



Legislative Assembly of Alberta

The 30th Legislature
Second Session

Standing Committee
on
Public Accounts

Energy

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Standing Committee on Public Accounts

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Ministry of Energy

Stephanie Clarke, Associate Deputy Minister, Natural Gas and Electricity

Grant Sprague, Deputy Minister

8 a.m.

Tuesday, June 15, 2021

[Ms Phillips in the chair]

The Chair: All right. Good morning, everyone. I would like to call this meeting of the Public Accounts Committee to order and welcome everyone in attendance.

My name is Shannon Phillips. I'm the MLA for Lethbridge-West and the chair of this committee. Ordinarily we would go around the table for all participants to introduce themselves, but given that we have people joining us by all kinds of methods of communication, I'll note for the record that the following members are present via videoconference. We have Jackie Lovely and Jackie Armstrong-Homeniuk via videoconference. The other folks we have here in the room. We have Pete Guthrie, who's the deputy chair; we have Nathan Neudorf, Lethbridge-East; Rakhi Pancholi, Edmonton-Whitemud; Marie Renaud, St. Albert; Garth Rowsell, Vermilion-Lloydminster-Wainwright; Marlin Schmidt, Edmonton-Gold Bar; Peter Singh, Calgary-East; Searle Turton, Spruce Grove-Stony Plain; Jordan Walker, Sherwood Park. We also have Doug Wylie and Eric Leonty joining us from the Auditor General's office, and here at table for the LAO we have Michael Kulicki and Aaron Roth.

We have a number of officials joining us this morning from the Ministry of Energy. Instead of going through and having them all introduce themselves, as there are quite a number of them, what we'll do, folks, is if you could introduce yourself with your position the first time you speak, and then the second time you speak, just simply say your name so that *Hansard* knows to whom to attribute the comments, because you are all joining virtually. I thank you for that.

I'll note that in accordance with the recommendations of the chief medical officer of health members are advised to leave the appropriate distance between ourselves and others. We, of course, are well familiar with the committee room protocols at this point. One may leave a mask on or take it off when speaking.

For those on videoconference, the usual rules apply. Please ensure that you are muted when you are not speaking.

Our committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostream and transcripts of the meetings can be accessed via the Legislative Assembly website.

We'll now move on to approval of the agenda. Hon. members, are there any changes or additions to today's agenda?

Seeing none, I'll look to a member to move that the agenda for the June 15 meeting of the Standing Committee on Public Accounts be approved as distributed.

Ms Lovely: So moved.

The Chair: Okay. Thank you, Member Lovely. Any discussion in favour of the motion? Seeing none, all in favour? Any opposed? That motion is carried. Thank you, members. Please remute.

Hon. members, we have minutes from our June 8 meeting in front of us. Do members have any errors or omissions to note?

Seeing none, I'll look to the floor for someone to move that the minutes of the June 8 meeting of the Standing Committee on Public Accounts be approved as distributed. Mr. Turton. Is there any discussion on this motion? Seeing none, all in favour? Any opposed? Thank you. That motion is carried.

We'll now move on to the Ministry of Energy. I'd like to welcome our guests. They are here to address the office of the Auditor General outstanding recommendations and their annual report. I will first invite officials from the ministry to provide opening remarks not exceeding 10 minutes. A reminder to hon.

members that we are in the slightly truncated in-session two-hour meeting questioning blocks, so that means 12 minutes and nine minutes respectively, friends.

I'll turn things over now to the Deputy Minister of Energy to provide his opening remarks. Your time starts when you start speaking.

Mr. Sprague: Thank you very much, and good morning, Madam Chair and to members of the committee. On behalf of the Ministry of Energy I will provide an update on the recommendations issued by the Auditor General, and with any remaining time I'll talk about some of Energy's key priorities. I will also be happy to answer any questions you may have relating to these recommendations as well as the department's annual report.

Joining me this morning – and I apologize. I should have introduced myself. My name is Grant Sprague. I'm the Deputy Minister of Energy. Joining me this morning is Stephanie Clarke, associate deputy minister of natural gas and electricity; Roxanne LeBlanc, assistant deputy minister of financial services; Laurie Pushor, the president and chief executive officer with the Alberta Energy Regulator; and Adrian Begley, chief executive officer with the Alberta Petroleum Marketing Commission. We also have other members of the department executive team who are listening in on the committee meeting, but I don't anticipate that they will have any speaking roles this morning.

Let me begin by providing some updates on the progress of a number of recommendations that have been made by our colleagues in the office of the Auditor General. I'm pleased to say that most of the recommendations that have been made for the Canadian Energy Centre, the Alberta Energy Regulator, and the Alberta Petroleum Marketing Commission have been fully implemented. The Auditor General has been notified of that implementation, and we're either awaiting the Auditor General's assessment, or they are in the process of being assessed by the Auditor General.

There are, however, a few additional recommendations to the Alberta Petroleum Marketing Commission and the Alberta Energy Regulator that are not yet ready for follow-up. Let me just turn to those. The Auditor General had recommended to the Alberta Petroleum Marketing Commission that it prepare a business plan and an annual report that could be publicly made available to Albertans. While this item is still in progress, the Alberta Petroleum Marketing Commission issued an annual report in 2019, and disclosure of future business plans and annual information is released as part of the Department of Energy's legislated planning and reporting documents. It's also important to note that now that the refinery achieved commercial operations in June 2020, performance measures and targets are developed by the refinery's operator, the North West Redwater Partnership, on an annual basis.

Finally, also related to the Sturgeon refinery, the Auditor General recommended that "the Alberta Petroleum Marketing Commission complete an analysis of the lessons learned from its significant agreements, at a point in time when the commission deems it useful to do so." On this front, the Alberta Petroleum Marketing Commission completed a lessons-learned exercise for the refinery after it achieved commercial operations just last year. That, in turn, will be reviewed by the board of directors of the commission, and we should be able to move forward with both of these recommendations and have them reviewed by the Auditor General in the near future.

Last week as well the Auditor General provided recommendations to the Alberta Energy Regulator and Alberta Environment and Parks and others regarding environmental liabilities. Alberta Energy will work with both the regulator and our colleagues at Environment and Parks as necessary to implement those recommendations. I'm pleased to say that the government has already taken some significant

actions, which are several of those Auditor General concerns, through the new liability management framework, which was announced last year. Through this framework we will address the root, not just the symptoms, of an issue that all energy-producing jurisdictions are facing, and it is some of the most significant action that's been taken in the past number of years. We look forward to its implementation throughout 2021.

Let me also comment on the November 2020 report issued by the Auditor General. Concerns were raised by the Auditor regarding accounting treatment of a number of programs, and we take those concerns very seriously. It's important to note, however, that we worked with the office of the Auditor General to make the adjustments that were identified, and in the end an unqualified audit opinion had been issued on the province's 2019-2020 consolidated financial statements. We very much appreciate in general the comments that are made by the Auditor General. They try to make us do a better job, and we appreciate their insights. We look forward to providing responses to them and continuing to work with the Auditor General as we go forward.

With my remaining time I'd like to outline a few of the department priorities and related successes as it relates to our 2019-20 annual report. It goes without saying that the COVID-19 pandemic has significantly impacted the province and the energy sector. But as we look back prior to the peak of the public health emergency, it's important to remember that progress was made by the government and the Ministry of Energy with respect to our natural resources, and we shouldn't lose sight of some of those successes.

Throughout the year we had acted on the input of the recommendations of Albertans and industry experts to build on the strengths of and increase investor confidence in the province's energy sector. For example, we provided industry with royalty certainty through the Royalty Guarantee Act. This legislation increased investor confidence by providing certainty that the royalty structure will be in place when a well is drilled and that it will remain in place, unchanged, for at least 10 years. This provides sufficient time to recover most of the producible oil and gas from new and existing wells.

On the electricity front we maintained Alberta's cost-effective, reliable, energy-only market, and the effects of that decision have been immediate. Since July 2019 there's been more than \$5 billion in investment announced for generation projects, including more than \$2 billion in renewable projects.

8:10

During '19-20 we also completed a thorough review of the Alberta Energy Regulator, resulting in actions to strengthen its governance, including a new board. This review will ensure that the province's resources continue to be developed efficiently and in an environmentally responsible way.

Along the same lines, the government extended the existing loan to the Orphan Well Association by up to \$100 million. This loan bolstered the association's reclamation efforts and supported the province's reputation as a responsible energy producer in creating jobs for Albertans.

During the year we also made significant progress in helping to revitalize the natural gas sector. Alberta Energy worked with Municipal Affairs to implement a 35 per cent property assessment reduction for struggling Alberta shallow gas producers. While this began as a reduction through the 2019 tax year, it's now been extended to 2023 while work to update the assessment model continues in Municipal Affairs.

The ministry has also worked with industry partners, municipalities, and indigenous communities to help set a long-term vision for natural gas, and last fall that work came to fruition through the release of the

province's natural gas vision and strategy, a plan that will set the foundation for Alberta to establish leadership across the natural gas value chain, including, importantly, hydrogen, liquefied natural gas, and petrochemicals.

Last but not least, we also built momentum in cutting red tape and the resulting regulatory burden. That momentum continues today as the department and its agencies are expected to exceed our target of 20 per cent in reductions by the end of the '21-22 year. We have developed a multiyear red tape reduction plan that will drive further reductions, and our agencies, boards, and commissions have been tasked with doing the same. These reductions are already creating cost savings for industry. In fact, projected savings for the industry are expected to be around \$1 billion by 2022.

I'm proud to say that we've moved through the 2019-20 fiscal year to today. Our list of accomplishments continues to grow, accomplishments that are outlined in greater detail in our upcoming annual report. That report will demonstrate how the ministry remains committed to standing up for Albertans by supporting our traditional oil and gas sectors, by capitalizing on emerging sectors as well such as geothermal, critical minerals, and carbon capture, utilization, and storage. We will continue to contribute to Alberta's economic recovery by managing development and production of our energy and mineral resources using the highest environmental, human rights, and labour standards in the world.

Madam Chair, this concludes my remarks. I along with my colleagues would now be happy to answer your questions.

The Chair: Thank you, Deputy.

We'll now move on to the Auditor General for his introductory comments. Mr. Wylie, you have five minutes.

Mr. Wylie: Well, thank you, Chair and committee members. I'll just take a couple of minutes to summarize our work in this ministry and then maybe add to a couple of comments that the deputy has indicated. First, I'll start with our work on the financial transactions within the ministry. As part of our audit of the consolidated financial statements, we do audit transactions within the department itself in issuing an opinion on the consolidated financial statements.

In addition to that, in 2020 we issued separate audit opinions on separate financial statements of organizations within the ministry, and those organizations are the Alberta Petroleum Marketing Commission, the Alberta Utilities Commission, the Alberta Energy Regulator, and the postclosure stewardship fund. We issued an unqualified or a clean audit opinion on all of the organizations with the exception of the Alberta Energy Regulator, where we issued a qualified opinion on how the regulator was disclosing its relationship with ICORE, or the International Centre of Regulatory Excellence.

I'll just indicate as well – the deputy mentioned this – that in our November 2020 report we did include observations relating to our financial statement audits and reporting weaknesses within the ministry. That work is included in two sections of that report, starting on page 22, which is the key audit matters section of our report, and then again on page 85 of that report, where we refer to matters specifically relating to the Ministry of Energy.

I'll take just a couple of minutes to highlight some of the outstanding recommendations. Again, the deputy had mentioned that last week we issued a report, and we made recommendations specifically related to processes to provide information about the government's environmental liabilities. Those recommendations were made to AER as well as Environment and Parks.

As well, in 2015 we made six recommendations relating to our audits of the systems used to regulate pipeline safety and reliability in Alberta. We're currently in the final stages of completing our

follow-up work, and we'll report to the Assembly on that follow-up work shortly.

In 2019, based on our examination of ICORE at AER, we made four recommendations, and management has asserted that they're ready for follow-up, so we plan to begin our work there in the near future.

We made one recommendation to the Canadian Energy Centre relating to contracting processes, and we're currently in the process of following that up as part of this year's financial statement audits.

Finally, we made four recommendations that were directed to APMC related to risk management, oversight, and public reporting processes that are used to manage large-scale and significant investments such as the Sturgeon refinery. Management has indicated that two of the four recommendations are ready for follow-up, and we'll be doing that work as well shortly.

That concludes my opening comments. Thank you, Chair.

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

We'll now move on to the first block of time. We have 12 minutes to start. We'll begin with the Official Opposition. Ms Pancholi, please begin.

Ms Pancholi: Thank you, Madam Chair. Thank you, Deputy Minister Sprague and ministry staff and Auditor General Doug Wylie, for being here this morning. I'd like to actually begin this morning with questions to the Auditor General, to Mr. Wylie. I have three questions, all related to the Keystone XL investment. This was, as all Albertans know, a very significant transaction, the largest single investment by the current government, and the result was a significant loss for taxpayers. My first question is this, to the Auditor General: as part of your upcoming financial audit, will you be examining the KXL transaction?

Mr. Wylie: Yes. I will just confirm that our office obviously has considered the investment in Keystone a significant financial transaction. We have and will continue to do work on that particular investment. Last year, just to bring this to the member's attention, we identified that as a key audit matter in our audit plan. We conducted work on that both in relation to our audit of APMC's financial reporting as well as the consolidated financial statements of the province. We report back on all of the key audit matters that we identify. We did that in our November 2020 report. We report on the key audit matters, I believe, starting on page 22 of our November 2020 report. More specifically, we reported back on the Keystone on page 85 of our November 2020 report. Specifically in relation to the question, we have again considered the investment in Keystone a significant or a key audit matter, that is being addressed as part of our current audit of APMC as well as the consolidated financial statements for this year ended March 31, 2021.

Ms Pancholi: Thank you very much.

On the estimated losses from the KXL deal we've heard repeatedly from the Finance minister that the province's exposure was not "materially" more than \$1.3 billion. In the view of yourself as Auditor General, what's the definition of "material" here? Is it \$100 million, \$50 million? What would be considered material for the Auditor General?

Mr. Wylie: Well, I'll have to put that in context, I guess. When we're looking at the financial statements, materiality is considered as part of the reporting on what's being disclosed and reported in the financial statements within the context of the magnitude of the financial transactions of the reporting organization.

I want to say this, though, that we have not yet completed our work for the current year-end. We'll be reporting, again, back in this year, November 21, 2021, on the results of the current year examination. I expect that the full costs of the investment in Keystone will be included in the financial reporting this year. That will be subject to our audit, and any matters arising from that would be identified in our upcoming November report.

8:20

Ms Pancholi: Thank you very much for that.

On January 29 of this year, earlier this year, the Member for Calgary-Mountain View wrote to your office requesting a performance audit of the investment decision on KXL, so not just a financial audit but a performance audit. In particular, she expressed concerns that the ministry did not exercise appropriate due diligence and did not have the systems in place to properly evaluate the risk. While I appreciate that it isn't necessarily common for the office of the Auditor General to publicly disclose upcoming performance audits, the scale of the losses here is enormous. As we've indicated, the overall announcement was \$7.5 billion, \$1.5 billion in equity and the remaining in loan guarantees. At this point we understand that at least \$1.3 billion has been lost. So I'm wondering if the Auditor can tell the committee if there will be a performance audit, if you've ruled it out. Or is it still under consideration?

Mr. Wylie: Thank you for the question. Maybe I'll just put a point of reference back to some work that we've already done, and that might help with helping to understand where we're at as an office in examining this. In 2018, as I had indicated, we did make recommendations to APMC. APMC, as we understand it right now, is the organization that has responsibility for managing the significant business arrangements that are entered into. Back in 2018 we looked at the risk management, oversight, and public reporting processes that APMC used in relation to the significant investment, at that time, of \$26 billion, I believe, over a 30-year period, so that was a significant investment.

What we are considering and looking at now is that when we're doing that follow-up at APMC, we're considering the application of those risk management, oversight, and public reporting processes to the investment in the Keystone XL agreement. That's really where we're at. Again, looking at this, we're trying to direct our audit effort in the most efficient and effective means possible. What we understand right now, Member, is that the processes and the organization that would be charged for having appropriate risk management, oversight, and public reporting processes would be at APMC.

Given that we just recently completed an audit there in 2018 and had made recommendations for improvement in those very processes – risk management, oversight, and public reporting – and that APMC has indicated that they've implemented two of those recommendations, we do have in our audit plan this year to conduct a follow-up on those that APMC has indicated are ready for follow-up. I would suspect that, you know, we would be considering the business arrangements that APMC has been involved in subsequent to Sturgeon, so that would include the investment in Keystone XL. As you're aware, it was APMC who entered into the agreement with trans-Canada. That became effective, I believe, in March, the end of the fiscal year of 2020. So we'd expect that APMC would have sufficient processes to have arrived at entering into that agreement.

Member, I hope that helps. That's where we are at as an office in considering that investment in Keystone and considering the processes that would be used to manage that investment.

Ms Pancholi: Thank you very much, Mr. Wylie.

I'd like to switch over, move my questions now to Deputy Minister Sprague. Thank you again for being here. On March 31, 2020, as we all know, the Premier publicly announced the KXL deal. Obviously, a deal of that magnitude would have been in the works for many, many months in terms of the negotiations and finalizing the deal. As we also know, on the books at least \$100 million went out prior to March 31, 2020, so it's within the scope of the committee's assessment today. To the deputy minister: who first broached the idea of the GOA holding an equity stake in KXL? Was that something that TC Energy came to the GOA with, or did the GOA reach out to TC Energy? In those early days of negotiations on this deal, who was the point of contact on behalf of the government for the early discussions on this deal?

Mr. Sprague: Thank you very much for the question. Obviously, the government took the view that involvement in the KXL file was going to be substantial and important for Albertans and the ability to get our product to market. As we all know, we've been suffering from a number of constraints with respect to pipelines. As this matter progressed, it was very important for the government to consider ways to continue to advance projects that would have a substantial benefit to Albertans. The conversations, Member, that went back and started the conversation about KXL I don't have specific recollection of. I know that the government was – I recall that the government was very interested in ensuring that projects moved ahead, and this one obviously was substantial in terms of its volumes and the ability to take heavy product down to the Gulf coast. I cannot tell you off the top of my head where the impetus or the conversation happened, but it would have been a natural follow-through with government's interest in advancing all projects and seeing all the projects that could possibly go ahead move forward with respect to . . .

Ms Pancholi: Thank you, Deputy. I understand that you might not be able to have that information off the top of your head. Can you please commit to this committee that you will look back and table with this committee, I guess, the point of initiation on this deal, who initiated it, table that information with the committee?

Mr. Guthrie: Point of order.

Mr. Sprague: Thank you, Member. I will certainly go back and . . .

The Chair: I'm sorry, Deputy. We have a point of order called here.

Mr. Guthrie: Yeah. Standing Order 23(b), speaking to matters other than the question under discussion. Chair, who created a policy or why a policy was created – those details of the creation of the said policy are not within the mandate of this committee. We're here to analyze the effectiveness of the implementation of policy directives, so if we could maybe realign our questioning to that.

The Chair: Yeah. I agree, hon. member.

The hon. member will rephrase. Thank you.

Ms Pancholi: Thank you, Deputy. As this was a deal that resulted in up to \$7.5 billion but at least \$1.3 billion being invested, just in terms of the transparency and accountability, which is the scope of this committee's work, as to how that deal was begun, if you could commit to tabling with this committee information regarding how that deal was struck and the beginning negotiations on that, that would be appreciated.

Mr. Sprague: Thank you, Member. I'm happy to take a look and provide such information as I'm able, pursuant to the various statutes, et cetera, that govern.

Ms Pancholi: Thank you very much.

Perhaps as a follow-up to that, again, just to understand how the terms of this agreement were reached, as the discussions advanced on the KXL deal – you may not have this information off the top of your head. Again I'll ask you to table with this committee: who was on the negotiating team for the GOA, and was it all being conducted out of the Ministry of Energy? Were other ministries involved? Was Executive Council involved in the negotiations for this deal?

Mr. Sprague: Thank you, Member. I'd be happy to provide such information as I can and provide that back to the committee.

Ms Pancholi: Thank you. But at this point, are you able to indicate whether or not solely the Ministry of Energy was involved, or were other ministries involved and Executive Council involved in that?

Mr. Singh: Point of order.

The Chair: Sure.

Mr. Sprague: Member – sorry. I keep hearing . . .

The Chair: Sorry. It's all right, Deputy. I have a point of order on the floor here.

Mr. Singh: Madam Chair, the question being asked by the member has no relation to our subject matter as we are tasked to look at how the ministry handled its account and review the report from the Auditor General. We are here not to scrutinize or deal with who made the decision or who made the recommendation for a certain matter. Having said that, it is a point of order under Standing Order 23(b), the member speaks to matters other than the question under discussion.

Thank you, Madam Chair.

The Chair: Thank you, Member Singh, for that.

Hon. member, I'll ask you to rephrase within the context of the annual report and the Auditor General's recommendations. Thank you.

Ms Pancholi: Thank you, Madam Chair. As we know, pages 40 and 41 of the annual report set out the finalization of that KXL agreement, and given the significant investment involved in that decision as well as – we now know – the loss to Albertans as a result of that deal, I believe it's relevant for Albertans' understanding of how that deal was struck to understand the expertise and who was involved in negotiating that deal in terms of what considerations were taken into effect during that negotiation. I'll ask the deputy, you know: at what level were these negotiations being conducted, and who was leading these negotiations? Which ministries, what members of Executive Council? Was the Premier involved?

8:30

The Chair: Thank you. That is our time.

I'll now turn things over for a 12-minute block to the government caucus, please.

Ms Lovely: Well, thank you, Madam Chair. Key objective 1.1 is identified as improving "market access for Alberta's energy resources and products through advocacy and other support for new and expanded pipelines, while seeking to create alignment on resource corridors to expedite future major pipeline approvals." Under this objective on pages 38 and 39 the annual report outlines

the Trans Mountain expansion project. Can the department provide the committee an update on this project?

Mr. Sprague: Thank you very much, Member, for the question. Trans Mountain is an important project. Thankfully, it appears that all of the significant legal challenges have been resolved, and construction activity has now resumed all along the pipe route both in Alberta and British Columbia. Trans Mountain Corporation has indicated to us that it anticipates construction progressing at approximately 3 to 5 per cent each month, so by the end of 2021 the project is expected to be more than 50 per cent complete. My understanding is that the project is currently about 30 per cent complete in all its segments. The construction schedule, of course, is subject to change depending on weather, permitting, and other approvals, mindful that there is an ongoing approval process being conducted by the Canadian Energy Regulator.

One last piece perhaps of interest is that Trans Mountain had announced that the project costs had increased from \$7.4 billion to \$12.6 billion, and it is expected to still be operational by December of '25.

Ms Lovely: Sorry. December 2025?

Mr. Sprague: Yes.

Ms Lovely: Perfect. Well, thank you so much for the answer.

Page 39 also states that “in early 2019, the Government of Alberta struck a cross-ministry working group,” which “works closely with the project proponent to coordinate and process permits in a timely manner to mitigate delays and advance construction within Alberta.” Can the ministry explain how this group and the government worked with the project proponent and federal government to ensure construction was able to continue as efficiently as possible?

Mr. Sprague: Thank you very much for the question. Again, this is a matter of a project of some significance, and senior managers from a number of departments, including Environment and Parks, Infrastructure, Transportation, Energy, Indigenous Relations, and others, have been meeting weekly with representatives from Trans Mountain pipeline to ensure that the regulatory process was moving as it was intended. Initial meetings were focused on understanding the necessary project approvals as they related to provincial legislation as well as associated permits and other authorizations required by the province. The intent was to ensure that this priority project moved along as efficiently as possible and that there were no unforeseen delays in construction. The crossministry group continues to meet on a weekly basis to track progress, ensure timely review and issuance of the relevant authorizations, and address any issues or concerns in an effective and efficient manner.

Department executives receive updates regularly with respect to these meetings and how things are moving along. The government intended to be extremely responsive to this project construction schedule and ensuring that the appropriate approvals and conditions were put in place and allowing this project to proceed. The government had co-ordinated also inspections with our colleagues in the Canadian Energy Regulator throughout to ensure that there's effective oversight.

Member, if I may, I think that I might have misheard you. You'd asked me when we thought TMX should be operational. It should be by the end of 2022. I think that I may have misspoke.

Ms Lovely: Okay; 2022. Perfect. Thank you, and thank you for the answer.

On pages 40 and 41 of the annual report you talk about Keystone XL pipeline and mention the agreement with TC Energy Corporation to provide financial support to accelerate construction, which was finalized March 31. This agreement came after then President Trump issued a new presidential permit and the U.S. State Department issued the final supplemental environmental impact statement. Given the policy goal identified under key objective 1.1, can the department give the rationale behind this agreement with TC Energy? And can the department provide a status of government's investment in Keystone XL?

Mr. Sprague: Thank you very much, again, for the question, Member. You're right. Objective 1.1 is critical, improving market access, and the KXL agreement was seen as a way to significantly advance egress from the province for our products. KXL would have provided long-term economic benefits to Albertans and led to an increase in royalties over 20 years for the benefit of Alberta taxpayers. The project also would have put thousands of Canadians and Americans to work and generated significant dollars of employment income for those workers.

Ms Lovely: That's a great answer. Thank you so much.

With that, Madam Chair, I would like to cede the remainder of my time to my fellow member, please.

The Chair: I see Member Turton, please.

Mr. Turton: Yes. Thank you very much, Madam Chair, and thank you very much, Mr. Sprague and the rest of your team for coming out here today.

I have a number of questions on a couple of different subjects. So my first set of questions is actually going to be on the Sturgeon refinery, or the NWR project. As a former tradesman, or I guess current tradesman – because you never really lose your ticket – I've had the privilege of working at many of the industrial sites that tie into NWR. I actually have, coincidentally, a couple of family members working there as well. It's obviously a project that's near and dear both to me personally as well as many of the residents of Spruce Grove-Stony Plain.

On page 51 of the annual report it outlines the activities of the Sturgeon refinery. I guess, first of all, can your ministry please provide an update on the Sturgeon refinery and where it is right now?

Mr. Sprague: Thank you very much, Member. The Sturgeon refinery has the potential to add value to the resources Albertans own and further demonstrate Alberta's expertise in commercial-scale carbon capture, utilization, and storage. The facility is currently producing low-carbon diesel and has added a significant number of well-paying jobs to the economy, as you've referenced. Now that the refinery has achieved commercial operation, the government expects the North West Redwater Partnership to be diligent – and they're the operators – to ensure that the facility is operated safely, efficiently, in accordance with best practices to maximize the return on this long-term investment made by the government of Alberta.

Mr. Turton: Yes. Thank you very much for the answer. I guess really specifically on a part of your last answer about the long-term investment, I was just wondering if perhaps you can give a little bit of extra insight regarding the binding 30-year commitment with the North West Redwater Partnership. It's mentioned on page 51, for all the viewers at home. Obviously, this contract is to provide bitumen that would be processed into refined products. I do have a couple of questions or, I guess, thoughts about that 30-year commitment, but just if you can please answer that question, that would be great.

Mr. Sprague: Great. Well, thank you, Member. At a high level the agreement is for the Sturgeon refinery to separate diluted bitumen into both diluent and to refine the bitumen there, then, into diesel and other refined products. But the principal product to be determined: it will be diesel. The refinery will also market the diluent, the diesel, and other products on behalf of the toll payers. Those toll payers are the Alberta Petroleum Marketing Commission as well as Canadian Natural Resources Limited. The 30-year commitment includes an unconditional obligation to pay APMC's pro rata share of the debt component of the toll.

Mr. Turton: Regarding, you know, like you mentioned, the APMC, I know it uses a cash-flow model to evaluate the costs and expected economic benefits of the refinery. Obviously, there are economic benefits that stem from the thousands of construction jobs that have also been there, but in terms of the actual benefits of the refinery itself I was just wondering if you can explain what this model looks like and how it will be used.

Mr. Sprague: Thank you, sir, for the question. The model is a numerical representation of the refinery, and what it endeavours to do is to account for all the forecasted costs of operations and maintaining the refinery as well as the feedstock and product prices over the lifetime of the refinery. So it's a fairly complicated model, but the stress is that it's a model, and it's based on the information at any given time. But the model then tries to apply a discount factor, representing the time value of money to calculate, really, snapshots of the APMC's toll agreement in terms of net present value. As mentioned, it's a complicated model with many, many varied inputs.

8:40

Mr. Turton: Excellent. Thank you very much for that.

For any one of the members that haven't had a chance to go into that neck of the woods, in the middle of the Industrial Heartland, I highly recommend you do that. It's just amazing to see the type of economic growth that's happening out in that neck of the woods.

My next question is on a slightly different topic, and it's a topic that actually came up quite a bit at the doors, I know for myself, in the 2019 election, which is the crude-by-rail contracts. Obviously, there was a lot of anxiety and anger about that contract. My first question actually has to do with page 44 of the annual report, where it talks about the crude by rail. "In February 2020, the Government of Alberta directed the divestment of [this] program to the private sector." My first question is: can the department just please provide an update on the divestment of the crude-by-rail program? Obviously, there's a big price tag to this botched program, so please just provide an update of where we are with that.

Mr. Sprague: Thank you very much, Member, for the question. This is a complicated one to explain, but to date a contract for 50,000 barrels a day of the 120,000-barrel-a-day program has been reassigned. I can't get into the specific details about the individual contracts due to confidentiality, but what has been significant have been the impacts of the COVID-19 pandemic as well as the Russia-OPEC price war, which has significantly impacted our ability to divest those contracts. Divestment, perhaps obviously, is dependent on the recovery of the oil prices, production, and differentials. So there are a number of interlinking factors that need to be taken into account, and they've all had a significant impact on our ability to divest all of those contracts.

Mr. Turton: So other than – you mentioned about the price war between the Russians and the Saudis that happened last year. I mean, are there any other challenges that the department faced in

2019-2020 when they started to divest from the crude-by-rail program? Obviously, I realize that it's a complicated issue, as you referred to.

Mr. Sprague: Yeah. Thank you, sir, for the question. The divestment . . .

The Chair: Thank you, Deputy.

We'll move back to the Official Opposition, then, for the second rotation, and they have nine minutes. Please, hon. member.

Ms Pancholi: Thank you, Madam Chair. My question is actually to Mr. Begley with the APMC. I believe he's here as well. We just heard from the Auditor General that, you know, the audit and really the negotiation of that deal for KXL was with APMC, and that that's where the Auditor General will be looking. I'm wondering if the APMC could talk about whether or not any other entities, actors, ministries were involved in negotiating that deal with KXL in the 2019-20 fiscal year. That question is to Mr. Begley.

Mr. Sprague: Thank you very much, Member. I'm happy to respond as the chair of the APMC to the question. I guess I'd observe, Member, that one of the challenges on any significant deal is that, of course, there are a myriad of considerations that need to be undertaken, and when APMC is acting as an agent of the Crown, obviously, we want to ensure that we have got alignment and input from those affected ministries. You will not be surprised, Member, to know that as this matter progressed, it would have received and gone through the normal government processes in terms of reviews and requiring the blessings of the appropriate decision-makers as part of that exercise, and I can assure you that that diligence was carried out with respect to the KXL agreement.

Ms Pancholi: Following up on that, though, I mean, those approval processes would happen near the end of the deal. My question is: who was involved in making that deal and the negotiations for that deal? Was it solely APMC, or were there other entities involved in the negotiation of that deal?

Mr. Sprague: The principal responsibility for negotiating that deal was with the Alberta Petroleum Marketing Commission. We worked closely and involved as necessary colleagues in other departments for insight on various points, but the principal negotiation was conducted by the Alberta Petroleum Marketing Commission and our agents.

Ms Pancholi: Given that, again, my question is: did the recommendations that came from the AG in 2018 to APMC, which talked about risk management, guide those negotiations and guide those transactions on the KXL deal?

Mr. Sprague: Thank you, Member, for the question. Of course, as we were going forward with this negotiation and assessment of the process, risk factors were considered.

Ms Pancholi: I'm going to follow up on that a little bit, about this risk assessment process. You know, at a previous meeting of Public Accounts, of this committee, the Ministry of Executive Council was asked if any outside firms were retained to do due diligence on the KXL deal. We heard that TD and McKinsey were hired for secondary analytical support on this deal but that nobody was brought on for a third-party assessment of the deal as a whole. This is, again, a deal to potentially invest \$7.5 billion of Alberta taxpayer funds, but no real hard second look was done on this deal. My question to you yourself, Deputy Minister Sprague, or as chair of APMC: why wasn't this due diligence done? Why was no third-

party firm retained to do that full assessment, again in light of the 2018 recommendations as well?

Mr. Sprague: Thank you, Member, for the question. I think, obviously, this was a significant deal, and I'm not sure that I agree with your suggestion that there was no consideration of risk or that there was no evaluation of that risk. Obviously, as we went forward with the negotiation and as we were going through the process, we had had the benefit of our colleagues, other departments as necessary providing us support and insight as well as our agents that had been working with us to ensure that we were trying to consider all of the risks that were inherent in that process.

Ms Pancholi: Thank you, Deputy. But, again, this is \$7.5 billion, no third party. I mean, typically wouldn't you say that on an investment and a deal of this scope, it would be prudent to have an outside third party do an assessment of this? I mean, what I'm hearing from your response is that it was all done internally, the risk assessment.

Mr. Sprague: Thank you, Member, for the question. I think I want to be clear. As we were going through this, APMC was able to retain the services of others, agents who acted for us and were able to supplement the internal capacity that we have as we were doing that. Of course, as you're negotiating a commercial deal, you want to take into account: what are risks that are apparent? We would have received advice and assistance from those agents as we were doing that process.

Ms Pancholi: Well, thank you, Deputy.

Then would you table for this committee which third-party agents were retained by APMC as well as what their recommendations were on this deal?

Mr. Sprague: Thank you, Member, for the question. I'd be happy to reflect on and provide a response in writing to that question. Certainly, with respect to the identity of our agents and with respect to any advice they had, I'll have to take that under consideration given the usual constraints that we face with respect to making those things public.

Ms Pancholi: Okay. Thank you, Deputy.

The biggest risk to this project, as we saw, which ended up ending this project and ending the deal, was really political risk. You know, on March 31, when the Premier announced the deal, he identified only two key risks. He identified the risks associated with the supply chain as well as legal risks of the deal, but there was no mention of what ended up being the most significant risk to the project, which was political risk, that being that Democrat presidential candidate Joe Biden, who had been on the record stating his opposition to the Keystone project, would be elected as President. I guess my question is: was any assessment done by APMC, by the ministry, by any of these third-party contractors who'd reviewed the project about the political risk? We've heard nothing from the Premier to suggest that there was an assessment done of that political risk. Was that modelled? Was that risk assessment done?

Mr. Sprague: Thank you very much for the question, Member. I want to be clear that I'm not speaking for the Premier. In terms of the analysis I think it's important to reflect that at the time we had and there was a valid presidential permit, a cross-border permit, that had the supporting final environmental impact statement, done in the United States. In fact, the work with respect to the actual crossing itself was well under way and, in fact, ended up being completed. In terms of that risk I want to be clear that that permit

had been in place, and the work was under way and being done with respect to the actual cross-border, the crossing itself.

I think that, equally, it's important to reflect that at no time, to my awareness, had any valid, extant, cross-border permit from the United States ever been revoked. That was something that was going to be . . .

8:50

Ms Pancholi: Sorry, Deputy. What you're saying is: you did not believe there was any political risk associated with this permit because the permit was granted and this type of permit had never been revoked before, even though I think that even somebody who had very limited understanding of the politics in the U.S. would have seen that that permit was simply just approved by former President Trump. Are you saying, as the chair of the APMC and the deputy minister, that you did not believe there was any political risk associated with this?

Mr. Sprague: Thank you, Member, for the question. To be very clear, I said no such thing. What I said is that we needed to understand the greater context of certain facts with respect to the existing presidential permit, the work that had been under way, and the fact that none had been done before. I make no comment with respect to any assessment that I or anyone else may have made with respect to that risk.

Ms Pancholi: So it sounds like no political assessment was done, though. At that time, before striking the deal, was a political risk assessment done?

Mr. Sprague: Thank you, Member, for the question. I think that with respect to the work that was done, there were risk assessments that had been done as part of the overall work with respect to the project itself, and that would have considered a number of factors.

Ms Pancholi: I'm a little surprised that . . .

The Chair: Thank you, Member.

We'll now move over to the government side, please.

Mr. Turton: Yes. Thank you very much, Madam Chair, and again thank you very much, Mr. Sprague, for being out here today.

I guess I really want to just take off from the questions I was asking you last, about the botched crude-by-rail contracts deal specifically. I know you started elaborating a little bit on my question when I was asking: what are some of the challenges that the department faced in 2019 and 2020 when you started to divest from the crude-by-rail program? I know, obviously, you talked about the price volatility from the Russians and Saudis as being one key example about why it was difficult to divest from this program. I just wonder if you could elaborate a little bit more on some of the challenges, you know, in relieving Alberta from this program.

Mr. Sprague: Thank you very much, sir, for the question. I'd perhaps just reinforce that I think the most significant factor in consideration of divestment is ultimately about price and where the price went. Certainly, in '19-20 it was not a good year for prices, obviously. That's probably the most significant.

Related to that as well and all of those other factors of the price war and ultimately, in the end, pricing having its effect on production and the differentials, obviously rail is a far more expensive means of conveying product, and unless there is a substantial differential, the economics don't make sense. You end up, obviously, with significant challenges when you have a very low price. It compounds a number of those factors.

Mr. Turton: Excellent. Thank you so much for being able to finish off that answer.

My next question is actually going to be involving the natural gas vision and strategy, specifically on page 49. On page 49 of the annual report key objective 1.5 is identified as:

implement a robust natural gas strategy, including the optimization of the Western Canadian pipeline network and pursuit of opportunities for increased pipeline capacity and markets within Alberta.

Under this key objective natural gas engagement for this vision and strategy are discussed in great detail and at length. Obviously, having a background in oil and gas, this is of vital and huge importance for myself, personally. I guess my first question regarding this is: can the department please speak on how this engagement built upon the recommendations received from the 2018 Roadmap to Recovery report and maybe even on some differences between the two?

Mr. Sprague: Thank you very much, Member, for the question. I'm going to ask the associate deputy minister of natural gas and electricity, Stephanie Clarke, to respond.

Ms Clarke: Thank you, Deputy, and thank you, Member, for the question. Good morning, everyone. The 2018 Roadmap to Recovery really provided government with very clear recommendations around the approach we could take to the revitalization of our natural gas sector. Many of the recommendations that were contained in the report were in fact acted upon, in particular in 2019-2020. For example, as a means of optimizing the NOVA Gas Transmission line, the ministry supported natural gas stakeholders, producers in an application to the Canadian Energy Regulator for a temporary service protocol.

It was designed to essentially increase access to storage and markets during summer or seasonal maintenance to allow additional time to be able to pursue larger scale facility additions, and that really helped to stabilize prices with regard to natural gas. In addition, the province provided tax relief, as the deputy mentioned in his opening comments, to shallow gas producers by crediting 35 per cent of property taxes levied on qualifying properties, and as per the recommendations there were a suite of red tape reduction initiatives that were also pursued in conjunction with the government's overall goal of reducing red tape by one-third. So various recommendations in the Roadmap to Recovery were acted upon.

Beyond that, again, given that the road map provided such a strong foundation for the revitalization of the sector, the government's actions in 2019-2020 were to engage further with the stakeholder community, in addition to municipal and indigenous organizations, to really take a look at the suite of actions that were proposed, to prioritize, and determine how exactly they would be implemented. That process was carried out over a series of months. There were a couple of half-day sessions that were held with vice-president-level attendees – everyone from producers, midstream representative consumers and markets – to again look at the recommendations that were made. This culminated in additional round-table discussions in February of the following year and was furthered by discussions, as I referenced, with municipal organizations, the Alberta Urban Municipalities Association, and the Rural Municipalities association as well. Finally, round-table discussions were held in partnership with Indigenous Relations, with the CEO table for indigenous organizations as well.

The work that was done in 2019 was really to look at the suite of recommendations that were made to determine what our priorities

would be. Of course, that has culminated in our natural gas vision and strategy, which the province released last fall.

Mr. Turton: Excellent. Thank you so much for that very comprehensive answer there, Ms Clarke.

I guess just a quick follow-up question. You talked a lot about the findings that came out of the engagement, a lot of the actions that are taking place. Are there any outstanding items that were in that initial 2018 Roadmap to Recovery report that perhaps are still being worked on or not being enacted?

Ms Clarke: Well, we continue to work through the recommendations in that report, again focusing now on the implementation of the natural gas vision and strategy. Certainly, we identified a series of actions that would be further pursued, that focused on high-growth areas, so looking at how we continue to advance the petrochemical industry, developing a plastic circular economy here in the province, looking for opportunities in which we can support and promote LNG, and, of course, very much focused on developing a hydrogen economy in the province. There are a number of initiatives that are under way right now, in particular the building of a hydrogen road map, to be able to set the course forward with regard to that. So very much focused on continuing the recommendations that were provided but in conjunction with the natural gas strategy.

Mr. Turton: Excellent. Well, thank you so much for that.

Those finish off my questions. I'd like to turn the time over to my good friend and colleague MLA Singh.

Thank you very much.

Mr. Singh: Thank you, hon. member, and thank you, Madam Chair, and thank you to all the ministry officials for being with us today to provide a status report on the recommendations from the office of the Auditor General and for the committee to be able to review their accounts.

My question is on investment. The annual report begins to outline the opportunities presented by geothermal energy on page 48. It mentions that the ministry will work "with cross-ministry and provincial agency partners to help geothermal projects navigate through regulatory requirements." Has the government seen much uptake on geothermal projects based on the work, and what sort of benchmarks does the department have in place to measure the success of the work the ministry is doing to encourage growth in the geothermal sector?

9:00

Mr. Sprague: Thank you very much, Member, for the question with respect to geothermal. I see sort of two parts to the question: what's the uptake, and then what are benchmarks? In total, in terms of uptake, we've had three geothermal projects that have publicly announced their intentions to advance in Alberta while policy is being developed. Terrapin geothermal power has proposed an eight-megawatt power project to be located south of Grande Prairie, and the department has granted limited subsurface access. An agreement to explore . . .

The Chair: Thank you, Deputy. That is the time.

We'll go now to the third rotation, Official Opposition, for nine minutes, leading off with Member Schmidt.

Mr. Schmidt: Great. Thank you. I have a few questions about coal. We know that several members of Executive Council have met with coal companies in advance of the 1976 coal policy being rescinded during fiscal year 2019-2020. Can the Ministry of Energy tell us

who from the coal industry they met with, on what dates, and with whom?

Mr. Sprague: Thank you very much, Member, for the question. I do not have instant responses to any meetings that would've occurred within the ministry on coal. I'd be happy to provide you with such information as I can with respect to any of those meetings. For clarity, I just want to be clear with the member: you're looking for all engagement that the department would've had with coal companies, or is there . . .

Mr. Schmidt: Yeah. All engagement that the department had with coal companies as well as, I mean, any departmental meetings or any ministerial meetings that the department was made aware of. I know that deputy ministers often provide briefing notes for ministers when they're meeting with coal companies, interested industry folks. If you could provide any list of meetings that the department knew about that the minister had with coal-related companies and proponents, I would be interested in tabling that as well.

Mr. Sprague: Thank you very much, Member. I'd be happy to undertake to provide, as best as I can, a list of meetings that the minister had with coal companies.

Mr. Schmidt: Thank you. Can the deputy minister tell us: did the Ministry of Energy do any economic analysis in 2019-2020 on the potential for future coal development in the province of Alberta, not on a project-by-project basis but overall?

Mr. Sprague: Thank you very much, Member, for the question. My recollection is that we did not undertake any grand or sort of large-scale economic analysis of coal potential in the province. We are aware that, obviously, if someone wanted to advance a project, it would be subject to a detailed review, as it would work through the normal regulatory review process. But I'm not aware of any general economic analysis that was done with respect to coal.

Mr. Schmidt: So just if you can confirm, then, that those are done on a project-by-project basis at the time that those are proposed. Is that correct?

Mr. Sprague: Yes, Member, that's correct. As you know, when a project goes through several phases, it starts . . .

Mr. Schmidt: Sorry to cut you off, Deputy Minister, but you answered my question, and I'd like to move on.

I'm deeply concerned that decisions around coal were made behind closed doors. I have in my possession here a letter, that we've received through FOIP, sent from Robin Campbell, who is the head of the Coal Association of Canada, to the Minister of Energy, the Minister of Environment and Parks, and copied to you. In that letter Robin Campbell is promoting the Tent Mountain mine project developed by Montem Resources, but he is expressing dismay that the Alberta Energy Regulator wanted an environmental assessment. He is effectively asking the ministers to intervene. My first question is: did the Minister of Energy or anyone acting on her behalf contact the Alberta Energy Regulator to discuss the Tent Mountain mine project?

Mr. Sprague: Thank you very much, Member, for the question. I am unaware of any attempt to intervene with a regulatory process that's been undertaken by either the minister or any official in my department.

Mr. Schmidt: Okay. This letter came to your attention before the coal policy was rescinded. To the deputy minister's knowledge, is this a common practice, for lobbyists to seek to undermine the environmental review process?

Mr. Sprague: Thank you very much, Member, for the question. With respect to, "Is it unusual to have an association advocate on behalf of its constituents?" no, that is not unusual. We would often receive letters from people who are interested in supporting or advancing various projects put forward by their constituents. I don't believe that there's ever been a request that we intervene or alter the regulatory process. Certainly, if you recall from past experience, sir, often there are people who wish to comment on the regulatory process, whether they enjoy it or whether they do not enjoy it, and how they would like to see it improved or bolstered in various ways. I don't see – again, not having the letter immediately before me, I'm not aware of any particular concerns with respect to that.

Mr. Schmidt: Thank you. Can the deputy confirm when this meeting with Montem Resources that Robin Campbell referred to in this letter occurred and what was discussed at the meeting and what commitments the minister may have made on behalf of the department and related entities?

Mr. Guthrie: Point of order.

The Chair: Sure.

Mr. Sprague: Thanks . . .

The Chair: Sorry, Deputy, I have a point of order on the floor.

Mr. Guthrie: Yeah. Just on relevance here. The content of a particular meeting of a minister that may have eventually developed into policy: that's really not in order for this committee. We should be discussing the implementation of said policies. We continue to have these questions over and over about who was in a meeting and why they were in a meeting and what they said during the meeting, but really they're not relevant.

The Chair: Thank you, hon. member. I'll ask the member to rephrase, please.

Mr. Schmidt: Thank you, Madam Chair. I would still like to know what commitments the minister or the department may have made to Montem Resources with respect to advancing their project.

Mr. Sprague: Thank you, Member, for the question. I would appreciate any advice you can give us as to when this meeting occurred, but I'd be happy to undertake to provide such reasonable answers as I can, subject to the usual restrictions, with respect . . .

Mr. Schmidt: Well, if the deputy minister is happy to share his calendar with me, I would gladly look through it and find out when he met with Montem Resources, but I don't have that information. The deputy minister does. So I'm hoping that he can go back through his calendar, find out when this meeting happened, and tell the committee what commitments were made to Montem Resources with respect to the Tent Mountain mine project.

Mr. Sprague: Thank you, Member, for the observation. I was just looking for some assistance if you could provide it, but I'd be happy to provide such information as I can with respect to any meeting with Montem Resources that I have.

Mr. Schmidt: Thank you for that. Now, we know that the decision to rescind the coal policy wasn't made in the 2019-2020 fiscal year,

but the process leading up to it was. Can the deputy please table all records and correspondence on the rescission of the 1976 coal policy with respect to the fiscal year that's under consideration here?

Mr. Sprague: Thank you, Member, for the question. Again, subject to the usual restrictions, I'd take that under advisement and respond back.

Mr. Schmidt: Thank you very much. We know that there was no First Nations consultation with respect to the rescission of the 1976 coal policy. What analysis did the department do on the government's duty to consult on this matter?

Mr. Sprague: Thank you, Member, for the question. With respect to duty to consult I'd be happy to respond further in writing, subject to the restrictions referenced earlier. I would say that, from our perspective – again, this is now trailing into ground that is outside of the '19-20 year, so perhaps I'll just end it there.

9:10

Mr. Schmidt: So the ministry didn't do any analysis on the government's duty to consult in the fiscal year of 2019-2020 on the coal policy?

Mr. Sprague: No, sir. What I said is that I would take that under advisement and give you an answer in writing.

Mr. Schmidt: So you'll be responding to the committee in writing with all of the decision-making around the duty to consult. Is that correct?

Mr. Sprague: What I said is that I will take your question under advisement. I will provide an appropriate response, subject to the usual restrictions.

The Chair: Thank you, Deputy.

Over to the government side for now. We have our third rotation, please.

Mr. Singh: Thank you, Madam Chair. I will start my question again here. The annual report begins to outline the opportunities presented by geothermal energy on page 48. It mentions that the ministry worked "with cross-ministry and provincial agency partners to help geothermal projects navigate through regulatory requirements." Has the government seen much uptake on geothermal projects based on this work, and what sort of benchmark does the department have in place to measure the success of the work the ministry is doing to encourage growth in the geothermal sector?

Mr. Sprague: Thank you very much, Member. To follow on where I've been, just to outline, there were three geothermal projects that have publicly announced their intention to advance in Alberta. The first was Terrapin geothermal project, an eight-megawatt power project located south of Grande Prairie. The department has granted limited subsurface access pursuant to a Crown agreement for the project to explore geothermal.

The second is Eavor-Lite demonstration project. This company had a proprietary technology known as the Eavor-Loop, which is a closed-loop geothermal system. It had a demonstration project, I understand, near Eckville, which commenced construction in August of 2019, and it has completed its drilling and testing.

The third is Razor Energy, which is an oil-geothermal co-production project. It's building a pilot to capture waste heat arising from their existing oil and gas operations in the Swan Hills area to

generate power, and commercial construction was expected in May of 2021.

Additionally, we've heard from a number of other proponents who have indicated their desire to advance or have inquired about the regulatory and policy framework being developed for geothermal. We're going to work with those proponents to identify potential regulatory pathways for their projects and lever project information to inform the development of ultimate final policy for the department, which is intended to enable a robust, effective, and responsible regulation of this emerging resource sector.

You'd also asked me, sir, with respect to benchmarks that have been put in place to measure the success of the work that we're undertaking. We have identified preliminary performance measures and indicators that will help evaluate the success of the policy and the new sector. They're just in the development stage at present and will continue to be refined, but they include the number of geothermal applications received, the number of projects and wells drilled, the number of complaints or investigations conducted by the regulator, geothermal power generation capacity and what actually is produced, carbon dioxide equivalents that geothermal may have displaced, and, ultimately, final investment decisions to approved geothermal projects if those are made public.

Mr. Singh: Thanks for answering. Under key objective 1.6 on pages 50 and 51 the annual report talks about the projects approved for the petrochemical diversification program. Under this program approved projects are issued royalty credits once the facilities become operational. What are the eligibility requirements for this program, and what criteria is used to evaluate projects? What metrics are used to evaluate the success of this program?

Mr. Sprague: Thank you very much again, Member, for the question. I'm going to invite the associate deputy minister of natural gas and electricity, Stephanie Clarke, to respond.

Ms Clarke: Thank you, and thank you to the member for the question. To be eligible for evaluation under either the petrochemicals diversification program 1 or PDP 2, all proposed facilities need to be located physically here in Alberta, of course. For PDP 1, additional eligibility requirements were included; namely, that the application must include a continuous value chain that begins with the conception of either methane or propane as the primary feedstock in a primary facility to produce higher value products and, secondly, that the application needed to be for a new greenfield or new brownfield investment, so it excluded the investment for the purpose of facility debottlenecking.

For PDP 2, in comparison, the applicant's facility or facilities must not have reached a final investment decision to proceed with investment for a new build, expansion, or debottlenecking. The project is required to have a minimum investment in capital dollars of 200 million Canadian dollars. In the case of new greenfield or new brownfield investment, the project had to consume either methane, propane, or ethane, with ethane being added in PDP 2 whereas it wasn't included in PDP 1, and that's as part of the primary feedstock in a primary facility. An application in the case of an expansion or a debottlenecking facility or existing facility could in fact be made, either for a primary or a secondary facility or both.

In terms of the valuation of applications, we, as per the program's guidelines for both of these programs, looked at a variety of different areas. We looked at the strength of the project and the proponent's business plan, project timing, technology and project configuration that was utilized, the applicant's capability, the project's economic viability, and royalty credit needs as well as, of

course, we evaluated what the economic benefits would be to Alberta as well as the environmental performance that was projected by the proponent. Round 2 included an additional criteria, which was the participation of indigenous communities. For each of these, an applicant was required to provide supporting evidence to back up any assertions that were made in the application, and they were also to produce a self-assessment as well.

I believe, Member, you asked about evaluation and evaluating the success of the program as well. We look at a variety of different performance metrics for the success of our petrochemical programs, certainly, the number of petrochemical products that are produced as well as the volume of each of those products. We look at the number of markets that are accessed or served by the projects, the increase in the nameplate capacity of petrochemical products in the province, and the amount of tax revenue that is generated for approved projects. Overall, we track capital investments, the value of the exports, and, of course, the employment that is produced in the petrochemical sector as a result of these projects.

Mr. Singh: Thank you for such a detailed answer.

On page 48 the annual report mentions the work the ministry had done with ESG during 2019-20. It states that the ministry “is leading the development of a provincial ESG strategy aimed at strengthening and promoting Alberta’s position as a responsible energy producer and attracting investment to its energy sector.” Can the department provide an update on the work done in 2019-20 to develop this ESG strategy, and how does the ministry’s work with ESG interact with the broader policy objective of the ministry?

Mr. Sprague: Thank you very much, Member, for the question. In early 2019 the department in conjunction with Executive Council established an ESG working group with over 60 stakeholders, representing government, industry, banks, think tanks, and other organizations, to help inform the department and also government direction on ESG. Since its inaugural meeting . . .

9:20

The Chair: Oh, sorry, Deputy. The timer has gone.

We will now move back to the Official Opposition.

Mr. Schmidt: Thank you, Madam Chair. Can the deputy minister just answer a yes or no question: did the department consult with First Nations on the future of the 1976 coal policy in this fiscal year?

Mr. Sprague: Thank you very much for the question, hon. member. I am unaware of the answer, but I’ll undertake to provide one to you.

Mr. Schmidt: Thank you very much.

The South Saskatchewan regional plan provides clear direction on the relationship between the SSRP and the coal policy and how revisions to the coal policy are to be made:

As part of reviewing and incorporating the Integrated Resource Plans, the government will integrate a review of the coal categories, established by the 1976 A Coal Development Policy for Alberta to confirm whether these land classifications specific to coal exploration and development should remain in place or be adjusted. The review of the coal categories will only be for the South Saskatchewan planning region. The intent is for the SSRP and implementation strategies of the regional plan or future associated subregional or issue-specific plans within the region to supersede the coal categories for the purposes of land use decisions about where coal exploration and development can and cannot occur in the planning region.

Can the deputy minister tell us: what consideration was given to the South Saskatchewan regional plan in the department’s deliberations around the future of the coal policy?

Mr. Sprague: Thank you very much, Member, for the question. To be clear, the rescission of the coal policy was intended by our department to be an administrative piece with a goal, really, of updating the leasing process. We acknowledge that, obviously, this change has led to a lack of clarity around the protections on sensitive lands, including those referenced in the South Saskatchewan regional plan. The response, obviously, of government to all of that was to reinstate the 1976 coal policy – and I appreciate that now I’m outside of the ’19-20 year – and we put in place the Coal Policy Committee, which is conducting its current review. We look forward to getting its response towards the end of this year.

I think it’s also important to reflect that all existing laws and regulations respecting coal development remain unchanged, so the requirement for exploration permits to go through a code of practice, the requirement for drilling permits to receive the . . .

Mr. Schmidt: Thank you, Deputy. I really want to focus just on the South Saskatchewan regional plan. Was any legal analysis done on how the South Saskatchewan regional plan interacts with the coal policy?

Mr. Sprague: Thank you, Member, for the question. I’m not aware, off the top of my head, whether or not there was a legal review conducted with respect to the South Saskatchewan regional plan. I’d be happy to undertake to provide you a written response to that to the extent I’m able to.

Mr. Schmidt: Yeah. Thank you. If you could confirm whether or not a legal analysis was done and what the legal analysis said and table that with the committee, I would appreciate that.

Did the department consult with Environment and Parks on how the interaction works with the South Saskatchewan regional plan and the coal policy?

Mr. Sprague: Again, thanks, Member, for the questions. As we were undertaking our work, we would normally engage with our colleagues at Environment and Parks. As to the specificity that you referenced, I am unable to provide you at the moment confirmation one way or the other on the narrow point that you’ve raised.

Mr. Schmidt: Can the deputy confirm to provide all written documentation on discussions between the Department of Energy and the Department of Environment and Parks on the coal policy and the South Saskatchewan regional plan?

Mr. Sprague: Thank you, Member, for the request. In keeping with my past responses, we’ll take that under advisement and endeavour to release those documents that we can, subject to the usual restrictions.

Mr. Schmidt: Thank you.

Turning now to the Livingstone-Porcupine Hills land footprint management plan – this is a subregional plan in the South Saskatchewan region – it also specifically refers to the coal policy. It states:

As part of reviewing and incorporating the Integrated Resource Plans, the Government of Alberta will integrate a review of the coal categories for the South Saskatchewan Region . . . New direction, consistent with footprint planning outcomes, will supersede the coal categories and may extend to all large-scale industrial surface disturbances, including coal. This new direction should be consistent with an integrated approach. It will specify where

surface exploration and development can and cannot occur based on the best and most recent biodiversity sensitivity data.

What work did the department do to determine whether the rescission of the coal policy was consistent with the requirements set out in the Livingstone-Porcupine Hills land footprint management plan?

Mr. Sprague: Thank you, Member, for the question. My view is that the response to this will be similar to the responses that you'd asked earlier. You asked about the more general South Saskatchewan regional plan. This is now a subset if I understand the question correctly. I believe my responses would endeavour to deal with the SSRP in its totality.

Mr. Schmidt: Thank you.

Then, in that vein, Deputy Minister, I hope that you can commit to undertake to provide all written correspondence between your department and Environment and Parks in discussion of this matter of the coal policy in the Livingstone-Porcupine Hills management plan as well as confirm whether or not a legal analysis was done with respect to how the coal policy interacts with this plan, and if that exists, please table that for the committee. Can the deputy minister commit to tabling all of those?

Mr. Sprague: Thank you very much for the request, Member. As I indicated before, I'd be happy to undertake to consider the question and provide to you such documents as I'm permitted to pursuant to the usual restrictions. To be clear, that would be normal restrictions such as . . .

Mr. Schmidt: Thank you.

I'll turn it over to my colleague Ms Pancholi.

Ms Pancholi: Thank you, Madam Chair. I'd like to go back to the KXL deal, Deputy. Once we heard that the deal was not going forward because of the outcome of the U.S. election, the Premier said a few times that they were exploring legal options to recoup the money from the deal. In my view, this sort of assessment of what legal options were available should likely have been done as part of the planning and negotiation of this agreement. Going back to the fiscal year 2019-20, what work was undertaken to understand Alberta's legal options if the presidential permit was cancelled and the project was terminated? If outside legal counsel was retained, which firm was retained? What did that legal analysis tell you about the probability for success of this project?

Mr. Sprague: Thank you, Member, very much for the question. I can advise that with respect to the preparation for the deal involving KXL, we had retained external legal counsel. Obviously, we would have undertaken and requested of them appropriate advice as we went along.

In terms of developing the deal and considering all of the relevant factors associated therewith, I'm not in a position to share the legal advice we would have received from those individuals. I think, just to reflect on that given the turn of events that have occurred in the United States and the consideration that is currently under way with respect to legal or other actions that could be taken to recover the investment, it wouldn't be prudent for us, of course, to comment in any depth on those alternatives.

Ms Pancholi: Thank you, Deputy.

Can you advise this committee as to which law firm was retained to provide that advice?

Mr. Sprague: I will undertake to provide that to you, hon. member, subject to usual restrictions.

Ms Pancholi: All right. Thank you.

Can you also advise as to whether recovery clauses were put into the agreement that would have allowed for the government of Alberta to recover some of the costs in the event of the termination of the permit, specifically into the deal?

Mr. Sprague: Thank you, Member. Could I ask you to maybe expand on what you intend by a recovery clause? The agreement would have been between APMC and TransCanada. I just want to make sure I'm understanding the question correctly.

The Chair: Thank you, Deputy. We do have an opportunity to read questions into the record as our final block, so we'll endeavour to get you that clarity. Thank you.

We will now move on to our final block. We're in the fourth rotation. Please, government caucus.

Ms Armstrong-Homeniuk: Thank you, Chair. On page 58 of the annual report is some detail to the liability management framework review, which is stated to have "focused on protecting Albertans and the environment while ensuring Alberta remain a competitive place" to live. Can the department give the committee an overview on the findings of the review?

Mr. Sprague: Thank you, Member, for the question. The liability management framework review was a substantial piece of work that we were able to conclude, and we started that work in '19-20. The framework includes a suite of actions to manage liabilities throughout the project life cycle. Several of those elements are already in the process of being implemented, including providing proactive action for producers.

9:30

In summer 2020 the government strengthened orphan site management, including the Orphan Well Association's ability to speed up their site closure efforts. This immediately helped generate some jobs in the oil field sector.

Early in '20 we also expanded the orphan well loan program and launched, in conjunction with the federal government, the site rehabilitation program to provide grants for closure work on inactive sites, including generating jobs. We will continue to work with the Alberta Energy Regulator to implement the full framework by the end of 2021 although key pieces are expected to be online in the very near.

Ms Armstrong-Homeniuk: Thank you.

On page 59 it outlines how the Liabilities Management Statutes Amendment Act was passed to improve the Orphan Well Association's ability to efficiently and effectively manage financial, safety, and environmental risks associated with orphan wells. Can the department explain how the act gave the Orphan Well Association the ability to optimize the use of orphan funds? How will this help with better managing the inventory?

Mr. Sprague: Thank you, Member, for the question. The framework includes the expanded role of the Orphan Well Association set out in the Liabilities Management Statutes Amendment Act, which came into effect in June 2020. It enables the association to better manage and accelerate the cleanup of wells, infrastructure, or pipelines that do not have a responsible owner.

With this expanded scope the Orphan Well Association will have more delegated authority to protect the value of producing assets, protect jobs, protect public safety, and mitigate the risk of a growing inventory of orphan sites. These changes allow the Orphan Well Association to make agreements with producers to help site closures, ensure oil and gas resources are not prematurely abandoned, provide

reasonable care and measures to prevent impairment or damage on sites where licensees may have walked away from their obligations, and act more commercially and manage orphan sites for a limited amount of time in the public interest.

In March 2020 the government extended its loan to the Orphan Well Association by \$100 million, allowing the association to immediately speed up their site closure efforts while also potentially generating approximately 500 direct jobs in the environment oil field services. The Orphan Well Association has built up its organizational capacity to stay ahead of that work and is focused on staying on top of the inventory and workload by strategically planning the path forward and leveraging their budget wisely. The increase in workload has allowed the Orphan Well Association to find efficiencies in planning large-scale, regional-based projects. After risk-assessing and prioritizing their inventory to ensure public safety and environmental protection, the Orphan Well Association looks for opportunities to bundle projects regionally to maximize efficiencies.

This approach and the recent legislative changes recognize the increasing number of orphan sites the OWA has had to manage and has allowed the OWA to decommission more orphans on a year-over-year basis. The Orphan Well Association reported in 2019-20 that they have decommissioned more wells than any prior year, decreasing the overall inventory despite receiving a substantial number of new wells.

Ms Armstrong-Homeniuk: Thank you. For some reason my mic is sticky today.

On page 59 the annual report mentions the orphan well loan program and how the province extended the \$235 million loan given to the Orphan Well Association in 2017. In 2019-2020 \$68 million was advanced to the Orphan Well Association under that initial loan. What sort of oversight does the ministry have over this funding once it has been advanced to the Orphan Well Association, and are there any performance metrics associated with this loan program?

Mr. Sprague: Thank you, Member, very much for the question. Until all advances are repaid, in October 2031, the AER must submit a quarterly report describing the number of wells and facilities decommissioned and/or reclaimed, associated activities, and jobs created by such activities in regard to the loan. Additionally, the government will require a final report submitted by the Orphan Well Association within 90 days after the last scheduled repayment, and that report must describe the overall results achieved by the Orphan Well Association in relation to the loan.

As to the question with respect to performance metrics, the performance metrics that we are currently using for this program include the number of wells and pipelines decommissioned as well as the number of sites reclaimed and the number of direct jobs created. As of March 31, 2021, the loan program had generated approximately 269 full-time, direct jobs and the following results: 3,235 orphan wells have been abandoned, 3,667 pipeline segments have been decommissioned, 1,608 sites have been reclaimed, 5,241 phase 1 and phase 2 environmental site assessments have been concluded, 11,126 inspections have been conducted, and 3,818 pipeline abandonment operations have been concluded. I would also add that the loan program has contracted with over 800 different companies to perform this work throughout the province.

I'd stop there.

Ms Armstrong-Homeniuk: Thank you, Mr. Sprague. Chair, I'd like to cede my time over to my colleague.

Mr. Singh: Thank you, Madam Chair. On page 48 the annual report mentions the work the ministry had done with ESG during 2019-20. It states that the ministry is "leading the development of a provincial ESG strategy aimed at strengthening and promoting Alberta's position as a responsible energy producer and attracting investment to its energy sector." Can the department provide an update on the work done in 2019-20 to develop this ESG strategy, and how does the ministry's work with ESG interact with the broader policy objective of the ministry?

Mr. Sprague: Thank you very much, Member, for the question. To follow up on the same question that you raised earlier, as mentioned, the department, working with Executive Council, had established an ESG working group with over 60 stakeholders. Since its inaugural meeting in September '19 the working group convened approximately every two months to collectively discuss the ESG issue.

The Chair: Thank you, Deputy. That is time.

Now we have a fifth rotation of three minutes per side for members to read questions into the record for follow-up by the department. We'll begin with the Official Opposition at three minutes. Your time starts when you begin speaking.

Ms Renaud: Thank you. Deputy Minister, if you could please table all analysis on whether freedom of information covers the war room, or the CEC. Please table all analysis that led to the war room being set up with three ministers as directors.

We'd also like you to table all contracts or procurement for any data-harvesting software such as NationBuilder or other such software for the CEC. Please provide all analysis of data management at the CEC, including how contact information harvested from public campaigns will be used, who it will be shared with, and other processes.

We'd also like – the war room, or CEC, was designed to win the hearts and minds. It's costing Albertans about \$30 million a year. Can the ministry please follow up in writing and provide for the committee any analysis on the centre's effectiveness, any indication that it's hitting its targets, and any information on value-for-money analysis?

Finally, every ministry did an in-year savings exercise in 2019-20. Can the ministry please table with the committee its overall target, what savings it found in order to meet that target, with specifics about associated dollar amounts?

Thank you.

9:40

Ms Pancholi: Thank you. I'll read a couple of questions into the record as well, just following up on my last set of questions. Can the ministry table with this committee what clauses were put into the deal for KXL that addressed the legal risk of the permit being rescinded for the KXL pipeline? What legal provisions were in that agreement that would allow the government of Alberta to recoup some of its funding in the event that the project was cancelled or rescinded?

I'd also like to ask if the ministry can report on, with the KXL deal, what portion was equity, what portion was loan guarantees. How did that change over time from when the initial deal was struck, in 2019-20? In terms of triggering the loan guarantees, how did that work? What were the triggers for that equity to turn into loan guarantees, or when did the loan guarantee funding kick in?

I'd like to follow up on an earlier question just to ask for the ministry to table a list of all individuals, either through APMC, the Ministry of Energy or any ministry within the GOA as well as any third party, who were directly involved in the negotiations of the KXL deal, table that information with the committee.

Lastly, just as a follow-up from a previous question, please table with this committee the political risk assessment that was done on the KXL deal with details as to what risks were assessed and what the outcome of that assessment was.

Thank you very much, Madam Chair.

The Chair: Okay. Very good.

Looking over to the government side. Mr. Turton.

Mr. Turton: Yes. Thank you, Madam Chair. Key objective 1.2 is identified as: “Establish the Canadian Energy Centre to respond in real time to misinformation about Alberta’s energy industry.” My first question is: what metrics were used to measure the success of the Canadian Energy Centre during 2019 to 2020, and what sort of oversight does the ministry have over the CEC’s operations, and how do they utilize funds from the ministry?

My next set of questions is involving red tape. On page 36 of the annual report it outlines the significant steps the Ministry of Energy has taken to reduce red tape and ensure that Alberta’s economy is one of the most efficient and freest economies globally. My first question regarding this is: what processes does the ministry have in place to identify and evaluate regulatory burden? Number two: as some action taken in 2019 to ’20 to reduce red tape included repealing outdated and unnecessary legislation such as the Small Power Research and Development Act and its regulation, can the ministry please explain what the Small Power Research and Development Act and its regulation were and how repealing it achieved the goal of reducing red tape?

Those are my questions, Madam Chair. Thank you.

The Chair: Very good. Thank you.

Are there any more questions on the government side? Okay. Go ahead.

Mr. Singh: Thank you, Madam Chair. On page 48 the annual report mentions the work the ministry had done with ESG during 2019-20. It states that the ministry is “leading the development of a provincial ESG strategy aimed at strengthening and promoting Alberta’s position as a responsible energy producer and attracting investment to its energy sector.” Can the department provide an update on the work done in 2019-20 to develop this ESG strategy, and how does the ministry’s work with ESG interact with the broader policy objectives of this ministry?

Thank you, Madam Chair.

The Chair: Very good. That’s everything? All right.

Well, thank you to the officials from the Ministry of Energy for attending today and responding to our questions. We ask that the outstanding questions be responded to in writing within 30 days and forwarded to the committee clerk.

Are there any other items of business for discussion?

Looking to the floor and seeing none, the date of our next meeting is June 22, when we will be joined by the Ministry of Environment and Parks.

I will now move to adjournment. Those at the table please make sure that your cups and other things are taken with you for the safety of our LAO staff. I’ll call for a motion to adjourn. Moved by Member Neudorf. All in favour? Any opposed? All right. That motion is carried.

We will see everyone next week. Thank you.

[The committee adjourned at 9:44 a.m.]

