Legislative Assembly of Alberta

The 27th Legislature
Fifth Session

Standing Committee on Energy

Department of Energy
Consideration of Main Estimates

Wednesday, February 22, 2012
6:30 p.m.

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Standing Committee on Energy

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6:30 p.m. **Wednesday, February 22, 2012**

[Mrs. Ady in the chair]

Department of Energy
Consideration of Main Estimates

The Chair: I would like to welcome everyone tonight to the estimates for the Department of Energy for the fiscal year ending March 31, 2013.

I want to remind members that you're not to touch anything, that *Hansard* operates everything, so those of you that like to push buttons, just control yourselves. I also would like to remind members to please turn off your BlackBerrys so that we aren't interrupted during this session.

Prior to going around the table, I just want to ask the minister, when it gets to him, to introduce his staff that are in the room.

So I'll begin with myself. I am the MLA for Calgary-Shaw, and we'll go this way.

Mr. Ouellette: Luke Ouellette, MLA, Innisfail-Sylvain Lake.

Mr. Lund: Ty Lund, Rocky Mountain House.

Mr. Jacobs: Broyce Jacobs, Cardston-Taber-Warner.

Mr. McFarland: Barry McFarland, Little Bow.

Mr. Webber: Len Webber, Calgary-Foothills.

Mr. Johnston: Art Johnston, Calgary-Hays.

Mr. Hehr: Kent Hehr, Calgary-Buffalo.

Dr. Morton: Ted Morton, MLA for Foothills-Rocky View and Minister of Energy. I'll introduce the people who are supporting me here: deputy minister, Jim Ellis; executive director of revenue forecasting, Barry Thompson; and acting senior finance officer, Linda Winter. The other Energy staff that are here are: Al Sanderson, the chief ADM, clean energy and integration; Dana Woodworth, chief, oil sands strategy and operations; Michael Ekelund, ADM of strategic initiatives; Sandra Locke, ADM of electricity and alternative energy; Bart Johnson, my director of communications.

Thank you.

Mr. Hinman: Paul Hinman, MLA, Calgary-Glenmore.

Mr. Xiao: David Xiao, Edmonton-McClung.

The Chair: Thank you. Welcome, all, tonight. I think we're going to have a rousing, energetic debate here tonight on these estimates. I am asked to read into the record the following instructions.

Government Motion 6 and Standing Order 59.01(4) prescribe the sequence as follows: the minister or the member of the Executive Council acting on the minister's behalf may make opening comments not to exceed 10 minutes; for the hour that follows, members of the Official Opposition and the minister may speak; for the 20 minutes after that the members of the third party, or the Wildrose Party, if any, may speak; for the next 20 minutes the members of the fourth party, or the NDs, if any, may speak; then for the next 20 minutes the members of any opposition party represented in the Assembly or any independent members, if any, and the minister may speak; and then any member thereafter.

Committee members, ministers, and other members who are not on the committee may participate.

Department officials and members' staff may be present but may not address the committee.

Members may speak more than once; however, speaking time is limited to 10 minutes at a time.

A minister and a member may combine their time for a total of 20 minutes. Members are asked to advise the chair at the beginning of their speech if they plan to combine their time with the minister's time.

As you know, three hours have been scheduled to consider the estimates of the Department of Energy. If the debate is exhausted prior to three hours, the department's estimates are deemed to have been considered for the time allotted in the schedule and we will adjourn; otherwise, we will be adjourning at 9:30 p.m.

We will begin by allowing the minister to have the first 10 minutes. But before I do that, we will of course be moving to the member of the Official Opposition. Would you like to combine time? Would you like to go back and forth? What's your pleasure?

Mr. Hehr: I would prefer to combine time if that's fair.

The Chair: That's fair. Okay. Then what I will do is I will not warn you when you hit the 20-minute increments. I'll just let the hour flow as long as you're both content with the process, okay?

Minister, if you would.

Dr. Morton: Thank you, Madam Chair. I'm here tonight to present the highlights of the Ministry of Energy's business plan and budget for 2012-2013. There is no disputing that the last few years have been challenging for everyone in Alberta, including the government. We've ridden out what I would categorize as one of the most uncertain periods of time any of us have lived through. Alberta has survived relatively unscathed when compared to other places and other provinces, and for that I am thankful.

Our economy continues to grow, and my ministry's plan and the budget for the next 12 months were created on the premise that that growth will continue. That growth, as always, will be managed in an environmentally responsible manner. My ministry's forecasts are consistent with private-sector forecasts and are lower than private-sector average forecasts in certain cases. Royalty incentive programs remain in place as the government continues to ensure that Alberta is competitive and a place of choice for investment.

The increase in revenue from bitumen is forecasted to be much higher because it's expected that 13 projects will reach payout over the next two to three years, which translates into double or even triple the royalties from those projects. Also, the differential between bitumen and the price for west Texas intermediate has narrowed and is expected to continue to narrow as the demand for bitumen increases.

My ministry has also reduced revenue expected from land sales by more than $1 billion because we know that last year's record-breaking total will most likely not be duplicated.

Turning now specifically to the ministry's budget, the operating spending for the Ministry of Energy for 2012-2013 is budgeted at $539 million. This is a $123 million increase, or a 30 per cent increase, over the 2011-2012 forecast. Of this approximately $539 million, $313 million is allocated to the Department of Energy; $187 million is allocated to the Energy Resources Conservation Board, the ERCB; and $39 million is going to the Alberta Utilities Commission, the AUC.

Spending for the Department of Energy for 2012-13 is $313 million, an increase of $110 million from the forecast spending of $203 million for 2011-2012. This increase in funding for the ministry reflects an increase in the carbon capture and storage spending, the CCS spending, a change in the bioenergy program, increased compensation for employees, and efforts to reach the Pacific Rim and other markets. The ERCB is funded by government and industry, and the AUC is funded entirely by an industry levy.

Market diversification. This year's plan and budget reflect one of Premier Redford's top priorities: diversification of our export markets. To ensure that our province remains economically competitive and Albertans continue enjoying the prosperity and high quality of life that comes with living in Canada's energy province, we need to expand our customer base for oil and gas products. The government of Alberta has a permanent interest in selling its fossil fuels, and as such it needs to have more than one permanent customer. The United States has been our closest neighbour and best customer for decades, but we all know that no business is truly successful relying on just one customer. There are growing economies thirsty for energy, like China and India, with whom we need to pursue long-term commercial relationships.

Alberta Energy supports industry efforts to increase pipeline access to the west coast. The Northern Gateway pipeline, which is proposed to run from near Bruderheim to Kitimat, British Columbia, is currently undergoing a National Energy Board hearing. It is important that Alberta Energy participate in these hearings, which started in January and continue through next year, with the NEB decision expected in 2013. To this end, my ministry is committing $1 million to enhance our role in these hearings and to make sure that Alberta's case is made.

My ministry is also committing $2 million as part of the government's overall strategy to pursue new markets, market diversification. The funding will help Alberta Energy to develop a competitive strategy and expand trade and investment for energy products, services, and technologies. Asia will be a major focus of this work, but the ministry will also pursue opening additional markets into the United States and elsewhere.

There's also a change to the bioenergy grant. Alberta Energy will be continuing the bioenergy grant program, but it will be modifying it to reflect a greater focus of using agricultural and forestry waste as a feedstock rather than cereal grains. The bioenergy credit producer program will continue to attract and sustain investment in production capacity for other bioenergy products, including other sources of renewable ethanol. This change to the bioenergy grant is still a work in progress. The total financial impact has not been determined, but there will be a savings to government.

Starting in 2013 and 2014 we will be reprofiling the bioenergy grant program to reflect the greater focus of using agricultural and forestry waste as feedstock rather than cereal grains. This will result in a savings of $92 million over five years. I expect these changes may result in some complaints, but we think they're justified. They are changes that make sense because continued encouragement of bioenergy production will help reduce our carbon footprint while helping to ensure regional economic stability and create value-added opportunities for other bioproducts.

6:40

Salaries are another growth component in our budget. The Energy budget shows an increase of $9 million for salaries. All ministries, including Energy, require an increase in funding to accommodate increased salaries and compensation cost for both union and non-union employees. The Alberta Union of Provincial Employees contract provides for salary increases beginning in April for union employees. The Energy Resources Conservation Board is the government's arm's-length regulatory body. It requires $5 million for salary increases and $7 million for maintenance of current service levels and increased accommodation cost.

Turning to carbon capture and storage, the Alberta government continues its commitment to carbon capture and storage, or CCS. Approximately $1.5 billion of the $2 billion initially committed has been committed to three projects. Negotiations continue with proponents for a fourth project. Collectively these projects will begin injecting 5 million tonnes of CO_2 annually beginning in 2015. For two of the three projects we have signed grant agreements and have also qualified for federal funding. The federal program is designed so that the projects access that funding first.

Turning to resource revenues again, the department's nonrenewable resource revenue forecast considers many factors when being developed, including supply and demand, world economic growth, and non-OPEC supply growth. Resource revenue budget sensitivities change from year to year as they are based on price, production, and a number of other factors. As shown in Budget 2012, the budget projections for oil prices and the exchange rate have risen compared to Budget 2011, but the projections for the gas price have decreased. Forecasting prices in a market as volatile as oil and gas is challenging, and the Department of Energy makes assumptions on factors such as economic growth, demand trends, and expected supply levels. The forecast is compared to forecasts made by a number of other industry analysts, private-sector analysts, including banks, investment dealers, and forecasting agencies.

As Budget 2012 shows, our price forecasts are approximately equal to the average of other forecasts. Budget 2012 assumes that natural gas prices for the coming budget year will average $3 per gigajoule and that oil prices will average $99.25 U.S. per barrel of west Texas intermediate crude oil. Budget 2012 estimates that nonrenewable resource revenues will be slightly lower in 2012-13 than in 2011-2012 as land sale revenue is expected to fall significantly from the record-breaking activity in Budget 2011-12.

Resource revenue is forecast to decrease by $79 million, or .1 per cent, to $11.2 billion in Budget 2012-13. It is forecast then to start growing to $13.3 billion by Budget 2013-14 and continue to grow to $15.9 billion by Budget 2014-15. The growth in 2013-14 and 2014-15 is based on projected global economic growth, which is expected to boost both demand and oil prices. Bitumen royalty is also expected to increase as more projects come on stream. Between 2013 through 2015 it is expected that a number of projects will reach payout, and bitumen royalties are forecast to increase materially.

To conclude, this business plan and the budget strike the right balance and strive for economic diversification as we maintain our commitment to environmentally responsible development.

Thank you for the opportunity to share this with you this evening. I'll now be happy to answer any questions you may have regarding our business plan and budget for 2012-13.

The Chair: Very good. Within 15 seconds. Excellent.

We will be turning the next hour, as I said before, over to the Official Opposition. Mr. Hehr, it'll go back and forth unless you let me know you want something different than that. Thank you.

Mr. Hehr: Well, thank you very much, Madam Chair, and thank you to the minister and his staff for coming this evening to answer some of my questions I have around your ministry, its future direction, and the role government can play in making sure that we both sustain an industry as well as do our best to recoup funds on behalf of the Alberta taxpayer.

I guess on that first topic, from my perspective, one of your ongoing roles is – and I'm sure you guys do this, but I'd like to hear more about that – how we continue to balance our competitiveness with our royalty rates while making sure that Albertans, for lack of a better term, are receiving fair revenue for their resources that we sell.

As the minister knows, I'm fond of getting my research from the newspapers. There was an article today in the newspaper that at least one institute here in Alberta still considers our royalty rates relatively low in comparison to where they should be. I'd just like to hear the minister's and the department's thoughts on both the process of their monitoring and whether there are any plans in the works. I know these things are always very difficult politically to do, and they have fallout and the like. I appreciate the difficulty – not the difficulty of my question. But I'd just sort of like to know about that ongoing process.

Dr. Morton: Thank you. I think you posed the correct question. It's about striking the right balance. Natural resources, including all oil and gas and hydrocarbon resources, belong to the province of Alberta, which means the people of Alberta. That means that when we allow commercial development of those, we want to make sure that we get a fair apportionment of the revenues that come out of that. At the same time, it's obviously critical that we – Alberta is not the only place in the world or even the only place in Canada that has oil and gas, and if we have royalty rates that are too high or uncompetitive, the people that invest to pay for oil and gas can take their capital and go elsewhere. We've had the unfortunate experience of having seen that in the recent past.

In terms of trying to strike the balance, I will tell you that we think our royalty system has struck the right balance. The indicators of that would be both the level of activity showing lots of investment coming into the province but also very significant revenues to the Crown, which is to say to the people of Alberta. The Canadian Association of Petroleum Producers are projecting that capital expenditures in oil sands projects alone are expected to be $20 billion this year, up from an estimated $19 billion in 2011. That's already more than half of the average level of investment during the last decade. So you can see an acceleration of capital investment into the oil sands.

With respect to the nonconventional side I don't have the figures for capital investment, but what we do have are the figures for land sales for the budget year we're just completing, which is budget '11-12. If you go back to the original budget number for land sales, it was around a billion dollars this year, and now at third quarter that forecast is up to, I think, $3.3 billion; in other words, three times greater than what we anticipated about 12 months ago. The interesting thing about that is that increased land sales are not being driven by oil sands per se. They're being driven by the new resource plays, the so-called tight oil and tight gas plays, of which Alberta has great opportunities. We've seen some of these exploited successfully south of the border in the last decade, and now that same technology of horizontal drilling and multiple hydraulic fracturing is unlocking that here. Land sales are a precursor to the exploration and production that will come next. Certainly, we're very competitive based on those.

In terms of royalties I would report, unhappily, that gas royalties are way down both because volumes are going down and the price is going down. When I look around the room here, I see a few other people that were elected the same year I was, 2004. The first year we were MLAs, gas royalties by themselves were $8 billion. Our total royalties from nonrenewable resource revenues this year are – what did I just say? – $11 billion. Just in gas alone we had $8 billion in 2005. That's down to about $1 billion now, a reflection of what's happened in North American shale gas.

6:50

Conversely, the new workhorse of the royalties is clearly going to be bitumen and the royalties from bitumen. The forecasts for that, as I said, have grown dramatically, in part because you're seeing a number of oil sands projects moving from the prepayout royalty range, which is 1 to 9 per cent, to the postpayout royalty, which is 25 to 40 per cent depending upon variables. I hope that gives you a sense.

Mr. Hehr: It does. Obviously, capital investment goes where they can make money. It's good that they can make money there, but it signals to me, or would signal when there is a large capital investment, that we should ongoing be reviewing the return to the Alberta people, like you said, the owners of the resource. I'd like to know whether there's an ongoing process in that.

I guess, then, my further comment might be naive as such. Given that many of these organizations are completing payout and once they complete payout their operations are pretty much set in stone for some period of time, is there a review to then look at the structure of that industry and a reasonable rate of return on the bitumen that's essentially coming out for an established project? It gets easier to run an established project than when it is starting out. Are there any parameters in place?

I also note – sorry; I'm getting all this out at once. Maybe you could highlight to me. At one point in time under Lougheed – say what you want; it's a new era, a new day, and things can't remain static – we were collecting around 40 per cent of resource revenue, at least if you can believe what some people are saying, and now we're in the lower range. How are comparators made across the world? Are they made compared to other places? If you could just comment on what your department is sort of doing in those regards.

I've spoken. You get the flair of where I'm going.

Dr. Morton: Maybe I'll take a minute to talk about the oil sands royalties specifically because they're a bit complicated, and I think Albertans would appreciate sort of a Coles Note on those. As I said earlier, there's a sliding scale used both for the prepayout and postpayout. The prepayout royalty rate ranges from 1 to 9 per cent, and the postpayout is 25 to 40 per cent. I'll elaborate on both of those.

The prepayout means prior to a project's payout. That's the point at which the developer has recovered all allowed cost plus a return allowance. The base gross royalty starts at 1 per cent of revenue – that's 1 per cent of revenue – and increases for every dollar the world oil price grows as reflected by west Texas intermediate for every dollar that is priced above $55 per barrel to a maximum of 9 per cent when oil is priced at $120 or higher. So that's the sliding scale. It moves from 1 per cent to 9 per cent as the WTI price moves from $55 to $120.

Now, when a project hits payout – in other words, when there has been the recovery of allowed cost for the capital construction of it – royalties are the greater of, again, the 1 to 9 per cent of gross revenue, the prepayout formula, or 25 to 40 per cent of the project's net revenue, whichever is greater. Okay. That's clearly to the advantage of the Crown, which is to say Albertans. The net royalty starts at 25 per cent and increases for every dollar oil is priced above $55 to the 40 per cent when oil is priced at $120. Again, the same thing. As WTI moves from $55 a barrel to $120 a barrel, the royalty rate moves with it from 25 to 40 per cent.

As I indicated before, as of December 1, 2011, there were 54 projects in postpayout status, and we anticipate an additional 13 projects to reach postpayout status by 2014, which almost single-handedly explains the rather significant surplus of the overall provincial budget that's projected for that year, which I believe is in the vicinity of a $5 billion surplus. If you look at the revenue page of the provincial budget, that increase is almost all coming out of bitumen.

Mr. Hehr: Let me ask. In talking to people we get, shall we say, burned on using often the differential between WTI and Brent here. Is that, then, the right metric to be using when we're basing our royalty revenues on it? The fact that we have one customer there is squeezing – they only have to pay one price, and I understand that when we get a pipeline eventually, allegedly that differential is supposed to be coming down, but if we have the one customer who wants to pay one price, why wouldn't we select a different measure?

Dr. Morton: The hon. member is correct. Certainly, recently there has emerged in the global markets a fairly significant spread between the North American price, which is usually measured off WTI, west Texas intermediate, and the international price, at least in Europe and the Middle East, which is the Brent price. That difference has varied anywhere from a low of $10 to a high of $20 over the past 12 months. That's a disadvantage to all North American producers and, certainly, to western Canadian and Alberta producers, and it's one of the reasons why Premier Redford but also Prime Minister Harper and the government in Ottawa and our government have put such a high priority on these export pipelines.

If Canada is going to be a global energy superpower, it has to sell our energy at global prices to global markets, and that means getting it to tidewater and getting it shipped. So that's, I'd say, one of the most important mandates that I have and that our ministry has and one of the highest priorities of, certainly, the government of Alberta, but I think it's one of the highest priorities of the government of Canada right now as well. It's nice that Alberta and the feds are on the same page for a change.

In terms of which one we use as a measure, though, we have to use the WTI measure because that's the market we're in. For better or for worse, we're in the North American market, so I think that explains that.

If I could perhaps go back to your earlier question, I would just add that I think it's fine for university professors or columnists to speculate and run different models on what different royalty rates might mean and whether or not – I mean, ideally what you want to do is extract the highest royalty possible as long as it doesn't deter investment, right? But the curve breaks at a certain point.

As I said, it's fine for economists and columnists and all of that to do that, but for governments a big part of the financial stability and health of the energy industry is based on investor confidence, and if you play around too much with royalties, you destroy that confidence.

Again, in the fairly recent past we had a not-very-pleasant experience of loss of investor confidence. I think the changes that we made in 2010 have won back that confidence in a significant way, and certainly it's very much the belief of the government today that we do have the royalties right, and we don't intend to revisit them any time soon, particularly the fact that our royalties go up as price and volume go up, so Albertans get that advantage.

Mr. Hehr: I would agree with you. Right now is not the time to raise royalties given what we've gone through, but I guess let's also be clear that – and I think we've recognized this – it's an ongoing fiduciary responsibility of the government to at some point in time look at these things and to go from there.

If we even go back, has your department done an analysis as to how much of the, quote, loss of jobs here in the province was due to the world international crisis as compared to our royalty change structure, which there are arguments on? That would be one of them. We would probably say that the world economic events and driving oil down to $37 at one point in time and the continued finding of shale gas and natural gas plays all around this world have had a much more dramatic effect on things in our industry than what the government did in 2008. Have you guys done an internal examination and come to any conclusions?

7:00

Dr. Morton: I've read both internal reports and also lots of industry reports as well that try to separate out how much of a factor the global recession that started in 2008 was and how much of a factor the initial attempt at royalty change that started in 2008 was. Frankly, it's methodologically almost impossible to sort out which is the greater cause or how much is caused by one and how much is caused by the other because you don't have a comparator. If you're trying to make fancy political speeches, I guess you can blame it on royalties, but it was both factors.

Mr. Hehr: That's fair.

If we talk sort of about that time frame, you said that we lost investment to other jurisdictions. Do you guys know where we lost that investment, what jurisdictions those were?

Dr. Morton: Well, we know that on oil Saskatchewan was more competitive, and you saw a number of rigs move to Saskatchewan. We know that on gas B.C. was more competitive, and you saw lots of rigs move across the border into the Horn River area of British Columbia. You also saw lots of rigs go south of the border as well. Most of the major drilling companies and service companies based in Alberta now have at least half of their fleet in the United States because at the same time that things slowed down here, south of the border you had the beginnings of what has turned out to be this shale gale, the shale gas revolution.

Lots of those wells were drilled by Alberta companies, and the hydraulic fracturing was done by Alberta companies. Similarly, the big Bakken oil play, which, again, is a tight oil play in North Dakota, has extensive Canadian, which usually means, for the most part, Albertan rigs and service companies working there. I think that in the past decade they've taken production from something like 10,000 barrels a day to 500,000 barrels a day. Again, that's one of these new tight oil plays, a resource play that we would hope to see replicated in both Saskatchewan and Alberta in this decade.

Mr. Hehr: Well, the new plays you can't do anything about, and I understand that.

Let's talk about our relationship with B.C. and Saskatchewan. Now that we have a New West Partnership, we have pretty decent relationships with B.C. and Saskatchewan. Has there been some contemplation in order that we're not in a race to the bottom against each of us to say: "Let's co-ordinate our royalty rates. Let's avoid what happens. Let's do what's best so that we're not constantly trying to undercut each other. Let's find a reasonable and responsible way to go about this and to develop that." We share pretty much some of the same base anyway. Maybe things are different, but from my view that might be worth exploring.

Dr. Morton: Let me talk about some of the things we are doing and sharing under the New West Partnership while my staff perhaps give me something specifically on royalties. The one area where very specifically we are co-operating with British Columbia and Saskatchewan is on the appropriate environmental regulations and safeguards around this horizontal drilling and multiple fracking and, particularly, the focus on both underground aquifers and disposal of surface waters. Alberta actually has the lead on that. Both the deputy minister and at least one of the ADMs from the government of Alberta are meeting and are in contact on a regular basis with their counterparts in B.C. and Saskatchewan, working out what I'm telling them has to be a world's best practices regime, certainly, in Alberta because we're going to see lots of this new tight oil and tight gas, the resource plays. That's the new game in Alberta.

We all know – I look around the room tonight, and I see there are a lot of rural MLAs here – that in Alberta water is a scarcer resource than hydrocarbons, than oil and gas. So whatever we do in oil and gas development cannot be at the expense of either the quality or quantity of our water. This is going to be a challenge in the next decade, and Alberta is taking a lead but working in conjunction with our New West Partnership colleagues in Saskatchewan and British Columbia.

With respect to royalties at the moment the focus is mainly on sharing information. None of the three jurisdictions want to get into what you aptly called a race to the bottom. There's an interest in being competitive but also in having robust royalty rates because in Saskatchewan and British Columbia they have the same desire to maximize returns for the citizens of those provinces but, again, staying competitive not just with each other but also with the United States and elsewhere. So information is being shared, but there's not the same degree of collaboration that we're seeing on the environmental side.

Mr. Hehr: I put that out to you that maybe it's something to explore, and I leave that to you and your department to give it the consideration it does or doesn't deserve.

If we could just talk a little bit here – and this is just more of a philosophical conversation I have with my father more than anyone else. You're not my father, but you know quite a bit. [interjections] There you go. So just engage me a little bit here. Why does every national oil company in the world come here and set up shop?

Dr. Morton: Right now Alberta has the third-largest proven oil reserves in the world, so there's a lot of hydrocarbon here. Until recently we thought all of that was oil sands oil, or almost all of it, but now with these new resource plays it's both. So that's the beginning of an explanation, but the real explanation is that of proven oil reserves in the world, 80 per cent are off limits to, let's call it, free-market exploration and development. In other words, they're the exclusive reserves of state oil companies in places like Iraq, Iran, Saudi Arabia, Venezuela, Mexico. That means that only 20 per cent of the world's reserves are open to, let's call it, free-market exploration and development. Of those, almost half are in Alberta.

So it's not by accident that there's so much international attention and so much international investment in Alberta and that you see both Calgary and Edmonton and all the communities that are in proximity to prospective areas very, very busy these days.

Mr. Hehr: Okay. I thought the answer was going to be more obvious than that, that it's to make money. Would you agree that that's why these national oil companies are coming here, or is it to secure supply or something like that? At least in my view, we're in charge of our pipelines. We're in charge of all that stuff. They don't dictate to us where the supply goes.

7:10

Dr. Morton: Well, sure. By definition all private enterprise is geared towards making a profit and paying dividends, paying its employees, and also, hopefully, making a profit for shareholders.

Mr. Hehr: Well, how many national oil companies do we have here in Alberta right now? Foreign jurisdictions here in our oil sands.

Dr. Morton: Off the tops of our heads we're thinking between 12 and 18.

Mr. Hehr: Twelve to 18 national oil companies here.

Dr. Morton: Maybe 12 to 15.

Mr. Hehr: And we can agree that they're sending money home to their – they're doing it to make money for their citizens, to help them pay the bills. Is that fair?

Dr. Morton: Yes. They're also paying royalties here, employing Albertans here, keeping Albertans at work.

You know, I have a background as a university professor, and it's hard for me to resist going into a little bit of history, but there isn't today and there never has been enough capital in Alberta to develop our resources. Right from Leduc No. 1 our friends in Toronto and Montreal weren't interested in investing in western oil because they could get that cheap stuff from the Middle East. So right from day one it's been outside capital that's come in and helped to build the modern Alberta that we enjoy today.

Mr. Hehr: I appreciate that fact.

Dr. Morton: I know you do.

Mr. Hehr: And I'm not going that way. I'm going another way here, so you've got to keep up, Ted.

Dr. Morton: You're so young, and I'm so old.

Mr. Hehr: It's not quite that.

It would behoove me that if all of these national oil companies are coming here making money after they pay out their royalty – you know, I think it was a great tag line: we're out of the business of being in business. But after that, I don't know if it was as good as we thought. We don't even have to put a company together. Why don't we just say, "Keep some of these royalties; we're going to take an ownership position with you in some of these projects"? If all of these national oil companies are doing it, are they so stupid? Are we so smart? Why are there not some Alberta people having a stake in some of these things?

Dr. Morton: Well, we obviously think that resources or, actually, most activities are done more efficiently and more effectively by the private sector than by government. You've been here in Edmonton not quite as long as I have, but I think most of the people on at least this side of the room tonight would agree that the longer you're in Edmonton; the less you're confident in government doing it well, the stronger that sense becomes.

I think that, you know, we have had the experience of Petro-Canada, right?

Mr. Hehr: How about the experience of the Alberta Energy Company? That was very successful.

Dr. Morton: Well, touché. So we've had positive experiences and negative experiences.

I would point out that the key resource driver in the last decade in terms of investment has been the oil sands. I know that you're aware of our BRIK program, the bitumen royalty in kind program. For those Albertans who aren't familiar with it, it means for the companies in the oil sands that are developing the oil sands and mining bitumen that instead of paying their royalties just in cash, they pay part of them in bitumen. So it's what's called bitumen royalty in kind, or the BRIK program.

That, in turn, has allowed us, that is the government of Alberta – in fact, a branch of the Ministry of Energy called the Alberta Petroleum Marketing Commission, APMC, manages that, and it's the BRIK program that then has created the incentive or the opportunity for companies that want to do merchant upgrading of bitumen in Alberta to be assured that they can have the 30-year supply of bitumen that they would need to justify building a $4 billion or $5 billion or $6 billion facility, because that's what these upgraders cost. Nobody is going to build a $5 billion upgrader if they think they're going to have to depend on Suncor or one of the other operators to get their bitumen, right? So we can guarantee that.

Again, I think you're aware that we are in a type of P3. Public-private partnership doesn't quite capture the nature of the partnership, but we are in a partnership with North West Upgrading, CNRL, and the government of Alberta, the Crown, to build a very substantial upgrader in Redwater, Alberta, just northeast of Edmonton.

Mr. Hehr: Okay. And we'll get to the BRIK program here if I have time.

Still the national oil companies are here making money, sending it back home for their people to use. They're not here losing money. Okay? We don't even have to, like I said, start up a company. Is this government at all looking at some possibilities to take a small partnership/ownership position with some of these other national oil companies who seem to be making money, some of our local people? We don't even have to put up the capital for it. We just say that we'll take it out of the royalties.

Dr. Morton: Well, you're aware, I believe, that about four years ago this government created the Alberta Investment Management Corporation, or AIMCo, which manages the investments of both the Alberta heritage fund and also almost all of the public pensions in Alberta. That's a total of about – I haven't checked recently. At one point it was close to – do we have a figure? – I'm guesstimating, around $80 billion. Their fiduciary duty is to invest that money in ways that are fiscally responsible that maximize returns both for the pension funds and for the heritage savings trust fund. I think that if you looked in those portfolios, you would see some investment in oil sands companies and service companies.

Mr. Hehr: Okay. So as of now your industry doesn't look at the idea, entertain the idea, or even think it's possibly an area where the Alberta people could be successful at venturing into despite the rhetoric that we're not in the business of being in business. That's a great tag line.

Even your comments regarding BRIK – now, my friends the Wildrose have noted that it's essentially the government guaranteeing a bunch of stuff. If one wants to pursue the argument long enough, you could get to the fact that the government is back in being in business. Obviously, to serve a political end, we're going to upgrade some more oil here as well to hopefully make a buck for the Alberta coffers and to bring down that WTI-Brent spread when it goes across the border.

Dr. Morton: Well, I guess I would say that our government has struck the right balance. You'd like to see us more involved in the business of business when it comes to oil and gas, and I think our friends in the Wildrose would like to see us less involved. Our view is that we've struck about the right balance.

Mr. Hehr: I think my balance is that I want to maximize revenues in this province while we can do it.

Dr. Morton: We want to maximize revenues, too, but always keeping in mind that those royalties have to be competitive. Actually, if you pay attention to global oil and gas markets right now, much to the dismay of certain parties the global supplies of both oil and gas suddenly seem to be increasing, not decreasing. You have major new oil discoveries off the coast of Brazil, major new gas discoveries off the coast of Israel. At higher prices new technologies become feasible, and new technologies are unlocking all sorts of hydrocarbons that before were thought to be too expensive to extract. Alberta is a really important place on the global energy map, but we're not the only place.

7:20

Mr. Hehr: I guess I'll turn to the BRIK program as to where it goes and the building of upgraders in Alberta. I realize these are hugely expensive operations and that the economics for private industry to go in and start these upgraders are, I think, at least from the people I talk to, somewhat specious. Simply put, there's the upgrading capacity down south, and it's cheaper to ship it and refine it down there. I get that. The other side of me – it's never an easy answer – says: what the heck do I care about American jobs and American refining and the whole thing on that front?

So from a building Alberta concept there are people who say that we should build the industry here, refine it here, and do all that stuff, and make an integrated industry out of it. Now, as I'm caught in the middle here, you know, I don't know if that's the best way to go. Okay? I'd like to hear your comments on that. Then I'll ask a follow-up question to that. One of the ways I've had suggested to me that may be easier for all parties involved may or may not be valid, but I'd just like to hear your comments on it.

Dr. Morton: Okay. First, I might just go back to a previous question. I have for you now nine different foreign nations that have state companies that are involved in one way or another in Alberta now. That would be China, the United States – the United States is still far and away the largest – Norway, France, Thailand, Japan, Korea, Netherlands, and the United Kingdom. That's nine. That's a lesser number than I think I indicated.

With respect to upgrading I'll begin by repeating what I said a moment ago, and that is that we would like to see more upgrading done here. That's why we have the BRIK program, and that's why we've entered into the partnership with CNRL and North West for the Redwater upgrader. Again, I guess we'd like Albertans to know that it's not just a straightforward upgrader. It also is being designed and built to have carbon capture and storage, and that carbon then is going to be used for enhanced oil recovery, which is a technique by which the carbon can be pumped down into older fields that have stopped producing because of lack of pressure, and the CO_2 then can force that remaining oil out. So a real opportunity to increase production in some of the older fields nearby.

At the same time, North West is not just an upgrading facility. It's also going to have a refining capacity and is going to make diesel. We think it'll be a key player that by mid-decade makes sure that we have very ample diesel supplies for Alberta, which, I'm sure all the opposition parties know, has been a sore point in September and October, the harvest months, in the last couple of years.

Having said that, you were also right in saying that the economics of upgrading are very, very difficult. There's lots of underutilized upgrading capacity down in the States right now. They already have it built. Anybody who builds it here, obviously, is at a competitive disadvantage. Even building new upgraders here is going to be much more expensive. Our upgraders have to be built to withstand the extreme temperatures that we have, minus 40 or wind chill even worse. That doesn't happen in the Gulf. Labour here is much, much more expensive than in the Gulf. All of those contribute to making the economics of upgrading much more difficult here, at least at the moment.

Again, for your benefit and maybe the benefit of anybody that's listening or checks out *Hansard*, there is a very excellent piece of analysis done by Professor Andrew Leach, who is an energy economist at the University of Alberta. It's on his blog. I forget the URL for the blog, but if you google Andrew Leach, University of Alberta, department of economics, it's only about a seven- or eight-page piece that goes into much greater detail about the difficult economics of upgrading in Alberta, at least at the present time.

Mr. Hehr: I know it's a political speech for your party, for my party, for every party to say: we're going to upgrade in Alberta. If you look at the numbers, everyone in Alberta will say that that's a great thing. But at the end of the day is it fair to say that without government guarantees on some loans, without guarantees on bitumen, without being an avid player, we're not going to see private enterprise go forward on that basis?

Dr. Morton: Guarantee is technically not the correct word, but certainly government support and risk sharing is a correct analysis. That's the nature of any P3. On this one – again, P3 doesn't quite capture the nature of the relationship – the deal is structured in a way that there's a sharing of benefits and a sharing of risks, that we think is prudent. Again, to repeat myself, in addition to providing the upgrading, the North West project also has the purpose of doing enhanced oil recovery, which, if the projections hold true, will more than pay for itself with then the additional benefit of diesel refining, addressing some of the diesel shortages that we've experienced during the fall harvest season the last couple of years. I'd say it's kind of a special deal. I would also agree that, yeah, we're sharing risk.

Mr. Hehr: Sharing risk. We've got our baby toes in the business of being in business.

Dr. Morton: Well, probably not enough for you, but probably way too much for the gentleman over here on our right.

Mr. Hehr: I agree. I hear you.

You know, one of the arguments of having upgrading here is employment, but if I look at the way the projections are, we don't really have an employment problem here. We need a hundred thousand people either from out of province or, most likely, out of the country to serve our employment needs. So building upgrading for employment doesn't really hold a lot of water with me, actually, anyway, because we have full employment. You know, whether they're better jobs or not, I guess an argument could be made at some point. In fact, I don't quite see it always that way.

The thing that would drive me is revenues, but there may an easier way to actually capture revenue. I'm going to go on a little bit of a sideways rant here.

Dr. Morton: That last point you made is exactly the point that Professor Leach makes sort of at the end of his analysis. Yeah, the government of Alberta can get involved and share that risk and spend some money, but you have to ask if that's the best way to spend the money.

Mr. Hehr: Yeah. Then you've got government capital fighting against industry capital, raising costs elsewhere and the whole thing. Although I'm not an economics major, I do understand that it does have its ramifications.

If you look at things, you know, the technology may change. We can probably pump oil out of the oil sands, if technology doesn't change or the like, for 300 years; that's what they say. But, in my view, that time frame could be much shorter. It could be as short as 45 years. When the world's ingenuity puts itself to something, when a change happens in the marketplace, when something else is used to substitute for oil and gas, things can dramatically change. So in my view the next 45 years are of significant importance to the Alberta people, more importantly, to save some of this resource. I'm not talking of saving a little bit. I'm talking about trying to develop a Norway-size fund, probably greater with the amount of bitumen coming into our coffers or royalties coming in, to have for the future. So that's where the revenue side comes in.

7:30

With our bitumen – there's a method to my madness; stay with me – largely being refined down south, we charge the royalty rate on what the product is that leaves. They then get an uptick on the refined product.

You have the ability as the government to say: "Hey, we recognize there are economies of scale down there and the like. We'll do our part and stay out of your way and allow you guys to upgrade this stuff, but you're going to pay for the privilege of those jobs staying in the business. You're going to pay on not the full royalty rate of what the refined product is but on some type of measure that recognizes that, hey, we're letting you guys do this. We're staying out of your way, but we have an obligation to recover what royalties or revenues we can."

This may be a way to do it without having the government muddy the waters, getting into building upgraders, letting the industries decide and taking a middle ground, saying: well, we're just going to tax the stuff at the border.

Dr. Morton: Maybe I haven't followed you, but you've lost me a little bit. I thought a moment ago you were saying that you recognized that upgrading wasn't – the economics were difficult. Now you're saying that we should be doing it to get the value of the jobs.

Since you brought up the question of the Norway resource fund, I can't resist using the opportunity to point out that, yes, the heritage savings trust fund is only around $14 billion right now, which is certainly nowhere near where I think any of us would like to see it.

The last time I counted, since 1970 the amount of money transferred net out of Alberta in equalization and transfer funds is over $300 billion, so if we took that and kept it here, in fact

Alberta would have a heritage savings trust fund that was pretty darn close to Norway's.

Mr. Hehr: Well, that's not going to happen. You know that and I know that.

Dr. Morton: It's not going to happen.

People always say: why doesn't Alberta have a heritage savings trust fund like Norway? Well, Norway doesn't have an uncle in Ottawa that keeps scraping things off.

Mr. Hehr: Well, as the hon. Member for Edmonton-Riverview pointed out in debate, we were a have-not province until 1947, and that day, too, could come again. Let's be careful of being so, I guess, happy about our prosperity.

My argument on the revenue side was – sorry; I got lost in a whole bunch of tangents, so I understand why you might not have followed along. I understand why it may not be in our best interest to build upgraders here. We don't have a problem with employment, so I don't see the need to drive it that way. I do see the need for us to maximize return to the Alberta people, okay? We've referenced the difference between WTI and Brent and the difference between when bitumen leaves this province and when it's refined as a better product at the end. They get more money for that refined product, sometimes in large-scale fashions.

Why wouldn't we just say: "Hey, the market is going to decide, but we're going to maximize revenue. We're going to tax this stuff at X rate of the refined product going out on any day." That doesn't seem to be that unreasonable a solution.

Dr. Morton: Well, the hon. Member for Calgary-Buffalo never took my constitutional law course at the University of Calgary.

Mr. Hehr: That's not true.

Dr. Morton: It's not true?

Mr. Hehr: No, I don't think I did. I might have taken another course.

Dr. Morton: A lot of your friends did. But if he had, he would've studied back in the energy wars between Alberta and Ottawa in 1980-81. The final solution to that that was hammered out, section 92(a) of the Constitution Act, 1982, is that is Alberta is recognized to have complete and exclusive control of natural resources. That was Premier Lougheed's victory. But in exchange for that, there's a clause in there that basically prohibits export taxes. No province can levy a tax on a product that's leaving the province that isn't also levied inside the province. So you have that issue. Also, with respect to the United States if you look at the energy clause of NAFTA, the North American free trade agreement, there are restrictions placed on both countries: we have a right to access to sell there, and they have a right to access to develop here.

In fact, you might have seen in the papers just this week that – I don't think the federal government wants to go there; I think it was Minister Oliver. The question came up that if the federal government in the United States continues to try to block the Keystone XL, the government of Canada may bring a NAFTA litigation under that clause.

So for all intents and purposes, for better or for worse – and I think almost all Albertans would say for better – we're into pretty much a unified North American energy market with Mexico, Canada, and the United States.

Mr. Hehr: I could be wrong, but a young researcher you have now at your disposal, Kyle Olsen, when he worked in our offices – maybe he had it wrong – once sort of explained to me that you could tax a product at a rate as long as you taxed it all at that rate, in the guise of having more revenue for the Alberta people. Like I said, we don't need the employment stuff.

Dr. Morton: I don't think he got a very good grade from me.

Mr. Hehr: I hear you. I don't know if he's working in your department now.

Maybe, hon. member, am I barking up the wrong tree? Can we do something like this? Or if I could ask your staffer to . . .

Dr. Morton: Yeah. I'd be happy to get some sort of a policy memo that discusses the issue of export taxes on resources.

Mr. Hehr: Okay. That would be grand. Or if I could come over and spend a few minutes, and he can tell me where I'm wrong, that would be very good.

The Chair: Hon. member, you have about six minutes left.

Mr. Hehr: Okay. I'll start down some of the list that's left. Interesting questions.

The bioenergy producer credit program. It's to encourage the development of a wide variety of bioengineering products, including renewable fuels, electricity, and heat with a credit per litre or kilowatt hour. You're increasing the money that's going to this. I'm just going to spit these questions out. What's the reason for the increase? Do you have expectations of higher participation rates? How much bioenergy has been developed? How has production been since the program began in 2007? Have there been any concerns identified with the program?

Dr. Morton: There are two things going on in the bioenergy/biofuels program. One is that some of the applications that applied for support have in the end not utilized the full amount that was allocated, so those expenditures are going down. Then, on a go-forward basis, as I indicated in my opening remarks, we've slightly narrowed or tightened the eligibility criteria for the bioenergy grant program to exclude ethanol that's produced from cereal grains at stand-alone facilities and instead tried to put a focus on integrating biorefinery and bioenergy production facilities and the use of waste from agriculture, forestry, and municipal waste as the feedstock.

There was a sense that there was a certain inefficiency in just cereal grain based ethanol, that the energy-in, energy-out ratios didn't justify those, and there was also the ethical issue of basically using food for fuel. There's no question that these programs have benefited our producers in terms of higher cereal prices, but with all the other jurisdictions, mainly the United States, having very high subsidies for ethanol and grain-based biofuels, that sets the North American price. Our producers can benefit from the high price without us putting quite as much Alberta taxpayer money into it.

7:40

Mr. Hehr: I think I heard at the beginning of your comments that the carbon capture program was going to stop at the $1.4 billion or $1.5 billion we have invested. Is that true, or are there going to be ongoing investments into this by the Alberta government?

Dr. Morton: The original dollar value of the commitment on carbon capture and storage was $2 billion. That's the statutory budget. There have been three projects that have been, if you like, agreed upon or in various stages of development, so about a billion and a half committed. The fourth project is the TransAlta pioneer project, and that's still outstanding. We haven't reached an agreement with them yet.

Mr. Hehr: So that isn't factored into this year's budget, payment to that organization in this calendar year?

Dr. Morton: Yeah, that's correct. But the major reason for the increase, a fairly large increase, 30 per cent, in the department budget this year is because some of the payments for the three other projects are now starting to go out the door, which they weren't in the last two years.

Mr. Hehr: Are you guys planning on making about a half billion dollars – or is it . . .

Dr. Morton: Yeah, $500 million.

Mr. Hehr: . . . $500 million into this program at some point in time?

Dr. Morton: There's no final agreement on that project yet. When and if an agreement is reached, then that would get put into outgoing budgets. It won't have any effect, certainly, on budget '12.

Mr. Hehr: But you will be investing in this project at some point in time?

Dr. Morton: Only if they meet the requirements that are specified in the preliminary agreements.

Mr. Hehr: What are your thoughts so far? Does it look like this project is a go or not?

Dr. Morton: I'm being told 50-50.

Mr. Hehr: If it does go, that money will have to be found from future budgets.

Dr. Morton: That's correct.

Mr. Hehr: Okay.

The Chair: Thank you, hon. members. That concludes the first hour.

I'm going to go ahead and use the chair's privilege to call a five-minute break, and then when we return, we'll be moving to the member from the third party, the Wildrose, Mr. Hinman.

[The committee adjourned from 7:44 p.m. to 7:53 p.m.]

The Chair: Before we begin, I'd like to ask the member: did you want to go back and forth? Did you want to go five and five? What would you like to do?

Mr. Hinman: Time flies so quickly. I'm going to go for my 10, and he can have his 10, and he can write the responses that's he's not able to give me if I'm able to ask enough questions.

The Chair: Okay. Then we open the floor to you.

Mr. Hinman: Well, thank you. It's always exciting to be able to talk about Alberta's energy. It was nice to see the lines of communication. There were no sparks in the first hour. I hope there are no sparks in the next 10 minutes and that we can go forward in a good spirit of trying to build a better Alberta.

I would like to start, I guess, with the Premier's mandate letter to the minister and do a couple of quotes. In the second paragraph it says:

> Democratic renewal and regaining Albertans' faith in the political system are at the core of our objectives as a government.

I think that there they're already saying that they recognize that they've lost the faith in the political system.

> That faith will come from the responsive, responsible, accountable and transparent way in which our team will operate.

I'm hoping that there will be some more continued transparency and that we'll be able to get a few more excellent answers. We appreciate many of the answers from the first hour. They were enlightening.

> Finally, transparency of intent and of action will be the standard,

which is great.

Then it says:

> As Minister of Energy, I expect you to work within the parameters outlined to deliver the following objectives.

The first one was to

> review the Electric Statutes Amendment Act (formerly Bill 50) and the two high-voltage, direct current . . . transmission facilities between [Edmonton and Calgary].

I want to go from there and quote what our Premier said during her campaign. Bill 50 spells out several projects. However, only two are actually critical: one of the proposed high-voltage lines between Edmonton and Calgary; the other is the 500 kV heartland line. All other projects described in Bill 50 will be referred back to the AUC for a thorough needs assessment.

Then if we go to the hon. minister's – and, again, I quite enjoyed your little YouTube that you put out during the leadership race. I'll read from that. I transcribed it.

> Since I was first elected in 2004, this government has been pursuing a policy of North South electrical transmission between Calgary and Edmonton. A single 500 KV line now under Bill 50, the government wants to build 2 lines, that will cost you at least 6 Billion and could triple the cost on your electrical bill.
>
> There is no question that our cities are growing and will need more power in the future but I cannot support Bill 50. I didn't support it as an MLA, I didn't support it as a Minister and I don't support it now and here is why.
>
> Peak demand for electricity in Calgary is about 1600 megawatts by 2015 when the new Enmax power plant opens, Calgary will have 3200 megawatts. Double our peak demand without new lines.
>
> Like many of you I want to know why we couldn't just build the 500 KV line on the East side of Highway 2 and when and if we need a second North South line we could just replace the existing 240 KV line [where the footprint already exists].
>
> As Premier, I would reopen [the bill].

Now, with what the two of you stated in your leadership race, I would say that the reason why she asked you to take over this portfolio and start on your mandate is because you are both very similar in your views, yet it seems that once you form government, those are no longer in there. You didn't go back to the AUC for a thorough needs assessment; you commissioned your own group to look at it. Can you explain why the difference and why you're going ahead when she said that only two were needed and you stated that they weren't needed? Why are we going forward with a totally different angle now? It just seems like it's gone back to party politics, to toeing the party line. Whatever the political connections were before is a great concern.

I asked you questions earlier on this year about the money that these companies have spent on their allocated amount. In question period you were emphatic, saying: no, no; they haven't spent any extra money. I do wonder if the reason why you haven't gone ahead is because – and I think, whether it's six months or a year from now, this information that we've received will become public and transparent. But they've spent over a billion dollars, and because of that, you're going ahead with these DC lines just because of the costs that they've incurred.

It's also interesting in that report that you received that the chair mentioned: well, we didn't meet NERC and WECC standards. Yet the department of economics at the University of Calgary very much addressed that and also to the committee and said that no, we were meeting those. Again, if you could explain the double talk on why it says that we need these DC lines to meet standards. It was quite astounding to me.

Wow, time flies. I just briefly want to touch on biomass. It's kind of interesting that you've switched from food for fuel to waste products. This is another case and an example of why government shouldn't be in business. You picked food for fuel, which was wrong. I'd say that basically you're saying it, admitting it now because you're going for waste products and forest products. Why do we need to compete with subsidies from other countries? If there's an economic value, let that go forward. I'm just astounded that the Department of Energy thinks that it's important to pick that. Why don't you pick and invest in Ballard batteries, or why don't we look at geothermal?

What we really need to do – and perhaps you can – is explain why we don't actually just level the playing field for any new innovative industry, and, like I say, the one that interests me the most from people I've talked to is geothermal. I mean, if there were some capital cost allowances that we allow different departments – the federal government has picked windmills. You know, if they put their original footprint, they can get capital cost allowances and flow-through shares. But government continues to seem to pick one area, whether it's wind or whether it's ethanol, to the detriment of the true entrepreneurs that want to come up with an economic plan that really would benefit us going forward.

8:00

To flip over and, I guess, to look at the accountability statement from your ministry, on the last line it says:

> The AUC regulates the utility sector, natural gas and electricity markets to protect social, economic and environmental interests of Alberta where competitive market forces do not [work].

Why didn't you go back again and have the AUC – your own mandate letter here, your ministry, says that the AUC is to do that job, but you picked a committee to do it. Even that committee says: oh, the AUC should do it after we're done. It just seems like this is pure politics that's being played, much like what we're seeing in health care. Again, let's put it back to the proper committees.

Then:

> The ministry's core businesses are:
> - managing the development of non-renewable resources;
> - granting industry the right to explore for and develop energy and mineral resources.

I'd like to know, with the new policies and the Athabasca plan, how many mineral leases and other surface rights in other areas have been cancelled because of changes in government policy. You talked about investor confidence. I still think that there is a little bit of shakiness out there. Much has been restored, but we just don't know, with the other land planning acts that are going to come forward, how many other leases or other things could possibly be lost.

To flip over the page to goal 2, effective stewardship of Alberta's energy resources: lead Alberta's participation in developing the Canadian energy strategy. It's interesting to me that we keep hearing about this energy strategy, but nothing has ever been put forward. Perhaps I have missed it, so it would be great to have a written strategy that's coming forward. To me, a Canadian energy vision at best might be something that we could look at. That's what that vision needs to do. How do we set up an economic playing field that will actually attract that capital that you talked about earlier in that we've never had enough capital here in the province? It's definitely important.

You have here that you want to be a national leader in efficiency and sustainability. I'm not sure how that's the government's role; I think that that's the people in industry. What exactly do you think you're going to do to lead in energy efficiency and sustainability?

You have quite a bit on collaboration. I must say that I agree that getting "a single regulator for upstream oil and gas" would be good.

"Enhance awareness and understanding of existing and emerging trends and opportunities relating to energy development and use in Alberta." This one greatly concerns the Wildrose in that, you know, you're actually going to pick and look for trends and chase after those and say, "This is where our new energy is," whether it's windmill or waste products now. Anyway, it's a concern that we have that the government is going be picking winners and losers. The government has picked a few winners, but more often than not it's losers.

Oh, it looks like the buzzer is going to go.

The Chair: Hon. member, you're correct about that. I think you've given the minister much to answer.

He has the next 10 minutes, please.

Dr. Morton: I think it'd probably take me about 50 minutes to answer all those questions, wouldn't it?

Are you going to give me 50 minutes of your time?

Mr. Hinman: Oh, the next three members would be happy to, I'm sure. I've used mine.

Dr. Morton: I'll maybe start from the last things you said and go backwards on the idea of a Canadian energy strategy. I think we've seen that the political challenges and social movement challenges to both Keystone XL and Northern Gateway are pretty clear evidence that it's not business as usual anymore when it comes to building pipelines. The game has changed. The reason the game has changed is that the climate change debate, which probably peaked a couple of years ago but is still very much out there, overlaps very significantly with the Canadian energy strategy. I think the Canadian energy strategy, at least one component of it, is about market diversification and export pipelines, which I'm pretty sure the third party supports. Yeah. I'm getting two thumbs up over there.

Both Keystone XL and Northern Gateway show that it's not business as usual anymore. It's not enough for just the proponent, the pipeline, to go through the regulatory hearing and meet some technical requirements to get the access. The number of players involved, the amount of money involved, and the campaigns involved are suggesting pretty strongly that if it's in the national interest of Canada, if it's in the regional interest of western Canada, and if it's in the provincial interest of Alberta, those governments are going to have to play a role in meeting the challenges that are being put forward to these export pipelines, which again are key to market diversification.

I think the people that say that there's no need for a Canadian energy strategy have their eyes shut. If you agree that to become the global energy superpower that Canada has the opportunity to become, that only happens if we sell our energy products at global prices to global markets, that won't happen without new export infrastructure. To do that, I think it's going to take a team approach, both unprecedented co-operation among provinces and also between the provinces and the federal government in Ottawa.

In terms of what's happening, I know that lots of people like to point out that Prime Minister Harper said that he didn't know what a Canadian energy strategy might look like, right? Some people interpreted that as meaning that he's not in favour of it. Well, I've known the Prime Minister for a while, and I know he's a smart man. I think he's generally recognized as being pretty wily.

Mr. Hinman: Just wait and see what it is.

Dr. Morton: Yeah. I think it makes sense for him not to jump in with all fours on something like this. It's just at a beginning stage. But if you start to think about the component parts of a Canadian energy strategy, I'd suggest to the hon. Member for Calgary-Glenmore that, in fact, the federal government has taken some pretty strong and very specific positions that are part of a Canadian energy strategy, almost all of which I think the Member for Calgary-Glenmore would agree with.

The federal government has made it very clear that provinces own these natural resources. I know that he agrees with that. I think that he's also made it clear, maybe unlike our friend from Calgary-Buffalo, that he thinks the best way to develop those resources is through the free-enterprise system. I know our friend from Calgary-Glenmore agrees with that, too. Both he and his Minister of Natural Resources have talked very explicitly about the need for market diversification for Alberta's energy and the need for foreign investment. Again, those are important components of a Canadian energy strategy.

Again, while neither the Prime Minister nor any of his ministers have gotten up and said, "Here's what we think a Canadian energy strategy looks like," they're filling in policy spots that I think are important components of what that might look like and are so far, I'd say, pretty darned good for western Canada and for Alberta. I'd suspect, at least on the ones I mentioned, that you would agree. So enough on Canadian energy strategy.

You made some not very flattering comments about the lower Athabasca regional plan, I think.

Mr. Hinman: I just asked how many leases were revoked.

8:10

Dr. Morton: How many leases were revoked? Has there been a loss of access to some leases that had been previously sold? Yes. Have the companies affected been given the compensation that is due to them by statute under the Mines and Minerals Act? The answer is yes; that's under discussion. They have a statutory right to that, and they will get that.

All of that is a matter of record. I think that anybody who wants to know it can know it. What is perhaps not as much a matter of record, which I'm happy to put on the record, is two things. One, the delineation of the protected areas that are part of the lower Athabasca regional plan was done with a very extensive consultation with affected leaseholders, and the boundaries were drawn in a way that both tried to respect where the best bitumen deposits were and at the same time paid attention to the objectives of the protected areas, specifically protection of caribou habitats. There was extensive consultation. It was not a one-off, unilateral surprise, if you like, the way that certain members of the third party have characterized it.

Again, I know the Member for Calgary-Glenmore would like to see the Keystone XL approved. While our friend President Obama has put the veto on it for the time being, most members here would remember that back in August, at the first stage of U.S. government decision-making on Keystone XL, the U.S. State Department, run by Hillary Clinton, gave the thumbs-up, the environmental thumbs-up, to Keystone XL and said that it did not pose an environmental threat to the United States. It looked across the border into Canada, and it specifically mentions, if you look in the executive summary, the Alberta Land Stewardship Act and the lower Athabasca regional plan as evidence of the fact that Alberta is taking responsible – well, they said, "Canada," because, of course, Americans don't know the difference between Alberta and Canada – that Canada is taking responsible steps for better environmental outcomes.

It's become very apparent that one of the things that Alberta needs to do to get full market access for its energy products in the United States, in Europe, and elsewhere is to have a credible environmental policy when it comes to the oil sands, and the lower Athabasca regional plan was intended to be a step in that direction. I think the fact that the U.S. State Department report that was released last August specifically references it shows that we've taken a positive step towards communicating to the rest of the world or to a trading partner, the United States, that we are taking concrete steps for better environmental outcomes.

Again, not this hon. member but one of his colleagues, the Member for Airdrie-Chestermere, spent a lot of time huffing and puffing about a year ago about how this was going to destroy investor confidence and that Alberta looked like a banana republic, right? Well, investors put – what was the figure I used for capital investment in the oil sands year? – $19 billion into this banana republic last year, so it seems to me that investor confidence wasn't exactly destroyed by the lower Athabasca regional plan. It's actually just the opposite. The fact that this government now recognizes that you can't talk about energy policy without also talking about environmental policy: they're two sides of the same thing. One of our friends over here is chuckling. I'm sure he'll challenge me on that. Whether or not we've done enough – I guess he's going to say we haven't – we are committed because we recognize it, not necessarily because we're Boy Scouts or altruistic. If you want to sell oil in the global markets today, you're going to have to produce that oil in an environmentally acceptable way.

The Chair: I'm sorry to interrupt, but time has expired. I don't know if all questions were answered. Minister, are you confident that you got to those lists of answers that you were prepared for?

Dr. Morton: He can give me more time, and I'll answer all his questions.

The Chair: Yeah. Unfortunately, that has elapsed. If you want to respond in writing, I remind you that they must be tabled in the House, just as a procedural issue.

Now we'll be moving to the member of the fourth party, the New Democratic Party. We're happy to see Mr. Mason here. Again, would you like to go back and forth, or would you like your 10 minutes and then the minister to have 10?

Mr. Mason: I'm happy to go back and forth.

The Chair: Okay. We're going to have a free flow of information is what the member is saying.

Mr. Mason: On the minister's willingness to actually bear with me.

The Chair: He's brilliant tonight. You're going to really enjoy his answers.

Mr. Mason: Okay. Thank you there, Madam Chairman.

Mr. Minister, actually, my first questions are on electricity, but I just wanted to clarify my chuckling. It was just that my mother always told me that it's not nice to say: I told you so. So I was chuckling instead.

I wanted to ask about electricity because electricity prices are sky-high, and when I ask you this question why that is and whether or not deregulation is working or not, one of your favourite answers is that in regulated jurisdictions you have all sorts of public debt and that there's some sort of hidden subsidy for electricity prices in those jurisdictions. I'd really like to know how that subsidization takes place and how the public debt is affecting the prices because what I think people really want to know is: why are they paying so much more for electricity than they were a year ago? Why do we have the highest retail power prices with all-in prices? I'd like to give you a chance with a little bit more opportunity than 30 seconds to reply, to explain how that public debt thing works and how that leads to subsidization of power prices and why it's really not as bad as it looks to the person who's opening up their power bill every month.

Dr. Morton: Thank you for those questions. Again, just to set the record straight to begin with, the average regulated rate option, if you like, the variable rate, for electricity in Alberta for the last five years has averaged 8 cents a kilowatt hour. We've had December, January, February where it has been much higher than that. It has been 10, 11, and 13 and a half cents, reflecting the outages of some generators and, of course, the winter. I'm confident that with one of those generators back online now and with spring coming on and the worst of winter over, you're going to see prices begin to drop back into their normal range. In fact, we should know what the regulated rate option for March is here in a couple of days because it's done in advance, 45 days in advance.

When I was speaking today in response to a question from the Leader of the Opposition, I chided him that both he and you in some of your questions have, I think, gone out of your way to scare and frighten constituents with high power prices instead of telling them that there's an option, instead of helping them. I've been trying to do that in my answers by pointing out that if you don't like the variability of the regulated rate option, there are nine different companies out there that are offering a fixed-rate contract, just like you get a mortgage for a house at a fixed rate, and those prices right now range from 8 to 9 and a half cents.

Again, I said today or yesterday that I had a call from a senior when I was in my constituency office last Friday. She was concerned about high prices, and she said: well, if you think these fixed-rate contracts are so good, do you have one? I said: well, as a matter of fact, I do. She said: well, I had trouble understanding it, but if you have one, then I trust it, and I'm going to get one, too.

Our MLAs have been talking to us. You think that your party is the only one that's talking to constituents about high electricity prices. I look around this room, and almost every MLA in this room and every MLA in the government caucus has talked to me, and amongst ourselves we're talking about taking action on high electricity prices.

I think you're aware of the fact that I'm making an announcement tomorrow, and part of that announcement will very much address the issue of high electricity prices. As the Premier has said: most of the questions we've seen from your party and from the Official Opposition party are that you're picking at this, you know, electricity price here, local access fees here, transmission prices here. We think that to deal with this we need a more comprehensive approach, and I'll be addressing that tomorrow.

8:20

Mr. Mason: I look forward to that, Mr. Minister. But the question really was to give you a chance to elaborate on the answer you've given, which is that the other utility companies operating in other provinces in regulated environments have this huge public debt that apparently doesn't exist in Alberta and that somehow there's some sort of hidden subsidy.

Just to set the record straight, while we're doing that, I do want to say that when we talk about power prices, we talk about the kind of bills that ordinary consumers are getting. We're not scaring them. They're really upset, especially people on fixed incomes, with the power prices they're paying.

When we talk about electricity prices, we talk about the all-in retail price, which includes all the middlemen that deregulation has added. You know, you've got companies now that buy electrons from a generator and they resell it to the consumer. They have a markup to do that, and they make a profit on that. You've added middlemen to the situation, so you've got these bills that have four or five different lines that all add up. When you respond about power prices, you often use the wholesale price. I know that the electricity generating organization does the same thing, and they leave out all of those add-ons. So we're really talking about the actual bills that people are getting, and we've been tabling real bills that real people have sent us.

The answers have been inadequate, quite frankly, and so that's why I wanted to explore with you this question that there is a public debt that somehow is being subsidized in other provinces and here there's no subsidy. In actual fact, all power companies, all generators borrow money in order to finance their capital, and they add that onto the rate base, and it's repaid. Now, it's a little different in Alberta because it's not regulated, and they don't have a guaranteed rate of return, but they have to service that debt anyway through the prices.

I don't know what that answer is, so I'll invite you a second time to sort of explain why it is that their debt in a regulated market is different from our debt here, other than some provinces have publicly owned power companies, other provinces like B.C. don't. We have a mixed system with municipal governments owning some of it and private companies owning others, but they all have capital debt, and it's all supported by the bills that people pay. That's how the companies pay back their debt.

Dr. Morton: Thank you. Again, speaking directly to the question and also for the public record, I'll just read out the amount of debt for the various provinces that are owned around their electrical transmission, and I'd be happy to . . .

Mr. Mason: Transmission or generation, too?

Dr. Morton: In almost each case both.

Mr. Mason: Okay. Should be both. It should be apples to apples, transmission and generation.

Dr. Morton: Well, let's start by clearing the deck. You said: comparing their debt to our debt. What debt? We have no debt.

Mr. Mason: No. No. The power companies have debt.

Dr. Morton: Well, yeah. But there's a big difference between the power company having debt and the consumer being on the hook. Let me just give you these figures, and then I'll explain it to you. I'll reference you to something else. B.C. Hydro debt right now is $9.9 billion. SaskPower debt is $3.3 billion. New Brunswick Power Corp. is $7.8 billion. Ontario Hydro debt is $62.6 billion. Quebec is $36.8 billion. New Brunswick Power is $4.3 billion, and Newfoundland and Labrador is $1.5 billion.

I think I will try to table it tomorrow or the next day or certainly when we come back into this House. I'll give you a copy of the Drummond report. Don Drummond is the former Deputy Minister of Finance in Ottawa. He was the top economist at TD Bank then when he left the federal civil service and now is a distinguished economics professor at Queen's University.

Mr. Mason: Maybe he's talking about the whole government debt of Quebec and Ontario.

Dr. Morton: I will give you the pages out of the report he just tabled about Ontario sinking in debt. There are four pages on electricity.

Mr. Mason: But that's not power debt. That's not supported . . .

Dr. Morton: He has six pages that are very specifically on power debt, and he explains how Ontario consumers are paying twice or three times for electricity, once on their electricity debt and then on . . .

Mr. Mason: And what's TransAlta's debt? Do you know what TransAlta's debt is?

Dr. Morton: No, and I don't care.

Mr. Mason: Okay. Well, you see, because people are paying for their debt through their power bills, the same as in Saskatchewan.

Dr. Morton: Yeah. The private investors in TransAlta are paying for their debt; the taxpayer is not on the hook.

Mr. Mason: No, they don't. They make big money from the company. They don't pay the debt. It is the electricity consumers that pay the debt through their power bills. The shareholders make money; they don't lose money.

Dr. Morton: The hon. member can go live in Ontario or Quebec for awhile and see if he thinks that's . . .

Mr. Mason: That's no answer. That's not an answer. The answer is that there is debt here in Alberta that supports power generation and transmission, the same as in every other province. Ontario is a particularly bad example, but our debt is comparable to other provinces that have private or public systems. B.C. Hydro is not a public system, but they have debt, too.

Dr. Morton: If the member doesn't understand the difference between public debt and private debt, I don't know what I can do.

Mr. Mason: Is EPCOR's debt a public or a private debt?

Dr. Morton: EPCOR would be private debt.

Mr. Mason: Would it? What about Enmax? They were owned by the two cities. They're publicly owned.

Dr. Morton: EPCOR is divided. Enmax is public debt, city of Calgary.

Mr. Mason: Okay. Well, we're not getting anywhere on that, so let me turn to another promising area of inquiry, and that has to do with the objectives that we have through our royalty regime for oil and gas. In 2006-07 the Auditor General indicated that the Ministry of Energy should "clearly describe and publicly state objectives and targets of Alberta royalty regimes." That was made in the context of inconsistent and contradictory targets set for the percentage of economic rent. The Auditor General stated that "the primary royalty regime question is how large a share of economic rent the province can take while remaining competitive with other jurisdictions."

You know, I'm concerned as many Albertans are that the Ministry of Energy has not adequately responded to this point by the Auditor General. So I'd like to ask the question: what is the government's target of net operating revenue and how do you measure, and what is your objective as a share of the rent?

Dr. Morton: The hon. member, I'm sure, remembers the misadventure in hiking royalties that took place in 2007-2008 and saw uncompetitive royalties chase investment and jobs out of this province, and I'm happy to state for the record that those mistakes have been reversed. We had a fairly extensive discussion of royalty rates particularly with respect to the oil sands earlier, and I don't want to repeat all of that, but I would, again, for the record point out that on the oil sands we now have a very specific royalty formula that distinguishes between prepayout and postpayout. Payout is when the proponent, the operator, has recovered all allowed costs, the capital costs, plus a return allowance. Both the prepayout and postpayout royalty rates vary depending upon the current value of bitumen.

8:30

The prepayout varies between 1 per cent and 9 per cent of gross revenue. It goes from that 1 per cent to 9 per cent based on the price of oil, starting at 1 per cent when oil is at $55 per barrel and up to 9 per cent when it's priced at $120 or higher.

Postpayout royalties start out that either you stay with the original one, between 1 and 9 per cent of gross revenue, or 25 to 40 per cent of net revenue, whichever is higher. In other words, whichever is higher, therefore, to the benefit of the Crown and to Albertans, who own that resource. The net royalty starts at 25 per cent and increases as the price of oil goes up, starting at $55 up to 40 per cent when the oil hits $120 or higher.

Again, I pointed out earlier that the dramatic increases in the dollar value of bitumen royalties that we see beginning to come in in Budget '13 and Budget '14 are based on the fact that over the next three years we anticipate and project that 13 of these oil sands projects are going to move from prepayout to postpayout royalties. This is real good news for Albertans because, again, depending upon the operation, that represents between double to triple the royalties coming in. I think it shows the patience and the foresight that we've built into that graduated royalty system, where we take less in the beginning in recognition of the billions and billions of dollars of capital that go into building these upgraders and plants, that allows the proponents to recover that initial capital and then move to the much higher royalty rates. Albertans are going to begin to reap the benefits of that system.

I'd also add, again, that specifically that's talking about the formula and the dollars involved on page 24 of the business plan, goal 1(b), that "revenues from oil, oil sands, gas and land sale bonuses are fully collected: Percentage of amounts collected compared to amounts owed." And those are laid out there.

Mr. Mason: Where is that, please?

Dr. Morton: It's on page 24 of the business plan. That meets the Auditor General's request from the period that you talked about. The measure is intended to gauge global competitiveness of Alberta's oil sands and integrate the many factors and nuances in the fiscal regime, the project economics, and the competing global opportunities at all levels.

Mr. Mason: Okay. Now, when the plants have not yet reached payout and are paying the much lower royalty, do you have any information with respect to whether or not these projects are making profits even while they are paying out their capital costs and what that might be?

Dr. Morton: Again, it's not an easy system to understand, but I'll repeat what I said earlier. I said that the prepayout royalty scheme applies to projects that have not yet recovered allowed cost plus a return allowance. So the return allowance means that they are allowed a profit, an operating profit. Of course, by definition in order to pay off their capital costs, which, again, run into the billions of dollars, they have to be making a profit in terms of cash flow.

Mr. Mason: Yeah. In terms of cash flow, you know, they have enough money. They're earning enough money to repay their debt in an orderly fashion, and then they make a profit on top of that. Is there any limit on what that is? Does the government track what that is?

Dr. Morton: Well, we just did.

The Chair: Hon. members, the time is up unless you can do it in under five seconds or maybe 10.

Dr. Morton: Yes. In five seconds. I just did two OCs last month that approved some fairly complicated accounting rules that directly address the issues that the hon. member has asked about. We'll get those to you.

Mr. Mason: Thank you.

The Chair: Thank you. Again, it would be tabled in the House if it comes in writing.

Hon. members, for the last hour – I'm just going to explain the rules of engagement here – obviously, all members can now enter into the questioning, but in the spirit of collegiality we would go from one party to the next.

I will begin with David Xiao from our party, the PC Party. David, do you want to go back and forth, or do you want to just ask your question and get the response, and you're not as worried about the timing issue? Mr. Xiao.

Mr. Xiao: Yes.

The Chair: Do you want to go back and forth?

Mr. Xiao: Yeah. I could spend the whole evening.

The Chair: Yes, but I will be timing you.

Mr. Xiao: Okay. How many minutes do I have?

The Chair: You have 10 minutes.

Mr. Xiao: Okay.

An Hon. Member: You've used up one already.

The Chair: Yeah. I would go.

Mr. Xiao: I think to go back and forth is fine. I know that some of my colleagues are looking at me in a weird way, but anyway.

First of all, I'd like to thank the minister and the department officials that have come to the committee to answer the questions. Basically, I have two questions which are related to the diversification of the market. Based on the budget I can see that the government is allocating $2 million to facilitate relationship building in the Pacific region. Can the minister elaborate on this?

Dr. Morton: Yes. Thank you. You'll see in both my mandate letter and the mandate letter to the Minister of Intergovernmental, International and Aboriginal Relations that market diversification is in our letters. The $2 million that is new in the Department of Energy's budget is to facilitate that relationship building in the Pacific Rim market. The experience around the Keystone XL, with the delay that has resulted from the partisan politics between the Republicans and the Democrats down there, has highlighted the vulnerability of being overly dependent upon a single market. Ninety-nine per cent of Canada's exported oil and gas goes to the United States, and the United States is a good customer, probably the best customer in the world, but still it's only a single market.

We have a mandate for market diversification, and all the studies indicate that the big growth market for energy consumption in the coming decades is Asia, most specifically China and India. The Premier's Council for Economic Strategy, that tabled the report last summer, was very explicit about that. You can see that these objectives are shared not just by Alberta and Premier Redford but by the Prime Minister and his team, as witnessed by the trip that he made to China just recently. And you've seen that Premier Redford has appointed the hon. Gary Mar, who had been our trade envoy in Washington. He's taken up a position now in Hong Kong to facilitate market diversification and new opportunities there. The $2 million that are new to our budget reflect that priority.

8:40

Mr. Xiao: Well, you know, I realize it's very important to diversify the market, but at the same time without the needed infrastructure in place, it's probably hard, really, to ship our products to another market. My question is based on the budget. You allocated a million dollars to legal counsel for Enbridge's proposed Northern Gateway pipeline. What would this do to help us to advocate the Alberta interest on that front?

Dr. Morton: The hon. member is absolutely right that in order to achieve that objective of expanding exports to Asia, it's critical that Alberta oil and gas get to tidewater in British Columbia. At the moment the pipeline project that's proposed is Enbridge's Northern Gateway project. While the government of Alberta does not ever endorse a specific project by a specific company, we will intervene in there and talk about the importance not just to Alberta but to all of Canada in the expansion of trade with Asia and how that expansion cannot occur, that opportunity will never be realized without export infrastructure like Northern Gateway. Again, that's an addition to our budget so that we can look after not only Alberta's interest but, really, Canada's interest in that market diversification.

Mr. Xiao: Thank you. No more questions.

The Chair: Okay. We'll now move to Mr. Hehr. Again, do you want to do a combined piece here?

Mr. Hehr: Yeah.

The Chair: Okay. So we'll just go ahead and set the time.

Mr. Hehr: Just following up on my hon. colleague's questions about pipelines, I probably share the minister's view that the Keystone will go through when the election is over. It just makes too much sense not to. I support expanding our pipelines to the west coast, and that's, again, if at all possible. There are schools of thoughts out there. In the newspapers there have been some articles about this as well as some people in the industry who seem to suggest that with the negotiations with our native groups and some of the land claims issues and that by the time you consult and by the time you get through the challenges, all the way through the court system, this may not actually ever see the light of day.

With that being the case – and I think it's a reasonable case – how aggressively are we moving on the line 9 location, trying to move our resource off the east coast and then shipping it to China? Is this feasible? Are we moving in that direction very quickly, and if not, why not? Tell me if we are exploring that in any fashion or whether it's reasonable to explore that in other fashions.

Dr. Morton: Thank you for that good question. I guess I'll begin by answering that I think the way you posed the question illustrates why we need a Canadian energy strategy that is one that emphasizes co-operation among provinces – in this case B.C., Saskatchewan, and Alberta – and also between the provinces and the federal government because there are some significant issues around Northern Gateway that will require some federal leadership as well.

I am I think much more optimistic than you seem to be. I think that in Alberta and Saskatchewan we're familiar with pipelines. What's the number? I think Alberta has something like 99,000 kilometres of pipeline already. We realize that pipeline is actually the safest way to move oil and gas – and we're pretty good at it – but people are always nervous about things that they're not familiar with. I think part of the challenge will be to spend some time with our neighbours in British Columbia talking about modern pipeline technology, that you have 24/7 monitoring, that you have 24/7 surveillance, remote shutdown capability, advanced leak detection technology, those types of things.

The other concern there, of course, is the salmon fishery. I suspect there are a few of us in the room here that have caught a few fish between Prince Rupert and the Queen Charlottes. I know I've caught a few. I certainly wouldn't support a project that I thought put in jeopardy that salmon fishery. It's not only a British Columbian-Canadian treasure; it's one of the great fisheries in the world, and Canada has an obligation to protect it. But, again, I think with modern shipping technology, double-hulled boats . . .

Mr. Hehr: I agree with all of what you're saying. I'm asking you about line 9.

Dr. Morton: Okay. The question, then, was: are we looking at opportunities to move gas and oil to the east coast as well? The hon. member referenced a line that runs between Sarnia, Ontario, and Montreal, which I believe is an Enbridge line and was just reversed. They've submitted a request to the National Energy Board to reverse it. Right now it runs from Montreal to Sarnia, and the proposal is to reverse it, to run from Sarnia to Montreal, which will then move western Canadian crude further east.

The hon. member is correct that there is interest in not just Montreal but even further east, in the refineries in Saint John, New Brunswick. Those refineries right now depend almost exclusively on oil coming from the Middle East, and for the same reason that Korea and China are interested in Canadian oil – because they're overly dependent upon Middle Eastern oil – the refineries on the east coast are interested in this as well. So the answer is yes. We'll work closely, again, in collaboration between the provinces and also between the provinces and the federal government to move that forward.

Mr. Hehr: Okay. What is the current percentage of bitumen being upgraded in Alberta? Do we have those numbers?

Dr. Morton: Fifty-eight per cent.

Mr. Hehr: With the large amount of bitumen coming onto the market, that number is expected to go down?

Dr. Morton: Yeah. But, again, I would go back to earlier conversations. We are in a joint venture with North West upgrader and CNRL to build that merchant upgrader outside of Edmonton.

I also want to put on the public record that Suncor, in the recession back in 2008, stopped building its proposed Voyageur upgrader, but it announced just about 12 months ago that in a new joint venture with Total they're going to start that again.

So there are two new upgraders that are moving forward as we speak.

8:50

Mr. Hehr: I don't know if this is still true. Is the goal still, given our conversations about upgrading, the difficulties there are and the economic factor brought up by Andrew Leach – and I think I've actually read some of his stuff. But is that still the stated goal of the department or the government, that we're going to upgrade 70 per cent our bitumen here?

Dr. Morton: Five years ago there was a recommendation made by a task force for the two-thirds target, 66 per cent, and that is incorporated in the provincial energy strategy as an aspirational goal or a stretch goal.

Mr. Hehr: But it's fair to say that we're not going to reach it? Okay. I'll leave it at that then.

Have you guys done some expected revenue projections – and I realize it's difficult given that it's a long-term plan – from the bitumen in kind program as it exists today?

Dr. Morton: From an accounting point of view right now the assumption is that we will sell it at the same price that we take it as royalty in kind. So at the moment it's being accounted for on a break-even basis.

Mr. Hehr: The government must have done some work on projecting risk/reward scenarios where it worked out some arguments or at least, I hope, made some arguments or some numbers-based assumptions on what the investment would return to the Alberta people. Is that correct?

Dr. Morton: Are you talking about North West, or are you talking about just the BRIK program by itself?

Mr. Hehr: The BRIK program by itself.

Dr. Morton: Okay. The advice I'm getting is that if we take it as an equivalent royalty at $70 and sell it at $71, that $1 difference translates into $40 million annually.

I think there are also opportunities for the government of Alberta to move the bitumen by pipeline or rail to offshore markets.

Mr. Hehr: Okay. Then let's just take the North West upgrader specifically. When we made our investment, our partnership with North West, were the numbers based on actual returns over the lifespan of the project that are expected given certain parameters as they exist, the amount of money that your department has estimated it's going to make on the North West upgrader project that it is currently involved in?

Dr. Morton: Well, I don't know if you know this figure, but again my staff is informing me that in the North West analysis that we did getting into that deal, it was projected that there will be a $200 million to $700 million profit, if you like, in net present value over the life of the project. I think the life of the project is over 60 years, so $200 million to $700 million.

Mr. Hehr: The Alberta people are making extra as compared to just leaving business as usual. Okay. So you continue to look at those economic opportunities as they exist if those opportunities arise?

Dr. Morton: Correct.

Mr. Hehr: Okay. Fair enough.

Dr. Morton: Again, I guess I'd point out that on the North West project the opportunities for Alberta should be better than that because the carbon capture and storage component of it is used for enhanced oil recovery to recover oil from some of the older fields that otherwise we wouldn't get out of the ground. And that will pay more royalties.

Mr. Hehr: I guess just turning briefly to electricity and the hon. member's question over there. The government, when it put through Bill 50, had reports out saying that this line was necessary, that this line was needed, that it was in the best interests to build this. This was despite not going to an AUC hearing or having a needs-based assessment, which was supposed to be the actual business as usual course for transmission lines. But it bypassed those through Bill 50.

When you were running for Premier, you stated that, in your view, this report was wrong, that we only needed one, and because of cost differentials and things like this and that no needs assessment was done and that it was a massive overbuild – I think those were the words that were used at the time – you would only build the one line. Now, when you're the Minister of Energy, you have reverted to position one, which was the former position. Was the government right all along? Were you wrong, then, when you ran for Premier? Do they have it right now?

Dr. Morton: One of the marks of an intelligent person is to know not just what you know but what you don't know. I was quite confident in my views on Bill 50, and as the hon. Member for Calgary-Glenmore pointed out, I opposed it not just in leadership but going back into internal caucus politics and so forth at the time. But I recognize I'm not an expert. In fact, the Premier, of course, as you pointed out, opposed it as well.

If we had wanted to just fulfill our own views, I suppose we could have gone out and picked some people that we knew would have agreed with us. But we went out and picked four individuals, most of whom were chosen for their expertise in electricity: one of Canada's leading electrical experts, a professor emeritus from the University of Saskatchewan; the current dean of the Business School over at U of A, who's an expert in energy economics; Henry Yip, a well-respected Edmonton businessman, who again is very active in the field of electrical regulation; and then, of course, the chairman Brian Heidecker, who's served both Canada and Alberta in a number of high-profile public positions and is widely respected and trusted.

They spent almost eight weeks immersing themselves in this issue, listening to all the different parties – I think 39 different organized groups presented information – and they gave us their recommendations about a week and a half ago. I think I've probably read that report more carefully than anybody else because, of course, it didn't give the recommendations that I guess I was hoping for. Having read that, I'm persuaded that they have read the need and the technology and all of those things, and they've persuaded me.

Mr. Hehr: Being frank here, I'm probably of the same opinion, that if you're going to build it once, you might as well build it with future growth in mind and go forward from that end. That being said, given the political climate, given some of the confusion that has occurred because of Bill 50, and because of the recommendations out of the report that traditionally this was supposed to go to the AUC and now all future projects again going to the AUC with future need assessed, why wouldn't we just do that with this project now, change the legislation so the AUC can look at this very quickly with future needs now being a component? Send it through the AUC, get everyone's fears allayed, and let it go through there. Let the AUC do its job with the new legislation in place. I think that would be a reasonable solution to some political problems as well as probably a reasonable approach going forward for the Alberta people.

9:00

Dr. Morton: It would except that the AUC doesn't do anything quickly. Particularly with a needs assessment on this, you're looking at probably 18 months, and it would be contrary to the committee's recommendation that emphasized that we need one of the lines now, as in 2012-2013, and we could need the second line as early as 2018. Given in both cases the regulatory and potentially legal hurdles that still may lay in front of us, they emphasize the need to proceed with both lines immediately on the assumption that at least, hopefully, one will be completed in the next three years. There's a sense of urgency and immediacy. There have been over half a million people that have moved into Alberta since the recommendation was first made that we needed two lines, and by the time we get the second line built, there'll be another half-million additional people. They're coming. We need it. This is good news.

Again, you alluded back to last year when I was running for leader. Since I've become Minister of Energy, it's become very clear to me that Alberta has the opportunity because of the world's need particularly for oil but also for liquefied natural gas, a huge opportunity to secure a great deal of prosperity for our kids and their kids in the next four decades if we do things right. One of those is going to be a significant reinforcement of this north-south transmission between the Edmonton region and the Calgary region.

Mr. Hehr: I recognize that it's difficult to govern. Before I got elected here, I thought it was a lot easier than it looks, but being here, I have an appreciation for the difficult challenges there are. Probably, looking back in the rear-view mirror, Bill 50 should have been handled differently.

The Chair: Thank you, hon. members. It's been a really good discussion.

Just a correction from my earlier statement. We don't go one, two, three. We go from government member to opposition to government member.

I'll be returning now to Mr. Ouellette, who has some questions for the minister, and he has, of course, the opportunity to do 10, 10. Do you just want to go back and forth with the minister, or do you want to go your full 10?

Mr. Ouellette: Sure.

The Chair: Okay. He's opting to go back and forth. Go ahead.

Mr. Ouellette: Well, thank you very much for the opportunity to speak to the minister. I've been listening quite intently all night, and there have been lots of different things go back and forth. You have quite an interesting ministry. On one side wouldn't it be nice to own a corporation where you only have a budget of $500 million that you're going to spend and you're going to bring in 11 and a half billion? I'd love to be in that position. Then you have the other side of the fence, the electrical side. I'm not sure that even you know how to fix all the problems we have there. But that's not really what I wanted to question you on tonight.

More than just in this room tonight I've been hearing a lot: did you forecast or did our government forecast the price of oil and natural gas properly? I wonder sometimes how you come up with those prices. In this particular document that I have with me tonight I haven't been able to find the exact figure on the per-barrel forecast you've done or the CFM you've done on the gas side. I would like a little better explanation from you that would satisfy all these people that are asking the question of how you came up with or how you forecast that price to make sure that you found that balance or that you've come up with the price that's going to be right.

I may have a different idea. I believe you've come up with the right price, but I'm not entirely sure that I explain it properly when I get asked the question from other people. I guess I'm asking you to make that explanation fairly simple yet very believable to the people that we have to explain it to.

Dr. Morton: Thank you. I'll go back just very briefly to my introductory remarks, that addressed this a little bit. When we're forecasting nonrenewable resource revenue, we consider a number of factors: supply and demand, world economic growth, and specifically non-OPEC supply growth.

Having said that, we do our own internal analysis, but then we compare that to the private-sector forecast. You have a fairly extensive list. I think if you look at the fiscal plan, page 89, you'll see a fairly extensive list of private-sector forecasts. I'll read just a few. National agencies would be the Conference Board of Canada and IHS Global Insight. Banks and investment dealers would include BMO Capital Markets, Credit Suisse, Deutsche Bank, CIBC, Goldman Sachs, and others. Industry analysts would include Sproule Associates and the U.S. Energy Information Administration. That kind of gives you a flavour.

We look at all of their projections on oil and gas, bitumen, and then we average them. Then we take their high, their low, and their average, and then we compare them to our own. I think it shows that, particularly on gas and oil, we've been very conservative and responsible in the sense that our projected prices for the next two years, for Budget 2012 and Budget 2013, are actually just a little bit lower than the private-sector average.

Again, there were some suggestions by some of the members of the other parties that we'd inflated the forecast to make revenues look higher than they're actually going to be. In fact, for Budget 2012 the opposite is the case. We're actually below the private-sector average for the next two years.

There was some criticism of our projection of bitumen royalties. As I tried to explain earlier, bitumen royalties are going up very significantly next year and the year after, Budget 2013 and Budget 2014, but it's not just because prices are high, and it's not just because the volumes are going up. It's also because as the price goes up, the royalty goes up, too, right? That's our sliding scale. So we're getting a bigger slice of a bigger pie when it comes to that. We're projecting 13 of our oil sands projects moving from that prepayout to postpayout royalty rates, which, as I said, are double to triple the prepayout rates, again, an estimate that's grounded very much in real figures.

Mr. Ouellette: That's excellent. What was our per-barrel price forecast on gas and oil?

Dr. Morton: I think on gas we're at $3 for Budget 2012. What are we for the out years? Three dollars for Budget 2012, $3.50 for Budget 2013, and $4.25 for Budget 2014. Our oil is $99.25 for Budget 2012, $106 for Budget 2013, and $108 for Budget 2014.

9:10

Mr. Ouellette: With that, I think that was a pretty good explanation.

It also seems to be that most of the talk these days is about bitumen and the oil sands, and that's all of our future. But you even mentioned tonight that with the new technologies, we're doing much better on our horizontal-type drilling and that that sort of stuff will really stimulate our conventional oil and gas market, which I think is very, very important to Albertans. It's important to all of our smaller communities. It fills all of our hotel rooms. It makes sure that the money is passed around the whole province and stimulates a number of different businesses rather than just oil and gas or just the construction of major plants.

For years everybody's been talking about the steep climb of our production levels in the oil sands and almost the same the other way on conventional oil. Is this new technology and stuff going to actually level off that conventional oil, or is it still going to stay on a downward trend?

Dr. Morton: Excellent question. I'm happy to report that we project that if you count tight oil as conventional oil, which it is, not in terms of how it's recovered but in terms of the quality of the oil, that's actually going to increase in both of the next two years. In other words, it reverses that trend of declining oil production in southern and central Alberta, which has been declining since 1974. So a fairly significant reversal of almost a 38-year trend, and very good news for Albertans again.

Mr. Ouellette: Again, I'm happy to hear all that.

Dr. Morton: I'll bet you are.

Mr. Ouellette: I can't help but wade in a little bit on our electrical situation because of what the hon. member from the third party was saying. He's left now, but he was talking so much about this debt and that you were clearing that debt. I just think that an easier way of explaining why there is no debt on our side is that it's really on the deregulation and the reason we deregulated. On the actual generation side there is no debt because it's private companies that hold that generation. Yeah, somewhere in there, on our electrical prices, they have to recoup their money, but they do it in a much more efficient manner, I believe, than government could do it, and we didn't have to go out and borrow all that money and put that debt in to build the generation. They carried that debt so our grandchildren and our children aren't going to have it.

I'm not sure we have our regulated side, though, under control, that it's not some sort of debt that we have there. But it's not the same. It's not subsidized by all taxpayers. It's only a debt to the guy using the power. I think that explains it pretty straight forward.

But you're the minister, and I think you're working at that very hard. Keep up the good work. Thank you.

Dr. Morton: Thank you.

The Chair: Thank you.

I have questions now from, yes, Mr. Hinman. I will, of course, warn you that we have only 15 minutes left in total before we will be closing this session. Mr. Hinman, you have the floor.

Mr. Hinman: Well, thank you. What a shock. I thought those illuminating questions were going to go on forever.

A couple of mentions that have come forward. To set the record straight, you talked about the chair of the critical line committee and his service to Alberta, but you did fail to say that the longest thing that he spent time serving is the PC Party, which is a long history in there.

Again, I'm looking forward to your written responses, but you never did address my question about meeting with WECC and NERC where the critical line people said that, you know, we have to put in these DC lines in order to meet North American standards when the U of C very much made a submission saying that no, that wasn't necessary. That whole report, to me, was a sham of a report. They didn't come up with any technical reasons. The most profound thing that they actually said was: we want to reduce the footprint. Even you yourself talked about replacing a 240- with a 500-kV line, not needing to increase the footprint. They talked about a 30-year structure and the situation that is there. That's a real concern.

Probably the biggest concern with that whole report – and this government is very good at doing this – is that it set the parameters of their discovery very narrowly so that we have those results come out. But it's wrong; I'll say on the record that it's wrong. It's an overbuild. You just talked about other jurisdictions and the debt that they take on. You yourself, when you were running for leadership, talked about that $6 billion debt. The Premier talked about it. This response from the committee is not correct. I think everybody knows it, and a year from now it will show up.

Again, it is always a concern that the government has the knowledge – and you talk about being open and transparent – and you have the documents, but they don't come out for another six months or so. Last year, as I talked about, the former minister said: "Despite what the member's colleague tries to relate in the House, there are . . . two gas-fired generating plants" that are going to be built. That is flat-out wrong. They were being contemplated, but they were not moving ahead. Later we actually got the papers where he had signed off on those in October, yet he made that statement in March. It's very, very disappointing.

Again I'll make the request. We've been given information that $1.1 billion has been spent on these DC lines. I would say that within six months documents will come out that will verify that although you yourself denied it and said: no, these aren't there. So I want it on the public record in six months, when these documents come out, what they've actually spent and brought to the oversight committee on that, that it will be there. Perhaps it'll be open and transparent, and they'll say: well, no; actually, we do have some documents now that reveal the $1.1 billion that's been spent.

I would have to say that I do agree with the ministry on their projections. I don't think they're out of line on what the value of oil will be. But, my goodness, we certainly are in a volatile world, and who knows what economics could happen and the world economy crash? We can't foresee all of that.

The concern that I've received from industry, though, is the increase. I think you're estimating 600,000 barrels of oil in increased production in two years, but there'll be no new pipelines to be able to actually move that out. We already have a major constriction. We're seeing the widest spread ever in the bitumen because of that. I guess I'd like the reassurance that we might have that production capability, but our problem is and always has been being able to get it to export market.

That brings up another. When you talk about a national energy strategy, has the province considered going to the federal government and to the NEB? We had an overwhelming number of applicants that want to put their two bits' worth in about the pipeline. We only have one panel listening to them. Has there been any talk or discussion to say: hey, let's get 10 panels listening to these 4,500 presenters and, instead of taking 18 months, take 1.8 months? We need to expedite this and get these pipelines going. To me, to have to listen for 18 months is an embarrassment for Albertans and Canadians when we just had it shut down in the States. They said that they only needed an extra year to look at it, and then we turn around, and it's going to take 18 months. I had hoped that the national energy strategy would be something like that, that perhaps we could look at increasing the panel size to listen to those people but not have to wait 18 months for one panel and look for some exceptions on that.

Going back to your actual projections in here, it's always interesting and I appreciate the member wanting to be a fiscal conservative. I remember fondly – it wasn't that long ago; how time flies – that the minister stepped down from his position as the Finance minister and refused to bring forward a budget that was unacceptable. We've seen a major earthquake in the party since then. Unfortunately, the member didn't become the Premier.

9:20

Dr. Morton: Fortunately for you guys.

Mr. Hinman: I would not agree with that. It's about the province, always about the province, and you know that with me.

I'm disappointed that in your own ministry you don't lead by example to have that constraint. You know, we are always capped with so many dollars. Why didn't you reprioritize? I mean, you've got some good initiatives, and you say that you need to increase in some of those other areas. But to think that the number of full-time employees has gone up; you hired 10 more. I would think that by redirecting and prioritizing, surely yours is the one department that could have kept a cap on it and said: "You know what? We'll live within our means. We'll put on a freeze on for a year. There's attrition. There are many areas." But, again, none of that was seen.

I'm getting to that age where I have disadvantages now.

Dr. Morton: Don't worry. We'll look after you.

Mr. Hinman: Oh, I wish I could trust you. You'd walk me off the cliff of debt.

Albertan's assessment of their energy knowledge: you've got in here that 63 per cent of Albertans, I guess, did your survey. I've never seen this survey. I'd be interested in that survey, in what you put out there. I think the most important thing that you could do in actually teaching and sharing with Albertans is, every time a hospital is opened, a school is opened, or an overpass is opened, to actually go back to your department and say: you know, 33 per cent or 44 per cent of this infrastructure comes from the oil and gas industry. Albertans just don't realize how important this is. Rather than saying, "Look at what the government has given you," say, "Look what the oil and gas industry has given you." I think that would be the best education that you could possibly have, to get it up to maybe 90 or 95 per cent, where Albertans realize: wow, we'd have to wait twice as long because 45 per cent of this hospital is paid for from oil and gas royalties.

In your third goal in your business plan you review the Electric Statutes Amendment Act, which I've spoken on at length. Goal 3.3, to promote effective innovation policies and programs: to me it's not about promoting; it's about creating a playing field that attracts capital, which you understand and know very well. I think that that would be a far better thing to do. We've got some wonderful pilot projects that have proven how effective it is with the oil sands when we had a new generic tax regime and were able to attract that capital. So to me a national energy plan would be: how do we attract world capital in here and do that?

But even more important is that if you as a government would perhaps work with the federal government. You know, these capital projects are exciting. It's always a challenge in Canada. We're small in the world market. We don't have the capital. We look outside. But if we were to go back and have that new tax regime – it doesn't matter whether it's for a medical facility, medical equipment, whether it's for the arts and wanting to do a movie. We've had lots of what we call flow-through shares or pretax dollars. That's where, in my mind, the energy department and the province should sit down with the feds. I was very excited when the feds talked about a six-month capital exemption and reinvesting that money. It really should be one year. We should get rid of it. But those are the innovative areas that we should go to.

Goal 3.6 talks about cleaner energy technologies. That's really what it is. Why do we always get wrapped up in CO_2? That's all people seem to talk about. You know, let's pass regulations that look after the SOx, the NOx, the volatile organic matter, and other toxins that we know about, and let's really focus and lead in those areas. I'd like to hear your remarks on that.

Again I've got to go back to this. Improve the process for transmission facility applications so that they are conducted in a timely manner and provide an appropriate opportunity for public input, goal 3.7. Your own mandate says that the AUC should do it. You said that it should go there. The Premier said that the AUC should look at this. Stop the build, and go to the AUC. I don't care if they've spent $1.1 billion or whatever. Let's go through the right process and do it now and put it back to the AUC to actually make that decision.

Dr. Morton: I can answer some of those questions if you want to give me some time.

Mr. Hinman: Sure.

The Chair: Hon. member, you're down to your last three minutes. If you'd like the minister to do any responding . . .

Mr. Hinman: That would be great. I guess if he could go back and give written responses for those that he's not able to answer, I'd really appreciate it.

Dr. Morton: Okay. I will do this quickly since there are only five minutes left.

With respect to your criticism of the time that it's going to take, 18 months, for the National Energy Board to do the hearing on Northern Gateway, it's called the National Energy Board, right? It's not the Alberta energy board.

Mr. Hinman: I just said to lobby. I know you can't.

Dr. Morton: So we can't directly deal with that.

In terms of your question about sunk cost on the two north-south transmission lines I think you or somebody from your party asked me that question before Christmas. I happen to have met with the same individual that I know met with you, and I saw exactly the same sheets that you saw, so I was aware of the source of your information. The sheets did indicate – I think the figure you used was a billion dollars?

Mr. Hinman: I think $1.1 billion, with $900,000 over and above.

Dr. Morton: Yeah. There's a difference between what has been authorized and what has been spent. What has been spent: at the time I believe that I said $200 million, and I just checked this evening, and that's still the figure. In fact, we asked them to stop spending until we had – but the figure was just under a hundred million for one project and just over a hundred million for the other. We'll get you that figure. The answer I gave you before Christmas is still the answer I'll give you today. It was in the vicinity of $200 million, not a billion.

With respect to DC lines and the committee. You called it a sham. I mean, frankly, what would have been a sham is if the Premier and I had appointed a committee that just gave us the answers that we'd campaigned on, right? That would have been the real sham. What we did is that we went out and appointed a committee of people who were knowledgeable and independent and took six, eight weeks to talk to everybody and give us four fresh sets of eyes. I think they wrote a persuasive report.

Specifically with respect to the DC technology if you look on their website, there's a long list of projects using DC technology. Originally the direct current technology was used for the longer transportation spans of 500, 1,000 kilometres, but more recently there are quite a few projects that are using it for the much shorter spans such as the 300 kilometres between the Edmonton region and the Calgary region.

Again, I know the hon. Member for Calgary-Glenmore is kind of a city boy now, but he grew up in – when I first met him I think he had a feedlot and some land in southern Alberta, so he certainly understands rural Alberta and the issues around land use. Not only do I think DC technology is a big plus for landowners, but we actually have a couple of letters from landowner groups urging us to use the DC technology because if we build these two lines, if we accept the recommendations, these north-south lines will be the last lines that have to be built for 60 or 70 years in Alberta because when there's increased demand, say in 30 or 40 years, you just add new converters at the front end and the back end. So I think this is a really positive story for Alberta landowners.

The Chair: I hesitate to interrupt, hon. minister. I apologize for the interruption, but I must advise the committee that the time allotted for this item of business has concluded. I'd like to remind committee members that we are scheduled to meet next on March 7, 2012, to consider the estimates of the Department of Environment and Water.

I would like to congratulate the minister on a really brisk three hours. I think we've had a lot of questions and a lot of answers, and I appreciate the decorum of the committee.

Pursuant to Government Motion 6 the meeting is now adjourned.

[The committee adjourned at 9:30 p.m.]

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