

Standing Committee on the Alberta Heritage Savings Trust Fund Act

8:03 a.m.

[Chairman: Mr. Dunford]

MR. CHAIRMAN: All right, ladies and gentlemen; I'd like to call the meeting to order at 8:03.

Now, the first order of business this morning. I've been handed a number of recommendations by the representatives of the Liberals, and rather than taking time at this particular point, I wonder if I might have the co-operation of the committee. We will use a procedure that we used last night, and we'll just deem to have read these into the record rather than taking the time to do that, but as soon as possible we will circulate copies of these recommendations, then, to all the committee members and of course then to *Hansard*. Can I have a show of hands in agreement to that procedure? Opposed? Carried. So the recommendation draft entitled Standing Committee on the Alberta Heritage Savings Trust Fund Act 1993-94 Recommendations will be now deemed to have been read into the record.

Moved by Mr. Chadi:

Be it resolved that the Standing Committee on the Alberta Heritage Savings Trust Fund Act be designated by the Provincial Treasurer to participate in the public review of the Alberta heritage savings trust fund to ascertain whether the fund's assets are being used in the most effective manner in relation to the province's fiscal objectives.

Moved by Mr. Chadi:

Be it resolved that the Standing Committee on the Alberta Heritage Savings Trust Fund Act be designated to provide input on any decision undertaken by the investment committee to dispose of Alberta heritage savings trust fund assets prior to the actual disposal of those assets.

Moved by Mr. White:

Be it resolved that the Standing Committee on the Alberta Heritage Savings Trust Fund Act be involved in the establishment of the benchmarks and measures used to evaluate the performance of the investment managers of the Alberta heritage savings trust fund and the performance of the fund itself in fulfilling goals and objectives.

Moved by Mr. White:

Be it resolved that the Standing Committee on the Alberta Heritage Savings Trust Fund Act be designated to assess whether investment managers have achieved performance targets and benchmarks set out in the three-year business plan by requiring that investment managers appear before the committee to account for the Alberta heritage savings trust fund performance.

Moved by Mr. Dalla-Longa:

Be it resolved that the Provincial Treasurer undertake to provide the Standing Committee on the Alberta Heritage Savings Trust Fund Act, five days prior to his appearance before the committee, a comprehensive breakdown of holdings in the Alberta heritage savings trust fund commercial investment division, detailing number of shares held in each investment, the price per share, the book value of each investment, and the accrued interest earned.

Moved by Mr. Mitchell:

Be it resolved that the annual report of the Alberta heritage savings trust fund provide a detailed explanation of the assumptions

underlying the determination of market values for provincial Crown corporations -- the Alberta Agricultural Development Corporation, the Alberta Mortgage and Housing Corporation, the Alberta Municipal Financing Corporation, and the Alberta Opportunity Company -- found within the Alberta investment division.

Moved by Mr. Dalla-Longa:

Be it resolved that the annual report of the Alberta heritage savings trust fund provide a more detailed schedule of administrative expenses as found within note 4 of the financial statements, specifying the fees, wages, salaries, expenses, or other payments incurred in connection with the administration of the fund.

Moved by Dr. Massey:

Be it resolved that the public review of the Alberta heritage savings trust fund have as one of its terms of reference a comprehensive assessment of the level of administrative costs which are incurred at every level of the fund, including projects and programs undertaken by investment entities held within the fund.

Moved by Mr. Mitchell:

Be it resolved that notwithstanding the other recommendations which have been advanced by the Standing Committee on the Alberta Heritage Savings Trust Fund Act the assets of the fund be liquidated in an orderly fashion, with the proceeds received from liquidation of assets to be applied directly against the unmatured debt.

MR. CHAIRMAN: This does not mean, of course, that that is a complete list necessarily by the Liberals, but I do appreciate them taking the time to have that typed for Diane.

Now, at this particular point in time does any other member wish to read a recommendation into the record?

Seeing none, then, I would like to welcome Pat Black, the Minister of Energy. Pat, we're of course quite informal here. You'll see that jackets will start to be removed shortly. I would just advise you on our procedure. We would invite you to introduce the assistants that you have with you this morning and then make an opening statement, if you wish, and speak for however long you want. As long as it's less than 15 minutes it would be appreciated. We will then start the questioning. We will alternate beginning with the Liberals and then over to the Conservatives, back and forth. We started out having one main question then two supplementaries. We have evolved our situation as we've had the hearings now to when it's each person's time, they have an opportunity to ask three questions. Some of them might follow from the main. However, be prepared that you may end up with three different questions, then, from each member of the committee.

I would advise, then, that you've been invited to appear before us because of your responsibilities as they relate to the heritage savings trust fund and the '92-93 report as it relates to renewable energy research, the Lloydminster biprovincial upgrader project, the Syncrude project, Alberta Energy Company Ltd.

One further point on procedure. We will continue now until 10:03 unless questions cease prior to that, whichever comes first. Either all the questions will have been handled, or we'll reach the time of 10:03, in which case we'll adjourn. So if you'd like to proceed, thank you very much.

MRS. BLACK: Thank you very much, Mr. Chairman. It is a pleasure to be here this morning and to meet with the members of the heritage trust fund committee. I used to be a member of the committee for four years, so I know how important this fund is to the

province and to the people of Alberta. I'm unaccustomed to sitting on this side of the House, not only today but at any time.

We're here today to talk about areas and activities that are the responsibility of the Ministry of Energy. I have with me today some very key players within that ministry. I have my deputy minister, David Manning; my senior assistant deputy minister, Tom Collins; my acting assistant deputy minister of sustainable energy developments division, Paul Precht; and the director of financial analysis and planning, Grant Weismiller. We're pleased to be here to talk about the fund today, and I will keep my comments quite brief so that members will have plenty of time to ask questions.

Mr. Chairman, the only project which received direct funding from the trust fund in 1992-93 was the southwest Alberta renewable energy initiative, better known as SWAREI. As you know, SWAREI was established in 1989 to develop, demonstrate, evaluate, and promote renewable energy technology while also contributing to the economic development, particularly in the Crowsnest Pass-Pincher Creek area.

SWAREI supports the development of wind energy, solar energy, small hydro, methane recovery from landfills, and energy from waste. In doing so, SWAREI provides three types of assistance: first, it's provided funding up to \$3 million over three years; secondly, it provides a power allocation of 12.5 megawatts from the Alberta small power research and development program; and thirdly, it provides information dissemination through vehicles like the information centre in Pincher Creek.

The SWAREI project was initially scheduled to last for three years, ending in 1992-93. Twelve SWAREI projects have been approved and are at various stages of development. Approved projects include six small power projects under the small power research and development program, three nonpower applications such as agriculture water pumping, and four information collection analysis and dissemination projects.

To date SWAREI has succeeded in meeting the following objectives: the promotion and development of environmentally acceptable renewal energy technologies, the encouragement and support of economic diversification of southwestern Alberta, support for private developers in the construction and operation of significant demonstration projects, and the dissemination of information on renewable energy technologies.

Through SWAREI Alberta has taken the first steps forward towards building a new industry based on renewable energy development. Over the last four years SWAREI has played a key role in the demonstration and development of a renewable energy industry and has helped diversify the economy of southwest Alberta. This program has been a success.

Mr. Chairman, the next trust fund project I'd like to talk about is the Lloydminster biprovincial upgrader. The upgrader's turnover from construction phase to operational phase began in the fall of 1991. The turnover was completed in August of 1992, and on September 6 of that year the upgrader produced its one-millionth barrel of synthetic crude oil. In mid-September 1992 and months ahead of schedule the upgrader was into full-scale operation. The upgrader has a capacity to produce 46,000 barrels of synthetic crude per day. The upgrader officially began its operation on November 20, 1992.

The upgrader has been a very positive stimulus to the regional economy of Lloydminster. It has had a positive spin-off on heavy oil production by raising the price of Lloydminster heavy oil by approximately \$1 to \$2 a barrel. This translates into improved production economics for all heavy oil producers in the region and to the Alberta government through its royalty interest in that production. The upgrader is also providing a market for heavy oil

from two provinces and increases western Canada's production of high value oil.

The trust fund has a 24.17 percent interest in the \$1.6 billion upgrader project. As of March 31, 1993, the trust fund's investment was \$74.8 million. This reflects the Financial Review Commission's recommendation that more conservative valuation principles be adopted for investments. Following the commission's advice, it was determined that the investment in the upgrader should be valued at \$74.8 million, which is the discounted value of the expected future cash flows. Accordingly, the upgrader investment was written down to reflect this. It should be emphasized that this write-down results from a change in accounting policy.

The other large project which the trust fund has an investment in, Mr. Chairman, is Syncrude Canada Ltd. Syncrude is the world's largest oil sands operation and produces over 12 percent of Canada's total crude oil. Syncrude has produced over 600 million barrels of synthetic crude oil since it began production in 1978. Production for 1992 was 65.4 million barrels, and forecast production for 1993 is 66.8 million barrels.

Syncrude generates 16,000 direct and indirect jobs annually in Canada and requires over a billion dollars annually of purchased goods, services, and salaries. In addition, it spends on average \$150 million more per year on capital projects. If we were to build a similar facility today, it would cost between \$8 billion and \$10 billion. Alberta's 16.74 percent equity investment in Syncrude is valued at \$499 million as of March 31, 1993. This investment yielded a \$43.3 million profit in fiscal '91-92 and a \$44 million profit in '92-93. Since Syncrude began in 1978, our investment in it has earned the trust fund \$605 million. During the same period the province has received more than \$1 billion in royalties.

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In January 1992 Alberta appointed two financial firms jointly to seek purchasers for the trust fund's 16.74 percent interest in Syncrude. In July 1993 an offer was made by Murphy Oil Ltd., a Calgary-based operation, to purchase a 5 percent share in Syncrude. Negotiations continued until October of '93, at which time a deal was finalized and announced. The purchase price for the 5 percent interest was \$150 million. In addition to representing a fair market value, \$150 million was equivalent to the book value of the 5 percent. The revenue from this sale will be put back into the trust fund; thus the overall financial position of the trust fund does not change. The trust fund now has an 11.74 percent interest in Syncrude.

Mr. Chairman, the final trust fund investment which I will mention is the Alberta Energy Company Ltd. Since its incorporation in 1973 Alberta Energy Company has grown into a company with assets worth more than \$1.9 billion. In 1992 its consolidated net earnings were \$42.2 million. As of March 31, 1993, the trust fund held 25.1 million shares, or 36 percent of the company. At that time the book value of these shares was \$183 million. Their market value was \$470 million.

On April 16, 1993, the government announced it would be selling all of its Alberta Energy Company shares, and on May 11 it sold them for \$476 million. Of the sale proceeds \$183 million was returned to the trust fund, while the remaining net profit of \$273 million was put toward the provincial debt. To complete the privatization of Alberta Energy Company, the Alberta Energy Company Act itself had to be repealed. This was completed effective October 29, 1993. The government no longer has the authority to appoint members of the Alberta Energy Company's board of directors, and, in addition, there are no longer any legislative restrictions regarding AEC's share ownership levels.

AEC now conducts its business affairs in the same manner as any publicly traded company.

Mr. Chairman, that concludes my opening remarks to the committee. I now welcome any questions or comments that members have regarding the four particular areas that fall under our ministry. Thank you.

MR. CHAIRMAN: Okay. Thank you very much.

We'll begin with Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you, Mr. Chairman. I'd like to thank the minister and all her assistants for coming today. I'd like to ask some questions regarding the upgrader project. Given that the taxpayers are paying the interest charges on the advances provided to the operator to cover off operating shortfalls, can the minister indicate when the upgrader will begin to earn income and what the expected rate of return on this fund's investment is forecasted to be? I think the Financial Review Commission indicated that they didn't think it would earn income until '94-95.

MRS. BLACK: Mr. Chairman, as the member will know, the profit on the upgrader is dependent upon on the price of crude and the differential between synthetic crude prices and conventional crude; it's based on a differential between that. As you know, crude prices have been weak this year, this fall in particular, and that has caused a shrinkage on the differential price. To forecast a time frame on when that spread will increase would be very difficult. Paul Precht has been very involved in this and may want to comment on some of those aspects.

MR. PRECHT: We've got a range of forecasts, Madam Minister, that would give us different points at which that could occur. I think the most optimistic would be that it would be in about 18 months' time, but I think there are other forecasts that would suggest that that differential could stay depressed longer than that and it may take a longer time to start seeing a repayment of those operating shortfalls.

MRS. BLACK: We've been receiving different sorts of economic analyses, and the traditional economic models that you would think would apply quite frankly just have not to the circumstances we're dealing with in today's environment. We've had price forecasts that have been all over the map, quite frankly, and we have taken a conservative approach to those forecasts. On purpose we've taken a conservative approach. I think 18 months is a forecast that was the most current as to where that differential was spread far enough to bring in a profit.

MR. DALLA-LONGA: This is my first supplemental question, Mr. Chairman. On January 19 the Premier suggested that the latest forecast of the rate of return on the fund's investment in the upgrader was between 11 and 20 percent. Can the minister provide a more detailed explanation of those factors which influence the rate of return -- for example, the exchange rate, the inflation rate, sulphur prices, margins between heavy oil and light, sweet crude oil -- that would lead to an 11 to 20 percent rate of return and the requirements of those factors to reach that 11 to 20 percent rate of return? He passed a lot of this off to you.

MRS. BLACK: Well, you're quite right; there are a lot of factors that influence the rate of return. One of them is the price of gas; one of them is the price of crude. The interest rates, the exchange rates: those are all factors that contribute to the potential rate of return, as you know from your accounting background. Now where those will all rest -- any one of those factors can affect that rate of return, so I

think you have to look at all of those. I think those originally came in from the operators themselves, but we also do an inside analysis to look at what information we get on a daily basis on interest rates, exchange rates, gas prices, the price of crude in comparison to conventional crude, et cetera, and of course the market. It's a market-driven environment today, so we have to factor all of that into play.

MR. DALLA-LONGA: Okay. A final question, Mr. Chairman. The minister has indicated in the past that current commitments with other joint venture partners would require only \$20 million from the province, from Alberta. Can the minister indicate what the projections are for interest charges to be paid by Alberta taxpayers on the \$20 million in interest-free advances?

MR. CHAIRMAN: Excuse me. How does that tie to . . . [interjection] To the operator, you mean?

MR. DALLA-LONGA: Yes.

MRS. BLACK: I don't believe that that's part of the heritage trust fund. That doesn't fall under the heritage trust fund.

MR. DALLA-LONGA: Twenty million dollars in advances from the province.

MRS. BLACK: For?

MR. DALLA-LONGA: For the upgrader.

MRS. BLACK: That's falling under the 540540 Alberta company, which is not part of the heritage trust fund. The heritage trust fund deals with the capital investment only; it does not deal with the operating side of the upgrader.

MR. DALLA-LONGA: But you could tell us anyway.

MR. CHAIRMAN: Well, she could, and she's welcome to go ahead and do that. Certainly under the mandate of this committee she's not required to, so she'll just make a choice at this time.

MRS. BLACK: Well, keep in mind that 540540 was set up specifically to handle the operating side of the upgrader under the heritage trust fund. Clearly what's there is the capital investment only.

MR. WHITE: Business is business.

MRS. BLACK: I beg your pardon?

MR. WHITE: Business is business. If you're in the business, you're in the business.

8:23

MRS. BLACK: Well, Lance, if you'll give me a moment, I'll tell you about it. I don't mind giving you a brief background on 540540. As you know, there was an operating overrun and that's why 540 was . . .

MR. CHAIRMAN: Excuse me, Madam Minister, before you do that. You're welcome to give us that backgrounder. However, if you do, then I feel compelled as the chairman of this committee to open that up to our discussions, and what I'm concerned about is that within the two hours we cover the particular areas that we're required

to. So I don't want to inhibit you, but I'm just indicating to you that the sort of chairmanship that I've been providing has been to accommodate the committee members as much as possible.

MRS. BLACK: Mr. Chairman, might I suggest, then, that I take the question and correspond back to the hon. member with a response, and we'll focus on the heritage trust fund, if that's your wish.

MR. DALLA-LONGA: I'd just like to make a point of order as well, Mr. Chairman. The \$20 million advance does influence the value of the upgrader, so I guess in an indirect way it is related to the heritage savings trust fund. Just for clarification; okay? Thank you for answering it anyway.

MR. CHAIRMAN: All right.
Carol Haley.

MS HALEY: Thank you, Mr. Chairman. I just have one basically fairly quick question, and that is: with the marketability of oil being low right now, the value being very low, I'm wondering if there's been any idea of just storing some of the oil from Syncrude for a while, or are we continuing to just sell it at this very low market rate?

MRS. BLACK: Well, you're asking me to make a management decision on behalf of Syncrude. Remember, the marketplace is market driven, and if there's a market at a price that makes it economical, then people will go to market. I don't know where you would store the oil. Keep in mind that this is an oil sands project. If the market is there, it's a management decision from Syncrude, not from the government, as to what market they go to. They naturally are bottom line driven the same as any other corporate body.

MS HALEY: That's all I had. Thank you.

MR. CHAIRMAN: All right. Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Madam Minister, my questions will focus on renewable energy research and SWAREI in particular. Presently it's my understanding that the opportunity for small producers to get onto the grid is limited and, in fact, that the program is oversubscribed, that they've been allocated 12.5 megawatts and they've reached the cap. So my question is: is there work under way to ensure a larger allotment beyond the current 12.5 megawatts?

MRS. BLACK: So members know, SWAREI received 12.5 megawatts from the small power program, and that program in fact was oversubscribed. There was a tremendous interest. SWAREI actually went beyond the 12.5 megawatts and was allocated an additional 11 megawatts, and that again was subscribed to. They've had some very interesting projects come under SWAREI that have met the objectives of the program and have provided a review or a basis for a new type of industry development within the province. The program, as all programs, is under review currently with the government.

DR. PERCY: My first supplemental, then, relates again to accessibility to the grid. Clearly the value to producers considering entering this market depends on access to the grid, and, obviously, with discussions of EEMA currently under way and access to the grid and pricing strategies, that determines the value to producers of investing in this alternate energy source. So to pursue this line of questioning: what type of guarantees or what role has been

assigned, then, this type of renewable energy research in consideration of EEMA? Again, this is related to the value of this research, because clearly this program and the value to producers hinges critically on accessibility of entry into the grid and some guarantees of accessibility and growth.

MRS. BLACK: I think it's important to realize that when you take something out of the normal grid and assign it to a special program, like we did under the small power program, and then allocate it to the SWAREI program, it does factor in the overall electrical generation and transmission within the province. This program was specifically designed to look at alternative means of renewable energy sources. That's why there was a focus on looking at a variety between wind, solar, hydro, biomass, et cetera. In this program, when an application comes forward, of course, the cost eventually rolls back into the EEMA formula and is averaged back over in the EEMA across the province. Keep in mind that there's also a cost to that in that there is a subsidy in this program of 5.2 cents a kilowatt that is unique to this program; it's not available in other programs. So there has been a real commitment, I think, from this program to develop alternative sources of renewable energy and to look at building a model, particularly on the demonstration side, to show that in fact it can be available down the road. But it is factored into EEMA already, and certainly as we go through the EEMA review, it then becomes a factor that must be reviewed as well.

DR. PERCY: My final supplemental. In fact, the minister seems to have anticipated where I was going. To the extent, then, that there is a subsidy built into this program, it sends out false signals as to the commercial viability of these types of renewable energy resources. We've lifted the cap and expanded it. To what extent then has the department undertaken benefit/cost analyses which demonstrate the real market value of this alternate renewable energy resource?

MRS. BLACK: Well, let's be clear. A lot of these are demonstration projects. The results and the analyses of these projects are ongoing. Some of them are not complete; others are in different stages of their development. We have been sitting down and going through a review process. Right now I've got a note here that the estimated cost of the program for the 23.195 megawatts from the small power program to SWAREI is anywhere between zero and \$23 million. But as we go through and do the evaluation of the effectiveness, of course, the economics will be looked at as well to see where the future lies with this whole development. Most of these have been done on the demonstration level.

Tom Collins is going to supplement.

MR. COLLINS: I just wanted to add that if we take the cost of the incentive that we're providing -- and as the minister indicated, that could be anywhere from zero to \$23 million over the life span of the 20 years that some of these projects are estimated to operate. We know that two of the projects, the two major wind farms, will spend \$25 million in nominal dollars over that same time horizon. Using that kind of a very crude estimate, you could suggest that there will be a net benefit. But just to support what the minister said, we're just in the very early years of looking at these projects, and I think it's too early to do definitive cost/benefit analyses.

MR. CHAIRMAN: Okay; thank you for that.
Denis Herard.

MR. HERARD: Thank you, Mr. Chairman, and good morning, Madam Minister and staff. It seems like we have an oversupply of generating capacity in this province. Why would we want to be in

the business of trying to promote things like SWAREI when we've got some major problems with respect to EEMA and the overcapacity in generation?

8:33

MRS. BLACK: Mr. Chairman, the member is absolutely correct; we do have an overgeneration in the province today. However, when we look at the future and when we look at how we can do things differently and with different techniques, we have to always be looking on a forward approach of what technologies can come into play and what elements we can use that are not a depleting resource. Certainly the initial thrust to look at alternative sources of electrical energy or energy from renewable sources was a thrust of this program, and I think it's been very successful in doing that. It has been able to utilize solar, wind, hydro, that are not depleting resource elements within this province. So I think it has helped in that aspect.

It's also helped in an economic thrust for particularly southwestern Alberta. It has brought a focus of interest to that area where there have been demonstration projects put up, where there's been an attraction of outside investment to the area. There's also been an idea that if we utilize some of our natural benefits of our solar, sun, and wind, then we're looking at an environmentally friendly way of producing energy down the road, but today -- you're quite right; there is an overabundance of generation within the province.

MR. HERARD: Given that a lot of these projects are demonstration type projects -- in other words, I think if we look at North America or indeed the world, there are a lot of demonstration projects going on in this particular area and some that are considerably more significant in terms of scope. If it's results in terms of research that we're looking for, then why are we not looking at the results of those projects instead of having to do our own? It seems like we're just duplicating things that are happening in other places. Are we duplicating, or is there a special circumstance within Alberta that demands that we do this type of research?

MRS. BLACK: Well, when you're dealing with wind energy, then you have to have a certain amount of wind, which you may not have in all locations even within the province of Alberta. If you go down into southwestern Alberta and go through the demonstration models down there -- I would suggest the committee do that, because it's quite interesting to see the projects up and the benefits that are there from the wind farms. I traveled there last summer myself in an unofficial capacity to actually view some of the projects, and I was very impressed with what they've accomplished. What's appropriate there would likely not be appropriate in other sectors of our province. I think there's a benefit to developing these projects, to taking a theoretical application and applying it, and that's exactly what's happening. There's an application being made of these projects right now. There's also a potential for exporting that technology to other jurisdictions. If we demonstrate it in Alberta and you find like environments elsewhere, then you could export the technology and develop this as a technological development base for southwestern Alberta. So I think there is a benefit to it.

MR. HERARD: My last supplementary is with respect to the subsidy, 5.2 cents per kilowatt-hour. I have problems with subsidies in general. Is there an expectation that these projects will in fact be on-line forever and that this subsidy will continue forever, or is it only through the demonstration phase of these projects that this particular subsidy will be in place?

MRS. BLACK: I believe there is a long-term contract, and it goes for I believe 20 or 25 years. Now, we'll have to get clarification, but it's 20 years anyway that that would be in place.

MR. CHAIRMAN: Thank you.
Lance White.

MR. WHITE: Yes. Madam Minister, there is a different perspective from this side of the House, yes, particularly from this chair.

MRS. BLACK: Don't get used to it.

MR. WHITE: No, no. I'm not about to dirty it either. How's that? All right?

With regards to Syncrude -- while the Premier was before this committee, he made some commitments as to the knowledge and perhaps even the foreknowledge of any sales of Syncrude and how that was to be organized. My question is simply this: who in government decides in the final decision as to whether a sale is made, and who does the legwork? Your department or the administration of this fund?

MRS. BLACK: You've asked me two different questions. You're trying to connect who does the legwork for a sale and who does the administration of the fund. As you know, within the ministry there's a group called Alberta Oil Sands Equity, and we have a representative on the management committee of Syncrude who participates in the management group there. That is an agency of my ministry.

MR. WHITE: The sale -- I was talking about any sales. That's where I started from.

MRS. BLACK: Well, as I said in my opening comments, a firm was hired to look for potential investors or purchasers of our interest in Syncrude. Once the proposals came forward, then it comes to Executive Council or cabinet for final approval.

MR. WHITE: Through your department, I assume.

MRS. BLACK: Well, through a variety of places.

MR. WHITE: What criteria, then, does one use to evaluate how advantageous it is to sell or not to sell? What criteria does one use? Presumably there's some kind of a rate of return, and that rate of return must be evaluated over a period of expected sales or expected income from the asset versus the cost of money that the government is borrowing.

MRS. BLACK: Well, I think in this particular instance those questions should have been directed through the Treasurer. I'm in more the operational side of Syncrude.

MR. WHITE: I just asked if it was your department that did the workup on it, and somehow or other it was said that yes, it came through your department. So either it did or it didn't.

MRS. BLACK: No. I said that the operational side of Syncrude is -- we have a management group called Alberta Oil Sands Equity, and a member of that sits on the Syncrude management committee and works with Syncrude on the oil sands' operational side. I then said that you were mixing two elements together. The sale of the asset then goes through a co-ordinated area and goes through cabinet. But

I think the questions as to all of the assumptions are probably best suited going through the Provincial Treasurer's office.

MR. WHITE: Yet in your opening statements you were reporting how Morgan Grenfell and Lancaster -- that sale came through -- were hired by and facilitated by your department. You can't have it both ways.

MRS. BLACK: I don't believe I said that we hired Morgan Grenfell. In fact, I said that all I was reporting on was the subsequent events that occurred with the capital investment in Syncrude, that our interest in fact had been sold, the 5 percent interest. I did not say that I had hired Morgan Grenfell.

MR. CHAIRMAN: Okay. Thank you.
Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman, and good morning, Madam Minister and staff. Nice to see you here.

I wonder if you could explain to us why Alberta's investment in the biprovincial upgrader was written down by \$217 million in '92-'93.

MRS. BLACK: As members will remember, there was a Financial Review Commission that was put in place by the new Klein government management team just about a year and a bit ago to review the assets that were held by the province and the accounting procedures. There was also a report from the Auditor General that said that we had to have a different approach to accounting on the recognition of our assets. The recommendation came from the Financial Review Commission and from the Auditor General to re-evaluate our position in our assets, and one of those assets was in fact the upgrader. We accepted that recommendation and on the basis of that reflected it in the trust fund investment account.

8:43

MRS. LAING: Have any of the other joint venture partners written down their investments?

MRS. BLACK: I'm hearing yes. Saskatchewan and Canada, I gather, have both written down their investments in the upgrader as well.

MRS. LAING: Has this write-down affected the cash position of the upgrader?

MRS. BLACK: No, it has no bearing on the cash position.

MR. MITCHELL: I'd like to ask the minister about the status of the Underground Test Facility in Fort McMurray and ask her whether she can comment on the success of the commercial application of such technology as the steam assisted gravity drainage to reduce the costs of in situ bitumen production.

MRS. BLACK: Again, that doesn't fall within the heritage trust fund. That actually falls under AOSTRA, which is funded through the general revenue fund.

MR. MITCHELL: But the heritage trust fund does have an investment in AOSTRA.

MRS. BLACK: Well, not for a number of years. The funds for AOSTRA have been coming directly from the general revenue fund. They do not come from the heritage trust fund.

MR. MITCHELL: So at what point do we just stop worrying about the level of investment and whether we're getting a return and whether it worked? Two years?

MR. CHAIRMAN: Well, okay. It looks like we need a little leadership from the chair here. Just give me a second.

MR. MITCHELL: Four and a half years?
I've got other questions if that's . . .

MR. CHAIRMAN: Have you? Okay. I'd appreciate it if you would switch tactics.

MR. MITCHELL: Yes, I will.

MR. CHAIRMAN: Thanks.

MR. MITCHELL: The fund has made a \$419 million investment, as I understand it, in AOSTRA. I wonder whether the minister could give us some indication as to what return there has been on that investment. That's a fairer question.

MRS. BLACK: Well, as you know, AOSTRA was set up to develop new technologies for extraction in the oil sands and for enhanced recovery schemes to look at different ways of development up in the oil sands area. They've been very successful in that. You mentioned the UTF. I would suggest you take a tour of it. It's quite an interesting site. I've been there two or three times myself. It's a point where you get involved, where you attract other players to participate in the development of the technologies that were started off by AOSTRA. AOSTRA has had a very recognizable success in the development of their research and technology as it pertains to oil sands. There's a point, then, where you go into a next phase of taking that into a commercial sense. Some of their projects are reaching that point, but I have to say that they have worked in conjunction with industry to enhance their technologies. Some of those are being put into play now. Others are in what we call phase B, ready to go to that, and in fact are ready to be turned over to other players to take over and have them freed up to do other projects.

So there is a return in the long-term sense of what AOSTRA was set up to do, and that was to develop research and technology in oil sands development and enhancement, particularly in enhancement schemes. They have done that. They've been very successful, but more importantly, through their efforts they have been able to attract an awful lot of dollars from industry to help in that in a joint venture arrangement. So they get a lot of funding from industry players to help them in those development stages.

MR. MITCHELL: So for the \$419 million that we invested through AOSTRA in this kind of technology, has there been any amount of money that has returned to us on the basis of that investment as a result of the sale of the technology and our share in it or royalties stemming from our interest in it, or can you anticipate some specific return from the sale of these technologies?

MRS. BLACK: I think you see a return from the enhancement in the oil sands development, of employing these technologies that have been developed through AOSTRA and putting them in place where you see the development. The economics look better, and that is a return to Alberta. If you ask me on a dollar for dollar what the balancing is, I'd have to say that if industry was not seeing a return, they certainly wouldn't be contributing almost 50 percent of the dollars into certain projects. They would not put money into it. So they can see a return, which translates into a return to the province.

If you're asking me to match dollars for dollars, I haven't gone through that process, but we certainly can look at it, see if there's a report from AOSTRA on that, and get back to you.

MR. COLLINS: I just want to say that in looking at research projects, there's an argument about whether your return should come from the sale of your technologies or whether the return should come in the oil sands area from things like the reduced cost of producing synthetic crude oil in the province of Alberta. The focus for the ministry has not always been on attempting to get return from the sale of technologies. The primary interest has been to find ways of reducing the cost of synthetic crude oil in the province by reducing the cost of doing business. So from that perspective it is somewhat difficult to point to the kind of cost/benefit analysis which I think is being suggested here.

MR. MITCHELL: Well, I appreciate that. I am concerned, you know, that I'm hearing there would be two objectives. I mean, the minister is implying in her answer that she might anticipate making some money, and you're implying in your answer that really that might not be the objective at all. I'd at least feel more comfortable if we were secure about why we got into it.

I would like to pursue this last comment. Yes, it is important to reduce the cost of extraction, but does that actually return more money to the government of Alberta? If we had not assisted in reducing the cost of extraction, does that mean that Syncrude would have stopped, that they would not have continued? No. We get our money, no matter what their costs are, as long as they're dragging that stuff out. We get our royalty. Our return is not based upon their costs, so what we have done is hand them \$419 million, which may be a good idea, to reduce their cost for no return to us and at best a fuzzy view of what the return to us might be, one of two possibilities, the second one not being logically consistent, I would argue. So could you please tell me exactly how it is that we got extra money back for this \$419 million investment?

MRS. BLACK: Mr. Chairman, if I might, a little history on oil sands development. When I was in the private sector working in the oil area and particularly with oil sands, we required approximately \$38 a barrel for production. That was no profit; that was breakeven. With the enhanced technology and the changes in technology that have taken place over the years, that price is down below \$15 a barrel for production. When you're calculating on the heavy oil royalties -- and I have to be very candid in this room with you that had the development of the new technologies not taken place and the ability to cut those costs, it would be very, very difficult for that development to be sustainable. That would mean there would not be the billion dollars to date that we have received from Syncrude in royalties. Remember, royalties in this area are based on revenue less operating costs, so it's very important that the operating side be lessened. We get a royalty based on that net revenue base, so to indicate that we have not received a benefit is not correct. We have received a benefit on the further enhancement and development of the oil sands but also directly on the royalty that the province has received through the development and continued development of those oil sands. It's very important. Plus, don't forget that it's one of the major employers in this province and provides 12 percent of the crude needs in this country.

So it's significant. It's a very important element of the economic well-being of this province and, in fact, is the future that can provide -- and I have often said this outside of this Legislature, and I don't mind saying it in: we know we have 300 billion barrels of crude sitting there today. That's the net recoverable. We have more crude oil sitting in the oil sands than they do in all of Saudi Arabia. So this

is a driving force of our economy, and any technological enhancement that we can do to shave those economics and make them more economically viable is a benefit . . .

8:53

MR. MITCHELL: But at any price? What's the price? I'm just asking: is 419 the right price?

MR. CHAIRMAN: Order, Grant. You've asked your question. She's entitled to answer it.

MRS. BLACK: You keep interrupting, Grant.

MR. MITCHELL: I know. You're right. I'm sorry. I just want to know: what price, and is it worth it? Would \$2 billion be worth it? Would \$10 billion be worth it? Fifteen?

MR. CHAIRMAN: Were you completed your . . .

MRS. BLACK: Yes.

MR. CHAIRMAN: Thank you very much.
Victor Doerkksen.

MR. DOERKSEN: Thank you, Mr. Chairman. At the risk of trying your patience, Madam Minister, help me through this thing. I want to go to the upgrader. We talked about differentials, and we talked about generating a recovery on the province's money at some point in the future. Now, from my way of thinking, as you increase your production, the cost per barrel should in theory go down and you eventually reach a cost per barrel price whereby the amount that you sell that barrel for generates you a return. I guess what I'm aiming at is we've said that we're already almost at full production; when do we reach that magic place where we start making some money?

MRS. BLACK: Well, as I said in a previous question, Victor, there are many factors that affect the production costs of the upgrader. One of them is the cost of natural gas. As you know, those have been on the rise over the last year. In fact, yesterday the NYMEX showed gas at \$2.46 an mcf. So those prices which affect the operating costs have increased. In addition to that, there's a concept on the revenue side of where this becomes economically viable. It's called a price differential concept. I'm going to get Tom to go into the details on this, but it's not a straight price for synthetic crude as opposed to in one market or another. It's a combination of the conventional and synthetic crude and the spread between the two prices. Tom's going to jump in here at any time and go into the absolute details.

MR. COLLINS: As the minister was saying, in this upgrading business the more you produce -- it will drive your cost of producing synthetic crude oil down, but it may not improve your profit, because your profit and your cash flow are dependent upon the differential between the price of heavy crude, which you're putting in the back end of your upgrader, and the value you can get for your synthetic crude at the front end, and those prices are controlled by markets outside of the province of Alberta. The majority of those prices are determined in the U.S. midwest and are somewhat independent of what we do here in the province. So if the price of synthetic crude oil falls but the price of heavy oil doesn't fall in a proportionate way, your operating margin gets squeezed. The revenue that you're generating against the cost that you're incurring reduces, and you may lose money even though you're going at full production.

So when we look at the economics of heavy oil upgrading, we inevitably try and forecast out that price differential, because if it looks like it will be favourable over a longer period of time, then making an investment in upgrading is a good investment. Over the last 10 years there have been lots of forecasts as to what that differential should be. Typically the forecast suggests that it will be in the range of \$4 to \$8, and it's in that space that you've got to make your money. So it's a little different than sort of classic economics of saying, "Gee, if I crank this thing up and double . . ."

MRS. BLACK: Fifty dollars a barrel.

MR. COLLINS: Right.

MRS. BLACK: That's it.

MR. COLLINS: ". . . my production, I'll make more money than if I keep my production at its current level." It is dependent upon where that price differential sits.

MR. DOERKSEN: So if we use the government's new approach to estimating revenues which are based on values of using the five-year average of prices, and we use that same five-year average for heavy oil, for heavy crude -- whatever the right terms are, and I don't know them all that well -- projected those prices down the road, are we ever going to make any money at this?

MR. COLLINS: The differential -- just to give you sort of a snapshot here, if we were to take that as a basis for forecasting whether we would make money or not, there were good economics associated with this. In 1987 we were looking at a price differential of \$7. In 1988 the price differential was \$9. In '89 it had dropped back to about \$8.25. In 1990 the price differential was \$10. In 1991 the price differential was \$12, and in 1993 the price differential had fallen off to the range of \$6. So in the time horizon that the economics of the biprovincial upgrader were being looked at, the price differentials were significant, much greater than they are today. So if you use the five-year-average concept, this looked like and looks like a great investment.

MR. DOERKSEN: All right. Thank you.

MR. CHAIRMAN: Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you. I have just two points on AOSTRA. The first one is almost a throwaway question, but it's really for my own benefit. The technology that was used at Syncrude and Suncor to bring their production costs down to \$15 didn't come from AOSTRA; did it? I'm asking for my own information. It is my understanding that they developed most of that technology themselves. AOSTRA technology is for the deeper oil sands.

MRS. BLACK: A lot of the money went into what was called in situ recovery programs in the early years of AOSTRA. The program that Mr. Mitchell was talking about is the underground mining, the Underground Test Facility, which is a different technique than what has been put in place. If you go to the site, you can see the co-ordination of the research efforts between all of the players in those types of facilities, so I think it would be inaccurate to say that there wasn't collaboration between the groups. I don't think that's a fair statement.

MR. DALLA-LONGA: Okay.

My second question is on AOSTRA as well. It has to do with the Auditor General's report, his recommendations on pages 89, 90, 91, and 92. If I can go back to my background as a former auditor, seeing these sorts of things and having had experience with SRTC type companies, companies involved in new technology, I get the sense that there's smoke in this project in terms of -- there might be a fire here. I have visions of seeing money being spent in all sorts of manners, misspent. The Auditor General talks about mandates, missions, long-range goals. To get to the point, I guess my question is: what is being done about the Auditor General's recommendations? What action has been taken?

9:03

MR. CHAIRMAN: I'm going to step in here. Our mandate is to look at '92-93 and then existing and potential investments. I've been allowing AOSTRA thus far because I was making a general definition of the word "existing," but the report that I have in front of me shows AOSTRA as a completed project, showing 1976-1990, and an expenditure of \$419 million. I'm suggesting that any existing or potential AOSTRA is now a general revenue fund type of operation, or maybe there's some other board or some other agency that's concerned about it. I would submit to the member that in terms of what we're trying to do here this morning, AOSTRA is behind us.

Grant, do you wish to comment?

MR. MITCHELL: Mr. Chairman, I want to say that I really appreciate the way that you chair these meetings. I'm not just saying that. You do wrestle with the issues, and you give us some flexibility, but I will say that this ruling is very problematic. About 99 percent of what the heritage trust fund has it has invested in. It's not investing any new money any more, as we know. So really what you're saying is that what we've been doing for the last umpteen weeks and hours, we shouldn't have been doing, which of course isn't true. We have a \$419 million commitment to this thing. That money hasn't evaporated, nor have the projects or the implications of those projects evaporated. The minister should be aware of it and has demonstrated that she is to some extent. The Auditor General's report is actually quite concerned about the relationship between AOSTRA and the minister, and some of those concerns have implications for this investment. You know, we're not trying to be difficult, but we really feel that it is important that we pursue this.

MR. CHAIRMAN: Well, I just want to make sure that we're in a position here where the questions that we put forward are certainly relevant to what this mandate is. We already have, as you know, questions about the mandate of this committee, so I don't want to get too far afield in the sense of where we're heading into areas that -- I don't have to defend ministers. I mean, they're very capable of defending themselves. I'm trying to just get through this situation.

Danny.

MR. DALLA-LONGA: Yes. I would just like to clarify. I made reference to the page numbers in the Auditor General's report, and maybe I erred in doing that. Specifically, the authority's annual report is an examination of systems used to manage the heritage savings trust fund's investment, and as a consequence -- this isn't indirect; this is a direct relationship. What the Auditor General is asking specifically in here: what are we going to do with this thing? What's the long-range goal? You know, a bunch of money has been spent. I didn't want to go into all the detail. I was just asking a general question: what's being done about his recommendations?

MR. CHAIRMAN: Well, I've misinterpreted your question. I was hearing that you were first in your preamble talking about what the Auditor General was saying about a current situation. What you're asking is what the Auditor General is asking about the completed project. Are we together on that now then?

MR. DALLA-LONGA: The AOSTRA project and what are its goals, where is it going.

The Authority hopes to commercialize the Underground Test Facility . . . Current estimates call for an initial capital investment of \$250 million.

He's got some concerns in that regard. You know, I don't want to go into all the details. I would have thought that someone had looked at these recommendations and something was being done.

MR. CHAIRMAN: All right. Madam Minister, in that context.

MRS. BLACK: Well, Mr. Chairman, we were focusing on the heritage trust fund report. However, I can assure the hon. member that the Auditor General's report has been reviewed in detail by both myself and my officials, and remedial actions have already occurred on all -- on all -- recommendations from the Auditor General as they pertain to the Ministry of Energy. We were of the thought that those discussions would occur at the Public Accounts Committee and not at the heritage trust fund committee as the investment for this year was '92-93 heritage trust fund, and AOSTRA, in particular, has not been funded through this since '89-90 fiscal year but in fact is entirely funded. So that, I believe, is better suited in the Public Accounts arena.

MR. MITCHELL: A point of order.

MR. CHAIRMAN: She's answered the question. Does this lead to . . .

MR. MITCHELL: We haven't funded the Heritage Foundation for Medical Research for 10 years. Does that mean we can't talk about it? The fact is that we've got half a billion dollars tied up in this particular area from this fund. We should be able to ask about it, and the minister should know what the returns are, where it's going. Maybe we want to invest some more money in it. Would that be a good idea? If so, how much? You know, we should be able to talk about this. I just don't accept it, Mr. Chairman.

MR. CHAIRMAN: Well, I've been allowing the questions, and if you want to, you know, proceed using questions along that line, I think you now get a feel where the answers are going to come from.

MR. MITCHELL: But I think you're willing to . . .

MR. CHAIRMAN: I'm not trying to direct the questions.

MR. MITCHELL: I know. But you're willing to limit them. I mean, you're wrestling with that issue, but you're not wrestling with the minister's predisposition not to answer in an area that should be answered. I mean, that minister reports to you and to us in this forum, and she's got a whole bunch of money for which we have a responsibility. I want some answers.

MR. CHAIRMAN: Well, I see my responsibility -- actually, it's nice that perhaps this has come up before we have finished having ministers in front of us, because it's something that, yes, I have been wrestling with. The position that I as chairman of this see is, first of all, to provide the opportunity to question ministers, to then provide

the opportunity to all members of this committee, give them as much flexibility or latitude as I can in order that they can bring their questions forward to the ministers. I'm not going to answer for the ministers. When a question is asked and the answer is provided, it's my responsibility, I believe, then to continue on to either the next supplemental or the next questioner, and I'm proceeding to do that.

Danny Dalla-Longa, you have a second sup?

MR. MITCHELL: I just want to make one more comment. One of the issues facing Legislatures today is the authority influence, the ability of backbench private members to influence public policy on behalf of their constituents. This is a vehicle which, if properly exercised, gives backbenchers the ability to do that, and we have to be ever vigilant that we don't lose that channel for influence and for representing our constituents. What we're confronting here is the ability of a cabinet minister to exercise the kind of power to shut things off and to cut out much of the Legislature process and the impact and influence of private members like you and me.

MR. CHAIRMAN: I not only agree with your comments, I empathize with them. You know, in my other life I'm also a private member. This might be an excellent opportunity to thank the government leaders for the new Standing Orders, where we are then able to debate in the House current expenditures under the heritage savings trust fund. I was able to participate for two days in debate on the current '93-94 expenditures and found that a very interesting and enlightening situation.

MR. MITCHELL: We've always been able to do it, but I see . . .

MR. CHAIRMAN: Well, maybe I've given you some credit, then, where credit wasn't due.

MR. MITCHELL: I don't want to take credit falsely.

MR. CHAIRMAN: Where I continue to have problems in trying to provide as much opportunity as I can to you as committee members is -- we're dealing with old stuff here. We're dealing with '92-93 stuff that's behind us. In practically all cases we have yet to have a minister who was in that particular portfolio when those expenditures were spent.

9:13

MRS. BLACK: Mr. Chairman, might I close this area off, because we have been talking about . . .

MR. CHAIRMAN: Well, we can't. Danny has still got one supplemental coming.

MRS. BLACK: You have another one?

MR. DALLA-LONGA: Yes. I'm allowed three questions. Sorry.

MRS. BLACK: All right; let's hear it. I got caught up in Grant's lecture.

MR. MITCHELL: Somebody's got to defend the private members in this Legislature. These guys won't.

MR. DALLA-LONGA: Well, I'd like to move over now to the Lloydminster biprovincial upgrader project and talk about the Auditor General's recommendations in that area. In his most recent annual report -- and once again I guess my point is the same: we have an investment continuing to spend money, albeit some of it's

from the GRF. On page 15 the Auditor General made his recommendation, and the Premier, in his appearance before this committee January 19, indicated that a detailed analysis of Alberta's expectations for the upgrader was being conducted by the Department of Energy, which was, I think, in response to the recommendation that the Auditor General had. That was, and I quote:

It is recommended that Executive Council identify Alberta's current expectations from its investment in the Lloydminster Bi-provincial Upgrader.

Just to repeat. The Premier indicated in response to that that there was an analysis being conducted by the Department of Energy. My question is: can the minister provide further information on the nature of this analysis; i.e., what factors are being examined, when will it be completed, and will it be included in the department's three-year business plan?

MRS. BLACK: Okay. You've got different elements in there. Mr. Chairman, as I said earlier, we have a group called Alberta Oil Sands Equity, which is a body that reports through this ministry. They are involved with the ongoing operational side of Syncrude, the upgrader, and OSLO. They work with the management committee of these groups to look at the ongoing operational side of things and the future. Each month they provide us with an operating report based on estimate to actual, and that gives us trends to look at as to what factors are affecting the economics of the upgrader in particular. We then gather that information together, and we sit down periodically with AOSE people to try and project forward the economics that we will be facing with these projects.

As I mentioned earlier in my comments, some of the factors that have been affecting the economics have been the shifts in the prices, the changes in the differentials that we've experienced since the project was initially planned, and even start-up time, the changes in the differentials. In addition to that, we've had a change in the costs of natural gas that has been a factor into the economics of this particular facility, as all other plant facilities within the province.

So there's an ongoing relationship between the management team that then flows through to my department officials, and in particular, on the economic side there's a monthly reporting that comes through from AOSE to the ministry so that we can again review estimate to actuals and try and project some of the future forecast elements. If you look at models today and you try and employ standard economic models for forecasting, you realize that you have to go every day on pricing and factor back trends to develop them forward. You're well aware of this, and this is no different from any of those models. So I think the relationship is very clear.

As you know, we've gone through a change in management style since last year. Many of the recommendations that are in the Auditor General's report that you were referring to we have already said we accept, and I'm taking remedial steps to make sure that we have dealt with those within our ministry. It's no secret that we have been going through a restructuring mode, and that is not available for comment yet. We've gone through every ministry -- mine is no different from any of the others -- to make sure that we have the most efficient and effective process in which we can go through the development and exploitation of our natural resources.

MR. DALLA-LONGA: Thank you.

MR. SOHAL: Mr. Chairman, I want to know: does the government have any plans to sell the remaining 11.74 percent share in Syncrude?

MRS. BLACK: Well, if there were a buyer that came forward with the right price. As you know, the government's plan has been to get out of business, but certainly it is not going to be given away. So if the right buyer came forward with the appropriate buyout provisions to buy it, then it would be looked at, as would any other offer that would come forward, but there is not going to be a giveaway of the asset.

MR. SOHAL: I agree with your philosophy of privatization, but as a business decision would it be wise to sell that interest at this time when the oil price is so low or to wait until it goes up?

MRS. BLACK: Well, I would think that would be one of the factors the potential purchaser would be putting on his side of the economics. Keep in mind that even if our interest is sole, we still accrue the revenue from the royalty side, from the production. So the royalty income would still be coming in. I'm not aware of any such proposal at this time, but that would be a decision, I would think, on the buyer's side that they would factor in.

MR. SOHAL: The last. The money received from the sale: would it go to general revenue, heritage trust fund, or to eliminate the deficit?

MRS. BLACK: Well, proceeds naturally have to go back into the heritage trust fund to clear the investment that is there. Any surplus funds from a sale would go, as they did in the last, to the debt.

MR. CHAIRMAN: Thank you.
Grant Mitchell.

MR. MITCHELL: Pass.

MR. WHITE: Mr. Chairman, through you to the minister. It's interesting that some of the questions that were just given by my colleague were those same questions that I posed off the top at the time of my first question and received much different answers in the effect that you would not answer. The second question was: the criteria one would establish to sell one of these assets. You just answered that to another member. Now, there have to be similar rules here.

MR. CHAIRMAN: I think there are similar rules. I think it's just the manner in which questions are asked by different individuals. You are particularly astute, sir, in getting two and three and four concepts into your questions. Sometimes, you know, people may key on one area and not the other areas. You know, I think your intelligence comes through in your preambles, and perhaps sometimes it confuses us a twitch. Perhaps a little foresightedness on your part might help.

MR. WHITE: In answer to the previous questions about evaluating a sale and that you'd be open to offers, as the Premier said when he was here also, surely there has to be some kind of yardstick by which you measure these. Now, all I ask is how you measure these. If you value an asset, you and your department being managers of this asset must project some kind of income over the next three to five years. However accurate it may or may not be, you have to have some kind of prediction. All I'm asking is: how is that done, and what are the elements? I needn't have them produced verbatim right now. Perhaps an answer to the question is that they can get back to and report through the chairman, as is the normal method.

MRS. BLACK: We can get back to you on it, but be very clear that what I answered earlier was that if a proposal came forward and it was assessed and it had an appropriate value placed on it, then it would be looked at. That's all I said.

Now, when you get into evaluating a proposal, you have to look at market values. You have to look at book values. You have to do rates of returns. You have to look at discount factors, et cetera. All of those enter into any kind of proposal that would come forward. There are a number of factors. We can give you a basic economic model for evaluating a property, if you wish, that you can have. Basically, in particular on Syncrude, if we have a viable economic entity there but it is not government's role to be in business, and if an appropriate proposal came forward that met all the criteria that were laid out, then it would be reviewed. If it was found acceptable, then it would be accepted. If it wasn't, it would not. We haven't got one right now that I'm aware of.

MR. WHITE: Tell me then. The contract that is with Morgan Grenfell and Lancaster investment counsel was renewed on or about June 15, shortly after the election, I understand. Will the details of that be produced through this committee, the details of the original contract and renewal?

MRS. BLACK: I would suggest that you would have to direct that question to the Provincial Treasurer. It was not a contract with us.

MR. WHITE: Will the minister through this committee make public any future offers of sale and details of same if, of course, they've been accepted?

MRS. BLACK: Well, in fact, in the last process I believe the offer was tabled in the House by the Provincial Treasurer. I would certainly not see any change to that process.

MRS. LAING: Mr. Chairman, I'd like to ask a couple of questions about the upgrader. Madam Minister, what would be the reasons that Alberta contributed to the cost overrun of the biprovincial upgrader when the economics are very shaky and Saskatchewan decided not to contribute?

MRS. BLACK: Do you want to answer this one, Paul?

MR. PRECHT: I think there were a couple of considerations at the time that those overruns were occurring. One was that differentials were stronger at that time, as Mr. Collins pointed out earlier here, so the forward looking economics for the upgrader were more positive at the time. The other thing is that they were occurring at a very late stage in the actual construction process. So in a sense what happens to you at that stage is that you become a hostage to your sunk costs. After you've put \$1.2 billion into something, if the cost of completing it is another \$190 million, which is what the second overrun amounted to, to save \$190 million you don't want to walk away from your \$1.2 billion or \$1.3 billion that you've already invested.

MRS. LAING: What happened with Saskatchewan's share? How was that covered? Was it covered by the other participants?

MR. PRECHT: Saskatchewan did not participate in the second cost overrun during the capital costs, and that was picked up by the other three participants: Canada, Alberta, and Husky.

MRS. LAING: Do you think that the upgrader is still a viable investment for Alberta in light of the times?

MRS. BLACK: I think one of the advantages is that the upgrader has certainly had an effect of increasing the value of the feedstock coming in by a dollar to \$2 a barrel on that heavy oil market, which affects all the heavy oil production in the area. Again, this differential of going from the heavy to the synthetic, or the feedstock to the synthetic product at the end, is where the cost is, but if you didn't have a marketplace or an area for your heavy crude to go in through, you would see a downside. The benefit from the production on the heavy side -- the cost, because of the small differential, is the factor that is of concern. So you have a positive on one element of it, but you have something that is not as favourable today as it was projected to be because of the shrinking differential between the feedstock and the synthetic crude at the end.

So to answer your question, I think in the overall scheme of it with the development in the heavy oil and the increasing price on that, you factor it in together. You have to look at the whole picture, and then it is on the positive side. So I think it has a positive impact.

MR. DALLA-LONGA: Just continuing along, Mr. Chairman, on the upgrader, I guess my first question would be: in the interests of ensuring openness and accountability to the taxpayers of Alberta, is the minister prepared to finally release the joint venture agreement between the partners to cover off the second capital cost overrun which occurred in early '92 and the joint venture agreement between the partners to cover off the operating shortfalls?

MRS. BLACK: We would not be prepared to release the agreement for the very straight answer that it is a commercial agreement and we have not got the approval of the partners to do that.

MR. DALLA-LONGA: Yes, but the Provincial Treasurer has many times indicated in the House here that if companies want to do business with the government, they have to acclimatize themselves to having such agreements aired in the open.

MRS. BLACK: Well, that was then, and this is now. This agreement was then, and now we're now.

MR. DALLA-LONGA: Where have I heard that before?

MR. MITCHELL: Ralph was changing his mind on ALCB. You know, it seems like there's change there.

MR. CHAIRMAN: Order.

MR. MITCHELL: I'm sorry.

MR. DALLA-LONGA: I have no other questions, Mr. Chairman.

MR. CHAIRMAN: Grant, do you have a question?

MR. MITCHELL: No, I'm fine.

MR. WHITE: I do. On the upgrader -- surely the minister can answer very simply and succinctly. When a partner reneges, as Saskatchewan did, on the original agreement to provide funds for the shortfall in the capital and operating side, their equity is written down in a normal commercial transaction. Was the equity written down, and if so, by how much? This is public ownership we're talking about.

MR. CHAIRMAN: Well, you've asked an excellent question in a clear and concise manner, and she's deliberating on her answer.

MRS. BLACK: What we can do is provide you with Alberta's equity position within the upgrader. I cannot provide you with the province of Saskatchewan's or any other player's. Alberta's position -- we have participated in the joint agreements. If a partner does not participate, then their position is diluted on the operating side. So there's a deferral -- and that's a normal operating agreement -- if other partners choose to pick it up.

9:33

MR. WHITE: On the operating side. But we're talking about equity, and the input of additional share capital and operating capital dilutes the interest before and after. It's probably agreed that in the commercial arrangement you could not divulge the other partners, but certainly -- and you've answered partly -- we can answer what the current equity is. Well, then you should be able to tell us what the before and after effect of that was. Can you do that? Maybe not here and now but subsequently?

MRS. BLACK: The difficulty is that I don't have agreement from the other players to release the agreement. To get in and answer your questions, it makes it very difficult. It puts us in a difficult position to do that, Lance.

MR. WHITE: Could you then at least try to get agreement? The other players must recognize that it's public ownership through this committee reporting.

MRS. BLACK: Yes, I can make that commitment to you.

MR. WHITE: It'll be subsequent to this meeting, so then you could report back through the chairman to the committee. That would be fine.

Thank you.

MR. CHAIRMAN: All right. No further questions?

If you would just hang on a bit, there are just a couple of business things to get out of the road, and then we can thank you more appropriately.

Any further recommendations to be read into the record? Okay.

Could we have a motion for adjournment? All in favour? Opposed? Carried.

Okay. We'll see you at 10 o'clock.

[The committee adjourned at 9:35 a.m.]