[Mr. MacDonald in the chair]

THE CHAIR: I would like to call this meeting to order and welcome everyone to the Standing Committee on Public Accounts this morning. We are going to have representatives before us from the Department of Energy. Before I ask for approval of the agenda, could we perhaps go around the table and introduce ourselves for the convenience of those assembled, perhaps starting with Ms Blakeman.

[Ms Blakeman, Mr. Boisson, Mr. Broda, Mr. Cenaiko, Mrs. Dacyshyn, Mr. Dunn, Mr. Giesbrecht, Mr. Goudreau, Mr. Hug, Mr. Keech, Mr. MacDonald, Mr. Marz, Mr. K. Smith, and Dr. Taft introduced themselves]

THE CHAIR: Thank you.

Now, it is usually the custom that department officials give a brief overview of the last fiscal year, 2001-2002, annual report from the department, but first could I have an approval of the agenda, please, that was circulated to all members. Yes, Ms Blakeman. Do you have a question?

MS BLAKEMAN: I do. In my six years on this committee it has always been made clear to me that questions could only be asked of ministers. I'm wondering how we are to proceed this morning. Are we expecting the minister?

THE CHAIR: Yes, as far as we know, but in the limited time that we have to review this committee, the hour and a half, as you know, goes by quite quickly. There is no written rule. It's quite odd that you would bring that up. There are some public accounts committees across Canada and in the British Commonwealth that just call deputy ministers and senior members, and this was advocated for in the 1991-92 Auditor General's report in this province. One recommendation was that the Public Accounts Committee call the

> deputy ministers and senior managers, who are primarily responsible for administration, rather than ministers, to be answerable for the implementation of government policy.

It has been considered at one point in this province, so we could certainly carry on. We have the option that also, in light of the time, we could perhaps put the Auditor General on the spot and ask for maybe a five-minute reflection on their thoughts in regard to the Department of Energy in their annual report. Would that be satisfactory?

MS BLAKEMAN: I'm happy to proceed with the people that have joined us today. I just wanted to make it clear that that's what I was doing, and if there are no objections, I'm happy to go forth.

THE CHAIR: Thank you. Now, could I also ask for approval of the minutes of November 20, 2002.

We've had approval of the minutes of the November 20 meeting. At this point, I would like to welcome the hon. Minister of Energy to our meeting and also, for the record, the Member for Red Deer-North, Mary Anne Jablonski.

At this time, Mr. Dunn, could you please proceed if you have any comments at all regarding the Department of Energy from the annual report.

MR. DUNN: If you choose, I'll start off.

THE CHAIR: Thank you.

MR. DUNN: Hopefully, you have our annual report, and we report on the Department of Energy on pages 73 through 80 of our current year's annual report. We have in the annual report three numbered recommendations. As we have mentioned in prior meetings, it's the numbered recommendations in our annual report which are the most important. We have recommendations 12, 13, and 14.

I'd like to draw your attention first and foremost to recommendation 14 on page 78 of our annual report. We talk there about the AEUB developing "an audit strategy for the Production Audit Group that meets the business needs of key stakeholders." To me this is the most important recommendation in our annual report on this department, and it's one that I think you should be looking at for some questions to the department to ensure that this audit group meets its mandate and its requirements, because it's most important information which is being gathered. It's the information by which we charge our royalties. It's the information by which we make sure that the producers are complying with the appropriate rules and regulations. We believe it's important for this audit group to make sure that they have a risk-focused basis in their audits and that they have adequate resources to carry out their mandate. So to me this is the most important recommendation of the three that we've made.

The next most important one to me is recommendation 12, which is on page 75. It's something which we've had subsequent meetings on with the department which talks about disclosing the royalty reduction programs. It's one that we've recommended for a couple of years, and we understood that it was going to be very difficult to gather certain of the information. The cost of these reduction programs can be obtained. It's the alternate or additional information disclosing how much additional oil or gas has been produced and therefore additional royalties obtained because of these reduction programs. It's my understanding that that information, I believe, is being compiled by the department now, and we'll be looking for a response from the department around how difficult it was to obtain that information.

Then the third recommendation, on page 76, talks about performance measures. As you are aware, for performance measures to be important, they should be consistent from year to year so you can see the trends. Unfortunately, in this department the performance measures have been changing. They've been expanding and contracting and have been inconsistent between the years, so we look to have consistency in the performance measures. We do appreciate that the EUB had some difficulty at one time in deciding what should be its performance measures, but I believe that they are addressing that now and we'll have a consistency in the future in those performance measures.

So those are my opening comments about the recommendations we've made. I believe that they are very important, and we'll be looking for answers from the department this morning.

Thank you.

8:40

THE CHAIR: Thank you very much.

Mr. Smith, would you like to give a brief overview of your department's activities last year.

MR. M. SMITH: Well, I can. Thank you, Mr. Chair. Then we can also address the Auditor General's statements as well.

I think that to get everything started, let me introduce, to my right, Ken Smith, deputy minister, and to the right of him, Assistant Deputy Minister Don Keech, mineral development and the Department of Energy's chief financial officer, and John Giesbrecht on my left, chief financial officer of the Alberta Energy and Utilities Board.

We're here to examine the ministry's 2001-2002 annual report and the 2001-2002 annual report of the Auditor General. In 2001-2002 the ministry included the Department of Energy and the Energy and Utilities Board. For the industry itself the fiscal year 2001-2002 had the second highest total royalties collected in the history of the Alberta government, some 6.23 billion Canadian dollars. Private-sector investment in Alberta's conventional oil and gas industry was nearly $13 billion with an additional record $4.2 billion invested in the oil sands. Hopefully the Kyoto chill that set in all through Canada, as Governor David Dodge has stated, will not harm this province's royalty position as it has the inalienable right to develop its own natural resources.

Our natural gas business unit ensures the Crown receives full value for our natural gas resource and promotes and encourages natural gas activities and operations. The price of natural gas fluctuates throughout the fiscal year between $2.40 per gigajoule and $11.24 per gigajoule. This group had a challenging time with forecasts. In the end the people of Alberta benefited from over $4 billion in natural gas royalties.

We're working to ensure that conventional oil and oil sands are seen as one commodity. It's all oil. I'd really like to reinforce the fact that in Alberta there's no such thing as synthetic oil. It's crude oil, and it's either conventional oil or nonconventional oil, but it is not synthetic oil. Or you can call it Fort McMurray light. Although getting this terminology commonly used for both is something we are working on, many still see the separation between conventional oil and oil sands.

We continue to promote Alberta oil to a wide range of audiences. I don't know if we have any of the brochures here that reflect the reserves in our heavy oil sands, but maybe we can get some sent over this morning. As most of you know, there are some 1.3 trillion barrels in total oil reserves in the oil sands that cover an area 20 percent of the size of France or 10,000 square miles more than the United Kingdom. We know that given technology advances, we can collect some 311 billion barrels of crude oil out of there, and with proven technology today we can estimate the reserves at $175 billion. For the first time in the history of the oil sands these reserves are now being noted on the United States Department of Energy reserve calculations.

Last year conventional oil royalties totaled $987 million. The oil sands royalty regime, which has been the subject of much discussion, is unique as it allows for lower royalty rates in the early years of a project's development. These rates return to 25 percent once development costs are recovered. Production grew, and oil sands revenues were $185 million for the last year.

Alberta made history on January 1, 2001, becoming the first jurisdiction in Canada – and I think the chair is very well aware of this – to implement a competitive market for electricity. The transition to a competitive electricity marketplace continues, and with much interest from the opposition, I might add. As we move through restructuring, we are already seeing some of the benefits. In the 2001-2002 fiscal year we saw some 600 megawatts of new generation come along, enough to power 600,000 Alberta homes. This wasn't done by the government. This was of course done by the private sector at no risk to the consumer or to the government of Alberta. Plans or proposals for additional generation worth more than $6 billion have been announced, and it shows investors' confidence in this marketplace.

The land tenure department, which is just, I think, one of the jewels of this department, through its bimonthly land sales sold 8,000 petroleum and natural gas agreements in Alberta totaling $960 million. The freehold mineral tax brought in some $319 million, an increase of over 25 percent from the previous year. When you're traveling and meeting with the minister of energy for Venezuela and the president of Petrobas for Brazil, they always ask: how did Alberta develop its resource, and how did it create such a level of expertise for jobs and for training and for people that work in and around this industry?

There are two answers to that question. One is this petroleum land system: the fact that we can break this land down on a section-by-section basis and sell it, and if they don't drill it, we get it back and we get to sell it again. So this since, I guess, about 1947, post-Leduc, has been a real key to the development of this industry. The second thing that's been fundamental in the development of this industry is the creation of SAIT and NAIT, the two technical schools in Alberta. Those technical schools have served as the backbone for this industry and continue to turn out good qualified people that work in this industry but in many cases start up their own companies and become small businessmen and become the real engines of generating wealth.

On the expense side the annual report points out that the department's operating expenses were $93 million for the 2001-2002 fiscal year, and the total for the ministry was some 149 million dollars. The major expenditure for the department and the EUB this past year was the Petroleum Registry of Alberta. The Ministry of Energy provided $24.6 million over the three years of the project's development while industry provided roughly $10 million to the project. This project was just turned up about three weeks ago, is running efficiently, and I think is another milestone in revenue royalty and data warehousing for the province of Alberta. The registry provides another competitive advantage for the energy industry and the province, and it ensures Alberta leads the way in petroleum information management.

The group that did spend money, more than they should have, was the communications shop. As the annual report points out, the group was some $400,000 over budget. With the increased focus by Albertans on energy prices, there was an increased demand in responding to those questions. The demand resulted in increased expenditures for creating and staffing a public information centre to provide accurate information to Alberta about energy prices. These activities were not anticipated when the budget was prepared but, of course, turned out to be crucial to the department. For the last quarter of the 2001-2002 fiscal year, in only three months, the public information centre answered over 1,200 questions from Albertans via mail, e-mail, and phone.

So in summary, royalties collected through the department were some 30 percent of the government of Alberta's total revenue for the 2001-2002 fiscal year. The revenue is a major contributor to programs such as health, education, and infrastructure. Of course, no annual report would be complete without me saying that we take the Auditor General's report's comments very seriously, and we will adjust our business plan and financial operations based on these recommendations wherever and whenever possible and very much realizing that time is of the essence. So now I'd be more than pleased to spend my first time on the lovely fourth floor of the Legislative Annex for this series of public accounts questions.

8:50

THE CHAIR: Thank you very much, Mr. Minister. Before we start with questioning, could I remind all members at this time, please, to quote the page, for the convenience of everyone around the table, of either the government of Alberta annual report or the Auditor General's report.

Ms Blakeman, could you start us off today, please?

MS BLAKEMAN: I could. Thank you very much. I'll refer you to page 75 and 76 of the Auditor General's report. I'm really examining recommendation 12, which the Auditor General has referenced already this morning, recommending "the Department of Energy disclose its royalty reduction programs in its financial statements." I note that that recommendation has been made previously, the year before, and, I think, prior to that as well. I note that the department provides four oil and one gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce where it may not be considered economically feasible to do so, and in this year we are examining ended March 31, 2002, the royalties under the reduction program were $159 million. Under the gas royalty revenue there were waivers of royalties amounting to $91 million. The financial statements do not disclose the amount that the programs and the waiver reduced conventional oil and natural gas revenues and, as the Auditor General noted, also does not give us information about additional production.

My question is: what was the reasoning? Why did the ministry choose not to report these costs of the royalty reduction program and instead only report the net figure? We're missing a lot of information when you only give us a net figure, so why did you choose to only give us the net figure and not give us the rest of what went into this formula?

MR. M. SMITH: Thank you. My comment on that would be that when you examine a program and you use a royalty reduction lever as a mechanism of increasing production or attempting to change production stream, a lot of variables are at work here. I think what the department is really trying to do is determine what would have happened had it not applied the reduction. So just as you get an increase in royalty revenues, if it works, it's hard to say how much it cost you net in terms of royalty reduction because if you hadn't applied a royalty reduction, then you may not have got any change in production. So I think that – and I'll ask Ken to elaborate on this – the department is trying to find the right mechanism that will deliver an accurate reflection of using royalties as a lever for increased production.

I'll give you an example. If you take an old field and you want to go through an enhanced oil recovery process and you know CO_2 is expensive and you have to get the appropriate grade and technology is in its infancy, you use nitrogen, which is similar in characteristics to CO_2 and can take the place of it, but it's, of course, much more expensive. Then the company looks at the field and says: Well, we don't know how successful we'll be using nitrogen. So what you don't know is what you're offering and what it's going to cost and what's going to come out in terms of the outcome over a short period of time. So I think you have those types of issues that make it hard to quantify for a single sheet or a single set of numbers in a financial report.

I'll ask Ken Smith, the deputy minister, to elaborate.

MR. K. SMITH: As you point out, this has been an item of discussion now for several years. This has also involved the Department of Finance in terms of how the overall government reporting is provided. Mr. Don Keech has been actively involved in those. I'd like him to respond in a little more detail.

MR. KEECH: Thank you. I'll just build on what the minister said. We've subsequently met with both the Auditor General's staff and the Department of Finance to find a resolution for this. Our challenge is to find a balance because we don't view this as a royalty reduction but rather an incentive to extract additional resources we otherwise wouldn't be able to do. We want to make sure that when we do present this that it presents the balanced picture, so we're gathering that data now, and we will be sitting down again with the Auditor General and Finance. We have accepted the recommendation in principle, and as soon as we can find an appropriate mechanism, we will implement that.

THE CHAIR: Thank you.

MR. DUNN: Just for clarification, because I think Ms Blakeman's question may not have been quite answered right, we know what the cost is. We can measure the royalties forgiven.

MR. KEECH: Yes.

MR. DUNN: Yeah, we know what the cost is. What we don't know is from industry how much more royalties have been created – right? – how much more oil or natural gas has been created.

MR. KEECH: That's correct.

MR. DUNN: Is that the point? We don't know how much more?

MR. KEECH: Yes. So we want to present both sides of the picture so it isn't just viewed as giving something away.

MR. DUNN: So, clearly, we could have reported what was waived. We could have reported the cost.

MR. KEECH: Yes.

MR. DUNN: What you want to do is report the cost, and also you were looking to report the benefit at the same time. I have some experience in the oil and gas industry, and as I mentioned, they measure these things very carefully. I understand that we can pick up the oil information quite readily. Is that right?

MR. KEECH: I think that's correct, Fred.

MR. DUNN: So the first one, for oil, the cost and the oil additional revenues are quite readily available without an additional amount. It's the natural gas.

MR. KEECH: That's correct.

MR. DUNN: The one on natural gas: that's the only one that has to be worked on?

MR. KEECH: That's the one we're working on, yes, at the moment.

MR. DUNN: So this information can be obtained and can be reported next year?

MR. KEECH: Yes.

MR. DUNN: I think that was your question.

MS BLAKEMAN: Well, you put it better than I did.

So my question was: why was the choice made during this fiscal year not to do that? You are able to do it. You are able to do it in all of the areas that I've talked about. What was the policy choice behind why you didn't do it?

MR. KEECH: Well, as I say, the involvement of the Department of Finance relates to the overall government reporting because it is not just the Department of Energy that would be affected by a change in the reporting mechanism. So this is a fundamental change that has to go through a process to be accepted, and as I say, we have accepted the recommendation now in principle. There wasn't clarity in the recommendation in previous years in terms of how much information needed to be provided, and I think that is one thing that we've established already with the Auditor General's office, so we're now comfortable with sort of the level of information. We didn't want to layer on a lot of the technical background as it related to this, because it is a very technical area that an average individual wouldn't easily be able to understand. So I think we now have some clarity around that, and as I say, we're working with the two other stakeholders to ensure that we can meet this recommendation.

THE CHAIR: Thank you.
Mr. Marz, followed by Dr. Taft.

MR. MARZ: Thank you, Mr. Chair. You don't have to go too far in this same report, just on pages 76 and 77. A question regarding recommendation 13, performance measures. The Auditor General says, "We again recommend that the Ministry of Energy use performance measures that permit consistent evaluation of the success of the Ministry from one year to the next." Was this recommendation accepted, and if not, why not?

MR. M. SMITH: Yes, it was. Basically, if you look at the business plan that we're operating under right now, there are substantially condensed performance measures. We've worked hard at making them simple, clear, and consistent.
Don, did you want to comment on that?

MR. KEECH: I'm just going to add, Richard, that this has been an evolutionary process, to try and determine which performance measures can be vetted with information that's garnered from good sources. Some of the change that has occurred is us being able to find information, whether it's from Stats Canada or from the industry or other sources, so that in fact the Auditor General would be able to evaluate and determine that that was an appropriate measure.

9:00

MR. MARZ: Okay. Another one of the criticisms seems to be the ever increasing number of measures as well as the changing measures. This seems to make it difficult for comparisons from one year to the next and for the public to understand or anybody that reads the report to understand and get a clear picture of what's actually happening. Could you give me an idea when we're going to have a standard set of performance measures so you can compare one year to the next accurately?

MR. KEECH: I think, as the minister pointed out, we're getting certainly much better at being concise and having a fewer number of meaningful measures. I think that part of that was just an evolutionary process of trying to go through and measure everything, and we found that certainly we couldn't do that. So I think you'll see with our next business plan that we've addressed that issue.

MR. MARZ: Okay. Thanks.

MR. M. SMITH: Richard, if I can just add to that, we worked hard in the first year on the program from the department, and I believe this year the EUB has really shrunk its measurement terms and performance measures and worked hard on a good business plan.

Maybe John wants to comment on that.

MR. GIESBRECHT: Yes. As previously noted, these measures have been evolving. We accept the Auditor General's recommendations, and the six measures that we have in the '03-06 plan are the same performance items that were in the '02-05 business plan.

THE CHAIR: Thank you.
Dr. Taft, followed by Mr. Broda.

DR. TAFT: Thanks, Mr. Chairman. I'm on page 15 of the Minister of Energy's annual report, and I notice on that page and elsewhere that there is a substantial drop in royalties from the oil sands even while production is growing very vigorously. I notice in what would be the third paragraph on page 15 that the explanation is:

> The royalty regime developed for our oil sands resources recognizes the long-term nature of investment in the sector to overcome barriers such as long lead times, greater technological risks and higher capital and operating costs. The Crown defers the collection of some royalties until these development costs are recovered.

So my first question. I'd be interested in the Auditor General's comments on this as well. I am concerned from other businesses – well, experience in other industries suggests that we can set up a system where companies consistently put off the royalties they need to pay by incurring further costs, and at some point that works to the taxpayers' disadvantage because we never collect the full royalties we deserve. So who is auditing corporations' side of this equation to ensure at some point that they can't just continue to play a game and defer royalties by even accounting measures much less real investment?

MR. M. SMITH: Go ahead.

MR. DUNN: I'll let you answer first, and then I will supplement.

MR. M. SMITH: No. Go ahead. I'll wait on you. I don't mind.

DR. TAFT: I didn't think it was a trick question.

MR. M. SMITH: No, it's not.

THE CHAIR: Mr. Smith, please go ahead.

MR. M. SMITH: I'll just look forward to the Auditor General's comments.

THE CHAIR: Mr. Smith, could you please answer the question.

MR. M. SMITH: Yeah. The answer to the question is that I'll wait for the Auditor General's comments.

MR. DUNN: Well, I will certainly pick it up here, but obviously I cannot answer on behalf of the department; right? The department has to answer on its own behalf.

Something which is of interest though. When one harvests from the oil sands, are you really in the typical exploration and development type of mind-set? So that will be the question I'd like you to answer. Unlike the typical exploration and development, where you have to hunt for something which is uncertain, are you in more like a manufacturing process? It is known to be there, and now what I have to do is somehow develop a technology that can harvest like in a manufacturing mode. I believe that the oil sands – you don't like the word "synthetic" – royalty that comes out of there is reflective of the fact that it's more like a manufacturing process than a typical exploration and development type of process.

Back to your point about costs. It's something which you have to be very careful of in the private sector: how they do the accounting for costs. An area around that that the private sector, obviously, struggles with at times is the uncertainty when you look forward into types of costs related to pensions, postemployment benefits, those kinds of measurements where you have to go forward and anticipate what the cost could be and what is the present value of those costs versus the actual manufacturing type of cost that they can measure. It would be a question I'd like the department to answer. How comfortable are they with those other unique forms of accounting which deal with future-looking costs reflected today to make sure that they are being appropriately measured – you know, at appropriate discount rates in the costs that are being incurred today – to make sure that we get the appropriate royalty?

So I may not have answered your question but may have supplemented your question, and I'll pass it over to the minister.

MR. M. SMITH: Go ahead, Ken.

MR. K. SMITH: Well, the specific question, as I understood it, was the aspect of compliance or auditing of the expenditures that are associated with oil sands development. The department has a specific dedicated group, a compliance and audit group. It's housed in Calgary. It has some 25-odd professionals that are in that group that are responsible for doing account audits for our various royalty clients. That group reports to Don Keech, and I'll ask him to give a little more information about their activities in the oil sands.

MR. KEECH: The compliance and insurance group audits not only the oil sands clients but also selected gas and oil clients throughout the year. They've been a group that's been in existence for many years, very efficient at what they do. They work very closely with the oil sands because at the moment there are relatively few players in the field, and they in fact have just completed an audit for Syncrude. I don't know if that answers the question, but certainly we're well aware of the costs. They have to be reported to us by the clients. We get an opportunity to verify those costs and go back to the client if we don't think that they're appropriate.

I do want to just spend a minute, though, on one of Fred's comments. To the extent that the application of generally accepted accounting principles, which allow different methods of accounting, changes from year to year, this adds certainly some complexity in terms of, as you suggested, Dr. Taft, a company perhaps trying to add to the pile to avoid paying the royalties. I think we've seen a recent situation of that, where the changing of an accounting method has an implication on the royalties, and we're certainly working with that client at the moment to come to an agreement as to whether or not we accept that as a change that's appropriate.

Just to pick up on the minister's earlier comments, the size of the reserve and the potential value of the oil sands is the reason that there's a different royalty structure in place that allows the companies to recapture their cost before they start paying normal royalties. We wanted very specifically to encourage that investment because of the potential benefits to the province as we go forward. Kyoto aside, you know, there are some 82 billion dollars of investment currently anticipated. So we feel that the royalty structure is appropriate, and while it doesn't yield significant royalties in the early years, it certainly will for our grandchildren and their children.

MR. M. SMITH: I want Ken to add something as well on the new project definition on this issue.

MR. K. SMITH: Part of the commentary that was provided in the question relates to the expansion of existing facilities and whether that expansion results in an ongoing deferral of royalty payments that are required by the Crown. The first thing I'd like to point out is that any expansion that's associated with a project for inclusion into the royalty regime requires the explicit approval of the Department of Energy, and we review and evaluate each and every one of those on a case-by-case basis. Where we believe it's an integral part of an existing operation, the expansion that is associated with their proposal is one that will ultimately lead to more production from the facilities and more revenue to the province.

These business decisions are not driven by the royalty regime. In the first instance they're driven by the fundamental economics of the projects and the overall investment climate. The royalty provision provides some degree of an incentive in the fact that the royalty is a minimal royalty during the initial period of payout. After payout is reached, the royalty is 25 percent, which is very substantial. There is not an opportunity for companies to continually defer royalty through expansion because of the limitation in the leasing that they have and the definition of the projects that the Department of Energy applies to it.

9:10

MR. M. SMITH: This is a good question. I also want to thank the Auditor General for his addition, because he's absolutely one hundred percent right. The exploration cost is zero, and that has to be taken into effect. Previous to the generic royalty there were different royalty structures in existence for different leaseholders, and that, of course, created another difficult accounting issue, in my opinion, and it lacked consistency. However, now we get into new problems because, again, notwithstanding the Kyoto chill that we think somehow, at a cost, will resolve itself from a business perspective, if you look at the work of Shell, Shell Scotford, and Petro-Canada, where they are, in fact, building refining structure that will ensure that there's refining taking place in Edmonton for the next 50 to 75 years, it gets us into a homogenous stream. The very people that are extracting your bitumen are also going to be upgrading your bitumen, so following the upgrading chain and determining the appropriate royalty value inside a company, I think, is going to pose some of its own challenges in years to come. So it's a very important piece.

THE CHAIR: Thank you.

DR. TAFT: Thanks for the long explanations. We could, obviously, spend a whole meeting on this particular topic, but I'll just zero down to my supplemental. You indicated that once the costs are recovered, the 1 percent royalty jumps to 25 percent, so my question is: at this point is anyone paying the 25 percent royalty, and when – I want the year – will we see other companies paying that 25 percent royalty?

MR. TAYLOR: At the present time CNRL is a company that pays the 25 percent royalty on several of its projects, particularly in the Wabasca area. In the past we have had other projects which have paid the 25 percent royalty, notably Syncrude, which has paid in excess of a billion dollars of royalty on its project at Fort McMurray to date. It, of course, has gone through a multibillion dollar reinvestment in expanding the project to include the Aurora mine and associated facilities, so it has for the present time dropped back to the 1 percent royalty regime.

The biggest variable in forecasting when these projects will reach payout and reach the 25 percent royalty regime again is what the price of crude oil will be on the international world market. Using an expectation of prices of WTI in the $22 to $23 range, we expect that some of these projects will return to a 25 percent royalty regime towards the end of this decade. Some of the megaexpenditures – and as everyone is aware, they have undergone, because of certain pressures, significant overexpenditure compared to the original plan, so we're forecasting in the period 2007-2010 that some of the projects will return to the 25 percent royalty.

THE CHAIR: Thank you.
Mr. Broda.

MR. BRODA: Thank you, Chair. I'm going to look at the Ministry of Energy annual report, on page 25. I know that my colleague to the right has mentioned earlier about the performance measures. We see that a 20 to 30 percent target for the performance measure sharing profits of resource revenue is broad and that results are at the low end of the scale. My question is: can you explain this?

MR. KEECH: The target, between 20 and 30 percent, is to just accommodate some years where you see a significant change. The philosophy is to ensure that we capture the appropriate share of revenue as opposed to maximizing the revenue. We could take a hundred percent, but it would be for a very short period of time. Conversely, if we took 5 percent, I think we would be leaving much too much on the table as the resource owner. So I think that over the course of the years we've found that somewhere in between sort of the 22 and 25 percent range is the appropriate share. It still encourages investment by the oil and gas industry, and as the minister suggested in his opening remarks, there were over $13 billion invested in this particular year by the conventional, if you would, oil and gas industry. That number has climbed closer to $20 billion in the subsequent year.

So that in itself has a significant economic benefit to the province, and we don't want to do anything that will discourage that. I guess that if we wanted to do something to make it more palatable, we could change the top number to 25 percent, and then it wouldn't look like we're at the bottom end of the scale. As you can see, it's very consistent through the years, and I think the department is comfortable in assessing that as being the appropriate share.

MR. BRODA: Thank you for that explanation. I had a supplementary question as to whether 20 or 30 was the right target, but you've answered that.
Thank you very much.

THE CHAIR: Thank you.
Ms Blakeman, followed by Alana DeLong.
Ms Blakeman, I have a question list made prior to the arrival of the Member for Edmonton-Highlands. Would you like to defer your question to the member?

MS BLAKEMAN: Yes. I think that's appropriate.

THE CHAIR: Okay.

MR. MASON: Thank you, Mr. Chairman. Thank you, Ms Blakeman.
Mr. Minister, I'm looking at your department's annual report, on page 16. There is a graph there showing the electricity pool monthly average price. It indicates that the pool price has actually come down quite a bit. The average pool price over the fiscal period was 5.2 cents per kilowatt-hour compared with 14.8 cents in the prior fiscal year. My question is: what can be done in terms of the policy of the department to ensure that the reductions in the pool price can be passed on to small consumers of electricity?

MR. M. SMITH: The short answer is to complete the route of using the regulated rate option that in the initial stages of deregulation was committed to by the government to the end of 2003 for small business consumers and till 2005 for individual consumers. Given that the marketplace has always asked for consistency, when the Alberta advisory council on electrical issues, chaired by Mr. Len Bolger, and the other various subcommittees that have worked with deregulation – it was their recommendation not to alter the regulated rate option. It was my preference, actually some 15 months ago, to establish a flow-through rate as an adjunct to the regulated rate option. It was felt by all the representation on the council for electrical issues – it included people from EPCOR, Consumers' Association of Alberta – that we would stick to what was prior committed to. So that has left the regulated rate option that, of course, is filed by the cities with their city councils and in the rural areas filed with the Alberta Energy and Utilities Board and was filed previously by means of a negotiated settlement, so that the Energy and Utilities Board would not have direct access into the pricing.

Inside the regulation RRO rate that we have today, you could get direct access to the Power Pool if there was a retailer that would offer a flow-through rate. Now, EPCOR, in its rural areas and the irrigating areas, last summer offered a flow-through rate. I don't know how close it was to the price of the Power Pool, but they told me that their take-up on that was only two customers.

9:20

THE CHAIR: Mr. Mason.

MR. MASON: Thank you, Mr. Chairman. I want to ask about – and this is a related question. There seems to be a wide discrepancy in electricity prices paid by small consumers in different parts of the province. People feel that they don't have another option, that there's nobody else working in that area that can offer them a lower price for power. Of course, with EPCOR in the service area – you can correct me if I'm wrong. My understanding is that EPCOR acquired that service area from UtiliCorp at a time after the auctions for the Power Pool had taken place and had to purchase the power for that particular area on the market at the time, and that accounts in large part for the higher prices. Is there anything that can be done, or is it even a policy of the government to ensure that people in different parts of the province have access to power at roughly equal prices or equivalent prices?

MR. M. SMITH: The regulated rate option is established by the service electricity provider in that area. For example, the buying strategy of EPCOR in that Aquila area was dealt with with its consumer groups: the Alberta Association of Municipal Districts and Counties, the Alberta municipal associations. I believe that a consumer group is involved as well. At the same time, the buying strategy of ATCO was the same as they've employed successfully for many years on their gas, and they bought spot price. So they start out at a high price, but the regulated rate option actually averaged out at 4.9 cents and EPCOR's averaged out at 6.7 cents. These are both for service to rural areas. So what we saw was a fundamental difference in the corporate decision on how to buy their power.

Now, each one of these areas can have contract power from another provider. I believe Enmax is offering contracts in this area. By purchasing a contract, you are also exempt, of course, from a deferral account being placed on your power for that year. You're not exempt from previous years' deferral accounts, but if you contract power, that is your full power price for that year.

THE CHAIR: Thank you.
Ms DeLong, followed by Ms Blakeman.

MS DeLONG: Thank you. The Alberta Ministry of Energy annual report, page 79. I understand that there has gotten to be quite a big environmental business associated with every application through the EUB, especially in any energy, oil and gas exploration application, or a coal-fired plant or anything or even just a line, but any application that comes before the EUB. I understand that the companies not only fund their applications, but they also have to fund the environmentalists or the consumers or whoever wants to provide information to oppose whatever it is that they want to do. So they're sort of having to fund both sides. Now, my question is: does this money flow through the EUB? In other words, do we know how much this sort of alternative industry is being funded, or is this totally outside of what appears on the statement of operations?

MR. M. SMITH: I'm going to ask the EUB to comment first, and then Ken will comment secondly.

MR. GEISBRECHT: The EUB's funding comes through the industrial levy, and we don't have any application fees. Perhaps Earle Shirley might want to add to that.

MR. SHIRLEY: The response with respect to how intervenors are funded is simply based on once they have standing in front of the board – and there are rules to determine whether they have standing. Typically, it's a matter of whether they have rights according to our legislation. So environmental groups who may not be directly and adversely affected by a particular application will not have standing in front of the board and therefore won't be funded under our local intervenor costs. The costs for intervenors are very specifically directed to those local intervenors who have rights. So the assertion that there's a cottage industry that's being funded by industry is not really an accurate one from our perspective, because those intervenors that do get funding only get funding once they have standing as a local intervenor.

Now, once we do assess that level of standing, you're quite correct: the proponent is then invoiced for those costs, and it's provided to the intervenor.

MR. K. SMITH: Perhaps to supplement just a little bit, the industry bears the cost of their application. They fund all of the research that's required to support their application, as you might expect and I think is quite appropriate. Then throughout the course of the development process they have an obligation to meet whatever costs are associated with their application that intervenors incur and that the board agrees are in fact eligible costs. All of that adds to the costs of the development of the project.

Just to bring an example to your attention that I encountered here in the last few days, there's a well being proposed in southern Alberta in the Maycroft area. It's a single gas well. It's a hydrogen sulphide prone area. To this point in time to develop the application for that single well, the companies involved have spent approximately a million dollars, and they have yet to get to a hearing. Most of that cost was in connection with identifying the planning activities associated with a potential emergency response and, in particular, identifying all of the people that might be affected in a very broad area for an emergency planning zone that surrounds this particular well, identifying each and every individual intervenor or affected individual so that their property could be properly identified and put into their plans in the event that they had an uncontrolled well that required them to effect an emergency response plan. A very expensive process for the individuals that are undertaking that development process.

MS DeLONG: So my question is: does this information appear anywhere here, or do we track that at all in terms of the costs that we are putting upon industry in being able to even come before the EUB?

MR. K. SMITH: From my knowledge of this it's really a flow-through that goes directly between the intervenors and the company at the direction of the EUB, and it would not show up in our public accounts. I am sure that the EUB keeps track of how much money is associated with each and every application. There's a very detailed process that they undergo in order to assign and award intervenor costs, and I'm sure that they could provide a total of that if you should like to see that.

MS DeLONG: Okay. Good. Thank you.

THE CHAIR: Thank you.
Ms Blakeman, followed by Mrs. Ady.

9:30

MS BLAKEMAN: Thanks very much. I'm referring again to recommendation 13 found in the Auditor General's report, page 76, recommending that "the Ministry of Energy use performance measures that permit consistent evaluation of the success of the Ministry," again noting that this is not the first time we've seen that recommendation.

If you want to have two books open at the same time, I'm also looking in the ministry's annual report, pages 25, 26, and 27. I appreciate that there have already been two questions asked this morning on performance measurements, but part of what we're trying to do with this committee is to learn from the decisions and the actions that were taken at the time, inside of that arbitrary time of April 1, 2001, to the end of March 2002. So I appreciate that the representatives have already said, "We've changed that; we've done it; it's dealt with," but with the permission of the committee I'm going to dig a little bit into some of the reasoning of it.

I'm curious as to why when we look at goals 2, 3, 4, and 5 – so those are four goals out of a total of eight – there are no performance measurements that were achievable for those goals. I'm wondering: were these goals somehow less important than the goals and accompanying performance measurements for goals 1, 6, 7, and 8? In other words, you've got eight goals listed here. Four of them have performance measurements and targets that go along with them, and four of them don't. Am I reading this right? Are four of them less important or less achievable or what? How come four of them don't even have performance measurements?

MR. M. SMITH: I'm going to ask Joe Miller to respond to that.

MS BLAKEMAN: Thank you.

MR. MILLER: I think, Ms Blakeman, that when the business plan that you're looking at was developed – it was immediately after the election of 2001 – we made significant changes to that business plan, including changes to the goals. As indicated, performance measures were to be developed in quite a number of those areas, and we recognized that performance measures were needed. I think, although you won't have it before you, you will find that the current business plan addresses all those issues, and performance measures were developed for all of those goals.

MS BLAKEMAN: True, but I'm looking at what happened inside of this fiscal year. So, again, what is differentiating goals 2, 3, 4, and 5 from goals 1, 6, 7, and 8?

MR. MILLER: Nothing particular, other than that some of the goals were new goals that were developed, and we recognized that we had yet to develop effective performance measures for those goals. It wasn't an indication of any of those goals being more or less important; it was just a matter of where we were at a place in time and our ability at that point, we felt, to identify effective performance measures, which is what the Auditor General had asked us to do. I think that that's what we put in place for the current business plan.

MS BLAKEMAN: Is there a comment from the Auditor General on this?

MR. DUNN: I'm going to turn that over to Jim Hug, who has been involved in this ministry before. This actually took place prior to my arrival.

MR. HUG: I'm not too sure I can fully answer that question. It is a timing issue. As to the reasons why the performance measures weren't developed, I don't think that was part of our audit. We do work, obviously, on the performance measures that they do have, but if there are no performance measures, obviously we can't do any work. As I said, we didn't look into the reason why, so I can't really comment on the validity of the explanation that was provided.

THE CHAIR: Thank you.

MR. K. SMITH: I'm not quite finished with this one yet.

MS BLAKEMAN: Oh, good.

MR. K. SMITH: To just elaborate on what Mr. Miller has indicated to you, the business plan that existed prior to this one was one that was particularly activity oriented, which I think is the best way to put it, and there is an overall drive in the government to move to much more of a performance-based, outcome-based measurement system that's also consistent with the directions from the Auditor General's office.

This plan in this fiscal year was really put together in a matter of a few weeks, and it occurred just after Minister Smith arrived. He insisted that the department's business plan make a major adjustment and change to reflect much more of a concise business plan surrounding his expectations to indicate clearly that the performance measures would in fact be outcome oriented. That's why the plan at this particular stage – we just hadn't the opportunity to develop the performance measures that ultimately have been developed and to provide the consistency, then, in terms of the overall business plan and the ability to measure progress.

THE CHAIR: Thank you.

MS BLAKEMAN: I wish I had another question, but I don't. I have to give way to others. Sorry. Next time.

THE CHAIR: Mrs. Ady, followed by Dr. Taft.

MRS. ADY: Thank you. Sorry; I have a bit of a cold, so I hope you can hear me.

First of all, Murray, I just want to say that I love this picture. I love how big our barrel is compared to everybody else's.

UNIDENTIFIED SPEAKER: So size matters.

MRS. ADY: I do think it does, and I just wanted to go on the record as saying that I love this picture. It kind of makes me want to do the wave or something.

UNIDENTIFIED SPEAKER: Roll out the barrel.

MRS. ADY: Yeah; we've got 'er.

So I don't get into trouble with the chair, I'd like to reference page 37 of your annual report. Performance measure 1.3, solution gas production conservation/flaring reduction, states that the actual reduction for year-end 2001 is 53 percent, which exceeds the target of 25 percent. I think this is a wonderful news story, particularly in light of the discussions that we're having today and had yesterday in the House. Can you tell us what contributed to that significant reduction?

MR. M. SMITH: Well, I'm going to ask Ken to comment on it and the AEUB. It's an example of multidepartmental and industry co-operation, where you actually want to do something and you want to do it in concert with those who represent environmental concerns, and you don't want to use artifice and incomplete science and all the associated parts that come with Kyoto.

If you were to adopt the same examination method for doing something federally for the reduction of smog, the reduction of pollution, you could look to this as a model. When you look at what the federal Liberal government has done with respect to the Kyoto protocol, it does not reflect any type of scientific investigation nor will it have any kind of even nominal effect on what they're trying to prove in the first place, whereas the reduction of flaring and the reduction of venting have substantial gains and substantial dividends.

If you look at this province, we have made tremendous gains from the days when you would drive through this province, the wonderful rural tapestry of this great province, and see teepees where they were burning wood chips all over the place. Those teepees are now gone. Those have been replaced by a small biomass, cogeneration facilities for electricity. They're used to generate steam for heat. We have one program where we extend a royalty credit if you reduce your flare gas and use it to drive a small generator. I mean, these are real and substantive approaches to reducing what I call the bad stuff, the scientific term "the bad stuff," that affects people's lives and their living conditions.

So on the specific part, I think, Ken, if you'd lead it off, and then maybe the board would have a comment on it.

MR. K. SMITH: Some of you may know some of my background. I was associated with the CASA process for many years when I was in Environment, and then subsequently I was the president of the Clean Air Strategic Alliance Association for about three years. That Clean Air Strategic Alliance put into place a very disciplined approach to identifying and agreeing on what were important problems in air quality issues in Alberta and then working through a joint process with industry and citizens and environmental groups to identify appropriate means to resolve issues.

Flaring was one of the ones that was identified early in the process in CASA. The people associated with the industry and the environmental groups went to work on this and, in fact, developed this model where in the initial period targets were set, stretch targets were set, and industry was given the opportunity to comply on a voluntary basis with the full knowledge that ultimately regulations would come into play and would force compliance at the end of the day to ensure a level playing field. That experience has provided the basis for a lot of the thinking that's gone into the government of Alberta's climate change action plan, where we've identified an approach where we want to use sector agreements, use covenants with industry, and provide a regulatory backstop to ensure that Alberta's targets on $C0_2$ emissions will be met.

In the practical life in Alberta the control of methane venting from facilities and flaring is a very significant part of our CO_2 activity, and the fact that the industry not only met these stretch targets but exceeded them on a voluntary basis is something of particular note, I believe, and it provides us with the confidence and with the intelligence to know that we can continue to do this type of work in other sectors to achieve similar results. Perhaps Earle Shirley can supplement because they were, in fact, the implementing agency on this, and they were the ones that were prepared to provide the regulatory backstop.

9:40

MR. SHIRLEY: Thank you. Just to add a couple of points with respect to how these reductions occurred. The board has put into place requirements, again as a result of the work from the CASA committee's recommendations, to reduce well test flaring and that sort of thing. It's an interesting number that I can give you: that in 2001 well test flaring, the number of well tests that went on, increased by I think some 23 percent, but the total volume that was flared actually decreased by 3 percent. This is a direct result of those requirements that were put in place to reduce well test flaring. On the flaring and venting at gas plants that also decreased in 2001 by some 19 percent due in large part because there were fewer gas plants flaring large volumes of gas. So, overall, what we're looking at is a pretty concerted effort on the part of industry to address the issues related to flaring and venting.

THE CHAIR: Thank you.

MRS. ADY: Thank you.

I also had an opportunity last week to read Sydney Sharpe's book and thought it was very interesting, as it pointed out the things that industry has done. I notice that you said that your communication budget was up, and I was thinking at that time that, you know, that is a good-news story for Alberta, and I think in the midst of all this Kyoto discussion that somewhere that's getting lost. I think it's one of the things that we need to herald, the things that are being done and the improvements that have been made by industry and their continued pursuit of further improvements. So I'm hoping that that's what that rise in the communication budget is about.

MR. M. SMITH: It's focusing on the issue of getting the smokestacks removed from the CBC forecasts. When Lorne and I are on the CBC channels, they always put smokestacks from Sarnia behind us.

It truly is a good story. It's always difficult for good news to break out of Alberta onto the national platform.

MRS. ADY: Thank you.

THE CHAIR: Thank you.

Dr. Taft, followed Mr. Cao.

DR. TAFT: Thanks, Mr. Chairman. I'm going to continue along the lines of my previous question. I am concerned about the leakage of public wealth through or out of the system. My first question has to do with a comment in response to my last question about the fact that Syncrude's royalty rate has dropped back to 1 percent because of expansion of the plant. I assume that applies now to all of Syncrude production. I guess I need a philosophical explanation, since Syncrude has been up and operating for more than 20 years now, how it is that we have decided that that historical production level should go back to 1 percent royalty. I could see – and I may be misunderstanding – that the production stemming from the expansion goes to 1 percent; I suppose I could be convinced of that. But is it true that all production has dropped back to 1 percent, and if so, how do you possibly explain that?

MR. TAYLOR: Your understanding is correct, that all of Syncrude's production has returned to a 1 percent royalty rate, and that is part of the royalty features that were part of the oil sands royalty regime established in consultation with industry in the 1996 period. It was part of what was understood to be needed to induce companies to continue to invest heavily and grow their businesses. While their royalty rate has on their existing production dropped back to 1 percent, one must remember that they've invested over $2 billion, of which somewhere in excess of $1 billion was spent in Alberta, some $400 million of that into direct labour costs and jobs, income taxes, and all the other benefits that flow from construction jobs and businesses profiting from being suppliers to Syncrude's operation. One must also remember that when Syncrude reaches payout, their 25 percent royalty will come that much faster because their payout is being based on all of the production from Syncrude, not just the new expansion but all of the preceding production as well. So we'll reach that payout time on the expansion much sooner; in fact, probably over twice as fast as we would have had it only been applied to the expansion expenditure.

In the short term it probably does seem like a giveaway to industry, which is rapidly going through technology changes. Part of this is to support the introduction of brand-new technology that reduces the energy intensity, reduces greenhouse gas emissions, and sets the industry up for we hope a very profitable, because we share in those profits as Albertans, 200 to 300 years of business activity once this business moves to what one might consider a more mature manufacturing level of performance.

DR. TAFT: Well, we're not talking about profits here. We're talking about royalties, as I'm sure you're aware. It does seem like a giveaway to me.

My second question along these lines is that a number of these oil sands have built cogeneration electricity plants, so they end up with a full-blown power plant that they feed the grid. My question is: do those tax write-offs apply to that electricity production as well? In other words, are we allowing very substantial tax subsidies or royalty subsidies one way or another to power plants at the oil sands that don't apply to other power plants in Alberta? Did you follow the logic? I hope.

MR. TAYLOR: I believe I did. By the way, for those of you who don't know me, I'm Bob Taylor, the oil sands development assistant deputy minister.

The operator has the election to put the electricity plant inside or outside of the oil sands project. Most have chosen to place it outside the oil sands project, in which case it's not subject to the benefit of investment reductions. If they do choose to put it inside the project, then all of the revenues flowing from the electricity generation, those used by the project as well as those exported onto the grid, become part of the revenue stream, which leads to payout, which leads to the return to the 25 percent royalty regime sooner.

DR. TAFT: Thank you.

9:50

THE CHAIR: Mr. Cao, please, followed by Mr. Mason.

MR. CAO: Thank you. I must commend the ministry, the minister and the staff, for working so well to generate good revenue for Alberta to fund all others: health, education, social programs. I want also to commend the Auditor General for giving us some insight into the nuts and bolts of the financial part of it.

My question is regarding something which is out of that context in fact, probably to the Auditor General and then to the minister, in the sense of our security. I note that on page 79 of the Auditor's report it touches base on monitoring the pipelines in Alberta. There's some safety there, but I'd like to see: is there any new thing or maybe effort or attention in auditing on the part of security because now we are vulnerable in the world in terms of terrorists and other world security? So should we have something like that ongoing in the next report? That's question one.

MR. DUNN: I'll respond first. We do have some recommendations. We're just looking for it under Municipal Affairs, and I believe it's under recommendation 46 on page 220. We go on to further explanation regarding the emergency preparedness of the province to deal with the risks that you were identifying, Mr. Cao. That recommendation 46 obviously received a fair amount of press when we released our annual report, that the province did not have, in our opinion, the facility to handle the preparedness. In the recommendation we have in 14, we explain here that the board must still priorize the risk and define the strategies to address those specific risks. So that was one of the concerns we have that you've identified, that the board must end up defining those risks and a strategy to address it.

MR. K. SMITH: Perhaps I could make a couple of quick comments on the overall aspect of security. Shortly after September 11 the Ministry of Energy began some very serious work with our industry and with some of our other agencies to assess the preparedness of the Alberta energy industry for various forms of risk that might be brought to our province. Throughout that process the energy industry and particularly the EUB took on a very key leadership role in identifying not only the kind of work that needed to be done but to actually develop the tools and methods by which we could, in fact, prepare ourselves for security risks. There was a conference here, I think just a few days ago, where that was highlighted. I know that a substantial amount of the work that was done to get Albertans prepared for security risks was, in fact, developed and thought through at the Energy and Utilities Board, with the help and assistance of some of the key players in the Alberta energy industry. I'd like to ask Earle Shirley, who led that on behalf of the EUB. With some support from the department and myself in particular, he has been the individual who has, in fact, developed the systems and procedures to allow us to be prepared for emergency events associated with terrorist activity, and they also, of course, have an ongoing responsibility for pipeline safety. Perhaps he can address both of those issues.

MR. SHIRLEY: Thank you. Let me start off, first of all, by apologizing for not introducing myself properly earlier. I'm the chief operating officer from the Energy and Utilities Board, so that's why I'm here talking to you today.

There are a couple of points to address. First of all, with respect to recommendation 14 that the Auditor General commented on, quickly, the short response is that we will address those and have committed to address the four items under that particular recommendation by the 31st of May, I think, next year. So we are going to address those specifically.

To the member's question with respect to security in the general sense, as Ken pointed out, we started off very quickly after September 11, 2001, working with industry and other agencies to address the issue of, in particular, infrastructure critical to this province. For people who are involved in the security and, in fact, intelligence business, it's recognized fairly broadly that linear facilities are almost impossible to protect in their entirety. Where do you put the guard with the gun on 300,000 kilometres of pipeline to protect it all? You can't do it. So you have to look at where those pipelines go, what they connect to, where they all gather together to identify those critical points that will have perhaps disastrous consequences if something bad were to happen. That was the exercise that we engaged in. We worked with federal and provincial agencies as well as industry. We identified those structures. We utilized a set of selection criteria that was consistent at both the national and provincial levels.

Once we identified those facilities, we attached a threat warning system. Again, that threat warning system was based on something that the RCMP use nationally and that coincidentally works with the same system they have in the United States now. All of those things put together allow us to identify those pieces of critical infrastructure, and if there is a threat pending, information can be communicated directly to those facility owners. That's an important part of the whole equation, because then the facility owners themselves will institute certain security measures, again based on best industry practices in that area, so they'll be able to respond appropriately to whatever the threat level is. Now, obviously if the threat is high, to a point that's beyond their ability, then government authorities, both provincial and federal, will react.

So I think, then, there is a system in place to deal with it. It is managed by the new Emergency Management Alberta, a part of Municipal Affairs. So the process is in place.

MR. CAO: Thank you for the assurance. I like this very much. It shows our positioning.

On page 71 in the department report here, in the ministry report, on the revenue side I scanned through it and then saw this thing. My question to the minister is: I don't see any sort of what we call alternative energy. Is there any activity in anything like that? At least maybe on this kind of map we'd show where we have a lot of winds or hydro or whatever. Thank you.

MR. M. SMITH: Thanks for the question, Wayne. If anybody wants to talk about refinery and pipeline safety and how to put out fires after bomb attacks and how safety was implemented in the mid-70s, I encourage you to spend some time with Wayne. He has some particularly engaging and intriguing stories.

The issue of alternate energy is one that has moved around in the government of Alberta. If you look at our core businesses in the Department of Energy, you'll see that they're all based on commodities that generate royalties for the Crown. The royalty position of wind, of course, is zero. The royalty position of biomasses is as well zero. So the encouragement – and the Alberta government does encourage the development of alternate energy resources – is generated through areas such as the clean air strategy, CASA, the Department of Environment, and some areas of the Department of Sustainable Resource Development. Of course, the last direct subsidy was the small power assistance program that terminated in about 1992, which delivered a subsidy to alternate power across Alberta to the tune of some 120 megawatts and has subsequently been discontinued.

The grid now reflects just over 107 megawatts of wind, I believe, and about 800 megawatts of hydro, and we're looking at different hydro applications where they actually put a turbine in the river itself as opposed to building dams, so they're much less intrusive. We're examining our legislation to see if there are any restrictions that prevent that from occurring. We think that there are a couple of good projects in Alberta to continue to drive new and different sources of power.

10:00

MR. CAO: Thank you.

THE CHAIR: Thank you.

At this time I would like on behalf of the committee to thank the hon. minister, his staff, and those who I assume have traveled from Calgary, from the EUB office, to Public Accounts this morning. I would like to thank them for their time. I would also like to thank the Auditor General, Mr. Dunn, and his staff for joining us as well this morning.

At this time I would like to remind members of the next meeting, next week, December 4. The Hon. Ty Lund, Minister of Infrastructure, will be here.

Are there any other items of business at this time that members would like to discuss?

MR. BRODA: Motion to adjourn.

THE CHAIR: Motion to adjourn by Mr. Broda.

I would encourage all members of this committee, if you would like to speed up the questioning, to put a time limit on responses so that more members could get questions forward. Please feel free at any time in the next week to direct your comments or your concerns or observations to the chair. Certainly every week goes by, and there are many members of this committee who have expressed an interest in asking a question. Because of the length of discussions – and some of these questions are very interesting – perhaps I should shorten the response.

MR. MARZ: On that note, Mr. Chair, I would say that I appreciate your comments in that regard, but I found some of the questions today extremely interesting. I would hate to see some of them cut short because I think a lot of us gained a lot of insight on the questions that were asked today in the length of the answers. So I'd hate to see it cut short just to not get adequate answers in. Perhaps if people get would their names on the list a little sooner, they would be able to get their questions in too.

THE CHAIR: Thank you.

Mr. Mason, do you have a comment, please?

MR. MASON: Well, I agree with that, Mr. Chairman. I found the discussions really interesting today. Maybe we could invite the minister and his officials back for an additional session.

THE CHAIR: Or perhaps we could work to change this method by which the Standing Committee on Public Accounts works and meet outside session, and then we could have lots of time to talk to the minister.

MS BLAKEMAN: Absolutely.

MRS. ADY: Or maybe we could just allow every member to have one question.

THE CHAIR: Whatever you decide, certainly the chair is agreeable to put it before all members of the committee. It's your decision, but certainly I think we can work to improve Public Accounts.

MR. MARZ: A point of order, Mr. Chair.

THE CHAIR: Yes.

MR. MARZ: I believe we have an adjournment motion on the floor, and that's nondebatable.

THE CHAIR: That is certainly correct.

In conclusion, if I could remind the deputy minister, Mr. Smith, in his response to Alana DeLong's question: could you give the written response to the committee clerk, please.

MR. K. SMITH: Yes.

THE CHAIR: Thank you, and thank you everyone.

MR. M. SMITH: Thank you.

[The committee adjourned at 10:04 a.m.]