



Legislative Assembly of Alberta

The 28th Legislature  
First Session

Standing Committee  
on  
Public Accounts

Energy

Wednesday, May 8, 2013  
8:30 a.m.

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**Legislative Assembly of Alberta  
The 28th Legislature  
First Session**

**Standing Committee on Public Accounts**

Anderson, Rob, Airdrie (W), Chair  
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Anglin, Joe, Rimbey-Rocky Mountain House-Sundre (W)  
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Pastoor, Bridget Brennan, Lethbridge-East (PC)  
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Quest, Dave, Strathcona-Sherwood Park (PC)  
Sarich, Janice, Edmonton-Decore (PC)  
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## **Standing Committee on Public Accounts**

### **Participants**

Ministry of Energy

Hon. Ken Hughes, Minister

Douglas Borland, Senior Financial Officer

Sandra Locke, Assistant Deputy Minister, Electricity and Sustainable Energy

Jennifer Steber, Acting Deputy Minister



8:30 a.m.

Wednesday, May 8, 2013

[Mr. Anderson in the chair]

**The Chair:** Good morning, everyone. I would like to call this meeting of the Standing Committee on Public Accounts to order. My name is Rob Anderson, the committee chair and MLA for Airdrie. I would like to welcome everyone in attendance today.

We'll go around the table, starting to my left, and introduce ourselves, everyone who's at the table. Please indicate if you're sitting in on the committee as a substitute for another member.

I know that Mr. Khan from St. Albert and Mr. Donovan from Little Bow are on the line. Is that correct?

**Mr. Khan:** That is correct, sir.

**Mr. Donovan:** That is correct, yeah.

**The Chair:** All right. We'll carry on, starting on my left.

**Mr. Tyrell:** Chris Tyrell, committee clerk.

**Dr. Massolin:** Good morning. Philip Massolin, manager of research services.

**Mr. Amery:** Good morning. Moe Amery, MLA, Calgary-East.

**Mrs. Sarich:** Good morning, and welcome. Janice Sarich, MLA for Edmonton-Decore.

**Mr. Stier:** Pat Stier, MLA, Livingstone-Macleod.

**Mr. Anglin:** Joe Anglin, MLA, Rimbey-Rocky Mountain House-Sundre.

**Mr. Hale:** Jason Hale, Strathmore-Brooks.

**Mr. Saher:** Merwan Saher, Auditor General.

**Mr. Leonty:** Eric Leonty, Assistant Auditor General.

**Ms Locke:** Sandra Locke, ADM, Department of Energy.

**Mr. Hughes:** Ken Hughes, Minister of Energy.

**Ms Steber:** Jennifer Steber, Acting Deputy Minister, Energy.

**Mr. Borland:** Douglas Borland, senior financial officer, Department of Energy.

**Mr. Hehr:** Kent Hehr, MLA, Calgary-Buffalo.

**Mr. Allen:** Mike Allen, MLA, Fort McMurray-Wood Buffalo.

**Ms Fenske:** Jacquie Fenske, Fort Saskatchewan-Vegreville.

**Mr. Quest:** Dave Quest, Strathcona-Sherwood Park.

**Mr. Jeneroux:** Matt Jeneroux, Edmonton-South West.

**Mr. Bilous:** Good morning. Deron Bilous, MLA, Edmonton-Beverly-Clareview.

**The Chair:** Our deputy chair is Mr. David Dorward. He is also here today.

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everyone could make sure to speak directly towards the microphones and not lean back in your chairs while speaking, that would be much appreciated. Please do your best to keep your cellphones away from the microphones and on vibrate or silent.

You've had the agenda circulated to you. We'll need approval of that agenda. Would anyone like to move that the agenda for the May 8, 2013, Standing Committee on Public Accounts meeting be approved as distributed?

**Mr. Hehr:** So moved.

**The Chair:** All those in favour? Any opposed? Carried.

We've circulated the minutes for the April 24 meeting on Public Accounts. Could we have a mover that the minutes for the April 24, 2013, Standing Committee on Public Accounts meeting be approved as distributed? Mrs. Sarich. Those in favour? Any opposed? Carried.

All right. Well, today we have a meeting with Alberta Energy, and we feel very special to have a very honoured guest here. It's a little bit different for Public Accounts. We don't usually have the ministers of the different departments with us, but Minister Hughes is joining us today. Thank you very much, Minister, for being here.

**Mr. Hughes:** Thank you very much, Mr. Chair.

**The Chair:** We very much look forward to your comments.

We'll start by stating the reports that we're looking at today. It's the 2011-12 annual report for Energy as well as the reports of the Auditor General of Alberta for March, July, and October 2012 as well as February 2013; the 2011-12 annual report of the government of Alberta, consolidated financial statements; and the Measuring Up progress reports from 2011-2012. Members should also have a copy of the briefing documents prepared by committee research services as well as the Auditor General. Those should have been circulated. Excellent briefing documents there.

What we'll do is start with Minister Hughes. We'll give you 10 minutes to make an opening statement, and then after that, we'll move to our Auditor General, who will make a brief statement, and then we'll go to questions.

**Mr. Hughes:** Thank you very much, Mr. Chair and colleagues. I'm very pleased to be here today. I'm also joined by other staff from Alberta Energy, the ERCB, and the Alberta Utilities Commission as well, so we can address any questions that colleagues have.

I'm pleased to share the highlights of Alberta Energy's accomplishments from 2011-12. Of course, you know, Mr. Chair, I wasn't around at that time. The changeover took place shortly thereafter in terms of an election and new cabinet sworn in on May 8 of last year. The 2011-12 year was nonetheless an eventful year. There was progress made in a number of areas, and we continued to ensure that the province's resources are developed for the benefit of all Albertans.

During the course of that fiscal year there were record sales for mineral rights, investments in innovation, advancements in electricity and land-use planning, support for clean energy, and a lot of work done on the regulatory enhancement project as well. Those are just a few examples from that fiscal year.

Just a couple of highlights on royalties and revenues. Alberta earned over \$3 billion in mineral rights sales in 2011-12. It was due not only to higher petroleum and natural gas prices. It was also the result of drilling incentives that the government had introduced to encourage new development, production, and exploration from unconventional resources as well. Once again,

the combined royalty and tax rate was in the top quartile when compared to similar jurisdictions, very similar to British Columbia and Saskatchewan, who are clearly the competitive playing field that Alberta is on in terms of investments when investors look at investment opportunities. We're similar to those two provinces, and we're obviously a very attractive place that people choose to invest in.

That allows Alberta to sustain a competitive fiscal regime that continues to attract industry investment, which, of course, as we all know, means economic activity and jobs for a lot of people. It also allows the government as the resource owner, on behalf of the people of Alberta, to receive an appropriate share of revenues from the development of those resources. We all know that these revenues help fund the everyday programs and services for Albertans' schools, hospitals, roads, and the high-class public infrastructure that we have in Alberta and that we all enjoy as Albertans.

A little update on the regulatory enhancement project. The regulatory enhancement project is another way that we as a province address the responsible development and long-term competitiveness of Alberta's resources. Creating a single regulator that will streamline oil and gas policy and regulatory systems will ensure that the regulatory oversight is modern, that it's best practices, that it's efficient and effective for all participants, that it's performance based, and that it's competitive with other jurisdictions. The new regulator will also be responsible for enforcing legislation related to four pieces of environmental legislation and six pieces of energy legislation.

In 2011 Alberta Energy worked with our partners at the Department of Environment and Sustainable Resource Development to appoint a Regulatory Enhancement Task Force. The taskforce delivered a report that provided a regulatory review and recommended improvements in the current system. Roll that forward, and we're starting to see the rollout of that work that was done in the fiscal year that's before us, that we're talking about. There were a lot of stakeholder consultations through the piece, and as we all know, last fall legislation was passed, and a CEO and board chair of the new regulator were also announced in the last month.

With respect to innovation we supported energy innovation and research with the innovative energy technologies program, the IETP. By the end of 2012 the ministry had funded 37 innovative projects to address a variety of research needs and encourage responsible resource development.

**8:40**

We also took steps to improve Albertans' energy literacy. When you reflect upon that, it is exceedingly important that Albertans are literate about energy, that they are well informed. That creates the political context within which we as the people responsible for public policy in this province are able to get to the right answers that are science based, that are based on fact, and ensure that we develop and deliver on the balance that we're seeking to establish between environmental responsibility, respect for landowners, and economic development.

Some of the actions that were taken during the '11-12 year included helping to launch an oil sands information portal, that contains a real wealth of information on oil sands development. The department also has board representation at Synergy Alberta, a nonprofit organization that facilitates energy literacy services to communities impacted by resource development and funding to energy literacy surveys from the University of Calgary.

I would say also, just as context, that we actually have students in this province who are amongst the most literate in the world

from a science perspective. Part of that is probably because we have a lot of adults who are science literate, who are engineers involved in a science-based industry. This is just some recognition of the work that's been done by Alberta Education, not our department. If you look at the most recent OECD comparison amongst the industrialized world of students who are age 15 – and 2009 was the most recent one – they took a look at 15-year-olds and their science literacy, math literacy, and language skills. If you look at the science literacy, Alberta kids were well ahead in the outcomes of this independent, international comparison, well ahead of other kids across Canada in terms of science literacy and second in the world, second only to the cohorts in Shanghai, China.

So, you know, we have a lot to be proud of. We have a very good basis on which to build a scientifically literate population and support people in understanding the literacy on energy as well.

Well, what have we done in terms of market access, speaking of Asia? We need to tell our story around the world to help better market our resources. In 2011-12 Alberta Energy created an international energy policy branch, which is working closely with the market access and diversification work that's going on. The minister of the day for the department hosted a federal, provincial, and territorial energy ministers conference in 2011. I believe that was the one at Kananaskis, that included topics like markets and international trade. We provided technical expertise to support our international missions carried out by the government of Alberta.

With respect to bioenergy we also want the world to know that we're energy leaders committed to innovative forms of energy development. That's why we support alternative and renewable energy through the bioenergy producer credit program. This program encourages projects that create jobs and are an efficient use of waste in energies like in agriculture and in forestry. By the end of 2012 we had 23 agreements for supporting bioenergy projects. Alberta Energy oversaw the program and acted upon the Auditor General's advice for stricter reporting standards during its implementation.

On the electricity front Alberta Energy took action to protect Albertans from high electricity prices and in 2012 established the Retail Market Review Committee to review the regulated rate option and consider ways to stabilize for consumers.

Alberta Energy also led the process to amend the Electric Utilities Act to put decisions about future transmission lines into the hands of the Alberta Utilities Commission. This includes determining the need for lines and the necessary routing approvals. Four transmission projects are now at various stages of development to reinforce Alberta's overall transmission system and address the growing demand for electricity in the province.

With respect to carbon capture and storage we've taken steps on that front. We have two projects that will reduce greenhouse gas emissions by almost 2.8 million tonnes annually, the equivalent of taking 550,000 cars off the road. That's the equivalent of about two-thirds of the passenger cars in Calgary when this gets up and going. That's a big commitment for our population of less than 4 million people.

The incremental ethane extraction program is another success story, where Alberta Energy and industry can collaborate to support the province's energy sector. This \$350 million program provides credits to petrochemical companies that consume incremental ethane and ethylene for value-added upgrading. This helps support an industry that is the largest consumer of natural gas in the province. It's very important, and we get immense return from ensuring that we have a lot of value-added done in this province.

**The Chair:** Minister Hughes, we'll have to stop you there. Sorry. We're at 10 and a half minutes.

**Mr. Hughes:** Okay. I could talk longer. I know you know this.

**The Chair:** All right. For the remainder of the meeting the government members will have 35 minutes.

Mr. Auditor General, go ahead.

**Mr. Saher:** Thank you. I will be brief. Three areas I'd like to highlight for the committee. First, referring to our October 2012 report, starting on page 95, we made two new recommendations, one to improve the control over the royalty adjustments disclosed in the financial statements and another to ensure that bioenergy grant recipients are complying with the terms of their agreements. We also repeated a recommendation to improve the controls over the bitumen royalty estimate as we continued to identify misstatements.

Second, I'll highlight the key outstanding recommendations. In our April 2011 report, page 35, we concluded that the Department of Energy had not yet developed performance measures to assess the effectiveness of the oil sands royalty regime. In our October 2008 report, page 255, we had recommended that the department undertake and document its analysis to quantify the environmental benefits of supporting bioenergy technologies.

I should note for the committee that the department has asserted that all outstanding recommendations are ready for follow-up audits to confirm that they have in fact been implemented.

Finally, we issued an unqualified audit opinion on the ministry's consolidated financial statements, which included the department, ERCB, AUC, and APMC, for the year ended March 31, 2012. We also issued an unqualified review engagement report on certain performance measures included in the ministry annual report.

Thank you.

**The Chair:** Thank you very much, Mr. Saher.

We'll go to the questioning now. The government members will have 35 minutes, and the Wildrose members will have 17 and a half minutes. We'll round up the Liberals and the NDs to nine minutes each, so if you can prepare for that.

We'll start with the government members. Go ahead. We'll probably split it into two blocks or something like that.

**Mr. Dorward:** Yeah. Thank you, Mr. Chair. Mr. Minister, on this committee the MLAs are like thoroughbreds in the Kentucky Derby. We're ready to run. Everybody here has questions, so if we cut you off, it's not because we don't want to hear more. It's because we want to move on to another question.

We certainly do appreciate the fact that you are able to get back to us in written form. At times you may feel like you want to give us a little bit more, or we may indeed have a question and don't have any time for any answer, so we on this committee love to have people come back to us in written form later through the committee clerk, of course.

As well, despite the fact that we on this committee don't talk policy, I do hope that I don't step on your toes in terms of violating that somewhat, but you've opened up the door just a little bit. I've carefully phrased the first question that I have, and it's got to do with CCS. On page 12 of the annual report CCS is discussed at the bottom of the page and sliding onto page 13. It discusses your department's carbon capture and storage initiatives. Here's my question, phrased with respect to the dollars that Albertans are paying for these projects. You mentioned two of

them. What have you done to ensure that taxpayer money has been properly invested in CCS projects?

**Mr. Hughes:** Well, thank you for the question. Carbon capture and storage is an important aspect of how Alberta will address the well-recognized science that we're seeking to address in terms of ensuring that our greenhouse gas footprint is as responsible as possible. It's a really important part of our message outside of Alberta as well, where there are those who look at us and ask what we're doing to address the greenhouse gas footprint. It's a fair question. I would ask the same question of any other jurisdiction in North America, and I would dare say that we stand up exceedingly well.

8:50

The CCS project creates jobs, reduces greenhouse gas emissions, and encourages a substantial amount of private-sector investment in this. There are two projects that are going ahead, just a little over \$1.2 billion. That expenditure doesn't happen all in one year. That expenditure is over the course of 15 years, aligned with much more investment from the private sector as well.

We have, obviously, strict program requirements. Projects receive funding only when they achieve specific milestones. It's quite a disciplined process, and those milestones have to be verified by Alberta Energy. CCS is recognized in Alberta's climate change strategy as the only technology that will be able to achieve emission reductions of the scale that we really require.

**Mr. Dorward:** Are those milestones that you mentioned towards eventual hard numbers in reducing greenhouse gases, or are they actual amounts of greenhouse gases that are eliminated now?

**Mr. Hughes:** The milestones include construction milestones along the way, and then that leads to the results.

**Mr. Dorward:** How far into the future will we be able to know how much reduction has been made?

**Mr. Hughes:** Well, 2015 is the first year of capture and storage of greenhouse gases.

**The Chair:** Thank you.

Mr. Quest, are you ready to go with your question?

**Mr. Quest:** Yeah. Absolutely. Thanks. It's great to see you all here, Minister. Thanks for joining us this morning.

I just want to talk a little bit about royalties. I think most of us around this table get a number of e-mails and so on from folks telling us that all of our fiscal challenges could be taken care of if we simply just raise the royalties, send the bill to the oil companies. We know life is not that simple.

Just to talk a little bit about the balance and how we're doing with that – you mentioned this in your opening comments – on page 22 of the annual report it notes that Alberta's royalty framework "is designed to attract investment, generate revenue from resource development, and to make sure that a strong energy sector is in place to provide royalties, jobs, business opportunities, tax revenue, and numerous other benefits." Keeping this in mind, how has the ministry made its royalty structure more competitive? I know we had some changes a couple of years ago.

**Mr. Hughes:** Yeah. It's a good question and a timely question. The competitiveness is achieved through ensuring that energy transportation infrastructure is in place, supply costs are minimized, and consumer market demand is sustained. In the past few

years the government has actually unveiled a number of initiatives to address the long-term competitiveness of Alberta's natural gas and conventional oil sectors. So we take it sector by sector.

Modifying conventional oil and natural gas royalty rates to encourage innovation and promotion of the use of new technologies in development: that's one way we approached it. We also undertook the regulatory enhancement project to create the single regulator so that the process by which oil, gas, oil sands, and coal developments are regulated is actually as modern, efficient, effective, performance based, and competitive as it can be. I think there was work done historically that indicated that Alberta, while having a world-class regulatory process, was perhaps slower and not as effective and efficient as an ideal circumstance would create.

You know, we're in a very competitive world out there. You look at what's going on in terms of the development of unconventional oil or natural gas on this continent. There's immense competition. But I'm confident that today, if you look at the investment that's going on in this province, the royalty structure is very competitive with other jurisdictions and will enable and encourage investment by private-sector players to continue to develop our resources.

If you look at the most recent analysis, Alberta is in the top three jurisdictions for having the most attractive combined tax and royalty rates for natural gas and conventional oil compared to similar jurisdictions. Along with British Columbia and Saskatchewan, we're very similar as sort of three of the more attractive jurisdictions, which is where industry competes for investment and investment decisions.

**Mr. Quest:** Just a quick supplementary, then. How do we know it's working? How do we know that it's beneficial? How do you measure that, or what can you tell us about that? We know we're competitive. How do we know that that's the best thing for Alberta?

**Mr. Hughes:** That's a good question. You know it's competitive when independent people who have resources are investing in the province, and we see an immense amount of that. One that I would point to is Williams Energy as just one example. There's a whole new value chain being created in this province from natural gas liquids that didn't exist before. It's nearly a billion-dollar investment. That's a big source of confidence, I think, for Alberta. They made that decision without one adjustment to anything in Alberta in terms of royalties or incentives or anything. That's the best of all worlds, when you can get people stepping up with a billion dollars to invest in something that adds value in the heartland. I think what that does is that it speaks to the overall environment in this province for investment.

**Mr. Quest:** The heartland is very dear to Ms Fenske and me and a number of us, of course. Thank you for that, Minister.

**Mr. Hughes:** I'm speaking to your heart today.

**Mr. Quest:** Yes, you are. Thank you.

**Mr. Dorward:** Mr. Minister, on page 95 of the Auditor General's report from October 2012, as mentioned by the Auditor General, recommendation 13 talks about controls over completeness and accuracy of royalty information in your financial statements. I've got to tell you that as an auditor this scares the willies out of me. This is a complicated, complicated area. The simple question is: how do you make sure that every barrel is accounted for? The more base way to say it, if I could talk that way, is that this is a

complicated area. Do we have the staff, computer systems in place to make darn sure that Albertans are getting royalties on every barrel of oil in this province and, you know, that all the measures are there? Can you talk about that for just a few minutes?

**Mr. Hughes:** Well, I'm pleased to do so. You know, as a governance practitioner before coming back into public life and as somebody who's sat on audit committees, I completely understand the importance of red flags and making sure that the system works and that you have a reliable system.

The issue the Auditor General was referring to was actually a technical mistake, where the department totalled and disclosed the cost of one program over its lifetime instead of disclosing the cost of the program for the fiscal year. It was one technical error. The Auditor General caught this mistake. That shows, obviously, the value of Auditors General in terms of them conducting their responsibility. There were 12 programs, and this error was made in only one program. The error was noticed before the financials were published, and the Auditor General did provide, as he mentioned, a clean opinion of the financial statements.

The department continues to work diligently to ensure that the calculations agree with the underlying royalty records. Of course, we're deeply committed to ensuring that every single dollar is accounted for, that our disclosure process is accurate, open, and transparent for all Albertans.

**Mr. Dorward:** Awesome.

Mrs. Sarich, are you giving me the eye because you have a question you'd like to proceed with now or later?

**Mrs. Sarich:** Later would be fine.

**Mr. Dorward:** Later is fine?

Mr. Chair, I think we'll go back to you, and then we'll take the rest of our time at the end.

**The Chair:** Okay. Thank you very much.

We'll go now to the Wildrose Official Opposition, and we'll start with, I guess, Mr. Anglin, our environment and utilities critic. He will go first, and then he'll be followed by Mr. Hale, who is our Energy critic.

9:00

**Mr. Anglin:** Thank you, Mr. Chair. Thank you, Minister. I'm just going to read three questions and ask that you get back to me in writing. I don't need an answer right now.

The first question: what was the total tariff fee levied for the export of electricity in the years 2010, 2011, and 2012? If 2012 is not available yet, could you just give me the last three years that are available?

**Mr. Hughes:** Just for clarity on that, this is for electricity?

**Mr. Anglin:** The export of electricity is supposed to have a tariff levied.

**Mr. Hughes:** You understand that we're a net importer of electricity.

**Mr. Anglin:** I fully understand that. I'm not going to get into that debate. We export every hour, too.

The second question: where is the tariff fee recorded in the AESO, AUC, or Department of Energy financial statements? What line item is that recorded on? I'm looking to see how this flows.



**Mr. Hughes:** Just for clarity, there is no tariff recorded in the ministry statements. We'll certainly in good faith try to answer your question and point out, if there's actually no basis for it, that there is no basis.

**Mr. Anglin:** I would love that answer, too.

I've got my third question. For the information that I'm requesting, what I would like to know, if that information is available for public release, is: what was the total amount levied to each market participant to export electricity? What I'm looking for is: who is being charged the tariff fee to export electricity? I'll wait for your written response.

Thank you very much, Chair.

**The Chair:** All right.

Go ahead, Mr. Hale.

**Mr. Hale:** All right. Thank you, Mr. Chair. Thank you, Mr. Hughes, for attending. It is very rare that we see a minister come to one of these, so thank you.

I'd like to start with the Auditor General's report. It talked about the two outstanding systems audit recommendations, the royalty review and the bioenergy grant, and also the three outstanding financial audit recommendations: the improved process for bitumen royalty, the improved controls over royalty adjustment and note disclosure, and ensuring compliance of bioenergy grant agreements.

Now, he states that management has stated that all of the above recommendations are implemented and ready for follow-up audit. Have the department and the AG determined when these follow-up audits will be completed, specifically in regard to the bioenergy program?

**Mr. Hughes:** The short answer to that is that, yes, we have established a schedule for that, and that will be completed, specific to the question you've asked, in the fiscal year that we're currently in.

**Mr. Hale:** Okay. By saying that the department is prepared for the follow-up audit, does this mean that all companies receiving grants are up to date in regard to their annual reports?

**Mr. Hughes:** Their respective annual reports?

**Mr. Hale:** Yes.

**Mr. Hughes:** That will become evident in the course of this fiscal year and the review that's currently under way.

**Mr. Hale:** Okay. We know that the whole point of biofuel energy is reduction of greenhouse gas emissions. Do you have an estimate of the amount of emissions reduced specifically because of bioenergy, and what is the plan to get a firm number on reductions once the programs are completed?

**Mr. Hughes:** This is why we're doing this program, and there are specific goals. We could share that with you and demonstrate how the program achieves the policy objectives of the program. We can send that to you.

**Mr. Hale:** Sure. You can get back to me. You bet. Thank you.

I'd like to jump to the Alberta Petroleum Marketing Commission for a little bit. In the background research for this committee on page 7 it states that the future marketing agent for the APMC as of June 1 will be a joint venture between Nexen and Shell. Is

there some financial advantage to having two Crown agents now marketing our oil?

**Mr. Hughes:** You know, it's a good question. We went to the market, essentially, and invited proposals. There's nothing in these statements, right? I think it's the next fiscal year that that's in.

I don't know, Mr. Chair, whether you want me to speak about the next fiscal year or not or stick to the fiscal year under consideration.

**The Chair:** You should try to stick to the 2011-12 fiscal year.

**Mr. Hughes:** Thank you. I'll answer that question next year or in another forum.

**Mr. Hale:** How about after June 1?

Okay. Now, I'm also curious about the performance benchmark which must be met by the marketing agent currently. What are some of these performance measures, and are they purely results based?

**Mr. Hughes:** Yes. The benchmarks are purely results based. Maybe I could speak a bit generically about the role of the APMC as well, which helps get at some of these questions. The role of the Alberta Petroleum Marketing Commission is to be the responsible party on behalf of the government of Alberta for our interests when we take possession or are in a position to take possession of oil or bitumen. We can as a policy matter receive royalties in kind.

The bitumen royalty in kind program is one example. Instead of taking cash for royalties, we actually take the product itself. The APMC's responsibility is to market that and secure the best possible price for that. The APMC also would be responsible for any management, using bitumen royalty in kind as an example, as a strategic tool to accomplish policy objectives as well, things like the North West upgrader, that kind of thing. As the amount of bitumen grows, the role of the APMC will continue to grow.

**Mr. Hale:** Okay. Thank you.

With the APMC, they keep 10 per cent of the marketing for themselves. They market 10 per cent themselves. Why would they be keeping such a small amount?

**Mr. Hughes:** They're very efficient.

**Mr. Hale:** If they're very efficient, then why wouldn't they be marketing all of it?

**Mr. Hughes:** Really, what it does is that it gives us market knowledge. It gives us insight into how the market is developing. Of course, this is our window as the people responsible for policy in this province. It gives us insight into how the market is behaving. We learn about the market, and we also market our own resources as well. We don't take bitumen or other products in kind a hundred per cent of the time. It's really a judgment call about what's in our best interests in terms of understanding the market, in terms of getting the best value for Albertans for our resources. When you reflect upon this, what is Alberta's interest in all of this? Alberta's interest is to get the best possible value we can for every barrel that's sold from this province because we're never going to see that barrel again. The APMC is an important vehicle to accomplish that policy goal.

**Mr. Hale:** Okay. Thank you.

I'd like to jump to CCS now. The funding for CCS projects such as Shell Quest and the trunk line began in fiscal year 2012-13. However, in the Energy annual report for 2011-12 the CCS

project received funding in the amount of \$21,481,000. What was that money used for? That's on page 65 of the annual report for 2011-2012.

9:10

**Mr. Hughes:** Right. Yeah. This actually speaks to what we were talking about earlier. There are milestones on these projects, and when they accomplish those milestones, the payment is made. In this case, the milestones would be related to the development, the engineering, and the early stages of the project because, of course, this is the first year of 15. Both of the two projects, Shell and the trunk line, received payments, and that's where that would go.

**Mr. Hale:** Okay. Thank you.

In regard to that, with Swan Hills Synfuels, the synthetic gas plant, and the Pioneer CO<sub>2</sub> project, that have been postponed or cancelled, did either of those reach any of these milestones and receive funding?

**Mr. Hughes:** No. Neither one of them reached milestones. Each, for what would appear to be different reasons – either of those parties would be the most articulate to speak to – made their own decisions, reflecting their own investment profile, their own cap, their own balance sheets, their own interests, and the market conditions that they faced. Each of them made their own decision to not proceed with their original proposals, and no money was received from the government of Alberta by either one of them.

**Mr. Hale:** Okay. How much money are these respective operators contributing from their own funds to these CCS projects? Is there a percentage that the government will fund compared to them?

**Mr. Hughes:** It's a minimum of 25 per cent, but it's different in each project, I believe. We can get that to you. It's a fairly available number.

**Mr. Hale:** Okay. Who's in charge of assessing the prospective projects for suitability, and are there certain criteria that they must meet in order to get funding?

**Mr. Hughes:** Yeah. I wasn't there, but as I understand it, at the time that happened was that there was a request for proposals, I'm assuming, as to how this worked. There was a committee of senior officials from several departments. Finance, of course, would have been involved. Treasury Board would have been involved. ESRD and its predecessor organizations and Energy would have been involved. The committee looked at the proposals that came in and worked on developing specific proposals and the milestones and the longer term contracts that developed for each of the projects and also protected the public interest as well, quite clearly. As we've seen, there were two projects that for their own idiosyncratic reasons did not proceed, and not one penny of government funds went to either one of those projects.

**Mr. Hale:** Okay. Thank you.

You said that each one is specific, but are there certain criteria that must be met?

**Mr. Hughes:** There were 10 criteria – they're publicly available – that were established at the time, and we'd certainly be happy to share that with you.

**Mr. Hale:** Okay. Sure. Thank you.

Were there any CCS projects applied for that weren't approved in that time?

**Mr. Hughes:** Yeah. There were 12 or 13 proposals in total. Those got narrowed down to four, of which two, you know, are sustainable and enduring.

**Mr. Hale:** Okay. It's estimated that five megatonnes of CO<sub>2</sub> will be stored annually by 2015 with the use of CCS. Are these figures still valid considering that two projects have been cancelled?

**Mr. Hughes:** Sorry. The question was five megatonnes? That was for the original four projects. The target now is approximately three megatonnes per year, a threshold that would be achieved in approximately 2021. Okay? Prior to that, it's 2.76. You start seeing CO<sub>2</sub> injection volumes in the year 2015-16, and it ramps up over, really, a relatively short time, over about a year, and in the second year of injection they hit 2.76. These are the projections from these two projects.

**Mr. Hale:** Starting in 2015?

**Mr. Hughes:** Yeah. So it's about 1.5 million tonnes per year in 2015-16, and then it ramps up.

**Mr. Hale:** Okay. Thank you.

The main focus of the CCS program has been on the environmental benefits, you know, and public perception. Are there any other financial benefits for the government taking these on?

**Mr. Hughes:** Yeah. In fact, if you look at the pipeline, the carbon trunk line, really, that enables the distribution of carbon back to older oil fields for enhanced oil recovery. That then leads to further development and exploitation, enhanced oil recovery of those fields. As you well know with your experience in the energy business, the amount of original oil in place that is extracted can vary quite a bit. You know, it's between 15 and 30 per cent, somewhere in there, depending upon the field, the technology, what's been done, how it was done, in what era it was done. Enhanced oil recovery using CO<sub>2</sub> can actually add another stream of production over time, and as a result, this adds great value and adds to the opportunity for further extraction in the future and further royalties for Alberta and further industrial and economic development.

**The Chair:** Thank you very much, Minister, and Mr. Hale.

We'll move on to the Liberal caucus for nine minutes.

**Mr. Hehr:** Well, thank you very much, Mr. Chair. Thank you, Minister Hughes, for coming this morning. A couple of questions. I know that in the October 2012 Auditor General report, on page 97, and in the November 2011 recommendations, on page 89, the Auditor General identified some key weaknesses in the process for calculating the bitumen royalty estimate. He said that it persisted and that errors requiring correction in the bitumen estimate calculation have been identified over the last few years. Clearly, that's important because as you stated in your introduction, we tend to rely, in my view overrely, on our royalty resources to pay today's bills. But that's another topic that I have discussed ad nauseam, so I won't go into that here.

Here are some questions in that regard. You could lump them together or separate them; that'd be fine. Which components of the bitumen royalty estimate are subject to the most uncertainty? What prevented the department from being able to implement this recommendation, and what control improvements have been made to ensure the sustained accuracy of the bitumen royalty estimate?

**Mr. Hughes:** That's fairly technical, but good questions.

Actually, Douglas, why don't you speak to this if that's all right? You'll give a pretty technical answer that will respond, I think, to the questions.

9:20

**Mr. Borland:** Okay. The first question was: where is the most variance or where do we have the most difficulty in estimating bitumen revenue? It's actually to do with the accruals. The bitumen royalties for the postpayout projects are based on royalties calculated over a year. It's over a calendar year, and our financial statements are on a fiscal year. So the first three months we have to estimate what the royalties are going to be. It's meant to be an estimate of what the royalty is going to be.

The royalty rate is based on the WTI price over the whole calendar year. We take a full cost of what the royalty rate is going to be based on the forecast of the WTI, so that's why we have a problem with estimating that or it causes us difficulties estimating that.

Also, the other one that we have some difficulties with is that they are usually one month behind, so March production is reported to us at the end of April, and we have to do a financial statement in the period of April.

**Mr. Hehr:** Okay.

**Mr. Borland:** The second question you had asked us was: what are we doing to strengthen our controls?

**Mr. Hehr:** Or what control improvements have been made to ensure the sustained accuracy of the bitumen royalty estimates?

**Mr. Borland:** Right. At the period of time these financial statements were done, we were in a bit of a flux with calculations of the accruals. What we've done now is that we've put in some controls over the spreadsheets that we use in calculating the accruals. The way we've done that is by using a SharePoint site, which means that we are able to monitor it; it's in there. It doesn't change any information on there.

**Mr. Hehr:** Well, then, my final question is: the next time the Auditor General reports on this, will he say that you've followed through on this recommendation?

**Mr. Borland:** That's correct. Hopefully.

**Mr. Hehr:** Okay. Hopefully. That's not as good as it will.

**Mr. Borland:** Well, I'm not the Auditor General.

**Mr. Hehr:** Yeah, I hear you.

In any event, let's go to the Alberta bioenergy program. The key findings in that were that assessments of environmental impacts in relation to emissions were not completed for these grant applications and an overall analysis was not completed to indicate that alternative fuels generated as a result of these programs will reduce the province's greenhouse gas emissions. Here are a couple of questions. Has the department determined with supporting analysis that the bioenergy grant programs have contributed positively to emissions reductions? Secondly, how many projects are being funded under development programs, and how many of these are currently producing bioenergy?

**Mr. Hughes:** You've alluded to part of the answer, in fact, because we're in the early stages of this. The current status is that in February of 2013 a contract was awarded to a third-party

accounting firm to undertake the independent review of the legacy reports that had been submitted by agreement holders.

I'll perhaps turn that over to Sandra, then, for further clarity on that.

**Ms Locke:** Yes. The legacy grant programs are under review right now. We expect to have all of those files cleaned up before the end of the year.

With respect to the current bioenergy producer credit program we've just recently sent out annual reporting guidelines to all of the grant recipients. Those reports are due to the department at the end of June. We will shortly thereafter be engaging through an audit process to test the validity of those reports. So by the end of the year we will definitely have those files completed.

**Mr. Hehr:** Well, that sounds positive. Remember, the recommendation was made in October 2008, so it has been some time.

Nevertheless, let's move on to another question. We discussed this in estimates, sort of the difficulty of calculating bitumen royalties when there are disputes that arise over technical situations that will happen because of the way we allow capital cost allowances and the like and the technical nature of that. What percentage of dollar amount of the total nonresource royalty revenue owing to the government of Alberta was disputed in 2011 and 2012? Is that information publicly available? If not, should it be?

**Mr. Hughes:** Yeah. We're not in a position to speak about any disputes in terms of royalties because it would be commercially sensitive, but rest assured that it's addressed on as timely a basis as we can.

**Mr. Hehr:** Well, it's my understanding that these disputes happen frequently and have since the beginning of this program or the beginning of the capital cost allowance. I've asked this before, but I get a sense that we don't have the capacity to analyze those disputes given the technical nature of their submissions and the like. Are you still at that position?

**Mr. Hughes:** Well, it varies. We do seek outside expert advice if, in fact, we feel we don't have the capacity in-house, but the capacity is developing in-house. Obviously, as time goes by, with the experience of more and more oil sands projects, the experience of more and more engagement with industry, we've developed immense capacity within the department. But where we feel we don't actually have technical expertise in-house, we do go outside to seek it.

**Mr. Hehr:** Okay. I guess just returning to the biofuels, I'll refer to page 45 of the ministry annual report. Under expenses the ministry reports \$42 million for biofuel initiatives. How much has been spent in total on the bioenergy grants since the inception of the initiative, and has there been an analysis completed to determine the value for these funds spent?

**The Chair:** We're going to have to ask that you take that question and give a written response to it unless it's super quick.

**Mr. Hughes:** I'd be very pleased to take that under advisement.

**The Chair:** Okay. Excellent. And a written response, please, for the committee.

**Mr. Hughes:** Yes.

**The Chair:** All right. We'll spend the next nine minutes with the NDP caucus. Mr. Bilous.

**Mr. Bilous:** Thank you, Mr. Chair. Thank you to the minister and all your staff for coming here this morning. I'd like to start by asking about performance measures regarding the oils sands royalty regime. According to page 35 of the AG's report going back to April 2011, performance measures were not developed at that point in time. It's difficult for me to comprehend why performance measures for this industry would not have been developed by 2011 and made publicly accessible. I'm just wondering: have performance measures for the oil sands royalty regime been developed since April 2011?

**Mr. Hughes:** If you look at the Energy business plan for 2012-15, you'll see that, in fact, in the accountability statement there are accountability measures.

I'll allow my officials to give greater detail on that as well in terms of what those are. Jennifer.

**Ms Steber:** Sure. In the 2012-15 business plan the new performance measure 1(c) is Alberta's oil sands supply share of global oil consumption. We have the last actual 2010 percentages and the last actual 2011 percentages. So we have addressed the measure on a go-forward basis.

**Mr. Bilous:** Okay. So the targets were just developed based on global oil consumption?

**Ms Steber:** Correct.

**Mr. Bilous:** Okay. Next question. Is the government collecting all the royalties that are owed to us?

**Mr. Hughes:** Yes.

**Mr. Bilous:** Okay. Can you substantiate that other than us taking your word for it?

**Mr. Hughes:** Well, I think we've talked about it a bit already today. You know, the Auditor General's is actually also the word that you should take for it as well, not just my word.

We have measures in place to ensure that the royalties are being applied appropriately and collected appropriately. One of the targets, one of the performance measures is, in fact, exactly that question: is the target achieving 100 per cent of the amounts owed and collected? That's why we have the pretty robust IT systems in place that were spoken of earlier.

There's a lot of complexity to this. The Auditor General is obviously an important oversight that gives you comfort that what we're doing is actually achieving that goal.

9:30

**Mr. Bilous:** I can appreciate that's a performance measure. So you've met those targets; you are collecting a hundred per cent of all the different royalties, from conventional to unconventional?

**Mr. Hughes:** Yeah. We're fairly frank with people if we think that's not the case.

**Mr. Bilous:** Okay. I do find it interesting that the former Energy minister, Ron Liepert, recently said in the *Lethbridge Herald* that he never really understood the royalty regime system.

**Mr. Hughes:** I can't speak for former ministers of Energy in that respect.

**Mr. Bilous:** Fair enough.

Moving on to the debate about bitumen upgrading in the province and how much should be done here versus south of the border, how much bitumen in barrels per day was upgraded in Alberta last year?

**Mr. Hughes:** It's in the order of a magnitude of a million barrels a day that is upgraded in Alberta out of the production of 1.7 to 1.8 million barrels per day. Of course, the production is increasing, so what you have is a static capacity for upgrading and an increasing volume of production. We, of course, have the North West upgrader, which will be an important contributor to upgrading in the province and adding value in the province. The province made a deliberate policy intervention to use bitumen royalty in kind to enable that. That will be 50,000 barrels a day in the first phase and 150,000 by the end of the third phase.

Actually, just to add a little bit more flavour to that, you know, the North West upgrader and refinery is the first refinery built in North America in 30 years, so that demonstrates how difficult it is and how difficult the refining business is and how there's been a lot of consolidation in the industry.

**Mr. Bilous:** Well, difficult or whether that's been a priority or not.

Before you get into the upgrader – because that's not yet online – now you're talking about projected, which I want to get to.

**Mr. Hughes:** Sure.

**Mr. Bilous:** As of last year what was the capacity, and how much was actually upgraded in barrels?

**Mr. Hughes:** Well, the capacity is a little higher in part because the capacity exceeds a million barrels a day. But the full capacity isn't met because the upgrader might be in a physical location where it doesn't receive all the bitumen that it could to actually have a full throughput, right? They're owned by different private-sector entities.

**Mr. Bilous:** Right. So a million is capacity?

**Mr. Hughes:** No. It would be 1.3 million or something. I mean, I know that because it's on the public record, I'll be held to it, but it's larger than a million, and the million is the actual throughput.

**Mr. Bilous:** Okay. Wonderful. And that was last year. For this year do you . . .

**Mr. Hughes:** It's the same order of magnitude because there's nothing coming on right now.

**Mr. Bilous:** Nothing really changed. So if we did look at the next 10 years, what is capacity versus projected?

**Mr. Hughes:** Yeah. There are two projects that are under way currently to increase upgrading capacity, adding about 300,000 barrels a day in capacity.

**Mr. Bilous:** Excellent. Thank you.

Yesterday in the House, Mr. Minister, you spoke about over 400,000 kilometres of pipeline in the province. I'm just wondering: how many kilometres of pipeline were constructed last year?

**Mr. Hughes:** We'd have to get back to you on that.

**Mr. Bilous:** Okay. Wonderful.

Do you have projections for this year of how many kilometres of pipeline will be constructed?

**Mr. Hughes:** Yeah. That might be a more difficult number to find, but if we can give an estimate, we will.

**Mr. Bilous:** Fair enough. Even an estimate would be appreciated. How much time do I have, Mr. Chair?

**The Chair:** One minute and 30 seconds.

**Mr. Bilous:** Excellent.

Okay. This was touched on a little bit earlier, but I can appreciate that we're currently a net importer of energy in the province.

**Mr. Hughes:** Electricity.

**Mr. Bilous:** Electricity. Yes. Billions of dollars have been spent on critical transmission infrastructure – right? – for electricity. What are your department's current projections for electricity exports over the next 10 years?

**Mr. Hughes:** Well, it's hard to predict into the future because this is a market that is – what you can do is look back over the last 10 years, and there wasn't one single year in which we exported. They were all net import years, every single year, including between 4 and 5 per cent of our consumption that was imported last year. So to project forward, one has to take in a lot of considerations. The dominant factor, actually, is the fact that the action is in Alberta. The consumption of electricity is in Alberta, and we need more electrical capacity over that 10-year period. Some of it will undoubtedly come from outside of Alberta.

**Mr. Bilous:** So at the moment, then, there is no intention of exporting? None of this critical infrastructure is going to be used for the export of our electricity?

**Mr. Hughes:** There's no evidence to suggest anywhere that we will have adequate capacity to export.

**Mr. Bilous:** Interesting. Thank you, Mr. Minister.

**Mr. Hughes:** Thank you.

**The Chair:** Thank you very much, Mr. Bilous. For the remaining 23 minutes or so the government members.

**Mr. Dorward:** Mrs. Sarich first, please.

**Mrs. Sarich:** Thank you very much, Deputy Chair. I just would like to read into the record a couple of questions, and the follow-up will be a written response because there are other colleagues on the government side that would like to ask their abundance of questions as well.

Referring to the ministry's annual report on page 55, the Alberta Petroleum Marketing Commission disclosed that there was an agreement entered into with the North West Redwater Partnership. I'm just wondering: what are the potential financial impacts and the risks of entering into this agreement?

Also, on page 59, the budget for bonuses and sales of Crown leases was \$1 billion, and the 2012-13 budget was \$2 billion, presenting a cyclical nature of resources. How is the budget for this sale of Crown leases determined?

Forgive me if this may appear as a repeat question. It wasn't too clear when someone asked the question on APMC. I'd like to have some clarification on the oversight of the marketing agencies as it pertains to the performance measures. What is the level or extent of oversight? Where are the performance measures documented? How are they made available for the public in that regard? I'll pass to a colleague.

**Mr. Hughes:** Okay. Thank you.

**Mr. Dorward:** Minister, did you want to respond to any of those, or do you want to do them all in writing?

**Mr. Hughes:** No. We'll respond in writing. That's fine. Thank you.

**Mr. Dorward:** Okay.

Ms Fenske.

**Ms Fenske:** Thank you. I just have one question that I would like answered, and I'll leave it up to you, MLA Dorward, to say whether or not it should be in writing. It's on the IEEP, the incremental ethane extraction program. On page 23 of the annual report it discusses the need to enhance this program. Of course, I have a certain bias and have seen some benefits from it. We've even talked about Williams as part of that earlier. Can you tell me what progress has been made in regard to this? The supplemental to that is: how has this program proved valuable to Alberta's energy sector?

**Mr. Hughes:** Well, it's a very good question. The incremental ethane extraction program is a program that supported the production of more than 8,000 barrels a day in incremental ethane, which is a fairly substantial amount. What it's helped to do is address the tight supply and higher cost of new sources of ethane. I kind of describe it as priming the pump to ensure that the ethane extraction sector is truly economic and actually has adequate feedstock for production.

**9:40**

This has been valuable to the energy industry in Alberta because, first of all, the petrochemical industry is the largest consumer of natural gas in the province. The 13 and a half billion dollar industry that is represented here uses natural gas and ethane feedstock to make plastics, paints, clothes, and other goods consumers use every day. This is part of the really long-term future of this province.

It's a \$350 million program, but that's been part of \$1.8 billion dollars in new capital that's been invested by industry to support additional ethane in Alberta for value-added. The petrochemical industry is the largest single consumer, as I was saying. This has helped offset a lack of availability of ethane and has ensured that it's moving forward.

**Ms Fenske:** The lack of ethane, of course, is a problem, and we pray that it's cold down east so that we have enough ethane here to deal with that. I guess that's maybe more of a policy question, and I'll save that for discussion later.

**Mr. Hughes:** Sure. Thanks.

**Mr. Dorward:** Thank you.

Mr. Minister, I've got an odd question which might frame some of what I'm about to talk about, so maybe I'll ask the odd question first. You have a different colour on your annual report – I don't know if you knew that – than most departments and ministries.

**Mr. Hughes:** We're special.

**Mr. Dorward:** I know you're special, but I was curious as to: who is the reader of your financial statements? I actually tend to read these things.

**Mr. Hughes:** Apparently, you're it.

**Mr. Dorward:** Well, I hope I'm not the only one that reads them.

You know, there is some wonderful information in here. If you look at the evolution of annual reports over a period of time, in the private sector, for example, you'll see – and you probably have some first-hand knowledge of this – that they tend to have a section to start that's really user friendly so that they bring people into this, then go back into some great information that's in the report and, I guess, explain it in a more simplistic format than the technical nature of what's in here. I've got to say that your report I found to be really, really good. I mean, it's got some good, solid, hard-nosed information in it, but I find it to be really technical in its nature when you get into it. Maybe it's not a question. Maybe it's a statement that I think that we in the government could move our annual reports to be more friendly in the first parts so that we would allow Albertans that go to this document to be able to find answers to questions.

You could address some of that in my first question, which is on page 22 of the annual report. So the odd question is over; we're into the real question. I'm intrigued by the key achievements in goal 1 in the third paragraph. I'll read it for the record. It discusses:

The Government of Alberta's Land-Use Framework (LUF) sets out an approach to manage public and private land and natural resources to achieve Alberta's long-term economic, environmental, and social goals. A key strategy under LUF is the development of seven regional plans . . .

I could go on from there. People can read that. Can you just comment on why that's in your annual report and how that factors into what you do in your ministry?

**Mr. Hughes:** Yeah. It's actually a very good question. As you would know, the land-use framework, as you've read, refers to seven regional plans across the province, the first of which, the lower Athabasca regional plan, has been implemented. You know, this is by watershed, by airshed. This is important to Energy because in many ways energy is one side of a two-sided coin. The other side of that coin is environment. The environmental responsibilities that we have drive and enable our ability to perform well on the energy side of that coin. That's why the land-use framework is in our annual report of the Energy department.

When we have discussions with people elsewhere in the world, elsewhere in Canada, part of our calling card is that we are indeed the high-performing, responsible energy developer in North America if not elsewhere in the world.

Part of that responsible behaviour is that we have the land-use framework. We're building the environmental monitoring capacity that will be eventually across the whole province, and we're starting in northeastern Alberta. Part of that is that we have CCS. Part of that is that we are addressing all these issues. Those are all integral aspects of our social licence to operate and our responsibility not just to Albertans but to the rest of the world as citizens of the world. That's why, while it might look like an environment department initiative, it's really a crossgovernment initiative, and it's really important to our social licence to operate and to gaining market access for our resources.

**Mr. Dorward:** Thank you.

Goal 3 also jumped out at me. I scanned this over, and then I saw these bullets on page 32. It's talking about: "Funding and leadership of initiatives promotes collaboration for innovation across the energy industry." Alberta Research Council: when I was young, I was intrigued by Alberta's involvement in this area. I was born in 1952, and my father was the president of the Chamber of Mines in the '60s, so I saw this innovation move forward and

literally move up to Fort McMurray and saw the private sector start to take over those kinds of things. We are sitting on the benefits of that today. You've got bullets here. Can you just comment on how important it is in Alberta that we continue to support the research necessary to move us into the next 50 years as I've seen this move in the last 50 years?

**Mr. Hughes:** That's a really, really good question because, as you from your own personal experience have seen and as we as Albertans have seen, we didn't get here by accident. We got to this very fortunate position we're in as a combination; i.e., we have immense resources under our land, way more than any population of 4 million people in the world should ever expect.

In addition, there are plenty of other places in the world that have lots of resources, and they're not developed for some reason. They're not developed because people haven't invested in the social licence to be able to develop. They haven't invested in the technology to actually technically be able to develop it. They haven't invested in a reliable policy environment so that investors feel comfortable investing there. We've done all that in Alberta, and a big part of that is our investment in innovation and the early investment in the oil sands, that was led by, particularly, the Lougheed government in the early days. That investment turned an immense resource into immense reserves and immense value, and that didn't happen by accident. That happened because there was a lot of investment in it.

Now, if you look at how we are investing in other ways, well, the technology fund around greenhouse gas is not part of our department's responsibility, but, you know, it's one of those investments in innovation where we will be better than anybody else in the world at developing our resources. We're spending \$300 million on improving the greenhouse gas footprint through the technology fund that's in my colleague's department.

Within this department, within the Energy department, the innovative energy technologies program is actually a really interesting policy initiative. It offers royalty adjustments of up to a couple of hundred million dollars to a number of specific pilot and demonstration projects. That's led to approximately a 10-fold investment by the private sector, so a couple of billion in investment, according to the Petroleum Technology Alliance of Canada, as a result of a \$200 million investment of royalty adjustments by the province of Alberta. This enables smart engineers to create stuff of great value for Albertans, and that's really what we've seen. That's the history of this province.

9:50

**Mr. Dorward:** It's great. Thank you, Minister.

I know that MLA Allen from Fort McMurray has been anxious here to get the microphone for a couple of minutes. Thank you.

**Mr. Allen:** Thank you, Deputy Chair. I'll echo the comments of all my colleagues. It's great to have you here, Minister, especially with your very strong knowledge of your department. It's great to have for this committee.

Also, congratulations to Ms Steber. This morning is the first I've heard that you've been appointed as the acting deputy minister. Congratulations on that. I know you'll bring a wealth of strength to that role right now.

I wanted to comment a little bit on or get into the CCS again and more into the risk and potential repercussions should we have cancellations or deferrals to those projects. If we look at Shell Quest, my understanding is that the Shell Quest project is still in the development phase and that any decision to proceed is going to depend on additional factors: regulatory approval, project

economics, and additional consultation with stakeholders. In the agreement that we have now, first of all, is it currently anticipated that the project will proceed past the development phase? Once we get there, are there provisions in there for repayment of any funds that have been given to the project in the event that the project does not proceed?

**Mr. Hughes:** We're confident that this project will proceed. Obviously, the payments are based on meeting the milestones along the way.

I'd just like to ask Sandra to make a couple of additional comments around that as well.

**Ms Locke:** Thank you. The funding grant agreements are broken into three separate pots of money. The first 40 per cent is paid out on project milestones, and those are the payments that we're making now. That initial 40 per cent is actually refundable if the project is not completed. If they don't complete construction and begin operation, that money returns to the Crown, and there are security requirements on that funding. The next 20 per cent is paid on project completion, so when they complete construction and have tested the equipment and it meets the standards and the capacity that they committed to. Then the final 40 per cent is paid out over 10 years as they actually capture CO<sub>2</sub>, so that's based totally on performance.

**Mr. Allen:** And it's not just for Shell Quest? This is all of our funding agreements?

**Ms Locke:** Both projects are structured the same way.

**Mr. Allen:** For both. But we did have two others that were cancelled. My understanding is that one of them – I guess it wasn't clear. The Swan Hills deferral was for economic reasons. We hadn't advanced any funds for that one. For the other project it wasn't clear in the report that we read.

**Ms Locke:** There was nothing for either one.

**Mr. Hughes:** No. There was nothing advanced for either one of them.

**Mr. Allen:** For either one of them? Okay. Great. Thank you very much.

**Mr. Hughes:** Thanks.

**Mr. Dorward:** Deron, do you have anything you want to read in? If you want to, then I'll just take whatever time is left.

**Mr. Bilous:** Well, thank you very much, David.

A question that I was just wondering about – and I'm sure that there have already been materials printed on this – is that once upon a time there were four upgrader projects slated for the province, and then they were cancelled. I can appreciate that that's before your time, Mr. Minister, but I'm just wondering if your staff maybe could comment on how they went from a go to – now, interestingly, it may be coincidental, but it was around the time that different pipelines were slated to be built. I'm just wondering if you can comment on those projects that were cancelled.

**Mr. Hughes:** Well, these are all decisions made by private entities. They're all private entities. They invest, as you would imagine, their resources where they see the best return with the lowest risk. These are very material investments. These are, you

know, billions of dollars, \$5 billion to \$10 billion projects. That's a lot of capital for anybody in any business.

What we've seen is that as market conditions change – and I wouldn't necessarily tie the decisions around upgraders to pipeline access or other market access issues. I think that's perhaps a risk. There are a lot of factors that come into play. It's not just sort of: is there adequate supply of pipes going out, or are there too many pipelines and not enough supply here for bitumen, and does that affect the market dynamics? There are a lot of factors that come into play.

You know, if we look at what's happened in Alberta, there's been a lot of investment in upgrading and a lot of attention by companies to develop more and more capacity, so the volume of bitumen that is produced has increased quite dramatically. The signals you're seeing from some of the private-sector players are that, because of pricing for our products, we now need to be more attentive to actually ensuring that we're cost-effective in how we do our business. You see them being really hard-nosed on every aspect of their business, looking at their balance sheet, looking at their financial capacity, and making some very difficult decisions about what they're going to do and not going to do. It's in that context that these decisions are made, and it's really hard to isolate any one factor as a decision point for any one of these companies.

**The Chair:** Thank, Minister.

I think what we'll do now in the remaining time is if anybody has some questions they want to get on the record for the minister to answer in writing after. We'll start with Mr. Anglin, and then flag me down real quick if you want in.

**Mr. Anglin:** Thank you, Mr. Chair. Thank you, Minister. I just have two questions. Beyond the fact that we are a net importer of electricity and our Market Surveillance Administrator calls it the uneconomic importing of cheap electricity, I would like to know what the formula is for the tariff fee that is levied against the export of electricity.

The other item I'm looking for in the financial statements. A transmission must run is a mechanism that the AESO uses to manage the electricity system. I would like to find out how much we have used transmission must run. Where is that amount and what is that amount in the last three years I asked for, which are the last three years on record?

Thank you.

**The Chair:** Mr. Stier.

**Mr. Stier:** Yes. Thank you, and good morning. I haven't had my opportunity yet, so it's good to see you all here.

I just want to get into budgeting. Every two weeks oil and gas leases and so on are auctioned, and there's an awful lot of revenue stream from that, of course, and it's part of the main revenue stream from the whole industry. I'm just wondering. In your process of doing business, how do you budget with that unknown factor? There's an awful lot involved in that, and I thought it might be interesting to look at what things you take into account: world market negotiations with our main customers, et cetera, et cetera. Could we get something back on how that process works, please?

**The Chair:** Thanks.

Anybody else want to read something into the record? We're good?

**Mr. Dorward:** MLA Khan was on the line. MLA Khan, are you still there?

**Mr. Khan:** I am, sir.

**Mr. Dorward:** Did you have anything you wanted to have read into the record at all?

**Mr. Khan:** Not so much a question but a comment. I did very much want to echo my colleagues' sentiments and thank the minister for attending today. I think it says a lot about the ministry and the minister. I, too, want to echo a sentiment I heard him say, the fact that we didn't get to where we are as a province by accident.

**The Chair:** Okay. Thanks. Sorry, Mr. Khan. We're not going to do comments here; we're going to do questions. That's what this is about. I've got lots of comments I'd love to make about CCS in particular, but we're not going to do that.

All right. Thank you very much, everybody, for coming today. Thanks also to the ministry and to the minister.

**10:00**

**Mr. Hughes:** I'd just like to express my appreciation to the officials who joined me here today and who are outstanding public servants on behalf of all Albertans, as is the Auditor General and his team. Thank you.

**The Chair:** Excellent. Thank you, Mr. Hughes. Thanks for being here.

Our next meeting will be held on Wednesday, May 15, with Alberta Health Services. There will be no prebriefing in order to maximize our time with AHS. The meeting will begin at 8 a.m. here in committee room A, and our deputy chair will be chairing that meeting.

Also, Mr. Quadri is here. He came in at the very beginning, actually. I should have recognized him earlier.

Did anyone else come in? Mr. Goudreau is here as well and our deputy chair, of course. I think everyone else got on the record. Thank you very much.

Could we have a motion to adjourn? Mr. Allen. Those in favour? Any opposed? Carried. Thank you, everyone.

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





