



Legislative Assembly of Alberta

The 28th Legislature  
First Session

Standing Committee  
on  
Public Accounts

Energy

Wednesday, November 27, 2013  
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**Legislative Assembly of Alberta  
The 28th Legislature  
First Session**

**Standing Committee on Public Accounts**

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Dorward, David C., Edmonton-Gold Bar (PC), Deputy Chair  
  
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Fenske, Jacquie, Fort Saskatchewan-Vegreville (PC)  
Hale, Jason W., Strathmore-Brooks (W)  
Hehr, Kent, Calgary-Buffalo (AL)  
Jablonski, Mary Anne, Red Deer-North (PC)\*  
Jeneroux, Matt, Edmonton-South West (PC)  
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Pastoor, Bridget Brennan, Lethbridge-East (PC)  
Quadri, Sohail, Edmonton-Mill Woods (PC)  
Quest, Dave, Strathcona-Sherwood Park (PC)  
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\* substitution for Dave Quest

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## **Standing Committee on Public Accounts**

### **Participants**

#### Ministry of Energy

Douglas Borland, Acting Assistant Deputy Minister, Corporate Services  
Martin Chamberlain, Assistant Deputy Minister, Resource Development Policy  
Mike Ekelund, Assistant Deputy Minister, Strategic Initiatives  
Sandra Locke, Assistant Deputy Minister, Electricity and Sustainable Energy  
Grant Sprague, QC, Deputy Minister



8:30 a.m.

Wednesday, November 27, 2013

[Mr. Anderson in the chair]

**The Chair:** Good morning, everyone. I'd like to call this meeting of the Public Accounts Committee to order. I'm Rob Anderson, the committee chair and MLA for Airdrie. I'd like to welcome everyone here in attendance today as well as those on teleconference. I understand that Mr. Khan has joined us by teleconference. Are you there?

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

**The Chair:** All right. We'll go around the table to introduce ourselves, starting on my right with our deputy chair.

**Mr. Dorward:** David Dorward, MLA for Edmonton-Gold Bar and deputy chair of Public Accounts.

**Mr. Donovan:** Ian Donovan, MLA, Little Bow riding.

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

**Mr. Webber:** Len Webber, Calgary-Foothills.

**Mrs. Jablonski:** Good morning. Mary Anne Jablonski, Red Deer-North, sitting in for Dave Quest.

**Mr. Luan:** Good morning. Jason Luan, Calgary-Hawkwood.

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

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

**Mr. Chamberlain:** Martin Chamberlain, ADM, resource development policy with Alberta Energy.

**Mr. Borland:** Douglas Borland, acting ADM of corporate services.

**Mr. Sprague:** Grant Sprague, Deputy Minister of Energy.

**Ms Locke:** Sandra Locke, assistant deputy minister, electricity and sustainable energy, Department of Energy.

**Ms LaFave:** Betty LaFave, office of the Auditor General.

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

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

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

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

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

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

**Mr. Khan:** Stephen Khan, MLA, St. Albert.

**The Chair:** Thanks.

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We'll first go to approval of the agenda that's been circulated to the committee. Do we have a mover that the agenda for the November 27, 2013, Standing Committee on Public Accounts meeting be approved as distributed? Mr. Anglin. Those in favour? Any opposed? Carried.

There are no minutes to be reviewed this week. Somebody was on vacation apparently, so we'll do that next week. No. I'm just kidding. We'll do two sets next week, and we'll distribute those as soon as we get them.

The reports to be reviewed today primarily – of course, any Auditor's report or annual report from the past is up for grabs but, generally speaking, today's questioning should focus on the Energy annual report for 2012-2013; reports of the Auditor General for February, July, and October of 2013; the 2012 annual report of the government of Alberta, consolidated financial statements; and the Measuring Up progress report.

Members should also have a copy of the briefing document that was prepared for them by the office of the Auditor General as well as our own committee research team and, hopefully, have had an opportunity to go over that.

Of course, joining us today are representatives from Alberta Energy. Thanks so much for coming, Mr. Sprague, and to your group.

What we'll do first is go to Alberta Energy, who will be given up to 10 minutes to kind of give an introduction of what they're doing and what they'd like to communicate to us today. Then we'll go to the Auditor General, Mr. Saher, for a few comments, and then we'll go to questioning.

Go ahead, Mr. Sprague.

**Mr. Sprague:** Thank you very much, Mr. Chair. Committee members, good morning. Thank you for the opportunity to appear in front of you. I'm pleased to share Alberta Energy's highlights and accomplishments for 2012-2013. It was an eventful year. We made progress in a number of areas as we continued to ensure that our resources are developed for the benefit of Albertans.

Last year saw record productions, support for market access, the creation of a new regulator, investment in innovation, advancements in electricity and land-use planning, and support for clean energy.

Crude production in the last fiscal year reached its highest level ever. Some highlights to share with you are: 2.5 million barrels per day of oil in 2012, \$3.6 billion of total nonrenewable resource revenue from the oil sands, \$26 million in revenue from mineral rights sales in the oil sands, petroleum and natural gas agreements reaching \$1 billion, and \$7.6 billion in total nonrenewable resource revenue.

Once again Alberta maintained a combined royalty and tax rate that was in the top quartile of investment opportunities when compared to similar jurisdictions. This, of course, allows Alberta to attract industry investment, bringing in economic activity and jobs. It also allows government on behalf of Albertans to receive revenues from the development of these resources. Despite economic challenges it's evident that our resource industry remains growing and vibrant.

To address market access challenges, Alberta Energy supported a number of initiatives to help get Alberta's energy resources to other markets. This included within Energy the creation of a branch dedicated to developing and implementing approaches to

secure market access for Alberta oil. As well, our Canadian energy strategy secretariat is also working closely with other provinces across this country to help secure jobs for the future, expand the economy, help build manufacturing opportunities, and advance research and technology.

One of the significant accomplishments in the last year was progress on the regulatory enhancement project. One success of this project was the creation of the Alberta Energy Regulator, which began operations in June. This new regulator is also a key part of the integrated resource management system. As a system it's intended to look at the big picture of resource development rather than just on a project-by-project basis.

In the area of electricity the Critical Transmission Review Committee was established by government to review the Electric Statutes Amendment Act as well as the eastern Alberta transmission line and the western Alberta transmission line. They consulted with over 40 organizations in developing recommendations and conclusions, and they recommended proceeding with the development of two transmission lines as soon as possible. The AUC approved the routing of those two lines in 2012-2013, and both lines are currently under construction.

To protect Albertans from high electricity costs, the government accepted 33 recommendations in principle from the independent Retail Market Review Committee's report, and an MLA team was created to come up with a plan to put those recommendations into action. Their work is ongoing.

In innovation the oil sands continued to be a great technology story, and Alberta Energy supported more initiatives to encourage this trend. Our innovative energy technologies program saw 14 active projects, with five being completed during the year. In 2012-2013 we also supported eight new ethane recovery projects through our incremental ethane extraction program. In five open seasons more than 91,000 barrels per day of incremental ethane feedstock for petrochemical production have been supported through the program. As a result, over the past two years more than \$2 billion in new capital has been invested in Alberta by the value-added sector.

In bioenergy our bioenergy program continues to be an important way to diversify our energy supply, promote innovation, and find use for waste products. Despite some budget adjustments we are still honouring current commitments to those bioenergy projects, and reporting requirements for that program have been strengthened. At the end of the last fiscal year we provided 35 grants to support bioenergy projects.

Carbon capture and storage. We've also continued to support carbon capture and storage projects and to tell our CCS story internationally. These projects will reduce greenhouse gas emissions and also mean hundreds of millions in private-sector investment. The Alberta carbon trunk line and Quest projects will reduce greenhouse gas emissions by almost 2.8 million tonnes annually when they come online. These projects are an important part of our responsible energy development and a part of building Alberta's social licence across the globe.

**8:40**

In terms of land-use framework, as you are aware, this is a new approach to managing land and natural resources to achieve long-term economic, environmental, and social goals. Seven new land-use regions were established, and calls have been made for regional plans for each one of those. The goals contained within those regional plans will be another important factor in Alberta's integrated resource management system. As you are aware, the lower Athabasca regional plan was the first of those regional plans completed, and it was released in August of 2012.

In Fort McMurray, the urban development subregion, our Oil Sands Sustainable Development Secretariat led work with the municipality on establishing the urban development subregion. What that has done is committed 55,000 acres of Crown land for urban development to provide Fort McMurray much-needed room to grow.

In conclusion, Mr. Chair, these projects, I believe, show and demonstrate how resource development can happen responsibly. We need to consider many factors in order to contribute to a healthy and prosperous province. The work we've done also, I think, shows that we have a diverse portfolio of interest within the department that supports innovation, environmental responsibility, wide use of energy, as well as being the stewards of the energy and the mineral resource system.

Those are my remarks, Mr. Chair. I thank you again for your attention this morning and look forward to questions.

**The Chair:** Thank you very much, Mr. Sprague, and to your colleagues as well.

Mr. Auditor General, go ahead.

**Mr. Saher:** Thank you, Mr. Chairman. In our October 2013 report, page 65, we concluded that the department had implemented the last outstanding recommendation related to royalty review systems. The department is now measuring whether the bitumen royalty regime is achieving stated objectives.

Also in our October 2013 report, within our financial statement auditing section, starting on page 87 we made one new recommendation. We believe the department should design and implement an effective enterprise risk management function. We also repeated our October 2012 recommendation that the department ensure that recipients under the bioenergy producer credit grant program are complying with their grant agreements.

Other outstanding recommendations are listed on page 90 of the October 2013 report.

Finally, we issued an unqualified, or clean, audit opinion on the ministry's consolidated financial statements, which include the department, the Energy Resources Conservation Board, the Alberta Utilities Commission, and the Alberta Petroleum Marketing Commission, for the year ended March 31, 2013. 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're going to go to government questioning. You have 37 and a half minutes. Why don't we start with 20 minutes? Then we'll put the remaining time on the end. We'll have Mr. Dorward start that.

Now, we do have three folks that have just joined us. If they could introduce themselves.

**Mr. Quadri:** Sohail Quadri, Edmonton-Mill Woods.

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

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

**The Chair:** I don't think I missed anyone. Any others? No.

Okay. Go ahead, PC caucus.

**Mr. Dorward:** Thank you, Mr. Chair. I would like to draw your attention to page 65 of the most recent Auditor General's report, October 2013, as our Auditor General just mentioned, and have

you elaborate on that page as to what happened, what the process was that you went through, and just have a bit of a discussion regarding the measurement that goes on in this area of royalties. That may spur other questions that pop up. Can we just have kind of a dialogue on that?

**Mr. Sprague:** Thank you, Mr. Chair, for the question. I think the important context here, Mr. Dorward, is that we've taken a very hard look, I believe, at annual performance measures, and we have really wanted to ensure that we were reflecting accurate information to depict how Alberta was performing with respect to our performance measures. What we've been asked to do and have been working on is looking for other indicators to indicate how well we are doing on a global scale. So we've introduced a new performance measure relative to Alberta's oil sands supply share of the global oil consumption. We've tried to indicate how we are doing on that international stage.

We're also taking a look at supplemental indicators and drafting those. We've put them on the website to indicate the relative impact of oil sands production in the province. We're including things such as synthetic crude oil production, bitumen wells drilled, total volume of royalties, and where projects are at, a pre- and a postpayout status.

I'm going to ask my assistant deputy minister, Douglas Borland, our chief financial officer, to perhaps supplement my comments.

**Mr. Borland:** Right. This recommendation was the last remaining recommendation from a suite of five recommendations that were initially proposed by the Auditor General back in 2007. The Assistant Auditor General came and looked at the royalty structure and how we were managing the royalties. One of the recommendations was to ensure that we had correct performance measures. We had developed performance measures for both oil and gas, but we hadn't developed it for bitumen at the time. Now, subsequently, we have a measure that we think shows bitumen, and as a consequence the Auditor General is going to remove the recommendation.

**Mr. Dorward:** Mr. Sprague, you made reference there to a change in the royalties themselves and the terminology used. Could you go through that just briefly and tell Albertans – there are a couple of individuals, that are listening to this broadcast, that wanted to understand that a little bit better – about when royalties are going to go up here, when that's happening, and to what extent they change and why?

**Mr. Sprague:** Sorry, Mr. Dorward, if I misspoke. I wasn't trying to reference that we were changing our royalties. I think what I was trying to reference was that in our indicators we were reporting as a specific indicator what royalties were, not trying to indicate that there was going to be a change in the royalty regime.

**Mr. Dorward:** There are some inherent, built-in changes relative to when the companies in Fort McMurray have things happen, and the royalty amount for Albertans will increase here in the next few years. Is that correct?

**Mr. Sprague:** Yeah. If we're speaking, Mr. Dorward – and thank you; perhaps I was misapprehending your question – about prepayment and postpayout, those are significant changes in the royalty regime.

**Mr. Dorward:** Yes. Could you describe that in general terms, and then let us know a little bit more of the detail for the record? There are a lot of Albertans who actually have asked me questions about

that, so maybe we could take this opportunity to get that on the record and describe to Albertans briefly how that came about and then what's happening in the next three or four years.

**Mr. Sprague:** Thank you, Mr. Dorward. I'm going to ask again my acting ADM, Mr. Borland, to speak to that point.

**Mr. Borland:** The question of royalties. The bitumen royalties are calculated on a revenue-minus-cost regime. What we mean by revenue minus cost is, basically, that we take the total revenues earned in a project and subtract the total costs that have been incurred in that project. This comes up with a net number, and that number is then – we calculate a royalty on that.

The royalty rate is dependent on where we are in the post- or prepayment process. What we mean by pre- and postpayment is that it takes a large dollar sum to develop a project. Because it takes a large dollar sum to develop a project, we have a reduced royalty rate at the front end to encourage people to come in and get their money out of the project initially. Once they've recovered their investment in the project, we then raise their royalty rate. The royalty rate postpayment will go up to about 40 per cent, based on the price of WTI over the year.

**Mr. Dorward:** Does that phase in because it's a timing issue relative to when those projects started?

**Mr. Borland:** Yeah.

**Mr. Dorward:** And when don't we have any more prepayment? Is there ever a time?

**Mr. Borland:** Yeah, there is. If a corporation develops a project and it costs a hundred bucks to develop that project, once they've gotten net profits of a hundred bucks, at that point in time it will go into postpayment.

**Mr. Dorward:** All right. Are we – well, let's hold my question and make sure my colleagues get a chance.

MLA Jablonski, did you want to ask a question now?

8:50

**Mrs. Jablonski:** Yes, please. Thank you.

Thank you very much for your presentation. Mr. Sprague, you mentioned in your presentation that there were 35 grants to support bioenergy programs. I was wondering if you would be able to tell me the total amount of those grants, how corporations or people qualify to receive those grants, and what sort of oversight we have of those grants?

**Mr. Sprague:** Thank you very much, Mrs. Jablonski. Bioenergy remains an important area in order to diversify our supply and promote innovation and find new projects. I'm going to ask my assistant deputy minister who manages the bioenergy files to perhaps give you some of the details. We have taken onboard the recommendations from the Auditor General, though, to strengthen our systems to ensure that we're getting the value that we intend, so we are following that process.

I'm going to turn it over to Sandra Locke to perhaps further amplify.

**Ms. Locke:** Thank you. Right now we have one biofuels producer credit program active. Historically there were three other programs, mostly focused on infrastructure development, to get that industry started. In the bioproducer credit program we have 28 active grants, and the total expected from 2011 to the end of the program in 2016 is \$378 million.

**Mrs. Jablonski:** Thank you.

The other part of the question was: how do you qualify to receive one of these grants? And then the end of the last question is: what oversight do we have?

**Ms Locke:** Sorry. To receive grant funding, there were two calls for proposals, so there was a very specific timeline in terms of applying for grants. There were commitments that were made in terms of timing of production, so these had to be actual, operating projects at a point in time.

Because it's a bioproducer credit program, the actual payments are based on actual production of biofuels or electricity from biofuels. It's actually production based, so that ensures that the outcomes that government was looking for are actually there before any money is spent. So that's one key control in oversight, the actual production of biofuels. We ask the grant recipients to demonstrate that they've produced the volumes that they have. We have the right to go back and audit. We've put in place protocols around ensuring compliance with agreements, not just in production but also reporting requirements as well.

**Mrs. Jablonski:** Thank you very much.

**Mr. Dorward:** MLA Fenske, do you have a question?

**Ms Fenske:** Yes. Thank you. I have two of them. The first one is with respect to the Alberta Energy Regulator. I mean, I know they're phasing in; I think December is the second phase. What is the reporting mechanism between you and them?

I just was privileged to attend a community meeting where residents actually had some comments, so I wondered how those comments get from them to the Alberta Energy Regulator to the department to possibly create regulations or new policy.

**Mr. Sprague:** Thanks very much, Ms Fenske. A very good question. The current construct with the Alberta Energy Regulator sees the Alberta Energy Regulator reporting up to the Minister of Energy, so that's the official link. Equally important, though, are the unofficial links and the ties between Alberta Energy and the Alberta Energy Regulator, not in terms of the day-to-day, you know, interfering with their business but, rather, the ongoing connections that exist at many levels.

Importantly, one of the features that we've been trying to work on within the integrated resource management system is ensuring alignment and connection between our department and the Alberta Energy Regulator as well as other departments. So we have weekly contact, at a minimum, with the senior officials at the Alberta Energy Regulator, and that's an excellent forum for us to pass back and forth information.

You will have seen in the new legislation that the Alberta government remains accountable for the policies and the regulator for enforcing those policies. It's very important that we also get information from the regulator about what policies might need improvement or need addressing, and likewise we can report back. So there's an important contact there that exists at the officials' level that continues to be in play and that we are in fact strengthening.

**Ms Fenske:** So when that report comes back – it's a yearly report, I believe – to the Legislature, there may be points in there that recommend changes. Is that where we would find them?

**Mr. Sprague:** I think you would see a couple of things, Ms Fenske. We would perhaps have formal recommendations that would come back in reports from the AER to the minister.

Equally, I think we would expect – I would expect – just to be provided with that information on an ongoing basis, be able to feed that into our policy system, and proceed on that basis.

An important feature, as you're aware, with the proclamation of the Alberta Energy Regulator is the establishment and creation within our department, working as well with the Department of Environment and Sustainable Resource Development, of a policy management office. That office is specifically staffed to manage policy issues between the government and the regulator and to ensure there is a connection and connectivity.

**Ms Fenske:** Thank you.

My final question is on IEEP. How do you measure – we've had some discussion at the resources committee, at the all-party committee on resource development – that the IEEP program has been successful in attracting business, in attracting people and companies to make investments so that we could use that information to make a decision on whether or not something similar could happen in the natural gas or other areas?

**Mr. Sprague:** Thank you, Ms Fenske. I think the important measure of most programs is actually to see what they deliver. I think what we've seen in this case is that we've had a number of successful projects go forward, and we've actually seen an increase in five open seasons of more than 91,000 barrels a day of incremental ethylene production. I think that's an increase over what we anticipated the projects delivering. So I think it gives us an indication that it's the right type of program because we're actually seeing the results in excess of what we anticipated.

**Ms Fenske:** Thank you.

**Mr. Dorward:** Mr. Sprague, I wanted to thank for the record Mr. Mike Fernandez of Alberta Energy, who came and spent some time with me on CCS. Despite what we hear, my understanding is that not billions but millions of dollars have been put into carbon capture and storage under the Carbon Capture and Storage Funding Act. Could you take some time or have one of your officials take some time to describe where that's sitting and how much money has been spent on carbon capture to date?

**Mr. Sprague:** Thank you, Mr. Dorward. I'd be happy to perhaps give some initial comments and then ask my colleagues to supplement that. Carbon capture and storage remains an important area for the province. It is one of the ways that we see as being very positive given our geology, quite frankly, in Alberta, as being able to reduce the amount of greenhouse gas emissions that are being emitted, and as an important mechanism for us to control that.

We spent a considerable amount of effort, working with industry, in looking for opportunities within this province to advance CCS. While a lot of people will speak of other jurisdictions as being leaders in CCS, what I've noted in my short tenure as deputy is that Alberta, in fact, is being turned to as a leader in the CCS world. I found that – initially I was a bit taken aback and surprised to hear that because it's contrary to the common wisdom that I was exposed to – in fact Alberta is being looked to very much as a leader in this area.

We are blessed with the geology that will allow us to proceed in that vein on a couple of key projects. I've referenced the Alberta carbon trunk line and the Quest project. These are both significant undertakings that are going to see, when they come completely online, some significant reduction in GHGs for the province. They're also being tied in in innovative ways to existing processes. We hope to be able to use, as you know, the carbon captured, the CO<sub>2</sub> captured, to enhance oil field recovery. As well,



I think it helps us with respect to the social licence, to the brand question that perhaps exists in the minds of some that Alberta isn't doing enough.

There have been significant dollars invested in this area. We are working, of course, not just with government money but with private investors who have seen the merit in exploring and furthering these lines of inquiry. I think the two projects that are online are very significant both in terms of their size and their potential impact.

9:00

I'm going to stop my comments and ask my assistant deputy minister Sandra Locke to speak to that. Before I go, though, I'd like to thank you very much for the acknowledgement of Mr. Fernandez. We have a very small group within Energy working on this, and they work very hard, so your comments and praise are very much appreciated, sir.

Sandra.

**Ms Locke:** Thank you. To date we've spent \$134,500,000 on our two CCS projects. Primarily, most of that money has gone to the Shell Quest project. They're in an advanced stage of project development and construction. That money would have been paid out on project milestones. Those milestones would be related to project development and construction. They have already begun building the facility at the Quest upgrader, just north of Edmonton. They've done some well drilling for CO<sub>2</sub> disposal. So most of that money, the \$134.5 million, has gone to the Shell Quest project.

The remaining funding has gone to the Enhance project, which is building the Alberta carbon trunk line, and as well with that project the money would have been paid on project development milestones.

**Mr. Dorward:** Can you also describe whether Albertans are paying the whole ticket there, or is industry also putting money into the efforts that you just mentioned, where there's \$134 million gone into?

**Ms Locke:** Absolutely. I should mention that both those projects are also being funded by the federal government at a much-reduced level than the Alberta government is paying. We have put in place in the program an absolute cap of government funding. Both provincial and federal can't exceed 75 per cent of project costs, so at a minimum the project owners, developers are on the hook for 25 per cent. I can say that in both cases our funding program doesn't cover cost overruns. So they certainly have an incentive because for all the costs that go over, they're on the hook for 100 per cent. So the 25 per cent is an absolute minimum that they'll be paying, and it could exceed that substantially, depending on what the final costs look like.

**Mr. Dorward:** Mr. Sprague, thank you for mentioning the international side of things and the social licence that's out there. Alberta is in the world, and our Premier has done a great job of going internationally and talking about Alberta's efforts in this area and others. Could either you, Mr. Sprague, or Ms Locke – and thank you so much for your comments there – mention something about the world stage, the Carbon Sequestration Leadership Forum or the ISO work that's being done?

**The Chair:** We'll have to do that after the next 20-minute break.

We'll go now to the Wildrose caucus and our Energy critic, Jason Hale.

**Mr. Hale:** Well, thank you, Mr. Chair. And thank you for attending this morning. I'd like to start by just going back a little

bit. In the budget estimates this past spring I brought up the issue of the bioenergy grants with the Energy minister. From 2010-2011 there were some outstanding reports from grant recipients. The Energy minister had stated that you were looking at that and that the completion of, I guess, your recommendations to these companies would be made in June of 2013. Then in May of 2013 the Energy minister was in front of our PAC committee, and we also talked about this and that the department was doing a follow-up audit and that results would be made available this year. At that time I believe four of six of the companies hadn't produced the proper paperwork for these grants. Now we see again in the October 2013 Auditor General's report that there still are companies – three of the six are noncompliant with the reporting requirements.

The Energy minister also answered a question from me back then. I'd asked: if these companies do not fulfill their requirements, can the Energy ministry, the department request a refund of the money invested? His answer was: yes, or they wouldn't have given it in the first place. So can you explain to me why, from all the way back to 2010-11, we're still waiting on three of these six companies to report their findings and how they're using their money and why we haven't taken any steps to recoup that cost or enforce the regulations that are in place with these grant recipients.

**Mr. Sprague:** Thanks very much, Mr. Hale. I understand that all the grant recipients have provided their reports on their greenhouse gas emissions for 2011-12 and 2012-13. What we have in place now is a third-party accounting firm supporting the administration. They've reported on their findings on the emissions for that time period as part of their program. We are just right now in the process of reviewing that third-party audit. And I agree with you, sir, that it's very important when we provide funds to any project that the recipients actually comply and comport with the terms and conditions and that we ensure that they are in fact doing as they've promised.

I can put it this way. We now have all of those grant recipients providing their information to us. We have it. We are reviewing it in accordance with the terms and conditions, and we will be ensuring a proper follow-up should there be any deviance from what was requested and required of them.

**Mr. Hale:** Okay. So of the reports that you have previously received, are there any that are noncompliant with the regulations in what they must use the funds for? Has the department taken back any funds or enforced any of these regulations on the companies that have received grant funding?

**Mr. Sprague:** Yeah. Thank you, sir. We are still reviewing the reports from the Auditor to ensure that there is compliance. It would be my absolute full expectation that if there was deviation from what was required, we would be looking for the monies back.

**Mr. Hale:** You also had mentioned that there are 35 grants currently out for the bioenergy program. How many of these are new grants to new companies? How many of these new companies that have received the grants – are they currently in this year or previous years? If they were previous, how many of those have submitted reports.

**Mr. Sprague:** Mr. Hale, my understanding is that we had anticipated three rounds of the program, and, as you may be aware, the third round didn't proceed due to budget matters. All of the grants exist within the context of rounds 1 and 2. I am going to ask my assistant deputy minister just for, perhaps, some of the

detail to ensure how much of that would be differentiated between round 1 and round 2.

**Ms Locke:** Thank you. Last year, in the fiscal year ending March 2013, we paid out to 20 grant recipients. So the remaining eight hadn't yet met their production requirements under their specific grant agreements. I can't provide for you right now the breakdown between rounds 1 and 2, but I could provide that information after this meeting.

**Mr. Hale:** Sure. That would be great.

In the grant requirements is there enough information that you are getting back – you know, to enable these companies to predict the greenhouse gas emissions? Part of the program is that they have to show how they can reduce greenhouse gas emissions. Is there enough, I guess, meat in these requirements that you guys can gauge if they are actually reducing greenhouse gases?

9:10

**Mr. Sprague:** Thanks very much, Mr. Hale. I believe that the program is robust enough that we are ensuring that, in fact, we are achieving the outcome that we are looking for. I'd look to my ADM to supplement if she's got any more detail on that, but for us it's really important that we actually are achieving this and are able to demonstrate that it in fact is occurring. Obviously, we're not interested in any process that would just appear to be doing something. As best we can and understanding the limits that may exist sort of scientifically to do that, we would want to actually see that we are achieving the outcome that's predicted.

**Ms Locke:** Yes. Thank you. We developed guidelines for those calculations. We worked very closely with the Department of Environment and Sustainable Resource Development to develop protocols that would be consistent with their thinking in terms of how emission reductions are calculated.

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

I'd like to talk a little bit about carbon capture and storage. You had mentioned Shell Quest, how much funding they had received. You didn't mention how much money the carbon trunk line has received. Could you give us a value of how much government funding that project has received?

**Ms Locke:** I have a number just short of \$5 million.

**Mr. Hale:** Okay. So of those dollar figures that have been received for those two projects, what is your projected additional cost with those two projects? How much more money are you going to be giving, or is that the total that they're receiving? Like, you mentioned that they're going to be receiving 75 per cent of their project costs from the government. How much money is left to cover that 75 per cent for each project?

**Ms Locke:** The grant agreements for each of those projects – on the Shell Quest project the total cap on provincial government funding is \$745 million, so the remaining funding will be paid out in sort of three tranches. We've divided the funding program into three mechanisms for disbursement. The first 40 per cent, which is what they are receiving now, is based on project milestones, and we get engineering reports and have an assurance that the milestones have been met. Third-party engineers provide us with that. That 40 per cent will be paid out assuming that they meet the cost requirements as well. So if they have savings, obviously, that money won't be spent in the first 40 per cent.

The next 20 per cent is paid out when they complete the project. How we define project completion is full construction, all the

testing is done, and they've been able to demonstrate that the volumes that they committed to sequestering – they have the plant capability, the pipeline, and the injection facilities to handle those volumes. The final 40 per cent will be paid out over 10 years, as they actually capture and store CO<sub>2</sub> volumes. So the \$745 million that the government has committed to Quest won't be fully expended until 2025.

For the Enhance-North West Alberta carbon trunk line project the government's commitment is \$495 million. As I mentioned, we've paid them less than \$5 million to date. As well, their funding commitment is on those three buckets.

I should mention that the first 40 per cent is refundable to the Crown if the project is not completed. So we look for security against that to ensure that if they get so far in development and make a commercial decision not to proceed forward to complete the project, the government is kept whole.

**Mr. Hale:** Okay. I think currently the first project is supposed to be sequestering carbon by 2015. Is that on track to meet that date?

**Ms Locke:** Yes, it is. Late 2015 is our understanding from Shell.

**Mr. Hale:** Okay. I'd like to talk a little bit about the Alberta Petroleum Marketing Commission. We just went through, and the new bill was passed in the Legislature. Your ministry talks in the annual report and the Auditor General has mentioned before in some of his previous audits about the royalty estimates through the department for the budget. Now I noticed in the new bill that this new commission will be looking after royalty predictions for the province, that they're doing royalty calculations, and they will be determining, you know, how much we're going to be getting from royalties.

Does your department currently have measurements in place with regard to the BRIK program to ensure that Albertans are getting proper value? You know, instead of taking the royalties up front, they're taking the bitumen and then marketing that bitumen, and there are toll charges and fees that go along with that. How can Albertans be assured that they're going to be getting equal to or more value taking the bitumen in kind rather than taking the royalties right up front?

**Mr. Sprague:** Thanks very much, Mr. Hale. Probably a number of good points that we should be clear on with respect to the Alberta Petroleum Marketing Commission and its role. One, with respect, sir, that I'd just point out is that the department still remains accountable to my minister to provide the estimates on royalties, so we do that within the department. APMC is another adjunct, but the accountability for the estimating on royalty: all those predictions and projections are done through the department, not through APMC.

APMC does have a very important role, though, to play. You are correct that recently legislation was passed, I believe just this week, in the House that would clarify, from my perspective, the importance of the government's role in ensuring that it sets the policy for the Alberta Petroleum Marketing Commission versus the other way around.

The APMC with respect to BRIK. We do have the ability to obtain bitumen royalty in kind barrels, or BRIK barrels. You've touched on the marketing. Most of the marketing of those barrels is done through agents that we employ for that purpose. We do reserve the right at APMC to manage some of those barrels directly. The question of how we ensure that we are seeing value for money and ensure that we are appropriately disposing those barrels, in my view, comes through the good work of the APMC staff, who are ensuring that we are achieving commercially

reasonable outcomes in any of the engagements that they must do. The new act, though, also is very clear that there is government oversight, ministerial oversight, and we would engage with our minister and the Crown to ensure that we are achieving appropriate strategic outcomes in engaging in any particular process.

I hope that's helpful, sir.

**Mr. Hale:** Yes, it is. Thank you.

With respect to the annual report – and we had talked about it before in the budget estimates – with the lower Athabasca regional plan there was a payout of \$30,500,000 to these companies whose leases were affected. Has any more money been paid out to these companies, or was that the total? Was that all they were going to get, or are there more payments coming forward through your ministry?

**Mr. Sprague:** Thank you, sir. Good question. Relative to the payouts that would be done pursuant to the lower Athabasca regional plan, my understanding is that those processes have not yet concluded. That was the initial estimate that was prepared by our department, based on our best understanding of the projects and leases that would be affected. There is a process under our regulations to establish the compensation, and that process, to my understanding, is still under way. It is not concluded, sir.

**Mr. Hale:** Thank you.

Do you have any sort of estimate? Is your department looking at any payouts through the South Saskatchewan regional plan?

**Mr. Sprague:** To my knowledge, sir, given the current state, that it's not yet concluded, I'm not instantly aware – I apologize; this is from memory. I don't recall any specific or significant payouts that would be required under the South Saskatchewan regional plan.

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

We also see that there was \$60 million refunded for coal production in the previous year. Can you explain why that money was refunded and, I guess, just a little bit of background on that refund?

**Mr. Sprague:** Thank you, sir. I'm going to ask Acting Assistant Deputy Minister Borland to comment on that, please.

9:20

**Mr. Borland:** This was a refund as a result of a royalty audit of a mining company. We recorded it in the year that we made the cash payment out, hence the negative number that you see sitting there.

**Mr. Hale:** Okay. There was also a recommendation from the Auditor General about implementing an enterprise risk management system within the Energy ministry. Is that currently under way? Is that a recommendation that you're looking at? Could you just tell us what steps you're taking now to implement that?

**Mr. Sprague:** Thanks very much, sir. We are indeed following up on the recommendation for an enterprise risk management system. We believed in the department that we had a series of systems that helped us manage that enterprise risk. The Auditor General, I think, fairly pointed out that we could formalize that better and ensure that it is as robust as it needs to be. We have undertaken work to establish, I guess, a formal enterprise risk management system. Some initial steps that we've undertaken are identifying risks across the department, looking to further promote a culture of risk management, being aware of significant risks, obviously. We're actively pursuing those. The process under way is intended

to identify, assess, evaluate, manage, monitor, and then review those risks on a frequent basis.

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

I believe my time is up.

**The Chair:** You've got 30 seconds left, so maybe we'll just give a longer – you want to read in some questions?

**Mr. Hale:** No. That's fine.

**The Chair:** Okay. All right. Mr. Anglin, did you have one question you wanted to read into the record?

**Mr. Anglin:** Sure. I do. Thanks very much, Mr. Chair. This is in relation to microgeneration. A number of microgenerators have signed private contracts to purchase microgenerated electricity at 15 cents a kilowatt hour, and unbeknownst to them, without warning, that was cancelled according to the microgeneration regulation, section 7(5). Why? If you could provide a written answer to that, where it violates the regulations and what the department's reasoning is for cancelling private contracts without notice?

**The Chair:** Sounds good. All right. The department will get back in writing on that, please, if you would.

Let's go to Mr. Hehr. You've got nine and a half minutes.

**Mr. Hehr:** Well, thank you very much, Mr. Chair. I'd like to thank the department for coming here and enlightening us on the department's work and the like. My questions stem from the North West partnership agreement. Specific to page 56 from the ministry's annual report, note 11, the disclosure states that "the Commission has very restricted rights to terminate the agreement, and if it is terminated the Commission remains obligated to pay the debt component of the toll." Under what circumstances would the commission not have to pay the debt component of the toll? For example, if the operator cannot provide refining services for an extended period of time or the operator of the facility can't financially sustain operations? Can you describe this agreement, the processes in place, and what the risks are to the Alberta people and the like?

**Mr. Sprague:** Thanks very much, Mr. Hehr. Maybe I'll make some initial comments, and I'm going to ask one of my ADMs to provide a more detailed answer to you relative to the agreement itself. We are not the owners of the project, of course. There's a partnership that owns the project, but we have agreed to provide a feedstock by way there of incenting the project because we think it is significant for the province in that regard.

With respect to the specific risks that Alberta may face with respect to the project, I'm going to ask my assistant deputy minister, Mr. Mike Ekelund, who is with us in the gallery, to speak more directly to the contract.

**Mr. Ekelund:** Okay. Thank you very much. In the agreement under the tolling section it deals with a number of different elements of the toll. As you have pointed out, if there are circumstances under which the facility is not able to be completed or the facility is not able to operate, the tolls with respect to equity no longer occur, and the tolls with respect to operating costs no longer occur. There, of course, is no incentive toll piece. However, once the money has been borrowed for the building of the facility, then the toll payers would pay a toll, which would consist of the repayment of the money that's borrowed and repayment of the return on that money. That ensures that the facility is able to

borrow at the lowest possible rates without giving an actual guarantee of any sort.

**Mr. Hehr:** My follow-up question: does any of the \$6.5 billion in maximum capital costs for refining include carbon capture infrastructure?

**Mr. Ekelund:** I can respond to that. I'm going from memory on this, but my recollection is that there is something in the range of \$48 million, which is included in the total facility capital cost. However, it is not part of what the tolls are based on. That was separated out in the agreement. I don't remember which section, but I believe that's in there.

**Mr. Hehr:** Is the partnership going to market only refined products or raw bitumen as well?

**Mr. Ekelund:** There are two different agreements. One is for the processing of feedstock, which would be diluted bitumen, and that will be processed into diesel fuel primarily and naphtha, which would be used as a diluent, and small amounts of butane as well. All of the product feedstock going into the refinery, except for times when the project is down for turnarounds or other maintenance, would be processed into these final products. During, of course, a turnaround you've got barrels coming in, and you have to sell those on the market.

There is a second agreement, which is a marketing agreement. There North West is in a position similar to the other agents who are marketing the conventional crude oil of the Crown, and that is for another 37,500 barrels a day of bitumen with the diluent to get it to the Edmonton area. That is sold in the open market. That is the feedstock which would go to phase 2 if phase 2 is determined to go ahead by both parties. If that decision is not made within five years, then that terminates.

That allows for feedstock for phase 2 and also ensures that North West is in the market buying and selling oil so that in the periods when there is downtime, then there is a ready market available that they are in where you can put the feedstock that's not required.

**Mr. Hehr:** Has the ministry finalized the accounting treatment for the refining going forward?

**Mr. Ekelund:** No, we haven't. I believe it's been very close, in terms of the ministry's view and the Auditor General's view, with respect to the treatment under previous accounting rules, but with the new IFRS I think that there's additional work that needs to be done there.

**Mr. Hehr:** Okay. Just pivoting a little, has the department assessed whether programs like the drilling royalty credit program and other royalty adjustment programs have had the beneficial impact on current production and royalties that it was seeking?

**Mr. Sprague:** Thanks, Mr. Hehr. With respect to many of these programs we do want to ensure that we are undertaking a review to see if we're actually seeing the results that we want. I think our assessment has been that most of those programs have been successful and are achieving the outcomes that were intended.

**Mr. Hehr:** Okay. I just want to pivot a little bit more. It's my understanding that oftentimes there are disputed amounts in the royalty calculations. I'm also understanding that the capacity of the department and the people to deal with disputed amounts is often very difficult and onerous. Significant challenges exist when you're dealing with extensive engineering reports and the like. In

your view, how are you dealing with disputed amounts? Is the time frame being handled in a reasonable and appropriate fashion, and does the ministry have the capacity to deal with disputed amounts?

**Mr. Sprague:** Thank you, Mr. Hehr. This is a very good question. It's an area that is challenging when we have these disputes, and they do arise. I'm confident that our staff are capable and able to deal with the disputes as they arise. We have got some incredibly talented folks who are able to work on these projects both from a technical perspective but also understanding the accounting criteria. They work very diligently. I'm very confident in our ability to deal with those on an ongoing basis.

9:30

**Mr. Hehr:** Okay. Just another question. The department reports measure revenues from oil, oil sands, gas and that land sale bonuses are fully collected. Is this just a measure of the oil and gas producers' ability to pay and the department's ability to follow up on overdue accounts?

**Mr. Sprague:** No, sir. I think it is trying to reflect exactly what's stated there. When the Crown is owed money, the department will go, and we will get all of it. The ability of an individual to pay: you know, we're not taking into account that factor. If Crown royalties are owed, we want them on behalf of the people of Alberta.

**Mr. Hehr:** I may have time to get this question out. I'll refer to page 24 of the ministry annual report. The department reports a measure of combined tax and royalty rates for conventional oil and natural gas production in comparison to other jurisdictions. The target is to be within the first quartile with the lowest combined rates. What are the implications if Alberta were to move into the second quartile? Would there be any significant movement of the industry, or would that simply just bring in more money to the Alberta coffers?

**Mr. Sprague:** Thank you, sir. I'm going to give perhaps a non-technical answer. The important feature that we constantly are made aware of in the department and in my engagements with industries and others is the ability to track investment. The tracking of investment is, of course, often a numbers game focused on what is going to be that return on investment. Alberta has been very successful, I think, in positioning itself in tracking the substantial investment we've seen over a number of years based on our location, if I could put it that way, in comparison to other jurisdictions. How expensive is it to operate in Alberta? That includes, of course, the tax component. My observation, sir, would be that I think if we were to move out of that first quartile, we would in fact see consequences in the amount of activity in the province and thereby consequences on Her Majesty's revenues.

**Mr. Hehr:** Okay. Thank you.

**The Chair:** Thank you very much.  
Mr. Bilous, the NDP.

**Mr. Bilous:** Thank you. And thank you to the Department of Energy for bringing your staff and coming here today. I've got a few questions on BRIK and on coal, and I'll be a little bit all over the place. To start with, earlier for royalty rates you talked about the precompletion rate and then the postcompletion. I believe it's postcompletion.

**Mr. Sprague:** Pre- and postpayout is our language, sir.

**Mr. Bilous:** Payouts. Right. Just a question: forgive my naiveness, but what is stopping a company from continuing to expand a facility to continue to pay the prorate as opposed to having a completed facility with their initial investments completely returned and having to pay a higher royalty rate?

**Mr. Sprague:** Yeah. A very good question, sir. A very good question in that, yeah, one could imagine a regime where someone would continue to, you know, add components, thereby forever staying in prepayment. When we undertake the leases – and I'll look for perhaps some amplification from my colleagues to get more technical if need be – the department is very clear on what the project is. We establish the description of a project for the purposes of establishing that royalty payout frame. In effect, we lock down an image of what the project is going to be, and that's agreed on. If there's any expansion to that, then there needs to be an understanding reached between the department as to where we are in the pre- and postpayout. I'll just look to any of my colleagues if there's any other amplification.

Thank you, sir.

**Mr. Bilous:** Okay. I'll just give a little background here into the minutes. In the ministry's annual report for '12-13 note 11 to the consolidated financial statements, included on page 56, show the projected tolls that must be paid by the Alberta Petroleum Marketing Commission in connection with the BRIK program. The APMC will begin to pay these amounts July 1, 2016, as was established, and as of now are expected to get up to \$18.3 billion beyond 2017. Considering these tolls, which the commission will have to pay even if it terminates the processing agreement and the facility capital costs, which will need to be paid up to \$6.5 billion, it's crucial that Albertans are assured they're getting fair value under the BRIK program and that it's cost effective.

Now, I know that Mr. Hale asked: how would the ministry assess whether Albertans are getting a fair share? Your response, Mr. Sprague, was that the APMC staff will ensure that Albertans are getting a fair value. My question is: you know, based on the calculations that they're going to be making to determine whether Albertans are getting a fair value, will those reports be made public or reported to the public so that Albertans can also have a scrutinous eye over the books?

**Mr. Sprague:** Thanks, Mr. Bilous. What we will continue to do, in my understanding, is examine where we are at with the product. Of course, I think it's important to remember that one of the key factors that we see and the government saw on entering into this agreement with this refinery was looking at the ability to change a product, in effect, from raw bitumen into a refined product, thereby being able to capture a higher price for that raw product. So while there is some risk associated with that, I think what will occur is that we will see that refined product always having a higher price, I'm assuming, than the raw bitumen price going in. We should be fairly comfortable that we will be seeing that value. On an ongoing basis, of course, the reports will be filed by APMC in its annual report of what has occurred, so Albertans will be able to see that as it occurs in the future.

**Mr. Bilous:** That report is made public by APMC.

**Mr. Sprague:** Yes. The APMC annual report is a public document.

**Mr. Bilous:** Excellent. The follow-up question on the BRIK program: so if companies or the government are encountering

difficulties in meeting their obligations under BRIK or if they find they're not getting sufficient value under BRIK, what mechanisms are there for the ministry to make changes or adjustments to the BRIK program and the contracts it's made in anticipation of the program?

**Mr. Sprague:** Thanks, Mr. Bilous. I think it's important to recognize that BRIK is really sort of our shorthand for bitumen royalty in kind, which means those barrels that Alberta is actually able to get. When we speak about the BRIK program, we're really just talking about Alberta's ability to use that actual barrel viz. just getting the money in.

With respect to any particular agreement we'd need to look at the terms and conditions of those agreements in order to see what the mechanisms were to extract the province from them if there was a determination that there was, in fact, a lower payout than anticipated. We recognize, to be fair, that in some of these circumstances, not many but some, there probably is larger risk than in others because we are trying to use BRIK as a strategic tool to achieve better outcomes for Albertans fundamentally by incenting in this case a value-added process within the province.

BRIK won't have the answer per se. It'll be the specific agreements that are entered into that would give you the indicator, sir, of when we could get in or out.

**Mr. Bilous:** I mean, how would we be able to see or to go through those agreements that you're talking about, then? I would imagine that they're not necessarily public. Or are they made public?

**Mr. Sprague:** As you would imagine, Mr. Bilous, there are often large amounts of commercially sensitive information contained within them. They're not public documents per se that we would, you know, readily provide or post on a website. We need to be very mindful of that. Specialized projects are in their nascent stages. I think where Albertans can take comfort is that they will be able to see in the reports the outcomes that are in the published annual reports and be able to take a view from there.

**Mr. Bilous:** Sorry to press this. I'm just trying to get my head around it. Other than your assurances how would we know – you've said that you'd have to go back through the agreements and then look at specifics. Then how would we, or this body, get that answer, the answer to whether or not the government could make changes or adjustments?

**Mr. Sprague:** I think it's an important question. While I've spoken about the commercial sensitivity, Mr. Bilous, we have endeavoured as well to be transparent for the benefit of the committee and others as to what those clauses look like. For example, I've just been reminded that the North West partnership agreement is, in fact, on our website. So Albertans would have an opportunity, as this committee would, to examine those terms and conditions.

9:40

**Mr. Bilous:** Okay. The actual agreements are included as well on that?

**Mr. Sprague:** That would be the agreement, sir.

**Mr. Bilous:** Wonderful. Thank you.

Switching now to talking about coal, page 60 of the 2012-13 annual report shows the amounts of revenue by nonrenewable resource source. Core royalties for the year were negative, apparently due to the \$16 million refund for production in the

prior year. Even in the 2011-2012 year coal royalties only accounted for .25 per cent of total nonrenewable resource revenue.

The Canadian Association of Physicians for the Environment estimates that a hundred people die prematurely of coal-related diseases each year. Coal leads to asthma, lung development problems in children, cardiac and inflammatory diseases. Many of these negative health effects are borne particularly by indigenous populations.

Ontario will have phased out coal entirely by the end of 2014. Nova Scotia will have cut its coal dependence in half by 2020. Alberta currently burns the most coal of any province in Canada.

Considering the lack of economic benefit to the province for continuing coal mining, particularly when considering the negative health effects of coal and the devastating results of catastrophic disasters like the Obed mine spill just last month, why doesn't the ministry pursue a coal phase-out like in Ontario, or does the ministry have any plans like that?

**Mr. Sprague:** Thank you, Mr. Bilous. I think the importance of coal currently needs to be considered in a number of categories. On the one hand coal is still a product and commodity that Alberta is blessed with large quantities of, and some of that coal is exported. The other important use for coal, as you're well aware, within the province is in the use of electrical generation. [interjections] I'm sorry, Mr. Chair. I'm in your hands.

**The Chair:** You have about 15 to 20 seconds. I know it's an involved answer, but we have to move on.

**Mr. Sprague:** The short version, sir, then, is that coal remains a very significant form of electrical generation in the province at the moment, and while we appreciate some of the concerns expressed, it still remains a very important part of our generation mix at the moment. You know, as we see transfers happening, we will see the market perhaps drive changes in that regard.

**Mr. Bilous:** Can I ask a five-second follow-up?

**The Chair:** Five seconds.

**Mr. Dorward:** Mr. Sprague, I have a five-second follow-up, and Mr. Bilous will ask it.

**Mr. Bilous:** Thanks.

I appreciate coal's contribution to electricity generation in the province, so the question is just: is the ministry actively pursuing other forms of electricity generation, and I mean actively or rigorously, from solar to wind to biomass to hydro?

**The Chair:** Okay. The PC caucus can choose to have you answer that question here if you would like. Would you like to do that?

**Mr. Dorward:** Well, it's on the record. It's in *Hansard*, so you could provide a written answer.

**The Chair:** Okay. Go ahead. You have the remaining time, Mr. Dorward.

**Mr. Dorward:** Thank you. Getting back to the Carbon Sequestration Leadership Forum and ISO, you mentioned, Mr. Sprague, Alberta being involved in a leadership role on the international stage on that. Then I would also toss in that it says on page 11 of the report that your department supports missions to the United States, Europe, and Asia to establish new markets. What does it mean to lend support to those missions?

**Mr. Sprague:** Thank you very much, sir. Perhaps I'll deal with the last part of the question first, and then I can turn it over to my colleague to talk more about carbon capture and storage.

In terms of supporting market access, the government has made clear its commitment to expanding market access for our products, in particular with respect to oil and bitumen. In support of those efforts our minister has undertaken a number of trips abroad. What does it mean to support that? It requires our team within Alberta Energy to consider very carefully who are appropriate parties to meet with, what are the opportunities that we're aware of, and working very closely with our colleagues in International and Intergovernmental Relations as well as working with our federal colleagues in the Department of Foreign Affairs, Trade and Development in order to ensure that we're actually having useful, productive conversations with the people that we need to.

I can assure you that, in my experience, the staff that we have working on this are very diligent in this regard and that we are looking for high-quality engagement when we go out there. We continue to do that, and we will continue to do that until we achieve the needed market access.

I'm going to ask my colleague now to comment on the carbon capture and storage leadership.

**Ms Locke:** Thank you. Yes, in terms of carbon capture and storage, we talked about the projects that we have in place, both large-scale projects. Alberta is recognized for that because there aren't a lot of projects at that scale moving forward.

We should also recognize that Alberta is in a unique position with our regulatory framework. We have an oil and gas regulatory framework. We very recently completed a regulatory framework assessment. We used and invited quite a number of international experts in carbon capture and storage to participate with us in that. What we did there was review the existing regulatory framework to make sure it was appropriate for large-scale carbon capture and storage and to ensure it was a world-class regulatory framework. The final report of that group was released earlier this year. Included in that were folks from the geologic survey in the U.K., Australian researchers, the American Department of Energy officials, so we reached out quite broadly on that.

As well, this province is recognized for the legislative framework around carbon capture and storage. Legislation has been passed on the funding program and on things like long-term liability. Jurisdictions around the world have asked us to help them understand how we have been able to move so quickly. They have asked us to help them understand our regulatory framework and how they could use that to assist their own CCS programs.

You mentioned the Carbon Sequestration Leadership Forum. What that group is is an association of about 25 countries at the national level, led by the U.S. Department of Energy, that is looking to advance CCS globally. Canada is a member of that. Alberta participates as a stakeholder, as a subnational. They had their most recent biennial ministerial meeting just last month in Washington, and the federal government participated in that.

**Mr. Dorward:** Okay. Thank you. I'm going to ask you to close there.

All I wanted to really point out here for the record is that there's a buzz about this, is there not? It is a real thing, and it is carrying on. People across the world are investing in this. The dollars that are being spent in Alberta: from what I've heard you say today, Alberta is a leader on the world stage in terms of moving this initiative forward. I have not seen any scientific or empirical evidence to say that this doesn't work or that it's bunk science or anything like that. Have you seen that?

**Ms Locke:** I think there is in some places a lack of confidence, in places where oil and gas activity is perhaps not seen on the ground as it is here.

Just to close on the international engagement, just last week we gave a presentation to an all-party MP group from the United Kingdom who were on a mission to Canada to understand our CCS program. So, absolutely, we are called upon to deal both at the political level and the officials' level to help them understand our program.

**Mr. Dorward:** Thanks very much.  
We'll move to Mrs. Sarich.

**Mrs. Sarich:** Thank you very much. I have to apologize. I was not here to hear your opening remarks, and I really appreciate your presentation to this point. Thank you for all the work that you do on behalf of Albertans.

I'd like to go back. There have been a number of questions asked in the area of compliance, and on page 89 of the Auditor General's report of October 2013 a number of committee members had asked some detailed questions around compliance. I believe, Mr. Sprague, you had commented that you were in the process of evaluating the level of compliance because there had been a number of outstanding issues about receiving information. Actually, I too was quite surprised that six recipients in this particular area for bioenergy credits and the receiving of grants took three years to submit annual reports. You know, I'm quite puzzled by that.

Anyway, your comment was that you're in the process of evaluating compliance. My question to you today is: how long will it take you to evaluate that compliance given that you've had a bit of a spotty track record on keeping up with this particular issue?

9:50

**Mr. Sprague:** Thank you, Mrs. Sarich. I understand the concern, and without me being entirely accurate, probably, in my understanding, I think part of the reason for the delay is the annual years versus the fiscal years when that happens, but I make no excuses. It's very important that we continue to track any of our grant recipients and ensure that they are doing what they have said they would be doing.

In terms of the review that we are undertaking now, we've had an independent firm come in and do the evaluation of these annual reports, and I expect that to be completed in the very near future so that we are confident that we are seeing the compliance and the outcomes that we anticipated.

**Mrs. Sarich:** So your comment about an external firm: is that a parallel to what is noted here? It says, "Of note, the department has recently contracted with an external firm to assist it with improving their processes and to collect the necessary information from bioenergy grant recipients." Is that what you're referring to?

**Mr. Sprague:** That's correct.

**Mrs. Sarich:** You did that because you don't have enough internal controls, you don't have enough people? What seems to be the problem that you have to go outside of your department to get some assistance in this very important area?

**Mr. Sprague:** I think I would frame it, Mrs. Sarich, as the need for us to have additional capacity at that time to undertake that. We did engage an outside firm, an external firm, also to ensure

that there were fresh eyes, if I could put it that way, examining the piece to ensure that we are achieving the outcomes needed.

**Mrs. Sarich:** Okay. Moving along to the area of risk management, there were comments by the Auditor General that there was a great need and importance to have a more comprehensive risk management plan and detailed processes around that. Also, he is wondering about the interrelationship between your risk management plan and the other departments that you may have an impact on or a relationship with. I'm not too sure how much detail you can provide today, but I'm asking the questions, and if you need more time to really enlighten us as a committee, I would ask you to also double-check the *Hansard* and then follow up in writing as well. If you have any brief comments, I do have a couple more questions.

**Mr. Sprague:** Sure, Mrs. Sarich. I'm happy to provide a written answer to that, but I would give this colour in terms of how we're advancing. We are doing our level best to be very integrated with our colleague departments where we see those risks, as you've identified, that sort of overlap on an enterprise basis. Indeed, we are trying to do that, and we'll provide more in a written answer.

**Mrs. Sarich:** I do have to ask you this question: have you never had a risk management plan? There's some description in here about a process where the senior executive level, the senior executive team, meets, they identify the issues, and they have these discussions, but that isn't quite what a risk management plan is. You would have an awareness of what it is if you were working with an internal audit function or another checkpoint system to have a comprehensive plan. I'm just wondering: how long has this been going on?

**Mr. Sprague:** What I would suggest, Mrs. Sarich – and I'd frame it this way – is that I think the enterprise risk management and the awareness of the importance of an ERMS system has come more to the fore in the last number of years as a formal piece, just as part of the evolution of government and the evolution of managing of risks world-wide. We're trying to track up to that and meet that standard. Of course, the province does have the Provincial Audit Committee, an internal audit committee, that meets and also looks at that grand GOA risk management. What we've had before was a series of steps that we thought were appropriately managing risk, but we've recognized the need to up our game, if I could put it that way, and we continue to do that.

**Mrs. Sarich:** Okay. I appreciate your response and your candour around that. It's very important for Albertans to understand how the government is tackling this, what the interrelationship is, and its prominence within the operations of the government.

On page 90 of the Auditor General's report, the same year, October 2013, there were a number of outstanding recommendations. I'd like to leave this with you to give you the opportunity to provide a comprehensive written response back to the committee in each of these very important areas so that we would be apprised of the detail and the steps and measures that you're taking to really respond to these outstanding recommendations that have been brought to your attention. I think that would be very helpful, and it would also help us understand where you're heading and the tone for the next round as well.

I get the sense that deputy ministers and their executive teams and all of the staff are working very hard to really step up their efforts to respond accordingly to recommendations from the Auditor General, and I just want to say that I appreciate that.

That's why it's very important for us to understand where you're going. I'll leave that focus with you.

I believe my other colleague has a number of questions.

**Mr. Sprague:** Thank you, Mrs. Sarich. We will provide a written response.

**Mr. Dorward:** Sohail Quadri.

**Mr. Quadri:** Yes. I don't need an answer right now. If I could just get a written response, that would be good.

You know, pipeline safety and performance is an important element of our social licence to operate and the key element to ensuring that Alberta is positioned as a leader in this area. What has Alberta Energy done to address these issues?

**Mr. Sprague:** Thank you, Mr. Quadri.

**Mr. Dorward:** In the interest of time, Mr. Sprague, I think we're going to have to ask you to do a brief written response to that. We certainly don't need a book, but a written response to the clerk would be adequate.

I have one to add to that list as well. From page 9 of the Department of Energy annual report, the second bullet, I read: "Develops policy for and manages development of Alberta's non-renewable resources." Policy for and manages development of: that's a strong statement, in my opinion. The reason I asked the question at the very start of this meeting relative to the royalties was to point out that we did things in the past in a policy kind of way. Following that, in brackets, "including natural gas." I'd just like to pause there and ask you to give, again, not a book but a

brief response on the latest that we have done from a policy perspective to support the development of downstream natural gas products.

**Mr. Sprague:** Thank you, sir. I will be providing the written responses as requested.

With respect to this matter the natural gas continues to be an area of concern for us with the low prices. We are continuing to look at, for example, opportunities such as liquefied natural gas and that emerging market.

**Mr. Dorward:** Thank you.

**The Chair:** All right. Well, thank you very much, Mr. Sprague, for you and your department coming in here today and answering our questions. Please do follow up with those written responses. We do read them, and we would really appreciate them.

Is there any other business that committee members would like to raise at this time? Seeing none, the date of the next meeting is Wednesday, December 4, 2013, with Alberta Health and Alberta Health Services. Be here at 8 o'clock – the Auditor General is going to be taking the full half-hour to do the briefing – at 7:45 for the working committee. So the working group at 7:45, at 8 o'clock the briefing with the Auditor General, and at 8:30 Alberta Health and Alberta Health Services.

Do we have a member to move that we adjourn the meeting? Mr. Bilous. Those in favour? Any opposed? Carried.

Thank you.

[The committee adjourned at 9:59 a.m.]





