

Standing Committee on the Alberta Heritage Savings Trust Fund Act

1:01 p.m.

[Chairman: Mr. Dunford]

THE CHAIRMAN: I'll call the meeting to order at 1:01 p.m. Thank you, Madam Minister, for joining us. What we would appreciate is if prior to an opening statement that you would make, you would introduce the people that are with you, then, for the record. We would hope that your opening statement would be fulfilling – I'm not sure if fulfilling is the right word; succinct maybe – but less than 15 minutes. When we start the questioning, we'll start with the opposition members, and then we will move to government members. What we're allowing is three questions, but we're not being fussy about whether they're supplementary to each other. It's just when it's that person's turn, it's three questions.

Also be advised that while we are here to officially report on the '94-95 report of the heritage savings trust fund, anything you say in your opening comments of course creates opportunities for questions, and actually it allows this committee to really be able to provide itself, I guess, with additional information. So the chair has been extremely flexible on the questioning. I would look to you though. If something is clearly beyond what you are prepared for today, then I'll be looking for signs, and when I see them, I can always use the prerogative of the chair to then steer it back toward the main purpose that we are here for. I would encourage that if you're comfortable with the questions, you not worry about whether it's within the direct parameters of that particular report. I'll be here to help and guide.

Before we begin, though, we have an honoured guest in the public gallery. Howard, if you would introduce her for the record, we'd appreciate it.

MR. SAPERS: Thank you, Mr. Chairman. Joining us today to watch the proceedings and, she said to me, to get an education – so we'll work hard at that – is Pat Ennis. Patricia Ennis is the immediate past president of the Health Sciences Association of Alberta, representing some 7,500 health care workers. Pat is also now a nominated candidate to run in Calgary-Mountain View in the next election, whenever that may be. Welcome, Pat, and I hope it's worth the trip.

THE CHAIRMAN: You didn't tell me, Howard, when you asked to introduce her, that there was a political content to this. We had assured ourselves that the Health Sciences Association was apolitical, but perhaps it's not.

MR. SAPERS: It is. The association is apolitical; I'm not.

THE CHAIRMAN: I see.

Okay. Pat, if you'll introduce your folks, we'll get started.

MRS. BLACK: Well, thank you very much, Mr. Chairman. I'm pleased to be appearing on this side of the committee meeting. I sat for four years on the other side and thoroughly enjoyed the heritage trust fund. I hope all of you are enjoying it, because I think it's quite interesting. This is the third time I've been back as Minister of Energy.

I'm pleased to have some of my officials with me today, very qualified people in specific areas. I have my deputy minister, Rick Hyndman. Many of you know Rick. Chris Holly is from our

electrical branch. We have Paul Precht from our oil sands development area and Rick Lunning from the Energy Research Council. So we're very pleased to be here. As you've said in your opening comments, we hope that if you have questions, we can answer them succinctly and directly. I will make the commitment that if there are any that we miss, we certainly will respond to them and get the information for the committee. Maybe you could distribute it to all committee members in a response.

What I'd like to do is briefly go over some opening remarks as they pertain to the Energy department's involvement in the heritage trust fund. I will say that I will be brief because I'd much rather take the questions than sit and lecture to you, as I'm sure you've already read it through.

When we first appeared before the committee, the Energy ministry was responsible for several investments in the heritage fund. However, things have changed over the last three years. During our last three-year time frame the government has taken the initiative to move the heritage trust fund from business ventures better suited to the private sector, and as a result the government has sold its shares in the Alberta Energy Company and its equity interests in the biprovincial upgrader at Lloydminster.

Another factor affecting the ministry's involvement in the fund is simply the passage of time. Fund investments in the southwest Alberta renewable energy initiative, or SWAREI as most of us know it, were originally planned as a three-year program, which we did extend to four years. This funding initiative was completed in the fiscal year of 1993. In my remarks to the committee last year I dealt at some length with the winding up of the fund's involvement in these three energy ventures: AEC, the biprovincial upgrader, and SWAREI. However, as the announcement of the upgrader equity sale was made in fiscal '94-95, it may prove helpful to the members if I review with the committee the details of that agreement.

Under the terms of the agreement, the Alberta government and the federal government sold their equity shares in the upgrader to the two remaining equity owners: Husky Oil and the Saskatchewan government. The cash payment to Alberta for its 24.1 percent interest was \$32.02 million. Mr. Chairman, Alberta's investment in the upgrader totaled \$423.4 million. Of that amount \$404,140,000 made up our capital contribution, including the first and second cost overruns. Our share of operating shortfalls came to \$19,333,000.

In addition, interest on funds borrowed by a special purpose corporation called 540540 Alberta Ltd. totaled \$1.6 million, which was paid through the Energy department's operating budget. This special corporation was set up to enable Alberta to meet its share of the upgrader's operating shortfalls, which as noncapital costs could not be paid through the heritage savings trust fund. From the \$32.02 million received from the sale of our equity interest, \$12.69 million was returned to the heritage trust fund, and \$19.33 million was repaid to 540540 Alberta Ltd.

In addition to the cash payment, the sale agreement also provided for Alberta and Canada to receive additional funds over a 20-year period if the price differential between heavy and synthetic oil exceeds \$6.50 a barrel. Although there was an improvement in the differential during 1995, we do not foresee any short-term return to Alberta under this provision known as the upside protection.

The biprovincial upgrader is not a project in which the present government would become involved, but I should remind the committee of some of the positive aspects of this project. It improved the potential for heavy oil development, which I think is probably the key element of the project.

Mr. Chairman, I'd like to now draw the committee's attention to the fund's investment in Syncrude. As committee members are

aware, the government has sold its remaining 11.74 percent interest in Syncrude Canada Ltd. to Torch Energy Advisors of Houston, Texas, for \$352,200,000. Syncrude has been an extremely worthwhile investment for the people of Alberta. Since production at the site began in 1978, the fund has received more than \$697 million from Syncrude. That's on the equity position; that does not include the royalty income. Although this revenue now ceases, the government will continue to receive our Crown royalties. We didn't sell the royalty interest.

The government's purpose for entering into the equity partnership 20 years ago was to help get the project under way and see it through to commercial success, and this has been accomplished. Today Syncrude is the world's largest oil sands operation and accounts for about 12 percent of Canada's total crude oil output. Annual production for the 1994-95 fiscal year was about 70 million barrels, an increase of more than 3 percent over the 1993-94 figures. Syncrude is now preparing for future expansion as the oil sands industry moves into an exciting and dynamic new era. By selling our equity interest, the government is making it easier for Syncrude to proceed with its expansion plans. It is now fully in the private sector's hands. At the same time, we are honouring our commitment to Albertans to get out of the business of business. So the sale of our working interest is good for both Syncrude and for Albertans.

Mr. Chairman, with those brief comments I would like to turn to the committee for questions, if I might. Thank you.

1:11

THE CHAIRMAN: Thank you, Madam Minister.

Okay. I have Howard as first on my list.

MR. SAPERS: Thank you, Mr. Chairman. Madam Minister, gentlemen, the first question, I guess, will deal with some of your last comments about Syncrude. Just a question. In the past the provincial government was able to place an MLA on the board of Syncrude as part of the relationship between that company and the government. With the sale is there still an MLA representative on the board, and if so who's paying for that? There used to be a stipend attached to that.

MRS. BLACK: No. We sold our equity position, and we have no privilege of that at all. That ceased.

MR. SAPERS: That's as of . . .

MRS. BLACK: As of closing date, which was November 30.

MR. SAPERS: Okay. Thanks.

The next question I have is about renewable energy research. I know that it wasn't part of the funded program this year because the expenses in that area stopped at the end of the fiscal year '94, as I understand. Was there never any consideration given to funding research projects in other kinds of renewable energy instead of just wind?

MRS. BLACK: Well, keep in mind that that program didn't just cover wind. The program was very successful in that it gave people an opportunity in biomass, hydro, wind, solar. It was a very successful program and did exactly what it was intended to do: demonstrate that there could in fact be other sources of energy developed. We believe that the program is proving to have been successful. In fact, today Alberta has the lead in research and

development in that area. While the funding stopped from the heritage trust fund, what we did was pick up some transitional funds from our departmental funding to put into the interpretive centre and the test site down in the Pincher Creek area to help them continue and have a transitional phase so that their industry in fact could take it over.

On the continuation, under our restructuring within our ministry, if I might, Mr. Chairman, when we redesigned our ministry and put a focus on the oil sands and research division area, which we've now renamed, we created what we called the Energy Research Council. We have membership on the renewable side on that council to help us stay focused on future developments that have potential. One of the people who was very much involved in that initiative is a member of that voluntary research advisory council that provides assistance to our department on initiatives coming forward so that we can have a focused process for research.

MR. SAPERS: I was happy to hear you mention solar in your answer. There's a photovoltaic demonstration project happening in Edmonton, in fact taking place in my constituency.

MRS. BLACK: Is this a plug for your constituency?

MR. SAPERS: Yeah. That would be Edmonton-Glenora.

MRS. BLACK: Calgary-Foothills has one too.

MR. SAPERS: Not this one. There are many partners involved, notably the federal government, the municipal government, Edmonton Power. But one of the partners that's missing is Alberta Energy, the ministry, your department. I'm told by the people that developed the project that they were turned down at an earlier stage for consideration of funding assistance through the renewable energy research program funded by the heritage savings trust fund. I'm wondering if you know anything about that particular project and why they weren't considered for funding or partnership or sponsorship.

MRS. BLACK: Well, from the recollection I have of the list of people who had come forward through the program that we had that was funded through the heritage trust fund, I can honestly say that I don't believe that was the route they came. We do not have grant programs within the department unless you're looking at research, and it goes through the research council for them to assess whether it should proceed. That's why we have this outside research council advising us. But I don't believe that to be the case. I can certainly have Chris look into it and get back to you as it pertains, but I don't recollect that project coming through the SWAREI program.

THE CHAIRMAN: Madam Minister, I always have to listen closely when Howard is questioning because he manages to get quite a few bits and pieces of stuff into his preambles and questions. But he did tie it nicely together at the end by talking about renewable energy under the heritage savings trust fund, so we have a legitimate question which you need to examine. What we would ask you to do, however, is provide the answer in writing to the chair, and we'll then distribute it to all members. Okay?

MRS. BLACK: Sure.

THE CHAIRMAN: Good. Thank you.

All right. Moe Amery.

MR. AMERY: Thank you, Mr. Chairman. Madam Minister, I only have one question in regards to the sale of the Lloydminster upgrader. On March 31, 1994, I think our shares were valued at \$56.1 million, yet the heritage trust fund only received \$12.7 million out of that sale. What happened to the rest of the money?

MRS. BLACK: The balance went to repay what was called 540540 Alberta Ltd. It was a vehicle that had been put in place to cover the operating overruns. The operating overruns could not come through the heritage trust fund because the heritage trust fund can only deal with the capital. It had dealt with the capital overruns, so the funds were sent back to them.

MR. AMERY: Thanks.

THE CHAIRMAN: All right.
Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Madam Minister, gentlemen, my first question relates to the Husky upgrader. The agreement itself had an upside option, and I'm just curious as to whether or not under the current projections there is going to be a positive flow of revenues with that upside option. Or is it still irrelevant?

MRS. BLACK: Well, clearly the differential that would have to be there would be \$6.50 between the two types of crude. From what we've seen on the market, we're not there yet. It could happen, but today there is no flow of revenue based on that upside. It kicks in at \$6.50. It has to be an average price; it's not a daily price. When we sold the project, we were sitting at a \$3 to \$3.50 differential. It climbed somewhat last year. I hope we reach that. Under the original agreement, if you recollect, for us to make money there was an \$8 to \$12 differential, which was not going to be reached. So we did put in that upside protection in the event that the market changed, but right now we're not there.

DR. PERCY: My second, final question deals with the sale of the Syncrude shares and is a bit on the margin.

MRS. BLACK: It is on the margin.

DR. PERCY: One of the benefits of the sale is that it allows the province to deal in a more even-handed fashion with all of the companies involved in the tar sands, since it's no longer an equity owner in one of them. Just out of curiosity, has that led to a change in, in a sense, the regime, or has there been any change in the structure of the department's dealings with the energy industry, the tar sands in particular?

1:21

MRS. BLACK: Well, as you know, we were in a very fine position – and this is why we had a representative from our department and from our government actually on the management committee – of where we not only were the equity owner, but we were also the recipient of the royalty and set the royalty regime in place. So we had sort of two different facets of it. I think there was a tremendous amount of respect that had developed between the participants and the government representatives, so there wasn't that sort of contradiction or conflict that could or could not evolve. We would quite often stay out of those discussions as they pertained to – we were always very sensitive of that division between equity and royalty.

Clearly, we've had an excellent relationship with the Syncrude partners and the management team, and I don't see that that would lessen any at all. Certainly if there's an issue and they want to talk to us, they have no hesitation in picking up the phone and making the call today any different from what they did a year ago. We work very, very closely with all of the players, not just Syncrude, in the oil sands and heavy oil areas, because clearly we recognize it, as does the federal government now, I'm pleased to say, as probably one of the strategic resources within this country. The future for Albertans and for Canada as being the secure place to provide for oil deliveries is in the oil sands. So if you recognize that and have a good relationship with that community, then there will be no reason for that to change at all because of a divestiture of an equity position. So that relationship is very, very strong and I believe will continue to be so.

DR. PERCY: My final question just relates to the actual sale. I know it's in the current fiscal year as opposed to the one covered here. The question just is: were there any concessionary terms to the sale?

MRS. BLACK: Well, I'll be filing the actual documents whenever they're finished. I think you'll see it was a pretty straightforward sale. I don't do sales that aren't straightforward.

THE CHAIRMAN: Okay. Thank you.
Yvonne Fritz.

MRS. FRITZ: Thank you. Good afternoon, Madam Minister. My interest is in line with the upgrader as well. I understand that the province has sold its investment in the upgrader. I wonder if you would just give a bit of background about that investment: how the heritage savings trust fund was involved, what our commitment was to that investment, what the outcome had been, then, for the sale, and how it led to that.

MRS. BLACK: Well, back in 1988 it was felt that as we ventured into this new arena of development in heavy oil synthetic crudes, their upgrading on a regional basis would be most beneficial. And to profile it. A lot of people had never really heard about the potentials within the field. So the governments of the day – the federal government, the government of Saskatchewan, our government – joint ventured with Husky Oil to build an upgrader to do a number of things, to process in our own backyard. It was actually sitting in Saskatchewan; it was on the Saskatchewan side of the border. The project was developed. It was based on a contract with Husky and the three governments on a price differential.

At that time there was thought in the forecast that there would be this large spread between different prices of crude that would be a measure for the economics. It experienced some cost overruns in the capital construction stage, that had to be funded through the partnership. It became operational in about, I think, October of '92, and it started experiencing operating shortfalls. Markets had shifted dramatically. There were changes. The differential had shrunk dramatically, and it was costing a lot of money. The government created a vehicle to cover those cost overruns on the operational side called 540540 Alberta Ltd. because the heritage trust fund did not have the ability to cover operating shortfalls and could only be involved in capital investments. So there it was, an agreement that had been signed to cover the operating shortfalls.

That went through till, I believe, April of '94, and when that contract was expiring, I gave notice that we would no longer be

interested in participating in the funding of the upgrader, that we wanted out, that there would be no more money going in. We had done an assessment, an economic evaluation, and under the existing agreement we could not see that we would be able to recover or even break even on the operational side let alone the capital side. We met with our partners and expressed our concerns, and the options were quite clear: we could continue putting money in or we could divest our interest. So we made it known to our partners that we wanted to not continue any further funding.

That started the negotiation for the divestiture, which took a number of months to do. We started off with all three governments wanting to sell their interest. Keep in mind that it was probably one of the most difficult negotiations you can go through, because you had three different governments with three different political philosophies, some who had written the asset down on their books, some who had not. We were at all different stages in a private-sector corporation. Two-thirds of the way through one of the sellers in the negotiations all of a sudden became a buyer. So the strategy that had been worked out from the selling point soon shifted, and we started all over again on the negotiations. That was the summer of '94. I spent my entire summer back and forth at meetings on the upgrader.

Anyway, we looked at an evaluation of what we could get on the market. We felt that we got the best value we could out of it, but we were not putting any more money into it. So you see the split of the funds. Part went back to the heritage trust fund. We had written the project down dramatically. We knew that we were not going to get our capital investment back, and we had dealt with it up front with a realistic approach: writing it down. The other governments had not, so they were in a very difficult position. We had to replace the funds through this 540540 Alberta Ltd. because they had funded the operating shortfall.

So we ended up with an agreement that would get us out. No more funds going. We stopped funding it in April of 1994. We did get some money back for it, and we built in what was called this upside protection, that if in fact that differential moved – it had been at \$8 to \$12 in the original agreement. It was sitting at \$3. If it came in at \$6 and market trends changed, then we would get some advantage to that shift. We haven't hit that yet. It's over 20 years. It's in place. So hopefully within that 20-year time we will see that upside interest return some money to the province, but those are all dependent upon market forces.

MRS. FRITZ: Thank you, Madam Minister.

Just a follow-up question to that. I'm sure it's in the 1994 financial statements, but I'm interested in what the heritage fund took as a final write-down in 1994-95 as a result of that sale, just what figures you had mentioned.

1:31

MRS. BLACK: If you'll just give us a second, I'll give you the exact number.

MRS. FRITZ: Thank you.

MRS. BLACK: Gosh, I think they're making the print smaller in these books every year.

THE CHAIRMAN: I have the same problem.

MRS. BLACK: These new computer systems are not very good.

I'm referring to page 49 of the financial statements in the current year.

MRS. FRITZ: Oh, thank you. Okay.

MRS. BLACK: So if you look at page 49, note (f) deals with the divestiture. Does that answer – is that okay?

MRS. FRITZ: Yes, it does. Thank you, Madam Minister. That's fine.

THE CHAIRMAN: Okay.
Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you, Mr. Chairman. I would like to switch over to AOSTRA, if I might, and ask a couple of questions there. I'm a little unclear as to where AOSTRA is going. There are, I think, four or five other industry participants in AOSTRA. [interjection] Sorry; I always speak softly.

I'm a little unclear as to where we're going with that, what the focus is. I know that the purpose was originally to seek out better environmental alternatives to recovering basically tar sands oil. Maybe if I could get the minister's comments as to where we're going with AOSTRA.

THE CHAIRMAN: Well, before she comments, I'm just looking at the report, and it would seem that the last payment out of it was in 1990. Can you tie it together better for us?

MRS. BLACK: We haven't funded AOSTRA through the heritage trust fund for five years.

MR. DALLA-LONGA: Yeah, but it's still in there. Or is it out now?

THE CHAIRMAN: The money that was put in there is still in there, so you're asking, then, about the funds, their status today? Is that how we tie it together?

MR. DALLA-LONGA: Well, if you'd like to tie it together that way. I'm just sort of wondering where we are with this previous investment and what the focus of it is now. All the information in here talks about the intent for which it was originally set up. Where are we going with it?

MRS. BLACK: Well, as you know, under our restructuring model that we put forward and announced in February of 1994, we took the outside agencies of the ministry and merged the Public Utilities Board and the ERCB into the AEUB, and the balance of the agencies we disband in essence as stand-alone agencies. The AOSTRA function we rolled into the ministry under the oil sands research division, and the function of the research component is fed through this Energy Research Council, a volunteer council of industry players working with our industry to look at focused projects to achieve a number of outcomes in energy development and research, things that will bring down production costs and take us into the future in all aspects of energy development, including the oil sands.

AOSTRA has not received funding from the heritage trust fund for five years nor is it receiving separate funding within the ministry, because we basically rolled it into a division within the department. We did that two years ago. We rely heavily on the Energy Research Council and the linkup with our industry groups to look at where we need to go in the future.

We have had, I think, some great success with some of the past projects that AOSTRA was involved in. One of them is the Underground Test Facility up at Fort McMurray. I know you said

that I'd got you into trouble, that you didn't have a budget for it, but last year we did offer to take the committee to visit those sites. I know we attempted to do it about three times in the summer and didn't really get any response from the committee. Clearly we will extend the offer again this year, but please don't let me book aircraft and not have anyone show this time. We would be delighted to take your committee, Mr. Chairman, to the UTF and to the oil sands. Even though we're not an equity partner anymore, I'm sure we could ask a favour and have the committee visit.

THE CHAIRMAN: That actually happened? Did we leave you high and dry?

MRS. BLACK: Yes. We were going to take members up there and then nobody came. We won't mind doing that, and we would absorb the cost of that because we believe it's ultimately important that you realize what is there. Until you actually see the vastness and the immenseness of the investment and the commitment that is there, it's very, very difficult to appreciate. When you go into that UTF – I've been there a number of times myself – you go underground in an elevator about 400 feet down. You're walking below the limestone. You realize the initiatives that have taken place for in situ recovery as a result of the involvement in that program and then recognize the expansion and development that is taking place from a lot of the utilization of that technology: the SAGD processes, et cetera, that have been developed out of that research. You've got to see it. I don't care which side of the House you sit on. You cannot leave this Legislature without going and looking at that facility. You must go. It's absolutely imperative.

THE CHAIRMAN: Well, if it's warm . . .

MRS. BLACK: It doesn't matter if it's warm, you still have to go.

THE CHAIRMAN: If it's warm down there, we might go this afternoon.

MRS. BLACK: Well, I don't know if I can get you up there that fast. I really, really highly stress that you must see those facilities. You cannot leave this Legislature without having visited them. They're ultimately important to this province.

We work very closely today in today's environment, which has replaced the old AOSTRA model, with our universities and our industries to look at realistic outcomes from projects that we get involved in to see how they fit in with the outside world's concepts of where research should go. We co-ordinate all of our research also. Our chairman of our Energy Research Council sits on the research authority. He's a member of the board there. So there's a full co-ordination of what we're doing in the overall government scheme, and I think it's a far better model. You don't have duplication of effort, yet we're very focused on the natural resource development side of things. So that's sort of what we're doing. Rick Luhning can tell you about the AOSTRA project specifically.

I can say that I was very proud when I was in Beijing in November to have one of our members from the community, from the computer modeling group out of the University of Calgary, present research, an actual paper that he had been contracted to do by the China National Petroleum Corporation on a SAGD evaluation of one of the fields in China. It kind of brought it home to me how important this is. While we don't recognize it in our own backyard, the

world certainly does. It was a gentleman from Calgary who had accompanied us and met up with us on the trip, and we were able to introduce him to Dr. Wang Tao, who's the chairman of the China National Petroleum Corporation. He's the number one person in China. This man has 1.2 million employees and is very, very important, and we linked him up with Frank Meyer, who heads up the computer modeling group out of the University of Calgary. I was very, very proud to be able to make that introduction, and they're going to continue with additional business right out of Alberta.

When you realize that the world looks at the things that have been developed here in Alberta, that we take for granted – you know, we're only 2 and a half million people, but we're awful mighty in know-how and expertise in this province. I don't think we recognize that, but the world sure does. So we've got a story to tell from some of the research that's been developed in this province in all fields – in all fields – and we should all be telling that story. When you travel to those places, they sure know about it.

I was pretty proud to be able to say I was from the province of Alberta and this was a project that we'd been in joint partnership with and here are some of the end results, where it was actually being employed, and here was a contract that this gentleman had put in place. So it gave me a lot of pride to be able to do that as a member of this Legislature.

Rick Luhning, do you want to add anything to that?

1:41

DR. LUHNING: Yeah. I'd be very pleased to add some things to what you provided. They're sort of recent things that have happened, in particular the UTF one that you raised. Last year I had the privilege of talking for a short time about the UTF activities, and at that time, things were just about to happen and had been that way for a number of years. I'm surprised. Now, you say the word "SAGD," and people know what it means, what have you. You know you've kind of arrived in a technology when you have a look at the January 1 edition of *Oilweek*, which is Canada's oil and gas authority, and they have a page at the beginning here that says, "What's Hot, What's Not for '96." On the hot side – they don't even bother to tell you what it means; they just use the initials SAGD. SAGD is hot. What's not? Everything else. So I think that's an indication of how far we've kind of come with this technology over the years.

Another earlier indication on this one was McGraw Hill's *Yearbook of Science & Technology*. This is one they publish every year. What it does is it

"presents outstanding recent achievements in science and technology" that were "judged by the consulting editors and editorial staff as being among the most significant recent developments."

In '93 there were only three topics chosen from the whole oil industry across the world. One was conventional horizontal well drilling, the second was putting out the fires in Kuwait, which you'll recall, and the third one was called breakthrough achievements of the AOSTRA UTF project.

I guess the reason that it probably looks like a breakthrough is this sort of flurry of things that have been in the press on it. The *Calgary Herald*, December 7: "Partners to spend millions testing oilsands schemes: steam assisted gravity drainage." They talk about Amoco's half a billion dollar project, Suncor's \$122 million project, Alberta Energy Company's \$100 million proposed project, on and on. Here's the AEC one from November 24, their \$200 million project using SAGD north of Cold Lake. Here's the Suncor one, \$122 million. Here's one: Elan, a small company using SAGD; they're using it as

a basis for expanding their company. Here's Gulf Canada's plans for SAGD in Athabasca. This is one that'll be initially a pilot plant, culminating and going, initially, in the \$30 million. The commercial one will be well in excess of \$100 million. CS Resources in Saskatchewan is using it as well, and Shell in Peace River has been testing it for a couple of years.

I guess one of the most significant things directly about the UTF is that after 15 years of being the operator – the Alberta oil sands authority was the operator and then the Department of Energy – the operatorship was turned over to Gibson Petroleum in September, and that was a unanimous decision based on bids that came in by the nine industry participants. So they're working there expanding the operation.

When you add these all up, these add up to well in excess of a billion dollars in projects that are kicking off and proposed. That all grows out of the initial funding that the heritage fund put into it over that period beginning June of 1974 up till about five years ago. So that's a pretty good payoff on it.

It makes you a little embarrassed to read these kinds of accolades and things that are happening, but you have to remember that the oil sands in Alberta are one of the largest resources of petroleum in the world. There's nothing larger. This is really a dramatic breakthrough, if you can call it that, if you can call the culmination of 20-some years of work a breakthrough, that is going to have a long-term benefit in this province and this continent as we go forward. You can track that right back to the foresight of putting the money in from the Alberta heritage trust fund.

That's one area of the heritage trust fund, but it's not the only one that's kind of happened internationally. The other one of course that's been in the press – and this is another one that's sort of an overnight success that took 20 years. Here we have Suncor going international. Suncor, our Canadian company, is going to Australia to use our AOSTRA Taciuk process to develop oil shales. They're kicking it off with an initial \$7 million investment, which will culminate eventually, if all things go right, in about a \$3 billion investment and 85,000 barrels a day production. There's a lot more detail on it in the *Alberta Report* of January 22. This one is titled, "Mr. Taciuk goes Down Under." Not down but Down Under. That was one that started back in the early days; again, heritage fund money came into that. There's been about \$30 million invested by Alberta in this technology, about a little over \$20 million from the heritage fund. Industry to this point has put about \$70 million into it, for a \$100 million package.

When we first looked at this one – and I've been with AOSTRA almost from the beginning and now the Department of Energy – when this one came to us, what we were looking for was something that would do the job of the hot water process that was invented and patented on June 23, 1926, and is the basis for Syncrude and Suncor. We were looking for something that would work more efficiently than that. We were also looking for something that would be a breakthrough on the upgrading side, something that would not rely on high-pressure, highly expensive equipment, et cetera.

[Mr. Doerksen in the Chair]

When this project came to us, some initial work had been done by Tenneco with Bill Taciuk, the inventor from Calgary. What they described is that in a single vessel, they would take mined oil sands and convert it into a product which could be put directly into a pipeline. That seemed to be dramatic, but on top of that they were going to do this at atmospheric pressure. There would be no water

used. It would be energy self-sufficient. If you wanted to, you could run it without any outside input of external energy, and it would be an environmentally friendly process. So that of course got our interest in it.

If you compare that to the current technology, which is commercial and is an excellent technology, there are approximately 10 steps – and I won't list them here – between the mine and the point where you get it into the pipeline. With the AOSTRA Taciuk one, there's a single rotating vessel that you put your mined oil sands into. Out the other side comes a product which can be put directly into a pipeline at atmospheric pressure. The way that unit works is that it is, as I mentioned, a rotating kiln. It is actually a small kiln inside a larger kiln. I'll do it quite quickly so that I don't have to take too much of your time on this one. It is a major breakthrough and one that's coming back to the oil sands.

This is also nice because the Australians are going to invest about \$200 million to prove the scale-up of this technology, and all those results will come back to Alberta with our technology agreements with them so that when the time is right, we'll be in the position to not have to spend \$200 million here proving that scale-up criteria but able to move directly into probably a large prototype in the oil sands. That's the important part for Alberta.

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What this unit does is the oil sands come into the inner kiln inside the larger one. It moves down with a series of lifters, et cetera, and it is heated in that kiln to a temperature such that it will vaporize the bitumen and crack it into a partially upgraded product. When that happens, coke is laid down onto the sand that remains. That sand is then put onto the outside of the annulus, moved back in the opposite direction, and is combusted there like barbecue coals and produces the heat to heat the inner part of the kiln. Thus it's entirely energy self-sufficient. What is produced is a dry sand that can go directly back into the mine pit. So you go in one step – and it's atmospheric pressure, as I mentioned earlier – from oil sands to pipeline. That is one that has a lot of promise.

Madam Minister, I think maybe I've taken enough time here, and I'll turn it back.

MRS. BLACK: Well, as you can see from the explanation, you really must go and visit these facilities.

MR. SAPERS: We don't have to now.

MRS. BLACK: Yes, you do. A lot of the developments are being looked at worldwide. Again, we've got an awful lot to be very proud of with our scientific community and our industry working together in this province. We all too often fail to hand out the accolades to these people that have stuck with these projects all these years, and we don't focus on the success of what they actually mean to us. Clearly the oil sands are 300 billion barrels of crude oil sitting on the ground there today that, when you think of it, could service all of North America for roughly 40 years without one foreign barrel of crude coming in. That's how important those sands are to the strategic success and security of not only Canada but North America. So never think lightly of them.

THE DEPUTY CHAIRMAN: Thank you, Madam Minister. I have to say that this has been the most thoroughly answered question that we've had yet in the Alberta heritage fund committee.

Danny, we're on number two; right?

MR. DALLA-LONGA: I was just sort of doodling here as I was getting the answer, trying to imagine what it was like, and I think I've got a full set of working drawings now of the project.

I didn't get my invitation to the UTF visit, and I'd be willing to go as long as it doesn't get added to my travel costs.

MRS. BLACK: Better yours than mine.

MR. DALLA-LONGA: One last question. When we say Lloydminster upgrader and numerous other projects, do we sort of have a commitment, Madam Minister, that we're not going to do any more of those things in the future?

MRS. BLACK: Are you asking me if I have a commitment? It's not the role of government to be in business, so you have a commitment from me that you would not see me move forward with a project of that nature. It's better suited to private-sector hands.

MR. DALLA-LONGA: Did you get that down? Thank you.

THE DEPUTY CHAIRMAN: Okay.

Paul Langevin.

MR. LANGEVIN: Thank you, Mr. Chairman. Madam Minister, in your opening statement you touched on how we divested ourselves of our equity in both Syncrude and the Lloydminster upgrader. We also have a financial commitment in the southwest Alberta renewable energy program. I would like to know what your future plans are with that investment.

MRS. BLACK: That program has actually been completed. It was completed in '94. It was a three-year program that we funded. We extended it to a fourth year. It's been very successful, Paul, in bringing forward, I believe, into demonstration models different forms of renewable energy – we talked about them previously – in the wind, hydro, solar, biomass areas. Today actually we've seen a fair bit. We're a year out from when the program actually ceased, and we're monitoring those that continue on. There's been a fair bit of interest.

One of the things that I don't think people realize, just as one example on the wind side, is that we have the largest wind farm capacity in Alberta of any province in this country. So as a demonstration site, when other jurisdictions talk about renewable energy initiatives, we've already done that. We have already recognized the need to look at all alternatives and to have a commitment there.

Now, as the next stage becomes a relationship that comes from the commercial marketplace, whether they in fact work under the particular conditions that people are living under – I mean, obviously if you're going to have a wind farm, you've got to have a continuing supply of wind. It really helps. So if you're in the right location with the right kind of climate, there can be some tremendous success. In fact, a couple of the projects are very successful today and are doing exactly what they were intended to do and are being viewed not only by other jurisdictions as to applying them, but the technology that is there is also being viewed by other jurisdictions. So again this initiative put the people who are involved on the leading edge throughout North America. We've got a tremendous story there.

It's one thing to read about it, but I took my son down to Pincher

Creek. We went to Cowley Ridge to have a look, because it's hard to envision what these projects really look like and what they can in fact do. If you've been to California and driven into the desert, you've seen thousands and thousands of windmills on the sides of the hill. You don't have to go there. Go down to Pincher Creek. Go to Cowley Ridge and see the development that has taken place, and you will have firsthand information. There's also a tremendous interpretive centre right in Pincher Creek that will give you an awful lot of information on renewable energy.

So we're not in that anymore. The funding is no longer there. However, we are through my department funding, as I said earlier, supporting the transition to maintain the office in Pincher Creek until the community can actually completely take it over themselves. We have an agreement that that's what they will do. So take a drive. Go down and have a look at some of these projects and see them firsthand. They're well worth looking at.

MR. LANGEVIN: Thank you. My last question. We initially invested about \$3 million in this program. Do we still carry that on the books, or did we write it off to research and development? How did we handle this expense?

MRS. BLACK: I believe the investment is still showing up on the books as an investment in SWAREI. There is no further funding. If you turn to page 32 of your heritage trust fund report, you'll see under the capital projects division that renewable energy research is sitting there with the \$3 million as an investment in renewable energy. There are no further commitments. The program has ended. What's left is the monitoring of those projects that came under that.

MR. LANGEVIN: I understand there's no chance of recovering this \$3 million or of selling these assets.

MRS. BLACK: Well, they're not our assets. We only funded them under a research scenario to have them move into a demonstration. We don't own the assets, so we won't be recovering that \$3 million.

MR. LANGEVIN: My question, then, is: why do we still carry it on the books?

MRS. BLACK: Well, I believe it was under what used to be called the deemed assets, and those have been removed because they are not recoverable assets or liquid assets. When you rewrote the financial statements for the heritage trust fund, you took those deemed assets off and left only the liquid side on, from what I remember.

MR. LANGEVIN: Okay. Thank you.

THE DEPUTY CHAIRMAN: Madam Minister, it looks like you have such a thorough grasp of your portfolio in the questions that have come up today that there are no further questions from members of the committee. So we will call the meeting to a close. Thank you for spending your time with us this afternoon.

We will reconvene at 3 o'clock with the Provincial Treasurer.

MRS. BLACK: Thank you very much.

[The committee adjourned at 2:01 p.m.]

