Legislative Assembly of Alberta

The 27th Legislature
First Session

Standing Committee
on
Public Accounts

Energy

Wednesday, April 30, 2008
8:30 a.m.

Transcript No. 27-1-2

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Standing Committee on Public Accounts

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Lund, Ty, Rocky Mountain House (PC), Deputy Chair

Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
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Griffiths, Doug, Battle River-Wainwright (PC)
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Mason, Brian, Edmonton-Highlands-Norwood (NDP)
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Vandermeer, Tony, Edmonton-Beverly-Clareview (PC)
Woo-Paw, Teresa, Calgary-Mackay (PC)

Also in Attendance

Hehr, Kent, Calgary-Buffalo (L)

Department of Energy Participants

Hon. Mel Knight	Minister
Peter Watson	Deputy Minister
Douglas Borland	Director, Financial Services
Dave Breakwell	Assistant Deputy Minister, Natural Gas Division
Anne Denman	Acting Assistant Deputy Minister, Electricity Division
Mike Ekelund	Assistant Deputy Minister, Oil Development
Tom Heywood	Corporate Controller, Financial Management

Auditor General's Office Participants

Fred Dunn	Auditor General
Doug Wylie	Assistant Auditor General

Support Staff

W.J. David McNeil	Clerk
Louise J. Kamuchik	Clerk Assistant/Director of House Services
Micheline S. Gravel	Clerk of *Journals*/Table Research
Robert H. Reynolds, QC	Senior Parliamentary Counsel
Shannon Dean	Senior Parliamentary Counsel
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Philip Massolin	Committee Research Co-ordinator
Liz Sim	Managing Editor of *Alberta Hansard*

Transcript produced by *Alberta Hansard*

8:30 a.m. **Wednesday, April 30, 2008**

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call the Standing Committee on Public Accounts to order, please. I would like on behalf of committee members to welcome all those in attendance. If we could quickly go around the room and introduce ourselves. Perhaps we could start with the vice-chair.

Mr. Lund: Ty Lund.

Dr. Massolin: Good morning. Philip Massolin. I'm the committee research co-ordinator from the Legislative Assembly Office.

Mr. Bhardwaj: Naresh Bhardwaj.

Mr. Dallas: Cal Dallas.

Mr. Vandermeer: Tony Vandermeer.

Mr. Denis: Jonathan Denis.

Mr. Quest: Dave Quest.

Mr. Kang: Darshan Kang, Calgary-McCall.

Mr. Chase: Good morning. Harry Chase, Calgary-Varsity.

Mr. Benito: Good morning. Carl Benito, Edmonton-Mill Woods.

Mr. Breakwell: Dave Breakwell, Department of Energy.

Mr. Knight: Good morning. Mel Knight, Grande Prairie-Smoky.

Mr. Watson: Good morning. Peter Watson, Department of Energy.

Mr. Borland: Good morning. Douglas Borland of Energy.

Mr. Ekelund: Good morning. Mike Ekelund, Department of Energy.

Mr. Wylie: Doug Wylie, Office of the Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Drysdale: Wayne Drysdale, Grande Prairie-Wapiti.

Mr. Griffiths: Doug Griffiths, Battle River-Wainwright.

Ms Woo-Paw: Teresa Woo-Paw, Calgary-MacKay.

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

Mr. Hehr: Kent Hehr, Calgary-Buffalo.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: My name is Hugh MacDonald, Edmonton-Gold Bar.

I would like to advise the minister and his staff that if there are others from the department who are not sitting at the table who wish to participate in the discussions this morning, they are quite welcome to do so, but please go to the microphone that is provided so it can be recorded accurately in *Hansard*.

I would like to advise all the members that the briefing material was posted for viewing and printing on Friday, and there was some additional information provided by Philip and his staff. I would like to note that at this time.

May I please have an approval of the agenda that was circulated? Mr. Denis, thank you. Moved by Mr. Denis that the agenda for the April 30, 2008, meeting be approved as distributed. Those in favour? Opposed? Seeing none, thank you.

The chair would like to recognize and welcome Mr. Mason this morning as well.

Now may I please have an approval of the minutes that were circulated?

Mr. Lund: I so move.

The Chair: Thank you, Mr. Lund. That the minutes for the April 23, 2008, meeting be approved as distributed. Those in favour? Opposed? Seeing none, thank you.

I would like to welcome the hon. Mr. Knight, Minister of Energy, and I would invite the minister to give a brief overview of his department for the year 2006-07. This meeting deals with the annual report for the Department of Energy for 2006-07, the annual report of the Auditor General for 2006-07, and the report of the Auditor General from this April. Also, I would be reminding members that there is information in the government of Alberta's annual report as well that may be of interest to this committee.

With that, Mr. Knight, please proceed. Thank you.

Mr. Knight: Well, thank you very much, Mr. Chairman. Good morning, ladies and gentlemen. As well as the individuals at the table, we have some additional staff here that I'd like to introduce, if I may. Of course, at the table: Peter Watson, the deputy minister; we have Mike Ekelund and David Breakwell. Additionally, Don Keech is here from the department, Anne Denman. Doug Borland is here; I believe he was introduced. Jason Chance, communications director, is here; Jason Ennis. From the Energy Resources Conservation Board Tom Heywood is here, and from the Alberta Utilities Commission, Jim Van Horne. So we have, I think, a complement of individuals here this morning that should be able to make your time productive and answer the questions that are put forward for us this morning.

I think a bit of perspective with respect to the discussions today might be in order. A year ago, well, a little over a year ago I was appointed Energy minister, but not quite a year ago the price of oil was $62 and some-odd cents. Indeed, on April 1, I think, 2006, that was the price, and that began the fiscal year that's the topic of our discussions this morning. Today, of course, a number of us wonder if oil will get below $100. So the time is an eventful one, and most certainly that time frame has been an interesting period.

On the face of it 2006-07, of course, was a good year for the province of Alberta. There were 11 performance targets identified in our annual report; nine were met or exceeded. I'm anticipating that there will be some discussion around the department's primary goal to optimize Albertans' resource revenue share and our benefits from the energy and mineral resource development in the province.

As members know, the performance target is to realize 20 to 25 per cent of industry's annual net operating revenue. In 2005 the last actual available measurement showed that the province had achieved a 19 per cent share, which the chair of this committee has pointed out on a number of occasions. Remember that the goal is also to optimize benefits. If you look at goal 2, to "maintain the competitiveness of Alberta's energy and mineral resources," you'll see that we have greatly exceeded our targets to the benefit of Albertans, their families, and our communities.

I'm speaking of the performance measure on page 29 of the annual report on annual industry investment in the upstream oil and gas industry. You will see that the target for investment would be equal to or greater than $15 billion. In 2006 it was better than double the target at $35.4 million. That means more jobs for Albertans, more money for families, and more investment in our communities.

As you know, the issue of fair share was addressed this past year, culminating in a new royalty framework, that was announced by Premier Stelmach on October 25. As well, my department launched in the past year several initiatives of which I'm very proud. In the area of renewable energy resources we have some programs in place that are moving that whole sector ahead, and we look forward to some very good results from that in the future.

I'm not only speaking of bioenergy and the $209 million nine-point bioenergy program but also the wind study that the independent electrical system operator undertook with wind generators. It culminated in a major policy change that we announced last fall, the removal of the 900-megawatt threshold on wind generation. As you know, that has produced some very, very good results.

I'm excited with the events that transpired in my first year and a bit on the job, and certainly I look forward to an open and spirited discussion today and to answering questions that you have with respect to our department.

Thank you.

The Chair: Thank you.

Mr. Dunn, do you have any comments for the committee?

Mr. Dunn: Yes. Thank you very much. I'm going to briefly review our audit work at the Ministry of Energy that's included in the two reports that you've just identified, Mr. Chairman. We completed our audits of the financial statements of the ministry, the department, the EUB, each having a March 31, 2007, year-end, and the Alberta Petroleum Marketing Commission for its year ended December 31, 2006. Those financial statements are in the back of the ministry's annual report. Also, we completed our audit procedures on the ministry's performance measures. We issued unqualified audit opinions on these financial statements and found no exceptions with the ministry's performance measures. Last week we provided an overview of our audit of the department's royalty review systems. The results of that work are included in our October 2007 report on pages 91 to 132.

I'd like to take a couple of minutes to highlight an additional two new recommendations and outstanding recommendations included in the October 2007 and April 2008 reports. In our April report on pages 53 to 61 we describe the results of our work on the department's systems to identify and manage conflicts of interest. We audited the department's systems focusing on how a potential conflict of interest involving the former executive director of the electricity division was handled. We found that the systems exist and that the former executive director disclosed his potential conflict to his supervisors. Management assessed the potential conflict and concluded that there was no real conflict of interest. However, they did not document their assessment and their conclusions.

We make one new recommendation to the department: that management document discussions and conclusions and identify risk mitigation strategies when an employee discloses a potential conflict of interest. That's all discussed on page 57 of that report. We indicate that the costs of preparing the documentation when the process is followed is minimal compared to the cost of having to justify its absence later.

In our October report on pages 71 and 72 we made one new recommendation to the Energy and Utilities Board. We recommended that the board implement an IT control framework. That framework is an effective method to mitigate risks and bridge the gap between control requirements, technical issues, and business risks.

8:40

We have also provided a progress report on the two recommendations relating to assurance on well and production data. One recommendation was directed to the department, and a related recommendation was directed to the EUB. We found that the department and the EUB have made progress in implementing these recommendations; however, more work is required to fully implement our recommendations. The progress made and what remains to be done are described on pages 64 to 73 of volume 2 of our October 2007 report.

As you are aware, on January 1, 2008, the existing responsibilities of the EUB were assumed by the ERCB and the AUC. An implementation plan was developed for all outstanding recommendations by the EUB prior to the realignment of those responsibilities. We understand that the ERCB and the AUC will work together to ensure that those recommendations are implemented. On page 199 of volume 2 of our October 2007 report we list all the outstanding recommendations made in previous years.

Finally, we describe in our October report those recommendations that have been fully implemented. There were two. The first related to determining whether royalty adjustment programs were achieving their objectives, and that's described on page 67 of volume 2 of our October 2007 report. The second related to making adjustments to the royalty revenue, and that's described on page 68 of that report.

That concludes my opening comments, Mr. Chairman. I and my staff will answer questions directed to us. Thank you.

The Chair: Thank you very much, Mr. Dunn.

Before we proceed with questions, I would like to remind members of the committee: if you could, please be concise in your questions. We expect concise answers from our visitors this morning as well because we have a long list here of members who have indicated they would like to participate this morning.

We'll start with Mr. Chase, please, followed by Mr. Dallas.

Mr. Chase: Thank you very much, Mr. Chair. Before I hurl pointed questions, I want to toss a bouquet to the minister for the collaborative and collegial manner in which he handled the debate on Energy last night. It was very much appreciated, as were his responses, and I'm very pleased to see you here this morning.

On page 70 in volume 2 of the Auditor General's 2006-07 report it states that the production audit group "consisted of only one auditor" for 2006 when this group has had up to 14 auditors in the past. Then on page 83 of the ministry's annual report it shows that a new position was created entitled executive director for corporate energy strategy development with a salary of $158,000. How can the minister justify creating a new position when the department was unusually short on auditors?

Mr. Knight: Peter, if I could ask you.

Mr. Watson: The new position for corporate energy strategy development we felt was a priority for the ministry given, you know, the nature of the environment that they were operating in and the high priority that the Premier and the government were placing on development of a comprehensive energy strategy for the province, that we're diligently working towards. At the same time we were very concerned about the nature of the capacity and the approach around the volumetric data assurance as well. As Mr. Dunn indicated, we have been doing some joint work with the ERCB to improve our systems in that regard and ensure that we're providing appropriate assurance to Albertans that that volumetric data is correct. At the same time we are looking at our capacity in several critical areas of the department and ensuring that we've got appropriate capacity directed at some critical areas of work.

Mr. Chase: Thank you. My supplementary question: how was the production audit group hindered by the lack of auditors?

Mr. Watson: What I would like to do for the member is actually ask Mike Ekelund to just give a bit of history regarding the approach that we had in place at that time and then also the work that we've developed over the past number of months with the ERCB regarding the joint audit program. We don't believe that the audit group was hindered, but we did see a need and agreed with the Auditor General to improve our assurance procedures overall, and we've implemented some new processes to do that.

Mr. Ekelund: We've been working closely with the Energy Utilities Board, now the Energy Resources Conservation Board, in terms of setting up our volumetric audit process so that we can get the level of assurance that the Auditor General has requested that we get. During this fiscal period we did a number of audits. We were able to bring in resources to be able to do the audits. We audited six data elements out of 25 that we've identified as being important to the system. Of those six data elements, we were able to determine that four of them had basically no errors that had any significant impact on royalties.

There were another two that we did audits of. What we did, given the availability of resources, was to take a look at the highest volume gas plants and gathering systems in the province and the highest volume batteries in the province. That resulted in us being able to get a handle on what kinds of errors there might be, following along the other audit work that had been done previously. Because it was a sample of where the largest volumes were and therefore, we felt, the largest potential risk for there being an error of magnitude, those two cannot be extrapolated from the sample across the entire population. The other elements could be on these two.

From our audits covering approximately, I believe, 22 per cent of the total of natural gas royalty volumes in the province, we found on the gas plant side errors leading to overpayment of $111,651; on the gas gathering systems errors leading to overpayment of $3,629; and on the oil side looking at the highest volume oil batteries, covering 1.5 per cent of total Crown volumes, errors leading to underpayment of $9,011. We cannot extrapolate those because it was not a random sample. We chose the largest areas where we thought we'd find the largest errors. So we were able to do that. That has been the first part of the work that we're doing.

This year, with a stronger complement in the ERCB's production audit group, we are doing I believe at this time 46 audits, that are in progress, and I think another 13 are in various stages of progress, which will give us further information. That is the second phase.

The final one that we're moving to is to have a system where we've identified all of our control systems. Once these control systems are identified clearly, then we are able to reduce the amount of field auditing that is required, and we can get more bang for our buck with the existing staff, identifying only the areas where the control risks are such that we need an actual physical field audit. We do have a plan to move forward on that with the 24 or 25 data elements that we're still working on, which ones are risk items. We're moving towards that.

The Chair: Thank you.

Mr. Dallas, please, followed by Darshan.

Mr. Dallas: Thank you, Mr. Chairman. Looking at the annual report, in particular the operational overview, on page 33 there's discussion of goal 4, which expands plans to develop value-added energy in Alberta. Reviewing the other goals, there's a performance measure attached to each of those, but with respect to goal 4 no performance measure. I'm curious as to why that would be and what the plans are going forward to measure our progress in that area?

Mr. Watson: First of all, I should apologize to the member. Some of the subject matter of the report I'm not intimately familiar with as I was only just recently appointed deputy. But my understanding is that this was a new goal that was added into the business plan at that time. It was reported on for the first time; that was the reason why there wasn't a specific performance measure added at that time. There was some work under way to consider what should be the appropriate performance measures on that.

8:50

Mr. Dallas: A supplement to that, Mr. Chairman. In that regard, then, would we expect to see performance measurements with respect to bitumen upgrading as a component of that goal?

Mr. Watson: We're working on that right now, for the member, in terms of how we would incorporate bitumen upgrading in that measure. I know, as the minister has indicated, we're on track in the province to increase the amount of bitumen that's being upgraded. Through some of the work that the department has done in the past with the ethane extraction policy and so on we're anticipating that that will have some benefit as well. Of course, our work on bitumen royalty in kind will also contribute to seeing some additional work go ahead. We're working on that measure as we speak and incorporating those elements to ensure that we move forward in a significant way.

Mr. Dallas: Thank you.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Vandermeer.

Mr. Kang: Thank you, Mr. Chairman. On page 48 of the report it shows that stakeholder satisfaction with the ability to access EUB information decreased by 11 per cent. Given that the decrease occurred before the spy scandal erupted in Rimbey and Redwater, can the minister explain what the decline in stakeholder satisfaction results from?

Mr. Watson: In the report itself there are a number of factors that are identified, including some redesign of their information systems and approaches as well as a large increase in industry activity that resulted in a significant workload for the agency. That probably led to some slower turnaround times in terms of phone and e-mail and response. I think part of the issue is just the transition to more, kind of, electronic transactions and accessibility of information and the need to keep current and be more comprehensive in our approach to getting information to Albertans.

Mr. Kang: Further to that question, it also says that the EUB is developing a new measure to gauge stakeholder satisfaction. Has this new measure been developed, and will the minister provide details on how it differs from the old one?

Mr. Watson: I think what I would need to do is ask Mr. Heywood, from the ERCB, if he could comment on that.

Mr. Heywood: Sorry. On that issue I think we'd have to get back to the member.

The Chair: Thank you very much. If you could get back to all members through the committee clerk, we would be very grateful, and if you could respond in writing. Thank you.

We will now move on to Mr. Vandermeer, followed by Mr. Mason.

Mr. Vandermeer: Thank you. On page 17 of the annual report it indicates that revenue from the sale of oil sands, petroleum, and natural gas mineral rights declined in '06-07 by just over $1 billion from the previous year. With our growing population and increasing recreational use of rural properties Albertans are asking if all Alberta is for sale at any price. Who does the government consult with before selling mineral rights?

Mr. Watson: When the department receives interest or an indication that a company is interested in a piece of land, before that is put up for bid, there is an assessment that's done through the Crown Mineral Disposition Review Committee within government that takes a look at any of the major surface access concerns that should be flagged so that the potential purchasers would be aware of the nature of the surface restrictions when they're trying to access the subsurface resource. That review is done, and appropriate flags are provided for industry.

At the same time, I think one of the things that will be of benefit as we go forward is the nature of the consultation that's done with Albertans regarding the objectives for the broader region and some of the work that's being done regarding planning at a regional scale and planning at a landscape level for the development of pools and fields. The ERCB has recently completed a couple of pilot projects where companies that are proposing significant development at a pool or a field scale are doing work with landowners and the broader community in that region before they move in, and they adjust their development plans accordingly. So there's work that's done at more of a policy scale or at the development planning scale, and then the internal government processes are intended to flag the appropriate surface restrictions for the folks that are bidding on the rights.

Mr. Vandermeer: Then you're telling me that the surface rights owners are consulted?

Mr. Watson: They are consulted with respect to the broad objectives for the region. Some of our work going forward under the proposed land-use framework would also enhance that as we go forward. Then, as I say, at a smaller development scale around a pool or a zone the ERCB is promoting and facilitating that companies would work with landowners and communities at that type of regional scale as well before they proceed with development.

Mr. Vandermeer: Thank you.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Griffiths.

Mr. Mason: Thank you very much, Mr. Chairman. My questions are for the Auditor General, and I'm referring to volume 1 of the '06-07 report, on page 112. There's a table there that outlines various goals that the department should meet. The first one is that the department should have clearly defined objectives for its royalty regimes, and it should make these objectives clear for external reviewers. This was listed as partially met. I'd like to ask the Auditor General where he sees the department being at since this report – it's been some months now – whether or not he's had a chance to review further progress on the part of the department and what that is.

Mr. Dunn: Thank you, Mr. Mason. We have not yet completed our follow-up on recommendation 9, which talked about the publication of information which is compiled, and compiled very well, by the department to be made public. The response to our recommendation by the government was that it was agreed to in principle. The response included that it was going to include a follow-up by way of Mr. Valentine's report, due in March of '08. That report is now being made public. I believe that within that report it also identified opportunities for improving the publication of the information. I believe the response should come from the department as to what actions they have taken. Since the receipt of that report, which also, as I say, supported the recommendation that was made in the Auditor General's report, what have they done regarding the information that we made public?

May I ask the deputy to comment, Chair?

Mr. Watson: Thank you. Mr. Dunn is correct in that there are some similar conclusions in Mr. Valentine's report as in Mr. Dunn's report from the fall. We are proceeding to implement all of the recommendations: the recommendations from the Auditor General as well as the recommendations from Mr. Valentine. We've begun work on it in a staged fashion, and we've put our plans in place for some of the oversight issues that Mr. Valentine indicated in his report. The next phase of our implementation, that we'll have plans in place for within the next month or so, will include the business systems and controls, and there are very similar and aligned recommendations between Mr. Valentine and the Auditor General there.

9:00

Then the third phase that we will be moving to will be the public and external reporting. That schedule was recommended by Mr. Valentine in his report, and we've adopted that and are proceeding to put our plans in place on that basis.

So the work has begun. Our plans will be in place in the very near future, and we will be moving to implement that recommendation and all others.

Mr. Mason: A supplemental question. I'll refer as well to the graph of economic rent on page 99 . I would like to know whether or not the objectives for royalty regimes involve looking at the economic rent, which identifies investor costs and returns as well as taxes and so on but beyond a return on the investor's investment. This model talks about excess profit, and I would like to know if the clearly defined objectives include some way of assessing excess profits with a view to ensuring that the full economic rent beyond the regular investor costs and returns is captured by our royalty regime.

Mr. Watson: First of all, going back to the previous question, as we take a look at the work that we have put in place and the measures that we did have and that were referenced in our annual report, we'll be looking at whether that continues to be an appropriate way forward or whether we need to adjust and provide more clarity. I think that's certainly the advice that we're getting from the Auditor General and from Mr. Valentine, so we will be trying our best to ensure that we can bring clarity to the specific objectives and help Albertans understand what the model is and how this works for Albertans and what the objectives of the government are in that regard. So it very much speaks to that clarity of that performance measure.

I'm going to ask Mr. Ekelund to speak a bit more about some of the approaches to economic rent and how those factors are taken into consideration.

Mr. Ekelund: The key element in determining the appropriateness of a royalty structure in a system like ours, where we have investment done by outside investors, is to enable a reasonable return that will maintain investment. That's basically what the theory of economic rent is about. If you've got a value of a resource that is above that, then as owners we have the ability to capture that. That's essentially the price in the market.

When you get down to determining how much of that rent can be captured, there are a couple of practical limits, and on the chart we show that investors should be able to get their capital paid out, a fair return on that, operating costs. We include taxes and other costs as outside costs as well. But we put royalty systems in place in two parts, one consisting of a bonus bid up front, and a second one which is a royalty formula after you've had the land out and it can be developed. The royalty formula can change in terms of price and if the geology is different than had been expected, so it has some variability in it. The bonus bids are fixed. When you get significant changes in price or costs or in the geology, you will get some differential between the expected rent and the actual realized rent, and we've recognized that in the chart by showing that there can be some positive, I guess what you've termed excess profit. There can also be excess loss if you happen to go the other way as well although it's a bit harder to show in a chart like this.

We also try to ensure that we get practically as much of the rent as possible, understanding that there are some risks that we cannot fully capture in our modelling. We do try to make our modelling as detailed as possible to capture all possible risks and set the royalty structures appropriately for that. We also use generalized formulas. We don't have an individual formula for each well in the province. We have several hundred thousand operating wells, I think something over 200,000. We have general formulas, and that will capture the rent in most of the cases fairly closely, particularly if we've got good price sensitivity and good cost proxies. But we do try to capture as much as possible without going too far over the amount of economic rent because if we capture more than the amount of economic rent available, then there will be no activity in those areas.

The Chair: Thank you.

Mr. Mason: Could I get the Auditor General's comments?

The Chair: Briefly, please.

Mr. Dunn: May I supplement that just for clarity for all members here? This graph we took right out of the department's material. Mr. Ekelund speaks about how they have described it. We just uploaded this from their presentations to previous ministers, how they've described economic rent.

We took some time on page 98 to try to explain the concept of economic rent, and a key phrase in there was where we had the question, "Who owns economic rent?" Who owns it? We try to answer by saying, "Economic rent belongs to the owner," and the owners are Albertans.

We describe on page 117 – people who have that volume, if you could open it to page 116 going over to 117 – starting at the top our audit findings. It comes back to: how do you interpret optimization? We've said that the department uses optimization to describe the royalty objective. Then we're looking for detailed targets, and the detailed targets were not as precise as we would like to have seen. We have, we believe, provided some guidance through to the department and, I believe, supported by Mr. Valentine's report as to: how do you then determine from economic rent, if it belongs to the owners, how much comes back via royalty?

We describe in the second paragraph at the top of page 117 that "departmental documents confound these concepts when talking about targets. The Department's internal documents usually say its royalty regimes should collect between 50% and 75% of available economic rent." That becomes the question: how much do you want of the economic rent? Clearly, you can't get 100 per cent, as Mr. Ekelund has said, but you should get somewhere within that range of 50 to 75 per cent. What we're looking for is some direction as to: what is the department's goal? We had heard some comments from various members of the department that maybe 66 per cent, the middle of that, is the appropriate range. It's going to be very hard to come up with a performance measure that you're going to be able to report against if you don't clarify. That's a large range, as you would expect. Financially that's a large range.

At the bottom of paragraph 3 there we say in the last sentence: "Through comparison with [other] jurisdictions, the Department has determined that 66% of net revenues, plus or minus a few percentage points, would be competitive." We then end up by saying, "It needs to state that target clearly." That was the theme of those pages there: it needs to state it clearly. You've got to know what you're aiming at if you're going to try to get there.

Mr. Mason: Thank you.

The Chair: Thank you very much.

Mr. Griffiths, please, followed by Mr. Chase.

Mr. Griffiths: Thank you very much. Performance measures, I think, are critical to every department being able to measure whether or not they're being successful. My questions are fairly simple. Usually I ask very complex questions about the performance measures, but given the department and the ones that you have, they're very specific. I mean, you're dealing with raw numbers, and it's not about outcomes; it's really about performance measures and outputs.

My question is on page 37 of your business plan. You have a performance measure there where you state that the "average annual residential natural gas price for Alberta should not exceed the annual average national residential gas price." I know about the natural gas rebate program, which is designed to help shield Albertans from price spikes in natural gas, especially through winter months, but you could have a situation where the price doesn't spike but Alberta still pays a little bit more than the average natural gas price. How do you address this? You have a performance measure to see if you can keep it down, but I don't know what programs you would use to keep it down. I'm wondering what the point of this performance measure is. Is this a good question?

9:10

Mr. Watson: That's a good question. I'm going to ask Mr. Breakwell if he can help me with that question.

Mr. Breakwell: Again, we take our performance measures as targets or indicators to let us know how different programs are working. You're correct in that we can't control necessarily the price of gas and what it's being sold at, and we can't control what other jurisdictions are necessarily selling their gas for as far as utilities go. We are able to monitor, though, whether the gas rebate program is being effective in its application and whether it's achieving what it was intended to do. But it's more of a dashboard and a target to indicate, you know, as far as gas prices and utility prices for residential customers in Alberta, that we are competitive with every other jurisdiction across the country.

Mr. Griffiths: Okay. Thank you. I appreciate it is a measure that you want to establish. Whether or not it has anything to do with your performance is what concerns me. Calling it a performance measure, I think, ties you to something you have no control over. That was my concern.

My second question. I looked through here, but I didn't see a performance measure on forecasting gas and oil prices, on how accurate you are. I know that it's difficult to forecast price. Is there a performance measure I missed on how accurate you get or whether or not you meet your targets of a plus/minus within the range that's realized by the end of the year?

Mr. Watson: For the member, again, I apologize that I'm new to some of this detail. I'm not aware of a performance measure that specifically states we have to be within that range, but we are certainly reviewing our forecasts with consultants that are operating in industry and in the public sectors, and we're comparing our forecasts against those other references and looking at what the high forecasts and the low forecasts are and the average and trying to make sure that we've got something that's reasonable. So there's some fairly comprehensive work and assessment behind it.

I don't know if some of the folks can help me here. I'm not aware and I haven't seen yet that we've got a specific target that we're shooting for in terms of that comparison. You know, each of the forecasters has their own opinions for a variety of reasons, and there are a number of factors that affect these forecasts, including their perspective on volatility and geopolitical situations around the world and possible weather events and things like that. So, again, it's a subjective sort of thing, and we try to make sure that we've done a very comprehensive assessment against what's out there.

I will say that as we go forward in the work that the department is doing now for the minister regarding the comprehensive energy strategy, it'll cause us to come back and look at some of the goals and the performance measures in our business plan and make sure that we've got clarity on them and that they truly are affecting our performance as we go forward.

Mr. Griffiths: Excellent. Thank you.

The Chair: Thank you.

Mr. Chase, please, followed by Ms Teresa Woo-Paw.

Mr. Chase: Thank you very much, Mr. Chair. The early part of my education career involved teaching elementary math. With only one lonely Maytag energy auditor at the measurement switch responsible for tracking billions of dollars of gas and oil revenue, Mr. Ekelund explained that this individual focused solely on a fractional amount of flow, performing 4 out of 25, approximately 16 per cent, possible audits on high-volume sampling for both oil and gas, extrapolating the results for the remaining 21 audits. While my questions are to the Energy minister, I would welcome Auditor Dunn's supplemental comments. How can the Energy department justify having only one watchdog or gatekeeper in charge of tracking billions of dollars of royalty revenue owing to Albertans?

Mr. Watson: Well, the answer to that is that we are improving our audit and our control systems, and we are increasing our staff capability. While that issue was pointed out by the Auditor General, we've responded in a comprehensive fashion to improve our systems for volumetric assurance. Not only are we increasing numbers of staff and capability there, but we also have increased our assurance systems in terms of our checks on the management controls that the companies put in place. We're now beginning to systematically monitor and audit the broader assurance systems that the companies have in place to ensure that those controls are responsive as well. Again, it's been very much a joint approach between the department staff and the ERCB on this combined audit approach, and we believe that it's significantly strengthening our work as we go forward.

Mr. Chase: Thank you. My supplemental: how, other than a dependency on industry's self-regulation and volume reporting, can the ministry assure Albertans that they are getting their fair share of their rapidly depleting nonrenewable resource wealth? In other words, how many billions of dollars have we potentially lost in the meantime while the department got its audit act together?

Mr. Watson: I think the character of self-reporting: industry is required to have very, very stringent procedures in place under a number of pieces of legislation, including legislation that speaks to their financial matters regarding their assurance systems and controls that they have in place. We think that ensuring that those systems and controls that they have in place are functional and robust and then our audit capability behind that to check elements of those controls is the right way to go. That's why we're proposing this joint audit approach that also puts some emphasis on the nature of the controls and risk management systems that industry has to have in place for a variety of purposes, including financial reporting. The Auditor General has looked at our work there. I think we're all in agreement that this is a good path forward for appropriate oversight there, and we're continuing to move forward with the implementation of that approach.

Mr. Dunn: I will try to supplement. I'll be blunt. In my opinion, it was virtually nonexistent, and that's why we made the recommendation we did. You're correct; there are many, many wells that are producing in Alberta. Obviously, we all know the increase in the exploration that has taken place over the decade. It has increased dramatically.

We were concerned that the department was not aware of what the ERCB's auditing processes were. I must admit that the previous minister did bring the head of the ERCB together with the previous deputy minister into my office, and we had a good chat. Then they undertook to look at this. That was the description that Mr. Ekelund was trying to describe, how they sat back to look at their vulnerabilities and risks and identify these 25 categories, and they started to look at that.

Recognizing also the labour constraints and the difficulty of hiring people, yeah, it was a difficult period for them to get the appropriate skills in place to do the auditing. I have received, together with my assistant, a presentation on a plan to improve this in the future. Although we haven't audited the execution of the plan – it hasn't been effected – should they do what they've said in the plan, it's going to make it a lot better. But for that period of time there was vulnerability. There just was not sufficient oversight.

Mr. Chase: Thank you.

The Chair: Thank you.
Ms Woo-Paw, followed by Mr. Kang.

Ms Woo-Paw: Thank you, Mr. Chairman. Given that the price for natural gas has been on an upward trend and the advantage Albertans have been enjoying in terms of paying the lowest pricing appears to be slipping away and given that the rebate program has been extended to March 2009, does the Department of Energy have in place an evaluation plan to examine the effectiveness of the program and some other related issues and trends so that some strategic direction could be shared with Albertans and sector stakeholders when the rebate program ends in March 2009?

9:20

Mr. Breakwell: You are correct that the rebate program does end in 2009. The department is certainly looking at that rebate program, along with some of the other departments that have been involved with it, to determine whether it's meeting its goals or whether some of those things have changed and we should look at other methods of providing those benefits to Albertans. It is under review right now, and we will be bringing those recommendations forward to the minister.

Ms Woo-Paw: My question is whether there is an evaluation plan.

Mr. Knight: Perhaps I could supplement the answer to that question. Certainly, as you see, on a go-forward Environment and Energy are working together on a number of projects. Our goal is to work toward efficient, environmentally friendly production of these resources in the province of Alberta. Some of the work that we're going to do, interministry work – one of the things that is very strong in the Department of Environment's mandate is efficiency. I think that when we begin to discuss the situation with respect to the Natural Gas Price Protection Act and its relative impact on Albertans, it will certainly be one of the issues that we will want to discuss.

The Chair: Thank you.
Mr. Kang, please, followed by Mr. Jacobs.

Mr. Kang: Thank you, Mr. Chairman. On page 91 of the Auditor General's report it says, "The Department has calculated that Alberta's share is too low" and "The Department estimates that it could collect an additional $1 billion or more per year without stifling industry profitability." Could you please set out the evidence that led the department to this conclusion?

The Chair: That's page 91.

Mr. Watson: I want to refer the member back to the performance measure in our business plan regarding the goal of optimizing revenue share and benefits from energy and mineral development. As was noted, the revenue share that we were receiving was 19 per cent and less than the target, yet there was significant investment from the industry at the same time. I think that at the time the department's assessments with respect to the higher prices part of the evaluations were regarding the collection of rent and how much should be optimized there but then an issue of whether those were price spikes or whether we were going to see those on a continuous basis.

Back to that performance measure: it acts as a signal that we should be doing something. Again, it comes back to some of the points raised in the Auditor General's report about being clear in those targets. With respect to the details around that I'm going to ask Mr. Ekelund to supplement, please.

Mr. Ekelund: Alberta Energy does a number of different analyses over time. The one that was referred to there is the one that I believe to have led to it. Some of them are very detailed. Some of them are back of the envelope, one of which has been provided, I believe, through FOIP requests. I believe it's the one that leads us to a range of a billion dollars or so a year, $0.7 billion to $1 billion. It was a back of the envelope calculation done, I believe, in 2006, saying that if we had gone back to 2003-04, if we had known what the prices would be, if we assume prices were $6 something or other, and if we assume a cost of roughly $3.50, subtract the difference and some rough numbers for taxes and so on, and that would leave you with something in the range of $0.7 billion to $1.4 billion.

Certainly not a detailed analysis of the type that we would bring forward for policy decision-making, but for our own internal work and in discussions with ministries to give sort of a range of magnitude, that gave us that type of information. Assuming all of those things and assuming the knowledge at the time, there could have potentially been additional revenues captured if the government had decided to make a policy decision at that time, historically, to have a different royalty structure in place than was in place.

Mr. Kang: Well, why weren't those checks and balances in place? You know, how many internal government reports over how long a period of time reported this gap in relation to what's collected in royalties?

Mr. Ekelund: I believe there are a number of them that are addressed in the Auditor General's report. There were a number of technical reviews of the royalty structure done and a technical analysis done within the department. This is our ongoing business. Basically, we continually do work on appropriate royalty structure, including work done in 2001, I believe, 2003, '04, '05, '06, all of which were identified in the Auditor General's report.

The Chair: Thank you.
Mr. Dunn, do you have anything to add?

Mr. Dunn: I was just going to comment that as long as people realize that the performance measure on the bottom of page 23 is a rolling three-year average. It's described as a three-year average. Maybe, Mr. Ekelund, you can just tell the committee member when the last time was that Alberta exceeded the bottom of that range. What year was it the last time Alberta exceeded 20 per cent?

Mr. Ekelund: Historically we've had a range of results. I just want to take a look here. We're at something like 18.9 per cent for 2005, 18.7 in 2004. In 2003 the three-year moving average would have exceeded that at 21.2, 2002 at 23.2, 2001 at 23.4. I believe these are all in the previous reports.

Mr. Dunn: The actual year when Alberta last exceeded this, if you take away the three-year smoothing, was 2001. That's the last year we actually exceeded the bottom of the range.

Mr. Watson: If I could supplement that, I think it does point out the need and the appropriateness for us to provide more clarity regarding our goal in our performance measure here so that we've got something specific that really can track the performance that we're achieving. It does bring us back to the need for us to redesign a measure that is more appropriate on a go-forward basis. We will be doing that as part of our implementation of both the Auditor's and Mr. Valentine's report.

The Chair: Thank you very much.

Now we're going to move on, please, if you don't mind, to Mr. Jacobs, followed by Mr. Mason.

Mr. Jacobs: Thank you, Mr. Chairman. Regarding solution gas, Minister, curbing flaring and venting of solution gas has been an EUB priority for several years. It is one area where the province maintained royalty incentive under the new framework. Could you comment on how the industry is performing on this front?

Mr. Knight: Well, thank you for the question. Certainly, solution gas flaring and venting are separate issues. We believe that we've done a stellar job in Alberta over about a decade. Solution gas flaring is reduced, or in the neighbourhood of 72 per cent, and solution gas venting has reduced since 2000, so in a little shorter time frame about 57 per cent. This would actually equal around 8 million tonnes of greenhouse gas emission eliminated from being released into the atmosphere since 1996. Another way to maybe put that: it would relate to the elimination of about 1.7 million cars off of Alberta's highways.

Mr. Jacobs: Well, thank you very much. Are there any new developments, or what are the latest developments in this area that Albertans can look forward to?

9:30

Mr. Knight: What we've done in Alberta has been recognized internationally by the World Bank. They're using the strategy that we have used to encourage other countries to reduce the waste of flaring, and most certainly I think, as we all realize, the greenhouse gas effect of methane particularly is on a scale much larger than CO_2. So I think that there's some recognition here that on a go-forward basis we've done some excellent work.

In turn, there are major strides to reduce solution gas flaring in a number of countries relative to the programs that we've used here. Some of the places where this strategy is being employed – I can name a few here – Angola, Algeria, Indonesia, Nigeria, and Russia. If we can implement with success what we've done here, we think that on a go-forward basis it's probably one of the most major pieces of business with respect to removing harmful solution gases from the atmosphere.

Mr. Jacobs: Thank you very much.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Denis.

Mr. Mason: Yes. Thank you very much. Mr. Valentine's report has been referenced a number of times, Mr. Chairman, and one of his recommendations was that the legislation needed to be changed which allows the minister to negotiate royalty agreements without consulting other ministries or cabinet. Now, Mr. Valentine does not set out what occurred that gave rise to this concern, and I would like to ask first the department and then the Auditor General whether or not a synopsis of these agreements that have been negotiated without consulting other ministries or cabinet can be made available to this committee and what changes have taken place to some of the agreements that were approved simply by the minister.

Mr. Watson: Just to provide some clarification, to my knowledge there are no agreements that are approved solely by the minister. The Crown agreements that we enter into require cabinet approval and an order of the Lieutenant Governor in Council to authorize the minister to enter into those agreements. So my understanding is that all of that work does find its way and is reviewed by the provincial cabinet before the minister enters into those agreements.

What I believe Mr. Valentine was referring to is that while we have consulted with ministries across government and have worked with a variety of departments on a number of issues relative to these agreements, we have a formal process in place and a committee and a roster of departments that we would work with on an ongoing basis and would educate and create awareness, and also at the beginning of the discussions and so on, I think that we could seek the advice and support from multiple ministries on the nature of the issues that we take into account in these negotiations.

Again, my understanding is that Mr. Valentine's recommendations are to provide a more formalized process and some consistency to the process, which we agree is needed. But I did want to clarify that all the agreements are taken to the provincial cabinet and an order of the Lieutenant Governor in Council is required.

The Chair: Mr. Dunn, do you have anything to add?

Mr. Dunn: Yeah. I'm not aware of what the agreements are that Mr. Valentine is commenting on. I've obviously read the report, but I have not myself looked at any of those agreements.

Doug Wylie, are we familiar with what those agreements are that he's referring to?

Mr. Wylie: No. Those are not subject to our audit here.

I should point out with respect to our work on the royalty review regimes we highlighted last week, our perspective of the five elements of the royalty regime, one of which was developing policy solutions, that on page 109 of our report, just as background information, we did outline our understanding of what the process was involving consultation with cabinet, et cetera, but it wasn't part of our detailed audit, Mr. Chairman.

The Chair: Thank you.

Yes, Mr. Watson. Briefly, please.

Mr. Watson: I just wanted to advise the committee that we've already taken steps to actually formalize this cross-ministry committee and respond to Mr. Valentine's recommendations.

I don't know, Mr. Ekelund, if you have anything you want to supplement on that issue as well.

The Chair: No. I think we're going to move on, please, to Mr. Mason's second question.

Mr. Mason: Thank you very much, Mr. Chairman. Well, I guess when I see a recommendation that's not supported by factual information – it just sort of stands alone – then I wonder, you know, what's there behind it. My question really is to the Auditor General. Would taking a look at some of these agreements and perhaps some amendments that may have occurred to these agreements be something within the scope of your office's work when you do a follow-up audit of the Ministry of Energy?

Mr. Dunn: I believe it is, and we will take that under recommendation. Thank you.

The Chair: Thank you very much.
Mr. Denis, please, followed by Mr. Chase.

Mr. Denis: Thank you, Mr. Chair. Having been involved in real estate in my past career, I've often been astounded at the cost of properties in Fort McMurray. I took a look this week, and the average mobile home there is about the same cost as the average single-family dwelling in this city or in Calgary. To the minister: is the pace of development reasonable in Fort McMurray?

Mr. Knight: Well, Mr. Chairman, there are many factors that would affect real estate markets across the province of Alberta, and many factors affect the pace of development for our province and for this industry, certainly things like supply and demand and commodity pricing and our labour supply. It's conceivable under the circumstances that we're faced with that not all of the development that's discussed or announced would proceed, and perhaps some of them will proceed at a future date. We've, I think, responded relatively positively to growth pressures in Fort McMurray and in the regional municipality of Wood Buffalo, generally speaking. The government, I think, is employing about $396 million on a three-year program to address some of the social and environmental and economic impacts that have been recommended to us by the Oil Sands Ministerial Strategy Committee.

The Chair: Thank you.

Mr. Denis: Just a supplemental. It's been almost a year since the government received the Oil Sands Multi-Stakeholder Committee report. When can a response be expected?

Mr. Knight: Well, certainly there is in place now, not in the Ministry of Energy, an oil sands secretariat that's been established subsequent to recommendations and the results of two rather involved committees, the Radke report and the multistakeholder committee's report. Under the Treasury there is a secretariat established to deal with these particular questions with respect to oil sands development in Alberta. I think that in the course of the next short number of years, you'll see some very positive development with respect to the work that will be done by that secretariat.

Mr. Denis: Thank you.

The Chair: Thank you.
Mr. Chase, please, followed by Mr. Dallas.

Mr. Chase: Thank you very much, Mr. Chair. These questions arise partly from the historical backdrop of American Enron officials joking about manipulating Alberta's deregulated electrical energy market to their financial advantage. On page 35 it reports that a committee was established to examine section 6 of the Electric Utilities Act and that a progress report was submitted to the minister suggesting 10 principles to enhance section 6. Section 6 of the Act states, "Market participants are to conduct themselves in a manner that supports the fair, efficient and openly competitive operation of the market." Have there been any other incidents involving market participants who are not conducting themselves in a manner that supports the fair, efficient, and openly competitive operation of the market that have led to the examination of section 6?

9:40

Mr. Watson: I'm going to ask Ms Denman to respond to that question regarding the review.

Ms Denman: The behaviour of market participants is constantly under the surveillance of the Market Surveillance Administrator of this province.

Mr. Chase: I think you just have to get a little closer. Sorry; I'm hard of hearing.

Ms Denman: It is the function of the Market Surveillance Administrator to constantly monitor the performance of market participants in this province as it concerns the functioning of a fair and efficient market. The section 6 committee did conclude with its report, and the government has instructed the department to work with stakeholders to implement the report, to draft subsequent regulations that get more specific as to the details of that. It would be inappropriate for me to discuss any of the ongoing investigations of the Market Surveillance Administrator before they make any results known. To my knowledge they have not yet concluded that there's been any behaviour that has been contrary to these principles.

Mr. Chase: Thank you.
My supplemental: without going into detail on how the 10 principles that have been suggested to the minister relate to the actions of market participants in the past year, what effect have these actions had on Alberta's market in terms of electricity prices and reliability?

Ms Denman: That's a difficult question to answer.

Mr. Chase: Thank you. So there's not an answer to it, then?

Ms Denman: To my knowledge every investigation that the Market Surveillance Administrator has completed to this stage has resulted in a statement that there has been no impact on prices that has been the result of inappropriate behaviour. Whether that continues to be the case as we get more specific as to the types of behaviour is what will be determined in the future.

Mr. Chase: Thank you.

The Chair: Thank you.
Mr. Dallas, please, followed by Mr. Kang.

Mr. Dallas: Thank you, Mr. Chairman. I'll direct my question to Mr. Dunn if I could. There's an excellent discussion around royalty regime and economic rent in your report, Mr. Dunn. I think the earlier discussion around the need to improve transparency and define the targets is on the mark, to be sure. In the course of reviewing the comments around the establishment of economic rent, the one consideration of significant value that to myself appears not in the discussion is around the multiplier effect in determining the net value to Albertans of the economic activity that's supported by the extraction and sale of these resources. I'm wondering to what degree you contemplated in the development of an economic rent model or in terms of reviewing a rent model the importance of those factors.

Mr. Dunn: I'm trying to find the spot in our report where we start to talk about the other attributes. We were trying to describe in here that when you do a royalty review, you have to contain it within certain parameters, and the parameters had to be: what was the owner receiving as the value from the commodity being extracted? Those other attributes come through other policies and practices, including all the rest of it that affects the fiscal regime, corporate and personal taxes and other aspects. We did not look at that because our perspective is that we were trying to concentrate on the royalty as the commodity that is being extracted, the royalty regime itself, and not all the other downstream benefits and attributes that can be of benefit. We do address it in here.

Doug, have you found it?

Mr. Wylie: No.

Mr. Dunn: We do address it in here that those are other aspects that have to be considered, but that is not, in our opinion, part of the royalty review procedure.

The Chair: Thank you.

Mr. Knight, do you have anything to add at this time?

Mr. Knight: If I could just make a comment, please, Mr. Chairman. Certainly, I think this is the area where we begin to actually come to the crux of the problem that occurs when government sets certain parameters in place with respect to something like a royalty collection strategy. It's a policy of the government, and the government's policy may include a number of things that are outside of the actual structure of the royalty system itself. Wealth generation, the health of communities, and a number of other issues are taken into account.

I believe that actually could very well be an augment as well to the answers that Mr. Ekelund gave with respect to the economic rent model. We take into consideration a number of other parameters when we look at the policy of the government. There is no missing billion dollars if you look at the policy of the government of the day. We followed the policy and collected the economic rent that was due to Albertans.

The Chair: Proceed, Mr. Dallas.

Mr. Dallas: Thank you. My supplement was going to be to the minister. That was the question.

The Chair: Okay. Thank you very much.

Mr. Kang, please, followed by Mr. Lund.

Mr. Kang: On page 76 of the annual report a note states that royalties were reduced by $948 million in 2006 due to the department's royalty reduction programs. Which companies benefited from this royalty reduction program?

Mr. Knight: Did you say which companies would have received benefit?

Mr. Kang: Yes.

Mr. Knight: We'll have to get a written answer to that question. I mean, it could be anywhere from two to 200. I wouldn't be able to list them off as we sit here.

The Chair: Okay. If you could do that, please, again, through the clerk to all members, we would be grateful.

Mr. Kang: The supplementary question is: what are the requirements or qualifications for the 11 royalty reduction programs?

Mr. Knight: Well, again, Mr. Chairman, if I might. There's detailed information here with respect to the programs and the dollar amounts. It's a tremendous amount of work for us to go back to a point in time and try to ascertain the number of dollars and cents that related to these programs on a corporation-by-corporation basis. It's a tremendous amount of work. I'm not exactly sure what benefit Public Accounts would receive by us doing an exercise like that. If it is the direction of Public Accounts, I guess we can certainly, you know, engage in that kind of a process. Looking at 2006, I don't know what real benefit there is to Public Accounts to find a breakdown like that, but of course it can be done.

Secondly, with respect to the parameters of the programs, again, for the members and for all members here, the parameters of all those programs are public information. They're available. You can look at any program that we have. They're all either on our website or in the library at the Department of Energy.

You know, I'm not exactly sure of the benefit of us going through programs that were in place in 2006 and generate a bunch of paper for this committee. Really, most of them don't exist anymore. But if that's the direction of this committee, we can undertake a project like that.

It just puts me in mind of a situation that the Auditor General already indicated. It's very difficult for us to find qualified staff as it is. To go chasing after these kinds of answers certainly takes up a lot of valuable time, and I'm not exactly sure of the value of the result. I'll leave it with you.

9:50

The Chair: Well, hon. minister, and for the members, on page 76, note 13, the royalty reduction programs, there's a global figure there of $948 million. If you look at the previous fiscal year, it was $786 million. Some of those royalty reduction programs, I understand, would no longer be in existence in this current year, but if a breakdown of that could be provided to the committee, I think it would be very beneficial. If you could have your staff proceed through the clerk, we would be grateful.

Mr. Lund: Well, Mr. Chairman, I just simply don't agree that it would be useful to go through and pick out every well. There are probably 10,000, maybe 20,000 wells that benefited from this program. It no longer exists. I think it would be much more useful if the committee had an understanding of what the program was, the intent of the program, and we got that rather than going through trying to find every well.

The Chair: No one is asking for each individual well. No one is asking for that. We're asking for a breakdown of the programs.

Proceed with your question.

Mr. Lund: There was a question asked: what companies benefited from this? There are so many little companies out there, little wells. I remember when that particular program was put in place. Yes, it increased. Why? The fact is that it had to do with production. So, of course, the production that was royalty free increased in value because of the increased price of the product.

Anyway, getting on to what I had on the agenda before.

The Chair: Your question.

Mr. Lund: Thank you. Mr. Dunn commented about a chat that he had with the deputy and somebody from the ERCB, and we heard earlier as well about an audit. Now, I'm not sure which happened first. I'll assume that the discussion happened prior to the audit that Mr. Ekelund referred to. In that chat would you agree, Mr. Dunn, that in fact the identification of the areas of highest risk was an important place to look?

Mr. Dunn: Definitely.

Mr. Lund: Okay. Having said that, the results, then, of the audit seemed to indicate that in fact we had collected more, not less, than the companies actually owed. Having made that assumption and having made the assumption that probably those were the best places to look, I have real difficulty with anybody assuming that the government did not collect what was due to the government in the global picture. I have difficulty when we start saying: well, if the government had increased the royalties, if the government had done certain other things, then there wouldn't have been this shortfall. The department clearly identified in their discussions that, yes, that's the way certain things happened. Had they done something different, there could have been an increase in royalty. But as the minister said just a little bit ago, they collected what was due to the government at that time. Your agreeing to look and what happened when you looked, I think, bears that all out.

Mr. Dunn: Let me just clarify. I believe your question was: did the department and the AEUB start to act on our recommendation? Our recommendation on looking at the volumes of the various commodities goes back a number of years. The chat I was referring to was that after a period of years we did speak openly with the previous minister that this was important. We were able to describe to the minister's satisfaction that it was important, such that he believed that it was appropriate for the chair of the EUB together with the deputy minister of the day of that department to meet with us. It was following that meeting, after we had discussed why it was so important, that they mutually agreed that they would work together to improve their performance. That started, I believe, well over a year ago.

Doug?

Mr. Wylie: October 2006.

Mr. Dunn: Well over a year ago it started the actions that Mr. Ekelund commented on, which was the two groups meeting together, deciding what was important, the risks that they should have been looking at. They identified 25 of them. They looked at six and then four in detail, and they concluded at the end of the day that there were matters that had to be addressed.

It may have been somewhat fortunate that there was some overpayment, but the risk always was there that there could have been underpayment. So I cannot concur with your latter comments, Mr. Lund, that something was not wrong. Yeah, it was important for Alberta to look at this. The department is responsible for ensuring that there's reasonable oversight, and I believe what they're about to do, if I understand the program appropriately, will meet with our satisfaction.

It's an appropriate thing to be looking at. It's not a large expense, I believe. They have left me with the opinion that it might be seven FTEs. It might be an expense of a million dollars or a million and a quarter dollars. It was an expense that was not incurred previously, but it had been in earlier years. I don't believe that it's inappropriate to oversee the very, very large income streams that are involved.

Mr. Lund: You missed my point. I wasn't criticizing the fact that they need to do more auditing. The department agrees with it. I agree with it. But there were comments made at this table by some members indicating that we forewent millions of dollars because the department did not do what they were supposed to do. Your own comments along with the audit clearly show that that's not the case.

Mr. Dunn: Indeed, if you want to extract a comment from me, what took place was foregone revenue. It very simply was foregone revenue. Because the policies that were in place – and we don't comment on public policy; we comment on the implementation of public policy – basically had the caps, and with the increase in the commodity prices, you never were required to collect it.

Mr. Lund: I have a real difficulty with this because you earlier admitted that . . .

The Chair: Hold on here.

Mr. Lund: . . . in fact the audit was okay.

The Chair: Hon. members, the vice-chair doesn't automatically get three and four questions every day.

Now, there are two members who in the short time we have left before 10 o'clock have expressed an interest in questions.

Mr. Mason, if you could start. Please read your questions into the record, and we will ask the department to follow through with a written response through the clerk to all members. Please proceed.

Mr. Mason: Yes. Thank you very much, Mr. Chairman. I guess my question comes from the point just made by the Auditor General that caps were in place, which meant that there was the potential for revenue. It wasn't that the department didn't do their job; it was that the government policy accepted the fact that there was revenue that they were not going to take.

Mr. Lund: This committee is not meant to write policy.

Mr. Mason: No. And I'm not going to.

The Chair: He's not writing policy. Let him proceed, please.

Mr. Mason: I'm just setting the background for my question. Given that the royalty regime that's going to be introduced at the end of this year stops increasing the government take as a percentage at $120 a barrel and given that we're almost at that point now, I would like to know from the department how much foregone revenue we're going to see going forward and whether or not the department is doing an analysis.

Mr. Lund: Mr. Chairman, it is not the purpose of this committee to set government policy. For that matter, we're supposed to be dealing with '06-07. We're not supposed to be dealing with what's in the future.

Mr. Mason: Okay. I accept that.

I'll go on to my supplemental. Thank you very much. In the Auditor General's report is this graph about economic rent. He has taken that from a government department, from the Energy department, and it has a section called Excess Profit. I would like to know from the department how they define excess profit and how that is implemented in terms of developing and carrying out royalty policy.

Thank you.

10:00

The Chair: Thank you.

Mr. Chase. And thank you for your patience.

Mr. Chase: Oh, thank you very much. I appreciate the openness and transparency with which this committee conducts – everyone's opinion is valued, even the wrong ones.

Given the manner in which the Energy department recompenses their employees, I find it hard to believe that the department can't attract qualified individuals. At the very bottom of page 82 it lists an achievement bonus of $1,468,000. Who was the recipient of this generous bonus? Is it the practice of the department to award an achievement bonus of this size regularly?

The Chair: Thank you. That's the annual report for the Department of Energy, page 82.

Mr. Benito: I have a question, Mr. Chairman. My question is to the minister regarding the royalty review process. The Auditor General's report made a number of recommendations for the Department of Energy in respect of its royalty review process. Will the minister acknowledge that there are problems with the royalty review process and commit to correcting them?

The Chair: Thank you.

Any other members with questions?

Seeing none, I would like to thank the minister and his staff for their participation this morning, and I wish them all the best in the future on behalf of the committee. We have other items on our agenda, and if you have busy schedules, which I know you do, feel free to leave.

Thank you.

Mr. Knight: Well, thank you very much, Mr. Chairman. I think that the process went quite well. As you probably would have noticed, I wasn't that engaged. It's my first appearance at Public Accounts. The next time we get into it, I'm sure I'll be a little more engaged. I just needed to kind of get an idea of how it works and feel my way through it.

Thank you very much for the opportunity. I think that, by and large, most of the questions that were posed have been answered in a satisfactory manner.

The Chair: You bet. Thank you, and you're always welcome back, Mr. Knight.

Mr. Knight: On my own?

The Chair: You betcha.

Other business. Mr. Vandermeer.

Mr. Vandermeer: I just wanted to make a comment to Mr. Dunn. I find it kind of disturbing that when you take into account the royalty review, you don't take into account – and you admitted that – the effect that it has on the rest of the economy. That definitely has an effect. I know, myself, from being in the housing industry that when the royalty review came up, housing almost died because people were saying: well, the Alberta government's going to shut down the economy. Right? So it does have an effect on personal taxes and corporate taxes, and you should be taking that into account.

The Chair: Mr. Dunn.

Mr. Dunn: Do you wish me to respond? Okay. Remember that we looked backward. What was the purpose of our review? It was to look at the history: what was known, what was available. We never commented that the policy was incorrect. What we said was: you're not achieving your target. The Royalty Review Panel, I believe, is the more appropriate one to address your concerns that should it change, you'll have to look at the downstream impacts.

We did identify at the end of the day that we were only looking at the royalty review process. Remember, last week I said: why did we start this? Because there was a series of debates – Mr. Lund will probably remember this – in the House: was a royalty review carried out, yes or no? We just went back to answer the question: was a royalty review carried out, and if not, what was carried out, and therefore what were the findings? We never said that there should be the changes that were made. I believe that it became a political effort, that it was an expectation that was delivered. A panel of experts was put together, and they produced a report, none of which I had anything to do with.

The Chair: Any other business for the committee? No? Okay.

The chair would like to thank everyone for their patience this morning. I would like to remind you that we're having a meeting again next Wednesday, May 7, at 8:30 in the morning with the hon. Mr. Horner and his staff from Advanced Education and Technology.

The next item, of course, is an adjournment motion. Mr. Mason. Moved by Mr. Mason that the meeting be adjourned. All in favour? Seeing none opposed, thank you.

We will see you next week. The chair again would like to express his gratitude to the committee for your patience. Thank you.

[The committee adjourned at 10:06 a.m.]

Published under the Authority of the Speaker
of the Legislative Assembly of Alberta