

PUBLIC ACCOUNTS COMMITTEE

October 27, 1976

(Mr. Taylor in the Chair)

MR. CHAIRMAN: Honorable members, Mr. Rogers, at this time I'd like to introduce to you the men who did a lot of the work in the report; Mr. Don Salmon, the audit director; Mr. Don Neufield, the audit manager; and Mr. Mike Morgan the audit manager. I will now call upon Mr. Rogers to present his report.

MR. ROGERS: Thank you Mr. Chairman, gentlemen. I would like to add one other name, and that's Mr. Schell, my deputy, who participated to a very significant extent in the preparation of this report.

As you can imagine, the report is the result of rather extensive inquiries. Perhaps I may go through it to indicate the main sections of the report: Page 1 deals with the terms of reference and comments on those as they affected the scope of the investigation; Pages 1 to 3 recount the chain of events in chronological sequence from early '74 to date, as they related to Mr. Lung's dealings with the export agency and the Alberta government; Pages 8 to 10 below the line, near the top of the page, Items 1 to 7 pages, deal with matters not conveniently fitted into a recounting in chronological order (but) matters that were of significance to an understanding of what happened; Pages 8 and 9, specifically Item 8, deals with evidence give before the committee which was judged to be inaccurate or misleading according to the information that we gathered during the course of our inquiries; Page 11, Items 1 and 2, deal with a couple of inconsistencies in information obtained that were not, as far as we were concerned, satisfactorily resolved; Pages 12 to 14 are the conclusions that were reached, because to give facts without some kind of interpretation is not too meaningful. The remainder of the report consists of the exhibits on which our conclusions and on which the recounting of the facts were based.

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Mr. Chairman, I think that in the discussion we suggested that it may be appropriate to read the conclusion:

The most significant feature of this investigation has been separation of fact from opinion and innuendo. Apart from the unresolved conflicts in statements made either to the Public Accounts Committee or this Office as outlined in the foregoing paragraphs, a number of statements made by several of the parties concerned were carefully examined and rejected due to the fact there there did not appear to be any corroborating evidence and the statements concerned were not of material significance in relation to the specific nature of the investigation.

It would appear that initially Mr. Lung was only bringing to the attention of the Export Agency an export opportunity to which he felt his connections and interests would enable him to make a unique contribution. It would also appear that Mr. Lung had originally, mistakenly anticipated that the Export Agency would itself act as a principal in the planned venture and that he would possibly act as an intermediary. When he was informed that its regulations precluded the Export Agency from assuming such a role, Mr. Lung become increasingly involved, at least partially due to the influence of the personnel of the Export Agency, until eventually he became responsible for exporting the sole shipment at a considerable loss.

I wish to stress this.

There is no evidence to indicate that Mr. Lung, at any time, acted other than in a proper manner.

A major factor, which influenced the progression of events reviewed during this investigation, was that Mr. Lung's contacts were with both the Department of Agriculture and the Export Agency and although the Export Agency became solely responsible to the Minister of Business Development and Tourism as at March 31, 1975,

. . .

during the period under review, that is, . . .

. . . Mr. Clarke continued to be strongly influenced . . .

Mr. Clarke, who's responsibility the management of the agency was,

. . . continued to be strongly influenced by the not unreasonable requirements of the senior management of the Department of Agriculture. His management of the Export Agency would not, at times, appear to have been positive, in that internal rules which he himself had established were ignored, decisions made were changed without adequate reason being given, and communication with staff would appear to have been inadequate.

During most of the dealings with the Export Agency and Mr. Lung, no International Trade Director was assigned to the project. At the outset, senior management deliberately excluded Mr. Presber, who was the International Trade Director for Europe, was highly rated by his superiors, reported to be an expert in the area of international trade, and was born in the particular country in which the transactions were to be effected. Failure to utilize the services of a person so uniquely qualified would appear to be contrary to the normal practices of the Export Agency or, in fact, of any organization. The deliberate exclusion of such a person from involvement in a type of transaction for which the person had been employed and for which the Export Agency had been created, cannot be considered as a normal or reasonable action.

Examination of a number of files maintained by Mr. Presber, in connection with a variety of transactions, would indicate that he is extremely well organized and methodical in his approach to each situation and would appear to be somewhat of a perfectionist. When he became aware of a project, which was not being conducted in accordance with normal Export Agency procedures and from which he was specifically excluded, he quite naturally had some concerns and misgivings. The tenacity with which he pursued his misgivings and concerns with respect to Mr. Lung's project, together with the refusal of his colleagues to accept them, contributed to outbursts

of personal animosity. A lingering antagonism was detected in verbal evidence received during this investigation from Mr. Presher on one side and Messrs. Clarke and Bowns on the other. This antagonism manifested itself in the form of unflattering personal assessments and a tendency at times to misinterpret the motivation for events.

Evaluation of the regularity of procedures adopted by the Export Agency in its dealings with Mr. Lung has been made difficult by the absence of a comprehensive documented set of administrative and procedural regulations. Operational guidelines were issued to Export Agency staff by Mr. Clarke in October 1974, April 1975, June 1975 and April 1976 but it appears that owing to the diverse and disparate nature of the Export Agency's scope of operations they were of necessity only guidelines and not detailed and comprehensive procedural regulations. Furthermore, uncertainties and pressures which influenced the consistent interpretation of the guidelines were created by the "Bull Semen" enquiry in early 1975 and the transfer of ministerial responsibility for the Export Agency from the Department of Agriculture to the Department of Business Development and Tourism in April 1975. In this context it was therefore necessary, in certain cases, to determine the Export Agency's procedures by obtaining explanations from senior Export Agency staff and by considering normal commercial and governmental operating procedures.

No tangible evidence has been found to indicate that adequate independent documentary evidence had been obtained to satisfactorily establish the reputability and sound financial status of Interfleisch A.G. prior to the granting of approval to expend public funds on the German mission to Alberta. The apparent omission to obtain such material would appear to be contrary to normal Export Agency procedures. The fact that this particular Company was subsequently found to be reputable and of sound financial status does not relieve the Export Agency of its responsibility to take appropriate action prior to becoming too greatly committed to the transaction.

Formal ministerial approval for financing the German mission was not obtained until eight days after the invitation was issued. This action is also contrary to normal Export Agency procedures.

Information relating to the Kallitsis and Danhuber enquiries, received by the Export Agency in February 1976, was not equitably disseminated to the private Alberta trade, notwithstanding the fact that this was the stated policy of the Export Agency. Failure to follow such a procedure can result in adverse public criticism and can cause conclusions to be reached which may not be well founded. However, it should be noted that the arrival of these enquiries coincided almost exactly with the formal transfer of functions and duties relating to export enquiries from the Export Agency to the Department of Agriculture and that such enquiries were forwarded to the Department which, at that time, was not organized to handle them.

In evidence given before the Public Accounts Committee and during this investigation, Mr. Presber has suggested that the assistance extended to Mr. Lung's endeavours to export calves by the Export Agency and the Department of Agriculture constituted undue preference, effectively shielded Mr. Lung's project against prospective competition and, accordingly, was to the detriment of other Alberta producers and exporters. While the above mentioned procedural irregularities, (combined) with several of the events which occurred during 1975 and 1976, can be combined to attach credence to this suggestion, the underlying logic is both subjective and circumstantial. It is generally agreed that Mr. Lung's project was principally one of market development and, accordingly, his request for confidentiality until the market was established seems reasonable, as does the Export Agency's preparedness to accede to this request as far as possible, within the scope of its authority.

No evidence has been revealed by this investigation to indicate that the procedural irregularities were other than the result of poor administrative and procedural

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discipline within the Export Agency or that the assistance sought by Mr. Lung and extended to him was beyond the scope of the Export Agency's operating authority.

I (would then like) to acknowledge the . . . assistance received from . . . various departments of Government, the Alberta Export Agency, Messrs. Lung and Presber and to other members of the public who kindly responded to requests for information during the course of this investigation.

Mr. Chairman, that is the conclusion of the report.

MR. TAYLOR: Mr. Rogers, do you want to enlarge on any sections of the conclusions?

MR. ROGERS: Mr. Chairman, there are several things. One is that the total amount of public funds that are being discussed here amount of to \$2,462.84. This is noted on page 5 of the report. At the end of the first paragraph on that page says:

The total cost to the Province for the mission amounted to \$2,462.84. All expenses incurred by Mr. Lung during the visit were paid by himself.

Now this was to bring representatives of a very reputable company to Alberta. I verified the fact that the company was reputable through independent, professional company operating in Stuttgart who provided me with a report as to the company's reputability and it's beyond question.

This was done literally as a matter of judgment that the best way to know more about the company was to bring its senior officers to Alberta so that there could be a first-hand contact. This was a different approach to other approaches made through the Export Agency. But it was partially made through the Department of Agriculture direct. It's this involvement between the Department of Agriculture and the Export Agency perhaps that has led to this being handled in a somewhat different manner from other Export Agency operations.

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There is no evidence of any improper use of public funds in the investigation. I think what we have here is, in effect, an internal matter in the Export Agency -- and I think we comment on this in the report fairly extensively -- but my view is that Mr. Presber holds very strong views. He believes, and I find myself in agreement with this, that transactions should be handled in a disciplined manner, that every transaction should be handled in a similar manner. He was very distressed when he became aware of this transaction that was not being handled the way other transactions had been handled. I don't think the management would have been subject to criticism if this had not had the spotlight on it. I don't think they went beyond, perhaps, what is permissible. But it did allow this situation to develop. I think it can be criticised in that regard.

I think the other thing to think of perhaps in considering it is that this was not the only transaction that was being handled by management of the Export Agency at this time. I think this has to be taken into account. It was a relatively immaterial amount, when it was compared to many of the other transactions that the Export Agency was involved in.

Mr. Chairman, I think those are perhaps the background comments.

MR. TAYLOR: Now members, the questions now will be for clarification of the report only. The consideration will take place next week.

MR. NOTLEY: Mr. Chairman, there's just one question I'd like clarified on page 13 by Mr. Rogers, the top paragraph. The deliberate exclusion -- he's talking about Mr. Presber -- the deliberate exclusion of such a person and then the sentence goes on. I wonder, Mr. Rogers, if you could perhaps clarify what you were able to find out on that particular matter.

MR. ROGERS: The explanation for the exclusion was that this was a sourcing problem only. In other words, the feeling was that Mr. Lung had a market and therefore the only problem

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was a sourcing problem, so therefore the International Trade Director was not involved. Here I use sort of personal judgment. It seemed not reasonable that you have a man who is intimately knowledgeable in the area that you are dealing with that you would not at least seek to confirm that what you were being told was correct through this man. It seems incomprehensible that his services were not used. He was a member of the Export Agency. I can quite see, Confidentially, how it's being necessary, but I don't think confidentiality really extends within an organization to that extent if you can use the services of people within that organization who are employed for that purpose. I did not feel it was completely satisfactorily explained.

MR. CLARK: Mr. Chairman, I want to ask one question of Mr. Rogers.

Thumbing through the report, I can't lay my finger on the page, Mr. Rogers, but the area I'd just like your explanation on what you really found dealt with that area where Mr. Clarke from the Export Agency I believe indicated in here that the Department of Agriculture was prepared to move in the direction of approving this particular transaction. I'm sorry I can't just lay my hands on it right here, but as I recall skimming through the report there's a difference of opinion between Mr. Clarke of the Export Agency and Dr. O'Donoghue in the Department of Agriculture with regard to who should approve the funds, and if the Export Agency didn't, would the Department of Agriculture. I wonder, Mr. Rogers, can you tell the committee exactly what you found out there or what questions were left in the air in that regard.

MR. ROGERS: This is page 11?

MR. CLARK: Yes it is. Right.

MR. ROGERS: Yes. That had to be left unresolved because Mr. Presber reported or indicated certain comments made by Mr. Clarke, but Mr. Clarke did not recall this conversation. Dr. O'Donoghue was very adamant in stating that he did not at any time threaten to report the Export Agency, and as he said, "Who would I report it to?" He did not accept this at all. I was persuaded that, as far as Dr. O'Donoghue was concerned, he was concerned in that. As to the conversation between Mr. Clarke and Mr. Presber I am less satisfied. It was inconclusive.

MR. McCRAE: Mr. Chairman, to Mr. Rogers, a point for clarification. There are a number of references, Mr. Rogers, to breaches of procedures and so on that were laid out by the Export Agency. Just to clarify these ignoring of procedures, or regulations as you said, where regulations or procedures established by the agency, the people involved, management of the Export Agency itself, rather than provincial statutes or provincial Cabinet regulations, would it be fair to say that the procedures that may have been ignored were determined by management and hence might well be changed by management?

MR. ROGERS: Yes. That's a good point in that if management establishes the rules, then obviously management has the right to violate those rules. But when the violation of those rules causes subordinates to question what is going on, then I think at the very least proper explanation should be given. This is why there is a mention of lack of communication. I think the discretion used, if it was viewed outside the scope of this spotlight, would not be, I don't think, a matter of great criticism because nothing wrong was actually carried out. But I think the fact that there were rules specifically set out by management and then for management itself to go against those rules created a suspicion that there was some ulterior motive for this. But they were not actual legislation.

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MR. McCRAE: Just a supplementary clarifying question, Mr. Chairman and that is: would it be fair to say that the ignoring of the procedures laid out didn't operate to the disadvantage of the Export Agency or the government itself, but perhaps led to only disgruntlement between members of the staff of the Export Agency? A conflict of personalities.

MR. ROGERS: It did create the situation that led to the evidence being given before the committee in the spring. That is quite right. There was no indication that the violation of the rules was detrimental to the public funds.

MR. LYSONS: On page 13 in answer to Mr. Notley's question, you used the term "sourcing". I was under the impression in earlier public accounts meetings that Mr. Lung is responsible for the lining up of these animals and that Mr. Presber was the International Director. Am I understanding the word "sourcing" wrong?

MR. ROGERS: The sourcing, Mr. Chairman, is the provision of the animals. Now, Mr. Lung did not have the animals himself to export. He had perceived an export opportunity and he needed help with assembling the animals for export. It was his connections in Germany that led him to believe that he had found a possible area into which Alberta calves could be exported. But he did not have the calves himself so it was a sourcing problem as it was originally perceived.

MR. LYSONS: For further clarification then. Would it not be fair to say then that Mr. Presber was to find a market perhaps and that Mr. Lung was to find the cattle here locally and that there should certainly be a division?

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MR. TAYLOR: I wonder if we're getting into the report now. With respect, Mr. Lysons, could you hold that question until next week? Anything else on clarification?

MR. CLARK: (inaudible) the question. Mr. Rogers, could you indicate to us whether you were able to acquire all the documentation? Were there any areas where you weren't able to find documents that you felt necessary that should ordinarily have been in the files? Very clearly it's a question of were all the documents that you attempted to find available in the files in the Export Agency?

MR. ROGERS: Yes I was able to find all the information. There had been some confusion due to the changes and whatnot that occurred after Mr. Presber left, but all the files were there. Mr. Presber's files were found to be complete and we did not have any problem in that area.

MR. NOTLEY: Mr. Chairman, just one final quick question on the bottom of page 13. Mr. Rogers, you mentioned that formal ministerial approval was not obtained until eight days after the invitation was issued and this was contrary to normal Export Agency procedures. I wonder if you could maybe clarify that but no doubt with some reason as to why that occurred and maybe it's in the rest of the report. But if it isn't, I wonder if you might just clarify what the reasons were.

MR. ROGERS: I don't think there was necessarily a reason for it. The decision seems to have been made to bring this group over, or these two gentlemen over, from Interfleisch and they seem to have gone ahead with the Telex, with the invitation, and at the time not actually got the minister's signature on the document that authorized the expenditure of funds.

I think this is brought out in the report. Page 4 I think. The bottom paragraph:

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The invitation to Dr. Steely was sent in a Telex dated August 14, 1975 (that is an exhibit 22) confirming a letter dated August 13, 1975 (exhibit 23). It should be noted that the financial assistance proposal was not given final ministerial approval until August 21, 1975 eight days after the date of the invitation notwithstanding instructions to the contrary on exhibit 14.

I think this is one of the irregularities, from a procedural point of view, that the report comments on.

MR. TAYLOR: Any further questions for clarification? If not, at this time I would like to thank Mr. Rogers and Mr. Salmon, Mr. Neufeld, and Mr. Morgan. There will now be a three-minute break. Mr. Salmon, Mr. Neufeld, and Mr. Morgan may retire if they wish to do so and the rural gas people will come forward.

MR. DOWLING: Mr. Chairman, if I might, I wonder if copies of the report could be sent to Mr. Lung, Mr. Presber, and Mr. Matthews who are involved either directly or indirectly. If you could do that, I would be most grateful.

MR. MCCRAE: Mr. Chairman, just for clarification further. Is it understood that next Wednesday at 10:00 we'll get into the report itself?

MR. ROGERS: That was the direction from last week.

MR. TAYLOR: I'm sorry, Mr. Dowling, I didn't . . .

MR. DOWLING: I'll repeat, Mr. Chairman. I'm sorry I didn't speak clearly. Could the committee see that Mr. Lung, Mr. Presber, and Mr. Matthews who are involved with this transaction one way or the other, receive copies of the report?

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MR. TAYLOR: Yes, we will do that.

MR. DOWLING: Thank you.

MR. TAYLOR: We're completely out of copies right now but we will forward those to those men as quickly as possible. Mr. Shaben.

MR. SHABEN: Okay.

MR. TAYLOR: There will now then be a three-minute, and I mean three-minute, recess while people get located in their proper locations and then we'll go on with rural gas.

Thank you very much gentlemen. Thank you members of the committee.

(Three minutes having elapsed, the committee was reconvened.)

MR. TAYLOR: Will the committee come to order, please. We will now continue with the study of the rural gas program. We have with us the hon. Dr. Allan Warrack, the Minister of Utilities and Telephones; Mr. Jim Dodds, the Deputy Minister; Doug Brooks, the Assistant Deputy Minister; Mr. Eugene Tywoniuk, manager and personnel; and Mr. Doug Hirsch, the executive assistant. At this time, I'll ask the hon. Dr. Warrack for a few opening remarks.

DR. WARRACK: Thank you very much, Mr. Chairman, members of the committee.

There were some specific questions that were posed last week that I am in a position to respond to and two or three others matters I think would be useful at the outset as we begin our review today.

First of all, I thought it might be of interest to members, because I had indicated as of a week ago Friday some 29,700 people in rural Alberta had had rural natural gas made

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available to them. The figure one week later, so we're all up to date in this review, is now 29,982. So, there's been the advancement of that amount during the course of the ensuing week.

I had noticed, Mr. Chairman, the minutes were adopted and since you were on a different topic I hated to interrupt, but there are three corrections that should be made just from a viewpoint of making sure they are accurate. I think when the final transcripts are available, these will confirm the corrections I wanted to suggest. Page 5, paragraph 4 on the first line where it reads: "Mr. Brooks replied that in the latter part of 1974 and early in 1975", those dates ought to be "1973" and "1974".

Then on the next page, page 6, paragraph 3. The first sentence is all right as it reads: "Mr. Brooks replied that his department only had written information from three co-ops involving two suppliers." But we don't really make sense out of the next paragraph. As I indicated to the committee's secretary, that's no criticism. I know it's difficult to get these technical things down in an area where people are talking quickly. But in any case, the following would change that sentence to be accurate: "Three other Alberta suppliers -- two used 3306 and one did not", because I think the direct question posed by the Leader of the Opposition was whether anyone else was involved and the answer is that there were three other suppliers. Two were involved and one was not.

Finally, Mr. Chairman, on the second paragraph on page 9. In response, relative to the future price suggestion, I recall Mr. Brooks and I had been quite pointed about indicating that to our knowledge no member of the department had discussions suggesting a 4 per cent price increase guideline. That is to say, as indicated last week, a number of the staff have been pursued but of course not all of the staff that was with the department at that time is with the department now. It's just not possible to say that no one had ever done it because you can't check with everyone. For that matter, their memories would not be 100 per cent in any case. But to our knowledge, this was not done.

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AN HON. MEMBER: I detect a slight opening of the door.

DR. WARRACK: No it's not an opening of the door. It's going from what the minutes presently say to precisely what I said last week.

MR. TAYLOR: IS that the . . .

DR. WARRACK: Yes, that's it, Mr. Chairman.

MR. TAYLOR: Before we proceed, what is your pleasure with regard to these amendments to the minutes? I think we have to have a motion . . . Moved by the hon. Mr. Farran, seconded by Mr. Butler that the changes be made in the minutes.

(Motion carried)

MR. TAYLOR: Thank you, Dr. Warrack, for bringing those items to our attention.

DR. WARRACK: Thank you, Mr. Chairman.

A specific question that was posed by the Member for Olds-Didsbury last week, and I promised to have the answer this week and I have, was the question of when was the last date that any of the PE 3306 plastic gas pipe put in the ground through the rural gas program. The answer is this: the last shipments of 3306 resin from DOW Chemical were mid-May, 1975. The resin was withdrawn from the market at that time. That was the last date that that resin from DOW Chemical was on the market. That's part of the answer.

The second part of the answer is that in the manufacturing of pipe from that resin, the last dates of manufacture of the 3306 pipe by Alberta extruders at least were during June and July, 1975. Finally, the last date of plowing 3306 pipe, that is to say, before it

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was stopped by the Energy Resources Conservation Board by way of the department inquiry with both EPCB and CSA, was July 21, 1976.

We have some additional information in two other areas by way of follow up from last week. One is, there had been a question as to what work had been done by the department to begin a determination as to how serious the problem was with pipe that there's concern about being in the ground. A gas detection survey had been done, as I indicated last week.

MR. McCRAE: On a point of order. I really apologize to the hon. minister and regret interrupting him, but as a result of last week's meeting, I made an inquiry as to whether there was litigation involving this pipe. I am advised by the Attorney General's office that in fact there is. A company called Plastex Canada as plaintiff has started an action against DOW Chemical of Canada and the Alberta Opportunity Company.

I'm also advised by the Attorney General's office that it would be inappropriate for the committee, inasmuch as this subject matter is before the courts, to have any discussion on matters relevant to litigation at all. I would conclude from that advice, that anything relevant to this pipe, as to the resin that went into it, the preparation or manufacture of the pipe, and the subsequent installation in the ground would probably be matters we should not address ourselves to in this committee.

I'm also advised by the Attorney General's office that if we do embark on a discussion in this area, it is at our peril and it may be an interference with the judicial system. Perhaps the committee would like to get a legal opinion on that. That's simply informal advice I have from the office of the Attorney General.

AN HON. MEMBER: Point of order.

MR. CLARK: Mr. Chairman, might I, in speaking to the point of order raised by my friend the hon. minister from Calgary, say that yesterday I received a telephone call from the minister who had been contacted through Mr. Dodds and Mr. Walters, the lawyer, who is involved in representing a number of the rural gas co-ops had spoken to Mr. Dodds, had spoken to the minister. I spoke to Mr. Walters yesterday. He indicated that negotiations are presently going on between the co-ops and a number of other organizations. He indicated to me that from their point of view, during this period of negotiations, they would appreciate it if we did not become more deeply involved in this particular discussion.

I raise this now because I raised the matter last week and would have to say my discussion with the minister yesterday, I indicated to the minister I would certainly be prepared to drop the discussion as far as plastics is concerned with the clear understanding from the minister that following the conclusion of the court case or the negotiations between the rural gas co-ops and the company involved, that we have the opportunity to bring the matter back before committee. I'd be perfectly agreeable to that and think that would be a reasonable approach if members of the committee appear to agree. I should perhaps ask the minister if that's a fair assessment of our discussion.

DR. WARRACK: Yes it is. I, as a matter of fact, had not inquired through the Department of the Attorney General. I didn't think of doing that as a matter of fact. But I had made a point of discussing the matter with the lawyer who is representing the group of gas co-ops that are involved. I was sufficiently concerned by his remarks that I invited the Leader of the Opposition, who had raised the matter in committee and also the Chairman of the committee, to also discuss it with them. I frankly felt not being a lawyer (T) might not be as able to outline what the pitfalls might be as someone who's close to it and working on the case itself. My thought was really -- and I was going to bring up those discussions during the course of my remarks -- some work relative to gas leak detection

had gone on which we were unable to detail last week, other than to mention that it had. It may very well be that it's better to put that aside rather than discuss the content of that and simply to mention that and finally to mention that I did contact the Energy Resources Conservation Board relative to the report on the hearing analysis they had done this summer. It will be some time before their report will be ready. They were not in a position to suggest a specific date at all.

The only other thing I would say is yes, indeed, what the Member for Olds-Didsbury has said is an accurate reflection of our discussion. It might very well be that the committee would want to put that particular part of the rural gas review aside until all court matters are concluded and then bring it before either as rural gas generally, or this particular matter within our rural gas before the Public Accounts Committee at a future date when the outcome of this is determined and would be uninfluenced by the discussions in this forum.

What the hon. Member for Olds-Didsbury said is agreed.

MR. TAYLOR: I think the point of order is well taken and it's my view that consideration of the pipe at this time would not be in the public interest. So, I'm going to declare any questions on the pipe out of order at this time. Committee may deal with it as it chooses at some time in the future. Satisfactory?

HON. MEMBERS: Agreed.

MR. CLARK: Just before we have an agreement, I would just want to make it well known to both the officials from the department, Mr. Rogers, the Auditor, and members of the committee, that it's my intention to bring the matter back to the committee once the court proceedings have been determined. I would hope we would have the co-operation of the committee to bring it back for a look at that particular time.

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MR. TAYLOR: Every member has the freedom to bring anything he or she wishes before the committee at any time. So, I don't think it necessary to give advance notice.

Okay, shall we now proceed. Did you have any further remarks, Dr. Warrack.

DR. WARRACK: No. Those were the substance of the remarks that I thought I could add by way of updating and by way of response to specific questions posed last week. That's it. We'd be pleased to answer what questions we could.

MR. TAYLOR: Thank you very much. Now the meeting is open for further questioning of the witnesses. Who wants to commence? Don't all speak at once.

MR. CLARK: Mr. Chairman, I have a number of questions that deal with one area and the reason I was a bit hesitant to start is, frankly, I'm not sure I can get them in my one question, and three supplementaries. I may be back with this on more than one occasion.

The first question to the minister: who in the department is really responsible for the overall financial well being of the co-ops. Which of your officials with you today would be best able to comment on the general, overall financial position of the co-ops?

DR. WARRACK: It's a shared responsibility, in two ways, really. Shared with the responsibility that I feel that I have with the senior staff that's involved. I might add this by way of the time frames that are involved. As far as the specific time of review of Public Accounts, namely, the fiscal year, 1974-75, during that time frame there was not the position of deputy minister of then Telephones and Utilities. The assistant deputy minister would have been the senior staff person in addition to the minister responsible. In our present organization, Mr. Dodds, to my immediate left is deputy minister. So that there is a sharing of that kind of responsibility and from that part that is the government's responsibility shared with me. But in the financial analysis mine, in the

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program as it stands presently. So that's sharing in a sense of the department's responsibility on behalf of the people of Alberta in the two time frames that I mentioned.

The other sharing that is involved is between the Department of Utilities and Telephones and the Department of Consumer and Corporate Affairs. I think that members will know that the Department of Utilities and Telephones is essentially involved in two capacities. One capacity is the technical review of proposals that are put for installation of the rural natural gas systems. Second to that, for the financial assistance by way of the grants that helped finance and pay for the installation of these systems. With that, there is a responsibility of review with respect to the ongoing financial status of the rural gas co-op, which I think is what the hon. member is thinking about.

In addition, the Department of Consumer and Corporate Affairs has a responsibility in that regard, a major one. Because the loans that are made either to the individual who can borrow a portion of his initial cash outlay or in terms of amount, much larger amounts are involved in loaning to the gas co-op on a loan guarantee basis. Of course, the repayment of those loans is the outcome of their being in a financially solid position.

So there is a sharing between two responsibilities and a sharing of that responsibility within the Department of Utilities and Telephones and certainly I accepted the final responsibility for that portion that lies within Utilities and Telephones as minister. But I certainly rely on the advice and assistance of the senior staff.

MR. CLARK: In light of the minister's answer, I might ask this question of Mr. Dodds. Mr. Dodds, have you been involved in an overall financial assistance of the positions of the rural gas co-ops. As the deputy minister, are you in a position now to give us an assessment as to how they stand, from the point of view of initial costs, projected costs of the installation of the operation as opposed to the actual costs. I don't ask you this for individual co-ops, Mr. Dodds, but some sort of overall provincial picture. I recall the circumstances of your previous involvement with AGT as general manager. Certainly the

whole financial area would be one of those responsibilities. My question really then, centers around an overall assessment of the position of the co-ops now, from the point of view of the initial construction costs, as opposed to the actual construction costs and the operational shape of co-ops in a general nature now.

DR. WARRACK: Mr. Chairman, two comments I might briefly make and then ask Mr. Dodds to join the discussion. One is the point that the hon. member makes with respect to Mr. Dodds' very rich and respect experience in dealing with a wide variety of matters that's necessary in the telephone system for Alberta, aside from the city of Edmonton, was very much in line with the kinds of considerations I had in mind in asking him to not retire, but to join the challenge of the utilities and telephones responsibilities and particularly that of rural gas. I did want to make that comment. I know all members of the committee will join me in essentially thanking Mr. Dodds for the undertaking that he so willingly is putting.

Secondly, I do know that certainly the initial estimates of the program itself, whether it's on a co-op by co-op -- I should say system by system basis, because there are some that are county systems not co-op systems and some that are sponsored by utility companies as well. But certainly the costs as they have materialized have been rather greatly beyond what was initially contemplated at the design stages in 1972 or thereabout. I think all constructions projects of any sort have shared that experience, across not just Alberta but across Canada, due to inflation and due also to some of the impact of things that were pretty to foresee. Some of the circumstances that were taken into account when we changed the financial formula for the provincial government to pay 75 per cent rather than 50 per cent for costs that reached \$3,750 per user -- that announcement was made last February -- to take account of some of the increasing costs that have come across the board. But in addition some of the special kinds of costs that are experienced due to a sparsity of population. For example, in the hon. Member for Hanna-Oyen's

constituency, some of the Muskeg terrain kinds of problems that has certainly been brought to my attention by the hon. Member for Lesser Slave Lake. Pipeline crossings such as the case at Drayton Valley and the irrigation crossing sorts of problems that in fact were brought to my attention, among others, by the hon. Member for Little Bow. Some of these kinds of costs have materialized since that time.

As to a basic review of their status at the present time, which I think is the final focus of the hon. member's question, I would ask Mr. Dodds to add some comments.

MR. DODDS: Mr. Chairman, there's no overall review of the costs. That is, an analysis of each one of the co-ops. These co-ops are coming in for grants at fairly regular intervals. On each occasion when this occurs there is an analysis made of the financial position of the co-ops. I think probably in answer to Mr. Clark's question and corroborate what the minister has said, there has been an increase, as far as I can see, in the original cost of some of the co-ops. That is, the actual costs appear to be higher than the estimated costs were. This is not in all cases. Some of the co-ops that were built in the early days of the program stayed remarkably well within the estimated cost. Since that time, of course, there has been an escalation in the cost of materials, the cost of labor and also, I think, in the engineering costs associated with gas co-ops. I have no precise figures on the overall position.

MR. CLARK: Mr. Chairman, in following along then, Mr. Dodds comments. Mr. Dodds is the department doing an overall assessment now of the position of a member of the service systems, co-ops and other groups financially. I raise the question quite frankly because in some of my discussions with some of the co-ops some real concern has been expressed about the viability of the operation of them in light of what's happening to gas prices. We won't get involved in the area that we did the other day. My real concern in raising the matter is, are there co-ops in the province who have had real overriding costs, or

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costs that went much, much higher than initially thought, that have had basically smaller hook-ups than they anticipated and who are in serious or potentially serious financial trouble today.

MR. DODDS: Mr. Chairman, I think there are one or two co-ops where the costs have been substantially higher than they had originally estimated. Where they have run into problems that were not anticipated at the time the engineers made their original feasibility studies. Some of this has been, I think, unavoidable in a sense because of the particular terrain in which they had to build these systems. It was not anticipated that they would have as much of a problem in the construction as they did have. Co-ops such as this do have a fairly serious financial problem facing them unless they get the full quota of customers signed up and burning gas. There are some of them where, I would say a year ago, there were indications that they were not going to get more people in there. But this seems to have changed lately. There is more of a hook-up and I feel a little more optimistic about one or two of the ones that I was not so optimistic about some few months ago.

MR. CLARK: Mr. Dodds, it's been my feeling from speaking to a number of people involved, that these problems are particularly more difficult let's say from Edmonton north because of terrain as you've already mentioned; because in some areas not as many hooking-up as had originally been anticipated. I would like to ask you specifically with regard to the co-op in the Peace River area and also the status of the system in the County of Grande Prairie, just where those sit now. What's happened there?

DR. WARRACK: Mr. Chairman, could I just focus on the one around Peace River. Peace River is not itself in the middle of one.

AN HON. MEMBER: It's in Fairview.

DR. WARRACK: Oh North Peace. Fine, thank you.

MR. DODDS: Mr. Chairman, I think Mr. Brooks has more up-to-date information on that particular co-op than I.

MR. BROOKS: Yes, Mr. Chairman. In the North Peace Co-op, they had, if I recall correctly, somewhere around 250 subscribers hooked-up and burning gas last year. They have increased that to over 300 subscribers at the present time and more and more customers are gradually hooking-up. They did have some financial problems during the early part of the year, due to high costs, et cetera. But these seem to be becoming overcome now. They're getting more members burning. Their revenue is increasing. Their operating cost picture and revenues looks much better.

In the case of the Grande Prairie area, originally there had been a small co-op called the Bear Creek Co-op. This co-op essentially gave up its franchise when the County of Grande Prairie was considering putting in a utility systems for all its citizens. The county late last year, decided to delay the construction of the system. At the present time we haven't heard any further as to whether the county will go ahead or whether this may revert to a member-owned gas co-op system. Discussions I understand are still taking place between the county, some members of the former co-op board and also I believe, with a utility company.

DR. WARRACK: A couple of items of information that might be additionally helpful to members of the committee. There have been a number of co-ops across the province that decided to make a decision different from the government recommendation on the amount of initial cash outlay to charge the potential customer. Members will recall the basic design

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of the programs was \$1,700 to be paid by the customer. They could get a loan on some 85 per cent on a guaranteed loan basis. Then the government would put in \$1,300 up to a \$3,000 threshold and then there is a 50-50 sharing above that and so on.

In the cases, and there are a number around the province and this was a matter of trying to have the most local autonomy, if you like, possible for decision-making by the local gas co-op, so that they were not prevented from charging less than \$1,700 initially if they made that judgment as a board. It might be helpful for members to know two things. That for ever \$100 less than the \$1,700 charged on the initial cash outlay for the potential customer, that adds between five and six cents per MCF to the price of gas, because of the additional capital amortization that has to be paid off in the price of gas. So the figures there are about five to six cents per MCF for each \$100 less than \$1,700 than was made by initially capital outlay because the money has to come from somewhere. In effect the so-called price of gas, it's also for paying off the capital amortization. The reason I make that point of additional information to the committee is that among the number of local gas co-op board that made that decision, the one brought up by the hon. Leader of the Opposition, the North Peace Gas Co-op was one of them.

I'm not sure what the exact figure is. But for example, suppose that they charged \$1,300 instead of \$1,700. Then that's a gap of \$400. So you have to take four times between five and six cents and add that on to the price of gas. Apparently that's fairly close. They charged less than \$1,300 initially, is that right?

MR. DODDS: Yes.

DR. WARRACK: So there is a substantial part of what's referred to as the price of gas that's not for gas at all. It's the consequence of the decision that was made as a matter of local board decision that we respected the argument in terms of local people being able

to make local decisions for themselves rather than necessarily being forced by the provincial government into a certain action. That was one item of information.

I thought in the case of the County of Grande Prairie, because it was brought up by the hon. member, that it would be worthwhile to mention that I've had recent discussions with the MLA for Grande Prairie for Dr. Winston Backus, to be updated on this situation. As I understand it, there were initially the development of a possible co-op, Bear Creek Gas Co-op., that later held off on its work on the possibility of the County of Grande Prairie going ahead. Like Mr. Brooks said, this has not materialized as yet.

It might be worthwhile to note that there are two of the other county gas systems that not only have gone ahead, but are going ahead on a full-fledged basis to the extent that a week ago Monday night, I attend the flaring or opening for the County of Two Hills natural gas distribution system at Two Hills. On Wednesday night, I believe it was of last week, the hon. Member for Athabasca, Mr. Appleby, went to Grassland, which is in the County of Athabasca and attended the same type of event. So those are a couple of county systems that are going ahead on a full-fledged basis.

MR. STROMBERG: Mr. Chairman, I'd like to ask the minister or the people who are with him. I believe it was several weeks ago, there was a news announcement that the engineering profession were having, I suspect, their annual meet. At that time they came down strong on some members of their association as to the type of engineering and the cost of engineering incurred with having gas co-ops. Could you elaborate on that as to what the engineering association's concerns were with the membership?

DR. WARRACK: Mr. Chairman, that's a good point. We had had -- of course we're in the course of the program itself, and I know my predecessor did as well -- a considerable number of complaints and down right concerns expressed by rural gas co-ops and others,

about the engineering work. We reached the conclusion that it would be worthwhile to discuss this with the pertinent association. So we did that and they agreed that they would like to be a part of a review within their association of the work that's done by engineers in Alberta. In addition to things that had come to them at that point, if we would assist them with information and also refer such co-op complaints and concerns to them, that they would undertake a review of the matter as a professional association. They did that. They discussed the results with us and indicated that there were some -- I believe three for sure and possibly a fourth -- firms within the engineering association that they wanted to look in further detail as to the possibility of disciplinary action. They discussed that with us, indicating this to us. We told them that we felt this was very helpful to the program, not only in terms of bringing to light any situations that ought not to have incurred, but also the preventative impact that this would have on others for the protection of the people's money and the protection of the co-op money by way of their membership so that they get the job that they intend to pay for. So this further review, in at least three possibly a fourth instance, has now begun by the association and depending upon the outcome of those more detailed reviews they may be taking disciplinary action. 1

I would like to say how much we appreciate, and I know all members of the committee will join me in doing so, that this is the kind of review and action that is proper and most worthwhile for any professional association.

MR. STROMBERG: No, I have another question completely different.

MR. CHAIRMAN: Okay, Mr. Thompson.

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MR. THOMPSON: Thank you, Mr. Chairman. I'd like to ask the department if they've had any complaints on their billing procedure and if they would mind explaining it to us and if there is a cost for this service to the co-ops and Gas Alberta.

DR. WARRACK: I'll ask Mr. Brooks to add, but I can respond to this extent at the outset and ask Mr. Brooks to add detail about that.

Some co-ops do their own billing. Some ask Gas Alberta to do it for them on a charge basis. Now, we often get complaints from customers that are directed to us, even though Gas Alberta is not involved in those billings and what they really need to do is talk to the gas co-op that is doing their own billings. In the cases that the hon. member might be thinking about, that covers his constituency, I don't know what the situation is, but Mr. Brooks might.

In the instances that Gas Alberta is requested to do the billing for a gas co-op, I believe the charge is 1.1 cents per MCF for that service. I'll ask Mr. Brooks to add and he may know the situation in the hon. member's constituency as well.

MR. BROOKS: Mr. Chairman, on the question of complaints about the billing procedures. We did have some complaints last year from a number of co-ops which were largely related to the fact that in many cases the consumers do not read their meters regularly. In those cases, Gas Alberta had to make estimates of the gas consumption. Now, as you can appreciate during different periods of the year, the consumer would use different amounts of gas. If you happen to have a case where their last reading was for example, in February and then estimates had to be taken for the next two or three months, they could quite probably get a higher reading than they actually consumed. Most co-ops have instituted the practice of going out and reading the meters themselves, if the consumers do not read them by end of say two months time. They are making a charge for this.

MR. STROMBERG: Mr. Chairman, the co-ops in my area were encountering considerable difficulty in ploughing in line where there were abandoned flow-lines left by oil companies in the early development of some oil fields back as far as 25 miles. I believe there was a loss of life incurred in a co-op in the north that hit one of these abandoned flow-lines. It would seem at that time there was a lack policy or co-operation from the ERCB as to locating these abandoned flow-lines. Has that situation been improved by the ERCB?

DR. WARRACK: I'll ask Mr. Brooks if he is familiar with the details of that. I know that for example, when I was out to the opening at Bawlf in the Egerton Gas Co-op I guess it was the day after the hon. member's trial run. Anyway I remember telling people it's nice to see an MLA doing his homework. I remember there were some concerns expressed at that time about that. I'd ask Mr. Brooks to add his present information on that matter, but it may very well be that this was an area of gap before we had the new pipeline act.

If hon. members will recall, in June, 1975 the new pipeline act was passed. I know that there were some areas that needed monitoring and inspection and whatnot in pipelines in Alberta that there was not a statutory base for. That was the basic reason for the new pipeline act in 1975. Some of these things may have been what was missing in the old pipeline act. I'd ask Mr. Brooks if he could give us additional information.

MR. BROOKS: Mr. Chairman there have been a few cases where contractors doing the installation for the co-ops have hit abandoned flow-lines or have actually hit other pipelines. I don't recall any case of hitting an abandoned flow-line that resulted in a loss of life. There was one case though, where the contractor did hit a main Alberta Gas Trunkline transmission line, where there was a loss of life. There were three lives lost in that case.

The contractor, and the consulting engineer for the co-op and the co-op itself, have a responsibility to check first with Energy Resources Conservation Board records as to the location of pipelines in particular parcels or quarter sections where they are ploughing. However, it is also up to the contractor to check with the owner of those pipelines in order to have them properly locate the lines and in some cases, expose them before they do the ploughing.

MR. CLARK: Mr. Chairman, I just have one question. Mr. Minister it has been drawn to my attention that the co-ops that do their own billing are being asked to put a bit of a statement on their bills that go out to people assuring people how they are getting the lowest gas prices any place. I'd just like an assurance from the minister that if a rural gas co-op refuses to put that on, that Gas Alberta will not cut off their gas.

DR. WARRACK: I heard the term cut off your water, but never.###. It is indeed correct that considering something on the order of \$170 million that's been committed to the end of this fiscal year in the full span of the rebate plan -- \$70 million of that this year, more if we happen to have a severe winter -- that all who are involved in providing gas to people that are the beneficiaries of this price protection are being asked through the mechanism indicated by the hon. member to put a message on so that people might know that this is indeed the case. Certainly this is the case in all the gas utilities bill, the Edmonton utilities by way of Edmonton Power, the Gas Alberta bill and the other distributors that are involved including the rural gas co-ops.

In my discussions with people in the rural gas co-ops and particularly the federation in their recent brief, was such that they felt that this was a matter of such great importance that I would just anticipate no reasonable person being unwilling to inform the citizens in that way. So I simply don't see any problem. As to someone refusing, I think that's hypothetical and most unlikely.

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MR. CLARK: I wonder if I might just simply phrase the question again, because the minister didn't answer it. I might say, in the northern part of the province, one of the gas co-ops has indicated to me that the point had been made by not the minister or gentlemen here, but an official of the department, that if the notice isn't on the bill that goes out, that they can't guarantee a continued supply of gas from Gas Alberta. I simply raise it here to say, it seems to me that all we need is a clear statement from the minister on that particular situation.

DR. WARRACK: Well, I'd certainly be pleased to hear from the people in question. If it's the same gas co-op that had been discussed a bit earlier in the Public Accounts meeting today, they may be urged to that kind of action by their MLA. But in any case, I'd be pleased to hear from any co-op that feels that the price protection to Alberta users of natural gas is not important enough to let people know about. That's of the kind of input that I'd like because we're at the position in the coming weeks and few months to make a decision on whether the recommitment of the Natural Gas Rebate Plan is in the public interest and worthwhile enough to make that major budgetary expenditure. If there are some who think it is not, then I'd be pleased to hear from them just as I've heard from those who think it is. Certainly if someone feels that the public should not be informed of that kind of price protection it is pretty easy to draw the conclusion that they feel there should not be a recommitment of the Natural Gas Rebate Plan. I would invite that representation.

MR. CLARK: I'll try again, Mr. Chairman. The rural gas co-op is east of Edmonton, way east of Edmonton, so it would be represented by one of the gentlemen who sit at the Speaker's right or should sit to the Speaker's right. Secondly, might I ask the minister to simply say that the minister would not let anybody in Gas Alberta be so childish as to

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cut off the gas to a co-op, simply because they didn't want to send out that kind of a notice with their bill.

DR. WARRACK: Mr. Chairman, I did not say that.

MR. CLARK: I want you to.

DR. WARRACK: I know what the hon. member wants. I'm sure he sensed by my initial two responses that I understand very well what he wants. I have not dealt with any situation to date and would cross that bridge if I had to. The hon. member says that no one in Gas Alberta or the minister I suppose for that matter, would be so childish as to cut off their gas if they were unwilling to assist in informing the citizens of the price protection that they are enjoying. I come right back and say I can't imagine a co-op board making a childish decision to refuse to inform the public in that manner. I'll tell them exactly that to their face.

MR. CHAIRMAN: Any further questions? If not, we have reached adjournment time. Before we do that, have we now completed the rural gas study?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: In that case, I'd like to thank the hon. Dr. Warrack, Mr. Dodds, Mr. Brooks, Mr. Tywoniuk and Mr. Hirsch for being with us.

Now a motion to adjourn would be in order.

(Motion carried)