substantially increased operating costs. The largest return in North America from the fare box is approximately 52 per cent. The cities of Calgary and Edmonton are right around that area, indicating that they have a relatively efficient operation. But as we increase public transportation, of course these operating costs are going to increase. If we don't take it from the capital projects, there is no way that the two cities can, at this time, proceed with the additional legs.

MR R SPEAKER: I haven't very much to add to that. Based on the principle that the fund invests in some areas where either a municipality, a county, or individuals can't do the thing themselves, I think the original motion certainly is worth while supporting. In my own estimation, I don't know how the cities can carry it on their own. There are a number of benefits: one, in terms of conservation; two, in terms of possibly prioritizing our dollars into this kind of investment rather than the freeways through the cities and other transportation systems.

I'd like to support the original motion, Mr. Chairman.

MR CHAIRMAN: Can we bring up the amendment for a vote then. Those in favor of the amendment as proposed by the Member for Edmonton Whitemud? Those against? The amendment is defeated.

Is there any other discussion on the original proposed recommendation by the Member for Calgary McCall, or can we vote on that? Those in favor of the proposed Recommendation No. 15? Those against? The proposed recommendation is carried.

I think we can get started on proposed Recommendation No. 16, the Member for Spirit River-Fairview.

MR NOTLEY: Mr. Chairman, I think it's self-explanatory. We can get started more quickly by just: I would move Recommendation No. 16.

MR PAHL: Mr. Chairman, I have some problem with this. First of all, it implies that very little is done and that this would be an investment. In a sense, I guess, it would be a long-term investment. I certainly support the investment in research and technology; however, in view of the evaluations that have been done on renewable energy resources, it would seem to be that this would not be serving the purpose of the fund to strengthen and diversify the economy. What we're really doing here is we would wind up spending a lot of 'me-too' dollars. There are areas throughout the world where their strengths are in the area of solar, geothermal, wind, or other energy resources. Our strengths are in the non-renewable. We are the country's energy storehouse, if you will, and I think we have a responsibility to apply our scarce resources of not only money but, probably even more important, skilled people to make sure the energy resources contained within the oil sands and even in coal deposits are won in the most efficient manner.

So I would oppose this on the basis that it will be diluting the important effort we should make in terms of building our strengths, which are in non-renewable resources, and applying money in trying to do things on a scale we couldn't possibly match other areas of the world, such as the United States in terms of solar energy. I think we've struck a good balance here, where the effort now is really aimed at taking the technologies that have been developed in other places and applying them, where appropriate and practical, in Alberta. But for us to mount a totally new effort in reinventing the solar wheel just doesn't seem to me to be an appropriate application of Heritage Savings Trust Fund moneys.

MR D ANDERSON: Mr. Chairman, I would certainly agree with the Member for Edmonton Mill Woods in that I wouldn't want to see us reinventing the wheel or going over research that has been done in other places. However, I do hope that this is not the intent of the recommendation, and I guess I don't read that into it. Like any other kind of research, we could build on and deal with areas that are not dealt with elsewhere. I personally think it does fit into the criteria of strengthening and diversifying the economy, inasmuch as we have to look to the day when we will run out of the non-renewable resources we have. I can think of few better ways to look at our future needs than by investing in this area. Indeed, it has to be a prudent investment and one that's done properly. The research, like our Alberta Foundation for Medical Research, can't invest in areas that are already dealt with, but I believe this is an area we should explore, and should explore further. We have put some funding into this particular area in the past, but my personal opinion is that it hasn't been what it could be.

I would therefore support the recommendation, subject to confirmation that we don't want to duplicate research but look into areas that aren't otherwise being researched.

MR NOTLEY: Mr. Chairman, I didn't speak when I began the debate because I thought it was straightforward. I don't think there should be any question that no one is suggesting here that we duplicate research that has already taken place. One of the things you do is what the government has already done: you compile an inventory. Then in the areas where there are gaps -- and there are gaps -- you consider research. The Member for Calgary Currie has properly pointed out that we already have the endowment for medical research. We have the example of heritage trust fund investment in heart and cancer research. One could probably argue even more cogently that heart and cancer research is done just as well if not better in other parts of the world, yet we are making an investment, and properly so, and all members of the committee support that investment. So there should be no question that we're going to go back to square one.

One of the points I think the minister made last year was that an inventory was being compiled. I see this province making prudent investments now. If we want to be the energy capital 25 or 30 years down the road, we're going to have to look at alternative energy whether we like it or not. For the foreseeable political lifetime of most of us, I expect that Alberta's strong suit will be non-renewable resources because we still have a lot of non-renewable resources. But the two are not mutually exclusive. You can begin to build strength in the other area as you still have strength in the non-renewable sector. Surely that's what we have to do.

That's essentially what I'm saying here. So I don't want anyone to misunderstand the recommendation. We're not talking about duplication; I would think that would go without saying. The reason I didn't mention it when I introduced it was that I thought it would be self-evident. If it isn't, there should be no question that it is self-evident in my mind.

MR MACK: Mr. Chairman, I certainly support the spirit of the recommendation. My only question would be on the words "greatly increased funding" and whether the intent here is to have a specific consolidated approach of research or whether it would be fragmented in the province itself. I think that because of other very major needs in the province that are associated with a buoyant economy and rapid growth, we would have to ensure that public communication and understanding would also find the credibility of going into, in any massive way, alternative technological investments when we do have many years of conventional energy available to us. If I were going to place a caveat on it, that would be my only caveat: to provide some definitives as to what it is we're talking about when we're saying "greatly increased funding" and how we would approach that. I can see long-range planning for this, but I would not see an immediate infusion of any great funds into that. But I certainly support the concept.

MR NOTLEY: Mr. Chairman, perhaps I could respond. There are a number of vehicles one could use. I didn't want to get into that, because I think what is important is the principle. One obvious vehicle would be an organization somewhat parallel to AOSTRA. I think AOSTRA is doing a good job in terms of the oil sands and heavy oil research. It's a one-stop shopping centre, if you like, to funnel the requests for heritage trust fund. It involves the private sector. Obviously, if you're looking at alternative energy, you have a massive involvement of the private sector, and you'd have to have some kind of agency. But I didn't want to get into whether we should have this kind of agency or that kind of agency or whether we expanded the jurisdiction of AOSTRA. I thought what would be appropriate was the general principle.

MR CHAIRMAN: I think perhaps we'll adjourn now, because we're not going to get this one finished before lunch, and maybe it's better that some of the discussion is fresh in people's minds. So we will adjourn and reconvene at 1:30.

*The meeting adjourned at 11:56 a.m.*