8:30 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Order please. We have a quorum present. As well, we have Minister West here before us today. Our normal run of events is that the minister has time to introduce those he has with him today and whatever it takes to explain the position in the '96-97 accounts. Then for the questions that do come, we allow a fairly full range but primarily centred around the history which is contained in the accounts as well as questions raised by the Auditor General. I have to by form rule policy questions, or new policy questions, out of order.

First of all, Dr. West.

DR. WEST: Thank you, Mr. Chairman. I'm pleased to have with me today from the Department of Energy assistant deputy minister of corporate services and senior financial officer, Don Keech; assistant deputy minister of mineral operations, David Smith: assistant deputy minister of planning and development, John Donner – Mr. Kyoto, that's what I call him; director of financial planning and reporting, Douglas Borland; Jane Clerk, executive director of planning services; and Cheryl Mackenzie, director of communications.

I start off my comments every year this way because of the hope that we will change the process. Having to deal with '96-97 accounts is to me as minister a bit redundant. I was not the minister of the day. I was talking to some people this morning and asked them if they could go back to '96-97 in their private lives, with their accountant or without them, and discuss the things they did and how they ran those years in their lives. Unless there was something dramatic, something catastrophic in their lives, the relevance of any particular month or event or expenditure would escape them. So I'm going to try to do the best I can. I bring a team of people with me that outlast ministers, that go from minister to minister, and have the awesome job of running departments such as the Ministry of Energy on behalf of Albertans on an ongoing basis.

I open with those comments because I feel strongly that this process should be changed. The events should come closer to the actual administration of the day rather than lagging by two years. How you do that or what recommendations you make as a committee might stand in history if you do it right. So, Mr. Chairman, I would ask you again, as I've asked other chairmen, to consider some positive thing. I get that from sitting on this side of the Assembly. I've never had an opportunity to – there's something about it. You just start to criticize as soon as you sit here.

THE CHAIRMAN: I must mention that the recommendations and the movement you're looking for come from that side of the House. Unfortunately, it is not reciprocal from the other side of the House, from what I've noticed in this chair. So if you want to have some input, this member as well as a number of others would dearly like to sit down with you sometime and discuss how it could be made better.

DR. WEST: Well, I think that would certainly serve Alberta better.

THE CHAIRMAN: Right.

Could I digress for a moment here, Mr. Minister, and allow our Auditor General to introduce some of his staff.

MR. VALENTINE: Thank you, Mr. Chairman. On my left is Jim Hug, Assistant Auditor General responsible for the audit of the Department of Energy; on my right Mike Stratford, who is a principal in the office with primary responsibilities for that engagement; and in the gallery Lynda Engelhardt, Sharon Johnson, and Valerie Holmgren from my staff.

Thank you.

THE CHAIRMAN: Could we also digress for just a moment to approve the agenda. Might we have a motion? Is it agreed? It's carried.

We do have some minutes to catch up on too, the minutes of the 4th and the minutes of March 11. Those have been circulated. Any errors or omissions noted? No. So moved as presented. Is it agreed? Carried. Thank you kindly.

Mr. Minister, if you'd carry on.

DR. WEST: Yes. I would like to just say that the Department of Energy and the Energy and Utilities Board work in the public interest as an energy/ministry team so that you know that the Energy and Utilities Board, situated in Calgary, works with us. The ministry's goals and strategies support the government's priority of a prosperous and growing economy and preserving the sustainability of Alberta's nonrenewable resources. In this year under review, the department had five core businesses managing the disposition of energy and mineral resources, collecting the Crown's energy and mineral revenue, providing policy analysis and advice, promoting research in the province of Alberta, and supporting industries' expanded trade and development.

The Alberta Energy and Utilities Board has four key businesses: adjudication and regulation, applications, surveillance and enforcement, and information and knowledge. By addressing these core businesses, the ministry ensures that the development of Alberta's energy and mineral resources and the operation of energy utilities occur within an administrative policy and regulatory framework that benefits both present and future Albertans.

Let's look for a moment at a brief overview of the industry in the period we're considering here today. In 1996-97 the energy industry represented 25 percent of the investment in the province. This is up from 20 percent in 1995-96. Record industry activity resulted in high ministry activity. For example, the Alberta Energy and Utilities Board processed more than 19,500 facility applications. For the energy industry 1996-97 was a record year. On the strength of higher oil and natural gas prices and increased sales of Crown leases, the government of Alberta's nonrenewable resource revenues climbed 34 percent to $4.4 billion, up from $3.2 billion in '95-96: $351 million from petroleum and natural gas leases; $535 million from oil royalties, crude and synthetic; and $289 million from natural gas royalties. These revenues reflect a busy, profitable year.

We produced 72 percent of Canada's conventional oil and all of its bitumen and synthetic oil. Gas production increased to a record 4.9 trillion cubic feet. This is more than 80 percent of Canada's production. Industry completed a total of 9,476 wells, the highest total on record, mind you, until today. This, of course, means that the ministry had a busy year. Yet at a time of record industry activity the ministry reduced its expenditures by one-third, from about $180 million in '92-93 to $120 million in '96-97.

The energy sector is cyclical in nature. Prices and investment activity go up and down based on a number of factors. The price of oil, what Iraq is doing today: these all have an effect on what is happening in the oil industry on any given day. If you take the picture I'm giving you today and look at it as it stands this morning, you can understand that statement.

The Energy minister's policies, programs, and even our regulatory framework are all designed to provide a climate that encourages ongoing development and economic growth. This, of course, has an immediate impact on employment, production, investment, exports, and production costs.

We had several significant achievements in 1996-97. We introduced the generic royalty regime for oil sands development and began working with industry to develop regulations, business rules, and transition. Industry has responded very positively to the regime. At the time, industry had announced oil sand investments in the neighbourhood of $ll billion. Today, of course, we note that figure is in the $20 billion range.

We encouraged research through the Underground Test Facility to continue development of the steam-assisted gravity drainage technology. Gulf Canada and Suncor both approved funding for horizontal wells drilled from the surface to research further their use of this technology to extract oil from the oil sands.

We began implementing the Electric Utilities Act so that Alberta could continue to offer electricity rates that are among the lowest in North America and the industry could continue to meet the province's need in new electricity output.

We have played a leading role in the climate change negotiations and on the Alberta government voluntary challenge and registry action plan.

These are just a few examples of various ministry accomplishments that are often not noticed when we look at well activity and licences issued and other significant milestones in the energy sector.

Mr. Chairman, that concludes my remarks. I'm prepared to take questions now on the 1996-97 operations of the Department of Energy.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mr. Stevens.

***8:40***

MR. ZWOZDESKY: Thank you, Mr. Chairman. Good morning, Mr. Minister, to you and your staff and, Mr. Auditor General, to you and your staff, and to all colleagues gathered here.

I want to begin by referencing volume 2, page 66 in public accounts '96-97, wherein there are some entries with respect to energies that flow into the department, hon. minister. I note that there's a write-down of capital assets in the amount of $7.08 million. I was hoping that the minister might explain to us what that write-down is comprised of and what it is that precipitated a write-down of $7 million on that particular page.

DR. WEST: You want to . . .

MR. ZWOZDESKY: Just an explanation of the write-down of capital assets. It's four lines from the bottom on page 66.

DR. WEST: Those write-downs were relevant to the MRIS system that we put in place and relate to the development work done by the first contractors, which were not used later in the construction. It was a one-time-only write-down.

MR. ZWOZDESKY: Thank you. I want to cross-relate that, hon. minister and Mr. Auditor General, with comments in the Auditor General's report on page 93. As I understand it, the mineral review information system essentially pertains to the tabulation and collection of gas royalties. I note that the Auditor General has made a couple of recommendations in the first paragraph on page 93. He comments on a couple of suggestions he's made that relate to the reassessment of the risks involved in the system. I was hoping you might explain to us what those risks are or were, how your department has dealt with them, and whether or not you've now accomplished the two major recommendations the Auditor General spells out there with respect to reassessing those risks and simplifying the objectives of the MRIS program.

DR. WEST: Yes. David Smith will answer that.

MR. SMITH: I don't have the Auditor General's notes in front of me, but I believe one of the references was to ask the department to determine whether or not they should proceed with the system and the risks involved in that. At the time, we had legislation that introduced new gas royalty legislation effective January 1994, and we were considerably behind in invoicing that gas royalty. We were operating on the basis of estimates. The issue is whether or not the system would be completed at all, because it was a very, very major development that had gone badly off the rails. The risk then was that we would have a legislated gas royalty levy and no ability to deal with that and be several years behind. In fact, the system was completed and effective July 1997 all invoicing was up to date.

MR. ZWOZDESKY: Does that mean that the Auditor General's recommendations were implemented?

MR. SMITH: Yes. We have dealt with the Auditor General's recommendations.

Another observation made by the Auditor General was that the functionality originally intended for MRIS was incomplete, and we did scale back on the functionality and in fact adopted a different management approach to dealing with gas royalties because of that. However, some of the essential functionality that was primarily management reporting, which would provide management with the assurances that gas royalty was completely and accurately levied, we did have to proceed with, and that functionality has been completed by way of an enhancement budget. That is a standard budget that exists for any operational system, and we have been gradually building that functionality. Today we can tell you that our internal controls are in place, and although not every management report has been completed, substantially they are completed, and we feel very comfortable with the assessment and levy as it stands at the moment.

MR. VALENTINE: Mr. Chairman, as indicated in my report, this observation originally arose in the 1994-95 report. The area is one of risk, as the assistant deputy minister has noted, and by the end of our work last year we were able to include the comment which appears in the second to last sentence in the second paragraph on page 93. There are the enhancements that the assistant deputy minister made reference to just now, and we will be looking at those in the course of our current year's examination. If there is something to bring to your attention, it will appear in our report.

THE CHAIRMAN: Thank you.

Mr. Stevens, please.

MR. STEVENS: Thank you, Mr. Chairman, and good morning, Mr. Minister. My initial questions relate to energy revenue and, in particular, nonrenewable resource revenue, volume 2 of the public accounts on page 66. I appreciate that in your opening comments you touched upon this, but I notice the nonrenewable resource revenue for '97 reflects a 40 percent change or $1.2 billion increase over '96. I'd appreciate it if you could elaborate on the factors that led to that change.

DR. WEST: I think the question has good relevance based exactly on what's happening today when we look at the possibility of oil dropping under $13. You can understand the volatility of this product in the province. As it relates to those revenues, natural gas in that time had spiked to what we call the Alberta reference price. It went to $1.78 in '96-97 versus $1.38 in '95-96. So natural gas revenues moved substantially. Of course, we're running at about

$1.80 right today, a little over that actually. So it gives you the comfort that this was a good year. From a natural gas point of view this is a good year, and that is a saving grace.

Also in that time, conventional oil prices rose – remember that two-thirds of our production was conventional oil prices then as today – from around $18.69 in '95-96 to $22.86. These are averages. To get an average, you probably spiked at $26, $27. That was a very good year for that in '96-97.

Now, looking at it today, you can also make the reference to this year. We are reconsidering our average yearly $17.50 a barrel, and you heard that yesterday from the Treasurer. It does send that shock into the system. The other thing: the oil price in the royalties from the oil sands went up $230 million. Some questions came out the other day in regards to revenues. If you look back to '96-97, you understand that we spiked there also from the oil sands. Somebody says: has the oil sands royalty regime – and that may come up later this morning – affected the type of revenues we'll see from the oil sands? Traditionally, we've averaged about $50 million a year. In fact, in the mid-80s and some of those years we were down as low as $7 million and $10 million from the oil sands. We had an exceptional year last year at over $500 million. Traditionally, we've had high years before. Back in '85-86 we were spiked at over $300 million. In this year we went to $230 million from the oil sands, and that affects that 40 percent increase.

Land sales, of course, went up this year also – $370 million, which gave it a spike. Land sales are the other component, which most people don't understand, built into the price of oil and stability in the province. Land sales are very, very significant. Land sales are the right to drill and explore for certain gas or oil in the province. Last year we hit over $l billion in land sales. Again, this was a very good year, '96-97. But as oil and other products go down in price, so do the bonuses on land sales. Fortunately, although this year our land sales will start to decline, again natural gas is keeping them up, which is a good thing because of the same price as we saw in '96-97, about a buck eighty plus. We're about 30 cents over our reference price projections for the budget, which strengthens us, but we can't sustain that forever if oil keeps going down.

Thank you.

***8:50***

MR. STEVENS: Thank you.

I note that the components of resource revenue for the most part went up in the '96-97 comparison, but there was one decrease, and it was in the area of coal royalties. I was wondering if you could elaborate on why that was.

DR. WEST: Could you answer that?

MR. SMITH: Yes. The change in coal royalties is partly due to an exceptionally high revenue number in the previous year, where we had some onetime audit recoveries for prior years, so they were all brought into that one year, which raised the overall level of revenues in that year. In addition, because the coal royalties are based essentially on the net profits of the coal mine, we do allow capital expenditures in full against the calculation of royalty. In that year there were significant capital expenditures incurred by some of the mining companies, so that further reduced the number.

MR. STEVENS: Thank you.

THE CHAIRMAN: Ms Olsen, followed by Mr. Hierath.

MS OLSEN: My questions are around the issue of the year 2000 compliance. I'm wondering what steps the ministry took during '96-97 to address the year 2000 compliance issue and where you're at right now. [interjection] Anyone.

MR. KEECH: Perhaps I can answer that for you. By the nature of the IT systems we have, which are extremely large systems, we've taken this very seriously. We work very closely with George Samoil and the Chief Information Officer's office on this issue, and in fact our department has been held out as one of the examples of departments making significant progress. So we're very comfortable that we'll be able to address all the issues within our own systems.

MS OLSEN: What is the price tag? What is the cost that's been estimated to do that, and how long is the process taking you? Where are you at right now, and how long ago did you start? Where are we at? What are the associated costs?

MR. KEECH: We started in 1996. I don't have an actual cost. It's built in as part of our overall budget. The budget for IT is approximately $25 million per annum, and that cost is a component. Certainly there is a fairly significant cost because some of the systems are 15 years old. It's not as if you're starting today to incorporate this. You have to go back and redevelop it. I don't have an actual breakdown of the cost.

DR. WEST: But it's inside our maintenance budget. You're asking if we're going to be hit with a large number. It's an ongoing part of the maintenance budget, and you must be flexible internally to address it and spend the money where you need to. So I think your question – in some systems, in some departments we notice that they're going to have to use a tremendous amount of outside resources. Perhaps because we started in '96 and are looking at that within our budgets, we're accommodating that.

THE CHAIRMAN: Further questions?

Mr. Hierath, followed by Ms Blakeman and Mr. Klapstein.

MR. HIERATH: Thanks, Mr. Chairman. To the minister. In volume 2 on page 66 under energy revenue, particularly under miscellaneous at the bottom of that column, there's an increase of over $3 million in miscellaneous revenue. Would you break those costs down a little bit or give us a reason for the more than $3 million increase in miscellaneous revenue.

DR. WEST: The oil sands have had participation by the province over the years. They've had participation by the province in the other oil sand leases, they call them – six, was it at one time? But we have sold our interest. This year we sold our interest, a 10 percent interest, in some of those leases to Syncrude for $3.5 million. It was adjusted for paid lease rentals. But that's what the miscellaneous was, the $3 million: a sale of the province's share in one of the leases.

MR. HIERATH: You don't anticipate any large increases in miscellaneous revenue for the coming year, then, because of the sale of tar sands equity?

DR. WEST: Yes. There would be more sales coming out of that. I think one of the other – lease 29 has a sale pending this year that we're looking at. There is some technology that we're selling, cold water extraction technology, that will probably return the province some dollars when we get this sold. So we're cleaning up the miscellaneous participations by the province so that these projects can move on clean in the private sector.

THE CHAIRMAN: Mr. Hierath and Mr. Minister, you recognize that although the question was asked and answered well, it doesn't deal with that which is before us. It delved into the future, which was nice of you to answer, but we both recognize you've been here long enough and we don't need that.

Miss Blakeman, followed by Mr. Klapstein.

MS BLAKEMAN: Thank you, and welcome to the minister and his staff and the Auditor General and staff. As an aside, I agree with you. I would like to see the process of this committee improved and updated.

The question I have is coming out of the Auditor General's report, pages 92 and 93, but I'm looking particularly for the work that was done by the department pertaining to the performance measurements and reporting project.

DR. WEST: Did you have a question?

MS BLAKEMAN: Yes. I'd like an explanation of the work that was done on the performance measurements. What progress was made as you worked on these performance measurements as discussed?

DR. WEST: The question is: what progress have we made on the performance measurements that were started in this year? Is that correct? The reference point is '96?

MS CLERK: Okay. With respect to that, we had invited the Auditor General to participate in work that we were undertaking to introduce performance measurements throughout the operations of the department, and that work has proceeded. We're in the process of finalizing the operational plan now for the next fiscal year. It was also intended to introduce better processes to align our measures with the goals and strategies in the business plan, and I think by and large those have been accomplished. The Auditor General isn't a participant in that project anymore; it has been wound down. It's an ongoing operational activity.

MR. VALENTINE: Mr. Chairman, let me draw the member's attention to page 9 of the department annual report, where the audit work that was done in connection with the performance measures included in the annual report by the department appears.

MS BLAKEMAN: I'm sorry; page 9 of which document?

MR. VALENTINE: The annual report of the department.

MS BLAKEMAN: Okay. Thank you.

THE CHAIRMAN: Mr. Klapstein, followed by Dr. Pannu.

MR. KLAPSTEIN: Thank you, Mr. Chairman, and good morning, Mr. Minister and staff. I notice that on page 94 of the '96-97 Auditor General's report a recommendation was made that management improve the administration of the Alberta Oil Sands Technology and Research Authority's projects, specifically the Underground Test Facility. Has anything been done to ensure that the manager is purchasing bitumen produced by the UTF in accordance with the approved purchasing agreement and that the authority is receiving the correct proceeds from the sale of the bitumen?

***9:00***

DR. WEST: A good question. It is under investigation. Our share was sold September 30, 1997. An independent auditor has been hired to look at the accounting for phase 2 of the Underground Test Facility, including the issue of revenue received by the authority for the sale of bitumen. So I can't comment on it until we have that report back to us in regards to anything relevant to this. But it's a good question.

THE CHAIRMAN: Mr. Minister, you may in fact take it on notice, and if you wish, upon completion of that information that deals with the budget year before us, you may want to route it through the secretary to all members, in particular Mr. Klapstein.

DR. WEST: Yes. I'll take it under advisement.

THE CHAIRMAN: Thank you kindly.

MR. KLAPSTEIN: Mr. Chairman, just to be clear, do I understand from that that there have been no findings brought forth to date?

DR. WEST: No. That's correct. There have been no findings to date, and I don't believe that the Auditor General has had a full review of this yet.

MR. VALENTINE: I must admit I'm not aware of it.

DR. WEST: You will be.

MR. VALENTINE: Thank you.

DR. PANNU: Mr. Minister, I have a couple of questions on the expenditure side of the department on page 65, volume 2 of public accounts '96-97. There are some overexpenditures under item 1 and then under 4. Under support services altogether there is a total of about $709,000 overexpended. If you'd kindly help us understand how and why that is the case. Similarly, under research and external relations there is a total overexpenditure of $229,000, $208,000 of it being external relations and communications. I wonder if you'll kindly explain that for me.

DR. WEST: I'll have the head of corporate services explain that.

MR. KEECH: We look at the first part, which is departmental support services, totaling an overexpenditure of about $709,000. The bulk of that came from corporate services and from amortization. The corporate services part was due to consulting costs, that weren't anticipated in the budget, to develop a framework for strategic plans. So that was about $200,000. The remaining $55,000 was again unanticipated. It was computer upgrades as a result of the introduction of PeopleSoft, the Imagis accounting system throughout government. That had not been budgeted, and it required an expenditure to upgrade the computers.

So about $255,000 came, then, in the corporate services area. The bulk of the rest of it, $583,000, was a variation correction under the amortization. We amortized the assets over a period of time, and in this particular year this was a correction of previous estimates that were incorrect. So they were corrected in this particular year. It doesn't all relate to '96-97. It relates to previous estimates that were incorrect.

DR. PANNU: Are you suggesting that the amortization costs of this year were larger than normal?

MR. KEECH: Yes. Yes, they were, by virtue of that correction of a miscalculation in previous years.

I think the second part of your question related to the research and external relations component. There was an overexpenditure of about $208,000 that related to two things, salary settlements and some additional travel to missions by the previous minister, which, again, were unbudgeted for. In virtue of going forward with the plan of the department, there were additional costs associated with some of the new missions.

DR. PANNU: Thank you.

My second question, on the same page and under the same number 4, research and external relations. There is an under-expenditure or surplus of $32,000 – not a big amount – on research and development. I'm really trying to get an idea of whether or not the department is looking at one year, so my question has to be carefully worded. My interest is in seeing whether or not the department, compared to previous years, has increased the investment in research and development. This small amount, $32,000, not expended here perhaps doesn't necessarily amount to much, but I wonder if you can assure me that the department is in effect investing more year by year in research and development, which is important, I guess, for the health of the energy industry and the department's capacity to deal with it.

[Mr. Ducharme in the chair]

DR. WEST: There's an advisory board of the private sector and people that work with us in targeting where the research should be done. Each year it varies in the projects brought forward. Therefore, that variance is reflected in the expenditures we use. This year – and we're not supposed to talk of this year – we are looking at quite a variance because of perhaps more expenditure by the private sector in certain areas of research because they're in partnership with these dollars and, as well, not as many designations for research as there were in the previous year.

I don't know what the situation was here in '96-97. I haven't seen the list of the research projects. But being out by $32,000 is actually redundant – and that's not your question; I appreciate that. To answer your question, we did have an ongoing commitment to research in about these dollars. The private sector by all means drives more research than we drive with this type of dollars. Some of the projects in Syncrude and some of the rest over the last six or seven years have spent $200 million on research in new technology in hydrotransport and their slurry mix and energy use and $SO_2$ emissions. In fact, some of them predict that they have been spending one in three dollars invested in the preliminary run-up to the new projects on environmental and research development, which is very high. You can criticize this amount of money in an industry that produced $4.4 billion in the economy and is as important as it is, but I don't think this is a snapshot of what real research and development is being done out there.

I'd welcome your recommendations on how you would target what sum of money for proper research and development. It's very hard. I remember when I asked one time – it was the medical research heritage fund and the cancer fund. We were spending about $58 million at the time. I asked a group of doctors: how much do you think is a fair budget for research? The chairman looked at me and laughed. He said: you know, whatever sum of resources you lever in the public interest, you'll be two million short. I don't know what that sum is, but no matter what it is, we have an insatiable appetite for research and development. That's in the health field. You could lever here $200 million, and you would find $210 million worth of demand. So I'd be happy to understand what type of dollars you believe we should lever.

***9:10***

DR. PANNU: Well, thank you, Mr. Minister, for giving a rather elaborate answer. I'm pleased with the way you approached it. Clearly my bias is in favour of investing more money in research and development, but how much more is the question, and that's what you're asking me. I don't have an answer for you right now. But certainly I think any public investment in research and development is a good investment.

THE ACTING CHAIRMAN: Mrs. O'Neill, followed by Mr. Zwozdesky.

MRS. O'NEILL: Thank you, Mr. Chairman. Good morning, Mr. Minister and staff and Auditor General and staff. My question pertains to the Auditor General's report 1996-97, and I'm looking at pages 94 and 95. My first question would be to the minister for clarification. Did I understand from the comments you made that AOSTRA is now out of the hands of the department, or am I wrong in making that assumption?

MR. DONNER: AOSTRA still exists as a legal entity. The board is comprised of the deputy, myself, and one other member of the department. We have to make decisions as a separate legal entity, but all the staff is part of the department. The fund of AOSTRA is kept separate, as a separate fund, in keeping with the legal nature of AOSTRA. The funds are sourced both from general revenue and from the receipts of previous pilot projects or other projects and the revenue they generate. So the answer is: it is legally separate. It has a separate fund, but it is operated by the same personnel as the department.

MRS. O'NEILL: Thank you.

Then in that case, on page 95 of the Auditor General's recommendations. Speaking of recommending that the expenditures equal the revenues and trying to get that in line, et cetera, within AOSTRA, my question, if I may, Mr. Minister, is to the Auditor General. The last sentence of the paragraph says:

> On the other hand, a concerted effort to meet those expenditure targets would increase the risk that research quality might suffer under the pressure to expend available funds.

In a layperson's terms, the more money one has for research, I would think the quality would go up. But is the research no longer being done? I'm having difficulty placing this, if you will. So I'm wondering if the Auditor General could tell us further in reference to that.

MR. VALENTINE: I guess in a very simple way there is a substantial amount of cash in this organization, and we would like to see either a logical and fully understood expenditure program – or there arises the potential for inappropriate expenditure – or alternatively, deal with the surplus funds. I guess the bottom line is: don't spend money for spending money's sake.

MRS. O'NEILL: My third question then . . .

THE ACTING CHAIRMAN: Sorry. You're only allowed two questions.

MRS. O'NEILL: Okay.

MR. ZWOZDESKY: Actually I'm happy to follow the hon. Member for St. Albert, because my questions are in that same vein. Hon. minister, I note in volume 3 of public accounts, pages 110 and 111, there are significant statements made with respect to the Alberta Oil Sands Technology and Research Authority, AOSTRA I guess we call it. I want to direct your attention to note 7 on page 111, where we talk about future project abandonment. Now, I'm well aware of the fact and I know the minister and his staff are as well that we have a very serious depleting supply of conventional oil. We have to do a lot to carry on with respect to the exploration and extraction activities related to the oil sands, because I think a large part of our future and our revenues from the nonrenewable resource sector lie in what is entrenched underground in those tar sands.

I'm aware also, Mr. Minister, of some of the strides you've made with respect to the ARTC agreements between Alberta and the feds, where we're now approaching a back-end-loading type of credit system to spur on activity. In the beginning there was a tax forgiveness, if you will. I want to know if you would please comment on what our commitments were under AOSTRA here as they relate to the project abandonment costs of those projects, and how do you correlate, if you will, the investment or the profit we took out versus the project abandonment costs we have to incur, even though they're only 25 percent?

DR. WEST: I'll ask Mr. Donner to respond to that, because there is some background on it.

MR. ZWOZDESKY: Thank you.

MR. DONNER: This relates to the previous question about the Underground Test Facility and the sale of that facility and the provisions for either shutdown or pass over to the private sector. These were provisions that were made, as I understood it, on the books to account for the fact that it was a test facility and it was either going to be shut down or passed on to the private sector. There is, in fact, an operator for the Underground Test Facility in the private sector now, and it is continuing without government involvement. So this was noted for that, and some of the questions about how we deal with this liability are tied up with the final audit. We are working with the operator with an audit to make sure we complete the audit and a handover to the private sector.

MR. ZWOZDESKY: Thank you. I certainly share the concerns that the Member for St. Albert raised and the Auditor General's comments and statements earlier as well. We see with AOSTRA I guess a doubling – is it not? – over the previous year in terms of the commitment the province made, and perhaps it will double again. We're talking about a sizable amount of money, and I'm interested in knowing what has been done in respect of AOSTRA and particularly the government's involvement therein to encourage the type of diversified asset mix which has been spoken of and recommended. In fact, in the Auditor General's comments on pages 94 and 95 of his report I think there are statements to that effect; there's a suggestion made that AOSTRA look at diversifying the asset mix to increase the rate of return on the cash assets held there. I wondered if there was a comment made with respect to the steps that have now been taken or are being looked at or whatever.

MR. DONNER: I'm somewhat confused by your reference to an asset mix, because the direction we are trying to take is to lever research rather than necessarily productive assets. We've been working since the '96-97 time frame with the council the minister referenced, the Energy Research Council, to determine how best to partner with the private sector to get overall more research in the energy sector. As part of that and mindful of the comments of the Auditor General, we have a business plan which is to ramp up our contribution on the research side but to do so according to strict criteria which ensure that we are not simply spending dollars for dollars' sake but are spending dollars where they have the biggest contribution in the overall chain of research and spending dollars where we are not duplicating what the private sector would necessarily do but doing it where there is a government need to advance public knowledge or to advance a project that is in the strategic interest of resource development and of this mix you're talking about.

MR. ZWOZDESKY: Thank you.

***9:20***

DR. WEST: Can I supplement that? This question follows on a comment made by the Auditor General about the amount of funds this organization has. I'll be reviewing that again this year, because rather than returning the millions of dollars that were in the fund, we have recommended and are trying to bring them back in for research activities, to work the fund down by using the dollars every year for research. But the comment made by the Auditor General is real also. You just don't spend money for the sake of spending money. It must be applied to research that has a benefit to the future of this resource in the province.

The question you ask is: do you continue in the Underground Test Facility to keep levering dollars on a development that has already occurred, research that has been proven? The private sector is using steam-assisted gravity drainage now in the real world. The Taciuk formula is real. Some people would carry on a test facility or a research program forever. But you must declare someday that we won and move on to the next one: hydrotransport or convergence of $CO_2$, reinjection into the formation, something else. Unfortunately history has proven that once you spend massive amounts of money on a certain research project, you create a culture, you create a dependence, and it goes on forever.

Now, I'm not criticizing the Underground Test Facility, because it's moved off. We have sold it to the private sector. We will still require some auditing of it, I'm sure, but we're not going back. So we're not getting into partnership to leave our assets to make a profit for the province out of research; we're driving the research so the private sector can do exploration and development and return our fair share through a royalty system to the people of Alberta on a sustainable basis. So I hope research and development never becomes a culture that's sustainable by public dollars.

MR. ZWOZDESKY: We need some.

DR. WEST: I appreciate that we need some. But it would be interesting also to members here from the university that you never want to keep somebody in a cubicle too long unless they have proved that they are researching something that's of benefit to society. I'm not sure, but the Underground Test Facility was well over $500 million. I think we put a fair bang into that buck.

THE ACTING CHAIRMAN: Mr. Melchin.

MR. MELCHIN: Thank you. I'd like to continue on a little bit with regards to the research and development program within the ministry's department. Public accounts, volume 2, page 65, references an expenditure for research and development of about $15.5 million, and public accounts, volume 3, page 109, talks about contributions from the general revenue fund of about $13.5 million to AOSTRA. In looking at the department's research plan, I'm guessing that the $13.5 million is the bulk of that $15.5 million total department expenditure.

I'm just wondering what the objective was of the research in the past. What was AOSTRA's, and is there other research other than AOSTRA's going on? Is AOSTRA basically the complete aspect or objective of the department's research plan, and how does that relate? If AOSTRA is looking at the oil sands, what is the objective as to targeting oil sands versus all the other forms of energy and the direction of research as it applied to those years? If you could expand a little bit more on the objectives of the department as to its research and development programs for the years ending '97, particularly as to the amounts, if it's primarily related to AOSTRA, if there's any other research or where the direction was and the objectives.

MR. DONNER: The primary focus for research has been the oil sands, which does have some extension into heavy oil. Some of the technologies developed – the steam-assisted gravity drainage, for example – have a broader application than simply oil sands. That is an historical concentration based on the size of the resource and the magnitude of the technological challenge.

I can't speak to what the strategy was in '96-97. I can say that there were other research activities in coal, renewable energy, and hydrogen that were run through the department, not through AOSTRA, and the strategic plan is to broaden the technology so that it isn't simply an oil sands focus. Oil sands will continue to be major, but it will also address some conventional oil issues and certainly some environmental issues. Those are broadening, especially in light of climate change.

MR. MELCHIN: I guess as follow-up to that then. It looks like the bulk of the budget is dedicated to AOSTRA, so there's very marginal dollars left if you're looking at anything else. How does that relate, then, to AOSTRA's plan as to its objectives in working with the private sector? What did we try to do in those years for the government's objectives as it interrelated or tied into the private sector's objectives? I don't know what the correlation was, who was bringing the projects forward and whose objectives we were targeting.

MR. DONNER: We have tended to be somewhat project driven, looking for applications that come forward. AOSTRA has, however, tried to identify some strategic interests. For example, at a time when we had Syncrude and Suncor as the major oil sands activities, AOSTRA took a focus on developing the other side of the oil sands that can't be developed by surface mining and took a strategy of trying to develop the technology, the SAGD and the Underground Test Facility. That was really a strategic initiative based on what the resource was, where the concentration of industry activity was, the ability to attract some industry participation and try to develop some technology to unlock that.

I'd just like to correct what I said about the concentration on oil sands. I think there was during '96-97 some fairly significant research commitment outside of oil sands. When I say renewable hydrogen and coal, I believe that was not quite on par but perhaps 30 to 40 percent of the total research expenditure of that year.

DR. WEST: I'd supplement. What I would like to do, Mr. Chairman, is draw up a list of research programs that are driven by AOSTRA. I'll even bring them up to date. You will see by the list that we have broadened the scope of research for the province to enhance all the basin's resources, not just the oil sands. I think the focus you're intending by your question is: have we spent all our time on the oil sands at the expense of the rest of the resources? That's just not true.

I'll point out one issue, and the chairman is very well aware of this in his own area. He is not in an oil sands area, but he's in a heavy oil area. The research done by AOSTRA has spun out into his area to enhance the recovery of the heavy ends, the heavy bitumen. This is some of the research that was done by AOSTRA in the oil sands. That's the SAGD, steam-assisted gravity drainage, programs.

I will as a commitment to this committee get you the list of research projects levered by the private sector and this department, ranging from 1996-97 through to now.

THE ACTING CHAIRMAN: Ms Olsen.

MS OLSEN: Thank you. My questions are out of public accounts, volume 2. I'm just wondering if the minister can provide some rationale – and I know Dr. Pannu alluded to this – behind the $208,000 expenditure overrun under external relations and communications during '96-97. What exactly was this for? It's line 4.0.3.

MR. KEECH: We just spoke to the total, and as we sit here, I don't have a breakdown. I can give you some additional information. These were missions that were attended by the minister in 1996-97 as they related to the Department of Energy and included trips to Alaska, Arkansas, Japan, Oklahoma, South America, and Boston. These were missions that were directly associated with supporting the industry. I don't have for you any further breakdown of the actual dollars attributed to each one, but those were some of the trips.

***9:30***

MS OLSEN: I would be interested in knowing, then, what Albertans gained out of all of those trips. I'm not opposed to missions at all, but how was the minister able to support the industry in that respect? What was the actual gain for Albertans from those trips?

MR. KEECH: Again I'm sorry; we don't have any details with us. Typically the missions would involve companies from the private sector, so the minister is there supporting the industry in their efforts to increase their own business by either attending trade shows or specifically trying to enter into joint ventures with foreign companies.

MR. DONNER: Some of those trips, particularly the U.S. ones, were as part of our participation in some associations like the Energy Council, the Interstate Oil and Gas Compact Commission. These are groups where we were pioneers in terms of being non-U.S. members. They are useful but not always directly; you can't always get a direct result in terms of business concluded. But, for example, they are useful in allaying concerns in the U.S. that we are competing unfairly when our exports are growing, or we can allay some of the opposition to pipeline expansion that we need for pipeline access. So trips to Oklahoma, to Alaska were part of building that relationship, building that understanding, and also developing a basis for common discussion of common problems in terms of the markets and oil and gas development.

THE ACTING CHAIRMAN: Mr. Stevens, followed by Dr. Pannu.

MR. STEVENS: Thank you. My questions relate to the Alberta Energy and Utilities Board and revenue found in volume 3 of the public accounts, page 100. The revenue for that board for the year ended March 31, '97, is $4 million higher than the prior year, and I was wondering if we could have an elaboration of the factors that contributed to that surplus.

DR. WEST: Revenues for fees and applications went up, a tremendously active year. As I spoke previously to one of your questions as to the reason for the 40 percent increase, or $1.2 billion increase, in revenues, again that's reflected also in the 21 percent increase in revenue fees at the EUB. We also had a transfer of funds to the EUB from the Department of Energy for the Alberta Geological Survey that went from the Department of Energy to the Alberta Energy and Utilities Board.

MR. STEVENS: The revenue, as you have noted, Mr. Minister, increased by $4.1 million, but it would appear that the government grant or provincial contributions decreased by $5.6 million. Why was that?

[Mr. White in the chair]

DR. WEST: We changed the funding format between industry and the EUB. You'll understand that industry funds the EUB; it was a 50-50 split. Of course, we have now determined that the appropriate ratio to this date is one-third/two-thirds, and this was implemented in the '97 year. So it decreased the funding by $5.6 million. I just want to stand notice that we will be reviewing that again. We still fund about $13 million between the industry and the EUB. There is some reason to look at that perhaps for 100 percent funding by the industry, such as is with the National Energy Board.

DR. PANNU: Mr. Minister, if I may request that you go to page 66 of public accounts, '96-97, and revisit with me the synthetic crude oil and bitumen royalty item. Between '96 and '97 it increases a little over $200 million. I am not sure about what different factors contributed to this increase, but I suspect that one would be volume and the other would be price. The millions of barrels produced and the price for each barrel: I think these two factors would contribute to the increase. Now, are you in a position to disaggregate for me or parcel out the share of each of these two factors, if indeed these two factors are responsible for the increase, and tell me how much each of these two factors contributed to the $200 million increase?

The reason I ask this question, if I may explain my question to you, sir, is that you have referred today and earlier on in this week to the $50 million average over the years on royalties in this area, and I'm puzzled by that because I would think that the synthetic crude oil production has been on the increase in this province quite dramatically since the '90s. To refer to that average going back to the '80s would be meaningless unless one assumes that the volume produced remains the same. So my question is in the spirit of understanding the manner in which this increase takes place, which factors contribute to it, and how that would help me understand your $50 million reference to the average royalties from the 1980s on.

DR. WEST: Well, if you're talking '96-97, the production was fairly flat from year to year. If you're talking now, today, it's rising. There's no doubt about it. Production efficiencies and net profits in that year, the margin of profitability: that's one of the factors that involves the revenues. The other is the price, the west Texas intermediate price. It's based on that, as I pointed out to the first question that was asked by one member as to how the price jumped that year to an average of roughly over $22.

Again, I'm looking at a chart right now. If I go from the years 1987 right through to 1996 on this chart, production came up somewhat, but it was flat. It varies between 116,000, 130,000, 129,000, 135,000, 123,000, 128,000, 135,000, 133,000, 149,000 barrels per year. It did go up somewhat. There was some increase in production, but again, in that year also the oil sands profits were considerably greater than anticipated as actual prices were above budget by $4.35 U.S. per barrel. So that's the other factor.

DR. PANNU: Thank you. If you would kindly provide this committee with this historical data on volume and prices, that would be very helpful for us to understand your observations.

My second question has to do with the coal royalty amounts. A colleague asked this question earlier on, and in answer I heard that the royalties for the coal industry are calculated on the basis of net profits. Now, my understanding is that there are various ways in which one uses accounting procedures and calculations to arrive at what is net profit. Does the department have a framework which determines how net profits are calculated by industry, and would you kindly make that framework available to us?

***9:40***

MR. SMITH: Yes. The department does have a framework. It's established either in legislation or in the Crown agreement when we are taking the net profit royalty. That establishes the basis on which revenues will be established for the purposes of calculating royalty. It determines the costs that will be allowed for the purposes of determining royalty, and in the unusual circumstances where there is a cost that we have not previously identified that is incurred, we identify that we will accept costs on the basis of GAAP, the generally accepted accounting principles of the Institute of Chartered Accounts.

THE CHAIRMAN: Thank you.

Mr. Yankowsky, followed by Ms Blakeman.

MR. YANKOWSKY: Thank you, Mr. Chairman. Good morning, everyone. I have some questions regarding tenure and royalties, and I'd like to direct your attention to volume 2 of public accounts, page 65, and program reference 2.0.2. I see here that there is a surplus of about $1.2 million or a little better, and I would just like to ask: what contributed to this rather large surplus?

MR. BORLAND: What that relates to is a capital investment of a project that's been underdeveloped by the department. The consultant for the project had overestimated the project costs in '96-97 when we were preparing the budget. This was the first year of a multiyear project, and the cost was the consultant's best estimate at the time.

MR. SMITH: Can I just add to that? In part it was lower than expected capital assets, purchases of hardware for the mineral revenues information system that were either abandoned or deferred. But there was also a major new system that had been anticipated working with the department and the EUB to develop a new reporting stream for production accounting to the board and to the department. That project was canceled in the face of the experiences of MRIS and, in fact, is only now being raised in a different form.

MR. YANKOWSKY: Thank you.

Now, there is a project here, and there is an expected project cost. I was just a little unclear as to the answer there. My question is: are you forecasting to spend the balance of these projected costs?

MR. SMITH: In this particular case the costs were not in the form of slippages, which means that we're not slipping them into a future accounting period. Those costs were abandoned and a different approach taken, in fact accepting the current reporting mechanisms between the oil and gas industry and the department and the EUB. Whether or not there would be future costs incurred would depend on any proposals coming forward. The cost-benefit analysis to the ministry would have to indicate that it was worth while.

The particular subject matter in this case has been addressed in a current project led by the oil and gas industry associated with further gas royalty simplification, and there are recommendations coming forward to deal with this particular area. If a case is proven that there is a benefit that exceeds considerably the cost, then indeed we may adopt those recommendations. But at this time, we're waiting for those recommendations to come forward.

DR. WEST: On his question related to the cost and what we were going to do with the money, the initial project was about $5.9 million, and we spent about $2.8 million. Those moneys, I would expect, if we didn't spend them, would have lapsed. Could somebody answer that question?

MR. BORLAND: That's correct. If we don't spend them, they've lapsed.

DR. WEST: That's the answer to your question. It did cost about half of the expected cost that year because of the change that was just explained, and those moneys would lapse then.

THE CHAIRMAN: Ms Blakeman, followed by Mr. Ducharme.

MS BLAKEMAN: Thank you. I'm in the same area as the previous questioner. I don't think I'm repeating what he's asked. It's under capital investment, 1.0.3. There is an underexpenditure of $1.508 million under corporate services. Can you give me an explanation on that? Is it different from the explanation you just gave for the underexpenditure in tenure and royalties?

MR. KEECH: Yes, this is a different issue. The department had budgeted for the costs associated with the development and implementation of PeopleSoft, the Imagis governmentwide accounting system, in anticipating the department's share of the cost. Ultimately these costs were absorbed by Public Works, Supply and Services instead of the individual departments. So this unexpenditure, then, represents the portion that was picked up by PWSS.

MS BLAKEMAN: Thank you.

THE CHAIRMAN: That's all?

MS BLAKEMAN: Yes.

THE CHAIRMAN: I thank you.

MR. DUCHARME: The previous speaker just asked the question that I was requesting answered, so I will pass on to the other person.

THE CHAIRMAN: Mr. Zwozdesky and then Mr. Stevens.

MR. ZWOZDESKY: Thank you very much, Mr. Chairman. I just wanted to ask a technical question to the minister and his staff. We're referencing page 66 of volume 2. I've been studying the oil revenue situation, the gas royalty revenue situation, and the Crown lease bonuses that were referenced earlier by the minister. As I look at and compare one year to the next with respect to – let's take crude oil royalties as an example. We see an increase between '96 and '97 of – what is it? – about $340 million. We see synthetic crude oil and bitumen royalties sharing about a $200 million increase from '96 to '97, and the pattern then lends itself to comparing oil prices and oil revenues with gas prices and gas revenues.

I just wondered if the minister or his staff could explain how and why it is that increases in oil revenues also result in increases to natural gas revenues. Because the subject of the day, of course, is oil prices, and it seems that as oil prices go down, which unfortunately they are now, at some point the natural gas prices also tend to drop. I'm wondering if you could explain that. It's a bit of a technical question, but I've been asked this recently, and I see an application of it here in the '96-97 accounts. So I thought I would take advantage of the expertise before us and have them explain that relationship between oil prices and resulting gas prices. It seems they go up together and they go down together.

DR. WEST: Well, that's not altogether true at all times. There are other variables that can cause differences in those prices. Understand that where we ship a lot of this natural gas into the States, some of them can convert, if natural gas gets too high, to oil for heating and other uses. I'll have somebody else technically explain this, but as you see right today, we haven't had that correlation of natural gas the last six months, and I don't know what effect El Niño has had on that. I'll have somebody that's been around longer than I have give you a better window to that answer.

MR. DONNER: It really depends where you are on the price curve. At some points, as the minister suggests, you get into price competition, which should be a linkage between natural gas and oil prices. At the present time we're not seeing that, and we would expect to see that with these low prices. We would expect to see some impact on natural gas prices. That suggests that those people who had converted have already converted, and the growth of the market in the United States that's been forecast for so long for new electric generation, new cogeneration, new uses of natural gas is taking hold. There is less likelihood of that price linkage in the future if that's true.

***9:50***

It really has to do with the nature of the market, but there are a variety of influences on the prices that are separate and distinct, including pipeline capacity, whether we are able to get our natural gas to market and get the full market price in terms of having available capacity. That is something that's completely unrelated to the oil price but has a great influence on the price we see.

So in the market there is some relationship where there is dual fuel capability. It also, I think, tends to reflect some of the psychology of the market. If energy is down, there tends to be some convergence of energy products, whether it's electricity, gas, or oil, but broadly speaking, we're starting to see some differentiation of that as more people have gone to gas and perhaps have committed to single fuel uses as opposed to dual fuel uses.

MR. ZWOZDESKY: Thank you for that comprehensive answer. I think there's a lot more to it, obviously, as well, and I'd be happy to follow up sometime because I'm just genuinely interested on behalf of many, many others.

The second question is in follow-up to that. Using 1996-97 as an example, I wonder if you could explain to us precisely to whom we do export. I don't mean every single detail. Like, to whom did we export our oils in the '96-97 year as an example? Also, natural gas. To whom does that get exported? If you have some rough amounts or quantities, I'd like to know. There's a lot of discussion on that again today. Given that we're discussing '96-97, perhaps you could answer the question in relation to what's already happened in the previous year. The public really is growing more and more interested, as the minister correctly pointed out, given where we're heading here it seems. We have OPEC creating a glut on the one hand, and then we have a number of other countries that are stocking their reserves, and pretty soon that's going to flood the market. I think Albertans would be interested to have the answers.

DR. WEST: Go ahead.

MR. DONNER: The bulk of our exports are to the United States. We have very minuscule amounts that go off the west coast to Asia.

The bulk of our exports, about 40 percent, go into the Chicago area, into what's called pad 2 of the U.S. market. Approximately another 15 percent goes into other parts of the U.S., including the Puget Sound area and some sort of directly south and into the mid-U.S. That leaves a total of about 50 percent of our oil going to Canada, of which about half is used within Alberta in the Alberta refinery complex, and about half going to the United States. These are November '96 numbers. The update would be that there's some increase into the U.S. as a result of some of the other sourcing and decisions in Ontario, but the bulk of it is into the Chicago area.

In terms of natural gas, we have been growing. The percentage of gas exports – when I first started in gas it was about a third, a third, a third: a third Alberta, a third the rest of Canada, and a third United States. We're probably up to about 50 percent in the U.S., but I can get you the precise figures. In terms of the gas market, the gas market operates by displacement. We literally cover the continent, from Boston right through to California, and by displacement we can go right into southern California. I think somebody has even put gas into Mexico by displacement. So we are truly continental in terms of our natural gas scope. It's about 13 bcf or slightly more a day that we are exporting.

MR. ZWOZDESKY: Godspeed. I'm impressed.

DR. WEST: And oil that comes out of Alberta is about 1 and a half million barrels per day and about two million barrels a day out of Canada total. So put those percentages against those types of productions, 13 bcf of gas and a million and a half of oil per day, and then just break it out from those percentages and you get an idea of how important it is to ship to the United States.

THE CHAIRMAN: Mr. Lougheed.

MR. LOUGHEED: Thank you. If we could look at volume 3, page 100. The Energy and Utilities Board, I'm pleased to say, spends a fair amount of time out in Clover Bar-Fort Saskatchewan with all of our industry out there. I wouldn't want to attribute the overexpenditure that is stated on page 3 to Clover Bar-Fort Saskatchewan, but can you make any comments on that? I've been looking at the notes, and certainly there is an expensed computer program. Any other comments about the factors that contributed to that overexpenditure?

DR. WEST: Well, I would presume that in that year the activity levels increased, so there was probably increased demand on computer systems and that sort of thing that took more money. I think there was a salary adjustment in that year of some $773,000. So there were certain adjustments due to activity as well as upgrades to our computer system that increased the costs to the EUB.

MR. LOUGHEED: Okay.

Relating to the expensed capital asset – it's on page 101 as well – the $2.4 million. I think you already in part answered that when you talked about not pursuing research or some projects that have no foreseeable gain to them. That's the implication in note 4. Is there any further comment on that, or is that simply what it was?

MR. BORLAND: The EUB during '96-97 ceased production of a system called the production activity statistics system. This PAS system was intended to provide an automated system for acquiring and processing and storing volumetric information from Alberta wells and facilities. Unfortunately, due to a change in the ministry's priorities, the timing of the project has been delayed, and then subsequently it has been canceled.

THE CHAIRMAN: Mr. Melchin, you have a quick one. I know you're dying to get in there.

MR. MELCHIN: Dying to get it in. Yes. We've talked a little bit about the crude oil and natural gas price increases, and I know the projections are always that our reserves are declining substantially and that as you forecast out our oil, we'll be out of the oil business in the next 10 years. I know reserves are only on a proven basis, but I was wondering what the historical trend is. Was this price driven, or was our production still actually increasing or decreasing through the '96-97 period for both natural gas and oil? What were the actual production changes?

MR. DONNER: I don't have the specific volumes. In respect to your preamble, the United States has been running on an eight-year running-out-of-oil scenario for 30 years. We had been since the 1980s forecasting that we would see the hump in conventional production with a decline in conventional production, and we have now seen declining year over year conventional light production. That's why there is the importance of the synthetic crude development, which is the replacement for light, and we are also seeing increasing heavy oil, both conventional and oil sands, coming on to the system. Our total barrels shipped are probably somewhat down. I don't have those numbers because we are shipping a heavier barrel, but the decline is most marked on the light and medium crude.

MR. MELCHIN: And the gas?

***10:00***

MR. DONNER: On the gas we are continually increasing our levels of production. We have estimates of gas that cannot currently get to market, which is why there is construction throughout the '96 to current period to add pipeline capacity to bring that on, and we anticipate that gas is more market driven, that the activity is driven more by the ability to get market outlets than it is by supply. We are still finding fairly aggressive natural gas programs. Oil in the light medium is switching to the smaller pools, and it's quite a marked change.

MR. MELCHIN: Thanks.

THE CHAIRMAN: That seems to complete our questions today. Thank you, Mr. Minister and members of the staff. It was good of you to answer the questions. And thank you, Mr. Auditor General.

Committee, next week we have the Hon. Jon Havelock, Minister of Justice and Attorney General. Such fun and enjoyment.

Might we have a motion for adjournment? Mr. Yankowsky. All those agreed? Carried.

[The committee adjourned at 10:01 a.m.]